

# It works!



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# It works!

Hitting a target with maximum effect involves myriad factors that must work in congruence and with precision. Whether it be an archer's compound bow or an institution's business strategy and plan, the means to scoring a bull's eye require congruence and precision.

This analogy is a 'glove fit' with the fortunes and performance of Seylan Bank over the recent past. Despite being assailed by more than our fair share of adversity, sound strategising that evolved a forward looking business plan among so many other attributes has brought the Bank unprecedented success over the years...2012 has been our best year ever.

Of this whole gamut of strategy and effort, we can proudly proclaim to all Stakeholders...It Works!



*The Bank With a Heart.*

# What is **it**?



**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.

## / Chairman's Letter



### *Dear shareholders*

I warmly welcome you to our 26th Annual General Meeting and present to you our Annual Report and Financial Statements for the year ended 31st December 2012.

Year 2012 has been a remarkable year for us, characterised by a stringent focus on our strategy - by the Board, management and the staff members at all levels at Seylan Bank. We have grown in strength and managed our business efficiently. The results prove that our strategies have begun to yield the desired results and have provided us an excellent platform to achieve sustained growth and improved profitability.

Looking back on the global economic scenario during the past fiscal year, economic growth remained sluggish with uncertainty across the regions largely due to the post-election 'fiscal debate' questions in the USA, the Chinese leadership transition and reforms in the Euro Area. Global growth which was predominantly reliant on the emerging economies, particularly China, India and Brazil, also experienced slower growth as exports were hit by the sluggish performance of the advanced economies.

On the local front, the slower than anticipated recovery of the global economy, the rapidly rising domestic credit - which fuelled a higher

than desired import demand - and the adverse weather conditions hindered economic performance of our nation. However, stringent policy measures aimed at macroeconomic stability enabled Sri Lanka to record a commendable economic growth.

Interest rates continued to be high, while exchange rates remained highly volatile throughout the year. The demand for credit was weakened and there was stiff competition for deposits. Operating within such a climate, the outstanding efforts of the Seylan Team and the effectiveness of the strategies implemented enabled us to record the 'best ever' performance in terms of profits

## / Chairman's Letter

which crossed the two billion rupee mark. I am extremely proud of our achievement. We have come through trying times and within a very short period, successfully rebuilt confidence and brought about stability to the Bank. This was affirmed by the show of commitment and loyalty by shareholders and investors in their support of the rights issues in 2009 and 2011. The solid growth in our deposits in an intensively competitive environment also affirmed the confidence the public has in the Bank, the Board and the staff. I am indeed proud and happy to state that we are now one of the best capitalised banks in the country with a total capital adequacy ratio well-above the statutory requirement of 10%.

We have been fully committed to achieving our robust strategic plan rolled out in January 2012 which provides strategic vision and direction for the next four years. Asset growth, branch expansion, customer service excellence, staff development, NPA reduction and enhancing shareholder value are priority areas embedded in this plan. The bottom up approach followed in the formulation process enabled us to get the support and commitment of the entire Seylan Team towards the strategic objectives and its successful implementation.

The key aspect of our strategy is building solid customer relationships. We have always been known for our excellent customer service. Being a relationship-driven bank we have stayed true to our motto, 'The Bank with a Heart'. We have further improved our caring customer service and driven excellent customer service tenets across the Board. We have put in tremendous effort into understanding customers and their needs and serving them. We have for this purpose adopted several innovative measures.

This year too we have invested in our own people, by training them, focusing on their skills and competencies in a more meaningful manner. We have remained fully committed to providing a comprehensive range of training and development opportunities for our employees to equipping them to face the challenges ahead and also to maintain our position as one of the most sought after employers in Sri Lanka.

In keeping with our branch expansion strategy, we expanded our branch network by opening up branches and convenient banking centres in strategic locations in several areas of the country, inclusive of opening four

branches on the same day. Installing of ATM machines coupled with branch relocations enabled us to reach a wider customer segment island-wide. This strategy complements our key focus of reaching out to and serving the growing, sophisticated customer base in the SME and middle market sector, which has been our strength. Being a bank with a true entrepreneurial spirit our efforts in this regard have been in line with the Government's economic target of achieving inclusive growth through facilitating the SME sector.

Despite 2012 being a more challenging year in many ways, we are proud of our achievements. Our profits increased by a staggering 208.20% to Rs. 2.05 Bn. Deposits reached Rs. 146.73 Bn. with an increase of 18.35% year on year. Gross Advances grew by a 14.06% to Rs. 132.97 Bn. We continued to grow and deliver value to shareholders in 2012. Earnings per share rose to Rs. 6.06 compared to Rs. 2.18 the previous year. Net assets value per share increased to Rs. 56.08 while shareholders' funds grew by 8.38% to Rs. 18.96 Bn. A comprehensive review of our results and the operating performance is presented in the Financial Review section of this Report.

## / Chairman's Letter

Looking ahead, we intend on capitalising on the broad economic prospects of our nation, and aim to optimise on the opportunities that are bound to open up. We will gear ourselves to serve emerging sectors of the economy as a result of economic growth. We will take advantage of the local economic growth to source foreign funding for our credit requirements which would have a direct bearing on the cost of funds. Areas such as corporate governance, compliance, risk management, customer service, NPL reduction and branch network expansion will take priority in the upcoming year.

This year's results amply demonstrate the effectiveness of our strategies in rebuilding a solid foundation from which we can pursue profitable growth. We are now well positioned to take the next steps to achieve our strategic goals. In an era of promising and exciting opportunities, I am confident that we will continue to make headway creating sustainable value to all our stakeholders.

As I conclude, I wish to thank the Government of Sri Lanka, the Governor of the Central Bank of Sri Lanka and the Bank Supervision Department of CBSL for their

guidance. My gratitude goes out to the Board of Directors for their diligent guidance and support. I wish to specially thank the Chief Executive Officer for his inspired leadership and all the employees for their exemplary efforts and dedication. My heartfelt gratitude goes out to the shareholders and customers for their loyalty and confidence placed in us over the years. I also take this opportunity to thank my predecessor, Mr. Mohan Peiris PC, for his yeomen service, to the Bank during the short but important period of his stewardship. The entire Seylan Team joins me in wishing him all the very best and success in his new and important office as Chief Justice of the country.

We wish you the shareholders, the very best in 2013 and thank you for your continued support to the Bank.



**Nihal Jayamanne PC**  
*Chairman*

21st February 2013

# What did **it** deliver?



Focus, commitment, a common vision and diligently executing our strategy have contributed to a remarkable performance in what remains a very competitive market



## / Report of the General Manager/Chief Executive Officer



Year 2012 has been a tremendously satisfying and successful year for us. We recorded the highest ever profit in our 25-year history while key indicators all moved in the right direction. Our performance in the year 2012, I believe, has proven beyond any doubt that the strategies adopted are yielding the results we had set out to achieve and that now we have moved from a phase of stabilisation and consolidation to a phase of growth.

### **Economic Landscape**

The economic environment during the year was a challenging one for the industry as a whole. Sri Lanka's economic growth moderated compared to the high growth trajectory

experienced in the past two years. Dismal global economic conditions and adverse weather patterns severely impacted the GDP growth of our nation whilst excessive credit demand and high imports became causes for concern. These challenges saw the Central Bank adopt stringent policy measures to stabilise macroeconomic conditions during the year. Policy interest rates were increased, a credit ceiling was imposed and the exchange rate policy was allowed greater flexibility.

All this meant that we had to react quickly in order to stay on track to achieve our targeted objectives for the year and to meet the stiff competition especially for deposits in the market. The fact that we did so

successfully whilst ensuring that our portfolio quality, transaction volumes and profitability and transaction levels is testimony to the soundness of the business model and platform that we have now laid as well as the skill and commitment of our staff.

### **Strategic Plan 2012-15**

The strategic plan which got off the ground in January and our adherence to the key actions identified proved an invaluable asset not only for the success that we achieved during the year but also in terms of preparing ourselves for further growth and improvement in the years to come. While the main focus was to improve the core-business, the objectives

## / Report of the General Manager/Chief Executive Officer

were multi-fold; including improving overall customer satisfaction, adding more value to our stakeholders through reinventing the product portfolio, enhancing internal processes to improve efficiency, strengthening risk management processes and further developing our human resources across the board. The bottom-up process that was followed in the formulation of the strategic plan where we got the input and support of the staff across the network meant greater understanding and a singular focus on key initiatives. We have and shall continue to update the plan through the rest of the period bringing in the learnings of what works and what does not and ensure that this will remain a live and meaningful document that will continue to charter our way forward.

### Key Initiatives During the Year

The Key Focus for 2012 was on improving customer service and building customer relationships. This was the underlying factor that was embedded into every activity and process of the Bank throughout the year. Enhanced service quality, anticipating customer needs and receptiveness to our customers were areas of emphasis. The launching of 'Seylan Suhada Seva'; a service tailor-made to assist senior citizens and other customers who need special assistance was a significant initiative that warrant special mention amongst many.

With this emphasis we have further consolidated our defining strength - that of being a completely customer-oriented organisation.

As part of this effort, over 20 internal processes that were identified for review during the strategic planning process were revised and improved bringing multifaceted benefits such as shorter turnaround times, less manual intervention and releasing staff for a higher level of customer interaction.

Brand repositioning was another key initiative which we embarked on to gain a higher share of the public mind. This was achieved not only through our marketing and advertising campaigns but through the many CSR projects undertaken, not only at the head office but also by the branches. Interactions with the communities were revived, not only from a business perspective but as a social responsibility initiative. These initiatives enabled us to restore the 'Seylan Brand' and to gear the entire bank towards one direction; to be customer oriented.

Our geographical coverage was expanded with the addition of 15 new branches, increasing the branch network to 147. Several of the centres which were earlier functioning as extended service centres were upgraded to full branches during the year. Infrastructure development across the network was

prioritised and accelerated thus enhancing the internal and external outlook of the branches and creating a more customer-friendly ambiance to enhance the service offered.

Internally, a more proactive approach was adopted to asset and liability management. The Assets and Liability Committee (ALCO) was actively engaged in enabling the Bank to stay ahead of the market in terms of pricing and be competitive amidst rapidly changing market conditions and fierce competition.

Further, measures were also taken to improve Capital and Governance structures in order to support the future growth that has been planned. All policies and procedures related to risk management were revamped and improved. A comprehensive integrated risk management framework has been now put in place with risk management procedures ingrained to our daily operations and processes.

We also laid special emphasis on improving the internal communications across all branches, business units and support function and I believe the results bear testimony to the importance and effectiveness of that effort.

### It works!

Focus, commitment, a common vision and diligently executing our strategy has contributed to a remarkable performance in what remains a very competitive market.

## / Report of the General Manager/Chief Executive Officer

We recorded the highest ever net profit after tax of Rs. 2.05 Bn. which surpassed previous year's operating profit by a 208.20%. Despite curtailed credit expansion, our net interest income increased by 4.76% to Rs. 9.02 Bn. This was due to selective growth in quality advances and effective management of margins. Non-interest income increased by 33.61% to Rs. 2.48 Bn. in spite of a general slowdown in import-related activities, through diversifying into other trade finance and cash management services. Advances grew by 14.06% to Rs. 132.97 Bn. while the deposit base grew by 18.35% to Rs. 146.73 Bn. since end of 2011. Cost to income ratio improved over 2011 through the rationalisation of internal processes with a view to improve efficiency. As a result of the strong performance, earnings per share was at Rs. 6.06, while return on assets and return on equity stood at 1.17% and 11.24% respectively.

### Giving Back - Promoting Financial Inclusion

We are a bank that has our roots and our heart in the retail, SME and Commercial sectors. In keeping with Government's stated intention of taking development beyond Colombo, we played an active role in the North and the East of the country as one of the strongest

and most active banks in the region. It is noteworthy that we have been a net lender to these regions in keeping with the need of the hour and in line with the Government's target of achieving inclusive growth through facilitating the SME sector. I also believe the sector still provides ample scope for us to grow profitably while fulfilling a national need.

CSR initiatives which are covered in detail in another section of this report was another area that the entire Seylan Team embraced wholeheartedly thus giving further credence to our identity as The Bank With a Heart.

### Future Outlook

We foresee tremendous opportunity for growth as our nation overcomes the challenges posed by the 30-year long war and embraces the opportunities that peace and stability has paved the way for. While the external environment would remain challenging due to global economic conditions, every player would have to adapt and evolve to stay competitive and profitable. The banking sector which has remained strong and resilient in adversity will have a key role to play as Sri Lanka completes its remarkable journey of recovery and reconciliation and marches towards the milestone of US\$ 4,000 per capita income.

The task before us is now to advance from our phase of consolidation to a phase of growth. We shall do so by leveraging our strengths further while enhancing areas such as customer service and staff training and development. Corporate banking, Trade finance and Treasury units will play a more vibrant role and we will develop an even more focused approach towards SME, retail and premier banking functions.

The Bank plans to grow the branch network at the same pace as in 2012. Strategic locations have been identified to open up branches on a selective basis. Infrastructure development and upgrading of facilities will continue at a pace with existing branches made bigger, better and more customer friendly. Alternate channels such as Internet and SMS banking will also be further improved.

We have been a very popular bank among our expatriate community who regularly remit their hard earned money to their kith and kin through us reaping the rewards of many direct and indirect benefits we offer. We aim to further strengthen our offerings in the remittance market while expanding the number of employees and agents representing us in the relevant markets.

We have formulated a comprehensive new product development strategy and a number of products have been identified for upgrading in

## / Report of the General Manager/Chief Executive Officer

addition to new products to be launched with numerous value additions to our current and potential customers. We have also set our sights on reducing the NPL ratio to a single digit by end 2013 through rehabilitating troubled loans and through effective recovery strategies.

Capital is increasingly becoming a scarce commodity and even a limiting factor for the growth of banks. We will use our product portfolio and staff skills to grow our non-interest revenue streams. Our IT platform will be strengthened to support the overall growth and development strategies of the Bank. Cost containment and cost management will continue to be a priority area.

The debenture issue which was planned for last year was concluded in early 2013, which has boosted our capital base further. Going forward, a culture of passing capital to more productive business units will be implemented to ensure its optimal use.

### Thanks

As we enter our 26th year of operations, I wish to express my appreciation and gratitude to the Board of Directors for their continuous guidance and support, to the management team and staff for their dedication and tireless pursuits which was instrumental in us recording the impressive results we posted, to the regulator for the constant guidance and other external

stakeholders who supported us in many ways. Last but not least I thank our shareholders and customers for the loyalty and confidence placed in us over the years which we hope to continue to repay in good measure in the coming years.

Our Bank is in great shape, we have an extremely competent and highly dedicated team, a highly recognised and much loved brand and a strong, loyal and supportive customer base. We have a clear and robust strategy and I am confident we will forge ahead to live up to our vision "To be Sri Lanka's leading financial services provider - as recognised by all our stakeholders" with our strong commitment to quality service to our customers, satisfying our stakeholders and our communities in the ensuing year.



**Kapila Ariyaratne**

*General Manager/Chief Executive Officer*

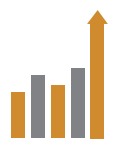
21st February 2013

## / Financial Highlights

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	Change %	2012 Rs. '000	2011 Rs. '000	Change %
<b>During the Year</b>						
Income	23,623,286	18,824,460	25.49	23,691,574	18,962,781	24.94
Profit from Operations before Taxation	3,184,287	1,169,968	172.17	3,226,617	1,158,935	178.41
Income Tax Expense	1,135,160	505,089	124.74	1,144,202	492,682	132.24
Profit for the Year Attributable to Equity Holders of the Bank	2,049,127	664,879	208.20	2,063,056	675,948	205.21
Other Comprehensive Income for the Year, net of Tax	(202,878)	(346,147)	41.39	(205,878)	(344,923)	40.31
Total Comprehensive Income for the Year Attributable to Equity Holders of the Bank	1,846,249	318,732	479.25	1,858,623	330,435	462.48
Revenue to Government	1,811,516	910,098	99.05	1,820,558	897,691	102.80
Gross Dividend - Note	676,160	338,080	100.00	676,160	338,080	100.00
<b>At the Year End</b>						
Total Equity Attributable to Equity Holders of the Bank	18,958,012	17,492,218	8.38	19,495,426	18,018,025	8.20
Retained Earnings	6,245,706	5,198,157	20.15	6,170,268	5,109,557	20.76
Deposits	146,727,199	123,981,100	18.35	146,727,199	123,981,100	18.35
Loans and Receivables	124,728,371	106,390,440	17.24	124,728,371	106,390,440	17.24
Total Assets	183,661,676	165,943,873	10.68	185,296,652	167,651,849	10.52
<b>Information per Ordinary Share</b>						
Basic/Diluted Earnings (Rs.)	6.06	2.18	177.98	6.10	2.21	176.02
Dividends (Rs.) - Note	2.00	1.00	100.00	2.00	1.00	100.00
Net Assets Value (Rs.)	56.08	51.64	8.60	57.67	53.19	8.42
Market Value (Rs.) - As at End of the Year						
- Voting Shares	56.00	67.60	(17.16)			
- Non-Voting Shares	35.10	30.80	13.96			
<b>Statutory/Other Ratios (%)</b>						
Core Capital Adequacy (Minimum Requirement - 5%)	14.36	14.22	0.98	14.70	14.64	0.41
Total Capital Adequacy (Minimum Requirement - 10%)	14.37	14.57	(1.37)	14.71	14.98	(1.80)
Liquidity						
- Domestic Banking Unit Operations % (Minimum Requirement - 20%)	21.51	21.51	-			
- Foreign Currency Banking Unit Operations % (Minimum Requirement - 20%)	23.06	25.48	(9.50)			
Price Earnings Ratio						
- Voting (Times)	9.24	31.01	(70.20)			
Dividend Cover (Times) - Note	3.03	1.97	53.81			
Capital Funds to Liabilities and Commitments & Contingent Liabilities %	9.67	9.47	2.11			

Note: Dividends for the year 2012 are accounted for as per the Sri Lanka Accounting Standard - LKAS 10

## / Operational Highlights



Achieved the highest ever **profit after tax** in the Bank's history



Successfully mobilised over **Rs. 22.7 Bn Net Deposits** and **Rs. 18.3 Bn Net Advances** growth in 2012



Opened **15 new Branches** and **Convenient Centres** and expanded our footprint across the Island



Refurbished **17 Branches** and **Convenient Banking Centres** to extend more convenience and service customers better

## / Operational Highlights

Added **21 ATMs** to strengthen and enhance our ATM coverage in the country



Recorded a **Capital Adequacy Ratio of 14.37%**, which is one of the highest in the local banking industry



A strong growth in earnings per share (Rs. 6.06) which has resulted in **Net Assets per share increasing to Rs. 56.08 in 2012**



Over **85 CSR initiatives** were successfully carried out across the island



Implementation of a comprehensive **4-year strategic plan** (2012 - 2015)



# How **it** works?

## / Management Discussion and Analysis

## / Operational Review

### Report consists of three main chapters

- Brief explanation of global economic, country and banking industry environment in 2012 and their future outlook
- Bank's success strategies, operational performance and future outlook
- Financial Review



The profound intricacies of the modern bow mirror those applicable in the field of banking.

### Global Economy

The global economy continued to recover at a slow pace, although the US economy showed some positive signs, supported by the recent stimulus measures implemented by the Federal Reserve. Growth in the other major advanced economies slowed contrary to expectations at the beginning of the year.

Leading emerging markets such as China, India, Russia, and Brazil also showed some signs of slowdown. In view of these setbacks to the global economic recovery, the IMF has revised its outlook for global growth to 3.3% in 2012, and 3.6% for 2013. This slowdown is likely to have a negative impact on emerging markets and developing economies, which mainly depend on external demand.

### Economic Outlook of Selected Countries

	2011 %	2012 %	2013 (%) (Est)
<b>Advanced Economies</b>	3.8	3.3	3.6
United States	1.6	1.3	1.5
United Kingdom	0.8	-0.4	1.1
Germany	3.1	0.9	0.9
France	1.7	0.1	0.4
Italy	0.4	-2.3	-0.7
Spain	0.4	-1.5	-1.3
Japan	-0.8	2.2	1.2
<b>Emerging Market and Developing Economies</b>	6.2	5.3	5.6
Russia	4.3	3.7	3.8
China	9.2	7.8	8.2
India	6.8	4.9	6.0
Brazil	2.7	1.5	4.0

Source: IMF, World Economic Outlook, October 2012.





## Sri Lankan Economy

In 2012, Sri Lanka commenced with a positive outlook on economic growth, based on the continuation of the growth momentum in post-terrorism development on the domestic front and recovery of the global economy. However, the domestic and global conditions changed adversely and as a result the Sri Lankan economy did not perform as expected. Initially, in March, Central Bank downgraded their GDP growth forecast of 8% to 7.2% and then again lowered its growth expectation for 2012 to 6.5% from 7.2%.

The industrial sector grew by 7.3%, recording the highest growth rate among the main sectors, followed by the service sector with a moderate growth rate of 4.6%. The agricultural sector suffered huge setbacks due to extreme weather conditions during the year and grew by - 0.5%. All three sectors indicated lower growth rates compared to the corresponding period in 2011.

Sri Lanka recorded low unemployment level of 3.9%. Employment levels in both service and industrial sectors were slightly increased. Even though much was expected, agriculture sector employment was somewhat low during the period.

## / Operational Review

As measured by Colombo Consumer Price Index, inflation picked up during the period, due to sharp devaluation in the exchange rates, higher fuel and energy costs, adverse weather conditions and the resulting disruptions to domestic food supplies. However, the annual average inflation remained within a single digit at around 7%.

As in the case of Asia and other countries around the world facing weaker global demand, Sri Lanka's export earnings slowed down in year 2012. Earnings from exports have declined by 7.4%, (year on year). Growth of imports has decelerated considerably mainly due to imposing of higher import duty on vehicles since April, outpacing the decline in exports resulting in a continuous improvement in the balance of trade. These improvements, coupled with sustained inflows on account of worker remittances, enhanced tourist earnings and depreciation of exchange rate, narrowed the deficit in the current account balance.

Earnings from tourism and worker remittances continued to hold up, cushioning the current account of the balance of payment. Particularly, earnings from tourism grew by 23% (year on year) with tourist arrivals surpassing one million during the year. Further, worker remittances also grew by a healthy rate of 17%.

With the receipt of the eighth and final tranches of IMF-SBA facility of USD 427 Mn. and USD 414 Mn., the proceeds of the successful fifth International Sovereign Bond

issue of USD 1 Bn. in July and other foreign inflows, gross official reserves rose to a level equivalent to five months of imports. This strengthened Sri Lanka's external sector and enabled to attract further foreign investment to the country.

Additionally, cumulative net inflows to the Colombo Stock Exchange and net foreign investments in the Government Securities market exceeded USD 305 Mn. and USD 833 Mn., respectively. Meanwhile, Foreign Direct Investment (FDI), including foreign loans to BOI companies recorded an inflow of US\$ 615 Mn. during the year 2012.

The rapid increase in private sector credit in the latter part of 2011 and 1st quarter of 2012 led Central Bank to raise its policy interest rates and directed commercial banks to limit the growth of their loans and advances in 2012 to 18% or Rs. 800 Mn., whichever is higher. For banks raising funds from overseas to fund the additional growth of credit, the higher of a growth of 23% or Rs. 1 Bn. was imposed. These monetary policy measures were the significant decelerated monetary expansion measures implemented during the year.

Stock market activity was restrained in 2012, compared to last year. The all Share Price Index and Milanka Price Index declined by around 12.5% and 7.7% respectively while market capitalisation contracted by 7.4%. Eight rights issues and four debenture issues were conducted during the period.

The exchange rate policy in 2012 was aimed at allowing more flexibility in determining the exchange rate, while limiting Central Bank intervention in the domestic foreign exchange market. This policy stance was mainly intended to allow the exchange rate to adjust in line with market developments to rationalise import expenditure, while enhancing export competitiveness. Accordingly, the rupee depreciated by around 12% against the US Dollar during the year.

The exchange control regulations have been relaxed significantly in the recent past in order to facilitate the transfer of funds between and among foreign currency accounts including foreign currency investments abroad.

Fitch Ratings has affirmed Sri Lanka's foreign- and local-currency Issuer Default Ratings (IDRs) at 'BB-'. The Outlook for both ratings remains 'Stable'. The Country Ceiling has also been affirmed at 'BB-', and the Short-Term Foreign Currency IDR at 'B'.

According to the 'Doing Business Ranking' computed by the World Bank Group, Sri Lanka is ranked 81 out of 185 countries in 2013. This is a significant improvement compared to the ranking achieved in 2012 which was 89. Sri Lanka is the second most improved country in the ease of doing business.

## / Operational Review

### Outlook for 2013

It is visible that 2013 will begin on a negative note with floods destroying large scale of paddy cultivation and causing extensive damages to infrastructure facilities in the domestic front. At the same time the gloomy global economic outlook will also impact the local economy.

The agricultural sector will be affected by adverse weather conditions while the performance of the industrial sector will depend on the recovery of the export market. However, a healthy growth can be anticipated due to the service sector fuelled by a robust growth in the construction sector. Tourism sector which is growing rapidly should be managed prudently to obtain optimal benefits.

Tightened import controls will be continued to maintain external sector stability in the wake of slow expansion of the export market. Therefore, the country's export revenue is likely to be dependent on the recovery of the main traditional trading partners such as Europe and USA.

Since the Sri Lankan economy is in a phase of stabilisation with relevant policies in place, GDP growth is expected to be 7.5% with inflation to stabilise at a mid single digit level.

### Banking Industry

Sri Lankan banking system is sound and resilient underpinned by strong domestic economic growth over the past few years. As indicated in the table below, key financial soundness indicators of the banking sector which accounts over 50% of financial system assets, were maintained at healthy levels.

As at end 2012, the banking sector comprised 24 licensed commercial banks (LCBs), which included two state banks, ten private sector banks along with twelve foreign banks and nine licensed specialised banks (LSBs). Even though a large number of licensed banks exist in the country, the stability of the financial system is largely dependent on the

### Banking Industry Performance

	2012 (Sep)	2011	2010
No. of Commercial Banks	24	24	22
No. of Branches	5,453	5,386	5,152
Assets (Rs. Mn.)	4,916,215	4,252,234	3,550,515
Deposits (Rs. Mn.)	3,466,384	3,072,544	2,586,032
Gross Loans and Advances (Rs. Mn.)	3,035,303	2,602,288	1,975,360
<b>Ratios %</b>			
Core Capital Adequacy Ratio	13.3	13.5	14.3
Total Capital Adequacy Ratio	15.0	15.2	16.2
Gross Non-Performing Ratio	4.0	3.8	5.4
Net Non-Performing Ratio	2.4	2.1	3
Statutory Liquid Assets Ratio	30.9	32.4	36.6
Interest Margin	4.1	4.2	4.6
Return on Assets (After Tax)	1.7	1.7	1.8
Return on Equity	20.5	19.7	22.2

Source: Statistics, Financial Sector, Central Bank of Sri Lanka

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performance and financial strength of the six largest LCBs, consisting of the two state banks and the four largest domestic private commercial banks. These six banks, which are generally, referred to as the Systemically Important Banks (SIBs), represented over 75% of the LCB sector assets and over 60% of the banking sector assets.

The LSB sector represented 9% and 16% of the assets of the entire financial system and banking sector respectively. The systemic importance of the LSB sector is relatively low in comparison to the LCBs, both in terms of size and their impact on the financial system.

During the period (September, 2012), the banking network further expanded with the opening of 67 outlets which included 27 new branches and 40 extension offices across the Island.

The capital base of the banking (LCBs) sector has increased since 2008 with the introduction of the BASEL capital standards and enhanced minimum capital requirement for banks. Profitability of the banking sector, which has continuously increased, has further reinforced the level of capital. These factors have contributed to the improvement in capital adequacy ratios despite the significant growth in assets. Further, liquidity of the banking system has been well-managed with the statutory liquid assets ratio being maintained well above the limit of 20%.

In an environment of stiff industry competition, banks were able to maintain interest margins at reasonable levels, although there was some tightening during the year. The key financial indicators display a notable improvement in the gross non performing advances ratio (NPA) from 5.4% in 2010 to 4% in 2012 (September) with absolute volumes of NPA indicating only a relatively lower growth of 25% in comparison to the overall credit growth of the period.

Compared to the higher loan growth in 2011, loan growth slowed down to 23% in 2012 with the hike in interest rates and imposing of the credit ceiling by Central Bank. Nevertheless, growth of deposits increased by over 18% during the year, which was marginally above the average annual growth rate.

Several major initiatives are underway with the introduction of BASEL III requirements. This will directly affect the banks' capital and liquidity structures. Compared to other countries, Sri Lanka maintains a relatively high Tier I capital and therefore further increase with introduction of BASEL III is unlikely.

All listed companies are required to convert to the Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards from 2012 and their impact is marginal.

### Outlook for 2013

The rapid growth and stabilised economy in the country will result in strong demand for loans over the next few years and the banking sector will continue to play a major role in supporting economic growth, especially in SME, long-term project financing and pawning segments. To accomplish such a credit demand it is essential to mobilise deposits at a higher pace and encourage the growth of foreign funding sources.

The sector is expected to remain financially strong and resilient with increased capital requirements, improved risk management and enhanced governance practices.

Appropriate reforms will be introduced in line with BASEL III requirements and proposed amendments to the Banking Act are expected to be implemented in 2013. The banking sector will move to an advanced approach in computing the capital adequacy and liquidity ratios, to be in par with the international standards.



## Our Strategic Focus

This report details the performance review, the divisional performance and the strategies adopted by the Bank to achieve the pre-set goals according to the strategic plan and the budgets. It also enables to gain a better understanding of the Bank while maintaining the transparency of the information to all our stakeholders.

This chapter is written, based on the various strategies adopted between 2009-2012 and the success of these plans. Our theme of this year's annual report **IT WORKS** is based on the strategies adopted from 2009-2012 for readers to understand the significant progress made by the Bank over the said period. We have identified strategic priorities as per the following scope and detailed in the relevant sections where necessary.

- Success strategies and business growth
- Expansion of our delivery channels for faster reach
- Improved credit quality.

## Success Strategies and Business Growth

After the change of management in 2009 the Bank implemented its 2009-2011 strategic plan to build customer confidence and address various issues that were prevailing at that time.

Strategic plan 2012-2015 was build on growth, improving of business performance, service quality and obtain process efficiency. Such initiatives and strategies have already shown growth in business and Bank's profitability as evident in our 2012 performance.

Main strategies adopted, its implementation and the results are discussed in detail under this chapter.

To understand the performance of the Bank and the detailed strategies adopted a review of performance is based on the following areas of the Bank:

- Branch Banking
- Corporate Banking
- Retail Banking (Credit Cards, Pawning and Housing)
- Treasury
- International
- Other Support Functions



## Branch Banking

Branch Banking has been the main source of business of the Bank and it covers more than 80% operations. The operations of Branch Banking has a significant concentration on all segments representing every geographical area of the country.

Branches have been placed under two zones and headed by two DGMs. They are fully responsible for all aspects of Branch Banking with the exception of approval of credit. The Head of Branch Credit (DGM) is responsible for approval, administration and recovery of credit relating to branches.

### Following are the success strategies adopted and measures taken over the period to strengthen Branch Banking and its performance

Year	Success Strategies	Measures/Actions Taken
2009	<ul style="list-style-type: none"> <li>Building local customers' confidence</li> </ul>	<ul style="list-style-type: none"> <li>Numerous measures were taken to regain customer confidence, viz.                             <ul style="list-style-type: none"> <li>Customers were visited by Branch Manager, Area Manager and Deputy General Manager to maintain a close relationship.</li> <li>All the branches were equipped with adequate liquidity to honour all withdrawals in order to prove the stability of the Bank.</li> </ul> </li> </ul>
2010	<ul style="list-style-type: none"> <li>All possible processing operations were transferred to centralised services for specialised support to ensure efficiency and cost saving.</li> <li>Outsourcing services.</li> </ul>	<ul style="list-style-type: none"> <li>Identified key back office functions such as input of customer information, standing order processing, account maintenance etc., were centralised.</li> <li>Distribution of monthly statement process, cash transportation and other services were outsourced.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Structural changes within Branch Banking</li> <li>Expansion of our branch network especially in North and East areas</li> </ul>	<ul style="list-style-type: none"> <li>Divided in to two zones, headed by a DGM for each zone.</li> <li>The approval and administration and recovery of credit related to branches were made the responsibility of the Head of Branch Credit.</li> <li>Extended banking hours adjusted from branch to branch to suit the needs and customs of the locality.</li> <li>Extended 11 new branches/Convenient Banking Centres (CBC) which includes nine in the North and the East areas (since 2009). Ten branches were renovated during the period.</li> </ul>

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Year	Success Strategies	Measures/Actions Taken
2012	<ul style="list-style-type: none"> <li>Expansion of delivery channels</li> <li>Autonomy for Branch Managers</li> <li>Further, streamlining the credit and operation process</li> <li>Regular meetings and visits</li> <li>Performance Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Added 15 new branches/CBCs and installed 21 ATMs to reach new customers. Renovated 17 outlets and relocated 5 delivery channels to provide more convenience banking to customers.</li> <li>Provided Branch Managers a higher level on autonomy on low-risk areas.</li> <li>Credit process carried out by respective area offices to ensure speedy and efficient service to customers.</li> <li>Refinance schemes and all commercial credit products were streamlined under a single line management.</li> <li>Initiated a recovery drive at branches, conducted 59 special recovery clinics during the year.</li> <li>Regular meeting at the branch, area and the zonal levels on financial, business, operational and other aspects.</li> <li>Regular visits by the Area and Heads of Zones and the visits by the senior Management.</li> <li>Organised relationship building events such as customer get-togethers.</li> <li>Monthly progress report to the Board by the 2 zones, to detail performance and whether expectations are met as per the strategies formulated by the Board.</li> <li>A Branch Ranking Booklet was introduced in 2012 where each branch is assessed against deposits, advances, profits and NPA. Branches are ranked based on the aggregate points earned under pre-defined categories.</li> </ul>

### Performance of the Branch Banking Unit

	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Achievement** %	Actual 2011 Rs. Mn.
Deposits	127,701	124,686	102.42	106,487
Advances	83,576	80,602	103.69	71,694
Net Interest Income	6,004	6,054	99.17	5,083
Fee-based Income	999	950	105.16	845
Operating Expenses	4,438	4,456	100.38	3,923
Profits before Tax*	2,565	2,548	100.67	2,005

\* Before allocation of support functions and Head Office costs

\*\* Achievement % (Actual 2012/Budget 2012)

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### Staff Utilisation Efficiency for Branch Banking

In terms of Branch Banking, operational efficiency can be analysed as follows:

	Branch Banking	
	2012	2011
Total Staff	2,002	1,988
Total Expenses per Employee (Rs. '000)	2,217	1,973
Total Net Income per Employee (Rs. '000)	3,498	2,982
Profit per Employee (Rs. '000)	1,281	1,009

### Future Strategies

- Continue to improve delivery channels and thereby enhance accessibility in areas where banking is limited. After careful assessment more ATMs to be made available to increase visibility and improve Bank's image.
- Meet the demands and the needs of the customer with more value additions and customised product developments.
- Explore the potential to enhance Bank's exposure to the following emerging sectors:
  - Energy sector/renewable energy
  - Agriculture-related exports and food processing projects
  - Commercial cultivation
  - Tourism industry
  - Dairy farming and manufacture of dairy products
  - Education/IT business process outsourcing sectors
  - Construction, transportation and health sectors
- Actively support micro/small entrepreneurs and accelerate credit to rural communities - especially through refinance schemes available for North and East.
- Improve the service quality through training and development particularly in the areas of credit, product knowledge, etc.
- Improve operational efficiency and the risk management aspects as a long-term strategy.
- Introduce Islamic Banking to support community requirements.





## Corporate Banking

Corporate Banking is made up of the Bank's Off-Shore Banking Unit (FCBU), the Head Office Corporate Banking Unit and the Millennium Branch at Head Office. It caters to a varied clientele in diverse field of business activity. Among the clientele are medium sized and large local corporate entities including blue-chip companies operating in Sri Lanka.

The strengthened corporate relationship enabled the Bank to explore the specific needs of its corporate clients and offer financial solutions at competitive prices to make use of opportunities within emerging sectors.

### Following are the success strategies adopted and measures taken over the period to strengthen Corporate Banking and its performance:

Year	Success Strategies	Initiatives/Actions taken
2009	<ul style="list-style-type: none"> <li>Maintained corporate customers' confidence</li> <li>Quality lending</li> </ul>	<ul style="list-style-type: none"> <li>Kept personal contact with clients while assuring stability of the Bank which contributed immensely in retaining the existing high net-worth clientele.</li> <li>Continuous contact and dialogues were maintained with customers to retain them.</li> <li>Selective and strict lending practices paved the way for improved credit quality and lower credit risk.</li> </ul>
2010	<ul style="list-style-type: none"> <li>Concentration on fee-based income</li> </ul>	<ul style="list-style-type: none"> <li>Focused on trade finance, transaction services and foreign exchange as main fee-based income areas for bottom line growth.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Structural changes</li> </ul>	<ul style="list-style-type: none"> <li>Leasing and Margin Trading Units were brought under the Corporate Banking Unit, so that stronger corporate relationships were built.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Expansion of lending avenues</li> </ul>	<ul style="list-style-type: none"> <li>Focused on emerging sectors, such as leisure and tourism.</li> <li>Continued to extend assistance to export sector and renewable energy sector etc.</li> <li>Understand customer needs and provided most appropriate solutions through regular dialogues/visits by relationship managers.</li> </ul>

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

Despite pressure on interest margins, the Bank has 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.

### Future Strategies

- Strict and close monitoring of NPA
- Increase in non-funded facilities and grow the fee-based income
- Improve relationships and quality of service
- Grow export loans and support the export funding requirements of the country

### Performance of the Corporate Banking Unit

	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Achievement** %	Actual 2011 Rs. Mn.
Deposits	12,607	12,559	100.38	11,833
Advances	33,111	36,840	89.88	27,200
Net Interest Income	756	1,018	74.26	646
Fee-based Income	190	179	106.15	162
Operating Expenses	195	220	112.82	184
Profits before Tax*	751	777	96.65	624

\* Before allocation of support functions and Head Office costs

\*\* Achievement % (Actual 2012/Budget 2012)

### Staff Utilisation Efficiency

Operational efficiency of Corporate Banking can be analysed as follows:

	Corporate Banking Unit	
	2012	2011
Total Staff	96	109
Total Expenses per Employee (Rs. '000)	2,031	1,688
Total Net Income per Employee (Rs. '000)	9,854	7,413
Profit per Employee (Rs. '000)	7,823	5,725



### Retail Banking (Credit Cards, Housing Loans and Pawning)

Retail Banking Segment was established and streamlined under a Senior Deputy General Manager - Retail Banking in order to maintain a close watch on the personal needs of customers and meet the same. This unit has three main divisions which manage credit cards, housing loans and pawning.

#### Following are the success strategies adopted and measures taken over the period to strengthen Retail Banking and its performance:

Year	Success Strategies	Measures/Actions taken
2009	<ul style="list-style-type: none"> <li>Restructuring the Personal Banking Division</li> </ul>	<ul style="list-style-type: none"> <li>Appointed a Senior Deputy General Manager as Head of credit card centre, housing loans and pawning. Further, all other alternative bank channels were assigned under his purview.</li> </ul>
2010	<ul style="list-style-type: none"> <li>Enhancing customer interaction</li> </ul>	<ul style="list-style-type: none"> <li>Revamped and upgraded all electronic communications channels.</li> <li>Encouraged customers to utilise E-channels by providing various value additions and offering free of charge services to enhance the banking experience.</li> <li>Enhanced security features of the systems by enabling 'verified by visa' facility, SMS alert service for every card transaction etc.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Competitive advantage through innovation and new products</li> </ul>	<ul style="list-style-type: none"> <li>Rebranded the housing loan scheme to 'Siri Nivasa' and established a special unit to carry out operations.</li> <li>Expanded the pawning activities especially in Northern and Eastern Provinces.</li> <li>Launched another innovative product 'Seylan Scholar' targeting students pursuing higher education.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Enhance customer experience through value additions</li> </ul>	<ul style="list-style-type: none"> <li>Introduced the 4-day Housing Loan product.</li> <li>Enabled to accept MasterCard™ secure credit cards payments by enhancing the payment modes for merchants.</li> <li>Internet banking facility registration process was simplified and customers can pay their utility payments by debiting Seylan Bank Credit Cards.</li> <li>Phone banking facility was provided to customers free of charge for life time.</li> <li>Further expanded pawning facility to identified areas.</li> <li>Decentralisation of Issuance of Debit Cards.</li> </ul>

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### Performance of the Card Centre

	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Achievement** %	Actual 2011 Rs. Mn.
Advances	2,197	2,016	108.98	1,909
Net Interest Income	237	210	112.86	196
Fee-based Income	444	404	109.90	345
Operating Expenses	352	327	92.90	320
Profits before Tax*	328	287	114.29	221

\* Before allocation of support functions and Head Office costs

\*\* Achievement % (Actual 2012/Budget 2012)

### Staff Utilisation Efficiency

Operational efficiency of Card Centre can be analysed as follows:

	Card Centre	
	2012	2011
Total Staff	79	87
Total Expenses per Employee (Rs. '000)	4,456	3,678
Total Net Income per Employee (Rs. '000)	8,620	6,218
Profit per Employee (Rs. '000)	4,151	2,540

### Pawning Advances

In spite of fluctuating gold prices, the growth in pawning contributed significantly to the Bank's advances portfolio. Accordingly, the growth which continued from last year, accounted for 13% of the Bank's total loan book in 2012. Pawning also contributed to around 27% of the net advances book growth of the Bank in 2012.

### Performance of the Pawning Loan Book

	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Achievement %	Actual 2011 Rs. Mn.
Advances	17,477	14,337	121.90	12,466
Interest Income	2,391	1,822	131.22	1,414

### Housing Loans

With the upward shift in interest rates the housing portfolio was significantly affected in growth and performance during 2012.

### Performance of the Housing Loan Book

	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Achievement %	Actual 2011 Rs. Mn.
Advances	9,055	9,862	91.82	8,756
Interest Income	1,161	1,046	110.99	1,061



## Treasury Operations

The Treasury division experienced constant pressure from the increase in interest rates and the depreciation and volatility of exchange rates during 2012.

### Following are the success strategies adopted and measures taken over the period to strengthen Treasury Operations:

Year	Success Strategies	Measures/Actions taken
2009	<ul style="list-style-type: none"> <li>Restructuring the division with proper back office, middle office and front office reporting lines.</li> <li>Amalgamate the Primary Dealer Unit with the Treasury Back Office.</li> <li>Optimal utilisation of funds and other resources.</li> </ul>	<ul style="list-style-type: none"> <li>Bank reassigned the middle office functions under Head of Risk.</li> <li>Primary Dealer Unit Back Office operations was brought under the Bank's Treasury Back Office with the consent of the regulator.</li> <li>Various limits were established to strengthen the risk management function.</li> <li>Operations were closely monitored at ALCO and at periodic performance reviews.</li> </ul>
2010	<ul style="list-style-type: none"> <li>Staffing.</li> <li>Training for the dealers and other related staff.</li> </ul>	<ul style="list-style-type: none"> <li>The Treasury Front Office staff cadre strengthened with addition of new staff.</li> <li>Commenced a market focused corporate sales desk within the Treasury to further strengthen the Treasury operations.</li> <li>Treasury personnel are continuously trained to be in line with changing market trends.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Improve on the risk management</li> </ul>	<ul style="list-style-type: none"> <li>Reduced the exposure to the equity market with a reduced trading portfolio.</li> <li>Treasury back office function was reassigned under DGM INL.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Implementation of a integrated Treasury management system.</li> <li>Efficiency of processes</li> </ul>	<ul style="list-style-type: none"> <li>Final evaluation of system providers for implementation of a integrated Treasury management system is nearing completion.</li> <li>Amalgamation of the Primary Dealing Unit with Treasury, creation of a corporate sales desk under the supervision of Treasury.</li> </ul>

### Performance of the Treasury Operations

	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Achievement*** %	Actual 2011 Rs. Mn.
Net Interest Income	48	941	5.10	736
Operating Expenses*	289	198	68.51	125
Profits before Tax**	138	1,156	11.94	709

\* Includes extraordinary expense of Rs. 154 Mn.

\*\* Before allocation of support functions and Head Office costs

\*\*\* Achievement % (Actual 2012/Budget 2012)

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### Staff Utilisation Efficiency

Operational efficiency of Treasury can be analysed as follows:

	Treasury Operations	
	2012	2011
Total Staff	36	36
Total Expenses per Employee (Rs. '000)	8,028	3,472
Total Net Income per Employee (Rs. '000)	11,861	23,167
Profit per Employee (Rs. '000)	3,833	19,694

### Future Strategies

- Maximise foreign exchange gains from increased trade volumes.
- Increase capital gains from Government Securities trading with the downtrend in rupee interest rates.
- Focus on customer retention and acquisition, increased volumes and income, and better customer service through the Treasury corporate sales desk.
- Investment/trading in listed corporate debt.
- Efficient transaction processing and cost reduction through the implementation of the integrated Treasury management system.
- Capitalise on market arbitrageurs in forex and equity trading.
- Continuous market focussed training of Treasury staff and introduction of state-of-the-art trading systems.
- Increased focus on efficient management of assets and liabilities and resource utilisation in light of downward movement in interest rates.
- Continue to cater for the local demand for gold and export of scrap gold.



## International and Trade Operations

International division was restructured to handle the operational aspect of the trade and remittance business while strengthening and entrusting the branches to promote the business. Continuous support was offered to the branch staff throughout the year from the trade expertise attached to international division.

### Following are the success strategies adopted and measures taken over the period to strengthen International and Trade operations:

Year	Success Strategies	Initiatives/Actions Taken
2009	<ul style="list-style-type: none"> <li>Build local customers' and correspondent banks' confidence.</li> </ul>	<ul style="list-style-type: none"> <li>Retained the trade clients through personalised service and by taking maximum effort to cater to their needs overseas.</li> <li>Developed new relationships to perform overseas business.</li> <li>The joint efforts of branches, corporate banking and the international division proved successful and the business grew significantly.</li> </ul>
2010	<ul style="list-style-type: none"> <li>The year of consolidation</li> </ul>	<ul style="list-style-type: none"> <li>Trade business was almost doubled compared with previous years while the remittance business too increased progressively.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Focus on business development</li> <li>Streamlining business processes to reduce cost and improve productivity.</li> </ul>	<ul style="list-style-type: none"> <li>The support of our key correspondents was also noteworthy and it helped the Bank to conduct more business than in previous years.</li> <li>Seminars and customised workshops on international business were held for the existing and potential clients while joint visits with the business managers were conducted to major clients to promote our products and services.</li> <li>Image building process was commenced and launched, several marketing and advertising campaigns, to re-establish the Seylan name in the remittance business.</li> <li>Processes were streamlined to reduce cost and improve productivity. The department structure too was changed to utilize the resources more effectively. A significant amount of manpower was saved and relocated to other areas through this process.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Target new clients while improving existing business.</li> <li>Customer educational programmes</li> <li>More focus given to remittances services</li> </ul>	<ul style="list-style-type: none"> <li>Canvassed new business clients and the preservation of existing relationships.</li> <li>The continuation of joint customer visits with business managers.</li> <li>Continued marketing/advertising/promotion campaigns that help to raise Bank's image in the international business activities.</li> <li>Conducted well-attended customer educational seminars and workshops in Colombo, Kandy and Negombo cities.</li> <li>Appointed representatives in Lebanon and Qatar to provide and promote Seylan Bank's remittance services.</li> <li>The Bank sponsored several key community events in Saudi Arabia, Oman and UAE relating to remittance services.</li> </ul>

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### Performance of the International and Trade Services

	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Achievement %	Actual 2011 Rs. Mn.
International and Trade Related Income	352,280	454,276	77.55	378,563

### Future Strategies

- Explore opportunities presented by the upsurge in the demand for trade finance for investment in post-conflict development in the North and the East.
- Further, expand Bank's trade business in line with the expansion of the branch network by engaging a dedicated trade marketing team.
- Continue with Bank's commitment to innovation and product development which will improve service levels and enhance market share.





## Recoveries Division

Recoveries Division was strengthened with a Senior Deputy General Manager to closely monitor and recover the NPA while improving the recovery processes and the credit quality of the Bank.

### Following are the success strategies adopted and measures taken over the period to strengthen recoveries of the Bank.

Year	Success Strategies	Initiatives/Actions Taken
2010	<ul style="list-style-type: none"> <li>Restructure of division.</li> </ul>	<ul style="list-style-type: none"> <li>A senior DGM was assigned as Head of department and provided with other resources to speed up the recoveries process.</li> <li>Duties and functions were clearly segregated between recoveries and legal divisions.</li> <li>Long and short-term policies and processes are in place to reduce high NPA of the Bank.</li> <li>Priorities loans that can be recovered by talking to clients, difficult cases should be dealt with separately by another unit.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Strengthen the recovery drive</li> </ul>	<ul style="list-style-type: none"> <li>Introduced special recovery strategies for NPA below Rs. 200,000/-.</li> <li>Established closer link between branches and various departments in order to achieve speedy recovery of overdue advances and acquiring properties.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Focused recovery</li> </ul>	<ul style="list-style-type: none"> <li>Appointed special task force to review NPA.</li> <li>Long and short term policies and processes are in place to reduce high NPA of the Bank.</li> <li>Total NPA divided into five units, under experienced relationship managers.</li> <li>Instructions were issued outlining specific guidelines for line management with delegated authority for concessions to be allowed to clients for speedy recovery.</li> <li>Special concessions given to recover small values of NPA.</li> <li>Establish a separate unit to dispose of foreclosed properties.</li> </ul>

### Future Strategies

- The Recoveries Department to closely liaise with Regional and Branch Managers in monitoring borderline customers.
- Look into the possibility of outsourcing a portion of recoveries.
- The Bank continued to reduce NPA while the budgeted target for the 2013 is to bring the gross NPA ratio to a single digit by year end.
- Continuously measure the NPA and monitor and reward extensive recoveries with a lucrative incentive scheme.
- Assess risk related controls and ensure high level of credit quality.

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### Change in NPL Position

	Actual 2012	Budget 2012	Achievement %**	Actual 2011
Net NPL (Rs. Mn.)*	17,099	12,004	70.20	16,193
Net NPL (%)	12.99	9.39	72.29	14.24

\* Including Interest Receivable

\*\* Achievement % (Budget 2012/Actual 2012)

The success of the Bank's recovery efforts enabled to reduce Non-Performing Loans (NPL) during the year. In December 2011, the Bank's gross NPL stood at Rs. 20.9 Bn. in absolute terms, with an NPL percentage reaching 17.67%. Further, the Bank's successful initiatives enabled to record a decline in the gross NPL Ratio, in absolute terms of Rs. 310 Mn. while gross NPL stood at 15.25% as at year end.



## Support Functions

During the year support functions played an important and significant role providing all necessary support and strength to the business lines. Key service units identified in this report are Marketing, Information Technology and Human Resources.

### Marketing

During the year Marketing played a huge role and supported all business lines. Given below is a summary of external campaigns conducted on main products. In addition there were numerous activities initiated by Marketing as internal campaigns to support business.

#### Following are the success strategies adopted and measures taken over the period by Marketing.

Year	Success Strategies	Initiatives/Actions Taken
2009	<ul style="list-style-type: none"> <li>Image building</li> </ul>	<ul style="list-style-type: none"> <li>Conducted multi-front public information campaign with the participation of the Central Bank Governor, Chairman, Directors, GM and other corporate staff.</li> <li>Carried out first ever house to house public awareness and promotional campaign known as 'Jaya Maga'.</li> <li>In some areas customers took the lead to showing their support for the Bank.</li> </ul>
2010	<ul style="list-style-type: none"> <li>Internal sales opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Used the Bank's 3000+ workforce to canvass their network of friends and relations.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Evaluate product marketing strategies in terms of profitability/viability</li> </ul>	<ul style="list-style-type: none"> <li>Special efforts were made to energise the newly launched <i>Tikiri Plus</i> and <i>Seylan Sure</i> (formerly Merit Rewards) products with a view to strengthening the low-cost deposit base.</li> <li>Rejuvenated <i>Siri Nivasa</i> and Smart Lease products which helped to achieve significant loan growth with increased demand for consumer loans in the economy.</li> <li>Aggressive marketing campaigns and strong relationship building exercises helped branches to achieve deposit and credit growth during the period.</li> <li>Conducted service quality surveys to identify gaps.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Enhance service quality</li> </ul>	<ul style="list-style-type: none"> <li>Introduced '<i>Suhada Sewa</i>' to provide a personalised service to elderly people, pregnant mothers, clergy and disabled persons etc.</li> <li>Conducted mystery shopper survey to identify gaps.</li> <li>Relaunched some products based on the product rationalising.</li> <li>Moved away from brand management to product/business management.</li> </ul>

## / Operational Review

Year	Success Strategies	Initiatives/Actions Taken
	<ul style="list-style-type: none"> <li>Liability products management unit</li> <li>Product Rationalisation</li> <li>Marketing via social media</li> </ul>	<ul style="list-style-type: none"> <li>Established a liability product management unit to focus on managing all deposits products and work closely with business units from February 2012.</li> <li>Discontinuation of identified low profitable products such as <i>Ranliya, Hada Madura</i> etc.</li> <li>Developed bundling of products and services and simplified processes to benefit the internal and external customers.</li> <li>Focused on granular segments and offered bundled propositions and synergised with other products and services.</li> <li>Launched Seylan Bank's Facebook fan page and enhanced fan base to 20,000 in two months from date of launch.</li> <li>Focused on existing product development based on existing segments in order to add more value and enhance the relationship through co-creation initiatives</li> </ul>

### Future Outlook

- The Bank's competitive advantage continues to be customer service and the product range offered which are reflected in the Bank's corporate campaign.
- The Bank's overall corporate branding message portrays its concern for all Sri Lankans, from kids to young adults, entrepreneurs to high corporates and senior citizens who have driven our economy over the decades. And the success of branding is reflected in the phenomenal profit recorded during the year.
- Focus on minor savings and the youth segment as strong growth potential areas in the country.

### Information Technology Department

The plan is to ensure that the IT Department will provide the technology backbone for operations/branches to carry out their business opportunities in a successful manner. A new Head of Information Technology was recruited in 2012 to strengthen the team.

During the year 2012 the IT Department worked with a view to focus the department's resources in achieving the strategic goals set by business in an efficient and proactive manner.

## / Operational Review

### Following are the success strategies adopted and measures taken over the period by Information Technology

Year	Success Strategies	Initiatives/Actions Taken
2009	<ul style="list-style-type: none"> <li>Automation and improvements</li> </ul>	<ul style="list-style-type: none"> <li>All identified possible operation processes were transferred to centralised services for specialised support to ensure efficiency and cost savings.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Enhance IT-based solutions to deliver superior benefits to internal and external customer</li> </ul>	<ul style="list-style-type: none"> <li>The funds transfer process was automated, enabling business units to make better informed decisions.</li> <li>Many HR processes that were hitherto manual were automated, among them staff appraisal, training etc.</li> <li>In a 'green' initiative, the printing of salary slip was discontinued and customers also enjoy the option of getting their monthly statements online.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Automation and improvements</li> </ul>	<ul style="list-style-type: none"> <li>Data from the Bank's separate systems were consolidated in a single 'client view'.</li> <li>Internal development team rolled out comprehensive remittances module, cheque return management module and some other modules to enhance efficiency of the branches.</li> <li>Testing of the core-banking system, subsystems and all the external interfaces was completed during the latter part of year 2012.</li> <li>IT Steering Committee was further improved to accommodate Sub-committees of the various business units of the Bank.</li> <li>Bank's card management system platform was upgraded to provide the infrastructural facilities for the Europay, MasterCard and Visa (EMV) upgrade.</li> <li>The IT Department in conjunction with Misys developed and parameterised the module which automated the downgrading of non-performing current accounts in 2012.</li> <li>Several management systems were improved to facilitate user-friendly banking, such as cheque imaging truncation system, SMS banking, Internet Banking and pawning systems.</li> <li>Improvement of branch IT infrastructure including expansion of its services to newly open branches and ATMs.</li> <li>Structured Systems Training Programme for staff to develop their skills and knowledge.</li> </ul>

## / Operational Review

### Future Outlook

- The Bank has already signed up with Misys International Banking systems, suppliers of the core-banking system to upgrade the existing version of the software. The project which is due to be completed by mid March 2013 will provide the Bank a platform to increase the operational efficiencies at branch level as well as provide the Bank data warehousing and data mining capabilities by March 2013.

The parallel run and the live implementation of the core-banking system upgrade will be completed during the first quarter of 2013.

Implementation of service composer in 2013 will enable implementation of the value added functionalities within the core-banking system.

- The IT Department is also in the process of evaluating vendors to virtualise the servers that Bank operates for its various applications. This will bring benefits in terms of reduced electricity, air conditioning cost, and maintenance.

- Credit and debit cards will be converted to chip-based cards with Europay, MasterCard and Visa (EMV) technology which will enable Seylan customers to use their debit and credit cards in a secure manner.
- In 2013, plans have been laid down to provide IT infrastructure facilities for the planned new branches which are to be opened in 2013 and for branches and convenient centres which are scheduled to be relocated in 2013.
- Aims to strengthen the Bank's network security infrastructure in 2013 and increasing the present bandwidth provided to branches and convenient centres.
- Setting up of back-up data communication lines.
- Server consolidation project that is already commenced in 2012 latter part would bring manageability, reduction of power, space and maintenance cost. Project is due to be completed by September 2013.
- All current processes in the Bank will be evaluated to re-engineer and improve efficiency levels enabling faster and superior customer service.
- Evaluation process in Treasury system is in progress and new system will be implemented in 2013.
- Rating module is at the final stage and will be implemented in mid June 2013.

### Human Resources Department

Seylan Bank's competitive advantage is derived from the quality of its human capital. With this understanding, the Bank has launched several programmes to enhance quality of its human capital.

The Bank's HR policies have been designed to create a unique culture embedded with professionalism, respect and care for each other. International HR practices in line with ILO standards and domestic labour laws have been adhered to.

## / Operational Review

**Following are the success strategies adopted and measures taken over the period by Human Resources Department.**

Year	Success Strategies	Initiatives/Actions Taken
2009	<ul style="list-style-type: none"> <li>Enhance staff confidence</li> </ul>	<ul style="list-style-type: none"> <li>The senior management met with the staff at a series of meetings and workshops to boost staff morale and enthusiasm.</li> </ul>
2010	<ul style="list-style-type: none"> <li>Attract and retain quality staff</li> </ul>	<ul style="list-style-type: none"> <li>Recruited professionally and academically qualified people for identified senior positions.</li> <li>Implemented Succession Plan.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Streamlining HR processes</li> <li>Staff VRS</li> </ul>	<ul style="list-style-type: none"> <li>Several modifications and introduction to HR policies and practices were witnessed during the period to keep the Bank up-to-date with contemporary best practice.</li> <li>Revamp the training and development process in accordance to the Bank's future strategies.</li> <li>The automation of human resource functions has enabled the HR team to provide useful and important benefits to staff.</li> <li>Conducted staff satisfaction surveys.</li> <li>298 employees received early retirement benefits at a cost of Rs. 698.6 Mn. to reduce operational cost of the Bank. Several measures were taken to reduce the impact of the day-to-day operation process and successfully overcome such issues.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Develop HR strategies which will address recruitment, retention and training needs of the Bank aligned with the Bank's overall business strategy.</li> </ul>	<ul style="list-style-type: none"> <li>During 2012, concluded 332 training programmes and covered 75,351 hours with 7,262 participants.</li> <li>Recruited 50 new staff members focusing to deliver excellent customer service.</li> <li>Introduced new HR related policies. (whistle-blower) and modified several policies (promotion,) to keep the Bank up-to-date with contemporary best practice.</li> <li>Appointed Internal Customer Service Manager to work in tandem with the HR initiatives.</li> <li>Implemented the recommendation on Commendation Letters</li> </ul>

### Future Outlook

The Bank's HR policy initiatives for the years ahead are aimed at being an employer of choice and to build a dedicated professional team. These new and ongoing HR initiatives include-

1. Launching a staff recognition scheme to reward and recognise staff and their achievements.
2. Introducing assessment centre techniques to facilitate succession planning and career development plans.
3. Job enrichment, job rotation plans and other developmental initiatives.
4. Creating a performance driven culture through improving the existing on line goal setting and performance evaluation system.



## Expansion of Our Delivery Channels for Faster Reach

Seylan bank network operates island-wide with 107 branches, 40 Convenient centres and 81 Student Savings Centres. During the year 2012, Bank engaged in many expansions and relocations enabling a better reach for its clients.

### Branch Network

In 2012, the Bank opened seven new branches and eight new convenient banking centers to increase its main delivery channels to a total of 147. These key delivery channels which are located in strategic locations across the country provide an island-wide presence for the Bank.

New branches were set up in Akuressa, Ambalanthota, Battaramulla, Kaduruwela, Mahiyangana, Moneragala and Narammala towns. Further, convenient banking centres were extended to Aralaganwila, Bowatta, Eppawala, Galenbindunuwewa, Kalpitiya, Medawachchiya, Moratumulla and Nochchiyagama. The Piliyandala and Dambulla convenient banking centres were upgraded to full branch status, while our Bank's previous Head Office/First City Office branch was amalgamated with Colombo Fort Branch during the period.

### Our Delivery Channels



#### Branches

- Island-wide Linked Branch Network
- Convenient Banking Centres
- Extended Banking Hours
- Weekend/Holiday Banking Service



#### ATM Network

- Seylan Bank ATMs
- ATMs with Online Cash Deposit Facility
- ATMs Network with Local and International Banks



#### eBanking

- Seylan ebanking
- SMS Banking
- Seylan Internet payment Gateway (IPG)
- Phone Banking

Three branches and two convenient banking centres were moved to new locations in order to serve customers better in a comfortable, modern banking environment, with convenient access.

Our branches are equipped to offer a full range of banking services under one roof with high level of convenience to customers. We cater to all segments of society as we provide a complete range of our product portfolio through our branches.



*Moratumulla Opening*

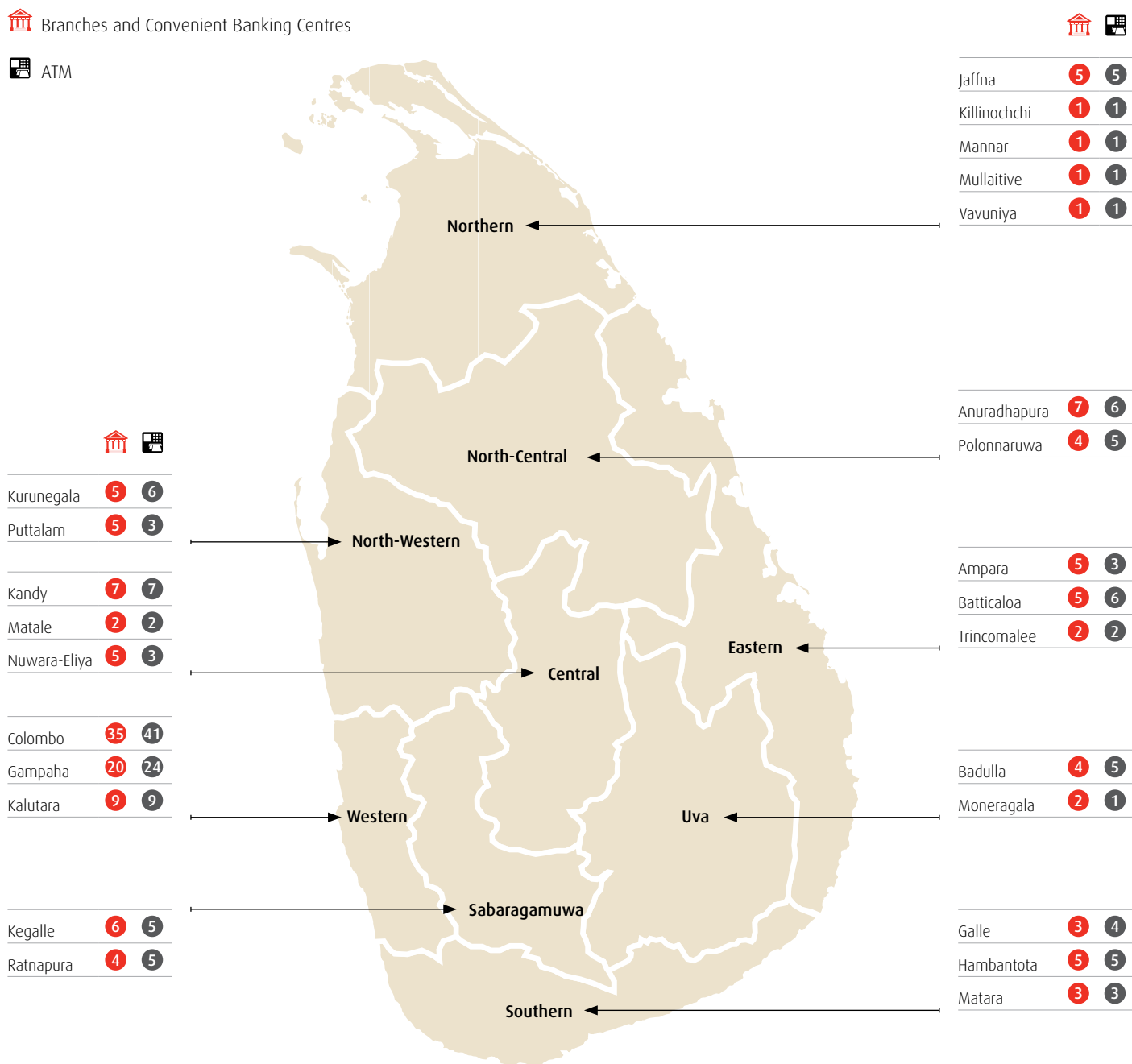


# / Operational Review

## Geographical Presence - Branches/Convenient Banking Centres and ATMs

 Branches and Convenient Banking Centres

 ATM



## / Operational Review

### Distribution of Branches

Province	2012	2011	2010	2009
Central	9	8	8	8
Eastern	7	7	5	5
Northern	7	7	5	3
North-Central	6	5	5	5
North-Western	6	5	5	5
Sabaragamuwa	8	8	8	8
Southern	9	7	7	7
Uva	5	3	3	3
Western	50	49	49	49
<b>Total</b>	<b>107</b>	99	95	93

Excluding Convenient Banking Centres (CBC)

### Technology Driven Banking

A key area of the Bank's strategic plan 2012-2015 is the expansion of e-banking delivery channels. Accordingly, an alternative banking channel was set up at head office under the Retail Banking Unit with the responsibility assigned to a Senior Deputy General Manager.

### ATM Network

The Bank continued to strengthen and enhance its ATM network during the year. It has 154 ATM machines at convenient locations across the island and one of the most geographically-distributed ATM networks in the country (144 on-site at the branches and 10 off-site). These ATMs are connected to Visa, Master, Maestro and Cirrus accredited networks and can also be used by customers to pay their utility bills. Apart from its own ATMs, Seylan has linked with other banks to provide a wider set of ATMs to its customers.

With the branch expansion during the year, the Bank installed nineteen new on-site and two off-site ATMs. Further, steps have been taken to go beyond routine ATM transactions by activating ATM cash deposit facility with the aim of providing a more value added service to customers and reducing the work at cash counters.

In accordance with the Bank's business plan the Bank constantly invests in ATM technology which we consider crucial in lifting the Bank's image among competitors.

	2012	2011
Number of ATMs	154	133
Value of Cash Dispensed (Rs. Bn.)	37.58	35.25
Daily Average Value of Cash Dispensed (Rs. Mn.)	102.96	96.32
Number of Transactions (Mn.)	4.91	4.91
Daily Average Number of Transactions ('000)	13.43	13.43
Up time of ATM Network (%)	98.93	91.17

### SMS Banking

Seylan Bank was the first bank in Sri Lanka to introduce SMS banking to its customers in year 2004. This system is connected to almost all Telco's operating in the country. It facilitates the Bank's rapidly growing customer base to manage their accounts by the SMS push and pull technology. They have the capability of transferring money between their own accounts, requesting the Bank for many ad hoc functions such as cheque books, pay utility bills, check credit card details and many more day-to-day banking functions. SMS alert facility was introduced in year 2011 as a new marketing thrust, promoting the SMS facility as a fraud detection method for cardholders' transactions. The Bank is currently improving the SMS banking facility with a view to facilitate more enhanced security features and provide a more advanced banking functions based on market dynamics and collated consumer inputs.

## / Operational Review

### Internet Banking

Seylan Bank launched its first ever Internet banking facility in year 2001. As one of the pioneer banks in Sri Lanka in the Internet banking environment, Seylan Bank's Internet banking system was upgraded in year 2007 to provide more banking functions to its customer base. Through this facility customers can manage their funds, make utility and credit card payments, request the Bank for ad hoc banking activities such as transferring funds from their accounts to other bank accounts, requesting standing orders, bank statements, cheque books, obtain cash advances on credit cards and many more unique facilities online. This year, the customer registration process was simplified and customers can now pay for utility payments by debiting Seylan Bank credit cards. Currently, it offers services to corporate and individual account holders of the Bank. This facility has also been extended to all expatriates living abroad to maintain and monitor their accounts from anywhere in the world.

Seylan Bank Internet banking can be accessed by its customers via, [www.eseylanet.com](http://www.eseylanet.com).

### Phone Banking

The first ever multilingual phone banking product in Sri Lanka was launched by Seylan Bank in 1998 to its customers under the flagship "Seylaphone". It has become a popular way for customers to carry out basic banking using any fixed-line or a mobile telephone. The facility is provided to customers free of charge for life time. Account holders of the Bank could register

and use this facility in their preferred language Sinhala, Tamil or English. This facility has also been extended to all expatriates living abroad to maintain and monitor their accounts from anywhere in the world.

	2012	2011	Growth
Internet Banking	16,216	13,603	19.2%
SMS Banking	85,712	48,628	76.26%
Phone Banking	88,038	87,514	0.60%
Seylan Corporate Website Hits (average per month)	33,611	28,016	19.97%

### Web Site

The official corporate website of Seylan Bank was launched in year 2001. Seylan Bank's website became the first ever trilingual website to be maintained by a local bank after its relaunch in 2008. It is one of the most informative Sri Lankan banking website on the Internet. It provides information about the Bank's deposit products, loan facilities, credit cards, foreign currency, remittance networks, leasing, pawning, branch network, Bank's financials, properties on sale, FOREX rates, eCommerce products, ATM locator, product promotions and many more attractive features and functions of the Bank.

### Internet Payment Gateway (IPG)

Seylan Bank Internet Payment Gateway was launched in 2004 opening the opportunity to the Bank's merchant-base to display and sell their products and services online. The Bank's Internet Payment Gateway has been well-entrenched as the preferred service provider for both the private and public sectors in Sri Lanka. It was relaunched in year 2011 with a more secure

environment enabling Verification By VISA (VBV) and Triple DES Security (3DS). In year 2012, the system was enabled to accept MasterCard™ secure credit cards payments by enhancing the payment modes for merchants. This initiative enabled the merchants with opportunities to receive VISA™ and MasterCard™ credit-card payments that would attract more buyers to purchase goods and services from their websites through the Bank's Payment Gateway.



### Improving Credit Quality Managing Risks of an Expanding Credit Portfolio

The gross credit portfolio increased by Rs. 16.4 Bn. during the year (14% growth over last year) to stand at Rs. 132.97 Bn., while the gross NPA ratio for 2012 stood at 15.25%.

The Bank maintained stringent measures to ensure a healthy balance between credit expansion, portfolio quality and default levels. Despite the significant credit expansion Gross NPL reduced from 17.67% in 2011 to 15.25% as at end 2012. Credit given was monitored to ensure lending objectives were met and to identify potential threats to the borrowers and repayment capacities. This helped sustain high repayment levels. Prudent recovery action by regional offices, branches and the recoveries department contributed significantly to reducing the NPA.

Credit proposals beyond a stipulated threshold were subject to strict review by the Risk Management Unit (RMU) and the Chief Risk Officer in order to design risk mitigating measures that addressed both quantitative and qualitative factors affecting the credit decision. The quality of the overall credit portfolio was monitored by the RMU to avoid over exposure to a single customer, sector, industry or collateral.

A new operational procedure was introduced during the year to assess and grade branches enabling the Bank to identify larger branches that required senior and experienced staff to manage and minimise risks and expedite response times.

#### Branch Contribution to Credit Growth

Branches accounted a heavy credit growth and overall credit growth of the Bank recorded was 14.06%.

The Southern Province has emerged as a key economic area in Sri Lanka. The Bank successfully exploited business opportunities in Southern Province by opening two new branches.

The Bank adopted its lending criteria to assess the repayment capacities of borrowers and meet their needs, especially in Northern and Eastern Provinces which are still largely informal economies that lack traditional forms of collateral and business processes. Pawning continued to be the main lending product for branches in these areas.

The manner in which credit quality had improved with the various strategies and measures adopted during the year is indicated by the NPA position computed as per CBSL guidelines in the below tables.

Aging pattern of the NPA as per CBSL guidelines are shown below for readers to gain a better understanding as this information is not provided in the financials and also as a response to the shareholders' request at the last AGM.

Period	2012 Rs. Mn.
3 to 6 Months	5,311
7 to 12 months	1,312
13 to 18 months	985
19 months and over	10,996
<b>Total</b>	<b>18,604</b>

Though Seylan Bank has legacy NPA issue, the security cover on such NPAs does not hamper the Bank's recovery process. The NPA classification based on the type of securities is tabulated below:

	2012 Rs. Mn.
Secured by Immovables Assets	10,787
Secured by Movable Assets	557
Secured by Cash/Shares	409
Secured by Pawned Articles	158
Other Securities	2,744
Clean	3,949
<b>Total</b>	<b>18,604</b>

	2012 Rs. Mn.	2011 Rs. Mn.
Gross NPA (Including Interest Receivable)	20,613	20,923
Gross NPA Ratio (Including Interest Receivable) (%)	15.25	17.67
Gross NPA (Excluding Interest Receivable)	18,604	18,001
Gross NPA Ratio (Excluding Interest Receivable) (%)	13.76	15.20
Net NPA (Including Interest Receivable)	17,099	16,193
Net NPA Ratio (Including Interest Receivable) (%)	12.99	14.24



## Achievements over the Period and the Future Outlook

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

Improving stakeholder wealth is a crucial determinant of continuing the strategic and operational focus. The Bank uses ROA and ROE as performance benchmarks to enhance wealth of the Bank and the return to its stakeholders.

All businesses are concerned with the allocation of capital, better pricing, operational innovations, service quality etc. Among these considerations, ROA indicates the efficiency of asset allocation in terms of resulting income. ROE indicates the Bank's objective of being the best-managed Bank with the highest interest of the investors and other stakeholders.

The Bank's actual and estimated ROE and ROA are indicated in the table below:

Year	2012 Actual	2012 Budget	2011 Actual	2013 Budget
ROE (%)	11.24	11.60	4.40	> 12.50
ROA (%)	1.17	1.20	0.42	> 1.25
EPS (Rs.)	6.06	6.28	2.18	> 7.00

#### • Growth of the Business Volumes

Growing the portfolio while sustaining existing business is essential to be in tandem with the emerging opportunities of the local and international market. As such the Bank explores various opportunities and business lines, delivery channels, service levels etc., and monitors its business to improve quality.

Table given below highlights the actual/expected growth in Bank's assets base over 3 years to 2013:

Year	2012 Actual Rs. Mn.	2011 Actual Rs. Mn.	2013 Budget %
Total Assets	183,662	165,944	> 13

#### • Improvement of Processes

Further, the Bank is currently working on following strategic initiatives to enhance the operational efficiency, service quality, pricing and optimising returns to its stakeholders.

Project Name	Responsibility
Centralisation	DGM OPS
Business Process Re-engineering	DGM OPS
Cost Optimisation	CFO
Optimisation of Capital Usage	CFO

#### • Further Strengthening of Risk Management and Compliance

Bank has taken several measures to strengthen the Risk Management Unit which includes taking on board the services of a well-known regional specialist working as a Consultant to improve risk management policies and procedure in line with the Bank's risk appetite. Accordingly, the Risk Unit will be strengthened with relevant skills and experienced staff for all areas of risk.

#### Seylan Developments PLC

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

The Company achieved a rent income growth of 6% in 2012 compared to 2011. The Company has recorded a 214% growth in post-tax profits mainly due to the reduction of impairment.

## / Financial Review

### Highlights

- Rolled out a comprehensive 4-year Strategic Plan (2012-2015) from 1st January 2012

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- Surpassed a Profit After Tax of Rs. 2.05 Bn. The highest ever profit in the Bank's 24 year history

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- Successfully mobilised over Rs. 22.75 Bn. net deposits and Rs. 18.3 Bn. in net advances growth

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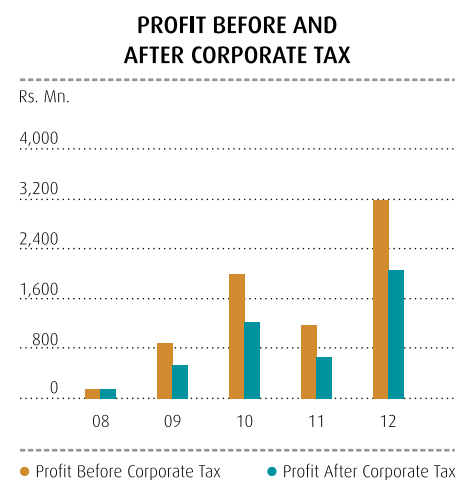
- Recorded a Capital Adequacy Ratio of 14.37%, which is one of the highest in the local banking industry

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- A strong growth in earnings per share (Rs. 6.06) which has resulted in Net Asset per Share increasing to Rs. 56.08 in 2012

### Profitability

Our growth in earnings per share of 177.98% was driven by operational efficiencies and improved credit quality. Our primary sources of earnings were enhanced during the year, by a lending growth of 14.06% and a deposit growth of 18.35%, which generated a net interest income of Rs. 9,020 Mn. In addition, the provision of other financial services generated a fee income of Rs. 2,483 Mn. Profit before tax in 2012 grew by 172.17% in comparison to year 2011 and stood at Rs. 3,184 Mn.



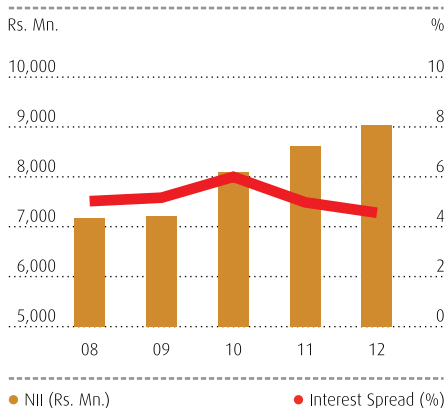
We achieved record results in 2012, despite adverse market conditions in terms of significant movement in exchange rates rising interest rates scenario in the market and regulated credit expansion.

## / Financial Review

### Net Interest Income

As a result of increasing interest rates that prevailed in 2012, our top line income increased by 25.49% to Rs. 23,623 Mn. from Rs. 18,824 Mn. in 2011. Interest income on customer advances increased by 38.44% to Rs. 17,987 Mn. compared to Rs. 12,993 Mn. the previous year, while interest income on Treasury Bills and Bonds and money market instruments decreased by 22.35% to Rs. 3,001 Mn. in 2012, compared to Rs. 3,865 Mn. in 2011. Interest expenses on deposits increased by 50% to Rs. 10,335 Mn. in 2012 from Rs. 6,887 Mn. in 2011. Interest earning assets increased by Rs. 14,316 Mn. in 2012, from Rs. 143,328 Mn. in 2011, due to increases in loans and investment securities and Treasury Bills and Bonds.

#### NET INTEREST INCOME AND INTEREST SPREAD



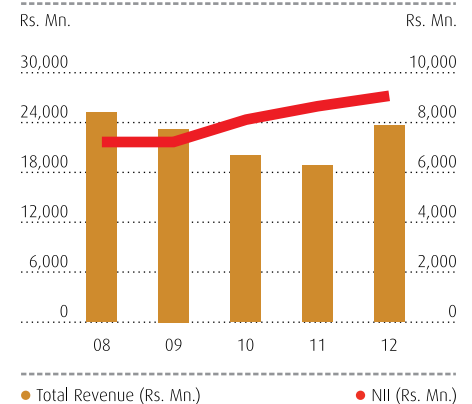
Total operating income recorded Rs. 11,438 Mn. in 2012, compared to Rs. 10,391 Mn. in 2011, an increase of 10.07% driven by growth in fee income-generating turnover, particularly on LCs, guarantees, credit and debit card fees, loan processing and gains on the investment portfolio.

	2012 Rs. Mn.	2011 Rs. Mn.	Growth %
Operating Income	<b>11,438</b>	10,392	10.07
Operating Expenses	<b>7,577</b>	8,817	(14.06)
Profit before Tax	<b>3,184</b>	1,170	172.17
Profit for the Year	<b>2,049</b>	665	208.20

### Fee and Other Income

Total fee-based income for 2012 was recorded Rs. 2,483 Mn. as against Rs. 1,859 Mn. in 2011, a drop of Rs. 625 Mn. However fee and commission income increased by 248 Mn to Rs. 1,760 Mn. in 2012 from Rs. 1,512 Mn. in 2011. The above increase was recorded due to the growth in lending, credit and debit cards, trade-related services and other fee-based activities.

#### TOTAL REVENUE/ NET INTEREST INCOME



### Cost to Income

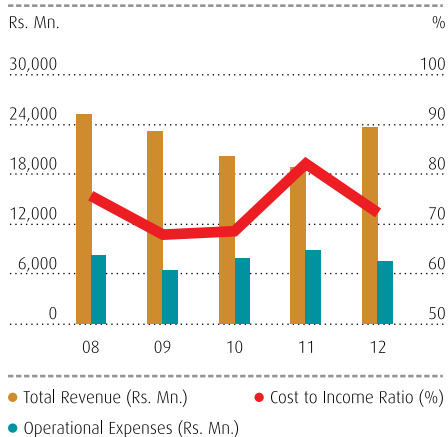
The cost to income ratio improved to 72.16% in 2012 compared to 82.02% in 2011, despite the additional investment on the rapid branch network expansion.

This improvement was primarily due to centralisation of many locations in and around Colombo to the Head Office Building and managing of cost well within the budget.

Overhead expenses, excluding credit losses and impairment totalled Rs. 7,260 Mn. in 2012, compared with Rs. 8,088 Mn. in 2011.

## / Financial Review

### TOTAL REVENUE/ OPERATIONAL COST/COST TO INCOME RATIO



### Credit Loss Provision Collective and Significant Loans Impairment

The provision for impairment/credit losses reduced by 56.52% to Rs. 317 Mn. in 2012, compared to Rs. 729 Mn. in 2011. The reduction is mainly due to the prudential measures taken for controlling and recovering existing NPA.

### Taxation

The effective tax rate for 2012 decreased to 36% from 43% in 2011. Further, tax exempt income increased to Rs. 437 Mn. in 2012, compared with Rs. 285 Mn. in 2011.

The Bank recorded a net deferred tax asset of Rs. 253 Mn. as at 31st December 2012 as against Rs. 510 Mn. at the end of 2011. The tax effects of temporary differences that gave rise to significant portions of deferred tax assets are presented in Note 1 to the Financial Statements.

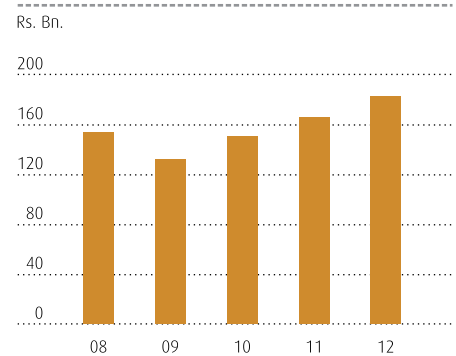
VAT on Financial Services increased in the year by Rs. 271.35 Mn. and reported an increase of 67% over the last year. The tax concession was transferred to the Investment Fund Account and invested mainly in long-term bonds, short-term Government Securities and loans under specific categories. This saving helped the Bank to improve its pricing and the value addition to its customers saving on both income tax and the VAT on Financial Services.

Profitability Ratios for 2012 were impressive, as evidenced by increase in after tax Return on Assets (ROA) to 1.17% from 0.42% in 2011 and after tax Return on Equity (ROE) of 11.24% which increased from 4.40% in 2011.

### 1. Statement of Financial Position

Interest rate and market risks inherent in our assets and liabilities were managed within prudent limits, while ensuring adequate liquidity and funding sources were available to sustain the growth of the Bank. ALCO strictly monitored the mismatches in the Bank's Balance Sheet and improved the structure of the Balance Sheet with appropriate measures and strategies. As such, number of deposits campaigns and advances campaigns were conducted to improve the position of the Balance Sheet and its structure and tenure.

### TOTAL ASSETS



	2012 Rs. Bn.	2011 Rs. Bn.	Growth %
Deposits	<b>146.73</b>	123.98	18.35
Gross Loans & Advances	<b>132.97</b>	116.58	14.06
Non-performing (Net of IIS)	<b>17.10</b>	16.19	5.62
Total Assets	<b>183.66</b>	165.94	10.68
Shareholders Funds	<b>18.96</b>	17.49	8.38

Bank also took significant measures to reposition the Balance Sheet in 2012 growing interest earning assets by 9.99%.

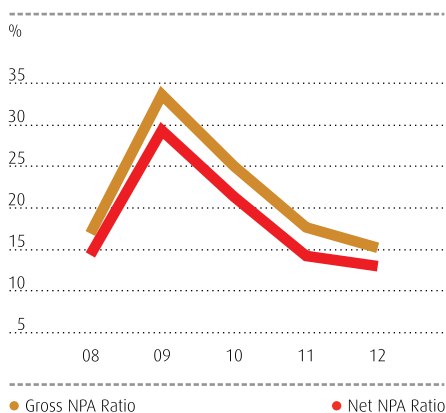
### Investment in Government Securities

Our portfolio of Treasury Bills and Bonds held primarily for liquidity, interest rate risk management and yield enhancement purposes included extremely liquid, high quality Government debt securities. The portfolio comprised Rs. 31,208 Mn. of Treasury Bills and Bonds as at 31st December 2012, compared with Rs. 32,433 Mn. as at 31st December 2011.

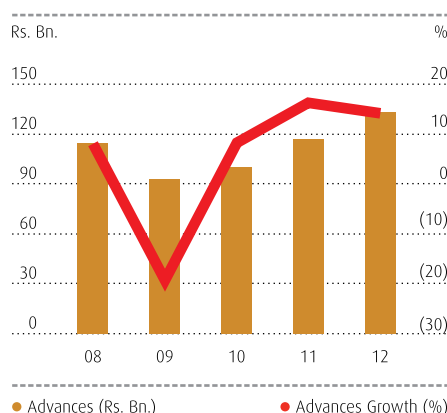


## / Financial Review

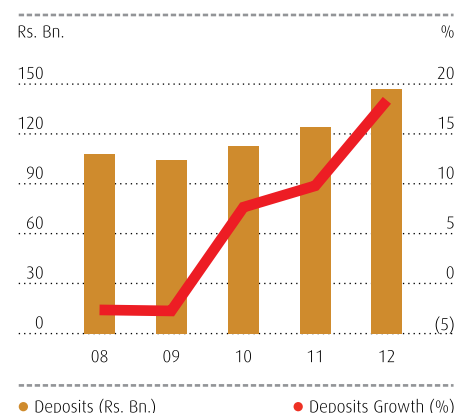
### GROSS AND NET NPA RATIO



### ADVANCES AND ADVANCES GROWTH



### DEPOSITS AND DEPOSITS GROWTH



### Loans and Advances

Loans and advances amounted to Rs. 132,974 Mn. as at 31st December 2012, compared with Rs. 116,585 Mn. at the end of 2011. The increase was largely due to the growth in Overdrafts, Term Loans and Pawning. Overdrafts and Term Loans increased by Rs. 5,868 Mn. (21.78%) and Rs. 3,856 Mn. (8.12%), respectively, in 2012 compared to last year. Pawning advances also increased by Rs. 5,011 Mn. (40.19%) in 2012, lower than the previous year's growth rate of 48%. Lower growth in pawning portfolio in North and East region in 2012 compared to that of 2011 caused the main reason for the decline.

### Deposits

Deposits stood at Rs. 146,727 Mn. as at 31st December 2012, compared to Rs. 123,981 Mn. at the end of 2011, funding 79.89% of total assets in 2012 compared to 74.71% in 2011. Total interest-bearing liabilities increased to Rs. 146,442 Mn. in 2012 from Rs. 132,935 Mn. a year ago. Total non-interest-bearing liabilities increased to Rs. 37,219 Mn. in 2012 from Rs. 33,009 Mn. a year ago. Low cost deposits increased from Rs. 49,260 Mn. in 2011 to Rs. 50,554 Mn. in 2012, reflecting a sound growth in corporate, consumer and business account relationship.

In the month of October 2011, Bank commenced the 'Thagi Pita Thagi' Campaign which ran till end April 2012, with a view to enhance the value proposition to the customers. During this period the Bank managed to attract deposits to the worth of Rs. 13.5 Bn.

### 2. Shareholder Value

Over the years, the Bank has succeeded in increasing our shareholders' value through several efficient measures including sustaining customer satisfaction, strong financial results, reinvestments in our business and prudent risk management. Our main source of capital in 2012, continued to be retained earnings, which recorded an increase of Rs. 1,046 Mn.

The Bank's total risk-based capital ratio stood at 14.37%, while the Tier I capital ratio was 14.36% as at 31st December 2012, exceeding the minimum regulatory limits of 10% and 5% respectively compared to Bank's capital ratio as at 31st December 2011 which were 14.57% and 14.22% respectively.

## / Financial Review

Bank also declared a one Rupee dividend at the last AGM and paid in April 2012.

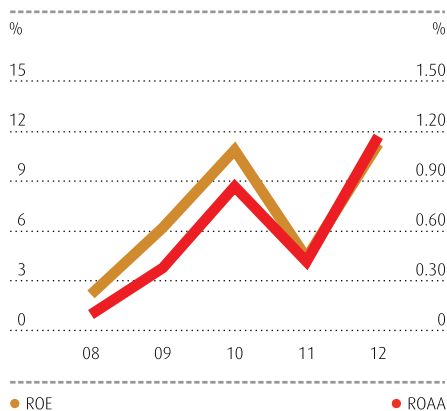
	2012	2011	Change (%)
Net Assets Value per Share (Rs.)	<b>56.08</b>	51.64	8.60
ROA - After Tax (%)	<b>1.17</b>	0.42	178.57
ROE - After Tax (%)	<b>11.24</b>	4.40	155.45
Cost to Income (%)	<b>72.16</b>	82.02	(12.02)
Net NPA (%)	<b>12.99</b>	14.24	(8.78)
Capital Adequacy			
Tier I (%)	<b>14.36</b>	14.22	(0.98)
Tier I & II (%)	<b>14.37</b>	14.57	(1.37)
Dividend per Share (Rs.)	<b>2.00</b>	1.00	100

### 3. Other Financial Indicators and Measures

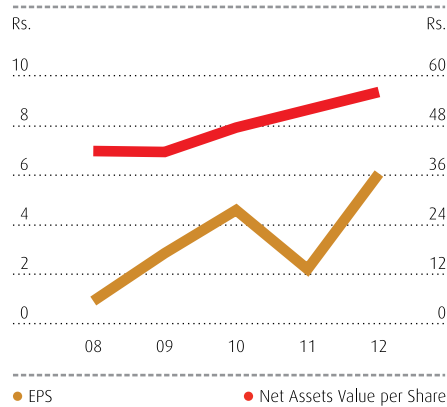
#### Liquidity

The Liquid Assets of the Bank mainly represent the Treasury Bills and Bonds (69.36%) cash (13.54%) and Other Liquid Assets (17.10%) and the ratio was always managed above the statutory limit of 20% as shown in the graph below:

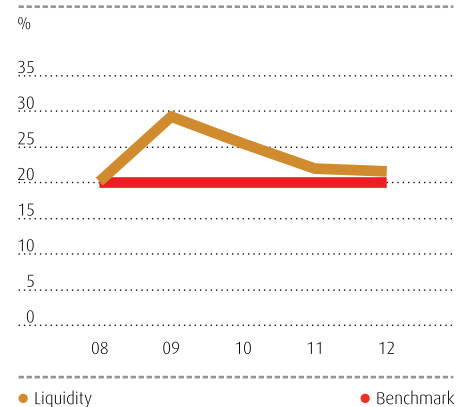
#### RETURN ON AVERAGE ASSETS AND RETURN ON EQUITY



#### EARNINGS PER SHARE AND NET ASSETS VALUE PER SHARE



#### LIQUIDITY RATIO



In terms of our 2012 financial goals the following have been significantly achieved by the Bank:

Year ended 31st December	Goal %	2012 Actual %
Annual Post-Tax Profit Growth	>20	<b>208.20</b>
Return on Equity	>12	<b>11.24</b>
Return on Assets	1.20	<b>1.17</b>
Total Capital Adequacy Ratio	12.5	<b>14.37</b>
Growth in Deposits	18	<b>18.35</b>
Growth in Advances	14	<b>14.06</b>

#### Credit Quality

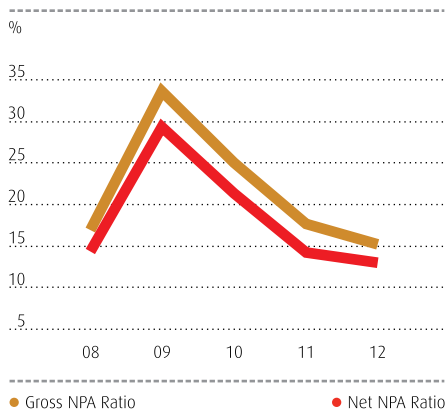
Bank manages the credit risk by maintaining prudent credit policies and continuously examining our credit process. In 2012, non-performing loans as a percentage of loans outstanding substantially declined in comparison to the previous year. Asset quality improved in 2012 compared with a year ago.

## / Financial Review

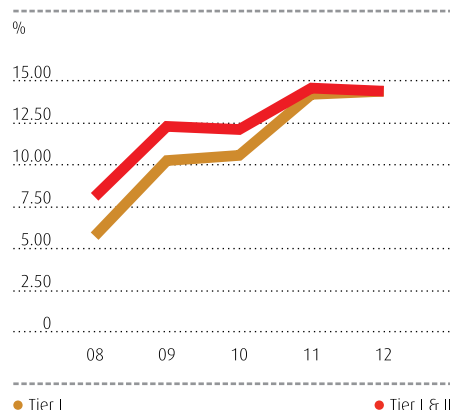
Gross non-performing ratio improved from 17.67% to 15.25% in 2012. NPL Ratio net of interest in suspense (IIS) too improved from 14.24% to 12.99% in 2012.

Year	Gross NPA Rs. Mn.	Net NPA Rs. Mn.	Gross NPA Ratio	Net NPA Ratio
2012	20.61	17.09	15.25	12.99
2011	20.92	16.19	17.67	14.24
2010	25.69	20.85	25.07	21.29
2009	31.15	25.49	33.61	29.29
2008	19.43	15.91	16.93	14.30
2007	16.35	13.04	15.93	12.68

### GROSS AND NET NPA RATIO



### CAPITAL ADEQUACY RATIO



### Capital Adequacy

Bank's capital adequacy ratio's Tier I and Total stood at 14.36% and 14.37% respectively at the year end which is well above the minimum regulatory levels. The sound ratio's gives an opportunity for the Bank to manage future credit growth and branch expansion.

Board has also approved a capital augmentation plan for next three years as a forward looking strategy.

# Why **it** works?

## / Corporate Governance Report

### Chairman's Statement

*Dear Stakeholder*

I take pleasure in endorsing and presenting the Corporate Governance Report of Seylan Bank PLC. The Report confirms the Bank's commitment for compliance and reflects the extent to which it has complied to date 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 on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka.

As a member of the Board, appointed pursuant to the Central Bank's intervention and the resumption of the Bank's business in December 2008 and as a member who has been serving over the past four years as a Senior Independent Director, I am aware of the many initiatives taken, the processes put

in place and the effectiveness in adopting and implementing transparent and effective corporate governance practices within the Bank.

When I was appointed as the Chairman of the Bank on 17th January 2013, I was conscious of the fact that these corporate governance measures have to be sustained, further improved and that the Board should monitor and take responsibility to comply with the regulations, rules, guidelines and principles on corporate governance. The other members on the Board also recognise the importance of good corporate governance and corporate social responsibility in promoting and strengthening the trust of all its stakeholders including the public and have pledged their commitment towards same. I appreciate their contributions at Board and Board Sub-committee levels which have helped to uphold corporate values and transparent governance practices. As much as we expect all employees of Seylan Bank to be committed towards this end, we also expect the external stakeholders, including,

auditors, consultants, outsourced personnel and companies, customers and suppliers to act with fairness to ensure a high element of ethical business conduct which will not only enhance business prosperity but will also retain and safeguard the interests of all its stakeholders.

Messrs KPMG, our external auditors annually carry out a review of the Bank's compliance with the Banking Act Direction No. 11 of 2007 (as amended) in accordance with the Sri Lanka Standard on Related Services 4750 and provides a review/factual findings report on the extent of Bank's compliance with the said Directions. Messrs KPMG carried out this procedure in respect of the year 2012 as well and have issued a report on their review and factual findings on same. The Auditors were also engaged to carry out a review on the Board's Statement on Internal Controls relating to financial reporting system based on Sri Lanka Standard on Assurance Engagements 3050 and have issued a report to be included in the Annual Report.



An arrow rest in the modern bow is a marvel of intricacy, planning and precision...just like banking!

I wish to confirm that to the best of my knowledge, there are no material violations of any of the provisions of these Directions, Rules and Codes. On behalf of the Board of Directors, I state that Seylan Bank will do its best to continuously improve the corporate governance practices and sustain the corporate governance values in Seylan Bank.

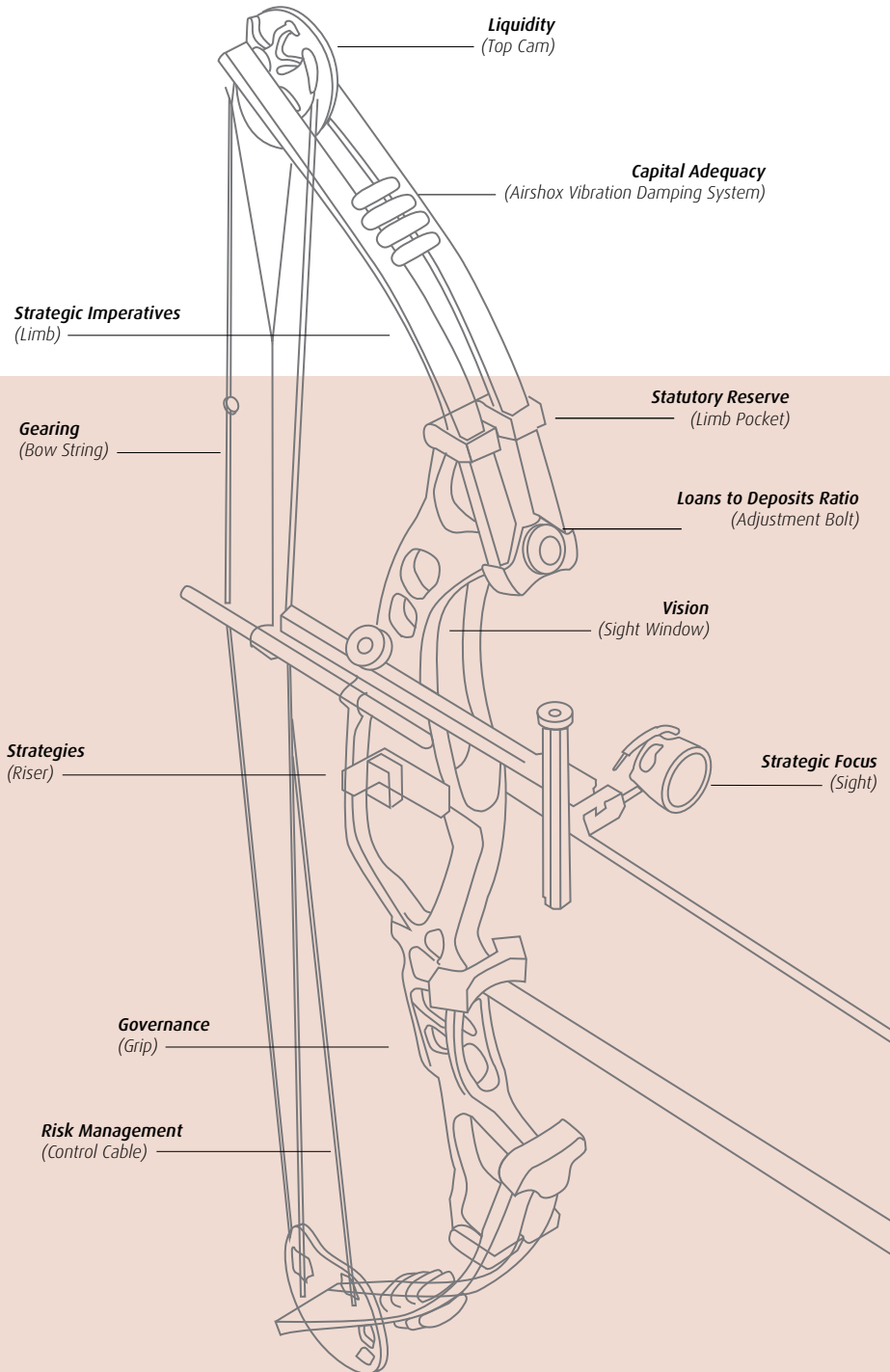
I welcome our shareholders' valuable feedback on this Corporate Governance Report, as we believe that shareholder engagement is one key aspect of maintaining effective corporate governance practices at the highest levels.

Yours sincerely,

**Nihal Jayamanne PC**  
Chairman

21st February 2013

Colombo



## / Corporate Governance Report

### An Overview of the Governance Structure at Seylan Bank PLC

The Board structure of Seylan Bank PLC (the Bank) has a composition of Directors that ensures a stable and satisfactory development of the Bank which benefits and builds the trust of all its shareholders and stakeholders alike. The Board is presently comprised of nine Directors with a majority of eight Non-Executive Directors and one Executive Director. More than one-third of the Board constitutes of independent Non-Executive Directors. All these numbers comply with the stipulated regulatory requirements and the Articles of Association of the Bank.

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

The duties and responsibilities of the Board are as stipulated and governed by the aforementioned Statutory Regulations, Listing Rules of the Colombo Stock Exchange, the

Articles of Association of the Bank and the Resolutions passed by the Bank. 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.

The Board of Directors discharges its responsibilities as a team of its own as well as by delegating its responsibilities to be discharged by the Board appointed Sub-committees. These Sub-committees are headed by Non-Executive Directors who have adequate expertise/experience in the relevant areas, namely audit, risk, human resources, credit, marketing and sustainability. The fulfilment of the responsibilities of these Committees and compliances of the required Corporate Governance practices are explained in their respective reports and are also briefed in the respective sections of the Corporate Governance Report that follows. The delegation of responsibilities does not detract the Board from its ultimate responsibilities towards the Bank.

The Chairman, Board of Directors, the Chief Executive Officer and key management officers represent and/or participate at meetings and forums convened by the Central Bank of Sri Lanka from time to time which have helped them to be aware of the Regulator's key expectations.

### Corporate Governance Philosophy of the Bank

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

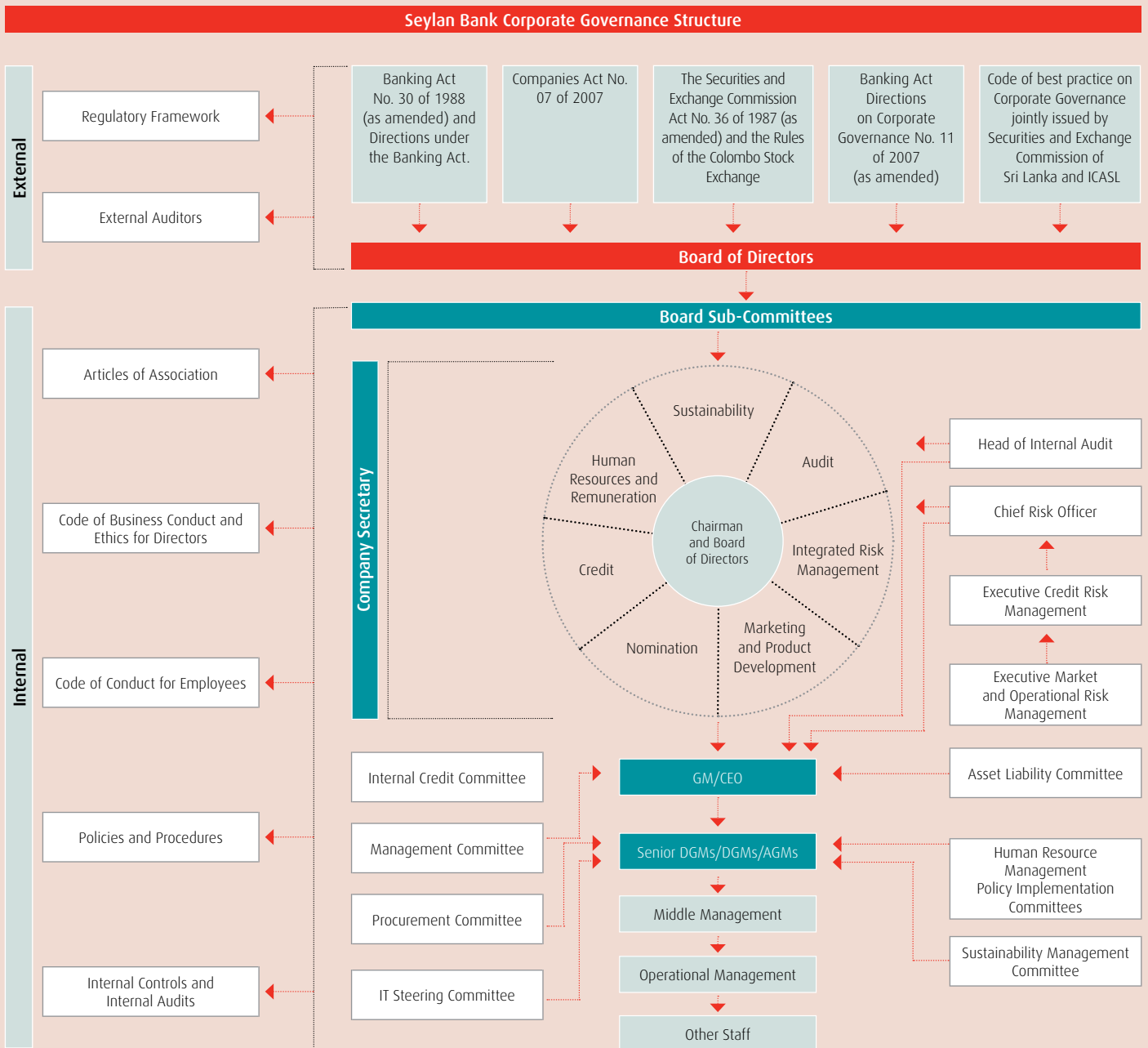
The vision of the Bank is to be Sri Lanka's leading financial services provider - as recognised by all its stakeholders. To achieve this vision, the Bank's Mission is to:

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

The Code of Business Conduct and Ethics for Directors of Seylan Bank, the Bank's Policy Governing Insider Dealing and the Policy on Related Party Transactions and Avoidance

# Corporate Governance Report

## Corporate Governance Structure-



## / Corporate Governance Report

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

The Board carried out individual and independent evaluations of Directors' performance and effectiveness during the year and which were collectively reviewed by the Board Members in January 2013. The evaluation confirmed the views of the Board and was a good indicator of the openness that exists within the Board.

### Ownership Structure

The "Investors Information" pages provide information on the Bank's shareholding structure (both voting and non-voting share capital). The public holding in the Bank's voting capital as at 31st December 2012 was 61.53% (51.51% as at 31st December 2011). Monthly reports are submitted to the Bank Supervision Department of the Central Bank informing the ownership in voting capital of the Bank above 5%.

The position as at 31st December 2012 is indicated below:

Ordinary Voting Shares	2012		Comparative holdings in 2011	
	No. of Shares	%	No. of Shares	%
Sri Lanka Insurance Corporation Limited [includes Sri Lanka Insurance Corporation Limited - (General Fund) - 17,333,333 and Sri Lanka Insurance Corporation Limited (Life Fund) - 8,666,666]	25,999,999	15.00	25,999,999	15.00
Brown & Company PLC A/C No. 1*	24,049,888	13.87	24,049,888	13.87
National Development Bank PLC/ Dr. T. Senthilvel	17,201,683	9.92	17,333,333	10.00
LOLC Investments Limited*	16,555,954	9.55	16,555,954	9.55
Employees Provident Fund	15,991,444	9.22	14,323,435	8.26
Bank of Ceylon No. 1 Account	13,000,000	7.50	13,000,000	7.50
Waldock Mackenzie Limited/ Mr. D.S.K. Amarasekera	11,152,610	6.43	-	-
Dr. W.U.N. Gamage	7,835,200	4.52	10,335,200	5.96

\* 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.



## / Corporate Governance Report

### **How the Board Understands the Views of its Shareholders**

The Board ensures that there is effective communication with shareholders. The Board and its Sub-committees are represented by Non-Executive Directors, Messrs I.C. Nanayakkara, A.L. Devasurendra, A.M.M. De Alwis and P Kudabalage who were nominated by Institutional Shareholders, namely LOLC Investments Limited, Brown & Company PLC and the Sri Lanka Insurance Corporation Limited.

The minutes of the Bank's Annual General Meeting (AGM) in 2012 were circulated to the Members of the Board together with action points of issues raised and requests made by the shareholders present at the said AGM for the Board's review who provided necessary instructions to the management to address any concerns and/or expedite any suggestions or requests made by the shareholders if and as applicable. We understand the need to be transparent in our dialogue and communications with our

shareholders, improving dialogue between investors and the Bank and strive to facilitate meaningful engagement with our shareholders. Communications to shareholders are disseminated through announcements made to the Colombo Stock Exchange and published in its website [www.cse.lk](http://www.cse.lk). The Company Secretary also dispatches information circulars to the shareholders as deemed required from time to time. The information pertaining to the Bank's financials and other corporate information are published in the newspapers as well as on the Bank's website [www.eseylan.com](http://www.eseylan.com) for the information of our shareholders, stakeholders and prospective investors.

## / Corporate Governance Report

The compliances and the extent of compliances made to the best of the Bank's ability as required under the following three regulatory authorities' directions, rules, codes and principles are stated in the following Corporate Governance Report of the Bank.

Section One	<p><b>Directions of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka</b> 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.</p>	Disclosed in pages 57 to 86 of this Report
	<p>The disclosures reflecting the Bank's compliance and the extent of its compliance under this Direction covers the following eight subsections. The External Auditors have carried out an agreed upon procedure in respect of the Bank's compliance with the above Directions in accordance with the Sri Lanka Standard on Related Services 4750 and issued their report on same.</p> <ul style="list-style-type: none"> <li>• The Responsibilities of the Board</li> <li>• The Composition of the Board</li> <li>• Fitness and Propriety of Directors</li> <li>• Management Functions Delegated by the Board of Directors</li> <li>• Chairman and Chief Executive</li> <li>• Board Appointed Committees</li> <li>• Related Party Transactions</li> <li>• Disclosures</li> </ul>	
Section Two	<p><b>Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance</b></p> <p>Disclosures made include the following areas as required under the above Section:</p> <ul style="list-style-type: none"> <li>• Non-Executive and Independent Directors</li> <li>• Disclosures Relating to Directors</li> <li>• Human Resources and Remuneration Committee</li> <li>• Audit Committee</li> </ul>	Disclosed in pages 86 to 87 of this Report
Section Three	<p><b>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)</b></p> <p>The extent of compliance by the Bank of the above Code of Best Practice promulgated by ICASL and SEC are summarised under the following subheadings. The Bank's compliance with this Code is on a voluntary basis:</p> <ul style="list-style-type: none"> <li>• Directors</li> <li>• Directors' Remuneration</li> <li>• Relations with Shareholders</li> <li>• Accountability and Audit</li> <li>• Institutional Investors</li> </ul>	Disclosed in pages 88 to 97 of this Report

## / 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

#### 3 (1) The Responsibilities of the Board

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.	<b>Complied with</b> The Board approved the 4-year Strategic Plan 2012/2015 on 12th December 2011 and communicated the new strategic objectives and corporate values to the staff. The timely implementation of strategies was monitored through frequent reviews at Board Meetings.
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.	<b>Complied with</b> The Strategic Plan addresses the Bank's overall business strategy up to the year 2015. Overall risk policy and risk management framework in line with the strategies have been formulated by the Risk Unit and regularly monitored by the Board.
c.	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	<b>Complied with</b> The Board has delegated these responsibilities to its Integrated Risk Management Sub-committee. 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. Systems put in place were being tested by the Risk Unit.
d.	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	<b>Complied with</b> A Stakeholder Engagement Policy has been approved, implemented and monitored at Board level.

## / Corporate Governance Report

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.	<p><b>Complied with</b></p> <p>Adequacy and integrity of the Bank's internal control systems and management information systems were reviewed by the Board Audit Committee. The decisions and/or actions taken are submitted for Board's information and/or action (if deemed necessary).</p>
f.	<p>Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to:</p> <ul style="list-style-type: none"> <li>i. significantly influence policy;</li> <li>ii. direct activities; and</li> <li>iii. exercise control over business activities, operations and risk management.</li> </ul>	<p><b>Complied with</b></p> <p>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 Sri Lanka Accounting Standards disclosures on related party transactions. The KMPs were reviewed and approved by the Board during the year.</p>
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel	<p><b>Complied with</b></p> <p>The key responsibilities of key management personnel are defined in their job responsibilities, whilst the Directors derive their responsibilities from the regulations and directions, mainly, the Banking Act Directions.</p>
h.	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy	<p><b>Complied with</b></p> <p>Communication of Board approved policies and decisions are conveyed through Board minute extracts and the appropriate followup actions and reports/decisions of the relevant Key Management Personnel confirms this.</p>
i.	<p>Periodically assess the effectiveness of the Board of Directors' own governance practices, including:</p> <ul style="list-style-type: none"> <li>i. the selection, nomination and election of Directors and Key Management Personnel;</li> <li>ii. the management of conflicts of interests; and</li> <li>iii. the determination of weaknesses and implementation of changes where necessary.</li> </ul>	<p><b>Complied with</b></p> <p>Effectiveness of the Board's own governance practices including i, ii and iii specified herein is ensured.</p> <p>Evaluation of the Board Performance including all governance practices are assessed by the Directors individually and collectively discussed/reviewed by the Board annually.</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
j.	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	<p><b>Complied with</b></p> <p>The appropriate succession plan for Key Management Personnel is reviewed by the CEO and the HR Division submits such succession plan to the Board's Nomination Committee for its review and/or concurrence annually or as deemed necessary.</p>
k.	Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	<p><b>Complied with</b></p> <p>Key Management Personnel are co-opted and/or attend by invitation to the Board Sub-committees. Minutes of the Sub-committees and action plans arising out of same are tabled at Board Meetings for the Board's review and/or follow up.</p> <p>Key Management Personnel are also called by the Board when deemed required to explain matters relating to their respective functions.</p>
l.	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	<p><b>Complied with</b></p> <p>The Board is updated of the changes in the regulatory environment and maintains an effective relationship with regulators. The process is managed by the Bank's Compliance Officer.</p>
m.	Exercise due diligence in the hiring and oversight of External Auditors.	<p><b>Complied with</b></p> <p>The Board Audit Committee carries out this responsibility and makes recommendations for the final approval of the Board.</p>
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.	<p><b>Complied with</b></p> <p>Mr. E. Narangoda was re-designated as Non-Executive by the Board with effect from 1st January 2012 and functioned as the Non-Executive Chairman up to his date of resignation, 28th March 2012. Mr. P.M.M. Pieris PC was appointed on 20th April 2012 as an Independent Non-Executive Chairman of the Bank. Mr. Pieris resigned from the Board on 15th January 2013 and Senior Independent Director, Mr. N.M. Jayamanne PC was appointed as Chairman on 17th January 2013.</p> <p>The functions and responsibilities of the Chief Executive Officer are clearly defined and the Chairman's role is derived from the regulatory provisions.</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) (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.	<b>Complied with</b> Regular meetings are held monthly with special meetings held as and when required. Twelve regular meetings and two 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 and/or urgent nature.
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.	<b>Complied with</b> Board Meetings are scheduled monthly and Directors are noticed 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.
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.	<b>Complied with</b> 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 much lesser notice period due to the urgency of the matters concerned.

## / 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) (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 98 of the Annual Report.</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 of less than 3 days.</p> <p>Director, Mr. N.M. Jayamanne PC was unable to meet fully with this requirement as he was indisposed. The Bank has duly informed the Central Bank of Sri Lanka in this regard.</p> <p>The Board taking into consideration the reasons and the circumstances for Director, Rear Admiral Ananda Peiris' attendance at Board meetings falling short of the requirement (present at seven of the twelve regular meetings) decided that the said Director be excused since the absence was on reasonable grounds. An alternate Director for Rear Admiral Ananda Peiris will be appointed shortly and the Central Bank of Sri Lanka will be informed accordingly.</p>
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>Mrs. N.N. Najumudeen who is a Chartered Secretary is the Company Secretary of the Bank appointed by the Board. Her primary responsibilities involves handling of secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.</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 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>

## / 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) (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>
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>
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>
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 specifically 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.	<b>Complied with</b> 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, prior to taking any appropriate action.
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.	<b>Complied with</b> The Bank has duly complied with Capital Adequacy Ratio requirements.  The Three-year Capital Augmentation Plan was reviewed and approved by the Board in March 2012. The Five-year debenture issue to raise Rs. 2 Bn. in Tier II capital was decided by the Board consequent to the review of this plan on a quarterly basis.
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.	<b>Complied with</b> The Corporate Governance Report discloses the extent to which the Bank has complied with Direction 3 of the Banking Act Directions on Corporate Governance.
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.	<b>Complied with</b> The Board has adopted an annual scheme of self-assessment. The self-assessment reports are tabled at Board Meetings and are held in the Company Secretary's custody.
<b>3 (2) Composition of the Board</b>		
3 (2) (i)	The number of Directors on the Board shall not be less than seven and not more than 13.	<b>Complied with</b> The Board comprises of nine Directors as at date.
3 (2) (ii)	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 1st January 2008, and b. Transitional provisions relating to the above.	<b>Complied with</b> The present Directors have been appointed to the Board on or after 30th December 2008.

## / 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) (iii)	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.	<b>Complied with</b> No employees of the Bank have been appointed as Directors. Mr. R. Nadarajah is the only Executive Director on the Board.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.	<b>Complied with</b> The Board comprised of four Independent Non-Executive Directors until April 2012. With the appointment of Chairman, Mr. P. M.M. Pieris PC on 20th April 2012, the Board had five Independent Non-Executive Directors until his resignation from the Board on 15th January 2013. The Board now comprises of four Independent Non-Executive Directors.
3 (2) (v)	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.	<b>Not applicable</b> Not applicable as no Alternate Directors have been appointed.
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.	<b>Complied with</b> 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.
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.	<b>Complied with</b> Required quorum was maintained from commencement to the conclusion of Board proceedings.
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.	<b>Complied with</b> Please refer Composition of Board described in the schedule appended to this Report.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.	<b>Complied with</b> A Board approved procedure is in place which addresses these requirements.
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.	<b>Not applicable</b> Not applicable for the year 2012 since no Director was appointed to fill a casual vacancy other than Mr. P.M.M. Peiris, PC who was appointed to the Board on 20th April 2012 and resigned on 15th January 2013.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: <ol style="list-style-type: none"> <li>announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and</li> <li>issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</li> </ol>	<b>Complied with</b> The procedure set out herein is followed: Shareholders are informed vide a letter to the Colombo Stock Exchange (CSE) and Vide the notes in the Bank's interim (quarterly) Financial Statements issued to the CSE and published in the newspapers. The Bank's Annual Report published subsequent to resignation/removal also carries information pertaining to changes to the directorate during the year.  Mr. E. Narangoda, resigned from the Board of Directors as Chairman of the Bank on 28th March 2012 which was duly informed to the CSE and the Central Bank of Sri Lanka. A formal announcement was also made by him to the shareholders at the Annual General Meeting of the Bank held that day. Mr. P.M.M. Pieris PC resigned from the Board of Directors of the Bank on 15th January 2013. An announcement to this effect was also made through the CSE.
3 (2) (xii)	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.	<b>Complied with</b> None of the employees or Directors of the Bank are Directors of other Banks.  The Bank's policy on Directors' appointment provides for this preclusion.

## / Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
<b>3 (3) Criteria to Assess the Fitness and Propriety of Directors</b>		
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	<b>Complied with</b> None of the present Directors fall within the ambit of this section.
3 (3) (ii)	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.	As per declarations submitted by Directors, all Directors held office in less than 20 companies and in 10 or less than 10 specified business entities, other than Director Mr. Samantha Ranatunge who held directorships in 22 companies with directorships in less than 10 specified business entities. As at date the number of directorships held by Mr. Ranatunga is 20.
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.	
<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.	<b>Complied with</b> The Board has delegated matters pertaining to the affairs of the Bank to the Board Sub-committees within the scope of the respective terms of reference as approved by the Board and also to the CEO and other Key Management Personnel/ line management through approved delegated authority limits which are reviewed from time to time.  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.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.	<b>Complied with</b> 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.
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.	<b>Complied with</b> The delegation process to the Board Sub-committees and to the CEO and Key Management Personnel is reviewed by the Board from time to time vis-à-vis taking into account any structural changes as approved by the Board from time to time.
<b>3 (5) Chairman and Chief Executive Officer</b>		
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	<b>Complied with</b> The positions of the Chairman and the CEO have been separated. The role and responsibilities of the Chief Executive Officer was reviewed by the Board during the year.
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.	<b>Complied with</b> The Board at its Meeting held in December 2011 unanimously agreed and re-designated the former Chairman, Mr. E. Narangoda as a Non-Executive Director/Chairman with effect from 1st January 2012.  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 Independent Director under Board approved terms of reference.  Mr. P.M.M. Pieris PC, who was appointed Chairman after the resignation of Mr. E. Narangoda held an Independent directorship status. Consequent to Mr. Pieris's resignation on 15th January 2013, Senior Independent Director, Mr. N.M. Jayamanne PC was appointed as Chairman with effect from 17th January 2013.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (5) (iii)	<p>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.</p>	<p><b>Complied with</b></p> <p>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.</p> <p>No relationship of any nature exists between the Chairman and the CEO.</p> <p>The relationships among members of the Board in relevance to this section are as follows:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> <p>The Bank has since adopted a process to obtain declarations which would specifically confirm the nature of relationships as required in this direction.</p>
3 (5) (iv)	<p>The Chairman shall:</p> <ol style="list-style-type: none"> <li>provide leadership to the Board;</li> <li>ensure that the Board works effectively and discharges its responsibilities; and</li> <li>ensure that all key and appropriate issues are discussed by the Board in a timely manner.</li> </ol>	<p><b>Complied with</b></p> <p>The Chairman provides leadership to the Board and ensures that the Board effectively discharge its responsibilities and that all key issues are discussed and resolved.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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> 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 under 3 (5) (vii) mentioned above.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	<b>Complied with</b> The present Chairman functions in an independent non-executive capacity and does not engage in direct supervision of the Key Management Personnel or any other executive duties.  The organisation structure in place ensures that all Key Management Personnel report directly to the General Manager/Chief Executive Officer except the Head of Audit who report directly to the Board Audit Committee and the Chief Risk Officer who reports to the Board Integrated Risk Management Committee with administrative reporting to the GM/CEO.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.</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>
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 with</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 of the operations and business of the Bank in line with its strategic objectives.</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 (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 Sub-committees are as follows, which function within the Board approved Terms of Reference:

- Audit Committee
- Integrated Risk Management Committee
- Human Resources 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 decisions are tabled to the Board by the Secretary. The Reports of the Board Audit, Integrated Risk Management, Human Resources and Remuneration and Nomination Committees reviewed and approved by the Board of Directors are given on pages 101 to 107 of this Annual Report. Summarised write-ups of Credit Committee, Marketing and Product Development Committee and Sustainability Committee are given at the end of this Report.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
<b>3 (6) (ii) Audit Committee</b>	The following rules shall apply in relation to the Audit Committee:	<b>Complied with</b>
a.	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	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.	<b>Complied with</b> Directors, Messrs P.L.P. Withana, N.M. Jayamanne PC and P. Kudabalage are Non-Executive Directors.
c.	The Committee shall make recommendations on matters in connection with: <ol style="list-style-type: none"> <li data-bbox="209 1197 826 1265">i. the appointment of the External Auditor for Audit services to be provided in compliance with the relevant statutes;</li> <li data-bbox="209 1280 799 1348">ii. the implementation of the Central Bank Guidelines issued to Auditors from time to time;</li> <li data-bbox="209 1363 724 1392">iii. the application of the relevant Accounting Standards</li> <li data-bbox="209 1406 847 1576">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.</li> </ol>	<b>Complied with</b> As per the terms of reference, the Committee has made the relevant recommendations in line with these guidelines, viz.: <ul style="list-style-type: none"> <li data-bbox="876 1239 1482 1336">• The appointment of Messrs KPMG, Chartered Accountants as the External Auditors for audit services in compliance with the relevant statutes.</li> <li data-bbox="876 1350 1386 1419">• Implementation of CBSL Guidelines applicable to the Auditors.</li> <li data-bbox="876 1433 1482 1502">• Application of relevant Accounting Standards, particularly the adoption of LKAS/SLFRS from 1st January 2012.</li> <li data-bbox="876 1516 1482 1576">• The current Audit Partner has been engaged since the year 2009.</li> </ul>
d.	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.	<b>Complied with</b> The Committee has obtained the representation from the External Auditors on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting and Auditing Standards (LKAS/SLFRS).

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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> <ul style="list-style-type: none"> <li>i. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</li> <li>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</li> <li>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.</li> </ul>	<p><b>Complied with</b></p> <p>In the instances where non-audit services are obtained from the External Auditor, prior approval is obtained from the Audit Committee. The 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 such Auditors.</p> <p>The Audit Committee reviews this process prior to awarding the assignment to an 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> <ul style="list-style-type: none"> <li>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;</li> <li>ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</li> <li>iii. the co-ordination between firms where more than one audit firm is involved.</li> </ul>	<p><b>Complied with</b></p> <p>The Committee has discussed and finalised the nature and the scope of audit, with the External Auditors in accordance with Sri Lanka Auditing Standards before the Audit Committee. The letter of engagement was tabled at the Board Audit Committee Meeting prior to the final approval of the Board.</p> <p>The Members of the Audit Committee has also shared their understanding of the Bank's Internal Control Mechanism and Compliance to Corporate Governance with the External Auditors.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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> <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>	<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. Head of Internal Audit too reviews the draft interim Financial Statements before they are submitted to the Committee.</p>
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 on two occasions met the External Auditors relating to issues in the absence of Key Management Personnel 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>
j.	<p>The Committee shall take the following steps with regard to the Internal Audit function of the Bank:</p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<p><b>Complied with</b></p> <p>A post-implementation review of the Internal Audit manual was carried out during the year by an independent audit firm. The report and the recommendations pursuant to same were reviewed and discussed by the Committee. Appropriate decisions were made and advised to the Internal Audit.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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;	<b>Complied with</b> Complied with in respect of the year ended 2012.
iii.	Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit department.	<b>Complied with</b> Appraisals/assessments of performance of the head of audit and the senior staff of the internal Audit Department are carried out annually.
iv.	Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the Internal Audit function;	<b>Complied with</b> The Committee reviews the adequacy and with a view to strengthening the Internal Audit functions recommends appointments/successions planning and outsourcing of services.
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;	<b>Complied with</b> Committee is appraised of senior staff resignations of the Internal Audit Department. The Committee provided an opportunity to senior staff members to submit reasons of resignations.
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> The Committee ensures that the Internal Audit functions comply with the term and guidelines set in the Internal Audit Charter.
k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	<b>Complied with</b> The Committee considers the reports on investigations carried out by the Internal Audit on major findings and reviews actions taken and further ensures that they are duly followed up.
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> Two meetings were held on 5th September 2012 and 14th December 2012 with the External Auditors without the Executive Directors and the Key Management Personnel being present.

## / Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
m.	<p>The Committee shall have:</p> <ul style="list-style-type: none"> <li>i. explicit authority to investigate into any matter within its terms of reference;</li> <li>ii. the resources which it needs to do so;</li> <li>iii. full access to information; and</li> <li>iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	<p><b>Complied with</b></p> <p>The terms of reference of the Board Audit Committee include these scope and responsibilities.</p>
n.	<p>The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	<p><b>Complied with</b></p> <p>Please refer Report of the Board Audit Committee published in the Annual Report.</p>
o.	<p>The Board shall disclose in an informative way:</p> <ul style="list-style-type: none"> <li>i. details of the activities of the Audit Committee;</li> <li>ii. the number of Audit Committee meetings held in the year; and</li> <li>iii. details of attendance of each individual Director at such meetings.</li> </ul>	<p><b>Complied with</b></p> <p>Please refer pages 101 to 103 Report of the Board Audit Committee published in this Annual Report. Details of attendance of each member are provided in the table appended to this Corporate Governance Report.</p>
p.	<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.</p>	<p><b>Complied with</b></p> <p>The Company Secretary functions as the Secretary to the Committee and records and maintains detailed minutes of the Committee.</p>
q.	<p>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.</p>	<p><b>Complied with</b></p> <p>A Whistler-Blower Policy was formulated and approved during the year.</p> <p>The Committee reviews whether fair and independent investigations have been carried out on such matters (if any).</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 (6) (iii) Human Resources and Remuneration Committee

The following rules shall apply in relation to the Human Resources & Remuneration Committee:

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|----|---|---|
| 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><br>Please refer Report of the Board Human Resources and Remuneration Committee.  |
| b. | The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.  | <b>Complied with</b><br>Goals and targets set for the CEO and Key Management Personnel were approved by the Board and documented. A list of goals and targets for the Executive Director was tabled and agreed by the Executive Director and the Committee. |
| 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. | <b>Complied with</b><br>The performance against goals and targets/KPIs set for CEO and KMPs and evaluated annually.   |
| 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>  |

### 3 (6) (iv) Nomination Committee

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><br>The policies and procedures are approved and documented as required herein.  |
| 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><br>The Committee as well as the Board considered and recommended the re-election of the Non-Executive Directors, Messrs I.C. Nanayakkara, S.P.S. Ranatunga and A.M.M. De Alwis 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 taking into account their contribution to the Board's responsibilities. |

## / Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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> Job descriptions are available for each Key Management Position.
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> The Board reviews the fit and proper declaration of Directors prior to their appointment. The fit and proper declarations of Chief Executive Officer and Key Management Personnel are reviewed by the Committee at the time of/ or upon appointing them.
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> The Committee met in April 2012 prior to considering the appointment of Chairman upon resignation of the former Chairman, Mr. E. Narangoda.  The Committee also constantly reviews the adequacy of the succession arrangements for Key Management Personnel.
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> Committee is chaired by Rear Admiral Ananda Peiris who is an Independent Non-Executive Director.

### 3 (6) (v) Integrated Risk Management Committee

The following rules shall apply in relation to the Integrated Risk Management Committee:

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> Committee consists of three Non-Executive Directors. General Manager/Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Head of Treasury/Chief Dealer are co-opted to the Committee and Heads overlooking Treasury, Credit, Operations, Operational Risk and Compliance are invited to attend the Committee Meetings.
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## / Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.	<p><b>Complied with</b></p> <p>The Risk Management Unit assesses all risks as required herein on a regular basis and reports to the respective Executive Management Committees (on credit, market and operation) 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.</p>
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.	<p><b>Complied with</b></p> <p>The Committee assesses the adequacy of the Asset Liability Sub-committee and two Executive sub-committees one covering credit risk management and the other management of all other types of risk. These committees address the specific risks and manage these risks within qualitative and quantitative risk limits. These Non-Board Sub-committees report to the Board Integrated Risk Management Committee which reviews their activities through the minutes of their meetings.</p>
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.	<p><b>Complied with</b></p> <p>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.</p>
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	<p><b>Complied with</b></p> <p>Please also refer Report of the Board Integrated Risk Management Committee.</p>
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.	<p><b>Complied with</b></p> <p>The Internal Audit in the process of its risk-based internal audit identifies lapses of this nature and makes recommendations to the Board Audit Committee and GM/CEO to initiate actions against officers where material failures to meet risk management responsibilities are observed.</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
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 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 a Compliance Report to the Board at its meetings held monthly.

### 3 (7) Related Party Transactions

3 (7) (i)	<p>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><b>Complied with</b></p> <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>A policy on Related Party Transactions and Conflicts of Interest was formulated and approved by the Board for due implementation.</p>
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## / 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) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <ol 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> <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> </ol>	<p><b>Complied with</b></p> <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> <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 conform with the Policy guidelines.</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) (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> <li>d. Providing services to or receiving services from a related party without an evaluation procedure;</li> <li>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.</li> </ul>	<p><b>Complied with</b></p> <p>The Board ensures to engage in any transactions with related parties subject to compliance with the clauses mentioned herein.</p> <p>The Board approved Policy ensures that all staff are aware of these guidelines and periodical confirmations are obtained from the Heads of Divisions in this regard.</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>

## / 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) (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.</p> <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>	<p><b>Complied with</b></p> <p>Required security has been obtained for accommodation granted to related parties.</p>
3 (7) (vi)	<p>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>	<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>
3 (7) (vii)	<p>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.</p>	<p><b>Complied with</b></p> <p>Prior approval of the Monetary Board was obtained by the Bank as and when deemed necessary.</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
<b>3 (8) Disclosures</b>		
3 (8) (i)	<p>The Board shall ensure that:</p> <ul style="list-style-type: none"> <li>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</li> <li>b. such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</li> </ul>	<p><b>Complied with</b></p> <p>Interim (unaudited) Financial Statements as well as Audited Financial Statements are submitted to the Colombo Stock Exchange (CSE). The financials are made available on the websites of CSE as well as of the Bank for the information of all those who are interested.</p> <p>The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) 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> <ul style="list-style-type: none"> <li>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.</li> </ul>	<p><b>Complied with</b></p> <p>The Financial Statements for the year ended 31st December 2012 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 page 239 and CEO's and CFO's responsibility statement for Financial Statements on page 240.</p>
	<ul style="list-style-type: none"> <li>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.</li> </ul>	<p><b>Complied with</b></p> <p>Directors' Report on the effectiveness of the internal control system over financial reporting, "Directors' Statement on Internal Control" is given on pages 237 and 238.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance																														
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.	<b>Complied with</b> The Bank has obtained an Assurance Report on the internal controls over financial reporting based on the auditing framework issued by The Institute of Chartered Accountants of Sri Lanka for this engagement. The External Auditor's report on the internal control mechanism is reported in page 236.																														
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	<b>Complied with</b> Please refer Report of the Board of Directors for details on Directors and transactions with the Bank. Please refer Note 44 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 Note 44 to the Financial Statements on pages 310 to 320.  The net accommodation granted to each category of related parties is given below as a percentage of the Bank's regulatory capital.																														
		<table border="1"> <thead> <tr> <th>Category of related party transactions</th> <th>Amount Rs.</th> <th>% of regulatory capital</th> </tr> </thead> <tbody> <tr> <td>• Credit Card balances outstanding from Key Management Personnel</td> <td>0.182</td> <td>0.0010</td> </tr> <tr> <td>• Facilities to KMPs</td> <td>20.634</td> <td>0.1188</td> </tr> <tr> <td>• Loans and advances outstanding from Subsidiary</td> <td>0.000</td> <td>0.0000</td> </tr> <tr> <td>• Advance payments to Subsidiary</td> <td>60.687</td> <td>0.3495</td> </tr> <tr> <td>• Transactions with concerns in which a Director of the Bank or a material shareholder has a substantial interest</td> <td></td> <td></td> </tr> <tr> <td>- Expenses paid/payable</td> <td>825.146</td> <td>4.7520</td> </tr> <tr> <td>- Income received/receivable</td> <td>461.916</td> <td>2.6602</td> </tr> <tr> <td>- Non-funded loan</td> <td>561.318</td> <td>3.2326</td> </tr> <tr> <td>- Funded loan</td> <td>3,881.485</td> <td>22.3533</td> </tr> </tbody> </table>	Category of related party transactions	Amount Rs.	% of regulatory capital	• Credit Card balances outstanding from Key Management Personnel	0.182	0.0010	• Facilities to KMPs	20.634	0.1188	• Loans and advances outstanding from Subsidiary	0.000	0.0000	• Advance payments to Subsidiary	60.687	0.3495	• Transactions with concerns in which a Director of the Bank or a material shareholder has a substantial interest			- Expenses paid/payable	825.146	4.7520	- Income received/receivable	461.916	2.6602	- Non-funded loan	561.318	3.2326	- Funded loan	3,881.485	22.3533
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## / 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.	<b>Complied with</b> Please refer Notes 44 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.	<b>Complied with</b> The factual finding Report of the Auditors on Annual Corporate Governance Report confirms the extent of compliance of the Bank with the Directions as disclosed in this Corporate Governance Report.
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-compliance.	Please refer Statement of Directors' Responsibility for Financial Reporting on page 239 and Directors' Statement on Internal Controls on pages 237 and 238.
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.	<b>Not applicable</b> There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director of the Bank Supervision Department of the CBSL 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</b> Requirement for at least two Non-Executive Directors or one-third of Board whichever is higher.	<b>Complied with</b> As at 31st December 2012, the Board comprised of ten Directors of whom nine were Non-Executive Directors. The Board comprises of one Executive Director and eight Non-Executive Directors as at date.



## / 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
7.10.2	<p><b>Independent Directors</b></p> <p>Two or at least one-third of Non-Executive Directors to be independent against specified criteria.</p>	<p><b>Complied with</b></p> <p>Of the nine Non-Executive Directors as at 31st December 2012, Messrs P.M.M. Pieris PC, P.L.P. Withana, N.M. Jayamanne PC, S.P.S Ranatunga and Rear Admiral B.A.J.G. Peiris were determined to be Independent Non-Executive Directors.</p> <p>All 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.</p>
7.10.3 & 7.10.4	<p><b>Disclosure Relating to Directors and Criteria for Independence</b></p>	<p><b>Complied with</b></p> <p>The Board has made the determination of the Independent/Non-Independent status based on declarations received from the aforementioned Directors as at 31st December 2012.</p> <p>Please refer section on 'Profiles of the Directors' for a brief profile of each of the Directors.</p>
7.10.5	<p><b>Remuneration Committee</b></p> <p>Composition: Chairman to be Non-Executive, functions of the Remuneration Committee and Statement of Remuneration Policy.</p>	<p><b>Complied with</b></p> <p>The Human Resources and Remuneration Committee comprises of four Independent Non-Executive Directors. Independent Director and Chairman of the Bank, Mr. Nihal Jayamanne PC is the Chairman of the Committee.</p> <p>The Committee determines and recommends the remuneration of the Directors, CEO and the Key Management Personnel of the Bank vis-à-vis its other functions and responsibilities as specified in its Terms of Reference which was revised in December 2012. Please refer "Report of the Board Human Resources and Remuneration Committee" in this Annual Report for more details.</p>
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 Independent Director, Mr. Lalith Withana who holds a Fellow membership of The Institute of Chartered Accountants.</p> <p>The Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and the External Auditors attend meetings of the committee by invitation.</p> <p>The committee functions within the scope of the Board approved Audit Charter which was reviewed and revised during the year.</p> <p>Please refer "Report of the Board Audit Committee" for more details.</p>

## / Corporate Governance Report

### Section Three

Statements of Compliance of the Principles under the Code of Best Practice of Corporate Governance jointly issued by the Securities & 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

#### 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 one Executive and nine 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 compliances under the Banking Act Directions vouch for this statement.
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.

## / 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
A.1.7	Training for Directors	<b>Complied with</b>
<b>Chairman &amp; CEO</b>		
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.	<p><b>Complied with</b></p> <p>The positions of the Chairman and the CEO have been separated. Former Chairman, Mr. E. Narangoda functioned in a Non-Executive capacity with effect from 1st January 2012 until his resignation on 28th March 2012. Mr. P.M.M. Pieris PC was appointed on 20th April 2012 as an Independent Non-Executive Director and Chairman of the Bank, who resigned from the Board on 15th January 2013. Mr. Nihal Jayamanne PC, was appointed as Chairman on 17th January 2013.</p> <p>The key functions and responsibilities of the General Manager/CEO were reviewed by the Board during the year.</p>
A.2.1	Justification to combine the posts of Chairman and Chief Executive Officer.	<p><b>Not applicable</b></p> <p>Both posts are not combined.</p>
<b>Chairman's Role</b>		
A.3.1	Role of the Chairman	<p><b>Complied with</b></p> <p>The Chairman provided leadership to the Board and ensured that the Board members effectively discharged their responsibilities and made an active contribution to the Board's affairs. Under the Chairman's supervision, the agenda and matters for the Board meeting were itemised and scheduled and the balance of power of the Board was maintained.</p>
<b>Financial Acumen</b>		
A.4	Ensure availability of sufficient financial acumen to guide the Board on matters of finance.	<p><b>Complied with</b></p> <p>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.</p>

## / 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

### Board Balance

Have a balance of Executive & Non-Executive Directors.

A.5.1 - A.5.5	Board balance	<b>Complied with</b> Board maintains the required balance of Executive and Non-Executive Directors on the Board. As at 31st December 2012, Board consisted of one Executive Director and 9 Non-Executive Directors of whom five are independent.
A.5.3 - A.5.5	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.5.6 - A.5.7	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. Mr. Nihal Jayamanne has since been appointed as the Independent Chairman.
A.5.8	Meetings only with Non-Executive Directors.	<b>Complied with</b> Board met on two occasions with only Non-Executive Directors participating at the meeting.
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 also the ultimate decisions made by the Board.

### Supply of Information

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 Management to the Board which are circulated to the Directors seven days prior to the meeting for regular meetings. Reasonable notice of special/emergency meetings are also given to the Directors with the purpose duly briefed.  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.
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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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### Appointments to the Board

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 comments under Section 3 (6) (iv) of the Banking Act Directions 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> Please refer section on 'Profiles of the Directors' in this Annual Report for a brief profile of each of the Directors.

### Re-election

All Directors should be submitted for re-election regularly or at least once in every three years

A.8.1 - A.8.2	Re-election of Directors	<b>Complied with</b> Re-election of Directors is carried out in accordance with the provisions of the Articles of Association. One-third of the Directors (excluding the Executive Directors) longest in office retires by rotation at the Annual General Meeting and are re-elected if eligible.  The Board Nomination Committee and the Board has recommended the re-election of Directors, Messrs I.C. Nanayakkara, S.P.S Ranatunga and A.M.M. De Alwis 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.
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### Appraisal of Board Performance

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

A.9.1 - A.9.3	Appraisal of Board performance	<b>Complied with</b> Evaluation of the Board performance including all governance practices were assessed by the Directors individually/independently and shared collectively by the Board for 2012.  Directors have also submitted reports on their self-assessments of their performance and contribution to the Board's responsibilities during the year 2012.
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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

### 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	<p><b>Complied with</b></p> <p>Information pertaining to Directors are disclosed in the following sections of this Annual Report.</p> <ul style="list-style-type: none"> <li>i. "Profile of the Board of Directors" - presents the qualifications, number of years and nature of expertise, etc.</li> <li>ii. "Annual Report of the Board of Directors on the State of affairs of the Company" - provides details pertaining to directorships held by the Directors in listed companies; Directors' interest in contracts; in shares and debentures, etc.</li> <li>iii. Notes to the Financial Statements - carry details of Related Party Transactions</li> </ul> <p>Details of Directors' interest in contracts and related party transactions are given in Notes 44 and 45 of the Financial Statements.</p> <p>For attendance at Board and Sub-committee meetings - please refer pages 98 and 99 of this Annual Report.</p>
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### Requirement for Board to at least annually assess the performance of the CEO.

A.11.1 - A.11.2	Appraisal of Chief Executive Officer	<p><b>Complied with</b></p> <p>Appraisal of the General Manager/Chief Executive Officer was carried out by the Board Human Resources and Remuneration Committee and reported to the Board for its review.</p>
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### 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	<p><b>Complied with</b></p> <p>Please refer Committee's Report on page 106 for further details.</p>
B.1.2	Remuneration Committee to comprise of only Non-Executive Directors	<p><b>Complied with</b></p> <p>All four members of the Committee are Independent Non-Executive Directors.</p>

## / 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
B.1.3	Membership to be disclosed	<b>Complied with</b> Disclosed in the Board Human Resources and Remuneration Committee Report published in this Annual Report.
B.1.4	Board to determine remuneration of Non-Executive Directors	<b>Complied with</b> The Board Human Resources and Remuneration Committee determines and recommends fee payable to Non-Executive Directors.
B.1.5	Consultation with Chairman for remuneration proposals and access to professional advice	<b>Complied with</b> Chairman is consulted on proposed/revisions to compensation packages and independent advice is also resorted 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.

B.2.1 - B.2.9	<ul style="list-style-type: none"> <li>- Level and make up of remuneration of Executive Directors including performance related elements in pay structure</li> <li>- Remuneration packages to be in line with industry practices</li> <li>- Executive share option</li> <li>- Non-Executive Directors' remuneration</li> </ul>	<p>The Board Human Resources &amp; Remuneration Committee determines the Level of remuneration of Executive Directors. A performance-based element in remuneration package has not been introduced. No share options have been offered to Executive Directors.</p> <p>Non-Executive Directors' allowances and fees 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.</p> <p>The Committee have also introduced a special fee and benefit structure to the Independent Non-Executive Chairman of the Bank since 2012.</p>
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### 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.</b> Disclosed in the Board Human Resources 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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## / 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

### 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.
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 of 2007, CSE Rules and the Bank's Articles of Association of the Bank are despatched to all shareholders. This provides an opportunity to all shareholders to attend the AGM and obtain clarifications on any 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 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.	<b>Not applicable.</b> There were no major transactions warranting disclosure of this nature.
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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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### 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 contravenes laws and regulations;</li> <li>• Declaration of all material interests in contracts;</li> <li>• equitable treatment of shareholders;</li> <li>• company is a going concern with supporting assumptions or qualifications as necessary; and</li> <li>• effectiveness of internal controls.</li> </ul>	<b>Complied with</b> Declarations/confirmations pertaining to this Principle are disclosed in the Report of the Board of Directors on the state of affairs of the Company.
D.1.3	Annual Report to set out Statement of Directors' responsibilities for preparation and presentation of Financial Statements.	<b>Complied with</b> Please refer section 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' as well as other reports, published in this Annual Report.

## / 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
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 'Report of the Directors on the state of affairs of the Company for 2012' as well as in the Directors' Statement of Responsibility on Financial Statements published in this Annual Report.
D.1.6	Remedial action at an Extra ordinary General Meeting if net assets fall below 50% of value of shareholders' funds.	<b>Not applicable.</b> This situation has not arisen

### 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 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 Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control.
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.

### Audit Committee

Formal and transparent arrangements to be in place for application of accounting policies, financial reporting & 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 & responsibilities and disclosure requirements	<b>Complied with</b> Disclosure relating to these are presented in the Report of the Board Audit Committee.
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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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### 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 and Ethics for directors and members of the senior management team with an affirmative statement of Chairman.  Should also disclose an affirmative declaration that they have abided by such Code.	<b>Complied with</b>  Two separate Board approved Codes of Business Conduct and Ethics are in place, one of which is for compliance by the Directors and the other by the staff members.  A declaration to the effect that the Directors are aware of and will abide the Code of Business Conduct and Ethics for Directors was signed by all Directors during the year.
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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 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 their voting intentions are translated into practice.

E.1.1	Regular dialogue to be maintained with shareholders and 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 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>  Institutional shareholders are represented by 4 Directors on the Board all of whom are Non-Executives Directors.
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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 fair participation rate of both individual ordinary voting and ordinary non-voting shareholders at its general meetings.
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## / Corporate Governance Report

### Board of Directors/Board Sub-committees Composition and Directors'/Committee Members' Attendance at Board and Board Sub-committee Meetings During 2012

Name of Director and Executive/ Non-Executive/Independent Capacity	Date of Appointment	Attendance at Board Meeting*		Membership in Board Sub-committee	Attendance at Meetings Against Eligibility to Attend
		Eligibility to Attend	Attended		
<b>Mr. E. Narangoda</b> <i>Non-Executive Director (former Chairman)</i> <i>(Resigned on 28.03.2012)</i>	30.12.2008	3	3	Credit Committee Sustainability Committee	8 of 8
<b>Mr. P.M.M. Pieris PC</b> <i>Independent Director (Chairman)</i> <i>(Appointed to Board on 20.04.2012 and resigned from the Board on 15.01.2013)</i>	20.04.2012	9	9		-
<b>Mr. N.M. Jayamanne PC</b> <i>Independent Director</i> <i>(Appointed Chairman of the Bank w.e.f. 17.01.2013)</i>	30.12.2008	12	7	Audit Committee HR & Remuneration Committee <i>(Chairman)</i> Nomination Committee	6 of 10 4 of 6 1 of 4
<b>Mr. I.C. Nanayakkara</b> <i>Non-Executive Director</i> <i>(Appointed Deputy Chairman of the Bank w.e.f. 17.01.2013)</i>	24.11.2009	12	9	Credit Committee Sustainability Committee <i>(Chairman)</i>	12 of 32 1 of 1
<b>Mr. R. Nadarajah</b> <i>Executive Director</i>	08.01.2009	12	12	Credit Committee Marketing & Product Development Committee Sustainability Committee	30 of 32 2 of 2 1 of 1
<b>Mr. P.L.P. Withana</b> <i>Independent Director</i>	30.12.2008	12	12	Audit Committee <i>(Chairman)</i> HR & Remuneration Committee Integrated Risk Management Committee Nomination Committee	10 of 10 6 of 6 5 of 5 4 of 4
<b>Rear Admiral B.A.J.G. Peiris</b> <i>Independent Director</i>	08.01.2009	12	7	Credit Committee HR & Remuneration Committee Nomination Committee <i>(Chairman)</i>	25 of 32 4 of 6 4 of 4

## / Corporate Governance Report

Name of Director and Executive/ Non-Executive/Independent Capacity	Date of Appointment	Attendance at Board Meeting*		Membership in Board Sub-committee	Attendance at Meetings Against Eligibility to Attend
		Eligibility to Attend	Attended		
<b>Mr. A.L. Devasurendra</b> <i>Non-Executive Director</i>	24.11.2009	12	8	Credit Committee	14 of 32
				Integrated Risk Management Committee ( <i>Chairman</i> )	4 of 5
				Marketing & Product Development Committee	Nil of 2
				Nomination Committee	2 of 4
				Sustainability Committee	Nil of 1
<b>Mr. S.P.S. Ranatunga</b> <i>Independent Director</i>	12.01.2010	12	11	HR & Remuneration Committee	6 of 6
				Marketing & Product Development Committee ( <i>Chairman</i> )	2 of 2
				Nomination Committee	3 of 4
				Sustainability Committee	1 of 1
				<b>Mr. A.M.M. De Alwis</b> <i>Non-Executive Director</i>	20.08.2010
				Integrated Risk Management Committee	5 of 5
				Marketing & Product Development Committee	2 of 2
<b>Mr. P. Kudabalage</b> <i>Non-Executive Director</i>	20.08.2010	12	9	Audit Committee	8 of 10

\* Attendance at special Board Meetings convened on short notice - not included.

## / Corporate Governance Report

### Summarised Board Sub-committees

		Audit Committee	Integrated Risk Management Committee	Human Resources & Remuneration Committee	Nomination Committee	Credit Committee	Sustainability Committee	Marketing & Product Development Committee
		*S	*S	*S	*S	*S	*S	*S
Mr. P.M.M. Pieris PC (Chairman) (Resigned with effect from 15.01.2013)	INED							
Mr. R. Nadarajah	ED					■	■	■
Mr. N.M. Jayamanne PC	INED	■		▲	■			
Mr. P.L.P. Withana	INED	▲	■	■	■			
Rear Admiral B.A.J.G. Peiris	INED			■	▲	■		
Mr. S.P.S. Ranatunga	INED			■	■		■	▲
Mr. A.L. Devasurendra	NED		▲		■	■	■	■
Mr. I.C. Nanayakkara	NED					■	▲	
Mr. A.M.M. De Alwis	NED		■			▲		■
Mr. P. Kudabalage	NED	■						
<b>Members per each Committee</b>		<b>3</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>

S - Status ED - Executive Director NED - Non-Executive Director INED - Independent Non-Executive Director ▲ - Committee Chairman ■ - Committee Member

## / Report of the Board Audit Committee

### Overall Objectives of Seylan Bank PLC's Board Audit Committee

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

### Composition of the Committee

The Committee comprises of three Non-Executive Directors, 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 2012. Mr. Lalith Withana who is an Independent Non-Executive Director functions as the Chairman of the Committee. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants, UK. Profiles of the members are given on page 140 of this Annual Report. The Company Secretary functions as the Secretary to the Audit Committee.

### Scope and Responsibilities of the Committee and the Board Audit Committee Charter

The scope and responsibilities of Seylan Bank's Board Audit Committee originates from its Charter. The Committee functions within the scope of its Board approved Terms of Reference spelt out in the said Audit Charter. The Board Audit Charter was reviewed and revised in September 2012.

The Committee 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 & Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).

The Audit Committee continues to assist and direct 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 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 2012 Meetings

The Committee met ten times during the year 2012 which included four (quarterly) regular meetings, four special meetings for the review of the draft audited final accounts (2011, the interim audited accounts for the half-year ended 30th June 2012 and the interim unaudited Financial Statements of the first three quarters. Two meetings were held with the External Auditors without the presence of the Executive Directors and management.

The Executive Director, Mr. R. Nadarajah, General Manager/Chief Executive Officer, Chief Financial Officer and Deputy General Manager - Internal Audit attended the meetings by invitation. Other members of the staff, mainly senior management also participated in the meetings as and when Committee called for their presence. The Engagement Partner and the Audit Team Manager and/or Supervisor of the Bank's External Auditors, Messrs KPMG, too attended the committee meetings on the invitation of the Committee. Former Chairman, Mr. P.M.M. Pieirs participated in one meeting of the Committee as an observer of the proceedings.

## / Report of the Board Audit Committee

### Financial Reporting

The Committee reviewed and discussed with the management as well as the External Auditors, the draft annual Financial Statements and the interim unaudited Financial Statements during the year focusing on the quality and acceptability of accounting policies and practices, the clarity of disclosures and compliance with the required reporting standards, both financial governance related. Consequently, the Committee was able to recommend to the Board, the release of the Financial Statements of the Bank which conformed to the required standards and regulations.

### LKAS/SLFRS

The Committee reviewed and approved the framework and policies required for the adoption of LKAS/SLFRSs (based on International Financial Reporting Standards) during 2012.

### Internal Audit and Inspection

The Committee reviewed the progress of the internal audit plan for 2012. 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 2013.

### Internal Audit Manual

The Committee reviewed the submissions presented by Messrs PricewaterhouseCoopers, Chartered Accountants to the Committee at

the beginning of the year, 2012 pursuant to the post-implementation review of the Bank's internal audit manual carried out by them during the latter part of 2011. The recommendations for improvement of processes and introduction of processes based on best practices as per IIA Standards were taken into consideration by the internal audit and conformed with. Emphasis was placed on risk assessment on all key departments and processes.

### 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 page 237 of this 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 page 236 of this Annual Report.

### External Audit

The meetings of the Committee with the External Auditors, Messrs KPMG and were focused on discussing the findings reported on their management letter for 2011; the external audit plan, viz the scope, audit approach, methodology and procedures proposed to be adopted to carry out the internal audit for the year 2012 including the requirement to adopt the Sri Lanka Accounting Standards (LKAS and SLFRS) with effect from January 2012.

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 the Banking Act No 30 of 1988 and as amended by the Banking Act No. 33 of 1995.

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 No. 7 of 2007 and the ICASL's Code of Professional Conduct and recommended their reappointment as the Auditors of the Bank for the financial year



## / Report of the Board Audit Committee

ending 31st December 2013 subject to the approval of the Shareholders at the 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 which defines the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that assist and direct/guide the Internal Audit Department to discharge its functions independently was reviewed and revised during the year.

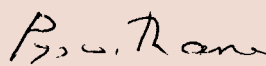
### Governance

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 Auditors engaged in and issued a report based on the factual findings made by them on the compliance of the Bank with the Banking Act Directions on Corporate Governance. The Annual Corporate Governance Report is published on page 50 of this Annual Report.

### Evaluation of the Board Audit Committee

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



**Lalith Withana**

*Chairman - Audit Committee*

21st February 2013

## / Board Integrated Risk Management Committee's Report for 2012

### The Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee ("BIRMC" or "the Committee") of Seylan Bank PLC was formed with a mandate to ensure:

- that the Bank implements an approved policy framework with defined procedures and systems for identifying, measuring, monitoring and controlling all credit, market, liquidity and operational and other risks facing the Bank and its reputation, managing those risks within pre-approved limits for risk appetite and ensuring compliance;
- that the Bank has established clearly delegated individual and Executive Committee responsibilities for decision making, reviewing, managing and reporting all risks enabling the Committee to review whether prompt effective action has been taken to resolve and hold management accountable for resolution of material exceptions, violations and concerns.

The Committee assesses and reports on the management of all risks enabling the Board of Directors to evaluate the prudence of risk management mechanisms, their effectiveness in ensuring the safety, sustainability and soundness of the Bank and ensuring that the Bank does not act in a manner prejudicial to the interests of and obligations to its stakeholders.

### Integrated Risk Management Department (IRMD)

The Bank has established an independent Integrated Risk Management Department to assist the Chief Risk Officer (CRO) exercise his responsibility for Risk Management across the entire Bank. The IRMD supports CRO and business managers create, manage and implement a pervasive bank-wide risk culture. Please refer page 108 for the Bank's comprehensive Risk Management Report for 2012.

### Composition of the Committee

The BIRMC 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 to the Committee.

The General Manager/Chief Executive Officer, Head of Risk/Chief Risk Officer, Head of Finance/Chief Financial Officer, Head of Treasury/Chief Dealer are co-opted to the BIRMC whilst other members of the senior management which includes the Compliance Officer, Head of Audit, Heads of Credit Units, Head of Operational Risk attend the meetings of the Committee by invitation.

### Meetings

The Committee met five times in 2012 and each member attended a minimum four meetings during the year.

The minutes of the Committee meetings were recorded by the Secretary and made available to the Board of Directors for their information and action/instructions where necessary. Regular Risk Reports were submitted by the Committee assessing material risk on behalf of the Board, reporting progress in improving and implementing the Risk Management Policy framework and significant actions taken by officers and Executive Committees responsible for risk management.

### Performance and Progress during 2012

A summary of the BIRMC's activities carried during the year is enumerated below:

- **Integrated risk management development of the Bank**

Reports by the CRO and minutes of meetings of three Executive Risk Management Committees enabled the BIRMC to oversee the Bank's progress in articulating and implementing a totally revised Integrated Risk Management (IRM) Framework designed to ensure the practical and business oriented compliance with Banking Act Direction No. 7 of 2011 in a manner designed to enhance the soundness of the Bank by adoption of market best risk management practices.

The Committee significantly reinforced CRO's role so that he is increasingly able to influence risk-related decisions at all levels, by directing that increased skilled resources be deployed to strengthen the IRM team.

## / Board Integrated Risk Management Committee's Report for 2012

### • Stress Testing Framework

In order to assess the resilience of the Bank and particular portfolios at risk to adverse unexpected scenarios the BIRMC has approved a Stress Testing Framework and approved a Sub-committee of the Asset and Liability Management Committee (ALCO) to establish and implement detailed policies and a programme of rigorous stress tests.

### • Credit Risk Management (CRM)

A new 'Credit Standards and Policy Manual' incorporating the requirements of the Banking Act Direction No. 7 of 2011 was approved by the Board for adoption pursuant to a more detailed review by the Board Credit Committee.

### • Managing portfolio according to approved credit risk appetite and strategy

Pursuant to the Executive Credit Risk Management Committee's (ECRMC) assessment of all credit risk and consideration of the Bank's business growth objectives BIRMC reviewed the overall risk appetite and strategy. Prudential limits for large exposures, industry sector, lending product and specific portfolios were established and exposures regularly reviewed in relation to these limits. The Committee also evaluated other key credit risk indicators in order to assess the determination and effectiveness of credit risk management, credit risk review and remedial management.

BIRMC periodically reviewed ECRMC's Directions to improve the effectiveness of the Credit Risk Rating System used to evaluate the probability of loan default.

### Market Risk Management

- The BIRMC reviewed and approved the revised Market Risk Management Policy formulated to assess and manage the Bank's market, interest rate exposures and liquidity risk resilience during the year.

- The CRO and the ALCO regularly apprised BIRMC of the Bank's funding resilience, liquidity risk position and contingency plan. The Committee reviewed the effectiveness of ALCO's responsibilities for managing and restraining market and interest rate risk within approved levels of appetite and regulatory limits.

### • Operational Risk Management (ORM)

The Committee reviewed the progress made in improving the Bank's ORM including:

- The identification, assessment and management of Key Operational Risk Indicators.
- Business continuity and disaster recovery plan – BIRMC regularly guided and directed measures to improve the Bank's Business Continuity Plan.
- Operational Risk Governance

The BIRMC has entrusted the Executive Market and Operational Risk Management Committee (EMORMC) with responsibility to review and improve the operational risk management policy framework needed to ensure that responsible managers are held accountable for identifying and managing the risk, maintaining the controls, reporting progress and material exceptions to the BIRMC. An improved Operational Risk

Management Policy and an Incident and Near Miss Policy were approved by the Board during the year.

### • Compliance.

The Committee considered progress in expanding the scope of the Bank's Compliance responsibilities and reviewed improved Policies on Anti-money Laundering and Exposure to politically exposed persons prior to Board approval.

### Evaluation of the Board Integrated Risk Management Committee

The Members of the BIRMC submitted their self-assessment report for the year 2012 to the members of the Board. The Board members were satisfied with the effectiveness of the Board Integrated Risk Management Committee's performance during the year 2012.

The Committee will continue to guide and support further development of the Bank's risk management systems and ensure the effectiveness of the Bank's integrated risk management functions during 2013.



**Ajith Devasurendra**

*Chairman - Integrated Risk Management Committee*

21st February 2013

## / Report of the Board Human Resources and Remuneration Committee

### The Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee (The Committee) was established by the Board of Directors of Seylan Bank PLC at the Meeting held on 5th January 2009 with the objective of assisting the Board of Directors in fulfilling its role and responsibilities involving human resources and remuneration of the Directors and all employees of the Bank.

### Members of the Board Human Resources and Remuneration Committee

The Committee was headed by Independent Director and the present Chairman of the Bank, Mr. Nihal Jayamanne, PC. The other Members were Mr. Lalith Withana, Rear Admiral Ananda Pieris and Mr. Samantha Ranatunga. 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.

### Objectives and Scope

The overall scope of the Committee is to review all significant human resource and remuneration policies of the Bank and to strategically direct the building of an effective and efficient human resource structure for the Bank.

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

### Terms of Reference

The Committee reviewed and revised its Terms of Reference during the year.

### Remuneration Policy

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. The Board approved appropriate amendments to the Remuneration Policy as recommended by the Committee during the year.

### Meetings

The Committee held 6 meetings during the year which included two special meetings. The attendance of the Members at the meetings held is stated in the table on page 98.

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

### Performance and Key Initiatives During the Year

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

1. Performance based incentive scheme for defined management cadres.
2. Revision of staff salaries and allowances/benefits pursuant to the successful negotiations by the management with the Employees' Unions.
3. Staff recognition policy.
4. Staff promotion policy.
5. Assessment centre process for development of successors to key positions.

### Evaluation of the Committee

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



**Nihal Jayamanne PC**

*Chairman - Board Human Resources and Remuneration Committee*

21st February 2013

## / Board Nomination Committee's Report for 2012

### The Board Nomination Committee

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

### Composition

The Board Nomination Committee consists of five Non-Executive Directors, four of whom are Independent Directors. 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. Other members of the Board, the General Manager/ CEO and Head of Human Resources attended the Committee meetings during the year on invitation.

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

### Meetings and Members' Attendance at the Committee Meetings

The Committee held 4 meetings during the year. Copies of the Minutes of the meetings or Reports on the recommendations and decisions of the Committee were submitted to the Board for perusal and/or consideration of the relevant decisions.

### Terms of Reference

The scope and responsibilities of the Committee as set out in its Terms of Reference is summarised as follows:

- 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.
- Establishment of criteria to determine eligibility for appointment or promotion to the post of CEO and to other key management positions.
- To 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.
- To 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.
- To review and recommend requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel (KMPS) from time to time.

### Evaluation of the Committee

The Board Nomination Committee carried out a self-assessment of the performance/ effectiveness of the Committee and submitted its Self-Assessment Report to the Board. The Board was satisfied with the Committee's performance during the year.



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

*Chairman - Nomination Committee*

21st February 2013

## / Risk Management Report

### 1. Integrated Risk Management

#### 1.1 Introduction

As a leading commercial bank providing a broad range of financial services in a volatile market risk is at the core of Seylan Bank's day-to-day activities. During 2012, we continued to strengthen and develop our integrated risk management capacity to comply with the Basel II framework defined by the Basel Committee of Banking Supervisors and local regulations under the Banking Act in order to ensure the sustainable growth of our business and enhance the soundness of the Bank.

Integrated Risk Management is a set of end-to-end processes by which Seylan Bank makes decisions and manages the impacts in order to ensure and protect the growth of the Bank's long term sustainable value, financial strength and reputation whilst protecting the interests of our valued depositors and other stakeholders.

#### 1.2 Risk Governance

The Board of Directors decide the Bank's business strategy and risk appetite and empowers General Manager/Chief Executive Officer and specified managers with related delegated limits of authority and holds them accountable for the reward and risk outcomes of their decisions. Primary responsibility for managing risk in Seylan Bank has been delegated by the Board of Directors to the business managers who are authorised to originate those risks under the leadership of the General Manager/Chief Executive Officer (GM/CEO).

The Bank's Chief Risk Officer (CRO) has been assigned with responsibility for Risk Management across the entire organisation and leads the Integrated Risk Management Department in ensuring the proper functioning of the integrated risk management framework. CRO ensures that all risks are properly identified and that managers are held accountable for accepting, assessing and managing them, he guides management at all levels on their risk management responsibilities in pursuit of valuable business. CRO monitors risk against clearly defined levels of risk appetite, limits of authority and qualitative risk indicators considering whether prompt and effective action has been taken in respect of all material exceptions and bring these to the attention of the Board Integrated Risk Management Committee (BIRMC).

In order to ensure the soundness and resilience of the Bank we have established three independent lines of defence segregating the risk ownership, risk control and risk assurance functions as an integral part of our risk management culture. The branches, business units and departments manage the risks that they originate, accept or retain and constitute the First Line of Defence. The Integrated Risk Management Department, which consists of credit, market, operational risk management units and the Bank's compliance function, constitutes the Second Line of Defence. The Internal Audit Department and the Bank's External Auditors provide risk assurance by evaluating the appropriateness of the integrated risk management and control

framework, scrutinising and assessing the end-to-end practical implementation of related internal policies and processes and thereby constitute the Third Line of Defence.

The Board Integrated Risk Management Committee (BIRMC) has overall responsibility on behalf of the Board to ensure that the Bank's risk management culture is robust and is embedded in the way the Bank operates and oversees the implementation of the risk management policy framework. They approve and review the application of the risk appetite and strategy assessing the entire Bank's risks through appropriate risk indicators and management information ensuring that prompt effective action has been taken to address material risk-related concerns. BIRMC is assisted in these roles by three Executive Risk Management Committees, each of which is Chaired by GM/CEO, which address specific risks and manage these risks within approved quantitative and qualitative risk limits. These are the:

- Executive Credit Risk Management Committee (ECRMC)
- Executive Market and Operational Risk Management Committee (EMORMC)
- Assets and Liabilities Management Committee (ALCO)

The CRO evaluates and interprets the implications of the risks and uses these committees to ensure that prompt effective action is taken to address risk-related concerns and scrutinise policies and guidelines prior to recommending approval of the BIRMC.

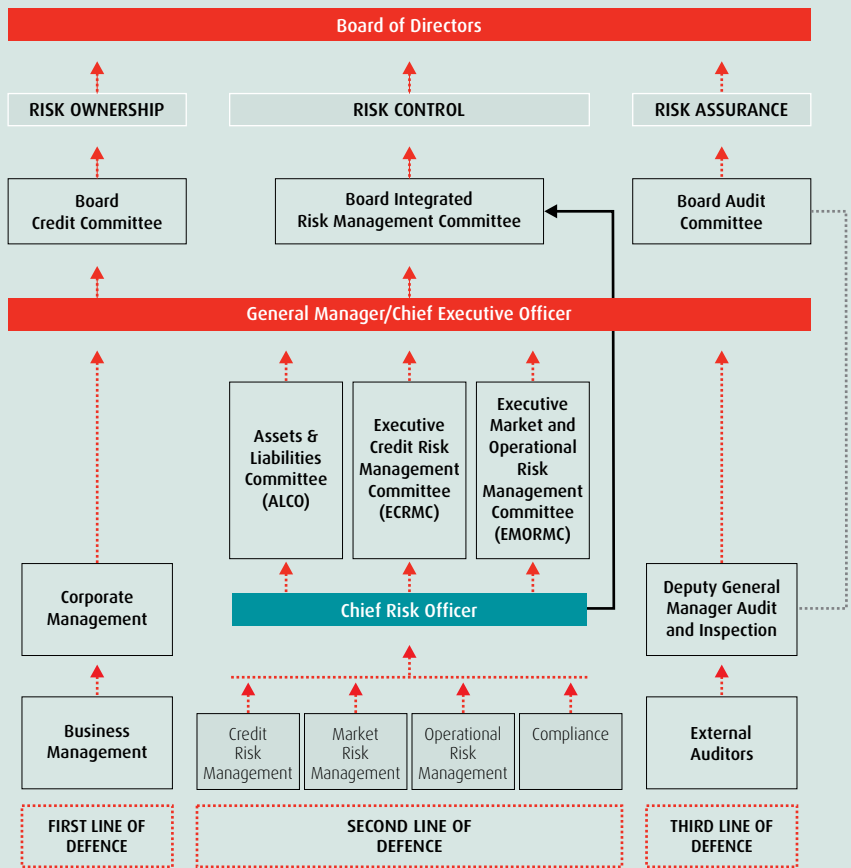
# / Risk Management Report

These committees then monitor and report to the BIRMC on the effectiveness of the implementation of the relevant decisions.

During 2012, the importance and practical application of the Bank's risk management policy framework as an essential business enabler has been brought to the attention of Management at all levels in a number of forums, workshops, discussions and training programmes. During these sessions, we have revisited Seylan Bank's positive and negative risk experiences in order to further impact the risk culture

Market best practice as well as Seylan Bank's own experience dictates that it is critical that the Board and the Board Integrated Risk Management Committee embed a bank-wide focus on risk. The following chart summarises the Bank's risk governance structure and the central role of the Board and BIRMC in risk management.

**Seylan Bank's Integrated Risk Management Structure and Reporting Lines**



## / Risk Management Report

### 1.3 The Risk Management Policy Framework

The integrated risk management policy framework has been revised as required by Banking Act Direction No. 07 of 2011. It consists of policies, procedures, structure, responsibilities and methodologies used to manage risk across the Bank in support of our business. The framework addresses all categories of risk to which bank has significant, actual or potential exposure, responsibilities for establishing the Bank's risk appetite, strategy and limit structure and methodologies used in identification, measurement, mitigation, monitoring and reporting our risks which together ensure the soundness of the Bank's robust and pervasive risk acceptance and management culture. The framework also describes the responsibilities for mitigating and managing risks at prudent levels identifying the governance structures, committees and officers responsible for such management. As part of this framework the Bank has established the following risk management policies and owners responsible for their effective implementation:

Area	Description	Ownership
<b>Risk Management</b>	1. Integrated Risk Management Policy Framework	Chief Risk Officer
<b>Credit</b>	1. Credit Policy Manual	Chief Risk Officer
<b>Operations</b>	1. Operational Risk Management Policy 2. Corporate Information Security Policy 3. Business Continuity Management Policy 4. Incident & Near Miss Management Policy	Assistant General Manager - Operational Risk Management
<b>Market</b>	1. Market & Investment Risk Management Policy 2. Assets & Liability Management Policy 3. Liquidity Management Policy 4. Treasury Management Policy	Chief Risk Officer Chief Financial Officer Chief Dealer Chief Dealer
<b>Compliance</b>	1. Compliance Policy 2. Anti-Money Laundering Policy 3. Policy on Politically Exposed Persons	Assistant General Manager Compliance

## 2. Credit Risk Management

### 2.1 Credit Risk:

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual

obligor default risk, country and sector risk). Credit risk constitutes Seylan Bank's largest risk exposure category.

The Credit Risk Management Unit and Chief Risk Officer's major challenge is to further strengthen the Bank's credit risk culture enabling business and branch managers to lend confidently and responsibly, managing credit risk within delegated limits of authority and ensuring that their line managers hold them accountable for the quality of their credit portfolios.



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The Credit Policy Manual which stood as reference to all credit related policies and procedures was extensively reviewed and expanded during 2012 and redrafted broadly into:

- a. Credit Policy: is the comprehensive single point of reference to the fundamental standards and disciplines that apply to our entire lending book. They now include clearer standards for: delegation of lending approval powers, segregation of credit-related responsibilities, financial covenants, credit portfolio management, independent credit risk review, early problem recognition and remedial action for problem exposures and the requirement that every substantial extension of credit must be approved by both the business and credit risk management.
- b. Credit Procedures: describing the processes and methodologies by which the management of each lending business and product complies with the Credit Policy.
- c. Lending Guidelines: outline the Bank's current credit strategy in qualitative terms, risk acceptance criteria and industry segment development priorities. They direct lending officer's to suitable target markets, facility structures, security requirements and provide guidance on pricing.

### 2.2 Credit Risk Appetite:

The Credit Risk Appetite is the amount of credit risk the Bank is willing to assume in pursuit of the Board approved strategic plan and budget. The credit strategy is the Bank's plan to optimise returns whilst keeping risk within predetermined quantitative limits as approved in its credit risk appetite. This strategy defines our target markets and products most suited to those markets based on past lending experience, economic sector growth prospects as well as our liquidity and funding constraints. The Board Integrated Risk Management Committee (BIRMC) approves industry sector and product exposure limits in order to achieve preferred level of diversification and credit concentration. The Board Credit Committees meets frequently to approve and recommend large credit proposals taking into account the Bank's credit risk appetite, strategy, industry and product limits the ongoing quantitative and qualitative development of our credit portfolio as well as market and regulatory changes.

The bank's exposure to various sectors are analysed and prudential limits set to monitor credit concentration.

### 2.3 Credit Portfolio Management:

The Credit Risk Management (CRM) unit is responsible through CRO to GM/CEO and the ECRMC for monitoring and managing the entire portfolio of credit facilities of the Bank. CRM uses various credit risk indicators to identify emerging credit risks and concentrations and reports to the ECRMC which directs measures including: changes to Credit Policies, guidelines and delegated limits to enhance the quality of our lending portfolio and minimise credit defaults.

## / Risk Management Report

### Product Portfolio in LKR and FCY Inclusive of Bills and Lease Receivables

	2012 Rs.	2011 Rs.
<b>Loans and Receivables</b>		
Overdrafts	32,815,746	26,947,661
Trust Receipt Loans/Revolving Import Loans (RIL)	8,634,154	8,303,405
Staff Loans	3,360,235	3,212,908
Housing Loans	9,054,892	8,755,604
Pawning Receivables	17,477,083	12,466,465
Refinance Loans	548,619	745,065
Bills of Exchange	1,423,998	1,000,912
Lease Rental Receivables	8,298,180	7,648,043
Other Loans	51,360,783	47,504,547
<b>Total Loans and Receivables - Gross</b>	<b>132,973,690</b>	116,584,610

CRM reviews the quality of specialised credit portfolios, cross border and counterparty bank exposures according to portfolio relevant risk criteria and limits recommending actions required to ECRMC.

CRM also reviews the effectiveness of business and area management in monitoring credit in order to ensure that appropriate action is taken to reduce overdue facilities, facilities are reviewed promptly, collateral is recorded and credits have been risk-rated correctly.

#### 2.4 Credit Risk Review Function:

The independent Credit Risk Review (CRR) function reviews high value facilities within three months of disbursement focusing on the approval and disbursement processes and compliance with credit policies, procedures and lending guidelines. CRR also annually evaluates

the credit processes involved in managing all high value facilities and those within higher risk portfolios to identify emerging risks, considering whether lending is well-managed and likely to perform well in adverse circumstances, recommending improvements to enhance portfolio quality through CRO to ECRMC and the BIRMC.

#### 2.5 Credit Risk Control

CRO and CRM are required to develop a robust and pervasive credit risk culture so that business and other lending managers can be empowered to lend confidently and manage the risks they create whilst minimising defaults and loan losses. In order to enhance lending expertise during 2012 expert external assistance was obtained.

CRO and CRM maintain control of the Bank's Credit Risk across the entire bank in co-ordination with business units by monitoring compliance with the Bank's credit policy, procedures and lending guidelines through a disciplined reporting process designed to recognise problems at an early stage enabling business managers and credit originators to be held accountable for the overall quality of the credit they extend and manage.

Additional prudential limits for various categories of credit exposures have been established during 2012 taking into account the issues that have been highlighted through the independent credit risk review process. Exposures are regularly compared with these limits and issues which require further management intervention brought to the attention of ECRMC for action and reported to BIRMC.

#### 2.6 Credit Risk Reporting and Disclosures

CRO and CRM have established an efficient system of regular and timely reporting summarising all relevant credit risks, including contingent and Off-Balance Sheet risks, to the ECRMC and BIRMC enabling the Board of Directors to oversee the Banks credit risk exposures. Below we present the following qualitative and quantitative disclosures of credit risk of the Bank:

## / Risk Management Report

### a. Qualitative Disclosures:

#### 1. Definition of Past Due and Impaired:

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

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

#### 'Impaired Loans' Comprise:

- Loans where an individual identified impairment allowance has been raised and also includes loans which are fully-collateralised or where indebtedness has already been written down to the expected realisable value. This category includes all retail loans that have been charged off to legal recovery. The impaired loan category may include loans, which, while impaired, are still performing.
- The category 'accruing past due 90 days or more' comprises loans that are 90 days or more past due with respect to principal or interest. An impairment allowance will be raised against these loans if the expected cash flows discounted at the effective interest rate are less than the carrying value.

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

#### 2. Approach on Specific and Collective impairment:

The Bank's loan loss provisions are established to recognise impairment losses incurred either on specific loan assets or within a portfolio of loans and receivables.

Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans that are not considered individually significant. Individually impaired loans are those loans against which individual impairment provisions have been raised.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the Balance Sheet date are determined on a portfolio basis, which takes into account past loss experience as a result of uncertainties arising from the economic environment, and defaults based on portfolio trends. Under SLFRS/LKAS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary. Impairment allowances are measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.

## / Risk Management Report

### 3. Policies and Processes for Collateral, Valuation and Management

Credit risk is mitigated when formal legal documentation is held which establishes direct, irrevocable and unconditional recourse to the collateral or to an unrelated provider of mitigation. The credit policies and procedures lay down the minimum criteria to obtain credit risk mitigation.

The common types of collateral accepted are cash/gold, Government Treasury Bills and Bonds/life insurance policies, quoted shares/unit trust certificates, mortgages of immovable/movable property, guarantees/indemnities, book debts/receivables, etc.

The Bank deploys a stringent mechanism for assessing the forced sale value of immovable property, where an opinion from a professionally qualified valuer followed by verification by a committee of independent valuers is obtained. In addition the Manager of the lending unit provides an inspection report on the acceptability of the collateral, based on its reliability and historical disposal experience. Based on the aforesaid assessment process, the Bank is reasonably assured of the estimated values of such immovable real estate properties taken as collateral being realised.

*Financial performance and the net worth is considered when assessing the credit worthiness of guarantors.*

### Non-Performing Advances by Collateral Type

Security Type	NAP Amount O/S
	As at 31st December 2012 Rs. '000
Clean	3,949,393
Other Securities	2,743,890
Secured by Cash/Shares	409,046
Secured by Immovable Assets	10,787,267
Secured by Movable Assets	556,597
Secured by Pledged Articles	157,422
<b>Grand Total</b>	<b>18,603,615</b>

\* Excluding Interest Receivables

### 4. Credit Risk Concentrations with Limits

Particular industry or region poses the risk of simultaneous failure among several clients for similar reasons. The Bank has concentration risk arises from uneven distribution of counterparties, business sectors or geographical regions, which is capable of generating losses large enough to affect the solvency.

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

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

### Over exposure to geographical areas

**or economic sectors:** Exposure to a single sector of the economy or a narrow geographical region is another dimension of risk concentration. Such exposure could make the Bank vulnerable to weaknesses in a established quantitative lending limits by economic sector (industry) and closely monitors the quantum of lending by geography (area) but has decided that weaknesses in any local economy will not pose particular risk for the foreseeable future.

## / Risk Management Report

### b. Quantitative Disclosures:

#### 1. Gross Credit Exposure by Lending Type, Industry and Geographical Distribution

##### Credit Exposure by Products 31.12.2012

Type of Product	Total Loans & Advances	
	Rs. '000	%
Credit Cards	2,197,187	2
Housing Loans	9,054,892	7
Leasing	8,298,180	6
Margin Trading	1,773,048	1
Overdrafts	32,815,746	25
Term Loans	47,982,749	36
Pawning	17,477,083	13
Staff Loans	3,360,235	2
Others	10,014,570	8
<b>Total</b>	<b>132,973,690</b>	<b>100</b>

##### The Geographical Distribution of Advance Portfolio as at 31st December 2012

Central	Eastern	North-Central	North-Western	Northern	Sabaragamuwa	Southern	Uva	Western
4.90%	3.70%	2.20%	3.10%	4.70%	5.00%	3.20%	1.20%	72.00%

#### 2. Residual Contractual Maturity of Credit Portfolio

##### Maturity Analysis of Lending Portfolio as at 31st December 2012 (Rs. '000)

	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	More Than 5 Years	Total
Total Loans and Receivables Including Leasing	62,994,532	28,423,257	20,145,866	6,707,427	6,457,289	<b>124,728,371</b>

\* After adjusting impairment allowance for loans and receivables

#### 3. Past Due and Impaired Portfolio by Product, Industry and Geographical Distribution Indicating Gross and Net NPA

##### Age Analysis of Non-Performing Advances as at 31st December 2012 (Rs. '000)

Loan Type	3-6 Months	6-12 Months	12-18 Months	18 and Above	Total
Credit Cards	20,636	20,564	16,675	358,205	<b>416,080</b>
Housing	787,320	114,924	86,948	383,213	<b>1,372,405</b>
Leasing	367,972	13,108	3,121	172,396	<b>556,597</b>
Overdrafts	830,303	85,352	346,502	2,158,707	<b>3,420,864</b>
Pawning	95,073	25,075	12,182	25,093	<b>157,423</b>
Staff Loans	29,255	6,590	7,202	3,594	<b>46,641</b>
Term Loans	3,154,393	1,023,344	504,684	7,590,252	<b>12,272,673</b>
Others	26,089	22,594	7,999	304,250	<b>360,932</b>
<b>Grand Total</b>	<b>5,311,041</b>	<b>1,311,551</b>	<b>985,313</b>	<b>10,995,710</b>	<b>18,603,615</b>

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### Industry Sector-wise NPA

Industry Sector	2012 Rs. '000
Agriculture & Fishing	858,343
Manufacturing	2,097,635
Tourism	628,164
Transport	461,034
Construction	7,341,483
Traders	2,348,145
New Economy	203,251
Financial and Business Services	1,743,536
Infrastructure	150,914
Other Services	710,225
Credit Card	416,080
Pawning	157,422
Other	1,487,383
<b>Total</b>	<b>18,603,615</b>

### The Geographical Distribution of NPA as at 31st December 2012

Central	Eastern	North Central	North Western	Northern	Sabaragamuwa	Southern	Uva	Western
1.08%	2.08%	1.61%	1.20%	1.67%	2.79%	3.04%	0.40%	86.13%

### 3. Operational Risk Management

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is intrinsic to the banking business in all its material products, activities, processes and systems, which are integrated to the component of Bank-wide integrated risk management framework of the Bank.

The objective of our operational risk management is to avoid or minimise potential risk of operational losses in a cost-effective manner within targeted levels of operational risk consistent within our risk appetite.

#### 3.1 Operational Risk Management Framework 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 Assistant General Manager - Operational Risk Management reports to the Chief Risk Officer and the Executive Market and Operational Risk Management Committee (EMORMC) and the Board Appointed Integrated Risk Management Committee (BIRMC).

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Recognising the importance of Operational Risk Management (ORM), the Bank has adopted a Comprehensive Operational Risk Management Policy and a Framework which defines the strategy, governance and structures with roles and responsibilities, programme components and measurements and modelling with reporting requirements (Figure 1). The high level committees such as Board appointed Market and Operational Risk Management Committee (EMORMC) is in place to oversee the operational risk management soundness of the Bank. This entails the primary responsibility for management of operational risk entrusted with the Senior Management and respective business heads. The Operational Risk Management Team provides a level of assurance and monitor effectiveness of such risk control measures as an independent arm within the Integrated Risk Management Department.

The Bank has implemented a comprehensive set of policies and methodologies as a part of operational risk management strategy during the last 3 years, which broadly covers the followings:

- Operational Risk Management Policy (RMU-ORM-12-031) 10th December 2012
- Incident and Near Miss Management Policy (RMU-ORM-12-030) 10th December 2012
- Corporate Information Security Policy (ISA-SEC-09-7) 1st March 2009
- Business Continuity Management (RMU-SEC-10-25) 7th October 2010

### 3.2 Operational Risk Management Programmes

The Bank's 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:

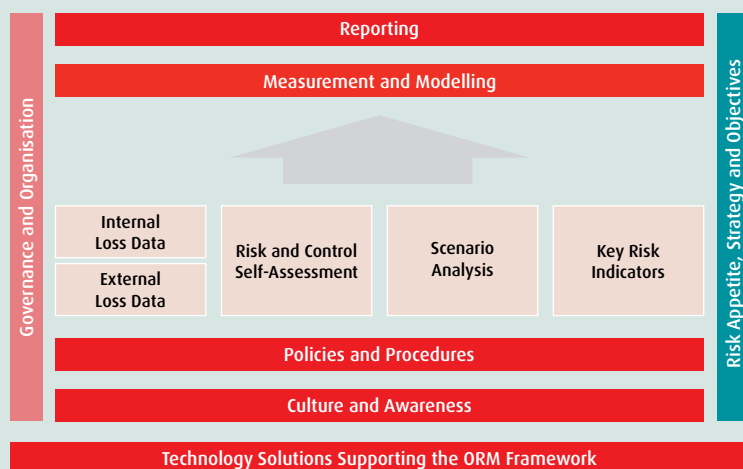
- Risk and Control Self-Assessment
- Internal Loss Event Identification and Analysis
- Key Risk Indicators and Threshold Monitoring Process
- Stress Testing and Scenario Analysis

### 3.4 Risk and Control Self-Assessment (RCSA)

RCSA provides a systematic means of identifying control gaps that threaten the achievement of defined business or process objectives and monitoring what management is actually implementing to close these gaps. It is therefore an integral component of the operational risk management framework of the Bank. Bank has performed the Top Down and Bottom Up approaches of RCSA and used the findings to formulate appropriate action plans to address identified control gaps, taking into account risk-reward (cost-benefit) considerations. The Bank has identified top operational risks for the year 2012, such as non-completion of Business Continuity Plan (BCP) across the branches, increase of operational losses due to people factor and resultant non-achievement of desired standard in execution, delivery and process management etc. For those risks Bank

### Operational Risk Governance Framework

Figure 1



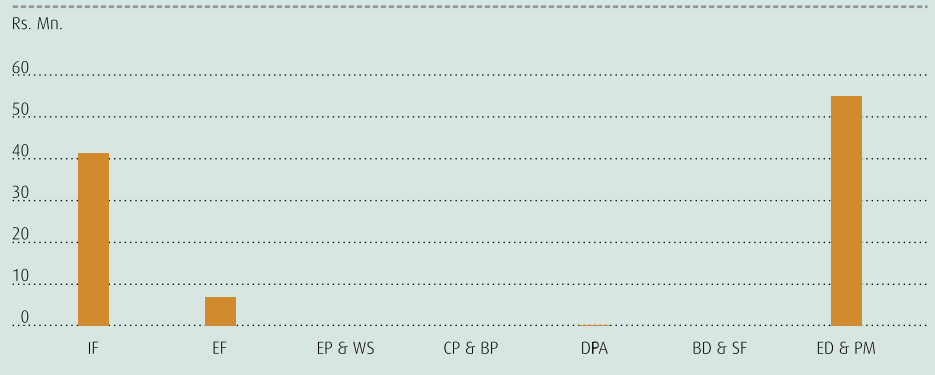
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has introduced risk mitigation controls such as updated/amended BCP document across all business centric critical functions while planning the branch rollout process, strengthened the internal controls through approaches by identifying, measuring, managing, reporting and controlling material risks and also initiated strict and prompt disciplinary actions against non-compliant employees.

### 3.5 Internal Loss Event Identification and Analysis

Loss event is a situation in which the Bank could have made a loss as well as incidents resulting in reputation damage or regulatory impact due to failure of control. Bank has been reporting loss events on quarterly basis commencing from September 2011 under four business lines i.e., Trading & Sales, Payments & Settlements, Retail Banking, and Commercial Banking. The highest loss events occurred in internal frauds and Execution Delivery and Process Management categories as depicted in the following graphs:

**LOSS DATA EVENTS VALUE WISE AS AT DECEMBER 2012**



IF - Internal Fraud

EP & WS- Employment Practices and Workplace Security

DPA - Damages to Physical Assets

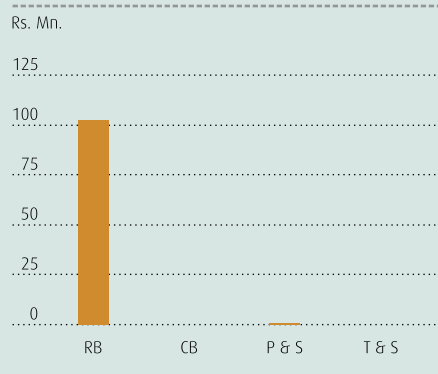
ED & PM - Execution Delivery and Process Management

EF - External Fraud

CP & BP - Clients, Products & Business practices

BD & SF - Business Disruption & System Failures

**LOSS DATA EVENTS BUSINESS LINES WISE AS AT DECEMBER 2012**



RB - Retail Banking

P & S - Payment & Settlement

CB - Commercial Banking

T & S - Trading & Sales



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### 3.6 Key Risk Indicators and Threshold Monitoring Process

The identification and analysis of parameters that can be considered as key risk indicators represent the level of operational risk within the organisation. The RCSA enables the focus on risk indicators related to the most risky activities and processes with escalation threshold limits including key information risk of the Bank. These indicators are usually reviewed on a periodic basis (such as monthly or quarterly) in order to be aware of changes that may be indicative of risk concerns. Effective tracking of these indicators with their thresholds/limits by Operational Risk Management Unit allowed the Bank to identify changing risk profiles upon their accordance and response to them promptly.

### 3.7 Business Continuity Management

Business Continuity Management (BCM) is an important component of the risk management framework for regulated institutions. It increases the resilience to business disruption that may arise from internal or external events and should reduce any adverse impact on business operations, as well as profitability and reputation. Business operations have become increasingly complex over the years, increasing their vulnerability to disruption by outside events. BCM has thus become an essential part of a company's risk management framework.

Business continuity and disaster recovery plans provide risk assurance for the different types of risk scenarios to which the Bank may be vulnerable, commensurate with the size and

complexity of the Bank operations. The Bank has carried out Business Impact Assessment (BIA) and Recovery Time Objective (RTO) and updated Business Continuity Plans which are validated through annual review and testing and maintenance programme. The key risk of business continuity related issues are captured and reported to BIRMC for appropriate actions.

### 3.8 Incidents and Near Misses Reporting and Management

Incidents and Near Misses reporting and Management is the appropriate identification, reporting, analysis, evaluation, resolving and monitoring of adverse events and near misses which include fatalities, all personal injuries, occupational disease, property damage, environmental loss, business losses, fraud attempts, security violation, information security violation. This has enhanced the incidents management capability of the Bank.

### 3.9 New Mandates/Product/Process Risk Assessment

Bank was able to provide risk assurance for the newly implemented products through a Product Management Policy. This procedure includes the proactive risk identification, assessment and introduced mitigation control for risks inherent to new products, processes, systems and their amended versions as well as to projects that have a material impact on Bank's operations.

### 3.10 Insurance Risk

Bank has taken cover from an insurance provider as one of the risk mitigation strategies through which High Severity and Low Probability (HSLP) events risk are transferred to the insurer. Insurance is used to mitigate the losses which may occur as a result of events such as third party claims resulting from errors and omissions, employees or third party frauds, and to mitigate the effect of uncontrollable risk resulting from natural disasters.

### 3.11 Outsourcing at Seylan Bank

An outsourcing arrangement is an agreement or any arrangement between Seylan Bank and a third party service provider, whereby the service provider performs an activity, function or process connected with our business or operations.

Only selected activity, functions or processes are outsourced after business rational is carefully considered, whereby the Bank secures advantages in the form of reduced costs, enhanced quality or specialised competencies to achieve our strategic objectives.

### 3.12 Operational Risk Road Map

The Bank has implemented the operational risk governance framework and the structures during the last 3 years and now ready to move forward with operational risk management technology to automate the risk management processes and the methodologies. This will ensure the data quality in a consistence manner for ongoing operational decisions making and

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enable to the regulatory compliance needs in moving into Advance Measurement Approach (AMA) approach on compliance.

### 4. Market Risk Management

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### 4.1 Objectives and overview

The objective of the Bank is to manage and control market risk exposures in order to optimise returns while maintaining a market profile consistent with our business strategies and risk appetite. In this sense, the Bank's Treasury is responsible in implementing the business specific Market Risk Control Framework and the Treasury Middle Office being part of the market risk management unit manages and monitors the risk centrally. Oversight, directions guidance on this process is provided by specialised committees such as EMORC and ALCO. BIRMC being the Board Sub-committee oversees the effectiveness of the overall risk management processes and functions and finally the main Board ensures governance and accountability for the market risk management.

#### 4.2 Market Risk Appetite

At its simplest; risk appetite is the willingness and capacity to take on risk in terms of value or the total impact of risk the Bank is prepared to accept in terms of the Capital and strategic objectives. Therefore, the risk appetite outlines how the Bank does business and be perceived by key stakeholders such as shareholders, employees, regulators and customers. The Board approves Market Risk appetite for trading and non-trading activities by implementing tolerance limits set within this context based on recommendations made by specialised committees and business heads.

#### 4.3 Market Risk Exposures and Management

The Bank's market risk exposures are mainly measured in terms of Interest Rate, Foreign Exchange Risk, Equity Risk and Liquidity Risk.

#### 4.4 Interest Rate Risk (IRR)

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Treasury in its day-to-day monitoring activities.

Interest rate volatility can impact the Bank's Net Interest Income (NII) and Net Interest Margin (NIM). IRR is measured as Traded and Non-Traded Risk where the investment profile is reviewed versus the defined benefits it derive. Non-traded IRR arises from the provision of retail and wholesale (non-traded) banking products and services, where the interest rate repricing date for loans (assets) is different to the repricing date for deposits (liabilities) including current account and equity balances which do not have a defined maturity dates and an interest rate that does not change in line with base rate changes. The Bank's objective is to minimise non-traded IRR and this is achieved by transferring IRR from retail and corporate banking to treasury through the funds transfer pricing mechanism, which in turn the net exposures are hedged by the treasury with the external market.

Traded interest IRR arises through the portfolio's which are maintained for trading purposes with a view to earn a profit. The risk in the trading book is measured and controlled using the Annual Earnings at Risk. Annual Earnings at Risk (AEaR) is measured through the sensitivity of net interest income over the next 12-month period and is calculated as the difference between the estimated income using the current yield curve and the lowest estimated income following a 200, 300 basis point, increase or decrease in interest rates.

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The interest rate risk for balances with no defined maturity date and an interest rate that is not linked to the base rate is managed by ALCO. Close monitoring and interest rate reviews are used to mitigate the interest rate risk in the banking book. Daily marking to market of the Trading and Available For Sale (AFS) book is carried out by the Treasury Middle Office. Limits exist to ensure no material risk is retained within any business or product area.

The table below shows a sensitivity analysis on the pre-tax net interest income for the trading Government Securities held at 31st December 2012.

### Government Security Trading Portfolio as of 31st December 2012

	Rs. Mn.
Book Value	2,287
Market Value	2,299
Fair Value Through P&L	12

Impact Due to Shift in Yields Basis Points	Increase of Yields by		Decrease of Yields by	
	200 bps	300 bps	200 bps	300 bps
Market Value after price change	2,252	2,230	2,349	2,376
Profit/Loss exposure after shift in prices (Cumulative)	-35	-57	62	89
Net Impact in Profit/Loss from current exposure	-47	-69	50	77
Percentage Shift from Current position	-2.07%	-3.05%	2.20%	3.36%

### Interest Rate Risk (IRR) Indicators

The Bank monitors IRR on an ongoing basis giving due cognisance to the repricing 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 at ALCO on a regular basis to ensure that the impact to the Bank's earnings is within reasonable levels.

The Key Risk Indicators used to monitor the Interest Rate Movement are the Treasury Bill Weighted Average Rate, Treasury Bond Secondary Market Rates, AWPLR, AWFDR, CBSL Policy Rates, SLIBOR and LIBOR.

### 4.5 Foreign Exchange Risk

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. As the Bank's base currency is Sri Lankan Rupee (Rs.), it is exposed to foreign exchange risk from investments in foreign currency denominated loans, securities, future cash flows in foreign currencies arising from foreign exchange transactions and various foreign exchange derivative instruments, values of which fluctuate with changes in currency exchange rates or foreign currency interest rates.

Foreign exchange exposures are managed daily by the Bank's Treasury Department. The Bank has established risk tolerance limits for foreign exchange exposures within the directives of Central Bank of Sri Lanka in order to ensure that any adverse exchange rate movements on the results of the Bank due to un-hedged foreign exchange positions are managed within acceptable parameters. Furthermore Foreign Exchange risk is mitigated by fixing appropriate limits on open positions, gaps, counterparties, products and are set on dealer trading activities on a daylight and overnight basis.

Limits are set on the Net Open Position (NOP) of the Bank by the Central Bank of Sri Lanka (CBSL); the NOP which had been well within the threshold which consisted of a limit of USD 10.0 Mn. up to February 2012 and was cut down to USD 3.7 Mn. This move was imposed on all banks during a balance of payment crisis during the year. By narrowing

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open forex positions of banks CBSL was of the view to increase volatility in exchange rates as banks cannot carry substantial forex holding overnight and in turn would reduce the depth of the market.

The above graph indicates the movement of the NOP of the Bank.

The Treasury Middle Office carries out a daily sensitivity analysis on the NOP under different levels of shock scenarios and calculates monthly the resultant impact on the capital adequacy and profitability of the Bank.

### 4.6 Equity Risk

It is risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the Bank.

Daily computation of mark to market value of on Balance Sheet and Off-Balance Sheet securities listed in the Stock Exchange is considered vital by the Bank to verify whether the losses if any are within the approved stop loss limits. Equity price risk is subject to regular monitoring by Bank market risk, but is not currently significant in relation to the overall results and financial position of the Bank.

### 4.7 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

### Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Because of its tendency to compound other risks, it is difficult or impossible to isolate liquidity risk. Hence certain techniques of asset-liability management are applied to assessing liquidity risk such as the traditional Static Liquidity Gap Reports (prepared with certain assumptions to classify non-maturing assets such as credit cards and non-maturing liabilities - such as savings and current account balances) which incorporate all contracted inflows and outflows are regularly discussed at ALCO to ascertain real cash flow mismatches.

Furthermore the Bank has adopted other methods to measure and control daily the liquidity risk:

- **Statutory Liquidity Asset Ratio (SLAR) -**  
The statutory minimum liquidity requirement is a regulatory obligation set at 20% by CBSL. The Bank has set a limit of 21% with a buffer of 1% above the regulatory requirement.
- **Advances to Deposits Ratio (A/D ratio) -**  
The ratio of advances to deposits is expressed as a percentage of customer loans and advances to customer deposits. A ratio of 95% has been stipulated by the Bank as an internal limit and is monitored separately for the DBU and FCBU as well as the entire Bank.

- **Capital + Deposits to Advances Ratio (CADR) -**  
In general the CADR for the Bank is set not higher than that of the 'natural AD ratio' as defined above. The CADR takes into account the customer deposits and other sources internally generated including capital less statutory reserves if are sufficient to support customer funding.

### Funding Concentrations and Controls -

- **Medium Term Funding Ratio (MTF) -** MTF defines assets with residual contractual or behavioural maturity of greater than one year to medium term liabilities defined similarly. The reason why a one year threshold is chosen is to allow time to correct any structural imbalance in funding before the imbalance becomes a major risk to the Bank's liquidity profile.
- **Swapped Fund Limits -** Typically arising from an interest rate parity imbalance between money and foreign exchange markets the Bank would opt to SWAP one currency liabilities to fund assets in another currency. The Banks dependencies to use SWAP funds are limited as by such funding the Bank would be reliant on the existence of an orderly and sufficient deep swap market.
- **External Borrowing Limit -** The amount which the Treasury can raise in the inter-bank market is limited for the purpose to ensure our reliance on external funding is limited.

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### 5. Regulatory/Compliance Risk

Regulatory/Compliance is the risk that arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance could lead to fines, public reprimands, damage to reputation, increased prudential requirements, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate. Compliance unit monitor and control compliance risks, applying a range of compliance policies under the co-ordination and oversight of AGM - Compliance. The primary focus is on adherence to the regulatory framework currently in place. A detailed compliance report is submitted to the Board of Directors on a monthly basis. Compliance risk and control issues are also included in quarterly reporting by the compliance unit to the Board Integrated Risk Management Committee.

The compliance unit also ensures that the Bank complies with Anti Money Laundering/ Counter Financing of Terrorism regulations and is in the process of establishing an Anti Money Laundering Software in the Bank.

The Bank has effective processes in place to ensure compliance with applicable laws and regulations pertaining to the banking industry and update the management and staff when new Directions, Guidelines and Circulars are issued by the Regulators. The compliance unit has also taken initiatives to conduct training programmes to staff members with the assistance of the Regulators and other

professionals in order to educate and enhance the knowledge on compliance. Compliance unit has been conducting in house training programmes as well as branch-wise awareness programmes to develop compliance culture in the Bank.

The compliance unit has made arrangements to obtain compliance sign offs from the respective departments and also from the branches and closely monitor the adherence of same. Compliance unit closely monitors the submission of returns to regulator. As part of the process of continuous improvements to the compliance culture, compliance unit has made arrangements to review the existing policies on compliance and anti money laundering on a regular basis.

### 6. Technology and Information Risk Management

Technology risk includes the non-availability of IT systems, inadequate design and testing of new and changed IT solutions and inadequate IT system security. Data privacy issues are covered under regulatory risk and external supplier issues relating to technology are covered under Operational Risk. Technology is a key business enabler and requires an appropriate level of control to ensure that the most significant technology risks are effectively managed. Technology risk is managed through a formal risk governance framework. A set of Key Risk Indicators (KRIs), consistent across Business Units, is periodically collated and reviewed by management. Each KRI has a specific target

#### Bank has adhered to the following Key Regulatory Instructions Issued in 2012

Date Issued	Mandatory Regulations/Directions/Determinations and Circulars
12/03/2012	Monetary Law Act Order No. 1 of 2012 - Ceiling on Credit Growth of Licensed Banks
29/03/2012	Disclosures in Annual Reports - Banking Act Directions on Corporate Governance
18/09/2012	Banking Act Direction No. 1 of 2012 - Foreign Exchange Trading Activities of Licensed Commercial Banks in Sri Lanka with Explanatory Note No. 2 of 2012
18/09/2012	Adoption of the ACI Model Code by Sri Lanka
15/10/2012	Submission of Statutory Returns
26/10/2012	Definition of Liquid Assets under Section 86 of the Banking Act No. 30 of 1988, as Amended
29/11/2012	Classification of Banking Outlets
21/12/2012	Banking Act Direction No. 2 of 2012 - Outsourcing of Business Operations

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state, defining the Bank's pervasive attitude to risk. Any areas falling short of this standard are highlighted to management for action. Regular technology risk reporting is provided to the Executive Market and Operational Risk Management Committee and Board Integrated Risk Management.

The information risk management (i.e.: IT Governance: IT Business Alignment, Risk Management, Compliance, Information Security, IT Investments Value, and Performance Measurement) has been independently reviewed, assessed and mitigation controls are being introduced through the policies, procedures, frameworks, structures and security technology initiatives and reports any material risks to the respective risk committees as appropriate. The Bank has recognised the role of Information Security Officer (ISO) and the information Security Policy monitoring, conducting regular security risk assessment and implementation of security programmes are the key tasks of the proposed Information Risk Management Policy/framework of the Bank.

### 7. Legal Risk

The Bank is subject to a comprehensive range of legal obligations in the country. As a result, the Bank is exposed to many forms of legal risk, which may arise in a number of ways:

- Business may not be conducted in accordance with applicable laws.

- Contractual obligations may either not be enforceable as intended or may be enforced in an adverse way.
- Intellectual property may not be adequately protected.
- Liability for damages may be incurred to third parties harmed by the conduct of its business.

Legal risk is owned and managed by the Legal Department. The Heads of departments for each business unit is responsible for management and reporting of legal risk. The adequacy and effectiveness of the controls operated in the business units are overseen by the Head of Legal. Specific risks relating to legal risk are reported on a monthly basis to the Board.

### 8. Strategic Risk

Strategic risk is the failure to meet long-term strategic goals of business, including dependency on any estimated or planned outcomes that may be in the control of third parties.

The Board set the strategies and communicate to the management. New strategic plan launched in 2012, the Annual budget prepared by the business units and approved by the Board. The performance reviewed monthly and informed to the Board to assist managing strategic risk. The Board and Company Secretary to the Bank oversee the Corporate Governance related disclosures.

## 9. 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. This includes the rating system and the automated appraisal system.

- 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 and close monitoring.

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### 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 monitoring and evaluation
- vi. Risk-based pricing
- vii. Impairment for loans and receivables
- viii. Regulatory compliance

### 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.

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### Main Risk Exposures as at December 2012 with Set Risk Policy Parameters

Type of Risk	Measure	Limit Rs./% Statutory	Limit Rs./% Internal	Bank Position as at December 2012 Rs./%	Remarks/Action
<b>Credit Risk</b>					
Concentration Risk	Credit exposure lent to agriculture and fisheries sector	10%	> 10%	11.90%	
	Pawning	-	< 15%	13.00%	
CAPITAL Adequacy	Capital adequacy ratio				The policy is that when ratio falls below 11%, capital infusion will be mandatory
	Tier I	5%	6%	14.36%	
	Tier I & II	10%	11%	14.37%	
Non-Performing Advances	Non-performing advances ratio (gross)	-	13%	15.25%	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				
Foreign Exchange Risk	Net open position limit (US\$)	3.7 Mn.		3.078 Mn. (short position)	
Liquidity Risk	a. Statutory liquid assets ratio (overall)	20%	21%	21.55%	
	b. SWAPS (US\$)		50 Mn.	26.50 Mn.	
	c. External borrowing DBU & FCBU (value in LKR)		7.5 Bn.	4.70 Bn.	



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Type of Risk	Measure	Limit Rs./% Statutory	Limit Rs./% Internal	Bank Position as at December 2012 Rs./%	Remarks/Action
<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	Above LKR 500,000	Above LKR 10,000		Completed the loss data collection criteria & statutory reporting
	- Types of loss events				
	Key risk indicators	-	-		Top 10 KRIs (bottom up risks) have been developed

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### Monitoring Mechanism on Variety of Risk

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

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Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<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>1. Operational risk policy</li> <li>2. Risk and compliance review of process, new products and procedures</li> <li>3. Fraud prevention measures</li> <li>4. Insurance</li> <li>5. Customer grievance handling</li> <li>6. Business continuity plan</li> <li>7. Training/Awareness</li> <li>8. Oversight by Market/Operational Risk Management Committee</li> </ol>	Medium
<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

## / Risk Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<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 Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<p><b>5. Legal/Regulatory Compliance Risk</b></p> <p>Failure to comply with the laws of the countries (regulatory/statutory) where business operations are carried out.</p>	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
<p><b>6. System Risk</b></p> <p>Risk of financial losses due to system and telecommunication failures, including temporary system shut downs, malfunction, hacking and disruptions caused by external parties.</p>	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

## / Risk Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<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 Sub-committees</li> <li>3. Company Secretariat function to guide them</li> <li>4. Training &amp; awareness building for Directors</li> <li>5. New legislations been addressed at Board meetings and Committee meetings</li> <li>6. Governance policies and procedures</li> <li>7. Compliance and risk-management functions</li> <li>8. Board appraisals</li> </ol>	Low
<b>Market Risk</b>				
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.				
<b>1. Liquidity Risk</b>				
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	<ol style="list-style-type: none"> <li>1. Liquidity limits Monitored and directed by ALCO</li> <li>2. Market risk management using market risk indicators</li> <li>3. Statutory and ALCO Committee set Limits</li> <li>4. Oversight by Board and Executive Market/Operational Risk Management Committee</li> </ol>	Medium

## / Risk Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<p><b>2. Interest Rate Risk</b></p> <p>Interest rate risk is the possibility of adverse effects due to interest rate movements on net interest income</p>	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	<ol style="list-style-type: none"> <li>1. Portfolio monitoring</li> <li>2. Regular monitored and directed by ALCO</li> <li>3. Prudential limits</li> <li>4. Monthly performance evaluation</li> <li>5. Oversight by Executive Market/Operational Risk Management Committee</li> </ol>	Low
<p><b>3. Foreign Exchange Risk</b></p> <p>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.</p>	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

## / Risk Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<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	Having overcome a crisis period in 2008, several measures are taken to avoid such a situation.  The changed corporate governance practices helped lower the reputation risk assessment.  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  Customer complaints are routed through the personal assistant to General Manager	<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> <li>12. Whistle-blowing policy</li> </ol>	Low

### Strategic Risk

<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	Board set the strategies and communicates to the management  Financial performance is reviewed monthly and recommended to the Board.  All Heads of units were made available for the Board meeting for necessary clarification  The Bank set tasks and formulated the strategic plan 2012-2015	<ol style="list-style-type: none"> <li>1. Current strategic plan 2012-2015 actions monitored at Board level</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



## / Risk Management Report

### Capital Adequacy Computation - Bank Computation of Risk Weighted Assets- Credit Risk

	On Balance Sheet Assets and Credit Equivalent of off Balance Sheet Assets		Risk - Weight Factor %	Risk - Weighted Assets*	
	2012 Rs. '000	2011 Rs. '000		2012 Rs. '000	2011 Rs. '000
<b>Assets</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	38,979,344	41,983,060	0	-	-
Claims on Banks	1,644,218	832,510	20-150	1,121,085	468,653
Claims on Financial Institutions	6,032,769	3,123,689	20-150	4,513,961	2,190,691
Claims on Corporates	30,490,691	28,934,802	20-150	30,261,109	28,601,474
Retail Claims	37,031,343	33,907,994	75-100	30,117,468	28,097,153
Claims Secured by Residential Property	10,625,725	9,955,728	50-100	5,555,670	5,163,525
Non-performing Assets (NPAs)	13,597,425	11,773,652	50-150	19,158,605	16,128,890
Cash Items	6,290,654	4,455,983	0-20	80,641	32,458
Property, Plant & Equipment	2,430,403	2,807,826	100	2,430,403	2,807,826
Other Assets	8,625,355	7,778,134	100	8,625,355	7,778,134
<b>Total</b>	<b>155,747,927</b>	<b>145,553,378</b>		<b>101,864,297</b>	<b>91,268,804</b>

### Off-Balance Sheet Exposure

	Off-Balance Sheet Assets		Credit Conversion Factor %	Credit Equivalent	
	2012 Rs. '000	2011 Rs. '000		2012 Rs. '000	2011 Rs. '000
<b>Instruments</b>					
Direct Credit Substitutes	233,460	349,331	100	233,460	349,331
Transaction-Related Contingencies	7,197,451	6,450,959	50	3,598,727	3,225,480
Short-Term Self-Liquidating Trade-Related Contingencies	5,846,831	9,017,749	20	1,169,366	1,803,550
Other Commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	12,503,531	14,675,341	0	-	-
Foreign Exchange Contracts	31,273,976	26,760,598	0-5	629,298	535,212
<b>Total</b>	<b>57,055,249</b>	<b>57,253,978</b>		<b>5,630,851</b>	<b>5,913,573</b>

\* The off Balance Sheet Exposure is included in the Risk Weighted Assets

## / Risk Management Report

### Capital Charge for Market Risk

	2012 Rs. '000	2011 Rs. '000
Capital Charge for Interest Rate Risk	102,108	120,722
Capital Charge for Equity	105,584	130,511
Capital Charge for Foreign Exchange & Gold	39,329	92,244
Total Capital Charge for Market Risk	247,021	343,477
Total Risk Weighted Assets Market Risk	2,470,210	3,434,770

### Capital Charge for Operational Risk

#### Gross Income

Year 1	11,503,470	9,662,476
Year 2	10,449,273	11,503,470
Year 3	11,025,696	10,449,273

#### Average Gross Income

Total Capital Charge for Operational Risk - (15%)	1,648,922	1,580,761
Total Risk Weighted Assets Operational Risk	16,489,220	15,807,610

### Computation of Capital

	2012 Rs. '000	2011 Rs. '000
<b>Tier I : Core Capital</b>		
Paid-up Ordinary Shares/Common Stock/Assigned Capital/Stated Capital	10,225,452	10,225,452
Statutory Reserves	724,905	618,567
Published Retained Profits/(Accumulated Losses)	5,907,627	5,198,157
General and Other Reserves	1,251,900	954,143
<b>Less:</b>		
Net Deferred Tax Assets	253,171	510,086
Other Intangible Assets	202,354	404,299
50% Investments in the Capital of Other Banks and Financial Institutions	302,842	367,021
<b>Total Eligible Core Capital (TIER I Capital)</b>	<b>17,351,517</b>	<b>15,714,913</b>
<b>Tier II: Supplementary Capital</b>		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	48,827	62,619
Approved Subordinated Term Debt	266,736	689,096
<b>Less:</b>		
50% Investments in the Capital of Other Banks and Financial Institutions	302,842	367,021
<b>Total Eligible Supplementary Capital (TIER II Capital)</b>	<b>12,721</b>	<b>384,694</b>
<b>Total Capital Base</b>	<b>17,364,238</b>	<b>16,099,607</b>

## / Risk Management Report

	2012 Rs. '000	2011 Rs. '000
<b>Computations of Ratios</b>		
Total Risk Weighted Assets (RWA)		
Total Risk Weighted Assets for Credit Risk	101,864,297	91,268,804
Total Risk Weighted Assets Market Risk	2,470,210	3,434,770
Total Risk Weighted Assets Operational Risk	16,489,220	15,807,610
<b>Sub Total</b>	<b>120,823,727</b>	110,511,184
Minimum Capital Charge		
Minimum Capital Charge for Credit Risk	10,186,430	9,126,880
Minimum Capital Charge for Market Risk	247,021	343,477
Minimum Capital Charge for Operational Risk	1,648,922	1,580,761
<b>Sub Total</b>	<b>12,082,373</b>	11,051,118
Total Capital available to meet the Capital Charge for Credit Risk		
Total Eligible Core Capital (TIER I Capital)	17,351,517	15,714,913
Total Eligible Supplementary Capital (TIER II Capital)	12,721	384,694
<b>Total Capital Base</b>	<b>17,364,238</b>	16,099,607
<b>Core Capital Ratio (Minimum Requirement 5%)</b>		
Total Eligible Core Capital (TIER I Capital)	17,351,517	15,714,913
Total Risk Weighted Assets	120,823,727	110,511,184
	14.36%	14.22%
<b>Total Capital Ratio (Minimum Requirement 10%)</b>		
Total Capital Base	17,364,238	16,099,607
Total Risk Weighted Assets	120,823,727	110,511,184
	14.37%	14.57%

## / Board of Directors



## / Board of Directors

01. **Mr. Nihal Jayamanne PC** - *Chairman/Independent Director*
02. **Mr. Ishara Nanayakkara** - *Deputy Chairman/Non-Executive Director*
03. **Mr. Ramanathan Nadarajah** - *Executive Director*
04. **Mr. Lalith Withana** - *Independent Director*
05. **Rear Admiral Ananda Peiris** - *Independent Director*
06. **Mr. Ajith Devasurendra** - *Non-Executive Director*
07. **Mr. Samantha P.S. Ranatunga** - *Independent Director*
08. **Mr. A.M. Mohan De Alwis** - *Non-Executive Director*
09. **Mr. Piyadasa Kudabalage** - *Non-Executive Director*



## / Profiles of the Board of Directors

### **Mr. Nihal Jayamanne**

*President's Counsel -  
Chairman/Independent Director*

Mr. Nihal Jayamanne PC was appointed to the Board of Seylan Bank PLC on 30th December 2008 and was appointed as Chairman of the Bank with effect from 17th January 2013.

He is an eminent lawyer and a Senior President's Counsel and holds key offices in the fields of law, including Chairman of the Law Commission of Sri Lanka, Chairman of Company Law Advisory Commission, Chairman of Law College Foundation and as a Member of the Board of Trustees of the Judicial Infrastructure Maintenance Trust.

Mr. Jayamanne serves on the Boards of Sri Lankan Airlines Limited and Sri Lankan Catering (Pvt) Ltd and is a member of the Board of Trustees of the Ray Wijewardane Trust.

Mr. Jayamanne was a former President of the Bar Association of Sri Lanka, Vice President of SAARCLAW and the National Police Commission of Sri Lanka and has also been a Member of the Council of Legal Education, a Member of the Advisory Council of Jurists of the Asia Pacific Forum for the Advancement of Human Rights and Commissioner of the Telecommunication Regulatory Commission of Sri Lanka.

### **Mr. Ishara Nanayakkara**

*Deputy Chairman/Non-Executive Director*  
Diploma in Business Accounting & Finance (Aus.)

Mr. Ishara Nanayakkara is an astute businessman who holds directorships in many corporates and conglomerates.

He ventured into the arena of financial services with the strategic investment in LOLC PLC and was appointed to the Board in 2002. Today, as Deputy Chairman of LOLC Group, he straddles a conglomerate that encompasses financial services, agriculture and plantation, leisure, renewable energy, construction, manufacturing and trading.

He has extensive exposure in the financial services sector through his active involvement in the LOLC Group as the Deputy Chairman, Director of Lanka ORIX Finance PLC, Chairman of the Commercial Leasing and Finance PLC and as one of the founding Directors and present Chairman of LOLC Micro Credit Ltd, the largest private sector micro finance institution in the country.

Mr. Nanayakkara is a Director of PRASAC, the largest microfinance company in Cambodia and plays an active role in the microfinance community of the region.

He is also a Director in Brown and Company PLC, a 135 year old conglomerate with leading market position in trade, leisure, manufacturing, consumer appliances and agriculture equipment.

As a Director of Sierra Construction Ltd and Agstar Fertilizers (Pvt) Limited, his vision is to contribute to the growth sectors of the economy.

He holds a diploma in Business Accounting from Australia.

He was appointed to the Board of Seylan Bank PLC on 24 November 2009 and recently appointed as the Deputy Chairman of the Bank.

Mr. Nanayakkara's involvement in multifaceted business fields is fine proof for his perpetual interest on the growth sectors of the Sri Lankan economy.

## / Profiles of the Board of Directors

### Mr. Ramanathan Nadarajah

*Executive Director*

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

Mr. Ramanathan Nadarajah has 44 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 is also an Independent Director of The Finance Company PLC.

Mr. Nadarajah was appointed to the Board of Seylan Bank PLC on 8th January 2009.

### 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 the Chief Executive Officer of Orit Apparels (Pvt) Limited and Orit Trading Lanka (Pvt) Limited. He had served as a Consultant to Brandix Asia Limited, had been the 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.

### 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 as the Deputy Area Commander of Northern Naval Command and Squadron Commander Fast Attack Craft and has taken part in almost all major operations in the North and East. 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

## / Profiles of the Board of Directors

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.

### **Mr. Ajith Devasurendra**

*Non-Executive Director*

Mr. Ajith Devasurendra is a veteran in the financial services industry in Sri Lanka and counts more than 28 years' experience both in Sri Lanka and overseas. As one of the pioneers in money broking and government securities markets, he has brought in new dimensions to the local money market industry. He was the first President of the Sri Lanka Money Brokers Association and was also a past President of the Sri Lanka Primary Dealers Association. He has also acted as a Consultant to PricewaterhouseCoopers, Bombay, India on a USAID project.

At present he is the Deputy Chairman of Brown & Company PLC and Deputy Chairman of Taprobane Holdings PLC and represents in the Boards of many renowned companies. He is also in many Committees that focus on the development of the financial markets in Sri Lanka.

Mr. Devasurendra was appointed to the Board of Seylan Bank PLC on 24th November 2009.

### **Mr. Samantha P.S. Ranatunga**

*Independent, Non-Executive 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 has joined the Board of CIC Holdings PLC in May 2002 and has functioned as its Chief Operating Officer from February 2005 until his appointment as its Managing Director/CEO in April 2009.

He holds a degree from the University of Delhi and a Masters in Business Administration, UK. He is a Non Executive Director of a number of unlisted companies in the CIC

Group including Akzo Nobel Lanka Paints (Pvt) Limited and RahimafroozCIC Agro Limited, Bangladesh. He is the Deputy Vice Chairman of the Ceylon Chamber of Commerce, the President of the Sri Lanka Africa Middle East Business Council and the Vice President of the Sri Lanka-Maldivian Business Council and has led Sri Lanka Chamber of Commerce delegation to various countries. He is also the Ceylon Chamber of Commerce nominee in the Mercantile Services Provident Society.

In addition, he had been a pioneer in coordinating and setting up of CIC Agribusinesses which is the premier agricultural company in Sri Lanka. He has helped in developing the "seed to shelf concept" where 20,000 farmer families are helped to bring produce to end consumers. He has also studied the agricultural measurement and productivity systems in Australia, India, Thailand, Portugal, Chile and in many other countries.

Mr. Samantha Ranathunga was appointed to the Board of Seylan Bank PLC on 12th January 2010.



## / Profiles of the Board of Directors

### 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 Ltd and Management Services Rakshana Lanka (Pvt) Ltd has wide and diversified managerial experience in leading corporate sector institutions both in Sri Lanka and overseas including Coopers & Lybrand, Hayleys PLC, Star Garments Ltd and Smart Shirts Ltd. He has over 30 years experience in the mercantile sector.

Mr. De Alwis holds a Bachelor of Commerce degree from the University of Kelaniya, an MBA from the University of Colombo and is a Certified Management Accountant (Australia).

He is the Chairman of Ceylon Asset Management Co. Limited and the Executive Director of Litro Gas Lanka Limited and Litro Gas Terminal Lanka (Pvt) Limited and also a Director of The Lanka Hospitals Corporation PLC, Ceybank Asset Management Co. Limited, Sri Lanka Insurance Resorts & Spas (Pvt) Limited, Taprobane Hotels & Spa (Pvt) Limited, Helanco Hotels & Spas (Pvt) Limited and Canwill Holdings (Pvt) Limited.

Mr De Alwis was appointed to the Board of Seylan Bank PLC on 20th August 2010.

### Mr. Piyadasa Kudabalage

*Non-Executive Director*

BCom (Hons.) [University of Kelaniya], FCA, FCMA, FCPM

Mr. Piyadasa Kudabalage was appointed to the Board of Seylan Bank PLC on 20th August 2010. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka. He holds a B.Com (Hons) Degree from the University of Kelaniya. He is also a fellow member of the Institute of Certified Management Accountants of Sri Lanka and the Institute of Certified Professional Managers of Sri Lanka.

Mr. Kudabalage is the Managing Director/ Chief Executive Officer of Litro Gas Lanka Limited, Litro Gas Terminal Lanka (Pvt) Limited, Canwill Holdings (Pvt) Limited, Sinolanka Hotels & Spa (Pvt) Limited, Taprobane Hotels & Spa (Pvt) Ltd, Helanco Hotels & Spa (Pvt) Limited and Sri Lanka Insurance Resorts and Spas (Pvt) Limited. He is the Executive Director of Sri Lanka Insurance Corporation Limited and Management Services Rakshana (Pvt) Limited. He also serves on the Boards of Colombo Dockyard PLC, Sri Lanka Insurance Corporation (Pvt) Limited - Maldives as a director and a Senior Partner of Messrs P Kudabalage & Company, Chartered Accountants.

He has well over 25 years experience in the mercantile sector and has held several senior positions prior to assuming the duties of aforesaid companies.

Mr. Kudabalage was appointed to the Board of Seylan Bank PLC on 20th August 2010.

## / Senior Management Team



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01. **Mr. Kapila Ariyaratne** - General Manager/Chief Executive Officer
02. **Mr. Sunil De Silva** - Senior Deputy General Manager - Recoveries
03. **Mr. Tissa Nanayakkara** - Senior Deputy General Manager - Retail Banking
04. **Mr. Samuel Jebarathnam** - Senior Deputy General Manager - Human Resources and Administration
05. **Mr. K.D.W. Rohana** - Deputy General Manager - Branch Credit
06. **Dr. P. Niranjana** - Deputy General Manager - Zone II
07. **Mr. Ranjith Fonseka** - Deputy General Manager - Alternate Banking Channels
08. **Mr. S. Palihawadana** - Chief Dealer
09. **Ms. Shalini Perera** - Deputy General Manager - Corporate and Off-shore Banking

10. **Mr. Chithral De Silva** - Deputy General Manager - Recoveries
11. **Mr. Damith Vitharanga** - Deputy General Manager - Audit and Inspection
12. **Mr. Aruna Ranasinghe** - Deputy General Manager - International and Operations
13. **Mr. Tilan Wijesekara** - Deputy General Manager - Marketing
14. **Mr. Ramesh Jayasekara** - Chief Financial Officer
15. **Mr. Delvin Pereira** - Deputy General Manager - Zone I
16. **Mr. M.K. Muthukumar** - Head of Legal
17. **Mr. Christie Nanayakkara** - Chief Risk Officer
18. **Mr. Chanaka Goonewardene** - Deputy General Manager - Information Technology

## / Senior Management Team



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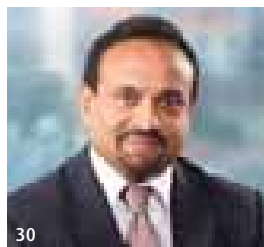
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### Consultant



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19. **Ms. Rohini Weerakkody** - Assistant General Manager - Operations
20. **Mr. T. J. Pathirage** - Assistant General Manager - Operational Risk Management
21. **Mr. Kamal Deshapriya** - Assistant General Manager - Marketing
22. **Mr. M.K. Premathilleke** - Assistant General Manager - Recoveries
23. **Ms. Yasanthi Udurawane** - Assistant General Manager - Corporate Banking
24. **Mr. Shanaka Perera** - Senior Dealer - Treasury
25. **Mr. Wasantha Karunaratne** - Assistant General Manager - Supplies
26. **Mr. Kapila Rathnayaka** - Assistant General Manager - Premises and Maintenance
27. **Mr. G. Widanapathirana** - Assistant General Manager - Human Resources
28. **Mr. Gerald Wanigaratne** - Assistant General Manager - Information Technology
29. **Ms. Champika Dodanwela** - Assistant General Manager - Finance
30. **Mr. A.W. Sarath Kumarasiri** - Assistant General Manager - International
31. **Mr. Ajith Perera** - Assistant General Manager - Compliance
32. **Mr. Derek John Kelly** - Consultant - Risk Management

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## / Sustainability Report



### A Letter from the General Manager/Chief Executive Officer

*Dear Stakeholder/Reader*

The commitment to sustainability and conducting sustainable business enterprises has widened in scope since its earliest days. From modest beginnings, businesses have also gradually widened the ambit of their sustainability reporting to include a more inclusive approach to triple bottom line disclosures.

Seylan Bank subscribes to the view that sustainability reporting must move well beyond matters pertaining to environmental protection alone, to a wider consideration of social issues such as the inclusion of less privileged groups in society within business frameworks. A case in point would be the efforts made by Seylan

Bank to live up to its tag line - 'The Bank With a Heart' - by providing access to finance for the less privileged, so that they could get a head start towards building a sustainable livelihood and financial security.

Seylan Bank's business model has always revolved largely around rural communities; in fact the very establishment of our Bank stems from a need to financially assist the community and the country as a whole. We recognise, encourage and actively support sustainability initiatives as a part of our core business which would definitely aid the management of social and environmental impacts. Sustainable development is also recognised as an advantage and an opportunity for growth as per the Bank's strategic plan 2012-15.

The year 2012 has been one of historic significance for the Sri Lankan people. This has been a year in which we have witnessed tremendous new opportunities in most sectors of enterprise. It is incumbent then, on every corporate entity to look for and support opportunities for sustainable development of the community and country as a whole, helping in every possible manner to improve the living standard of the people by leveraging on these emerging opportunities.

The Bank's approach to sustainability reporting is one of transparency and inclusiveness. Apart from the disclosures that will bear testimony to how sustainable our business enterprise really is, this report underlines our 'responsiveness' to those who

Sustainability will continue, in the future, to be an  
**integral element**  
 in shaping how we do business

The Bank's approach to  
 sustainability reporting is one of  
**transparency** and  
 inclusiveness

## / Sustainability Report

desire to know us better - our customers, shareholders, suppliers, employees and the community at large.

Sustainability will continue, in the future, to be an integral element in shaping how we do business. This holistic outlook, which melds sustainability into the very core of our business strategy has been and will continue to pave the path of progression for our Bank's prosperity.

A dedicated Board Sub-committee was formed in the year 2010, to infuse greater involvement of the Board of Directors in defining the sustainability approach. This was followed by the creation of a separate department in the year 2011 which works closely with the sustainability management committees and business units/branches to develop and coordinate sustainability initiatives.

From a CSR perspective, branches and departments of the Bank put forth a total of over 85 projects/initiatives of their own volition, to support the community. These have been reported upon in detail, on pages 193 to 200 of this Annual Report. In addition, the Bank organised an internal sustainability competition among the branches and the departments to raise awareness and stimulate motivation vis-à-vis the importance of sustainability initiatives as part of the core activities of our banking operations.

As we look to the future, in the short term, we will be concentrating on energy - its conservation and conservative use - with a view to leaving a worthwhile legacy in this sector for upcoming generations.

We are confident that the sustainable village concept that is currently being tested and expanded to three additional villages, will add more value to the country by uplifting the living, education and health standards of the community, whilst making a significant and meaningful contribution towards poverty alleviation.

In the year 2013, the Bank has planned to recognise education as an important sector for investment which could make a vitally important difference in the lives of especially our children, future of the community and the country as a whole.

We will continue to explore and develop initiatives that are pragmatic and holistic and which will aid and nourish in a sustainable manner, the resurgent and entrepreneurial Sri Lankan spirit which characterises our own approach to our core business.

I invite you now to delve into this report, which gives you a comprehensive account of our stewardship of sustainability as a core aspect of our enterprise.



**Kapila Ariyaratne**

*General Manager/Chief Executive Officer*

*21st February 2013*

## / Sustainability Report

### The Parameters of our Report

Our report is based on the Global Reporting Initiative (GRI). The reporting has been reinforced with G3.1 sustainability indicators which define the contents, quality, and the boundaries outlined in the GRI reporting principles.

This is the third report the Bank has produced in accordance with GRI Guidelines. Our reporting has evolved to the level of an externally assured B+ rating which we received consecutively for the reports of the previous two years.

This report encompasses the period - 1st January 2012 to 31st December 2012 and our reporting cycle is annual.

### The Scope of our Report

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.

### The Boundaries of our Report

The contents of this report detail an integrated view of the Bank's performance from the triple bottom line perspective. We strive to drive our core business to contribute towards the requirement of the nation as whole. It presents a fair and transparent account of both positive and negative performance of the Bank in order that our stakeholders may gain the most accurate insight into the manner in which our policies, interactions and processes have been deployed during the year in review.

In the process of defining the content of this report, we have reviewed our stance and performance on the undermentioned areas too.

### Materiality of Our Report

Materiality is defined in relation to the financial performance, Balance Sheet values, and the impact on the stakeholders' interest. As such this report outlines those elements of the Bank's economic, environmental and social performance that would substantially influence assessments and decisions of our stakeholders.

Information presented herein extracted from the Audited Financial Statements and other data sources maintained by the Bank.

### Stakeholder Inclusiveness

The Bank fully recognises the requirement to define the strategic and key stakeholder groups to ensure materiality in engagement and reporting. The chart below provides details of engagement with key stakeholder groups.

Stakeholder Group	Objective
Investors	Create sustainable wealth for the investors, while setting benchmark for the industry and contributing towards the achievement of the national macroeconomic objectives.
Customers	Ensure the service excellence and the continuous value addition remain as a fundamental in the delivery of products and services
Employees	Create recognition that inculcate team spirit within the Seylan Family and while enhancing the tangible and intangible worth of employees.
Community	Create sustainable communities through education, entrepreneurial assistance and health.
Suppliers	Focus on long-lasting partnerships on qualitative platforms.
Environment	Ensure a sustainable environment through conservation and preservation of resources, by adopting best practices.

The Bank maintained its momentum of growth by adding **15 new delivery points** and 21 ATMs during 2012

## / Sustainability Report

### Comparative Information

Our report this year presents key performance indicators with a comparison against the previous year's data. It also includes a summary of sustainable indices which we have developed to monitor our performance in relation to diverse stakeholders' interests.

### Specific Limitations of Our Report

As the Bank is a financial service provider, some GRI indicators are not applicable to our operations and thus will not be featured in this report.

Our report will also not cover the activities of our main subsidiary Seylan Development PLC. This subsidiary produces its own sustainability account within its Annual Report.

### Data Measurement and Standard Disclosures

Information pertaining to the economic, social and environmental performance has been extracted from the Audited Financial Statements, whilst other relevant information is drawn from reports and data available within the Bank.

### Independent Assurance

As a matter of policy, the Bank recognises the value and importance of obtaining an independent assurance of this report. Hence we have appointed Messrs KPMG as independent assurer and their assurance report is included on page 212 of this Annual Report.

### Our Contact Persons for this report

#### Kapila Ariyaratne

*General Manager/Chief Executive Officer*

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*Assistant General Manager, Finance*

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Fax: 011-2452612

### Profiling the Bank

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

Our business focuses on conventional commercial banking. We continue to expand our services via high end technology based banking, which helps us to make maximum use of new opportunities to meet our customers' needs while maintaining satisfactory and desired contribution to the national economy.

Our mission appears in the page 2 encompasses building financial partnerships based on the core values:

- High ethical and professional conduct adapt to change
- Mutual respect and trust
- Passion for excellence courage to continuous improvement
- Building lasting relationships

The Bank will celebrate a major milestone in its history; its 25th Anniversary in the year 2013.

### Legal Form and Our Equity Partners

Corporate information regarding the Bank appears on the inner back cover whilst information on share ownership is to be found in the Section on 'Investor Relations' of this Annual Report.

### Our Presence and Scale of Operations

The Bank maintained its momentum of growth by adding 15 new delivery points and 21 ATMs during 2012, strengthening its presence outside Colombo, enhancing convenience and reaching out to people in other parts of the country.

The number of delivery points as at end 2012 raised to 147, while the number of ATMs increased to 154.

## / Sustainability Report



Relocation of Manampitiya Branch

The Bank also focused on developing and introducing more technology based channels of delivery. The details of such initiatives are presented more fully in the Management Discussion and Analysis.

Our staff strength as at year end 2012 stood at 3,061. Other key financial indicators of scale are summarised below:

	2012 Rs. Bn.	2011 Rs. Bn.	Growth %
Total Assets	<b>183.66</b>	165.94	10.68
Advances (gross)	<b>132.97</b>	116.58	14.06
Deposits	<b>146.73</b>	123.98	18.35
Equity	<b>18.96</b>	17.49	8.38
Profit After Tax	<b>2.05</b>	0.66	208.20

As already mentioned, the Seylan Group includes a subsidiary company, Seylan Development Company PLC, in which Seylan Bank holds a 51.83% stake. This is explained

more fully in the Notes to Financial Statement appearing in this Annual Report. However, as it has been stated already, the affairs of its group companies do not figure in this report for the reasons already given.

### Our Brands, Products, Services and Operational Structure

The operational structure of the Bank comprises five main sections as explained in the Management Discussion and Analysis. These divisions of the organisation offer a gamut of financial services to customers through various delivery channels.

A description of our products appears on page 170 of this Annual Report.

### The Bank's Approach to Sustainability

The Bank has consistently adopted a strategic approach to sustainability where core business and sustainability strategies are intrinsically aligned. Sustainability development is an ongoing and continuous area of focus in strategic discussions, objectives, goals and targets, and is integrated with governance accountability and risk management.

### Sustainability as an Integral Part of Our Core Business.

Seylan Bank being recognised as the 'Bank with a Heart', has continuously provided financial assistance and solutions to Micro and Small and Medium Entrepreneurs (SME) since inception. The Bank is considered a pioneer in the introduction of financial services to persons considered 'less-bankable'. Our sobriquet makes us known across the country for service excellence and a passion to serve a diverse customer base.

Our business objective is to provide superior financial services that meet the needs of our stakeholders. Our core banking business extends beyond merely meeting financial need to exert significant beneficial impact on lives of people across varied fields such as employment, education, health, protection of environment among others. Therefore we play a crucial role in boosting economic growth, reducing poverty, and unemployment, improving living conditions, empowering people and making a safe environment for all our stakeholders as well as the community at large, who are all beneficiaries under the Bank's sustainability policies listed below.



Our business objective is to provide  
**superior financial services** that meet the needs of  
 our stakeholders

The Bank's risk management  
 strategy is based on a **clear understanding**  
 of the various risks

## / Sustainability Report

### Sustainability Governance

Committed to upholding the highest standards of business integrity and professional ethics on all scores, Seylan's corporate governance framework rewards our stakeholders with a greater creation of value, year on year. Sustainability is one of the main determinants within our core banking business, which works around maximising our shareholders' wealth in a sustainable manner and safeguarding the rights of all our stakeholders, as an optimum outcome. We support initiatives across the corporate world to improve governance and disclosures.

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

The Bank maintains a very strong relationship and vibrant membership in several key associations in addition to its close rapport with the regulators and other key institutions that it deals with, in the ordinary course of business. Here are some of these entities:

Central Bank of Sri Lanka (CBSL)	Ceylon Chamber of Commerce
Institute of Bankers Sri Lanka (IBSL)	Department of Inland Revenue
Lanka Swift Users Group	International Chamber of Commerce, Sri Lanka
Sri Lanka Banks Association (Guarantee) Limited	The National Chamber of Commerce of Sri Lanka
Clearing Association of Bankers	Employees Federation of Commerce in Sri Lanka
Association of Professional Bankers of Sri Lanka	Colombo Stock Exchange
Fitch Rating Lanka Limited	Credit Information Bureau

In addition we maintain regular contracts with analysts, professional bodies such as CA Sri Lanka, ACCA etc.

### Sustainability Stewardship

Our sustainability mechanism is driven by a Board Sub-committee; the latter is responsible for formulating strategies in line with the core banking business and for their implementation. The Board Sub-committee is assisted by the management committees that are led by the members of the senior management which comprise of three Sub-committees which focus on Economic, Social and Environmental initiatives and strategies. In the year 2011 the Bank set up a separate division headed by the Sustainability Manager, to strengthen the sustainability initiatives of the Bank. He is being assisted by a network of sustainability wardens, deployed island-wide, at our branches.

### Risk Management and Sustainability

Risk is an integral aspect of the banking business and thus the Bank's duty is to deliver superior value to its stakeholders, managing the trade off between risk and return. The Bank's risk management strategy is based on a clear understanding of the various risks, disciplined assessments, measurements and continuous monitoring to mitigate such risk. The precautionary principals can be outlined under the following aspects.

- Compliance review with the applicable laws and the regulatory requirements.
- Operational policies and procedures.

The Compliance Officer of the Bank, Head of Internal Audit, the Company Secretary and other responsible senior officers of the Bank review operational compliance with the Banking Act, Directions issued by CBSL, Listing Rules of Colombo Stock Exchange and the Guidelines of CA Sri Lanka among others. The level of compliance is reported on periodically to the relevant authorities and the Board and is also disclosed in this Annual Report.

The Bank regularly reviews and develops operational procedures and adheres to them in day to day operations. The policies are based on parameters such as statutory requirements and industry practices and are communicated to employees. These policies are also made available via the Bank's intranet.

## / Sustainability Report

### Triple Bottom-line - Key Areas of Challenges, Opportunities and Risk

When considering sustainability in the Bank, there are many challenges, opportunities and risks that necessitate continuous evaluation and analysis. The grid below depicts these findings related to sustainability:

Triple Bottom-line	Challenges	Opportunities	Risks	Our Strategies
Economic	<ul style="list-style-type: none"> <li>The global economic meltdown, crises of confidence, risk aversion, liquidity crunch, fluctuations in foreign exchange rates and commodity prices.</li> </ul>	<ul style="list-style-type: none"> <li>Tapping market potential via growing sectors, i.e. health care &amp; leisure. Infrastructure developments.</li> </ul>	<ul style="list-style-type: none"> <li>Ambitious economic targets could result in challenges in relation to cost allocation for sustainability-related capital expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Enhance customer reach and with new channels and products;</li> <li>Maintain effective capital allocation policies;</li> <li>Maintain a diversified portfolio;</li> <li>Be vigilant on market behaviour;</li> <li>Sound risk management, governance and operational policies;</li> <li>Comply with industry standards and practices.</li> </ul>
Social	<ul style="list-style-type: none"> <li>Employee retention</li> <li>Ensuring protection of human rights, decent work practices for contract workers employed ensuring strict conformance to all labour legislations.</li> </ul>	<ul style="list-style-type: none"> <li>Increasing employability due to the practice of high standards and structured training programme.</li> <li>Participating in community building through continued initiatives in the thematic areas of education, environment, health, culture, disaster relief and employee volunteering.</li> </ul>	<ul style="list-style-type: none"> <li>The expansion plans and the boom in certain business improvements, could have a strain on certain social and cultural aspects with the community, hence increasing the societal risk.</li> </ul>	<ul style="list-style-type: none"> <li>Need-based training and development;</li> <li>Performance-based staff appraisals and linkage with KPIs;</li> <li>Clearly understood policies and procedures.</li> </ul>
Environment	<ul style="list-style-type: none"> <li>Balancing customer demands and Bank's objectives to conserve resources and reduce use of papers through improved design.</li> <li>Getting local suppliers to provide required goods and services at competitive costs while adhering to environmental and social standards.</li> <li>Conserving resources like water, energy and papers.</li> </ul>	<ul style="list-style-type: none"> <li>Leverage cleaner and advanced technologies to cut energy and papers, reduce operational costs.</li> <li>Participate in SME and micro business where energy management focused.</li> </ul>	<ul style="list-style-type: none"> <li>Environmental degradation due to the increased consumption of energy, and papers could result in an increase in the carbon footprint.</li> </ul>	<ul style="list-style-type: none"> <li>Close monitoring of operational costs;</li> <li>Training development and awareness creation programmes;</li> <li>Continuous improvement to enhance operational efficiency.</li> </ul>

Delivering superior customer services with  
**constant value additions**

Maintaining **equal opportunity,**  
human rights, best labour relation practices

The Bank contributes towards a  
**Healthy Nation**

## / Sustainability Report

### Stakeholder Engagement

#### Basis of Recognising Stakeholders and our Commitment

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

The Board is open to suggestions, recommendations or advice from any stakeholder and welcomes appropriate and constructive engagement with all parties.

A number of avenues have been established to facilitate communication between the Board and shareholders, employees and other stakeholders, whilst strengthening the process of engagement.

Stakeholder Group and their Goals		Goal Realisation Initiatives/Addressing Concerns
Stakeholder	Goals	
Investors	Creating wealth, sustainability growth, enhance shareholder value, aligning the national macro level objectives, responsible corporate citizen and recognition.	<ul style="list-style-type: none"> <li>• Manage the business effectively and efficiently to deliver sustainable wealth and a superior return</li> <li>• Implement risk management policies and adequate internal controls</li> <li>• Ensure regulatory compliance and fulfil our obligations as a responsible corporate citizen</li> <li>• Protect and facilitate rights and ensure fairness and transparency</li> </ul>
Customers	Product innovation convenient banking, value addition, service excellence, financial literacy entrepreneur building	<ul style="list-style-type: none"> <li>• Product innovation and management</li> <li>• Make banking convenient and flexible</li> <li>• Deliver superior customer services with constant value additions</li> <li>• Shared values among customers</li> </ul>
Employees	Create recognition that inculcate team spirit within the Seylan Family and while enhancing the tangible and intangible worth of employees	<ul style="list-style-type: none"> <li>• Remuneration, rewards and recognition policies</li> <li>• Provide necessary training and development</li> <li>• Effective performance appraisal system</li> <li>• Effective utilisation of resources</li> <li>• Maintain equal opportunity, human rights, best labour relation practices</li> </ul>
Community	Create sustainable communities through education, entrepreneurial assistance and health care measures	<ul style="list-style-type: none"> <li>• Integrate with the community to improve the well-being of the people</li> <li>• Provide assistance for self-employment through microfinancing</li> <li>• Empowering society and inculcating good banking habits</li> <li>• Support needy children in education and other activities</li> <li>• Contribute towards a healthy nation</li> <li>• Any other contributions and sponsorships</li> </ul>

## / Sustainability Report

Stakeholder Group and their Goals		Goal Realisation Initiatives/Addressing Concerns
Stakeholder	Goals	
Suppliers	Focus on long lasting partnerships on qualitative platforms	<ul style="list-style-type: none"> <li>Comprehensive procurement policy with required controls</li> <li>Respect the rights of both parties and build long-lasting relationships</li> </ul>
Environment	Ensure a sustainable environment through conservation and preservation of resources, by adopting best practices	<ul style="list-style-type: none"> <li>Promote green initiatives</li> <li>Compliance with environmental rules and regulations</li> <li>Save resources and power</li> <li>Educate and build awareness</li> </ul>

} Refer environment section.

### Bank's Stakeholder Strategic Priorities and their Achievements over last three years

Stakeholder Group	Indicator of Performance	Achievement			Indicator
		2012	2011	2010	
Investors	Financial Value Added, Rs. Mn.	7,666	6,022	6,529	↑
	Profit After Tax, Rs. Mn.	2,049	665	1,228	↑
	Earnings per Share, Rs.	6.06	2.18	4.6	↑
	Return on Equity %	11.24	4.40	10.88	↑
	Number of Housing Loans Outstanding	6,478	5,730	5,369	↑
	Customer Deposits, Rs. Mn.	146,727	123,981	112,880	↑
	Penalties Arising from Non-Compliance	Nil	Nil	Nil	-
	Training Programmes on Anti-corruption Policies and Procedures	234	109	103	↑
	KYC, Anti-money Laundering Programmes	43	19	5	↑
Customers	No. of Branches and Convenient Centres	147	133	103	↑
	No. of ATMs	154	133	125	↑
	Total gross Customer Advances, Rs. Mn.	132,974	116,584	100,224	↑
	Total No. of 'Seylan Sure' Claims	3,525	2,440	N/A	↑
	Total granted under 'Seylan Sure' Scheme, Rs. Mn.	40.73	23.65	N/A	↑
	No. of SME Customers	15,597	15,303	14,484	↑
	No. of Kids Banking Day Events Held	45	47	N/A	↓
No. of Students Banking Centres	81	83	83	↓	

## / Sustainability Report

Stakeholder Group	Indicator of Performance	Achievement			Indicator
		2012	2011	2010	
Employees	Turnover Rate % (Excluding VRS)	5.27	5.36	3.40	↑
	Permanent Employees %	96.50	97.50	97.80	↓
	Employees Covered by Collective Agreements %	71	67	N/A	↑
	Average Benefits per Employee Excluding VRS, Rs. '000	1,034	975	806	↑
	Staff Covered by Health Plan %	100	100	100	↔
	Work-related Fatalities or Lost Days	Nil	Nil	Nil	-
	Women Employees %	39	38	39	↔
	Women in Corporate and Middle Management %	24	25	27	↓
	Union Membership %	91	89	89	↑
	No. of Pending Human Rights Case Against the Bank	Nil	Nil	Nil	↔
	External Training Programmes Participants	325	421	312	↔
Community	Total Microfinance Loans Granted, Rs. Mn.	19.4	64.6	86.10	↓
	Contribution to Health Care Projects, Rs. Mn.	0.19	1.50	0.20	↓
	Contribution to Education-Related Pursuits, Rs. Mn.	0.34	1.91	1.04	↓
	No. of loans Granted under 'Seylan Scholar'	43	69	N/A	↓
Suppliers	Supplies from Locally-Based Suppliers, Rs. Mn.	143.17	129.20	98	↑
	No. of Complaints Received from Bidders and Suppliers	Nil	Nil	Nil	↔
Environment	Electricity Consumed, Units kwh ('000)	9,450	9,187	9,362	↑
	Stationery Consumed, Kgs ('000)	203	222	256	↓
	Waste Paper Recycled, Kgs ('000)	120	72	58	↑
	Petrol Consumption, Litres ('000)	27	37	46	↓
	Lubricant, Litres	591	1,050	900	↔

↑ Increase

↓ Decrease

↔ Variable



## Financial Value Creation



### Economic Policy

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.

With our responsibility to deliver maximum value addition to our stakeholders foremost in mind, we established benchmarks in this respect, in line with industry best practice. The subject is discussed more fully in the segment of this Report pertaining to our strategic priorities.

The year 2012, was a milestone in the Bank's value creation process which reported the highest ever profits, maintained healthy capital adequacy ratio and showed a very strong improvement in all other areas both financial and non-financial, which resulted in significant value creation for all its stakeholders.

### Our strategic priorities during the year 2012 were to:

1. Maximise returns to all stakeholders
2. Deliver shareholder value
3. Respect our statutory obligations

### Maximise Returns to All Stakeholders

During the year, the Bank's key performance indicators were measured, controlled and monitored and necessary actions were implemented and followed up to reach the expected targets as per the Bank's strategic plan 2012-15 and the budget of 2012 which is included in detail in our Management Discussion.

The year 2012, was a milestone in the Bank's value creation process which reported the **highest ever profits**

## / Sustainability Report



Forty-Six farmers participated for the Home Gardening Competition at the Pilot Village

### Financial Value Added Statement

	2012			2011		
	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Value Added</b>						
Income Earned by Providing Banking Services		23,623,286			18,824,460	
Cost of Services		(15,640,526)			(12,073,237)	
<b>Value Added by Banking Services</b>		7,982,760			6,751,223	
Non-Banking Income		-			-	
Provision for Loan Losses		(316,985)			(729,024)	
		7,665,775			6,022,199	
<b>Value Allocated</b>						
<b>To Employees</b>						
Salaries, Wages and Other Benefits	3,245,742			3,104,512		
Cost on Voluntary Retirement Scheme	-	3,245,742	42.34	698,650	3,803,162	63.15
<b>To Providers of Capital</b>						
Dividend to Shareholders	-	676,160	8.82		338,080	5.61
<b>To Government</b>						
Income Tax	1,135,160			505,089		
Stamp Duty	10,753			31,438		
VAT on Financial Service	676,356			405,009		
VAT and Debit Tax	731	1,823,000	23.78	12,192	953,728	15.84
<b>To Expansion and Growth</b>						
Surplus/(Deficit)	1,372,967			326,799		
Depreciation	547,906	1,920,873	25.06	600,430	927,229	15.40
		7,665,775	100.00		6,022,199	100.00

## / Sustainability Report

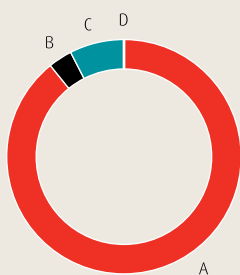
### Economic Value Addition (EVA)

The Bank adopts EVA as a measurement of profitability in order to deliver a superior economic value to all our stakeholders. EVA created during the last five years is tabulated below:

#### Economic Value Addition

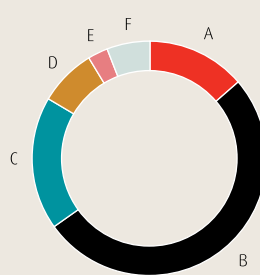
	2012 Rs. '000	2011 Rs. '000
<b>Equity</b>		
Shareholders' Funds	<b>18,958,012</b>	17,492,218
	<b>18,958,012</b>	17,492,218
<b>Earnings</b>		
Profit Attributable to Shareholders	<b>2,049,127</b>	664,879
Add: Provision for Credit Losses/Impairment on Advances	<b>316,985</b>	729,024
Less: Direct Write-offs	<b>(7,789)</b>	(10,251)
	<b>2,358,323</b>	1,383,652
Economic Cost % (12-months average Treasury Bill Rate + 2% Risk Premium) (%)	<b>14.07</b>	9.59
Cost of Average Equity	<b>2,564,274</b>	1,418,804

#### SOURCES OF INCOME



	%
A - Interest	89.05
B - Exchange	3.41
C - Fee and Commission	7.45
D - Dividend	0.10

#### UTILISATION OF INCOME



	%
A - Salaries	13.74
B - Interest Paid	51.30
C - Other Expenses	18.57
D - Taxes	7.72
E - Dividends	2.86
F - Retained Profits	5.81



Generated a Total Income of

Rs. 23,623 Mn.

## / Sustainability Report

**Sources and Utilisation of Income**

	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Sources of Income</b>					
Interest	21,139,830	16,965,783	16,596,094	20,708,034	21,552,070
Exchange	804,506	600,428	403,066	521,388	670,731
Fee and Commission	1,760,335	1,512,211	1,427,046	1,274,251	1,801,826
Dividend	22,724	15,911	6,503	5,199	223,295
Other	(104,109)	(269,873)	1,599,768	645,657	998,287
<b>Total</b>	<b>23,623,286</b>	18,824,460	20,032,477	23,154,529	25,246,209
<b>Utilisation of Income</b>					
<b>Employees</b>					
Salaries and other Payments	3,245,742	3,803,162	2,886,626	2,342,563	3,361,212
<b>Suppliers</b>					
Interest Paid	12,119,615	8,355,367	8,529,007	13,492,053	14,361,452
Other Expenses	4,385,802	5,047,324	5,724,035	5,785,828	7,007,501
	16,505,417	13,402,691	14,253,042	19,277,881	21,368,953
Net Income before Government Taxes and Levies	3,872,127	1,618,607	2,892,809	1,534,085	516,044
<b>Government</b>					
Income Tax, SRL, NBT, VAT, Debit Tax	1,823,000	953,728	1,663,828	990,784	360,803
<b>Shareholders</b>					
Dividends	676,160	338,080	257,120	133,018	-
Retained Profit	1,372,967	326,799	971,861	410,283	155,241
<b>Total</b>	<b>23,623,286</b>	18,824,460	20,032,477	23,154,529	25,246,209

**Impact on Performance Due to Climate Change**

The Bank is not directly exposed to risk arising from climate change. However, adverse climate change could impact the operations of the Bank indirectly, through financial exposure to various sectors such as agriculture, fisheries and exports among others, which are themselves vulnerable to the vagaries of climate. The Bank has mitigated risk from such exposure through a range of measures, which include the imposition of sectoral limits.



## Deliver Shareholder Value



The investment commitment displayed continually by our shareholders has always added impetus to our corporate objective of providing a service beyond banking.

Therefore, the first priority of the Bank in its financial and statutory obligation is to the shareholders/investors who support the existence of the Bank. Accordingly, while creating wealth for our shareholders remain a priority as detailed in our triple bottom line reporting, we also recognise the importance of creating a sustainable organisation which is driven by the three concepts of economic, social and environmental sustainability.

### Share Capital and its Concentration

	2012	2011	2010
Stated Capital - (Rs. Mn.)	<b>10,225</b>	10,259	5,568
Number of Shares	<b>338,079,999</b>	338,079,999	253,560,000
Number of Shareholders Voting & Non-Voting	<b>20,094</b>	22,274	23,202
Individual:			
Number of Shares	<b>87,575,620</b>	118,298,819	113,995,822
Number of Shareholders	<b>19,402</b>	21,424	22,407
Companies/Institutions:			
Number of Shares	<b>250,504,379</b>	219,781,180	139,564,178
Number of Shareholders	<b>692</b>	850	795
Number of Resident Shareholders:			
Number of Shares	<b>328,452,922</b>	325,952,392	240,639,055
Number of Shareholders	<b>19,871</b>	22,037	22,951
Number of Non-Resident Shareholders:			
Number of Shares	<b>9,627,077</b>	12,127,607	12,920,945
Number of Shareholders	<b>223</b>	237	251
No. of Shares held by the 20 Largest Shareholders			
Voting	<b>151,857,473</b>	146,557,437	98,854,375
Non-Voting	<b>99,716,241</b>	78,301,564	39,526,500

# Creating wealth for our shareholders

remains a priority

## / Sustainability Report

A consolidation of shares in the hand of a limited number of shareholders was evident. Over the same period, the percentage of shares held by the 20 largest shareholders has increased by 11.88%, reflecting the confidence placed by strategic investors in the Bank. The list of our 20 largest shareholders appears in the investor information of this Annual Report. Meanwhile the largest 20 shareholders held 74.41% of the shares of the Bank as at the end of 2012, showcasing strategic long-term interests.

### Distribution of Shares Among the Variety of Investors

No of Shareholders		No. of Shareholders	No. of shares	%
1 -	1,000	13,148	4,704,815	1.39
1,001 -	10,000	5,616	19,440,513	5.75
10,001 -	100,000	1,150	32,192,876	9.52
100,001 -	1,000,000	148	36,951,822	10.93
Over	1,000,000	32	244,789,973	72.41
<b>Total</b>		<b>20,094</b>	<b>338,079,999</b>	<b>100.00</b>

A large number of shareholders hold Seylan Bank shares. Hence, during the year, a considerable quantum of shares were traded in the market.

Quarter	Market Capitalisation				Closing (Rs.)		Share Volume ('000)
	Highest (Rs.)		Lowest (Rs.)		Voting	Non-Voting	
<b>2012</b>	Voting	Non-Voting	Voting	Non-Voting	Voting	Non-Voting	
<b>1st</b>	72.00	31.20	53.00	22.20	66.90	29.00	22,789
<b>2nd</b>	66.90	28.50	52.00	21.20	59.80	28.50	10,423
<b>3rd</b>	70.00	36.40	49.00	23.90	69.10	36.00	16,787
<b>4th</b>	72.00	37.00	49.00	21.20	56.00	35.10	13,911

### Sustainable Return

Although equity markets picked up again in the latter part of the year 2012, the severe price decline continued resulting in a negative long-term shareholder return. However, our shareholders have earned strong wealth compared to the initial public offer. The earnings per share (EPS) of Rs. 6.06 in 2012, recorded a strong growth of 177.98% compared to the last year's EPS of Rs. 2.18.

Year	Share Price (closing)		Stated Capital Rs. Mn.	EPS
	Voting Rs.	Non-Voting Rs.		Rs.
2005	36.75	16.25	1,544.42	8.20
2006	35.00	9.75	2,542.42	6.69
2007	32.00	8.00	2,542.42	5.50
2008	28.50	6.00	2,542.42	0.90
2009	37.00	16.00	5,567.82	2.83
2010	97.80	49.00	5,567.82	4.60
2011	67.60	30.80	10,259.35	2.18
<b>2012</b>	<b>56.00</b>	<b>35.10</b>	<b>10,225.45</b>	<b>6.06</b>

## / Sustainability Report

### Respecting Our Statutory Obligations Capital Adequacy and Growth Capabilities

It is a mandatory requirement of the CBSL, that all Licensed Commercial Banks meet the minimum capital requirement. The Bank maintained a very sound capital adequacy ratio throughout the period under review, proving its capabilities for growth and stability. A well-structured risk-weighted asset base, and internal capital generation played a significant role in managing capital adequacy.

### Financial Reporting and Compliance

Shareholders and the public are regularly kept up to date, mainly through Annual Reports and Interim Reports. The Bank's Annual Report won the Bronze Award for the Banking Sector, bestowed by CA Sri Lanka, as well as a few other international awards recognising our commitment and success in publishing a more transparent Annual Report for our shareholders.

Financial Statements and related notes of this report have been audited by KPMG and other qualitative information and compliance with GRI are assured by an Independent Auditor. The report is also referred to the Accounting Standards Monitoring Boards to review compliance with accounting standards.

The Bank is committed to publishing its annual and quarterly reports in a timely manner and submits the required information to the CSE on the stipulated dates. Quarterly accounts of 2012 were published well in advance, to support decision-making of investors and other groups.

### Recognition for 'North Bound'

Seylan Bank's Annual Report for 2011 was titled 'North Bound'. It was a publication unique in style and comprehensive in content and was recognised for its worth both in Sri Lanka and overseas. Here are some of the accolades it garnered:



*Mr. Lalith Withana, Director, Seylan Bank receiving Bronze Award for our Annual Report - 2011 at CA Sri Lanka Annual Report Award Ceremony 2012*



*Mr. Kapila Ariyaratne, General Manager/Chief Executive Officer accepting the Silver Award for the Banks' Annual Report - 2011 awarded by the LACP at the Smart Convention 2012*

The Bank maintained a very **sound capital adequacy ratio** throughout the period under review

Seylan Bank's Annual Report 2011 titled **'North Bound'** won Local and International Awards

**Discrimination of any kind has no place** within our HR mandate

## / Sustainability Report

### **Local**

Bronze Award - 'Overall Banking sector' at the Annual Reports Awards 2012 conducted by CA Sri Lanka.

### **International**

**Gold Awards** - Banking and Financial Services, Asia/South Pacific Category at the International ARC Awards 2012 for 'Non-Traditional Annual Reports'.

**Silver Award** - Commercial Category at the League of American Communication Professionals Vision (LACP) Awards 2011.

**Bronze Award** - Banking Financial Services, Asia/South Pacific Category at the International ARC awards 2012 for Written Text and Honours for Cover/Photo design in the Non-Traditional Annual Report Category.

### **LKAS/SLFRS Implementation**

We recognise the importance of developing our annual reporting framework in line with national and international developments in the interests of communicating in a relevant manner with shareholders and prospective investors thus facilitating well-informed investment decisions. The Financial Statements of 2012 have been prepared in accordance to Sri Lanka Accounting Standards (LKAS/SLFRS) which are based on International Financial Reporting Standards (IFRS) that provide a higher degree of transparency and facilitate comparability.

We also made proper disclosure on the impact of LKAS/SLFRS with the publication of our interim accounts at the end of each quarter for the general public to understand the Financial Statements and to make informed decisions.

### **Defined Benefits and Contributions**

The Bank operates a retirement gratuity (defined benefit plan) for employees required as per the Gratuity Act No. 12 of 1983.

The Bank duly carried out the actuarial valuation on the retirement benefit obligation as at year end and the Bank's actuary has used the projected unit credit method as prescribed in LKAS 19.

The Bank contributes to two types of defined contribution plans for its employees as given below:

- Employees' Provident Fund (EPF)
- Employees' Trust Fund (ETF)

More details on these contribution plans/ defined benefit plan are given in the narration on accounting policies.

### **Recruitment Methodology**

The Bank's recruitment policy is completely transparent and enacted through a sound formal process. All recruitment to senior management grade is made after close scrutiny and stringent evaluation and must receive the approval of the Bank's Nominations Committee.

Discrimination of any kind, whether on caste, gender, region or any other issue has no place within our HR, recruitment and development mandate. Thus, we promote recruitment from respective regions, which generates lucrative employment and enhanced lifestyles for the Seylan Team and their families and in a wider sense, has a direct impact on reducing unemployment across the country.



## Customer Excellence



*Thagi Pita Thagi grand prize winner of a house worth Rs. 15 Mn., Mrs. Achala Nakkawita and her family with GM/CEO Mr. Kapila Ariyaratne*

We recognise that our responsibility extends beyond the concept of banking, to deliver value to our customers and business partners. Our strategic priorities towards customer responsibility and relationships are:

1. Service beyond banking
2. Faster reach, enhanced customer satisfaction and greater service quality
3. Contributing to national priorities
4. Compliance and being responsible

### Service Beyond Banking

We serve with our heart and are committed to the execution of a robust customer-centric strategies. From its inception, Seylan has emerged and been recognised as a leading

service provider with a customer orientation that extends far beyond the mere provision of services expected by its customers.

The Bank provides a gamut of financial services to its customers through a number of delivery channels meeting and exceeding their expectations whilst enhancing value addition which is explained in detail below.

### Value Addition and Benefit

The Bank caters to all social segments of the country adding value to their lives. We want our customers to be educated and healthy; to be respected at every stage of life; to enjoy appreciation and recognition for their loyalty and support of the Bank and our motherland. In delivering on these objectives, we encourage and empower them to contribute

to the well-being of the nation and to the upliftment of the standing of the country. We promote these objectives through various schemes and projects as detailed below:

- a. 'Seylan Sure' is a product that recognises and understands the value of a birth of a child. Through its scope, the Bank supports a variety of need in terms of being a helping hand during illness (surgery) and also recognises important milestones in life, through tangible means.
- b. National education and children are one of our key priorities.
- c. 'Seylan Harasara' is a product that allows the Bank to recognise and felicitate senior citizens for their life's hard work and contribution to Sri Lanka.
- d. We recognise everyone's need for shelter.

**'Seylan Sure'** is a product that recognises and understands the value of a birth of a child

**'Tikiri'** Students Saving Centers, and Kids Banking Day Programmes - were designed to meet and fulfil the needs of a vital segment of our country

## / Sustainability Report

### a. *Seylan Sure*

The scheme operates as a helping hand to our loyal customers and incorporates many benefits and value additions to enhance their lives. It supports our customers at various stages of life and in instances where they need moral and financial support. This is not an insurance scheme. Its key objective is to support our loyal customers and share their happiness and sorrows in times of necessity.

In instances of critical illness where surgery for a customer or an immediate family member is required, being 'The Bank With a Heart', we offer necessary moral strength and financial assistance. Such support we extend in the overall interests of imbuing hope in someone's life.

We are proud to provide financial resources which support child birth and raise the levels of life expectancy, both of which the WHO consider to be important indices for a nation's development and well-being.

### b. *National Education and Children as Key Priorities*

The Bank has recognised the need to bridge a gap by fostering relationship and taking financial literacy to children and youth. Thus our products/initiatives for children and youths - 'Tikiri' Students Saving Centers and Kids Banking Day Programmes - were designed to meet and fulfil the needs of a vital segment of our country.

The Bank closely monitors the students banking centres whilst conducting training programmes in schools. In tandem, we support the development of infrastructure and meet other requirements of the schools in order to improve the level of education. Further, we sponsor various school activities to encourage and improve the capabilities and talents of the students.



## / Sustainability Report

Similarly, the objective of promoting a savings culture among students has been significantly met with our *Tikiri* saving product. *Tikiri* has significantly contributed towards the life of minors in the country fostering personal growth, creating a scenario of self-assurance, capability and positivity amongst students from an early age.

Kids Banking Day, which is conducted at a regional level, is an opportunity for children to enhance their financial literacy, and improve their talents. They are provided with an ideal environment in which to gain an early understanding about banking and the importance of the saving habit through the various programmes conducted at the event.

Parents also participate in these events and get an understanding on the importance of their child's financial literacy. During the year, the Bank conducted 45 Kids Banking events in various regions of the country. In 2011, 47 such events were held.

Province	Branch
Central	Hatton, Kandy, Matale, Nawalapitiya
Eastern	Ampara, Batticaloa, Dehiaththakandiya, Trincomalee
Northern	Kilinochchi, Mullaitivu
North Central	Anuradhapura
North Western	Katuneriya, Kurunegala
Sabaragamuwa	Embilipitiya, Kegalle, Mawanella, Pelmadulla, Ratnapura
Southern	Akuressa, Ambalangoda, Beliatta, Galle, Hambantota, Koggala, Tissamaharama
Uva	Badulla, Welimada
Western	Attidiya, Bandaragama, Dehiwala, Horana, Kiribathgoda, Kottawa, Maharagama, Mathugama, Meegoda, Mirigama, Moratuwa, Mount Lavinia, Pettah, Piliyandala, Raddolugama, Sarikkammulla, Weliveriya, Yakkala

We also extend financial support for students who wish to pursue higher education, both locally and overseas. Further, we have partnered with leading education institutes who conduct MBA/Degree programmes/ Diploma examinations to Promote higher studies in Sri Lanka which is vital for the future.

	2012 Rs. '000	2011 Rs. '000
Loans for Foreign Education	<b>34,553</b>	57,572
Loans for Local Education	<b>11,857</b>	18,138
Loans Granted for Education	<b>46,410</b>	75,710



### c. *Seylan Harasara*

This scheme offers a number of financial benefits to the Senior Citizens those who have served the country for years and look forward to invest their earnings with maximum benefits/ return, thus enjoying their retirement lucratively.

- Senior Citizens over 55 years investing their money in Fixed Deposits and drawing 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 Harasara

scheme offers a number of financial benefits to the Senior Citizens

## Opportunity to promote housing for the nation

to be 'the best bank in customer service' the bank has carried out

## mystery shopper surveys

### / Sustainability Report

#### d. Shelter for All...

With house building and home making being a core value in the hearts of a significant portion of the Sri Lankan population today, Seylan Bank seized the opportunity to promote housing for the nation with an unique array of products, painstakingly designed to cover the gamut of the subject - from purchasing a block of land and constructing a house, to renovating, extending or completing an existing house or condominium apartment and undertaking home improvement.

The hassle free loan scheme is made available to a wide range of the Sri Lankan population consisting of salaried employees, professionals, businessman as well as Sri Lankans employed abroad.

Further, through this scheme we encourage and stimulate employment opportunities around the country relating to the housing and construction industries such as carpentry, masonry, and other-related activities which create indirect employment and contribute to improving the living standards of many.



Year	2012	2011
No. of Housing Loans Granted	967	1,070
Amount Granted (Rs. Mn.)	1,839	1,959

The Bank witnessed a reduction of Housing Loans Disbursement during the year as the Bank had to manage its growth within the credit ceiling imposed by CBSL.

#### Faster Reach, Customer Satisfaction and Service Quality Accessibility, Reach and Delivery Channels

We recognise that all citizens have equal rights to access our services. Equal access to capital for all segments of a community is important from the perspective of maintaining social balance. Thus during 2012, we continued with the expansion of business and added an additional 15 business outlets and 21 ATMs to our island-wide network. During the year in review, we enhanced our geographical reach by opening branches in Akuressa,

Ambalanthota, Battaramulla, Kaduruwela, Mahiyangana, Moneragala and Narammala and convenient banking centres in Aralaganwila, Bowatta, Eppawala, Galenbindunuwewa, Kalpitiya, Medawachchiya, Moratumulla and Nochchiyagama. While, the Piliyandala and Dambulla convenient banking centres were upgraded to full branch status.

The Branch relocation and refurbishment programme was also continued successfully during the year, completing refurbishments on 17 business outlets, whilst five branches were relocated to more customer convenient locations with improved facilities.

We continue to make improvement in our processes and services with more customer and user friendly IT based products that are explained in the Management Discussion and Analysis.

#### Improving Customer Satisfaction/ Service Quality

In order to be 'the best bank in customer service' the bank has carried out mystery shopper surveys in each branch to monitor the present service standards and to identify the performance gaps. Thereby, we were able to implement strategic marketing initiatives to improve the quality of service offered and to motivate staff in providing a better service beyond customer expectations.



## Product Responsibility



### Product Policy

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

We respect the customer's right to have access to fair information on any banking transaction. Our communication of the Bank's products and services is always based on principles of ethical and responsible advertising. The Bank is extremely conscious of the need to safeguard the interest of its depositors and loan customers and thus maintains an exemplary risk management regime through system security, internal controls, policies and procedures.

We do not encourage any form of corruption, malpractice or irregularity whether from the public domain or in house, which could in any way threaten social well-being.

Introduced a service

## 'Suhada Sewa'

to provide special attention and care to pregnant mothers, elderly people, clergy and disable people

# / Sustainability Report

Our product policy includes the following procedures, governance and the risk management practices:

### Our Practices

#### Customer Health and Safety

Health and safety impact of products and services on customers

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

The Bank continuously improves customer service by providing e-banking facilities, online access, trained tellers and country-wide access points.

Provided disability access to all our recently renovated branches.

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

No incidents reported during the year.

#### Product and Service Labelling

Type of product and service information

Display all required and regulatory information in clearly visible areas 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.

#### Marketing Communications

Our communication of the Bank's interests and services is always based on the principals of ethical and responsible marketing.

#### 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 assistants to the General Manager. All complaints are handled quickly and in a confidential manner.

There were no complaints related to customer privacy and loss data. However, we received 91 complaints regarding customer satisfaction mainly due to non-availability of credit facilities.

We were restricted in granting credit facilities due to the CBSL ceiling on credit growth.

#### Compliance

Monetary value of significant fines

No fines were imposed on the Bank during the year.

## / Sustainability Report

*Following is a list of some of the products and services offered by the Bank:*



### **Seylan Sure**

The unique scheme for personal savings and current account holders which offers definite and non-repayable cash grants and gifts on significant occasions in life such as Wedding, Child Birth, Surgery and 60th Birthday.



### **Tikiri Plus**

A 'Big account for the little ones' It offers a range of attractive definite gifts such as Mugs, School Bags, Radios, Gift Vouchers, Organs, BMX Bikes and the highest bonus interest up to 50%.



### **Seylan Harasara**

It's a Senior Citizen's account scheme with loads of benefits to the customers over 55 years of age, which could be Savings, Current or Fixed Deposit.



### **Seylan Pawning**

Secure and friendly service for any cash emergency from Seylan Pawning.



### **Seylan Smart Lease**

With Seylan Smart Lease you have the flexible option of paying more than the standard rental during the months you have a high income and pay a lower lease rental during the rest of the period.



### **Seylan Siri Niwasa**

An opportunity to purchase a land and construct your dream home, purchase a readymade house, to put up an extension to your own home or renovate your home from a Siri Niwasa Housing Loan.



### **Seylan Credit and Debit Cards**

Seylan VISA/Master Debit Card can be used for purchases at any outlet or to withdraw cash from over 1.6 Mn. ATM's globally. Seylan VISA Card is available as Classic, Gold and Platinum Cards.



### **Seylan Scholar**

A unique Higher Education Loan Scheme which provides financial backing to achieve academic and professional dreams.

## / Sustainability Report



### SMS Banking

SMS Banking service enables account/credit card holders the opportunity to carry out a variety of banking functions by sending an SMS through their mobile phone.



### eBanking

Almost too easy...Access your Seylan Bank Account Anytime, Anywhere, and Globally. The service can be accessed via [www.eseylanet.com](http://www.eseylanet.com) and it enables account/credit card holders the opportunity to carry out a variety of banking functions at their convenience at the click of a button.



### Seylan Suhada Seva

A dedicated service provided by the Bank to the needy people in the society such as Clergy, Senior Citizens, Disabled People, Pregnant Ladies and Mothers with Infants.



### Seylan NRFC Account

Unique package of cash rewards at life's significant event for all Seylan NRFC and RFC accounts.



### Seylan Shakthi

It's a 04-year Fixed Deposit with a minimum investment of Rs. 100,000/-. In addition to the interest earned, 0.1% of the deposit value per month as a 'Utility Payment voucher' for the first year as part payment of the utility payment bills.



### Millenium 30

A 30-day Fixed Deposit with a minimum investment of Rs. 100,000/-.



### Cool Cash

A youth savings account which carries a higher interest rate and a definite Cash Gift through the Birthday Cash Chakkare.



### Seylan Five Star

It's a 05-year Fixed Deposit with a minimum investment of Rs. 100,000/-. In addition to the interest earned, 0.1% of the deposit value per month as a 'Utility Payment voucher' for the first year as part payment of the utility payment bills.

## / Sustainability Report

### **Contributing Towards National Priorities**

Seylan Bank is committed to contribute towards national initiatives by providing a variety of services across the country. We effectively leverage the subsidies and grants offered by the Government and other agencies to promote and serve the interests, development and well-being of needy sectors.

### **Promoting SME and Micro Finance**

We understand the different capacity levels of a diverse community and accordingly we are in a position to offer appropriate, effective and well-targeted solutions that meet the needs of most. Seylan has and continues to be the banker of choice for the middle and low-level income segments, where our track record in

generating sustainable wealth for these categories is exemplary. Apart from helping these entities run their businesses, in an over arching sense, Seylan makes meaningful contributions to GDP growth, creating employment and uplifting living standards.

Looking beyond entry level business, the Bank stays with the customer assisting ventures to reach the next level in their business cycles by introducing new financial services, thus enhancing access to finance in line with growing needs. This would enable the Bank to achieve a sound cost benefit through cross-selling of services thus offsetting the high costs of sustainability banking, allowing the Bank and the customer to achieve sustainability from a business perspective.

The Bank has a policy to always consider the impact to the environment, and the laws and regulations of the country when choosing which project it will support through investment.

The table below summarises the total SME and Micro Loans disbursed by the bank in year 2012:

	SME	Micro
No. of Loans Granted in 2012	1,891	142
No. of Loans Granted to Female Entrepreneurs	181	16

The Bank also supports indirect employment through its financing of the SME sector and helps to reduce poverty through various other benefits whose impact cannot be readily measured and/or quantified.

Seylan Bank is committed to contribute towards national initiatives by providing a **variety of services** across the country

## / Sustainability Report

### Province/Sector-wise Distribution in 2012 (Micro Finance)

Sector	Central	Eastern	North	North Central	North Western	Sabaragamuwa	Southern	Uva	Western	Total (in Thousands)
Agriculture & Fishing	180.0	400.0	-	1,550.0	390.0	120.0	75.0	150.0	200.0	3,065.0
Food & Beverage	-	-	444.5	-	-	75.0	230.0	-	504.0	1,253.5
Manufacturing	390.3	-	192.0	22.5	-	-	-	342.7	2,411.7	3,359.2
Transport	350.0	-	-	-	200.0	-	440.0	280.0	1,585.0	2,855.0
Trading	805.4	170.0	415.0	690.0	990.0	-	208.0	-	3,282.0	6,560.4
Other	213.0	200.0	90.0	-	-	140.0	-	150.0	1,486.6	2,279.6
<b>Total</b>	<b>1,938.7</b>	<b>770.0</b>	<b>1,141.5</b>	<b>2,262.5</b>	<b>1,580.0</b>	<b>335.0</b>	<b>953.0</b>	<b>922.7</b>	<b>9,469.3</b>	<b>19,372.7</b>

### Supporting the Needy Sectors for Economic Development of the Country

Refinance Scheme	Sector	2012		2011	
		No. of Loans	Value Rs. Mn.	No. of Loans	Value Rs. Mn.
Saubagya	SME sector	21	106.57	19	102.06
Kapruka Ayojana	Clients who wish to develop their coconut lands	14	5.68	9	4.20
Awakening North Phase II	Agriculture, Fisheries, Livestock, Trade and other self-employment and Micro and Small Enterprises in the Northern Province	7	1.17	23	4.50
Resumption of Economic Activities in the Eastern Province	Agriculture, Fisheries, Livestock, Trade, Tourism and other self-employment and Micro and Small Enterprises in the Northern Province	3	0.50	3	0.65
Construction Sector Development Project	Construction Sector	1	10.00	-	-
<b>Interest Subsidy Scheme</b>					
New Comprehensive Rural Credit Scheme	Growers/Cultivators of short-term crops	788	65.13	550	43.20

## / Sustainability Report

### Compliance and Being Responsible

While maintaining a high level of return to the investors and other stakeholders, we as a responsible corporate citizen of the country, are fully-committed to comply with all statutory laws and regulations. We recognise all our statutory obligations and the requirement of being compliant as a key aspect in our day-to-day operations. Our level of compliance with statutory obligations is monitored monthly at the Board level.

Compliance is implemented via several Management Committees and governed by the Board of Directors through several

Board Sub-committees such as the Integrated Risk Management Committee and the Audit Committee.

Our customer approach is also governed by the regulatory directions issued by the Central Bank of Sri Lanka, Colombo Stock Exchange (CSE) and industry codes of best practices.

Further, an integrated risk officer and compliance officer were appointed to analyze reputation and credit risk arising from corrupt practices and to strengthen regulatory and statutory compliance.

#### Internal Policies for Responsible Banking

- Staff Code of Conduct .....
- Information Security Policy .....
- Credit Policy .....
- Recovery Policy .....
- Treasury Investment Policy .....
- Assets and Liability Policy .....
- Sustainability Policy .....
- Integrated Risk Management Policy .....
- Whistle-Blower Policy .....
- Related Party Policy .....

#### Regulatory Directions and Voluntary codes of Practices Adopted by Bank for Responsible Banking

- Know Your Customer policy .....
- Anti-Money Laundering policy .....
- Customer Charter .....
- Misleading and Unethical Advertisements .....
- Display of Interest Rates, Exchange Rates and Service Charges .....
- Inadequate/Incorrect Disclosures/Press Statements .....
- Code of Best Practices for Corporate Governance Issued Jointly by The Institute of Chartered Accountants of Sri Lanka and CSE .....
- The policies on Whistle-Blowing and Whistle-Blowers Safeguarding .....
- Sticker of CBSL for the Authority to Accept the Deposits and do other Banking Functions .....





Our people have been key contributors to the Bank's recorded success over the year

we as a responsible corporate citizen of the country, are fully-committed to comply with all statutory laws and regulations



**Social Value Creation - Staff Excellence**



**Empowering and Inspiring Our Seylan Team**

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.

People are the Bank's most valuable asset. With prudent development, deployment and management, our people have been key contributors to the Bank's recorded success over the year which we have strongly recognised.

**Team Profile and Development**

The Seylan team comprises 3,061 staff members as at the year-end 2012 (2011 - 3,150). According to the profile indicators below, since 2010, we have strengthened the staff cadre over the period despite the VRS offered in 2011.

**New Appointments**

	2012	2011	2010
Corporate Management	1	3	4
Middle Management	1	-	-
Operational Management	2	11	12
Other Staff	95	21	56
<b>Total</b>	<b>99</b>	35	72

New recruitments increased in 2012 to support the expansion of business with the opening of new branches and convenient banking centres. The increase in our net work contributed towards staff growth and redeployment in branches island-wide.

The average age of our staff being below industry average and the retention period being high are valuable assets for our organisation as well as for the employee.

## / Sustainability Report

### Team Profile Indicator

Team by Type of Service	2012		2011		2010	
	No.	%	No.	%	No.	%
Full Time	3,061	100.0	3,150	100.0	3,622	100.0
Part Time	-	-	-	-	-	-
<b>Total Staff</b>	<b>3,061</b>	<b>100.0</b>	<b>3,150</b>	<b>100.0</b>	<b>3,622</b>	<b>100.0</b>

### Team by Type of Contract

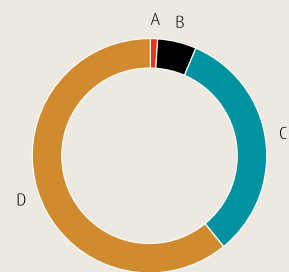
	2012		2011		2010	
	No.	%	No.	%	No.	%
Permanent	2,954	96.5	3,072	97.5	3,543	97.8
Contract	16	0.5	48	1.5	51	1.4
Trainees	91	3.0	30	1.0	28	0.8
<b>Total</b>	<b>3,061</b>	<b>100.0</b>	<b>3,150</b>	<b>100.00</b>	<b>3,622</b>	<b>100.0</b>

### Staff by Employee Grade

	2012	2011	2010
Corporate Management	32	35	40
Middle Management	167	174	211
Operational Management	997	1,057	1,114
Other Staff	1,865	1,884	2,257
<b>Total</b>	<b>3,061</b>	<b>3,150</b>	<b>3,622</b>

	2012	2011	2010
Total Staff	3,061	3,150	3,622
Percentage of Women	39	38	42
Average Age (Years)	35	32	35
Average Service Period (Years)	11.4	11.5	13.5
Percentage of Employees Covered by Collective Agreements	71	67	-
Total Staff Turnover	166	194	127
Gross Salary (Rs. Bn.)	1.84	1.84	1.86

### DISTRIBUTION OF EMPLOYEES BY GRADE



	%
A - Corporate Management	1
B - Middle Management	5
C - Operational Management	33
D - Other Staff	61

We recognise our Seylan team and believe that their qualities and extremely high levels of performance contribute greatly to the desired enactment of the Bank's corporate values. As such, social value creation has become part and parcel of our core business elements. The Bank's strategic plan 2012-15 has identified the social value creation process as a key priority of the business with the appropriate strategies. With the implementation of the strategic plan in 2012, a complete transformation took place, stemming from staff development, increasing productivity and service quality. Aligning the new vision and mission to customer service tenets and business strategies became high priorities and areas that needed rapid and inclusive training and development.

The average benefits per employee has increased from Rs. 974,960 in 2011 to

**Rs. 1,034,420**

in 2012

## / Sustainability Report

### Our strategic priorities in creation of social value are:

1. Satisfaction and Motivation
2. Training and Development Assuring Quality and Service Orientation
3. Respect Labour Practices
4. Labour Relations and Human Rights

### Satisfaction and motivation

The Bank follows a process of continuous improvement in respect of the working lives of its employees, whilst enacting due provisions under various legal statutes.

### Team Emoluments and Other Benefits

The average benefits per employee has increased from Rs. 974,960 in 2011 to Rs. 1,034,420 in 2012. This was mainly due to the granting of other benefits to the employees. In addition to basic salary and emoluments, employees in the permanent cadre of the Bank are entitled to following benefits:

- Comprehensive medical and insurance scheme
- Holiday allowances
- Housing loan at concessionary interest rate.
- Vehicles loans at a special interest rates.
- Special allowances, for cashiers., difficult stations employees, temporary signing power holders etc.
- Annual bonus
- Holiday bungalow facilities owned by the Bank

	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Staff Benefits</b>					
<b>Staff Salaries</b>					
Basic Salary	1,841,979	1,840,563	1,864,989	1,934,286	1,972,391
EPF 12%	220,888	220,863	223,591	229,342	235,049
ETF 3%	55,222	55,253	55,997	57,306	58,719
<b>Total</b>	<b>2,118,089</b>	2,116,679	2,144,577	2,220,934	2,266,159
<b>Other Benefits</b>					
Holiday Pay	76,008	70,013	72,815	76,600	70,618
Medical	50,830	55,675	58,462	56,713	58,109
Bonus	361,709	293,224	210,752	62,842	313,642
Insurance	65,499	78,094	64,026	37,951	66,785
Training	14,416	6,579	5,449	5,511	12,957
Welfare	53,773	50,729	58,729	64,454	44,843
Other Allowances/Benefits	426,025	400,125	303,879	(139,750)	572,601
Cost of VRS	-	698,650	-	-	-
	<b>1,048,260</b>	1,653,089	774,112	164,321	1,139,555
<b>Total Benefits</b>	<b>3,166,349</b>	3,769,768	2,918,689	2,385,255	3,405,714
Total No. of Staff	3,061	3,150	3,622	3,733	3,923
Average Benefits per Employee Excluding VRS	<b>1,034.42</b>	974.96	805.82	638.96	868.14

### Performance Review Recognition

A staff appraisal system has been formulated to recommend annual salary increments, identify employee talents and contribution and to identify training and development needs. Separate appraisal systems are in place for the senior management members.

Annual appraisals are conducted for the entire staff of the Bank. Employee feedback and results of the staff satisfaction surveys enable us to identify specific training and development needs. Fund mobilisation and recovery targets are given to all staff creating a competitive environment for skill management and development of human capital.

Senior management regularly discusses the current succession plan within their respective teams and identifies talented staff who show potential for growth. Gap analysis are conducted to ensure that required training is given to those earmarked, to cultivate skills that will equip them to take up future leadership positions.

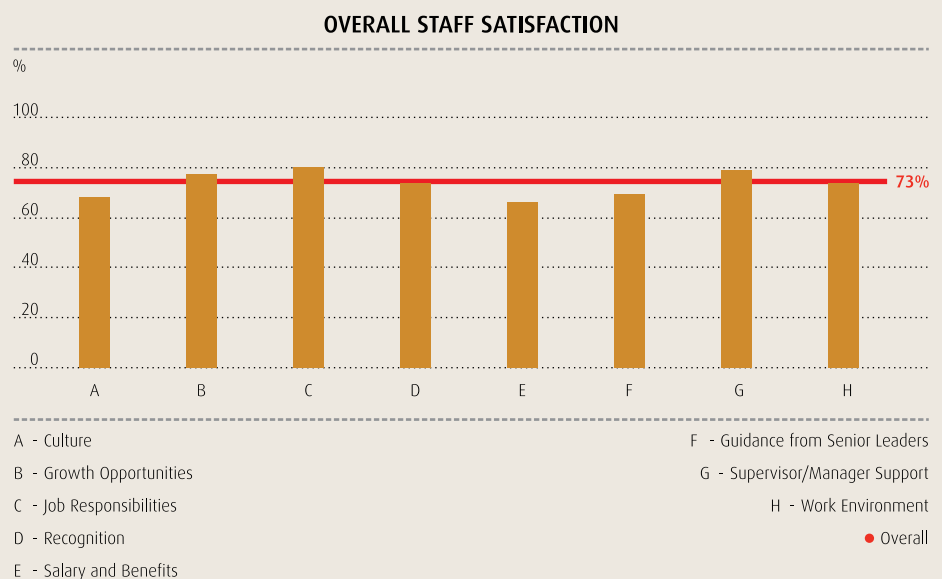
## / Sustainability Report

### Staff Satisfaction Survey

The staff satisfaction survey is considered as the key strategy used to identify staff attitudes, training and development needs. Human Resources Department carried out a bank-wide staff opinion survey during January-February 2012. The online survey facilitated staff to respond to the questionnaire thus providing space to give unbiased and independent opinion under relevant areas.

- Culture
- Growth Opportunities
- Job Responsibilities
- Recognition
- Salary and Benefits
- Guidance from Senior Leaders
- Supervisor-Manager Support
- Work Environment

The results of the survey is shown in the following graph:



The dark blue line depicted the overall satisfaction level of the Bank.

### Rewards and Recognition

Bank has made arrangements for the implementation of a performance-based reward and recognition system coupled with external training and career development opportunities with the use of the bell curve. The Bank also plans to implement an incentive driven culture which will add more scope to individual capabilities while instilling a team-based culture within the organisation. For the year 2012, the Bank organised an Awards Ceremony to recognise performance of the business lines/ units. The best performing branches/SBUS and Departments in respect of contribution, profitability, credit, recoveries and fund mobilisation were recognised and rewarded.

The Bank will also continue to bestow additional awards for sustainability activities carried forward by our business lines through both internal and external projects, thus rewarding and recognising them for their dedication and commitment to all stakeholders, particularly the community.

### Training and Awareness

Staff is kept well-informed on product development, policies, procedures and regulatory changes and developments through circulars and internal memos. These communiqués are originated by the respective departments and communicated centrally by the Operating Department. Procedure manuals

## Seven Outward-Bound Residential Workshops were conducted during the year

### / Sustainability Report

are in place for all products and services and are updated regularly. Operational policies are periodically reviewed and updated and the effectiveness of this process is annually inspected by the Bank Supervision Department of the Central Bank. Training programmes are conducted on all new products and procedures whenever necessary.

#### **Training and Development Assuring Quality and Service Orientation**

Under the Bank's approach to developing knowledge that supports the continuity of our staff facilitating a successful career growth, we have initiated several programmes as mentioned below:

- Well-scheduled, structured, training programmes were conducted for all level of staff to enhance their skills. Over 332 programmes were conducted during the year under review.
- Continuous in-house and external training and orientation programmes were conducted on new products, service procedures and service quality improvements. Further, special attention has been given to enhance the credit knowledge of the staff.
- Inter Branch/Departmental Quiz competitions were conducted with the participation of more than 400 staff which served to measure and widen their knowledge. Prizes were awarded to the winning teams. This proved to be a very effective strategy as employees gained much learning experience through the competition.

- Recognising the importance of language skills, the management introduced competency-based English Learning Programmes for those who lack proficiency in this medium.
- Conducted 18 Training programmes with the support of IT division on systems and software usage to 351 staff members.
- Special emphasis was given for front office staff to improve their interpersonal skills. Around 872 employees were trained during the period.
- Seven Outward-Bound Residential Workshops were conducted during the year, involving 502 members of staff covering total of 4,016 hours. The programmes and activities in these workshops were carefully designed to develop the values of teambuilding. The unique feature of these workshops was that they were entirely developed and implemented using both internal and external resources.

Special training was conducted for all Chief Managers stemming from the findings of an assessment centre, which clearly identified potential and talent amongst staff to develop their competencies. That led them to handle different areas or head senior positions of the Bank.

- Reimbursing of honorarium for examination passed and qualifications gathered while in employment.
- Giving special recognition to the staff promotion policy for obtaining additional banking qualifications.
- Continuous strengthening of the staff engagement process where branches carry out sustainability projects on their own during 2012.
- Branch/Department competition for sustainability reporting and region-wise workshops to educate staff on the concepts and the initiatives.



*Training Session by Head of Compliance*

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### Special Training

We have identified specific training needs for our staff especially in the areas of customer care, customer rights, industry practices, banking law, governance, anti-corruption, risk management, development regulations, organisational policies and procedures among others. In response to the training needs identified through customer and staff satisfaction surveys and individual performance appraisals in 2011, customer care was identified as a priority area for training needs, for which over 1,800 hours was dedicated in 2012.

A special training programmes was conducted for all drivers on:

- Accident Prevention, Vehicle Safety Through Defensive Driving
- Safe Driving, Road Signs and Precautionary Measures to be adhered when driving in Highways.

The training programmes were conducted by resource personnel from the Motor Traffic Department of the Sri Lanka Police and the Department of Registration of Motor Vehicles.

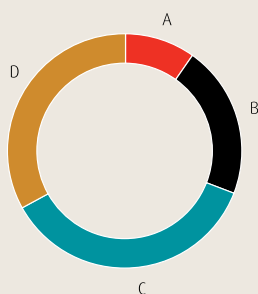
During the year, 2,844 female and 4,418 male staff members underwent various training programmes conducted by the Bank. Details of training programmes are illustrate below:

Training Type	2012		2011		2010	
	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants
Internal	210	6,937	169	5,139	132	6,718
External	111	312	110	415	102	304
Foreign	11	13	6	6	7	8
<b>Total</b>	<b>332</b>	<b>7,262</b>	<b>285</b>	<b>5,560</b>	<b>241</b>	<b>7,030</b>

### Type of Training Modules and Number of Participants

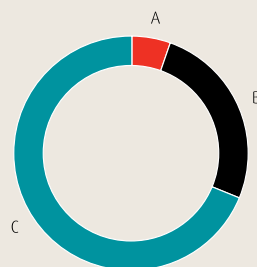
Name of Training Modules	No. of programmes	No. of Participants
General Banking Practice	179	3,847
Professional Development	18	436
Communication & Negotiation Skills	7	218
Marketing & Marketing Communications	32	726
HR Management & Staff Development	7	218
Compliance & Specialised Areas	43	945
General & Personal Development	46	872
<b>Total</b>	<b>332</b>	<b>7,262</b>

### EXTERNAL TRAINING LOCAL - GRADE-WISE



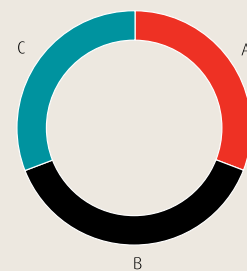
Grade	Percentage
A - Corporate Management	10
B - Middle Management	21
C - Operational Management	36
D - Other Staff	33

### IN-HOUSE TRAINING - GRADE-WISE



Grade	Percentage
A - Middle Management	5
B - Operational Management	26
C - Other Staff	69

### FOREIGN TRAINING - GRADE-WISE



Grade	Percentage
A - Corporate Management	31
B - Middle Management	38
C - Operational Management	31

## customer care

was identified as a priority area for training needs

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### Regional Training and Development

Programme	Branch	Province	No. of Participants	Total Hours
Credit and Operations	Anuradhapura	North-Central	29	232
	Batticaloa	Eastern	17	136
	Chavakachcheri	Northern	22	176
	Chenkalady	Eastern	20	160
	Chenkalady	Eastern	17	136
	Chenkalady	Eastern	19	152
	Chenkalady	Eastern	19	152
	Chenkalady	Eastern	15	120
	Chenkalady	Eastern	21	168
	Jaffna	North	14	112
	Kilinochchi	Northern	19	152
	Polonnaruwa	North-Central	57	456
Cross Selling	Balangoda	Sabaragamuwa	39	312
	Batticaloa	Eastern	73	584
	Jaffna	Northern	71	568
	Kurunegala	North-Western	54	432
	Matara	Southern	40	320
	Polonnaruwa	North-Central	27	216
Customer Service with a Smile	Balangoda	Sabaragamuwa	49	392
	Jaffna	Northern North	47	376
	Kegalle	Sabaragamuwa	54	432
	Matara	Southern	52	416
	Polonnaruwa	North-Central	58	464
Recovery Monitoring	Chenkalady	Eastern	13	104
Training Session on Sustainability	Bandarawela	Uva	22	176
	Nuwara Eliya	Central	27	216

### Strengthening the Team with Promotion and Qualifications

	Male	Female	Total
Number of Promotions granted during the year	266	68	334

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### Professional Education

The conducive strategies implemented in recent years have resulted in a significant qualitative improvement in our workforce. In the year under review 63 of our staff members have obtained professional qualifications thus increasing total Degree/Diploma holding staff number to 1,161.

	Degree Holders		Diploma Holders (06 months or above)		Total
	Female	Male	Female	Male	
Below 20	-	-	-	-	-
21 - 30	9	15	55	90	169
31 - 40	41	63	256	278	638
41 - 50	33	42	101	128	304
Above 50	04	20	05	21	50
<b>Total</b>	<b>87</b>	<b>140</b>	<b>417</b>	<b>517</b>	<b>1,161</b>

### Respect Labour Practices; Decent Work Place; Labour Relations

Seylan Bank is an equal opportunity employer complying fully with industry standards. We take all statutory obligations seriously and honour them as a primary obligation. We promote and recognise diversity, equal opportunity and treatment and creativity of our staff by creating a platform and relevant infrastructure so that they could train and develop to their full potential.

Discrimination based on religion, caste, gender or any other parameter is not in the mandate of our HR recruitment and development. Thus, among other emancipated measures, we promote regional recruitment through which we generate employment opportunities in comparatively less privileged areas. Ultimately, this policy and process generates better lifestyles for our Seylan team and their families.

We also ensure that we follow the ILO declaration on fundamental principles which aim to achieve both economic growth and equity through a combination of social and economic goals. Also we adhere to other relevant human resource standards and regulations very stringently. The Establishment Code is prescribed reference for all labour-related matters where internal policies and rules are not available.

We do not condone underaged/child labour nor do we exercise any gender bias within our organisation. Recruitment is based on such transparent procedures as newspaper advertisements, Head Hunting, written tests and interviews. Recruitment decisions are based on qualifications, merit and capabilities. Priority is given to internal candidates when filling vacancies. We encourage geographically diversified and multi-ethnic participation and recognise the right of unionisation.

During the last year, the bank retained 99% of its female employees who took leave for child-birth. The Company provides 84 days of maternity leave. The retention percentage of female employees after maternity leave also indicates the freedom provided for proper work life balance for the employees.

We ensure and maintain a high standard of occupational health and safety and maintain cordial relationships with the two unions with frequent direct interactions with the senior management.

### Culture of Diversity

The extent of employee diversity based on gender, age group, service period and ethnicity within an organisation significantly influences its stability of human capital. The Bank is an equal opportunity employer, paying a uniform remuneration for men and women for work of equal value. From inception we have employed a high percentage of women in our organisation which amounted to 38.7% in 2012.

The predominant ethnic grouping of our workforce is Sinhalese; this we identified as a constraint for sustainable regional expansion of the Bank. In order to expand the ethnic diversity in 2012, we made a conscious effort to recruit staff from minority groups.



In order to **expand the ethnic diversity** in 2012, we made a conscious effort to recruit staff from minority groups

## / Sustainability Report

The data presented below illustrates the composition of the Bank's governing bodies, the breakdown of employees per category by gender, age and other relevant factors where applicable.

Committee	Total Members	Female	Male	Under 30	30-50	Over 50
Board of Directors	10	-	10	-	02	08
Board Audit Committee	03	-	03	-	-	03
Board Integrated Risk Management Committee	03	-	03	-	-	03
Board Nominations Committee	05	-	05	-	01	04
Board Sustainability Committee	04	-	04	-	02	02
Board HR and Remuneration Committee	04	-	04	-	01	03
Asset Liability Committee	09	01	08	-	02	07
Employees' Provident Fund Committee	07	01	06	-	03	04

### Key Performance Indicators - Diversity

#### Distribution of Staff by Province and Gender

Province	No. of Branches	No. of Employees	Female		Male	
			No.	%	No.	%
Central	9	187	74	40	113	60
Eastern	7	129	39	30	90	70
Northern	7	93	28	30	65	70
North-Central	6	102	20	20	82	80
North-Western	6	114	37	32	77	68
Sabaragamuwa	8	145	53	37	92	63
Southern	9	151	51	34	100	66
Uva	5	70	21	30	49	70
Western	50	2,070	860	42	1,210	58
<b>Total</b>	<b>107</b>	<b>3,061</b>	<b>1,183</b>	<b>39</b>	<b>1,878</b>	<b>61</b>

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### Employee Category and Gender

	2012			2011			2010		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
Corporate Management	4	28	32	5	30	35	8	24	32
Middle Management	43	124	167	47	127	174	59	152	211
Operational Management	457	540	997	481	576	1,057	525	589	1,114
Other Staff	679	1,186	1,865	676	1,208	1,884	832	1,433	2,265
<b>Total</b>	<b>1,183</b>	<b>1,878</b>	<b>3,061</b>	<b>1,209</b>	<b>1,941</b>	<b>3,150</b>	<b>1,424</b>	<b>2,198</b>	<b>3,622</b>

### Basic Salary Analysed by Gender

The Bank does not have different salary scales for men and women. As discussed 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		Total		Average Basic Salary		Salary Ratio
	Rs. Mn.		No. Staff		Rs. Mn.		M/F
	Male	Female	Male	Female	Male	Female	
Corporate Management	85	10	28	04	3.04	2.50	1.22:1
Middle Management	194	65	124	43	1.56	1.51	1.03:1
Operational Management	388	326	540	457	0.72	0.71	1.01:1
Others	476	264	1,186	679	0.40	0.39	1.02:1

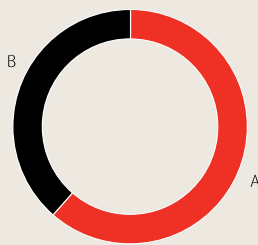
### Ethnic Group

	2012			2011			2010		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
Sinhalese	1,058	1,691	2,749	1,092	1,751	2,843	1,283	1,977	3,260
Tamil	100	127	227	91	131	222	103	146	249
Moor	13	37	50	12	36	48	17	48	65
Burger	11	11	22	12	12	24	18	16	34
Other	1	12	13	9	11	13	3	11	14
<b>Total</b>	<b>1,183</b>	<b>1,878</b>	<b>3,061</b>	<b>1,209</b>	<b>1,941</b>	<b>3,150</b>	<b>1,424</b>	<b>2,198</b>	<b>3,622</b>

We have recruited **99 staff members** in 2012.  
Majority of new recruits were absorbed into operational levels as Banking Assistants.

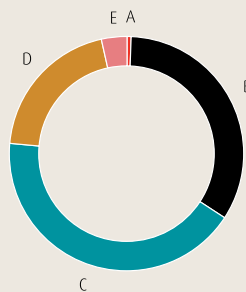
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### GENDER WISE ANALYSIS OF EMPLOYEES



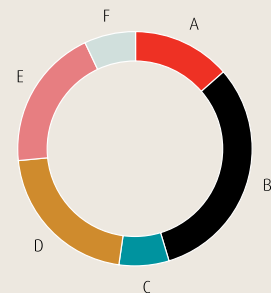
	%
A - Male	61
B - Female	39

### AGE WISE ANALYSIS OF EMPLOYEES



	%
A - Below 20 Years	1
B - 21-30 Years	34
C - 31-40 Years	42
D - 41-50 Years	20
E - Above 50 Years	3

### SERVICE-WISE ANALYSIS OF EMPLOYEES



	%
A - Below 4 Years	13
B - 5-08 Years	32
C - 9-12 Years	7
D - 13-16 Years	21
E - 17-20 Years	20
F - More than 20 Years	7

#### Age Group

	Below 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years	Above 50 years	Total
Corporate Management	-	-	4	8	20	32
Middle Management	-	1	20	113	33	167
Operational Management	-	6	655	309	27	997
Others	18	1,027	608	194	18	1,865
<b>Total</b>	18	1,034	1,287	624	98	3,061

#### Period of Service in the Bank

	Below 4 Years	5 to 8 Years	9 to 12 Years	13 to 16 Years	17 to 20 Years	More than 20 years	Total
Corporate Management	12	0	1	3	3	13	32
Middle Management	5	7	6	13	55	81	167
Operational Management	29	48	51	332	450	87	997
Others	367	920	153	295	100	30	1,865
<b>Total</b>	413	975	211	643	608	211	3,061

#### New Recruits

We have recruited 99 staff members in 2012. Majority of new recruits were absorbed into operational levels as Banking Assistants. They were mainly school leavers on contract basis who will be absorbed to the permanent cadre based on their performance.

The Bank conducts regular training and orientation programmes to improve the performance of the staff and provide satisfactory career development.

## / Sustainability Report

### Provincial Distribution of Staff

Sixty-Seven per cent of our workforce is mainly concentrated in the Western Province, of which 48% of staff is based in the Head Office in Colombo. In an effort to promote an equitable regional distribution of the staff, we gradually reduced the workforce in the Western Province from 69% in 2011 to 67% in 2012. New recruitments in 2012 were mainly from the Central, Southern, Eastern and Northern Provinces.

### Standard of Entry Level Wages Compared to the Local Minimum Wages at Significant Locations of Operations

The wage policy of the Bank is not based on a Collective Bargaining Agreement. Remunerations are based on market surveys carried out by the Bank at given intervals considering among many other factors, the highest and lowest range of wage structures in the industry.

During the year, the Bank signed a collective agreement with the union establishing the benefits to the staff and its growth at regular intervals.

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 as *there is no regulation in place under the Shop and Office Employees' Act indicating the minimum wage applicable to employees covered under such Act.*

### Illness, Injuries and Lost Days

The total number of work-related injuries for the year in review, the rate of injury for the same period (as a percentage of total injuries/man hours) and the number of days lost due to absenteeism in respect of these employees (due to health and safety issues) are given in the following table:

	2012	2011	2010
Staff Covered by the Health Plan (%)	100	100	100
Average Medical Claimed per Employee - Rs.	18,000	18,000	16,000
Occupational Injuries	Nil	Nil	Nil
No. of Occupational Diseases	Nil	Nil	Nil
No. of Lost Day Rate	Nil	Nil	Nil

### Educational Training, Counselling and Prevention Risk Control Programmes

The Bank does not have formalised programmes on disease prevention. However, we conduct a comprehensive medical screening of every employee at recruitment covering all critical and major health aspects.

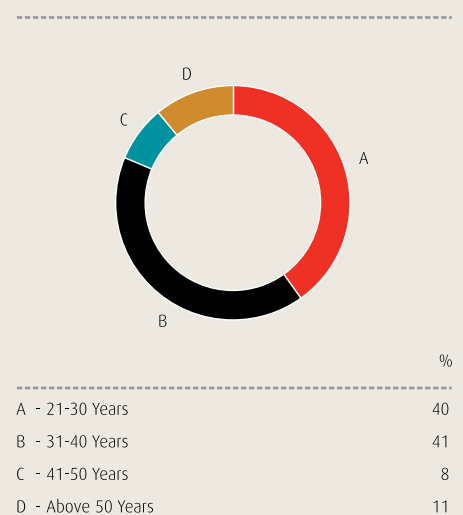
### Staff Turnover

These benefits have a positive influence on curbing employee turnover to 5.27% in 2012 compared with 5.36% in 2011 - with marginal improvement in productivity as corollary.

### Staff Turnover - Gender-wise

Gender	2012	2011	2010
Female	63	60	35
Male	103	134	92
<b>Total</b>	<b>166</b>	194	127

### STAFF TURNOVER BY AGE



We conduct a **comprehensive medical screening** of every employee at recruitment covering all critical and major health aspects

## / Sustainability Report

### Staff Turnover - Age-wise

Age Group	2012				2011				2010			
	Female	Male	Total	%	Female	Male	Total	%	Female	Male	Total	%
Below 20	-	-	-	-	-	-	-	-	-	-	-	-
21 to 30	24	43	67	2.13	28	57	85	2.35	24	39	63	1.69
31 to 40	28	40	68	2.16	26	65	91	2.51	9	43	52	1.39
41 to 50	6	7	13	0.41	5	9	14	0.39	2	9	11	0.29
Above 50	5	13	18	0.57	1	3	4	0.11	-	1	1	0.03
<b>Total</b>	<b>63</b>	<b>103</b>	<b>166</b>	<b>5.27</b>	<b>60</b>	<b>134</b>	<b>194</b>	<b>5.36</b>	<b>35</b>	<b>92</b>	<b>127</b>	<b>3.40</b>

### Staff Turnover - Province-wise

Province	No. of Resignations/ Retirements/Deactivation	Percentage of Employees (%)
Central	17	0.54
Eastern	5	0.16
Northern	4	0.13
North-Central	4	0.13
North-Western	5	0.16
Sabaragamuwa	6	0.19
Southern	14	0.44
Uva	3	0.09
Western	108	3.43
<b>Total</b>	<b>166</b>	<b>5.27</b>

### Labour Relations and Human Rights

The Bank is committed to upholding the human rights standards enshrined in the United Nations Universal Declaration of Human Rights as well as those contained in the convention of the International Labour Organisation. The manner in which we practice these precepts is discussed in detail in our Report.

### Rights of Unionisation and Collective Bargaining

Freedom of association and collective bargaining is a human right of the workers in an organisation, as defined by the UN's Universal Declarations on Human Rights and ILO Conventions. Collective bargaining is a forum of stakeholder engagements beyond the collective bargaining mechanism.

We recognise the Ceylon Bank Employees' Union (CBEU), and Seylan Bank Employee Union SBU which comprise almost 91% of our staff across all executive grades, as a consultative and supportive group that constitutes a forum for improved communication, grievance handling, career counselling and creating an environment conducive to healthy employee relations.

### Minimum Notice Period

The Bank maintains an organisational practice of timely discussion of significant operational changes such as transfers, promotions and disciplinary actions among other subjects, with employees and representatives of Trade Unions (TUs). For this purpose, reasonable notice is given where practicable to help minimise any adverse impacts stemming from operating changes. However, it is not defined in the collective agreement.

## / Sustainability Report

### **Code of Ethics and Whistle-Blower Protection**

The code of conduct of the Bank is communicated to all staff with their appointments and made available in all departments for reference purpose. The Board of Directors of the Bank has appointed a responsible officer to receive whistle-blowers complaints in line with the regulatory requirement of the Central Bank.

### **Pending Litigation**

No Human Rights Cases.

### **Security Practices**

The Bank has a laid down procedure on the security practices to be adopted concerning human rights and we ensure that these practices are communicated to all levels of security personnel outsourced to the Bank. Periodic tests and awareness programmes are carried out and checked by the Controller-Intelligence and Security of the Bank to ensure optimum levels of compliance are maintained.

### **Key Performance Indicators - Labour Relation and Human Rights**

	2012	2011	2010
CEBU and SBU Membership	2,783	2,822	3,230
Membership %	91	90	89
No. of Hours of Staff Trained on HR Policies and Procedures Relevant to Operation	56	112	80
No. of Human Rights Cases against the Bank	Nil	Nil	Nil

### **Healthy Work Life Balance**

We offer a variety of facilities and benefits to our employees enabling them to maintain a healthy work life balance engendering reduced stress levels and a heightened orientation to work. Creating a healthy work life balance is imperative to improve productivity and commitment of staff. The Staff Insurance scheme was an important initiative taken by the Bank that helped to achieve this balance, as distinct from other numerous welfare initiatives such as concessionary housing, vehicle and distress loans, insurance and health donations etc.

### **Open-Door Policy**

Our open-door policy has over the years given employees the channels to access senior management at any time, should the need arise. This stems from our nurturing 'family culture' that allows people to consult elders even in times of crises. The organisation culture and policies adopted by the organisation has facilitated a bottom-up approach where senior management adopt the approach - 'Closer to Customer and Employees'.

### **Initiatives to Improve Work Life Balance**

Apart from the Health Plan, we implement a range of health and safety measures to maintain a hazard, free office environment. Some of these initiatives include promoting healthy housekeeping practices, providing cashiers and managers with a risk allowance and a difficult area allowance as well as health facilities under the Health Plan among several other benefits. Apart from these, the following measures are taken by the Bank to assess and maintain health and safety:

- Business Continuity Plan addresses the safety of all staff in emergency situations.
- Branches were fully-refurbished with new facilities during the year whilst many divisions in the head office were refurbished/relocated thus promoting a healthy and safe environment.
- Arrangements were made to provide safe drinking water and implement a standard lighting system to all branches.
- A number of awareness programmes and medical clinics were on critical illness like cancer was conducted in the head office and branches, whilst sessions for the prevention of dengue were conducted, which all staff were encouraged to follow.

We offer a **variety of benefits**  
**to our employees** enabling  
 them to maintain a healthy work life balance

## / Sustainability Report

### Listening to Our Family

Ease of communications is essential for fostering open collaboration between management and employees.

Most employees have access to a computer with their own internal e-mail accounts. In addition, the Company intranet details all rules, regulations and procedures to help employees keep abreast of our evolving policies.

The appointment of an Internal Customer Service Manager facilitates the processing of employee relations issues.

### Cultural and Sport Events

We encourage staff to develop cultural and sporting talents as they create camaraderie and promote a sense of team spirit among the employees. The Bank conducts a religious ceremony in the head office and branches on the first working day of the year, with the participation of all four major religions of the country. This year, the head office conducted a 'Ice cream Dansala' for Vesak Poya Day with the active participation of our staff. This was augmented by the branches who conducted many events at various locations. Further, Sport Club organised several regional sports activities and get-togethers in 2012.



*Seylan Bhakthi Gee*



*Seylan Carols*



*Celebration of Thai Pongal*

## / Sustainability Report

### Achievement in Sports 2012

Here are some of the outstanding achievements of the Seylan sportsmen and women.

#### **Athletics**

Mercantile Athletics Meet - 01 Silver and 01 Bronze

All Island Veteran Athletics Championship -  
01 Gold and 01 Silver

#### **Badminton**

- Mercantile Inter Firm Badminton Team Championship - Winner, Men's 'F' Division
- Mercantile Inter Firm Badminton Team Championship - Winner, Women's Veterans
- Mercantile Inter Firm Badminton Team Championship - Runner up, Men's 'B' Division
- Mercantile Open Team Championship - Overall 3rd Place
- Mercantile Open Championship - Winner, Women's Singles
- Mercantile Open Championship - Winner, Women's Doubles
- Mercantile Open Championship - Runner-up, Men's Singles (plate)

#### **Basketball**

Mercantile Basketball Tournament - Winner, Men's 'D' Division

#### **Carrom**

- 13th President's Cup - Winner
- 44th National Championship - Runner-up
- Grand Slam - Runner-up
- 25th Federation Cup - Runner-up

#### **Rugby**

Mercantile Rugby 7's - Plate Semi finals

#### **Table Tennis**

Inter-club League Table Tennis Championship - Runner-up,  
Men's 'A' Division

### ***We are proud of our staff who represent the country.***

Cricket	- Mr. Thilan Samaraweera Mr. Nuwan Kulasekara Mr. Tharanga Paranavithana
Badminton	- Ms. Renu Chandrika De Silva
Basketball	- Ms. Jaliya Kumari Ms. Benica Thalagala
Carrom	- Mr. Chamil Cooray
Netball	- Ms. Tharjini Shivalingam
Rugby	- Mr. Dinesh Sanjeewa
Table Tennis	- Mr. Chalitha Rangana

### ***Achievements in Quiz Competitions***

- Champions for the 5th consecutive year of the Inter-Bank Trade Finance Quiz organised by the Trade Finance Association of Bankers of Sri Lanka.
- Winner Banking and Finance sector of the Sri Lanka Masterminds.
- Winner Banking and Finance sector, of the Serendib Quiz.
- 1st runner-up of the Governor's Challenge Trophy 2012, organised by the Central Bank of Sri Lanka, Colombo Shippers Academy, Export Development Board and Sri Lanka Ports Authority.



# Home Gardening Competition at Pilot Village



## Responsibility for the Community



### Community Policy

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.

The Bank considers sustainability as part and parcel of its core banking business and operations and strives to develop a suitable existence for all stakeholders. Our approach and strategic direction aspire to attain the ultimate objectives of meeting the social needs that arise as Nation, Bank and Society embark on activities that will take us towards economic

prosperity, growth of the community and development of the country at large, whilst addressing the following national priorities:

#### National Priorities:

1. Education - a strong correlation with economic development
2. Care for healthy nation
3. Donations, sponsorships and participation in community projects
4. Being a responsible corporate citizen
5. Staff contribution

## / Sustainability Report

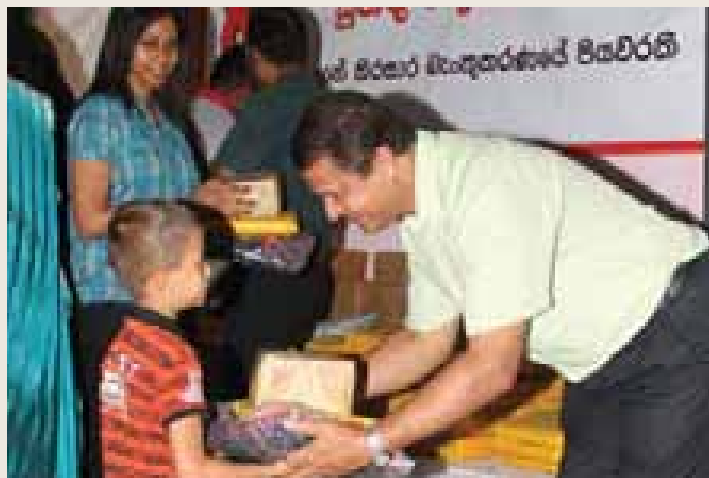
### Education - a Strong Correlation with Economic Development

The Bank considers that Education has a strong correlation with social and economic development and thus the role of education becomes all the more important in the development of human capital.

A society of literate and skilled citizens has more chance of development at economic and social levels.



Mr. Kapila Ariyaratne General Manager/Chief Executive officer handing over Kids Smart Computer to the Principal of Devamulla Kanishta Vidyalaya



Handing over Books to a student by Chief Risk Officer Mr. Christie Nanayakkara

## Donation of library books

to under privileged schools

### / Sustainability Report

The Bank recognises education as a tool to reduce poverty and social injustice by providing the underprivileged with resources and opportunities for upward social mobility and social inclusion. As such, in the year under review, the Bank drew considerable attention through the development of education and related areas through island-wide branches as listed below. There were over 85 initiatives undertaken by staff as community initiatives during 2012.

#### • Staff Voluntary Community Initiatives

##### **Direct investments and Other Initiatives that Foster Education**

Branch/Department	Brief Description of the Project/Beneficiary
Beliatta	Donated school bags, books, shoes to selected 73 students and enhanced basic requirements of the students.
Chilaw	Distributed essential school items to Senanayaka Vidyalaya, Athuwana.
Dam Street	Provided books and other items to A.E. Gunasinghe Vidyalaya in Colombo 12.
Gampaha	Donated books, stationery and furniture for students of Dadagamuwa Primary School in Gampaha.
Havelock Town	Granted scholarships for 72 underprivileged students of Widdyathilaka Vidyalaya in Colombo - 05.
Homagama	Library books donated to Homagama Central College.
Information Technology	Distributed needy school stationeries to Dunumadalawa Primary school in Anuradhapura.
Kadawatha	Colour washed Kadawatha Roman Catholic School buildings, and provided uniforms, shoes, school books and other related items to selected children of lower income families.
Katunayake	Needy books donated to Walana Lakshmi Junior School in Katunayake.
Kattankudy	Donated school books to 20 selected under privileged students.
Maharagama	Granted school books and stationery items to Sucharithodaya Children Development Centre in Pamunuwa.
Mount Lavinia	Donated needy school books for less privileged students at Punyakami Vidyalaya in Mount Lavinia.
Nugegoda	Provided books, stationery items and clothes for the Gangodawila Girls Home.
Risk Management Unit	Donated books for students of St. Francis Maha Vidyalaya in Dalugama, Kelaniya.
Vavuniya	Offered needy school items to orphanage at Poovarasankulam for 30 girls.



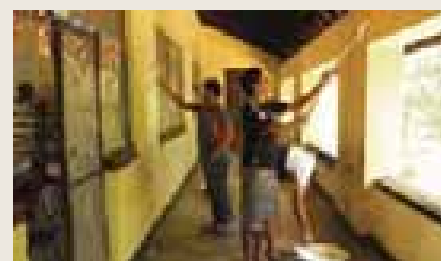
Handing over Books to Students at Devamulla by Mr. R. Nadarajah, Executive Director



## / Sustainability Report

### • Development of Infrastructure in Schools

Branch/Department	Brief Description of the Project/Beneficiary
Ampara	Distributed library books to Kongahapitiya Junior School
Borella	Provided water dispenses system to less privileged children in a care home and educated them on dental health and savings habit.
Colombo Fort	Donated schools stationery items to 'Maw Sevana' children's home in Mattakkuliya.
Corporate Banking	Set up a library for the school children of Gurugoda Junior School and granted scholarships for 61 selected students.
Human Resources	Renovated a building, provided furniture, books, computer and equipment to install a library and computer lab.
Kollupitiya	Colour washed and renovated Jeramiyas Dias Vidyalaya, Panadura.
Kottawa	Renovated a library, donated a computer and other library items to Wasumathie Primary School in Kottawa.
Maradana	Renovated school buildings at Sri Sangaraja Maha Vidyalaya in Maradana.
Millennium	Refurbished a library and donated library equipment to Sariputhra Maha Vidyalaya a less privileged school in Slave Island.
Operations	Established a library, conducted a medical camp, donate a sound system to the Kethsirigama Junior School, a less-privileged school in Lunugamvehera.
Pettah	Upgraded drinking water system and sanitary facilities for Abana Central College in Abana.
Piliyandala	Renovated the library and donated library books to Gnanissara Buddhist School in Willorawatte.
Ratnapura	Donated a computer, and other needy school items to Halkandaliya Vidyalaya in Nivithigala.
Recoveries	Donated library books and display cabinet, lab equipment, sports goods first aid box and medicine to Kadupiti Madampe Dharmapala Vidyalaya in Chilaw.
Tissamaharama	Refurbished preschool building in Rankakulu Preschool, Lunugamvehera.
Trincomalee	Renovated school buildings and donated books to a school in Trincomalee



## Organised a **Positive Thinking seminar** for over 350 students

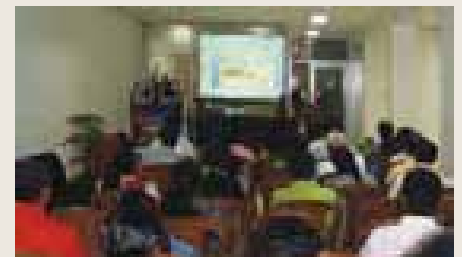
### / Sustainability Report

#### • Support for Sports and Extracurricular Activities

Branch/Department	Brief Description of the Project/Beneficiary
Information Technology	Donated sports equipment to Dunumadalawa Primary School in Anuradhapura.
International	Constructed a modern volleyball court to Sri Wijaya Junior Vidyalaya in Katana an underprivileged school that excelled in the sport of volleyball. Invited 80 differently able soldiers by donating drama tickets.

#### • Counselling and Support for Social Well-being

Branch/Department	Brief Description of the Project/Beneficiary
Audit & Inspection	An awareness programme on 'Child Abuse' conducted in underprivileged school with the participation of over 450 students and parents in Dutu Gamunu Maha Vidyalaya, Paliyagoda.
Avissawella	Conducted workshop on Personality Development and Counselling session to over 110 A/L students of selected 9 schools in the area.
Boralessgamuwa	Lecture on Parent-Children relationship for a better family.
Chilaw	Workshop on positive thinking, Tree planting campaign. Donated shoes to students of Senanayaka Vidyalaya - Athuwana.
Gampola	Conducted a career guidance and job opportunities seminar for O/L and A/L students of Jinaraja Boys' School, Gampola.
Information Technology	Conducted Leadership and Personality Development seminars in Dharmapala College, Kottawa and Dunumadalawa Primary School in Anuradhapura.
Raddolugama	Organised a Personality Development Programme at Raddolugama Primary School.
Risk Management	Carried-out a Health Camp and a Leadership Programme at St. Francis's Maha Vidyalaya in Kelaniya.
Talawakelle	Conducted the programme to school children of Kotagala Tamil Vidyalaya about 'The Importance of Savings Habits'.
Welimada	Organised a Positive Thinking seminar at St. Thomas College in Guruthalawa with over 350 student participants.



## / Sustainability Report

### • Gratitude for Senior Citizens

Branch/Department	Brief Description of the Project/Beneficiary
Balangoda	Conducted a one day welfare programme to 75 less privileged senior citizens at St. Joseph's Elders Home.
Batticaloa	Donated essential items to 75 elders of two different elderly homes in Batticaloa area.
Embilipitiya	Conducted a one day welfare programme for less privileged senior citizens in a remotely located elder's home in Embilipitiya.

### • Community Upliftment and Awareness

Branch/Department	Brief Description of the Project/Beneficiary
Central Cash	Conducted a programme to find places where coins are accumulated and circulate them among the public again.
Company Secretary	Educated shareholders about importance of disclosing their correct bank accounts to obtain dividend payments without delay.
Katuneriya	Built a bus stand in Katuneriya to help the commuters.
Kilinochchi	Conducted a health camp, cleaned the area of Mahadeva Ashram (an orphanage home with 315 war-affected children)
Marketing	Constructed a protective fence, along the Wellawaththa canal of the Sri Jinananda Children Home.
Nuwara-Eliya	Organised a Road Safety awareness session with over 75 participants, conducted by Nuwara-Eliya Police.
Puttalam	Donated drinking water storage tank for a remote village in Karuwalagaswewa.
Ruwanwella	Conducted a Road Safety Programme in the town area.
Sarikkammulla	An awareness programme on Road Safety and Child Protection was conducted at an underprivileged school in Sarikkamulla area. Nearly 50 students participated.
Services	Refurbishment of the home for the mentally handicapped girls in Katukurunda area.
Siri Nivasa	Provided purified water to Bakmeedeniya Maha Vidyalaya and Paragaswewa Maha Vidyalaya which benefited over 800 students.
Welimada	Organised a public awareness programme on minimising road accidents parallel with the National Safety Day.



# Donation of a drinking water storage tank

to a remote village

## / Sustainability Report

### • Environment

Branch/Department	Brief Description of the Project/Beneficiary
Balangoda	Conducted a tree planting campaign at St. Joseph's Elders Home, Balangoda.
Badulla	Tree planting project in Pinnalanda slope. Over 400 trees planted.
Chilaw	Tree planting campaign at Senanayake Vidyalaya, Athuwana.
Gampola	Tree planting campaign at Jinaraja Boys' School Gampola.
General Affairs	Conducted an awareness programme and project on electronic waste management which collected over 750 Kg of e-waste within 10 days.
Hambantota	Organised an awareness programme on Noise Pollution in Hambantota town.
Homagama	Tree planting campaign at Central College Homagama
Ja-Ela	Staff voluntarily participated in beach clean up project at Pamunugama beach.
Kadawatha	Importance of recycling the waste by producing compost and damages occurred by burning plastics.
Kalutara	Conducted 'Energy Savings' awareness secession at Holy Family Convent in Kalutara.
Katunayake	Tree planting campaign at Walana Lakshmi Kanishta Vidyalaya - Katunayake.
Kochchikade	Educated the general public and school students of the importance of recycling the CFL bulbs without destroying.
Kurunegala	Tree planting campaign at Iriyagolla Maha Vidyalaya and Annor Maha Vidyalaya in Kurunegala.
Mawanella	Programme on environmental protection/tree planting campaign at Ganethanna Maha Vidyalaya, Mawanella.
Moratuwa	Awareness programme on usage of polythene & plastic in local area.
Raddolugama	Tree planting campaign at Raddolugama Primary School Raddolugama.
Tissamaharama	Tree planting campaign at Rankakulu Preschool Lunugamvehera.
Yakkala	Support to continue waste polythene recycling project and donate safety equipment and guide worker on health safety issues at work place.

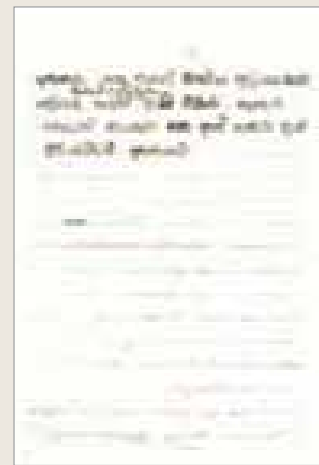
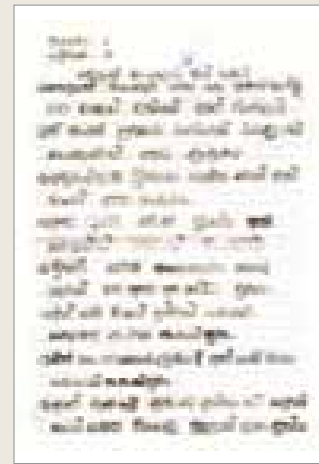


## / Sustainability Report

### • Education and other activities in pilot villages

The Bank continued its activities in the identified villages under the village adoption concept and the following activities were carried out to foster education.

Village	Project Carried Out
Devamulla - Horana	<ul style="list-style-type: none"> <li>• Distributed school books, bags, shoes and other stationery items to 42 children.</li> <li>• Donated Kids Smart Computer with the collaboration of IBM Sri Lanka branch.</li> <li>• Tree Planting Campaign at school and temple premises.</li> <li>• Conducted a Home Gardening competition with the participation of 45 villagers.</li> <li>• Donated library books.</li> <li>• Essay competition among the students and winners were awarded.</li> </ul>
Dunuhappawa- Kandy	<ul style="list-style-type: none"> <li>• Donated Kids Smart Computer with the collaboration of IBM Sri Lanka branch.</li> <li>• Provided water supply facility to the Dunuhappawa Vidyalaya - Panwila.</li> <li>• Donated library books with the assistance of National Library Association.</li> </ul>
Gurugoda	<ul style="list-style-type: none"> <li>• Donated Kids Smart Computer with the collaboration of IBM Sri Lanka branch.</li> </ul>
Wevagama	<ul style="list-style-type: none"> <li>• Donated Kids Smart Computer with the collaboration of IBM Sri Lanka branch.</li> </ul>





Seylan believes  
that access to clean water is critically  
important for the health and well-being of  
the Nation

Donation of Kids  
Smart Computer  
with the collaboration of IBM Sri Lanka  
branch

## / Sustainability Report

### Care for Healthy Nation

We recognise that community investment in health care is very important and crucial to build a healthy nation. During the year Seylan carried out various activities covering the entire country.

We understood the serious concerns of the country such as cancer, prevention of Dengue etc. and addressed these on a wider scale through support and awareness.

The Bank took serious note of the issue of child abuse and made every effort to improve related public awareness through various programmes sponsored by our branches island-wide.

Seylan also believes that access to clean water is critically important for the health and well-being of the Nation. The Bank made a considerable effort to support measures and initiatives in this regard.



## / Sustainability Report

### • Initiatives for Building a Healthy Nation

Branch/Department	Brief Description of the Project/Beneficiary
Anuradhapura	Organised medical health clinic, improve living condition of orphaned children at 'Asoka Boys Home' in Anuradhapura.
Bandaragama	Renovated the Medical Officer's health office in Bandaragama area.
Bandarawela	Conducted a series of cancer awareness sessions to schools, zonal education office, military academy (Diyathalawa), financial and insurance institutions in the area, with over 625 participants.
Cinnamon Gardens	Conducted community-based blood donation camp with 61 donors at Church premises.
Dehiwala	Dengue awareness programme with the participation of Bank's staff, Municipal Council staff, police officers and other Government officials.
Finance	Conducted a cancer awareness programme/Donation of dry rations to Cancer Society in Colombo arrange to place tills at branches to get our customers/staff contribution to cancer patients.
Hatton	Conducted dengue awareness programme and awareness walk with the participation of over 500 participants
Hingurakkgodra	Conducted a medical camp focusing on kidney deceases, cancer and heart patients in the Minneriya area.
Kadawatha	Awareness programmes for community about preventing dengue.
Kandy	Conducted a community-based health camp at branch premises.
Kalubowila	Renovations of accident ward in Colombo South General Hospital with voluntary contribution of cost and labour from staff.
Kalutara	Blood donation camp at Kalutara Bodhi Premises, 277 pints of blood donated.
Kegalle	Oral health awareness programme, screening and treatment campaign conducted in order to improve oral hygiene among the school students. 181 registered for the programme. Parallel to this, conducted a tree planting campaign.
Kiribathgodra	Conducted an eye clinic with more than 75 student participants, donated books for school library and tree planting programme at St. Pual's Girls School, Waragoda.
Mannar	Conducted dengue awareness programme, art competition for students. Rewarded them with gifts and <i>Tikiri</i> accounts
Matugama	Conducted a dengue awareness programme.
Meegoda	Renovated an antenatal clinic in Godagama which fulfilled a vital health need for the communities in the vicinity.
Nawala	Conducted a dental clinic, distributed toothpaste and toothbrushes to 182 students at Mahamanya Maha Vidyalaya, Colombo.
Nawalapitiya	Conducted a diabetics awareness programme at Nawalapitiya General Hospital.
Negombo	Conducted a dengue awareness campaign among school students and public.
Nittambuwa	Conducted a dengue awareness Programme at Ranpokunugama Maha Vidyalaya, Ranpokunugama.
Seylan Card Centre	Donated visitors chairs to National Cancer Institute, Colombo.

Conducted an  
eye clinic with more than  
75 student participants

Seylan is committed to  
support society in the event  
of natural disasters financially or by other means

## / Sustainability Report

### Donations, Sponsorships and Participation in Community Projects:

Seylan recognises the importance of interaction with community organisations who work for the well-being of the people. We are therefore committed to offer financial or material assistance in this cause. The Bank recognises its responsibility to support the democratic process and law and order and ensures that the Government is well-informed of its activities in society. The Bank therefore is committed to ensure that any donations and sponsorships extended are:

- Solely for the purpose of supporting the democratic process
- And are lawfully and properly recorded and disclosed in our accounts.

Seylan is also committed to support society in the event of natural disasters financially or by other means and encourages staff to volunteer in such instances, in their local communities. The Bank also helps individuals in society in need of sponsorships for medication, sports and education and is extensively involved in the community as per the table given below:

Project	Rs. Mn
Welfare Schemes and Assistance for the Community	0.979
Education Development	0.345
Health Care Assistant	0.193
Disaster Relief Donations	0.135
<b>Total</b>	<b>1.652</b>

### Being a Responsible Corporate Citizen

We recognise and respect the laws and the regulations as an important yardstick to manage our day-to-day operations in a manner which maximises benefit to stakeholders, and certain important provisions that are applicable to our operations are listed below:

Aspect of the Compliance	Level/Status of the Compliance and the Action Taken
Percentage and total number of business units analysed for risk relation to corruption and percentage of employees trained in anti-corruption policies and procedures	Bank continuously conduct training programmes to make its staff aware on the threats and issues from corruptions  ‘Training for well-being’ shown in the next provides the information on such training during the year.
Action taken in response to incidents of corruptions	Banking business operates with the public and shareholders money and therefore banks have a serious responsibility to manage such money to the best interest of the stakeholders.  Seylan too operates with very rigid controls, internal audit procedures, and disciplinary procedures to safe guard the public money.
Participation in public policy development	Bank is invited by the Government to submit the proposals for consideration when formulating the Government Budget for 2013 and the implementation of IFRS and new tax laws.
Total value of financial and in kind contribution to political parties and politicians	Bank has carried out its transaction in the ordinary course of the business and arm’s length basis and there are no contributions made to political parties or the politicians
Number of legal action for anti-competitive behaviour	Bank did not encounter any legal action for any anti-competitive behaviour during the year. Bank always comply with the laws and regulations of the country in handling marketing campaigns display banners, conducting sales and road shows campaigns, sound system or any other.
Monetary value of significant fines and total number of non-monitory sanctions for non-compliance with laws and regulations.	There were no fines or non-monitory sanctions during the year under review.  Bank has complied with all laws and regulations applicable to the bank. Monthly compliance report is tabled at the board as a monitoring tool.

## / Sustainability Report

### Training for Well-being

	2012			2011		
	No. of Programmes	No. of Participants	No. of Hours	No. of Programmes	No. of Participants	No. of Hours
General Banking Practices	179	3,847	1,432	67	2,144	536
Anti-Money Laundering/KYC	43	945	344	19	608	152
System Security	4	6	32	7	17	56
Accounting and Auditing	8	11	64	16	44	128
<b>Total</b>	<b>234</b>	<b>4,809</b>	<b>1,872</b>	<b>109</b>	<b>2,813</b>	<b>872</b>

### Staff Contributions (beyond the workplace)

The Bank encourages voluntary staff participation in community projects and in the event of natural disasters among other community needs. We support voluntary participation in community projects by employees, by creating a platform for them to actively participate in CSR projects and community development initiatives organised by the Sustainability Committee. During the year, the Bank's Sustainability Committee initiated an internal competition among the branches and the departments in order to promote awareness and encourage participation in sustainability projects. The prime criteria to be eligible to enter the competition required participants to conduct an external project on their own addressing a national priority, which carried one-fifth of the marks awarded in the competition.

Around 2000 staff members contribute monthly towards sustainability activities of the Bank, particularly in the programmes carried out at our pilot village. During the year in review, the full contribution made by the staff was utilised for pilot village projects.



Around **2000 staff members** contribute monthly towards sustainability activities of the Bank

As a reasonable corporate citizen we are committed to the efficient and **sustainable use of global resources**



**Environment**



**Environmental Policy**

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.

We are very mindful that our core business of expanding our branch network has a significant indirect impact on the ecosystem and the immediate environment. The Bank utilises a substantial amount of natural resources and energy such as water, electricity, fuel etc. This involves a large amount of capital outlay and emits a substantial amount of carbon and waste.

**Our Strategic Priorities:**

1. Resource Efficiency
2. Environmental Regulations and Legislation

**Resource Efficiency**

Resource efficient and environmental friendly banking is a key need for the society of today and the future. The Bank consumes a large amount of natural resources such as electricity, water and fuel etc. in its daily operations which results in a substantial amount of green house gas emission.

As a reasonable corporate citizen we are committed to the efficient and sustainable use of these global resources, whether from direct or indirect sources. In this way, we are committed to managing our carbon footprint.

## / Sustainability Report

We believe that the efficient utilisation of energy across the business provides a number of benefits including the protection of global energy reserves and the reduction of the Banks' environmental impact. Through the effective implementation of a range of energy efficiency principles and processes, instituted over the last few years, the Bank has made great progress in this regard.

The Bank's energy efficiency measures have varied from generating increased awareness on effective and necessary use of energy and implementation of energy efficient technologies to the utilisation of alternative energy.

### Energy Management

Substantial amounts of electricity generated in our country is derived from fossil fuel which is a non-renewable energy source. Therefore it goes without saying that sustainable consumption of electricity can largely contribute to reducing climate change and conserving the fossil fuel reserves of the world. Integration of this climate of responsibility to daily operations of the Bank is a key aspect of our environmental initiative.

We have established internal indices for the purpose of monitoring efficiency in consumption of electricity per employee and Sq. ft of building occupied by the Bank. Helped by staff education and awareness programmes, we were able to maintain the index of electricity consumed per employee in 2012 at the same level in 2011.

### Water Management

During the year, the Bank has consumed 83,967 units of water in the course of its operations compared to 72,907 units in 2011. The increased consumption was mainly due to the increase of floor area and branch offices.

### Towards a 'Paperless Operation'

Management of paper consumption and wastage were prioritised this year. We sought avenues to simplify some of the Bank's paper intensive processes such as loan approvals to minimise documentation and consumption. These efforts enabled us to reduce average consumption of photocopy paper. There have also been considerable savings on print cartridges, maintenance of equipment and the time spent on distribution, handling and filing of documents as well.

### Waste Management and Emission

The Bank adopts the Recycle, Reuse, Reduce philosophy in respect of all tangible resources. With initiatives in place for the creation of a paperless office, the Bank strives to minimise the utilisation of paper. Where use of paper is essential we ensure that maximum utilisation of the paper is achieved through the utilisation of duplex printers. Subsequently the used paper is collected and recycled. 120,032 kg of paper was recycled, for the 12 months under review, which is an increase of 65.8% over 2011.

GEOCYC (Pvt) Limited has confirmed that, our waste has saved 2,044 fully grown trees, 3,822,497 liters of water, 481,120 kWh of electricity, 211,091 litres of oil, and 361 cubic metres of land fill.

### Green IT

Bank is currently working on a project for server virtualisation which would result in a more effective utilisation of floor space and material usage. Further simplification of process, use of e-mails, circulars on *intra* net, web-based applications and alternative business channels have contributed positively to environmental responsibility either by reducing power, floor space, paper usage or by increasing the efficiency of resource utilisation.



120,032 kg of paper was recycled, for the 12 months under review, which is an **increase of 65.8%** over 2011

## / Sustainability Report

### e-Waste Management

The Bank began returning its used IT equipment, mobile phones and other electrical and IT appliances to an authorised dealer who disposes of them according to the guidelines set out by the Ministry of Environment and Natural Resources and in compliance with International Standards. The Bank has also promoted the concept amongst staff, encouraging them to bring in their home e-waste for disposal in an environmentally friendly manner.

As a sustainability initiative the Bank collected over 750 kg of e-waste for environmental friendly disposal in 2012.



Initiation of E-waste Management Project by Chief Financial Officer, Mr. Ramesh Jayasekara and Assistant General Manager - Supplies, Mr. Wasantha Karunaratne

### Emission control

The Bank is committed to minimising emissions both directly and indirectly through measurement and monitoring of staff and customer travel thereby reducing fuel consumption and minimising carbon emissions.

We educate our drivers on safe driving and other regulations which indirectly support emission control.

### Utilisation of Natural Resources

The Bank is committed to conserving global resources by astutely managing fuel, electricity, water and paper consumption throughout its operations and promoting in-house resource saving programmes.

### Community and Employees Awareness

The Bank ensures that every staff member fully comprehends the importance of incorporating environmental considerations into their daily business activities. We also encourage employees to display their commitment to the environment by supporting staff driven voluntary programmes for improving and educating local communities on environmental conservation and preservation.

### Conservation of Biodiversity

We are mindful that our core business caused deforestation through expansion of business. In this context we encourage and promote Tree Planting Campaigns within schools and communities. As discussed above most of our branches were involved in tree planting campaigns as a part of their Sustainability Initiatives.



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### Managing Carbon Footprint

Fossil fuel consumption caused by business and staff travel, consumption of electricity, water and paper were identified by the Bank as core areas of focus in managing its carbon footprint.

#### Business Travel and Fuel Consumption

During the year under review, the Bank's fleet of vehicles have run 420,150 km and consumed 56,531 litres of diesel and 27,436 litres of petrol in the course of business, which when compared with 2012 levels, indicate we have a significant control of carbon emission in place. The following initiatives implemented by the Bank in 2011, greatly contributed to this achievement.

- Conducted training programmes on cost effective and eco-friendly use and maintenance of vehicles.
- Deployment of regional staff for branch promotions and other events reducing the need for staff from the Head Office or other regions to travel to these locations, thereby reducing fuel consumption.
- Contracted an efficient courier services for delivering of documents and materials/ decentralized operational authorities to regional level.
- Authorised branches to hire local vehicles for business travel.
- No. of staff awareness campaigns to reduce emissions generated by public and private vehicles were conducted during the year.
- Conserve fossil fuel reserves of the planet and save money for the national economy.

- Save time which eventually works to the advantage of the economy.
- Leverage the benefits from the geographical spread of our employees.
- Improve staff efficiency and productivity.

#### Other Measures taken Towards Resource Efficiency and Conservation

- The centrally monitored air conditioning system for Head Office also has the facility of floor level monitoring if required.
- Extensive use of natural light resulting in efficient lighting system.
- Ample access to views of outdoors to maintain visual connection to surrounding environment.
- Reduce light pollution levels of our exterior lighting.
- Installation of meters and implementation of verification mechanisms to monitor savings in respect of energy and water consumption.

- Appropriate selection of air conditioning refrigerant - low ozone depleting potential and minimal direct global warming potential.
- increased ventilation in the newly located branch premises.
- Measures to reduce discharge of CO<sub>2</sub> to environment.

#### Environmental Regulations and Legislation

In December 2010, the Board adopted an Environmental Policy as an integral component of the Bank's sustainability regime, to guide staff in the enactment of day-to-day operations and to instill in them a commitment towards environmental sustainability.

In carrying out its business, the Bank is at all times mindful of balancing environmental needs with social and economic needs. The desire to achieve corporate financial goals should not override the need to conserve the country's bio-diversity, culture and overall uniqueness.





## / Sustainability Report

In this context, the Bank ensures that it grants facilities that are duly approved by the relevant local authority or regulatory body and that these facilities are fully in compliance with development regulations and environmental standards. For example, housing loans will be granted only for housing plans prepared and approved by adequately qualified building planners, which are in compliance with prevalent legislation and requirements of the relevant regulatory bodies, while at the same time meeting community environmental standards. Other project loans are very specifically subject to prevalent legislation and requirements of the relevant regulatory bodies.

### Level of Compliance of Lending Operations with Regulatory Requirements

	2012	2011
No. of fines reported for the breach of environmental regulations	Nil	Nil
No. of fines imposed breach of other laws	Nil	Nil

### Key Performance Indicators - Environmental Value Creation

	2012	2011	2010	Indicator
<b>Paper</b>				
No. of A4 Paper Purchased - Packets	16,950	18,527	21,341	↑
Weight of Photocopy Paper (kgs)	203,400	222,324	256,092	↑
No. of Photocopy Papers Consumed per Business Unit (kgs)	1,384	1,671	2,099	↑
Waste Paper Disposed for Recycling - kgs	120,032	72,382	57,860	↑
<b>Recycling of Disposed Papers Saved</b>				
- Trees	2,044	1,230	983	↑
- Water (Litres)	3,822,497	2,175,546	1,838,790	↑
- Electricity (kWh)	481,120	289,528	231,440	↑
- Oil (Litres)	211,091	251,783	101,544	↑
- Land Fill (Cubic metres)	361	-	-	↑
<b>Business Travel, Energy Consumption and Emission Control</b>				
Petrol Consumption in Litres	27,436	37,066	45,929	↑
Diesel Consumption Litres	56,531	32,720	47,237	↓
<b>Electricity and Water</b>				
Electricity Consumption Units	9,450,268*	9,187,480	9,362,307	↓
Electricity Consumption - Unit per Employee	3,087	2,917	2,584	↓
Water Consumption units per Employee	27.43	23.15	24.94	↓
Lubricant Oil - Litres	591	1,050	900	↑

↑ Increase in Savings ↓ Decrease in Savings

\* Increase in use of resources was managed below 10% despite the expansion of branch network by 15



## Suppliers

### Supplier Policy

The Bank's suppliers and service providers are selected through a transparent procurement procedure that is based on fair competition.

Seylan Bank's relationship with its suppliers is a strong and enabling one. Our interaction is meant to be mutually productive and lucrative and we ensure that it stays healthy through measures such as -

1. A proper procurement policy and practices
2. Promote locally-based suppliers

### Procurement policy and practices

All procurements follow a transparent tender procedure and price negotiations are conducted by designated teams and committees depending on the contract value and focus. Suppliers and supplier information is treated with confidentiality and fair dealing.

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

Thus, in accordance with the Bank's Sustainability Strategy and Corporate Procurement Strategy it strives to incorporate environmental and social considerations into

the procurement process. The Bank follows a concerted policy of non-discrimination against small scale suppliers.

From an internal perspective, the Bank encourages departments and branch offices to review their consumption of goods and services in order to reduce usage, recycle and reuse in a bid to operate according to sustainable business principles.

### Promote Locally Based Suppliers

By consciously choosing locally based suppliers, Seylan is contributing to employment creation and indirectly, to the country's GDP.

### Procurement from Local Suppliers by Branches

Services/Purchases	2012 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.
Repair & Maintenance	19.6	23.1	7.1
Janitorial Services	42.2	38.0	26.6
Supply of Foliage	2.3	2.3	2.2
Subsidised Lunch	51.9	50.7	45.3
Tea and Coffee	27.1	15.1	16.8

### Commitment to the Stakeholder Engagement

The Bank recognises sustainability as a part of its core business and our future strategies laid down in the strategic plan 2012 - 2015 covers the stakeholder engagement as summarised below during 2012.

## / Sustainability Report

	Stakeholder	Stakeholder Engagement and Bank's Commitment
Economic	Investors	<p>Creation of wealth and value for our stakeholders with constant and sustainable growth levels which is explained in detail in the overall outlook of the Bank in the Management Discussion and Analysis Report.</p> <p>Recruited the Manager Cost and Portfolio who would analyse each line of operation to improve business and value addition.</p> <p>Improvement of risk management and compliance as a key aspect of the Bank's day-to-day business process.</p> <p>Enriched the banking functions within a proper economic integrated framework based on the country's economic outset. Recruited/Promoted an Economic Integration Manager and created internships with educational and research organisations to align business strategies with national goals.</p>
	Customers	<p>Introduction to product management; improve value addition to the customer. Making our products innovative and customer friendly, thus meeting their needs.</p> <p>Our efforts to grow savings would introduce financial literacy among children and youth.</p> <p>Expansion of our network and technology-based channels make banking convenient.</p> <p>Centralised back office functions help to simplify operations.</p>
Social	Employees	<p>Strengthened recognition and autonomy.</p> <p>Training and development provided, in crucial areas such as credit quality, product knowledge, service excellence.</p> <p>Revised Promotion policy.</p> <p>Comprehensive performance appraisal system in place with target driven culture.</p> <p>Improved internal service quality by appointment of an Internal Customer Service Manager</p>
	Community	<p>CSR plan, as per the Bank's Strategic Plan, includes the development of villages in areas such as education, health, self-employment, financial literacy etc.</p>
	Suppliers	<p>Streamline the procurement process and simplify the process with new inventory system.</p>
Environment		<p>Constant saving of power and energy through simplification of process, raising awareness etc.</p>

## / Sustainability Report


### Focused Engagements - 2013 through the Bank's 25th Anniversary Year

Stakeholder	Focused Engagements
Investors	<ul style="list-style-type: none"> <li>Maximise direct economic value creation</li> <li>Focus on expanding banking services with automated banking channels</li> <li>Enhance lending to SME and agriculture sectors</li> <li>Enhance profitability and shareholders fund with efficient portfolio management</li> <li>Strengthen strategies for risk management</li> <li>Enhance brand and corporate image</li> <li>Timely and regular publication of quarterly financial results and Annual Report 2013</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Enhance customer reach by opening new branches and through ATMs</li> <li>Diversify the product range with new customised loan, savings and deposit products</li> <li>Introduce new value added services for customer convenience</li> </ul>
Environment	<ul style="list-style-type: none"> <li>Implement a branch-wise competition to promote efficient utilisation of energy and resources</li> <li>Initiate measures to quantify emission and manage own carbon footprint</li> <li>Improve the operations and credit process whilst reducing paperwork</li> <li>Strive to reduce indirect energy consumption</li> </ul>
Community	<ul style="list-style-type: none"> <li>Investment on promoting education by assisting schools; target establishment of 100 libraries in 3 years</li> <li>Support community needs and contribute for the economic development of the country</li> <li>Enhance strategies to attract un banked community and empower them through banking habits</li> </ul>
Social	<ul style="list-style-type: none"> <li>Review the HR Policies</li> <li>Promotion of staff to fill career vacancies</li> <li>Initiatives for training &amp; development and work life balance</li> </ul>

## / Sustainability Report

### Standard Disclosures and Report Application Level

We prepared this Sustainability Report in accordance with the Global Reporting Initiatives (GRI-G3 ) indicator protocols. Seylan Bank self-declared a **B+** level rating against the G3 application level and obtained an independent limited assurance report as set out on page 212 in this report as a positive assurance of our sustainability processes and application.

		C	C+	B	B+	A	A+
Mandatory	Self Declared						
	Third Party Checked						
Optional	GRI Checked						

## / Sustainability Report



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### Independent Limited Assurance Report to Seylan Bank PLC on the Sustainability Report for the year ended 31 December 2012

#### 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, 2012 of Seylan Bank PLC ('the Report') as set out on pages 146 to 221 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 2012, is not presented fairly, in all material respects, in accordance with the GRI Sustainability guidelines.

**CHARTERED ACCOUNTANTS**

21st February 2013

Colombo

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
 C.P. Jayatilake FCA  
 Ms. S. Joseph FCA  
 S.T.D.L. Perera FCA

Ms. M.P. Perera FCA  
 T.J.S. Rajakarier FCA  
 Ms. S.M.B. Jayasekara ACA  
 G.A.U. Karunaratne ACA

P.Y.S. Perera FCA  
 W.W.J.C. Perera FCA  
 W.K.D.C. Abeyrathne ACA  
 R.M.D.B. Rajapakse ACA

**Principals** - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

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<b>Environmental</b>				
<b>Materials</b>				
EN1	Materials used by weight or volume	✓	Sustainability Report - Key Performance Indicators - Environmental value creation	207
EN2	Percentage of materials used that are recycled input materials	✓	Sustainability Report - Key Performance Indicators - Environmental value creation	207
<b>Energy</b>				
EN3	Direct energy consumption by primary energy source	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
EN4	Indirect energy consumption by primary source	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
EN5	Energy saved due to conservation and efficiency improvements	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207

## / Sustainability Report

Index No.	Description	Status	Report Section	Page No.
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements achieved	✓	Sustainability Report - Environment	203
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	✓	Sustainability Report - Environment	203
<b>Water</b>				
EN8	Total water withdrawal by source	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
EN9	Water sources significantly affected by withdrawal of water	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
EN10	Percentage and total volume of water recycled and reused	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
<b>Biodiversity</b>				
EN11	Location and size of land owned, leased, managed in or adjacent to biodiversity in protected areas	⊘	Not Applicable	-
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	⊘	Not Applicable	-
EN13	Habitats protected or restored	✓	Sustainability Report - Conservation of Biodiversity	205
EN14	Strategies, current action and future plans for managing impacts on biodiversity	✓	Sustainability Report - Conservation of Biodiversity	205
EN15	Number of IUCN red list species and national conservation list species with habitats in areas affected by operations	⊘	Not Applicable	-
<b>Emissions, Effluents and Waste</b>				
EN16	Total direct and indirect greenhouse gas emissions by weight	✓	Sustainability Report - Resource Efficiency	203
EN17	Other relevant indirect greenhouse gas emissions by weight	✓	Sustainability Report - Resource Efficiency	203
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	✓	Sustainability Report - Resource Efficiency	203
EN19	Emissions of Ozone-depleting substances by weight	⊘	Not Applicable	-
EN20	NO, SO, and other significant air emissions by type and weight	⊘	Not Applicable	-
EN21	Total water discharge by quality and destination	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
EN22	Total weight of waste by type and disposal method	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
EN23	Total number of volume of significant spills	⊘	Not Applicable	-

## / Sustainability Report

Index No.	Description	Status	Report Section	Page No.
EN24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of Basel Convention Annex I, II and IV and percentage of transport waste shipped internationally.	⊘	Not Applicable	-
EN25	Identity, size, protected status and biodiversity value of water bodies and related habits significantly affected by the reporting organisation's discharges of water and run off	⊘	Not Applicable	-
<b>Products and Services</b>				
EN26	Initiatives to mitigate environmental impact of products and services and extent of impact mitigation	✓	Sustainability Report - Product Responsibility	168 - 172
EN27	Percentage of products sold and their packaging materials reclaimed	⊘	Not Applicable	-
<b>Compliance</b>				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	✓	Sustainability Report - Environmental Regulations and Legislations	206
<b>Transport</b>				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce	✓	Sustainability Report - Emission Control	205
<b>Overall</b>				
EN30	Total environmental protection expenditure and investments by type	✓	Sustainability Report - Key Performance Indicators - Environmental Value Creation	207
<b>Human Rights</b>				
<b>Investment and Procurement Practices</b>				
HR1	Percentage and total number of significant investment agreements and contracts on human rights clauses/human rights screening	⊘	Not Applicable	-
HR2	Percentage of significant suppliers, contractors and other business partners who have undergone human rights screening and actions taken	⊘	Not Applicable	-
HR3	Total hours and percentage of employee training on policies and procedures concerning aspects of human rights relating to operations	✓	Sustainability Report - Labour Relations and Human Rights	187
HR4	Total number of incidents of discrimination actions taken	✓	Sustainability Report - Culture of Diversity	182
<b>Freedom of Association and Collective Bargaining</b>				
HR5	Violations/Found at Risk in operations, the right to exercise freedom of association and collective bargaining and favourable actions taken	✓	Sustainability Report - Labour Relations and Human Rights	187
<b>Child Labour</b>				
HR6	Measures taken to eliminate child labour	✓	Sustainability Report - Respect Labour Practices; Decent Workplace; Labour Relations	182

## / Sustainability Report

Index No.	Description	Status	Report Section	Page No.
<b>Forced and Compulsory Labour</b>				
HR7	Measures taken to eliminate compulsory or forced labour	✓	Sustainability Report - Respect Labour practices; decent work place; Labour relations	182
<b>Security Practices</b>				
HR8	Percentage of security personnel trained in organisation policies and procedures on human rights	✓	Sustainability Report - Security Practices	188
<b>Indigenous Rights</b>				
HR9	Total number of violations of rights of indigenous people and actions taken	⊘	Not Applicable	-
<b>Assessment</b>				
HR10	Percentage and total number of operations subjected to human rights review and or impact assessments	⊘	Not Applicable	-
<b>Remediation</b>				
HR11	Number of grievances related to human rights filed addressed and resolves through formal grievance mechanisms			
<b>Labour Practices and Decent Work</b>				
LA1	Total workforce by employment type, employment contract and region broken down by gender	✓	Sustainability Report - Team Profile and Development	175
LA2	Total number and rate of employee hires and employee turnover by age group, gender and region	✓	Sustainability Report - Staff Turnover	186
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations	✓	Sustainability Report - Team Emoluments and Other Benefits	177
LA15	Return to work and retention rates after parental leave by gender	✓	Sustainability Report - Respect Labour Practices; Decent Workplace; Labour Relations	182
<b>Labour Management Relations</b>				
LA4	Percentage of employees covered by collective bargaining agreements	✓	Sustainability Report - Labour Relations and Human Rights	187
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	✓	Sustainability Report - Labour Relations and Human Rights	187
<b>Occupational Health and Safety</b>				
LA6	Percentage of total workforce represented in formal joint management worker health and safety committees that help monitor and advice on occupational health and safety programmes	✓	Sustainability Report - Illness, Injuries and Lost Days	186
LA7	Rate of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region and by gender	✓	Sustainability Report - Illness, Injuries and Lost Days	

## / Sustainability Report

Index No.	Description	Status	Report Section	Page No.
LA8	Education, training, counselling, prevention of diseases and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases	✓	Sustainability Report - Health Camps, Counselling and Support for Social Well-being.	199
LA9	Health and safety topics covered in formal agreements with trade unions	✓	Sustainability Report - Rights of Unionisation and Collective Bargaining	187
<b>Training and Education</b>				
LA10	Average hours of training per year per employee by gender and employee category	✓	Sustainability Report - Training and Development	178
LA11	Programmes for skills management and life-long learning that support the continued employability of employees and assist them in managing career endings	✓	Sustainability Report - Training and Development	178
LA12	Percentage of employees receiving regular performance and career developments, reviews by gender	✓	Sustainability Report - Training and Development	178
<b>Diversity and Equal Opportunity</b>				
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group, membership and other indicators of diversity	✓	Sustainability Report - Culture of Diversity	182
<b>Equal Remuneration for Women and Men</b>				
LA14	Ratio of basic salary of women to men by employee category by significant locations of operation	✓	Sustainability Report - Basic Salary Analysed by Gender	184
<b>Society</b>				
<b>Local Community</b>				
S01	Percentage of operations with implemented local community engagement, impact assessments and development programmes	✓	Sustainability Report - Responsibility for the Community	193
S09	Operations with significant potential or actual negative impacts on local communities	✓	Sustainability Report - Responsibility for the Community	191
S010	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	✓	Sustainability Report - Responsibility for the Community	191
<b>Corruption</b>				
S02	Percentage and total number of business units analysed for risks related to corruption	✓	Sustainability Report - Being a Responsible Corporate Citizen	201
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures	✓	Sustainability Report - Being a Responsible Corporate Citizen	201
S04	Actions taken in response to incidents of corruption	✓	Sustainability Report - Being a Responsible Corporate Citizen	201

## / Sustainability Report

Index No.	Description	Status	Report Section	Page No.
<b>Public Policy</b>				
S05	Public policy positions and participation in public policy development and lobbying	✓	Sustainability Report - Being a Responsible Corporate Citizen	201
S06	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	✓	Sustainability Report - Being a Responsible Corporate Citizen	201
<b>Anti-Competitive Behaviour</b>				
S07	Total of legal actions taken for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	✓	Sustainability Report - Being a Responsible Corporate Citizen	201
<b>Compliance</b>				
S08	Monitory value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	✓	Sustainability Report - Being a Responsible Corporate Citizen.	201
<b>Products Responsibility</b>				
<b>Customer Health and Safety</b>				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services category subject to such procedures.	✓	Sustainability Report - Product Responsibility	168
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	✓	Sustainability Report - Product Responsibility	168
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	✓	Sustainability Report - Product Responsibility	168
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	✓	Sustainability Report - Product Responsibility	168
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	✓	Sustainability Report - Improving Customer Satisfaction/Service Quality	167
<b>Marketing Communications</b>				
PR6	Programmes for adherence to laws and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	✓	Sustainability Report - Products and Service Labelling and Marketing Communications	169
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	✓	Sustainability Report - Products and Service Labelling and Marketing Communications	169
<b>Customer Privacy</b>				
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	✓	Sustainability Report - Compliance with Product Responsibility	169

## / Sustainability Report

Index No.	Description	Status	Report Section	Page No.
<b>Economic</b>				
<b>Economic Performance</b>				
EC1	Direct economic value generated and distributed	✓	Sustainability Report - Maximum Returns to Stakeholders	156
EC2	Financial Implications and other risks and opportunities for the organisation's activities due to climate change	✓	Sustainability Report - Environmental Regulations and Legislations	206
EC3	Coverage of organisation's defined benefit plan obligations	✓	Sustainability Report - Staff Benefits	177
EC4	Significant financial assistance received form Government	✓	Sustainability Report - Contributing Towards National Priorities	172
<b>Market Presence</b>				
EC5	Range of ratio of standards entry level wage by gender compared to local minimum wage at significant locations of operations	✓	Sustainability Report - Standard of Entry Level Wages	186
EC6	Policy, practices and promotion of spending on locally-based suppliers at significant locations of operation	✓	Sustainability Report - Promote Locally-Based Suppliers	208
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	✓	Sustainability Report - Distribution of Staff by Province and Gender	183
<b>Indirect Economic Impacts</b>				
EC8	Development and impact of infrastructure investments and services provided primarily for public benefits through commercial, in-kind, or pro bono engagement	✓	Sustainability Report - Responsibility for the Community	191
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	✓	Sustainability Report - Responsibility for the Community	191

✓ Compiled

⊘ Not applicable

# It will work!





## / Future Outlook



If congruence and precision accompany strategy...the arrow WILL find its target.

### Economic Contribution

Seylan plays a vital role in Sri Lanka's economy as a financial service provider capturing nearly more than 6% of the lending and deposits market. Seylan Bank represents a significant and influential sector of the business.

Mostly the middle market individuals and organisations make use of banks, either as depositors or borrowers. Bank play a major role in creating financial inclusion of the country through the entire banking channels across the country. Bank will continue with its expansion plan over the next three years and grow the banking channels including automated channels expanding the banking services across the Island.

The immediate outlook of the local economic environment appears to be encouraging. The Bank is well-positioned to capitalise on the opportunities emerging in the market due to the positive macro economic outlook in the country. Further the Bank was recapitalised in its Tier II base with 2 Bn. debentures which result in the Bank's capital

adequacy ratio being well above the statutory limits and the industry average, would necessarily facilitate to attract the upcoming business opportunities coming business opportunities.

A few indicators that the Bank has set it's sights for in 2013:

	2013
ROE (%)	> 12.50
ROA (%)	> 1.25
EPS (Rs.)	> 7.00
Total Assets Growth (%)	> 13.00

### Customer Satisfaction and Service Quality

Bank is currently having 107 Branches and 40 Convenient centers island-wide covering the entire country. We believe our coverage is well-spread covering all the geographical areas in the country and we see many opportunities for our network to have more use. For instance, we're exploring options for other appropriate organisations to join us, as channel partners. The result will be greater value for all of us. We're also looking to use new channels where they'll help us to reach new people to serve.

Our future strategies will not only to expand the mere traditional branches but also to includes growing of non-traditional channels that includes automated banking, e-commerce, m-commerce payment gateway, SMS banking etc. to have far wider use and value. At present they're under-used compared with their service potential.

Customer satisfaction is no idle, soft interpretation of public acceptance. It covers and incorporates well-defined responses, expectations and aspirations. We are unrelenting in seeking to measure, benchmark and enhance individual and sector satisfaction. Customers define the satisfaction according to promises, expectations, our instincts and the behavior of competitors. Expectations in relation to satisfaction rise constantly.

### Productivity And Developing Staff

Improved productivity is a major challenge for service-providing organisations. Improved productivity has a direct positive impact on our main operating expense of salaries and wages. The more we sharpen and strengthen our act, the more we ensure employment growth and security.

Seylan team serves the Bank and the stakeholders in a host of ways. Our members are skilled, committed, loyal energetic and adaptable. Bank aims to develop and enhance each of these through extensive training, including regional training and we have increased the investment on the training by 100% in the year 2013 and also plan to have sound, proven training frameworks in place, and we're determined to steadily improve our customer service capability, professionalism and productivity.



# Financial Reports

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## Financial Calendar - 2012

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 2011	13th February 2012	
1st Quarter/Three months ended 31st March 2012	27th April 2012	10th May 2012
2nd Quarter/Six months ended 30th June 2012	7th August 2012	11th August 2012
3rd Quarter/Nine months ended 30th September 2012	25th October 2012	2nd November 2012
<b>Audited Financial Statements -</b> Year ended 31st December 2011 and Annual Report - 2011	Issued to the CSE on 2nd March 2012 Circulated to the Shareholders - March 2012 Circulated to the Debenture Holders - April 2012	
<b>25th Annual General Meeting:</b>	Held on 28th March 2012	
<b>First and Final Ordinary Dividend for the year ended 31st December 2011 paid on:</b>	9th April 2012	

## Proposed Financial Calendar - 2013

<b>Unaudited Financial Statements</b> 4th Quarter/Year ended 31st December 2012 - Released to the CSE	28th February 2013
<b>Audited Financial Statements -</b> Year ended 31st December 2012 and Annual Report - 2012 - To be released to the CSE and circulated to the Shareholders/Debenture Holders (Including Notice of Annual General Meeting to the Shareholders)	March 2013
<b>26th Annual General Meeting (AGM)</b> will be held on	28th March 2013
<b>First and Final Ordinary Dividend</b> for the year ended 31st December 2012 (Subject to approval of the Shareholders at the AGM)	9th April 2013
<b>Interim (Unaudited) Financial Statements</b> for the first three quarters of 2013 - Will be released/published within 45 days from the end of each quarter and in respect of the Final Quarter/Year ended 31st December 2013 within 2 months from the said date.	

# Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2012

The Directors of Seylan Bank PLC ('the Board' or 'the Directors') present their Report on the state of affairs of Seylan Bank PLC ('the Bank' or 'the Company') together with the Audited Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the financial year ended 31st December 2012 and the Auditors' Report on those Financial Statements.

This Report hereinafter will also be referred to as 'this Report', 'Report of the Directors' or 'Report of the Board of Directors'.

The Financial Statements and the disclosures made herein conform to the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1998 (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 21st February 2013.

## Seylan Bank PLC

Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka on 28th August 1987 under the Companies Act No. 17 of 1982. The Bank was re-registered as required under the provisions of the Companies Act No 07 of 2007 on 30th May 2007. The Bank was listed on the Colombo Stock Exchange in January 1989. The Bank's ordinary shares (both voting and non-voting) and the majority of its unsecured subordinated redeemable debentures are listed in the Colombo Stock Exchange.

## Vision, Mission and Corporate Conduct

The Bank's Vision and Mission Statements are given on page 2 of the Annual Report.

The Bank conducts its business activities at a high level of ethical standard in achieving its vision and mission. To this end, the Board of the Directors of the Bank as well as its employees have pledged to abide by and comply with the respective Codes of Conduct and Ethics.

## Principal Activities

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, margin trading, pawn broking, project financing, lease financing, rural credit, credit card facilities, money remittance services, dealing in Government Securities and Treasury Related products, etc.

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review.

## Group Companies Seylan Developments PLC

Subsidiary of the Bank, Seylan Developments PLC is a public limited liability company listed in the Colombo Stock Exchange. The principal activities of Seylan Developments PLC is property development/management. The Bank held a 51.83 % stake in Seylan Developments PLC as at 31st December 2012.

## Branch Network

As at the end of the year 2012, the Bank had a network of 107 branches, 40 extension offices and 81 student savings centres. This included 7 new branches opened during the year at Akuressa, Battaramulla, Kaduruwela, Moneragala, Ambalantota, Narammala and Mahiyanganaya and 8 extension offices at Eppawela, Galenbindunuwewa, Aralaganwila, Kalpitiya, Medawachchiya, Moratumulla, Nochiyagama and Bowatta. The branches at Kurunegala and Manampitiya and the extension office at Gothatuwa were relocated during the year whilst the extension offices at Piliyandala and Dambulla were upgraded to branch status. The Bank closed the First City Office branch at Fort in April 2012 and the accounts and operations of this branch were transferred to the Colombo Fort Branch and other branches in the vicinity.

## Review of Year 2012's Performance and Future Development Plans

The Chairman's Message, the Chief Executive Officer's Review and the Management Discussion and Analysis published in this Annual Report provide an overall assessment and review of the Bank's operations and financial performance during the year 2012 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 2012, 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(l)(b) of the Companies Act No. 07 of 2007 as published in this Annual Report form an integral part of this Report.

## Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, Banking Act No 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and Banking Act Direction No. 11 of 2007 (as amended), and the Directions and guidelines thereto.

The Statement of Directors' Responsibility for Financial Reporting which appears on page 239 of this Annual Report form an integral part of this Report of the Directors.

## Auditors' Report

The Auditors of the Company, Messrs KPMG, Chartered Accountants have carried out the audit of the Consolidated Financial Statements for the financial year ended 31st December 2012 and their Report on the Financial Statements appear on page 241 of this Annual Report.

# Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2012

## Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 249 to 268 in this Annual Report.

## Financial Reporting

The Bank has adopted Sri Lanka Accounting Standards (LKAS/SLFRS) in the preparation of the Financial Statements. Consequently, the necessary quantifications and disclosures have also been made based on LKAS/SLFRS. Prior year figures have been adjusted in accordance with LKAS/SLFRS and the reconciliations for the changes due to adoption of LKAS/SLFRS has been provided in Note 48 in the Financial Statements.

## Financial Results

### Income

The income of the Bank and income of the Group as at the end of 2012 were as follows. An analysis of the income is given in the Notes to the Financial Statements published in this Annual Report:

	2012		2011	
	Bank Rs. Bn.	Group Rs. Bn.	Bank Rs. Bn.	Group Rs. Bn.
Gross Income (Note 6)	<b>23.623</b>	<b>23.692</b>	18.824	18.963
Operating Income	<b>11.438</b>	<b>11.519</b>	10.392	10.542

## Profit and Appropriations

A summary of the consolidated financial Results of the operations of the Group during the year ended 31st December 2012 is given below:

	2012 Rs. '000	2011 Rs. '000
Profit before Taxation	<b>3,226,617</b>	1,158,935
Less: Taxation	<b>1,144,202</b>	492,682
Profit after Taxation	<b>2,082,415</b>	666,253
Attributable to Non-Controlling Interest	<b>19,359</b>	(9,695)
Net Profit Attributable to Equity Holders	<b>2,063,056</b>	675,948
Retained Profit Brought Forward after Dividends	<b>4,771,477</b>	4,780,298
Profit Available for Appropriation	<b>6,834,533</b>	5,456,246
Adjustments/Transfer to Reserve Fund	<b>(106,338)</b>	(49,272)
Other Transfers/Adjustments	<b>(557,927)</b>	(297,417)
Balance Carried Forward	<b>6,170,268</b>	5,109,557

## Taxation

Provision for taxation has been computed as indicated in Note 15 to the Financial Statements.

## Capital Expenditure

The total capital expenditure incurred on the acquisition of Property, Plant & Equipment of the Bank and the Group during the year was as follows, details of which are given in Notes 28, 29 and 30 to the Financial Statements. Capital expenditure approved and contracted for after the year ended 31st December 2012 is given in Note 42 to the Financial Statements.

## Acquisition of Property, Plant & Equipment

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
	<b>393,845</b>	411,305	<b>397,749</b>	412,773

## Property, Plant & Equipment, Leasehold Rights and Intangible Assets

The details of the Property, Plant & Equipment are given in Notes 28, 29 and 30 to the Financial Statements.

## 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	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
	<b>1,458,136</b>	1,440,322	<b>2,092,265</b>	2,092,064

All freehold land, and buildings of the Bank were valued by professionally qualified independent valuers/panel of Chartered Valuers/Licensed Surveyors in 2010 and brought into the Financial Statements. Details of freehold properties owned by the Bank are given in Note 28.5 to the Financial Statements.

## Donations

During the year, the Bank made donations amounting to Rs. 1,653,000/- (Donations made in 2011 amounted to Rs. 3,340,000/-).

## Recommendation of Ordinary Dividend and Solvency Certification

The Directors recommended the payment of a First and Final Ordinary Dividend of Rs. 2.00 per share to the Ordinary Voting and Ordinary Non-voting shareholders for the year ended 31st December 2012, payable on 9th April 2013 subject to the approval of the shareholders at the Annual General Meeting of the Bank. The dividend of Rs. 2.00 per share will consist of Rs. 1.00 per share in the form of a cash dividend and Rs. 1.00 per share in the form of a scrip dividend. The Bank paid a First and Final Ordinary Dividend of Rs. 1.00 per share for the year 2011 on 9th April 2012.

The Directors are satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 7 of 2007 immediately after the proposed dividend which will be paid on 9th April 2013. The Board has obtained a Statement of Solvency from the External Auditors in relation to the proposed dividend payment.

# Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2012

## Reserves

Total reserves (including Statutory Reserve Fund) as at the end of the financial year, are as follows:

BANK		GROUP	
2012	2011	2012	2011
Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>8,732,560</b>	7,232,865	<b>9,269,974</b>	7,758,672

## Stated Capital

The stated capital of the Bank as at 31st December 2012 was Rs. 10,225,452,609/- which comprised of:

173,333,333	Ordinary (voting) Shares
164,746,666	Ordinary (non-voting) Shares

The Stated Capital of the Bank decreased from Rs. 10,259,353,609/- to Rs. 10,225,452,609/- consequent to the redemption of preference shares during the year, particulars of which are given in the following statement:

## Redemption of Preference Shares

Further to the shareholders' approval obtained at the Extraordinary General Meeting of Seylan Bank PLC held on 9th May 2011, 3,390,100 redeemable, non-cumulative, non-convertible and non-voting preference shares were redeemed on 13th February 2012 and the stated capital was reduced by Rs. 33,901,000/-. The entirety of the preference shares were redeemed at a consideration of Rs. 12.50 per share based on an independent valuation report obtained from the Auditors. The Monetary Board of the Central Bank of Sri Lanka approved the consequent reduction of capital.

## Shareholdings

As at 31st December 2012, the number of registered shareholders of the Bank included 10,480 ordinary voting shareholders and 9,614 ordinary non-voting shareholders.

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 346 to 348.

## Debt Capital

As at 31st December 2012, the Bank had issued debentures (both quoted and unquoted) to the value of Rs. 1,168,115,000/- (2011 - Rs. 2,651,650,000/-) (net of interest/capitalisation).

Particulars of the quoted debentures as at 31st December 2012 are given on Note 35 of this Annual Report.

## Redemption of Debentures Listed Debentures

The following unsecured subordinated redeemable debentures of Rs. 100/- each issued by the Bank in 2007 were redeemed on the dates mentioned below:

Debenture Issue	Debentures Redeemed (Rs. Mn.)	Date of Redemption
2007/2012	749.4	29.05.2012
2007/2012 - "Issue 2"	559.3	09.12.2012

## Unlisted (Private Placement) Debentures

The Bank redeemed 1,000,000 debentures of Rs. 100/- each amounting to Rs. 100,000,000/- issued under a Private Placement of Debentures, on 26th September 2012. The Bank also redeemed during November and December 2012, Rs. 174,850,000/- being the total face value of the zero coupon debentures issued under a Private Placement in 2006.

## New Debenture Issue

Pursuant to a Board decision, the Bank sought and obtained the approval of the Securities & Exchange Commission of Sri Lanka in November 2012 to proceed with a Private Placement of Debentures of 10,000,000 Unsecured, Subordinated, Redeemable, Five year Debentures (the Debentures) of the par value of Rs. 100/- each aggregating to the value of Rs. 1,000,000,000/- with an option to issue a further 10,000,000 of the said Debentures in the event of an oversubscription with an option to list the said

debentures within 6 months of the date of allotment of same. However, the Board did not proceed with the private placement and decided to proceed with a public issue of the same quantum of unsecured subordinated redeemable debentures. Principal approval was received from the Colombo Stock Exchange on 16th January 2013 for the listing of the proposed issue.

## Investor Information

Information including earnings, profitability, dividend, net assets and market value per share is given under Financial Highlights appearing on page 11 of this Annual Report. Information pertaining to share prices and debenture prices is given in this Annual Report on pages 348 to 349.

## 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 2012 are given below:

Name of Director	Status as at 31st December 2012
Mr. P.M.M. Pieris PC (Chairman) (resigned w.e.f. 15.01.2013)	Independent Non-Executive
Mr. R. Nadarajah	Executive
Mr. N.M. Jayamanne PC (appointed as Chairman w.e.f. 17.01.2013)	Independent Non-Executive
Mr. P.L.P. Withana	Independent Non-Executive
Rear Admiral B.A.J.G. Peiris	Independent Non-Executive
Mr. A.L. Devasurendra	Non-Executive
Mr. I.C. Nanayakkara (Appointed as Deputy Chairman w.e.f. 17.01.2013)	Non-Executive
Mr. S.P.S. Ranatunga	Independent Non-Executive
Mr. A.M.M. De Alwis	Non-Executive
Mr. P. Kudabalage	Non-Executive

# Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2012

Mr. E. Narangoda, former Chairman resigned from the Board of Directors on 28th March 2012. Mr. P.M.M. Pieris, PC was appointed to the Board of Directors and as Chairman of the Bank with effect from 20th April 2012. Mr. P. Mohan Pieris, PC resigned from the Board on 15th January 2013 and Mr. N.M. Jayamanne PC, Senior Independent Director was appointed as Chairman of the Bank with effect from 17th January 2013. Mr. I.C. Nanayakkara was appointed as Deputy Chairman with effect from the said date.

The profiles of the Board of Directors are given on pages 140 to 143 of this Annual Report.

All Non-Executive Directors have submitted signed declarations confirming their independent/non-independent status in compliance with rules 7.10.2 and 7.10.4 of the Colombo Stock Exchange Rules of Corporate Governance.

Signed affidavits and Declarations in terms of Section 42 of the Banking Act (as amended) have also been submitted by the Directors confirming their 'fit and proper' status to hold office as Directors of the Bank.

## Recommendations for Re-election of Directors

In terms of Article 82 of the Articles of Association, Messrs I.C. Nanayakkara, S.P.S. Ranatunga and A.M.M. De Alwis retire by rotation at the Annual General Meeting of the Bank and offer themselves for re-election pursuant to the Board Nomination Committee and the Board of Directors evaluating and recommending their re-election as Directors.

## Meetings of the Board of Directors

Regular monthly meetings as well as special meetings to consider and decide on important and urgent issues were held during the year. A schedule of Directors' attendance at Board Meetings and at Board Subcommittee Meetings is appended to the Corporate Governance Report.

## Board Subcommittees

The following Board Subcommittees were functional as at 31st December 2012.

### Board Audit Committee

Members:  
Mr. P.L.P. Withana (*Chairman*)  
Mr. N.M. Jayamanne  
Mr. P. Kudabalage

### 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 Credit Committee

Members:  
Mr. A.M.M. De Alwis (*Chairman*)  
Mr. R. Nadarajah  
Mr. A.L. Devasurendra  
Mr. I.C. Nanayakkara  
Rear Admiral B.A.J.G. Peiris

### 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

### Board Integrated Risk Management Committee

Members:  
Mr. A.L. Devasurendra (*Chairman*)  
Mr. P.L.P. Withana  
Mr. A.M.M. De Alwis

### 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 Sustainability Committee

Members:  
Mr. I.C. Nanayakkara (*Chairman*)  
Mr. R. Nadarajah  
Mr. A.L. Devasurendra  
Mr. Samantha Ranatunga

The Members of the aforementioned Board Subcommittees have presented their respective self assessment/evaluation reports to the Board and the Board of Directors have concurred and expressed their satisfaction of each of the Committee's activities.

Reports of these Board Subcommittees are published on pages 101 to 107 of this Annual Report.

## Directors - Seylan Developments PLC

The Directors of the subsidiary, Seylan Developments PLC as at 31st December 2012 were- Messrs R. Nadarajah (Chairman), S. Palihawadana (Deputy Chairman), P. Saravanapavan, M.K. Muthukumar, Dr. P.M. Gunasekera, K.P. Ariyaratne and R.J. Jayasekara.

## Directors' Interest Register

The Directors have declared their interests in contracts to the Board of Directors from time to time in accordance with Section 192 (2) of the Companies Act No. 07 of 2007 and had refrained from voting on matters in which they were materially interested. The declarations of disclosures (if any) are reported to the Board at the Meeting that ensue such declarations. All such disclosures made have been duly recorded in the Directors' Interest Register.

Transactions arising out of the disclosures made are given in the Notes 44 and 45 to the Audited Financial Statements. A list of directorships held by the Directors including public listed (quoted) companies as at 31st December 2012 is provided in the said annexure to this Report of the Board of Directors.

# Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2012

## Directors' Interest in Shares and Debentures of the Bank

Directors' holdings in shares and debentures of the Bank as at 31st December 2012 are given below:

Name of Director	31.12.2012	31.12.2011	Shares/Debentures
Mr. P.M.M. Pieris PC (resigned w.e.f. 15.01.2013)	Nil	N/A	
Mr. R. Nadarajah	13,333	13,333	Ordinary Voting
	Nil	15,000	Debentures (2007/2012 - Issue 2)
Mr. N.M. Jayamanne PC	5,500	5,500	Ordinary Voting
Mr. P.L.P. Withana	23,363	23,363	Ordinary Voting
Rear Admiral B.A.J.G. Peiris	Nil	Nil	
Mr. A.L. Devasurendra	Nil	Nil	
Mr. I.C. Nanayakkara	Nil	Nil	
Mr. S.P.S. Ranatunga	Nil	Nil	
Mr. A.M.M. De Alwis	Nil	Nil	
Mr. P. Kudabalage	Nil	Nil	

Percentage shareholding of Directors:

	2012 %	2011 %
Ordinary Voting Shares	0.024	0.05
Ordinary (Non-Voting) Shares	Nil	0.02

The Debentures held by Mr. R. Nadarajah at the beginning of the year were redeemed on 9th December 2012. No other Director had interest in debentures of the Bank at the beginning and at the end of the financial year.

No change occurred in the Directors' interest in shares and debentures after 31st December 2012 and before the date of this Report of the Board of Directors.

## Directors' Interests in the Preference Shares

There were no Redeemable, non-cumulative, non-convertible and non-voting preference shares registered in the names of the Directors at the beginning of the year and up to 13th February 2012 on which date the Bank redeemed the total preference shares issued by the Bank.

## Directors' Remuneration

Details of Directors' emoluments paid in respect of the Bank and the Group for the year ended 31st December 2012 are given in Note 12 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), the Bank had obtained a Directors and Officers liability insurance cover 2012/2013.

## 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 adopted and followed.

The extent of compliance with the Directions, Rules and Best Practice Guidelines are described in the Corporate Governance Report appearing on pages 50 to 100.

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 Standards on Related Services 4750 was provided by the Bank's External Auditors, Messrs KPMG, Chartered Accountants.

## Risk Management and System of Internal Controls

### Risk Management

The Board has ensured the implementation of a sound risk management framework. The Board Integrated Risk Management Committee reviews on a regular basis the risk exposure of the Bank. The Report of the Board Integrated Risk Management Committee is given on pages 104 and 105 of this Annual Report whilst a detailed Risk Management Report of the Bank is given on pages 108 to 137.

### 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 through the Audit Committee, reviews 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 Directors' Statement on Internal Control appearing on pages 237 and 238 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.



# Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2012

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 and the said report is published on page 236 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 41 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

## Environmental Protection

The Bank has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Bank on environmental protection are detailed in the Sustainability Report in the Annual Report.

## 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.

## Events after the Reporting date Changes within the Board of Directors

Mr. P.M.M. Pieris, PC resigned from the Board of Directors and as Chairman of the Bank on 15th January 2013. Independent Director, Mr. N.M. Jayamanne, PC was appointed as Chairman of the Bank on 17th January 2013. Non-Executive Director, Mr. I.C. Nanayakkara was appointed as Deputy Chairman of the Bank on 17th January 2013.

## Debenture Issue 2013/2018

The Board of Directors of the Bank at a Meeting held on 28th November 2012 decided to proceed with a public issue of 10,000,000 Unsecured, Subordinated, Redeemable, Five year Debentures (the Debentures) of the par value of Rs. 100/- each aggregating to the value of Rs. 1,000,000,000/- with an option to issue a further 10,000,000 of the said Debentures in the event of an oversubscription to be listed in the Colombo Stock Exchange upon allotment. Principal approval was received from the Colombo Stock Exchange on 16th January 2013 and the issue opened on 14th February 2013.

## Human Resources

The Directors believe that true competitive advantage is achieved through 'People', being the most valuable asset of an organisation. Towards the goal of generating a high performance culture in the organisation, a number of new initiatives were launched, namely, recognition of exceptional contributions by individuals and teams, application of KPI based performance evaluation scheme and implementation of performance based bonus scheme.

Training and development was also accelerated and special 'tailor-made' talent and leadership development programmes for middle management and potential manager development programmes for junior grade officers were introduced. The frontline staff was exposed to a series of outward bound training programmes to enhance their team skills and service quality.

## Employees' Share-Owning Scheme

The Bank has in place several employee share owning trust companies which have acquired shares of the Bank from time to time at the market prices prevailing at that time. The details of the facilities granted by the Bank to these trust companies for the purchase of such shares are provided in Note 4.1.5 of the Accounting Policies.

## Going Concern

The Directors are satisfied that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, that the Bank has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Bank have accordingly been prepared on a going concern basis.

## Auditors

The Bank's Auditors during the period under review were Messrs KPMG, Chartered Accountants. Audit Fees and Consolidated Audit Fees payable/paid are as follows:

	2012 Rs. '000	2011 Rs. '000
<b>Audit Fees</b>		
Audit Service Fees for the Year under Review	7,440	6,851
Audit Related Fees	2,405	1,775
Non-audit Fees	575	440
<b>Consolidated Audit Fees</b>		
Audit Service Fees	8,230	7,476
Audit Related Fees	2,555	1,775
Non-audit Fees	575	440

Based on the declaration made by Messrs KPMG and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Company or its subsidiary other than disclosed in the aforesaid paragraphs.

The retiring Auditors, Messrs KPMG, have expressed their willingness to continue in office and a resolution to reappoint them as Auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

# Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2012

## Independence of the Auditors

Based on an assessment carried out by the Board Audit Subcommittee upon adoption of a policy for the engagement of Auditors, the Board is of the opinion that the External Auditors, Messrs KPMG, can be deemed to be independent for all intents and purposes considering the following factors:

- No partner from the firm is on the Board of Seylan Bank or on the Board of any subsidiary company.
- The audit and non-audit fees are negotiated and are not above industry norms.
- The firm had the necessary skills to competently carry out the non-audit related assignments entrusted to them.
- The Auditors do not receive fees from other assignments except as stated above.
- Partner and Audit-team rotation was complied with in 2009.
- KPMG is a firm of high repute and it complies with their own international guidelines.

## Notice of Meeting

Notice of Meeting relating to the Twenty-Sixth Annual General Meeting of the Bank scheduled to be held on 28th March 2013 at 10.00 a.m. at the Ballroom of Hilton Colombo Residence, No. 200, Union Place, Colombo 02 is enclosed with this Annual Report.

For and on behalf of the

**Board of Directors Seylan Bank PLC**



**Nihal Jayamanne PC**

*Chairman*



**R. Nadarajah**

*Executive Director*



**(Mrs.) N.N. Najumudeen**

*Company Secretary*

21st February 2013  
Colombo

## Annexure to the Report of the Board of Directors on the State of Affairs of the Company

### Directors Interest Register and Directors' Interest in Transactions

The Bank carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Bank is the Chairman or a Director of such entities.

The entities in which the Directors of the Bank hold directorships and their substantial shareholdings in other entities are disclosed below:

The transaction of the Bank with the Directors and with these entities (if any) are disclosed in the Notes 44 and 45 to the Financial Statements.

### Directorship/Officer/Trustee in Other Entities

#### Mr. N.M. Jayamanne, PC (Chairman/Independent Director)

Entity	Position Held	Substantial Shareholding % (if any)
Advisory Commission on Company Law	Chairman	-
Law College Foundation	Chairman	-
Law Commission of Sri Lanka	Chairman	-
SriLankan Airlines Limited	Director	-
SriLankan 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	-

#### Mr. I.C. Nanayakkara (Deputy Chairman/Non-Executive Director)

Entity	Position Held	Substantial Shareholding % (if any)
Commercial Leasing and Finance PLC**	Chairman	-
Lanka ORIX Leasing Company PLC**/**	Deputy Chairman	12.60%
Lanka ORIX Finance PLC**	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	-
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. 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	-

\*Employee Share Ownership Trust Companies

\*\*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 Director*)

Entity	Position Held	Substantial Shareholding % (if any)
Orit Apparel (Pvt) Limited	Chief Executive Officer	-
Orit Trading Lanka (Pvt) Limited	Chief Executive Officer	-

### Rear Admiral B.A.J.G. Peiris (*Independent 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	Deputy Chairman	-
Diriya Investments (Pvt) Limited	Director/Shareholder	-
Taprobane Fund Management 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%

\*\*Listed Public Companies

### Mr. S.P.S. Ranatunga (*Independent Director*)

Entity	Position Held	Substantial Shareholding % (if any)
CIC Holdings PLC**	Managing Director/CEO	-
Akzo Nobel Paints Lanka (Pvt) Limited	Director	-
Chemanex PLC**	Director	-
CIC Agribusiness (Pvt) Limited	Director	-
CIC Bio Security Breeder Farms Limited	Director	-
CIC Feeds (Pvt) Limited	Director	-
CIC Poultry Farms Limited	Director	-
CIC Vetcare (Pvt) Limited	Director	-
CISCO Speciality Packaging (Pvt) Limited	Director	-
Kelani Valley Canneries Limited	Director	-
CIC Mahaweli Livestock & Dairies Limited	Director	-
Link Natural Products (Pvt) Limited	Director	-
CIC Seeds (Pvt) Limited	Director	-
CIC Tea Advisory Services (Pvt) Limited*	Director	-
CIC Agri Produce Export (Pvt) Limited	Director	-
CIC Environmental Management Liquid (Pvt) Limited	Director	-
Perfunova International Limited, India*	Director	-
Crop Management Services (Pvt) Limited	Director	-
CIC Lifesciences Limited (Former Name: Ceylinco Pharmaceuticals Limited)	Director	-
CIC Dairies (Pvt) Limited	Director	-
Rahimafrooz CIC Agro Limited, Bangladesh	Director	-

\* Since resigned

\*\* Listed Public Companies

## Annexure to the Report of the Board of Directors on the State of Affairs of the Company

### 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	Director	-
Litro Gas Lanka Limited	Executive Director	-
Litro Gas Terminal Lanka (Pvt) Limited	Executive Director	-
The Lanka Hospital Corporation PLC (Lanka Hospitals)**	Director	-
Sino Lanka Insurance Corporation (Pvt) Limited (Maldives)	Director	-
Ceybank Asset Management (Pvt) Limited	Director	-
Canwill Holdings (Pvt) Limited	Director	-
Sino Lanka Hotels & Spas (Pvt) Limited	Director	-
Taprobane Hotels & Spas (Pvt) Limited	Director	-
Helanco Hotels & Spa (Pvt) Limited	Director	-

\*\* Listed Public Companies

### Mr. P. Kudabalage (Non-Executive Director)

Entity	Position Held	Substantial Shareholding % (if any)
Sri Lanka Insurance Corporation Limited	Executive Director	-
Litro Gas Lanka Limited	Managing Director/CEO	-
Litro Gas Terminal Lanka (Pvt) Limited	Managing Director/CEO	-
Sri Lanka Insurance Resorts and Spas (Pvt) Limited	Director	-
Sri Lanka Insurance Corporation (Pvt) Limited (Maldives)	Director	-
P. Kudabalage & Co.	Senior Partner	-
Colombo Dockyard PLC**	Director	-
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	-
Management Services Rakshana (Pvt) Limited	Director	-

\*\* Listed Public Companies

## / Auditors' Report on Internal Control



**KPMG**  
 (Chartered Accountants)  
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 Colombo 00300,  
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 Internet : www.lk.kpmg.com

### 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 2012 as set out in pages 237 to 238 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.
- (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 Bank would consider our comments for further improvements required to testing documentation in relation to assessing impairment of advances granted.

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

21st February 2013

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
 C.P. Jayatilake FCA  
 Ms. S. Joseph FCA  
 S.T.D.L. Perera FCA

Ms. M.P. Perera FCA  
 T.J.S. Rajakarier FCA  
 Ms. S.M.B. Jayasekara ACA  
 G.A.U. Karunaratne ACA

P.Y.S. Perera FCA  
 W.W.J.C. Perera FCA  
 W.K.D.C. Abeyrathne ACA  
 R.M.D.B. Rajapakse ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

## Directors' Statement on Internal Control

### Introduction

The system of internal control is a critical component of Seylan Bank's management and a foundation for safe and sound operations. A sound internal control system is established with the intention of ensuring that the goals and objectives of the Bank will be met, will achieve long-term profitability targets and maintain reliable financial and managerial reporting, while ensuring compliance with laws and regulations as well as internal policies and procedures.

The internal control process comprises of the following main elements:

- (a) Management oversight and control culture.
- (b) Risk recognition and assessment.
- (c) Control activities and segregation of duties.
- (d) Information and communication.
- (e) Monitoring activities and correcting deficiencies.

The internal control mechanism is an ongoing process for identifying, evaluating and managing significant risks faced by the Bank and ensuring that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the relevant accounting principles and regulatory requirements.

### Responsibility

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the 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.

### Framework for Managing Significant Risks

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to 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 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.

- The Internal Audit Division of the Bank verifies compliance with policies and procedures and the effectiveness of the internal control systems and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, the External Auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled at the Board Meeting of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 101 to 103.
- 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 Nomination Committee, the Credit Committee, the Sustainability Committee, and the Marketing & Product Development Committee.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Risk Management Committee, the Executive Market/Operational Risk Management Committee, the Executive Crisis Management Committee, the

## / Directors' Statement on Internal Control

Business Continuity Steering Committee, the Senior Management Committee, the Performance Review Committee and the Information Technology Steering Committee.

- Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and the directives issued by the Bank which are updated from time to time.
- Further, based on the ICASL format under Sri Lanka Standard on Assurance Engagements 3050, all the said controls have been documented including the IT general controls and the branch level application controls.
- In assessing the internal control system over financial reporting, the management of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. As the current year was the first year of adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes that are required to comply with new requirements of recognition, measurement, classification and disclosures are being introduced, and at the Balance Sheet date measures were taken to integrate these processes to the existing accounting processes.
- The comments made by the External Auditors in connection with the internal control system in the financial year ended 31st December 2011 were taken into consideration and appropriate measures were taken to incorporate them. Additional Improvements in testing documentation in relation to assessing impairment of advances granted will be addressed during the ensuing year, as mentioned in the above paragraph.
- 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 2012 and reported to the Board that nothing has come to their attention that causes them to believe that the above statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on page 236 to this Annual Report.

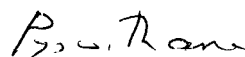
By Order of the Board of Directors of  
**SEYLAN BANK PLC**



**Nihal Jayamanne**  
*Chairman*



**R. Nadarajah**  
*Executive Director*



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

21st February 2013



## Statement of Directors' Responsibility for Financial Reporting

### Statement of Responsibility

The Statement of Responsibility of the Directors of Seylan Bank PLC ("Bank") in relation to the Financial Statements of the Bank and the Consolidated Financial Statements of the Group is set out in this Report in terms of the provisions of the Companies Act No. 07 of 2007 (the Act).

The Directors of the Bank ensure that the Bank maintains proper books of account of all its transactions so as to -

- i. enable the financial position of the Company to be determined with reasonable accuracy at any time;
- ii. enable the preparation of Financial Statements of the Company in accordance with the Act; and
- iii. enable the Financial Statements of the Company to be readily and properly audited.

### Confirmation of Directors' Responsibility

The Directors of Seylan Bank PLC confirm that to the best of their knowledge -

- the Financial Statements prepared and published on pages 242 to 340 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 2012;
- the Financial Statements for the year ended 31st December 2012 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);
- the new Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka which are in line with the International Financial Reporting Standards, became effective from 1st January 2012. Seylan Bank has adopted these standards successfully and

we have presented to you, our first separate and Consolidated Financial Statements under the new accounting framework in this Annual Report.

- proper books of account have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

### The Directors Further Confirm that

- The financial reporting system is also reviewed by the Board through the management accounts submitted monthly at Board meetings. The Bank's Interim and Audited Financial Statements are also reviewed by the Board Audit Committee and the Board prior to their release.
- The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer and the Chief Executive Officer, the persons responsible for their preparation and signed by two Directors of the Bank on 21st February 2013.

### External Auditors' reviews and opinions

The Bank's Auditors, Messrs KPMG carry out reviews and sample checks on the effectiveness of the systems of internal control, as they consider appropriate and necessary in providing their opinion on the Financial Statements. Messrs KPMG have examined the Financial Statements made available together with all other financial records, Minutes of Meetings of the Board and the Board Subcommittees and related information and have expressed their opinion which appears on page 241 of this Annual Report.

### Internal Control Mechanism Over Financial Reporting

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Bank's assets and ensure continuity of operations. To this end, the Board has identified principal risks and implemented a system to continually assess such risks and established an appropriate control environment for ensuring proper monitoring of effectiveness of internal controls and correction of deficiencies.

The Board's statement on the effectiveness of Bank's internal control mechanism over financial reporting, prepared in accordance with the Guidelines

issued by The Institute of Chartered Accountants of Sri Lanka (ICASL) and in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on page 237 and Bank's Independent Auditors Report on our assessment of Bank's internal controls over financial reporting is published on page 236 of this Annual Report.

### Solvency

The Board of Directors confirm that they have recommended the distribution of the proposed dividend after having satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007 immediately after the dividend payment. The Board has obtained a statement of solvency from the External Auditors in relation to the proposed dividend payment.


The Directors confirm that to the best of their knowledge and belief, all statutory payments due and payable to all statutory and regulatory authorities as at the Balance Sheet date, have been paid by the Bank and its subsidiaries or where relevant provided for.

### Going Concern

The Directors further confirm that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, the Bank and its Subsidiary, Seylan Developments PLC have adequate resources to continue the operations of the Bank and the Group in the foreseeable future. The Financial Statements of the Bank and the Group have accordingly been prepared on a going concern basis.

The Directors are of the view that they have discharged their obligations as set out in this statement.

By Order of the Board of Directors of  
**SEYLAN BANK PLC**



**(Mrs.) N.N. Najumudeen**  
Company Secretary

21st February 2013  
Colombo

## / Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of Seylan Bank and Group are prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

### Adoption of the New Accounting Standards Framework

The new Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka which are in line with the International Financial Reporting Standards, became effective from 1st January 2012. Seylan Bank has adopted these standards successfully and we have presented to you, our first separate and consolidated financial statements under the new accounting framework in this Annual Report.

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 Bank and Group were audited by Messrs KPMG, Chartered Accountants, and their report is given on page 241 of this Annual Report. The Audit Committee of the Bank meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG independence.

It is also declared and confirmed that the Bank has complied with and ensured compliance by the Auditors with the guidelines for the audit of listed companies where mandatory compliance is required. It is further confirmed that all the other guidelines have been complied with.

We confirm that the Bank and its subsidiary have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 41 of the Financial Statements in this Annual Report.



**Kapila Ariyaratne**

*General Manager/Chief Executive Officer*



**Ramesh Jayasekara**

*Chief Financial Officer*

21st February 2013

## / Independent Auditors' Report



**KPMG**  
(Chartered Accountants)  
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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"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 249 to 340 of the Annual Report.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

### Opinion - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2012, and the financial statements give a true and

fair view of the financial position of the Company as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries dealt with thereby as at 31 December 2012 and of its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007 and present the information required by the Banking Act, No 30 of 1988.

CHARTERED ACCOUNTANTS

21 February 2013  
Colombo, Sri Lanka

## / Income Statement

For the Year ended 31st December	Note	BANK			GROUP		
		2012 Rs. '000	2011 Rs. '000	Change %	2012 Rs. '000	2011 Rs. '000	Change %
<b>Income</b>	6	<b>23,623,286</b>	18,824,460	25.49	<b>23,691,574</b>	18,962,781	24.94
Interest Income	7	<b>21,139,830</b>	16,965,783	24.60	<b>21,140,332</b>	16,943,847	24.77
Less: Interest Expenses	8	<b>12,119,615</b>	8,355,367	45.05	<b>12,100,997</b>	8,339,153	45.11
<b>Net Interest Income</b>	8.1	<b>9,020,215</b>	8,610,416	4.76	<b>9,039,335</b>	8,604,694	5.05
Fee and Commission Income		<b>1,760,335</b>	1,512,211	16.41	<b>1,760,103</b>	1,512,160	16.40
Less: Fee and Commission Expense		<b>65,645</b>	77,489	(15.28)	<b>71,425</b>	81,369	(12.22)
<b>Net Fee and Commission Income</b>	9	<b>1,694,690</b>	1,434,722	18.12	<b>1,688,678</b>	1,430,791	18.02
<b>Net Interest, Fee and Commission Income</b>		<b>10,714,905</b>	10,045,138	6.67	<b>10,728,013</b>	10,035,485	6.90
Net Trading Income	10	<b>333,591</b>	(34,819)	1,058.07	<b>333,591</b>	(34,819)	1,058.07
Other Income (Net)	11	<b>389,530</b>	381,285	2.16	<b>457,548</b>	541,593	(15.52)
<b>Operating Income</b>		<b>11,438,026</b>	10,391,604	10.07	<b>11,519,152</b>	10,542,259	9.27
<b>Less: Operating Expenses</b>	12						
Personnel Expenses	13	<b>3,259,925</b>	3,131,319	4.11	<b>3,284,467</b>	3,157,597	4.02
Cost on Voluntary Retirement Scheme	13.1	-	698,650		-	698,650	
Premises, Equipment & Establishment Expenses		<b>1,796,215</b>	1,694,447	6.01	<b>1,765,853</b>	1,672,271	5.60
Net Impairment Loss on Loans & Receivables	14	<b>316,985</b>	729,024	(56.52)	<b>316,985</b>	729,024	(56.52)
Other Expenses		<b>2,204,258</b>	2,563,187	(14.00)	<b>2,248,874</b>	2,720,773	(17.34)
<b>Operating Expenses</b>		<b>7,577,383</b>	8,816,627	(14.06)	<b>7,616,179</b>	8,978,315	(15.17)
<b>Profit From Operations before Value Added Tax</b>		<b>3,860,643</b>	1,574,977	145.12	<b>3,902,973</b>	1,563,944	149.56
Value Added Tax on Financial Services		<b>676,356</b>	405,009	67.00	<b>676,356</b>	405,009	67.00
<b>Profit from Operations before Taxation</b>		<b>3,184,287</b>	1,169,968	172.17	<b>3,226,617</b>	1,158,935	178.41
Less: Income Tax Expense	15	<b>1,135,160</b>	505,089	124.74	<b>1,144,202</b>	492,682	132.24
<b>Profit for the Year</b>		<b>2,049,127</b>	664,879	208.20	<b>2,082,415</b>	666,253	212.56
Profit attributable to:							
Equity Holders of the Bank		<b>2,049,127</b>	664,879	208.20	<b>2,063,056</b>	675,948	205.21
Non-Controlling Interests					<b>19,359</b>	(9,695)	299.68
<b>Profit for the Year</b>		<b>2,049,127</b>	664,879	208.20	<b>2,082,415</b>	666,253	212.56
<b>Basic/Diluted Earnings per Share (Rs)</b>	16	<b>6.06</b>	2.18	177.98	<b>6.10</b>	2.21	176.02
<b>Dividend per Share (Rs) - Gross</b>	43	<b>2.00</b>	1.00	100.00	<b>2.00</b>	1.00	100.00
<b>- Net</b>		<b>1.80</b>	0.90	100.00	<b>1.80</b>	0.90	100.00

Notes on pages 249 to 340 form an integral part of these Financial Statements.

## / Statement of Comprehensive Income

For the Year ended 31st December	Note	BANK			GROUP		
		2012 Rs. '000	2011 Rs. '000	Change %	2012 Rs. '000	2011 Rs. '000	Change %
<b>Profit for the Year</b>		<b>2,049,127</b>	664,879	208.20	<b>2,082,415</b>	666,253	212.56
<b>Other Comprehensive Income, Net of Income Tax</b>							
Revaluation of Property, Plant & Equipment	39.2	<b>52,800</b>	-		<b>52,800</b>	603	8,656.22
Net Change of Financial Assets measured at Fair Value through Other Comprehensive Income:							
Net Change in Fair Value on Available-for-Sale Financial Assets	39.4	<b>(255,678)</b>	(345,734)	26.05	<b>(258,678)</b>	(344,642)	24.94
Net Amount Transferred to Profit or Loss on Available-for-Sale Financial Assets	39.4	-	(413)		-	(884)	
Other Comprehensive Income for the Year, Net of Tax		<b>(202,878)</b>	(346,147)	41.39	<b>(205,878)</b>	(344,923)	40.31
<b>Total Comprehensive Income for the Year</b>		<b>1,846,249</b>	318,732	479.25	<b>1,876,537</b>	321,330	483.99
Total Comprehensive Income Attributable to:							
Equity Holders of the Bank		<b>1,846,249</b>	318,732	479.25	<b>1,858,623</b>	330,435	462.48
Non-Controlling Interests					<b>17,914</b>	(9,105)	296.75
<b>Total Comprehensive Income for the Year</b>		<b>1,846,249</b>	318,732	479.25	<b>1,876,537</b>	321,330	483.99

Notes on pages 249 to 340 form an integral part of these Financial Statements.

## Statement of Financial Position

As at 31st December	Note	BANK				GROUP			
		2012 Rs. '000	2011 Rs. '000	Change %	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	Change %	2010 Rs. '000
<b>Assets</b>									
Cash and Cash Equivalents	18	6,554,381	4,550,203	44.05	4,698,406	6,554,482	4,550,764	44.03	4,699,962
Balances with Central Bank of Sri Lanka	19	8,028,661	7,070,728	13.55	5,453,833	8,028,661	7,070,728	13.55	5,453,833
Investments Designated at Fair Value Through Profit & Loss	20	2,460,272	5,243,565	(53.08)	16,781,594	2,468,151	5,244,443	(52.94)	16,783,976
Derivative Financial Instruments	21	51,281	74,746	(31.39)	21,027	51,281	74,746	(31.39)	21,027
Securities Purchased under Resale Agreements		173,441	3,313,690	(94.77)	1,266,784	173,441	3,313,690	(94.77)	1,266,784
Commercial Papers		-	-	-	219,294	-	-	-	219,294
Loans and Receivables	22	124,728,371	106,390,440	17.24	89,090,809	124,728,371	106,390,440	17.24	89,090,809
Held-to-Maturity Investment Securities	23	19,822,966	17,665,169	12.21	10,677,643	19,822,966	17,665,169	12.21	10,677,643
Available for Sale Investment Securities	23	11,358,103	11,886,589	(4.45)	12,174,201	11,358,103	11,886,589	(4.45)	12,174,202
Investments in Subsidiary	24	793,254	793,254	-	358,916	-	-	-	-
Group Balances Receivable	25	60,687	15,688	286.84	461,843	-	-	-	-
Investment Properties	26	237,629	237,629	-	488,713	1,203,380	1,226,546	(1.89)	1,663,250
Current Taxation Assets		-	-	-	-	1,258	-	-	-
Deferred Taxation Assets	27	253,171	510,086	(50.37)	415,802	481,588	741,668	(35.07)	633,594
Property, Plant & Equipment	28	2,391,536	2,371,254	0.86	2,463,923	3,041,909	3,047,972	(0.20)	3,169,290
Leasehold Rights	29	39,596	39,909	(0.78)	40,836	617,567	625,290	(1.24)	634,095
Intangible Assets	30	202,354	404,299	(49.95)	505,736	202,354	404,299	(49.95)	505,736
Other Assets	31	6,505,973	5,376,624	21.00	5,111,797	6,563,140	5,409,505	21.33	5,138,170
<b>Total Assets</b>		<b>183,661,676</b>	<b>165,943,873</b>	<b>10.68</b>	<b>150,231,157</b>	<b>185,296,652</b>	<b>167,651,849</b>	<b>10.52</b>	<b>152,131,665</b>
<b>Liabilities</b>									
Derivative Financial Instruments	21	278,826	67,506	313.04	36,733	278,826	67,506	313.04	36,733
Deposits	32	146,727,199	123,981,100	18.35	112,879,627	146,727,199	123,981,100	18.35	112,879,627
Securities Sold under Repurchase Agreements		3,674,840	9,410,283	(60.95)	9,510,925	3,674,840	9,410,283	(60.95)	9,510,925
Borrowings	33	6,147,593	7,317,669	(15.99)	4,406,522	6,147,593	7,317,669	(15.99)	4,830,081
Group Balances Payable	34	216,723	99,841	117.07	8,255	-	-	-	-
Debentures	35	1,211,659	2,785,264	(56.50)	4,265,639	1,211,659	2,785,264	(56.50)	4,265,639
Current Tax Liabilities		683,040	216,996	214.77	40,580	683,040	210,880	223.90	37,588
Other Liabilities	36	5,763,784	4,572,996	26.04	6,343,779	5,856,065	4,649,904	25.94	6,454,492
<b>Total Liabilities</b>		<b>164,703,664</b>	<b>148,451,655</b>	<b>10.95</b>	<b>137,492,060</b>	<b>164,579,222</b>	<b>148,422,606</b>	<b>10.89</b>	<b>138,015,085</b>
<b>Equity</b>									
Stated Capital	37	10,225,452	10,259,353	(0.33)	5,567,820	10,225,452	10,259,353	(0.33)	5,567,820
Statutory Reserve Fund	38	724,905	618,567	17.19	569,295	724,905	618,567	17.19	569,295
Retained Earnings		6,245,706	5,198,157	20.15	5,133,527	6,170,268	5,109,557	20.76	5,033,858
Other Reserves	39	1,761,949	1,416,141	24.42	1,468,455	2,374,801	2,030,548	16.95	2,082,316
<b>Total Equity Attributable to Equity Holders of the Bank</b>		<b>18,958,012</b>	<b>17,492,218</b>	<b>8.38</b>	<b>12,739,097</b>	<b>19,495,426</b>	<b>18,018,025</b>	<b>8.20</b>	<b>13,253,289</b>
<b>Non-Controlling Interest</b>						<b>1,222,004</b>	<b>1,211,218</b>	<b>0.89</b>	<b>863,291</b>
<b>Total Equity</b>		<b>18,958,012</b>	<b>17,492,218</b>	<b>8.38</b>	<b>12,739,097</b>	<b>20,717,430</b>	<b>19,229,243</b>	<b>7.74</b>	<b>14,116,580</b>
<b>Total Liabilities &amp; Equity</b>		<b>183,661,676</b>	<b>165,943,873</b>	<b>10.68</b>	<b>150,231,157</b>	<b>185,296,652</b>	<b>167,651,849</b>	<b>10.52</b>	<b>152,131,665</b>
<b>Commitments &amp; Contingencies</b>	40	<b>31,286,844</b>	<b>36,247,216</b>	<b>(13.68)</b>	<b>30,197,078</b>	<b>31,352,643</b>	<b>36,325,435</b>	<b>(13.69)</b>	<b>30,264,078</b>
<b>Net Assets Value per Share (Rs.)</b>		<b>56.08</b>	<b>51.64</b>	<b>8.60</b>	<b>50.11</b>	<b>57.67</b>	<b>53.19</b>	<b>8.42</b>	<b>52.14</b>

Notes on pages 249 to 340 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

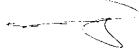


**Kapila Ariyaratne**  
General Manager/Chief Executive Officer

Approved and signed for and on behalf of the Board.



**Nihal Jayamanna PC**  
Chairman



**R. Nadarajah**  
Executive Director

21st February 2013  
Colombo

## Statement of Changes in Equity

For the Year ended 31st December - Bank

	Note	Stated Capital				Statutory Reserve Fund **	Retained Earnings	Other Reserves				Total
		Ordinary Shares-Voting Rs.'000	Ordinary Shares-Non-Voting Rs.'000	Preference Shares Rs.'000	Share Premium * Rs.'000			Special Risk Reserve ***	Revaluation Reserve	Available for Sale Reserve	Other Reserves	
<b>(1) Balance as at 01.01.2011</b>		<b>3,461,000</b>	<b>1,235,600</b>	<b>33,901</b>	<b>837,319</b>	<b>569,295</b>	<b>5,133,527</b>	<b>79,769</b>	<b>460,123</b>	<b>476,755</b>	<b>451,808</b>	<b>12,739,097</b>
<b>Total Comprehensive Income for the Year</b>												
Profit/(Loss) for the Year						664,879						664,879
Other Comprehensive Income (net of tax)									-	(346,147)		(346,147)
<b>(2) Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>664,879</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(346,147)</b>	<b>-</b>	<b>318,732</b>
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>												
Share Issue/Increase of Assigned Capital	37.1 & 37.2	3,250,000	1,441,533									4,691,533
Redemption of Preference Shares												-
Dividends to Equity Holders	17					(253,560)						(253,560)
Transfers from/to Retained Profits	38, 39.6, 39.7					49,272	(341,230)	18,972			272,986	-
Transferred from/(to) Deferred Tax	27								1,875			1,875
Expenses on Share Issue						(5,459)						(5,459)
<b>(3) Total Transactions with Equity Holders</b>		<b>3,250,000</b>	<b>1,441,533</b>	<b>-</b>	<b>-</b>	<b>49,272</b>	<b>(600,249)</b>	<b>18,972</b>	<b>1,875</b>	<b>-</b>	<b>272,986</b>	<b>4,434,389</b>
<b>Balance as at 31.12.2011 (1+2+3)</b>		<b>6,711,000</b>	<b>2,677,133</b>	<b>33,901</b>	<b>837,319</b>	<b>618,567</b>	<b>5,198,157</b>	<b>98,741</b>	<b>461,998</b>	<b>130,608</b>	<b>724,794</b>	<b>17,492,218</b>
<b>(1) Balance as at 01.01.2012</b>		<b>6,711,000</b>	<b>2,677,133</b>	<b>33,901</b>	<b>837,319</b>	<b>618,567</b>	<b>5,198,157</b>	<b>98,741</b>	<b>461,998</b>	<b>130,608</b>	<b>724,794</b>	<b>17,492,218</b>
<b>Total Comprehensive Income for the Year</b>												
Profit/(Loss) for the Year						2,049,127						2,049,127
Other Comprehensive Income (net of tax)									52,800	(255,678)		(202,878)
<b>(2) Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,049,127</b>	<b>-</b>	<b>-</b>	<b>52,800</b>	<b>(255,678)</b>	<b>-</b>	<b>1,846,249</b>
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>												
Share Issue/Increase of Assigned Capital												-
Redemption of Preference Shares****				(33,901)		(8,474)						(42,375)
Dividends to Equity Holders	17					(338,080)						(338,080)
Transferred from/to Retained Profits	38, 39.2, 39.6, 39.7					106,338	(655,024)	14,181	(4,749)		539,254	-
Transferred from/(to) Deferred Tax	27											-
Expenses on Share Issue												-
<b>(3) Total Transactions with Equity Holders</b>		<b>-</b>	<b>-</b>	<b>(33,901)</b>	<b>-</b>	<b>106,338</b>	<b>(1,001,578)</b>	<b>14,181</b>	<b>(4,749)</b>	<b>-</b>	<b>539,254</b>	<b>(380,455)</b>
<b>Balance as at 31.12.2012 (1+2+3)</b>		<b>6,711,000</b>	<b>2,677,133</b>	<b>-</b>	<b>837,319</b>	<b>724,905</b>	<b>6,245,706</b>	<b>112,922</b>	<b>510,049</b>	<b>(125,070)</b>	<b>1,264,048</b>	<b>18,958,012</b>

\* Share Premium consists of the premium booked prior to issuance of new Companies Act No. 07 of 2007.

\*\* 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.

\*\*\*\* As provided in Section 64 (1) of the Companies Act No. 07 of 2007, the Bank redeemed its Preference Shares (which Article 6 of the Company enables to effect such purchases) with the approval of Board of Directors.

Notes on pages 249 to 340 form an integral part of these Financial Statements.

## / Statement of Changes in Equity

For the Year ended 31st December - Group

	Note	Stated Capital				Statutory Reserve Fund **	Retained Earnings	Other Reserves				Total	Non-Controlling Interest	Total Equity
		Ordinary Shares-Voting Rs. '000	Ordinary Shares-Non-Voting Rs. '000	Preference Shares Rs. '000	Share Premium * Rs. '000			Special Risk Reserve ***	Revaluation Reserve	Available for Sale Reserve	Other Reserves			
<b>(1) Balance as at 01.01.2011</b>		<b>3,461,000</b>	<b>1,235,600</b>	<b>33,901</b>	<b>837,319</b>	<b>569,295</b>	<b>5,033,858</b>	<b>79,769</b>	<b>818,777</b>	<b>476,749</b>	<b>707,021</b>	<b>13,253,289</b>	<b>863,291</b>	<b>14,116,580</b>
<b>Total Comprehensive Income for the Year</b>														
Profit/(Loss) for the Year						675,948						675,948	(9,695)	666,253
Other Comprehensive Income (net of tax)									313	(345,826)		(345,513)	590	(344,923)
<b>(2) Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>675,948</b>	<b>-</b>	<b>313</b>	<b>(345,826)</b>	<b>-</b>	<b>330,435</b>	<b>(9,105)</b>	<b>321,330</b>	
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>														
Share Issue/Increase of Assigned Capital	37.1 & 37.2	3,250,000	1,441,533									4,691,533	379,468	5,071,001
Redemption of Preference Shares														
Dividends to Equity Holders	17					(253,560)						(253,560)		(253,560)
Transfers from/to Retained Profits	38, 39.6, 39.7					49,272	(341,230)	18,972			272,986	-		-
Transferred from/(to) Deferred Tax	27								1,787			1,787	(81)	1,706
Expenses on Share Issue						(5,459)						(5,459)		(5,459)
Others												-	(22,355)	(22,355)
<b>(3) Total Transactions with Equity Holders</b>		<b>3,250,000</b>	<b>1,441,533</b>	<b>-</b>	<b>-</b>	<b>49,272</b>	<b>(600,249)</b>	<b>18,972</b>	<b>1,787</b>	<b>-</b>	<b>272,986</b>	<b>4,434,301</b>	<b>357,032</b>	<b>4,791,333</b>
<b>Balance as at 31.12.2011 (1+2+3)</b>		<b>6,711,000</b>	<b>2,677,133</b>	<b>33,901</b>	<b>837,319</b>	<b>618,567</b>	<b>5,109,557</b>	<b>98,741</b>	<b>820,877</b>	<b>130,923</b>	<b>980,007</b>	<b>18,018,025</b>	<b>1,211,218</b>	<b>19,229,243</b>
<b>(1) Balance as at 01.01.2012</b>		<b>6,711,000</b>	<b>2,677,133</b>	<b>33,901</b>	<b>837,319</b>	<b>618,567</b>	<b>5,109,557</b>	<b>98,741</b>	<b>820,877</b>	<b>130,923</b>	<b>980,007</b>	<b>18,018,025</b>	<b>1,211,218</b>	<b>19,229,243</b>
<b>Total Comprehensive Income for the Year</b>														
Profit/(Loss) for the Year						2,063,056						2,063,056	19,359	2,082,415
Other Comprehensive Income (net of tax)									52,800	(257,233)		(204,433)	(1,445)	(205,878)
<b>(2) Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,063,056</b>	<b>-</b>	<b>52,800</b>	<b>(257,233)</b>	<b>-</b>	<b>1,858,623</b>	<b>17,914</b>	<b>1,876,537</b>	
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>														
Share Issue/Increase of Assigned Capital														
Redemption of Preference Shares****				(33,901)		(8,474)						(42,375)		(42,375)
Dividends to Equity Holders	17					(338,080)						(338,080)		(338,080)
Transfers from/to Retained Profits	38, 39.2, 39.6, 39.7					106,338	(655,024)	14,181	(4,749)		539,254	-		-
Transferred from/(to) Deferred Tax	27											-		-
Others						(767)						(767)	(7,128)	(7,895)
<b>(3) Total Transactions with Equity Holders</b>		<b>-</b>	<b>-</b>	<b>(33,901)</b>	<b>-</b>	<b>106,338</b>	<b>(1,002,345)</b>	<b>14,181</b>	<b>(4,749)</b>	<b>-</b>	<b>539,254</b>	<b>(381,222)</b>	<b>(7,128)</b>	<b>(388,350)</b>
<b>Balance as at 31.12.2012 (1+2+3)</b>		<b>6,711,000</b>	<b>2,677,133</b>	<b>-</b>	<b>837,319</b>	<b>724,905</b>	<b>6,170,268</b>	<b>112,922</b>	<b>868,928</b>	<b>(126,310)</b>	<b>1,519,261</b>	<b>19,495,426</b>	<b>1,222,004</b>	<b>20,717,430</b>

\* Share Premium consists of the premium booked prior to issuance of new Companies Act No. 07 of 2007.

\*\* 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.

\*\*\*\* As provided in Section 64 (1) of the Companies Act No. 07 of 2007, the Bank redeemed its Preference Shares (which Article 6 of the Company enables to effect such purchases) with the approval of Board of Directors.

Notes on pages 249 to 340 form an integral part of these Financial Statements.



## Cash Flow Statement

For the Year ended 31st December	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Cash Flows from Operating Activities</b>				
Interest Receipts	19,869,018	15,671,743	19,869,338	15,645,600
Fees and Commission Receipts	1,760,335	1,512,211	1,835,023	1,648,309
Interest Payments	(11,653,406)	(8,077,466)	(11,634,788)	(8,062,589)
Trading Income	363,917	289,507	363,917	289,507
Cash Payments to Employees and Suppliers	(6,434,643)	(6,898,492)	(6,401,327)	(6,928,318)
Cash Payments to Other Operating Activities	(65,645)	(77,489)	(71,425)	(81,369)
<b>Operating Profit before Changes in Operating Assets &amp; Liabilities [Note (a)]</b>	<b>3,839,576</b>	<b>2,420,014</b>	<b>3,960,738</b>	<b>2,511,140</b>
<b>(Increase)/Decrease in Operating Assets:</b>				
Loans and Receivables (Advanced to)/Repaid by Customers	(18,583,389)	(16,838,201)	(18,654,572)	(17,384,771)
Deposits Held for Regulatory or Monetary Control Purposes	(957,933)	(1,616,895)	(957,933)	(1,616,895)
<b>Increase/(Decrease) in Operating Liabilities:</b>				
Deposits from/(Withdrawals by) Customers	21,058,174	10,305,195	21,058,174	10,305,195
Negotiable Certificates of Deposit	1,117,711	337,165	1,117,711	337,165
<b>Cash (Used in)/Generated from Operations</b>	<b>6,474,139</b>	<b>(5,392,722)</b>	<b>6,524,118</b>	<b>(5,848,166)</b>
Income Tax Paid	(64,986)	(120,000)	(64,986)	(120,713)
Contribution Paid into Employees Retirement Benefit Plan/Employees	(105,744)	(84,651)	(105,847)	(84,651)
<b>Net Cash (Used in)/Generated from Operating Activities</b>	<b>6,303,409</b>	<b>(5,597,373)</b>	<b>6,353,285</b>	<b>(6,053,530)</b>
<b>Cash Flows from Investing Activities</b>				
Investment in Subsidiary Company	-	(434,338)	-	-
Dividend Income	22,724	15,911	15,822	15,911
Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Government of Sri Lanka Treasury Bills/Bonds Maturing after 03 Months	1,933,151	4,014,352	1,933,151	4,014,352
Reverse Repurchase Agreements Maturing after 03 Months	(413)	-	(413)	-
Net Proceeds from Sale, Maturity & Purchase of Financial Investments of Shares & Debentures	(99,514)	(52,682)	(109,515)	(50,085)
Purchase of Property, Plant & Equipment, Leasehold Rights & Intangible Assets	(393,845)	(411,305)	(397,749)	(412,773)
Proceeds from Sale of Property, Plant & Equipment, Leasehold Rights & Intangible Assets	81,419	24,533	81,419	28,900
Proceeds from Sale of Investment Property	-	242,300	3,000	242,300
Improvements to Investment Property	-	-	(32)	(1,086)
<b>Net Cash (Used in)/Generated from Investing Activities</b>	<b>1,543,522</b>	<b>3,398,771</b>	<b>1,525,683</b>	<b>3,837,519</b>
<b>Cash Flows from Financing Activities</b>				
Increase/(Decrease) in Debentures	(1,483,535)	(1,344,715)	(1,483,535)	(1,344,715)
Proceeds from Issue of Share Capital	-	4,691,533	-	4,691,533
Redemption of Preference Shares	(42,376)	-	(42,376)	-
Securities Sold under Repurchase Agreements	(5,730,324)	(58,977)	(5,730,324)	(58,977)
Increase/(Decrease) in Other Borrowings	(172,683)	1,626,829	(197,278)	1,649,779
Dividend Paid	(335,134)	(252,423)	(343,036)	(252,423)
Share Issue Expenses	-	(5,459)	-	(11,995)
<b>Net Cash (Used in)/Generated from Financing Activities</b>	<b>(7,764,052)</b>	<b>4,656,788</b>	<b>(7,796,549)</b>	<b>4,673,202</b>
Net Increase/(Decrease) in Cash & Cash Equivalents	82,879	2,458,186	82,419	2,457,191
Cash & Cash Equivalents at beginning of the Year	9,398,139	6,939,953	9,398,700	6,941,509
<b>Cash &amp; Cash Equivalents at end of the Year</b>	<b>9,481,018</b>	<b>9,398,139</b>	<b>9,481,119</b>	<b>9,398,700</b>
<b>Reconciliation of Cash &amp; Cash Equivalents</b>				
Cash & Cash Equivalents - Note 18	6,554,381	4,550,203	6,554,482	4,550,764
Government of Sri Lanka Treasury Bills/Bonds Maturing within 03 Months	2,753,609	1,542,578	2,753,609	1,542,578
Securities Purchased under Resale Agreements Maturing within 03 Months	173,028	3,305,358	173,028	3,305,358
	<b>9,481,018</b>	<b>9,398,139</b>	<b>9,481,119</b>	<b>9,398,700</b>

## / Cash Flow Statement

For the Year ended 31st December	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Note (a) Reconciliation of Operating Profit</b>				
<b>Profit from Operations before Taxation</b>	<b>3,184,287</b>	1,169,968	<b>3,226,617</b>	1,158,935
Fair Value Adjustment on Interest Income	(1,037,402)	(609,337)	(1,037,584)	(609,337)
Fair Value Adjustment on Interest Expenses	466,209	6,129	466,239	6,129
Fair Value Adjustment on Derivative Instruments	236,990	(23,445)	236,990	(23,445)
Fair Value Adjustment on Overhead Expenses	(83,318)	(85,796)	(83,347)	(90,773)
(Gain)/Loss on Foreign Currency Translation	(317,113)	(339,001)	(317,113)	(339,001)
Amortisation of Prepaid Staff Cost	98,982	45,400	99,071	45,400
Dividend Income	(22,724)	(15,911)	(15,822)	(15,911)
(Profit)/Loss on Sale of Investment Securities	-	(76)	-	(547)
(Profit)/Loss from Sale of Property, Plant & Equipment	(49,693)	(18,625)	(49,693)	(22,261)
(Profit)/Loss from Sale of Investment Properties	-	(7,335)	-	(7,335)
Depreciation of Freehold Property, Plant & Equipment	404,655	392,798	434,904	422,787
Depreciation of Leasehold Property, Plant & Equipment	313	1,408	7,723	9,286
Depreciation of Investment Property	-	-	20,198	20,095
Amortisation of Intangible Assets	142,938	206,224	142,938	206,224
Impairment for Loans and Other Losses	316,985	729,024	316,985	729,024
Accrual for VAT on Financial Services	110,152	(177,304)	110,152	(177,304)
Accrual for Employee Retirement Benefit Liability	88,797	69,067	85,421	73,157
Impairment Loss on Investments	153,984	971,601	153,984	1,063,697
(Profit)/Loss on Sale of Trading Securities	-	(137,231)	-	(137,231)
Repayment on Redemption of Preference Shares	8,475	-	8,475	-
Provision for Doubtful Receivables	-	-	-	827
(Gain)/Loss on Marked to Market Valuation on Quoted Equities	(112,085)	316,031	(112,085)	316,031
(Gain)/Loss on Marked to Market Valuation on Government of Sri Lanka Treasury Bills/Bonds	(94,579)	140,890	(94,579)	140,890
Share/Debenture Issue Expenses	-	5,459	-	11,995
Notional Tax Credit on Government Securities	(233,410)	(282,248)	(233,410)	(282,248)
Bargaining Purchase (Negative Goodwill) on Investment in Subsidiaries	-	-	-	(22,354)
Accrual for Leave Encashment	(5,791)	14,711	(5,791)	14,711
Accrual for Other Expenses	582,924	47,613	600,465	19,699
	<b>3,839,576</b>	2,420,014	<b>3,960,738</b>	2,511,140

Notes on pages 249 to 340 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 2012 comprise the Bank and its subsidiary (together referred as the "Group"). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The staff strength of the Bank as at 31st December 2012 is 3,061 (2011 -3,150).

### 1.1 Principal Activities

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, Tele Banking facilities, Internet Banking, dealing in Government Securities, etc.

The subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

## 2. Presentation of Financial Statements

### 2.1 Statement of Compliance

The Statement of Financial Position, Income Statement, Statement of other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRSs) 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.

This is the Group's first Consolidated Financial Statements prepared in accordance with LKAS/SLFRSs and SLFRS 1 First-time Adoption of Sri Lanka Accounting Standards has been applied. An explanation of how the transition to LKAS/SLFRSs has affected the reported financial position, financial performance and cash flows of the Bank and Group is provided in Note 48.

### 2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 21st February 2013.

### 2.3 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments designated at fair value through profit and loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses;

### 2.4 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

Financial Statements of the Bank and Subsidiary are measured using the functional currency. There was no change in the Group's presentation and functional currency during the year under review.

### 2.5 Use of Estimates and Judgements

The preparation of Consolidated Financial Statements in conformity with Sri Lanka Accounting Standards (LKAS/SLFRSs) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the

reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements are described in the following notes.

- Note 22.4 - Identification and measurement of impairment Loans and Receivables
- Note 23 - Recognition and measurement of financial instruments
- Note 36.1 - Measurement of Defined Benefit Plan
- Note 26 - Investment Property
- Note 27 - Deferred Taxation

## 3. Materiality and Aggregation

Each material class of similar item is presented separately in the Consolidated Financial Statements. Items of a dissimilar nature or function are presented separately, unless they are immaterial.

## 4. Significant Accounting Policies/ Disclosures

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing the opening Statement of Financial Position as at 1st January 2011 for the purposes of the transition to LKAS/SLFRSs, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

### 4.1 Basis of Consolidation

#### 4.1.1 Business Combinations Acquisitions Prior to 1st January 2012

As part of its transition to LKAS/SLFRSs, the Group elected not to restate those business combinations and acquisitions that occurred prior to 1st January 2012.

## / Notes to the Consolidated Financial Statements

### 4.1.2 Subsidiaries

Subsidiaries are entities, that are controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights presently exercisable are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its subsidiary incorporated in Sri Lanka, Seylan Developments PLC (51.83%). The Subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

The total profit/loss of the subsidiary is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Non-Controlling Interest'. All assets and liabilities of the Bank and its subsidiary is included in the Group Financial Position. The interest of the outside shareholders in the net assets of the Group is stated separately in the Consolidated Statement of Financial Position within Equity under the heading 'Non-Controlling Interest'.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

### 4.1.3 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

### 4.1.4 Transactions Eliminated on Consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted invitees are eliminated to the extent of the Group's interest in the invitee against the investment. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### 4.1.5 Employee Share Option Scheme and Share Trusts

The trusts are treated as external entities, due to legal cases instituted and the uncertainties relating to the formation of the trusts and beneficial ownership, it was decided to account for these trusts as non-controlled entities. Due to the matters under dispute the Bank is unable to determine the payment plan. The legal status of the case is disclosed in Note 41.2 to the Financial Statements. The impact of such treatment is not material to the Consolidated Financial Statements.

### 4.1.6 Non-Uniform Accounting Policies

The impact of non-uniform accounting policies adopted by the subsidiary has been adjusted in the consolidated accounts and disclosed in Note 49.

## 4.2 Foreign Currency

### 4.2.1 Foreign Currency Translation

Transactions in foreign currencies are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the

exchange rates ruling at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### 4.2.2 Foreign Operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal.

## Assets and Liabilities and Basis of Valuation

### 4.3 Statutory Deposit with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

## 4.4 Financial Assets and Financial Liabilities

### 4.4.1 Recognition and Initial Measurement

The Group initially recognises loans and advances, deposits, and debt securities issued on the date at which they are originated.

Changes in fair value in financial assets/liabilities held at fair value through profit and loss are recognised in the Consolidated Income Statement while any changes in fair value for available for sale financial assets is recognised in the Statement of Other Comprehensive Income.

## / Notes to the Consolidated Financial Statements

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

### 4.4.2 Classification

#### **Financial assets**

At inception a financial asset is classified in one of the following categories:

- Loans and receivables;
- Held-to-maturity;
- Available-for-sale; or
- At fair value through profit or loss and within the category as:
  - Held-for-trading; or
  - Designated at fair value through profit or loss.

#### **Financial Liabilities**

The Group classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

#### **Designation at Fair Value Through Profit or Loss**

A financial asset or a financial liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. The Group has designated financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances to customers include:

- Those classified as loans and receivables;
- Finance lease receivables.

Loans and advances classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

#### **Held-to-Maturity Financial Assets**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as Available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

#### **Available-for-Sale Financial Assets**

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity. Any permanent decline in value of shares will be charged to Income Statement.

#### **Financial Liabilities Measured at Amortised Cost**

Financial liabilities not classified as fair value through profit or loss is recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including Savings deposits, Current deposits, Fixed/Time deposits, Call deposits, Certificates of deposits and debentures are classified as financial liabilities measured at amortised cost.

## / Notes to the Consolidated Financial Statements

### 4.4.3 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 4.4.4 Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument,

i.e., without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

### Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurements categories are not permitted following initial recognition.

Held-for-trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term;

or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the Income Statement over the remaining life of the financial asset, using the effective interest method.

### 4.4.5 Derecognition

The Group derecognises financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Consolidated Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

## / Notes to the Consolidated Financial Statements

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

### 4.4.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKAS/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

### 4.4.7 Identification and Measurement of Impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the

Group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a

reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible.

### 4.5 Securities Purchased Under Resale Agreements (Repo)

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

### 4.6 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 original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

## / Notes to the Consolidated Financial Statements

### 4.7 Derivatives Held for Risk Management Purposes

Derivatives are categorised as trading unless they are designated as hedging instruments. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date.

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 4.8 Non-Current Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

### 4.9 Intangible Assets

#### 4.9.1 (a) Goodwill

Goodwill that arises upon the acquisition of subsidiaries included in intangible assets if any.

#### Subsequent Measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

#### 4.9.1 (b) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

#### 4.9.2 Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### 4.9.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line-basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows:

	Useful Life (Years)
Seylan Bank PLC	6
Seylan Developments PLC	5

### 4.10 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not-for-sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date

when the construction or development is completed. The Bank applies the cost model for investment properties in accordance with LKAS 40 - 'Investment Property'. Accordingly, land classified as investment properties are stated at cost and buildings classified as investment properties are stated at cost, less any accumulated depreciation and any accumulated impairment losses. Fair values of these properties are disclosed in Note 26 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 4.1.6.

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.



## / Notes to the Consolidated Financial Statements

Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy 4.21 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 Note 26.3 to the Financial Statements.

### 4.10.1 Derecognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.

### 4.10.2 Investment Property Leased within the Group

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes and changes are disclosed in Note 26.3 to the Financial Statements.

## 4.11 Property, Plant & Equipment

Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

### 4.11.1 Recognition and Measurement

Items of Property & Equipment are measured at cost or revaluation, less accumulated depreciation and accumulated impairment losses except for land. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of Property or Equipment have different useful lives, they are accounted for as separate items (Major components) of Property and Equipment.

The gain or loss on disposal of an item of Property & Equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of Property & Equipment and are recognised net within other income in profit or loss.

### 4.11.2 Cost Model

The Bank applies cost model to Property, Plant & Equipment except for 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.

### 4.11.3 Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings of the Bank are revalued every five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the Reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Income. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Statement of Income or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

### Reclassification to Investment Property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

### 4.11.4 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

### 4.11.5 Derecognition

The carrying amount of an item of Property, Plant & Equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property, Plant & Equipment is included in Statement of Income when the item is derecognised.

### 4.11.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line-basis over the estimated useful lives of each part of an item of Property & Equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

## / Notes to the Consolidated Financial Statements

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

	Life Period (Years)	Rate (%)
Freehold Buildings	40	2.5
Motor Vehicles	5	20
Computer Equipment	6	16.67
Office Equipment, Furniture & Fittings	3-10	33 1/3-10

The rate of depreciation of Freehold Buildings was revised with effect from 1st January 99 (from 4% to 2.5%). Freehold Buildings purchased prior to 1st January 99 have been depreciated over the remaining useful life based on the revised depreciation rates. Freehold Buildings purchased after 1st January 99 have been depreciated based on revised rates.

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

### Seylan Developments PLC

Property, Plant & Equipment are recorded at cost of purchase or valuation together with any incidental expenses thereon. The assets are stated at cost or valuation less accumulated depreciation which is provided for on the basis specified below.

Depreciation of common types of assets within the Group is in line with the Group policy disclosed above. Freehold land is not depreciated. Leasehold land and buildings are depreciated over the remaining unexpired lease period. The depreciation of other assets that are unique to Seylan Developments PLC is provided on the straight-line method at varying rates per annum based on their useful lives as follows:

	Useful Life (years)	Depreciation Rate (%)
Furniture & Fittings	10	10
Equipment	05	20
Interior Décor	02	50
Motor Cars	05	20
Motorcycles	04	25
Tools	03	33.3
Apartment Assets	05	20
Leasehold Equipment	05	20

### 4.11.7 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

### 4.11.8 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard (LKAS) - 23 "Borrowing Costs". Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

### Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the Sri Lanka Accounting Standard (LKAS) - 17 "Leases".

Other leases are operating leases and are not recognised in the Group's Statement of Financial Position.

### 4.12 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 4.13 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

## / Notes to the Consolidated Financial Statements

### 4.14 Liabilities and Provisions

#### *Deposits, Debt Securities Issued and Subordinated Liabilities*

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("Repo"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

The Group carries some deposits, debt securities and subordinated liabilities at fair value, with fair value changes recognised immediately in profit or loss.

#### 4.14.1 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.

### 4.15 Employee Retirement Benefits

#### 4.15.1 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

The Bank's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service

in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the projected unit credit method - Sri Lanka Accounting Standard (LKAS 19) - "Employee Benefits".

To determine the net amount in the Statement Of Financial Position, any actuarial gains and losses that have not been recognised because of application of the 'corridor' approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

The Bank recognises a portion of actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan in profit or loss over the expected average remaining working lives of the employees participating in the plan. The portion is determined as the extent to which any cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets (the corridor). Otherwise, the actuarial gains and losses are not recognised.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss 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 profit or loss.

When the calculations above result in a benefit to the Bank, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Bank if it is realisable during the life of the plan or on settlement of the plan liabilities.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The percentage of contributions is determined by the same actuary and retirement benefits are provided to all permanent staff. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', the method recommended by LKAS 19. The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

#### *Changes to Gratuity Policy*

Board of Directors of the Bank at its meeting held on 24th March 2009 decided to change the previous policy of gratuity payments of paying one month's salary (last drawn) to resigned staff members who have completed ten years of service in the Bank with effect from 5th March 2009.

The policy of paying half a month salary (last drawn) to resigned staff members who have completed five years of service in the Bank remains unchanged.

Based on the Sri Lanka Accounting Standard (LKAS) 19 - "Employee Benefits" the Subsidiary has adopted the Actuarial Valuation Method. Accordingly, provisions have been made based on the above method.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

#### *Other Long-Term Employee Benefits - (Termination Benefit - Leave Encashment)*

The Bank's net obligation in respect of long-term employee benefits other than gratuity funds is the amount of future benefit that employees has earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on Government Bonds that have

## / Notes to the Consolidated Financial Statements

maturity dates approximating to the terms of the Bank's obligations. The calculation is performed using the projected unit credit method.

Any actuarial gains and losses are recognised in profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long-term employee benefits.

### **Termination Benefits**

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

### **Short-Term Employee Benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### **4.15.2 Defined Contribution Plans**

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the Statement of Income as and when they are due.

### **4.15.2 (a) Employees' Provident Fund**

The Bank and employees contribute 12% and 8% respectively on the salary of each employee to the approved private Provident Fund while the Subsidiary and their employees contribute the same percentages to the Employees' Provident Fund.

### **4.15.2 (b) Employees' Trust Fund**

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Notes to Financial Statements. (Refer Note 13)

## **4.16 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

## **4.17 Financial Guarantees**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value,

and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

## **4.18 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary, for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

## **Income Statement**

### **4.19 Interest**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

## / Notes to the Consolidated Financial Statements

Interest income and expense presented in the Income Statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense;
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income Statement.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

### 4.20 Fee and Commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on a cash basis.

### Net Trading Income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

### Dividend Income

Dividend income is recognised in the Statement of Income on an accrual basis when the Bank's right to receive the dividend is established.

Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income. Further dividends on available-for-sale equity securities were also presented in other revenue.

### Accounting for Finance Lease Income

Assets leased to customers who transfer substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

### Profit/Loss from Sale of Property, Plant & Equipment

Profit/loss from sale of Property, Plant & Equipment is recognised in the period in which the sale occurs and is classified as other income.

### Profit/Loss from Sale of Investment Properties

Any gains or losses on retirement or disposal of investment properties are recognised in the month of retirement or disposal.

### Rental Income

Rental income is recognised on an accrual basis.

### 4.21 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### 4.22 Income Tax Expense

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

#### 4.22.1 Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Reporting date, and any adjustment to tax payable in respect of previous years.

#### 4.22.2 Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

## / Notes to the Consolidated Financial Statements

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Details of the deferred tax assets and liabilities as at the Reporting date are given in Note 27.

Current and deferred tax assets and liabilities are offset only to the extent that they relates to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis.

### 4.22.3 Withholding Tax on Dividends

Dividend distributed out of taxable profit of the Subsidiary attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the Subsidiary in the Consolidated Financial Statements as a consolidation adjustment.

Withholding tax that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

### 4.22.4 Value Added Tax on Financial Services

The value base for value added tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the Financial Statements.

### 4.22.5 Economic Service Charges (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.

### 4.23 Earnings Per Share

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees (if any).

### 4.24 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group comprises the following major business segments - Banking, Consumer Financing (Leasing), Treasury and Property/Investments.

## 4.25 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the LKAS 7 "Statement of Cash Flows".

For the purpose of the Cash Flow Statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

## Regulatory Provisions

### 4.26 Deposit Insurance Scheme

In terms of the Banking Act Direction No. 5 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments thereto all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Sri Lanka
- Deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

## / Notes to the Consolidated Financial Statements

Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other licensed commercial banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

### 4.27 Investment Fund Account

As proposed in the budget proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account.

As and when taxes are paid after 1st January 2011 licensed commercial banks are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the bank.

- 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services on dates as specified in the VAT Act for payment of VAT
- 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax

licensed commercial banks shall utilise the funds in the Investment Fund Account in the following manner:

- Invest in long-term Government securities and/or bonds with maturities not less than seven years
- Lend on maturities not less than five years at interest rates not exceeding 5-year Treasury Bond rates plus 2%
- Lend only for the following purposes:
  - i. Long-term loans for cultivation of plantation crops/agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries

- ii. Factory/mills modernisation/establishment/expansion
- iii. Small and medium enterprises:
  - Loans up to Rs. 200 Mn. to enterprises with annual turnover less than Rs. 600 Mn.
- iv. Information technology-related activities and business process outsourcing
- v. Infrastructure development
- vi. Education - vocational training and tertiary education
- vii. Housing up to Rs. 2 Mn. per customer for construction of a house for residential purposes
- viii. Construction of hotels and for related purposes
- ix. Restructuring of loans extended for the above purposes

### 4.28 Reserves

#### 4.28.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer a sum equivalent not less than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital.

#### 4.28.2 Capital Reserve

This reserve has been created in 1991 and the Debenture Redemption Reserve Fund was transferred to Capital Reserve in 2004.

#### 4.28.3 Revaluation Reserve

This reserve has been created on revaluation of Land and Building of the Bank.

#### 4.28.4 General Reserve

This has been created in 1995.

#### 4.28.5 Special Risk Reserve

In terms of Central Bank directives, 25% of the profit after taxation of the primary dealer unit has been transferred to Special Risk Reserve in order to promote safety, soundness and stability of the Primary Dealer System and to build up a Primary Dealer Capital Base.

#### 4.28.6 Investment Fund Reserve

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011, Bank transfers 8% on Value Addition attributable to Financial Services and 5% of taxable profits, from retained profits to Investment Fund Reserve with effect from 1st January 2011.

#### 4.28.7 Available-For-Sale Reserve

This has been created in 2012 to account the fair value changes on account of Available-for-Sale Securities.

### 4.29 Events Occurring after the Reporting Date

Events after the Reporting date are those events, favourable and unfavourable, that occur between the Reporting date and the date the Financial Statements are authorised for issue.

All material and important events which occur after the Reporting date have been considered and disclosed in Note 43 or adjusted as applicable.

### Comparative Information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation. The details of restatements are disclosed in Note 48 to the Consolidated Financial Statements.

## / Notes to the Consolidated Financial Statements

### 5. Financial Risk Management

#### 5.1 Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

#### Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee and the Audit Committee. Board Integrated Risk Management Committee has both executive and non-executive members and report regularly to the Board of Directors on their activities. There are several executive management subcommittees such as Executive Market & Operational Committee, Asset and Liability Committee (ALCO), Executive Credit Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures. The Audit Committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### 5.1.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in note below.

#### Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Bank Credit Committee. Bank Credit Risk monitoring Unit reporting to Credit Committee through Chief Risk Officer is responsible for management of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the Board of Directors as appropriate.

- *Reviewing and assessing credit risk.* Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer. Refer Concentration of Risk in the Risk Report
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank Credit processes are undertaken by internal audit.



## / Notes to the Consolidated Financial Statements

### Exposure to Credit Risk

Carrying Amount	Loans and Advances to Customers	Investment Debt Securities AFS & HTM
	2012 Rs. '000	2012 Rs. '000
<b>Assets at Amortised Cost</b>		
Neither Past Due Nor Impaired (a)	77,249,681	
Past Due But Not Impaired* (b)	6,423,353	
<b>*Past Due Comprises:</b>		
30-89 days	5,813,886	
90-179 days	90,489	
180 days +	518,978	
	6,423,353	
<b>Non-Individually Significant (c)</b>	39,839,402	
Allowance for Impairment (e)	5,535,442	
<b>Carrying Amount (c-e)</b>	34,303,960	
<b>Individually Impaired (d)</b>	9,461,254	
Allowance for Impairment (f)	2,709,877	
<b>Carrying Amount (d-f)</b>	6,751,377	
<b>Loans &amp; Advances (Gross) a+b+c+d</b>	132,973,690	
<b>Less: Allowance for Impairment (e+f)</b>	8,245,319	
<b>Available-for-Sale Investment Securities</b>		
Quoted and Unquoted Equities		461,474
<b>Gross Amount</b>		461,474
Fair Value Impact		(277,654)
<b>Carrying Amount</b>		739,128
Treasury Bills & Bonds		11,021,924
<b>Gross Amount</b>		11,021,924
Fair Value Impact		402,949
<b>Carrying Amount</b>		10,618,975
Unquoted Equities - Prime Grameen Micro Finance Limited		2,332,000
<b>Gross Amount</b>		2,332,000
Allowance for impairment		2,332,000
<b>Carrying Amount</b>		-
<b>Carrying Amount - Available-for-Sale Investment Securities</b>		11,358,103
<b>Held-to-Maturity Investment Securities</b>		19,822,966
<b>Total Carrying Amount a+b+c+d-e-f</b>	124,728,371	31,181,069

### Impaired Loans and Investment Debt Securities

Individually impaired loans and securities are loans and advances and investment debt securities HTM and AFS (other than those carried at fair value through profit or loss) for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/ investment security agreement(s). These loans are graded 4 to 6 in the Bank's internal credit risk grading system. Loans and advances and investment debt securities carried at fair value through profit or loss are not assessed for impairment but are subject to the same internal grading system.

### Past Due But Not Impaired Loans and Investment Debt Securities

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

### Allowances for Impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for banks of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

## / Notes to the Consolidated Financial Statements

### Write-Off Policy

The Bank writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Bank Credit determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually significant and available-for-sale investments.

### Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances at the reporting date is in the Note 51 to the Annual Report.

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

The table below shows the carrying amounts of the Bank's exposures to other financial instruments:

	2012 Rs. '000	2011 Rs. '000
Investments Designated at Fair value through Profit or Loss	2,460,272	5,243,565
Derivatives	(227,545)	7,240
Investment Securities:		
Available-for-Sale	11,358,103	11,886,589
Held to Maturity	19,822,966	17,665,169
	33,413,796	34,802,563

	Gross 2012 Rs. '000	Impairment 2012 Rs. '000	Net 2012 Rs. '000
<b>Loans and Advances to Customers</b>			
Individually Significant	9,461,254	2,709,877	6,751,377
	9,461,254	2,709,877	6,751,377

	Gross 2012 Rs. '000	Fair Value Gain/ Impairment 2012 Rs. '000	Net 2012 Rs. '000
<b>Available-For-Sale Investments Securities</b>			
Quoted & unquoted equities	461,474	277,654	739,128
Treasury Bills & Bonds	11,021,924	(402,949)	10,618,975
Prime Grameen Micro Finance Limited	2,332,000	(2,332,000)	-
	13,815,398	2,457,295	11,358,103

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012.

## / Notes to the Consolidated Financial Statements

### Settlement Risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Bank Risk.

### 5.1.2 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

#### Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Bank Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Bank Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and subsidiary are met through short-term loans from Bank and Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers and banks, and issued debt securities and subordinated liabilities as its primary sources of funding. While the Bank's debt securities and subordinated liabilities have maturities of over five-year, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

#### Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the, Central Bank of Sri Lanka. Details of the reported Bank ratio of net liquid assets to the liabilities from customers at the reporting date and during the year were as follows:

	2012		2011	
	DBU %	FCBU %	DBU %	FCBU %
At 31st December	21.51	23.06	21.51	25.48
Average for the year	21.12	24.42	24.02	26.88
Maximum for the year	22.09	25.41	27.15	31.31
Minimum for the year	20.37	23.06	21.35	23.09

## / Notes to the Consolidated Financial Statements

Maturity analysis for the financial liabilities are shown below with undiscounted impact over the future periods to explain the contractual liability.

Rs. '000								
31st December 2012	Note	Less Than 1 Month	Less Than 3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years		Total
<b>Non-Derivative Liabilities</b>								
<b>Trading Liabilities</b>								
Deposits from banks	32.2	-	11,072	-	-	-		11,072
Deposits from customers & finance companies	32.2	-	70,185,512	70,590,327	8,552,412	5,742,009		155,070,260
Debentures	35	-	-	87,423	1,372,626	-		1,460,049
Securities sold under repurchase agreement		-	3,432,763	653,659	-	-		4,086,422
Borrowings	33	-	5,487,217	-	136,093	779,042		6,762,352

An entity should explain how it manages the liquidity risk inherent in the maturity analysis. This includes a maturity analysis for financial assets it holds as part of managing liquidity risk, e.g., financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities, if such information is necessary to enable Financial Statement users to evaluate the nature and extent of liquidity risk.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

### 5.1.3 Market Risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### Management of Market Risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Bank's Treasury Department and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred and sold down by Bank's Treasury Department. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. Bank's Market Risk Division under Chief Risk Officer is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

#### Exposure to Interest Rate Risk - Non-Trading Portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Treasury in its day-to-day monitoring activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss;
- Hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships; and

## / Notes to the Consolidated Financial Statements

- Prior to 1st January 2012 fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in other comprehensive income.

Overall non-trading interest rate risk positions are managed by Bank's Treasury Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

### Exposure to Other Market Risks - Non-Trading Portfolios

Equity price risk is subject to regular monitoring by Bank Market Risk Department but is not currently significant in relation to the overall results and financial position of the Bank.

### 5.1.4 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions; or
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;

- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee.

### Capital Management

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) was measured on the basis of Credit and Market risk under the 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.

### Available Capital

Basel I and Basel II accords recognise three capital elements, namely Tier I, II and Tier III capital. Tier I capital includes paid up ordinary share capital, paid up non-cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained earnings, general and other reserves less goodwill.

Tier II capital includes 50% of asset revaluation reserves (created by revaluation carried out in every seven years) general provision for advances, hybrid debt/equity instruments and approved subordinated term debts. Tier II capital cannot exceed Tier I capital and subordinated debt cannot exceed 50% of the Tier I capital.

Tier III capital will consist only of short-term debt instrument and will be used for calculation of Market risk only. Tier III is subject to a maximum of 250% of Tier I capital after meeting the credit and operational risk.

Equity investments in unconsolidated banking and financial subsidiaries and investments in capital of other banks/financial associates are deducted from capital in arriving at the capital base. The Bank is required to maintain a minimum total risk weighted capital ratio of 10% in respect of Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) operations.

### Capital Adequacy Details 31st December

Capital Base has been adjusted based on LKAS/SLFRSs.

	BANK		Group	
	2012 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.
Total Tier I Capital	17,352	15,715	18,072	16,456
Total Tier I & II Capital	17,364	16,100	18,079	16,841
Total Risk-weighted Assets	120,824	110,511	122,898	112,402
Off-Balance Sheet Exposure	5,631	5,914	5,697	5,981
Capital Adequacy Ratios				
Tier I	14.36%	14.22%	14.70%	14.64%
Tier I & II	14.37%	14.57%	14.71%	14.98%

## / Notes to the Consolidated Financial Statements

### 5.2 Use of Estimates and Judgements

Management discusses with the Bank Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

#### 5.2.1 Key Sources of Estimation Uncertainty *Allowances for Credit Losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note 4.4.3.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and investment securities measured at amortised cost (prior to 1st January 2012 also held-to-maturity investment securities) with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

#### *Determining Fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy Note No 4.4.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also *Valuation of financial instruments* below:

- Level 1 - Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

Rs. '000				
Assets		Level 1	Level 2	Level 3
Trading Securities		2,460,272	-	-
Investment Securities:				
Available for Sale		11,266,850	-	91,253
Derivative Financial Instruments		51,281	-	-
Liabilities				
Derivative Financial Instruments		278,826	-	-

## / Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>6. Income</b>				
Interest Income (Note 7)	21,139,830	16,965,783	21,140,332	16,943,847
Fee and Commission Income (Note 9)	1,760,335	1,512,211	1,760,103	1,512,160
Net Trading Income (Note 10)	333,591	(34,819)	333,591	(34,819)
Other Income - Net (Note 11)	389,530	381,285	457,548	541,593
	<b>23,623,286</b>	<b>18,824,460</b>	<b>23,691,574</b>	<b>18,962,781</b>

### 7. Interest Income

Loans and Receivables	17,987,264	12,992,685	17,987,264	12,969,774
Treasury Bills, Bonds & Placements with Other Banks	3,000,921	3,864,669	3,001,075	3,865,420
Debentures	151,645	98,834	151,645	98,834
Other Instruments	-	9,595	348	9,819
	<b>21,139,830</b>	<b>16,965,783</b>	<b>21,140,332</b>	<b>16,943,847</b>

According to the Section 137 of the Inland Revenue Act No. 10 of 2006, any person who derive 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. 233,409,749/- as notional tax credit for the year 2012 (Rs. 282,247,960/- for 2011).

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>8. Interest Expenses</b>				
Deposits	10,335,304	6,886,783	10,317,850	6,885,865
Borrowings	786,800	186,076	787,033	177,640
Refinance Borrowings	60,866	61,094	60,866	61,094
Treasury Bills Repurchased (Note 8.1.a)	569,804	679,346	568,407	672,486
Debentures	366,841	542,068	366,841	542,068
	<b>12,119,615</b>	<b>8,355,367</b>	<b>12,100,997</b>	<b>8,339,153</b>

### 8.1 Net Interest Income

#### Interest Income

Cash and Cash Equivalents	-	-	-	-
Placements with Banks	57,333	81,940	57,333	81,940
Other Financial Assets Held-for-Trading	-	-	-	-
Financial Assets Designated at Fair Value Through Profit or Loss	-	-	-	-
Loans and Receivables	17,987,264	12,992,685	17,987,264	12,969,774
Financial Investments - Held-to-Maturity	151,645	98,834	151,645	98,834
Financial Investments - Available-for-Sale	-	-	-	-
Treasury Bills, Bonds - Held to Maturity, Available-for-Sale & Fair Value through Profit & Loss - (Note 8.1.a)	2,943,588	3,782,729	2,943,742	3,783,480
Other Instruments	-	9,595	348	9,819
<b>Total Interest Income</b>	<b>21,139,830</b>	<b>16,965,783</b>	<b>21,140,332</b>	<b>16,943,847</b>

## / Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Interest Expenses</b>				
Due to Banks	-	-	-	-
Derivative Financial Instruments	-	-	-	-
Other Financial Liabilities at Fair Value Through Profit or Loss	-	-	-	-
Due to Other Customers	10,335,304	6,886,783	10,317,850	6,885,865
Other Borrowings	1,417,470	926,516	1,416,306	911,220
Debt Securities Issued	366,841	542,068	366,841	542,068
<b>Total Interest Expenses</b>	<b>12,119,615</b>	<b>8,355,367</b>	<b>12,100,997</b>	<b>8,339,153</b>
<b>Net Interest Income</b>	<b>9,020,215</b>	<b>8,610,416</b>	<b>9,039,335</b>	<b>8,604,694</b>
<b>8.1.a. Net Interest Income from Sri Lanka Government Securities</b>				
Interest Income	2,943,588	3,782,729	2,943,742	3,783,480
(Less): Interest Expenses	569,804	679,346	568,407	672,486
<b>Net Interest Income</b>	<b>2,373,784</b>	<b>3,103,383</b>	<b>2,375,335</b>	<b>3,110,994</b>
<b>9. Net Fee and Commission Income</b>				
<b>9.1 Fee and Commission Income</b>				
Fee Income	738,018	609,077	737,786	609,026
Commission Income	1,022,317	903,134	1,022,317	903,134
	<b>1,760,335</b>	<b>1,512,211</b>	<b>1,760,103</b>	<b>1,512,160</b>
<b>9.2 Fee and Commission Expenses</b>				
Commission Expenses	65,645	77,489	71,425	81,369
	<b>65,645</b>	<b>77,489</b>	<b>71,425</b>	<b>81,369</b>
<b>Net Fee and Commission Income</b>	<b>1,694,690</b>	<b>1,434,722</b>	<b>1,688,678</b>	<b>1,430,791</b>
<b>9.3 Net Fee and Commission Income</b>				
Fee and Commission Income	1,760,335	1,512,211	1,760,103	1,512,160
Fee and Commission Expenses	65,645	77,489	71,425	81,369
<b>Net fee and Commission Income</b>	<b>1,694,690</b>	<b>1,434,722</b>	<b>1,688,678</b>	<b>1,430,791</b>
<b>Comprising -</b>				
Loans	241,415	180,800	241,415	180,800
Cards	344,039	302,300	344,039	302,300
Trade and Remittances	200,295	151,966	200,295	151,966
Deposits	111,119	57,326	111,119	57,326
Guarantees	171,750	153,905	171,750	153,905
Others (Please Specify)	626,072	588,425	620,060	584,494
<b>Net Fee and Commission Income</b>	<b>1,694,690</b>	<b>1,434,722</b>	<b>1,688,678</b>	<b>1,430,791</b>



## / Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>10. Net Trading Income</b>				
Net Gain/(Loss) on Derivative Financial Instruments	(236,990)	23,445	(236,990)	23,445
Net Gain on Foreign Exchange	487,393	261,427	487,393	261,427
Net Gain/(Loss) on Investments Designated at Fair Value Through Profit & Loss (Note 10.1)	83,188	(319,691)	83,188	(319,691)
	<b>333,591</b>	<b>(34,819)</b>	<b>333,591</b>	<b>(34,819)</b>

### 10.1 Net Gain/(Loss) from Financial Instruments Designated at Fair Value Through Profit or Loss

	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Gains on Financial Assets Designated at Fair Value Through Profit or Loss	206,664	137,230	206,664	137,230
Losses on Financial Assets Designated at Fair Value Through Profit or Loss	(123,476)	(456,921)	(123,476)	(456,921)
Gains on Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-
Losses on Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-
<b>Total</b>	<b>83,188</b>	<b>(319,691)</b>	<b>83,188</b>	<b>(319,691)</b>

### 11. Other Income - Net

	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Dividend Income - Trading Equities	12,402	12,510	12,402	12,510
Dividend Income - Investment Securities - Quoted	1,548	557	1,548	557
Dividend Income - Investment Securities - Unquoted	1,872	2,844	1,872	2,844
Dividend Income - Investments in Subsidiaries	6,902	-	-	-
Profit/(Loss) on Sale of Property, Plant & Equipment	49,693	18,625	49,693	22,261
Profit/(Loss) on Sale of Investment Properties	-	7,335	-	7,335
Profit/(Loss) on Sale of Investment Securities	-	413	-	884
Gain from a Bargaining Purchase (Negative Goodwill)	-	-	-	22,354
Exchange Income	317,113	339,001	317,113	339,001
Others	-	-	74,920	133,847
	<b>389,530</b>	<b>381,285</b>	<b>457,548</b>	<b>541,593</b>

### 12. Operating Expenses

Operating Expenses include the following:

	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Directors' Emoluments	8,275	17,499	9,570	18,099
Audit Fees & Expenses	7,440	6,851	8,230	7,476
Audit-Related Fee & Expenses	2,405	1,775	2,555	1,775
Non-Audit Services	575	440	575	440
Depreciation - Freehold Property, Plant & Equipment (Note 28)	404,655	392,798	434,904	422,787
Depreciation - Leasehold Rights (Note 29)	313	1,408	7,723	9,286
Depreciation - Investment Property (Note 26)	-	-	20,198	20,198
Amortisation of Intangible Assets (Note 30)	142,938	206,224	142,938	206,224
Donations	1,653	3,340	1,803	3,340
Expenses on Litigation	78,353	83,405	78,353	83,494
Impairment Loss on Investments	153,984	971,601	153,984	1,063,697
Sri Lanka Deposit Insurance Fund - Premium	132,925	123,325	132,925	123,325

## / Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>13. Personnel Expenses</b>				
Personnel Expenses include the following:				
Salaries & Wages	1,841,979	1,840,563	1,855,378	1,852,845
Contribution to Employees' Provident Fund	220,888	220,863	222,535	222,344
Contribution to Employees' Trust Fund	55,222	55,253	55,624	55,623
Provision for Defined Benefit Obligation (Note 36.1.7)	88,797	69,067	85,421	73,157
Amortisation of Prepaid Staff Cost	98,982	45,400	99,071	45,400
Other	954,057	900,173	966,438	908,228
	<b>3,259,925</b>	<b>3,131,319</b>	<b>3,284,467</b>	<b>3,157,597</b>

### 13.1 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 June 30, 2011 and its full cost of Rs. 699 Mn has been fully accounted during 2011.

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>14. Net Impairment Loss on Loans and Receivables</b>				
Net Impairment Loss - Individual	(289,859)	(587,410)	(289,859)	(587,410)
Net Impairment Loss - Collective	599,055	1,306,183	599,055	1,306,183
Loans Written-Off	7,789	10,251	7,789	10,251
	<b>316,985</b>	<b>729,024</b>	<b>316,985</b>	<b>729,024</b>

### 15. Income Tax Expense

The components of income tax expense for the years ended 31st December 2012 and 2011 are:

#### 15.1 Current Tax Expense

- Income Tax on Current Years Profit (Note 15.2)	848,245	688,136	854,122	689,688
- (Over)/Under Provision in Respect of Previous Year's	30,000	(90,638)	30,000	(90,638)
<b>Deferred Taxation</b>				
- Transfers to/(from) Deferred Taxation (Note 27)	256,915	(92,409)	260,080	(106,368)
<b>Total Income Tax Expense</b>	<b>1,135,160</b>	<b>505,089</b>	<b>1,144,202</b>	<b>492,682</b>

- i. Current 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 rates applicable for such companies.

## / Notes to the Consolidated Financial Statements

### 15.2 Reconciliation of the Accounting Profit to Income Tax Expense

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Profit Before Tax</b>	<b>3,184,287</b>	1,169,968	<b>3,226,617</b>	1,158,935
Less: Profit/(Loss) from Leasing Activities	<b>206,069</b>	(17,446)	<b>206,069</b>	(17,446)
Profit from Banking Activities	<b>2,978,218</b>	1,187,414	<b>3,020,548</b>	1,176,381
Add: Disallowable Expenses	<b>1,830,781</b>	2,489,516	<b>1,909,892</b>	2,667,433
Less: Allowable Expenses	<b>1,342,475</b>	933,402	<b>1,418,858</b>	1,009,925
Exempt/Allowable Income	<b>437,077</b>	285,897	<b>468,846</b>	429,097
Add: Tax Losses from Subsidiary	-	-	-	52,839
Business Income	<b>3,029,447</b>	2,457,631	<b>3,042,736</b>	2,457,631
Income from Other Sources	-	-	<b>19,005</b>	8,528
<b>Business Income from Banking Activities</b>	<b>3,029,447</b>	2,457,631	<b>3,061,741</b>	2,466,159
<b>Business Income from Leasing Activities</b>	<b>19,128</b>	-	<b>19,128</b>	-
<b>Total Statutory Income</b>	<b>3,048,575</b>	2,457,631	<b>3,080,869</b>	2,466,159
Less: Tax Loss Set-Off (Note 15.3)	<b>19,128</b>	-	<b>30,432</b>	2,985
<b>Assessable Income</b>	<b>3,029,447</b>	2,457,631	<b>3,050,437</b>	2,463,174
<b>Taxable Income</b>	<b>3,029,447</b>	2,457,631	<b>3,050,437</b>	2,463,174
Income Tax on Current Year's Profit	<b>848,245</b>	688,136	<b>854,122</b>	689,688
(Over)/Under Provision in Respect of Previous Years	<b>30,000</b>	(90,638)	<b>30,000</b>	(90,638)
Transfers to/(from) Deferred Taxation	<b>256,915</b>	(92,409)	<b>260,080</b>	(106,368)
Total Income Tax Expense	<b>1,135,160</b>	505,089	<b>1,144,202</b>	492,682
Effective Tax Rate (Note 15.4)	<b>36%</b>	43%	<b>35%</b>	42%
Effective Tax Rate (Excluding Deferred Tax)	<b>28%</b>	51%	<b>27%</b>	52%

	2012
Income tax on	
a. Domestic Operations of the Bank	<b>28%</b>
b. Foreign Currency Banking Unit of the Bank	<b>28%</b>
1. On-Shore Operations	<b>28%</b>
2. Off-Shore Operations	<b>28%</b>
c. Seylan Developments PLC	<b>28%</b>
Social Responsibility Levy (SRL)	-

	BANK				GROUP			
	2012		2011		2012		2011	
	Taxable Income Rs. '000	Tax Expense Rs. '000	Taxable Income Rs. '000	Tax Expense Rs. '000	Taxable Income Rs. '000	Tax Expense Rs. '000	Taxable Income Rs. '000	Tax Expense Rs. '000
Bank - Domestic Banking Unit and On-Shore Profits - 28%	<b>3,022,860</b>	<b>846,401</b>	2,450,900	686,251	<b>3,043,850</b>	<b>852,278</b>	2,456,443	687,803
Off-Shore Profits - 28%	<b>6,587</b>	<b>1,844</b>	6,731	1,885	<b>6,587</b>	<b>1,844</b>	6,731	1,885
Social Responsibility Levy (SRL)	-	-	-	-	-	-	-	-
	<b>3,029,447</b>	<b>848,245</b>	2,457,631	688,136	<b>3,050,437</b>	<b>854,122</b>	2,463,174	689,688

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.

## / Notes to the Consolidated Financial Statements

### 15.3 Tax Losses Brought Forward

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Tax Losses Brought Forward	553,520	-	1,381,203	777,827
Tax Losses Incurred during the Year	-	553,520	-	606,361
Tax Losses Utilised during the Year	19,128	-	30,432	2,985
<b>Unutilized Tax Losses Carried Forward</b>	<b>534,392</b>	<b>553,520</b>	<b>1,350,771</b>	<b>1,381,203</b>

### 15.4 Reconciliation of Effective Tax Rate

	BANK				GROUP			
	2012		2011		2012		2011	
	%	Rs.	%	Rs.	%	Rs.	%	Rs.
<b>Profit before Income Tax</b>		<b>3,184,287</b>		1,169,968		<b>3,226,617</b>		1,158,935
Less: Profit/(Loss) from Leasing Activities		206,069		(17,446)		206,069		(17,446)
<b>Profit from Banking Activities</b>		<b>2,978,218</b>		1,187,414		<b>3,020,548</b>		1,176,381
Income Tax using Domestic Tax Rate	28	833,901	28	332,476	28	845,753	28	329,386
Disallowable Expenses	16	512,619	60	697,064	16	534,770	63	746,881
Allowable Expenses	(13)	(375,893)	(22)	(261,353)	(13)	(397,280)	(23)	(282,779)
Exempt Income	(4)	(122,382)	(7)	(80,051)	(4)	(131,277)	(10)	(120,147)
Tax Losses from Subsidiary	-	-	-	-	-	-	1	14,795
Income from Other Sources	-	-	-	-	-	5,321	-	2,388
Business Income from Leasing Activities	-	5,356	-	-	-	5,356	-	-
Tax Loss Set-Off	-	(5,356)	-	-	-	(8,521)	-	(836)
(Over)/Under Provision in respect of Previous Years	1	30,000	(8)	(90,638)	1	30,000	(8)	(90,638)
Other Temporary Difference	8	256,915	(8)	(92,409)	7	260,080	(9)	(106,368)
<b>Total Income Tax Expenses (Note 15.1)</b>	<b>36</b>	<b>1,135,160</b>	<b>43</b>	<b>505,089</b>	<b>35</b>	<b>1,144,202</b>	<b>42</b>	<b>492,682</b>

### 15.5 Deferred Tax Expense/(Income)

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Deferred Tax - Liabilities</b>				
Property, Plant & Equipment	(48,042)	(81,759)	(48,042)	(81,759)
Lease Rentals	22,185	102,112	22,185	102,112
Mark to Market Gain	26,482	-	26,482	-
	<b>625</b>	<b>20,353</b>	<b>625</b>	<b>20,353</b>
<b>Deferred Tax - Assets</b>				
Leave Encashment Provision	1,622	9,302	1,622	9,302
Defined Benefit Obligation	-	311	-	311
Collective & Individually Significant Impairment	266,531	23,436	266,531	23,436
Other Provisions	(17,219)	-	(17,219)	-
Tax Losses C/F	5,356	(154,986)	8,521	(168,945)
Impact on Devaluation	-	9,175	-	9,175
	<b>256,290</b>	<b>(112,762)</b>	<b>259,455</b>	<b>(126,721)</b>
<b>Transferred to/(from) Income Statement</b>	<b>256,915</b>	<b>(92,409)</b>	<b>260,080</b>	<b>(106,368)</b>

## / Notes to the Consolidated Financial Statements

### 16. Basic/Diluted Earnings Per Share

Basic Earnings Per Share has been calculated by dividing Profit after tax attributable to Equity Holders of the Bank after preference dividends by the weighted average number of ordinary shares in issue (Both Voting and Non-Voting) during the year ended 31st December 2012 & 2011.

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive ordinary shares.

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Total Profit after Tax Attributable to Equity Holders of the Bank	2,049,127	664,879	2,063,056	675,948
Weighted Average Number of Ordinary Shares - Bank	338,080	305,377	338,080	305,377
Basic/Diluted Earnings Per Share (Rs.)	6.06	2.18	6.10	2.21

### 17. Dividends

#### Ordinary Share Dividends

	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Net Dividend</b>	<b>305,863</b>	228,204	<b>305,863</b>	228,204
Tax Deducted at Source	32,217	25,356	32,217	25,356
<b>Gross Dividend (Note 43)</b>	<b>338,080</b>	253,560	<b>338,080</b>	253,560

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>18. Cash and Cash Equivalents</b>						
Cash in Hand - Local Currency	5,437,217	4,056,410	3,561,087	5,437,250	4,056,445	3,561,125
Cash in Hand - Foreign Currency	140,142	53,390	181,902	140,142	53,390	181,902
Cash at Bank	-	-	-	68	526	1,518
Balances with Local Banks	8,608	-	23,885	8,608	-	23,885
Balances with Foreign Banks	968,414	440,403	931,532	968,414	440,403	931,532
Placements with Banks and Finance Companies (Note 18.1)	-	-	-	-	-	-
	<b>6,554,381</b>	4,550,203	4,698,406	<b>6,554,482</b>	4,550,764	4,699,962

#### 18.1 Placements with Banks and Finance Companies

	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Fixed Deposits with Finance Companies	-	-	-	5,943	5,943	5,943
Impairment Provision	-	-	-	(5,943)	(5,943)	(5,943)
	-	-	-	-	-	-

### 19. Balances with Central Bank of Sri Lanka

Cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. At present, the minimum cash reserve requirement is 8% of the Rupee deposit liabilities. The Statutory Reserve Rate was increased from 7% to 8% with effect from 29th April 2011.

	BANK/GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Average Rupee Deposit Liabilities for the Last Week of December	130,180,207	111,143,742	102,371,365
Statutory Reserve Requirement	10,414,417	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%	1,727,097	1,619,951	1,708,414
<b>Total Reserve Required to be held with the Central Bank</b>	<b>8,687,320</b>	7,271,548	5,457,582
Average Balance held by the Bank for the Last Week of the Year	8,687,320	7,271,584	5,457,743
Statutory Balances with Central Bank as at 31st December	8,028,661	7,070,728	5,453,833
Non-Statutory Balances with Central Bank	-	-	-
<b>Balances with Central Bank of Sri Lanka</b>	<b>8,028,661</b>	7,070,728	5,453,833

## / Notes to the Consolidated Financial Statements

	2012		2011		2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>20. Investments Designated at Fair Value through Profit and Loss</b>						
Seylan Bank PLC (Note 20.1)	2,565,860	2,460,272	5,555,817	5,243,565	16,636,925	16,781,594
Seylan Developments PLC (Note 20.2)	10,268	7,879	268	878	2,393	2,382
<b>Total Investments Designated at Fair Value through Profit and Loss - Group</b>	<b>2,576,128</b>	<b>2,468,151</b>	<b>5,556,085</b>	<b>5,244,443</b>	<b>16,639,318</b>	<b>16,783,976</b>

### 20.1 Seylan Bank PLC

	2012	2011	2010
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000
Quoted Equities (Note 20.1.1)	278,454	160,778	998,905
Government of Sri Lanka Treasury Bills (Note 20.1.2)	1,696,931	1,700,262	1,821,976
Government of Sri Lanka Treasury Bonds (Note 20.1.3)	590,475	599,232	2,734,936
<b>Total Investments Designated at Fair Value through Profit and Loss - Bank</b>	<b>2,565,860</b>	<b>2,460,272</b>	<b>5,555,817</b>

	2012				2011			2010		
	No. of Ordinary Equities	Cost Rs. '000	% of Total Cost	Market Value Rs. '000	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000
<b>20.1.1 Quoted Equities - Bank</b>										
<b>Hotels &amp; Travel</b>										
Galadari Hotels Lanka PLC	1,125,500	38,129		16,320	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	80,000	2,499		1,312	200,000	6,247	4,600	500,000	11,626	10,300
Hotel Services (Ceylon) PLC	1,800,000	53,378		30,780	2,350,000	69,689	48,175	2,350,000	69,689	61,100
		94,006	33.76	48,412		289,093	209,189		355,258	356,064
<b>Banks, Finance &amp; Insurance</b>										
Commercial Bank of Ceylon PLC	206,579	25,878		21,278	596,000	75,984	59,600	-	-	-
People's Leasing Company PLC	-	-		-	610,800	10,994	9,712	-	-	-
Nations Trust Bank PLC	-	-		-	7,200	413	410	-	-	-
Nation Lanka Finance PLC	-	-		-	600,000	17,396	9,480	2,700	41	47
The Finance Company PLC	-	-		-	-	-	-	110,160	6,197	4,285
Janashakthi Insurance Company PLC	470,000	9,197		4,982	1,000,000	19,568	15,200	-	-	-
Merchant Bank of Sri Lanka PLC	70,000	3,057		1,379	100,000	4,367	4,000	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
		38,132	13.69	27,639		179,416	136,712		165,332	219,099

## / Notes to the Consolidated Financial Statements

	2012			2011			2010		
	No. of Ordinary Equities	Cost	% of Total Cost	No. of Ordinary Equities	Cost	Market Value	No. of Ordinary Equities	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Diversified Holdings</b>									
Hayleys PLC	-	-	-	-	-	-	100,000	32,670	34,500
CT Holdings PLC	4,999	1,115	620	191,200	42,640	34,225	-	-	-
Aitken Spence PLC	-	-	-	250,000	45,159	31,250	-	-	-
Richard Pieris & Company PLC	-	-	-	7,000,000	82,584	63,000	1,500,000	14,269	15,900
Browns Investment PLC	1,171,500	5,858	4,686	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	200,000	5,800	2,140	236,000	6,844	4,272	-	-	-
Hemas Holdings PLC	230,000	10,438	6,210	300,000	13,615	10,020	100,000	4,020	4,440
		23,211	8.34		199,705	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	35,000	2,115	0.76	69,600	4,206	3,793	76,900	4,556	4,768
<b>Land &amp; Property</b>									
Overseas Reality (Ceylon) PLC	-	-	-	312,500	5,380	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	3	643	2	5	643	2	2
Hayleys - MGT Knitting Mills PLC	130,000	5,147	1,508	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	7,910,000	36,744	18,984	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	12,375	125,000	20,125	17,500	-	-	-
Lanka Tiles PLC	-	-	-	-	-	-	100,000	10,177	13,470
		62,018	22.27		74,155	64,924		67,709	66,650
<b>Healthcare</b>									
Nawaloka Hospitals PLC	3,399,999	14,590	5.24	4,000,000	17,165	15,600	4,000,000	17,165	14,400
<b>Chemicals &amp; Pharmaceuticals</b>									
Haycarb PLC	-	-	-	10,000	1,911	1,550	10,000	1,911	1,685
<b>Telecommunication</b>									
Sri Lanka Telecom PLC	60,000	2,873	2,640	115,000	5,507	5,566	250,000	11,973	12,000
Dialog Axiata PLC	-	-	-	17,459,100	167,752	137,927	14,703,100	144,095	174,967
		2,873	1.03		173,259	143,493		156,068	186,967
<b>Power &amp; Energy</b>									
Vallibel Power Erathna PLC	2,460,299	25,822	15,990	2,760,000	28,968	21,803	-	-	-
Hemas Power PLC	250,000	10,707	5,575	250,000	10,707	6,750	-	-	-
Laugis Gas PLC	100,000	4,980	2,550	300,000	14,940	11,370	-	-	-
		41,509	14.91		54,615	39,923		-	-
<b>Total Quoted Equities - Bank</b>		278,454	100.00		998,905	769,144		830,016	916,286
Marked to Market Valuation Gain/(Loss) from Quoted Equities		(117,676)			(229,761)			86,270	

## / Notes to the Consolidated Financial Statements

	Face Value Rs. '000	Year of Maturity	2012		2011		2010	
			Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>20.1.2 Government of Sri Lanka Treasury Bills - Bank</b>								
Total Government of Sri Lanka Treasury Bills - Bank	1,494,907	2013	<b>1,696,931</b>	<b>1,700,262</b>	1,821,976	1,812,274	1,846,682	1,847,707
Marked to Market Valuation Gain/(Loss) from Treasury Bills*			<b>3,331</b>	-	(9,702)	-	1,025	

### 20.1.3 Government of Sri Lanka Treasury Bonds - Bank

Face Value Rs. '000	Year of Maturity	2012		2011		2010	
		Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
400,126	2013	<b>104,987</b>	<b>105,563</b>				
100,896	2014	<b>1,419</b>	<b>1,442</b>				
100,000	2015	<b>101,133</b>	<b>102,406</b>				
50,000	2016	<b>44,495</b>	<b>44,452</b>				
200,000	2017	<b>174,201</b>	<b>175,731</b>				
200,064	2018	<b>164,240</b>	<b>169,638</b>				
<b>Total Government of Sri Lanka Treasury Bonds - Bank</b>		<b>590,475</b>	<b>599,232</b>	2,734,936	2,662,147	13,960,227	14,017,601
Marked to Market Valuation Gain/(Loss) from Treasury Bonds*		<b>8,757</b>		(72,789)		57,374	
<b>Total Investments Designated at Fair Value through Profit and Loss - Bank (Note 20.1.1, 20.1.2, 20.1.3)</b>		<b>2,565,860</b>	<b>2,460,272</b>	5,555,817	5,243,565	16,636,925	16,781,594

\* Marked to Market Valuation Gain/(Loss) from Treasury Bills & Bonds is included in Net Trading Income (Note 10).

## Trading Securities Held by Subsidiaries

### 20.2 Seylan Developments PLC

#### 20.2.1 Quoted Equities

	2012			2011			2010		
	No. of Ordinary Equities	Cost	Market Value	No. of Ordinary Equities	Cost	Market Value	No. of Ordinary Equities	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	
Nation Lanka Finance PLC	<b>8,288</b>	<b>80</b>	<b>81</b>	8,288	80	132	200,000	2,000	1,730
C T Land Developments PLC	<b>100</b>	<b>1</b>	<b>3</b>	100	1	3	100	1	3
Ceylinco Housing & Real Estate PLC	<b>250</b>	<b>2</b>	<b>4</b>	250	2	4	250	2	5
The Colombo Fort Land & Building Co. PLC	<b>100</b>	<b>1</b>	<b>4</b>	100	1	4	100	1	18
Overseas Realty Ceylon PLC	<b>100</b>	-	<b>1</b>	100	-	1	100	-	1
Kelsey Developments PLC	<b>100</b>	<b>1</b>	<b>1</b>	100	1	2	100	1	1
Property Development PLC	<b>100</b>	<b>2</b>	<b>5</b>	100	2	5	100	2	5
Colombo Land & Development Company PLC	<b>1,250</b>	-	<b>44</b>	1,250	-	69	1,250	-	24
East West Properties PLC	<b>200</b>	<b>1</b>	<b>3</b>	200	1	5	200	1	3
Equity One PLC	<b>100</b>	<b>1</b>	<b>3</b>	100	1	5	100	1	6
O'nally Holdings PLC	<b>100</b>	<b>1</b>	<b>6</b>	100	1	9	100	1	6
York Arcade Holdings PLC	<b>100</b>	-	<b>2</b>	100	-	2	100	-	2
Blue Diamonds Jewellery Worldwide PLC	<b>78,600</b>	<b>178</b>	<b>322</b>	78,600	178	637	170,000	383	578
Commercial Leasing & Finance Company PLC	<b>2,000,000</b>	<b>10,000</b>	<b>7,400</b>	-	-	-	-	-	-
<b>Total Quoted Equities - Subsidiaries</b>		<b>10,268</b>	<b>7,879</b>		268	878		2,393	2,382
Marked to Market Valuation Gain/(Loss) from Quoted Equities		<b>(2,389)</b>			610			(11)	



## / Notes to the Consolidated Financial Statements

### 21. Derivative Financial Instruments

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>21.1 Derivative Assets</b>						
<b>Foreign Currency Derivatives</b>						
Forward Foreign Exchange Contracts	51,281	74,746	21,027	51,281	74,746	21,027
	<b>51,281</b>	<b>74,746</b>	<b>21,027</b>	<b>51,281</b>	<b>74,746</b>	<b>21,027</b>
<b>21.2 Derivative Liabilities</b>						
<b>Foreign Currency Derivatives</b>						
Forward Foreign Exchange Contracts	278,826	67,506	36,733	278,826	67,506	36,733
	<b>278,826</b>	<b>67,506</b>	<b>36,733</b>	<b>278,826</b>	<b>67,506</b>	<b>36,733</b>

The Bank uses derivatives not designated in a qualifying hedge relationship such as forward contracts to manage its exposure to foreign currency.

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>22. Loans and Receivables</b>						
Bills of Exchange (Note 22.1)	1,423,998	1,000,912	1,415,624	1,423,998	1,000,912	1,415,624
Lease Rentals Receivable (Note 22.2)	8,298,180	7,648,043	4,288,576	8,298,180	7,648,043	4,288,576
Other Loans & Receivables (Note 22.3)	123,251,512	107,935,655	94,520,253	123,251,512	107,935,655	94,520,253
<b>Total Loans and Receivables - Gross</b>	<b>132,973,690</b>	<b>116,584,610</b>	<b>100,224,453</b>	<b>132,973,690</b>	<b>116,584,610</b>	<b>100,224,453</b>
Less: Impairment Allowance for Loans & Receivables						
Individual Impairment (Note 22.4)	(2,709,877)	(3,609,953)	(4,332,335)	(2,709,877)	(3,609,953)	(4,332,335)
Collective Impairment (Note 22.4)	(5,535,442)	(6,584,217)	(6,801,309)	(5,535,442)	(6,584,217)	(6,801,309)
Total Impairment Allowance for Loans & Receivables	(8,245,319)	(10,194,170)	(11,133,644)	(8,245,319)	(10,194,170)	(11,133,644)
<b>Total Loans and Receivables - Net</b>	<b>124,728,371</b>	<b>106,390,440</b>	<b>89,090,809</b>	<b>124,728,371</b>	<b>106,390,440</b>	<b>89,090,809</b>

#### 22.1 Bills of Exchange

	BANK	GROUP
Export Bills	598,723	598,723
Import Bills	457,278	457,278
Local Bills	367,997	367,997
	<b>1,423,998</b>	<b>1,423,998</b>

#### 22.2 Lease Rentals Receivable

	BANK	GROUP
Lease Rentals Receivable Within One Year (Note 22.2.1)	2,999,821	2,999,821
Lease Rentals Receivable Later Than One Year and Not Later Than Five Years (Note 22.2.2)	5,297,433	5,297,433
Lease Rentals Receivable Later Than Five Years (Note 22.2.3)	926	926
	<b>8,298,180</b>	<b>8,298,180</b>

##### 22.2.1 Lease Rentals Receivable Within One Year

	BANK	GROUP
From the Balance Sheet Date	4,125,957	4,125,957
Less: Unearned Income	(1,126,136)	(1,126,136)
	<b>2,999,821</b>	<b>2,999,821</b>

## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>22.2.2 Lease Rentals Receivable Later Than One Year and Not Later Than Five Years</b>						
From the Balance Sheet Date (Note 22.2.2.a)	6,285,524	6,224,174	3,071,239	6,285,524	6,224,174	3,071,239
Less: Unearned Income	(988,091)	(1,006,459)	(518,650)	(988,091)	(1,006,459)	(518,650)
	<b>5,297,433</b>	<b>5,217,715</b>	<b>2,552,589</b>	<b>5,297,433</b>	<b>5,217,715</b>	<b>2,552,589</b>
<b>22.2.2.a Lease Rentals Receivable</b>	<b>6,375,598</b>	<b>6,310,096</b>	<b>3,159,542</b>	<b>6,375,598</b>	<b>6,310,096</b>	<b>3,159,542</b>
Less: Deposit of Rentals	(90,074)	(85,922)	(88,303)	(90,074)	(85,922)	(88,303)
	<b>6,285,524</b>	<b>6,224,174</b>	<b>3,071,239</b>	<b>6,285,524</b>	<b>6,224,174</b>	<b>3,071,239</b>

### 22.2.3 Lease Rentals Receivable Later Than Five Years

From the Balance Sheet Date (Note 22.2.3.a)	980	2,808	835	980	2,808	835
Less: Unearned Income	(54)	(139)	-	(54)	(139)	-
	<b>926</b>	<b>2,669</b>	<b>835</b>	<b>926</b>	<b>2,669</b>	<b>835</b>
<b>22.2.3.a Lease Rentals Receivable</b>	<b>980</b>	<b>2,808</b>	<b>835</b>	<b>980</b>	<b>2,808</b>	<b>835</b>
Less: Deposits of Rentals	-	-	-	-	-	-
	<b>980</b>	<b>2,808</b>	<b>835</b>	<b>980</b>	<b>2,808</b>	<b>835</b>

## 22.3 Other Loans and Receivables

### Sri Lanka Rupee Loans and Receivables

Overdrafts	31,879,768	26,407,028	23,502,902	31,879,768	26,407,028	23,502,902
Trust Receipt Loans/Revolving Import Loans (RIL)	8,449,617	8,063,263	4,982,778	8,449,617	8,063,263	4,982,778
Staff Loans	3,360,235	3,212,908	3,291,266	3,360,235	3,212,908	3,291,266
Housing Loans	9,054,892	8,755,604	8,323,229	9,054,892	8,755,604	8,323,229
Pawning Receivables	17,477,083	12,466,465	8,438,149	17,477,083	12,466,465	8,438,149
Refinance Loans	548,619	745,065	947,410	548,619	745,065	947,410
Other Loans	46,014,441	42,697,264	38,026,578	46,014,441	42,697,264	38,026,578
	<b>116,784,655</b>	<b>102,347,597</b>	<b>87,512,312</b>	<b>116,784,655</b>	<b>102,347,597</b>	<b>87,512,312</b>

### Foreign Currency Loans and Receivables

Overdrafts	935,978	540,633	518,957	935,978	540,633	518,957
Trust Receipt Loans/Revolving Import Loans (RIL)	184,537	240,142	158,421	184,537	240,142	158,421
Other Loans	5,346,342	4,807,283	6,330,563	5,346,342	4,807,283	6,330,563
	<b>6,466,857</b>	<b>5,588,058</b>	<b>7,007,941</b>	<b>6,466,857</b>	<b>5,588,058</b>	<b>7,007,941</b>
Total Other Loans and Receivables - Gross	<b>123,251,512</b>	<b>107,935,655</b>	<b>94,520,253</b>	<b>123,251,512</b>	<b>107,935,655</b>	<b>94,520,253</b>

## 22.4 Movement in Impairment Allowances on Loans and Receivables

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Allowance for Individual Impairment (Note 22.4.1)	2,709,877	3,609,953	4,332,335	2,709,877	3,609,953	4,332,335
Allowance for Collective Impairment (Note 22.4.2)	5,535,442	6,584,217	6,801,309	5,535,442	6,584,217	6,801,309
<b>Total Allowance for Impairment</b>	<b>8,245,319</b>	<b>10,194,170</b>	<b>11,133,644</b>	<b>8,245,319</b>	<b>10,194,170</b>	<b>11,133,644</b>

## / Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>22.4.1 Allowance for Individual Impairment</b>				
Balance as at 1st January	3,609,953	4,332,335	3,609,953	4,332,335
Movement in Individual Impairment	(900,076)	(722,382)	(900,076)	(722,382)
<b>Balance as at 31st December</b>	<b>2,709,877</b>	3,609,953	<b>2,709,877</b>	3,609,953

### 22.4.2 Allowance for Collective Impairment

Balance as at 1st January	6,584,217	6,801,309	6,584,217	6,801,309
Movement in Collective Impairment	(1,048,775)	(217,092)	(1,048,775)	(217,092)
<b>Balance as at 31st December</b>	<b>5,535,442</b>	6,584,217	<b>5,535,442</b>	6,584,217

Movement in impairment allowance for loans and receivables.

### 22.4.3 Movement in Impairment Allowance for Loans & Receivables

Balance as at 1st January	10,194,170	11,133,644	10,194,170	11,133,644
Gross Impairment Provision over & above Recoveries/Write-off	2,343,267	2,854,225	2,343,267	2,854,225
Recoveries made during the Year	(2,080,014)	(2,162,994)	(2,080,014)	(2,162,994)
Reversal for Write-off	(2,265,836)	(1,668,498)	(2,265,836)	(1,668,498)
Exchange Rate Variance on Foreign Currency Provisions	53,732	37,793	53,732	37,793
<b>Balance as at 31st December</b>	<b>8,245,319</b>	10,194,170	<b>8,245,319</b>	10,194,170

	2012 Cost/ Market Value Rs. '000	2011 Cost/ Market Value Rs. '000	2010 Cost/ Market Value Rs. '000
<b>23. Investment Securities (Held to Maturity &amp; Available-for Sale)</b>			
Seylan Bank PLC (Note 23.1)	31,181,069	29,551,758	22,851,844
Seylan Developments PLC (Note 23.2)	-	-	1
<b>Total Investment Securities - Group</b>	<b>31,181,069</b>	29,551,758	22,851,845

### 23.1 Seylan Bank PLC

	2012 Cost/ Rs. '000	2011 Cost/ Rs. '000	2010 Cost/ Rs. '000
Held-to-Maturity Investment Securities - Bank (Note 23.1.1)	19,822,966	17,665,169	10,677,643

	2012		2011		2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Available-for-Sale Investment Securities - Bank (Note 23.1.2)	13,815,398	11,358,103	12,755,980	11,886,589	12,697,446	12,174,201

	2012 Cost Rs. '000	2011 Cost Rs. '000	2010 Cost Rs. '000
<b>23.1.1 Held-to-Maturity Investment Securities - Bank</b>			
Government of Sri Lanka Treasury Bills (Note 23.1.1.1)	364,760	-	143,321
Government of Sri Lanka Treasury Bonds (Note 23.1.1.2)	14,574,580	13,684,134	5,985,273
Sri Lanka Development Bonds (Note 23.1.1.3)	3,097,684	2,538,205	2,257,908
Other Bonds (Note 23.1.1.4)	252,396	252,359	252,377
Quoted Debentures (Note 23.1.1.5)	18,974	18,978	254
Unquoted Debentures (Note 23.1.1.6)	1,514,572	1,171,493	2,038,510
<b>Total Held-to-Maturity Investment Securities - Bank</b>	<b>19,822,966</b>	17,665,169	10,677,643

## / Notes to the Consolidated Financial Statements

### 23.1.1.1 Government of Sri Lanka Treasury Bills - Bank

	Face Value Rs. '000	Year of Maturity	2012 Cost Rs. '000	2011 Cost Rs. '000	2010 Cost Rs. '000
	380,000	2013	364,760	-	143,321
<b>Total Held-to-Maturity Government of Sri Lanka Treasury Bills - Bank</b>			<b>364,760</b>	<b>-</b>	<b>143,321</b>

### 23.1.1.2 Government of Sri Lanka Treasury Bonds - Bank

	Face Value Rs. '000	Year of Maturity			
	1,100,000	2014	1,112,843		
	7,170,000	2015	7,510,406		
	2,950,000	2016	2,785,840		
	50,000	2017	37,899		
	2,600,000	2018	2,490,125		
	100,000	2019	82,563		
	392,700	2020	307,111		
	290,000	2022	247,793	13,684,134	5,985,273
<b>Total Held-to-Maturity Government of Sri Lanka Treasury Bonds - Bank</b>			<b>14,574,580</b>	<b>13,684,134</b>	<b>5,985,273</b>

### 23.1.1.3 Sri Lanka Development Bonds - Bank

	Face Value USD '000	Year of Maturity	Cost USD '000		
	7,000	2016	7,108		
	8,000	2015	8,120		
	9,000	2014	9,115		
<b>Total Held-to-Maturity Sri Lanka Development Bonds - Bank</b>			<b>24,343</b>	<b>3,097,684</b>	<b>2,538,205</b>

### 23.1.1.4 Other Bonds - Bank

	Face Value Rs. '000	Year of Maturity			
CWE Bond	250,000	2016	252,396	252,359	252,377
<b>Total Held-to-Maturity Other Bonds - Bank</b>			<b>252,396</b>	<b>252,359</b>	<b>252,377</b>

### 23.1.1.5 Quoted Debentures - Bank

SMB Leasing PLC (187,240 Debentures of Rs. 100/- each)			18,974	18,978	18,978
Less: Impairment Provision			-	-	(18,724)
<b>Total Held-to-Maturity Quoted Debentures - Bank</b>			<b>18,974</b>	<b>18,978</b>	<b>254</b>

### 23.1.1.6 Unquoted Debentures - Bank

People's Leasing Company Limited (500,000 Debentures of Rs. 100/- each)			51,948	51,323	51,323
Urban Development Authority (4,357,400 Debentures of Rs. 100/- each)			447,263	447,295	447,299
Bank of Ceylon (500,000 Debentures of Rs. 100/- each)			50,361	50,362	-
Senkadagala Finance PLC (300,000 debentures of Rs. 1,000/- each)			300,000	-	-
Prime Grameen Micro Finance Limited ***			665,000	1,730,738	1,725,000
Less: Impairment Provision			-	(1,108,225)	(185,112)
<b>Total Held-to-Maturity Unquoted Debentures - Bank</b>			<b>1,514,572</b>	<b>1,171,493</b>	<b>2,038,510</b>

## / Notes to the Consolidated Financial Statements

### 23.1.2 Available-for-Sale Investment Securities - Bank

	2012		2011		2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Quoted Equities (Note 23.1.2.1)	438,934	647,875	196,429	326,945	61,422	104,121
Unquoted Equities (Note 23.1.2.2)	2,354,540	91,253	1,022,540	75,581	1,022,540	65,238
Government of Sri Lanka Treasury Bills (Note 23.1.2.3)	818,318	791,958	-	-	-	-
Government of Sri Lanka Treasury Bonds (Note 23.1.2.4)	10,203,606	9,827,017	11,537,011	11,484,063	11,613,484	12,004,842
<b>Total Available-for-Sale Investment Securities - Bank</b>	<b>13,815,398</b>	<b>11,358,103</b>	<b>12,755,980</b>	<b>11,886,589</b>	<b>12,697,446</b>	<b>12,174,201</b>

#### 23.1.2.1 Quoted Equities - Bank

	2012			2011			2010		
	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000
Visa Inc.	13,328	61,422	257,078	13,328	61,422	140,331	13,328	61,422	104,121
The Finance Company PLC	4,607,760	135,007	87,086	4,607,760	135,007	186,614	-	-	-
Dialog Axiata PLC	17,459,100	104,755	144,911	-	-	-	-	-	-
Richard Peiris & Company PLC	7,000,000	45,500	55,300	-	-	-	-	-	-
John Keells Hotels PLC	7,500,000	92,250	103,500	-	-	-	-	-	-
<b>Total Available-for-sale Quoted Equities - Bank</b>		<b>438,934</b>	<b>647,875</b>		<b>196,429</b>	<b>326,945</b>		<b>61,422</b>	<b>104,121</b>

#### 23.1.2.2 Unquoted Equities - Bank

	2012			2011			2010		
	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Equities	Cost Rs. '000	Market Value Rs. '000
Credit Information Bureau of Sri Lanka*	2,900	290	13,274	2,900	290	9,598	2,900	290	6,790
Transnational Lanka Records Solutions (Pvt) Limited*	1,000,000	10,000	24,834	1,000,000	10,000	19,078	1,000,000	10,000	16,780
Lanka Clear (Pvt) Limited*	1,000,000	10,000	50,215	1,000,000	10,000	43,593	1,000,000	10,000	38,720
Lanka Financial Services Bureau Limited*	225,000	2,250	2,930	225,000	2,250	3,312	225,000	2,250	2,948
Prime Grameen Micro Finance Limited***	233,200,000	2,332,000	- **	100,000,000	1,000,000	- **	100,000,000	1,000,000	- **
<b>Total Available-for-Sale Unquoted Equities - Bank</b>		<b>2,354,540</b>	<b>91,253</b>		<b>1,022,540</b>	<b>75,581</b>		<b>1,022,540</b>	<b>65,238</b>

\* Market value is based on net assets per share basis as per the Audited Financial Statements of these Companies as at following dates:

Credit Information Bureau of Sri Lanka - 31st December 2011

Transnational Lanka Records Solutions (Pvt) Limited - 30th June 2012

Lanka Clear (Pvt) Limited - 31st March 2012

Lanka Financial Services Bureau Limited - 31st March 2012

\*\* Unquoted Shares have been fully provided due to permanent decline in value of shares.

\*\*\* The Bank restructured its loan portfolio to Grameen Micro Credit Company Limited (Rs. 2.725 Bn.) by obtaining approval from the Monetary Board and converted Rs. 1 Bn. of the outstanding loan to 15% Cumulative/Redeemable/Convertible/Preference Shares. Further, Bank has converted the balance of Rs. 1.725 Bn. to Secured Debentures at an Interest Rate of Treasury Bills + 10% per annum which will mature from 2012 to 2019.

However, with effect from 25th June 2012, the Central Bank of Sri Lanka has directed to convert the investments in Grameen Micro Credit Company Limited to Rs. 665 Mn. debentures which are secured against the mortgaged properties (redeemable from 2020 to 2040) and the balance Rs. 2,060 Mn. together with interest due amounting to Rs. 272 Mn. to 233,200,000 non-voting shares of Rs. 10/- each amounting to Rs. 2,332,000,000/-

## / Notes to the Consolidated Financial Statements

	Face Value Rs. '000	Year of Maturity	2012		2011		2010	
			Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>23.1.2.3 Government of Sri Lanka Treasury Bills - Bank</b>	847,070	2013	<b>818,318</b>	<b>791,958</b>	-	-	-	-
<b>Total Available-for-Sale Government of Sri Lanka Treasury Bills - Bank</b>			<b>818,318</b>	<b>791,958</b>	-	-	-	-
<b>23.1.2.4 Government of Sri Lanka Treasury Bonds - Bank</b>	1,774,500	2013	<b>2,310,332</b>	<b>2,306,280</b>				
	3,418,115	2014	<b>3,323,270</b>	<b>3,163,956</b>				
	3,264,000	2015	<b>3,779,149</b>	<b>3,691,204</b>				
	306,930	2016	<b>279,762</b>	<b>238,851</b>				
	900,000	2018	<b>511,093</b>	<b>426,726</b>	11,537,011	11,484,063	11,613,484	12,004,842
<b>Total Available-for-Sale Government of Sri Lanka Treasury Bonds - Bank</b>			<b>10,203,606</b>	<b>9,827,017</b>	11,537,011	11,484,063	11,613,484	12,004,842

### Investment Securities Held by Subsidiaries

#### 23.2 Seylan Developments PLC

##### 23.2.1 Available-for-Sale Investment Securities

	2012			2011			2010		
	No. of Equities	Cost Rs. '000	Market Value Rs. '000	No. of Equities	Cost Rs. '000	Market Value Rs. '000	No. of Equities	Cost Rs. '000	Market Value Rs. '000
<b>23.2.1.1 Unquoted Equities</b>									
Ceylinco Venture Capital Investment Limited	95,000	950	-	95,000	950	-	95,000	950	-
Ceylinco Sports Complex	220,000	2,200	-	220,000	2,200	-	220,000	2,200	-
Ceycom Global Communication Limited	40,500	405	-	40,500	405	-	40,500	405	-
Asian Finance Company Limited	75,000	750	-	75,000	750	-	75,000	750	-
MBSL Savings Bank Limited	25,000	250	-	25,000	250	-	25,000	250	-
Ceylinco - Cisco Security Corporation (Pvt) Limited	10,000	-	-	10,000	-	-	10,000	-	-
Ceylinco International Property Developers (Pvt) Limited	50,000	500	-	50,000	500	-	50,000	500	-
Ceyenergy Electronic Company (Pvt) Limited	15,000	150	-	15,000	150	-	15,000	150	-
Certis Lanka Home Nursing & Swift Care (Pvt) Limited	75,000	750	-	75,000	750	-	75,000	750	-
Independent Financial News & Views (Pvt) Limited	4,900	49	-	4,900	49	-	4,900	49	-
Ceylinco International Realty (Pvt) Limited	200,000	2,000	-	200,000	2,000	-	200,000	2,000	-
e.Ceylinco. Com (Pvt) Limited	60,000	600	-	60,000	600	-	60,000	600	-
International Consultancy & Corporate Services (Pvt) Limited	5,000	50	-	5,000	50	-	5,000	50	-
Ceylinco PLC Technology (Pvt) Limited	177,500	1,775	-	177,500	1,775	-	177,500	1,775	-
Standard Credit Lanka Limited	4,000,000	40,000	-	4,000,000	40,000	-	4,000,000	40,000	-
Associated Property Developers PLC	-	-	-	-	-	-	100	1	1
The Sitar (Pvt) Limited	60,000	600	-	60,000	600	-	60,000	600	-
Ceylinco Seraka Investments Limited	510,000	5,100	-	510,000	5,100	-	510,000	5,100	-
Ceylinco Cisco Ranaviru Services (Pvt) Limited	10,000	100	-	10,000	100	-	10,000	100	-
Certis Lanka Secure Logistics (Pvt) Limited	10,000	100	-	10,000	100	-	10,000	100	-
<b>Total Unquoted Equities - Subsidiaries</b>		<b>56,329</b>	<b>-*</b>		<b>56,329</b>	<b>-*</b>		<b>56,330</b>	<b>1</b>

\*Unquoted Shares have been fully provided due to permanent decline in value of shares.

## Notes to the Consolidated Financial Statements

### 23.3 Assets Pledged as Security

Out of the Treasury Bills & Bonds classified as Investment Securities the following amount has been pledged as security for re-purchase agreements:

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Treasury Bills & Bonds	4,148,128	7,179,309	6,256,152	4,148,128	7,179,309	6,256,152
Sri Lanka Development Bonds	-	55,500	55,500	-	55,500	55,500

### 24. Investments in Subsidiary

Principal Activity	Number of Equities as at 31.12.2012	Holding %	Cost as at 31.12.2012 Rs. '000	Market Value as at 31.12.2012 Rs. '000	Number of Equities 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 Equities as at 31.12.2010	Holding %	Cost as at 31.12.2010 Rs. '000	Market Value as at 31.12.2010 Rs. '000	
<b>Held-to-Maturity Quoted - Ordinary Shares</b>													
Seylan Developments PLC	Property Development/Management	76,688,880	51.83	793,254	697,869	76,688,880	51.83	793,254	943,273	37,203,584	50.29	358,916	625,020
				793,254	697,869			793,254	943,273			358,916	625,020

Name of Company	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Seylan Developments PLC	60,687	15,688	461,843	-	-	-
	60,687	15,688	461,843	-	-	-

### 25. Group Balances Receivable

Name of Company	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Seylan Developments PLC	60,687	15,688	461,843	-	-	-
	60,687	15,688	461,843	-	-	-

Cost	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance as at 1st January	253,748	520,812	520,812	1,617,059	1,958,880	1,958,791
Add: Additions During the Year	-	-	-	32	1,134	89
Transfers/Set-offs	-	-	-	-	(75,891)	-
Less: Disposals During the Year	-	(267,064)	-	(3,000)	(267,064)	-
<b>Cost as at 31st December (Notes 26.2 &amp; 26.3)</b>	<b>253,748</b>	<b>253,748</b>	<b>520,812</b>	<b>1,614,091</b>	<b>1,617,059</b>	<b>1,958,880</b>
<b>Less - Provision for Impairment (Note 26.1)</b>	<b>(16,119)</b>	<b>(16,119)</b>	<b>(32,099)</b>	<b>(241,579)</b>	<b>(241,579)</b>	<b>(166,894)</b>
<b>Cost Less Impairment as at 31st December</b>	<b>237,629</b>	<b>237,629</b>	<b>488,713</b>	<b>1,372,512</b>	<b>1,375,480</b>	<b>1,791,986</b>
Accumulated Depreciation	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance as at 1st January	-	-	-	148,934	128,736	108,668
Charge for the Year	-	-	-	20,198	20,198	20,068
<b>Balance as at 31st December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>169,132</b>	<b>148,934</b>	<b>128,736</b>
<b>Carrying Value as at 31st December</b>	<b>237,629</b>	<b>237,629</b>	<b>488,713</b>	<b>1,203,380</b>	<b>1,226,546</b>	<b>1,663,250</b>

#### 26.1 Provision for Impairment - Investment Properties

Cost	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance as at 1st January	16,119	32,099	-	241,579	166,894	134,795
Charge to Income Statement	-	16,119	32,099	-	106,784	32,099
Reversal to Income Statement	-	(32,099)	-	-	(32,099)	-
<b>Carrying Value as at 31st December</b>	<b>16,119</b>	<b>16,119</b>	<b>32,099</b>	<b>241,579</b>	<b>241,579</b>	<b>166,894</b>

Bank has accounted its investment properties at cost and revalued these properties periodically on a systematic basis for disclosure purposes.

## / Notes to the Consolidated Financial Statements

### 26.2 Investment Properties (Bank) - 2012

Address	BANK			
	Extent	Date of Valuation	Cost Rs. '000	Market Value Rs. '000
Kahapola, Piliyandala	20A 1R 39.5P	29.01.2013	114,429	140,000
97, Station Road, Kandana	1A 1R 9.84P	23.01.2013	139,319	126,800*
			253,748	

\* The impairment provision has been made for the Kandana property.

The property located at Kahapola, Piliyandala is valued by Mr. J.M.J. Fernando, professionally qualified valuer and the factors considered for the valuation are:

- Close proximity to Piliyandala town and University of Moratuwa.
- Easy access to Galle Road.

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, based on:

- The close proximity to two export processing zones and airport.
- Easy accessibility to Colombo, Kandy and Negombo Roads.

### 26.3 Investment Properties (Group) - 2012

Address	GROUP			
	Extent	Date of Valuation	Cost/Valuation Rs. '000	Market Value Rs. '000
Kahapola, Piliyandala	20A 1R 39.5P	29.01.2013	114,429	140,000
97, Station Road, Kandana	1A 1R 9.84P	23.01.2013	139,319	126,800
Seylan Towers - West Tower* 90, Galle Road, Colombo 3	111,191 Sq.Ft	31.12.2012	1,023,999	1,502,061
257, Union Place, Colombo 2**	0A 1R 12.27P	05.12.2012	204,535	250,255
Moratuwa Lake Villas, St. Peter's Road, Moratuwa.***	0A 3R 23.75P	31.12.2012	61,458	41,144
Ja-Ela Commercial Complex****			70,351	
			1,614,091	

\* The rent income from the Seylan Towers (West Tower) for the year 2012 is Rs. 72.7 Mn. (2011 - Rs. 55.7 Mn.).

\* The Seylan Towers (West Tower) was valued by Sunil Fernando & Associates (Pvt) Limited, incorporated valuer and having recent experience in the location and category of the investment property being valued. He has used Investment Basis of Valuation and Depreciated Replacement Value basis method in valuation, assuming, as the subject property is of two mix uses, commercial and residential, a prudent investor is expected to make his bid to purchase on two different yields based on two different risks attached to the commercial and residential uses of the property.

When he arrived at the above valuation he has used Market rental based on current market rental of comparable commercial property and has been adjusted to take cognisance of location of a central business district and peripherals. Further rentals of two similar nature residential apartment buildings have been taken as comparable residential market rents. All risk rates for residential and commercial segment of the subject property has been taken at 4% and 5.75% respectively.

\*\* The Property at No. 257, Union Place was valued by Mr. G.J. Sumanasena, incorporated Valuer and having recent experience in the location and category of the investment property being valued. He has used the Open Market method in valuation.

The Open Market value is intended to mean the best price at which an interest in a property might reasonably be expected to be sold in the Private Treaty as the date of valuation, assuming,

- The property is prime and most suitable for high rise development,
- Located in a prime commercial area.

\*\*\* The Property at Moratuwa was valued by Mr. D.N.D. Baranage, professionally qualified valuer and the assumptions of the valuation are -

- It's a well-established residential area.
- Along New Galle Road there is a commercial development.
- Being in close proximity to Moratuwa, enjoying easy accessibility to Colombo City.

\*\*\*\* Full provision for impairment has been made.



## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>27. Deferred Taxation</b>						
Balance Brought Forward	510,086	415,802	442,711	741,668	633,594	442,858
(Charge)/Reversal for the Year (Note 15.1)	(256,915)	92,409	(28,536)	(260,080)	106,368	188,608
Transfer from Seylan Asset Management Limited	-	-	(501)	-	-	-
Transfer from Revaluation Reserve (Note 39.2)	-	1,875	2,128	-	1,787	2,128
Transfer to Minority Interest	-	-	-	-	(81)	-
Balance Carried Forward (Notes 27.1 & 27.2)	253,171	510,086	415,802	481,588	741,668	633,594

	BANK					
	2012		2011		2010	
	Temporary Difference Rs. '000	Tax Rs. '000	Temporary Difference Rs. '000	Tax Rs. '000	Temporary Difference Rs. '000	Tax Rs. '000
<b>27.1 Analysis of Deferred Assets and Liabilities</b>						
<b>Deferred Tax - Liabilities</b>						
Property, Plant & Equipment	824,854	230,959	996,434	279,001	1,030,744	360,760
Lease Rentals	1,182,233	331,025	1,103,000	308,840	590,651	206,728
Revaluation Gain B/F	32,863	9,202	32,863	9,202	32,863	11,502
Mark to Market Gain	94,579	26,482	-	-	-	-
	2,134,529	597,668	2,132,297	597,043	1,654,258	578,990
<b>Deferred Tax - Assets</b>						
Leave Encashment Provision	200,648	56,181	206,439	57,803	191,728	67,105
Defined Benefit Obligation*	-	-	-	-	888	311
Collective & Individually Significant Impairment	2,105,026	589,407	3,056,923	855,938	2,512,498	879,374
Other Provisions	61,496	17,219	-	-	-	-
Tax Losses C/F	534,392	149,630	553,520	154,986	-	-
Impact on Devaluation	131,069	36,699	131,069	36,699	131,069	45,874
Gain on Revaluation	6,080	1,703	6,080	1,703	6,080	2,128
	3,038,711	850,839	3,954,031	1,107,129	2,842,263	994,792
<b>Net Deferred Tax Assets/(Liabilities) (Note 27.1.1)</b>	904,182	253,171	1,821,734	510,086	1,188,005	415,802

## / Notes to the Consolidated Financial Statements

	BANK											
	2012				2011				2010			
	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000
<b>27.1.1 Movement in Temporary Differences</b>												
<b>Deferred Tax - Liabilities</b>												
Property, Plant & Equipment	996,434	(171,580)	-	824,854	1,030,744	(34,310)	-	996,434	1,060,002	(29,258)	-	1,030,744
Lease Rentals	1,103,000	79,233	-	1,182,233	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	32,863	-	-	32,863
Mark to Market Gain	-	94,579	-	94,579	-	-	-	-	-	-	-	-
	<b>2,132,297</b>	<b>2,232</b>	<b>-</b>	<b>2,134,529</b>	<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>												
Leave Encashment Provision	206,439	(5,791)	-	200,648	191,728	14,711	-	206,439	-	191,728	-	191,728
Defined Benefit Obligation*	-	-	-	-	888	(888)	-	-	-	888	-	888
Collective & Individually Significant Impairment	3,056,923	(951,897)	-	2,105,026	2,512,498	544,425	-	3,056,923	2,600,455	(87,957)	-	2,512,498
Other Provisions	-	61,496	-	61,496	-	-	-	-	-	-	-	-
Tax Losses C/F	553,520	(19,128)	-	534,392	-	553,520	-	553,520	-	-	-	-
Impact on Devaluation	131,069	-	-	131,069	131,069	-	-	131,069	-	131,069	-	131,069
Gain on Revaluation	6,080	-	-	6,080	6,080	-	-	6,080	-	-	6,080	6,080
	<b>3,954,031</b>	<b>(915,320)</b>	<b>-</b>	<b>3,038,711</b>	<b>2,842,263</b>	<b>1,111,768</b>	<b>-</b>	<b>3,954,031</b>	<b>2,600,455</b>	<b>235,728</b>	<b>6,080</b>	<b>2,842,263</b>
<b>Net Deferred Tax Assets/ Liabilities</b>	<b>1,821,734</b>	<b>(917,552)</b>	<b>-</b>	<b>904,182</b>	<b>1,188,005</b>	<b>633,729</b>	<b>-</b>	<b>1,821,734</b>	<b>1,264,888</b>	<b>(82,963)</b>	<b>6,080</b>	<b>1,188,005</b>

	GROUP					
	2012		2011		2010	
	Temporary Difference Rs. '000	Tax Rs. '000	Temporary Difference Rs. '000	Tax Rs. '000	Temporary Difference Rs. '000	Tax Rs. '000
<b>27.2 Analysis of Deferred Assets and Liabilities</b>						
<b>Deferred Tax - Liabilities</b>						
Property, Plant & Equipment	824,854	230,959	996,434	279,001	1,030,744	360,760
Lease Rentals	1,182,233	331,025	1,103,000	308,840	590,651	206,728
Revaluation Gain B/F	33,466	9,371	33,466	9,371	32,863	11,502
Mark to Market Gain	94,579	26,482	-	-	-	-
	<b>2,135,132</b>	<b>597,837</b>	<b>2,132,900</b>	<b>597,212</b>	<b>1,654,258</b>	<b>578,990</b>
<b>Deferred Tax - Assets</b>						
Leave Encashment Provision	200,648	56,181	206,439	57,803	191,728	67,105
Defined Benefit Obligation*	-	-	-	-	888	311
Collective & Individually Significant Impairment	2,105,026	589,407	3,056,923	855,938	2,512,498	879,374
Other Provisions	61,496	17,219	-	-	-	-
Tax Losses C/F	1,350,771	378,216	1,381,203	386,737	777,827	217,792
Impact on Devaluation	131,069	36,699	131,069	36,699	131,069	45,874
Gain on Revaluation	6,080	1,703	6,080	1,703	6,080	2,128
	<b>3,855,090</b>	<b>1,079,425</b>	<b>4,781,714</b>	<b>1,338,880</b>	<b>3,620,090</b>	<b>1,212,584</b>
<b>Net Deferred Tax Assets/Liabilities (Note 27.2.1)</b>	<b>1,719,958</b>	<b>481,588</b>	<b>2,648,814</b>	<b>741,668</b>	<b>1,965,832</b>	<b>633,594</b>

# / Notes to the Consolidated Financial Statements

	GROUP											
	2012				2011				2010			
	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000
<b>27.2.1 Movement in Temporary Differences</b>												
<b>Deferred Tax - Liabilities</b>												
Property, Plant & Equipment	996,434	(171,580)	-	824,854	1,030,744	(34,310)	-	996,434	1,062,455	(31,711)	-	1,030,744
Lease Rentals	1,103,000	79,233	-	1,182,233	590,651	512,349	-	1,103,000	242,702	347,949	-	590,651
Revaluation Gain B/F	33,466	-	-	33,466	32,863	-	603	33,466	32,863	-	-	32,863
Mark to Market Gain	-	94,579	-	94,579	-	-	-	-	-	-	-	-
	<b>2,132,900</b>	<b>2,232</b>	<b>-</b>	<b>2,135,132</b>	<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>
<b>Deferred Tax - Assets</b>												
Leave Encashment Provision	206,439	(5,791)	-	200,648	191,728	14,711	-	206,439	-	191,728	-	191,728
Defined Benefit Obligation*	-	-	-	-	888	(888)	-	-	2,874	(1,986)	-	888
Collective & Individually Significant Impairment	3,056,923	(951,897)	-	2,105,026	2,512,498	544,425	-	3,056,923	2,600,455	(87,957)	-	2,512,498
Other Provisions	-	61,496	-	61,496	-	-	-	-	-	-	-	-
Tax Losses C/F	1,381,203	(30,432)	-	1,350,771	777,827	603,376	-	1,381,203	-	777,827	-	777,827
Impact on Devaluation	131,069	-	-	131,069	131,069	-	-	131,069	-	131,069	-	131,069
Gain on Revaluation	6,080	-	-	6,080	6,080	-	-	6,080	-	-	6,080	6,080
	<b>4,781,714</b>	<b>(926,624)</b>	<b>-</b>	<b>3,855,090</b>	<b>3,620,090</b>	<b>1,161,624</b>	<b>-</b>	<b>4,781,714</b>	<b>2,603,329</b>	<b>1,010,681</b>	<b>6,080</b>	<b>3,620,090</b>
<b>Net Deferred Tax Assets/ Liabilities</b>	<b>2,648,814</b>	<b>(928,856)</b>	<b>-</b>	<b>1,719,958</b>	<b>1,965,832</b>	<b>683,585</b>	<b>(603)</b>	<b>2,648,814</b>	<b>1,265,309</b>	<b>694,443</b>	<b>6,080</b>	<b>1,965,832</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.

## 28. Property, Plant & Equipment

### 28.1 Bank

	Freehold Land Rs. '000	Freehold Building Rs. '000	Computer Equipment Rs. '000	Machinery/ Equipment Rs. '000	Furniture/ Fittings Rs. '000	Motor Vehicles Rs. '000	Leased Assets Rs. '000	Capital Work-in-Progress Rs. '000	Total Rs. '000
<b>Cost/Valuation</b>									
Balance as at 1st January 2011	621,591	843,626	2,820,793	1,239,199	1,002,536	310,998	55,963	13,339	6,908,045
Additions & Improvements	-	-	68,165	91,124	110,073	29,884	-	7,272	306,518
Disposals	-	-	(17,889)	(26,664)	(13,954)	(32,080)	(440)	(1,249)	(92,276)
Transfers from/(to) Leasehold Rights/Other Transfers	-	-	772	1,338	7,708	-	-	(11,719)	(1,901)
As at 31st December 2011	621,591	843,626	2,871,841	1,304,997	1,106,363	308,802	55,523	7,643	7,120,386
Balance as at 1st January 2012	621,591	843,626	2,871,841	1,304,997	1,106,363	308,802	55,523	7,643	7,120,386
Additions & Improvements	-	-	94,129	108,264	155,172	3,799	-	737	362,101
Surplus/(Impairment) on Revaluation	52,800	-	-	-	-	-	-	-	52,800
Disposals	(8,504)	(1,496)	(55,270)	(80,371)	(46,411)	(137,065)	(128)	(456)	(329,701)
Transfers from/(to) Intangible Assets/Other Transfers	-	-	88,317	6,945	3,159	-	-	(7,187)	91,234
<b>As at 31st December 2012</b>	<b>665,887</b>	<b>842,130</b>	<b>2,999,017</b>	<b>1,339,835</b>	<b>1,218,283</b>	<b>175,536</b>	<b>55,395</b>	<b>737</b>	<b>7,296,820</b>

## / Notes to the Consolidated Financial Statements

	Freehold Land Rs. '000	Freehold Building Rs. '000	Computer Equipment Rs. '000	Machinery/ Equipment Rs. '000	Furniture/ Fittings Rs. '000	Motor Vehicles Rs. '000	Leased Assets Rs. '000	Capital Work- in-Progress Rs. '000	Total Rs. '000
<b>Accumulated Depreciation</b>									
Balance as at 1st January 2011	-	-	2,321,189	1,014,638	824,601	227,739	55,955	-	4,444,122
Charge for the Year	-	24,895	182,025	78,646	64,282	42,943	7	-	392,798
Disposals	-	-	(17,650)	(26,607)	(13,794)	(27,878)	(439)	-	(86,368)
Transfers from/(to) Leasehold Rights/Other Transfers	-	-	-	-	(1,420)	-	-	-	(1,420)
As at 31st December 2011	-	24,895	2,485,564	1,066,677	873,669	242,804	55,523	-	4,749,132
Balance as at 1st January 2012	-	24,895	2,485,564	1,066,677	873,669	242,804	55,523	-	4,749,132
Charge for the Year	-	25,082	194,126	81,904	79,173	24,370	-	-	404,655
Disposals	-	(96)	(53,631)	(78,678)	(39,897)	(125,545)	(128)	-	(297,975)
Transfers from/(to) Intangible Assets/Other Transfers	-	-	47,518	1,958	(4)	-	-	-	49,472
<b>As at 31st December 2012</b>	<b>-</b>	<b>49,881</b>	<b>2,673,577</b>	<b>1,071,861</b>	<b>912,941</b>	<b>141,629</b>	<b>55,395</b>	<b>-</b>	<b>4,905,284</b>

### Carrying Amount

As at 1st January 2011	621,591	843,626	499,604	224,561	177,935	83,259	8	13,339	2,463,923
As at 31st December 2011	621,591	818,731	386,277	238,320	232,694	65,998	-	7,643	2,371,254
<b>As at 31st December 2012</b>	<b>665,887</b>	<b>792,249</b>	<b>325,440</b>	<b>267,974</b>	<b>305,342</b>	<b>33,907</b>	<b>-</b>	<b>737</b>	<b>2,391,536</b>

The Bank does not have component assets which require separate depreciation.

## 28.2 Group

### Cost/Valuation

Balance as at 1st January 2011	621,591	1,546,797	2,833,486	1,298,335	1,012,805	313,433	59,821	13,339	7,699,607
Additions & Improvements	-	1,342	68,188	91,227	110,073	29,884	-	7,272	307,986
Surplus/(Impairment) on Revaluation	-	-	(8,787)	(803)	(7,841)	-	-	-	(17,431)
Disposals	-	-	(17,889)	(26,664)	(13,954)	(34,508)	(3,767)	(1,249)	(98,031)
Transfers from/(to) Leasehold Rights/Other Transfers	-	-	772	1,338	7,708	-	-	(11,719)	(1,901)
As at 31st December 2011	621,591	1,548,139	2,875,770	1,363,433	1,108,791	308,809	56,054	7,643	7,890,230
Balance as at 1st January 2012	621,591	1,548,139	2,875,770	1,363,433	1,108,791	308,809	56,054	7,643	7,890,230
Additions & Improvements	-	-	94,329	108,265	158,876	3,798	-	737	366,005
Surplus/(Impairment) on Revaluation	52,800	-	-	-	-	-	-	-	52,800
Disposals	(8,504)	(1,496)	(55,270)	(80,371)	(46,411)	(137,065)	(128)	(456)	(329,701)
Transfers from/(to) Intangible Assets/Other Transfers	-	-	88,317	6,945	3,159	-	-	(7,187)	91,234
<b>As at 31st December 2012</b>	<b>665,887</b>	<b>1,546,643</b>	<b>3,003,146</b>	<b>1,398,272</b>	<b>1,224,415</b>	<b>175,542</b>	<b>55,926</b>	<b>737</b>	<b>8,070,568</b>

### Accumulated Depreciation

Balance as at 1st January 2011	-	35,162	2,333,188	1,040,207	832,829	230,147	58,784	-	4,530,317
Charge for the Year	-	42,504	182,426	89,723	64,865	42,924	345	-	422,787
Revaluation Adjustment on Accumulated Depreciation	-	-	(8,898)	(803)	(8,333)	-	-	-	(18,034)
Disposals	-	-	(17,650)	(26,607)	(13,794)	(30,266)	(3,075)	-	(91,392)
Transfers from/(to) Leasehold Rights/Other Transfers	-	-	-	-	(1,420)	-	-	-	(1,420)
As at 31st December 2011	-	77,666	2,489,066	1,102,520	874,147	242,805	56,054	-	4,842,258
Balance as at 1st January 2012	-	77,666	2,489,066	1,102,520	874,147	242,805	56,054	-	4,842,258
Charge for the Year	-	42,695	194,235	93,252	79,499	25,223	-	-	434,904
Disposals	-	(96)	(53,631)	(78,678)	(39,897)	(125,545)	(128)	-	(297,975)
Transfers from/(to) Intangible Assets/Other Transfers	-	-	47,518	1,958	(4)	-	-	-	49,472
<b>As at 31st December 2012</b>	<b>-</b>	<b>120,265</b>	<b>2,677,188</b>	<b>1,119,052</b>	<b>913,745</b>	<b>142,483</b>	<b>55,926</b>	<b>-</b>	<b>5,028,659</b>

### Carrying Amount

As at 1st January 2011	621,591	1,511,635	500,298	258,128	179,976	83,286	1,037	13,339	3,169,290
As at 31st December 2011	621,591	1,470,473	386,704	260,913	234,644	66,004	-	7,643	3,047,972
<b>As at 31st December 2012</b>	<b>665,887</b>	<b>1,426,378</b>	<b>325,958</b>	<b>279,220</b>	<b>310,670</b>	<b>33,059</b>	<b>-</b>	<b>737</b>	<b>3,041,909</b>

The Bank and Subsidiary do not have component assets which require separate depreciation.

Investment Property rented to Seylan Bank PLC by its subsidiary Seylan Developments PLC is classified as Property, Plant & Equipment under Group Financial Statements.

## / Notes to the Consolidated Financial Statements

### 28.3 Fully-Depreciated Assets

The initial cost of fully-depreciated Plant, Machinery & Equipment and Furniture as at 31st December which are still in use as at Balance Sheet date:

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Buildings	-	-	-	-
Computer Equipment	2,761,916	1,733,610	2,761,916	1,734,372
Office Machines & Equipment	801,287	756,849	805,551	756,849
Fixtures, Fittings & Furniture	707,716	662,251	707,716	662,251
Motor Vehicles	100,452	122,610	100,452	122,610
Leased Assets	55,395	55,523	55,926	56,054
	<b>4,426,766</b>	<b>3,330,843</b>	<b>4,431,561</b>	<b>3,332,136</b>

The Bank is currently in the process of replacing the fully-depreciated assets and therefore estimation of useful economic life will not be reassessed due to replacement.

### 28.4 Temporarily Idle Plant and Equipment

No assets have been identified as temporarily idle plant & equipment as at 31st December 2012, 31st December 2011 and 31st December 2010.

### 28.5 Freehold/Leasehold Land and Buildings - Bank

Address	Extent	Cost/ Valuation Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2012 Rs. '000
<b>Freehold</b>				
<b>Mt. Lavinia</b>				
198, Galle Road, Ratmalana	36.30P	90,000	904	89,096
<b>Badulla</b>				
10, Cocowatte Road, Badulla	1R 5.50P	66,000	1,578	64,422
<b>Kochchikade</b>				
66, Chilaw Road, Kochchikade	8.0P	20,000	600	19,400
<b>Avissawella</b>				
71, Ratnapura Road, Avissawella	18.92P	24,000	301	23,699
<b>Grandpass</b>				
401, Sirimavo Bandaranaike Mawatha, Colombo 14	1R 6.0P	66,850	592	66,258
<b>Hingurakgoda</b>				
13 and 14, Airport Road, Hingurakgoda	15.84P	12,900	478	12,422
<b>Bandarawela</b>				
240, Badulla Road, Bandarawela	27.01P	45,000	1,209	43,791
<b>Sarikkamulla</b>				
97, Old Galle Road, Sarikkamulla	12.10P	14,000	413	13,587
<b>Tissamaharama</b>				
547, Debarawewa, Tissamaharama	1R 1.5P	15,000	392	14,608
<b>Raddolugama</b>				
171, National Housing Scheme, Raddolugama	12.08P	12,500	605	11,895
<b>Nuwara Eliya</b>				
61, Haddon Hill Road, Nuwara Eliya	1R 36P	50,000	1,051	48,949
<b>Maradagahamula</b>				
150, Divulapitiya Road, Maradagahamula	35.0P	12,500	365	12,135
<b>Anuradhapura</b>				
23-A1, Anuradhapura	1R 3.65P	38,000	268	37,732

## / Notes to the Consolidated Financial Statements

Address	Extent	Cost/ Valuation Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2012 Rs. '000
<b>Embilipitiya</b>				
53 & 53/1, New Town Road, Embilipitiya	22.1P	30,000	663	<b>29,337</b>
<b>Nugegoda</b>				
211, High Level Road, Nugegoda	14.0P	68,000	1,600	<b>66,400</b>
<b>Ratnapura</b>				
6, Goods Shed Road, Ratnapura	6.13P	16,000	710	<b>15,290</b>
<b>Balangoda</b>				
Pettigala Road, Balangoda	2R 22.04P	28,100	71	<b>28,029</b>
<b>Siri Nivasa</b>				
No. 2, Deal Place, Colombo 3	19.0P	121,800	478	<b>121,322</b>
<b>Gampola</b>				
44, Kandy Road, Gampola	13.5P	39,000	634	<b>38,366</b>
<b>Negombo</b>				
115, Rajapaksa Broadway, Negombo	29.15P	72,000	790	<b>71,210</b>
<b>Mudalige Mawatha</b>				
52 & 52 1/1, Mudalige Mawatha, Colombo 01	12.85P	52,800	-	<b>52,800</b>
<b>Head Office</b>				
90, Galle Road, Colombo 3 (Level - 1, 2, 13, 14)	38,656 Square Feet	613,567	36,179	<b>577,388</b>
<b>Total Freehold Land &amp; Buildings - Bank</b>		1,508,017	49,881	<b>1,458,136</b>
<b>Total Freehold Buildings - Seylan Developments PLC (Seylan Towers - East Tower)</b>		704,513	70,384	<b>634,129</b>
<b>Total Freehold Land &amp; Buildings - Group</b>		2,212,530	120,265	<b>2,092,265</b>
<b>Leasehold Properties - (Note 29)</b>				
<b>Koggala</b>				
9, FTZ, Koggala	20.0P	1,901	1,485	<b>416</b>
<b>Nuwara Eliya</b>				
48 & 48/1, Park Road, Nuwara Eliya	20.28 P	42,183	3,003	<b>39,180</b>
<b>Total Leasehold Land &amp; Buildings - Bank</b>		44,084	4,488	<b>39,596</b>
<b>Seylan Tower Land</b>				
90, Galle Road, Colombo 3		640,549	62,578	<b>577,971</b>
<b>Total Leasehold Land - Seylan Developments PLC</b>		640,549	62,578	<b>577,971</b>
<b>Total Leasehold Land &amp; Buildings - Group</b>		684,633	67,066	<b>617,567</b>
<b>Total Land &amp; Buildings - Group</b>		2,897,163	187,331	<b>2,709,832</b>

## / Notes to the Consolidated Financial Statements

	Cost/Valuation Rs. '000	Depreciation Rs. '000	Net Book Value Rs. '000
<b>28.6 Summary of Freehold/Leasehold Properties</b>			
Freehold Land	665,887	-	665,887
Freehold Building	842,130	49,881	792,249
	<b>1,508,017</b>	<b>49,881</b>	<b>1,458,136</b>
Leasehold Land	22,603	1,402	21,201
Leasehold Building	21,481	3,086	18,395
	44,084	4,488	39,596
<b>Total - Bank</b>	<b>1,552,101</b>	<b>54,369</b>	<b>1,497,732</b>
Freehold Building - Seylan Developments PLC	704,513	70,384	634,129
Leasehold Land - Seylan Developments PLC	640,549	62,578	577,971
<b>Total Land &amp; Buildings - Group</b>	<b>2,897,163</b>	<b>187,331</b>	<b>2,709,832</b>

### 28.7 Revaluation - Land and Buildings

The Bank's entire Land and Buildings were revalued in the year 2010. The Property located at Mudalige Mawatha was revalued in 2012. 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					
	2012			2011		
	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	-	(191,811)	(191,811)	-	(167,799)	(167,799)
Leasehold	-	(5,870)	(5,870)	-	(4,790)	(4,790)
<b>Carrying Value</b>	<b>426,632</b>	<b>806,328</b>	<b>1,232,960</b>	<b>426,632</b>	<b>831,420</b>	<b>1,258,052</b>
<b>Properties Not Revalued</b>						
<b>Cost</b>						
Freehold	-	-	-	-	-	-
Leasehold	22,603	1,901	24,504	22,603	1,901	24,504
<b>Accumulated Depreciation</b>						
Freehold	-	-	-	-	-	-
Leasehold	(1,916)	(1,485)	(3,401)	(1,089)	(1,443)	(2,532)
<b>Carrying Value</b>	<b>20,687</b>	<b>416</b>	<b>21,103</b>	<b>21,514</b>	<b>458</b>	<b>21,972</b>
<b>Total Carrying Value</b>	<b>447,319</b>	<b>806,744</b>	<b>1,254,063</b>	<b>448,146</b>	<b>831,878</b>	<b>1,280,024</b>

Revaluation surplus/loss that arose during the year is reflected in the Notes 28, 39.2 and Statement of Other Comprehensive Income.

Property located at 52 & 52 1/1, Mudalige Mawatha has been revalued by a qualified valuer and booked in 2012, where the historical cost is treated as zero.

## / Notes to the Consolidated Financial Statements

	Bank Rs. '000	Group Rs. '000
<b>29. Leasehold Rights</b>		
<b>Cost/Valuation</b>		
Balance as at 1st January 2011	42,183	682,732
Transfer from/(to) Property, Plant & Equipment	1,901	1,901
As at 31st December 2011	44,084	684,633
Balance as at 1st January 2012	44,084	684,633
Transfer from/(to) Property, Plant & Equipment	-	-
<b>As at 31st December 2012</b>	<b>44,084</b>	<b>684,633</b>
<b>Accumulated Depreciation</b>		
Balance as at 1st January 2011	1,347	48,637
Charge for the Year	1,408	9,286
Transfer from/(to) Property, Plant & Equipment	1,420	1,420
As at 31st December 2011	4,175	59,343
Balance as at 1st January 2012	4,175	59,343
Charge for the Year	313	7,723
Transfer from/(to) Property, Plant & Equipment	-	-
<b>As at 31st December 2012</b>	<b>4,488</b>	<b>67,066</b>
<b>Carrying Amount</b>		
As at 1st January 2011	40,836	634,095
As at 31st December 2011	39,909	625,290
<b>As at 31st December 2012</b>	<b>39,596</b>	<b>617,567</b>

Bank - Leasehold Property consists of the property situated at Park Road, Nuwara Eliya acquired in the year 2001, and the building situated in FTZ 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.



## / Notes to the Consolidated Financial Statements

	Bank Rs. '000	Group Rs. '000
<b>30. Intangible Assets</b>		
<b>Software and Software Related</b>		
<b>Cost</b>		
Balance as at 1st January 2011	1,922,966	1,922,966
Additions for the Year	104,787	104,787
Transfer from/(to) Property, Plant & Equipment	-	-
Write-Offs during the Year	(34,750)	(34,750)
As at 31st December 2011	1,993,003	1,993,003
Balance as at 1st January 2012	1,993,003	1,993,003
Additions for the Year	31,744	31,744
Transfer from/(to) Property, Plant & Equipment and Other Assets	(140,222)	(140,222)
Write-Offs during the Year	(451)	(451)
<b>As at 31st December 2012</b>	<b>1,884,074</b>	<b>1,884,074</b>
<b>Accumulated Amortisation</b>		
Balance as at 1st January 2011	1,417,230	1,417,230
Amortisation for the Year	206,224	206,224
Transfer from/(to) Property, Plant & Equipment	-	-
Write-Offs during the Year	(34,750)	(34,750)
As at 31st December 2011	1,588,704	1,588,704
Balance as at 1st January 2012	1,588,704	1,588,704
Amortisation for the Year	142,938	142,938
Transfer from/(to) Property, Plant & Equipment and Other Assets	(49,471)	(49,471)
Write-Offs during the Year	(451)	(451)
<b>As at 31st December 2012</b>	<b>1,681,720</b>	<b>1,681,720</b>
<b>Carrying Amount</b>		
As at 1st January 2011	505,736	505,736
As at 31st December 2011	404,299	404,299
<b>As at 31st December 2012</b>	<b>202,354</b>	<b>202,354</b>

Software and software-related assets have been reclassified as Intangible Assets from the year 2011. The comparative figures are also reclassified accordingly.

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>31. Other Assets</b>						
Deposits and Prepayments	801,868	943,416	545,078	805,582	959,618	560,045
Clearing House Balance	2,081,285	1,382,436	1,792,811	2,081,285	1,365,168	1,782,850
Inventories	397,677	290,997	236,527	397,677	290,997	236,527
Sundry Debtors	223,954	168,872	137,203	223,954	168,872	137,203
Other Receivables	336,930	336,728	54,071	336,930	336,728	54,071
Due From Trust Companies	124,503	124,396	124,316	124,503	124,396	124,316
Prepaid Staff Cost	2,216,651	1,837,657	1,863,237	2,217,204	1,837,657	1,863,237
Others	323,105	292,122	358,554	376,005	326,069	379,921
	<b>6,505,973</b>	<b>5,376,624</b>	<b>5,111,797</b>	<b>6,563,140</b>	<b>5,409,505</b>	<b>5,138,170</b>

## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>32. Deposits</b>						
<b>Local Currency Deposits</b>						
Demand Deposits	10,564,816	9,764,010	9,442,613	10,564,816	9,764,010	9,442,613
Savings Deposits	35,373,731	35,637,751	33,298,320	35,373,731	35,637,751	33,298,320
Time Deposits	84,434,792	65,522,397	57,379,463	84,434,792	65,522,397	57,379,463
Certificates of Deposit	5,191,180	4,017,018	3,628,559	5,191,180	4,017,018	3,628,559
	<b>135,564,519</b>	<b>114,941,176</b>	<b>103,748,955</b>	<b>135,564,519</b>	<b>114,941,176</b>	<b>103,748,955</b>
<b>Foreign Currency Deposits</b>						
Demand Deposits	941,514	876,339	969,404	941,514	876,339	969,404
Savings Deposits	3,673,909	2,982,168	2,959,876	3,673,909	2,982,168	2,959,876
Time Deposits	6,547,257	5,181,417	5,201,392	6,547,257	5,181,417	5,201,392
	<b>11,162,680</b>	<b>9,039,924</b>	<b>9,130,672</b>	<b>11,162,680</b>	<b>9,039,924</b>	<b>9,130,672</b>
<b>Total Deposits</b>	<b>146,727,199</b>	<b>123,981,100</b>	<b>112,879,627</b>	<b>146,727,199</b>	<b>123,981,100</b>	<b>112,879,627</b>
<b>32.1 Maturity</b>						
Due within One Year	134,417,653	112,476,332	98,025,287	134,417,653	112,476,332	98,025,287
Due after One Year	12,309,546	11,504,768	14,854,340	12,309,546	11,504,768	14,854,340
	<b>146,727,199</b>	<b>123,981,100</b>	<b>112,879,627</b>	<b>146,727,199</b>	<b>123,981,100</b>	<b>112,879,627</b>
<b>32.2 Deposits From</b>						
Non-Bank Customers	145,451,691	122,185,015	111,307,101	145,451,691	122,185,015	111,307,101
Banks	11,072	237,816	348,816	11,072	237,816	348,816
Finance Companies	1,264,436	1,558,269	1,223,710	1,264,436	1,558,269	1,223,710
	<b>146,727,199</b>	<b>123,981,100</b>	<b>112,879,627</b>	<b>146,727,199</b>	<b>123,981,100</b>	<b>112,879,627</b>

## 33. Borrowings

	BANK			Group		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Call Money Borrowings	4,706,762	5,841,246	2,095,781	4,706,762	5,841,246	2,095,781
Refinance Borrowings	837,969	928,355	1,152,982	837,969	928,355	1,152,982
Borrowings from Local Banks	87,368	-	-	87,368	-	275,759
Borrowings from Foreign Banks	515,494	548,068	1,157,759	515,494	548,068	1,157,759
Other Borrowings	-	-	-	-	-	147,800
	<b>6,147,593</b>	<b>7,317,669</b>	<b>4,406,522</b>	<b>6,147,593</b>	<b>7,317,669</b>	<b>4,830,081</b>
<b>33.1 Maturity</b>						
Due within One Year	5,315,652	6,437,523	3,317,117	5,315,652	6,437,523	3,740,676
1-5 Years	369,806	661,638	576,309	369,806	661,638	576,309
After Five Years	462,135	218,508	513,096	462,135	218,508	513,096
	<b>6,147,593</b>	<b>7,317,669</b>	<b>4,406,522</b>	<b>6,147,593</b>	<b>7,317,669</b>	<b>4,830,081</b>

All above borrowings have been obtained from local and foreign financial institutions and are recorded at amortised cost.

## / Notes to the Consolidated Financial Statements

### 34. Group Balances Payable

	BANK			Group		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Seylan Developments PLC	216,723	99,841	8,255	-	-	-
	216,723	99,841	8,255	-	-	-

### 35. Subordinated Debentures

#### Debentures

Year of Issue	Year of Redemption	Private/Public Issue	Fixed Rate Annually %	Fixed Rate Quarterly %	Fixed Rate Monthly %	Fixed Rate at Maturity %	Floating Rate Annually %	Floating Rate Quarterly %	BANK	GROUP
									Amount Outstanding as at 31.12.2012 Rs. '000	Amount Outstanding as at 31.12.2012 Rs. '000
2008	2013	Private Issue	20.00	-	18.50	22.50	-	-	72,550	72,550
2008	2013	Public Issue	21.50	-	20.50	-	11.59	13.90	659,676	659,676
2010	2015	Private Issue	-	11.00	-	-	-	13.21	479,433	479,433
									1,211,659	1,211,659

#### 35.1 Debenture Category

	Colombo Stock Exchange Listing	Interest Payable Frequency	BANK		Maturity Date/Period	Value as at 31.12.2012 Rs. '000	Value as at 31.12.2011 Rs. '000	Value as at 01.01.2011 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	-	74,850	74,850
2007/2012 - 16.75% p.a.	Listed	Annually		30.05.2007	29.05.2012	-	427,545	427,545
2007/2012 - 15.75% p.a.	Listed	Monthly		30.05.2007	29.05.2012	-	291,620	291,620
2007/2012 - 18.00% p.a.	Listed	Annually		10.12.2007	09.12.2012	-	296,240	296,240
2007/2012 - 17.00% p.a.	Listed	Monthly		10.12.2007	09.12.2012	-	208,955	208,955
2007/2012 - 19.50% p.a.	Not listed	Annually		27.09.2007	26.09.2012	-	100,000	100,000
2008/2013 - 20.00% p.a.	Not listed	Annually	12.09.2008 - 31.10.2008		11.09.2013 - 30.10.2013	23,800	23,800	23,800
2008/2013 - 18.50% p.a.	Not listed	Monthly	22.09.2008 - 31.10.2008		21.09.2013 - 30.10.2013	18,800	18,800	18,800
2008/2013 - 21.50% p.a.	Listed	Annually		12.01.2009	11.01.2014	231,610	231,610	231,610
2008/2013 - 20.50% p.a.	Listed	Monthly		12.01.2009	11.01.2014	395,445	395,445	395,445
2008/2013 - 22.50% p.a.	Not listed	At Maturity	01.09.2008 - 31.10.2008		31.08.2013 - 30.10.2013	29,950	29,950	29,950
2010/2015 - 11.00% p.a.	Not listed	Quarterly	07.12.2010 - 29.12.2010		06.12.2015 - 28.12.2015	245,000	245,000	245,000
						944,605	2,343,815	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).

## / Notes to the Consolidated Financial Statements

				BANK			
	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date/Period	Maturity Date/Period	Value as at 31.12.2012 Rs. '000	Value as at 31.12.2011 Rs. '000	Value as at 01.01.2011 Rs. '000
<b>Floating Rate Debentures</b>							
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	-	30,235	30,235
2007/2012 - Note 04	Listed	Annually	10.12.2007	09.12.2012	-	10,755	10,755
2007/2012 - Note 05	Listed	Quarterly	10.12.2007	09.12.2012	-	43,335	43,335
2008/2013 - Note 06	Listed	Annually	12.01.2009	11.01.2014	120	120	120
2008/2013 - Note 07	Listed	Quarterly	12.01.2009	11.01.2014	3,390	3,390	3,390
2010/2015 - Note 08	Not listed	Quarterly	07.12.2010 - 29.12.2010	06.12.2015 - 28.12.2015	220,000	220,000	220,000
					<b>223,510</b>	307,835	339,430
					<b>1,168,115</b>	2,651,650	3,996,365
Fair Value Impact					<b>43,544</b>	133,614	269,274
<b>Total Debentures</b>					<b>1,211,659</b>	2,785,264	4,265,639

### Note

- Two percentage points (2%) above the simple average of the one year weighted average Treasury Bill Rate (after tax on interest) at the primary auctions during the month of 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.
- 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.
- Two percentage points (2%) above the simple average of the one year weighted average Treasury Bill Rate (after tax on interest) at the primary auctions during the month of March each year applicable for the succeeding year until redemption with a floor of 14% p.a. and a cap of 19% p.a. payable annually.
- One (1) year net Treasury Bill Rate plus 2½% payable annually on par value (simple average of the one year weighted average Treasury Bill Rate during the month immediately preceding the commencement of the respective years).
- 3 months net Treasury Bill Rate plus 2½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill Rate during the month immediately preceding the commencement of the respective quarters).
- One (1) year net Treasury Bill Rate plus 2½% payable annually on par value (simple average of the one year weighted average Treasury Bill Rate during the month preceding the commencement of the respective years).
- 3 months net Treasury Bill Rate plus 2½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill Rate during the month preceding the commencement of the respective quarters).
- AWPLR (Five-year floating rate) - ('AWPLR' means the simple average of the Average Weighted Prime Lending Rate published by the Central Bank of Sri Lanka for the 12-week period immediately preceding each Interest Determination Date).

## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>36. Other Liabilities</b>						
Accrued Expenses	1,039,294	456,370	408,757	1,077,566	477,101	457,402
Margin Accounts	540,530	734,230	820,571	540,530	734,230	820,571
Deposit Funding Accounts	2,041,631	1,383,296	1,786,834	2,032,467	1,383,296	1,786,834
Dividend Payable	13,159	23,535	22,398	19,144	29,528	23,044
Provision for Defined Benefit Obligations (Net) (Note 36.1)	(77,039)	(60,092)	(44,508)	(80,641)	(60,318)	(48,824)
Sundry Creditors	540,388	303,386	340,570	540,388	303,386	340,570
Value Added Tax and Other Statutory Payables	213,992	103,840	281,144	213,992	103,840	281,144
Cheques & Drafts Payable	604,429	567,459	536,201	604,429	567,459	536,201
Leave Encashment Provision - (Note 36.2)	200,648	206,439	191,728	200,648	206,439	191,728
Others	646,752	854,533	2,000,084	707,542	904,943	2,065,822
	<b>5,763,784</b>	<b>4,572,996</b>	<b>6,343,779</b>	<b>5,856,065</b>	<b>4,649,904</b>	<b>6,454,492</b>

### 36.1 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 applies the corridor method.

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>36.1.1 The Amount Recognised in the Balance Sheet</b>						
Present Value of Defined Benefit Obligations (Note 36.1.3)	858,227	834,075	708,494	865,684	844,177	717,844
Fair Value of Plan Assets (Note 36.1.4)	(829,090)	(704,537)	(713,180)	(840,149)	(714,865)	(726,846)
Unrecognised Actuarial Gain or (Loss) (Note 36.1.5)	(106,176)	(189,630)	(43,367)	(106,176)	(189,630)	(43,367)
Unrecognised Past Service Gain Non-Vested (Note 36.1.6)	-	-	3,545	-	-	3,545
<b>Provision for Defined Benefit Obligations</b>	<b>(77,039)</b>	<b>(60,092)</b>	<b>(44,508)</b>	<b>(80,641)</b>	<b>(60,318)</b>	<b>(48,824)</b>

### 36.1.2 Plan Assets Consist the Following

	BANK	GROUP
	2012 Rs. '000	2011 Rs. '000
Balance with Banks	15,699	46,369
Investment in Treasury Bills and Bonds	813,391	668,496
	<b>829,090</b>	<b>714,865</b>

Plan Assets are held by an approved external gratuity fund.

### 36.1.3 Movement in the Present Value of Defined Benefit Obligations

	BANK	GROUP
	2012 Rs. '000	2011 Rs. '000
Liability for Defined Benefit Obligations as at 1st January	834,075	717,844
Current Service Cost	60,773	63,512
Interest Cost	83,408	75,141
Unrecognised Actuarial (Gains)/Losses	(65,119)	190,511
Payments Made (Including Benefits Paid by the Plan)	(54,910)	(202,831)
Adjustment on Deconsolidation/Amalgamation	-	-
<b>Liability for Defined Benefit Obligations as at 31st December</b>	<b>858,227</b>	<b>717,844</b>

## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>36.1.4 Movement in Plan Assets</b>						
Fair Value of Plan Assets as at 1st January	704,537	713,180	595,920	714,865	726,846	611,977
Expected Return on Plan Assets	67,186	64,331	93,540	68,374	65,394	94,568
Contribution Paid into Plan	105,744	84,651	108,965	105,744	84,651	108,967
Benefits Paid by the Plan	(54,910)	(199,594)	(77,707)	(55,076)	(202,831)	(85,725)
Unrecognised Actuarial Gain/(Loss) on Plan Assets	6,533	41,969	(7,538)	6,242	40,805	(2,941)
<b>Fair Value of Plan Assets at 31st December</b>	<b>829,090</b>	<b>704,537</b>	<b>713,180</b>	<b>840,149</b>	<b>714,865</b>	<b>726,846</b>

### 36.1.5 Unrecognised Actuarial (Gain) or Loss

Balance as at 1st January	189,630	43,367	37,966	189,630	43,367	37,966
Actuarial (Gain)/Loss for year - Obligation	(65,119)	188,232	(4,714)	(69,246)	188,232	(20,336)
Actuarial (Gain)/Loss for year - Plan Assets	(6,533)	(41,969)	7,538	(6,242)	(41,969)	7,538
Actuarial Gain/(Loss) Immediately Recognised	(11,802)	-	2,577	(7,966)	-	18,199
<b>Balance as at 31st December</b>	<b>106,176</b>	<b>189,630</b>	<b>43,367</b>	<b>106,176</b>	<b>189,630</b>	<b>43,367</b>

### 36.1.6 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>-</b>	<b>3,545</b>	<b>-</b>	<b>-</b>	<b>3,545</b>

### 36.1.7 Amount Recognised in the Income Statement

Current Service Cost	60,773	62,551	54,853	61,411	63,512	55,838
Interest Cost	83,408	74,392	72,943	84,418	75,141	76,160
Expected Return on Plan Assets	(67,186)	(64,331)	(93,540)	(68,374)	(65,394)	(94,568)
Actuarial (Gain)/Loss Immediately Recognised	11,802	-	(2,577)	7,966	3,443	(23,571)
Past Service Cost/(Gain) Non-Vested Benefits	-	(3,545)	(3,544)	-	(3,545)	(3,544)
<b>Balance as at 31st December (Note 13)</b>	<b>88,797</b>	<b>69,067</b>	<b>28,135</b>	<b>85,421</b>	<b>73,157</b>	<b>10,315</b>

	BANK		
	2012	2011	2010
<b>36.1.8 Actuarial Assumptions - Bank</b>			
Retirement Age	55 years	55 years	55 years
Discount Rate	10%	10%	10.5%
Salary Increase	11%, 8%, (including 3% increment) and thereafter 12%, (including 3% increment) 3%, 3% per annum. Next increment due on 1st January 2013	3%, 15% (including 5% increment) and thereafter 5%, 5%, 15% (including 5% increment) per annum. Next increment due on 1st January 2012	7%, 8%, 8% and thereafter 7.5% per annum (next increment due on 1st January 2011)

## Notes to the Consolidated Financial Statements

### 36.1.9 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

#### Seylan Bank PLC

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2012		2011		2010	
		Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the year Rs. '000	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000	Sensitivity Effect on Income Statement Increase/(Reduction) in Results/for the Year Rs. '000	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000	Sensitivity Effect on Income Statement Increase/(Reduction) in Results/for the Year Rs. '000	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000
1%	**	(3,873)	(51,585)	(5,693)	(70,432)	(4,416)	(54,504)
(1%)	**	4,381	57,819	6,655	81,087	5,103	62,272
*	1%	4,755	62,852	7,026	85,863	5,468	66,868
*	(1%)	(4,257)	(56,778)	(6,090)	(75,561)	(4,790)	(59,249)

\* Discount Rate is fixed at  
2012 10%  
2011 10%  
2010 10.5%

\*\* Salary Increment rates for  
2012 11%, 8%, 12%, 3% and 3%  
2011 3%, 15%, 5%, 5% and 15%  
2010 7%, 8%, 8% and 7.5%

#### Seylan Developments PLC

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2012		2011		2010	
		Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the year Rs. '000	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year Rs. '000	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year Rs. '000	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000
1%	**	(356)	(356)	(674)	(674)	(435)	(435)
(1%)	**	392	392	760	760	484	484
*	1%	455	455	794	794	517	517
*	(1%)	(418)	(418)	(716)	(716)	(471)	(471)

\* Discount Rate is fixed at  
2012 10%  
2011 10%  
2010 11%

\*\* Salary Increment rates for  
2012 2.5%  
2011 10.0%  
2010 5.0%

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>36.2 Leave Encashment Provision</b>						
Balance as at 1st January	206,439	191,728	237,885	206,439	191,728	237,885
Amount Charged/(Reversed) to Income Statement during the Year	(5,791)	14,711	-	(5,791)	14,711	-
Adjustment to Retained Earnings due to Restatement	-	-	(46,157)	-	-	(46,157)
Balance as at 31st December	200,648	206,439	191,728	200,648	206,439	191,728

## / Notes to the Consolidated Financial Statements

	BANK		
	2012	2011	2010
<b>36.2.1 Actuarial Assumptions</b>			
Retirement Age	55 years	55 years	55 years
Discount Rate	10.00%	10.00%	10.5%
Salary Increase	11%, 8%, (including 3% increment) and thereafter 12%, (including 3% increment) 3%, 3% per annum. Next increment due on 1st January 2013	3%, 15% (including 5% increment) and thereafter 5%, 5%, 15% (including 5% increment) per annum. Next increment due on 1st January 2012	7%, 8%, 8% and thereafter 7.5% per annum (next increment due on 1st January 2011)

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>37. Stated Capital</b>						
Ordinary Shares - Voting (Note 37.1)	6,711,000	6,711,000	3,461,000	6,711,000	6,711,000	3,461,000
Ordinary Shares - Non-Voting (Note 37.2)	2,677,133	2,677,133	1,235,600	2,677,133	2,677,133	1,235,600
Preference Shares - Redeemable, Non-Cumulative, Non-Convertible and Non-Voting (Note 37.3)	-	33,901	33,901	-	33,901	33,901
Share Premium (Note 37.4)	837,319	837,319	837,319	837,319	837,319	837,319
	<b>10,225,452</b>	<b>10,259,353</b>	<b>5,567,820</b>	<b>10,225,452</b>	<b>10,259,353</b>	<b>5,567,820</b>
<b>37.1 Ordinary Shares - Voting</b>						
Balance as at 1st January	6,711,000	3,461,000	3,461,000	6,711,000	3,461,000	3,461,000
Issued during the Year - 43,333,333 Ordinary Shares of Rs. 75/- each	-	3,250,000	-	-	3,250,000	-
<b>173,333,333 Ordinary Shares - Voting</b> (43,560,000 shares of Rs. 10/- each, 86,440,000 shares of Rs. 35/- each and 43,333,333 shares of Rs. 75/- each)	<b>6,711,000</b>	<b>6,711,000</b>	<b>3,461,000</b>	<b>6,711,000</b>	<b>6,711,000</b>	<b>3,461,000</b>
<b>37.2 Ordinary Shares - Non-Voting</b>						
Balance as at 1st January	2,677,133	1,235,600	1,235,600	2,677,133	1,235,600	1,235,600
Issued during the Year - 41,186,666 Ordinary Shares of Rs. 35/- each	-	1,441,533	-	-	1,441,533	-
<b>164,746,666 Ordinary Shares - Non-Voting</b> (123,560,000 shares of Rs. 10/- each and 41,186,666 shares of Rs. 35/- each)	<b>2,677,133</b>	<b>2,677,133</b>	<b>1,235,600</b>	<b>2,677,133</b>	<b>2,677,133</b>	<b>1,235,600</b>
<b>37.3 Preference Shares</b>						
Balance as at 1st January - 3,390,100 Preference Shares of Rs. 10/- each	33,901	33,901	33,901	33,901	33,901	33,901
Redemptions during the Year	(33,901)	-	-	(33,901)	-	-
<b>3,390,100 Preference Shares</b>	<b>-</b>	<b>33,901</b>	<b>33,901</b>	<b>-</b>	<b>33,901</b>	<b>33,901</b>
<b>37.4 Movement in Share Premium</b>						
Balance as at 1st January	837,319	837,319	837,319	837,319	837,319	837,319
<b>Balance as at 31st December</b>	<b>837,319</b>	<b>837,319</b>	<b>837,319</b>	<b>837,319</b>	<b>837,319</b>	<b>837,319</b>

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.

Bank redeemed the 3,390,100 No. of Preference Shares at Rs. 12.50 per Share on 13th February 2012.



## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>38. Statutory Reserve Fund</b>						
Balance as at 1st January	618,567	569,295	506,919	618,567	569,295	506,919
Add: Transferred during the Year**	106,338	49,272	62,376	106,338	49,272	62,376
<b>Balance as at 31st December</b>	<b>724,905</b>	<b>618,567</b>	<b>569,295</b>	<b>724,905</b>	<b>618,567</b>	<b>569,295</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		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>39. Other Reserves</b>						
Capital Reserve (Note 39.1)	418,021	418,021	418,021	673,234	673,234	418,021
Revaluation Reserve (Note 39.2)	510,049	461,998	460,123	868,928	820,877	818,777
General Reserve (Note 39.3)	33,787	33,787	33,787	33,787	33,787	33,787
Available for Sale Reserve (Note 39.4)	(125,070)	130,608	476,755	(126,310)	130,923	476,749
Capital Redemption Reserve Fund (Note 39.5)	-	-	-	-	-	255,213
Special Risk Reserve (Note 39.6)	112,922	98,741	79,769	112,922	98,741	79,769
Investment Fund Reserve (Note 39.7)	812,240	272,986	-	812,240	272,986	-
	<b>1,761,949</b>	<b>1,416,141</b>	<b>1,468,455</b>	<b>2,374,801</b>	<b>2,030,548</b>	<b>2,082,316</b>
<b>39.1 Movement in Capital Reserve</b>						
Balance as at 1st January	418,021	418,021	418,021	673,234	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>418,021</b>	<b>673,234</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. (Transferred to Capital Reserve in year 2011.)

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>39.2 Movement in Revaluation Reserve</b>						
Balance as at 1st January	461,998	460,123	125,238	820,877	818,777	483,892
Transferred to Revaluation Reserve	52,800	-	332,757	52,800	603	332,757
Transferred to Non-Controlling Interest	-	-	-	-	(290)	-
Transferred from/(to) Deferred Tax (Refer Note 27)	-	1,875	2,128	-	1,787	2,128
Transferred to Retained Profits	(4,749)	-	-	(4,749)	-	-
<b>Balance as at 31st December</b>	<b>510,049</b>	<b>461,998</b>	<b>460,123</b>	<b>868,928</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.

## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>39.3 Movement in General Reserve</b>						
Balance as at 1st January	33,787	33,787	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>	<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		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>39.4 Available for Sale Reserve</b>						
Balance as at 1st January	130,608	476,755	-	130,923	476,749	-
Add: Transferred during the Year	(255,678)	(345,734)	476,755	(258,678)	(344,642)	476,749
Less: Transferred to Income Statement	-	(413)	-	-	(884)	-
Transferred to Non-Controlling Interest	-	-	-	(1,445)	(300)	-
<b>Balance as at 31st December</b>	<b>(125,070)</b>	<b>130,608</b>	<b>476,755</b>	<b>(126,310)</b>	<b>130,923</b>	<b>476,749</b>

### 39.5 Movement in Capital Redemption Reserve Fund

	BANK	GROUP	
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance as at 1st January	-	-	-
Less: Transferred to Capital Reserve	-	-	-
<b>Balance as at 31st December</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		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>39.6 Movement in Special Risk Reserve</b>						
Balance as at 1st January	98,741	79,769	-	98,741	79,769	42,595
Add: Transferred during the Year	14,181	18,972	32,038	14,181	18,972	37,174
Less: Adjustment due to Amalgamation of Seylan Bank Asset Management	-	-	47,731	-	-	-
<b>Balance as at 31st December</b>	<b>112,922</b>	<b>98,741</b>	<b>79,769</b>	<b>112,922</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.

## / Notes to the Consolidated Financial Statements

	BANK			GROUP		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>39.7 Movement in Investment Fund Reserve</b>						
Balance as at 1st January	272,986	-	-	272,986	-	-
Add: Transferred during the Year	539,254	272,986	-	539,254	272,986	-
<b>Balance as at 31st December</b>	<b>812,240</b>	272,986	-	<b>812,240</b>	272,986	-

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011, Bank transfers 8% on Value Addition attributable to Financial Services and 5% of taxable profits, from retained profits to Investment Fund Reserve with effect from 1st January 2011.

### Transfers to the Investment Fund Reserve

8% on the Value Addition Attributable to Financial Services	676,927
5% of Taxable Profits	135,313
	<b>812,240</b>

### Utilisation of Investment Fund Reserve

#### Long-Term Government Securities Maturity Period over 7 years

	Maturity Value (Rs.)	Date of Maturity	Rate of Interest
Treasury Bond	200,000,000	01.08.2020	6.20%
Treasury Bond	150,000,000	15.08.2018	7.50%
Treasury Bond	290,000,000	01.01.2022	8.00%
Treasury Bond	100,000,000	05.01.2019	8.50%
Treasury Bond	45,100,000	06.01.2020	8.00%
	785,100,000		

#### Short-Term Government Securities

Treasury Bills	80,000,000	22.02.2013	13.05%
Treasury Bills	50,000,000	15.03.2013	10.90%
	130,000,000		

#### Qualifying Loans

Purpose	No of Loans Granted	Amount Outstanding (Rs.)	Tenure of the Loan	Rate of Interest
Construction of Hotels and for Related Purpose	1	52,358,553	7 years	5 year T Bond rate + 2%
		52,358,553		
		967,458,553		

## / Notes to the Consolidated Financial Statements

### 40. 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		
	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>40.1 Commitments</b>						
Undrawn Credit Lines	12,503,531	14,675,341	11,966,858	12,503,531	14,675,341	11,966,858
Capital Commitments (Note 42.1)	156,564	23,985	21,892	156,564	35,204	21,892
	<b>12,660,095</b>	<b>14,699,326</b>	<b>11,988,750</b>	<b>12,660,095</b>	<b>14,710,545</b>	<b>11,988,750</b>
<b>40.2 Contingencies</b>						
Acceptances	5,042,406	4,440,085	4,066,223	5,042,406	4,440,085	4,066,223
Stand by Letters of Credit	317,530	359,770	25,565	317,530	359,770	25,565
Guarantees	8,933,509	7,629,741	8,262,274	8,999,308	7,696,741	8,329,274
Documentary Credit	2,944,880	6,039,245	3,952,136	2,944,880	6,039,245	3,952,136
Bills for Collection	1,663,355	3,152,133	1,919,301	1,663,355	3,152,133	1,919,301
Indemnities	9,500	-	-	9,500	-	-
Forward Exchange Contracts (Net)	(284,431)	(73,084)	(17,171)	(284,431)	(73,084)	(17,171)
	<b>18,626,749</b>	<b>21,547,890</b>	<b>18,208,328</b>	<b>18,692,548</b>	<b>21,614,890</b>	<b>18,275,328</b>
<b>Total Commitments &amp; Contingencies</b>	<b>31,286,844</b>	<b>36,247,216</b>	<b>30,197,078</b>	<b>31,352,643</b>	<b>36,325,435</b>	<b>30,264,078</b>

### 41. 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:

#### 41.1 Civil Cases

##### 1. SC (CH C) APP 01/10 (CHC 157/2001(1))

Case filed by the Plaintiff with regard to dishonouring a Guarantee issued by BCCI Bank as Seylan Bank took over the local operations of BCCI. Judgement delivered in favour of the Plaintiff. Bank has appealed. (Guarantee value USD 72,730.23 & USD 56,732.25).

##### 2. SC CHC 20/2007

Plaintiffs had filed H.C. (Civil) 137/99 (1) adding the Bank as a defendant praying Judgement for a sum of Rs. 11,535,525/- (equivalent to USD 161,381.15) - Judgement was delivered on 22nd February 2007, in favour of the Bank. The plaintiffs appealed to Supreme Court. Not yet listed.

##### 3. DC Colombo 15958/M

Case filed claiming Rs. 200,000/- as damages, from the Bank for honouring of a guarantee. The judgement given in favour of the plaintiff for Rs. 100,000/- with legal interest. The Bank has filed an appeal against the judgement.

##### 4. CHC 14/98(1)

Case filed for dishonouring cheques and a letter of credit. Claim Rs. 111.0 Mn. Judgement given in favour of the plaintiff for Rs. 2.5 Mn. together with the Legal cost, but both parties have filed appeals against the said judgement and appeal not yet listed.

##### 5. DC Ratnapura 23391/MR & HC (Civil) 159/06

Two different Cases filed by the same customer claiming wrongful take over of machinery together with the mortgaged property (claim Rs. 23.0 Mn.).

## / Notes to the Consolidated Financial Statements

### 6. DC Colombo DSP 114/10

In this Case Interim Injunction granted staying the auction as the client claims that his signature was obtained on blank documents and the Piyasa loan granted to the A/c debited from the A/c by issuance of a MCQ. Against the said Order Bank filed LA application under WP/HCCA/COL/115/2010 (LA). This Appeal was dismissed. Bank filed Special Leave to Appeal in SC under Case No. SC/HCCA/LA/283/12.

### 7. CHC 320/2002/CHC 243/2002

These Cases are instituted with regard to sales of shares of Blue Diamond Jewellery World Wide (BDJWWL) held as security for the facility of Gold Lada Limited.

### 8. SC HCC/89/12 - (CHC 744/2010/MR)

Customer has filed the above action claiming damages Rs. 10.0 Mn. from the Bank for negligence of the Bank for not activating the Debit Card. Order delivered and the plaintiff's action was dismissed and the SBK is entitled for cost of the action. Client has appealed against the said Judgement. Not yet listed.

### 9. DC Kandy 36780/MR

Customer filed a case against the Bank for fraudulent withdrawal of Rs. 280,000/- made by the 3rd party.

### 10. DC Colombo 367/DMR – CHC 559/10/MR

Damages claimed by the customer claiming, Bank has wrongfully refused to issue Dollars for travel purposes. Case transferred to CHC.

### 11. 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.).

### 12. DC Colombo DMR 09088/10 - CHC 377/12 MR

The plaintiff has made a complaint against a cheque fraud accusing the bank for negligence (claim Rs. 5.0 Mn.). Case has been transferred to CHC.

### 13. DC Ampara 356/Damages

The plaintiff who is an ex-staff member of the Bank and who was involved in a fraud at Ampara branch filed the case claiming damages for Rs. 50.0 Mn. for wrongful termination from service and taken custody, defame and pain of mind.

### 14. CHC 157/2009/MR

Stolen cheque of a BOC account drawn for Rs. 9.5 Mn. with forged signatures and collected to SBK account in good faith. Judgement was given in favour of the plaintiff for Rs. 9.5 Mn. with legal interest. The Bank has filed an Appeal against the judgement and to be listed.

### 15. SC (APP) 85A/2009

Hatton National Bank has filed the action to nullify our Mortgage Bond executed by Lanka Tractors. Property has been acquired by the Government under underperforming and unutilised assets Act.

### 16. CA (Writ) 387/12

Customer with the assistance of a Bank employee fraudulently took over the original export bills. Customs seized the consignments and auctioned after an inquiry. The Exporter of the consignments filed this Case against the Customs Order, adding the Bank as the 5th respondent. There's no claim against the Bank. (Against the Custom's Order Bank too filed SC Writ 380/12 to prevent the Customs from utilising/disposing/alienating the sales proceeds).

### 17. HC (Civil) Case No. 321/12/MR

Case filed by a company claiming inter alia damages of Rs. 100,000,000.00 from the bank for not releasing a Mortgage bond on time, after settling of several facilities granted to them.

## / Notes to the Consolidated Financial Statements

### 18. DC Mount Lavinia Case No. 4246/03/M

Seylan Bank filed a case bearing No. 1585/98/M against a company and writ was executed after the judgment was delivered in favour of the Bank. A claim case (234/CL) and the above case claiming damages of Rs. 2.0 Mn. alleging wrongful seizure filed against the Bank after the above execution. In the 234/CL case, Court ordered to release the claimed goods from the seizure and the damages after the above execution. Case has been refiled for trial. [Bank too have filed a Case (DC Colombo 1219/12/Spl) against the claimant to set aside the order in 234/CL].

### Cases filed by the Bank

#### 19. CHC 638/09/MR (DC Colombo 6033/SPL)

Bank filed the case to prevent the defendant from disclosing the information gathered during his tenure of service. Counter claim has been made by the defendant.

#### 20. DC Ratnapura 12734/M

Bank filed a case against the borrower claiming for Rs. 226,687.95 and in the answer borrower has made a cross claim of Rs. 2.5 Mn. from the Bank as damages on the ground that the Bank has wrongfully handled the relevant accounts.

### 41.2 Labour Cases

1. Labour Department inquiry No. IR/1055/2009 filed by retired employees of Seylan Bank PLC. Labour Commissioner ordered to pay gratuity at the rate of one month salary for each year of the service for the employees who completed 10 years service. Bank has filed a writ application in Court of Appeal (CA No. 891/2009 - SBK vs The Commissioner General of Labour & others).

2. The following Appeals filed by the Bank against the awards delivered in the Labour Tribunal on the cases filed by the ex-employees.

#### HC Case Nos.

HCA 95/2012, HCA 96/2012, HCA 97/2012, HCA 98/2012, HCA 99/2012, HCA 100/2012, HCA 101/2012, HCA 102/2012, HCA 103/2012, HCA 104/2012, HCA 105/2012, HCA 119/2012, HCA 120/2012, HCA 121/2012, HCA 122/2012, HCA 56/2012

#### LT Case Nos.

LT 1/32/2010, LT 1/34/2010, LT 1/35/2010, LT 1/36/2010, LT 1/37/2010, LT 1/38/2010, LT 1/40/2010, LT 1/41/2010, LT 1/42/2010, LT 1/43/2010, LT 1/44/2010, LT 13/79/2010, LT 13/80/2010, LT 13/81/2010, LT 13/82/2010, LT/08/505/10

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. Interim injunctions were issued against the trustees of the respective trust companies restraining them from receiving the proceeds of the sale of the respective trust properties and restraining the trustees from selling their shares of Seylan Bank PLC. The Bank has appealed against the order granting the interim injunctions and filed leave to appeal application Nos. WP/HCCA/COL17/2012 to WP/HCCA/COL 19/2012 and WP/HCCA/COL 47/2012 to WP/HCCA/COL 49/2012 before the Colombo Civil Appeal High Court. The Bank has filed answer in reply to the claims and all pre trial steps have been completed. All these cases will be taken up for hearing/trial on 25th June 2013. The Seylan Bank Employees Union has also applied to be added as parties in the District Court of Colombo cases DTR 003/2010 to DTR 009/2010. 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 28th February 2013. Six appeals WP/HCCA/COL 17/2012, 18/2012, 19/2012, 47/2012, 48/2012 and 49/2012 have been filed by the trust companies and the Bank against interim injunctions granted in District Court of Colombo cases DTR 003/2010 to DTR 009/2010 restraining the trustees of the respective trust companies from selling their shares of Seylan Bank PLC and the Bank from receiving any such sale proceeds. These appeals are to be supported for granting of leave to appeal on 28th February 2013.

Based on the available information and current status of the above cases, the bank is not in a position to quantify the potential financial impact if any, as at the Balance Sheet date. However, we are of the opinion that the out come of any action will not have a material effect on the financial position of the Bank.

There are no legal cases pending against Seylan Developments PLC.

## / Notes to the Consolidated Financial Statements

### 41.3 Tax Assessment Against the Bank

- 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 lodged an Appeal in the Tax Appeals Commission against the determination together with a refundable deposit of Rs. 29,683,296/-. Bank waits for the determination from the Tax Appeals Commission.
- Assessment No. VATFS/BFSU/2010/263 for VAT on Financial Services for 2008, Commissioner General of Inland Revenue issued the determination with an additional liability of Rs. 74,057,097/-. Bank notified its intention to appeal to the Tax Appeals Commission against the determination on 08th February 2013.
- Assessment No. VATFS/BFSU/2012/328 for VAT on Financial Services for 2009, amounts to Rs. 322,202,153/- together with a penalty of Rs. 141,768,947/-. Bank lodged an appeal with the Department of Inland Revenue and a refundable deposit of Rs. 50,000,000/- was made with the view of holding the recovery actions. Bank waits for the determination from the Commissioner General of Inland Revenue.
- Assessment No. 6129284 for income tax for 2007, Commissioner General of Inland Revenue issued the determination with an additional liability of Rs. 237,591,915/-. Bank lodged an Appeal in the Tax Appeals Commission against the determination together with a refundable deposit of Rs. 59,397,979/-. Bank waits for the determination from the Tax Appeals Commission.
- Assessment No. ITA 12301100082 for income tax for 2009, with an additional assessed payment of Rs. 15,874,829/- and a penalty of Rs. 7,937,415/-. Bank lodged an appeal on 24th December 2012 and the same was acknowledged by the Inland Revenue holding over the disputed tax in full until the appeal is determined.
- Assessment Nos. 7019256, 7019257, 7019258 for Value Added Tax for 2009, exclusively for non-disclosure of exempt income in the respective VAT returns.

The Bank is of the view that the above assessments will not have any material impact on the Financial Statements.

### 42. 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		
	2012 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.
<b>42.1</b> Approved and Contracted for	<b>156.564</b>	23.985	21.892	<b>156.564</b>	35.204	21.892
<b>42.2</b> Approved but not Contracted for	-	3.555	-	<b>2.617</b>	3.555	-

### 43. Events after the Reporting Period

- Proposed Final Dividend

The Board of Directors of the Bank recommended a final dividend of two rupees per share (2011 - One rupee per share) on both voting and non-voting shares of the Bank, be paid by way of one rupee cash dividend and one rupee scrip dividend for the financial year ended 31st December 2012.

Further, this dividend is to be approved at the Annual General Meeting to be held on 28th March 2013. This proposed final dividend has not been recognised as a liability as at 31st December 2012. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared. Final dividend proposed for the year 2012 amounts to Rs. 676,159,998/-.

Compliance with Section 56 and 57 of Companies Act No. 07 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on 21st February 2013 has been audited by Messrs KPMG.

- Mr. P.M.M. Pieris PC, resigned from the Board of Directors and as Chairman of the Bank w.e.f. 15th January 2013.
- Senior Independent Director, Mr. N.M. Jayamanne PC was appointed as Chairman of the Bank w.e.f. 17th January 2013.
- Non-Executive Director, Mr. I.C. Nanayakkara was appointed as Deputy Chairman of the Bank w.e.f. 17th January 2013.
- The Bank issued 20,000,000 Listed Debentures of Rs. 100/- each which opened on 14th February 2013 and over subscribed the same day.
- No Circumstances have arisen since the Reporting date which would require adjustments to or disclosure in the Financial Statements other than above.

## / Notes to the Consolidated Financial Statements

### 44. Related Party Transactions

**44.1** According to Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures, Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director (whether Executive or otherwise) of that entity. Accordingly, the Board of Directors, General Manager/Chief Executive Officer (GM/CEO), Key Employees of the Bank holding Directorships in subsidiary companies and their close family members have been classified as Key Management Personnel (KMP) of the Bank, close family members are defined as spouse or dependent. Dependent is defined as any one who depends on the respective Director for more than 50% of his/her financial needs. As the Bank is the Ultimate Parent of its subsidiary mentioned in Note 45 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group, the Directors of the Bank and their immediate family members have been identified as the KMP of the Group.

Therefore, employees of the Seylan Bank who are only Directors of the subsidiary have also been classified as KMP of the subsidiary only.

### 44.2 Transactions with Key Management Personnel (KMP) for Credit Facilities

Facilities	2012		Security	2011		
	Limit Rs. Mn.	Outstanding Rs. Mn.		Limit Rs. Mn.	Outstanding Rs. Mn.	
Mr. K.P. Ariyaratne	Housing Loan - I	6.000	5.360	Mortgage Over Property	6.000	5,942
Mr. S. Palihawadana	Overdraft	0.015	-	Promissory Note	0.015	-
	Employee Provident Fund Loan	4.398	3.900	Assignment Over Employee Provided Fund Balance	3.910	3.910
	Housing Loan	6.000	0.800	Mortgage Over Property	5.957	1.432
	Vehicle Loan	6.500	4.900	Mortgage Over Vehicle	-	-
Mr. R.J. Jayasekara*	Vehicle Loan	6.500	5.674	Mortgage Over Vehicle	-	-
Mr. R.M.K.K.B. Rathnayake**	Employee Provided Fund Loan	0.300	0.241	Assignment Over Employee Provided Fund balance	-	-
	Housing Loan	4.200	4.130	Mortgage Over Property	-	-

\* Mr. R.J. Jayasekara was appointed to the Seylan Developments PLC Board with effect from 30th November 2012.

\*\* Mr. R.M.K.K.B. Rathnayake resigned from Seylan Developments PLC Board with effect from 30th November 2012.

### 44.3 Deposits by Key Management Personnel (KMP)

		2012 Rs. Mn.	2011 Rs. Mn.
Mr. N.M. Jayamanne PC	Total	2.420	0.807
Mr. P.M.M. Pieris PC	Total	2.224	-
Mr. E.Narangoda*	Total	12.459	0.453
Mr. R. Nadarajah	Total	8.759	0.791
Mr. A.L. Devasurendra	Total	288.019	0.513
Mr. A.M.M. de Alwis	Total	0.006	0.003
Mr. P. Kudabalage	Total	0.100	0.097
Rear Admiral B.A.J.G. Peiris	Total	-	0.003
Mrs. L.A. Withana	Total	0.128	-
Mrs. R.R. Kellapotha Ranatunga	Total	0.067	-
Mr. M.K. Muthukumar**	Total	1.625	-
Mrs. K.L.G. Jayanthi	Total	0.147	-
Mrs. U. Nadarajah	Total	2.693	-
Mrs. R.N.A. de Silva	Total	0.161	0.136
Mrs. M.R.N.P. de Alwis	Total	0.606	0.041
Mr. K.P. Ariyaratne	Total	4.719	0.238
Ms. T.D. Ariyaratne	Total	0.303	0.249
Mr. R.D. Ariyaratne	Total	0.079	0.089
Mr. R.J. Jayasekara***	Total	12.409	-
Mrs. E. Jayasekara	Total	2.609	-
Mr. S. Palihawadana	Total	11.946	3.606
Mr. R.M.K.K.B. Rathnayake****	Total	1.459	0.130

\* Mr. E. Narangoda resigned from Seylan Bank PLC with effect from 28th March 2012.

\*\* Mr. M.K. Muthukumar was appointed to the Seylan Developments PLC Board with effect from 17th February 2012.

\*\*\* Mr. R.J. Jayasekara was appointed to the Seylan Developments PLC Board with effect from 30th November 2012.

\*\*\*\* Mr. R.M.K.K.B. Rathnayake resigned from Seylan Developments PLC Board with effect from 30th November 2012.



## / Notes to the Consolidated Financial Statements

### 44.4 Other Instruments by Key Management Personnel (KMP)

		2012 Rs. Mn	2011 Rs. Mn.
Mr. P.M.M. Pieris PC	Repo	2.730	-
Mr. E. Narangoda*	Treasury Bills	3.487	4.585
Mr. R. Nadarajah	Repo	-	3.338
	Debentures	-	1.500
Mr. A.L. Devasurendra	Treasury Bond	1.000	1.000
	Reverse Repo	31.094	-
	Treasury Bill	200.000	-
Mr. K.P. Ariyaratne	Repo	0.500	-
Mr. S. Palihawadana	Repo	0.101	0.702
	Treasury Bill	2.825	1.530
	Treasury Bond	-	7.282
	Debentures	1.000	4.500
Mrs. R.S. Palihawadana	Treasury Bill	1.420	0.116

\* Mr. E. Narangoda resigned from Seylan Bank PLC with effect from 28th March 2012.

### 44.5 Accommodation Granted to KMP for Credit Cards

Name of Key Management Personnel	2012		2011	
	Credit Card Limit Rs. '000	Outstanding Rs. '000	Outstanding Rs. '000	
Mr. N.M. Jayamanne PC	500	2	434	
Mr. P.M.M. Pieris PC	500	-	-	
Mr. E. Narangoda*	500	(3)	(Credit Balance) 2	
Mr. I.C. Nanayakkara	500	-	1	
Mr. R. Nadarajah	500	2	21	
Mr. A.L. Devasurendra	500	-	-	
Mr. A.M.M. de Alwis	-	-	-	
Mr. P. Kudabalage	-	-	-	
Rear Admiral B.A.J.G. Peiris	500	1	-	
Mr. P.L.P. Withana	-	-	-	
Mr. S.P.S. Ranatunga	500	-	-	
Mr. K.P. Ariyaratne	500	(46)	(Credit Balance) (23)	
Mr. R.J. Jayasekara**	500	57	4	
Mr. S. Palihawadana	500	120	66	
Mr. R.M.K.K.B. Rathnayake***	350	(1)	(Credit Balance) -	

\* Mr. E. Narangoda resigned from Seylan Bank PLC with effect from 28th March 2012.

\*\* Mr. R.J. Jayasekara was appointed to the Seylan Developments PLC Board with effect from 30th November 2012.

\*\*\* Mr. R.M.K.K.B. Rathnayake resigned from Seylan Developments PLC Board with effect from 30th November 2012.

### 44.6 Compensation to Key Management Personnel (KMP)

	2012 Rs. Mn.	2011 Rs. Mn.
Executive Directors Remuneration - Executive Director(s)	8.275	17.499
Directors Fees - Non-Executive Directors	15.504	9.375
Other Benefits to Non-Executive Directors	1.668	0.910
Ex Gratia Payment to Retired Director*	15.000	-
Remuneration to Key Management Personnel	38.330	27.474
Post-Employment Benefits	10.450	5.218

\* Ex gratia payment made to Mr. E. Narangoda in lieu of services to the Bank.

In addition to their salaries Bank also provides non-cash benefits to the Executive Director(s)/Officers and contributes to a post-employment defined benefit plan on their behalf. Executive Directors emoluments are disclosed in Note 12 to the Financial Statements.

44.7 All the other interests of each Director, direct or indirect in financial and other arrangements are disclosed under Note 45 - Other Related Party Transactions.

## / Notes to the Consolidated Financial Statements

### 45. Other Related Party Transactions

**45.1** The Bank had the following financial dealings during the year 2012 with companies which are considered, related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates with companies mentioned below. The parties given below are considered related parties mainly due to significant influence arising as a result of common directorships and through shareholdings. These companies, names of the Directors and the nature of transactions entered into are listed below:

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions		
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) as a % of Regulatory Capital	Nature of Service	Amount Payable/ Receivable
		Rs. Mn.		Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.		Rs. Mn.	Rs. Mn.
<b>(a) Direct Subsidiaries of the Bank</b>										
Seylan Developments PLC	Mr. R. Nadarajah - <i>Chairman</i>									
	Mr. S. Paliyawadana - <i>Deputy Chairman</i>	Demand Deposit	Guarantee (Commission 2.5%)	15.957	1.201	1.201			<b>Expenses</b>	
	Mr. M.K. Muthukumar - <i>Director</i> (Appointed w.e.f. 17.02.2012)	Fixed Deposit		187.272					Rent	0.640 95.620
	Mr. K.P. Ariyaratne - <i>Director</i> (Appointed w.e.f. 30.11.2012)			203.229	1.201	1.201			Work Order Paid	- 1.381
	Mr. R.J. Jayasekara - <i>Director</i> (Appointed w.e.f. 30.11.2012)								Interest Paid/ Payable	9.354 9.497
	Mr. R.M.K.K.B. Rathnayake - <i>Executive Director/Acting GM</i> (Resigned w.e.f. 30.11.2012)								Management Fee Payable	3.500 -
										13.494 106.498
									Net Dividend Received	- 6.902
									Fee Income	- 0.232
										- 7.134
									Rent Deposit*	60.687
2011 Comparatives		93.293				10.245			Net	(0.917) (83.101)

### (b) Share Trust Companies and Funds Set Up under the Bank

\*\*Following Directors/Key Employees of the Bank are also Trustees/Directors of the Trust Companies and Funds set up under the Bank

Seylan Bank Employees' Gratuity Trust Fund	Mr. N.M. Jayamanne, PC - <i>Trustee</i>	Demand Deposit	Investment in Treasury Bond amounting to face value Rs. 790.731 Mn. Annual contribution to Gratuity Trust Fund amounting to Rs. 105.744 Mn.	15.566						
	Mr. E. Narangoda - <i>Trustee</i> (Resigned w.e.f. 28.03.2012)			15.566						
	Mr. R. Nadarajah - <i>Trustee</i>									
	Mr. Rear Admiral B.A.J.G. Peiris - <i>Trustee</i>									
	Mr. K.P. Ariyaratne - <i>Trustee</i>								Interest Paid	75.370
	Mr. S. De Silva - <i>Trustee</i>									75.370
	Mr. S.J. Jebaratnam - <i>Trustee</i>									
	Mr. T. Nanayakkara - <i>Trustee</i>									
	Mr. R.J. Jayasekara - <i>Trustee</i>									
	Mr. M.K. Muthukumar - <i>Trustee</i>									
2011 Comparatives		40.245							Net	(69.332)

# / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation					Services Obtained/Other Transactions			
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.	
Seylan Bank Employees' Provident Fund	Mr. K.P. Ariyaratne - <i>Trustee</i>	Savings Account	Investment in Seylan Bank PLC Debenture amounted to Rs. 100.50 Mn.	2,347.565					<b>Interest Payable/Paid</b>			
	Mr. Asanga Nanayakkara - <i>Trustee</i>		Investment in Treasury Bond amounting to face value Rs. 1,830.336 Mn.					Treasury Bonds, Treasury Bills and Repo		67.344	129.559	
	Mr. Sarath Kumarasiri - <i>Trustee</i>		Investment in Treasury Bill amounting to face value Rs. 147.93 Mn.					Debenture		1.970	21.450	
	Ms. Rohini Weerakkody - <i>Trustee</i>									69.314	151.009	
	Mr. G. Widanapathirana - <i>Secretary</i>											
	Mr. Mangala Karunaratne - <i>Trustee</i>											
	Mr. Philip Ramanayake - <i>Trustee</i>											
2011 Comparatives				1,890.513				Net	(43.746)	(295.414)		
Sesot (Pvt) Limited	Mr. E. Narangoda - <i>Chairman (Resigned w.e.f. 28.03.2012)</i>	Demand Deposit	No. of Voting Shares - 2,244,800	5.539					Net Dividend Paid			
	Mr. R. Nadarajah - <i>Director</i>			5.539				Rs. 51.853 Mn. Payable to Seylan Bank PLC			2.031	
	Mr. K.P. Ariyaratne - <i>Director</i>										2.031	
	Mr. S.J. Jebaratnam - <i>Director</i>											
	Ms. V.A. Paranagama - <i>Director</i>											
2011 Comparatives				3.678				Net		(2.020)		
Seyfest (Pvt) Limited	Mr. E. Narangoda - <i>Chairman (Resigned w.e.f. 28.03.2012)</i>	Demand Deposit	Rs. 23.0 Mn. Payable to Seylan Bank PLC	6.008					Net Dividend Paid			
	Mr. R. Nadarajah - <i>Director</i>			6.008				No. of Voting Shares - 2,972,596			2.689	
	Mr. K.P. Ariyaratne - <i>Director</i>										2.689	
	Mr. S.J. Jebaratnam - <i>Director</i>											
	Ms. V.A. Paranagama - <i>Director</i>											
2011 Comparatives				3.504				Net		(2.675)		
Sotse (Pvt) Limited	Mr. E. Narangoda - <i>Chairman (Resigned w.e.f. 28.03.2012)</i>		Term Loan	38.550	28.678				Net Dividend Paid			
	Mr. R. Nadarajah - <i>Director</i>			38.550	28.678			0.165			0.871	
	Mr. K.P. Ariyaratne - <i>Director</i>										0.871	
	Mr. S.J. Jebaratnam - <i>Director</i>											
	Ms. V.A. Paranagama - <i>Director</i>									Interest Received/ Receivable	4.549	2.789
											4.549	2.789
2011 Comparatives				38.550	29.154			0.134	Net		0.503	
Seyshop (Pvt) Limited	Mr. E. Narangoda - <i>Chairman (Resigned w.e.f. 28.03.2012)</i>		Term Loan	54.375	29.661				Net Dividend Paid			
	Mr. R. Nadarajah - <i>Director</i>			54.375	29.661			0.171			1.930	
	Mr. K.P. Ariyaratne - <i>Director</i>										1.930	
	Mr. S.J. Jebaratnam - <i>Director</i>									Interest Received/ Receivable	2.105	2.872
	Ms. V.A. Paranagama - <i>Director</i>										2.105	2.872
2011 Comparatives				54.375	29.661			0.137	Net		(0.529)	

## / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions			
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.
Seybest (Pvt) Limited	Mr. E. Narangoda - <i>Chairman (Resigned w.e.f. 28.03.2012)</i>		Term Loan	54.510	29.107				Net Dividend Paid		1.930
	Mr. R. Nadarajah - <i>Director</i>			54.510	29.107			0.168			1.930
	Mr. K.P. Ariyaratne - <i>Director</i>		No. of Voting Shares - 2,132,900								
	Mr. S.J. Jebaratnam - <i>Director</i>		Loan Agreement Form for Rs. 55.1 Mn.						Interest Received/ Receivable	2.029	2.823
	Ms. V.A. Paranagama - <i>Director</i>		Interest Rate - 9.52%							2.029	2.823
			Rs. 14.178 Mn. Payable to Seylan Bank PLC							2.029	2.823
2011 Comparatives				54.510	29.290			0.135	Net		(0.541)
Esots (Pvt) Limited	Mr. E. Narangoda - <i>Chairman (Resigned w.e.f. 28.03.2012)</i>		Term Loan	53.860	29.641				Net Dividend Paid		1.914
	Mr. R. Nadarajah - <i>Director</i>			53.860	29.641			0.171			1.914
	Mr. K.P. Ariyaratne - <i>Director</i>		No. of Voting Shares - 2,115,857								
	Mr. S.J. Jebaratnam - <i>Director</i>		Loan Agreement Form for Rs. 54.6 Mn.						Interest Received/ Receivable	2.066	2.878
	Ms. V.A. Paranagama - <i>Director</i>		Interest Rate - 9.52%							2.066	2.878
			Rs. 13.178 Mn. Payable to Seylan Bank PLC							2.066	2.878
2011 Comparatives				53.860	29.789			0.137	Net		(0.503)

### (c) State Institutions

Sri Lanka Insurance Corporation Limited	Mr. A.M.M. De Alwis <i>Managing Director/ CEO</i>	Fixed Deposit	1,431.763	No. of Ordinary Voting Shares - 25,999,999 (15%)				Interest Paid/ Payable	21.030	124.410
	Mr. P. Kudabalage <i>Executive Director</i>	Demand Deposit	0.166					Gross Dividend Paid		26.350
			1,431.929	No. of Ordinary (Non-voting) Shares - 350,000				Insurance Premium		133.002
									21.030	283.762
								Commission Received		7.389
							Claims Received		17.955	
										25.344
2011 Comparatives			500.141					Net	(142.439)	(65.821)

### (d) Common Directorship Entities

Ceylon Chamber of Commerce	Mr. S.P.S. Ranatunga <i>Deputy Vice-President</i>							External Training		0.002
								Annual Subscription		0.060
								Registration Fee		0.004
										0.066

# / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions				
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.	
The Finance Co. PLC	Mr. R. Nadarajah - Director Mr. A.L. Devasurendra - Director		Overdraft (Interest Rate 15.00%)		115.000	0.245				Interest Paid/ Payable	0.047	3.679
			Short-Term Loan (Interest Rate 19.50%)		250.000	230.000				Gross Dividend Paid		0.016
		Call Deposit	1.500		29.892	28.470				Interest Received		22.174
		Fixed Deposit	0.099		11.233	10.820				Commission Received		0.074
		Demand Deposit	21.947		16.940	15.806						22.248
			23.546		423.065	285.341			1.643			
					Mortgage Bond Rs. 111.05 Mn. (FSV - 164.5 Mn.)							
					Mortgage Bond Rs. 68.25 Mn. (FSV - 91 Mn.)							
					Mortgage Bond Rs. 56.25 Mn. (FSV - 75 Mn.)							
					Mortgage Bond Rs. 20.25 Mn. (FSV - 28 Mn.)							
				Mortgage Bond Rs. 90.00 Mn. (FSV - 90 Mn.)								
				Mortgage Bond Rs. 50.00 Mn. (FSV - 47.7 Mn.)								
				Mortgage Bond Rs. 42.50 Mn. (FSV - 40 Mn.)								
				No. of Ordinary (Non-Voting) Shares 16,200								
2011 Comparatives				352.929	520.566	149.271		0.866	Net		78.722	
CIC Seeds (Pvt) Limited	Mr. S.P.S. Ranatunga Director	Demand Deposit		2.932								
				2.932								
CIC Feeds (Pvt) Limited	Mr. S.P.S. Ranatunga Director	Demand Deposit		12.081								
				12.081								
2011 Comparatives				1.809								
CIC Poultry Farms Limited	Mr. S.P.S. Ranatunga Director	Demand Deposit		4.500								
				4.500								
2011 Comparatives				2.030								
CIC Agri Business (Pvt) Ltd.	Mr. S.P.S. Ranatunga Director	Demand Deposit		0.010	100.000	99.925						
				0.010	1,100.000			19.455	Interest Received		89.010	
											89.010	
					1,200.000	827.425	19.455	4.765				
					Negative pledge 1,200 Mn.							
2011 Comparatives				0.029	900.000	270.847	115.952	1.572	Net	0.315	8.745	

## / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions			
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.	
Brown & Co. PLC	Mr. A.L. Devasurendra <i>Deputy Chairman</i>	Demand Deposit							Gross Dividend Paid	24.050	
		2.427							Repairs/ Purchased - Office Machines,		
		2.427							Vehicles and Equipment	0.575	
	Mr. I.C. Nanayakkara <i>Director</i>		No. of Ordinary Voting Shares - 24,049,888 (13.87%)						Generators Purchased/ Maintenance	9.062	
										33.687	
2011 Comparatives		3.072						Net		(25.177)	
Agstar Fertilizers Limited	Mr. I.C. Nanayakkara <i>Director</i>		Temporary Over Draft (Interest Rate - 31%)	-	1.705				Interest Received	0.215	
			Letter of Credit - Usance (Commission 0.3% - 0.35% per Quarter)	500.000		234.941				0.215	
			Revolving Import Loan (Interest Rate - 17%)	(500.000)*		214.161					
				500.000	215.866	234.941		1.243			
			Mortgage over Stocks and Book Debts for Rs. 500.00 Mn. *within which								
2011 Comparatives		1.300		500.000							
Lanka ORIX Leasing Co. PLC	Mr. I.C. Nanayakkara <i>Deputy Chairman/ Shareholder</i>	Foreign Currency Deposit (USD 492,003.90)	Short-Term Loan (Interest Rate - 13.5%)	52.000	52.000				Interest Paid	6.408	
									Gross Dividend Paid	28.493	
				62.483						34.901	
			Demand Deposit	1.051	52.000	52.000		0.299	Interest Received	3.700	
		63.534						3.700			
			Foreign Currency Deposit worth USD 491,000/- (Rs. 62.357 Mn.)								
			No. of Non-Voting Shares - 46,864,489 (28.45%)								
			No. of Ordinary Voting Shares - 88								
2011 Comparatives		0.077		925.000	737.719		4.281	Net		82.846	
LOLC Investments Limited	100% owned Subsidiary of Lanka ORIX Leasing Company PLC		No. of Ordinary Voting Shares	16,555,954 (9.55%)					Gross Dividend Paid	16.556	
										16.556	
2011 Comparatives											

# / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions			
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.	
Lanka ORIX Finance Company PLC	Mr. I.C. Nanayakkara <i>Director</i>	Demand Deposit	Overdraft (Interest Rate - 19%)	150.000	140.616						
			Try Loans (Interest Rate - 19%)	135.000	135.000			Interest Received		179.036	
			Short-Term Loan (Interest Rate - 19%)	1,350.000	1,350.000					179.036	
			Revolving Lease (Interest Rate - 19%)	180.000	-						
				1,815.000	1,625.616			9.362			
					Mortgage of Rs. 885.00 Mn. over lease receivable portfolio of Rs. 1.77 Bn. Share portfolio of Rs. 1.50 Bn. Absolute Ownership over motor vehicles						
2011 Comparatives		5.149		15.000							
Sierra Constructions Limited	Mr. A.L. Devasurendra <i>Director</i>	Fixed Deposit	Overdraft (Interest Rate - 19%)	500.000	514.113			Interest Paid/ Payable	0.210	2.550	
			Letter of Credit/ Revolving Import Loan (Interest Rate - 19%)	50.000					0.210	2.550	
	Mr. I.C. Nanayakkara <i>Director</i>	Demand Deposit	Local Bill Purchased (Interest Rate - 19%)	150.000				Interest Received		71.961	
			Bank Guarantee (Commission - 2%)	300.000	229.260					71.961	
			1,000.000	514.113	229.260		2.961				
				Lien over RFDS for Rs. 52.86 Mn. Assignment over Contract Funds Mortgage over Stocks for Rs. 50.0 Mn. Assignment over bills to be discounted Personnel Guarantee of Directors for Rs. 465 Mn. Corporate GTE from Sierra Holding for Rs. 500.00 Mn. 50.00 Mn. Number of shares of Agstar Fertilizer held in a custodian account. (only for OD of Rs. 500.00 Mn.)							
2011 Comparatives		61.542		500.000	12.182	152.23		0.071		4.875	
Taprobane Holdings Limited	Mr. A.L. Devasurendra <i>Deputy Chairman</i>	Demand Deposit	Margin Trading (Rate of Interest - 18%)	200.000	165.102			Gross Dividend Paid		0.013	
				200.000	165.102			Interest Paid		0.268	
	Mr. I.C. Nanayakkara <i>Shareholder</i>			Quoted Shares worth Rs. 872 Mn. lodged in a custodian slash account with SBK				Interest Received		31.022	
				Reverse Repo worth 17.134 Mn. No. of Ordinary (Non-voting) shares 12,666						31.022	
							0.310	Net		5.571	
	2011 Comparatives		0.107		100.000	53.345					

## / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions			
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.
Commercial Leasing & Finance PLC	Mr. I.C. Nanayakkara <i>Chairman</i>	Demand Deposit		2.105						Gross Dividend Paid	0.072
				2.105			No. of Ordinary (Non-Voting) Shares 72,400				0.072
2011 Comparatives				0.665							
Taprobane Fund Management (Pvt) Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit		0.047							
				0.047							
2011 Comparatives				0.022							
Medford Investment (Pvt) Limited	Mr. I.C. Nanayakkara <i>Shareholder</i>	Demand Deposit		1.021							
				1.021							
2011 Comparatives				1.021							
Crop Management Services (Pvt) Limited	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit		0.025							
				0.025							
2011 Comparatives				0.075							
Diriya Investments (Pvt) Limited	Mr. A.L. Devasurendra <i>Director/Shareholder</i>	Demand Deposit		0.028							
				0.028							
	Mr. I.C. Nanayakkara <i>Director</i>										
2011 Comparatives				0.023							
Ceylon Asset Management Co. Limited	Mr. A.M.M. De Alwis <i>Chairman</i>	Demand Deposit		0.031							
				0.031							
2011 Comparatives				0.031							



# / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation					Services Obtained/Other Transactions					
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.				
CIC Lifesciences Limited (Formerly Known as Ceylinco Pharmaceuticals Limited)	Mr. S.P.S. Ranatunga - Director		Overdraft (Interest Rate 18.00%)	15.000						Interest Received/ Receivable	0.841	8.334		
			Temporary Overdraft (Interest Rate 24.00%)	10.000							0.841	8.334		
			Post-Dated Cheques Facility (Interest Rate 24.00%)	10.000	2.491									
			Term Loan	40.000	-									
			Temporary Letter of Credit Usance (Commission 0.3% - 0.35%)	70.000		58.534								
			Permanent Letter of Credit Usance (Commission 0.3% - 0.35%)	60.000										
			Short-Term Loan (Interest Rate - 18.00%)*	(10.000)*										
			Temporary Short-Term Loan (Interest Rate - 24.00%)*	(50.000)*										
			Temporary Short-Term Loan (Interest Rate - 24.00%)	20.000										
			Temporary Guarantee (Commission 2.50%)	10.000										
			Guarantee on off (Commission - 2.50%)	7.750										
					242.750	78.935	71.121							
					Machinery Mortgage for 21.00 Mn.									
					Cash build up of Rs. 500,000 per month (Present Balance Rs. 5,289,326.09)									
			Letter of comfort from CIC Holding PLC											
			*within which											
Sri Lanka Catering (Pvt) Limited	Mr. N.M. Jayamanne PC Director	Fixed Deposit	7.032	Guarantee	5.340	5.340			Interest Paid	0.856				
			7.032	(Commission -0.75%)	5.340	5.340			0.856					
LKR 7.032 Mn. worth of Deposit as Security														

## / Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Managerial Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions			
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.	
LOLC Micro Credit Limited	Mr. I.C. Nanayakkara <i>Director</i>	Demand Deposit	6.472								
			6.472								
Ceylon Hotel Holdings (Pvt) Limited [Former Curew (Pvt) Limited]	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit	61.106								
			61.106								
CIC Dairies (Pvt) Limited	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit	1.256								
			1.256								
Akzo Nobel Paints Lanka (Pvt) Limited	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit	0.010								
			0.010								

### (e) Entities of Close Family Members

Party/Parties Accommodated	Name of the Close Family Members	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation				Services Obtained/Other Transactions			
				Limit	Funded	Non-Funded	Cumulative Impairment Provision for the Year	Accommodation Outstanding (funded) 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.	
Arc Capital (Pvt) Limited [Former Rurev Capital (Pvt) Limited]	Mr. C.S. Devasurendra <i>Shareholder</i>	Fixed Deposit	30.000								
		Demand Deposit	1.438	200.000	-			Interest Paid		0.383	
	Mr. R.T. Devasurendra <i>Shareholder</i>		31.438	200.000	-					0.383	
			Quoted Shares worth Rs. 967 Mn. lodged in a custodian slash account with SBK								
										Interest Received	0.960
											0.960

\* Group Accommodation as a % of Regulatory Capital

	2012 %	2011 %
LOLC Group	9.661	4.281
CIC Group	5.220	1.572

## / Notes to the Consolidated Financial Statements

### 45.2 Transactions with the Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds more than 30% of the voting rights of the Bank as at 31st December 2012 through Sri Lanka Insurance Corporation Limited, Employees' Provident Fund, Bank of Ceylon, Employees' Trust Fund and thus has significant influence over the financial and operating policies of the Bank.

Bank has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government-Related Entities) as Related Parties according to LKAS 24 - 'Related Party Disclosures'.

During the year ended 31st December 2012, the Bank has carried out transactions with the Government of Sri Lanka and other Government-Related Entities in the ordinary course of its business, the details of material transactions are given below:

\*\* % of voting shares holding by State Institutions in Seylan Bank PLC is 31.93% as at 31st December 2012 and the break up is given below:

	No. of Shares-Voting	%	Value (Rs. Mn.)
Sri Lanka Insurance Corporation Limited	25,999,999	15.000	1,006.650
Bank of Ceylon	13,000,000	7.500	503.325
Employees' Provident Fund	15,991,444	9.226	619.146
Employees' Trust Fund	356,317	0.206	13.796
Total holdings by State Institutions	55,347,760	31.931	2,142.917
Total Ordinary Shares-Voting	173,333,333		6,711.000

\*\*% of Non-Voting share holding by State Institutions in Seylan Bank PLC is 12.12% as at 31st December 2012 and the break up is given below:

	No. of Shares-Non-Voting	%	Value (Rs. Mn.)
Sri Lanka Insurance Corporation Limited	350,000	0.212	5.687
National Savings Bank	1,496,666	0.908	24.321
Employees' Provident Fund	16,399,359	9.954	266.490
Employees' Trust Fund	1,722,583	1.046	27.992
Total holdings by State Institutions	19,968,608	12.121	324.490
Total Ordinary Shares Non-Voting	164,746,666		2,677.133

Name of the Government Entity	Relationship with the Bank	Nature of the Transactions	Value (Rs. Mn.)
Central Bank of Sri Lanka	Government-Related Entity	Treasury Bills (Notes 20.1.2, 23.1.1.1 and 23.1.2.3)	2,856.980
		Treasury Bonds (Notes 20.1.3, 23.1.1.2 and 23.1.2.4)	25,000.829
		Interest Income (Note 7)	3,000.921

## / Notes to the Consolidated Financial Statements

### 46. Maturity Analysis

#### Bank

**46.1** An analysis of the total assets employed as at 31st December 2012, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000
<b>Interest Earning Assets</b>						
Bills of Exchange	1,419,498	4,500	-	-	-	1,423,998
Loans & Receivables Other than Lease Rentals Receivable*	60,723,839	26,357,405	15,912,578	5,794,315	6,456,389	115,244,526
Lease Rentals Receivable*	851,195	2,061,352	4,233,288	913,112	900	8,059,847
Government of Sri Lanka Treasury Bills/Bonds	2,753,609	2,777,851	17,771,384	4,184,843	3,720,202	31,207,889
Investments in Debentures	141,298	146,344	1,035,247	210,657	-	1,533,546
Securities Purchased under Resale Agreements	173,028	413	-	-	-	173,441
	66,062,467	31,347,865	38,952,497	11,102,927	10,177,491	157,643,247
<b>Non-Interest Earning Assets</b>						
Cash In Hand	5,577,359	-	-	-	-	5,577,359
Statutory Deposit with CBSL	8,028,661	-	-	-	-	8,028,661
Balances with Banks	977,022	-	-	-	-	977,022
Investments in Equities	160,778	-	-	-	1,532,382	1,693,160
Investment Properties	-	237,629	-	-	-	237,629
Group Balances Receivable	60,687	-	-	-	-	60,687
Property, Plant & Equipment/Lease Hold Rights/Intangible Assets	-	2,633,486	-	-	-	2,633,486
Deferred Taxation Asset	253,171	-	-	-	-	253,171
Derivative Financial Instruments	51,281	-	-	-	-	51,281
Other Assets	6,505,973	-	-	-	-	6,505,973
	21,614,932	2,871,115	-	-	1,532,382	26,018,429
<b>Total Assets</b>	<b>87,677,399</b>	<b>34,218,980</b>	<b>38,952,497</b>	<b>11,102,927</b>	<b>11,709,873</b>	<b>183,661,676</b>

**46.2** An analysis of the total liabilities and equity as at 31st December 2012, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000
<b>Interest Bearing Liabilities</b>						
Deposits Other than Demand Deposits	57,403,619	65,507,704	4,613,125	3,025,435	4,670,986	135,220,869
Securities sold under Repurchase Agreements	3,087,017	587,823	-	-	-	3,674,840
Borrowings	5,315,652	-	123,721	246,084	462,136	6,147,593
Debentures	-	72,550	1,139,109	-	-	1,211,659
Group Balances Payable	58,322	128,950	-	-	-	187,272
	65,864,610	66,297,027	5,875,955	3,271,519	5,133,122	146,442,233
<b>Non-Interest Bearing Liabilities</b>						
Demand Deposits	11,506,330	-	-	-	-	11,506,330
Other Liabilities	5,750,625	-	-	-	-	5,750,625
Derivative Financial Instruments	278,826	-	-	-	-	278,826
Current Tax Liabilities	683,040	-	-	-	-	683,040
Deferred Taxation Liabilities	-	-	-	-	-	-
Dividend Payable	13,159	-	-	-	-	13,159
Group Balances Payable	29,451	-	-	-	-	29,451
Equity	-	-	-	-	18,958,012	18,958,012
	18,261,431	-	-	-	18,958,012	37,219,443
<b>Total Liabilities and Equity</b>	<b>84,126,041</b>	<b>66,297,027</b>	<b>5,875,955</b>	<b>3,271,519</b>	<b>24,091,134</b>	<b>183,661,676</b>

\* Loans and Leases are reported net of impairment.

## / Notes to the Consolidated Financial Statements

### Group

**46.3** An analysis of the total assets employed as at 31st December 2012, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000
<b>Interest Earning Assets</b>						
Bills of Exchange	1,419,498	4,500	-	-	-	1,423,998
Loans & Receivables Other than Lease Rentals Receivable*	60,723,839	26,357,405	15,912,578	5,794,315	6,456,389	115,244,526
Lease Rentals Receivable*	851,195	2,061,352	4,233,288	913,112	900	8,059,847
Government of Sri Lanka Treasury Bills/Bonds	2,753,609	2,777,851	17,771,384	4,184,843	3,720,202	31,207,889
Investments in Debentures	141,298	146,344	1,035,247	210,657	-	1,533,546
Securities Purchased under Resale Agreements	173,028	413	-	-	-	173,441
	66,062,467	31,347,865	38,952,497	11,102,927	10,177,491	157,643,247
<b>Non-Interest Earning Assets</b>						
Cash in Hand	5,577,392	68	-	-	-	5,577,460
Statutory Deposit with CBSL	8,028,661	-	-	-	-	8,028,661
Balances with Banks	977,022	-	-	-	-	977,022
Investments in Equities	160,778	-	-	-	747,007	907,785
Investment Properties	-	237,629	-	-	965,751	1,203,380
Group Balances Receivable	-	-	-	-	-	-
Property, Plant & Equipment/Lease Hold Rights/Intangible Assets	-	3,855,987	-	1,502	4,341	3,861,830
Current Taxation Assets	1,258	-	-	-	-	1,258
Deferred Taxation Asset	481,588	-	-	-	-	481,588
Derivative Financial Instruments	51,281	-	-	-	-	51,281
Other Assets	6,526,035	18,661	7,387	-	11,057	6,563,140
	21,804,015	4,112,345	7,387	1,502	1,728,156	27,653,405
<b>Total Assets</b>	87,866,482	35,460,210	38,959,884	11,104,429	11,905,647	185,296,652

**46.4** An analysis of the total liabilities and equity as at 31st December 2012, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000
<b>Interest Bearing Liabilities</b>						
Deposits other than Demand Deposits	57,403,619	65,507,704	4,613,125	3,025,435	4,670,986	135,220,869
Securities Sold Under Repurchase Agreements	3,087,017	587,823	-	-	-	3,674,840
Borrowings	5,315,652	-	123,721	246,084	462,136	6,147,593
Debentures	-	72,550	1,139,109	-	-	1,211,659
Group Balances Payable	-	-	-	-	-	-
	65,806,288	66,168,077	5,875,955	3,271,519	5,133,122	146,254,961
<b>Non-Interest Bearing Liabilities</b>						
Demand Deposits	11,506,330	-	-	-	-	11,506,330
Other liabilities	5,731,818	104,513	-	590	-	5,836,921
Derivative Financial Instruments	278,826	-	-	-	-	278,826
Current Tax Liabilities	683,040	-	-	-	-	683,040
Deferred Taxation Liabilities	-	-	-	-	-	-
Dividend Payable	19,144	-	-	-	-	19,144
Group Balances Payable	-	-	-	-	-	-
Equity	-	-	-	-	19,495,426	19,495,426
Non-Controlling Interest	-	-	-	-	1,222,004	1,222,004
	18,219,158	104,513	-	590	20,717,430	39,041,691
<b>Total Liabilities and Equity</b>	84,025,446	66,272,590	5,875,955	3,272,109	25,850,552	185,296,652

\* Loans and Leases are reported net of impairment.

## / Notes to the Consolidated Financial Statements

### 47. Segment Reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments are based on the Group's management and internal reporting structure.

#### Business Segments

The Group comprises the following main business segments:

**Banking:** Loans and Advances (including Leases and Bills), Margin Trading, Insurance, Deposits and other transactions and balances with corporate and retail customers.

**Treasury:** Undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purpose and investing in liquid assets such as short-term placements, corporate debt securities and government debt securities.

**Property/Investment:** The property investment income, expenses, assets liabilities.

	Banking		Treasury		Property/Investments		Unallocated/Eliminations		Total	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Interest Income	18,388,334	13,834,163	2,540,597	3,021,450	19,262	8,751	192,139	79,483	21,140,332	16,943,847
Interest Expense	11,025,038	7,679,767	1,094,350	674,534	233	14,476	(18,624)	(29,624)	12,100,997	8,339,153
<b>Net Interest Income</b>	<b>7,363,296</b>	<b>6,154,396</b>	<b>1,446,247</b>	<b>2,346,916</b>	<b>19,029</b>	<b>(5,725)</b>	<b>210,763</b>	<b>109,107</b>	<b>9,039,335</b>	<b>8,604,694</b>
Fee and Commission Income	1,757,259	1,512,469	(1,932)	(3,057)	-	-	4,776	2,748	1,760,103	1,512,160
Fee and Commission Expense	47,492	49,615	18,153	27,874	5,780	3,880	-	-	71,425	81,369
<b>Net Fee and Commission Income</b>	<b>1,709,767</b>	<b>1,462,854</b>	<b>(20,085)</b>	<b>(30,931)</b>	<b>(5,780)</b>	<b>(3,880)</b>	<b>4,776</b>	<b>2,748</b>	<b>1,688,678</b>	<b>1,430,791</b>
<b>Net Interest, Fee and Commission Income</b>	<b>9,073,063</b>	<b>7,617,250</b>	<b>1,426,162</b>	<b>2,315,985</b>	<b>13,249</b>	<b>(9,605)</b>	<b>215,539</b>	<b>111,855</b>	<b>10,728,013</b>	<b>10,035,485</b>
Net Trading Income	925,470	205,127	(644,852)	(250,892)	9,297	(20,314)	43,676	31,260	333,591	(34,819)
Other Income	(673,863)	12,447	1,007,473	360,736	163,441	237,156	(39,503)	(68,746)	457,548	541,593
Inter-Segment Revenue	(82,867)	929,708	(1,366,654)	(1,600,847)	-	-	1,449,521	671,139	-	-
<b>Total Operating Income</b>	<b>9,241,803</b>	<b>8,764,532</b>	<b>422,129</b>	<b>824,982</b>	<b>185,987</b>	<b>207,237</b>	<b>1,669,233</b>	<b>745,508</b>	<b>11,519,152</b>	<b>10,542,259</b>
Depreciation and Amortisation Charge for the Year	126,197	78,848	1,732	2,290	1,288	2,264	476,546	575,093	605,763	658,495
Impairment losses for the Year	316,985	729,024	153,984	54,115	-	70,351	-	939,231	470,969	1,792,721
Operating Expenses and VAT	5,641,342	5,021,183	128,133	59,997	69,603	112,207	1,376,725	1,738,721	7,215,803	6,932,108
<b>Reportable Segment Profit Before Income Tax</b>	<b>3,157,279</b>	<b>2,935,477</b>	<b>138,280</b>	<b>708,580</b>	<b>115,096</b>	<b>22,415</b>	<b>(184,038)</b>	<b>(2,507,537)</b>	<b>3,226,617</b>	<b>1,158,935</b>
Income Tax Expense									1,144,202	492,682
<b>Profit for the Year</b>									<b>2,082,415</b>	<b>666,253</b>
<b>Profit Attributable to:</b>										
Equity Holders of the Bank									2,063,056	675,948
Non-Controlling Interests									19,359	(9,695)
<b>Profit for the Year</b>									<b>2,082,415</b>	<b>666,253</b>
Other Comprehensive Income, Net of Income Tax	-	-	(258,678)	(345,526)	-	-	52,800	603	(205,878)	(344,923)
<b>OTHER INFORMATION</b>										
Reportable Segment Assets	123,185,942	107,204,684	43,194,627	44,319,914	4,955,446	4,829,874	20,907,214	17,936,616	192,243,229	174,291,088
Segment Accumulated Amortisation	(670,921)	(698,154)	(52,953)	(54,913)	(6,104)	(4,816)	(6,216,599)	(5,881,356)	(6,946,577)	(6,639,239)
<b>Total Assets</b>	<b>122,515,021</b>	<b>106,506,530</b>	<b>43,141,674</b>	<b>44,265,001</b>	<b>4,949,342</b>	<b>4,825,058</b>	<b>14,690,615</b>	<b>12,055,260</b>	<b>185,296,652</b>	<b>167,651,849</b>
Reportable Segment Liabilities and Equity	151,032,037	129,602,575	8,374,128	15,984,379	697,706	606,297	25,192,781	21,458,598	185,296,652	167,651,849
<b>Total Liabilities and Equity</b>	<b>151,032,037</b>	<b>129,602,575</b>	<b>8,374,128</b>	<b>15,984,379</b>	<b>697,706</b>	<b>606,297</b>	<b>25,192,781</b>	<b>21,458,598</b>	<b>185,296,652</b>	<b>167,651,849</b>
Cash Flows from Operating Activities	5,854,692	(4,353,446)	140,012	710,870	140,006	115,568	218,575	(2,526,522)	6,353,285	(6,053,530)
Cash Flows from Investing Activities	5,689	158,812	1,853,949	3,977,165	(107,201)	(44,113)	(226,754)	(254,345)	1,525,683	3,837,519
Cash Flows from Financing Activities	-	-	(7,386,542)	223,137	(14,796)	166,442	(395,211)	4,283,623	(7,796,549)	4,673,202
Capital Expenditure	(335,221)	(235,102)	(1,999)	(416)	(1,337)	(126)	(59,192)	(177,129)	(397,749)	(412,773)

SLFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters (the 'management approach').

Such operating segments are identified on the basis of internal reports that the entity's Board of Directors reviews regularly in allocating resources and in assessing their performance.

Bank reviewed the existing reporting segments and concluded that no material change is required.

## Notes to the Consolidated Financial Statements

### 48. Explanation of Transition to LKRS/SLFRSs

As stated in Note 2.1 these are the Group's first Consolidated Financial Statements prepared in accordance with LKAS/SLFRS.

The Accounting Policies set out in Note 1 to 4 have been applied in preparing the Financial Statements for the year ended 31st December 2012, the comparative information presented in these Financial Statements for the year ended 31st December 2011 and in the preparation of an opening statement of financial position at 1st January 2011 (the Group's date of transition).

In preparing its opening Statement of Financial Position, the Group has adjusted amounts reported previously in Financial Statements prepared in accordance with Sri Lanka Accounting Standards (SLAS). An explanation of how the transition from SLAS to LKAS/SLFRSs has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

### Reconciliation of Income Statement for the Year ended 31st December 2011

	Reference	BANK			GROUP		
		Previous SLASs	Effect of Transition to LKAS/SLFRSs	LKAS/SLFRSs	Previous SLASs	Effect of Transition to LKAS/SLFRSs	LKAS/SLFRSs
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Income</b>	b,c,e,f,j,k,l,m	19,404,302	(579,842)	<b>18,824,460</b>	19,542,623	(579,842)	<b>18,962,781</b>
Interest Income	b,c,f,j,k	16,129,579	836,204	<b>16,965,783</b>	16,107,643	836,204	<b>16,943,847</b>
Less: Interest Expenses	a,d	8,349,238	6,129	<b>8,355,367</b>	8,333,024	6,129	<b>8,339,153</b>
<b>Net Interest Income</b>		7,780,341	830,075	<b>8,610,416</b>	7,774,619	830,075	<b>8,604,694</b>
Fee and Commission Income		1,512,211	-	<b>1,512,211</b>	1,512,160	-	<b>1,512,160</b>
Less: Fee and Commission Expense		77,489	-	<b>77,489</b>	81,369	-	<b>81,369</b>
<b>Net Fee and Commission Income</b>		1,434,722	-	<b>1,434,722</b>	1,430,791	-	<b>1,430,791</b>
<b>Net interest, Fee and Commission Income</b>		9,215,063	830,075	<b>10,045,138</b>	9,205,410	830,075	<b>10,035,485</b>
Foreign Exchange Profit	l	624,216	(624,216)	-	624,216	(624,216)	-
Net Trading Income	e,j,l,m	-	(34,819)	<b>(34,819)</b>	-	(34,819)	<b>(34,819)</b>
Other Income (Net)	f,k,l,m	1,138,296	(757,011)	<b>381,285</b>	1,298,604	(757,011)	<b>541,593</b>
<b>Operating Income</b>		10,977,575	(585,971)	<b>10,391,604</b>	11,128,230	(585,971)	<b>10,542,259</b>
<b>Less: Operating Expenses</b>							
Personnel Expenses	c,d,n	3,071,077	60,242	<b>3,131,319</b>	3,097,355	60,242	<b>3,157,597</b>
Cost on Voluntary Retirement Scheme		698,650	-	<b>698,650</b>	698,650	-	<b>698,650</b>
Premises, Equipment and Establishment Expenses	h,s	1,654,051	40,396	<b>1,694,447</b>	1,631,772	40,499	<b>1,672,271</b>
Provision for Loan Losses	f	649,236	(649,236)		649,236	(649,236)	
Net Impairment Loss on Loans and Receivables	f	-	729,024	<b>729,024</b>	-	729,024	<b>729,024</b>
Diminution/(Appreciation) in Value of Investments	m	316,031	(316,031)		316,031	(316,031)	
Other Expenses	g,o,v	3,016,123	(452,936)	<b>2,563,187</b>	3,175,139	(454,366)	<b>2,720,773</b>
<b>Operating Expenses</b>		9,405,168	(588,541)	<b>8,816,627</b>	9,568,183	(589,868)	<b>8,978,315</b>
<b>Profit from Operations before Valued Added Tax</b>		1,572,407	2,570	<b>1,574,977</b>	1,560,047	3,897	<b>1,563,944</b>
Value Added Tax on Financial Services	i,o	-	405,009	<b>405,009</b>	-	405,009	<b>405,009</b>
<b>Profit from Operations before Taxation</b>		1,572,407	(402,439)	<b>1,169,968</b>	1,560,047	(401,112)	<b>1,158,935</b>
Less: Income Tax Expense	i,t	569,755	(64,666)	<b>505,089</b>	571,308	(78,626)	<b>492,682</b>
<b>Profit for the Year</b>		1,002,652	(337,773)	<b>664,879</b>	988,739	(322,486)	<b>666,253</b>
Profit attributable to:							
Equity Holders of the Bank		1,002,652	(337,773)	<b>664,879</b>	1,005,798	(329,850)	<b>675,948</b>
Non-Controlling Interests		-	-	-	(17,059)	7,364	<b>(9,695)</b>
<b>Profit for the Year</b>		1,002,652	(337,773)	<b>664,879</b>	988,739	(322,486)	<b>666,253</b>
<b>Other Comprehensive Income, Net of Income Tax</b>							
Revaluation of Property, Plant & Equipment	u	-	-	-	-	603	<b>603</b>
Net Change of Financial Assets Measured at Fair Value Through Other Comprehensive Income:							
Net Change in Fair Value on Available-for-Sale Financial Assets	b,w	-	(345,734)	<b>(345,734)</b>	-	(344,642)	<b>(344,642)</b>
Net Amount Transferred to Profit and Loss on Available-for-Sale Financial Assets	b,w	-	(413)	<b>(413)</b>	-	(884)	<b>(884)</b>
Other Comprehensive Income for the Year, Net of Tax		-	(346,147)	<b>(346,147)</b>	-	(344,923)	<b>(344,923)</b>
<b>Total Comprehensive Income for the Year</b>		1,002,652	(683,920)	<b>318,732</b>	988,739	(667,409)	<b>321,330</b>
Total Comprehensive Income Attributable to:							
Equity Holders of the Bank		1,002,652	(683,920)	<b>318,732</b>	1,005,798	(675,363)	<b>330,435</b>
Non-Controlling Interests		-	-	-	(17,059)	7,954	<b>(9,105)</b>
<b>Total Comprehensive Income for the Year</b>		1,002,652	(683,920)	<b>318,732</b>	988,739	(667,409)	<b>321,330</b>

## / Notes to the Consolidated Financial Statements

### Reconciliation of Financial Position - Bank

	Reference	Previous SLASS Rs. '000	Effect of Transition to LKAS/SLFRSS 1st January 2011 Rs. '000	LKAS/SLFRSS Rs. '000	Previous SLASS Rs. '000	Effect of Transition to LKAS/SLFRSS 31st December 2011 Rs. '000	LKAS/SLFRSS Rs. '000
<b>Assets</b>							
Cash and Cash Equivalents		4,698,406	-	<b>4,698,406</b>	4,550,203	-	<b>4,550,203</b>
Balances with Central Bank of Sri Lanka		5,453,833	-	<b>5,453,833</b>	7,070,728	-	<b>7,070,728</b>
Dealing Securities/Investments Designated at Fair Value through Profit & Loss	p	16,330,618	450,976	<b>16,781,594</b>	5,156,438	87,127	<b>5,243,565</b>
Derivative Financial Instruments	e	-	21,027	<b>21,027</b>	-	74,746	<b>74,746</b>
Securities Purchased Under Resale Agreements	p	1,266,271	513	<b>1,266,784</b>	3,305,358	8,332	<b>3,313,690</b>
Commercial Papers	p	215,000	4,294	<b>219,294</b>	-	-	<b>-</b>
Loans and Receivables	c,f	-	89,090,809	<b>89,090,809</b>	-	106,390,440	<b>106,390,440</b>
Bills of Exchange	f	1,393,678	(1,393,678)	<b>-</b>	990,786	(990,786)	<b>-</b>
Loans and Advances	f	85,622,174	(85,622,174)	<b>-</b>	100,336,449	(100,336,449)	<b>-</b>
Lease Rentals Receivable within one year	f	1,428,806	(1,428,806)	<b>-</b>	2,149,703	(2,149,703)	<b>-</b>
Lease Rentals Receivable later than One Year and Not Later than Five Years	f	2,513,665	(2,513,665)	<b>-</b>	5,170,504	(5,170,504)	<b>-</b>
Lease Rentals Receivable after five years	f	822	(822)	<b>-</b>	2,645	(2,645)	<b>-</b>
Investment Securities	b	21,749,282	(21,749,282)	<b>-</b>	28,609,888	(28,609,888)	<b>-</b>
Held to Maturity Investment Securities	b,p	-	10,677,643	<b>10,677,643</b>	-	17,665,169	<b>17,665,169</b>
Available for Sale Investment Securities	b,p	-	12,174,201	<b>12,174,201</b>	-	11,886,589	<b>11,886,589</b>
Investments in Subsidiary		358,916	-	<b>358,916</b>	793,254	-	<b>793,254</b>
Group Balances Receivable		461,843	-	<b>461,843</b>	15,688	-	<b>15,688</b>
Investment Properties		488,713	-	<b>488,713</b>	237,629	-	<b>237,629</b>
Current Taxation Asset	i	42,026	(42,026)	<b>-</b>	-	-	<b>-</b>
Deferred Taxation Asset	i	269,562	146,240	<b>415,802</b>	211,844	298,242	<b>510,086</b>
Property, Plant & Equipment		2,463,923	-	<b>2,463,923</b>	2,371,254	-	<b>2,371,254</b>
Leasehold Rights		40,836	-	<b>40,836</b>	39,909	-	<b>39,909</b>
Intangible Assets		505,736	-	<b>505,736</b>	404,299	-	<b>404,299</b>
Other Assets	c,d,p	4,373,414	738,383	<b>5,111,797</b>	4,460,717	915,907	<b>5,376,624</b>
<b>Total Assets</b>		<b>149,677,524</b>	<b>553,633</b>	<b>150,231,157</b>	<b>165,877,296</b>	<b>66,577</b>	<b>165,943,873</b>
<b>Liabilities</b>							
Derivative Financial Instruments	e	-	36,733	<b>36,733</b>	-	67,506	<b>67,506</b>
Deposits	a,d,q	109,891,338	2,988,289	<b>112,879,627</b>	120,538,896	3,442,204	<b>123,981,100</b>
Securities Sold Under Re-purchase Agreements	q	9,429,348	81,577	<b>9,510,925</b>	9,370,371	39,912	<b>9,410,283</b>
Borrowings	q	4,386,685	19,837	<b>4,406,522</b>	7,296,521	21,148	<b>7,317,669</b>
Group Balances Payable		8,255	-	<b>8,255</b>	99,841	-	<b>99,841</b>
Debentures	q	3,996,365	269,274	<b>4,265,639</b>	2,651,650	133,614	<b>2,785,264</b>
Current Tax Liabilities	i	-	40,580	<b>40,580</b>	47,054	169,942	<b>216,996</b>
Other Liabilities	e,h,i,n,q	9,868,508	(3,524,729)	<b>6,343,779</b>	8,333,438	(3,760,442)	<b>4,572,996</b>
<b>Total Liabilities</b>		<b>137,580,499</b>	<b>(88,439)</b>	<b>137,492,060</b>	<b>148,337,771</b>	<b>113,884</b>	<b>148,451,655</b>
<b>Equity</b>							
Stated Capital		5,567,820	-	<b>5,567,820</b>	10,259,353	-	<b>10,259,353</b>
Statutory Reserve Fund	n	568,368	927	<b>569,295</b>	618,501	66	<b>618,567</b>
Retained Earnings	r	4,969,137	164,390	<b>5,133,527</b>	5,376,138	(177,981)	<b>5,198,157</b>
Other Reserves	b	991,700	476,755	<b>1,468,455</b>	1,285,533	130,608	<b>1,416,141</b>
<b>Total Equity Attributable to Equity Holders of the Bank</b>		<b>12,097,025</b>	<b>642,072</b>	<b>12,739,097</b>	<b>17,539,525</b>	<b>(47,307)</b>	<b>17,492,218</b>
<b>Total Liabilities and Equity</b>		<b>149,677,524</b>	<b>553,633</b>	<b>150,231,157</b>	<b>165,877,296</b>	<b>66,577</b>	<b>165,943,873</b>



# Notes to the Consolidated Financial Statements

## Reconciliation of Financial Position - Group

	Reference	Previous	Effect of	LKAS/SIFRSs	Previous	Effect of	LKAS/SIFRSs
		SLASS	Transition		SLASS	Transition	
		Rs. '000	to LKAS/SIFRSs 1st January 2011 Rs. '000	Rs. '000	Rs. '000	to LKAS/SIFRSs 31st December 2011 Rs. '000	Rs. '000
<b>Assets</b>							
Cash and Cash Equivalents		4,699,962	-	4,699,962	4,550,764	-	4,550,764
Balance with Central Bank of Sri Lanka		5,453,833	-	5,453,833	7,070,728	-	7,070,728
Dealing Securities/Investments Designated at Fair Value through Profit & Loss	p,w	16,330,618	453,358	16,783,976	5,156,438	88,005	5,244,443
Derivative Financial Instruments	e	-	21,027	21,027	-	74,746	74,746
Securities Purchased Under Resale Agreements	p	1,266,271	513	1,266,784	3,305,358	8,332	3,313,690
Commercial Papers	p	215,000	4,294	219,294	-	-	-
Loans and Receivables	c,f	-	89,090,809	89,090,809	-	106,390,440	106,390,440
Bills of Exchange	f	1,393,678	(1,393,678)	-	990,786	(990,786)	-
Loans and Advances	f	85,622,174	(85,622,174)	-	100,336,449	(100,336,449)	-
Lease Rentals Receivable within One Year	f	1,428,806	(1,428,806)	-	2,149,703	(2,149,703)	-
Lease Rentals Receivable later than One Year and Not later than Five Years	f	2,513,665	(2,513,665)	-	5,170,504	(5,170,504)	-
Lease Rentals Receivable after Five Years	f	822	(822)	-	2,645	(2,645)	-
Investment Securities	b,w	21,751,676	(21,751,676)	-	28,610,156	(28,610,156)	-
Held to Maturity Investment Securities	b,p,w	-	10,677,643	10,677,643	-	17,665,169	17,665,169
Available-for-Sale Investment Securities	b,p,w	-	12,174,202	12,174,202	-	11,886,589	11,886,589
Investment Properties	s	1,452,598	210,652	1,663,250	1,182,505	44,041	1,226,546
Current Taxation Asset	i	45,015	(45,015)	-	6,116	(6,116)	-
Deferred Taxation Asset	i,t	269,562	364,032	633,594	211,675	529,993	741,668
Property, Plant & Equipment		3,169,290	-	3,169,290	3,047,972	-	3,047,972
Leasehold Rights		634,095	-	634,095	625,290	-	625,290
Intangible Assets		505,736	-	505,736	404,299	-	404,299
Other Assets	c,d,n,p,s	4,610,439	527,731	5,138,170	4,536,312	873,193	5,409,505
<b>Total Assets</b>		151,363,240	768,425	152,131,665	167,357,700	294,149	167,651,849
<b>Liabilities</b>							
Derivative Financial Instrument	e	-	36,733	36,733	-	67,506	67,506
Deposits	a,d,q	109,891,338	2,988,289	112,879,627	120,538,896	3,442,204	123,981,100
Securities Sold Under Re-purchase Agreements	q	9,429,348	81,577	9,510,925	9,370,371	39,912	9,410,283
Borrowings	q	4,810,244	19,837	4,830,081	7,296,521	21,148	7,317,669
Debentures	q	3,996,365	269,274	4,265,639	2,651,650	133,614	2,785,264
Current Tax Liabilities	i	-	37,588	37,588	47,054	163,826	210,880
Other Liabilities	e,h,i,q,n	9,979,218	(3,524,726)	6,454,492	8,410,346	(3,760,442)	4,649,904
<b>Total Liabilities</b>		138,106,513	(91,428)	138,015,085	148,314,838	107,768	148,422,606
<b>Equity</b>							
Stated Capital		5,567,820	-	5,567,820	10,259,353	-	10,259,353
Statutory Reserve Fund	n	568,368	927	569,295	618,501	66	618,567
Retained Earnings	r,x	4,759,940	273,918	5,033,858	5,170,087	(60,530)	5,109,557
Other Reserves	b,x	1,605,567	476,749	2,082,316	1,899,625	130,923	2,030,548
<b>Total Equity Attributable to Equity Holders of the Bank</b>		12,501,695	751,594	13,253,289	17,947,566	70,459	18,018,025
<b>Non-Controlling Interest</b>	x	755,032	108,259	863,291	1,095,296	115,922	1,211,218
<b>Total Equity</b>		13,256,727	859,853	14,116,580	19,042,862	186,381	19,229,243
<b>Total Liabilities and Equity</b>		151,363,240	768,425	152,131,665	167,357,700	294,149	167,651,849

## / Notes to the Consolidated Financial Statements

### 48 (a) The Bank Accounted for its Deposits Based on Amortised Cost as Opposed to Nominal Cost Under the Previous SLAS.

The impact arising from the change is summarised as follows:

<i>For the year ended 31st December</i>		2011 Rs. '000
<b>Income Statement</b>		
Interest Expense		
Deposits		(5,114)
Adjustment before Income Tax		(5,114)

<i>As at 31st December</i>		2011 Rs. '000	2010 Rs. '000
<b>Statement of Financial Position</b>			
Deposit		181,540	186,654
Adjustment to Retained Earnings		181,540	186,654

48 (b) Group changed the basis of measurement for its Available-for-Sale Investments Portfolio from cost method to fair value method and changed its method of recognising interest on Available-for-Sale Treasury Bills and Bonds to Effective Interest Rate (EIR) method in accordance with LKAS 39 - Financial Instruments - Recognition & Measurement where by the interest was previously accounted for on a straight line basis. Further investment securities are shown separately as Held to Maturity & Available for sale in the Statement of Financial Position.

The impact arising from the change is summarised as follows:

<i>For the year ended 31st December</i>		2011 Rs. '000
<b>Income Statement</b>		
Interest Income		
Treasury Bills, Bonds & Placements with Other Banks		28,235
Adjustment before Income Tax		28,235
<b>Statement of Comprehensive Income</b>		
Net change of financial assets measured at fair value through other comprehensive income		
Net Change in Fair Value on Available-for-Sale Financial Assets		(346,147)
Adjustment before Income Tax		(346,147)

<i>As at 31st December</i>		2011 Rs. '000	2010 Rs. '000
<b>Statement of Financial Position</b>			
Held-to-maturity Investment Securities		(10,123)	(29,333)
Available-for-Sale Investment Securities		(4,906)	(13,931)
Adjustment to Retained Earnings		(15,029)	(43,264)
Available-for-Sale Investment Securities		130,608	476,755
Adjustment to Other Reserves		130,608	476,755

## / Notes to the Consolidated Financial Statements

**48 (c)** The Group measured the staff loans granted at reduced interest rates at fair value based on the market interest rates that prevailed at the time of granting the loan. Accordingly the interest benefit accruing to the staff member is treated as a prepaid staff cost while interest is accounted for at the relevant market interest rate.

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

### Income Statement

Interest Income	
Unwinding of Interest Income on Staff Loans at Market Interest Rate	46,415
Personnel Expenses	
Amortisation of Prepaid Staff Cost	(46,415)
Adjustment before Income Tax	-

As at 31st December

2011  
Rs. '000

2010  
Rs. '000

### Statement of Financial Position

Loans and Receivables		
Staff Loans	(1,834,808)	(1,861,403)
Other Assets		
Unamortised Prepaid Staff Cost	1,834,808	1,861,403
Adjustment to Retained Earnings	-	-

**48 (d)** The Bank measured the staff Time Deposits accepted at higher interest rates at fair value based on the market interest rates that prevailed at the time of accepting the deposit. Accordingly Term deposit were accounted at fair value and interest expense accounted at respective market interest rate.

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

### Income Statement

Interest Expense	
Unwinding of Interest Expense on Staff Term Deposits at Market Interest Rate	(1,015)
Personnel Expense	
Amortisation of Prepaid Staff Cost	1,015
Adjustment before Income Tax	-

As at 31st December

2011  
Rs. '000

2010  
Rs. '000

### Statement of Financial Position

Deposit	2,849	1,834
Other assets		
Prepaid Staff Cost	(2,849)	(1,834)
Adjustment to Retained Earnings	-	-

## / Notes to the Consolidated Financial Statements

**48 (e)** The Bank accounted for the Derivative Financial Instruments - Forward Contracts at fair value. And also presented separately in the Statement of Financial Position which resulted a reclassification from the previous SLAS Balance Sheet.

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

### Income Statement

Net Trading Income	
Net Gain/Loss on Derivative Financial Instruments	(343)
Adjustment before Income Tax	(343)

As at 31st December

2011  
Rs. '000

2010  
Rs. '000

### Statement of Financial Position

Derivative Financial Instruments - Assets	74,746	21,027
Derivative Financial Instruments - Liabilities	(67,506)	(36,733)

### Balance Sheet - Under Previous SLAS

Other Liabilities	(7,484)	15,805
Adjustment to Retained Earnings	(244)	99

**48 (f)** The Bank charged an impairment provision for loans and advances in accordance with LKAS 39 - Financial Instruments - Recognition & measurement, Further the interest in suspense and the provisions made in accordance with Central Bank of Sri Lanka regulations were reversed.

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

### Income Statement

Net Impairment Loss on Loans & Receivables	
Collective Impairment Provision Made	(1,306,183)
Individual Impairment Provision Made	587,410
Loans written-off	(10,251)
Interest Income - Loans and Receivables	621,000

### Income Statement - Under Previous SLAS

Provision for Loan Losses	649,236
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### Other Income Net

Bad Debts Written Back & Recovered	(959,118)
Adjustment before Income Tax	(417,906)

As at 31st December

2011  
Rs. '000

2010  
Rs. '000

### Statement of Financial Position

Impairment Allowance for Loans & Receivables - Individual	(3,609,953)	(4,332,335)
Impairment Allowance for Loans & Receivables - Collective	(6,584,217)	(6,801,309)

### Balance Sheet - Under previous SLAS

Interest in Suspense - Loans & Advances	4,686,212	4,790,323
Interest in Suspense - Lease Rentals Receivable	43,458	48,909
Loan Loss Provision - Bills of Exchange	10,126	21,946
Loan Loss Provision - Loans & Advances	4,817,003	6,034,555
Loan Loss Provision - Lease Rentals Receivables	212,532	230,978
Adjustment to Retained Earnings	(424,839)	(6,933)

## / Notes to the Consolidated Financial Statements

**48 (g)** Shares issue expenses accounted to retained profits, whereas previously accounted as a current year expense

The impact arising from the change is summarised as follows:

<i>For the year ended 31st December</i>		2011 Rs. '000
<b>Income Statement</b>		
Other Expenses		5,459
Adjustment before Income Tax		5,459

**48 (h)** The Bank changed the method of accounting operating lease payments for premises occupied by the Bank in accordance with LKAS 17 - Leases.

The impact arising from the change is summarised as follows:

<i>For the year ended 31st December</i>		2011 Rs. '000
<b>Income Statement</b>		
Premises, Equipment and Establishment Expenses		(40,396)
Adjustment before Income Tax		(40,396)

<i>As at 31st December</i>		2011 Rs. '000	2010 Rs. '000
<b>Statement of Financial Position</b>			
Other Liabilities			
Accrued Expenses		(96,006)	(55,610)
Adjustment to Retained Earnings		(96,006)	(55,610)

**48 (i)** Impact on VAT on Financial Services and Income Tax to LKAS and SLFRS transition.

The impact arising from the change is summarised as follows:

<i>For the year ended 31st December</i>		2011 Rs. '000
<b>Income Statement</b>		
Value Added Tax on Financial Services		42,468
Income Tax Expense		64,666
Adjustment		107,134

<i>As at 31st December</i>		2011 Rs. '000	2010 Rs. '000
<b>Statement of Financial Position</b>			
Value Added Tax and Other Statutory Payables		(103,840)	(281,144)
Current Taxation Asset		(216,996)	(40,580)
Deferred Taxation Asset		510,086	415,802
<b>Balance Sheet - Under Previous SLAS</b>			
Value Added Tax and Other Statutory Payables		120,888	255,724
Current Taxation Asset		47,054	(42,026)
Deferred Taxation Asset		(211,844)	(269,562)
Adjustment to Retained Earnings		145,348	38,214

## / Notes to the Consolidated Financial Statements

**48 (j)** Marked to market loss on Treasury Bills & Bonds on the Trading portfolio was accounted with Interest income in the previous SLAS, reclassified under Net Trading Income - Net Gain/(Loss) on investments designated at fair value through profit and loss.

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

### Income Statement

Net Trading Income

Net Gain/(Loss) on Investments designated at fair value through profit and loss (140,891)

### Income Statement - Under Previous SLAS

Interest Income

Treasury Bills, Bonds and Placements with Other Banks 140,891

Adjustment before Income Tax -

**48 (k)** Profit realised on sale of Available-for-Sale portfolio in 2011 was accounted in Interest Income - Treasury Bills, Bonds & Placements with Other Banks, reclassified with Other Income - net, Profit/(Loss) on Sale of Investment Securities.

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

### Income Statement

Other Income - Net, Profit/(Loss) on Sale of Investment Securities

337

### Income Statement - Under Previous SLAS

Interest Income

Treasury Bills, Bonds & Placements with Other Banks (337)

Adjustment before Income Tax -

**48 (l)** Foreign Exchange Income on Foreign Currency-Related Transactions are Reclassified in Order to Reflect its Nature.

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

### Income Statement - Under Previous SLAS

Foreign Exchange Income (624,216)

### Income Statement

Net Trading Income

Net Gain/(Loss) on Derivative Financial Instruments 23,788

Net Gain on Foreign Exchange 261,427

Other Income

Exchange Income/(Loss) (Revaluation Gain on Foreign Currency Position) 339,001

Adjustment before Income Tax -

## / Notes to the Consolidated Financial Statements

**48 (m)** Net Gain/(Loss) on Investments designated at fair value through profit and loss reclassified as follows:

The impact arising from the change is summarised as follows:

	2011 Rs. '000
<b>Income Statement - Under Previous SLAS</b>	
Diminution/(Appreciation) in Value of Investments	316,031
Other Income - (Profit)/Loss on Sale of Dealing Securities	(137,231)
<b>Income Statement</b>	
Net Trading Income - Net (Gain)/Loss on Investment designated at fair value through profit and loss	(178,800)
Adjustment before Income Tax	-

**48 (n)** Basis of computing Staff Leave encashment provision was changed, therefore previous year were restated. As a result of change in leave encashment provision the impact to respective year's profit resulted a change in statutory reserve as well.

The impact arising from the change is summarised as follows:

For the year ended 31st December

	2011 Rs. '000
<b>Income Statement</b>	
Personal Expenses	(14,842)
Adjustment before Income Tax	(14,842)

As at 31st December

	2011 Rs. '000	2010 Rs. '000
<b>Statement of Financial Position</b>		
Other Liabilities		
Leave Encashment Provision	237,754	237,885
<b>Balance Sheet - Under Previous SLAS</b>		
Other Liabilities		
Accrued Expenses and Interest Payable	(206,439)	(191,728)
Adjustment to Retained Earnings	31,315	46,157

### Statement of Financial Position

Statutory Reserve Fund	(618,567)	(569,295)
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### Balance Sheet - Under Previous SLAS

Statutory Reserve Fund	618,501	568,368
Adjustment to retained earnings	(66)	(927)

**48 (o)** Vat on Financial Services Classified Under Other Expenses Shown Separate Caption in the Income Statement.

The impact arising from the change is summarised as follows:

For the year ended 31st December

	2011 Rs. '000
<b>Income Statement - Under Previous SLAS</b>	
Other Expenses	447,477
<b>Income Statement</b>	
Value Added Tax on Financial Services	(447,477)
Adjustment before Income Tax	-

**48 (p)** Interest Receivable Reclassified by Grossing up to Relevant Financial Assets to Show it's Fair Value.

The impact arising from the change is summarised as follows:

<i>For the year ended 31st December</i>	2011 Rs. '000	2010 Rs. '000
<b>Balance Sheet - Under Previous SLAS</b>		
Other Assets		
Interest Receivable	(921,749)	(1,124,853)
<b>Statement of Financial Position</b>		
Investments designated at fair value through Profit and Loss	87,127	450,976
Investment Securities - Held to Maturity/Available-for-Sale	826,290	669,070
Securities Purchased under Resale Agreements	8,332	513
Commercial Papers	-	4,294
Adjustment to Retained Earnings	-	-

**48 (q)** Interest Payable Reclassified by Grossing up to Relevant Financial Liability to Show it's Fair Value.

The impact arising from the change is summarised as follows:

<i>For the year ended 31st December</i>	2011 Rs. '000	2010 Rs. '000
<b>Balance Sheet - Under Previous SLAS</b>		
Other Liabilities		
Accrued Expenses and Interest Payable	3,815,569	3,543,797
<b>Statement of Financial Position</b>		
Borrowings	(21,148)	(19,837)
Debentures	(133,614)	(269,274)
Securities Sold Under Repurchase Agreements	(39,912)	(81,577)
Deposits	(3,620,895)	(3,173,109)
Adjustment to Retained Earnings	-	-

**48 (r)** The following changes resulted an increase/(decreased) to the retained earnings:

	2011 Rs. '000	2010 Rs. '000
Customer Deposits - Interest Recognition - 48 (a)	181,540	186,654
Fair Value Adjustment for Investments - 48 (b)	(15,029)	(43,264)
Fair Value Adjustment - Forward Contracts - 48 (e)	(244)	99
Loans & Receivables - Impairment - 48 (f)	(424,839)	(6,933)
Operating Lease Payment Adjustment - 48 (h)	(96,006)	(55,610)
Change in Basis of Accounting Leave Encashment Provision - 48 (n)	31,315	46,157
Change in Taxation - 48 (i)	145,348	38,214
Change in Statutory Reserve Fund - 48 (n)	(66)	(927)
<b>Increase/(Decrease) in Retained Earnings</b>	<b>(177,981)</b>	<b>164,390</b>



## Explanation of Transition to LKAS & SLFRS - Seylan Developments PLC

### 48 (s) Accounted for depreciation of Reclassified Investment Property which was Included in Other Assets as Project Investment

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

#### Income Statement

Premises, Equipment and Establishment Expenses	(103)
--	-------

As at 31st December

2011  
Rs. '000

2010  
Rs. '000

#### Statement of Financial Position

Investment Properties	1,226,546	1,663,250
Other Assets		
Transferred to Investment Properties Net of Impairment	(44,144)	(210,652)

#### Balance Sheet - Under Previous SLAS

Investment Properties	(1,182,505)	(1,452,598)
Adjustment to Retained Earnings	(103)	-

### 48 (t) Restatement of Deferred Taxation

The impact arising from the change is summarised as follows:

For the year ended 31st December

2011  
Rs. '000

#### Income Statement

Income Tax Expense	13,959
Adjustment	13,959

As at 31st December

2011  
Rs. '000

2010  
Rs. '000

#### Statement of Financial Position

Deferred Taxation Asset	231,582	217,792
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#### Balance Sheet - Under Previous SLAS

Deferred Taxation Asset	(169)	-
Adjustment to Retained Earnings	231,751	217,792

**48 (u)** Recognition of Revaluation Surplus Through Other Comprehensive Income

	2011 Rs. '000	2010 Rs. '000
<b>48 (v)</b> Reversal of impairment recognised in 2011 on Project Investment	1,430	-
<b>48 (w)</b> Fair Value Adjustment on Investment	610	(11)
<b>48 (x)</b> The Above Changes resulted an increase/(decrease) to following captions;		
Increase in Retained Profits	117,451	109,528
Increase in Available-for-Sale Reserve	315	(6)
Increase in Non-Controlling Interest	115,922	108,259
	233,688	217,781

**49. Non-Uniform Accounting Policies**

The impact of non-uniform accounting policies adopted by subsidiary company has been adjusted in the Consolidated Financial Statements as set out below:

**Adjustment Due to Different Accounting Policies of the Parent and the Group Entity Seylan Developments PLC (SD)**

Seylan Bank PLC accounted investment properties at cost, whereas Seylan Developments PLC accounts investment properties at fair value.

Seylan Towers (East Towers) owned by SD is rented out to Seylan Bank PLC and is occupied by the Bank.

Therefore, the Land & Building does not qualify as investment property in the Consolidated Accounts.

The land is treated as Lease Hold Rights and the building as a property in the Consolidated Financial Statements and have been depreciated accordingly (LKAS 40).

	Rs. '000s	Group Impact Rs. '000s	Non-Controlling Interest Impact Rs. '000s
<b>Reversal of Revaluation Gains and Deferred Tax Adjustment on Investment Properties</b>			
Reversal of Deferred Tax on Revaluation Gains Adjusted to Retained Profits of SD as at 01.01.2011	346,332	174,170	172,162
Reversal of Deferred Tax on Revaluation Gains Adjusted to Retained Profits of SD as at 31.12.2011	66,831	34,639	32,192
Reversal of Deferred Tax on Revaluation Gains Adjusted to Statement of Comprehensive Income of SD for 2011	20,931	10,849	10,082
Reversal of Revaluation Gain Adjusted to Statement of Comprehensive Income of SD for 2012	(9,297)	(4,819)	(4,478)
Reversal of Deferred Tax on Revaluation Gains Adjusted to Statement of Comprehensive Income of SD for 2012	58,383	30,260	28,123
	483,180	245,099	238,081
<b>Charging of Depreciation</b>			
Charges Depreciation Adjusted to Consolidated Statement of Comprehensive Income for 2012	(56,569)	(29,320)	(27,249)
	(56,569)	(29,320)	(27,249)

## 50. Measurement of Financial Instruments

	BANK											
	2012						2011					
	Designated at FVTPL/HFT Rs. '000	HTM Rs. '000	Loans & Receivables/ Amortised Cost Rs. '000	AFS Rs. '000	Others Rs. '000	Total Rs. '000	Designated at FVTPL/HFT Rs. '000	HTM Rs. '000	Loans & Receivables/ Amortised Cost Rs. '000	AFS Rs. '000	Others Rs. '000	Total Rs. '000
<b>Assets</b>												
Cash and Cash Equivalents	-	-	6,554,381	-	-	6,554,381	-	-	4,550,203	-	-	4,550,203
Balances with Central Bank of Sri Lanka	-	-	8,028,661	-	-	8,028,661	-	-	7,070,728	-	-	7,070,728
Derivative Financial Instruments	51,281	-	-	-	-	51,281	74,746	-	-	-	-	74,746
Investments Designated at Fair Value Through Profit and Loss	2,460,272	-	-	-	-	2,460,272	5,243,565	-	-	-	-	5,243,565
Loans and Receivables	-	-	124,728,371	-	-	124,728,371	-	-	106,390,440	-	-	106,390,440
Held to Maturity Investment Securities	-	19,822,966	-	-	-	19,822,966	-	17,665,169	-	-	-	17,665,169
Available-for-sale Investment Securities	-	-	-	11,358,103	-	11,358,103	-	-	-	11,886,589	-	11,886,589
Investment In Subsidiary	-	793,254	-	-	-	793,254	-	793,254	-	-	-	793,254
Securities Purchased Under Resale Agreements	-	-	173,441	-	-	173,441	-	-	3,313,690	-	-	3,313,690
<b>Total Financial Assets</b>	<b>2,511,553</b>	<b>20,616,220</b>	<b>139,484,854</b>	<b>11,358,103</b>	<b>-</b>	<b>173,970,730</b>	<b>5,318,311</b>	<b>18,458,423</b>	<b>121,325,061</b>	<b>11,886,589</b>	<b>-</b>	<b>156,988,384</b>
Other Assets	-	-	-	-	9,690,946	9,690,946	-	-	-	-	8,955,489	8,955,489
<b>Total Assets</b>	<b>2,511,553</b>	<b>20,616,220</b>	<b>139,484,854</b>	<b>11,358,103</b>	<b>9,690,946</b>	<b>183,661,676</b>	<b>5,318,311</b>	<b>18,458,423</b>	<b>121,325,061</b>	<b>11,886,589</b>	<b>8,955,489</b>	<b>165,943,873</b>
	<b>Designated at FVTPL/HFT Rs. '000</b>		<b>Amortised Cost Rs. '000</b>		<b>Others Rs. '000</b>	<b>Total Rs. '000</b>	<b>Designated at FVTPL/HFT Rs. '000</b>		<b>Amortised Cost Rs. '000</b>		<b>Others Rs. '000</b>	<b>Total Rs. '000</b>
<b>Liabilities</b>												
Due To Banks	-	-	6,147,593	-	-	6,147,593	-	-	7,317,669	-	-	7,317,669
Derivative Financial Instruments	278,826	-	-	-	-	278,826	67,506	-	-	-	-	67,506
Deposits	-	-	146,727,199	-	-	146,727,199	-	-	123,981,100	-	-	123,981,100
Other Borrowings	-	-	3,674,840	-	-	3,674,840	-	-	9,410,283	-	-	9,410,283
Debentures	-	-	1,211,659	-	-	1,211,659	-	-	2,785,264	-	-	2,785,264
Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Financial Liabilities</b>	<b>278,826</b>	<b>-</b>	<b>157,761,291</b>	<b>-</b>	<b>-</b>	<b>158,040,117</b>	<b>67,506</b>	<b>-</b>	<b>143,494,316</b>	<b>-</b>	<b>-</b>	<b>143,561,822</b>
Equity and Other Liabilities	-	-	-	25,621,559	25,621,559	-	-	-	-	22,382,051	22,382,051	-
<b>Total Liabilities</b>	<b>278,826</b>	<b>-</b>	<b>157,761,291</b>	<b>25,621,559</b>	<b>25,621,559</b>	<b>183,661,676</b>	<b>67,506</b>	<b>-</b>	<b>143,494,316</b>	<b>22,382,051</b>	<b>22,382,051</b>	<b>165,943,873</b>

HFT - Held for trading, Designated at FVTPL - Designated at Fair Value through profit or loss

HTM - Held-to-maturity, L & R - Loans and Receivables, AFS - Available-for-sale

## Measurement of Financial Instruments

	GROUP											
	2012						2011					
	Designated at FVTPL/HFT Rs. '000	HTM Rs. '000	Loans and Receivables/ Amortised Cost Rs. '000	AFS Rs. '000	Others Rs. '000	Total Rs. '000	Designated at FVTPL/HFT Rs. '000	HTM Rs. '000	Loans and Receivables/ Amortised Cost Rs. '000	AFS Rs. '000	Others Rs. '000	Total Rs. '000
<b>Assets</b>												
Cash and Cash Equivalents	-	-	6,554,482	-	-	6,554,482	-	-	4,550,764	-	-	4,550,764
Balances with Central Bank of Sri Lanka	-	-	8,028,661	-	-	8,028,661	-	-	7,070,728	-	-	7,070,728
Derivative Financial Instruments	51,281	-	-	-	-	51,281	74,746	-	-	-	-	74,746
Investments Designated at Fair Value Through Profit and Loss	2,468,151	-	-	-	-	2,468,151	5,244,443	-	-	-	-	5,244,443
Loans And Receivables	-	-	124,728,371	-	-	124,728,371	-	-	106,390,440	-	-	106,390,440
Held to Maturity Investment Securities	-	19,822,966	-	-	-	19,822,966	-	17,665,169	-	-	-	17,665,169
Available-for-sale Investment Securities	-	-	-	11,358,103	-	11,358,103	-	-	-	11,886,589	-	11,886,589
Securities Purchased Under Resale Agreements	-	-	173,441	-	-	173,441	-	-	3,313,690	-	-	3,313,690
<b>Total Financial Assets</b>	<b>2,519,432</b>	<b>19,822,966</b>	<b>139,484,955</b>	<b>11,358,103</b>	<b>-</b>	<b>173,185,456</b>	<b>5,319,189</b>	<b>17,665,169</b>	<b>121,325,622</b>	<b>11,886,589</b>	<b>-</b>	<b>156,196,569</b>
Other Assets	-	-	-	-	12,111,196	12,111,196	-	-	-	-	11,455,280	11,455,280
<b>Total Assets</b>	<b>2,519,432</b>	<b>19,822,966</b>	<b>139,484,955</b>	<b>11,358,103</b>	<b>12,111,196</b>	<b>185,296,652</b>	<b>5,319,189</b>	<b>17,665,169</b>	<b>121,325,622</b>	<b>11,886,589</b>	<b>11,455,280</b>	<b>167,651,849</b>
	<b>Designated at FVTPL/HFT Rs. '000</b>	<b>Amortised Cost Rs. '000</b>	<b>Others Rs. '000</b>	<b>Total Rs. '000</b>	<b>Designated at FVTPL/HFT Rs. '000</b>	<b>Amortised Cost Rs. '000</b>	<b>Others Rs. '000</b>	<b>Total Rs. '000</b>				
<b>Liabilities</b>												
Due to Banks	-	6,147,593	-	6,147,593	-	7,317,669	-	7,317,669				
Derivative Financial Instruments	278,826	-	-	278,826	67,506	-	-	67,506				
Deposits	-	146,727,199	-	146,727,199	-	123,981,100	-	123,981,100				
Other Borrowings	-	3,674,840	-	3,674,840	-	9,410,283	-	9,410,283				
Debentures	-	1,211,659	-	1,211,659	-	2,785,264	-	2,785,264				
<b>Total Financial Liabilities</b>	<b>278,826</b>	<b>157,761,291</b>	<b>-</b>	<b>158,040,117</b>	<b>67,506</b>	<b>143,494,316</b>	<b>-</b>	<b>143,561,822</b>				
Equity and Other Liabilities	-	-	27,256,535	27,256,535	-	-	24,090,027	24,090,027				
<b>Total Liabilities</b>	<b>278,826</b>	<b>157,761,291</b>	<b>27,256,535</b>	<b>185,296,652</b>	<b>67,506</b>	<b>143,494,316</b>	<b>24,090,027</b>	<b>167,651,849</b>				

HFT - Held for trading, Designated at FVTPL - Designated at fair value through profit or loss.

HTM - Held-to-maturity, L & R - Loans and Receivables, AFS - Available-for-sale

## 51. Industry Wise Analysis of Loans and Receivables

Sector-wise analysis of credit portfolio given below, reflects the exposure to credit risk in the various sectors of the economy.

	BANK						GROUP					
	2012 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%	2012 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%
Food, Beverages and Tobacco	590,137	0.48	751,989	0.70	738,563	0.78	590,137	0.48	751,989	0.70	738,563	0.78
Agriculture, Agro Business and Fisheries	7,350,781	5.96	3,938,898	3.65	5,697,329	6.05	7,350,781	5.96	3,938,898	3.65	5,697,329	6.03
Textiles and Wearing Apparel	1,938,267	1.57	1,094,748	1.01	1,635,893	1.74	1,938,267	1.57	1,094,748	1.01	1,635,893	1.73
Wood and Paper Products	756,575	0.61	908,843	0.84	733,893	0.78	756,575	0.61	908,843	0.84	733,893	0.78
Rubber and Leather Products	873,470	0.71	286,334	0.27	383,473	0.41	873,470	0.71	286,334	0.27	383,473	0.41
Metals, Chemicals and Engineering	1,040,029	0.84	645,829	0.60	648,714	0.69	1,040,029	0.84	645,829	0.60	648,714	0.69
Hotels	1,692,681	1.37	1,209,546	1.12	834,100	0.89	1,692,681	1.37	1,209,546	1.12	834,100	0.88
Services	3,812,341	3.09	6,035,788	5.59	4,115,470	4.37	3,812,341	3.09	6,035,788	5.59	4,115,470	4.35
Others*	105,197,231	85.37	93,063,680	86.22	79,349,691	84.29	105,197,231	85.37	93,063,680	86.22	79,732,818	84.35
<b>Total Other Loans &amp; Receivables - Gross (Note 51.1)*</b>	<b>123,251,512</b>	<b>100.00</b>	<b>107,935,655</b>	<b>100.00</b>	<b>94,137,126</b>	<b>100.00</b>	<b>123,251,512</b>	<b>100.00</b>	<b>107,935,655</b>	<b>100.00</b>	<b>94,520,253</b>	<b>100.00</b>
Loans & Advances	123,251,512		107,935,655		94,137,126		123,251,512		107,935,655		94,520,253	
Lease Rentals Receivable	8,298,180		7,648,043		4,288,576		8,298,180		7,648,043		4,288,576	
Bills Of Exchange	1,423,998		1,000,912		1,415,624		1,423,998		1,000,912		1,415,624	
Inter Company Loans	-		-		383,127		-		-		-	
<b>Total Loans &amp; Receivables - Gross</b>	<b>132,973,690</b>		<b>116,584,610</b>		<b>100,224,453</b>		<b>132,973,690</b>		<b>116,584,610</b>		<b>100,224,453</b>	
<b>"Others " Category Comprises The Following Advances:</b>												
Exports	1,986,605	1.89	5,726,226	6.15	7,768,333	9.79	1,986,605	1.89	5,726,226	6.15	7,768,333	9.74
Imports	4,078,108	3.88	6,765,564	7.27	7,379,605	9.30	4,078,108	3.88	6,765,564	7.27	7,379,605	9.26
Trading	19,232,144	18.28	12,998,057	13.97	12,095,134	15.24	19,232,144	18.28	12,998,057	13.97	12,095,134	15.17
Financial Services	14,006,838	13.31	12,841,052	13.80	6,661,041	8.39	14,006,838	13.31	12,841,052	13.80	6,661,041	8.35
Housing	9,186,781	8.73	9,346,466	10.04	11,470,871	14.46	9,186,781	8.73	9,346,466	10.04	11,470,871	14.39
Consumption	1,583,493	1.51	15,894,372	17.08	11,924,359	15.03	1,583,493	1.51	15,894,372	17.08	11,924,359	14.96
Miscellaneous*	55,123,262	52.40	29,491,943	31.69	22,050,348	27.79	55,123,262	52.40	29,491,943	31.69	22,433,475	28.13
	<b>105,197,231</b>	<b>100.00</b>	<b>93,063,680</b>	<b>100.00</b>	<b>79,349,691</b>	<b>100.00</b>	<b>105,197,231</b>	<b>100.00</b>	<b>93,063,680</b>	<b>100.00</b>	<b>79,732,818</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 categorized under different segments.

\* "Miscellaneous" Category includes a Pawning base of Rs. 17,477 Mn.

## 51.1 Industry Wise Geographical Analysis of Other Loans and Receivables

	2012									
	Central Rs. '000	Eastern Rs. '000	North-Central Rs. '000	North-West Rs. '000	North Rs. '000	Sabaragamuwa Rs. '000	South Rs. '000	Uva Rs. '000	West Rs. '000	Total Rs. '000
Food, Beverages and Tobacco	52,705	9,676	5,433	8,571	2,367	30,575	13,257	50,008	417,545	590,137
Agriculture, Agro Business and Fisheries	403,030	270,496	332,900	668,154	77,060	902,652	427,252	65,404	4,203,833	7,350,781
Textiles and Wearing Apparel	23,605	757	6,575	1,284	-	27,781	9,128	29,764	1,839,373	1,938,267
Wood and Paper Products	41,424	2,244	14,056	7,531	3,257	36,256	48,605	1,091	602,111	756,575
Rubber and Leather Products	212	1,762	4,976	-	-	12,503	10,380	-	843,637	873,470
Metals, Chemicals and Engineering	660	16,854	3,771	6,646	5,139	25,323	19,017	19,531	943,088	1,040,029
Hotels	37,897	24,636	24,747	798	481	96,484	77,231	3,689	1,426,718	1,692,681
Services	64,744	38,543	30,474	107,293	66,959	289,300	110,790	33,551	3,070,687	3,812,341
Others	5,238,512	4,256,684	2,132,570	2,850,183	6,001,077	4,498,369	3,209,790	1,211,903	75,798,143	105,197,231
<b>Total Other Loans &amp; Receivables - Gross</b>	<b>5,862,789</b>	<b>4,621,652</b>	<b>2,555,502</b>	<b>3,650,460</b>	<b>6,156,340</b>	<b>5,919,243</b>	<b>3,925,450</b>	<b>1,414,941</b>	<b>89,145,135</b>	<b>123,251,512</b>

**'Others' Category Comprises the Following Advances:**

Exports	8,627	-	-	59,980	-	155,419	302,788	-	1,459,791	1,986,605
Imports	27,155	-	-	149,312	1,407	15,532	23,429	-	3,861,273	4,078,108
Trading	1,412,486	273,315	245,217	831,807	535,157	1,030,048	560,340	381,960	13,961,814	19,232,144
Financial Services	304,230	2,233	757	22,524	224	39,989	88,655	19	13,548,207	14,006,838
Housing	408,378	73,137	110,246	324,733	29,953	481,259	652,423	184,390	6,922,262	9,186,781
Consumption	49,169	6,572	10,367	36,873	3,772	28,896	40,966	520	1,406,358	1,583,493
Miscellaneous	3,028,467	3,901,427	1,765,983	1,424,954	5,430,564	2,747,226	1,541,189	645,014	34,638,438	55,123,262
	5,238,512	4,256,684	2,132,570	2,850,183	6,001,077	4,498,369	3,209,790	1,211,903	75,798,143	105,197,231

## 52. Change in Operating Assets and Liabilities [Increase/(Decrease)]

	BANK		GROUP	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>52.1 Change in Assets</b>				
<b>Operating Assets</b>				
Loans & Receivables	18,583,389	16,838,201	18,654,572	17,384,771
Balances with Central Bank	957,933	1,616,895	957,933	1,616,895
<b>Investing Assets</b>				
Government Securities Maturing after 03 Months	(1,933,151)	(4,014,352)	(1,933,151)	(4,014,352)
Securities Purchased under Resale Agreements Maturing after 03 Months	413	-	413	-
Investments in Equities and Debentures (Net of Disposal)	(99,514)	(52,682)	(109,515)	(50,085)
Other Assets	1,105,884	318,546	1,130,170	325,054
<b>Total</b>	<b>18,614,954</b>	<b>14,706,608</b>	<b>18,700,422</b>	<b>15,262,283</b>
<b>52.2 Change in Liabilities</b>				
<b>Operating Liabilities</b>				
Deposits & Certificates of Deposit	22,175,885	10,642,360	22,175,885	10,642,360
<b>Financing Liabilities</b>				
Debentures	(1,483,535)	(1,344,715)	(1,483,535)	(1,344,715)
Securities Sold Under Repurchase Agreements	(5,730,324)	(58,977)	(5,730,324)	(58,977)
Borrowings	(1,170,076)	2,911,147	(1,170,076)	2,487,588
Other Liabilities	2,103,277	(965,772)	2,102,968	(512,755)
<b>Total</b>	<b>15,895,227</b>	<b>11,184,043</b>	<b>15,894,918</b>	<b>11,213,501</b>

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## / Ten Years at a Glance

Year Ended 31st December	2012	2011	2010*	2009*	2008*	2007*	2006*	2005*	2004*	2003*
	Rs. '000	Rs. '000	Rs. '000	(Restated) Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000	(Restated) Rs. '000	Rs. '000	(Restated) Rs. '000	(Restated) Rs. '000
<b>Trading Results</b>										
<b>Gross Income</b>	<b>23,623,286</b>	18,824,460	20,032,477	23,154,529	25,246,209	21,079,885	17,183,481	13,090,715	10,072,376	9,973,644
Profit before Taxation	<b>3,184,287</b>	1,169,968	1,997,634	892,572	155,241	1,439,069	1,606,882	1,061,033	478,291	705,953
Taxation	<b>1,135,160</b>	505,089	768,653	349,271	-	515,880	718,814	373,200	69,648	114,539
Profit after Taxation	<b>2,049,127</b>	664,879	1,228,981	543,301	155,241	923,189	888,068	687,833	408,643	591,414
Other Comprehensive Income, Net of Income Tax	<b>(202,878)</b>	(346,147)								
<b>Total Comprehensive Income</b>	<b>1,846,249</b>	318,732								
Dividends Proposed (Ordinary)	<b>Rs. 2.00 per Share</b>	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%
<b>As at 31st December</b>										
	2012	2011	2010	2009*	2008*	2007*	2006*	2005*	2004*	2003*
	Rs. '000	Rs. '000	Rs. '000	(Restated) Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000	(Restated) Rs. '000	Rs. '000	(Restated) Rs. '000	(Restated) Rs. '000
<b>Financial Position</b>										
<b>Assets</b>										
Cash & Short-Term Funds (Including Securities Sold Under Repurchase Agreements)	<b>6,727,822</b>	7,863,893	5,965,190	7,635,665	6,176,265	26,824,927	21,833,056	17,322,763	12,080,206	15,669,097
Statutory Deposit with Central Bank of Sri Lanka	<b>8,028,661</b>	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
Investments (Including Investment Properties)	<b>33,878,970</b>	35,032,952	40,341,445	30,286,878	26,019,989	1,370,762	333,960	333,755	649,117	1,076,728
Loans and Receivables (Including Leases and Bills of Exchange)	<b>124,728,371</b>	106,390,440	89,090,809	80,287,805	104,154,125	97,651,377	93,258,926	81,469,381	62,824,649	51,648,748
	<b>173,363,824</b>	156,358,013	140,851,277	123,294,577	143,207,418	133,762,726	122,339,166	105,034,191	80,604,637	72,346,513
Investment in Subsidiary	<b>793,254</b>	793,254	358,916	860,166	948,529	1,093,407	1,048,559	1,029,656	1,095,231	1,435,231
Other Assets (Including Income Taxation)	<b>6,871,112</b>	5,977,144	6,010,469	5,222,510	5,752,780	4,954,206	3,783,353	4,648,548	3,698,682	4,285,255
Property, Plant & Equipment, Leasehold Right & Intangible Assets	<b>2,633,486</b>	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
	<b>183,661,676</b>	165,943,873	150,231,157	132,764,370	154,046,245	143,500,353	130,306,108	113,608,444	88,183,642	80,051,069
<b>Liabilities</b>										
Deposits from Customers	<b>146,727,199</b>	123,981,100	112,879,627	104,815,899	107,938,801	111,299,612	100,078,809	85,833,954	68,301,154	59,362,955
Borrowings & Debentures	<b>11,034,092</b>	19,513,216	18,183,086	9,164,909	26,308,876	14,775,780	13,167,204	13,037,404	6,648,055	8,606,998
Other Liabilities	<b>6,246,174</b>	4,716,808	6,366,369	8,189,922	12,762,164	9,901,004	9,860,078	9,998,624	9,296,381	7,838,625
Taxation	<b>683,040</b>	216,996	40,580	-	-	472,306	817,297	105,420	(187,856)	(145,304)
Dividends	<b>13,159</b>	23,535	22,398	22,668	16,393	15,416	14,442	6,763	21,716	22,396
	<b>164,703,664</b>	148,451,655	137,492,060	122,193,398	147,026,234	136,464,118	123,937,830	108,982,165	84,079,450	75,685,670
<b>Equity</b>										
<b>Stated Capital</b>										
- Share Capital	<b>9,388,133</b>	9,422,034	4,730,501	4,730,501	1,705,101	1,705,101	1,705,101	869,501	869,501	869,501
- Share Premium	<b>837,319</b>	837,319	837,319	837,319	837,319	837,319	837,319	674,922	696,235	713,399
Reserve Fund	<b>724,905</b>	618,567	569,295	506,919	479,754	468,250	422,091	377,688	343,296	303,146
Reserves	<b>8,007,655</b>	6,614,298	6,601,982	4,496,233	3,997,837	4,025,565	3,403,767	2,704,168	2,195,160	2,479,353
	<b>18,958,012</b>	17,492,218	12,739,097	10,570,972	7,020,011	7,036,235	6,368,278	4,626,279	4,104,192	4,365,399
<b>Total Liabilities &amp; Equity</b>	<b>183,661,676</b>	165,943,873	150,231,157	132,764,370	154,046,245	143,500,353	130,306,108	113,608,444	88,183,642	80,051,069
Commitments and Contingencies	<b>31,286,844</b>	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

\*Based on SLAS applicable prior to 1st January 2012



## Summary of Performance Indicators

	Measure	2012	2011	2010*	2009*	2008*
<b>Size</b>						
Assets Growth	%	10.68	10.46	12.74	(13.82)	7.35
Contingent/(Total Assets + Contingencies)	%	14.56	17.93	10.85	9.27	10.35
Interest Earning Assets/Total Assets	%	90.32	92.51	85.92	85.72	85.20
Cash & Reserves/Total Assets	%	7.94	7.00	6.78	7.36	8.03
Risk-Weighted Assets Growth	%	9.33	1.21	10.62	(12.08)	23.00
<b>Profitability</b>						
Return on Average Assets	%	1.17	0.42	0.87	0.38	0.10
Return on Average Equity	%	11.24	4.40	10.88	6.20	2.22
Profit for the Year/(Total Assets + Commitments & Contingencies)	%	0.95	0.33	0.68	0.35	0.09
Net Interest Margin (NII/Avg. Int. Earn. Assets)	%	5.65	5.88	6.66	5.89	5.67
Net Interest Income/Total Income	%	38.18	45.74	40.27	31.16	28.48
Cost to Income Ratio*****	%	72.16	82.02****	68.69	67.82	75.79
Average Interest Yield	%	13.24	11.58	13.69	16.90	17.00
Average Interest Cost	%	8.68	6.58	7.68	11.72	11.98
Interest Rate Spread	%	4.56	5.00	6.01	5.18	5.02
Interest Yield on Average Customer Advances	%	14.42	11.99	13.41	16.09	17.74
Interest Cost on Average Customer Deposits	%	7.64	5.82	6.76	10.44	11.33
Spread on Customer Deposits & Advances	%	6.78	6.17	6.65	5.65	6.41
Dividend Payout**	%	33.00	50.85	20.92	24.28	-
Growth Rate of Equity	%	8.38	37.31	14.48	50.83	(0.23)
Earnings per Share	LKR	6.06	2.18	4.60	2.83	0.90
Ordinary Dividends per Share	LKR	2.00	1.00	1.00	0.50	-
<b>Asset Quality</b>						
Impairment Allowances for Loans & Receivables	LKR Mn.	8,245	10,194			
Impairment Allowances/Loans & Receivables	%	6.20	8.74			
Loss Provisions***	LKR Mn.			6,287	6,466	6,560
Provision Recoveries****	LKR Mn.			1,025	598	588
Provisions/(Loans + Bills + Leases)***	%			6.16	7.00	5.74
NPL with Interest in Suspense***	LKR Mn.			25,694	31,150	19,428
NPL with Interest in Suspense/Gross Loans***	%			25.07	33.61	16.93
Interest in Suspense on Advances***	LKR Mn.			4,839	5,659	3,523
NPL Excluding Interest in Suspense***	LKR Mn.			20,855	25,491	15,906
NPL Excluding Interest in Suspense/Gross Loans Excluding Interest in Suspense***	%			21.36	29.29	14.30
Interest in Suspense/Gross Loans***	%			4.72	6.11	3.07
Net Assets Value per Share	LKR	56.08	51.64	47.58	41.56	41.80
<b>Capital Adequacy</b>						
Leverage on Shareholders' Funds	Times	8.69	8.49	11.37	11.56	20.94
Leverage on Capital Funds (Including Debentures)	Times	8.11	7.18	8.30	7.97	12.16
Percentage Earnings Retained	%	67.00	49.15	79.08	75.52	100.00
Equity/Deposits, Borrowings & Securities Sold Under Re-purchase Agreements	%	12.11	12.43	9.75	9.60	5.39
Equity/Total Assets	%	10.32	10.54	8.06	7.94	4.54
Equity/(Loans & Receivables)	%	14.26	15.00	13.26	13.12	6.71
<b>Liquidity &amp; Funding</b>						
Loans & Receivables/Deposits, Borrowings and Securities Sold Under Repurchase Agreements	%	84.94	82.86	73.53	73.15	80.39
Deposits/Deposits, Borrowings, Securities Sold under Debentures	%	93.01	86.40	86.05	91.96	80.40
Liquid Assets/Total Assets	%	25.89	29.61	31.66	31.63	24.70
Liquid Assets/Deposits, Borrowings and Securities Sold under Re-purchase Agreements	%	30.37	34.92	38.31	38.26	29.37
Net Lending or (Borrowings) in Call Money Market	LKR Mn.	(4,707)	(5,841)	(2,096)	(1,331)	(4,449)
<b>Other Data</b>						
Number of Banking Centres		147	133	122	117	114
Number of Staff Members		3,061	3,150	3,622	3,733	3,923
Profits per Staff Member	LKR '000	669	211	339	146	40
Number of Ordinary Shares - Voting	'000	173,333	173,333	130,000	130,000	43,560
- Non-Voting	'000	164,747	164,747	123,560	123,560	123,560
Share Prices as at 31st December - Voting	LKR	56.00	67.60	97.80	37.00	28.50
- Non-Voting	LKR	35.10	30.80	49.00	16.00	6.00

Note:

\* Based on SLAS applicable prior to 1st January 2012

\*\* Dividends for the year 2012 are accounted for as per the accounting standards - LKAS 10

\*\*\* Based on CBSL Guide Lines Applicable before the adoption of LKAS & SLFRS

\*\*\*\* Cost to Income Ratio of 2011 calculated excluding VRS

\*\*\*\*\* Cost to Income Ratio of 2012 is calculated with fair value and impairment impacts due to the adoption of LKAS/SLFRS

## / Statement of Comprehensive Income in US Dollars

For the Year ended 31st December	BANK			GROUP		
	2012 US\$. '000	2011 US\$. '000	Change %	2012 US\$. '000	2011 US\$. '000	Change %
<b>Income</b>	<b>185,645</b>	165,344	12.28	<b>186,181</b>	166,559	11.78
Interest Income	166,128	149,019	11.48	166,132	148,826	11.63
Less: Interest Expenses	95,243	73,389	29.78	95,096	73,247	29.83
<b>Net Interest Income</b>	<b>70,885</b>	75,630	(6.27)	<b>71,036</b>	75,579	(6.01)
Fee and Commission Income	13,834	13,282	4.16	13,832	13,282	4.14
Less: Fee and Commission Expense	516	681	(24.23)	561	715	(21.54)
<b>Net Fee and Commission Income</b>	<b>13,318</b>	12,601	5.69	<b>13,271</b>	12,567	5.60
<b>Net Interest, Fee and Commission Income</b>	<b>84,203</b>	88,231	(4.57)	<b>84,307</b>	88,146	(4.36)
Net Trading Income	2,622	(306)	956.86	2,622	(306)	956.86
Other Income (Net)	3,061	3,349	(8.60)	3,596	4,757	(24.41)
<b>Operating Income</b>	<b>89,886</b>	91,274	(1.52)	<b>90,525</b>	92,597	(2.24)
<b>Less: Operating Expenses</b>						
Personnel Expenses	25,618	27,504	(6.86)	25,811	27,735	(6.94)
Cost on Voluntary Retirement Scheme	-	6,137	-	-	6,137	-
Premises, Equipment and Establishment Expenses	14,116	14,883	(5.15)	13,877	14,688	(5.52)
Net Impairment Loss on Loans and Receivables	2,491	6,403	(61.10)	2,491	6,403	(61.10)
Other Expenses	17,322	22,514	(23.06)	17,673	23,898	(26.05)
<b>Operating Expenses</b>	<b>59,547</b>	77,441	(23.11)	<b>59,852</b>	78,861	(24.10)
<b>Profit from Operations before Value Added Tax</b>	<b>30,339</b>	13,833	119.32	<b>30,673</b>	13,736	123.30
Value Added Tax on Financial Services	5,315	3,557	49.42	5,315	3,557	49.42
<b>Profit from Operations before Taxation</b>	<b>25,024</b>	10,276	143.52	<b>25,358</b>	10,179	149.11
Less: Income Tax Expense	8,921	4,436	101.10	8,992	4,327	107.81
<b>Profit for the Year</b>	<b>16,103</b>	5,840	175.74	<b>16,366</b>	5,852	179.65
<b>Profit Attributable to:</b>						
Equity Holders of the Bank	16,103	5,840	175.74	16,214	5,937	173.08
Non-Controlling Interests	-	-	-	152	(85)	278.82
<b>Profit for the Year</b>	<b>16,103</b>	5,840	175.74	<b>16,366</b>	5,852	179.65
<b>Basic/Diluted Earnings per Share (US\$)</b>	<b>0.048</b>	0.019	152.63	<b>0.048</b>	0.019	152.63
<b>Other Comprehensive Income, Net of Income Tax</b>						
Revaluation of Property, Plant & Equipment	415	-	-	415	5	8,200.00
Net Change of Financial Assets Measured at Fair Value Through Other Comprehensive Income:						
Net Change in Fair Value on Available-for-Sale Financial Assets	(2,009)	(3,037)	33.85	(2,033)	(3,027)	32.84
Net Amount Transferred to Profit or Loss on Available-for-Sale Financial Assets	-	(4)	-	-	(8)	-
Other Comprehensive Income for the Year, Net of Tax	(1,594)	(3,041)	47.58	(1,618)	(3,030)	46.60
<b>Total Comprehensive Income for the Year</b>	<b>14,509</b>	2,799	418.36	<b>14,748</b>	2,822	422.57
Total Comprehensive Income Attributable to:						
Equity Holders of the Bank	14,509	2,799	418.36	14,607	2,902	403.31
Non-Controlling Interests	-	-	-	141	(80)	276.25
<b>Total Comprehensive Income for the Year</b>	<b>14,509</b>	2,799	418.36	<b>14,747</b>	2,822	422.57

Exchange rate of US\$ 1 was Rs. 127.25 as at 31st December 2012 (Rs. 113.85 as at 31st December 2011).

The Income Statement given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

## Statement of Financial Position in US Dollars

As at 31st December	BANK				GROUP			
	2012 US\$. '000	2011 US\$. '000	Change %	2010 US\$. '000	2012 US\$. '000	2011 US\$. '000	Change %	2010 US\$. '000
<b>Assets</b>								
Cash and Cash Equivalents	51,508	39,967	28.88	42,328	51,509	39,972	28.86	42,342
Balances with Central Bank of Sri Lanka	63,094	62,106	1.59	49,134	63,094	62,106	1.59	49,134
Investments designated at fair value through profit & Loss	19,334	46,057	(58.02)	151,186	19,396	46,064	(57.89)	151,207
Derivative Financial Instruments	403	657	(38.66)	189	403	657	(38.66)	189
Securities Purchased under Resale Agreements	1,363	29,106	(95.32)	11,412	1,363	29,106	(95.32)	11,412
Commercial Papers	-	-	-	1,976	-	-	-	1,976
Loans and Receivables	980,184	934,479	4.89	802,620	980,184	934,479	4.89	802,620
Held to Maturity Investment Securities	155,780	155,162	0.40	96,195	155,780	155,162	0.40	96,195
Available for Sale Investment Securities	89,258	104,406	(14.51)	109,677	89,258	104,406	(14.51)	109,677
Investments in Subsidiary	6,234	6,968	(10.53)	3,233	-	-	-	-
Group Balances Receivable	477	138	245.65	4,161	-	-	-	-
Investment Properties	1,867	2,087	(10.54)	4,403	9,457	10,773	(12.22)	14,984
Current Taxation Asset	-	-	-	-	10	-	-	-
Deferred Taxation Asset	1,990	4,480	(55.58)	3,746	3,785	6,514	(41.89)	5,708
Property, Plant & Equipment	18,794	20,828	(9.77)	22,198	23,905	26,772	(10.71)	28,552
Leasehold Rights	311	351	(11.40)	368	4,853	5,492	(11.64)	5,713
Intangible Assets	1,590	3,551	(55.22)	4,556	1,590	3,551	(55.22)	4,556
Other Assets	51,127	47,226	8.26	46,052	51,577	47,515	8.55	46,293
<b>Total Assets</b>	<b>1,443,314</b>	<b>1,457,569</b>	<b>(0.98)</b>	<b>1,353,434</b>	<b>1,456,164</b>	<b>1,472,569</b>	<b>(1.11)</b>	<b>1,370,558</b>
<b>Liabilities</b>								
Derivative Financial Instruments	2,191	593	269.48	331	2,191	593	269.48	331
Deposits	1,153,062	1,088,986	5.88	1,016,934	1,153,062	1,088,986	5.88	1,016,934
Securities Sold under Repurchase Agreements	28,879	82,655	(65.06)	85,684	28,879	82,655	(65.06)	85,684
Borrowings	48,311	64,275	(24.84)	39,698	48,311	64,275	(24.84)	43,514
Group Balances Payable	1,703	877	94.18	74	-	-	-	-
Debentures	9,522	24,464	(61.08)	38,429	9,522	24,464	(61.08)	38,429
Current Tax Liabilities	5,368	1,906	181.64	366	5,368	1,852	189.85	339
Other Liabilities	45,296	40,170	12.76	57,151	46,023	40,844	12.68	58,150
<b>Total Liabilities</b>	<b>1,294,332</b>	<b>1,303,926</b>	<b>(0.74)</b>	<b>1,238,667</b>	<b>1,293,356</b>	<b>1,303,669</b>	<b>(0.79)</b>	<b>1,243,381</b>
<b>Equity</b>								
Stated Capital	80,357	90,113	(10.83)	50,161	80,357	90,113	(10.83)	50,161
Statutory Reserve Fund	5,697	5,433	4.86	5,129	5,697	5,433	4.86	5,129
Retained Earnings	49,082	45,658	7.50	46,248	48,489	44,880	8.04	45,350
Other Reserves	13,846	12,439	11.31	13,229	18,662	17,835	4.64	18,760
<b>Total Equity Attributable to Equity Holders of the Bank</b>	<b>148,982</b>	<b>153,643</b>	<b>(3.03)</b>	<b>114,767</b>	<b>153,205</b>	<b>158,261</b>	<b>(3.19)</b>	<b>119,400</b>
<b>Non-Controlling Interest</b>					<b>9,603</b>	<b>10,639</b>	<b>(9.74)</b>	<b>7,777</b>
<b>Total Equity</b>	<b>148,982</b>	<b>153,643</b>	<b>(3.03)</b>	<b>114,767</b>	<b>162,808</b>	<b>168,900</b>	<b>(3.61)</b>	<b>127,177</b>
<b>Total Liabilities and Equity</b>	<b>1,443,314</b>	<b>1,457,569</b>	<b>(0.98)</b>	<b>1,353,434</b>	<b>1,456,164</b>	<b>1,472,569</b>	<b>(1.11)</b>	<b>1,370,558</b>
<b>Commitments and Contingencies</b>	<b>245,869</b>	<b>318,377</b>	<b>(22.77)</b>	<b>272,046</b>	<b>246,386</b>	<b>319,064</b>	<b>(22.78)</b>	<b>272,649</b>
<b>Net Assets Value per Share (US\$)</b>	<b>0.44</b>	<b>0.45</b>	<b>(2.22)</b>	<b>0.45</b>	<b>0.45</b>	<b>0.47</b>	<b>(33.72)</b>	<b>0.47</b>

Exchange rate of US\$ 1 was Rs. 127.25 as at 31st December 2012 (Rs. 113.85 as at 31st December 2011 and Rs. 111.00 as at 1st January 2011).

The Statement of Financial Position given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Statements.

## / Investor Information

### Twenty Largest Shareholders as at 31st December 2012

#### Ordinary Voting Shares

	2012		Comparative Holdings of the Top 20 Holders in 2011	
	No. of Shares	%	No. of Shares	%
1. Sri Lanka Insurance Corporation Limited [includes Sri Lanka Insurance Corporation Limited (General Fund) - 17,333,333 and Sri Lanka Insurance Corporation Limited (Life Fund) - 8,666,666]	25,999,999	15.00	25,999,999	15.00
2. Brown & Company PLC A/C No. 1	24,049,888	13.87	24,049,888	13.87
3. National Development Bank PLC/Dr. T. Senthilvel	17,201,683	9.92	17,333,333	10.00
4. LOLC Investments Limited	16,555,954	9.55	16,555,954	9.55
5. Employees Provident Fund	15,991,444	9.22	14,323,435	8.26
6. Bank of Ceylon No. 1 Account	13,000,000	7.50	13,000,000	7.50
7. Waldock Mackenzie Limited/Mr. D.S.K. Amarasekera	11,152,610	6.43	-	-
8. Dr. W.U.N. Gamage	7,835,200	4.52	10,335,200	5.96
9. Bentota Backwaters (Private) Limited	3,308,565	1.91	-	-
10. Seyfest (Private) Limited	2,972,596	1.71	2,972,596	1.71
11. Sesot (Private) Limited	2,244,800	1.30	2,244,800	1.30
12. Seybest (Private) Limited	2,132,900	1.23	2,132,900	1.23
13. Seyshop (Private) Limited	2,132,900	1.23	2,132,900	1.23
14. Esots (Private) Limited	2,115,857	1.22	2,115,857	1.22
15. Ceylinco Limited	1,680,896	0.97	1,680,896	0.97
16. Mr. K.R.B. Fernando	1,000,000	0.58	1,000,000	0.58
17. Sotse (Private) Limited	962,331	0.56	962,331	0.56
18. Dr. J.L.B. Kotelawala	529,525	0.31	529,525	0.31
19. Sinharajah Hills Plantation (Private) Limited	512,825	0.30	-	-
20. Mr. L.W. Abeywickrama	477,500	0.28	477,500	0.28
Total Shares held by the Top 20 Holders - 2012	151,857,473	87.61	-	-
Balance Shares held by other 10,460 Ordinary Voting Shareholders - 2012	21,475,860	12.39	-	-
<b>Total Ordinary Voting Shares</b>	<b>173,333,333</b>		<b>173,333,333</b>	
<b>Total Ordinary Voting Shareholders</b>	<b>10,480</b>		<b>11,064</b>	

## / Investor Information

### Ordinary Non-Voting Shares

	2012		Comparative Holdings of the Top 20 Holders in 2011	
	No. of Shares	%	No. of Shares	%
1. Lanka Orix Leasing Company PLC	46,864,489	28.44	28,493,289	17.30
2. Employees' Provident Fund	16,399,359	9.95	15,335,034	9.31
3. Browns Investments PLC	11,697,418	7.10	7,542,275	4.58
4. Mr. E. Thavagnanasooriyam & Mr. E. Thavagnanasundaram	2,627,407	1.59	2,789,866	1.69
5. Associated Electrical Corporation Limited	2,540,000	1.54	2,428,766	1.47
6. Pershing LLC S/A Averbach Grauson & Co.	2,202,933	1.34	2,202,933	1.34
7. Merrill J. Fernando & Sons (Private) Limited	1,830,000	1.11	1,830,000	1.11
8. Employees' Trust Fund Board	1,722,583	1.05	670,000	0.41
9. Mr. N. Balasingam	1,718,503	1.04	1,738,803	1.06
10. Bentota Backwaters (Private) Limited	1,509,879	0.92	-	-
11. National Savings Bank	1,496,666	0.91	1,496,666	0.91
12. Mrs. L.E.M. Yaseen	1,340,000	0.81	1,340,000	0.81
13. Seylan Bank PLC/Pubudhu Saranga Wijayakumari Rupasinghe	1,178,712	0.72	-	-
14. Mr. N. Ganarajah	1,140,666	0.69	1,140,666	0.69
15. Phoenix Ventures Limited	1,129,866	0.69	1,129,866	0.69
16. Dr. S. Yaddhegige	1,016,200	0.62	1,016,200	0.62
17. Waldock Mackenzie Limited/Mr. L.P. Hapangama	900,000	0.55	900,000	0.55
18. Mr. E. Thavagnanasooriyam	832,199	0.51	1,323,800	0.80
19. J.B. Cocoshell (Private) Limited	816,527	0.50	772,400	0.47
20. Mr. E. Thavagnanasundaram	752,834	0.45	1,558,600	0.95
Total Shares held by the Top 20 Holders	99,716,241	60.53	-	-
Balance Shares held by other 9,594 Ordinary Non-Voting Shareholders	65,030,425	39.47	-	-
<b>Total Ordinary Non-Voting Shares</b>	<b>164,746,666</b>		164,746,666	
<b>Total Ordinary Non-Voting Shareholders</b>	<b>9,614</b>		11,210	

## / Investor Information

### Shareholdings of Directors as at 31st December 2012

Directors' shareholdings as at 31st December 2012 are given on page 230 of the Annual Report of the Board of Directors.

### Shareholding of the Chief Executive Officer

Mr. K.P. Ariyaratne

As at 31st December 2012	As at 31st December 2011
20,800 Ordinary Voting Shares	20,800 Ordinary Voting Shares
37 Ordinary Voting Shares (Joint holding)	37 Ordinary Voting Shares (Joint holding)
115,400 Ordinary Non-Voting Shares	115,400 Ordinary Non-Voting Shares

### Ordinary Shares (Quoted)

	Voting (SEYB-N)		Non-Voting (SEYB-X)	
	2012	2011	2012	2011
No. of Shares Issued	<b>173,333,333</b>	173,333,333	<b>164,746,666</b>	164,746,666
Dividend - Proposed (Rs. per Share)				
Cash Dividend	<b>1.00</b>	1.00	<b>1.00</b>	1.00
Scrip Dividend	<b>1.00</b>	-	<b>1.00</b>	-
<b>Share Prices</b>				
Highest (Rs.)	<b>72.00</b>	100.00	<b>37.00</b>	51.90
Lowest (Rs.)	<b>49.00</b>	59.50	<b>21.20</b>	27.10
Last Traded (Rs.)	<b>56.00</b>	67.60	<b>35.10</b>	30.80
Percentage of Public Holding (%)	<b>61.53</b>	51.51	<b>71.48</b>	82.61

### Analysis of the Distribution of Shareholders as at 31st December 2012

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	8,031	2,331,263	1.34	5,117	2,373,552	1.44
1,001 - 10,000	2,100	6,650,292	3.84	3,516	12,790,221	7.76
10,001 - 100,000	305	8,127,859	4.69	845	24,065,017	14.61
100,001 - 1,000,000	28	7,848,627	4.53	120	29,103,195	17.66
1,000,001 & Above	16	148,375,292	85.60	16	96,414,681	58.52
<b>Total</b>	<b>10,480</b>	<b>173,333,333</b>	<b>100.00</b>	<b>9,614</b>	<b>164,746,666</b>	<b>100.00</b>

#### Resident/Non-Resident

Resident	10,368	172,128,605	99.30	9,503	156,324,317	94.89
Non-Resident	112	1,204,728	0.70	111	8,422,349	5.11

#### Individuals/Institutions

Individuals	10,166	26,980,496	15.57	9,236	60,595,124	36.78
Companies/Institutions	314	146,352,837	84.43	378	104,151,542	63.22

## / Investor Information

### Debentures 2007/2012 - Issue 1 (Redeemed on 29th May 2012)

(Listed on CSE in June 2007)

(SEYB D118, D119 and D120)

	Monthly Interest (15.75%)		Annual Interest (16.75%)		Floating Rate of Interest	
	2012	2011	2012	2011	2012	2011
No. of Debentures Issued	2,916,200		4,275,450		302,350	
<b>Debenture Prices:</b>						
Highest (Rs.)	Not traded till		100.00	Not traded till		90.00
Lowest (Rs.)	29.05.2012		100.00	29.05.2012		90.00
Last Traded (Rs.)	29.05.2012		100.00	29.05.2012		90.00
					Not traded	in 2011

### Debentures 2007/2012 - Issue 1 (Redeemed on 9th December 2012)

(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	
	2012	2011	2012	2011	2012	2011	2012	2011
No. of Debentures Issued	2,089,550		2,962,400		433,350		107,550	
<b>Debenture Prices:</b>								
Highest (Rs.)	95.00	100.00	100.00	85.00	Not traded in		Not traded in	
Lowest (Rs.)	95.00	100.00	100.00	85.00	2011 and 2012		2011 and 2012	
Last Traded (Rs.)	95.00	100.00	100.00	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	
	2012	2011	2012	2011	2012	2011	2012	2011
No. of Debentures Issued	3,954,450		2,316,100		1,200		33,900	
<b>Debenture Prices:</b>								
Highest (Rs.)	99.35	78.75	100.00	Not traded in		Not traded in		Not traded in
Lowest (Rs.)	90.00	78.75	100.00	2011		2011 and 2012		2011 and 2012
Last Traded (Rs.)	95.02	78.75	100.00					

## / Investor Information

	2012	2011
<b>Interest Rate of Comparable Government Security</b>	<b>12.77%</b>	9.05%
<b>Debt/Equity Ratio**</b>	<b>0.06</b>	0.16
<b>Interest Cover</b>	<b>9.68</b>	3.16
<b>Quick Asset Ratio**</b>	<b>0.81</b>	0.76
<b>Interest Yield as at Date of Last Trade</b>		
<b>2006/2011 Issue</b>		
Annual Interest		*
Monthly Interest*/(16.05.2011)		14.61%
Floating Interest - Annual*		*
<b>2007/2012 Issue I</b>		
Annual Interest*/(18.07.2011)	*	16.75%
Monthly Interest*/(19.12.2011)	*	18.00%
Floating Interest - Annual*	*	*
<b>2007/2012 Issue II</b>		
Annual Interest (22.02.2012)/(10.08.2011)	<b>18.00%</b>	18.00%
Monthly Interest (14.08.2012)/(02.06.2011)	<b>19.35%</b>	19.36%
Floating Interest - Quarterly*	*	*
Floating Interest - Annual*	*	*
<b>2008/2013 Issue</b>		
Annual Interest (23.01.2012)/(04.02.2011)	<b>21.50%</b>	21.50%
Monthly Interest (04.07.2012)/(02.06.2011)	<b>23.73%</b>	23.73%
Floating Interest - Quarterly*	*	10.18%
Floating Interest - Annual*	*	*
<b>Yield to Maturity of Trade Done on</b>		
<b>2006/2011 Issue</b>		
Annual Interest		*
Monthly Interest*/(16.05.2011)		50.28%
Floating Interest - Annual*		*
<b>2007/2012 Issue I</b>		
Annual Interest*/(18.07.2011)	*	16.38%
Monthly Interest*/(19.12.2011)	*	30.38%
Floating Interest - Annual*	*	*
<b>2007/2012 Issue II</b>		
Annual Interest (22.02.2012)/(10.08.2011)	<b>17.36%</b>	17.70%
Monthly Interest (14.08.2012)/(02.06.2011)	<b>34.07%</b>	20.93%
Floating Interest - Quarterly*	*	*
Floating Interest - Annual*	*	*
<b>2008/2013 Issue</b>		
Annual Interest (23.01.2012)/(04.02.2011)	<b>21.46%</b>	21.41%
Monthly Interest (04.07.2012)/(02.06.2011)	<b>24.51%</b>	23.09%
Floating Interest - Quarterly*	*	10.49%
Floating Interest - Annual*	*	*

\* No Trading During The Period.

\*\* Comparative Period - Immediate Preceding Financial Year.



## Branch Network

### • ATM

### A

#### Akuressa •

No. 119, Deniyaya Road,  
Akuressa  
Branch : 041-2284951/  
041-2284952  
Fax : 041-2284950  
E-mail : aku@seylan.lk

#### Ambalangoda •

No. 24 A, Galle Road,  
Ambalangoda  
Branch : 091-2258010/  
091-2258710  
Manager : 091-2256154  
Fax : 091-2258011  
Email : amb@seylan.lk

#### Ambalantota •

No. 154, Tissa Road,  
Ambalantota  
Branch : 047-2225482/  
047-2225483  
Fax : 047-2225484  
E-mail : abt@seylan.lk

#### Ampara •

No. 129, D.S. Senanayake Street,  
Ampara  
Branch : 063-2224897/  
063-2224898  
Manager : 063-2224899  
Fax : 063-2224897/8  
Email : amp@seylan.lk

#### Anuradhapura •

No. 250, Main Street,  
Anuradhapura  
Branch : 025-2224649/  
025-2224547  
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

### B

#### 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/  
045-2287107  
Manager : 045-2287007  
Fax : 045-2287344  
Email : bal@seylan.lk

#### Bandaragama •

No. 17A, Horana Road,  
Bandaragama  
Branch : 038-2290706/  
038-2290460  
Manager : 038-4290263  
Fax : 038-2291125  
Email : bdg@seylan.lk

#### Bandarawela •

No. 240, Badulla Road,  
Bandarawela  
Branch : 057-2223144  
Manager : 057-2231085  
Fax : 057-2222964  
Email : bdw@seylan.lk

#### Battaramulla •

No. 119A, Pannipitiya Road,  
Battaramulla  
Branch : 011-2876102/  
011-2876103  
Fax : 011-2876104  
E-mail : bml@seylan.lk

#### Batticaloa •

No. 06, Lloyds Avenue,  
Batticaloa  
Branch : 065-2224419/  
065-2226395  
Manager : 065-2224587  
Fax : 065-2224353  
Email : bcl@seylan.lk

#### Beliatta •

No. 73, Tangalle Road,  
Beliatta  
Branch : 047-2243441/  
047-2243619  
Manager : 047-2251478  
Fax : 047-2243461  
Email : blt@seylan.lk

#### 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

### C

#### Colombo Fort Branch •

No. 69, Janadhipathi Mawatha,  
Colombo 01  
Branch : 011-2445840/  
011-2445841/  
011-2445842  
Manager : 011-4714655  
Fax : 011-2447990  
E-mail : cfb@seylan.lk

#### Chavakachcheri •

No. 179, 181, 183, 185,  
Kandy Road, Chavakachcheri  
Branch : 021-2270525/  
021-2270526  
Fax : 021-2270527  
Email : cha@seylan.lk

#### Chenkalady •

Main Street, Chenkalady  
Branch : 065-3063525/  
065-3063526  
Fax : 065-2241511  
Email : cnk@seylan.lk

#### Chilaw •

No. 46, Kurunegala Road,  
Chilaw  
Branch : 032-2222121/  
032-4860550  
Manager : 032-4860550  
Fax : 032-2223279  
Email : chw@seylan.lk

#### Cinnamon Gardens •

No. 4, Baptist Chapel Road,  
Colombo 07  
Branch : 011-2694966/  
011-4718348  
Manager : 011-2683726  
Fax : 011-2683725  
Email : cgd@seylan.lk

#### Colombo South •

No. 30, Galle Road, Wellawatte,  
Colombo 06  
Branch : 011-2593405/  
011-2593407  
Manager : 011-4510030  
Fax : 011-2593406  
Email : cls@seylan.lk

### D

#### Dambulla •

No. 601, Anuradhapura Road,  
Dambulla  
Branch : 066-2283023  
Fax : 066-2283023  
E-mail : ddb@seylan.lk

#### Dam Street •

No. 203, Dam Street,  
Colombo 11  
Branch : 011-4718344/  
011-4718345  
Fax : 011-2347138  
Email : dst@seylan.lk

#### Dehiattakandiya •

No. 83/84, Main Street,  
Dehiattakandiya  
Branch : 027-2250034/  
027-2250268  
Manager : 027-2250267  
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

### E

#### Embilipitiya •

New Town Road,  
Embilipitiya  
Branch : 047-2230340/  
047-2230341  
Manager : 047-4379635  
Fax : 047-2230342  
Email : emb@seylan.lk

### G

#### 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/  
081-2354742/  
081-2354242  
Manager : 081-4485435  
Fax : 081-2352740  
Email : gmp@seylan.lk

#### Ganemulla •

No. 4/2, Kirindiwita Road,  
Ganemulla  
Branch : 033-2260738  
Manager : 033-2260230  
Fax : 033-2260737  
Email : gnm@seylan.lk

#### Grandpass •

No. 401, Prince of Wales Avenue,  
Colombo 14  
Branch : 011-2331726/  
011-2331727/  
011-4610175  
Manager : 011-2451061  
Fax : 011-2440117  
Email : gnp@seylan.lk

### H

#### Hambantota •

No. 57A, Tissa Road,  
Hambantota  
Branch : 047-2220507  
Manager : 047-2220518  
Fax : 047-2220519  
Email : hbt@seylan.lk

#### Hatton •

No. 42, Dunbar Road,  
Hatton  
Branch : 051-2222347  
Manager : 051-2220518  
Fax : 051-2222682  
Email : htn@seylan.lk

## / Branch Network

### 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

## J

### Ja-Ela •

No. 165/1, Colombo Road,  
Ja-Ela  
Branch : 011-2237421/  
011-4030556  
Manager : 011-5858171  
Fax : 011-2237416  
Email : jla@seylan.lk

### Jaffna •

No. 560-562, Hospital Road,  
Jaffna  
Branch : 021-2223047/  
021-2223755  
Manager : 021-2228224  
Fax : 021-2223047/  
021-2223755  
Email : jfn@seylan.lk

## K

### Kadawatha •

No. 28 B, Ganemulla Road,  
Kadawatha  
Branch : 011-2925594/  
011-2925595/  
011-2925914  
Manager : 011-4816821  
Fax : 011-2925596  
Email : kdww@seylan.lk

### Kaduruwela •

No. 824A, Main Street,  
Kaduruwela  
Branch : 027-2225319/  
027-2225320  
Fax : 027-2225321  
E-mail : kdr@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

### 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, Nawisiri 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. 64, Colombo Road,  
Kurunegala  
Branch : 037-2223581-2,  
037-2224276  
Manager : 037-2224276  
Fax : 037-2224277  
Email : kgl@seylan.lk

## M

### Maharagama •

No. 134B, High Level Road,  
Maharagama  
Branch : 011-2841997/  
011-2850648  
Manager : 011-2841999  
Fax : 011-2850649  
Email : mhg@seylan.lk

### Mahiyanganaya •

No. 13, Kandy Road, South  
Mahiyanganaya  
Branch : 055-2258112/  
055-2258113  
Fax : 055-2258114  
E-mail : mhy@seylan.lk

### Malabe •

No. 11, Athurugiriya Road,  
Malabe  
Branch : 011-2561415/  
011-2560403/  
011-4547400  
Manager : 011-2560515  
Fax : 011-2561414  
Email : mlb@seylan.lk

### Manampitiya •

9B, Main Street,  
Manampitiya  
Branch : 027-3279171  
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

### Marandagamulla •

No. 150, Divulapitiya Road,  
Marandagamulla  
Branch : 031-2246377  
Manager : 031-2246096  
Fax : 031-2246378  
Email : mdg@seylan.lk

### Maradana •

No. 250, Sri Sangaraja Mawatha,  
Colombo 10  
Branch : 011-2473281/  
011-2334185  
Manager : 011-2473773  
Fax : 011-2473280  
Email : mdn@seylan.lk

### Matale •

No. 166-168, Main Street,  
Matale  
Branch : 066-2232936/  
066-2232934/  
066-2232421  
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 : mln@seylan.lk

### Mirigama •

No. 70/1, Giriulla Road,  
Mirigama  
Branch : 033-2273001  
Manager : 033-2273002  
Fax : 033-2273000  
Email : mrg@seylan.lk

## / Branch Network

### Moneragala •

No. 94/3, New Bus Stand,  
Moneragala.  
Branch : 055-2276212/  
055-2276221  
Fax : 055-2276164  
E-mail : mgl@seylan.lk

### Moratuwa •

No. 433, Galle Road,  
Rawathawatta, Moratuwa  
Branch : 011-2656902-3/  
011-2655555  
Manager : 011-4011244  
Fax : 011-2656901  
Email : mor@seylan.lk

### Mount Lavinia •

No. 198, Galle Road,  
Ratmalana  
Branch : 011-2731266/  
011-2723272  
Manager : 011-4213194  
Fax : 011-2723271  
Email : mlv@seylan.lk

### Mullaitivu •

P.W.D. Road, Mullaitivu  
Branch : 021-2290065-6  
Fax : 021-2290067  
Email : mtu@seylan.lk

## N

### Narammala •

No. 150, Kurunegala Road,  
Narammala  
Branch : 037-2248764/  
037-2248765  
Fax : 037-2248745  
E-mail : nml@seylan.lk

### Nawala •

No. 48/A, Narahenpita Road,  
Nawala  
Branch : 011-2806727/  
011-4547855  
Manager : 011-2507329  
Fax : 011-2805779  
Email : nwl@seylan.lk

### Nawalapitiya •

No. 2, Baily Road,  
Nawalapitiya  
Branch : 054-2222056-7  
Manager : 054-2222018  
Fax : 054-2223832  
Email : nlp@seylan.lk

### Negombo •

No. 141, Rajapakshe Broadway,  
Negombo  
Branch : 031-2224334/  
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/  
011-4300310  
Email : nug@seylan.lk

### Nuwara-Eliya •

No. 48, Park Road, Nuwara-Eliya  
Branch : 052-2223026/  
052-2223593  
Manager : 052-2234338  
Fax : 052-2223002  
Email : nly@seylan.lk

## O

### Old Moor Street

No. 315-317, Old Moor Street,  
Colombo 12  
Branch : 011-2447537/  
011-2447539  
Manager : 011-2446046  
Fax : 011-2331774  
Email : oms@seylan.lk

## P

### Panadura •

No. 401, Galle Road, Panadura  
Branch : 038-2299172/  
038-2233173  
Manager : 038-2238355  
Fax : 038-2235304  
Email : pnd@seylan.lk

### Pelmadulla •

No. 17, Galwatta Road,  
Pelmadulla  
Branch : 045-2275037  
Manager : 045-2275625  
Fax : 045-2275527  
Email : pel@seylan.lk

### Pettah •

No. 96, Main Street, Colombo 11  
Branch : 011-2337823-5/  
011-4718341/  
011-4716455  
Manager : 011-2441471  
Fax : 011-2337826/  
011-2384493  
Email : pet@seylan.lk

### Piliyandala •

No. 7, Old Road, Piliyandala.  
Branch : 011-2604982-3  
Fax : 011-2604983  
E-mail : ply@seylan.lk

### Polonnaruwa •

Lake View Building, Polonnaruwa  
Branch : 027-2223168-9  
Manager : 027-2224590  
Fax : 027-2223168/9  
Email : pol@seylan.lk

### Puttalam •

No. 14, Kangani Kulam Street,  
Puttalam  
Branch : 032-2265194/  
032-2265580  
Manager : 032-2266215  
Fax : 032-2265469  
Email : ptl@seylan.lk

## R

### Raddolugama •

No. 171, National Housing  
Scheme, Raddolugama  
Branch : 011-2292778  
Manager : 011-2292252  
Fax : 011-2292372  
Email : rdl@seylan.lk

### Ratnapura •

No. 6, Goodshed Road,  
Ratnapura  
Branch : 045-2225801-2/  
045-2223730  
Manager : 045-5671220  
Fax : 045-2222111  
Email : rnp@seylan.lk

### Ruwanwella •

No. 52, Main Street, Ruwanwella  
Branch : 036-2267445-6/  
036-2268047  
Manager : 036-2268623  
Fax : 036-2267447  
Email : rwn@seylan.lk

## S

### Sarikkammulla •

No. 97, Galle Road,  
Sarikkammulla, Panadura  
Branch : 038-4282844-5  
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

## T

### Talawakelle •

No. 10, Kotmale Road,  
Talawakelle  
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/  
026-2227965  
Manager : 026-2227704  
Fax : 026-2227702  
Email : tco@seylan.lk

## V

### Vavuniya •

No. 45, 2nd Cross Street,  
Vavuniya  
Branch : 024-2222633-4  
Manager : 024-2220077  
Fax : 024-2222933  
Email : vny@seylan.lk

## W

### Warakapola •

No. 192, Main Street,  
Warakapola  
Branch : 035-2267628-9  
Manager : 035-2267100  
Fax : 035-2267123  
Email : wkp@seylan.lk

### Wattala •

No. 276, Negombo Road,  
Wattala  
Branch : 011-2981548/  
011-2946266  
Manager : 011-4814717  
Fax : 011-2931603  
Email : wtl@seylan.lk

### Welimada •

No. 107, Nuwara-Eliya Road,  
Welimada  
Branch : 057-2245617/  
057-2245395/  
057-2244628  
Fax : 057-2245350  
Email : wlm@seylan.lk

### Weliveriya •

No. 477/20/15, Edwin Estate,  
Main Street, Weliveriya  
Branch : 033-2255021/  
033-2255291  
Manager : 033-2257710  
Fax : 033-2255355  
Email : wlw@seylan.lk

## Y

### Yakkala •

No. 104, Kandy Road,  
Yakkala  
Branch : 033-2222492/  
033-2226378/  
033-2233526  
Manager : 033-2227014  
Fax : 033-2233527  
Email : ykl@seylan.lk

## / Branch Network

### Extension Offices

#### A

##### Aralaganwila ●

No. 14/82, Kolongas Junction,  
Aralaganwila  
Branch : 027-2257274  
Fax : 027-2257273  
Email : arl@seylan.lk

#### B

##### Baduraliya

No. 92, Ratnapura Road,  
Baduraliya  
Branch : 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

##### Bowatta ●

No. 476/2, Kurunegala Road,  
Bowatta, Bingiriya  
Branch : 032-2245771  
Fax : 032-2245772  
E-mail : bwt@seylan.lk

#### C

##### Chankanai ●

Mallakkam Junction, Main Road,  
Chankanai  
Branch : 021-3205965  
Fax : 021-2250025  
Email : ckn@seylan.lk

#### E

##### Eppawala ●

114B, Thalawa Road, Eppawala  
Branch : 025-2249923  
Fax : 025-2249922  
Email : epw@seylan.lk

#### F

##### Free Trade Zone ●

Unit No. 3, Plaza Complex, KIPZ,  
Katunayake  
Branch : 011-2251699/  
011-2259880  
Fax : 011-2251699  
Email : ftz@seylan.lk

#### G

##### Galenbindunuwewa ●

Kahatagasdigiliya Road,  
Galenbindunuwewa  
Branch : 025-2258778  
Fax : 025-2258777  
Email : gln@seylan.lk

##### Gothatuwa ●

No. 31, Gothatuwa New Town,  
Angoda  
Branch : 011-2410985  
Fax : 011-2410986  
E-mail : ktw@seylan.lk

#### H

##### Hasalaka ●

No. 95/96, Co-operative Building,  
Kandy Road, Hasalaka  
Branch : 055-2258325  
Fax : 055-2258324  
Email : hsk@seylan.lk

#### I

##### Ingiriya

No. 23, Central Building,  
Padukka Road, Ingiriya  
Branch : 034-2269754  
Fax : 034-2269900  
Email : ing@seylan.lk

#### K

##### Kalavanchikudi ●

No. 225, Main Street,  
Kalavanchikudi  
Branch : 065-2251536  
Fax : 065-2251535  
Email : kwk@seylan.lk

##### Kamburupitiya ●

No. 5, Akuressa Road,  
Kamburupitiya  
Branch : 041-2292555/  
041-3401070  
Fax : 041-2293555  
Email : kmb@seylan.lk

##### Kantale ●

No. 189, Agrabodhi Mawatha,  
Kantale  
Branch : 026-2234478  
Fax : 026-2234479  
Email : kan@seylan.lk

##### Kalpitiya

No. 27, Main Street, Kalpitiya  
Branch : 032-2260012  
Fax : 032-2260012  
E-mail : klp@seylan.lk

##### Kataragama ●

No. 1, New Town, Kataragama  
Branch : 047-5677165/  
047-2236248  
Fax : 047-2236247  
Email : ktr@seylan.lk

##### Katugastota ●

No. 444/C, Kandy Road,  
Katugastota  
Branch : 081-2212870  
Fax : 081-2212871  
Email : ktu@seylan.lk

##### Kirindiwela ●

No. 89, Gampaha Road,  
Kirindiwela  
Branch : 033-2269709/  
033-4923886  
Fax : 033-2269709  
Email : krn@seylan.lk

##### Kirulapone ●

No. 280B, High Level Road,  
Colombo 06  
Branch : 011-2829054  
Fax : 011-2768432  
Email : krp@seylan.lk

##### Kotagala ●

No. 190, Wootan Bazaar,  
Kotagala  
Branch : 051-2244062  
Fax : 051-2244044  
Email : ktg@seylan.lk

##### Kotahena

No. 310/2, George R. De Silva  
Mawatha, Colombo 13  
Branch : 011-4712460  
Fax : 011-2399660  
Email : kth@seylan.lk

##### Kotiyakumbura

No. 5, Main Street,  
Kotiyakumbura  
Branch : 035-2289035  
Fax : 035-2289067  
Email : ktk@seylan.lk

#### M

##### 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

##### Medawachchiya ●

Jaffna Road, Medawachchiya  
Branch : 025-2245383  
Fax : 025-2245383  
E-mail : mdw@seylan.lk

##### Minuwangoda ●

No. 40, Cargills Building,  
Colombo Road, Minuwangoda  
Branch : 011-2299004  
Fax : 011-2299005  
Email : mng@seylan.lk

##### Moratumulla ●

No. 242, (330 & 330/1),  
De Soysa Road, Moratumulla,  
Moratuwa  
Branch : 011-2652084  
Fax : 011-2652085  
E-mail : mtm@seylan.lk

#### N

##### Nochchiyagama ●

No. 411, Puttalam Road,  
Nochchiyagama  
Branch : 025-2257220  
Fax : 025-2257220  
E-mail : nch@seylan.lk

#### P

##### Padaviya

'Vidushi Building',  
Bandaranayaka Junction, Padaviya  
Branch : 025-2253016  
Fax : 025-2253016  
Email : pdv@seylan.lk

##### Pallekelle ●

BOI, Pallekelle  
Branch : 081-2423958  
Fax : 081-2423135  
Email : plk@seylan.lk

##### Pottuvil

Main Street, Pottuvil  
Branch : 063-2248515  
Fax : 063-2248516  
Email : pvl@seylan.lk

#### R

##### Ranpokunagama

No. 1, Maduwagedara,  
Nittambuwa  
Branch : 033-2282241/  
033-2282242  
Fax : 033-2282241  
Email : rpk@seylan.lk

#### S

##### Sammanthurai ●

No. 113, Ampara 1st Lane,  
Hijra Junction, Sammanthurai  
Branch : 067-2261284  
Fax : 067-2261285  
Email : smt@seylan.lk

##### Siri Nivasa Housing Unit

No. 02, Deal Place, Colombo 3  
Tel : 011-4514601  
Fax : 011-4514602  
Email : pys@seylan.lk

##### Siyambalanduwa

Ampara Junction, Siyambalanduwa  
Branch : 055-3600039  
Fax : 055-3600038  
Email : syb@seylan.lk

#### U

##### Udappuwa

Division No. 06, Main Street,  
Udappuwa  
Branch : 032-2258830  
Fax : 032-2258830  
Email : udp@seylan.lk

#### V

##### Veyangoda ●

No. 95, Negombo Road, Veyangoda  
Branch : 033-2295050  
Fax : 033-2295051  
Email : vng@seylan.lk

#### W

##### Wijerama ●

No. 525, High Level Road,  
Gangodawila, Nugegoda  
Branch : 011-4301878  
Manager : 011-2803154  
Fax : 011-2803155  
Email : wjr@seylan.lk

#### Y

##### Yatiantota ●

No. 51/1/2, Ginigathhena Road,  
Yatiantota  
Branch : 036-2271480  
Fax : 036-2271481  
Email : ytn@seylan.lk

## / Geographical Analysis

### Deposits and Loans & Receivables

As at 31st December 2012

Province	No. of Branches	Deposits		Loans & Receivables	
		Rs. Mn.	%**	Rs. Mn.	%**
Western	50	99,873	68.2	95,202	71.7
Southern	9	7,397	5.0	4,344	3.3
Uva	5	2,686	1.8	1,642	1.2
North-Central	6	3,830	2.6	3,023	2.3
North-Western	6	6,609	4.5	4,167	3.1
Eastern	7	4,643	3.2	4,944	3.7
Northern	7	3,443	2.3	6,408	4.8
Sabaragamuwa	8	8,540	5.8	6,823	5.1
Central	9	9,706	6.6	6,420	4.8
	107	146,727	100.0	132,973	100.0
Impairment Allowance for Loans & Receivables - Individual Impairment		-		(2,710)	
Impairment Allowance for Loans & Receivables - Collective Impairment		-		(5,535)	
<b>Total</b>		<b>146,727*</b>		<b>124,728*</b>	

\*Deposits and Loans & Receivables net of impairment (charge) or reversal.

\*\*Deposits and Loans & Receivables percentages are computed based on total before LKFRS adjustments.

### Commitments and Contingencies

As at 31st December 2012

Province	No. of Branches	Acceptances	Stand by Letters of Credit	Guarantees	Documentary Credit	Bills for Collection	Forward Exchange Contracts (Net)	Indemnities	Total
		Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Western	50	4,789	314	5,770	2,677	1,590	(284)	10	14,866
Southern	9	62	4	402	22	7	-	-	497
Uva	5	-	-	183	-	3	-	-	186
North-Central	6	-	-	524	-	-	-	-	524
North-Western	6	54	-	480	44	25	-	-	603
Eastern	7	-	-	407	-	1	-	-	408
Northern	7	1	-	233	2	4	-	-	240
Sabaragamuwa	8	57	-	355	96	4	-	-	512
Central	9	79	-	579	104	29	-	-	791
<b>Contingencies</b>		<b>5,042</b>	<b>318</b>	<b>8,933</b>	<b>2,945</b>	<b>1,663</b>	<b>(284)</b>	<b>10</b>	<b>18,627</b>
<b>Commitments</b>									
Undrawn Credit Lines and Capital Commitments									12,660
<b>Total</b>	<b>107</b>	<b>5,042</b>	<b>318</b>	<b>8,933</b>	<b>2,945</b>	<b>1,663</b>	<b>(284)</b>	<b>10</b>	<b>31,287</b>

## / Glossary

### A

#### 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.

#### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

#### 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.

#### Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

#### Available for sale

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets.

### B

#### 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.

### C

#### Capital Adequacy Ratio

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.

#### Capital Reserve

Reserves identified for specific purposes and considered not available for distribution.

#### Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 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.

#### Corporate Governance

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

#### Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

#### Cost/Income Ratio

Operating expenses excluding Loan Loss Provision as a percentage of net income.

#### Credit Rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

### D

#### 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.

#### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

#### Derivatives

Financial contracts whose values are derived from the values of underline assets.

#### Derivatives held for risk management purposes

Derivatives are categorised as trading unless they are designated as hedging instruments.

#### 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.

### E

#### 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.

### F

#### Fair Value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

#### Finance Lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

#### Forward Exchange Contract

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

### G

#### General Provisions

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.

### H

#### Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, prices and commodities. etc.).

#### Held to maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

### I

#### 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.

## / Glossary

### Investment Securities

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

### J Joint Control

Joint control is the contractually agreed sharing of the control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

### K Key Management Personnel

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

### L 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 uncollectable.

### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

### M Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

### 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.

### Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

### N 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, refinancing funds and inter-bank borrowings.

### Non-Performing Advances Cover (NPA Cover)

Cumulative loan provision as a percentage of total non-performing advances (net of interest in suspense).

### 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.

### 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).

### O 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.

### Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

### P 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.

### R Related Parties

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

### 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 Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

### 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.

### Revenue Reserves

Reserves set aside for future distribution and investment.

### Risk-Weighted Assets

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

### S 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.

### Shareholders' Funds

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

### Share Premium

Amount paid by a shareholder, over and above the par value of a share.

### 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).

### T 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.

### V Value Added

Value of wealth created by providing banking and other related services less the cost of providing such services.

### Y Yield to Maturity

Discount rate at which the present value of future cash flows would equal the security's current price.

## / Corporate Information

### Name of Company

Seylan Bank PLC

### Company Registration Number

PQ 9

### Registered Office and Head Office

Seylan Towers,  
No. 90, Galle Road, Colombo 03, Sri Lanka  
Tel: (94)-(11)-2456000  
Fax: (94)-(11)-2456456  
Swift: SEYBLK LX  
Email: info@seylan.lk  
Website: www.eseylan.com

### Legal Form

A public limited liability company incorporated in Sri Lanka on 28th August 1987 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 on 30th May 2007. Commenced business operations as a licensed commercial bank regulated under the Banking Act No. 30 of 1988 (as amended) on 24th March 1988. Company was listed in the Colombo Stock Exchange in January 1989.

### Colombo Stock Exchange Listing

The Ordinary Shares and the Unsecured Subordinated (Five-Year) Redeemable Debentures are listed on the Colombo Stock Exchange.

### Accounting Year End

31st December

### Credit Rating

The Bank has been assigned A- (Ika) national credit rating for implied long-term unsecured senior debt by Fitch Ratings Lanka Limited.

### Board of Directors

#### Mr. Nihal M. Jayamanne PC

*Chairman/Independent Director  
(appointed as Chairman with effect from  
17th January 2013)*

#### Mr. Ishara C. Nanayakkara

*Deputy Chairman/Non-Executive Director  
(appointed as Deputy Chairman with effect from  
17th January 2013)*

#### Mr. Ramanathan Nadarajah

*Executive Director*

#### Mr. P. Lalith P. Withana

*Independent Director*

#### Rear Admiral B. Ananda J.G. Peiris

*Independent Director*

#### Mr. Ajith L. Devasurendra

*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)*

### General Manager/Chief Executive Officer

#### Mr. Kapila Ariyaratne

### Auditors

Messrs KPMG  
*Chartered Accountants*

### Subsidiary

Seylan Developments PLC  
(Company Registration No. PQ151)  
Level 15, Seylan Towers  
No. 90, Galle Road, Colombo 03, Sri Lanka

### For any clarifications on this Report, please contact:

The Corporate Planning and Research Division,  
Seylan Bank PLC,  
Seylan Towers,  
No. 90, Galle Road, Colombo 03, Sri Lanka  
Email: cpr@seylan.lk  
Tel: (94)-(11)-2456381, (94)-(11)-2456398



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# සහාපතිවරයාගේ පණිවිඩය

හිතවත් කොටස්හිමිභවතුනි,

අපගේ 26 වන වාර්ෂික මහා සභා රැස්වීමට සහභාගිවීමට පැමිණි ඔබ හැමදෙනාම, මා ඉතා ගෞරවයෙන් පිළිගන්නා අතර, 2012 දෙසැම්බර් 31 වනදායින් අවසන්වූ වර්ෂයේ වාර්ෂික වාර්තාව හා මූල්‍ය ප්‍රකාශන, ඔබ හමුවේ ඉදිරිපත් කරන්නට මෙය අවස්ථාව කරගනිමි.

2012 වර්ෂය අපට ස්වර්ණමය අවධියක් වූයේ ය. අපගේ පාලක මණ්ඩලය, කළමනාකාරිකවතුන්, සහ සෙලාන් බැංකුවේ සෑම තරාතිරමක ම කාර්ය මණ්ඩල සාමාජික සාමාජිකාවන් විසින්, ස්වකීය සේවා ඉලක්කයන් කෙරෙහි දැඩි අවධානය යොමුකරනු ලැබීමෙන් වර්ණාවන් වූ වර්ෂයක් ලෙස, එම වර්ෂය හඳුන්වනු කැමැත්තෙමි. අප ශක්තියෙන් දැඩිලෙස වර්ධනය වූවා පමණක් නොව, අපගේ ව්‍යාපාරික කටයුතු ද කාර්යක්ෂම ව කළමනාකරණය කරගන්නට, ඒ මගින් අපට හැකිවිය. අප අපේක්ෂා කළ ප්‍රතිඵල නෙලාගන්නට, අපගේ උපායමාර්ග ඔස්සේ අපට හැකිවූ බව, අප ලැබූ සාර්ථකත්වය තුළින් විද්‍යමාන විය. නිරසාර වර්ධනයක් හා වැඩිදියුණු වූ ලාභදායකත්වයක් භුක්තිවිඳීම සඳහා, එය අපට ඉස්තරම් ම වේදිකාවක් වූ බව මා ඔබට සඳහන්කරනුයේ සතුටිනි.

ගෙවීම් මූල්‍ය වර්ෂය තුළ පැවැති ගෝලීය ආර්ථික පසුතලය දෙස ආපසු හැරී බලනකල්හි, ප්‍රධානවශයෙන්ම, ඇමෙරිකාවේ පශ්චාත් මැතිවරණ 'රාජ්‍ය මූල්‍ය සංවාද' ප්‍රශ්නාවලින් ද, චීනයේ නායකත්ව පරිවර්තනයන් ද, යුරෝපීය දේශයන්හි ප්‍රතිසංස්කරණයන් ද ලොව විවිධ කලාපයන් මත සිදුකළ බලපෑම් හිසා, ආර්ථික වර්ධනය උදාසීන තත්ත්වයෙන් පැවති බව කිවයුතු ය. විශේෂයෙන් ම, චීනය, ඉන්දියාව සහ බ්‍රසීලය වැනි දේශයන්හි හැගිළින ආර්ථිකයන් කෙරෙහි සාම්ප්‍රදායික වශයෙන් විශ්වාසය පැවැති ගෝලීය වර්ධනය ද, ඉහළ මට්ටමේ ආර්ථිකයන් පවත්වාගත් දේශයන්හි උදාසීන ක්‍රියාකාරිත්වය හේතුවෙන්, අපහයනයන්ට පත්වැදීම හිසා, මන්දගාමී වර්ධනයකට ගොදුරුවූයේ ය.

දේශීය ප්‍රවණතාව ගැන අවධානය යොමුකරද්දී, ගෝලීය ආර්ථිකය අපේක්ෂිත වේගයට වඩා සෙමින් ප්‍රතිසාධනයවීමත්, අවශ්‍ය ප්‍රමාණයන්ට වඩා ඉහළ මට්ටමින් ආනයන ඉල්ලුම අධිකවීමෙන්,

දේශීය ණය පරිමාණයන් දැඩිසේ වර්ධනයවීමත්, අතිතකර දේශගුණික විපර්යාසයන් සිදුවීමත් හිසා, අපගේ ජාතික ආර්ථිකයේ ඉදිරිගමනට මහත්සේ අවහිරතා ඇතිවූයේ ය. එසේවුව ද, සාර්ව ආර්ථික ස්ථාවරත්වය ඉලක්ක කරගනිමින් ගනුලැබූ දැඩි ප්‍රතිපත්තිමය පියවර හේතුවෙන්, ප්‍රශංසනීය ආර්ථික වර්ධනයක් වාර්තාකිරීමට ශ්‍රී ලංකාවට හැකි වූ බව කිවයුතු ය.

පොලී අනුපාතිකයන් ඉහළ මට්ටමක පැවති අතර, සමස්ත වර්ෂය පුරාම විනිමය අනුපාතිකයන් අතිශයින් ම වැඩිව ස්වභාවයක පැවතුණේ ය. ණය සඳහා වූ ඉල්ලුම දුර්වලවීමත් හා, තැන්පතු සඳහා දැඩි තරගකාරිත්වයක් දක්නට හිඹිණි. එවන් පරිසරයක් තුළ ක්‍රියාත්මක වෙමින්, සෙලාන් කණ්ඩායමේ අභිනවනීය පරිශ්‍රමයන් හා, ක්‍රියාත්මක කරන ලද උපායමාර්ගයන් ද හිසා, මෙතෙක් අප විසින් වාර්තාකරන ලද විශිෂ්ටම ලාභදායකත්වය වන, රූපියල් බිලියන දෙක ඉක්මවායාම වාර්තා කිරීමට අපට හැකිවූ බව, මා ඔබ හමුවේ ප්‍රකාශ කර සිටිනුයේ අති මහත් වූ ආඩම්බරයකිනි. අපට දැඩි අපහසුතා සහිත කාලයක් අතීතයේ දී පැවති නමුත්, කෙටි කාලයක් තුළ දී ඒවා ජයගෙන, විශ්වාසය යළිත් දිනාගනිමින්, බැංකුවේ නිරසාරබව තහවුරුකිරීමට අපට හැකිවූයේ ය. වර්ෂ 2009 දී සහ 2011 දී සිදුකළ හිමිකම් හිකුතු අවස්ථාවන්හි දී, ඊට සහාය පිරිනමමින් අපගේ කොටස්හිමියන් සහ ආයෝජකයින් දැක්වූ කැපවීම හා පක්ෂපාතිත්වය ඊට කදිම හිඳසුන්ය. අතිශය දැඩි වූ තරගකාරී පරිසරයක් තුළ, අපගේ තැන්පතු ප්‍රදර්ශනය කළ ඒකායන වර්ධනය ද, බැංකුව, පාලක මණ්ඩලය හා කාර්ය මණ්ඩලය කෙරෙහි පොදු ජනතාව තුළ පවත්නා විශ්වාසය තහවුරු කළ සාධකයකි. පූර්ණ ප්‍රාග්ධන ප්‍රමාණාත්මක අනුපාතික අවශ්‍යතාව වන සියයට 10 පහසුවෙන් ම ඉක්මවා ලූ, ශ්‍රී ලංකාවේ විශිෂ්ට ම ප්‍රාග්ධන සම්භාරයක් සහිත බැංකුවක් බවට අප දැන් පත්ව සිටින බව මා සඳහන් කරනුයේ දැඩි සතුටකින් හා මහත් උද්චාවේදයකින් ද යුක්තව ය.

ඉදිරි සිව්වසර සඳහා අපගේ උපායමාර්ගික දැක්ම සහ ගමන්මග පැහැදිලි කෙරෙන, 2012 ජනවාරියේ දී එළිදැක්වූ අපගේ ප්‍රබල උපායමාර්ගික සැලසුම සාර්ථක ව ක්‍රියාත්මක කිරීම පිණිස අපි මුළුමනින් ම ඇප-කැප වී සිටියෙමු, වත්කම්

වර්ධනය, ශාඛා ව්‍යාප්තිය, පාරිභෝගික සේවා විශිෂ්ටත්වය, කාර්ය මණ්ඩල සංවර්ධනය, අක්‍රීය ණය හා අත්තිකාරම් අවම කිරීම සහ කොටස්හිමියන්ගේ වටිනාකම වැඩිදියුණු කරගැනීම ආදිය මෙම සැලසුමට අනුයුක්ත වූ පූර්වතාවන් ය. සැලසුම් ක්‍රියාවලියෙහිදී අප අනුගමනය කළ යටි-උඩු ප්‍රවේශය, උපායමාර්ග අරමුණු නිර්මාණයේ දී මෙන් ම ඒවා සාර්ථක ලෙස ක්‍රියාත්මක කිරීමේ දී ද, සමස්ත සෙලාන් බැංකු කණ්ඩායමේ ම සහාය සහ කැපවීම නො අඩුව ලබාගන්නට අපට පිළිවන් වූයේ ය.

අපගේ උපාය මාර්ගයෙහි මූලික ම සිද්ධාන්තය වනුයේ, පාරිභෝගික සබඳතාවන් ස්ථිරසාර ලෙස ගොඩනගා ගැනීම ය. අප විශිෂ්ට පාරිභෝගික සේවා සම්පාදනය සම්බන්ධයෙන් රට තුළ නම් දරා සිටින බැංකුවක් වෙමු. සුහද හඳුන් ඇති බැංකුව' යන අපගේ ආදර්ශ පාඨයට අපි හිතැතින් ම ඇදී බැඳී සිටින්නෙමු.

අපගේ සත්කාරක පාරිභෝගික සේවා අංශය තවදුරටත් අප විසින් වැඩි දියුණුකරනු ලැබූ අතර, බැංකුවේ සෑම අංශයක් තුළ ම විශිෂ්ට පාරිභෝගික සේවා සම්පාදනය ව්‍යාප්තකර තිබේ. පාරිභෝගික භවතුන් ද, ඔවුන් ගේ අවශ්‍යතාවන් ද මනාව හඳුනාගෙන, සේවා සම්පාදනය කිරීම සඳහා බලවත් පරිශ්‍රමයක් අප විසින් දරනු ලැබී ය. මේ හා සම්බන්ධ ව, නවමු පියවර රැසක් ම අප විසින් ගනු ලැබී ය.

මෙම වසරේ දී, අපගේ සේවා කණ්ඩායම් පුහුණුකිරීම මගින් ද, අර්ථවත් ලෙස ඔවුන්ගේ හැකියා හා කුසලතා කෙරෙහි අවධානය යොමුකිරීමෙන් ද අප ඔවුන් වෙනුවෙන් ආයෝජනයන් රැසක් ම සිදුකර තිබේ. ඉදිරි කාලයන්හි දී උද්ගතවියහැකි අභියෝගයන්ට මුහුණදීම සඳහා පමණක් නොව, ශ්‍රී ලංකාව තුළ වඩාත් ම විශිෂ්ට සේවා අවස්ථා සහිත සේව්‍යායතනය වශයෙන් අප ලබා තිබෙන කීර්තිය අඛණ්ඩ ව පවත්වාගැනීම ද සඳහා, අපගේ කාර්ය මණ්ඩල සාමාජික පිරිසට අතිශයින් පුළුල් වූ පරාසයක පුහුණුවීම් හා පොදුගලික සංවර්ධන අවස්ථා ද උදාකරලීමට අප විසින් කැපවීමෙන් යුතුව ක්‍රියාකරනු ලැබී ය.

# සභාපතිවරයාගේ පණිවිඩය

අපගේ ශාඛා ව්‍යාප්තික උපාය මාර්ගයට අනුකූලවෙමින්, එක ම දිනයේ ශාඛාවන් සතරක් විවෘත කරනු ලැබීම ඇතුළු ව, දිවයිනේ ප්‍රදේශයන් කිහිපයක ම සුවිශේෂ පරිශ්‍රයන් හි ශාඛාවන් හා බැංකු පහසුකම් මධ්‍යස්ථාන විවෘතකරනු ලැබීමෙන්, අපගේ ශාඛා ජාලය බෙහෙවින් පුළුල් කරනු ලැබී ය. ස්වයංක්‍රීය ටේලි යන්ත්‍ර ස්ථාපනය හා සමග ම, ඇතැම් බැංකු ප්‍රතිස්ථානගතකිරීම තුළින්, දිවයින පුරා විසිරී සිටින මහත් සේ පුළුල් වූ පාරිභෝගික හවතුන් සමුදායකට ප්‍රවේශවීම අපට පහසු වූයේ ය. අප බැංකුවේ සුවිශේෂ වූ ශක්තියක් වශයෙන් අප හඳුනාගෙන තිබෙන්නා වූ, සුළු හා මධ්‍ය පරිමාණීය ව්‍යවසායකත්ව හා මධ්‍ය වෙළෙඳ පොළ අංශයන් හි වර්ධනයවෙමින් පවත්නා, අපගේ විවිච්ඡ පාරිභෝගික පදනම ට ප්‍රවේශවීමේ හා සේවා සම්පාදනයකිරීමේ අවධානය අනුපූරණයකිරීමට ද, මෙම උපාය මාර්ගය අපට සහාය වූයේ ය. නිර්ව්‍යාජ වූ ව්‍යවසායකත්ව හැඟීම් සමුදායක් සහිත බැංකුවක් වශයෙන්, මෙම ක්ෂේත්‍රය හා අදාළ ව අප දැරූ ප්‍රයත්නයන්, සුළු හා මධ්‍ය පරිමාණීය ව්‍යවසායකත්ව අංශයට පහසුකම් සැලසීම ඔස්සේ, අන්තර්කරණ වර්ධනය සපුරාගැනීමේ රජයේ ආර්ථික ඉලක්කයට බොහෝසෙයින් අනුරූපී විය.

2012 වර්ෂය, අපට විවිධාකාරයෙන් අභියෝග දායක වූව ද, අපගේ සාර්ථකත්වයන් සම්බන්ධයෙන් අපි ආඩම්බරයට පත්ව සිටීමු. අපගේ ලාභදායකත්වය විස්මිතලෙස 208.20% කින් වර්ධනය වී, රුපියල් බිලියන 2.05 දක්වා සමීපවිය. පෙර වසරට වඩා 18.35% ක වර්ධනයක් සමග, තැන්පතු වල වටිනාකම රුපියල් බිලියන 146.73 ක් බවට පත්වූයේ ය. බැංකු දළ ණය ප්‍රමාණය රුපියල් බිලියන 132.97 තෙක් වැඩිවූයේ 14.06% ක වර්ධනය නිසා ය. 2012 දී, අප වර්ධනයක් භුක්තිවිඳින අතරතුර ම, කොටස්ගිණියන්ට වටිනාකම පිරිනැමීම නොනවත්වා සිදුකළෙමු. රුපියල් 2.18 ක් වූ පෙර වසරේ කොටසක ඉපයුම් අගය, අදාළ වසරේ දී රුපියල් 6.06 ක් දක්වා වැඩිවූයේ ය. එක් කොටසක් වෙනුවෙන් ශුද්ධ වත්කම් අගය රුපියල් 56.08 දක්වා වැඩි වූ අතර, කොටස්ගිණියන්ගේ අරමුදල 8.38% කින් වර්ධනයවෙමින්, රුපියල් බිලියන 18.96 ක් බවට පත්විය. අපගේ ප්‍රතිඵල හා මෙහෙයවීම් ක්‍රියාකාරකම් පිළිබඳ ව පුළුල්

විග්‍රහයක්, මෙම වාර්තාවේ දැක්වෙන මූල්‍ය විග්‍රහය පිළිබඳ කොටසෙහි ඇතුළත්වෙයි.

අනාගතය දෙස අවධානය යොමුකරද්දී, අප අපේක්ෂාකරනුයේ, අප රටෙහි සිදුවිය හැකි පුළුල් ආර්ථික සාර්ථකත්වයන් උපයෝගීකරගැනීමට මෙන් ම, විවෘතවීමට නියමිත ව තිබෙන්නා වූ අවස්ථාවන් උපරිම මට්ටමින් ඉලක්ක බවට පත්කරගැනීමට ය. ආර්ථික වර්ධනයේ ප්‍රතිඵලයක් වශයෙන් උද්ගතවන්නාවූ, විවිධ ආර්ථික අංශයන්ට අවශ්‍ය සේවය ලබාදීම සඳහා අපි සූදානම්වන්නෙමු. අපගේ ණය අවශ්‍යතා සඳහා විදේශීය අරමුදල් ලබාගනු වෙනුවට, දේශීය ආර්ථික වර්ධනය තුළින් වරප්‍රසාද ලබමින් එම අවශ්‍යතා සපුරාගැනීමට අප පියවරගන්නා අතර, එම අරමුදල් වෙනුවෙන් සෘජුව ම සිදුවන පිරිවැය ද එයින් මගහැරෙනු ඇත. ආයතනික පාලනය, අනුකූලතාව, අවදානම් කළමනාකරණය, පාරිභෝගික සේවාවන්, අක්‍රීය ණය අවමකිරීම සහ ශාඛා ජාල ව්‍යාප්තිය ඉදිරි වසරේ දී අපගේ පූර්වතා ක්ෂේත්‍රයන් වනු ඇත.

අපට අනාගතයේ දී ලාභදායක වර්ධනයක් කරා පියවර නැතිමට හැකිවනු පිණිස, ස්ථිරසාර පදනමක් නැවත ඉදිකිරීමෙහිලා අපගේ උපායමාර්ග යන්හි ඵලදායකත්වය, අදාළ වසරේ ප්‍රතිඵලවලින් අප්‍රමාණලෙස ප්‍රදර්ශනය කර තිබේ. අපගේ උපාය මාර්ගික සෙසු ඉලක්කයන් සපුරාගැනීම සඳහා, මිළුග පියවර ගැනීමට දැන් අපි සුදුසු පරිදි ස්ථානගතව සිටීමු. අපේක්ෂාවලින් හා ප්‍රබෝධක අවස්ථාවලින් පිරිහිය යුතුයක් තුළ, අපගේ සියළු පාර්ශ්වකරුවන් සඳහා තිරසාර අගයක් නිර්මාණයවන පරිදි, අනාගතය කරා අප දිගින් දිගටම පියනගනබව, මගේ විශ්වාසය යි.

අවසාන වශයෙන්, අප වෙනුවෙන් සිදුකළ විවිධ මගපෙන්වීම් වෙනුවෙන්, ශ්‍රී ලංකා රජයටත්, ශ්‍රී ලංකා මහ බැංකුවේ අධිපතිතුමාටත්, ශ්‍රී ලංකා මහ බැංකුවේ බැංකුකටයුතු අධීක්ෂණ දෙපාර්තමේන්තුවටත් ස්තූතිකරනු කැමැත්තෙමි. අප අධ්‍යක්ෂ ඔණ්ඩලයේ විවක්ෂණශීලී මගපෙන්වීම් හා සහාය වෙනුවෙන් මගේ කෘතඥතාව එම අධ්‍යක්ෂවරුන්ටද හිමිවේ. ප්‍රබෝධමත් නායකත්වය වෙනුවෙන් ප්‍රධාන විධායක නිලධාරීතුමාට ද, ආදර්ශමත් ප්‍රයත්නයන් හා කැපවූ සේවය වෙනුවෙන් කාර්ය මණ්ඩලයේ සියළුදෙනාට ද

මගේ විශේෂ ස්තූතිය පුදකරමි. පසුගිය කාලය පුරාවට අප කෙරෙහි විශ්වාසය තැබූ සියළුම ගනුදෙනු කරුවන් හා කොටස්ගිණියන් වෙත මාගේ හෘදයාංගම ස්තූතිය පුද කරමි. කෙටිකාලයක් තුළ වුව ද, ඉතා වැදගත් කාර්යභාරයක් ඉටුකිරීම සඳහා නායකත්වය ලබාදුන්, මගේ පූර්වගාමී, ජනාධිපති නීතිඥ මොහාන් පීරිස් මහතාට ස්තූතිකිරීමට ද, මම මෙය අවස්ථාවක් කර ගනිමි. අප රටෙහි අග විනිසුරු වශයෙන් එතුමා පත්කරන්නට යෙදුණු නව හා වැදගත් තනතුර වෙනුවෙන් සමස්ත සෙලාන් කණ්ඩායම සමග මගේ සුබපැතුම් මම එතුමාට පිළිගන්වනු කැමැත්තෙමි.

අපගේ කොටස්ගිණියන් සියළුදෙනාට ම 2013 වසර වෙනුවෙන් සුභාශිංසනය පිරිනමන අතර, අඛණ්ඩව ම අප බැංකුවේ ආයෝජනයන් සිදුකිරීම වෙනුවෙන් මම ස්තූතිකරමි.



**ජනාධිපති නීතිඥ නිහාල් ජයමාන්න**  
සභාපති

2013 පෙබරවාරි 21

## தலைவரின் கடிதம்

அன்பான பங்குதாரர்களே!

எமது 26வது வருடாந்தப் பொதுக் கூட்டத்திற்கு நான் உங்களை அன்புடன் வரவேற்று உங்களுக்கு 31 டிசெம்பர் 2012ல் முடிவடைந்த ஆண்டிற்கான வருடாந்த அறிக்கையையும் நிதிக்கூற்றுக்களையும் சமர்ப்பிக்கிறேன்.

2012ம் ஆண்டு எங்களுக்கு குறிப்பிடத்தக்க ஒரு ஆண்டாகும். பணிப்பாளர் சபை, முகாமைத்துவம் மற்றும் ஊழியர்கள் உறுப்பினர்கள் என செலான் வங்கியில் உள்ள எல்லா மட்டத்திலுள்ளவர்களும் வியூகங்கள் மீது கடுமையான கவனத்தைச் செலுத்தியது, இந்த ஆண்டில்தான். நாங்கள் பலமாக வளர்ச்சியடைந்து எமது வியாபாரத்தை வினைத்திறனுடன் கையாண்டோம். எமது வியூகங்கள் நாம் விரும்பிய முடிவைத் தந்துள்ளது நிரூபணமாகிறது. அத்துடன் தொடர்ந்து வளர்ச்சியுடன் மேம்பட்ட இலாபத்தைச் சாதிக்க ஒரு நல்ல மேலையமைத்துத் தந்துள்ளது.

கடந்த நிதி ஆண்டின் உலகப் பொருளாதார நடப்பை பின்னோக்கிப் பார்க்கும்போது பொருளாதார வளர்ச்சி பிராந்தியங்களின் மந்த நிலையுடன் நிச்சயமற்றதாக இருந்தது. இது பெரும்பாலும் ஐக்கிய அமெரிக்காவில் தேர்தலுக்குப் பின்னான 'நிதிவிவாதக்' கேள்விகளாலும், சீனாவில் ஏற்பட்ட தலைமைத்துவ மாற்றம் மற்றும் ஐரோப்பாவில் ஏற்பட்ட சீர்திருத்தம் காரணமானது. உலக வளர்ச்சி முக்கியமாக தங்கியிருந்தது. எழுந்துவரும் பொருளாதாரத்தில், குறிப்பாக சீனா, இந்தியா மற்றும் பிறேஸில் அத்துடன் முன்னேறிய பொருளாதாரத்தில் ஏற்பட்ட மந்த நிலையினால் ஏற்றுமதி தாக்கத்திற்குள்ளானதால் மெதுவான வளர்ச்சியையே எட்டக் கூடியதாக இருந்தது.

உள்ளூர் முனையில், உலக பொருளாதாரத்தில் மீட்டி எதிர்பார்க்கப்பட்டதை விட மெதுவாக இருந்தமை, வேகமாக அதிகரித்து வரும் உள்ளூர் கடன் - இது தேவைக்கதிகமான இறக்குமதிக்கான கேள்வியைக் கூட்டியது. அத்துடன் சீரற்ற காலநிலை எங்களது நாட்டில் பொருளாதாரத் தடங்கலை ஏற்படுத்தியது.

ஆயினும் பேரினபொருளியல் ஸ்திரத் தன்மையை இலக்கு வைத்த கடுமையான கொள்கை நடவடிக்கைகள் இலங்கையில் ஒரு போற்றத்தக்க பொருளாதார வளர்ச்சியை பதிய வைத்தது.

வட்டி வீதங்கள் தொடர்ச்சியாக அதிகரிக்கும். அந்நிய நாணய அதேவேளை மாற்று வீதங்கள் வருடம் முழுவதும் மாறிக் கொண்டே இருந்தது. கடன்களிற்கான கேள்வி பலவீனமடைந்தும் வைப்புகளுக்கான கடுமீ போட்டியும் நிலவியது. அப்படியானதொரு சூழ்நிலையினுள் இயங்கும்போது, செலான் அணியின் சிறந்த முயற்சிகள் மற்றும் நடைமுறைப்படுத்தப்பட்ட செயல்திறன் மிக்க வியூகங்கள் 'எப்போதுமில்லாதவாறு சிறந்த' இலாபம் தொடர்பாக இரண்டு பில்லியன் குறிக்கோளை அடைந்து பதிவாவதற்கு வழிவகுத்தது. நான் எங்களுடைய சாதனையையிட்டு மிகவும் பெருமைப்படுகிறேன்.

நாங்கள் ஒரு சிறு குறுகிய காலத்துள் கடினமான காலத்தின் ஊடாக வந்து, வெற்றிகரமாக நம்பிக்கையைக் கட்டியெழுப்பி வங்கியின் ஸ்திரத்தன்மையை நிலை நாட்டினோம். 2009, 2011 உரித்து வழங்கினால் தரப்பட்ட ஆதரவில் பங்குதாரர்களினதும் முதலீட்டாளர்களினதும் அர்ப்பணிப்பும், விசுவாசமும் உறுதிப்படுத்தப்பட்டது.

அத்துடன் மிக்க கடுமையான போட்டிச் சூழலில் எமது திடமான வைப்பில் ஏற்பட்ட வளர்ச்சி பொதுமக்களுக்கு வங்கி முகாமைத்துவ சபை மற்றும் ஊழியர்கள் மீதான நம்பிக்கையை உறுதிப்படுத்தியது. நான் உண்மையிலேயே பெருமையுடனும் மகிழ்ச்சியுடனும் கூறுகிறேன். நாட்டிலுள்ள அனுகூலமான வங்கிகளில் நாங்கள் இப்போது ஒரு சிறந்த முழு மூலதன தன்னிறைவு விகிதம் - சட்டபூர்வ தேவையான 10% தைவிட மேலேயுள்ளோம் என்பதை.

ஜனவரி 2012ல் அறிமுகப்படுத்தப்பட்ட பலமான வியூகத் திட்டத்தினை அடைவதில் நாங்கள் முழுமையாகவும் அர்ப்பணிப்புடனும் செயல்படுகின்றோம். இது அடுத்த நாளுக்கு வருடத்திற்கான வியூகப் பார்வையாகவும் வழிகாட்டியாகவும் திகழ்கிறது. சொத்து வளர்ச்சி,

கிளை விரிவாக்கம், வாடிக்கையாளர் சேவைச் சிறப்பு, ஊழியர் அபிவிருத்தி, தொழிற்படாக்கடன்கள் (என்பீஏ) குறைப்பு மற்றும் பங்குதாரர்களின் பொறுமையைக் கூட்டுதல் ஆகியவற்றிற்கு முன்னுரிமையளிக்கப்பட்டு இத்திட்டத்தினுள் உட்பொதிக்கப்பட்டுள்ளது. பின்பற்றப்பட்ட கீழிலிருந்து மேலான உருவாக்க செயல் அணுகுமுறை முழு செலான் அணியின் ஆதரவும் அர்ப்பணிப்பும் வியூக நோக்கங்களை வெற்றிகரமாக நடைமுறைப்படுத்த வழிவகுத்தது.

திடமான வாடிக்கையாளர் தொடர்பினைக் கட்டியெழுப்புவதே வியூகத்தின் முக்கிய அம்சமாகும். நாங்கள் நல்ல சிறந்த வாடிக்கையாளர் சேவை வழங்குபவர்கள் என அடையாளப்படுத்தப்பட்டுள்ளோம். உறவுகளினால் உந்தப்படும் வங்கி என்ற வகையில் நாங்கள் எமது 'இதயத்துடனான வங்கி' என்ற குறிக்கோளுக்கு உண்மையாகவே இருக்கின்றோம். நாங்கள் மேலும் வாடிக்கையாளர்களைக் கவனிக்கும் சேவையை முன்னேற்றி சபையின் வாடிக்கையாளர் சேவையில் சிறந்த சித்தாத்தங்களை அறிமுகப்படுத்தியுள்ளோம். நாங்கள் வாடிக்கையாளர்களைப் புரிந்து கொள்வதில் அவர்களின் தேவைகளை அறிந்து உதவுவதிலும் பிரமாண்டமான முயற்சிகளை மேற்கொண்டுள்ளோம். இந்த நோக்கத்திற்காக பல புதுமையான நடவடிக்கைகளை மேற்கொண்டுள்ளோம்.

அர்த்தமுள்ள வகையில் பயிற்சியளிப்பதன் மூலமும் அவர்களது திறன்களில் கவனம் செலுத்துதல் மற்றும் தகுதியின் மூலம் இந்த வருடத்தில் நாம் எம்முடைய சொந்த மக்களில் முதலீடு செய்துள்ளோம். பரந்த பயிற்சியளிப்பதிலும் ஊழியருக்கான அபிவிருத்தி வாய்ப்புக்களை ஏற்படுத்திக் கொடுத்து எதிர்கொள்ளவிருக்கும் சவால்களுக்கு முகம் கொடுக்கும் வகையில் தயார்படுத்தி இலங்கையில் மிகவும் விரும்பப்படும் தொழில்துறர் என்ற எமது நிலைப்பாட்டினை நிலை நிறுத்தி நாம் அர்ப்பணிப்புடன் இருக்கிறோம்.

## தலைவரின் கடிதம்

எமது கிளை விரிவாக்க வியூகத்திற்கேற்ப, நாங்கள் எமது கிளை வலையமைப்பை பல கிளைகளை திறந்து வைப்பதன் மூலம், வசதியான வங்கி நிலையங்களை நாட்டில் உள்ள பல இடங்களில் திறப்பதின் மூலம் ஒரே நாளில் 4 கிளைகளை திறப்பதன் மூலமும் செயற்படுத்தியுள்ளோம். தன்னியக்க இயந்திரங்களை பொருத்துயதாலும், கிளைகளை மீள் இடமாற்றம் செய்ததினூடாகவும் எங்களுக்கு தீவு முழுவதும் வாடிக்கையாளரை சென்றடைய உதவியது. இந்த வியூகத்தின் முக்கிய கவனம் உலகியலுக்கு ஏற்றவாறான சிறிய நடுத்தர நிறுவனங்களின் (எஸ்.எம்.ஈ) வாடிக்கையாளர் அடித்தளம் மற்றும் நடுச் சந்தைத் துறையிலும், அவர்களையடைந்து வளர்ச்சிக்கு சேவை செய்வதாகும். அவைதான் எமது பலம். உண்மையான தொழில் முனைவு உணர்வுடனான வங்கி என்ற வகையில் எமது முயற்சிகள் இது சம்பந்தமான அரசாங்கத்தின் பொருளாதார இலக்குகளை அடைவதில் சிறிய நடுத்தர நிறுவனங்களின் (எஸ்.எம்.ஈ) துறைக்கு உதவுவதுடன் ஏற்றதாக அமைகிறது.

2012ம் ஆண்டு பல வழிகளிலும் ஒரு சவால் மிக்க ஆண்டாக அமைந்தபோதும் நாங்கள் எமது சாதனைகளையிட்டுப் பெருமையடைகிறோம். எமது இலாபம் மகத்தான 208.20% ல் ரூபா 2.05 பில்லியன் வைப்புகள் ரூபா 146.73 பில்லியன் 18.35% வருடத்தின் மேல் வருடத்திற்கு அதிகரித்துள்ளது. முற்கொடுப்பனவுகள் 14.06% க்கு ரூபா 132.97 பில்லியன். ரூபாவால் அதிகரித்துள்ளது. நாங்கள் தொடர்ந்து வளர்ச்சியடைந்து பங்குதாரர்களுக்கு பெறுமதியைக் கொடுத்தோம். பங்கொன்றிற்கான சம்பாத்தியம் ரூபா 6.06ல் ஒப்பிடும்போது முன்னைய வருடத்தில் ரூபா 2.18 ஆக விருந்தது. பங்கொன்றிற்கான தேறிய சொத்துப் பெறுமானம் ரூபா 56.08 ஆக அதிகரித்தது. அதேநேரத்தில் பங்குதாரர்களின் நிதி 8.38% அதிகரித்து ரூபா 18.96 பில்லியனை அடைந்தது. எங்கள் முடிவுகளினதும் செயல்திறனின் பரந்த மீளாய்வும் இந்த அறிக்கையிலுள்ள நிதி மீளாய்வுப் பகுதியில் தரப்பட்டுள்ளது.

முன்னோக்கிய பார்ப்போமானால் நாட்டின் பரந்த பொருளாதார வாய்ப்புகளை அனுசூலமாகப் பயன்படுத்த எண்ணியுள்ளோம். அத்துடன் திறக்கப்படவிருக்கும் சந்தர்ப்பங்களைக் குறிவைத்து உச்சத்தையடைய எண்ணியுள்ளோம். பொருளாதார வளர்ச்சியின் விளைவாக எழுச்சி பெறும் பொருளாதாரத் துறைக்கு சேவையளிக்க நாம் தயாராகிறோம். நாங்கள் உள்ளூர் பொருளாதார வளர்ச்சியில் எங்களுடைய கடன் தேவைக்கான வெளிநாட்டு நிதியை பெற்றுக் கொள்ளும் நன்மையை பெறுகிறோம். இது நிதிக்கான செலவில் நேரடி தாக்கத்தை ஏற்படுத்தியுள்ளது. பெருநிறுவன ஆளுமை, இணக்கம், இடர் முகாமைத்துவம், வாடிக்கையாளர் சேவை தொழிற்பாடாக் கடன்கள் (என்பீஎல்) குறைத்தல் மற்றும் கிளை வலையமைப்பு விஸ்தரிப்பு ஆகியவற்றிற்கு வரப்போகும் ஆண்டில் முக்கியத்துவமளிக்கப்படும்.

இந்த வருடத்தின் முடிவுகள் நாம் ஒரு திடமான அடித்தளத்தைக் கட்டியெழுப்புவதில், அதிலிருந்து இலாப வளர்ச்சியை நோக்கி நகர முடிவதை எங்களது வியூகங்களின் பயன்பாடுகள் வெளிக்காட்டுகின்றது. நாங்கள் எமது வியூக இலக்குகளை அடைய அடுத்த அடிகளை எடுத்து வைப்பதில் இப்போது நாம் நல்லதொரு நிலையில் இருக்கிறோம்.

நம்பிக்கையுடனும் பரப்பர்ப்பான சந்தர்ப்பங்களைக் கொண்டதொரு காலத்தில், நாங்கள் தொடர்ந்து அக்கறையுடையவர்களுக்கு நிலையான பெறுமதியைக் கொடுக்கக் கூடியதாகவிருக்கும் என நான் நம்புகிறேன்.

நான் முடிவாக இலங்கை அரசாங்கத்துக்கும் மத்திய வங்கியின் ஆளுநர் அவர்களுக்கும், இலங்கை மத்திய வங்கியின், வங்கி மேற்பார்வைத் திணைக்களத்துக்கும், அவர்களின் வழிகாட்டுதலுக்காக நன்றி செலுத்த விரும்புகிறேன். பணிப்பாளர் சபையின் ஊக்கமுள்ள வழிகாட்டுதலுக்காக எனது நன்றியை அவர்களுக்கு தெரிவிக்கிறேன் எமது பிரதான நிறைவேற்று அதிகாரி அவரின் ஊக்கமளிக்க தலைமைத்துவத்திற்கும் முக்கியமாக எமது ஊழியர்களின் சீரிய முயற்சிகளுக்கும் அர்ப்பணிப்பிற்கும் நான் நன்றி செலுத்துகிறேன்.

வருடங்களின் மேலாக எம்மீது விசுவாசமும், நம்பிக்கையும் வைத்துள்ள வாடிக்கையாளர்கள் பங்குதாரர்கள் ஆகியோருக்கு எனது இதயபூர்வமான நன்றிகள் சென்றடைகின்றன. எனக்கு முன் இப்பதவி வகித்த, திரு மோகன் பீரீஸ், பீ சி வங்கிக்கு வழங்கிய அவரின் குறுகியகால நற்பணிச்சேவைக்கு இந்தச் சந்தர்ப்பத்தில் நன்றி செலுத்துகிறேன். முழு செலான் வங்கி அணியும் என்னுடன் இணைந்து அவர் தனது புதிய முக்கியமான நாட்டின் பிரதம நீதியரசர் பதவியில் எல்லா நன்மைகளையும் பெற்று வெற்றியடைய வாழ்த்துகிறேன்.

நாங்கள் பங்குதாரர்களாகிய உங்களை 2013ல் வாழ்த்துவதுடன் உங்களது தொடர்ச்சியான வங்கியின் முதலீட்டிற்கு நன்றி செலுத்துகிறோம்.



நீகால் ஜெயமான்  
(ஜனாதிபதி சட்டத்தரணி)  
தலைவர்,

21 பெப்ரவரி 2013



# / Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT the Twenty-Sixth Annual General Meeting of Seylan Bank PLC will be held on Thursday 28th March 2013 at 10.00 a.m. at the Ballroom of Hilton Colombo Residence, No. 200, Union Place, Colombo 02 for the following purposes:**

1. To receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Audited Financial Statements for the year ended 31st December 2012 together with the Report of the Auditors thereon.
2. To declare a first and final ordinary dividend for the financial year ended 31st December 2012 as recommended by the Board of Director and for this purpose to consider and if thought fit to pass the following Ordinary Resolution:

**"IT IS HEREBY RESOLVED**

**THAT** a First and Final Dividend of a total sum of Rs. 676,159,998/- (Rupees Six Hundred and Seventy Six Million One Hundred and Fifty Nine Thousand Nine Hundred and Ninety Eight) constituting a dividend of Rs 2.00 (Rupees two) per each issued and fully paid Ordinary (voting) and Ordinary (non-voting) share of Seylan Bank PLC (the "Company") recommended by the Board of Directors to the Company's shareholders be and is hereby declared on the issued and fully paid Ordinary (voting) and Ordinary (non-voting) shares of the Company for the financial year ended 31st December 2012 on the basis that such dividend shall be satisfied partly by way of a cash payment and partly by way of the allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares in the manner more fully set out below; and

**THAT** such dividend so declared be paid out of the Company's profits comprising dividend income received by the Company which has been exempted from Withholding Tax (if any) as well as such dividend income on which Withholding Tax has already been paid by the paying companies (if any) and the balance from the Company's profits for the year and which balance would be liable to a Withholding Tax of ten per cent (10%); and

**THAT** the Shareholders entitled to such aforementioned dividend shall be those shareholders [both Ordinary (voting) and Ordinary (non-voting)], who are duly registered in the Company's Shareholders' Register as well as those shareholders whose names appear on the Central Depository System (Pvt) Ltd. ("CDS") as at the end of trading on the date of the Annual General Meeting (the "entitled shareholders"); and

**THAT** the dividend so declared on the basis of Rs. 2/- (Rupees Two) per each issued and fully paid Ordinary (voting) share and Ordinary (non-voting) share respectively be satisfied in the manner following:

**i. Part satisfaction by way of a cash payment:**

By the payment, in cash, of Rs. 1/- (Rupees one) per each issued and fully paid Ordinary (voting) and Ordinary (non-voting) share constituting thereby a total cash payment of Rs. 173,333,333/- (Rupees One Hundred and Seventy Three Million Three Hundred and Thirty Three Thousand Three Hundred and Thirty Three) to be made to the entitled holders of the Company's Ordinary (voting) shares and Rs. 164,746,666/- (Rupees One Hundred and Sixty Four Million Seven Hundred and Forty Six Thousand Six Hundred and Sixty Six) to be made to the entitled holders of the Company's Ordinary (non-voting) shares.

**ii. Balance satisfaction by way of the allotment and issue of new shares:**

By the allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares in satisfaction of the balance Rs. 1/- (Rupees one) per each issued and fully paid Ordinary (voting) and (non-voting) share, constituting thereby a total balance entitlement of Rs. 173,333,333/- (Rupees One Hundred and Seventy Three Million Three Hundred and Thirty Three Thousand Three Hundred and Thirty Three) to the entitled holders of the Company's Ordinary (voting) shares and Rs. 164,746,666/- (Rupees One Hundred and Sixty Four Million Seven Hundred and Forty Six Thousand Six Hundred and Sixty Six) to the entitled holders of the Company's Ordinary (non-voting) shares.

Such allotment and issue of new shares shall be based on the share price of Rs. 59/- (Rupees Fifty Nine) per Ordinary (voting) share and Rs. 35/- (Rupees Thirty Five) per Ordinary (non-voting) share as at 20th February 2013, such being the date prior to the date on which the Board formally resolved to recommend the dividend to the Shareholders. Consequently:

- the total balance sum of Rs. 173,333,333/- (Rupees One Hundred and Seventy Three Million Three Hundred and Thirty Three Thousand Three Hundred and Thirty Three) to which the Ordinary (voting) shareholders are entitled shall be satisfied by the allotment and issue of 2,644,068 (Two Million Six Hundred and Forty Four Thousand and Sixty Eight) new Ordinary (voting) shares at Rs. 59/- (Rupees Fifty Nine) per share on the basis of 01 (one) new Ordinary (voting) share being issued for each existing 65.555555556 (Sixty Five decimal five five five five five five five five six) shares, held by the entitled Ordinary (voting) shareholders of the Company resulting in the total number of issued Ordinary (voting) shares of the Company being increased from 173,333,333 (One Hundred and Seventy Three Million Three Hundred and Thirty Three Thousand Three Hundred and Thirty Three) to 175,977,401 (One Hundred and Seventy Five Million Nine Hundred and Seventy Seven Thousand Four Hundred and One); and

## / Notice of Annual General Meeting

- the total balance sum of Rs. 164,746,666/- (Rupees One Hundred and Sixty Four Million Seven Hundred and Forty Six Thousand Six Hundred and Sixty Six) to which the Ordinary (non-voting) shareholders are entitled shall be satisfied by the allotment and issue of 4,236,343 (Four Million Two Hundred and Thirty Six Thousand Three Hundred and Forty Three) new Ordinary (non-voting) shares at Rs. 35/- (Rupees Thirty-Five) per share on the basis of 01 (one) new Ordinary (non-voting) share being issued for each existing 38.888888889 (Thirty Eight decimal eight eight eight eight eight eight eight eight nine) shares, held by the entitled Ordinary (non-voting) shareholders of the Company resulting in the total number of issued Ordinary (non-voting) shares of the Company being increased from 164,746,666 (One Hundred and Sixty Four Million Seven Hundred and Forty Six Thousand Six Hundred and Sixty Six) to 168,983,009 (One Hundred and Sixty Eight Million Nine Hundred and Eighty Three Thousand and Nine).

**THAT** the new 2,644,068 (Two Million Six Hundred and Forty Four Thousand and Sixty Eight ) Ordinary (voting) shares and the new 4,236,343 (Four Million Two Hundred and Thirty Six Thousand Three Hundred and Forty Three) Ordinary (non-voting) shares to be so allotted and issued constituting a total issue of 6,880,411 (Six Million Eight Hundred and Eighty Thousand Four Hundred and Eleven) new Ordinary shares shall immediately consequent to due allotment thereof to the entitled Shareholders rank equal and *pari passu* in all respects with the existing issued and fully paid Ordinary (voting) shares and Ordinary (non-voting) shares respectively and the new Ordinary (voting) shares and the new Ordinary (non-voting) shares so allotted and issued shall be listed on the Colombo Stock Exchange; and

**THAT** the Ordinary (voting) and Ordinary (non-voting) share fractions, respectively, arising in pursuance of the aforementioned allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares, be aggregated and the Ordinary (voting) and Ordinary (non-voting) shares, respectively, arising consequent to such aggregation be allotted to a Trustee to be nominated and appointed by the Board of Directors of the Company, and the Trustee so nominated and appointed shall hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the Colombo Stock Exchange and that the net sale proceeds thereof be donated to a charity or charities approved by the Board of Directors of the Company.

**THAT** the new Ordinary (voting) shares and Ordinary (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the cash dividend declared hereby and which cash dividend shall accordingly be payable only on the existing issued and fully paid Ordinary (voting) shares and Ordinary (non-voting) shares.

3. To re-elect as a Director, Mr. I.C. Nanayakkara, 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 as a Director, Mr. S.P.S. Ranatunga, 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 as a Director, Mr. A.M.M. De Alwis, 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-appoint Messrs KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
7. To authorise the Board of Directors to determine donations for 2013.
8. To consider any other business of which due notice has been given.

### By Order of the Board



**(Mrs.) N.N. Najumudeen**

Company Secretary

1st March 2013

Colombo

### Notes

- a. A shareholder entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend speak and vote instead of him/her. A shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his/her behalf.  
A proxy holder need not be a shareholder 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.  
Shareholders/proxy holders are requested to bring with them their National Identity Card or any other form of valid identification when attending the Annual General Meeting.



# / 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. Nihal Michael Jayamanne PC of Colombo 08, whom failing,  
Mr. Ishara Chinthaka Nanayakkara of Rajagiriya, whom failing,  
Mr. Ramanathan Nadarajah of Colombo 07, 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. Samantha Pradeep Samarawickrama Ranatunga of Colombo 05, whom failing,  
Mr. Adambarage Modantha Mohan De Alwis of Thalawathugoda, whom failing,  
Mr. Piyadasa Kudabalage of Nawala

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 2013 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 Annual Report of the Board of Directors on the Affairs of the Company and the Audited Financial Statements for the year ended 31st December 2012, together with the Report of the Auditors thereon.		<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final ordinary dividend for the Financial Year Ended 31st December 2012 as recommended by the Board of Directors and for the purpose to consider and if thought fit to pass the Resolution set out in the Note convening the Meeting.		<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director, Mr. I.C. Nanayakkara, 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 as a Director, Mr. S.P.S. Ranatunga, 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 as a Director, Mr. A.M.M. De Alwis, 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-appoint Messrs KPMG, 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"/>
7. To authorise the Board of Directors to determine donations for the year 2013.		<input type="checkbox"/>	<input type="checkbox"/>

(\*Please delete the inappropriate words)

(\*\*Please mark your preference with "X")

Signed this ..... day of ..... 2013

.....  
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.

### **Instructions for the Completion of Form of Proxy**

1. In terms of Article 63 of the Articles of Association of the Company - the 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 were 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/Company Registration Number (as applicable).

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 : .....

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Queries/Comments

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# / Circular to Shareholders



**Seylan Bank PLC**  
(Co. Reg. No. PQ 9)  
No. 90, Galle Road,  
Colombo 03, Sri Lanka.

1st March 2013

Dear Shareholder/s

## First and Final Dividend for the Year Ended 31st December 2012 to be Satisfied Partly by the Payment of Cash and Partly by the Allotment and Issue of New Ordinary Shares

### Recommendation of a First and Final Dividend

The Board of Directors of Seylan Bank PLC (the "Company"), is pleased to inform the shareholders that a First and Final dividend of Rs. 2.00/- (Rupees Two) per each issued and fully-paid Ordinary (voting) share and Ordinary (non-voting) share for the financial year ended 31st December 2012 is recommended for due declaration, on the Company's issued and fully-paid Ordinary (voting) and Ordinary (non-voting) shares, by the shareholders at the Company's Annual General Meeting ("AGM") to be held on Thursday, 28th March 2013. The dividend so declared shall be satisfied:

- i. partly by way of a payment in cash {at a value of Rs. 1/- (Rupees one) per each issued and fully-paid Ordinary (voting) and Ordinary (non-voting) share} and
- ii. partly by the allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares {at a value of the balance Rs. 1/- (Rupees one) per each issued and fully-paid Ordinary (voting) and Ordinary (non-voting) share}.

The Board of Directors is confident that the Company will be able to satisfy the solvency test immediately post-payment of such dividend, in the manner aforementioned.

The total amount of the dividend that is proposed to be so declared is Rs. 676,159,998/- (Rupees Six Hundred and Seventy Six Million One Hundred and Fifty-Nine Thousand Nine Hundred and Ninety-Eight only). Such total amount will, consequent to the shareholders passing the resolution declaring the dividend, be satisfied in the manner following:

Method of Satisfaction	Total Amount (Rs.)
i. By way of a payment in cash	338,079,999
ii. By the allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares:	338,079,999
<b>Total</b>	<b>676,159,998</b>

The aforementioned dividend will be declared from and out of the Company's profits for the year 2012. Accordingly, the above mentioned methods of satisfaction of such dividends will be derived and based thereon.

### Issue of New Ordinary Shares

As aforementioned, the Company proposes to satisfy the said dividend, partly by the issue of new Ordinary (voting) and Ordinary (non-voting) shares, subject to the shareholders passing the resolution declaring the said dividend. The Company accordingly intends to allot and issue new Ordinary (voting) and new Ordinary (non-voting) shares to those Ordinary (voting) and Ordinary (non-voting) shareholders respectively, who are registered in the Company's Share Register as well as those shareholders whose names appear on the Central Depository System (Pvt) Limited ("CDS") as at the end of trading on the date of the Annual General Meeting at which the resolution of the shareholders declaring the dividend is duly passed (hereinafter referred to as the 'entitled shareholders') in the following ratios and in part satisfaction of such declared dividend:

- a. One new-fully paid Ordinary (voting) share for every 65.555555556 existing issued and fully-paid Ordinary (voting) shares; and
- b. One new-fully paid Ordinary (non-voting) share for every 38.888888889 existing issued and fully-paid Ordinary (non-voting) shares

Consequently, a total of 2,644,068 (Two Million Six Hundred and Forty-Four Thousand and Sixty-Eight) new Ordinary (voting) shares and a total of 4,236,343 (Four Million Two Hundred and Thirty-Six Thousand Three Hundred and Forty-Three) new Ordinary (non-voting) shares will be issued.

The above mentioned share ratio is based on a value of Rs. 59.00 (Rupees Fifty-Nine) per Ordinary (voting) share and Rs. 35.00 (Rupees Thirty-Five) per Ordinary (non-voting) share respectively, as at the end of trading on 20th February 2013 (being the date prior to the date on which the Board formally resolved to recommend the dividend to the shareholders). The Board is satisfied that the consideration for which the new shares are to be issued is fair and reasonable to the Company and to all its existing shareholders.

The new Ordinary (voting) shares and Ordinary (non-voting) shares to be so issued, shall, immediately consequent to due allotment thereof to the entitled shareholders, rank equal and *pari passu* in all respects with the existing issued and fully-paid Ordinary (voting) shares and Ordinary (non-voting) shares of the Company, respectively. Consequent to the allotment and issue of such new shares, the stated capital of the Company will increase from Rs. 10,225,452,000/- to Rs. 10,529,724,017/-.

### **Fractions Arising on Allotment and Issue of New Shares**

The residual share fractions arising from the aforementioned issue and allotment of new Ordinary (voting) shares and Ordinary (non-voting) shares will be aggregated and the Ordinary (voting) shares and Ordinary (non-voting) shares arising consequent to such aggregation will be allotted to a Trustee to be nominated and appointed by the Board of Directors. The Trustee so nominated and appointed will hold the said shares in trust and dispose such shares on the trading floor of the Colombo Stock Exchange ("CSE"). The sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors.

### **The Allotment and Issue of New Shares**

In calculating the number of shares held by a shareholder as at the entitlement date, the shareholding of such shareholder as appearing in the Central Depository Systems (Pvt) Limited ("CDS") and the Shareholders' Register maintained by the Company will not be aggregated. However, if a shareholder holds shares with multiple stockbrokers the shares held with the multiple stockbrokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed allotment and issue of new shares will be uploaded proportionately to the respective CDS accounts held with each broker.

In the event that the shareholders pass the requisite resolution declaring the aforementioned dividend and its satisfaction partly by way of the allotment and issue of new Ordinary (voting) shares and Ordinary (non-voting) shares, the accounts of the shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares within 7 market days from and excluding the date on which the resolution is passed.

### **Direction of the SEC to Deposit Share Certificates in the CDS**

Pursuant to a Direction issued by the Securities and Exchange Commission of Sri Lanka ('SEC') pertaining to the de-materialisation of listed securities, shareholders who hold shares in scrip form (i.e. in the form of a Share Certificate) as per the Shareholders' Register maintained by the Company will not be issued Share Certificates for the new shares allotted in their favour. Such shareholders are requested to open an account with the CDS and to deposit the Share Certificates in their possession in the CDS, prior to the date of the AGM, to enable the Company to directly deposit the new shares into such CDS account of the shareholder.

The new Ordinary (voting) share and/or Ordinary (non-voting) share entitlements of those shareholders who fail to open an account with the CDS prior to the date of the AGM, will be directly uploaded to the CDS account opened by such shareholders, post the AGM, and provided that such shareholders inform the Company Secretary in writing of their CDS account numbers. The Company shall, upon receiving written requests from shareholders to directly upload their respective CDS accounts with their new share entitlements, do so on a weekly basis.

### **Statement of Compliance**

The Board of Directors hereby confirms that the allotment and issue of the new Ordinary (voting) shares and Ordinary (non-voting) shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the Companies Act No. 07 of 2007.

The Board of Directors emphasises that the aforementioned allotment and issue of new Ordinary (voting) shares and Ordinary (non-voting) shares is in part satisfaction of the First and Final dividend for the year ended 31st December 2012 and shall be dependent and subject to the shareholders passing the resolution declaring the said First and Final dividend.

### **Notice of Annual General Meeting**

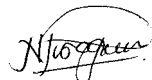
Attached hereto is the Annual Report comprising the Notice convening the AGM for Thursday, 28th March 2013 and setting out in item 2 thereof, the relevant resolution to be passed by the shareholders in relation to the declaration of the stated dividend.

Shareholders who are unable to attend the meeting in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Registered Office of the Company not less than forty eight (48) hours before the time scheduled for the holding of the AGM.

Yours faithfully

By Order of the Board

**Seylan Bank PLC**



**(Mrs.) N.N. Najumudeen**

*Company Secretary*



## **This Annual Report is Carbon Neutral**

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# Indeed.

