

FOR THE BENEFIT OF ALL

PEOPLE'S BANK
ANNUAL REPORT

2013

Contents

Highlights	004
Chairman's Message.....	007
Chief Executive Officer/ General Manager's Review	013
Board of Directors	021
Corporate Management	027
Executive Management and Zonal Management	035
Business Review	039
Financial Review.....	063
Sustainability Supplement.....	077
A Pictorial View of 2013.....	108
Compliance Report	111
Corporate Governance	117
Risk Management.....	127

Financial Reports

Directors' Report	152
Directors' Responsibility for Financial Reporting	155
The Directors' Statement on Internal Controls	156
Independent Assurance Report.....	158
Report of Factual Findings and Corporate Governance	160
Board Audit Committee Report	180
Report of the Auditor General	183
Income Statement	185
Statement of Comprehensive Income ..	186
Statement of Financial Position	187
Cash Flow Statement.....	188
Statement of Changes in Equity	189
Notes to the Financial Statements.....	191

Annexes

Value Added Statement.....	264
Sources and Utilisation of Income.....	265
Income Statement US\$.....	266
Statement of Financial Position US\$.....	267
Quarterly Financial Highlights	268
Branch Network.....	269
Branches with Selected Services.....	274
Worldwide Partners	279
Decades at a Glance	281
Performance Review 2004-2013	284
Glossary of Financial/Banking Terms ...	286

WE EXIST TO PROSPER ALL...

We are well rooted. We stand firm in good times and bad.
We know banking inside and out. The fruits from the tree of our enterprise
nourish every stakeholder. We exist to prosper all.

We are People's Bank.

Our Vision

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

Our Mission

For our Customers

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

For our Owners

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

For our Employees

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

For our Society

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

Our Values

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

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

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

Today, we function in a very different environment. The country's per capita GDP has crossed the US\$ 2,500 threshold and the state and private sector work together to drive development. The Government's ambition of developing the 'Five Plus One Hubs Strategy' is well in line with achieving a per capita GDP of US\$ 4,000 by 2016 enabling the country join the ranks of emerging economies of the world.

A state-of-the-art financial services industry is crucial if the country is to sustain its present growth rates. The current moment calls for innovation, proactive engagement with new market segments and calculated risks. People's Bank is today ready to play this new role. It has a pool of highly-motivated employees, a sound risk management strategy, a customer base in excess of 15 Mn, 735 branches, 460 ATMs and an asset base of Rs. 931 Bn. We are constantly strengthening our product portfolio and enhancing customer service. Our pre-tax profit is Rs. 10.3 Bn and post-tax profit is Rs. 7.5 Bn in 2013.

Highlights

Operating Highlights

**more
than
50
years
in
Banking
Service**

Total branch network
expanded to 735

**the highest
in Sri Lanka**

**Bank expanded ATM network
to 460**, the first to be connected
to the National Common
ATM switch project.

Customer accounts over 15 Mn.

Introduction of
“Migrant Debit Card”,
in partnership
with the Foreign
Employment Bureau.

**Bank's Fitch Rating
was reaffirmed as**

AA+

10.0

Rs. Bn

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

Bank recorded a profit
after tax of

7.5

Rs. Bn

Financial Highlights

	BANK			GROUP		
	2013	2012	Change	2013	2012	Change
	Rs. Mn	Rs. Mn	%	Rs. Mn	Rs. Mn	%
Results for the Year						
Gross Income	120,456	94,777	27.1	139,957	109,974	27.3
Total Operating Income	46,530	43,310	7.4	55,576	49,618	12.0
Profit before Tax	10,304	15,249	(32.4)	13,412	17,671	(24.1)
Provision for Taxation	2,816	4,355	(35.3)	4,248	5,775	(26.4)
Profit after Tax	7,488	10,894	(31.3)	9,164	11,897	(23.0)
At the Year End						
Gross Loans and Receivables	681,467	660,624	3.2	773,251	740,675	4.4
Deposits	762,249	683,951	11.4	789,225	708,897	11.3
Total Assets	930,585	873,296	6.6	1,031,473	960,860	7.3
Total Equity	36,537	29,205	25.1	55,088	45,749	20.4
Key Performance Indicators						
Return on Assets (%) - before Tax	1.1	2.0		1.3	2.1	
- after Tax	0.8	1.4		0.9	1.4	
Return on Equity (%)	22.8	41.7		18.2	28.2	
Cost to Income Ratio (%)	48.4	55.8		49.1	55.0	
Statutory Ratios						
Capital Adequacy Ratios (%)						
Tier 1 Capital Ratio - Minimum Requirement 5%	10.4	9.8		12.5	12.0	
Total Capital Ratio - Minimum Requirement 10%	15.0	14.0		15.9	15.7	
Statutory Liquidity Assets Ratio (%)						
Domestic Banking Unit - Minimum Requirement 20%	25.2	21.8				
Off-Shore Banking Unit - Minimum Requirement 20%	22.3	21.8				



Chairman's Message

People's Bank has been of service to millions of Sri Lankans in all walks of life since its inception.

“

Being a State Bank,
our responsibility lies with
**developing our stakeholders
aligned to the country's vision**
and thus far, we have seen the
objectives in this path fulfilled
and achieved.

”





It gives me great pleasure to be able to address you as our important stakeholders in my second year in office whilst the Bank is on its fifty third year of existence.

'For the Benefit of All' is the thought process that we intend to permeate even further in the future, creating an empowering environment to all our stakeholders.

Economic Paradigms

The performance of the world economy was lackluster this year, although expectations were that a turnaround would be imminent. Economic growth was continuously monitored but showed no improvement, resulting in forecasts being restructured twice during the year given that most advanced economies did not strengthen, while even developing regions saw sluggish expansion. The International Monetary Fund expects just 2.9% growth for 2013, less than the original 3.1% predicted and the slowest since 2009. However, remaining optimistic, the IMF believes that 2014 will depict an upward trend to 3.6%.

The Sri Lankan Economy in Perspective

Sri Lanka has demonstrated resilience to negative influences from external economic downturns. More details on Sri Lanka's proven resilience is discussed in the Financial Review chapter that follows.

This year was no different with the country achieving remarkable progress, ahead of most countries in the region and way above average global growth. Posting a GDP growth of 7.2%, the country's core indicators including headline inflation remained at single digits, which at 4.7% is a record for 59 months continually. Core inflation, at its lowest levels stood at 2.1% in December. The level of investment was maintained at over 30% of GDP, while unemployment continued to remain encouragingly low at 4.5%.

One of the Bank's largest customer bases which continues to gain immense focus given the yeomen service our expatriate Sri Lankans render in contributing to the growth and development of the nation is our expatriates. These Sri Lankans were expected to have remitted an extraordinary US\$ 6.7 Bn by end 2013. This is an increase from US\$ 6 Bn posted in 2012, with the reasons for the growth pinpointed to increased labour migration under professional and skilled category focusing on quality jobs and larger remuneration packages which has seen a growth of 28%, improved awareness on remitting money through formal channels and the introduction of web-based money transferring systems to facilitate speedy and efficient transfers into Sri Lanka.

Departures for foreign employment until September 2013 increased 5.6% to nearly 220,000. There are a large number of reasons for remittances forming an integral facet of our economy including the fact that this significant amount of foreign exchange has continued to buttress impacts emanating from global economic shocks, while ensuring that a stable pool of funds exists to be used for national development. These remittances are anticipated to exceed US\$ 10 Bn by 2017.

Financial Performance in Summary

The CEO's Review of Operations and Statement of Account in this Report will give a detailed account of our Bank's performance this year. However, it would be remiss of me if I do not commend the Bank's team for their dynamism in producing the noteworthy results we see this year. The year has not been without challenges but similarly, it has also not been without opportunity. It is these opportunities that were identified and used as trusses for us to present the good results we have today.

Overall performance, I am happy to note, has been consistent, seeing the Bank post profit before tax of Rs. 10.3 Bn, while the Group notched PBT to Rs. 13.4 Bn. You will note a decrease in profits,

compared to last year which is due to a number of challenges that ensued during the year, impacting our ability to grow profitability. The volatile interest rates and the drastic downward spiral of gold which impacted our pawning business considerably were two factors that severely affected the Bank's performance.

However, we did see both the Bank and the Group post an increased turnover of Rs. 140 Bn, which is a 27.3% growth over last year's figures. Given that People's Bank has always remained a very proactive partner within the national development agenda, we are most pleased that the levy of Rs. 4.5 Bn paid to the Treasury will add to the funds required for the country's development.

Benefiting All

Benefiting all is the founding truss of People's Bank and the quintessence of our name, People's Bank. While every stakeholder group is served unreservedly, we have always espoused a philosophy that we will remain cognisant of the needs of emerging generations. This has prompted us to establish facilities that will add impetus to future generations who will forge relationships with us. We also know that the next generation will face challenges that are diverse and different to present day challenges and this has led us to institute systems, processes and frameworks that will give them support in dealing and overcoming these challenges.

This includes educational empowerment, where through scholarships, endowments and financial assistance, the Bank has added momentum to young people's academic and extracurricular talents. With this truss being given for education, the Bank has enabled them to break conventional boundaries and reach beyond, to exceed their personal aspirations. We are proud that numerous young high achievers, who have been People's Bank scholarship recipients, have continued to shine above their peers and travel onwards to become socially responsible young citizens of the world.

We are also very conscious of the role we play in building and sustaining the national economy. By assisting the country in achieving the vision set out, implementing imperatives that would support the journey towards this vision and in strengthening our presence around the country and wherever else in the world we believe is necessary, we are working unceasingly on constructing a sustainable foundation for the national economy. By partnering the State in infrastructure development projects including road, irrigation, port and energy development projects, we are at the forefront of driving the country towards becoming the Wonder of Asia.

In addition, we have also worked tirelessly in developing the North and the East of the country, adding impetus not only via infrastructure development but also in identifying, building and strengthening sustainable micro and SME industries. This has been characteristic of People's Bank since inception, but has taken on added urgency given that the country has positioned itself to meet some very ambitious socioeconomic goals. As the Bank for the people, we have an immense responsibility to ensure that these goals are met.

Becoming South Asia's Economic Hub by 2016 has also seen not only the Five Plus One Hub concept gain momentum, but support and ancillary industries gaining impetus. This includes not only larger support industries but also a myriad micro and SME industries that are being added to the equation to spur development of these growth industries. By adding our prowess into this equation, People's Bank has steadily given birth to a large segment of entrepreneurs, boosting entrepreneurial ventures in all parts of the country. This has seen a resurgence of industries that had hitherto had little support to become sustainable, while new industries have also emerged as a result of the Bank's intervention. Due to this cascading effect, People's Bank is truly honoured to have empowered entire communities, giving them the resources, talent and skills to contribute significantly to the nation's development.

However, our responsibility towards our customers, communities and nation cannot be fulfilled with such vigor, if not for the dynamism and unwavering motivation displayed by our winning team. They have continued to be the backbone of the operations of the Bank, truly taking that ethos of 'Benefiting All' to another realm. Our strategies, mapped out in our 2009-2014 Strategic Plan, now in its final year, have been extremely successful in implementation. It is this success that is seen in not only the Bank's performance, but in the meeting of Key Performance Indicators and in the triple bottom line in total.

Our technology map too has engendered a more efficient, productive and innovative bank, enabling People's Bank to gird itself with vigor for challenges that ensue in an intensely competitive environment. Governance and regulatory directives are well implemented, aided ably by IT systems and processes that leave no room for compromise. We stringently practice a milieu that goes beyond compliance, pushing conventional boundaries but being very conscious of having a stable and sustainable bank.

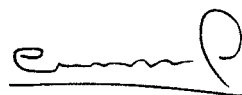
Appreciative Comments

Building this stable and sustainable bank however, has always been the responsibility of our team, to whom I am extremely thankful. Likewise, in ensuring our culture of stringent compliance, I am very grateful to the Governor and Officials of the Central Bank of Sri Lanka for continually being available for advice and consultation. Thank you to my Board of Directors whose continued confidence in me gives me the strength to spearhead this Bank into an era where development and the nation's prosperity stand at the zenith to making Sri Lanka, the Wonder of Asia.

It is important therefore that all our stakeholders are made a part of our planned progress and this is why our path to progress is always well-etched with the presence of our customers and valued business partners. With constant feedback, dialogue and interaction, we have been able to meet their expectations, while also remaining well aligned with newer trends that will emerge in the banking space.

Thank you to both our customers and valued business partners, whose continued display of unwavering loyalty gives us the force and fortitude to move ahead. While our communities around us charter our progress keeping a keen eye on the path being taken by People's Bank, we know it is vital that this unbridled focus pushes us to continue to gain higher ground and greater goals. My heartfelt appreciation to our communities.

Our plans are well aligned to the Government's Ten Year Vision based on the *Mahinda Chinthana*. Earmarked drivers including key industries, infrastructure and social formula are inbuilt into this vision, which has become our road map for the future. Being a State Bank, our responsibility lies with developing our stakeholders aligned to the country's vision and thus far, we have seen the objectives in this path fulfilled and achieved. In celebrating the ethos of Benefiting All, we as a bank have surely amalgamated the people and the nation onto a singular platform of sustainable development and prosperity.



Gamini Senarath
Chairman

26th March 2014

Chief Executive Officer/General Manager's Review

We are a Bank that has and will continue to work for the benefit of all, by practicing in a wholesome sense what our name denotes, the 'People's Bank'.



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Given the challenging year that ensued in 2013, **deposit mobilisation proved to be one of our most significant achievements** for the year.

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It is not unusual for entities in the financial services industry to claim that they assist various segments of customers, are accessible, are flexible, and have numerous areas of expertise that can be advantageous to their customers. But while all these hold many truisms, the most fundamental reason that People's Bank can claim to be all of the above and more is that we are a bank that touches the lives of people from every aspect, irrespective of geography, social strata, gender, culture and religion. We touch people in a holistic sense, not just being there for banking requirements but in building relationships to nurture and strengthen them throughout a lifespan, now extended to generations.

We take our ethos of being a 'People's Bank' seriously. We believe that our name must denote every action we take of truly being one with the people. People to us encompass every stakeholder segment and this warrants the Bank being able to encompass all walks of life. The relationships we have forged are strong and well founded, giving our Bank the ability to reach out across the country and beyond.

In writing my Review of Operations for the year 2013, I strongly believe that we have met an ambitious goal of being a strong truss to our stakeholders, benefiting each with our expertise and abilities to create a nation that can go beyond its vision and towards becoming a force in this region. To put it simply, we are a Bank that has and will continue to work to benefit all, by just practicing in a wholesome sense what our name denotes, the 'People's Bank'.

Operating Environment in Synopsis

The market conditions for banking operations have been considerably challenging, although in a macro sense there are positives that formed advantageous platforms for the banking industry to function in.

A progressive taxation environment was created with corporate taxes being reduced to 28% and financial VAT to 12%. However, a 2% Nation Building Tax will be implemented from January 2014 for all banking business. This component of taxation augurs well for

the nation, as denoting what the taxation axiom entails; the funds gained from NBT will be used to pursue the country's development agenda.

There is a concerted effort to augment private sector investment, especially in the North and the East, which has created a significant interest in projects being mooted in these areas. While the Government began development projects around the country and primarily targeted development projects that would boost economic development in the North and the East, the hospitality industry has seen significant inroads in investment, giving further credence to that industry fuelling the Five Plus One Concept in readiness for 2015. Infrastructure facilities including road networking gained added buoyancy providing better accessibility. Foreign Direct Investments topped US\$ 1 Bn for the third year consecutively proving that Sri Lanka is fast becoming a preferred investment destination.

Globally, while the US did show some upward movement, it was undoubtedly not as expected which also meant that other countries impacted by the downturn remained sluggish, as seen by the Eurozone's lethargy. While the global economy seemed poised to improve from 2014, the year of 2013 grappled with other extremes including natural disasters in Asia and Syria's continued crisis permeating across the Middle East.

All these events had a macro impact on the economy as trade and commerce and related economic indicators were impacted negatively. Sri Lanka herself grappled with volatile interest rates and exchange rates especially in the last few months of 2013. The drastic drop in gold prices had a catastrophic impact on many in the financial services industry, which relies considerably on the pawning portfolio to bring in much of its profitability.

Performance Overview

Hence, the results seen by the Bank is truly one that is extraordinary, given that the Bank has notched these results despite all of the above cascading negativities into nearly every aspect of our business. Profit before

taxation for 2013 is posted at Rs. 10.3 Bn a negative growth of 32.4% from last year's Rs. 15.2 Bn. The fact that the Bank was able to post this profitability, despite facing a slew of challenges, is specifically due to the rudiments of the Strategic Plan 2009-2014 which came into play with great effect especially in turbulent times. We had already laid the foundation to identify our strengths, weaknesses, threats and the opportunities that will emerge in this five-year period in this Strategic Plan. We analysed paradigms and learned from lessons past to infuse a well thought out map that would enable us to function productively, efficiently and with optimum results despite negative macro impacts. The foundation we constructed was solid, well thought out and ready for challenge. This year, we did prove that the foundation was a sustainable one, producing results that are consistent to our growth paradigm.

Despite the general industry being challenged considerably to grow the loans and advances portfolio, our Bank's inbuilt strategies proved to be a panacea in seeing an increase in this segment of business. This portfolio delivered an increase to Rs. 681.5 Bn, which is a growth of 3.2%, compared to Rs. 660.6 Bn in 2012. However, the drop in gold prices did result in a considerable negative impact on our business, triggering an increase in our NPL ratio. This however is being emphatically focused upon and strategies have already been employed to reduce the NPL ratio as a matter of urgency.

Our Achievements Benefit All

Given the challenging year that ensued in 2013, deposit mobilisation proved to be one of our most significant achievements for the year. Our deposit portfolio grew by an impressive 11.4% aided by the plethora of products and services that we have within our offerings.

From a product perspective, technology definitely led the fray, given that more customers were now using our Internet and SMS Banking, Palm Top Banking, Mobile Banking and even online payment portals for the newly introduced EPF, ETF and customs duty

payments. The Bank has also begun converting our large proprietary card base to Visa Debit cards, for better penetration and more value addition, which we hope will trigger a further expansion of our card base.

The Core Banking System which is now fully operational has enhanced our efficiencies and productivity through our branch network numbering 735 with the addition of 460 ATMs, we are now able to reach out to customers island-wide.

The impressive loan book growth of 3.2% was due to some very strategic initiatives employed during the year with absolute focus on sustainable development cascading to regions around the country. The North gained intensity with People's Bank strengthening operations and driving business growth in Northern Peninsula. This saw a significant number of entrepreneurial ventures being initiated especially in agriculture, dairy and fisheries which are the staple industries in this part of the country. The Bank began rolling out regional development facilities at concessionary interest rates and relaxed security requirements to support entrepreneurs and industries in the region.

This accent on entrepreneurial development which was extended to other rural areas in the country presented on a platform of social mobilisation was designed to create industries, spur innovation, create empowerment especially of women and generate rural employment. Provision of microfinance facilities and development loans to the rural sector has certainly seen significant contribution made by these economies into the mainstream economy, while a rewarding feature in this intervention has been the genesis of numerous new industries that had hitherto lain dormant due to lack of funds, technical expertise or know-how. These industries have now seen a renaissance due to People's Bank spurring opportunities and potential.

Another of our greatest achievements is the upward movement we have seen in our remittance business, which showed an increase of 11% over 2012. Our multiple range of remittance solutions has now

ensured that several methods can also be employed for online/real time transfers and access to hard earned funds, using automated remitting channels which was this year, augmented with the launch of the Migrant Debit Card in collaboration with the Foreign Employment Bureau that enables the access to funds instantly. Foreign currency deposits too continued to gain momentum adding to the variety of stable and secure investment tools available for expatriate Sri Lankans. All our initiatives to empower our Sri Lankan expatriates are well honed with the worldwide network of partner relationships we have mooted.

The Bank has also made a concerted effort in employing strategies for even better monitoring and control of loan recoveries, which we believe is imperative in the current context. However, we do remain extremely cognisant of the extenuating circumstances in which our customers function and work on a structured loan recovery plan that would be of benefit to both the Bank and the customer.

Operating within a Challenging Milieu

From a regulatory perspective, the Bank also had to institute some initiatives internally to ensure compliance with both the Central Bank's Corporate Governance Code which came into effect in 2011 and the new Sri Lanka Accounting Standards (LKASs and SLFRSs) from 2012 when it came into being and the advance enhancement in 2013. Basel III preparedness is also underway.

While Personal Banking is a primary responsibility in our banking ethos, Corporate Banking is a fundamental given that we are extremely enthusiastic about partnering both the private and public sectors in meeting national development goals. Our role in instigating commercial enterprises with investment focus has driven viability and profitability into these enterprises. The team's professionalism and extensive know-how has added noteworthy inroads into building this area of business which now encompasses large and medium private sector entities.

This year, Corporate Banking added Rs. 6.5 Bn to the Bank's net income, while total lending amounted to Rs. 234 Bn, being a fundamental dynamic in adding significantly to the profitability of the Bank.

It is noteworthy that our Treasury Unit continued to consolidate its position as a market maker in the US Dollar/LKR sphere, despite quite a challenging year being posed for the Unit. The fact that the unit was able to take advantage of price in both spot and forward markets gained positive customer positions and extend competitive rates to importers and exporters, saw business volumes increase. Currency positions were also managed successfully and market risks minimised, primarily due to the extent of expertise and competency that our Treasury has now gained. In addition, our Investment Banking Unit (IBU), which has gained an enviable market share having concluded successful transactions for a large number of corporate debt issuers and investors, raised Rs. 7.4 Bn this year via debentures and commercial papers, yielding a noteworthy fee income.

We are also cognisant of the fact that key industries designed to drive the country's Economic Hub Vision to 2015 and the *Mahinda Chinthana* Vision must be given added impetus, which has enabled us to focus on extending support to aligned projects. We, therefore, funded approximately 25% of the national development projects and from an industrial perspective, have funded 50% of national petroleum requirements, extended financial assistance for transportation services from road to rail and shipping. The state power sector's portfolio with an additional Rs. 10 Bn allocated for annual funding of coal importation. We are also a primary funding entity for the hospitality, pharmaceuticals, healthcare and fertilizer industries.

The IT Department has been tireless in its effort in creating an IT empowered bank that would benefit all stakeholders, instituting a visionary IT plan that will strengthen the IT backbone of the Bank. As mentioned previously, a pioneering project was enacted with the online customs duty and tax payment project which is truly revolutionary in the annals of the country's export/

import trade. The online payment facility for EPF and ETF, developed in-house as was the customs duty payment portal, were other initiatives adding to our IT development features. A significant milestone in our IT annals was the fact that People's Bank became the first bank to be connected to the National Common ATM Switch Project, networking all our customers to an extensive network of ATMs around the country.

Ensuring Sustainable Development

The Bank's Corporate Social Responsibility platform is three pronged, namely preserving cultural and national heritage, professional development and people's empowerment through industry and educational upliftment.

Being a state bank, we do believe that we have a national responsibility in ensuring that the country's age old historic, religious and cultural heritage be preserved. It is imperative that these tenets are preserved for future generations to be aware and take pride in the glorious past of the country's history and the intertwining intricacies that emanated from living in a multi-cultural, multi-religious and multi-ethnic society. We have thus focused on maintaining a long standing partnership with religious and cultural festivals including the *Esala Perahera* organised by the Sri Dalada Maligawa which to date remains Asia's largest cultural pageant.

We also support the Sithulpawwa Raja Maha Viharaya in the Hambantota District, which has a history of over 2,200 years in its *Poson* festival and the *Buddha Rashmi Vesak* Festival at the Hunupitiya Gangaramaya Temple. Another cultural and religious preservation initiative was mooted with the Bank assisting the reconstruction of the Muhudu Maha Viharaya in Pottuvil, an archeological site and an ancient place of worship in the old Ruhunu Kingdom.

As the country establishes its status as a middle income economy, it is imperative that human resources in Sri Lanka is able to cope with the challenges that emanate from such a lofty position and identify and exploit opportunities that emerge.

Developing professionalism is therefore an absolute imperative and the Bank has partnered with numerous organisations including the Editors' Guild of Sri Lanka and the Sri Lanka Press Institute in the Annual Journalism Awards in their endeavours to inculcate professionalism to their various professions. University graduates also gained our support with the Bank funding the University Colours Night which honoured high achievers among the crème de la crème of young people in the country. We intend to expand our intervention with other professions as well in the next year.

Women have always held a lofty status in our stakeholder segment. From the dedicated *Vanitha Vasana* product which enables women to pursue higher education or start up micro or small businesses, some of our SME interventions also ensure that women are given priority in funding assistance. The Bank also partnered the Women's Chamber of Industry & Commerce this year in its annual conference, showcasing the Bank's unstinted support for women entrepreneurs and professionals.

Education too remains ingrained in our sustainable empowerment initiative as scholarships are granted to students who excel in the Grade Five Scholarship Examination as well as high achievers in the GCE O'Level and GCE A'Level Examinations. More value was added when the Bank partnered the *Seva Vanitha* Unit of the Ministry of Defense in a fund-raising effort that would provide housing, medical treatment and scholarships to children of war heroes.

Benefiting All for the Future

From the time of our inception, People's Bank has worked within that culture of Benefiting All. To us, that meant ensuring that every decision we made, every action we took and every impact that was made as a result of these would be beneficial to our stakeholders, who are wide and varied.

Looking inwards, we are at the conclusion of our five-year strategic plan which began in 2009. The plan was unambiguous and straightforward, charting a path

that would enable us to overcome challenges while identifying and exploiting opportunities. In 2014, we aim to build further on this plan, looking at the trends that are emerging and also being cognisant to the fact that we are living in uncertain times, especially with regard to the macro-environment and global socioeconomic milieu that continues to unfold.

There's also a comprehensive IT and Human Resources Plan that is being mapped given that these two segments form the backbone of the Bank's anatomy. There is a considerable thrust being pursued to add impetus to the IT platform, adding new initiatives and state-of-the-art IT enabled infrastructure which will add to the progressive features we have already implemented.

Our team, who have proven undoubtedly that they are a winning one, a team for whom no challenge is insurmountable, requires to have the apt tools and skills to meet the even more difficult challenges that are bound to arise in the future. A comprehensive training and development calendar designed to hone the latent skills and prevalent talent is being pursued as is the need to create future leaders, inculcate team spirit and infuse a sense of oneness and the spirit of entrepreneurial innovation into the team's DNA.

Our plans and progress will be aligned to the Government's Ten-Year Development Plan, the *Mahinda Chinthana* which maps an aggressive plan of action that is designed to place Sri Lanka as a regional leader by 2020. Well within the mapped timelines to achieving the ambitious goals, People's Bank intends to add more impetus to the key industries that are tasked with driving this journey which includes six key industries to eventually transform Sri Lanka into a dynamic global hub. In tandem, we are adding fillip to the micro and SME industries which is another facet in the Government's development plan of empowerment and inclusivity, while encouraging development of rural economies.

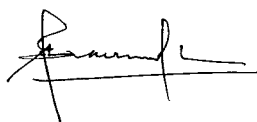
In Appreciation

We are already on the threshold of a year that would hopefully bring with it better prospects than 2013. The world seems to be on the cusp of turning around in an economic sense, while Sri Lanka will continue its development agenda in meeting its ambitious goals to the stipulated timelines. In this background, I am grateful to the Chairman and Board of Directors of the Bank for the guidance and leadership they have always extended to me, ensuring that the Bank maintains that focus of benefiting all. That stewardship has enabled me to lead a team to produce noteworthy results, despite operating in a difficult environment. My appreciation to the senior management and our dynamic team who continue to be the trusses upon which this Bank relies on.

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

Our customers and valued business partners have continued to place their confidence in us, displaying unwavering loyalty and commitment in us, and for this I express my appreciation. This Bank is constructed on that eternal platform of benefiting our stakeholders and to our communities around us, thank you for being with us and giving us the impetus to grow, ensuring that you and the Bank can forge and grow long-term relationships that will be mutually beneficially to both.

We will remain the People's Bank, founded on the need that our presence will always be a benefit to all, where we touch lives tangibly and intangibly, ensuring that our vision and our goals will always be designed and delivered to benefit each and every stakeholder who has made our journey successful.



N. Vasantha Kumar
Chief Executive Officer/General Manager

26th March 2014

Board of Directors

Committed to guiding the Bank
to deliver a holistic service embedded
by the highest ethical standards in
the regime of excellent corporate governance
practices across the Board.

Mr. Piyadasa Kudabalage ■
Director

Ms. Lakshmi K. Sangakkara ■
Director

Mr. Gamini S. Senarath ■
Chairman

Mr. R.M.P. Ratnayake
Director



■ **Mr. Jehan P. Amaratunga**
Director

■ **Mr. Pawara Dassanayake**
Director

■ **Mr. G.K.D. Amarawardena**
Director

■ **Ms. Dharma
N. Gammampila**
Director



01. Mr. Gamini S. Senarath

Chairman

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

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

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

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

02. Mr. Jehan P. Amaratunga

Director

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

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

He has over 26 years of extensive experience in Finance and Management and has been a Consultant and Director to large number of corporations and private entities. Amongst his many achievements was the presentation of a paper titled 'Value for Money Accounting' at the National Conference of The Institute of Chartered Accountants of Sri Lanka. He was also a Member of the Governing Council of The Institute of Chartered Accountants of Sri Lanka.

03. Ms. Lakshmi K. Sangakkara

Director

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

She is an Attorney-at-Law. Ms. Sangakkara served as a Board Member of Sellers Sportswear Garments Ronbro International Garments and Sun Island Village Holiday Resort. Ms. Sangakkara has a vast amount of experience, over 32 years in the fields of Law, Management, Marketing, Hospitality and Apparels.

04. Ms. Dharma N. Gammampila

Director

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

Ms. Gammampila qualified as an Attorney-at-Law with First Class Honours. She is also a Notary Public and a Registered Company Secretary of Sri Lanka and a Solicitor of England and Wales. She counts over 36 years experience in England and Sri Lanka. She held the position of Company Secretary of Forbes and Walker Ltd. and was Director - Legal and HR of the subsidiary

companies of the Forbes and Walker Group for a period of 13 years. Whilst, currently serving as Director in private Companies involved in plantations, travel, tourism and hospitality. Ms. Gammampila is actively involved in the practice of Corporate Law, Employment Law and Conveyancing.

05. Mr. Pawara Dassanayake

Director

Mr. Pawara Dassanayake was appointed to the Directorate of the People's Bank in February 2011.

He is also a Director of People's Travels (Pvt) Ltd., a subsidiary of People's Bank.

He is an eminent entrepreneur who counts more than 16 years experience in the field of business. Mr. Dassanayake is also the Chairman of Building Materials Corporation Ltd.

06. Mr. G.K.D. Amarawardena

Director

Mr. Gamini Kithsiri Dias Amarawardena was appointed as a Director of People's Bank in March 2013.

Mr. Amarawardena holds a B.Sc. (Hon.) Degree in Physics from the University of Peradeniya, Postgraduate Diploma in Computer Technology from the University of Colombo and Masters in Public Policy from National University of Singapore.

He is a Senior Member of the Sri Lanka Administrative Service and presently the Secretary of Ministry of Co-operative and Internal Trade. During his career of 29 years in Sri Lanka Administrative Service, he has held several positions in the capacities of Secretary - Ministry of Public Management Reforms, Additional Secretary - Ministry of Disaster Management and Human Rights, Senior Consultant - Sri Lanka Institute of Development Administration, Director (Planning) - Ministry of Vocational Training

and Rural Industries, Deputy Director - Career Guidance Division of the Ministry of Youth Affairs, Assistant Secretary - Ministry of Youth Affairs and Sports, Assistant Government Agent in Akuressa, Matara, Assistant Director of Combined Services - Ministry of Public Administration and Home Affairs. Mr. Amarawardena also has foreign exposure in Italy, Japan, Singapore, Indonesia, India, Nepal, Thailand, Switzerland and Korea.

At present, he also serves as a Board Member of the Export Development Board, People's Travels (Pvt) Ltd. - Subsidiary of People's Bank and as Trustee of the Mahapola Higher Education Scholarship Trust Fund.

07. Mr. R.M.P. Ratnayake

Director

Mr. Ratnayake holds a Master's Degree and Postgraduate Diploma in Agriculture and Natural Resources Management from Agricultural University, Norway (2000) and B.Sc. (Special) Degree in Agricultural Economics (1992) from the University of Peradeniya, Sri Lanka.

He is currently holding the position of Director General in the Department of External Resources, Ministry of Finance and Planning and has been in the Public Services for almost 19 Years.

Mr. Ratnayake joined the Ministry of Finance and Planning as an Assistant Director, in 1994. He was attached to the Department of National Planning and Promoted as a Deputy Director and subsequently as the Director in charge of Human Development Cluster. In January 2011, he assumed duties as the Director in charge of Asian Development Bank (ADB) Division of the External Resources Department.

Mr. Ratnayake serves as a Member of the Board of Management of the Postgraduate Institute of Medicine (PGIM), University of Colombo and as a member of the Board of Directors of the National Aquaculture Development Authority of Sri Lanka and also as a Member of the Sri Lanka Council for Agricultural Research Policy (CARP).

Presently, Mr. Ratnayake is a Visiting Consultant/ Lecturer of the Sri Lanka Institute of Development Administration (SLIDA) and Member of the Sri Lanka Economic Association. To the account of Mr. Ratnayake, there are several research papers published in local and international journals.

08. Mr. Piyadasa Kudabalage

Director - B.Com. (Hons.) [University of Kelaniya], FCA, FCMA, FCPM

Mr. Kudabalage was appointed to the People's Bank as a Director with effect from 26th April 2013.

Mr. Piyadasa Kudabalage 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 Ltd., Litro Gas Terminal Lanka (Pvt) Ltd., Canwill Holdings (Pvt) Ltd., Sinolanka Hotels & Spa (Pvt) Ltd., Taprobane Hotels & Spa (Pvt) Ltd., Helanco Hotels & Spa (Pvt) Ltd. and Canowin Hotels & Spas (Pvt) Ltd. and he is the Chairman of People's Merchant Finance PLC. He is the Executive Director of Sri Lanka Insurance Corporation Ltd. and Management Services Rakshana (Pvt) Ltd. He also serves the Boards of Colombo Dockyard PLC, Sri Lanka Insurance Corporation (Pvt) Ltd. - Maldives, People's Leasing & Finance PLC, People's Leasing Property Development Ltd., People's Leasing Havelock Properties Ltd., People's Microfinance Ltd. as a Director and a Senior Partner of Messrs P. Kudabalage & Company, Chartered Accountants.

He has well over 30 years experience in the mercantile sector and held several senior positions prior to assuming the duties of aforesaid companies.

* Directors appointed under the People's Bank Act are Non-Executive Directors.

Corporate Management

The exceptional commitment of our Corporate Management contributes greatly to the desired enhancement of the Bank's corporate values.



Mr. N. Vasantha Kumar

*Chief Executive Officer/
General Manager*

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

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

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

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



Mr. Ahamed Sabry Ibrahim

*Senior Deputy General Manager -
Risk Management*

Mr. Ibrahim has over 30 years of banking experience both locally and internationally, primarily in the areas of Corporate Banking, Treasury Management and Risk Management. He holds an Honours Degree (B.Sc.) from the University of Colombo and is a Fellow of the Chartered Institute of Bankers - UK (FCIB).



Mr. Deepal Abeysekera

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

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

He has been responsible for setting up sales, marketing and strategic business development operations in financial sector organisations and has successfully lead corporate brands to the top positions in their respective industries in brand value. He is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing - UK, a Member of the Chartered Management Institute (CMI) - UK and a Member of the Institute of Certified Management Accountants (CMA).

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



Ms. Chandani Werapitiya

*Deputy General Manager -
Corporate Banking*

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

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

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

She currently heads the Corporate Banking of the Bank.



Mr. K.B. Rajapakse

*Deputy General Manager -
Domestic Credit*

Mr. Rajapakse is in charge of the Domestic Credit Department. He joined as a Management Trainee and counts 26 years of experience in the People's Bank.

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

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

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



Mr. S.A.R.S. Samaraweera

*Deputy General Manager -
Human Resources*

Mr. Samaraweera is the Head of Human Resources. He joined the Bank as a Management Trainee and possesses over 26 years of experience in the banking service. During this period, he has served in the areas of Branch Banking, Corporate Banking, Development Banking and Credit Recoveries.

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

His overseas and local exposure includes Management Development, Small Medium Entrepreneur Management, Rehabilitation of Ailing Projects and Strategic Human Resources Management.



Mr. T.A. Ariyapala

*Deputy General Manager -
Co-operatives &
Development Banking*

Mr. Ariyapala is in charge of Co-operatives & Development Banking. His career experience is over 35 years in the Bank.

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

He has received extensive local and overseas training and gathered experience in Co-operative, Project Lending, Microfinance, SME, Human Resource Management and Branch Business/Banking. He is a Member of the Board of Directors of Regional Development Bank (RDB), a Board Member on the directorate of Agricultural and Agrarian Insurance Board, an Alternate Director to the Governing Board of Institute of Bankers of Sri Lanka (IBSL) and a Member of Co-operative Rural Bank Regulatory National Committee.



Mr. Rohan Pathirage

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

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

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

He has over 18 years of experience at the Bank.



Ms. Srma Arsacularatne

*Deputy General Manager -
Compliance*

Ms. Arsacularatne joined the Senior Bank's service at Grade II level as a Senior Finance Officer and counts over 28 years of service in the Bank.

She has been an Associate Member of the Chartered Institute of Management Accountants - UK for the past 32 years. She is a Chartered Global Management Accountant, a Fellow Member of the Institute of Chartered Management Accountants - Sri Lanka and a Licentiate of the Institute of Chartered Accountants - Sri Lanka. She is an Attorney-at-Law and also holds a Bachelor of Laws Degree from the Open University of Sri Lanka.

She has gained wide experience in the fields of Management/ Financial Accounting, Management Information, Logistics and Administration. Prior to joining the Bank, she had her career training at Ceylon Ceramics Corporation. She also served Ceylon Fisheries Corporation and Agrarian Research and Training Institute as Accountant and State Engineering Corporation as a Special Grade Accountant.



Ms. G.P.R. Jayasinghe

*Deputy General Manager -
Retail Banking*

Ms. Renuka Jayasinghe joined the Bank in 1987 as a Management Trainee and counts over 26 years of experience in the field of banking.

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

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

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



Mr. Clive Fonseka

*Head of Treasury and
Investment Banking*

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

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



Mr. M.A. Bonniface Silva

*Deputy General Manager -
Operations*

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

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

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

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



Mr. B.M. Premanath

*Deputy General Manager -
Banking Support Services*

Mr. B.M. Premanath counts over 26 years of service at People's Bank. He joined the Bank in 1987 as a Management Trainee and has served the Bank in Thanamalwila, Hasalaka, Akurana, Pilimathalawa and Peradeniya as Manager and in Matale Regional Head Office as Assistant Regional Manager, in Polonnaruwa Regional Head Office as Regional Manager and as Assistant General Manager (Central Zone). He was promoted as Deputy General Manager - Banking Support Services on 16th June 2012.

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

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



Ms. N.S. Thilakarathne

Chief Internal Auditor

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

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

She joined the Bank in March 1990 as an Assistant Finance Officer and counts nearly 24 years of experience in the field of Project Lending and Auditing.



Ms. G. Ekanayake

Chief Law Officer

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

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

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

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

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



Mr. G.B.R.P. Gunawardana

*Deputy General Manager -
Credit Control and Risk*

Mr. Rasitha Gunawardana counts over 26 years of service in the People's Bank. He joined the Bank as a Senior Finance Officer in 1987.

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

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

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



Mr. Lionel Galagedera

*Deputy General Manager -
Recoveries*

Mr. Lionel Galagedera is in charge of Credit Recoveries Division of the Bank. He joined the Bank as a Management Trainee and counts over 26 years of service at the Bank. His variety of experience covers the areas of Retail Banking, Trade Finance, Lending, Credit Administration and Recoveries.

He holds a B.Com. (Special) Degree from University of Sri Jayewardenepura and (LL.B.) Degree from Open University of Sri Lanka. He is also an Associate Member of the Institute of Bankers of Sri Lanka and an Attorney-at-Law.



Mr. G.G. Mangala

*Head of Finance -
(W.E.F. March 2014)*

Mr. G.G. Mangala joined the Bank as Head of Finance in March 2014. He counts over 24 years of banking exposure most of which overseas. He was the Financial Controller at HSBC, Oman and held Chief Financial Officer positions at Bank Sohar, Oman and Pan Asia Bank, Sri Lanka.

His areas of expertise include the Asset Liability Management, Strategic Planning, Financial and Management Accounting, Budgeting and Performance Analysis.

He is a Fellow Member of the Chartered Institute of Management Accountants - UK.



Mr. Sobitha Weerasekera

Acting Head of Information Technology

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

Mr. Weerasekera has 26 years of experience in the Banking Sector. Apart from his vast exposure on banking ICT area he holds an MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, M.Sc. in Information Management from Sri Lanka Institute of Information Technology, FBCS, MACS and Professional Banking (ACBF).

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



Mr. Sunil Wanniarachchi

Acting Deputy General Manager - International Banking

Mr. Sunil Wanniarachchi joined the People's Bank in 1987 as a Management Trainee and worked in several areas including Branch Banking, SMI Lending, International Banking, Trade Financing and Leasing. He has gained vast experience in lending and Offshore Banking activities.

He holds B.Sc. (Special) Degree from the University of Sri Jayewardenepura and soon after the graduation he worked there as a Demonstrator and Assistant Lecturer in Chemistry.

He too obtained his Master's Degree in Business Administration from the University of Colombo. He is an Associate of Institute of Bankers of Sri Lanka.

During the Banking career he has followed several local and overseas programmes including SMI and Project Lending, Environment Impact Assessment of Projects, Infrastructure Project Financing, Risk Management in Trade Financing etc.



Mr. Yohan A. Soza

Head of Finance - upto March 2014

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

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

Executive Management and Zonal Management

Proactively involved in ensuring that
the Bank delivers what is most vital:
outstanding services and solutions to meet
the most challenging tasks.



Mrs. S. Prathapasinghe

*Assistant General Manager -
Credit Corporate Banking Division*



Mrs. S.W.A.D.S. Kalyani

*Assistant General Manager -
Finance and Management Accounting*



Mr. H.C. Fernando

*Assistant General Manager -
Marketing and Production Development*



Mr. W.K.S.B. Nandana

*Deputy Chief Law Officer -
Recoveries*



Mr. A.W. Wipulaguna

*Deputy Chief Law Officer -
HR and Operations*



Mr. E.A.D.J. Priyashantha

Deputy Chief Internal Auditor



Mrs. P.R. Madurawala

*Assistant General Manager -
Credit Control*



Mrs. N.C. Mudalige

*Assistant General Manager -
Branch Operations*



Mrs. V.K. Narangoda

*Assistant General Manager -
Credit Unit 1 Corporate Banking Division*



Mrs. A.S. Liyanarachchi

*Assistant General Manager -
Credit Unit 2 Corporate Banking Division*



Mr. S.J. Karunaratne

*Assistant General Manager -
Banking Support Services
(Temporary Attached to Galle -
R.H.O. W.E.F. 14.10.2013)*



Mrs. D.Y.S. Mendis

*Assistant General Manager -
Operations*



Mrs. K.N. Senaratne

*Assistant General Manager -
Asset Products*



Mr. P.R.S. Jayatissa

*Assistant General Manager -
Human Resources - Administration*



Mrs. P.S.J. Kurukulasooriya

*Assistant General Manager -
Human Resource Development*



Mr. R.M.A.K. Bandara

*Assistant General Manager -
Operations*



Mrs. G.M.R.P. Wijerathna

*Deputy Head of Primary Dealer Unit
Treasury*



Mr. L. Withana

*Acting Assistant General Manager -
Investigation and Inquiries*



Mr. R.M.S.B. Ratnayaka

*Zonal Assistant General Manager -
Central Zone*



Mr. R. Ranathunga

*Zonal Assistant General Manager -
Western Zone - I*



Mr. W.M.S. Weerakoon

*Zonal Assistant General Manager -
North Central Zone*



Mr. T.D. De Z. Gunawardena

*Zonal Assistant General Manager -
Western Zone - II*



Mr. N.G. Dissanayake

*Zonal Assistant General Manager -
Wayamba Zone*

Business Review

We remain very committed to the ethos of being a Bank with the people for the people, which has led us to develop our product and services portfolio that 'benefits all stakeholders'.

But ours is a focus that goes beyond simple assistance; it is about ensuring that our intervention with our stakeholders is beneficial to them directly, while permeating those benefits to myriad communities, industries and in the macro sense, the nation.

When People's Bank was first birthed just over five decades ago, it was founded on an ethos of being a partner to the people of the country, presenting opportunities for them to uplift their lives, while using their strengths to create empowering environments for themselves using the assistance extended by the Bank. But ours is a focus that goes beyond simple assistance; it is about ensuring that our intervention with our stakeholders is beneficial to them directly, while permeating those benefits to myriad communities, industries and in the macro sense, the nation.

Being proactively involved with our stakeholders' aspirations gives us the foresight and fortitude to plan our journey, so that we are inextricably intertwined with our stakeholders' journey as well, building lifelong relationships with them, over generations. This is the reason for our existence, because we are a bank for the people, by the people and constructed on the ethos of being here, 'For the Benefit of All'.

Personal Banking

Our product portfolio is broad and diverse, encompassing every demography, age, geographic location, gender, knowledge levels and socioeconomic strata, augmented with unparalleled service excellence. Being a bank that has striven to create an entity that will benefit all stakeholders, the Bank's competitive edge has continued to be honed over five decades. We remain very committed to the ethos of being a bank with the people for the people, which has led us to develop a personal banking product portfolio to amalgamate features that would partner a customer from cradle to their twilight years, while being aligned to meeting their goals and aspirations.

From credit cards to personal loans, saving deposits to fixed term deposits and young savers' accounts to pension plans, our product portfolio is all about supporting our customer to get the best for their banking needs. The customer service that has over the decades become a hallmark of the Bank is the maven to helping us develop long-term relationships, proactively meeting their diverse needs, while remaining cognisant to emerging trends and expectations.

With technology being the backbone in contemporary banking, our astute investment in technology over the years offers our customers products that are easy, efficient, accessible, penetrative and hassle free, for banking anytime anywhere. These include Internet Banking, Palmtop Banking, Visa Debit Cards, Mobile Banking and SMS Banking. This is amply evidenced when this year, we partnered the Foreign Employment Bureau to issue a 'Migrant Debit Card', an assured truss for expatriate workers.

Online payments for EPF and ETF, as well as custom duty payment facilities have been added for corporate customers.

Card Business

Celebrating a milestone of issuing over one million debit cards during this year and having operated for over two decades in the credit card business in Sri Lanka, the Bank has been extremely proactive in implementing strategies designed to facilitate conveniences into consumer spending. Currently, the Bank is converting its impressively large proprietary card base to Visa Debit Cards, in a bid to offer more value to customers. This is aligned to our objective of better penetrating the market by providing a larger and a more qualitative choice through the Bank's plans to partner leading international payment brands. The planned penetration will also trigger the expansion of the payment card base, shaping the way for the Bank to become the leading payment card issuer in the country.

Under the current portfolio, the Bank issues Visa Classic and Gold Credit Cards to a wide customer base encompassing premium benchmarked product features at affordable prices. Given that our range of cards are meant for all income groups, a significant characteristic in our market penetration is the fact that we have the lowest tariff structure among credit card issuers in the country. In addition, our credit cardholders are entitled to attractive discounts from leading retailers, hotels and clothing shops through seasonal promotional campaigns. Our cards are issued within a single business day on an applicant's

request devoid of any additional charges and the People's Visa International Debit Cards and Pre-generated Debit Cards can be obtained over the counter of any People's Bank branch.

These cards provide access to over thirty million Visa accredited merchants worldwide and a Visa ATM network of two million for cash withdrawals globally. In Sri Lanka, over 3,000 Visa ATMs and 25,000 Visa merchant outlets accept People's Credit and Debit Cards. Visa cardholders can make online settlements in addition to the availability of islandwide Branch Network consisting of 735 Branches.

There has been modest growth in numbers for the Bank's Visa credit and debit card accredited merchant network, which is now being subjected to a concentrated effort aimed at growing the network. This is being systematically implemented by presenting mutually beneficial rates to aspiring merchants. The Bank's expansive ATM network is also linked to International Payment Brands, providing a better service to all cardholders.

Risk exposure is managed prudently, with the implementation of stringent monitoring and controls. The industry milieu in general faces substantial losses due to fraud. Nevertheless, with our prudent management of the issue, the associated risks are minimised, resulting in minimum losses and least impact to the Bank and our cardholders.

Overseas Customer Services

Focused on being beneficial to all, our initiatives to add more convenience to our expansive product portfolio, the Overseas Customer Services Division continued to enhance product and service excellence. This has resulted in remarkable success over the year, contributing significantly to our profitability growth.

Remittances

Our close association and constant interaction with our customers has added impetus to our understanding of our customer needs and expectations, driving us to infuse more innovation to our remittance business.



Isuru Udana

As is our ethos of being with our customers from cradle to grave, new born infants come under our wing with the '*Isuru Udana*' savings account. Opened with a nominal Rs. 100/-, *Isuru Udana* offers interest rates above market rates, coupled with exciting gifts. Another unique benefit is the '*Isuru Udana*' gift certificates, which as an added advantage, can be used to open a new account or credit an existing one. When an *Isuru Udana* account holder reaches the age of five, the account automatically converts to a '*Sisu Udana*' account.

Sisu Udana

The next step in benefiting our customers is for account holders between 6-18 years of age. Similar to *Isuru Udana*, this account can be opened with a nominal Rs. 100/- and is accompanied with exciting gifts, special cash awards and rewards for young achievers in the Year Five Scholarship and Ordinary Level Examinations. At 18, the account holder moves automatically to our next account aimed at young people, the YES account.





Yes

Designed for young people stepping out into the real world and to help them optimise the myriad opportunities that emerge for them, YES can be opened with a deposit of Rs. 2,000/- and adds free standing orders, credit card facilities, leasing facilities as well as loan facilities for housing, vehicle purchases and higher education as advantages. It also presents a 1% bonus interest when the balance exceeds Rs. 25,000/-.





Parinatha

A customised account for senior citizens, with attractive benefits including higher interest rates, pilgrimages to Thailand and cash prizes worth Rs. 10,000/-, this account is a boon to senior citizens, enabling them to gain stability, security and a sense of dignity in their twilight years.



Vanitha Vasana

Women's myriad roles are celebrated with this account which gives interest rates above the normal savings rate. Opened with an initial deposit of Rs. 500/-, women can also gain loan facilities for small entrepreneurship ventures, purchase of property or housing and higher education.

Aswenna

Farmers gain empowerment with *Aswenna* or as translated into English, harvest, given that they work on seasonal incomes. Opened with an initial deposit of Rs. 1,000/-, the account also adds a bonus interest rate of 1% once the balance exceeds Rs. 10,000/-, concessionary interest rates and agricultural loans.



Jaya Nivasa

A comprehensive housing loan designed to help build a dream home, the facility provides flexible loan facilities with competitive interest rates customised for individual needs. Loans for the purchase of land, construction, addition of an extension or renovation are granted for a maximum of 75% of the value of the property/house.

People's Bank Gift Voucher

An ideal gift option, the People's Bank Gift voucher with a validity of six months, is available in denominations of Rs. 500/- and Rs. 1,000/- and can be purchased or deposited for any account at any branch.







Ethera Isura

This NRFC account is most attractive for expatriates as foreign earnings gain a higher interest, while also being the fastest method to receive money from abroad, given the Bank's country-wide network of 735 branches.



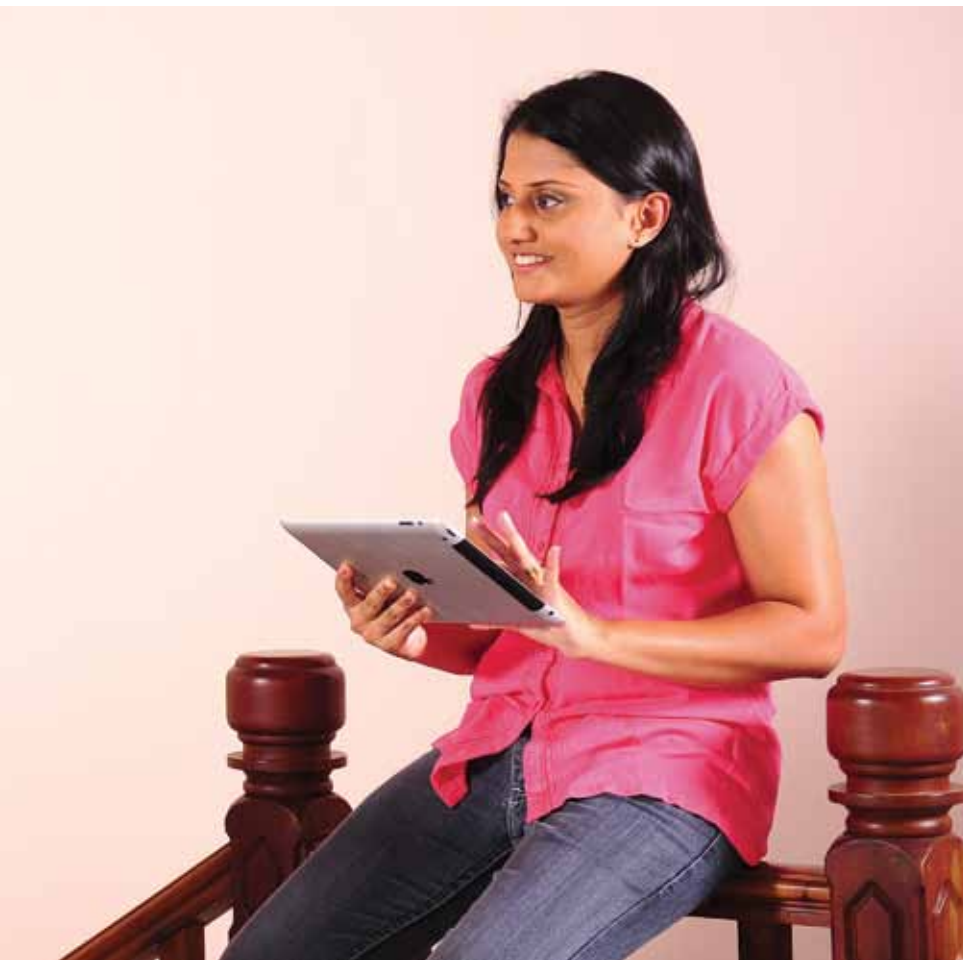
JanaJaya

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



People's Net

Adding more advantages to Internet banking, People's Net allows the easy management of several accounts and effect a variety of banking transactions through our banking anytime anywhere portal.



People's Mobile Banking

The very versatility mobile phone adds amazing convenience to our customers 24x365 banking environment by one touch. Checking account balances, transaction histories, transferring funds to own Accounts and third party People's Bank Accounts as well as third party other bank accounts in Sri Lanka. Credit card and utility bill payments, ordering cheque books and statements, inquiring pawned article details and inquiring closest Bank branches and ATM's are the comforts offered to our valuable customers.

People's Visa International Debit Card

With access to over thirty million merchant outlets and a network of two million ATMs globally, this debit card is secure and encompasses myriad conveniences.





Doodaru Ethern Isura

Specially-designed for children whose parents/guardians are employed abroad, this minors' account adds the benefit of an extra 1% added to the prevailing interest rates for NRFC/ RFC Accounts. Opened with a minimum deposit of US\$ 25 or equivalent in any designated foreign currency, there is also an option of having a fixed deposit with a minimum balance of US\$ 1,000 or equivalent in any designated foreign currency.



Swarna Pradeepa

When urgent cash is needed, Swarna Pradeepa is the answer. Quick loan facilities will be given speedily with just the security of gold articles.

By incessantly driving these efforts, we have emerged as a trusted provider of a multiple range of remittance solutions. Several initiatives including implementing online/real-time automated remitting channels for the expatriate community to cater to financial requirements that can be obtained within seconds, were also initiated. Quality customer service is added to this successful equation, evidencing a significant increase in the volume of inward remittances, which surpassed the performance of 2012.

Foreign Currency Deposits

Ours is a diversified foreign currency product portfolio, designed to specifically uplift economic standards of our expatriates, through a variety of investment options. These are further augmented with value additions to create an empowering milieu as exemplified in the pre-departure loan and insurance schemes. The Bank's focus on technological options enables easy access to funds from anywhere in the world through the Internet Banking service, SMS Banking and various other channels. In collaboration with the Sri Lanka Bureau of Foreign Employment, the continuance of presenting investment opportunities through a wide range of foreign currency deposit products has given expatriates a secure and stable avenue to invest their funds.

Worldwide Partners

The Bank's reputation as a strong and stable state Bank has given us the stature required to pursue global partnerships that will add value to our end goal of Benefiting All. Constantly seeking partners who would be advantageous to our business ethos, we have thus amassed an international relationship network of Banks and Exchange Companies that will surely meet this end objective. We continue to seek such like-minded partners, while further strengthening our presence and service delivery through the deployment of skilled and experienced team members in the Middle Eastern region. This deployment has now been extended to Korea as well, given the increasing numbers of expatriates employed in Korea.

Western Union

With our remittances increasing and the need for accessibility thus expanding, our relationship with Western Union continues to be strengthened.

This has seen the expansion of the Western Union network throughout our Bank's access points for ease of accessibility and meeting the urgent needs of this segment of the customer.

Domestic Credit Department

We have remained stringently focused on enhancing our domestic credit portfolio during the year, despite a challenging economic and business environment being a constant. This is a portfolio that encompasses Small and Medium Scale Businesses which are interlinked through our country-wide branch network. In addition, domestic credit also involves financing of personal requirements for those getting a monthly remuneration. We further enhanced our focus on quality credit portfolio, while balancing the quantity required to ensure that credit advantages are extended to those who require such facilities. The well-diversified credit portfolio thus, spans myriad sectors including construction, tourism, manufacturing and services, enabling the establishment of a well-balanced credit portfolio, with minimum risk and default probability.

The State prompted accelerated development agenda and vision for 2015 has seen a definite impetus emerging in infrastructure development which in turn, has added fillip to the tourism industry and promotion of domestic enterprises and entrepreneurship. The latter is designed to pave the path to fuel domestic industries wherever possible, to be developed as self-sufficient industries that could provide the necessary products and services for the nation, without relying on import substitutions. This was further augmented with policies adopted by Central Bank of Sri Lanka (CBSL) during year 2013 with reduced interest rates, in contrast with credit ceiling imposed in year 2012. This saw an emergence of opportunities for the growth of the domestic credit portfolio, which the Bank used to be pragmatic and use to our advantage.

The innovative loan schemes we launched during the year enabled our customers to meet their aspirations using the funding avenues we presented. Being cognisant of the changing paradigms in

demographics, social strata, income levels and general lifestyles, we use these parameters to establish flexibility into the existing schemes, to better suit current needs.

Some schemes that saw transformation include the special loan scheme for professionals, which is designed to finance personal requirements of professionals in the State and Private Sectors, as did the *Gurutha*, *Suwa Sewana*, *Pahasu* and *Deya Viru* schemes. Another significant input was the relaunch of the People's Wisdom education loan scheme which included more current requirements to better suit present day needs.

While gold prices had one of the worst years in history showing unprecedented volatility, the Bank's pragmatism was displayed once more with the introduction of the *Ran Sahana* loan scheme, conceptualised to provide a stable and secure foundation for our pawning portfolio, while having the option open for customers requiring to take advantage of the facilities offered by the Bank.

With housing and shelter taking priority within the Millennium Development Goals, the Bank's housing loan scheme launched for State Sector employees was enhanced further, with the collaboration of National Housing Development Authority (NHDA). Given our focus on empowering the nation by being the crutch upon which our stakeholders are able to uplift themselves, while partnering the Government in ensuring that macroeconomic goals are met, this housing loan scheme in collaboration with the National Housing Development Authority is designed to meet the nation's primary need of shelter. In addition, the vehicle loan scheme for senior media personnel, artists and authors on concessionary terms, was also enhanced during the year, in supporting the Government's view of recognising the service rendered by them.

We have always practiced astute focus in monitoring our credit portfolio, ensuring that proper controls are instituted, while working on proactive measures that would facilitate a qualitative foundation for our credit base. We are always very much aware of the external

and internal paradigms that drive and impact the credit process, initiating decisions and systems that would optimise our goals in having a strong credit portfolio that remains highly diversified and focused on a well-balanced foundation of quality and quantity.

Corporate Banking

Corporate clients form a significant segment of our customer base as we draw on our five decades of experience in diverse industries and strong development agenda, in ensuring that the best products and services are available to our corporate clients. This wide range instigates commercial enterprises to be astute in their investment focus, using our different products and services that would prompt profitability and commercially viable entities contributing towards the macro vista of national development.

Our corporate banking purview extends to project lending, syndications, custodial service including trade finance, international banking activities and advisory services, catering to blue chips, conglomerates, MNCs, large and medium Private Sector entities involved in construction leisure, agriculture etc. and large State Sector entities who are all collated under the single umbrella of a strong and stable funding partner. There is a concerted effort to maintain equal distribution of funding across varied sectors including those infrastructure development projects both in the Private and Public Sector, import substitution industries and the leisure sector that have mapped a path aligned to the *Mahinda Chinthana* Economic Development Plan. The extensive input provided by the unit goes beyond the funding feature and into providing support services aligned with advisory, portfolio management, rehabilitation and restructuring of project loans, syndication and project lending.

The focused journey that has been chartered by the Corporate Banking has seen it contribute Rs. 6.5 Bn to the Bank's net income. The total lending portfolio of Rs. 234 Bn in addition to the non-funded portfolio which is Rs. 136 Bn generates nearly 33% of the total non-funded income for the Bank. This also cascades

to the unit being instrumental in strengthening the profitability of the other units of the Bank including the International Division and Treasury Unit, with a future focus on extending this to the branch network.

Corporate banking has showcased substantial growth during 2013 contributing significantly to mega development projects. These projects, primarily implemented by the State has had an allocation of Rs. 25 Bn for the development of infrastructure of roads, hospitals and water projects. The Bank funded approximately 37% of the total lending portfolio of the Bank for the Government's business activities including national development projects.

Benefiting all, as is our motto this year, we were also honoured to be appointed the sole banker for the Kolonna-Balangoda and Greater Dambulla water projects, implemented jointly with Belgian and Indian financial support. Further, we are the sole local Banker for financing the two hospitals namely, Hambantota and Nuwara Eliya jointly with Netherlands. The Corporate Banking Unit also extended complete financial assistance at very competitive rates to the Anuradhapura-Trincomalee, Narammala-Giriulla, Katuwana-Alupothdeniya and Ibbagamuwa-Kumbukgate road networks. In addition, this unit assisted the Government fertilizer subsidy scheme as the sole financial assistance provider to two Government-owned fertilizer entities.

The Corporate Banking unit is the second largest contributor to petroleum imports, providing 50% of national petroleum requirements and in a related sense, provides financial assistance for both private and public transportation services. A major contributory role is played with the unit being the sole banker for the state run shipping lines, railways and Central Transport Board.

The Ceylon Electricity Board too gains impetus from our input as the sole banker for this giant in the power sector, financing nearly 8% of the entity's loan portfolio. The power sector gains added drive with the Bank providing nearly Rs. 10 Bn. funding annually for coal importation. The energy sector, which is a key thrust

industry in the country's economic hub vision, will be further supported as the industry gears itself to meet this goal.

The health and pharmaceuticals industry is financed by the Corporate Banking Unit for the importation and distribution of essential medical supplies, which permeates to the development of healthcare around the country.

Another key thrust driver in the economic hub vision, the hospitality industry has seen our funding infusion for numerous projects including those of hotels spanning the country.

Offshore Banking Unit (OBU)

Contributing primarily towards industrial development providing loans focusing on project lending for both CAPEX and working capital financing on BOI projects, the unit's unwavering focus on strengthening clients with offshore collaboration, remains a fundamental. Our intervention also extends to client rehabilitation when necessary, encouraging them to moot more joint collaborations with foreign investors, while advisory services designed to help in project and business turnarounds, are also extended. The contribution to the Bank's bottom line from the OBU has been Rs. 2.0 Bn for 2013.

As a State-owned bank, priority is extended primarily for national development projects spanning myriad industries including hospitality, healthcare, infrastructure development, exports and import substitution under the *Mahinda Chinthana* Programme. While the national development agenda remains an overarching rudiment, the leisure and renewable sectors as well as the development of large scale projects and SME exporters gain fillip from the Bank. Into this equation, rural economic development is augmented through our branch network. These initiatives are well-supported with our state-of-the-art IT platforms, systems and processes which take us closer towards our goals.

Development and Microfinance Banking

Significant milestones were achieved in development banking during the year, financing a noteworthy range of development finance and microfinance loan schemes, as well as implementing special programmes to add value to our end objective. The strategies employed despite a challenging and competitive environment has enabled this unit to contribute significantly to impressive development programmes launched by the Government.

Regional Development

Loan schemes designed to instigate buoyancy into the country's development agenda including The Awakening North, The Awakening East, Smallholder Plantation Entrepreneurship Development Programme and Post-Tsunami Coastal Rehabilitation and Resource Management Programme were implemented strategically across various regions. Regional development targets in granting credit facilities were surpassed due to concessionary interest rates and relaxed security, prompting the popularity of these loan schemes, which cascaded to maximising the utilisation of regional resources, minimising unemployment and alleviating poverty.

Social mobilisation activities and disbursement of credit facilities spanned the island, primarily aimed at alleviating poverty, covering every district. Beneficiaries were afforded training on financial discipline, while emphasis was placed on the empowerment of women, a target segment who the Bank is extremely confident of being a primary contributor to economic development.

The Microfinance Village Programme

A significant milestone was notched in 2013 when the Bank delivered credit facilities to 239 villages under the People's Bank Microfinance Programme. With this assistance which relies solely on the potential of identified entrepreneurs, is aimed at villages engaged in homogeneous industries. The granting of credit facilities led the Bank contributing towards the development of rural entrepreneurs engaged in cottage industries, while minimising rural unemployment.

Industrial Promotion

New start up industries were extended funding assistance as were existing industries which were encouraged to expand and improve, through the New People's Fast loan scheme and the Prosperity (*Saubagya*) loan scheme. This has heralded the birth of a new entrepreneurial breed of small and medium entrepreneurs, while also seeing a renaissance in existing industries. The targeted funding has ensured employment generation and a minimising of income inequality, while taking the country towards achieving macroeconomic targets.

Mahaweli Colonists Uplifted

Mahaweli colonists were the focus in a programme implemented this year, targeting the enhancement and expansion of agricultural activities and related industries. The new loan scheme, *Mahaweli Aruna* was launched, while entrepreneurs recommended by the Mahaweli Authority were also given financial assistance.

The Co-operative Sector

Having always espoused the importance of the Co-operative Sector in the rural development equation, the Bank further ameliorated its image and relationship with the co-operative movement by extending financial sponsorship for the International Co-operative Convention and International Co-operative Day.

With the promotion and propagation of the Co-operative Movement being a topmost focus, the Bank also extended long-term as well as short-term financial facilities for Mega Co-op City business activities. There was definite value addition in customer care and service levels, which was a result of the Bank providing funds for training and development of employees within the co-operative movement.

SME Banking

SME banking business was repositioned across the country with the launch of 23 SME centres and units manned by highly-trained personnel with an attitudinal transformation that prompted a paradigm shift to accommodate the diverse and challenging financial

and non-financial requirements of SMEs. Working together with the branch network to facilitate both capital investment and working capital investment requirements at concessionary rates, having recognised the importance SMEs will eventually play in the country's economic vision, these centres remain a catalyst in ensuring that SMEs gain the fillip they desire. The longer period for pay backs too have been instrumental in elevating most of the micro business portfolio into the SME sector, with the value addition of advisory services implemented by trained branch managers in these SME centres.

During the year, the Bank launched SME Centres in Jaffna, Wannai, Batticaloa, Ampara and Kalutara.

The SME portfolio has been strategically collated to ensure substantial growth, given its high diversification into identified growth sectors. The Government's development goals have been endorsed by this focus but in addition, the Bank is concentrating on the imperative growth sectors of manufacturing, agriculture, dairy, tourism and trading. Women entrepreneurial initiatives have also been added to our strategy, which remains a key imperative in our SME goals.

In working with our Bank, SMEs have easy access to finance coupled with immense flexibility, while the cost of financing is also far better than commercial lending rates. Several agreements have been linked with lending agencies including the Central Bank of Sri Lanka, the Ministries of Finance and Planning, Industry and Commerce and the Coconut Development Authority, heralding low credit lines for investment and working capital requirements. The People's Investment Power loan scheme was developed on the Investment Fund Account based on the directive of the Government and has gained immense popularity due to the low interest rates, longer tenures and convenient grace period.

The Bank instituted 'Entrepreneurial Glory', an aggressive training programme aimed for entrepreneurs spanning a large number of districts.

Treasury

The challenges as well as scope for the Treasury were many this year, functioning in a milieu mirroring developed markets, where improved returns, largely depended on increased volumes. However, the Bank's position as a market maker in US Dollar/SLR continued to be etched in both spot and forward markets, enabling pricing advantages to be translated to acquire customer positions. This was implemented through competitive rates extended to importers and exporters, which saw a natural incline of business volumes. The Bank also managed currency positions successfully, minimising market risks by using internal expertise and experience to herald the meeting of targets. This legendary internal expertise that the Bank is now famed for, forms a significant advantage in reading the market, gaining market entry in a timely manner and making use of arbitrage opportunities, designed to improve revenue.

The Primary Dealer Unit reported its highest ever profit in 2013, contributing substantial revenue via capital gains and interest earnings through Debt Trading. With the interest rate structure in the market changing due to stable inflation, the Treasury Bills and Bonds portfolio gained significant capital gains. Coupled with selective strategies to gain optimal results on LKR yield curve shifts, the team's expertise in reading the market accurately and a timely entry in the market surely added to the impressive income generated.

Consolidating our debt structuring activities, our Investment Banking Unit (IBU), which has gained an enviable market share having concluded successful transactions for a large number of corporate debt issuers and investors, raised Rs. 7.4 Bn this year via debentures and commercial papers, yielding a noteworthy fee income. The Unit also constructed a formidable debt securities portfolio which has prompted an expansive interest income and capital gains through trading.

Local and foreign funds continued to be raised through financial institutions at very competitive rates which did impact the profitability of the Bank, positively.

Information Technology

Heralding an extremely rewarding albeit challenging year, the IT team's visionary plan to ensure that the Bank's IT backbone will be a driver in meeting strategic goals, was well in place. The pioneering project for the year was the Online Customs Duty and Taxes Payment project, developed totally in house, allowing instant notification of the payment of customs duty or taxes by a customer visiting the Bank, to Sri Lanka Customs. This enables speedy goods clearance. This facility is also available 24/7 on the People's Bank Internet Banking portal.

Two similar projects were also completed with the facility for EPF and ETF payments being effected online. Another enabler is the initiative to transfer funds to third party accounts at any bank, secured with a two-factor authentication component, which prevents unauthorised third party transactions being effected through Internet Banking. An SMS alert is also dispatched when the transaction takes place.

Mobile Banking went a step ahead with the launch of multiple services by dialing the #488# USSD code. Services include fund transfers to any account or any bank, utility bill payment and pawning balance inquiries. The Mobile Banking module will gain more fillip when impressive value additions are initiated in 2014.

People's Bank remains the first bank to be connected to the National Common ATM Switch Project, enabling customers to conduct transactions through ATMs operated by other banks connected to the National ATM Switch. The fee levied earlier for these services was Rs. 75/-, but with the Bank now on the Switch, the fee has reduced to a marginal Rs. 15/-. Forty new ATMs were added to the current network of 460 ATMs in the Bank's purview.

The pawning module too saw significant focus when IT infusion brought in value additions for pawning customers. Inquiries on the status of the article through SMS banking and part payment through any branch are enabled at the click of a button. This automation is ably supported through the new Core Banking System.

With TECH-CERT backing, more weightage was given for security when the IT team conducted several external and internal network security and vulnerability assessment tests to maximise security control. The Team too saw their knowledge and skills upgraded with training and development both local and abroad, being in-depth, all of which contribute formidably to the Bank's ultimate good results.

Research

Economic Review

The Economic Review (ER), which is a leading development oriented semi-academic socioeconomic journal has for nearly four decades been one of the most important and effective channels to disseminate development oriented research based findings and innovations. Published by the Research Department continually since 1975, this publication evidences the Bank's impressive contribution to the field of Research and Development but also to its Corporate Social Responsibility (CSR) project. Given that the ER publishes columns, interviews, book reviews and a student's page among other interesting highlights, all prepared by relevant experts on various national and international social and development issues and problems of timely importance, the uniqueness of this publication is well observed in that it remains unparalleled in the annals of all commercial banks in the country, region and probably the world. It provides an immeasurable service toward national development, sharing and promoting experience, knowledge and interests by academics and professionals including researchers, planners, policy makers, entrepreneurs and students of economic and germane fields.

Each issue also includes a comprehensive analysis under the supplement of a special report based on a current issue or theme. During the year, The ER published six issues based on cover themes of Science and Technology, Corporate Governance, Female Participation in the Economy, SMEs, Regional Development and CHOGM 2013.

Marketing and Promotions

The Marketing and Promotions team remains a very active and dynamic fundamental in the day-to-day operations of the Bank and assuredly very integral to our success. From creating brand awareness on existing products to launches of new products and services, initiating additional promotions and value additions on a host of other areas such as branch openings and relocations that need public awareness, are conducted in an extremely astute and visionary manner.

Expansion of Branch Network

The Bank was honoured with the presence of President Mahinda Rajapaksa when he ceremonially opened the new branches of People's Bank and People's Leasing and Finance at Anamaduwa and Wilgamuwa, both equipped with state-of-the-art technology and designed to offer the entire portfolio of services and products offered by both entities. At the ceremony in Wilgamuwa, ten premier customers who displayed immense loyalty to People's Bank were rewarded and parallelly, 1,100 residents of 39 Grama Seva Divisions received savings accounts. Loans were also disbursed to a selected number of customers who gained other rewards as well.

Jaffna Main Street and Kaithady too now have the presence of People's Bank Service Centres which offer value additions to regular banking activities including loans, pawning facilities, safety lockers and 24/7 ATM service. These regular banking services as well as the value additions of loans, pawning facilities and ATM services are now also available at the new two-storey building that was opened this year in Raththota, in relocating the existing branch for the convenience of customers.

One of the country's most iconic infrastructure development projects, the Southern Highway, gained added value when People's Bank opened a branch and Service Counter at Canowin Arcade, introducing the Bank's state-of-the-art technology and contemporary products and services.

Promotions

In March this year, a religious ceremony at the *Jaya Sri Maha Bodhiya* Anuradhapura, marked the launch of the popular *Jaya Sri* 2013 legendary savings programme, which continued with a door-to-door programme with the participation of all branch. The door-to-door campaign began ceremonially with the *Jaya Sri* Walk at Nuwarawewa branch, which saw all 735 branches located island-wide start off, simultaneously. The campaign was an ideal communication channel to create awareness among the public on the importance of saving as well as the products and services offered by People's Bank.

Reaffirming the Bank's stature as a premier financial institution that remains very ingratiated in being beneficial to all, the campaign also disseminated information on loan facilities provided for SMEs, mooted self-employment ventures in fisheries, agriculture, commercial and textiles. *Jaya Sri* Campaign, which entitles account holders to the *Jaya Sri* draw, has very attractive prizes including cars, cash prizes and luxury houses drawn monthly and annually respectively, while adding more winning chances based on the balances available in the *Jaya Sri* account.

Celebrating the milestone of Sri Lanka's 65th year of independence, People's Bank continued to hold its annual *Nidahase Upatha* programme. Organised as a means of instilling pride in the people of the country on this momentous event, the implementation of the successful programme of gifting *Isuru Udana* Gift Certificates to each baby born in Sri Lanka between the 1st and 7th of February was also designed to further expand sense of pride in future generations.

One of the country's premier NRFC accounts, added stimulus to its purview when the Bank held the Grand Draw for the *Ethera Isura* NRFC account holders, with Rs. 1 Mn presented as the Grand Prize, ten prizes of Rs. 100,000 and 15 prizes of Rs. 50,000 each, along with a monthly draw. This year, a new draw, '*Rata Salli Wasana*' was implemented, adding more value to the foreign exchange deposited in the account via People's Bank Swift, People's E-Remittance and telex, presenting mobile phones and cash as prizes.

Sponsorships

Maintaining Religious and Cultural Heritage

Being a state bank, we are conscious of our responsibility on ensuring that the country's expansive history and culture is preserved maintained and passed on to future generations. This encourages us to be a part of some of Sri Lanka's most historical pageants and cultural events which we have sponsored continuously for many years. One such event, is the *Esala Maha Perahara*, Asia's largest cultural pageant held annually in Kandy, The *Esala Maha Perahera*, is the main event of the most sacred site in Sri Lanka, the Sri Dalada Maligawa which houses the Tooth Relic of Lord Buddha. Being the Official Banker of the event enables us to be more involved in this grand event.

A similar pageant, the *Senkadagala Esala Maha Perahera* is also sponsored by the Bank. One of the most religious places in Sri Lanka with a history of over 2,200 years, Sithulpawwa Raja Maha Viharaya located within the Yala National Park in the Hambantota district gained People's Bank partnership when the Bank dressed up the temple premises for the *Poson* festival.

Colombo's largest pageant, the Annual *Navam Perahera* which is also sponsored by People's Bank for twelve years, is yet another cultural and religious event that the Bank is extremely enthusiastic to being a part of. The Annual *Ruhunu Maha Poson Perahera* at the Tissamaharama Maha Viharaya, which has etched many a chapter in Sri Lanka's religious history remains a firm partner in the Bank's sponsorship calendar.

Vesak, one of the most significant religious events in the Buddhist calendar gained a stimulus when the *Buddha Rashmi* Vesak Festival organised by the Presidential Secretariat and the Hunupitiya Gangarayama Temple had the Bank's support in adding illumination and decorations at the temple premises, denoting the importance of this event.

Due to thirty years of war, the Muhudu Maha Viharaya, an ancient place of worship and also an archeological site, located in Pottuvil believed to be the location that Princess Vihara Maha Devi, (the mother of

King Dutugemunu) landed when arriving in the Ruhunu Kingdom which holds a history of over two millenniums, gained funding from the Bank for reconstruction.

Sustainable Empowerment

Giving women entrepreneurs a boost and providing an example for the Bank's commitment to women's empowerment, the annual conference organised by the Women's Chamber of Industry and Commerce was given added incentive and value when the Bank sponsored it.

As sustainable entrepreneurship remains a strong platform in the Bank's CSR concept, education too is in focus and this was well exemplified when the Bank sponsored the University of Colombo Colours Night which had the participation of 8,000 graduates, post graduates, lecturers and administrative staff from seven faculties, the School of Computing, six institutes and the Sripalee Campus.

The imparting of life skills, knowledge and experience of living in the real world is the purview of the scout movement, which the Bank remains well aligned to. This focus was augmented when the Bank sponsored the RISGO Centennial 2013 International Scout Jamboree in commemoration of the 125th Anniversary celebrations of Dharmaraja College, one of the best scout troupes in the world!.

Building Unity and Spirit

The adrenaline pumping across country road races in Minneriya, the Gunner Supercross 2013 organised by the Sri Lanka Army Regiment of the Sri Lanka Artillery Association in association with the Sri Lanka Association of Racing Drivers and Riders took to the uniquely constructed gravel circuit for the sixth year with the help of People's Bank. The Bank also disbursed personal loans including vehicle and computer loans to army personnel during the year.

This involvement in sporting activities which is aimed at building unity, camaraderie and teamwork was further enhanced when the Bank sponsored the Fox Hill Supercross 2013, one of the most legendary events in this sporting circuit. Held for the 21st year,

this exciting event is organised by the premier training institution of the Sri Lanka Army, the Sri Lanka Military Academy and the Sri Lanka Association of Racing Drivers and Riders, which uses the funds raised at this event to develop training and development infrastructure, which would place the Academy on par with other similar institutions in the region.

The Sigiriya Rally Cross 2013, a joint collaboration between the Sri Lanka Air Force and Sri Lanka Autosports Drivers Association as well as the The Cavalry Supercross 2013, organised by the Sri Lanka Armoured Corps and the Sri Lanka Association of Racing Car Drivers and Riders were both sponsored by People's Bank. These events which are fund-raisers for the respective organisations work on developing infrastructure and welfare of the military personnel and their families.

Instilling Contentment

Entertainment remains crucial to developing holistic citizens and People's Bank has always strongly believed that people must have stimulus to be productive and healthy citizens. With the belief that entertainers must be recognised for the service they provide in ensuring that the public are given quality entertainment options, the Bank sponsored the premier awards ceremony in television, the Sumathi Awards 2013.

This belief of entertainment forming a crucial trust to happy contented citizens also prompted the Bank to sponsor veteran musician and vocalist Visharada Edward Jayakody's solo recital celebrating his 60th birthday, *Marambaree*. A trained singer in semi-classical, classical, folk, theatre and film songs, his 35 year journey in the music industry has made him an icon.

A similar musical evening gained the People's Bank sponsorship touch when the 84' Group of the Sri Lanka Administrative Service organised *Miyasi Abhiman*, as a means of fund raising for the development of library facilities in rural areas.

The *Seva Vanitha* Unit of the Ministry of Defence also organised a fund raiser to ensure the continued education of children of war heroes, in addition to funding welfare activities including funding for housing, medical treatments and scholarships. This musical extravaganza *Viru Dana Gee Sara* 5, was held for the fifth consecutive year.

Professional Development

Developing professional ethics and competencies is an imperative focus within the Bank's stakeholder upliftment purview and by sponsoring the Journalism Awards for Excellence organised by the Editors' Guild of Sri Lanka and the Sri Lanka Press Institute, the Bank lent its support for the upholding of quality investigative journalism based on sound ethics, valued principles and utmost responsibility.

Aligned to this development of professionals, the Bank extended its wholehearted support to the Defence Seminar 2013 which was organised on the theme, Post Conflict Sri Lanka - Challenges and Regional Stability. This high level three day conference collates senior military personnel, administrators, bureaucrats and intellectuals from around the world to share experiences and discuss a range of topics and issues, which includes Sri Lanka's post conflict reconstruction, social integration, reconciliation and regional stability at regional level giving an analytical approach to the Sri Lankan experience.

Financial Review

Profit before tax and profit after tax was Rs. 10.3 Bn and Rs. 7.5 Bn respectively, in the year 2013. The Bank also saw a 7% growth in the Balance Sheet to Rs. 931 Bn, over the preceding year.

Economic Context

The Sri Lankan Economy in Perspective

The fact that the country's Key Performance Indicators continued in an upward vein was echoed well in the country ratings given by both Fitch Ratings and Standard & Poor's, notching a BB- stable and B+ stable outlook respectively. There were other indices including the Global Prosperity Index that reflected these positive sentiments, positioning Sri Lanka at the 60th in the world and the highest ranking country in South Asia. Sri Lanka also received a positive nod in the Ease of Doing Business Index ranked at 85th and the Index on Economic Freedom seeing upward movement from 97 to 81. The Global Competitiveness Index had Sri Lanka move to 65, placing the country as the second highest ranked in South Asia while, a milestone was definitely achieved when the country advanced to the high human development category, ranked as it was at 92nd in the Human Development Index.

Over the last few years, the country has been extremely astute in its fiscal strategy, employing prudent fiscal management measures which ensured that external shocks and internal challenges were well coped with. These strategies were a definite positive in seeing the budget deficit decline to 5.8% of GDP from 6.4% posted in 2012 and debt to GDP ratio also declining to 78% from last year's 79.1%. This close monitoring of global paradigms and local tendencies ensured that foreign reserves remained at healthy levels, sufficient for 4.5 months of imports, which requires US\$ 7.1 Bn.

The Sri Lankan Rupee meanwhile refused to conform to external fluctuations and maintained noteworthy stability throughout the year, auguring well for trade and commerce. Since early September, the Sri Lankan Rupee gained value against the U.S. Dollar, which by end 2013, had depreciated 2.7% against the U.S. Dollar, 4.7% against the Sterling Pound and 6.8% against the Euro, while appreciating 10.2% against the Indian Rupee, 13.3% against the Australian Dollar and 18.8% against the Japanese Yen. The IMF has reclassified Sri Lanka's exchange rate as 'floating'.

Overall, the abovementioned indicators amply demonstrated Sri Lanka's ability to show resilience to external negative effects of the Global economic downturn experienced in recent years. As such, Sri Lanka managed to continue its growth trend without much wavering to its set economic growth targets.

In a domestic perspective Private Sector credit showed positive signs while credit to public corporates moderated. With policy rates being reduced and market interest rates declining, the stability of the banking sector was retained due to strong capitalisation and liquidity conditions. The Central Bank of Sri Lanka has instituted monetary policy easing that triggered gradual downward adjustments on market interest rates on deposits. Prime lending rates responded quickly to this trend as well. Longer term lending rates by commercial banks reduced the rigidity seen in the first half of the year, due to increased liquidity levels and improved foreign investor appetites.

The Banking Sector Displays Consistency

There was inevitable optimism pervading the entirety of the banking sector as it continued to hone the best practices in governance, risk and ethics into its fundamental rudiments, while permeating aggressive expansion in all areas. This robustness and resilience which was well supported by a strong supervisory and regulatory framework heralded unprecedented expansion of all touch points. The branch network now stands at approximately 3,500, other access points at 3,100 and the ATM network expanded to 2,500. Penetration astutely moved away from the Western Province, with the Bank branch density per 100,000 per population seeing the Northern Province rising from the lowest to the highest in just four years, with a density of 21.5. Having usurped the Western Province from the helm and also seeing the Eastern and North Central Provinces and also for being the third and fourth in density, the Government's ethos of financial inclusivity is surely making inroads.

The industry's asset portfolio did move upwards to be billed at over 20% growth by end 2013, although asset growth declined to approximately 17%. However,

there was a tangible transformation in the banking sector's funding structure which began orientating for funding obtained from local debt, equity markets and foreign borrowings. On the strength of the sector's balance sheets, US\$ 1,548 Mn was raised through foreign borrowings, which was further augmented by the liberalisation policy adopted for foreign borrowings by banks, allowing LCBs up to US\$ 50 Mn each until 2015. Hence, while LKR borrowings remained on a similar trend to last year, foreign currency borrowings spiraled upwards, showcasing a total growth percentage in borrowings to stand at 35%.

Sri Lankan Rupee deposits meanwhile formed the bulk of deposits, growing at approximately 19%, although foreign currency deposits showed only a marginal growth.

There was a concerted effort to further augment the regulatory and monitoring environment that is operational for the financial services industry. The key policies included the strengthening of Internal Capital Adequacy Assessment Processes (ICAAP) and risk management frameworks, streamlining regulations on the exposure of the sector to the stock market and facilitating the adoption of the new Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards. There was also a call for enhanced disclosure requirements. Given the low interest regime prevailing in Sri Lanka and other emerging economies, CBSL instigated a reduction of interest rates on loans and advances.

There was much discussion on the new vision promoted by CBSL for the banking sector. Elaborated upon in the CBSL Road Map for 2014, this is primarily in preparation for the targets set out for 2016 and meant to instill and sustain a positive economic outlook and ensure stability in the financial system. Envisaged plans include at least five Sri Lankan banks being encouraged to have a strong regional presence with assets of Rs. 1 Tn or more. Mergers, consolidations and acquisitions also being stimulated and the launch of a large development bank to provide substantial impetus to develop banking activities is also on the cards. CBSL will require foreign banks operating in Sri Lanka to demonstrate greater participation in economic activities.

Increased efficiency and prudent asset and liability management will be initiated to encourage substantially lower interest margins, while CBSL intends to introduce policies that are pragmatic and able to adjust to volatility. Adequate capital and other buffers will also be included to prepare the financial services industry for unpredictable business cycles and global economic downturns, without sacrificing investment potential. To prompt a more sustainable growth model, greater cohesion and overall sectoral integration will be introduced.

There is also a considerable thrust in strengthening the banking industry's capital base. LCBs are required to have a minimum capital requirement of Rs. 10 Bn and LSBs a minimum of Rs. 5 Bn. This would be applicable for existing banks from January 2016 and for new banks from January 2015. By March 2014, the migration of the advanced approach under the Basel II Capital Adequacy Framework requirements will be concluded. From the third quarter of 2014, Basel III Capital Standards will be adopted.

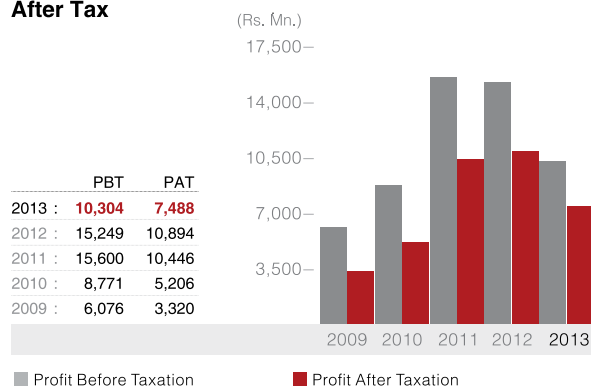
Similar to the regulatory and monitoring framework, the industry's risk management framework also went under a magnifier, improving fundamentals and rudiments aligned to the changing milieu. A regulatory framework for the valuation of LCB's immovable property will be introduced during 2014, while prudential requirements to regulate exposure of the banking system to asset markets and other potential economic uncertainties and shocks will also be mooted. Other initiatives include the establishment of Guidelines for a Stress Testing Framework, implementation of a new liquidity risk management framework aligned to the introduction of the Basel III Liquidity Coverage Ratio. Minimum standards for the core banking system and other IT based platforms will also be established next year. Banks will also have to incorporate appropriate changes to the existing regulatory framework which are aligned to the new Accounting Standards. This includes the introduction of the new off-site surveillance reporting system and amendments to existing directions and regulations. Focusing on the consolidated supervision of banking groups, a comprehensive supervisory framework will also be developed.

Bank's Performance

The Bank has reported a profit before tax of Rs. 10.3 Bn and profit after tax Rs. 7.5 Bn for the financial year ended 2013. The profit levels had come down from the previous year (2012 profit before tax Rs. 15.2 Bn and profit after tax Rs. 10.9 Bn) mainly on account of the impairment on the gold back advances coupled with the declining interest rates in 2013. The total impairment charge for the year reached Rs. 13.7 Bn, which is Rs. 9.8 Bn higher than that of the previous year. The Bank balance sheet grew to Rs. 931 Bn mark, a 7% improvement over the previous year. The Bank has maintained a higher liquidity ratio and comparatively lower advances to deposit ratio representing a balance sheet strengthen in 2013.

The Group profit before tax Rs. 13.4 Bn and profit after tax Rs. 9.2 Bn as compared with previous year profit before tax Rs. 17.7 Bn and profit after tax Rs. 11.9 Bn.

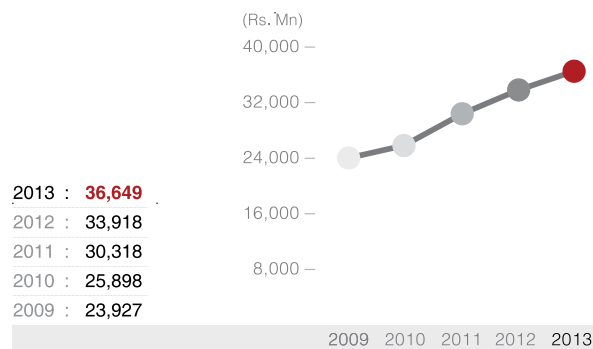
Profit Before and After Tax



Net Interest Income

In line with the growth in total assets and deposits, net interest income increased to Rs. 36.6 Bn. from Rs. 33.9 Bn in 2012, an 8% growth. This was the net result of interest income growing by 30% and interest expenses growing by 44%. The main contributory factors for the interest expenses to grow at a higher percentage were the growth in the deposit base by 11% and the average cost of funds on deposits for the year increasing to 9.1% from 7.3% in 2012.

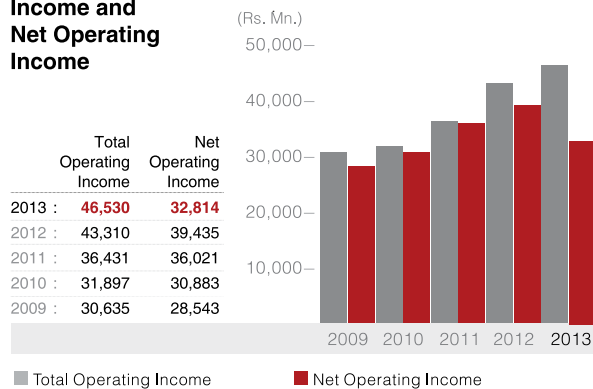
Net Interest Income



Net Operating Income

Despite the total operating income increasing by 7% as a result of the growth in net interest income as explained above and the growth in net gains from trading increasing by 36%, net operating income decreased from Rs. 39.4 Bn in 2012 to Rs. 32.8 Bn by Rs. 6.6 Bn or 16.8% reflecting the impact of the higher impairment charge for loans as explained earlier.

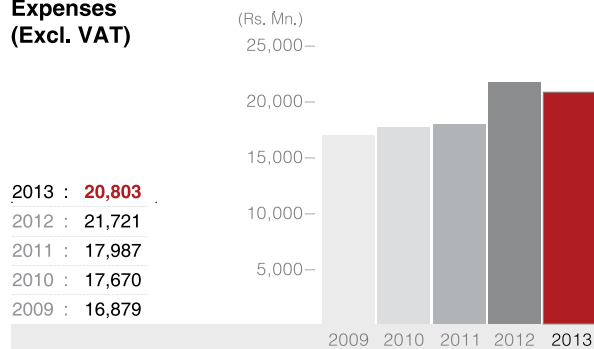
Total Operating Income and Net Operating Income



Operating Expenses

Operating expenses decreased from Rs. 21.7 Bn in 2012 to Rs. 20.8 Bn by 4.2%. This was due to slight decrease in personnel expenses which had been partly set off by increase in marketing expenses, depreciation of Property, Plant & Equipment, office administration and establishment expenses etc.

Total Operating Expenses (Excl. VAT)



Impairment for Loans and Other Losses

The Bank booked Rs. 13.7 Bn as impairment and other losses in 2013 as compared with Rs. 3.9 Bn in 2012. The sharp drop in the international gold prices in 2013 had negatively affected banks with pawning advance exposures. Impairments charges took a significant increase on account of the pawning advances in 2013. The Bank was able to downsize its exposure towards the pawning advances from Rs. 250.8 Bn at the end of 2012 to Rs 197.1 Bn by end of 2013. Accordingly, the total exposure percentage had reduced from 38% in 2012 to 29% in 2013.

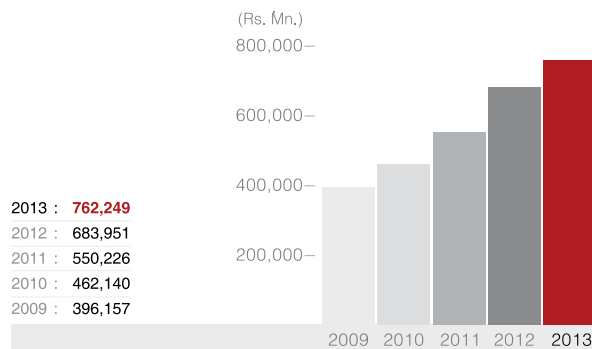
Taxation

Reflecting the drop in operating profit, charge on account of Financial VAT decreased by 31% to Rs. 1.7 Bn. from Rs. 2.5 Bn in 2012.

Deposits

The Bank's deposit base reached Rs. 762 Bn as at 31st December 2013 compared to Rs. 684 Bn in 2012, reflecting a growth of 11.4%. The main contribution for this growth came from fixed deposits, which increased by Rs. 84.7 Bn compared to Rs. 19.7 Bn growth in savings deposits. Current Accounts and Savings Accounts (CASA) as a percentage of total deposits declined marginally during the year to 38% from 40% in 2012.

Deposits

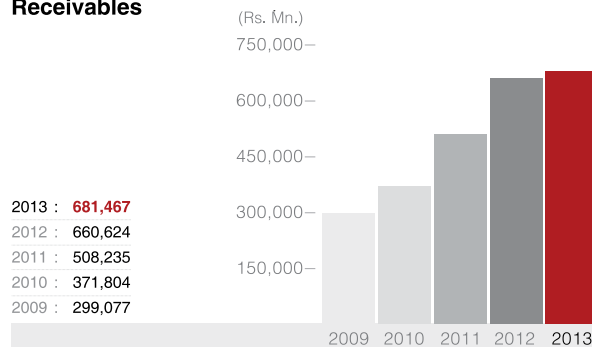


Loans and Receivables

Gross loans and receivables grew by 3.2% from Rs. 660.6 Bn as at 31st December 2012 to Rs. 681.5 Bn as at 31st December 2013.

Pawning has shown a decrease of Rs. 53.6 Bn while loans to other sectors shown an increase of Rs. 74.4 Bn. Main contributors to this increase is, Medium-term loans increase by Rs. 60 Bn and long-term loans increase by Rs. 30 Bn, trade finance loans increase by Rs. 9 Bn.

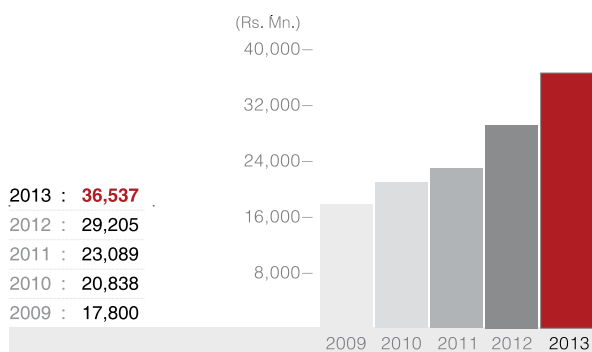
Total Loans and Receivables



Capital and Reserves

At end 2013, capital and reserves together with retained earnings stood at Rs. 36.5 Bn compared to Rs. 29.2 Bn at year end 2012. Main contributors are retained earnings and the revaluation reserve arrived through the revaluation of land or building during the year.

Capital and Reserves



Key Performance Indicators

The Bank has strengthened its balance sheet position in 2013. The capital adequacy ratios were 10.4% Tier 1 and 15.0% Tier 2 at the end of 2013 as compared with 2012 ratios (2012 Tier 1 - 9.8%, Tier 2 - 14.0%). The Bank's liquidity improved in 2013, it has maintained an average liquidity rate of 25.2% during 2013.

The advances to deposit ratio reached 89.4% at the end of 2013 as compared with 96.6% at the end of 2012. Cost income ratio moderated in 2013 to reach 48.4%. The non-performing advances ratio increased in 2013 largely due to the movement of the pawning advances, however, increased impairment charge on account of the pawning advances made to meet these movements.

The return on assets (before tax) 1.1% has come down as compared with 2012 mainly on account of the higher pawning-related impairment charges.

Note: The results reported above for 2012 and 2013 have been extracted from the Audited Financial Statements of the Bank prepared based on new Sri Lanka Accounting Standards (SLFRS and LKAS) that came into effect from 1st January 2012. The results reported for 2009-2010 have been extracted from the Audited Financial Statements of the Bank prepared based on previous Sri Lanka Accounting Standards (SLAS) that were in force up to 31st December 2011.

Performance of Subsidiaries and Associates

1. People's Travels

We have delivered results in line with our expectations after experiencing another year of challenges.

The past year has been challenging but the unwavering commitment of our employees, and since the economic conditions in the country has improved, despite the uncertain international political and economic environment in the world, the long-term outlook for the travel industry remains attractive and People's Travels is well positioned for future growth.

In the review of 2012/13 financial review, our performance shows underlying operating profit for the full year Rs. 9.2 Mn (2011/12 - Rs. 8.6 Mn); 7% increase in pre-tax. However, the profit after tax shows a decrease by 6%. The Air Ticket sales income has gone up by 37% increase.

Operational Review

The Company continues to benefit from its scale and diversity. People's travels' retail corporate and Leisure Travel businesses are now among the largest businesses, which means the Company does not rely solely on one travel sector.

All sectors grew during 2012/13 but corporate and leisure growth was stronger as we consolidated our position as reliable and dependable travel manager in the market. While we cannot control or predict future trading conditions, we see plenty of improvement opportunities within our businesses. Several key

initiatives are underway, as part of a business plan to transform the business and to help us capitalise on these opportunities.

This year, PTL will target continued growth in all markets. New destinations, like, Europe, UK and Japan will be included to stimulate outbound travel sector, which will lead to strong growth in departure numbers.

In order to reach our goal of becoming the Premier Travel Company, we assure to provide unparalleled services to the customers in order to gain repeat business and build trust. This will include providing superior service in all phases of the transaction, including timely follow-through. Customers will be reached through traditional and modern marketing communication methods. Corporate customers will be visited at least once a month. We are promoting out of season's tour schedules through frequent customer contact, E-mail marketing and through posting of leaflets/booklets to our client base and paper advertising etc.

a. Dambadiva Tours

Dambadiva Pilgrimages have been our main source of income during the past years. The income generated from the Dambadiva Tours has dropped gradually during the previous two years mainly the unfavorable political environment in India.

However, we are still holding the market leadership in operating Luxury Dambadiva Tours. We have successfully operated 13 Dambadiva Tours for 302 pilgrims during the 2012/13 (previous year 18 tours and 514 pilgrims travelled) year and generated a pre-tax profit of 3.3 Mn.

b. Leisure Travel

The PTL's volume of leisure Travels were high than the previous year but the profit generated from the same has a slight drop due to the reasons of sudden appreciation of the US Dollar.

From overall earnings, a drop in the Sri Lankan Rupee's value against the US Dollar badly affected the profit generated from the Leisure and Pilgrimages.

PTL managed to record a Rs. 4 Mn pre-tax profits from Leisure Tours, but is 6% less than the 2011/12 year. During the year, we have operated 6 Groups to China, 5 to Singapore/Malaysia, 6 to Bangkok, 2 to Vietnam and 1 Group to Myanmar for 613 Leisure travellers.

During the current year, we have added Europe as our newest destination. We are continuing to offer greater choice of destinations, unique and differentiated products and look to new markets for growth. We believe that UK, Japan and New Zealand are much popular destinations of the Sri Lankans and have a high growth potential and will aim operating Guided Group tours to those countries in the future.

c. Air Ticket Sales

PTL performed solidly during 2012/13 and recorded a Rs. 19.6 Mn profit before tax in the sale of Air Tickets filling all the gaps in the losses occurred in Leisure and Dambadiva Tours. It is a 37% increase in the pre-tax profit compared to the previous year.

We have actively managed capacity, and successfully navigated our way through a period of upheaval and target a further growth in Air Ticket Sales in 2012/13 financial year.

2. People's Leasing Group

A Subsidiary of People's Bank, People's Leasing & Finance PLC proudly stands to be the largest non-bank financial institution in Sri Lanka today.

Background of People's Leasing & Finance PLC

- Incorporated on 22nd August 1995 as a private limited liability company and a fully owned subsidiary of People's Bank.
- In year 2000, the Company was converted to a public limited liability company unveiling a new corporate identity.
- In year 2003, the Company became the market leader in the leasing industry for the first time.
- In year 2011, owing to the successful second largest IPO in Sri Lanka and listing of 1,560,000,160 ordinary shares on the main Board

of Colombo Stock Exchange the name of the Company was changed from People's Leasing Company Limited to People's Leasing Company PLC.

- In year 2012, pursuant to the receipt of Finance Business License from the Monetary Board of the Central Bank of Sri Lanka, the Company's status changed from a leasing establishment to a finance establishment. In line with this change corporate identity of the Company also changed from People's Leasing Company PLC to People's Leasing & Finance PLC.
- The Company merged with its subsidiary; People's Finance PLC which was also a quoted company with effect from 2nd April 2013.
- Consequent to the amalgamation the Company issued 19,862,322 shares to the minority shareholders of People's Finance PLC. With that the total number of shares increased to 1,579,862,482.

Commencing commercial operations with only Rs. 10 Mn capital and three employees' People's Leasing & Finance PLC today dominates the non-bank financial institution sector of the country with an asset base of over Rs. 100 Bn and being the highest rated finance company in Sri Lanka. Continues to remain as the market leader in the leasing sector, the Company now operates with 84 branches and 109 window offices across the country. Core business activities of the Company contained providing finance leases, hire purchases, term loans and subsequent to the receipt of finance business license the Company has now moved into mobilising public deposits and Islamic Finance. In addition, the Company also operates as a margin provider under license received from the Securities and Exchange Commission of Sri Lanka.

In a short span of time, People's Leasing & Finance PLC has founded five subsidiaries, namely People's Insurance Ltd., People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd., People's Leasing Havelock Properties Ltd. and People's Microfinance Ltd. diversifying the operations across the spheres of insurance, microfinance, property development and fleet management services.

The subsidiary network is finely entwined to avail greater synergies to the PLC Group.

Utilising the opportunities created in the 2012/13 budget to their errand, the Company issued its first listed debenture, a 30,000,000 listed, senior, unsecured, redeemable, AA(-) rated four-year and five-year debentures of Rs. 100/- each which subsequently was oversubscribed, the Company issued a further 30,000,000 debentures totalling up to a maximum of 60,000,000 debentures.

In addition, the Company recently secured a US\$ 50 Mn syndicated loan at very attractive terms from the Middle East arranged and partly funded by Emirates NBD Bank. The two-and-a-half year syndicated loan saw the Commercial Bank of Qatar also contributing. This being the second foreign facility, the first being secured late in April 2013 is a key lift for the Company's profile as well as its international standing. It has also made new buoyancy and will herald a new era for the Company in terms of broaden its horizons.

a. Financial Performances

The diversified People's Leasing Group saw its Interest income rise to Rs. 19,489.17 Mn in the calendar year 2013 from the previous year interest income of Rs. 16,580.53 Mn depicting an increase of over 17%. Total operating income of the Group indicating a growth of 12% rose to Rs. 11,049.62 Mn in year 2013 against Rs. 9,867.96 Mn in the previous year. Accordingly, the Group reported a well-deserved profit after tax of Rs. 3,305.38 Mn against the previous year's profit after tax of Rs. 3,011.58 Mn.

Total assets of the Group also increased to Rs. 114,110.13 Mn in 2013 from Rs. 96,191.46 Mn in 2012 reflecting a growth over 18%. The Company's total assets reached Rs. 109,582.07 Mn reflecting the healthy financial position whilst the loans and receivables which accounts for 85% of the total assets reached Rs. 92,582.71 Mn as at 31st December 2013.

The Company saw its total disbursements increasing to Rs. 47,395.66 Mn during the twelve months ended

31st December 2013 grabbing the opportunities aroused with the amalgamation with the Subsidiary, People's Finance PLC. Non-performing ratio of the Company as at 31st December 2013 stood at 2.19%, a ratio well below the industry average which hovered around 6% as per the Road Map 2014 proclaimed by the Central Bank of Sri Lanka.

Creating value for the shareholders, the Company paid the final dividend of Rs. 0.50 per share amounting to Rs. 789.93 Mn for the financial year 2012/13. An interim dividend of Rs. 0.75 per share amounting to Rs. 1,184.90 Mn for the financial year 2013/14 was declared in December 2013 extending shareholder wealth further. The Parent, People's Bank is entitled to a sum of Rs. 1,480.33 Mn out of the total dividend of Rs. 1,974.84 Mn paid during the calendar year.

People's Leasing & Finance PLC endure as an excellent investment preference for its parent from its day of initiation. People's Bank with a holding of Rs. 1,184.90 Mn shares claims an investment value of Rs. 15,877.62 Mn depicting an increase of Rs. 15,186.66 Mn against its cost of investment of Rs. 690.96 Mn as at 31st December 2013.

b. Review of Subsidiaries

People's Leasing & Finance PLC with its five established subsidiaries are continuing its ongoing process of synergising and is growing itself as a formidable force in the financial sector generating profits in every sphere of its operations.

i. People's Insurance Ltd.

The Company was established in 2009, as a fully owned Subsidiary of People's Leasing & Finance PLC and inaugurated its commercial operations in 2010. As per the statistics published by the Insurance Association of Sri Lanka the Company was ranked number five in the country's general insurance sector in terms of Gross Written Premium at the end of year 2013. During 2013, the Company perceived an immense progress of 10% in their premium and recorded a profit after tax of Rs. 371 Mn compared to the previous year's profit of Rs. 235 Mn. Though currently a major proportion of People's Insurance's

business are group related, early in the year the Company signed a Bancassurance agreement with People's Bank.

The first Annual Report of the Company was awarded the 'Industry Gold Award' and 'Top National Honours' at the LACP Vision Awards 2012 Annual Report Competition held in Florida, USA. Furthermore, Annual Report of the Company received a 'Compliance Award in the Insurance Sector at the Annual Report Awards 2013 organised by The Institute of Chartered Accountants of Sri Lanka.

ii. People's Microfinance Ltd.

People's Microfinance Ltd. was established with the prime objective of carrying People's Leasing Financial Services to the much needed low income segment of Sri Lanka. The ground belief of the incorporation is that 'a seed today will become a grown plant tomorrow' thus a low income earner will prospectively become a wealthy customer of the Company in the bigger picture.

During the year 2013, People's Microfinance Ltd. has further expanded their services in the rural by incorporating 7 units in People's Leasing & Finance PLC branches and the head office operations were shifted to Nugegoda with the intention of providing better and efficient services to their customers.

With the opening of new service units, the Company is now carrying out their operations through 33 PLC branches has posted a profit of Rs. 30 Mn for the year ended 31st December 2013.

iii. People's Leasing Property Development Ltd.

People's Leasing Property Development Ltd. engaged in property development projects for the People's Bank and the PLC Group. During the course of the year, People's Leasing Property Development Ltd. successfully completed the construction of People's Bank Anamaduwa and Wilgamuwa branches and handed over the same to the Bank. In addition, constructions of People's Bank Piliyandala and Tricomalee branches have been already completed and yet to be handed over to the Bank.

Moreover, phase 2 of Vauniya project and the Trincomalee People's Bank Regional Office projects are currently in progress, whereas Mathugama, Naula and Beruwala projects are at the tender evaluation stage.

The Company recorded a profit after tax amounting to Rs. 48 Mn for the calendar year 2013.

iv. People's Leasing Fleet Management Ltd.

The Company is mainly engaged in providing operating leases, vehicle hire facilities, vehicle service and valuations. During the period under review, the Company introduced a new vehicle carrying facilities by using vehicle carriers and towing trucks. Also new service packages were added to the leisure drive and easy drive with the intention of improving the services provide under each package. Furthermore, the Valuation Department of the Company was expanded and introduced an insurance assessment service.

v. People's Leasing Havelock Properties Ltd.

People's Leasing Havelock Properties Ltd. was incorporated on 12th August 2010 with the prime objective of constructing an office complex which is an approved project under Board of Investment of Sri Lanka. Foundation stone laying ceremony for the 12 stories new office complex at Havelock Town was held in September 2013 and the project is expected to complete by May 2015.

c. Awards and Accolades

The accolades, kudos and pioneering initiatives the Company gained are commendable. To mark the list longer People's Leasing & Finance PLC befitted a joint winner in the financial services provider category at the SLIM Nielsen People's Awards in March 2013. The Annual Report for the year 2010/11 was accustomed as the recipient of 'Certificate of Merit' in the financial services sector at the SAFA Best Presented Annual Report Awards 2011.

The Company was ranked 18th place amongst the Top 25 winning listed Companies in Sri Lanka - 2012/13 by the Business Today magazine on the basis of financial

performance. This is a glorious accomplishment for the Company as it was able to achieve this in the first year itself of fetching entitled to be considered for this award.

PLC also bagged 'Gold' in the Non-Banking and Finance Sector for the second succeeding year at the National Business Excellence Awards 2013 organised by the National Chamber of Commerce of Sri Lanka. Assessment was not limited to the business and financial results of the Company. Excellence in leadership, corporate governance, capacity building, performance management, local and global market reach, corporate social responsibility and environmental sustainability were other fundamentals considered.

Adding more, the Annual Report and the Sustainability Report of the Company for the financial year 2012/13 secured the following awards at the 2013 Spotlight Awards, a Global Communications Competition organised by League of American Communications Professionals (LACP):

- Competition Class of Print Annual Reports, Asia Pacific - Gold Award
- Most Creative Annual Report (Worldwide Special Achievement Award) - Silver Award
- Sustainability Report (Printed Other Category) - Bronze Award
- Annual Report of the Company competently secured the highest position among the other Sri Lankan contestants at the competition and ranked at No. 36 among the Worldwide Top 100 Communication Materials.

Being for the 1st time contested in the Finance Sector and having won the prestigious Gold Award for five consecutive years in the leasing sector, the Company Annual Report 'Encompassing our Diversity' secured and competently retained the coveted 'Gold Award' in the aggressively competitive finance sector at the Annual Report Awards 2013 organised by The Institute of Chartered Accountants of Sri Lanka. This acknowledgement reflects the transparency, timeliness, clarity, consistency and professionalism that PLC maintains in preparation and publication of

Financial Statements, business performance, corporate governance and corporate social responsibility.

PLC lifts the standards of a finance company in the country by being the first to receive two international ratings. A rating equivalent to sovereign of 'B+/B' long-term and short-term issuer credit rating by Standard & Poor's and was assigned a long-term foreign and local currency Issuer Default Ratings (IDRs) of 'B+', a rating one notch below the sovereign by Fitch Ratings International. The Company's national long-term rating was also reaffirmed to 'AA-(lka)' by Fitch Ratings Lanka during year 2013.

3. People's Merchant Finance PLC

People's Merchant Finance PLC (PMF), is an Associate Company of People's Bank. People's Bank along with its Subsidiary, People's Leasing & Finance PLC collectively holds 39.2% stake in PMF, which gained its Finance Company Licence by the Central Bank of Sri Lanka during April 2012. The Company also obtained the Margin Trading Licence from the Securities and Exchange Commission of Sri Lanka. Presently, it holds a BB+ (stable) outlook by Fitch Ratings and provides a range of financial services including Leasing, Hire Purchase, Corporate Loans, Real Estate, Margin Lending and Gold Loans through its corporate office and network of eleven branches.

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

In People's Merchant Group's Income Statement, it made a loss of Rs. 91 Mn in the 12 months ended 31st March 2013 against the profit of Rs. 64.5 Mn reported for the comparative period for the previous year. In the Company Income Statement it made an after tax loss of Rs. 90.8 Mn comparative to the after

tax profit of Rs. 92.7 Mn during the previous year. This was mainly due to the increase in the net impairment charges on financial assets and the increase of total operating expenses. The reason for the increased overhead expenses was the infrastructure developments that took place among the branch network to be in line with the obtaining of the Finance Company licence.

Group's interest income increased by 28% to Rs. 640 Mn in year 2013 from Rs. 500 Mn in 2012. The main contributors were finance lease income of Rs. 234 Mn, hire purchase income of Rs. 214 Mn and Loans of Rs. 107 Mn. Other income reduced to Rs. 60 Mn in year 2013 from Rs. 160 Mn in the previous year. Other income in the previous year was high due to profit generated through the disposal of the subsidiary finance company amounting to Rs. 137.4 Mn. Due to this, net income also reduced to Rs. 207 Mn from Rs. 301 Mn in the previous year. Because of increased interest rates prevailing during the year, margins on old facilities decreased, as the Company was reliant on short-term borrowings for funding. During 2013, PMF made additional provisions for long outstanding non-performing loans that resulted in total provisions of Rs. 270 Mn for the year in comparison to the Rs. 215 Mn made for the previous year 2012. In view of this, PMF posted a loss of Rs. 91 Mn against a profit of Rs. 92.7 Mn in the previous year.

Group assets increased by 57% to Rs. 4.6 Bn at the end 2013 from Rs. 2.9 Bn at end 2012. Finance leases, hire purchase, margin trading and pawning advances increased during the year. The deposit base of the Company reached Rs. 2.6 Bn by end year from Rs. 1.4 Bn from the previous year, since gaining finance company status.

SERVING AND PROSPERING OUR CUSTOMERS

Our portfolio of products and services is geared to meet and exceed the needs and expectations of our customers. Beyond that, the Bank provides individualistic solutions to individual needs and often acts as advisor and mentor to certain customer segments.



Loan facilities made available
at attractive
Interest rates with minimum
collaterals



High
Saving





Sustainability Supplement

We as a business must be cognisant of the impact we have on the economy, society and environment, while assessing possible risks and emerging paradigms that will enable us to continue truly being a People's Bank.

Benefiting All Through Generations

Preamble

When we began our journey over five decades ago, it was a journey that had an overarching dynamic of being a true partner to the people of this country, where we imbued an ethos of being more than a bank. Being named the People's Bank was the first step in making this ethos a reality, which then progressed to us forging partnerships with our stakeholders, which has today grown impressively to form strong and stable relationships that have permeated to tangible and intangible benefits to each and every one.

When we observe our stakeholders, we see contentment; but we also see expectations. These expectations have come about due to the Bank's continued stance of innovation, of ensuring that being one step ahead of emerging paradigms would herald the best for our stakeholders. It has been commonplace for us to meet and in most cases exceed these expectations, thus warranting our stakeholders to raise the bar continually, so that we have been compelled to chart a trajectory that has always remained ahead of the industry. Being a People's Bank however, has also made us very cognisant of the pulse of the people, simply by being one with them and operating in a manner that would allow us to grow together, making sure our decisions would impact them positively and be of benefit not only to those we are dealing with, but to future generations as well.

Into this equation, we bring in our vision for the nation, because after all, our nation is our people, a vibrant dynamic force that has put its entire strength behind building an emerging economy that would truly be a pride in this region. Being a benchmarked leader in the industry, People's Bank has remained resolute in its focus of creating an empowering milieu for the country to meet its ambitious goals. In order to infuse this empowering milieu however, inclusive growth becomes the signature kinetic and People's Bank's journey has always been about encouraging inclusive growth. The paradigms were constructed upon a

bottoms up approach designed to create the apt environment for people to contribute towards building up communities, economies and the nation, benefiting all.

From making Small and Medium Enterprises (SMEs) the fundamental growth factor in driving the economy, to empowering individuals academically and professionally, harnessing talent and skills and contributing towards infrastructure development that would be the fundamental connectivity and inclusivity factor in the paradigm of sustainable development, our philosophy has surely made the right connection. We are seeing results, we are seeing opportunities and we are seeing empowerment. Wouldn't this then be the ideal formula that has benefited and continues to benefit the people of this land through generations? We believe it is!

Who We Are

Our vision is to be the Bank of the aspiring people of Sri Lanka; to empower people to become value creating, competitive and self-reliant. Remaining firmly committed to this vision, we have developed a matrix that will surely be the foundation to our very existence - of being a benefit to all.

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

As our name denotes, every action we take, every decision we make and every impact we birth is due to people being at our very core. Hence, it is vital that geographically we are accessible. This presence is now island-wide and in some cases has moved beyond our shores, through international partnerships, to touch the lives of Sri Lankans working outside the country. Our reach and accessibility touches wide demographics, from diverse ages to markets to industries and each espouses to have been benefited

by our presence. We have created strong partnerships in numerous industries including -

- Agriculture and Fishing
- Manufacturing
- Tourism
- Transport
- Construction
- Trade
- Financial and Business Services
- Infrastructure
- Other Services
- Credit Card
- Pawning

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

Apart from primary banking services, our vision to be a truly People's Bank has taken us beyond the norms of banking and into a sphere where we can forge strong partnerships that will add value to various business segments.

Subsidiaries

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

Associate

- People's Merchant Finance PLC

Sub-Subsidiaries

- People's Leasing Fleet Management Ltd.
- People's Leasing Property Development Ltd.
- People's Insurance Ltd.
- People's Microfinance Ltd.
- People's Leasing Havelock Properties Ltd.

The Principles that Drive Sustainability at People's Bank

The entire philosophy that runs through the Bank is that we benefit all, through generations and it is an ingrained hallmark that drives us at People's Bank to give of our best all the time, every time. This also means that we must retain and hone the fundamentals of creating and cascading the benefits that we aspire our stakeholders to be presented with and thus, have placed overriding principles that drive the Bank's sustainability in a holistic sense. These principles espouse the philosophy of the triple bottom line, where we as a business must be cognisant of the impact we have on the economy, society and environment, while assessing possible risks and emerging paradigms that will enable us to continue truly being a People's Bank.

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

About this Report

This is our second Sustainability Report and remains, to the best of our ability, aligned to the triple bottom line concept based on Global Reporting Initiative (GRI) Guidelines. It also takes into account the current norms of corporate governance and sustainability demands. Our goal in publishing this information is to highlight achievements and show existing gaps, in our quest to become the best Bank in the country, securely placed on the platform of benefiting all.

The Report covers the period from 1st January 2013 to 31st December 2013 and indicates, wherever possible, qualitative and quantitative metrics that augment our claims. Our aim is to publish such information annually. Financial information is in Sri Lankan Rupees.

Reporting Standards

Every attempt has been made to produce this Report aligned to prevalent standards in the corporate sphere, including those expected by regulatory and standard bodies, as well as the GRI Guidelines. This instills a more transparent process to our stakeholders and holds us accountable for our actions and impacts. In this Report, we have aspired towards gaining Level C of the GRI Standards and have marked our gradients accordingly on the grid found from pages 103 to 105 in this section of the Report.

The following operations of People's Bank have been excluded from the scope of this Report. This is due to the fact that these operations are insignificant to this evaluation as the banking operations in Sri Lanka do not depend on these cash flows and does not demand control over the operations of its subsidiaries People's Leasing & Finance PLC and People's Travels (Pvt) Ltd.

The operations of the Bank's associates namely, People's Merchant Finance PLC too are excluded from the boundary of the report as the Bank does not have control over the operations of these entities. However, in the event that the operations of the excluded entities/operations become material, we would take steps to include them within the boundary of the report and when necessary, in future Sustainability Reports.

Our engagements with stakeholders are more fully described in the section on 'Stakeholder Engagement' on page 89.

Feedback

As intimated last year, we invited stakeholders to revert with their feedback. While the response has been positive, there is always room for improvement and this year too, we extend a similar invitation to our stakeholders to give us feedback. This will serve in not only improving our standard of reporting but also in keeping us, at the Bank, aware of the needs and expectations of our stakeholders. The feedback adds another dimension of allowing us to do a SWOT analysis of ourselves more comprehensively. External feedback, from stakeholders, is a key communicative component to our strategy of continuous improvement. Comments and suggestions will be used constructively, and applied wherever possible.

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

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

Economic Empowerment Leading to Social Inclusion

The concept of sustainable development is ingrained in the very foundations of our Bank. Since inception, we have partnered our stakeholders and built lifelong relationships. The entire Bank, from the Chairman and the Board of Directors to each and every staff member, is driven by one motive - to provide a strong truss for all citizens of our nation to face the future with confidence and dynamism. This is not an easy task, but one that requires us to take action now for a better future.

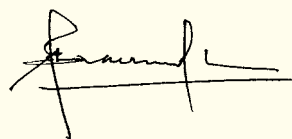
Being the State Bank of the nation, we are entrusted with the responsibility of enabling Sri Lanka to achieve the set national goals. This includes bringing all socioeconomic demographics, geographies, communities, genders, cultures, religions and ethnic groups into the mainstream of economic and social well-being.

In this context, it is our responsibility to fortify rural economies which would empower people, nurture entrepreneurs, foster innovation and lead development. Through our extensive product and service portfolio, we partner individuals in their journey of life from infancy to twilight years. Accordingly, we have helped numerous Sri Lankans in different spheres of life from farmers to teachers and even spurred resourcefulness of women to be economically independent. We have also assisted the Sri Lankans expatriates to grow their hard earned money. All in all, we have created an inclusive environment where people can thrive which in turn has helped our nation in its march towards being the Wonder of Asia.

At the same time, we understand the importance of recording our sustainability initiatives. This enables us to create a greater impact whilst engaging in dialogue with our stakeholders and map out effective strategies. Reporting enables us to identify and bridge gaps, increase transparency and enhance our accountability. These are the factors that propelled us to embark on a sustainable reporting process, adhering to GRI Guidelines and other regulatory principles. It helps us to have a holistic view on the effectiveness of our sustainability initiatives for our stakeholders.

Therefore, our sustainability development strategy is focused on preserving the historic and cultural heritage, education, healthcare, entrepreneurial empowerment and rural development. We strongly believe that these would facilitate a unified focus for our country in empowering people. The success of our economic empowerment strategy has been proved repeatedly through the many success stories that have been etched in our history.

We are deeply rooted in our people. We have always believed that equipping our people with the necessary tools, knowledge and skills would enable us to achieve our vision. For us, sustainable development is a journey embarked together and strengthened a long time.



N. Vasantha Kumar
General Manager

26th March 2014

NURTURING AND PROSPERING OUR EMPLOYEES

The Bank ensures that working towards the common good of all stakeholders and achieving organisational goals must be accompanied by fulfilment of employee aspirations and advancement.





We have always believed in delivering long-term value to our stakeholders

Our Sustainability Philosophy and Strategy

Having begun our inaugural process in Sustainability Reporting last year, we have made a strategic decision to continue our sustainability philosophy and strategy aligned to that of the Bank's vision and mission. This is due to the fact that the Bank's vision and mission have always espoused the principles of sustainable development and therefore, this focus makes it easier and more meaningful for us.

We have always believed in delivering long-term value to our stakeholders. Our shareholders, primarily the Government of Sri Lanka and the Co-operative Societies continue to benefit from the partnerships we have forged. The fact that our products, services and philosophy remains aligned to the Government's vision alone is reason enough. However, we are also a significant contributor and partner to the Government's infrastructure development agenda as well as other initiatives including the development of the SME sector and key industry drivers. We have ensured that our customers, valued business partners and communities around us, through our proactive intervention have become dynamics that contribute towards this national growth.

Hence, our sustainability philosophy is about inclusive growth that benefits all. Our task is to identify the need areas, match our stakeholders to those need areas and ensure that by forging and strengthening a partnership based on those needs areas, we are creating a platform of inclusive growth that can be sustained through generations. Positioning it simply, our philosophy is about creating a formula that is mutually beneficial for stakeholders and us. This means, that the goals we set for ourselves would be mutually inclusive, intertwined inextricably with values and practices that will precipitate transparency and accountability in the way we do business.

We have entered the phase of imbibing the reporting process into our philosophy, being both transparent and accountable, which means we report on our progress (or lack of it), secure verification eventually and ensure that we have clear priorities when it comes to material activities. This is aligned to the

environment as well, because we recognise that there are physical limits to the planet's resources. Despite being a financial services entity, we remain committed to the protection of the environment, which when taken in a holistic concept of economic, social and environmental, we do know that each of our actions are interlinked to each other and therefore, our philosophy of sustainability must be too.

Governance and Risk Management

Governance and risk management practices, strategies and policy is detailed on pages 117 to 126 and 127 to 150 of this Annual Report. It is pertinent to state here that the Chairman does not have an executive role. All details of the Board of Directors are available in the Board of Directors' Profiles on pages 21 to 26 of this Annual Report.

Risk Mitigation

Throughout the years, the Bank has continued to hone and maintain a comprehensive risk management framework in place, remaining cognizant that fraud may be perpetrated at any time in any one of the business units. Adequate checks and controls have been infused to obviate incidences of any misdeeds, while in-house audit officers affiliated to respective Regional Head Offices are posted at every branch. Their role is to oversee the proper implementation of these checks and controls by the Business Units and to take appropriate action where necessary. The institution of minimal daily audit functions at business units also minimises the probability of such risk related corruption.

Going Beyond Compliance

Given that we are a State Bank, we are tasked with the responsibility of ensuring that compliance is an overarching tenet in all our operations, which means there is also intolerance to bribery and corruption and money laundering. Our inbuilt monitoring and control areas ensure the minimising of fraud and unnecessary risk.

However, there are always opportunities for fraud to be perpetrated at any time in any one of the business units at the Bank, despite stringent controls and

monitoring processes. This calls for adequate checks and controls to be instituted to avert incidences of such misdeeds. As mentioned earlier, in-house audit officers affiliated to respective Regional Head Offices are available at every branch, overseeing the proper implementation of these checks and controls by the Business Units and in the event of deviation, wherever necessary, institute appropriate action.

All incidents of corruption are probed and investigated by the Internal Audit Department as well as the Investigations and Inquiries Department. Preliminary investigations are implemented by the relevant RHOs/ HO Departments with disciplinary action taken under the provisions detailed in the Code of Conduct of the Bank. Complaints are lodged also with the Criminal Investigation Department (CID) depending on the nature and gravity of such incidences. The CID usually indicts the accused in a Court of Law, depending on their findings.

We strive to maintain very high standards in compliance, which has resulted in no fines or sanctions being imposed on the Bank during the year 2013 for non-compliance with prevailing laws and regulations. There were also no incidents of non-compliance with regulations and voluntary codes regarding marketing communications including advertising, promotion and sponsorship.

Keeping our Team Abreast of Compliance Requirements

Monitoring and control procedures continue to be updated amongst the team and spearheaded by the Internal Audit Department. All the team members underwent a total of 21 training programmes in germane areas. The Internal Audit Department conducted training programmes for in-house audit officers attached to the RHOs and other relevant officers in which 430 have participated during the year 2013.

The Compliance Department regularly conducts training sessions on Money Laundering and Terrorist Financing throughout the branch network in order to create awareness among the team. This includes stipulations prevalent in the Prevention of Money

Laundering Act No. 5 of 2006 as amended by Act No. 40 of 2011, Financial Transaction Reporting Act No. 6 of 2006 and Convention on the Suppression of Terrorist Financing Act No. 25 of 2005.

In 2013, the Compliance Department conducted 17 training sessions for 1,673 employees of the Bank on Money Laundering and Terrorist Financing.

Economic Performance

Given that the Government of Sri Lanka is our primary shareholder, the direct contribution we make to the Treasury by way of dividends and taxation, are unequivocally utilised for the development of the country. Very honoured to be a champion of national growth, this spurs us to establish and implement initiatives that will ensure the stability of this Bank, growing our key performance indicators and profitability, while always being mindful of our responsibility to the triple bottom line concept.

By creating a strong and stable financial foundation for the Bank, we are able to use those fundamentals in contributing effectively to uplifting communities and the environment, given that our economic performance is closely linked with the progress of the nation. It is also noteworthy that being a State Bank and the close linkages we have with national development, our customers, team and valued business partners continue to hone their partnerships with us, knowing that through us, they too have a contributory link to progressive national development.

In 2013, People's Bank generated revenue of Rs. 120.4 Bn, a profit before tax of Rs. 10.3 Bn and contributed Rs. 10 Bn to the National Treasury by way of taxes, dividends and levies.

Our Products

Our product and service portfolio has been constructed on the philosophy of 'Benefiting all Through generations'. The foundation of this portfolio is shaped towards making people economically sustainable, empowering them to reach for their ambitions and aspirations. This will only happen

however, if individual and community growth is linked to national progress. This is where our Bank's products and services gain a competitive edge, primarily because we have always been able to judge the pulse of the people and align that with the nation's forward journey.

The Bank operates 735 branches island-wide and employs over 10,863 employees. Apart from this, we also operate 460 ATMs across the country. Through these points we serve a total of approximately 15 Mn customers.

Another 40 ATMs and 7 branches with selected services were opened this year in the following locations:

- Central Provincial Council
- Migrant Resource Centre
- Puthukuduiruppu
- Canovin Arcade A
- Canovin Arcade B
- Kaithady
- Sethsiripaya

Product Responsibility

From the numerous awards we have received over the years, primarily those that have been voted for by the citizens of Sri Lanka, it is extremely evident that our goal of being the first choice Bank among the people of Sri Lanka, has been met. However, this is a continually evolving status, which we realise very well. As a State Bank, we have a responsibility to be a corporate steward, an industry leader in the financial services sector, who will support the State's aspirations to promote a stable society and ensure a high quality of life to all Sri Lankans.

Coupling our popularity with our vision, a fundamental tenet we must always be aware of is that our products and services must be birthed, established and permeated on a platform of ethical responsibility. This means that this responsibility for product and service must flow within the veins of our organisation and cascade to our customers and stakeholders.

Hence, our sustainability philosophy is about inclusive growth that benefits all.

This cascade of our portfolio must be transparent and open, be unambiguous and have no hidden features that are detrimental, harmful physically or psychologically or be disadvantageous to the stakeholder. This points to our communication strategy also being well aligned to product responsibility.

Strategic Communication Approach

A Policy on Strategic Communication and Vision for the next five years was drafted by the Marketing Division this year and has gained the approval of the Board of Directors. Aligned to the diktats contained within this policy, the Bank remains well-aligned to the standards and codes related to marketing communications, including advertising, promotion and sponsorship kinetics.

The Bank also has detailed guidelines for staff and external agencies, with regard to engagement with media and related stakeholders within the Bank. We define strategic communication as the orchestration and synchronisation of actions, images and words to achieve a desired result, which will accomplish Development policy objectives vis a vis Strategic Communication intentions. Our approach clearly demarcates the policy regarding the release of material and information that will generate awareness, interest and inquiry.

Communication Governance and Measurement

We are committed to implementing our communication strategies in compliance with the Customer Charter and Code of Conduct for Licensed Commercial Banks. This ensures that factual information remains at the core of the standards of fair banking practices. Therefore, we derive all communication processes, themes, targets and engagement modes from the Government's development policies and strategic vision. It facilitates uniformity and continuance in our communication strategy.

The People's Bank brand is now among the top brands in the country and is a top of the mind recall brand, according to certain surveys conducted. Therefore,

all advertising methodologies are aligned with the goals and priorities of the corporate brand. This gives us a strong platform to grow our brand, using it as the blanket arch in all communication to complement the sub-brands of products and services promoted. In order to maximise the value of our investment in communications, the deposit mobilisation initiatives are operated within a predetermined and preapproved communication budget.

Transparent and Interactive Communication

Given our strategic intent and the need to create a more transparent and accountable organisation, our belief is that dialogue and feedback is a vital conduit in maintaining these positive characteristics in the Bank. The strategic communicative methods we have instituted to facilitate multifaceted and unbiased dialogue is aimed at building socially appropriate relationships. All communication material are relevant and original, designed to engage customers and germane stakeholders in a milieu of rapidly transforming macro conditions.

Communication with Shareholders

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

Communication with Employees

We have implemented a 'bottoms-up' approach in communicating with our team members, who are the lifeblood of the Bank. A key component in all our operations, we are very enthusiastic about maintaining a continuous dialogue and this is fuelled by the Board of Directors maintaining open lines of continuous dialogue with all members of the Corporate Management team, to gain a pulse on the evolving

operations of the Bank, including issues that arise in the Bank's overall strategic direction, Corporate plan and Annual Budget.

This cascades to Corporate Management meeting regularly with members of the Executive Management, Regional Managers and Branch Managers to brief them of targets and evaluate past performances of the past quarter. These evaluations take place together with members of the Board at the recurrent Managers' Conference. The Managers' Conference is elemental to the Bank, as it provides an open forum where participants may raise matters of interest and seek clarification. The Bank is also involved with its four trade unions and regularly consult with them on matters of good governance.

Brand Value/Positioning

Our aim of being the first choice of the people; 'Top of Mind Brand' is our goal in positioning ourselves as a brand and with repeated accolades in this field, we have been able to achieve that. However, this lofty status has a continually raising of the bar, it's an evolutionary stance that we need to be aware of and work hard to ensure we remain at the zenith. We have proceeded to do so by utilising creative and original approaches, taking steps to ensure that communication themes are aligned with our core values of strength, stability, trust, accessibility.

Stakeholder Approach

Our stakeholders are one with us. It is a relationship that has been fostered over five decades and one where we intend to strengthen over generations. The environment is an inclusive one where the Bank does not differentiate on any platform, cultural, ethnic or religious basis. Imbuing the country's vision of having a people united under one flag, our aim is to engage with all segments of society and maintain the diversity of Sri Lankan culture. Moreover, we are aimed at engaging with civil society, community leaders, Government and area decision-makers who will become our partners in growth. We've adopted efficient and streamlined processes for added fillip

in dealing with obstacles and challenge, which gives us the opportunity to work in collaboration with our stakeholders for mutual advancement.

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

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

Type of Stakeholder	Method of Engagement
	<ul style="list-style-type: none"> • Scholarships • Public Events • Conferences • Branches • Media • Call Centre
Media	<ul style="list-style-type: none"> • Press Releases • Annual Report • Press Conferences • Corporate Website • Interim Financial Statements
Suppliers	<ul style="list-style-type: none"> • On-site Visits and Meetings • Public Notices in Print Media

Significant Financial Assistance Received from the Government

With the Government of Sri Lanka presently holding 92.27% of the Bank's ownership, there is an assertive interest that it invests in the Bank's progress and development. This includes a significant financial reinforcement emanating from Government sources to the Bank's various operational projects. In keeping with transparency principles of Sustainability Reporting, given below are the loans and amounts granted to the Bank, during the period in review:

Interest Subsidy Schemes

Name of the Scheme	Terms and the Donor	Sector Eligible	No. of Loans Granted as at 31st Dec. 2013	Cumulative Amount of Loans Outstanding as at 31st Dec. 2013 Rs. Mn
Special Housing Loan Scheme for Government Servants	<ul style="list-style-type: none"> Up to Rs. 500,000/- - 8.0% Rs. 500,001/- - 1.0 Mn - 4.0% Above Rs. 1.0 Mn - 3.0% Interest Subsidy from the Government of Sri Lanka	Officers in the public service with five-year service, with entitlement to a pension and confirmed in the appointment.	36,206	23,542.74
Housing Loan Scheme for the Employees of Universities under UGC	<ul style="list-style-type: none"> Up to Rs. 1.0 Mn - 5.5% Above Rs. 1.0 Mn - Rs. 2.0 Mn - 5.0% Interest Subsidy from the Government of Sri Lanka	Employees of a university registered under the University Act No. 16 of 1978 with five-year service and confirmed in the posting.	408	472.19
Loan Scheme on a Concessionary Basis to Media Personnel to Purchase Motor Cycles, Computers, Cameras and Media Equipment	11% Interest Subsidy from the Government of Sri Lanka	Media personnel recommended by the Ministry of Mass Media and Information	130	5.02
Loan Scheme for Senior Media Personnel, Artists and Authors to Purchase Motor Vehicles	<ul style="list-style-type: none"> Less than Rs. 0.5 Mn - 10.0%. Rs. 0.5 Mn - Rs. 1.0 Mn - 12.0%. Rs. 1.0 Mn - Rs. 1.2 Mn - 14.0% Total Interest is Subsidised from the Government of Sri Lanka (100% Interest Subsidy)	Individuals recommended by the Ministry of Mass Media and Information and Ministry of Cultural Affairs	169	180.29

SME Development

Title	Name of the Scheme	Terms and the Donor	Sector Eligible	No. of Loans Granted as at 31st Dec. 2013	Cumulative Amount of Loans Outstanding as at 31st Dec. 2013 Rs. Mn
Interest Subsidy Schemes	Commercial Scale Dairy Development Loan Scheme (CSDDL)	Agency - Regional Dev. Dept. - CBSL Maximum Loan Amount - 25 Mn Borrowing Rate of Interest - 6% Lending Rate of Interest - 8% Maximum Tenure - 5 Years Maximum Grace Period - 6 Months	Purchase of cows Establishment of sheds Fodder cultivation Establishment of new farms Farm development Construction of bio gas	Expansion of existing farm Production of dairy based products Purchase of equipment Transport and storage of milk	9 44.92

Title	Name of the Scheme	Terms and the Donor	Sector Eligible		No. of Loans Granted as at 31st Dec. 2013	Cumulative Amount of Loans Outstanding as at 31st Dec. 2013 Rs. Mn
Refinance Schemes	Small and Medium Enterprises Development Facility Project (SMEDeF)	Agency - World Bank Maximum Loan Amount - 60 Mn Borrowing Rate of Interest - 6 Month's AWDR Lending rate of Interest - 6 Month's AWDR + 2% Maximum Tenure - 10 Years Maximum Grace Period - 2 Years	Agriculture projects Tourism industry Constructions Dairy and related products Education Fishery industry Garment industry	Health Services Industries Livestock Ornamental fish Printing services	70	256.87
Refinance Schemes	SMILE III - Revolving Fund Loan Scheme	Agency - Ministry of Industry and Commerce Maximum Loan Amount - (i) General Loan Scheme - 5.0 Mn (ii) Technical Transfer Asst. Scheme - 2.5 Mn Maximum Loan Amount - (i) General Loan Scheme - 5.0 Mn (ii) Technical Transfer Asst. Scheme - 2.5 Mn Borrowing Rate of Interest - (i) General Loan Scheme - 4.5% (ii) Technical Transfer Asst. Scheme - 3% Lending Rate of Interest - (i) General Loan Scheme - 9% (ii) Technical Transfer Asst. Scheme - 5% Maximum Tenure - (i) General Loan Scheme - 3 - 10 Years (ii) Technical Transfer Asst. Scheme - 7 Years Maximum Grace Period - (i) General Loan Scheme - 2 Years (ii) Technical Transfer Asst. Scheme - 2 Years	Tea Coir Rubber Footwear Plastic Textile and Apparel Food products Herbal Products Information Technology Gem and Jewellery Handloom and Handicrafts Leather Packaging	Ceramics Spices (Value addition) Wood products	12	30.58

Title	Name of the Scheme	Terms and the Donor	Sector Eligible	No. of Loans Granted as at 31st Dec. 2013	Cumulative Amount of Loans Outstanding as at 31st Dec. 2013 Rs. Mn
Govt. tax concession	People's Investment Power Loan Scheme (PIP)	Agency - Maximum Loan Amount - 50 Mn Borrowing Rate of Interest - - Lending rate of Interest - 5 Year Treasury Bond Rate + 2% Maximum Tenure - 10 Years Maximum Grace Period - 2 Years	Long-term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries Factory/mills modernisation/establishment/ expansion Formation of technology related activities and Business Process Outsourcing Education: Vocational training and tertiary educational enterprises Construction of hotels and/or related ventures Restructuring of loans extended for the above purposes Women entrepreneurs (lending for venture capital projects for a maximum Rs. 10 Mn) Investment in sustainable energy sources including solar power Any other agriculture and SME related projects	218	950.2

The SME Development Unit, and the Development and Microfinance Department are key divisions of People's Bank, being integral components to our philosophy of uplifting our community. With our strong belief that economic empowerment infuses social inclusivity, the bottoms up approach that we have implemented in both the SME and microfinance areas has significant success stories emerging from numerous rural economies, which have prompted a permeating contribution to national development in the longer term.

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

Development and Microfinance

Name of the Loan Scheme	Terms and the Donor	Commercial Rate	Sectors Eligible	No. of Loans Granted as at 31st Dec. 2013	Outstanding Balance as at 31st Dec. 2013 Rs. Mn
1. Interest Subsidy					
Loan Scheme to Improve Living Conditions of the Socially-Integrated Trainees who have Successfully Completed the (REPPA) Rehabilitation Programme	Rehabilitation of Persons, Properties and Industries Authority	8%	Upgrade living conditions of the socially - integrated trainees who successfully completed rehabilitation programme	579	76.18
Mahaweli Aruna	Mahaweli Authority	9%	Agro based Industries, Agriculture Service, any income generating activities	450	65.79
NCRCS - Cultivation - 2013/14 Maha	Central Bank of Sri Lanka	6%		7,977	7,942.00
NCRCS - Cultivation - 2013 Yala	Central Bank of Sri Lanka	6%		5,487	227.64
NCRCS - Cultivation - 2012/13 Maha	Central Bank of Sri Lanka	6%		11,108	223.27
NCRCS - Cultivation - 2012 Yala	Central Bank of Sri Lanka	6%		7,254	106.41
NCRCS - Cultivation - 2011/12 Maha	Central Bank of Sri Lanka	6%		15,125	124.15
NCRCS - Cultivation - 2011 Yala	Central Bank of Sri Lanka	6%		7,015	22.82
Sub Total				54,995	8,788.26
2. Refinance					
The Awakening North Revolving Fund Scheme	Central Bank of Sri Lanka	90%	Agriculture & Economic Activities	2086	280.28
The Awakening East Revolving Fund Scheme	Central Bank of Sri Lanka	100%	Agriculture & Economic Activities	1,753	169.71
Dry Zone Livelihood Support and Partnership Programme Loan Scheme (Bhagya Loan Scheme)	Central Bank of Sri Lanka	100%	Agriculture & Economic Activities	1,062	12.96
Poverty Alleviation Microfinance Project Revolving Fund (PAMP II RF)	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	1,088	77.08
Poverty Alleviation Microfinance Project Loan Scheme (PAMP - RF)	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	662	19.28
Poverty Alleviation Microfinance Project Loan Scheme (PAMP II - RF)	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	1,088	91.06
Saubhagya (Prosperity) Loan Scheme	Central Bank of Sri Lanka	100%	Micro & Small Medium Entrepreneurs	3,225	663.94
Dasuna Loan Scheme	National Development Bank	100%	Agriculture & Microfinance Activities	82	5.58
Self-Employment Development Loan Scheme	Central Bank of Sri Lanka	100%	Trained Youth who Passed out from Recognised Vocational Training Institutions for Establishment of entrepreneurial Projects	299	25.14
Post-Tsunami Coastal Rehabilitation and Resource Management Programme (PTCRRMP)	Central Bank of Sri Lanka	100%	Income-Generating Activities of the communities Adversely Affected by Tsunami	825	29.25
SPEnDP Loan Scheme	Central Bank of Sri Lanka	100%	Agriculture & Microfinance Activities	238	22.03

Name of the Loan Scheme	Terms and the Donor	Commercial Rate	Sectors Eligible	No. of Loans Granted as at 31st Dec. 2013	Outstanding Balance as at 31st Dec. 2013 Rs. Mn
<i>Kapruka Ayojana</i> Loan Scheme	Coconut Cultivation Department	100%	Coconut Cultivation & Development	1,156	45.49
Tea Development Loan Scheme	Central Bank of Sri Lanka	87%	Tea Cultivation	178	22.18
<i>Wanitha Navodya</i>	UNIFEM	100%	Any Sector	125	0.06
<i>Kapruka Nipayum Diriya</i> Loan Scheme	Coconut Cultivation Department.	100%	Coconut Cultivation & Development	125	85.12
Sub Total				13,992	1,549.70
3. Any Other	NIL				
Grand Total				68,987	10,338.00

Social Impact

It is people who are the catalyst in our existence; they are the axis upon which we revolve and the heart of our enterprise. This, therefore is what People's Bank is all about and the reason for our existence. From a social sustainability perspective, it is therefore not unusual for us to be cognisant that our actions and impact have on the people must be positive. Our social intervention therefore is not constructed on a platform of philanthropy but rather on one that builds capacity of people and empowers them to look ahead confidently.

Our team is a vital imperative in our social development formula, as we believe that their empowerment will drive them to proactively interact with communities and in the wider sphere, build economies. We have begun a process of instigating initiatives and projects, that would be stakeholder driven and integrate a social consciousness into these societal dimensions. This means that our commitment to social responsibility is a two way process where we build sustainable foundations for our stakeholders to fuel community empowerment and national growth.

The Team that Spearheads Our Vision

Well aligned to our vision and mission, our team has embraced sustainability practices wholeheartedly and unreservedly. This is amply evidenced in the success we have achieved not only in a financial sense, but

also in seeing our social projects reap tangible and intangible benefits to the communities we engage in. Having instituted a transparent and open process in recruitment, promotion and succession based totally on meritocracy and devoid of all other discriminatory dynamics, our focus is now dedicated to recruiting, developing and retaining only the best. We have instituted a policy that dictates welcoming only the crème de la crème into our portals, because it is they who will add the drive and buoyancy to our plans and vision. This has led us to aspire to have an empowered team who work in a productive and efficient work environment, motivated by working within a milieu of global best practices and standards.

Our HR Policies and Principles

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

Labour Practices and Decent Work

People's Bank has a total workforce of 10,863, of which we permanently employ 7,409, while 3,454 are outsourced employees and university selectees. The reason for the reduction in team members from last year is due to the fact that the Bank is keen on creating a leaner organisation and coupled with the fact that statutory retirements have taken place and technology infusions and greater productivity and efficiency processes have been implemented, the need for larger numbers of staff has declined, prompting a reduction in numbers.

In a further commitment to eschewing any form of discriminatory labour practices, gender equality remains paramount as is evidenced by the ratio of basic salary and remuneration being on a ratio of 1:1 for men and women employed.

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

Total Number of Employees as at 31st December 2013

	Present Strength
Total Permanent Employees as at 31st December 2013	7,274
Contracted Employees	
<i>Corporate and Executive Management</i>	
CEO/General Manager	1
Corporate Management	4
Acting Head of IT	1
	6
Other Contracted Employees	
Market Intelligence/MIS Assistant	1
Assistant Engineer	4
Court Clerk	7
Media Assistant	1
Typists	50
Multi-Duty Assistants	37
Electricians	9
Plumbers	1
Drivers	10
Technical Assistant	3
Contracted Employees (Corporate, Executive and Others)	129
Management Trainees	3
Banking Assistant Trainees (Contracted)	0
Customer Service Assistant (Contracted)	3
Total Number of Contracted Employees	135
Total Number of Permanent Employees (Excluding Outsourced and University selectees) in the Bank as at 31st December 2013	7,409
University Selectees	1,383
Outsourced Employees	2,071
Total Number of Employees in the Bank as at 31st December 2013	10,863

Staff Strength, Gender Analysis of Permanent Staff

As at 31st December 2013	Male	Female	Total
Corporate Management (Permanent and Contract)	13	5	18
Executive Management (Permanent and Contract)	14	10	24
Officers (3-III - Grade I)	1,593	1,854	3,447
Staff Assistant Grade	1,043	1,856	2,899
Other Categories	613	279	892
Management Trainees	1	2	3
Customer Service Assistants	–	3	3
Other Contracted Employees	81	42	123
Total	3,358	4,051	7,409

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

As at 31st December 2013	Male	Female	Total
Corporate Management (Permanent and Contract)	13	5	18
Executive Management (Permanent and Contract)	14	10	24
Chief Managers (Grade I)	39	21	60
Senior Managers (Grade II)	75	54	129
Managers (3-I)	253	182	435
Total	394	272	666

Recruitment

Unity in diversity is what we strongly espouse at the Bank and this begins at recruitment level. Given that our principles are well founded on meritocracy and in ensuring that we get the best in the business, the team culture we have within the Bank is one that is high achieving, tolerant, united and entrepreneurial. The multi-cultural multi-dimensional team is carefully selected, based on a planned HR Policy which drives individuals to optimise their abilities, giving of their best and more. This, therefore brings to the fore, a team that is united in spirit, journeying towards a vision willing to overcome challenges and strive for opportunities, while meeting their individual career aspirations.

Our recruitment process conforms to Government guidelines, which mandates us to advertise vacancies, prompting a very transparent process. The entire selection process follows similar transparent methods.

Internally, the Bank has developed accurate systems in identifying internal and external talent that the organisation requires, based on the strategic plan and other business needs that may arise aligned to emerging trends and opportunities. The annual budgeting process adds impetus to this, while the robust selection process utilises cross functional selection panels to identify and eventually hone the diverse and multiple talents of candidates.

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

With the Strategic Plan pointing towards strategic expansion which requires the infusion of quality frontline team members, the Bank has begun the process of recruiting one thousand new Customer Service Assistants to drive this focus. In addition, thirty Management Trainees, proficient in the Tamil

Language will also be recruited in 2014 to be placed in branches in the North and the East to enhance management and communication strategies in these geographical areas.

Based on meritocracy and a transparent selection process, our promotion processes are also carried out to ensure that we obtain personnel who are best suited for the job at hand. This year, through internal promotions, the Bank filled in vacancies for the positions of Deputy General Manager, Dealer and Senior Confidential Secretary very successfully, instituting a transparent process that not only rewarded hard working achievers, but also ensured retention of the best of the best.

Benefits and Rewards

It is an underlying tenet in all our strategies that a combination of financial and non-financial recognition coupled with fair and equitable remuneration moots a contented workforce. Given that People's Bank comes under the mandate of the public sector, considerable rewards and benefits accrue to our team members, while they also have the added advantage of being trained and imbibing the best practices prevalent in the Public Sector.

We are most enthusiastic of being a benefit to all and that means, our team too must benefit from being with us. The benefits we provide our team remains consistent and given below are a segment of the wide range of benefits that our team avail themselves of:

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

Pension Benefits

The assurance of a pension on retirement is one of the significant advantages prevalent in being employed in the Public Sector. As Sri Lanka does not yet encompass a comprehensive pension plan for the Private Sector, the Public Sector gains considerable merit for being able to provide pensions on retirement. This has proved to be considerably advantageous, especially in recruitment and retention, as the Bank has continued to attract the best in the industry, assuring them of consistent remuneration benefits beyond their working years.

Defined Benefit Pension Plan

Pre-1996 Pension Scheme

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

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

The latest actuarial valuation was conducted as of 1st January 2013 by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 1st January 2013 are as follows:

Interest/Discount Rate	11% p.a.
Increase in Cost of Living Allowances	5% p.a.
Basic Salary increase for all Grades	7% p.a.

Pensions are provided to retirees on the following conditions:

Staff are entitled to receive a pension after ten years of service, and upon reaching the statutory retirement age of 55 years. The quantum of pension is dependent on the variables of length of service as detailed in the table below:

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

Plus Lump Sum i.e., Commuted Pension equal to twenty four (24) times 90% of the last drawn monthly gross salary. This is not recoverable basis.

Pension Funds are isolated from daily banking services and are subject to an annual audit by Independent External Auditors. The Board of Trustees reviews the Statement of Account and Auditor's Report. These documents are also submitted for review of the Bank's disclosure, as the Bank is under obligation to ensure funding is made at optimal levels. Pensions are payable monthly, until the beneficiary's demise.

Gratuity

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

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

A monthly provision is made by the Bank towards such Gratuity Payment Liabilities and is reflected in the Bank's Balance Sheet up to 31st December 2007, after which a provision was made upon the gratuity

formula. As mandated in the Sri Lanka Accounting Standards, the Bank has provided for gratuity liability based on an actuarial valuation.

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

Defined Contribution Plans

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

Post-1996 Pension Plan

Post 1st January 1996, those permanent employees, who joined our Bank began benefiting from a new pension scheme approved by the Ministry of Finance. As a start up for this new scheme, the Bank transferred Rs. 198 Mn of the Bank's gratuity fund and later added Rs. 854 Mn to the fund; a total provision of Rs. 1,356 Mn is now available in this fund as at 31st December 2013. The Bank has also made a provision of Rs. 150 Mn in 2013, as interest payable for this amount. The enthusiasm for this fund has been consistent, with 4,366 employees being eligible.

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

A significant feature of this fund is that it encompasses contributions of member employees of the Bank. Pension payments are charged against the fund in respect of surviving Widows/Widowers and Orphans.

The Bank maintains a separate fund for future obligations, based on the advice of a qualified actuary.

The Bank contributes to the following Schemes:

Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Employees' Provident

Fund. The Bank's Provident Fund is approved under the Employees' Provident Fund Act and is thus maintained internally.

Employees' Trust Fund

The Bank contributes 3% of the employee's remuneration, excluding overtime, to this Fund which is maintained by the Employees' Trust Fund Board.

Post-Employment Medical Benefits

The Bank operates a separate medical fund for those who cannot meet exorbitant medical expenses. These post-employment medical benefits are available and when it arises, based on the schemes approved by the Bank. A separate medical fund is maintained in order to meet abnormally high medical expenses in the future. Management's discretion is used to utilise this fund as and when required.

Collective Agreements

The Bank employs a robust trade union milieu which is based on mutual understanding of agreed focus and operational features, inked between the CEO and the Head of the trade unions. Team members are encouraged to be involved in the collective bargaining process as this enables the Bank and the employees to have a mutually beneficial relationship based on common goals and aspirations.

There is no minimum notice period specified under the Collective Agreement with regard to anticipated operational changes. All change management processes are implemented with the consultation of Employee Associations, which helps establish industrial peace and contributes to the transparency of the Bank.

Training and Development

We have ambitious goals but they are not unattainable. However, the essential ingredient in meeting these goals is to equip our team with the apt tools, skills and knowledge in a constantly evolving environment. We are also aware that our operating environment does not only comprise the Bank and its immediate environs, but also global paradigms. It is imperative therefore that we develop our team to conform, fit and excel in a globalised environment, which is the fundamental in our Training and Development agenda.

This led the HR Division to develop a vital Training and Development Policy for the Bank, envisaging the development of a well skilled ethical and professional team who will certainly add value via innovation, product development and customer service excellence to stakeholders.

The comprehensive Training and Development process within the Bank is constructed using the trusses of a challenging environment that will foster development and encourage the team to be proactive in their progress and the Bank's success. The chartered Training and Development map therefore imbues broad-based globally practised methodologies infused with suggestions and ideas that are derived from team members in our constant dialogue process.

Training and Development was based on a needs basis and designed to enhance competencies in the entire team, aimed at driving us closer towards our objectives. A total investment of Rs. 83 Mn was allocated at the beginning of the year for Training and Development, which was productively expended primarily in the development of soft skills which we consider an imperative in prompting attitudinal and behavioural change. Soft skills development covered a wide gamut of relevant subject areas including negotiation, communication, presentation, positive thinking, customer care, business etiquette, leadership, team building, motivation, marketing, ethics, attitudinal development and time, stress and conflict management.

Technical skill development also gained focus with training programmes held for debt recovery, compliance, risk management, IT, audit, credit management, corporate lending, SME lending, pawning and disciplinary management, which in effect covered the entirety of the teams involved in technical areas.

While most training programmes are conducted at the Staff Training College and where relevant in the regions, some team members were also given the opportunity of participating in external and foreign training programmes, depending on their areas of expertise, aimed at enhancing knowledge and competency levels.

Working with Our Community

By having that insatiable need to Benefit All, we have set the wheels in motion to ensure that economic empowerment will trigger social inclusivity. Our products are all constructed on a platform based on these two fundamentals which would naturally fuel sustainable development. Being very aligned to the country's vision of inclusive development, we have mapped our social responsibility agenda very much aligned to the macro development picture, engaging with our community proactively, to build a strong and sustainable foundation of social development.

Earmarked community projects are first identified at local level, with branches identifying and selecting projects aligned with our primary sustainability platforms: Preservation of Sri Lanka's Heritage, Sustainable Empowerment and Professional Development.

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

Preserving Sri Lanka's Cultural Heritage

As is customary, People's Bank continued as the lead partner of the *Esala Maha Perahera* organised annually by Sri Lanka's most revered *Sri Dalada Maligawa* in what has been called, Asia's largest cultural pageant. A three-hour long pageant that travels the streets of the hill capital of Kandy with majestically caparisoned elephants, dancers representing all four main categories of dance

prevalent in Sri Lanka and showcases the most prized possession from the Temple of the Tooth Relic which is the Relic of the Buddha's tooth, forms an integral facet in Sri Lanka's cultural calendar. It preserves age old traditions and legacies that have been handed down from the times of the Kandyan Kingdom and given that it is watched by an enthusiastic crowd of young and old alike, the pageant undoubtedly reaches out not only to those physically watching it but to the thousands who observe it via mass media, teaching the mores and values of Sri Lanka's cultural and historic heritage.

The Bank extended its support to the *Senkadagala Esala Maha Perahera*. This event took place in one of the most religious places in Sri Lanka with a rich history spanning for over 2,200 years.

Being one of the most significant religious events in the Buddhist calendar, for the Vesak Festival in May this year, People's Bank partnered the Presidential Secretariat and the Hunupitiya Gangaramaya Temple for the *Buddha Rashmi* Vesak Festival. The Bank enabled the addition of illuminations and decorations for the event where people could enjoy and learn about Buddhist philosophy, values and ordaining culture.

For Poson, which is celebrated in Sri Lanka as the day on which Buddhism was brought to Sri Lanka, the Bank assisted in decorating the Sithulpawwa Raja Maha Viharaya in the Hambantota District.

A significant initiative embarked on this year is the assistance given by the Bank for the reconstruction of the Muhudu Maha Viharaya. An archaeological site and an ancient place of worship where Princess Vihara Maha Devi is believed to have landed in the island, the temple and adjacent sites had been destroyed due to the thirty years of war and with the Bank's funding assistance, this site in Pottuvil can soon herald its proud history of over two thousand years.

Sri Lanka's classical and folk music, which requires fillip to ensure it is preserved and enjoyed by future generations, was amply showcased when the Bank partnered veteran musician and trained vocalist

Visharada Edward Jayakody's solo recital celebrating his 60th birthday. This performance took the audience through a journey of 35 years of semi-classical, classical, folk, theatre and film songs.

The People's Bank team has always been a multi-cultural multi-religious one and this has infused a refreshing aspect of unity and camaraderie, where team members celebrate each religious and cultural festival together with much aplomb. As an example, *Thai Pongal* a Hindu festival celebrating the harvest, *Bakthi Gee* for Vesak and Christmas Carols are all held with the participation of the team. In addition, the Bank has also supported pilgrims making their way to St. Anne's Church Thalawila with the construction of a Pilgrim's Rest.

Sustainable Empowerment

Education is an empowering tool, one that surely brings with it economic advancement and social development. We do recognise this and have over decades, lauded those young students who have become high achievers, presenting scholarships to them to ensure they continue their education, which sometimes is a challenge considering the domestic environments they emerge from. While we have developed customised products for students, namely *Sisu Udana*, through this product we present *Sisu Udana* scholarships to make their dreams a reality. A savings culture is also inculcated through this savings product and school banking units aimed at ensuring that students continue their education without disruption.

With the YES account, we extend higher education loans to young people, either aspiring graduates or professionals, enabling them to get the necessary financial assistance to continue their academic and professional careers. This is also prevalent in the *Vanitha Vasana* scheme, which presents women with the option, among others, to gain funding assistance for higher studies.

Empowering women takes on added focus at People's Bank because we believe strongly in the capabilities and abilities of women. They are a strong force in the

work environment and a significant factor in building rural communities. Each year, the Bank gets very involved in International Women's Day programmes, which compliment the various products available in its portfolio aimed specifically at uplifting women. This year, to commemorate International Women's Day, we introduced the *Vanitha Vasana* Wish Tree, to help women to make their dreams a reality. The 3 month period from March to May 2013 was declared as the *Vanitha Vasana* tri month savings period. Women who deposit money in their *Vanitha Vasana* account during this period stood a chance to win attractive cash prizes. The main ceremony was held at the People's Bank Headquarters Branch under the patronage of the Chief Executive Officer/ Managing Director of the Bank. Special lectures were delivered by medical specialists at this event. Similar events were held in Jaffna, Gampaha and many other People's Bank branches island-wide.

Professional Development

Sports is a great unifier of nations, cultures and people, instigating team spirit and camaraderie which will eventually lead to a united people who will work together towards common goals, while contributing significantly to the national agenda. We also believe that extra-curricular activities hone professionalism in individuals and this guides us to partner various institutions and organisations in encouraging sporting development as a dynamic of professional development.

The Bank continues to encourage extra-curricular activities among its team unconditionally, while this year, we focused on the the racing circuit, to assist the Sri Lankan Forces in their endeavours to add value to the welfare initiatives and various Training and Development academies that need funding.

This year the Bank partnered the organisers of the Gunner Supercross 2013, the Fox Hill Supercross 2013, the Sigiriya Rally Cross 2013 and The Cavalry Supercross 2013. Some of these events also had the Bank disbursing personal loans including vehicle and computer loans to members of the armed forces, to develop their professional skills.

Defence professionals were assisted this year when the Bank extended its unwavering support to the Defence Seminar 2013 on the Post-Conflict Sri Lanka - Challenges and Regional Stability, where experts from various related fields discussed, disseminated, analysed and shared information on Sri Lanka's post-conflict reconstruction, social integration, reconciliation and regional stability.

Aiding professionalism in various professions including media and entertainment, the Bank gave funding assistance to the annual Sumathi Awards 2013 which honours high achievers in the television industry. We also added our backing to the Journalism Awards for Excellence in association with the Editors' Guild of Sri Lanka and the Sri Lanka Press Institute to honour journalists who display a high sense of ethics and professionalism in their profession.

Young people, on the threshold of making their way into careers, were felicitated at the University of Colombo Colours Night which had the participation of 8,000 graduates, post-graduates, lecturers and administrative staff from seven faculties, the School of Computing, six institutes and the Sripalee Campus. Supported by the Bank, these young men and women are now equipped with tools that would take them into professional spheres, giving them the opportunity to actively contribute to meeting national goals, while also meeting their individual aspirations.

Our Environmental Commitment

Given that People's Bank is a financial services entity and not involved in manufacturing processes, we have been looking at methods that we can institute internally to minimise our carbon footprint. With our fundamental priority being to focus on uplifting social empowerment and economical soundness, the focus has yet not been fully directed at environmental initiatives.

However, there is a concerted effort to conserve electricity, with notifications being cascaded from senior management on the importance of switching off lights and other electronic devices when not being used; conserving water especially in lunch rooms and

bathrooms to ensure that taps are closed properly and any leakages reported to maintenance immediately; conserving paper to reduce wastage and thereby the felling of trees by reusing paper whenever possible and using internal e-communication. There are other various cost management practices that are in place, all of which have been cascaded to our branches as well, emphatically communicating our message of our responsibility of conserving and preserving the environment, tapping into our sustainability consciousness as much as possible.

The following initiatives which were begun last year, continue with added vigor and have made a difference in the way we think and behave in saving and conserving energy:

- The reduction of cartridge purchases; previously, the Bank would call for tenders for such requirements through the Supplies Department. Now we purchase originals, although at an increased cost but better for the environment in the longer term
- Requesting that electric bulbs be switched off
- Substituting energy saving CFL bulbs wherever possible
- Switching off air-conditioners when at the end of a formal office day
- Using the Intranet and email for both internal and external communication as much as possible
- Reducing paper wastage and usage by introducing IT systems and processes, especially for approvals, HR management, internal communication and reviews

Compliance with Environmental Laws/Regulations

We continue to strive in maintaining environmental standards and hence, issues of non-compliance, or environmental disregard have not ever been levied against us. Thereby, we have paid no monetary fines, or dues as a result of negligent environmental practices.

GRI Content Index

Index No.	Description	Report Section	Page
1.	Strategy and Analysis		
1.1	Statement from the Most Senior Decision-Maker of the Organisation	Sustainability Supplement	81
2.	Organisational Profile		
2.1	Name of the Organisation	Corporate Information	Inner Back Cover
2.2	Primary Brands, Products and/or Services	Business Review	42 - 53
2.3	Operational Structure of the Organisation	Corporate Governance	118
2.4	Location of Organisation's Headquarters	Corporate Information	Inner Back Cover
2.5	Number of Countries where the Organisation Operates and Names of Countries with Either Major Operations or that are Specifically Relevant to the Sustainability Issues Covered in the Report	None	–
2.6	Nature of Ownership and Legal Form	Corporate Information	Inner Back Cover
2.7	Markets Served	Sustainability Supplement	79
2.8	Scale of the Reporting Organisation	Highlights	4 - 5
2.9	Significant Changes During the Reporting Period Regarding Size, Structure or Ownership	None	–
2.10	Awards Received During the Reporting Period	Decades at a Glance	283
3.	Report Parameters		
3.1	Reporting Period	Sustainability Supplement	79 - 80
3.2	Date of Most Recent Previous Report	Sustainability Supplement	79 - 80
3.3	Reporting Cycle	Sustainability Supplement	79 - 80
3.4	Contact Point for Questions Regarding the Report or its Contents	Sustainability Supplement	80
3.5	Defining Report Content	Sustainability Supplement	80
3.6	Boundary of the Report	Sustainability Supplement	80
3.7	Any Specific Limitations on the Scope or Boundary of the Report	Sustainability Supplement	80
3.8	Basis for Reporting on Joint Ventures, Subsidiaries, Leased Facilities, Outsourced Operations and Other Entities that can Affect Comparability from Period to Period and/or Between Organisations	Significant Accounting Policies	192
3.10	Explanation of the Effect of Any Restatement of Information Provided in Earlier Reports	Significant Accounting Policies	193
3.11	Significant Changes from Previous Reporting Periods in the Scope, Boundary or Measurement Methods Applied in the Report	None	–
3.12	GRI Content Index	Sustainability Supplement	103 - 105

Index No.	Description	Report Section	Page
4.	Governance, Commitments and Engagement		
4.1	Governance Structure of the Organisation	Corporate Governance	118
4.2	Indicate Whether the Chair of the Highest Governance Body is also an Executive Officer	Corporate Governance	119
4.3	The Number of Members of The Highest Governance Body that are Independent and/or Non-Executive Members	Corporate Governance	119
4.4	Mechanisms for Shareholders and Employees to Provide Recommendations or Direction to The Highest Governance Body	Sustainability Supplement	88
4.14	List of Stakeholder Groups Engaged by the Organisation	Sustainability Supplement	89
4.15	Basis for Identification and Selection of Stakeholders with Whom to Engage	Sustainability Supplement	89

Economic Performance

EC1	Direct Economic Value Generated and Distributed	Annexes	264 - 265
EC3	Coverage of the Organisation's Defined Benefit Plan Obligations	Sustainability Supplement	97 - 99
EC4	Significant Financial Assistance Received from Government	Sustainability Supplement	89 - 94

Environmental Performance

EN2	Percentage of Materials Used that are Recycled Input Materials	Sustainability Supplement	102
EN28	Monetary Value of Significant Fines and Total Number of Non-Monetary Sanctions for Non-Compliance with Environmental Laws and Regulations	Sustainability Supplement	102

Society

SO1	Percentage of Operations with implemented Local Community Engagement, impact assessments and development programmes	Sustainability Supplement	100 - 101
SO2	Percentage and Total Number of Business Units Analysed for Risks Related to Corruption	Sustainability Supplement	85
SO3	Percentage of Employees Trained in Organisation's Anti-Corruption Policies and Procedures	Sustainability Supplement	85 - 86
SO4	Actions Taken in Response to Incidents of Corruption	Sustainability Supplement	85
SO8	Monetary Value of Significant Fines and Total Number of Non-Monetary Sanctions for Non-Compliance with Laws and Regulations	Sustainability Supplement	85 - 86

Index No.	Description	Report Section	Page
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Labour Practices and Decent Work

LA1	Total Workforce by Employment Type, Employment Contract, and Region, Broken Down by Gender	Sustainability Supplement	95 - 96
LA2	Total Number and Rate of New Employee Hires and Employee Turnover by Age Group - Gender and Region	Sustainability Supplement	96
LA3	Benefits Provided to Full-Time Employees that are Not Provided to Temporary or Part-Time Employees, by Significant Locations of Operations	Sustainability Supplement	97
LA10	Average Hours of Training per Year per Employee by Employee Category	Sustainability Supplement	99
LA11	Programmes for Skills Management and life long learning that support the continued employability of employees and assist them in managing career endings.	Sustainability Supplement	99

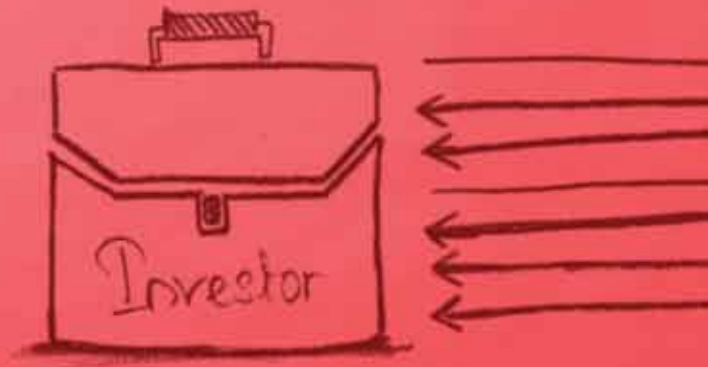
Products Responsibility

PR6	Programmes for Adherence to Laws, Standards and Voluntary Codes Related to Marketing Communications, Including Advertising, Promotion and Sponsorship	Sustainability Supplement	86 - 87
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 Supplement	86 - 87

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

PROSPERING SHAREHOLDER AND NATION

In working assiduously to generate maximum returns to our shareholder, the Government of Sri Lanka, People's Bank plays an integral role as a provider of resources that further national development.





A Pictorial View of 2013

A pictorial spread of the Bank's events and undertakings during the year, depicting the firm and unprecedented commitment to different stakeholder groups engaged by us.



Chairman PB handing over a gift pack for the first depositor at Kaithady Service Centre opening.



Vanitha Vasana wish tree procession organised by Jaffna Main Street Branch.



An interesting game was introduced by the Bank to school children to mark the 'World Thrift Day'.



Handing over a gift to a student on the day the *Sisu Udana* Savings Unit was established.



Door to door programme was conducted by visiting houses/apartments.



Students of Presbyterian B.V., Colombo-10 queued up to collect their passbooks at the newly-opened *Sisu Udana* Unit.



'*Nidahase Upatha*' function was held at the De Soyza Maternity Hospital on 4th February 2013.



'*Jayasri Road Show*' - 2013 at Kandy RHO.



Vesak Dansala - RHO Gampaha.



'*Isuru Udana*' accounts were opened in Maligawatte Carlton Pre-schools with the participation of the First Lady Mrs. Shiranthi Rajapaksa.



Kahahena Service Centre opening ceremony by Chairman, People's Bank



DGM (Compliance) handing over an *Isuru Udana* certificate at '*Nidahase Upatha*' celebration.



'Jayasri Draw' at Polonnaruwa.



Opening of SME Centre at Wannai.



Hindu, Catholic and Muslim Religious blessings to mark the 52nd Anniversary of the Bank.



Chairman PB Mr. Gamini Senarath inviting the Buddhist Priests to chant pirth and offer alms giving.



Uniforms for 250 children were donated by People's Bank Christian Guild to Sunday school students at Horana Catholic Church.



Donating books, uniform materials and school shoes for orphans at Kalmunai Saiva Maha Sabai on 1st December 2013 by People's Bank Hindu Society.



A house donated to a poor family by People's Bank Buddhist Society at Padaviya in Anuradhapura District.



Educating farmers at the presentation of crop cultivation loans by Regional Manager, D.B.K. Ratnayake and Branch Manager, G.H. Wijesooriya in preparation of the Maha Season.



Enthusiastic parents gathering at the 'Sisu Udana Pola' to open savings accounts for their children.



Students at the 'Sisu Udana Pola' held at Yalabowa Primary School, Moneragala.



Discussion between the farmers and the Bank officials at a field visit on solving issues that farmers face.

Compliance Report

Compliance is primarily aimed at maintaining and continuously improving the reputation of the Bank, ensuring the integrity of the Bank and that of its employees is accomplished by adhering to compliance relevant legislation.

Introduction

A Financial Institution should hold itself to high standards when conducting their business and at all times strive to observe the spirit as well as the letter of the Law. Failure to consider the impact of its actions on its shareholders, customers, employees and the market may result in significant adverse publicity and reputational damage even if no Law has been broken.

Compliance is primarily aimed at maintaining and continuously improving the reputation of the Bank. Ensuring the integrity of the Bank and that of its employees is accomplished by adhering to compliance relevant legislation, conveying adequate knowledge of compliance legislation to be adhered to among the staff as well as the customers and by monitoring the resultant compliance guidelines and principles.

Legal Framework

People's Bank, a Financial Institution enacted by People's Bank Act No. 29 of 1961 (as amended), witnessed a noted development in the Banking Industry with its compliance with the legislation on Anti-Money Laundering and Terrorist Financing, namely,

- Convention on the Suppression of Terrorist Financing Act No. 25 of 2005
- Prevention of Money Laundering Act No. 5 of 2006
- Financial Transaction Reporting Act No. 6 of 2006

Compliance Structure of People's Bank

Acting in compliance with the prevailing rules and regulations in the industry, People's Bank established a Compliance Function to ensure that the Bank acts in accordance with the prevailing rules and regulations.

Compliance Structure of People's Bank



The Compliance Function operates within the Bank with the following scope:

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

As violations of Laws and Regulations can bring about sanctions and impair the good name and reputation of the Bank, compliance function ensures that the Bank is insulated from such consequences. Also, since awareness and conformity with the Laws and Regulations pertaining to the industry as well as the maintenance of high ethical standards inspires confidence among our clients and enhances the structure and good name of the Bank as a leading corporate citizen in the Banking industry acting within the scope stated above, the responsibility of the Compliance Function is to

- Ensure that the business activities of the Bank are conducted in accordance with the Laws and regulations pertaining to the industry.
- Ensure that all employees of the Bank follow accepted ethical standards in discharging their duties.
- Interpret the Laws and Regulations constructively so as to facilitate business but not to breach the spirit of such regulations or to endanger the reputation of the Bank.
- Provide regular updates to staff when there are changes in Legislations/Regulations pertaining to banking business and conduct training throughout the branch network so as to ensure compliance awareness at all times.
- Ensure that there is an effective Corporate Governance Culture across all levels of the Bank.
- Align the Bank's corporate activities and behavior to ensure that it operates in a safe and sound manner maintaining the trust and confidence of the Public.
- Assess the branches to ensure that the branch network is acting in compliance with the rules and regulations of the country.
- Carry out periodic process of confirmation of compliance from respective departments and bring to the notice of the Board of Directors any breaches identified in order to take rectifying measures.
- Submit confirmation reports on compliance with CBSL Directives to the Bank Supervision Department.
- Monitor unusual/large transactions and unusual patterns of transactions which has no economic or visible lawful purpose, receiving internal suspicious transaction reports from staff, analyse and investigate same.

- Report promptly suspicious transactions to the Financial Intelligence Unit of Central Bank of Sri Lanka.
- Timely and accurate data reporting to Credit Information Bureau.

Under the guidance of the Compliance Function, People's Bank has put in place a

- Code of Best Practices in Corporate Governance
- Policy on Anti-Money Laundering and Know Your Customer
- Code of Conduct
- Compliance Policy
- Customer Charter
- E-learning modules on Anti-Money Laundering, Know Your Customer and Western Union Transactions

2013

During the year 2013 the Compliance Department among other duties has

- Conducted twenty (20) Training Sessions throughout the branch network providing training for 1,673 staff members on areas coming under the Compliance function.
- Assessed compliance status of 46 branches and provided instructions to rectify errors
- Acting in accordance with Financial Transactions Reporting Act, filed 37 Suspicious Transactions with the Financial Intelligence Unit of Central Bank of Sri Lanka.

People's Bank has acted in compliance with the compliance requirement presently prevailing in the country and has developed systems and procedures to give the fullest support needed to combat Money Laundering and Terrorist Financing. All applicable rules and regulations are strictly followed in this regard and as a State Bank all steps have been taken to extend the fullest support to regulatory authorities to ensure the stability of the financial system in Sri Lanka.

PROSPERING PEOPLE AND PLANET


We are extremely conscious of our positioning within the wider community and the impact our activities have on the environment.

The Bank's ethos is to work for the good of people and planet across all enterprise and endeavour.

Financing Infrastructure Development

Supporting Livelihood





Financing Business Growth & Innovation

Community Development





Corporate Governance

Strong profits and good business practices: these two concepts are integrally related and not disconnected from each other. The issues relating to the relationships between shareholders, management and the Board of Directors in corporations go to the heart of the differences in financial systems around the world.

The recent global financial crises have brought to the fore the pertinence of corporate governance issues across industrialised, emerging and developing economies alike. Corporations play a valuable role around the world.

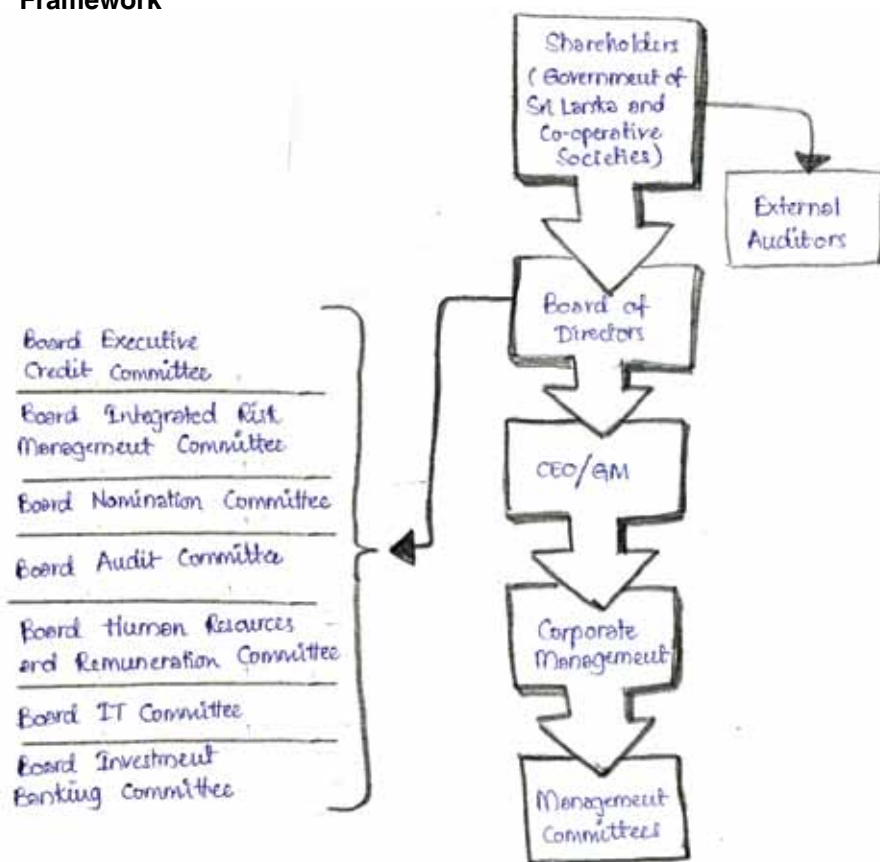
Good corporate governance is a union between the financial and personal success of a corporation. Strong profits and good business practices: these two concepts are integrally related and not disconnected from each other. The issues relating to the relationships between shareholders, management and the Board of Directors in corporations go to the heart of the differences in financial systems around the world. By giving an overview of the scope, trends and developments in this area of finance, and looking more closely at common corporate failures and probable solutions, the participant will be equipped with the analytical skills and technical insights required to understand and evaluate different approaches to

structuring the ownership, control and regulation of corporations. This course in corporate governance will provide a sound foundation in the fundamental characteristics of the concept.

Definition: The system of rules, practices and processes by which a company is directed and controlled.

Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, Government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Corporate Governance Framework



Principles of Corporate Governance -

- Rights and equitable treatment of shareholders
- Interests of other stakeholders
- Role and responsibilities of the Board
- Integrity and ethical behaviour
- Disclosure and transparency

Most companies strive to have a high level of corporate governance. These days, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behaviour and sound corporate governance practices. So as a State-owned Bank, People's Bank also believes having a high level of corporate governance will provide the Bank with a competitive advantage over its peers.

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

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
A. General			
Chairman and CEO	If Chairman and CEO is one and the same person, disclose the name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.	A.2.1 & A.5.7	The posts of Chairman and CEO/GM are held by two individuals.
Board Balance	<ul style="list-style-type: none"> Should identify the Independent Non-Executive Directors. If a Non-Executive Director is identified as 'Independent', notwithstanding the existence of any of the following factors, the reason for such determination should be disclosed. A Director is not considered independent if he/she - <ul style="list-style-type: none"> Has been employed by the Company, Subsidiary or Parent of the Company during the period of two years immediately preceding appointment; Currently has or has had within last two years immediately preceding appointment as Director, a Material Business Relationship with the Company, whether directly or indirectly; Has a close family member who is a Director or Chief Executive Officer or Key Management Personnel (and/or an equivalent position); Is a significant shareholder of the Company or an officer of, or otherwise associated directly with, a significant shareholder of the Company; Has served on the Board of the Company continuously for a period exceeding nine years from the date of the first appointment; 	A.5.5	Under the People's Bank Act No. 29 of 1961, the Minister of Finance is empowered to appoint Board of Directors.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
	<ul style="list-style-type: none"> Is employed in another company or business - <ul style="list-style-type: none"> In which a majority of the other Directors of the Company are employed or are Directors; or In which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or That has a Significant Shareholding in the Company or with which the Company has a Business Connection; Is a Director of another company - <ul style="list-style-type: none"> In which a majority of the other Directors of the Company are employed or are Directors; or That has a Business Connection with the Company or Significant Shareholding in the Company; Has a Material Business Relationship Shareholding in another company or business - <ul style="list-style-type: none"> In which a majority of the other Directors of the Company are employed or are Directors; and/or Which has a Business Connection with the Company or Significant Shareholding in the same. 		
Nomination Committee	The Chairman and members of the Nomination Committee should be identified.	A.7.1	Compiled with.
Appointment of New Directors	<p>When new Directors are appointed, the following details should be disclosed:</p> <ul style="list-style-type: none"> A brief résumé of each such Director; The nature of his 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. 	A.7.3	<p>Compiled with.</p> <p>The Directors are appointed as per the provisions under the People's Bank Act.</p>
Appraisal of Board Performance	Should disclose how performance evaluation has been conducted.	A.9.3	The Board conducts appraisals to assess its performance and effectiveness as a whole annually.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
Board-Related Disclosures	<p>The following details pertaining to each Director should be disclosed:</p> <ul style="list-style-type: none"> • Name, qualification and brief profile; • The nature of his/her expertise in relevant functional areas; • Immediate family and/or material business relationships with other Directors of the Bank; • Whether Executive, Non-Executive and/or Independent Director; • Names of listed companies in Sri Lanka in which the Director concerned serves as a Director; • Names of other companies in which the Director concerned serves as a Director, provided that where he/she holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; (it is sufficient to state that he/she holds other directorships in such companies). • Number/percentage of Board meetings of the Company attended during the year; • The total number of Board seats held by each Director indicating listed and unlisted companies and whether in an Executive or Non-Executive capacity; • Names of Board Committees in which the Director serves as the Chairman or a member; and • Number/percentage of Committee meetings attended during the year. 	A.10.1	Complied with. The 2013 Annual Report contains comprehensive information in this regard.
Disclosure of Remuneration	<ul style="list-style-type: none"> • A Statement of Remuneration Policy; • Details of remuneration of the Board as a whole; • Names of Directors (or persons in the Parent Company's Committee in the case of a Group Company) comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors. 	B.3 & B.3.1	The Ministry of Finance and Planning determines the allowance payable to Directors.
Major and Material Transactions	All Material Transactions entered into by the Company should be disclosed. Further, prior to a Company engaging in or committing to a 'Major related party transaction' with a related party, the purpose and all material facts of such transaction should be disclosed.	C.3 & C.3.1	Complied with.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
Audit Committee	<ul style="list-style-type: none"> Names of the members of the Audit Committee should be disclosed. Basis for determining the Independence of Auditors. 	D.3.4	Names of members of the Audit Committee are given in the Directors' Report on page ... The Auditor of the Bank is the Auditor General as enshrined in the Constitution of Sri Lanka. The Independence of the Auditor General is ensured by the Constitution. The Auditor General has appointed KPMG Auditors to carry out the Bank's external audit.
Code of Business Conduct and Ethics	<ul style="list-style-type: none"> Should disclose whether the Bank has a Code of Business Conduct and Ethics for Directors and Key Management Personnel. Should also disclose an affirmative declaration that they have abided by such Code. The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code. 	D.4.1 & D.4.2	Complied with. Bank has Code of Ethics for Directors and a Code of Conduct for its employees.
Going Concern	Should report that the Bank is a going concern, with supporting assumptions and qualifications as necessary.	D.1.5	The Bank is a going concern.
Communication with Shareholders	<p>The Company should disclose the policy and methodology for communication with shareholders.</p> <p>The Company should disclose how they implement the above policy and methodology.</p> <p>The Company should disclose the contact person for such communication.</p> <p>There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.</p> <p>The Company should decide the person to contact in relation to shareholders' matters.</p> <p>The process for responding to shareholder matters should be disclosed.</p>	C.2.2, C.2.3, C.2.4, C.2.5, C.2.6, C.2.7	Complied with. Bank has an approved communication policy.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
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B. Remuneration Committee Report

Members of Remuneration Committee	The names of members of Remuneration Committee should be disclosed in the Remuneration Committee Report.	B.1.3	Complied with. Names of members of the Remuneration Committee are disclosed in the Directors' Report on page 152 to 154 of this Annual Report.
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C. Directors' Report

Directors' Report	<p>Should contain the following declarations made by Directors;</p> <ul style="list-style-type: none"> • The Company has not engaged in any activity, which contravenes laws and regulations; • The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; • The Company has made all endeavours to ensure the equitable treatment of shareholders; • The business is a going concern, with supporting assumptions or qualifications as necessary; and • They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith. 	D.1.2	Complied with.
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D. Financial Statements

Financial Statements	<ul style="list-style-type: none"> • The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements. • Auditors should also have a statement about their reporting responsibility. 	D.1.3	Complied with.
Related Party Transactions	Should disclose the related parties and related party transactions as specified by Sri Lanka Accounting Standards, SEC regulations and other related regulations.	D.1.7	Partially Complied. (Related Party transactions were disclosed according to the SLAS)

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
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E. Management Report

Management Report	Should include a 'Management Discussion and Analysis Report' discussing at least the following issues: <ul style="list-style-type: none"> • Industry structure and developments; • Opportunities and threats; • Risks and concerns; • Internal control systems and their adequacy; • Social and environmental protection activities carried out by the Bank; • Financial performance; • Material developments in human resources/industrial relations; and • Prospects for the future. 	D.1.4	Complied with.
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F. Corporate Governance Report

Corporate Governance Report	Should disclose the manner and extent to which the Bank has complied with as per the principles and provisions of the Code.	D.5.1	Complied with.
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G. Audit Committee Report

Audit Committee Report	Should set out the work carried out by the Committee.	D.3.3	Complied with.
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H. Statement on Internal Control

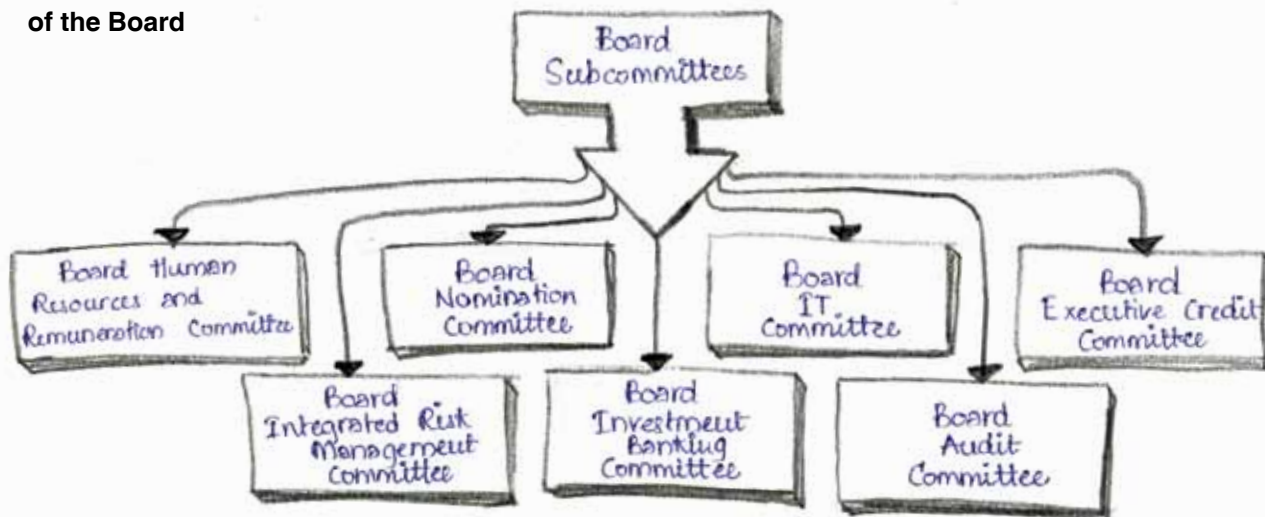
Statement on Internal Control	Should disclose the following as a minimum: <ul style="list-style-type: none"> (a) The Board should summarise the process it has applied in reviewing the design and effectiveness of the system of internal control. (b) It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the Annual Report. (c) An acknowledgement by the Board that it is responsible for the Company's system of internal control and for reviewing its design and effectiveness. It should also explain that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss. 		Complied with. Refer Directors' Statement of Internal Control on page 156 to 157
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Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
	<p>(d) The Directors should disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review and whether it is regularly reviewed by the Board.</p> <p>(e) The Board has to disclose if it has failed to conduct a review of design and effectiveness of the Company's system of internal control.</p> <p>(f) The Board should ensure that its disclosures provide meaningful, high level information and do not give a misleading impression.</p> <p>(g) Where material subsidiaries, joint ventures and associates have not been dealt with in applying this guidance, as part of the Group, that fact should be disclosed.</p> <p>(h) The confirmation by the Board - The Board should confirm in its report that the financial reporting system has been designed to provide reasonable assurance regarding their liability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.</p> <p>(i) Should be signed by the Directors who signed the Financial Statements and the chairman of the Audit Committee.</p>	D.1.3 & D.2.3	

I. Sustainability Reporting

Sustainability Reporting	<p>Disclose the policies and procedures adopted to develop a sustainable business in the context of;</p> <ul style="list-style-type: none"> • Sustainable economic performance; • The environment; • Labour practices; • Society; • Product responsibility; • Stakeholder identification, engagement and effective communication; <p>Sustainable reporting and disclosure should be formalised as part of the Company's reporting processes and take place on a regular basis.</p>	G.1 to G.1.7	Complied with. Refer Sustainability Reporting on pages 79 to 105
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Subcommittees of the Board



Number of Board Meetings and Board Subcommittee Meetings held during the Year 2013

Name of Committee	No. of Meetings
Board Meetings	14
Board Audit Committee (BAC)	6
Board Executive Credit Committee (BECC)	23
Board Human Resource and Remuneration Committee (BHRRC)	11
Board Integrated Risk Management Committee (BIRMC)	3
Board Nomination Committee (BNC)	3
Board Investment Banking Committee (BIBC)	2
Board IT Committee (BITC)	–

Attendance at Board Meetings and Board Subcommittee Meetings during the Year 2013

Name of the Director	Board Meetings	BAC	BECC	BHRRC	BIRMC	BNC	BIBC	BITC
Mr. Gamini Senarath	13/13	N/M	N/M	1/1	N/M	2/2	N/M	–
Mr. Jehan P. Amaratunga	12/13	6	N/M	N/M	2/3	2/2	2	–
Mrs. Lakshmi K. Sangakkara	12/13	N/M	22/23	N/M	N/M	N/M	N/M	–
Mrs. Dharma N. Gammampila	12/13	4/6	N/M	8/10	1/1	1/1	N/M	–
Mr. Pawara Dassanayake	14	N/M	10/11	8/10	N/M	N/M	N/M	–
Mr. G.K.D. Amarawardena	11/12	4/4	N/M	10/10	N/M	2/2	N/M	–
Mr. R.M.P. Ratnayake	8/10	3/4	N/M	N/M	2/2	0/2	1/1	–
Mr. P. Kudabalage	9/10	N/M	15/15	N/M	2/2	1/1	1/1	–
Mr. W. Karunajeewa	1/1	N/M	2/2	–	N/M	N/M	N/M	–
Dr. D.J.D. Jayakody	9/10	N/M	19/19	7/7	2/2	2/2	N/M	–
Mr. Ajith Panditharatne	5/5	N/M	N/M	1/1	N/M	N/M	N/M	–
Miss Visakha Amarasekera	3/4	2/2	N/M	N/M	0/1	1/1	1/1	–
Mr. Priyantha Mayadunne	2/2	N/M	N/M	N/M	N/M	N/M	N/M	–

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

Risk Management

Risk Management is a discipline at the core of the Bank and includes all the activities that affect the Bank's risk profile.

Its' functions ensures that appropriate structures are in place to look at risk interrelationships across the organisation.

1. Definition of Risk

Risk is the possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings/capital or may result in imposition of constraints on the Bank's ability to meet its business objectives. Such constraints pose a risk as these could hinder the Bank's ability to conduct its ongoing business or to take benefit of opportunities to enhance its business.

2. Background

As one of the largest banks in Sri Lanka, providing a full spectrum of services to a wide portfolio of clients scattered around the island, People's Bank is exposed to the full gamut of risks ranging from credit and market to reputational and operational. People's Bank is fully cognisant of the need for sound risk management practices to ensure its growth, stability and long-term viability.

Risks will not be viewed and assessed in isolation, not only because a single transaction might have a number of risks but also because one type of risk can trigger other risks. Since interaction of various risks could result in diminution or increase in risk, the risk management process should recognise and reflect risk interactions in all business activities as appropriate.

While assessing and managing risk, the management take an overall view of risks the institution is exposed to. This requires an integrated approach to risk management. Risk management function ensures that appropriate structures are in place to look at risk interrelationships across the organisation.

Risk Management is a discipline at the core of the Bank and includes all the activities that affect the Bank's risk profile. It involves identification,

measurement, monitoring and controlling risks to ensure that:

- a. The individuals who take or manage risks clearly understand it.
- b. The organisation's risk exposure is within the limits established by the Board of Directors.
- c. Risk taking decisions are explicit and clear.
- d. Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors.
- e. The expected payoffs compensate for the risks taken.
- f. We comply with all applicable laws and regulations of the country and with the governance standards prescribed.
- g. We apply high and consistent ethical standards to our relationships with all customers, employees and other stakeholders.
- h. Activities are undertaken in accordance with fundamental control standards. These controls will employ the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.
- i. Sufficient capital is available as a buffer to take risk.

Some of the major risk categories recognised by the Bank are:

- i. Credit risk
- ii. Market risk
- iii. Concentration risk
- iv. Liquidity risk
- v. Operational risk
- vi. Interest rate risk
- vii. Compliance risk
- viii. Administrative and legal risk

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

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

3. We Eliminate, Avoid and Transfer Risk By:

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

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

4. Our Risk Management Systems Consist of Following Sequence of Steps/Techniques:

A. Clear Policy Directives On:

- i. Policies and strategies are articulated in terms of commitment to particular type and areas of the market. Risk taking is restricted to permitted asset classes/or counterparties with pre-defined quality standards.
- ii. Risk categorisation.

- iii. Risk underwriting standards (risk appetite is defined in terms of, loss tolerances, customer acceptance criteria, tolerable concentration levels of assets and liabilities of similar risk characteristics, acceptable maturity mismatch levels of assets and liabilities etc.).
- iv. Standard of review.

B. Establishment of Risk Position Limits, Authority Levels and Rules

Setting limits on eligible assets and counterparty exposures. Risks that can be assumed by any one individual is also restricted, by well-defined authority levels. This applies to Treasury traders as well as credit line officer.

Initiatives During the Year

During the year under review, following initiatives were taken:

- i. The Bank developed methodologies to measure and quantify other material risk categories not captured under pillar 1 of the Basel II framework. (e.g. interest rate risk in banking book, liquidity risk, compliance risk, strategic and business risk, reputation risk, concentration risk and residual risk.)
- ii. Internal Capital Adequacy Assessment Process was established and the Report for the year 2013 was submitted to the Central Bank of Sri Lanka (CBSL).
- iii. A reporting mechanism was established to monitor Risk Management Processes of all the People's Bank subsidiaries and associates with a view to control and manage undue risk exposures of these entities, considering the potential adverse impact on the Bank's capital resources in the event of a failure.

5. Risk Management Framework

While the Board of Directors (BOD) of People's Bank is ultimately responsible for the management of risks and the Bank's overall risk appetite, a Board subcommittee (Board Integrated Risk Management Committee) comprising of at least 3 Directors, the CEO/GM and the Head of Risk is responsible for reviewing the Bank's overall risk profile, its risk management framework and the establishment of necessary policies and procedures to manage risks across the organisation. It will be assisted in this endeavour by the relevant Senior Managers responsible for originating and managing risks across the Bank.

The Risk Management Department is responsible for preparing the risk policies and designing the frameworks and carrying out periodic reviews. (Responsibilities of the Risk Management Department under each risk category is covered elsewhere in this Report.)

The Risk Management department functions completely independent from the business functions. Accordingly, the Head of Risk Management reports directly to the Board Integrated Risk Management Committee to maintain independence of action

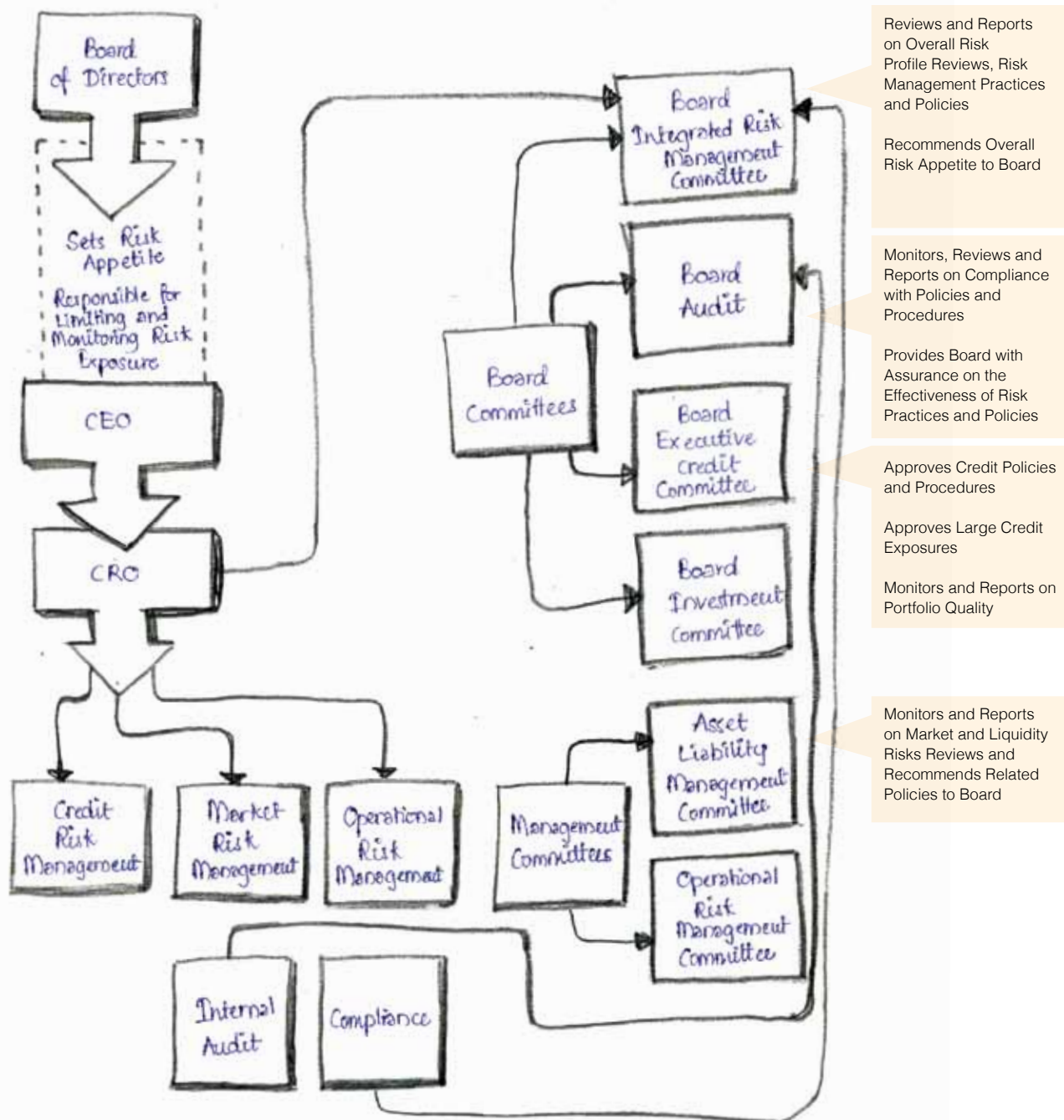
The Bank recognises the business units as owners of the risk and the first line of defense. They are required to identify, manage, mitigate and report on the different risks that arise from their business activities on a day-to-day basis.

Risk management, which comprises the BIRMC (Board Integrated Risk Management Committee), BECC (Board Executive Credit Committee), BAC (Board Audit Committee), BIC (Board Investment Committee), ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) is the second line of defense.

These committees, under the guidance and in collaboration with the Risk Management Department, design and deploy the overall risk management framework and develop risk management methodologies, policies and procedures. These committees also approve and review various risk exposures within parameters laid down by the Board and undertake aggregated risk reporting. The policies and procedures are reviewed on a regular basis and updated in line with the changes in market conditions, products and services offered.

The third and last line of defense is Internal Audit which provides independent testing and verification of the effectiveness of the risk management framework, including policies and procedures and compliance with these policies and also assesses management assurance processes. The Internal Audit Department, reports directly to the Board Audit Committee (BAC) so as to ensure its independence.

Risk Governance Structure of the Bank



6. Stress Testing Policy for People's Bank

The Board and Senior Management recognise that undertaking risk is an integral part of the banking process and that it is the duty of the Board of Directors to ensure that the Bank's risk exposures are within the risk tolerance levels specified by the Board of Directors. Accordingly the Board of Directors has decided to employ stress testing techniques to the most material and significant risks that the Bank is exposed to.

The Board has ultimate responsibility for the overall stress testing programme and is informed of the key findings from stress tests.

Senior management is accountable for the programme's implementation, management and oversight and for ensuring that the institution has adequate plans to deal with remote but plausible stress scenarios.

It is management's responsibility to effectively manage the risks to protect the Bank's capital base and ensure its long-term viability. With the information derived from the stress testing exercises, the Bank should be able to assess the adequacy of the capital base under various stress scenarios and develop contingency planning, should the need arise.

Stress testing is also a regulatory requirement under the Basel II framework and the CBSL has issued guidelines specifying the minimum requirements.

Stress testing is a simulation technique, which is used to evaluate the potential vulnerability of the Bank to certain unlikely but plausible events or movements in financial variables.

Stress testing techniques provide a way to quantify the impact of changes in a number of risk factors on the assets and liabilities portfolio of the Bank.

6.1 Techniques for Stress Testing

There are broadly two categories of stress tests used in banks viz. sensitivity tests and scenario tests. These may be used either separately or in conjunction with each other:

- Sensitivity tests are normally used to assess the impact of change in one variable (for example, a high magnitude parallel shift in the yield curve, a significant movement in the foreign exchange rates, a large movement in the equity index etc.) on the Bank's financial position.
- Scenario tests include simultaneous moves in a number of variables (for example, equity prices, oil prices, foreign exchange rates, interest rates, liquidity etc.) based on a single event experienced in the past (i.e., historical scenario - for example, natural disasters, stock market crash, depletion of a country's foreign exchange reserves) or a plausible market event that has not yet happened (i.e., hypothetical scenario - for example, collapse of communication systems across the entire region/country, sudden or prolonged severe economic downturn) and the assessment of their impact on the Bank's financial position.

Scenarios can be designed to encompass both movements in a group of risk factors and the changes in the underlying relationships between these variables.

6.2 Scope of Stress Testing

As a starting point, the scope of the stress test is limited to simple sensitivity analysis. A number of different risk factors including interest rates, forced sale value of collateral, non-performing loans (NPLs), stock prices, foreign exchange rates, deposit withdrawals, pawning have been identified and must be subjected to stress testing. Moreover, the liquidity position of the Bank must also be stressed separately. Though the decision of creating different scenarios for stress testing is a difficult one, however,

to start with, certain levels of shocks to the individual risk components have been specified by the CBSL considering the historical as well as hypothetical movement in the risk factors.

Stress test shall be carried out assuming three different hypothetical scenarios:

- **Minor Level Shocks:** These represent small shocks to the risk factors. The level for different risk factors can, however, vary.
- **Moderate Level Shocks:** It envisages medium level of shocks and the level is defined in each risk factor separately.
- **Major Level Shocks:** It involves big shocks to all the risk factors and is also defined separately for each risk factor.

It is the Bank's policy to devise and implement the stress testing framework in a manner which factors-in the Pillar 2 requirements of Basel II so that it will serve as an essential aspect of the Bank's internal capital adequacy assessment processes.

The Board of Directors recognises that the environment in which banks are operating is quite dynamic; there are changes in macroeconomic environment, banks' instruments, trading strategies and regulatory policies. Accordingly, it is the Bank's policy that the risk measurement methodologies and stress testing techniques in the Bank should, therefore, evolve to accommodate these changes.

Bank's current stress testing regime cover following:

- a. Equity risk
- b. Exchange rate risk
- c. Interest rate risk
- d. Liquidity risk
- e. Credit risk
- f. Pawning

6.3 Responsibility

Primary responsibility for conducting the stress tests will lie with the Risk Management Department who documents the stress tests undertaken by them, the underlying assumptions, the results and the outcomes.

Finance Department will be responsible for providing all the data and information required to conduct these tests.

6.4 Assumptions and Scenarios

The assumptions and fundamental elements for each stress testing exercise is appropriately documented, including the reasoning and judgment underlying the scenarios chosen and the sensitivity of stress testing results to the range and severity of the scenarios. The level of documentation should be based on the nature and purposes of the stress testing

6.5 Reporting and Frequency

Stress tests are conducted quarterly and at a minimum include those specified by the CBSL. These findings are reported to both the Asset and Liabilities Committee (ALCO) and the Board Integrated Risk Management Committee (BIRMC).

6.6 Capital Levels

The goal of the stress test is a forward-looking capital assessment of how much is needed today to maintain a 'well capitalised' status if the economy were to mirror the stress scenarios. With that in mind the report should detail the effect on the Bank's capital ratios if the Bank has to offset losses under the stress scenarios.

A specific Management Action Trigger point will be if the results of the stress indicate that the Bank will fall short of any regulatory set ratios or any other internal benchmark set by the Board of Directors. In such events, an analysis of the position and a plan to mitigate the risks should be prepared by the management and submitted to the BIRMC for their consideration and approval.

7. Credit Risk

We consider credit risk as the most important risk category having the highest impact on our resource base. Credit risk arises because the Bank's customers and counterparties may fail to meet their contractual obligations and credit risk derives principally from the loans and advances made to and due from them and counterparties. Credit risk also arises from financial guarantees, letters of credit and acceptances issued and made on behalf of the Banks' clients and undertaking exposures in different countries.

7.1 Management of Credit Risk

Key principles in relation to the management of credit risk include:

- Independence of the credit risk management function from the business divisions.
- The internal rating of each borrower which forms the basis for correct risk appetite determination and adequate pricing of transactions.
- Credit approvals are based on credit authority which is assigned to committees based on personnel and seniority.

The primary driver of credit risk management is in the initial assessment of client risk profiles. The basic principle adopted by the Bank in credit risk management is assessment of the borrower's capacity to repay the debt (customer creditworthiness). In addition to repayment capacity, the quality of credit exposures is also affected by the quality of the collateral held. Hence, the quality and value of the collateral taken is precisely and thoroughly assessed, based on clearly defined rules provided in the internal procedures. The important criterion for approving offered collateral is liquidity.

Prudent client selection is achieved by the Bank's business line leaders who are the first line of defense, by applying stringent underwriting standards combined with prudent collateralisation as deemed necessary. These extensions of credit are then periodically reviewed.

Each of the business lines have clearly defined risk acceptance criteria, processes and principles which are consistently applied.

The Bank actively aims to prevent undue concentration by ensuring a diversified credit portfolio, effectively protecting the Bank's capital in varying market conditions.

Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level. The Bank assigns credit approval authorities to individuals according to their levels of seniority, and reviews these periodically.

The Bank measures and consolidates its overall credit exposures to each obligor across the entire network, in line with regulatory requirements.

A basic and key element of the credit approval process is a detailed risk rating of each borrower above a certain level of exposure. Risk ratings assist in setting prudential exposure limits as well as determining pricing parameters.

When rating a borrower, the Bank applies in-house assessment methodologies, scorecards and the Bank's 9-grade rating scale for evaluating the credit worthiness of the borrower. The Bank has developed different risk rating scorecards for large Corporate Borrowers, Middle size/SME Borrowers and Financial Institutions. These rating scorecards are periodically reviewed and validated by the BIRMC.

Ongoing active monitoring and management of credit risk positions is an integral part of the Bank's credit risk management activities. Monitoring tasks are primarily performed by the Business Units in close co-operation with the Credit Control Department. The individual credit officers within the Business Units have the relevant expertise and experience to manage the

credit risks associated with their borrowers. It is the responsibility of each credit officer to undertake ongoing credit monitoring for their allocated portfolio of borrowers.

The Bank also has procedures in place intended to identify at an early stage credit exposures for which there may be an increased risk of loss. In instances where the Bank has identified exposures where problems might arise, the respective exposure is generally placed on a watchlist. The objective of this early warning system is to address potential problems while adequate options for action are still available.

In addition to the principles discussed above, following policy guidelines are in place to ensure Uniformity in management of credit Risk.

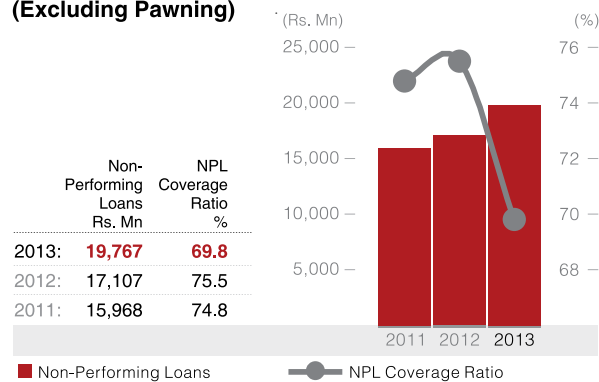
- i. Credit origination and maintenance procedure.
- ii. Portfolio management guidelines, such as, maximum exposure limits for industries and individual borrowers.
- iii. Remedial/Rehabilitation management guidelines.
- iv. Credit review policy.
- v. Credit extension is authorised by at least two or more credit officers including an officer from the Credit Controller Department for exposures beyond a certain quantum.
- vi. We have set up a loan review mechanism. Discriminatory time schedules for review are imposed for lower rated borrowers (6 months/ 1 year reviews). A percentage of quarterly loan disbursements at Branch/Regional/Zonal authority levels is selected on a random basis and subjected to post-grant reviews at regional as well as Head Office level to monitor and ensure quality of lending decisions, and also to ensure timely remedial action.

It is the Bank's policy to be in full compliance with Central Bank Guidelines and Directions, especially with regard to:

- Recognition and classification of delinquent loans
- Provisioning of delinquent loans
- Single Borrower Limit restrictions

The Bank has already adopted LKAS 32 and LKAS 39, for impairment of assets based on objective evidence of incurred losses. Loan loss provisioning is effected in accordance with the statutory requirements.

NPL and Coverage Ratio (Excluding Pawning)



7.2 Credit Risk Appetite

The Board of Directors has articulated its appetite for credit risk in the form of the following tolerance levels:

Risk Metric	Low Risk	Medium Risk	High Risk	Position As At 31.12.13
Classified Loans	<4.0%	4 - 5 %	>5%	4.52%
Overdues	<5%	5 - 10%	>10%	12.54%
Provision Cover	>90%	75 - 90%	<75%	88.1%
HHI - Name Concentration	<0.15	0.15 - 0.25	>0.25	0.08
HHI - Sector Concentration	<0.15	0.15 - 0.25	>0.25	0.12
Corporate Cross Border Exposure	<10%	10 - 15%	>15%	0.27%

7.3 Stress Testing - Credit Risk

The stress tests for credit risk assess the impact of increase in the level of non-performing loans of the Bank. The effects of adverse trends/shifts in impairments of loan assets on the capital adequacy of the Bank is tested and results shown below:

This involves five types of shocks:

7.3.1 Credit Shock - Increase in NPLs

7.3.2 Credit Shock - Shift in NPLs categories

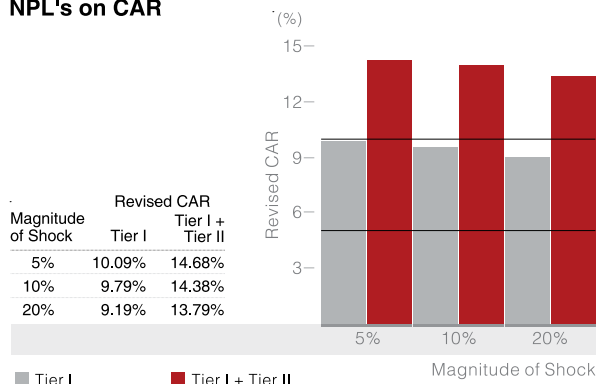
7.3.3 Credit Shock - Fall in the FSV of Mortgaged Collateral

7.3.4 Credit Risk - slippage of performing loans to NPL

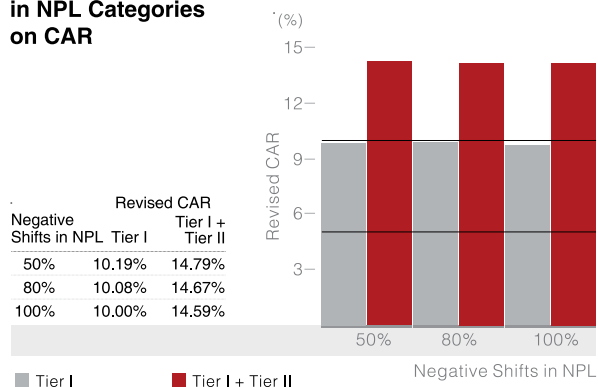
7.3.5 Credit Risk - Increase in NPLs due to Top 10 large borrowers

Stress Test for NPL's

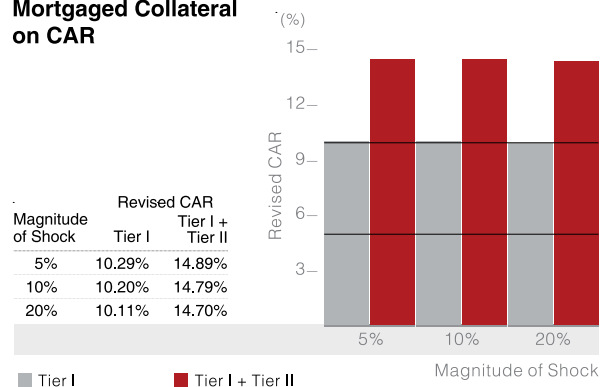
Effect of Increase in NPL's on CAR



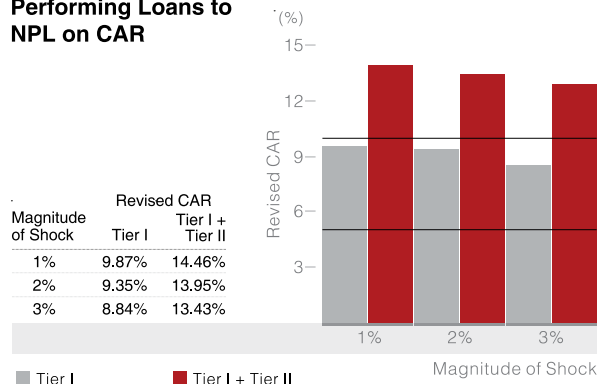
Effect of Negative Shifts in NPL Categories on CAR



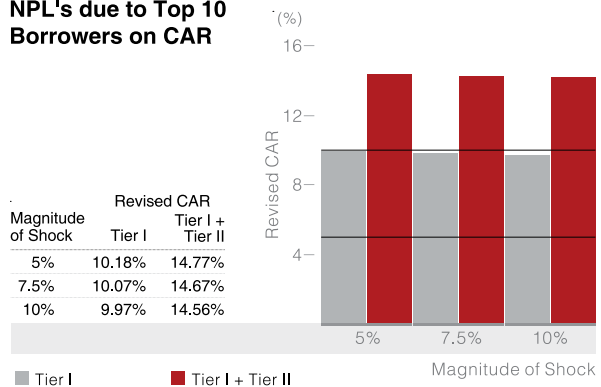
Effect of Fall in FSV of Mortgaged Collateral on CAR



Effect of Slippage of Performing Loans to NPL on CAR



Effect of Increase in NPL's due to Top 10 Borrowers on CAR



7.4 Concentration Risk in the Credit Portfolio

Concentration of exposures in credit portfolios is an important aspect of credit risk. It may arise from two types of imperfect diversification. The first type, name concentration, relates to imperfect diversification of distinct risks in the portfolio either because of its small size or because of large exposures to specific individual obligors. The second type, sector concentration, relates to imperfect diversification across systematic components of risk, namely sectorial factors.

While People's Bank is fully cognisant of the need to maintain a well-diversified portfolio, it has nevertheless acquired a degrees of concentration in exposures to State Owned Enterprises (SOE), Pawning and Housing, arising from its position as a State-owned bank, aligned to the Government's socio-economic development initiatives and its historical position as a pioneer of pawning activities. Both housing and pawning exposures are spread over a large number

of customers, mitigating credit concentration risk to a large extent. However the pawning portfolio is subject to gold price volatility. Control procedures etc. continue to be regularly refined in light of changing operating conditions.

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

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

Concentrations of large (over Rs. 100 Mn) exposures as at 31.12.2013.

	Number of Industry Sectors	Number of Individual Customers	Direct Exposure Rs. Mn.	Indirect Exposure Rs. Mn.	Total Rs. Mn.	Direct Exposure As a % of Balance Sheet
With SOE	29	183	260,477	142,988	403,465	44%
Without SOE	28	156	35,409	19,831	55,240	6%

Position of the top 20 customers of the Bank account as at 31.12.2013 in terms of their share of the large exposures

Share of Large Exposures	Top 3	Top 5	Top 10	Top 20
Name Concentration (With Government of Sri Lanka)	66.0%	77.1%	83.9%	88.7%
Name Concentration (Without Government of Sri Lanka)	16.0%	23.5%	35.5%	50.2%
Share of Total Exposure				
Name Concentration (With Government of Sri Lanka)	44.0%	51.4%	55.9%	59.1%
Name Concentration (Without Government of Sri Lanka)	1.5%	2.1%	3.2%	4.6%

In addition to adherence to the Single Borrowing Limit, the Bank also uses the Herfindahl-Hirschman Index (HHI) to monitor and control concentrations. This index is calculated for all exposures (the greater of limit or outstanding) above Rs. 100 Mn (direct and contingent) and the HHI calculated on both name and sector basis. For purposes of the latter, the Bank has further segmented its portfolio into 28 easily identifiable industry sectors. The following tolerance levels have been set for the degree of concentration by the Board:

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

People's Bank position throughout 2013 was as follows:

	31.3.13	30.6.13	30.9.13	31.12.13
Name Conc. W/O SOE	0.05	0.02	0.02	0.02
Name Conc. With SOE	0.26	0.29	0.23	0.22
Sector Conc. W/O SOE	0.11	0.12	0.11	0.11
Sector Conc. With SOE	0.28	0.31	0.25	0.25

The portfolio has low level of concentration without GOSL exposures.

7.5 Analysis of Loans and Advances Portfolio Analysis

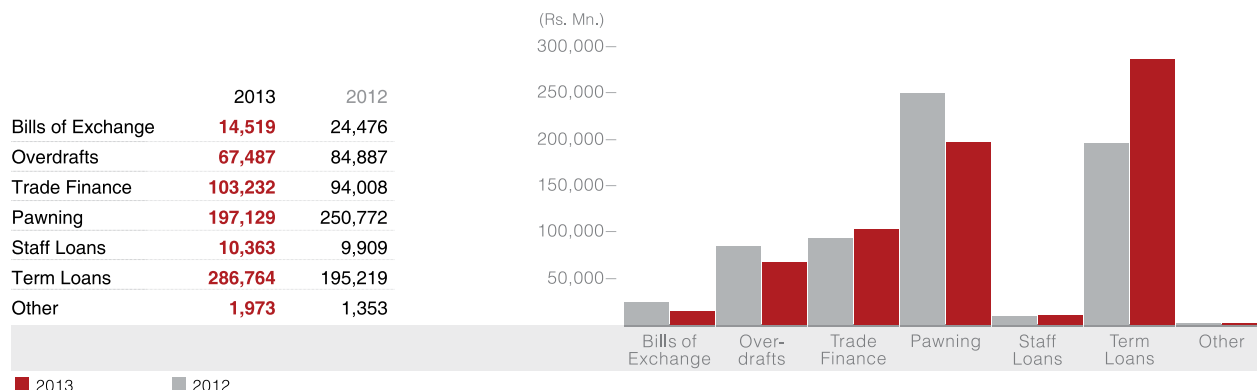
Portfolio analysis is carried out by the Risk Management Division covering:

- Product
- Purpose/Industry sectors
- Business lines
- By collateral
- Borrower Credit Risk Rating

Product:

Pawning, Housing Loans, Term Loans, Revolving Credit (LC, STL, Acceptance, TR, Guarantee), Overdraft. Exposure as a of the total portfolio should be given as separate label against each bar (Change the chart as per below).

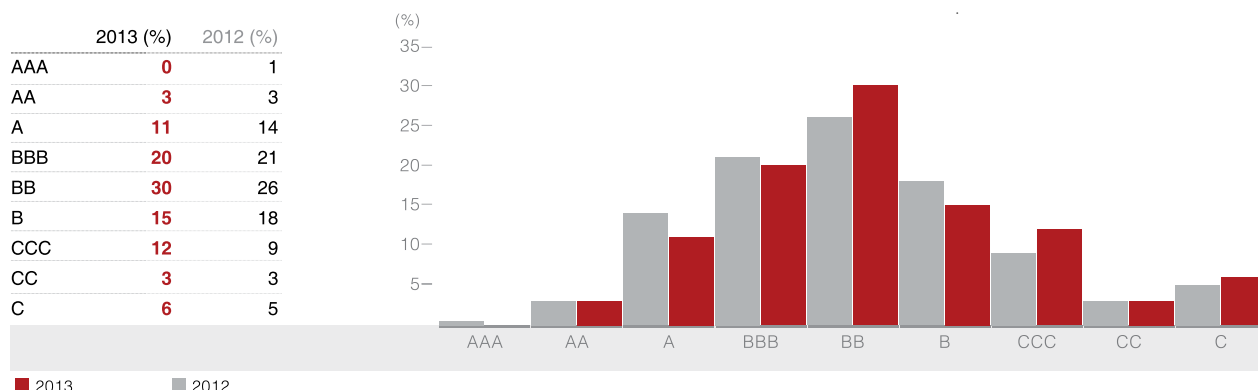
Loans & Receivables by Product



By Borrower Risk Rating:

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

Risk Profile of Corporate Customers



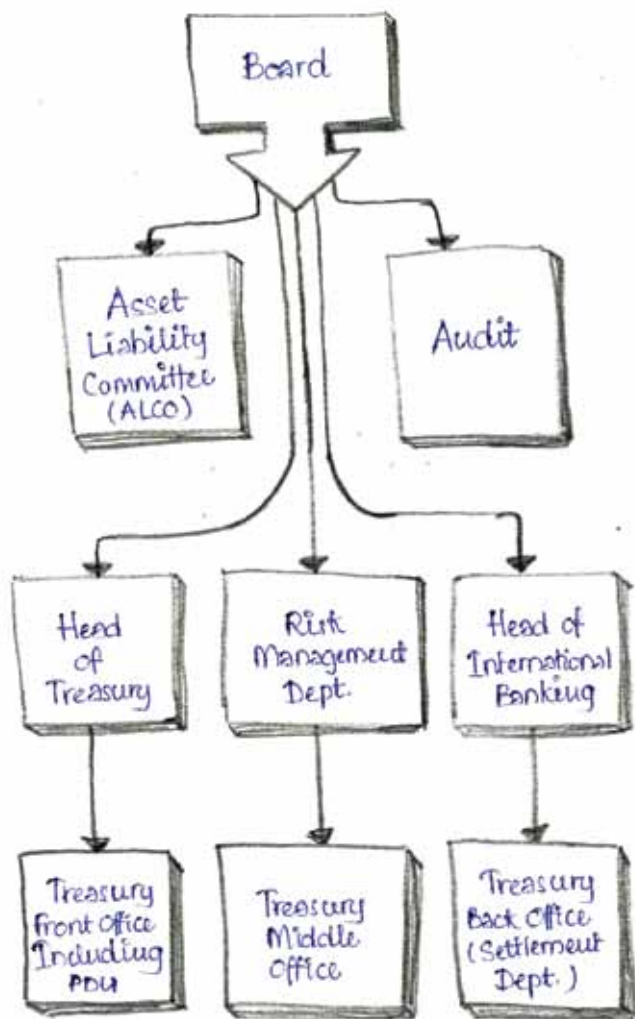
8. Market Risk Management

Market risk is the risk that changes in foreign exchange rates, interest rates, equity prices and commodity prices will adversely affect the Bank's income and or the value of any financial instruments that it may hold. Exposure to such risk is present in our trading book as well as the banking book. Specific policies on managing market risk are contained in the Bank's Treasury Policy Manual.

8.1 Market Risk and Asset Liability Management Encompasses:

- Setting limits for Treasury Front Office activities and reporting breaches
- Setting limits and benchmarks for ALM
- Independent verification of valuation rates and methodology
- Introducing VaR, duration etc. to quantify and manage market risk and validating models used for their calculations.

Organisation Structure for Market Risk Management



A comprehensive set of policies and limits have been adopted in order to manage market risks. The Board, on the recommendations of the ALCO, set limits for various treasury and investment related activities.

The ALCO is responsible for the development of market risk management policies. All material sources of market risks are identified and risk limits defined by the ALCO.

These policies/procedures encompass the statutory requirements whilst adhering to best practices.

Various market risk exposures are closely monitored by the Treasury Middle Office, and reported to Chief Risk Officer and ALCO, for initiating control action. However, the front line responsibility for market risk management (Trading/Investment Book) rests with the Treasury Trading Department.

Treasury Front Office, Middle Office and Back Office are clearly segregated into 3 different reporting lines with clear and well-defined responsibilities.

8.2 Foreign Exchange Risk Management

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

Foreign exchange exposures arise both from proprietary trading and from undertaking foreign currency denoted transactions on behalf of clients on account of imports exports, remittances and other activities.

Foreign Exchange Risk is managed on a day-to-day basis by the Bank's Treasury Department. Daily Value at Risk is the primary mechanism for quantifying and controlling foreign exchange risk. Daily Value at Risk (DVaR) is an estimate, with a 99% confidence level, of the potential loss which might arise if the current positions were to be held unchanged for one business day.

We also use following tools to measure and manage foreign exchange risk.

- Maturity Gap Analysis of foreign currency denominated assets and liabilities measured in month-millions.
- Stress tests to measure impact of exchange rate movements on capital adequacy ratio.

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

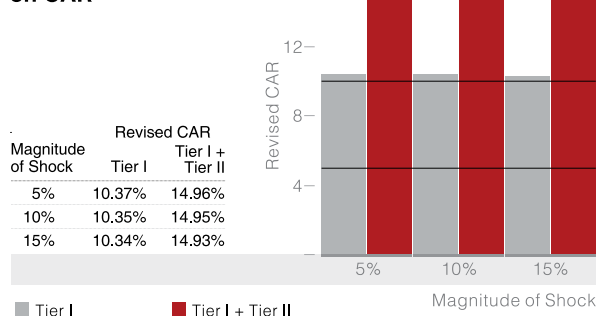
- Volume limits by currency/trader
- Overall room limits.
- Stop loss limits by currency and trader
- Forward foreign currency maturity gap limit measured in months-millions US Dollars.

The Middle Office monitors these exposures against the limits set on a real time basis.

The Daily Value at Risk (DVaR) has been maintained well below the internal limit throughout the year with the maximum level of less than US\$ 80,000.

Stress tests measure impact of exchange rate movements on capital adequacy ratio.

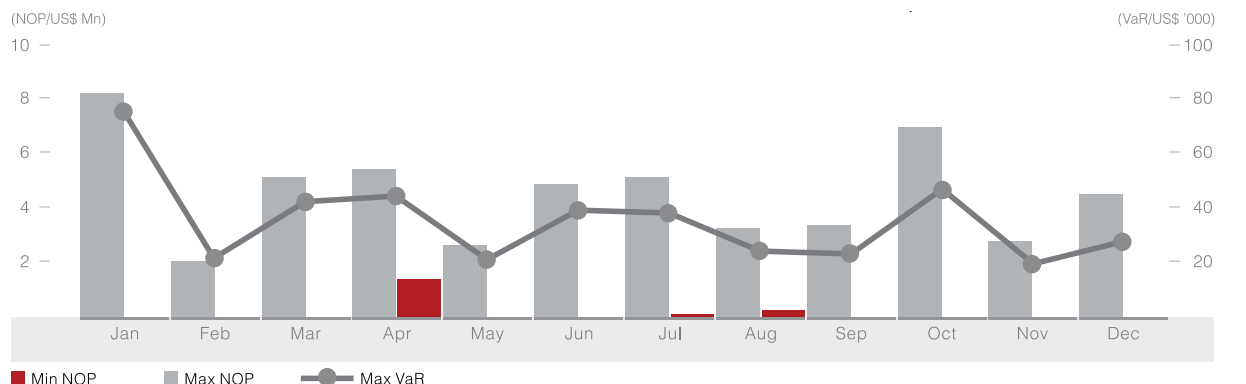
Effect of adverse movements in Exchange Rates on CAR



This chart shows that even an adverse movement in the magnitude of 15% has negligible impact on the capital adequacy of the Bank.

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

Fx NOP & Daily VaR During 2013



Date	January	February	March	April	May	June	July	August	September	October	November	December
Max NOP	8,266,792	2,103,726	5,145,902	5,475,482	2,665,981	4,881,729	5,160,119	3,315,269	3,393,200	6,997,024	2,835,538	4,553,700
Min NOP	9,768	2,491	10,667	1,447,844	6,587	124	163,347	316,382	10,953	6,655	11,959	2,575
Max VaR	76,387	22,134	42,961	44,872	21,793	39,877	38,818	24,962	23,696	47,507	19,908	28,170

8.3 Interest Rate Risk

Interest Rate risk is the possibility that changes in level of market interest rates will adversely affect the Bank's net interest income and the value of any financial instruments held. This risk is managed by setting and monitoring limits for interest gaps and matching the re-pricing profile of the various interest sensitive assets and liabilities. The interest rate risk in both the Banking and Trading Books (including the risk in forward exchange contracts) is ascertained and for this purpose both Duration Gap Analysis and Value at Risk is utilised.

Interest gaps are measured on both a contractual and behavioural basis. In addition volume limits on the holding of Fixed Income Securities on the trading book and Cumulative Stop Loss limits are used to manage interest rate risk

Any adverse change in interest rates can impact the net interest margins of the Bank. The Bank ensures that interest rate risk in both the trading book and the banking book is captured and quantified. An overall limit for interest rate risk is established.

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

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

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

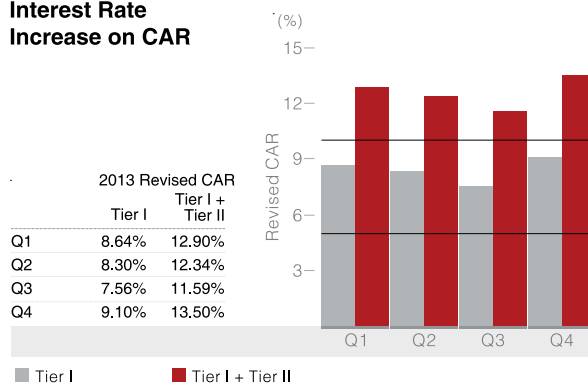
One significant challenge in analysing the re-pricing mismatch risk arises due to the quality of assumptions regarding the embedded options of

certain products, such as housing loans fixed rate loans, savings and current accounts.

8.4 Stress Test for Interest Rate Risk

Duration gap analysis method was applied to the entire Balance Sheet (both the Banking and Trading Books) to determine the effect of interest rate changes on the capital of the Bank.

Effect of 1% Interest Rate Increase on CAR



8.5 Equity Risk

Equity Risk arises from changes in the prices of any equities held. This risk is managed by a combination of volume limits and stop loss limits.

Bank continue to maintain a portfolio of quoted equities for trading purposes.

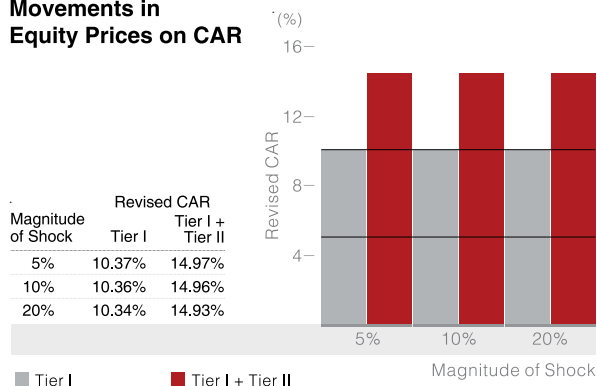
Portfolio maintenance and trading activities were continued to be conducted within strict limits specifying:

- Overall exposure limits
- Level of Diversification of the portfolio
- Strict investment qualification criteria
- Loss limits on individual exposures

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

Stress Test for Equity Price Movement

Effect of Adverse Movements in Equity Prices on CAR



9. Management of Pawning Risk

The Bank uses the following to manage and mitigate the inherent risks in Pawning:

- maintain prudent Loan to Value (LTV) ratios. Gold market prices are periodically assessed and analysed by the ALCO, along with competitor product features, and the LTV and other features are adjusted accordingly to optimise the risk reward relationship of this product
- Densimeters and acid tests are used to determine the caratage and other quality features of the items being pawned
- basic customer due diligence
- regular training of staff involved
- insurance is taken to cover any losses arising from taking spurious and stolen articles
- regular independent validation of items pawned beyond set thresholds, including daily verification of a 5% of sample pawned items on any one day
- regular auctioning of items not redeemed on due dates
- in addition, the Bank also maintains a general reserve as a precautionary measure.

The Bank was able to withstand the adverse impact of the unprecedented fall in gold prices as a result of the robust risk management practices described above.

10. Liquidity Risk and Reputation Risk

Liquidity Risk is the risk that the Bank will not be able to meet its contractual obligations as and when they arise. It also encompasses the difficulty to fund assets at appropriate maturities and rates and the inability to liquidate assets at a reasonable price and in an appropriate time frame.

The Bank's Treasury Department is charged with the responsibility of managing the Banks liquidity within both internal and regulatory guidelines, under the supervision of the ALCO and monitored by the Middle Office.

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

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

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

10.1 Liquidity Risk is Managed by

- Gap management of cash flow maturities (on residual, contractual and behavioral basis).
- Maintaining a portfolio of high quality liquid assets that can be easily converted to cash to meet any contingencies. Hence our liquidity management strategy focuses on maintaining a portfolio of liquid assets and also maintaining a diversified portfolio of retail deposits attracted to the Bank through well thought out product introduction and effective relationship management of such sources. The widely dispersed branch network and the access to extensive retail customer base are vital ingredients in our liquidity strategy.
- Having ready access to the inter-bank money market.

- Stress testing of liquidity positions to assess the vulnerability of the Bank to any unlikely but potential threats and extent of reliance on any particular source of funds.
- Contingency planning - The Bank has developed a comprehensive contingency funding plan, which is augmented by a number of committed credit lines from external sources of foreign and local origin.

The Bank uses following tools for the liquidity risk monitoring and management:

- Cash flow maturity gap statements of asset-liabilities and monitoring same against set limits.
- Monitoring of liquidity indicators such as loans to customer deposits ratio, statutory liquid assets ratio, unutilised inter-bank borrowing lines, and unutilised limits available to customers.

- Stress testing of liquidity positions for extreme scenarios such as substantial and sudden increase in non-performing assets, flight of hot money or a rating downgrade leading to high cost of liquidity etc.

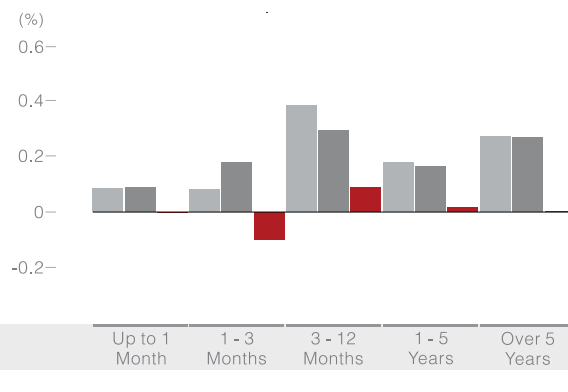
Liquidity Indicators	2012	2013
Loan/customer deposits.	96.6	89.4
Unutilised interbank borrowing lines.	44	20
Medium-term funding	102	86
Statutory liquid assets ratio - DBU	21.8	25.2
- FCBU	21.8	22.3

This indicates that liquidity position has improved during the year.

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

Behavioural Liquidity of Balance Sheet

	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years
Total Assets	8%	8%	38%	18%	27%
Total Liabilities	9%	18%	29%	17%	27%
Maturity Mismatch	0%	-10%	9%	1%	0%



Effect of Hot Money Withdrawal

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

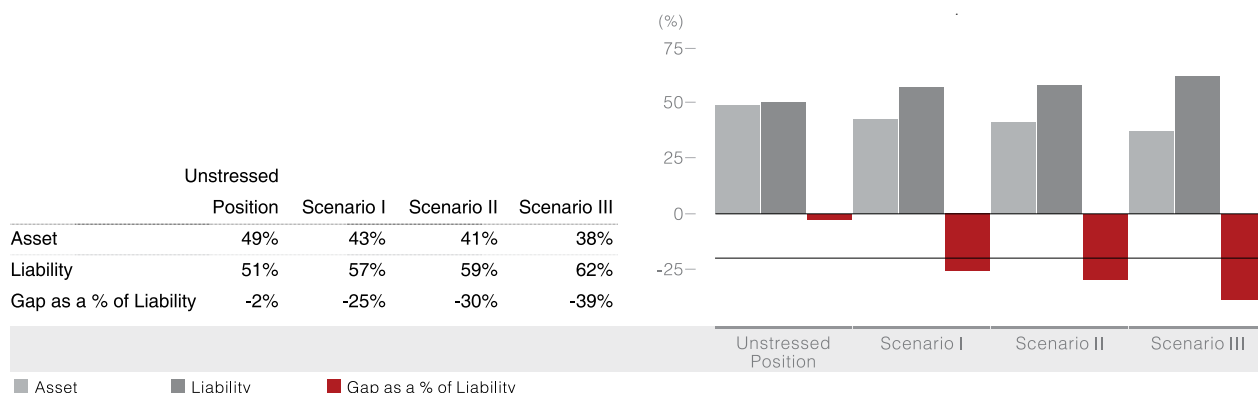
Retail Funds - Funds with less risk of withdrawals.

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

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

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

Effect of Hot money/Retail fund withdrawals on Gap in 'Up to 1 month' time band



10.2 Reputational Risk

It is obvious that the reputation of the Bank in the public and financial markets has a significant impact on the Bank's ability to continue to attract funds at competitive prices. Any deterioration in our reputation would negatively impact the availability and cost of funds for meeting customer requirements. Hence, reputation risk has been estimated as an add-on to the amount estimated for liquidity risk.

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

11. Operational Risk Management

Operational risk is inherent in all businesses and is the risk of direct or indirect impacts resulting from inadequate or failed internal processes or systems or from external events.

Operational risk covers the following causes of risk:

- Internal and external fraud
- Damage to physical assets
- Business disruption and system failures
- Execution, delivery and process management
- Clients, products and business practices
- Employment practices/workplace safety

Fraud (both internal and external), error, IT system breakdowns natural disasters, terrorist action are some of the common sources of Operational Risk. Obviously, Operational Risk cannot be totally eliminated and the challenge is to manage and contain any operational losses within acceptable levels as determined by the Board.

The prime responsibility for the control of operational risk lies with the branches and business units where the risks originate. The foundation of operational risk management framework is the definition by all functions of their roles and responsibilities so that, collectively they can assure that there is adequate segregation of duties, complete coverage of risks and clear accountability.

The Board has clearly defined the roles and responsibilities of all staff, branches and business and functional units in the management of operational risk. This includes risk identification and assessment, capturing and reporting of risk events, appropriate segregation of duties, Business Continuity Planning (BCP) and ongoing review of controls and procedures.

Business Units and Branches are required to periodically report on any operational loss events to the Risk Management Division who maintains a database of loss events. This is being analysed on an ongoing basis to identify trends, if any and thereby

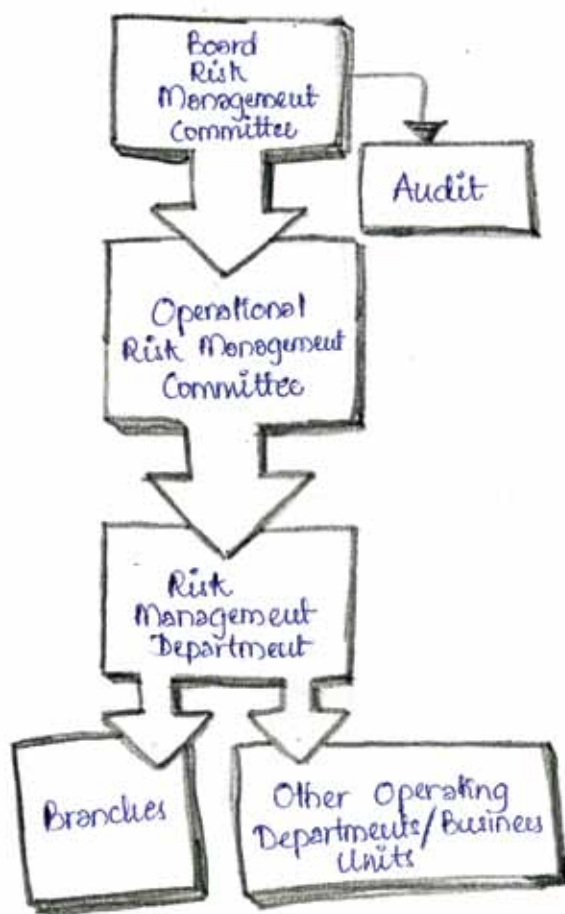
review procedures and controls to minimise future operational losses. The Operational Risk Management Committee assists and coordinates this process.

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

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

The internal audit function also periodically reviews the entire operational risk management process across the network to provide an assurance to the Board and Senior Management with regard to the integrity and adequacy of the operational risk control regime.

Organisation Structure for Managing Operational Risk



Managing Operational Risk

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

- i. **Information on Loss Incidents:** A data base is being developed on losses and damages occurred in the past. Careful analysis of the data help us to identify and estimate risks that may occur in the future provided there is no significant change

to the business and operating environment and of course no deterioration in the current internal control standards.

ii. **Key Risk Indicators:** Risk indicators are a broad category of measures used to monitor the activities and status of the control environment of a particular business area for a given risk category. Risk indicators are monitored on a regular basis (i.e., daily/weekly/monthly/quarterly).

iii. **Controls Assessment:** After operational risks have been identified as above, the Bank then assess the probability of an operational risk loss event occurring and also the maximum loss such an event could have on the Bank. Then it assesses these against the overall risk appetite of the Bank. During this process, the adequacy of internal control systems, the nature of risk factors, the adequacy of documentation, computer systems and responsible personnel are evaluated and weak areas are highlighted for corrective action. The control assessment process occurs only periodically (annually).

Risk Treatment

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

Following measures are taken:

i. Insurance

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

ii. Business Continuity Planning (BCP)

Every Branch/Business Unit has a Business Continuity and Disaster Recovery Plan to minimise losses from major disruptions to operations, whether it is to our IT infrastructure or branch premises.

iii. New Products and Services

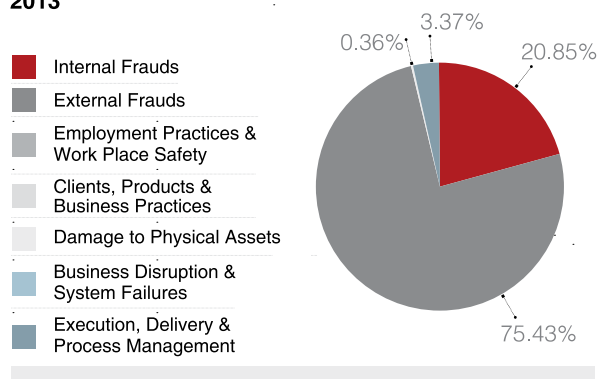
New products and services are critically examined before they are introduced. This provides assurance that all risks inherent in new product and services are clearly identified and mitigated to the extent possible; and residual risk should be within the Bank's risk tolerance levels.

iv. Outsourcing

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

Operational Losses for the Year 2013

Operational Losses - 2013



Operational losses for the year as a percentage of operational expenses was 0.6%. This is below the internal set tolerance level of 1.% (actual numbers to be inserted by ORM dept.

12. Administrative Risk and Legal Risk

The Code of Conduct, as part of the staff regulations and Rules, defines the fundamental ethical principles to be observed by the Bank's personnel. These include e.g., the requirement regarding the employee's integrity and loyalty, guidelines for handling conflicts of interest, prohibitions on insider trading, restrictions on financial interest and rules regarding bank secrecy.

Furthermore, the Bank has a number of internal instructions, which describe the organisation of the

work in the Bank and define the rights and duties of the employees. The Bank will also issue general instructions and specific instructions for departments. General instructions refer to matters concerning the Bank's total staff or at least two or more departments. Specific instructions for the departments are prepared by the head of each department and issued by the relevant Business Head. These instructions describe the organisation, operations, duties and responsibilities of the departments. In addition, internal instructions for a department may be issued by the head of the department to cover, e.g., certain procedures and routines.

It is the responsibility of the management to ensure that all employees are familiar with the internal instructions and adhere to them.

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

The Bank's legal risks relate to inadequate or inefficient documentation, legal capacity, enforceability and the applicability of national law and dispute resolution mechanism in the jurisdictions under which it operates. These risks are mitigated through procedures, precedence standard documentation and the legal review of all contractual documents of the Bank irrespective of whether they relate to the operational or the administrative activities of the Bank.

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

In its lending operations, the Bank uses standard documentation developed over the years. For the documentation of treasury related transactions, the

Bank relies on standardised documentation commonly accepted in the market. For borrowings, the Bank uses its own standard documentation developed, based upon the Bank's Statutes and practice that has evolved over time. The Legal Department of the Bank is responsible for the Bank's contractual documentation i.e., to verify the legal capacity of the Bank's counterparties, ensure the enforceability of the collaterals and to advise on the choice of governing law and forms of dispute resolution, before any contracts are entered into by the Bank. When deemed necessary the Bank uses the services of competent outside counsels too.

13. Compliance Risk Management

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or loss to reputation the Bank may suffer as a result of its failure to comply with laws, regulations, and rules relates self-regulatory organisation standards applicable to its banking activities.

It is the policy of People's Bank to always operate in a legal and ethical manner and to comply with all laws and regulations applicable to its business. It is the Bank's policy that the compliance programme is considered as a guideline to be followed by all members of the Board and staff. People's Bank requires that its Board members and staff maintain high standards of integrity, and business ethics. The Board and employees must avoid any actions that are or appear to be inconsistent with such standards.

These ethical standards require strict adherence to all applicable laws and regulations.

In order to avoid any violations of laws and regulations and to assure continued compliance with all relevant laws and regulations the Board of Directors has established and implemented a compliance programme under the guidance of the compliance officer, with sufficient seniority.

The compliance programme is an on-going process designed to prevent and detect violations of the law, particularly money laundering and terrorist financing.

Specific policies to manage compliance risk are contained in the Bank's AML and KYC Policy document.

Capital Management

People's Bank's primary objectives when managing capital are:

- to safeguard the Bank's ability to continue as a going concern and to have sufficient capital to finance its expansion plans
- to optimise returns to its owners
- to comply with the regulatory capital requirements set by the Central Bank of Sri Lanka (CBSL)

The Bank calculates its Capital Adequacy Ratio in line with the Guidelines set by the CBSL, which currently are as follows:

- Standardised Approach is used for Credit Risk
- Basic Indicator Approach for Operational Risk
- Standardised Approach for Market Risk

Internal Capital Adequacy Assessment Process (ICAAP)

The primary objective of ICAAP is to comply with regulatory disclosure requirements of Pillars II and III of the Basel II accord and to assess external and internal capital requirements based on the Bank's core business and the prevailing and projected operating environment

The Bank follows following steps in developing ICAAP

1. Risk Identification

- 1.1 capture the risks covered under Pillar I (Credit risk, market risk, operational risk)
- 1.2 consider other material risks that the Bank is exposed to, which are not covered under Pillar I (eg: interest rate risk in banking book, liquidity risk, compliance risk, strategic and business risk, reputation risk, concentration risk and residual risk)
- 1.3 consider the Risk factors external to the Bank which arises from regulatory, economic or business environment

2. Capital Assessment

set the internal capital requirement as a starting point of zero capital and build on capital due to all risks (both captured under Pillar I and those that are not) and external factors

3. Forward Capital Planning

- 3.1 Bank considers how its capital requirement might change in line with its business plans over its strategic time horizon, and how it might respond to these changes. The purpose of capital planning is to enable the Bank to ensure capital adequacy under changing economic conditions, even at times of economic recession.
- 3.2 In the capital planning process, the following items have been reviewed,
 - a. current capital requirement of the institution,
 - b. planned capital consumption,
 - c. the targeted and sustainable capital level (with a view to the institution's strategy and risk appetite),
 - d. the means of capital management: internal and external resources that can be employed to increase capital (profit-generating capability),
 - e. other employable means of ensuring capital adequacy (e.g., budgeting of dividend payments and balance sheet items, etc.),
 - f. discussions with the Treasury regarding minimum capital levels to be maintained and consequent dividend pay outs,
 - g. PB's overall intention is to maintain at least the following levels of CAR at all times. These minimum levels will be reviewed and amended in line with the regulatory environment, especially those required by Basel III.

	Regulatory	ICAAP
Tier I	10.4%	9.4%
Total Capital	15.0%	13.6%

4. Document the outcome of the ICAAP exercise - Bank submitted the first ICAAP document to CBSL in the year 2013 as stipulated by Central Bank of Sri Lanka

The Capital Adequacy calculated in line with the ICAAP is indicated below:

Risk Type	2013			2012		
	RWA	Capital Charge (5%)	Capital Charge (10%)	RWA	Capital Charge (5%)	Capital Charge (10%)
Credit	212,740	10,637	21,274	205,934	10,297	20,593
Pillar 1 Market	6,223	311	622	5,301	265	530
Operational	62,787	3,139	6,278	55,928	2,796	5,593
Total Pillar 1 RWA	281,750			267,163		
Total Pillar 1 Capital Requirement		14,087	28,174		13,358	26,716
Relevant Capital Base		29,261	42,204		26,049	37,407
Capital Buffer		15,174	14,030		12,691	10,691
Regulatory Capital Adequacy		10.4%	15.0%		9.8%	14.0%
Internal Assessment						
Add Pillar 2						
Liq. & Rep. Risk	5,354	268	535	8,096	405	809
IR Banking Book	7,557	378	756	8,760	438	876
Concentration Risk	1,104	55	110	3,505	175	350
Other Risks Pawning	8,183	409	818	7,458	373	746
Total Pillar 1+II RWA	303,948			294,982		
Total Capital Requirement		15,197	30,393		14,749	29,497
Adjustment Capital Base		28,505	41,448		25,304	36,662
Capital Buffer		13,308	9,392		10,555	7,165
Internal Capital Adequacy		9.4%	13.6%		8.6%	12.4%

As at end of 2013, the internal assessment based approach led to a Tier I capital requirement of Rs. 15,197 Mn and a total capital requirement of Rs. 30,398 Mn. After making adjustments on account of a possible fall in collateral values, the Bank had a Tier I base capital of Rs. 28,505 Mn and an adjusted total capital base of Rs. 41,448 Mn giving capital buffers of Rs. 13,308 Mn and Rs. 9,392 Mn respectively. Accordingly, the Bank seems to be adequately capitalised with sufficient head room to meet its growth aspirations.

The capital buffer has improved from Rs. 7,165 Mn to Rs. 9,392 Mn during the year 2013. This growth momentum indicates that the Bank will be able to increase its scale and scope of operations in the future.

Financial Reports

Contents

Directors' Report	152
Directors' Responsibility for Financial Reporting	155
The Directors' Statement on Internal Controls.....	156
Independent Assurance Report.....	158
Report of Factual Findings and Corporate Governance...	160
Board Audit Committee Report	180
Report of the Auditor General	183
Income Statement	185
Statement of Comprehensive Income	186
Statement of Financial Position	187
Cash Flow Statement.....	188
Statement of Changes in Equity.....	189
Notes to the Financial Statements.....	191

Directors' Report

Directors

The Board of Directors of People's Bank consists of eight Directors appointed by the Minister of Finance out of which two names were nominated by the Minister-in-Charge of Co-operatives under the provisions of People's Bank Act No. 29 of 1961 as amended. The Board meets at least once a month and met 14 times in 2013. The quorum for a Board meeting is five members. The Directors of the Bank during the year 2013 were as follows:

Name
Mr. Gamini Senarath - Appointed in February 2013
Mr. Jehan P. Amaratunga
Ms. Lakshmi K. Sangakkara
Ms. Dharma N. Gammampila
Mr. D.M. Pawara Dassanayake
Mr. G.K.D. Amarawardena - Appointed in March, 2013
Mr. R.M.P. Ratnayake - Appointed in April 2013
Mr. P. Kudabalage - Appointed in April 2013
Mr. W. Karunajeewa - Up to 28th January 2013
Mr. M.M. Priyantha K. Mayadunne - Resigned in March 2013
Ms. M.T.I. Visakha Amarasekera - Upto April 2013
Mr. Ajith Panditharatne - Resigned in May 2013
Dr. D.J.D. Jayakody - Resigned in September 2013

Directors' Attendance at Board Meetings

Number of meetings held during the year 2013 - 14

Name	No. of Meetings Held	No. of Meetings Attended
Mr. Gamini Senarath	13	13
Mr. Jehan P. Amaratunga	13	12
Ms. Lakshmi K. Sangakkara	13	12
Ms. Dharma N. Gammampila	13	12
Mr. Pawara Dassanayake	14	14
Mr. G.K.D. Amarawardena	12	11
Mr. R.M.P. Ratnayake	10	8
Mr. P. Kudabalage	10	9
Mr. W. Karunajeewa	1	1
Dr. D.J.D. Jayakody	10	9
Mr. Ajith Panditharatne	5	5
Ms. Visakha Amarasekera	4	3
Mr. Priyantha Mayadunne	2	2

Subsidiaries and Associates

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

(a) People's Leasing & Finance PLC

Shareholding - 75%

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

Directors' Representation is as Follows:

Mr. Gamini Senarath	-	Chairman
Mr. P. Kudabalage	-	Director

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

Shareholding - 99%

The principal activities of the Company - Air ticketing and organisation of Tours.

Directors' Representation is as Follows:

Ms. Lakshmi K. Sangakkara	-	Chairperson
Mr. G.K.D. Amarawardena	-	Director
Mr. D.M. Pawara Dassanayake	-	Director

(c) People's Merchant Finance PLC

Bank's Shareholding - 26.1%

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

Directors' Representation is as Follows:

Mr. P. Kudabalage	-	Chairman
Mr. Jehan P. Amaratunga	-	Director
Ms. L.K. Sangakkara	-	Director

Corporate Governance

The Bank has voluntarily adopted Best Practice provisions and has put in place systems and procedures to ensure sound corporate governance.

A detailed Report is given on pages 117 to 126.

Compliance Reporting

A separate Compliance Function Unit has been set up within the Bank. Compliance Reports certified by the CEO/General Manager and the Compliance Officer are submitted to the Board bi-monthly. A Code of Conduct for Staff has been formulated and issued to all members of staff.

A detailed report is given on pages 111 and 113.

Subcommittees of the Board as at 31st December 2013 are as follows:

Board Audit Committee (BAC)

Mr. Jehan P. Amaratunga	-	Chairman - BAC
Ms. D.N. Gammampila	-	Director
Mr. G.K.D. Amarawardena	-	Director
Mr. R.M.P. Ratnayake	-	Director

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

Board Executive Credit Committee (BECC)

Mr. P. Kudabalage	-	Chairman - BECC
Ms. L. Kumari Sangakkara	-	Director
Mr. Pawara Dassanayake	-	Director
Mr. N. Vasantha Kumar	-	CEO/General Manager
Mr. A.S. Ibrahim	-	SDGM (Risk Management)
Mr. Rasitha Gunawardane	-	DGM (Credit Control & Risk)

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

Board Human Resource and Remuneration Committee (BHRRC)

Mr. G.K.D. Amarawardena	-	Chairman - BHRRC
Ms. Dharma N. Gammampila	-	Director
Mr. Pawara Dassanayake	-	Director
Mr. N. Vasantha Kumar	-	CEO/General Manager

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

Board Integrated Risk Management Committee (BIRMC)

Mr. P. Kudabalage	-	Chairman BIRMC
Mr. Jehan P. Amaratunga	-	Director
Mr. R.M.P. Ratnayake	-	Director
Mr. N. Vasantha Kumar	-	CEO/General Manager
Mr. Sabry Ibrahim	-	SDGM (Risk Management)

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

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

More details relating to the Bank's Integrated Risk Management are set out in a specific section dealing with the subject in this Report on pages 127 to 150.

Board Nomination Committee (BNC)

Mr. Gamini Senarath	-	Chairman - BNC
Mr. Jehan P. Amaratunga	-	Director
Mr. G.K.D. Amarawardena	-	Director
Mr. R.M.P. Ratnayake	-	Director
Mr. P. Kudabalage	-	Director

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

Board Investment Banking Committee (BIBC)

Mr. Jehan P. Amaratunga	-	Chairman - BIBC
Mr. P. Kudabalage	-	Director
Mr. R.M.P. Ratnayake	-	Director
Mr. N. Vasantha Kumar	-	CEO/General Manager
Mr. Sabry Ibrahim	-	SDGM (Risk Management)

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

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

Board IT Committee (BITC)

Mr. Gamini Senarath	-	Chairman - BITC
Mr. Jehan P. Amaratunga	-	Director
Mr. G.K.D. Amarawardena	-	Director
Mr. N. Vasantha Kumar	-	CEO/General Manager

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



Rohan Pathirage
Deputy General Manager
Secretary to the Board of Directors

11th February 2014

Directors' Responsibility for Financial Reporting

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

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee. The Audit Committee Report is given on page 180 to 182.

The Board of Directors has instituted effective and comprehensive system of Internal Control. This comprises Internal Checks, Internal Audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgment and estimates in preparing the Financial Statements for the year 2013 exhibited on pages 185 to 262.

The Bank's Financial Statements for the year ended 31st December 2013 prepared and presented in this Report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank and the Group as at that date as per the External Auditors' Report.



Rohan Pathirage
Deputy General Manager
Secretary to the Board of Directors

18th February 2014

The Directors' Statement on Internal Controls

Responsibility

In line with the Section 3 (8) (II) (b) of the Banking Act Direction No. 11 of 2007, the Board of Directors presents this report on Internal Controls of the People's Bank (the Bank).

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of the Bank on the Directors' Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System on Financial Reporting

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

- Board of Directors has appointed subcommittees to ensure the effective internal control mechanism within the Bank. Appointment of corporate management headed by CEO/GM has enabled to delegate the authority from Board to other layers. The management assist the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risk faced, and in the design, operation and monitoring of suitable internal control to mitigate and control these risks.
- Systems and procedures are in place to identify, control and report on the major risks including credit, market and operational risks. Exposure to these risks is monitored by Board Integrated Risk Management Committee (BIRMC). The Committee assesses all risks to the Bank on a periodic basis through appropriate risk indicators and management information, review the adequacy and effectiveness of all management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits. This includes stress test and risk dashboard reviews. The BIRMC also takes corrective action to mitigate the effects of specific risks, where risks are at levels beyond the prudent limits decided by the Committee.
- In assessing the internal control system over financial reporting, the Bank reviews all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings. The assessment covered only the process applied by the Bank and did not include the processes carried out by its subsidiaries and associates.

- The Board Audit Committee monitors the overall effectiveness of the system of internal control and has reported regularly to the Board of Directors. The key processes used by the Committee include: regular business and operational risk assessments, regular reports from the heads of key risk functions including Internal Audit and Compliance, review and follow-up on Internal Audit Reports, External Audit Reports, prudential reviews and regulatory reports. The Board Audit Committee keeps under review the status of key risk areas which impact the Bank and considers whether the mitigating actions put in place are appropriate.
- The Bank's financial reporting process for preparing the annual accounts is controlled using documented accounting policies developed based on Sri Lanka Accounting Standards and reporting formats and guidance on reporting requirements issued by the Central Bank of Sri Lanka. As the current year was the second year of adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure have been done.
- Comments made by the External Auditors in connection with Internal Control System will be taken into consideration for further improvements in relation to controls documentation specifically in the areas of IT general controls, related party transactions and controls connected to new standards comprising LKAS and SLFRS requirements along with testing documentation improvements in gathering evidence to support the Directors' Statement on Internal Control.

Confirmation

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

Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended 31st December 2013 and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

For and on behalf of the Board,



Jehan P. Amaratunga
Chairman of the Audit Committee



Dharma N. Gammampila
Director



G.K.D. Amarawardena
Director



R.M.P. Ratnayake
Director

28th March 2014

Independent Assurance Report



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මගේ අංකය
எனது இல. } FB/G/PB/IC/2013
My No.

ඔබේ අංකය
உமது இல. }
Your No.

දිනය
திகதி } 03 April 2014
Date

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of People's Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of People's Bank included in the annual report for the year ended 31 December 2013. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in public practice.

Management's Responsibility

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

My Responsibility and Compliance with SLSAE 3050

My responsibility is to issue a report to the Board on the statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on

Assurance Engagements SLSAE 3050 - Assurance Report for the Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

My 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 Director 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:

- 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.
- Reviewed the documentation prepared by or for the directors to support their Statement made.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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Auditor General's Department

- Related the Statement made by the directors to my knowledge of the Bank obtained during the audit of the Financial Statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission of the Board of Directors.
- 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.

The procedures performed are limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

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

Conclusion

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

H.A.S. Samaraweera
Auditor General

Report of Factual Findings and Corporate Governance



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My No. }

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உமது இல. }
Your No. }

දිනය
திகதி } 03 April 2014
Date }

Auditor General's Report of Factual Findings of People's Bank to the Board of Directors of the People's Bank on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka

I have performed the procedures enumerated in Annexure to the report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the corporate governance direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive. To perform this agreed upon procedures, I was assisted by a firm of Chartered Accounts in public practice.

I report my findings in the attached Annexure to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards, I do not express any assurance on the compliance with directives of corporate governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Financial Statements in accordance with Sri Lanka Auditing Standards, other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any financial statements of People's Bank, taken as a whole.

H.A.S. Samaraweera
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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Annexure 1 to the Report on Factual Findings

Section	Procedure Performed	Degree of Compliance
3 (1)	The responsibilities of the board	
3 (1) (i)	Procedures to be carried out to ensure that the Board has strengthened the safety and soundness of the Bank.	
	(a) Check the Board approval of the Bank's strategic objectives and corporate values.	Complied With There is an approved strategic plan to the Bank for the period of 2011 - 2016.
	<ul style="list-style-type: none"> Check whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank. 	Complied With Strategies are communicated to respective branch managers through circulars.
	(b) Check the Board approval of the overall business strategy of the Bank.	Complied With There is an approved strategic plan to the Bank for the period of 2011 - 2016.
	<ul style="list-style-type: none"> Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. 	Complied With These aspects are addressed in the approved strategic plan and reviewed in the Board Integrated Risk Management Committee (BIRMC) meetings.
	<ul style="list-style-type: none"> Check that the overall business strategy contains measurable goals, for at least the next three years. 	Complied With Measurable goals are included in the strategic plan for the period of 2011 - 2016 and those are reviewed periodically.
	(c) Check that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	Complied With Board Integrated Risk Management Committee (BIRMC) has taken necessary steps to periodically review the Risk Management policy. The committee carries out all Risk Management procedures with regard to the Bank.
	(d) Check that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied With There is an approved strategic policy on communication to the Bank.
	(e) Check that the Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied With The adequacy and the integrity of Internal Control System over financial reporting and Management Information System has been reviewed by the Board Audit Committee (BAC). The BAC reports the findings to the Board periodically.
	(f) Check that the Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: <ul style="list-style-type: none"> (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management; 	Complied With

Section	Procedure Performed	Degree of Compliance												
	(g) Check that the Board has exercised appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy;	<p>Complied With</p> <p>The Board has exercised appropriate oversight of the affairs of the Bank through its subcommittees. Number of Board meetings and Board subcommittee meetings during the year 2013 are as follows:</p> <table><tr><td>Board Meetings</td><td>14</td></tr><tr><td>Board Audit Committee</td><td>06</td></tr><tr><td>Board Executive Credit Committee</td><td>23</td></tr><tr><td>Board Human Resource & Remuneration Committee</td><td>11</td></tr><tr><td>Board Integrated Risk Management Committee</td><td>03</td></tr><tr><td>Board Nomination Committee</td><td>03</td></tr></table>	Board Meetings	14	Board Audit Committee	06	Board Executive Credit Committee	23	Board Human Resource & Remuneration Committee	11	Board Integrated Risk Management Committee	03	Board Nomination Committee	03
Board Meetings	14													
Board Audit Committee	06													
Board Executive Credit Committee	23													
Board Human Resource & Remuneration Committee	11													
Board Integrated Risk Management Committee	03													
Board Nomination Committee	03													
	(h) Check that the Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the key management personnel;	<p>Complied With</p> <p>Directors are allocated to the subcommittees. Through the terms of references the areas of authority and the key responsibilities are defined.</p>												
	(i) Check that the Board has periodically assessed the effectiveness of the Board of Directors' own governance practices, including: <ul style="list-style-type: none">the selection, nomination and election of Directors and key management personnel;the management of conflicts of interests;the determination of weaknesses and implementation of changes where necessary.	<p>Complied With</p> <p>Selections, nominations and election of Board of Directors are done by the Minister of Finance under section 8 of the People's Bank act. Assessment of effectiveness of the Board Directors done through the self evaluation process and by the process of obtaining declarations from the Directors. However there was an instance that a Director had resigned due to non-disclosure of a material information in the process of declaration.</p>												
	(j) Check that the Board has a succession plan for key management personnel.	<p>Complied With</p> <p>The Bank has a succession plan approved by Board paper No 279/2012 meeting No 09/2012. The succession plan is designed for the CEO, DGMs, AGMs and Grade 1 officers. The Bank uses development plans to ensure their readiness.</p>												
	(k) Check that the Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	<p>Complied With</p> <p>A schedule for meetings of Board subcommittees is prepared at the end of each financial year for the next financial year. The Corporate Management regularly takes part in discussions on their areas of responsibility and to monitor progress made towards achieving corporate objectives.</p>												
	(l) Check that the Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	<p>Complied With</p> <p>Board Audit Committee assists the Bank in this regard. Statutory examination reports are submitted to the CBSL, The Board has appointed a Compliance Officer with this regard.</p>												

Section	Procedure Performed	Degree of Compliance
	(m) Check that the Board has a process in place for hiring and oversight of External Auditors.	Complied With According to Section 34 (1) of People's Bank Act No. 29 of 1961 the Auditor General may employ the service of any qualified Auditor or Auditors who shall act under his direction and control.
3 (1) (ii)	Check that the Board has appointed the Chairman and the Chief Executive Officer (CEO).	Complied With The Chairman has been appointed by the Finance Minister. The CEO/GM has been appointed by the Board.
	<ul style="list-style-type: none"> Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3 (5) of these directions. 	Complied With Please refer the results observed under direction 3 (5) of the direction.
3 (1) (iii)	Check that the Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	Complied With The Board has met 14 times for the year 2013.
3 (1) (iv)	Check that the Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied With
3 (1) (v)	Check that the Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Complied With This is done through a letter signed by the Secretary to the Board. This letter is hand delivered 1 week before the date of the meeting.
3 (1) (vi)	Check that the Board has taken required action on Directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, to be acceptable as attendance.	Complied With The Directors have attended the meetings as required. Observed the Directors attendance sheets and self assessment reviews. There were Directors who were excused due to their unavailability.
3 (1) (vii)	Check that the Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and Shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied With Name of the appointed person is Mr. Rohan Pathirage, a lawyer by profession. Board paper No 406/2010 Meeting No 13/2010.
3 (1) (viii)	Check the process to enable all Directors to have access to advice and services of the Company Secretary.	Complied With All Directors have unlimited access to advice and for the service of the Company Secretary. This is mentioned in the approved Code of best practice of the Bank.

Section	Procedure Performed	Degree of Compliance
3 (1) (ix)	Check that the Company Secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	Complied With Meeting minute books are kept with the Company Secretary for inspection by any Director.
3 (1) (x)	Check that the minutes of a Board meeting contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations (b) the matters considered by the Board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; (g) the decisions and Board resolutions.	Complied With
3 (1) (xi)	Check that there are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with There is a procedure to seek independent professional advices by the Directors.
3 (1) (xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied with For this the Bank followed the CBSL directions and the Code of Best Practice and the Bank obtains declaration from the Directors.
	<ul style="list-style-type: none"> Check that a Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested 	Complied with
	<ul style="list-style-type: none"> Check that has he/she been counted in the quorum for the relevant agenda item at the Board meeting 	Complied with
3 (1) (xiii)	Check that the Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	Complied with The Board has put in place systems and controls to facilitate the effective discharge of Board functions.

Section	Procedure Performed	Degree of Compliance
3 (1) (xiv)	Check that the Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	Complied with
3 (1) (xv)	Check that the Board has the Bank capitalised at levels as required by the Monetary Board.	Complied with The Bank is maintaining sufficient amount of capital and has duly complied with capital adequacy requirements and requirements under other prudential grounds throughout the year.
3 (1) (xvi)	Check that the Board publishes, in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these directions.	Complied with The report serves the said requirement.
3 (1) (xvii)	Check that the Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Complied with
3 (2)	The Board's Composition	
3 (2) (i)	Check that the Board comprise of not less than 7 and not more than 13 Directors.	Complied with The Board consist of 8 Directors and composition has been maintained during the period.
3 (2) (ii)	(a) Check that the total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	Complied with Directors have not exceeded 9 years of services in the capacity of Directors. (All Directors were appointed after 2007).
	(b) In the event of any Director serving more than 9 years, check that the transitional provisions have been applied with.	Directors have not exceeded 9 years of services in the capacity of Directors. (All directors were appointed after 2007)
3 (2) (iii)	Check that the number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	Complied with All Directors are Non-Executive Directors and appointed by the Minister of Finance under the Section 8 of People's Bank Act No. 29 of 1961.
3 (2) (iv)	Check that the Board has at least three independent Non-Executive Directors or one third of the total number of Directors, whichever is higher	All Directors are Non-Executive, Non-Independent Directors and appointed by the Minister of Finance under the Section 8 of People's Bank Act No. 29 of 1961.
	Check if Non-Executive Directors can be considered independent if he/she:	

Section	Procedure Performed	Degree of Compliance
	<p>(a) Holds a direct and indirect shareholding of more than 1 per cent of the Bank;</p> <p>(b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the Bank.</p>	
	(c) has been employed by the Bank during the two year period immediately preceding the appointment as Director.	
	(d) has had a close relation; who is a Director, CEO, a member of key management personnel, a material shareholder of the Bank or another Bank. (For this purpose, a 'close relation' means the spouse or a financially dependant child)	
	(e) represents a specific stakeholder of the Bank	
	<p>(f) is an employee or a Director or a material shareholder in a company or business organisation:</p> <p>(i) which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or</p> <p>(ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or</p> <p>(iii) in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank.</p>	
3 (2) (v)	In the event an Alternate Director was appointed to represent an Independent Director, check the person so appointed meet the criteria that applies to the Independent Director.	All the Directors are appointed by the Minister of Finance under People's Bank Act. No alternative Director has been appointed during the year.
3 (2) (vi)	Check that the Bank has a process for appointing Independent Directors.	All Directors are Non-Executive, Non-Independent Directors and appointed by the Minister of Finance under the Section 8 of People's Bank Act No 29 of 1961.
3 (2) (vii)	Check that the stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.	Complied with According to the Code of best practice of the Bank the stipulated quorum is five. All Directors are Non-Executive Directors.

Section	Procedure Performed	Degree of Compliance
3 (2) (viii)	Check that the Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report.	Profiles of the Board of Directors are given on pages 24 to 26 and Directors' Report on page 152 to 154.
3 (2) (ix)	Check the procedure for the appointment of new Directors to the Board.	Complied with Appointment of the Directors are done by the Minister of Finance under section 08 of the People's Bank Act No. 29 of 1961.
3 (2) (x)	Check that all Directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Not Applicable The Directors are appointed by the Minister of Finance in compliance with the People's Bank Act. There was no appointment to fill any casual vacancies
3 (2) (xi)	Check if a Director resigns or is removed from office, the Board: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Not Applicable A Director can resign by writing a letter to the Minister of Finance and as well as the Minister can remove a Director.
3 (2) (xii)	Check if there is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another Bank	Directors are appointed by the Minister of Finance. The Bank get declarations from the Directors to identify whether a Director is appointed, elected or nominated as a Director of another Bank. However the Bank intends to develop the process of obtaining declarations in order to improve the prudence of the process.
3 (3)	Criteria to assess the fitness and propriety of Directors	
3 (3) (i)	Check that the age of a person who serves as Director does not exceed 70 years.	Complied with.
	(a) Check that the transitional provisions have been complied with.	Not Applicable.
3 (3) (ii)	Check if a person holds office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with. There were no Directors who hold Directorships of more than 20 companies/entities and institutions based on the declarations made by the Directors for the year 2013. Meeting No 05/2013, B.P. No. 151/2013

Section	Procedure Performed	Degree of Compliance
3(4)	Management functions delegated by the Board	
3 (4) (i)	Check that the delegation arrangements have been approved by the Board.	Complied with. Delegation arrangements have been done through the "Terms of References" of the subcommittees.
3 (4) (ii)	Check that the Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied with Refer the results reported under 3 (1) (i)
3 (4) (iii)	Check that the Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with. The Board has reviewed the delegation process in subcommittee meetings periodically and ensure that they remain relevant to the needs of the Bank.
3 (5)	The Chairman and CEO	
3 (5) (i)	Check that the roles of Chairman and CEO is separate and not performed by the same individual	Complied with. Roles of Chairman and CEO are clearly separated and not performed by the same individual. Thereby preventing unfettered powers for decision-making being vested towards a single individual.
3 (5) (ii)	Check that the Chairman is a Non-Executive Director.	Complied with. The Chairman is a Non-Executive Director and he is appointed by the Minister of Finance under the People's Bank Act.
	In the case where the Chairman is not an Independent Director, check that the Board designate an Independent Director as the Senior Director with suitably documented terms of reference.	The Chairman is a Non-Independent, Non-Executive Director who is appointed by the Minister of Finance.
	Check that the designation of the Senior Director be disclosed in the Bank's Annual Report.	Not Applicable
3 (5) (iii)	Check that the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	The Directors to the Board is appointed by the Minister of Finance under section 08 of the People's Bank Act No 29 of 1961. And the Bank get details through Directors self evaluations and declarations. The Bank intends for further strengthening of the process.

Section	Procedure Performed	Degree of Compliance
3 (5) (iv)	<p>Check that the Board has a self evaluation process where the Chairman:</p> <p>(a) provides leadership to the Board;</p> <p>(b) ensures that the Board works effectively and discharges its responsibilities; and</p> <p>(c) ensures that all key and appropriate issues are discussed by the Board in a timely manner.</p>	An annual self evaluation process is carried out by the meeting No. 05/2013 and Board Paper No. 08/2013. The Bank is in the process of further strengthening the current process.
3 (5) (v)	Check that a formal agenda is circulated by the Company Secretary approved by the Chairman.	Complied with.
3 (5) (vi)	Check that the Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	Complied with.
3 (5) (vii)	Check that the Board has a self evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank.	The annual self evaluation process in respect of 2013 has been carried out. This emphasises on the special contributions made by Directors. The Bank intends to further strengthening the current process.
3 (5) (viii)	Check that the board has a self evaluation process that assesses the contribution of Non-Executive Directors.	Complied with.
3 (5) (ix)	Check that the Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with.
3 (5) (x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with.
3 (5) (xi)	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	<p>Complied with.</p> <p>Under the Section 3 of the Code of best practice in corporate governance of People's Bank, the CEO should function as the person in charge of day-to-day management of the Bank's business with the support of the Corporate Management.</p>
3 (6)	Board appointed committees	
3 (6) (i)	<p>Check that the Bank has established at least four Board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions.</p> <p>Check that each Board committee report is addressed directly to the Board.</p> <p>Check that the Board presents in its Annual Report, a report on each committee on its duties, roles and performance.</p>	<p>Complied with.</p> <p>Complied with.</p> <p>See pages 152 to 154 in the Annual Report for the report of the subcommittee duties, roles and performance.</p>

Section	Procedure Performed	Degree of Compliance
3 (6) (ii)	Audit Committee:	
	(a) Check that the Chairman of the committee is an Independent Non-Executive Director and possesses qualifications and related experience.	The Chairman is a Non-Executive Non-Independent Director. The Chairman has necessary qualifications and experience based on Directors' Declaration.
	(b) Check that all members of the committee are Non-Executive Directors.	Complied with. All Directors of the Bank are Non-Executive Directors appointed by the Minister of Finance under section 8 of the People's Bank Act No. 29 of 1961.
	(c) Check that the committee has made recommendations on matters in connection with:	Complied with. The External Auditor has been appointed as per the provision contained in the section 34 of People's Bank Act No. 29 of 1961. As per such provisions, "Auditor General" is the External Auditor and he can appoint any other qualified Auditor as the External Auditor.
	(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	
	(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time;	
	(iii) the application of the relevant accounting standards	Complied with. The Board evaluates the requirements consulting the Chief Internal Auditor and Head of Finance of relevant accounting standards.
	(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.	Complied with. The External Auditor has been appointed as per the provision contained in the section 34 of People's Bank Act No. 29 of 1961. As per such provisions, "Auditor General" is the External Auditor and he can appoint any other qualified Auditor as the External Auditor. The Auditor General serves as the External Auditor for the Bank who is responsible for rotating the Auditors once in 5 years.
	(d) Check that the committee has obtained representations from the External Auditors' on their independence, and that the audit is carried out in accordance with SLAuS.	Complied with.
	(e) Check that the committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	This is mentioned in the Terms of Reference as a key function of the Audit committee regards to External Auditors.
	(f) Check that the committee has discussed and finalised, the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	Complied with.

Section	Procedure Performed	Degree of Compliance
	<p>(g) Check that the committee has a process to review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <p>(i) major judgemental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption; and</p> <p>(iv) the compliance with relevant accounting standards and other legal requirements, and;</p> <p>(v) in respect of the annual Financial Statements the significant adjustments arising from the audit.</p>	<p>Complied with.</p> <p>The Board Audit committee has reviewed the financial informations of the Bank periodically.</p>
	<p>(h) Check that the committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.</p>	<p>Complied with.</p>
	<p>(i) Check that the committee has reviewed the External Auditors' management letter and the management's response thereto.</p>	<p>Complied with.</p> <p>The committee has reviewed the management letter in the Board Audit Committee meeting under BAC No 42/2013.</p>
	<p>(j) Check that the committee shall take the following steps with regard to the internal audit function of the Bank:</p>	
	<p>(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;</p>	<p>Complied with.</p> <p>Observed the Internal Audit Department plan of the People's Bank which is presented to the board under BAC paper No 01/2013, Board Meeting No 01/2013. The plan consist of scope, functions and resources of the Internal Audit Department.</p>
	<p>(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</p>	
	<p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</p>	<p>Complied with.</p> <p>Appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department is generally carried out at the time of promotion/extension of service. Bank intends for further strengthening the process.</p>
	<p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the Internal Audit function;</p>	<p>Complied with.</p>

Section	Procedure Performed	Degree of Compliance
	(v) Check 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;	No such situation has arisen during the year 2013.
	(vi) Check that the Internal Audit function is independent of the activities it audits.	Complied with. The Internal Audit function is independent according to the "Terms of Reference" of Board Audit Committee. The Internal Audit Department reports directly to the Board Audit Committee.
	(k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with. The Board has considered major findings of internal investigations.
	(l) Check whether the committee has had at least two meetings with the External Auditors without the Executive Directors being present.	Complied with.
	(m) Check the terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with. These aspects are covered in the Terms of reference of the Audit Committee.
	(n) Check that the committee has met, at least four times and maintained minutes.	Complied with. As per the Board Audit Committee minutes, the Board Audit Committee has met 06 times for the year 2013.
	(o) Check that the Board has disclosed in the Annual Report, (i) details of the activities of the Audit committee; (ii) the number of Audit committee meetings held in the year (iii) details of attendance of each individual Director at such meetings	Complied with. Please Refer "Board Audit Committee Report" on pages 180 to 182.
	(p) Check that the secretary of the committee is the company secretary or the head of the Internal Audit function.	Complied with. The Secretary of the Board Audit Committee is the Company Secretary, Mr. Rohan Pathirage.

Section	Procedure Performed	Degree of Compliance
	<p>(q) Check that the "whistle blower" policy covers the process of dealing with;</p> <p>(i) The improprieties in financial reporting, internal control or other matters.</p> <p>(ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>(iii) Appropriate follow-up action.</p>	<p>Complied with.</p> <p>The "Whistle Blower Policy" of the People's Bank was approved by the board B.P. No 138/2013.</p>
3 (6) (iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
	(a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and key management personnel of the Bank by review of the "Terms of reference" and minutes.	<p>Complied with.</p> <p>The Human Resource and Remuneration committee will determine the remuneration (salaries, allowances and other financial payments) relating CEO and key management personnel of the Bank.</p>
	(b) Check that the goals and targets for the Directors, CEO and the key management personnel are documented.	Complied with.
	(c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	<p>Complied with.</p> <p>The Bank is in the process of developing a performance-based rewards scheme.</p>
	(d) Check that the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	<p>Complied with.</p> <p>"Terms of Reference" provides that "CEO should be presented at all meetings of the committee, except when matters relating to the CEO are being discussed.</p>
3 (6) (iv)	Does the following rules apply in relation to the Nomination Committee:	
	(a) Check that the committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	<p>Complied with.</p> <p>Key Management personnel are nominated by the Board Nomination Committee and Directors are appointed by the Minister of Finance as per provisions of the People's Bank Act.</p>
	(b) Check that the committee has considered and recommended (or not recommended) the re-election of current Directors.	<p>The Directors are appointed by the Finance Minister under the section 8 of People's Bank Act No. 29 of 1961.</p>

Section	Procedure Performed	Degree of Compliance
	(c) Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	Complied with.
	(d) Check that the committee has obtained from the Directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	Complied with.
	(e) Check that the committee has considered a formal succession plan for the retiring Directors and key management personnel.	Complied with. There is a formal succession plan approved by the Board under Board paper no 279/2012.
	(f) Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied with. Members of the committee includes Directors who are appointed by the Ministry of Finance and they are Non-Independent, Non-Executive Directors.
3 (6) (v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	(a) The committee shall consist of at least three Non-Executive Directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied with. The BIRMC committee consists of four Non-Executive Directors, CEO and other key management personnel by invitation. We observed the BIRMC minutes No. 01/2013 and 04/2013. It was evident that the risk categories have been considered.
	(b) Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with. The risk categories are assessed through 'stress testing report' prepared on a quarterly basis by board integrated risk committee. The stress testing report was presented to the board under the following Board papers and Board minutes. BIRMC No - 14/2013, BIRMC No - 22/2013, BIRMC No - 32/2013, BIRMC 35/2013.
	(c) Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	Complied with. BIRMC reviewed specific quantitative and qualitative risk limits for all management level committees. The review is carried out annually. But if any special situation arises then it has to be considered in the immediate Board meeting.

Section	Procedure Performed	Degree of Compliance
	(d) Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with.
	(e) Check how many times the committee has met at least quarterly.	Complied with. The Committee has met four times during the year on a quarterly basis.
	(f) Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	No such formal documented disciplinary action procedure is available.
	(g) Check that the committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with. Risk Assessment reports submitted to the BIRMC. These reports are submitted to the immediate Board meeting following the committee meeting.
	(h) Check that the committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated Compliance Officer selected from key management personnel to carry out the Compliance function and report to the committee periodically.	Complied with. The Bank has appointed DGM-Compliance officer (Mrs. Srma Arakularathne) for the compliance function B.P. No 156/2012. Compliance officer has submitted the Compliance report to the Board once in two months. DGM-Compliance is not defined as a part of Key Management Personnel of the Bank.

3 (7)

Related party transactions

3 (7) (i)	<p>Check that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this direction:</p> <ul style="list-style-type: none"> (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's key management personnel; (e) A close relation of any of the Bank's Directors or key management personnel; (f) A shareholder owning a material interest in the Bank; (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* 	<p>Members of the Board are required to make declarations of their Directorships/Position held in other institutions at the time of appointment and thereafter updated annually. This information is provided to the Finance Division enabling them to capture relevant transactions. In the event of any change the Directors are required to make a further declaration to the Secretary to the Board. The Bank also follows a direction in the Code of Best Practice on the process with regard to Related Party Transactions. The Bank is taking initiatives to further strengthen the monitoring mechanism.</p>
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Section	Procedure Performed	Degree of Compliance
3 (7) (ii)	<p>Check that there is a process to identify and report the following types of transaction which have been identified as transactions with related parties that is covered by this direction.</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board's directions on maximum amount of accommodation.</p> <p>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.</p> <p>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.</p> <p>(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.</p>	<p>Complied with</p> <p>The Bank follows the "Credit Manual" when granting facilities. And follows an evaluation process.</p> <p>The Bank has a process in which Related Party Transactions are identified and reported. However the Bank is in the process of further strengthening the monitoring mechanism in this regard.</p>
3 (7) (iii)	<p>Does the Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.</p>	<p>Complied with.</p> <p>The Bank follows the credit manual and the CBSL directions.</p>
	<p>(a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this subdirection:</p> <p>(i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No. 7 of 2007 on Maximum Amount of Accommodation.</p> <p>(ii) The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.</p>	<p>Complied with.</p>
	<p>(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.</p>	<p>Complied with.</p>
	<p>(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;</p>	<p>Complied with.</p>

Section	Procedure Performed	Degree of Compliance
	(d) Providing services to or receiving services from a related-party without an evaluation procedure;	Complied with.
	(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.	Complied with.
3 (7) (iv)	Check that the Bank has a process for granting accommodation to any of its Directors and key management personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with.
3 (7) (v)	(a) Check that the Bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with. The Bank follows the Credit manual.
	(b) Check where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such a Director, whichever is earlier.	Not Applicable
	(c) Check that there is a process to identify any Director who fails to comply with the above subdirections be deemed to have vacated the office of Director and has the Bank disclose such fact to the public	Not Applicable
	(d) Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank	Not Applicable

Section	Procedure Performed	Degree of Compliance
3 (7) (vi)	Check that there is a process in place to identify when the Bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with. The Bank follows the credit manual and the CBSL directions.
3 (7) (vii)	Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.	There were no such instances during the period. However the Bank has not addressed such a procedure in their Credit Manual.
3 (8)	Disclosures	
3 (8) (i)	Check that the Board has disclosed: (a) Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with.
3 (8) (ii)	Check that the Board has made the following minimum disclosures in the Annual Report: (a) The statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. (b) The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with. Disclosures on the compliance with the applicable accounting standards and regulatory requirements been made in the "Statement of Directors' Responsibility". Please refer page 155. Complied with. Report by the Board on the effectiveness of the Bank's internal control mechanism that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting is given on the Directors' Statement of Internal Control. Please refer pages 156 to 157.

Section	Procedure Performed	Degree of Compliance
	(c) Check that the Board has obtained the External Auditors' report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	Complied with. The Bank has obtained an assurance report from the External Auditors on the effectiveness of the Internal Control mechanism. Please refer pages 158 to 159.
	(d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied with. The Profiles of the Directors are given on pages 24 to 26 and the total of fees/remuneration paid to Directors by the Bank given in Note 49 to the Financial Statements on page 243.
	(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.	Accommodations granted to Related Parties are given in Note 49 to the Financial Statements on pages 243 to 247. The Bank is in the process of further strengthening the system of capturing and disclosing Related Party Transactions.
	(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.	Complied with. The aggregate value of the transactions of the Bank with its key management personnel is given in Note 49 to the Financial Statements in page 243.
	(g) Check that the Board has obtained the External Auditors' report on the compliance with Corporate Governance Directions.	Complied with. The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these directions.
	(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with. Please refer pages 112 to 113.
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	There were no significant supervisory concerns regarding the said concerns, pointed out by Director of the Bank Supervision Dept. of the CBSL which requires disclosure to the public.
3 (9)	Transitional and other general provisions	The Bank has complied with transitional provisions.

Board Audit Committee Report

The Board Audit Committee (BAC) assists the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management, internal auditing and the assessment of internal controls. The BAC also reviews the effectiveness of the Bank's internal controls through review and follow-up of the Bank's Internal Audit Reports and manages the Bank's relationship with the External Auditors.

The Board of Directors periodically review and authorise the Board Audit Committee Charter for the purposes of delegating the authority, scope, and responsibilities of the BAC. With its delegated powers, BAC determines the scope and duties of Internal Audit Functions by way of Internal Audit Charter and recommends it to the Board of Directors for approval.

Composition of the Committee

The BAC comprises of the following Directors, who conduct Committee proceedings in accordance with the Board Audit Committee Charter approved by the Board of Directors.

Mr. Jehan P. Amaratunga (Chairman)
Non-Independent, Non-Executive Director

Ms. D.N. Gammampila (Member)
Non-Independent, Non-Executive Director

Mr. G.K.D. Amarawardena (Member)
Non-Independent, Non-Executive Director

Mr. R.M.P. Ratnayake (Member)
Non-Independent, Non-Executive Director

Mr. Jehan P. Amaratunga, the Chairman of the BAC, Non-Independent, Non-Executive Director is a Member of The Chartered Accountants of Sri Lanka and Fellow Chartered Management Accountant, counting over 25 years of extensive experience in financial and management industry.

He is also a member of the Governing Council of The Institute of Chartered Accountants of Sri Lanka.

The BAC was reconstituted on 10th June 2013 and number of three (03) committee members were increased to four (04). Mr. R.M.P. Ratnayake new alternate to Ex-Officio Director, Miss Vishaka Amarasekara, was appointed as the representative of the Ministry of Finance, Planning and Implementation.

By invitation of the BAC, Chief Internal Auditor, Senior Deputy General Manager (Risk Management), Deputy General Manager (Compliance) and the External Auditor attend the BAC meetings. Also invited to attend certain meetings are relevant officers from business units to present sessions on issues designed to enhance the BAC awareness of key issues and developments in the business, which are relevant to the Board Audit Committee in the performance of its role. The Board Secretary functions as the Secretary to the BAC.

Regulatory Compliance

The roles and functions of the BAC are regulated by the Banking Act Direction No. 11 of 2007, the mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Central Bank of Sri Lanka.

Duties and Role of the Board Audit Committee

The BAC is responsible for -

- Review of the financial information of the Bank, in order to monitor the integrity of the Financial Statement of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure.
- Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices.
- Reviewing accounting and financial reporting, risk management processes and regulatory compliance.
- Review of the Financial Statements (including quarterly Interim Statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies which are consistently applied.

- Review internal audit reports and liaise with corporate management in taking precautionary procedures to obviate violations, frauds, and errors.
- Assessing independence and monitoring performance and functions of the Internal Audit Department including overseeing the appointment of the Head of Internal Audit.
- Overseeing the appointment, compensation, resignation, dismissal of the external audit, its cost and effectiveness and monitoring of the External Auditors' independence.
- Reviewing effectiveness of the Bank's system of internal control over financial reporting to provide reasonable assurance regarding the reliability of Financial Statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.
- Engaging independent advisors on specialised functions where it deems necessary:

During the year ended 31st December 2013 the principal activities of the BAC were as follows.

• Performance

The BAC shall meet at least four times per financial year, and the Committee had six (06) meetings during the year under review. The Chief Internal Auditor, Senior Deputy General Manager (Risk Management), Deputy General Manager (Compliance) and the External Auditor also attended these meetings by invitation.

• Financial Reporting

Reviewed and recommended the adoption by the Board of the consolidated accounting policies under the new Accounting Standards. Viz, Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS).

Assisted the Board in ensuring that Annual Audited Financial Statement and Quarterly Financial Statements are prepared and published in accordance with the requirements prescribed by the supervisory and regulatory authorities and applicable accounting standards.

• Internal Control over Financial Reporting

The Bank is required to comply with the Section 3 (8) (ii) 6 of the Banking Act Direction No. 11 of 2007 on Corporate Governance issued by Central Bank of Sri Lanka and assess the effectiveness of internal control over financial reporting as at 31st December 2013.

The Bank assessed the effectiveness of its internal control over financial reporting as at 31st December 2013 based on the criteria set out in the Guidance for Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) in 2010.

• Annual Corporate Governance Report

As required by the Directions issued by the Central Bank of Sri Lanka, on Corporate Governance for Licensed Commercial Banks, Section 3 (8) (ii) 9 of the External Auditor of the Bank reported on the Bank's compliance with the Corporate Governance Directions in the Corporate Governance Reports published by the Bank.

Corporate Governance Report for 2013 is included in the Annual Report 2013.

Internal Audit

The BAC monitored and reviewed, the scope, extent and effectiveness of the activity of the Bank's Internal Audit Department that included updates on audit activities and achievements against the Bank's audit plan, advising corporate management to take precautionary measures on significant audit findings and assessment of resource requirements of the Internal Audit Department. The BAC had necessary interactions with the Chief Internal Auditor throughout the year.

During the year, BAC reviewed the internal audit plan and monitored the progress on a quarterly basis. The sections covered and the regularity of audits depends on the risk level of each section, with higher risk sections being audited more frequently.

The Committee followed up on Internal Audit recommendations with the corporate management. Internal audit reports are made available to External Auditors as well.

Along with the significant findings, Internal Audit Department has been engaged in sharing and providing knowledge through regular training to Bank's staff on better control awareness.

In keeping with BAC recommendations Internal Audit has also provided inputs to the Corporate Management for effective control and prevention of fraud, which are regularly addressed to stay on course.

External Auditors

The BAC reviewed the independence of the External Auditors and the objectivity and effectiveness of the audit process and provided the Board of Directors with its recommendation on the reappointment of External Auditors for the financial year ended 31st December 2013. The BAC recommended the scope and fees for audit and permitted non-audit services provided by the External Auditors.

The Committee reviewed the Management Letter and followed up on issues raised.

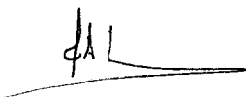
CBSL Statutory Examinations

The Committee reviewed the findings of statutory examinations conducted by the Central Bank of Sri Lanka, monitored the quarterly progress of adherence to the time-bound action plan on the status of rectification of the supervisory concerns raised at Statutory Examinations.

Whistle-Blowing

People's Bank's Whistle-Blowing Policy is intended to serve as a channel of corporate fraud risk management. The policy will allow any Team Member who has a legitimate concern on an existing or potential 'wrongdoing', done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, as even anonymous complaints are looked at. In fact this procedure will be operated by the BAC of the Board.

On behalf of the Audit Committee,



Jehan P. Amaratunga
Chairman,
Board Audit Committee,
Colombo.

23rd January 2014

Report of the Auditor General



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මගේ අංකය
எனது இல. } FB/G/PB/FA/2013
My No. }

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 29 March 2014
Date }

Report of The Auditor General on the Financial Statements of the People's Bank and its Subsidiaries for the year ended 31 December 2013

The audit of the Financial Statements of the People's Bank ("Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries ("Group") for the year ended 31 December 2013 comprising the Statements of Financial Position as at 31 December 2013, the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. The Financial Statements of the subsidiaries were audited by firms of Chartered Accountants in public practice appointed by the members of the respective subsidiaries.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these Financial Statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of the material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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කොට්ඨාශාධිපති කොට්ඨාසය
Auditor General's Department

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion - Bank

In my opinion, so far as appears from our examination, the Bank maintain proper accounting records for the year ended 31 December 2013 and the Financial Statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion - Group

In my opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Bank and its Subsidiaries dealt with thereby as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These Financial Statements present the information required by the Banking Act, No. 30 of 1988 and subsequent amendments thereto.

Exemption

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5 (1) of the said Finance Act.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

H.A.S. Samaraweera
Auditor General

Income Statement

For the year ended 31st December		BANK			GROUP		
		2013	2012	Change	2013	2012	Change
		Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Note							
Gross Income	5	120,456,472	94,777,398	27.1	139,956,607	109,973,740	27.3
Interest Income		110,440,562	85,241,301	29.6	129,204,762	100,844,385	28.1
Interest Expenses		(73,791,102)	(51,323,506)	43.8	(84,244,882)	(60,211,289)	39.9
Net Interest Income	6	36,649,460	33,917,795	8.1	44,959,880	40,633,096	10.6
Fee and Commission Income		3,478,015	3,541,589	(1.8)	3,551,800	4,289,051	(17.2)
Fee and Commission Expenses		(135,446)	(144,364)	(6.2)	(135,446)	(144,364)	(6.2)
Net Fee and Commission Income	7	3,342,569	3,397,225	(1.6)	3,416,354	4,144,687	(17.6)
Net Gain from Trading	8	2,816,436	2,072,563	35.9	2,832,261	2,095,881	35.1
Other Operating Income (Net)	9	3,721,459	3,921,946	(5.1)	4,367,784	2,744,423	59.2
Total Operating Income		46,529,925	43,309,529	7.4	55,576,279	49,618,087	12.0
Impairment for Loans and Other Losses	10	(13,716,320)	(3,874,384)	254.0	(14,822,427)	(4,575,377)	224.0
Net Operating Income		32,813,605	39,435,145	(16.8)	40,753,852	45,042,710	(9.5)
Personnel Expenses	11	(11,958,251)	(13,818,647)	(13.5)	(13,371,475)	(14,932,771)	(10.5)
Other Expenses	12	(8,844,614)	(7,902,154)	11.9	(11,877,082)	(9,626,218)	23.4
Operating Profit before Value Added Tax (VAT)		12,010,740	17,714,344	(32.2)	15,505,295	20,483,721	(24.3)
Value Added Tax (VAT) on Financial Services		(1,706,458)	(2,464,962)	(30.8)	(2,015,923)	(2,745,110)	(26.6)
Operating Profit after Value Added Tax (VAT)		10,304,282	15,249,382	(32.4)	13,489,372	17,738,611	(24.0)
Share of Profits/(Loss) of Associates		—	—		(76,978)	(67,207)	14.5
Profit before Tax		10,304,282	15,249,382	(32.4)	13,412,394	17,671,404	(24.1)
Tax Expenses	13	(2,816,395)	(4,355,390)	(35.3)	(4,248,210)	(5,774,716)	(26.4)
Profit for the year		7,487,887	10,893,992	(31.3)	9,164,184	11,896,688	(23.0)
Profit Attributable to:							
Equity Holders of the Bank		7,487,887	10,893,992	(31.3)	8,364,339	11,230,194	(25.5)
Non-Controlling Interests		—	—		799,845	666,494	20.0
		7,487,887	10,893,992	(31.3)	9,164,184	11,896,688	(23.0)
Earnings Per Share on Profit	14						
Basic Earnings per Ordinary Share	14.1	7,488	10,894	(31.3)	8,364	11,230	(25.5)
Diluted Earnings per Ordinary Share	14.2	52	76	(31.3)	58	78	(25.5)

The Notes appearing on pages 191 to 262 form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the year ended 31st December	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit for the Year	7,487,887	10,893,992	9,164,184	11,896,688
Other Comprehensive Income Net of Tax				
Actuarial Gains and Losses on Defined Benefit Plans	(715,204)	(57,966)	(715,204)	(57,748)
Gains and Losses on Re-Measuring Available-for-Sale Financial Assets	(133,988)	(18,489)	(132,690)	(38,609)
Gains on revaluation of land and buildings	5,934,089	–	6,567,654	–
Gains on revaluation of land and buildings - Associate	–	–	182,475	–
Less:				
Tax Expense/(Income) Relating to Components of Other Comprehensive Income	(521,038)	–	(698,436)	–
Other Comprehensive Income for the Year, Net of Taxes	4,563,859	(76,455)	5,203,799	(96,357)
Total Comprehensive Income for the Year	12,051,746	10,817,537	14,367,983	11,800,331
Attributable to:				
Equity Holders of the Bank	12,051,746	10,817,537	13,453,772	11,138,777
Non-Controlling Interests	–	–	914,211	661,554
	12,051,746	10,817,537	14,367,983	11,800,331

The Notes appearing on pages 191 to 262 form an integral part of these Financial Statements.

Statement of Financial Position

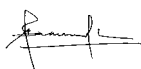
As at 31st December		BANK			GROUP		
		2013	2012	Change	2013	2012	Change
		Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
	Note						
Assets							
Cash and Cash Equivalents	16	18,772,595	24,401,979	(23.1)	20,801,230	26,102,723	(20.3)
Balance with the Central Bank of Sri Lanka	17	40,370,892	43,412,048	(7.0)	40,370,892	43,412,048	(7.0)
Placements with Banks	18	2,551,215	13,341,252	(80.9)	2,551,215	13,341,252	(80.9)
Derivative Financial Instruments	19	35,391	2,791	1,168.0	35,391	2,791	1,169.0
Other Financial Assets Held-for-Trading	20	63,748,857	18,772,710	239.6	64,057,091	19,002,137	237.1
Loans and Receivables to Banks	21	82,225,089	35,350,098	132.6	82,339,403	35,350,098	132.9
Loans and Receivables to Other Customers	22	619,829,735	611,414,266	1.4	710,074,499	690,197,310	2.9
Financial Investments - Available-for-Sale	23	311,733	27,977,488	(98.9)	1,737,175	27,982,838	(93.8)
Financial Investments - Held-to-Maturity	24	75,784,287	78,522,570	(3.5)	78,322,900	80,151,886	(2.3)
Investments in Subsidiaries	25	1,245,908	1,253,434	(0.6)	—	—	—
Investments in Associates	26	207,568	273,100	(24.0)	274,470	309,989	(11.5)
Goodwill and Intangible Assets	27	33,535	44,352	(24.4)	392,073	405,768	(3.4)
Property, Plant & Equipment	28	14,705,721	8,234,565	78.6	18,183,658	10,923,098	66.5
Investment Properties	29	189,776	398,508	(52.4)	189,776	398,508	(52.4)
Prepaid Leases	30	295,732	291,866	1.3	295,732	291,866	1.3
Deferred Tax Assets	31	1,071,381	691,313	55.0	1,075,651	501,997	114.3
Other Assets	32	9,205,859	8,913,989	3.3	10,771,638	12,485,771	(13.7)
Total Assets		930,585,274	873,296,329	6.6	1,031,472,794	960,860,080	7.3
Liabilities							
Due to Banks	33	81,794,017	94,124,713	(13.1)	101,987,002	133,987,864	(23.9)
Derivative Financial Instruments	34	215,844	1,710	12,522.5	215,844	1,710	12,522.5
Due to Other Customers	35	762,248,529	683,950,837	11.4	789,225,314	708,896,611	11.3
Other Borrowings	36	20,353,986	41,024,958	(50.4)	38,878,017	40,740,098	(4.6)
Current Tax Liabilities		393,380	1,860,689	(78.9)	877,476	1,933,576	(54.6)
Deferred Tax Liabilities	31	885,232	189,726	366.6	2,557,359	864,461	195.8
Other Liabilities	37	13,124,900	12,938,908	1.4	19,501,922	18,686,592	4.4
Subordinated Term Debts	38	15,032,542	10,000,000	50.3	23,141,451	10,000,000	131.4
Total Liabilities		894,048,430	844,091,541	5.9	976,384,385	915,110,912	6.7
Equity							
Stated Capital/Assigned Capital	39	7,201,998	7,201,998	—	7,201,998	7,201,998	—
Statutory Reserve Fund	40	2,811,685	2,437,291	15.4	2,811,685	2,437,291	15.4
Other Reserves	41	24,409,753	15,883,878	53.7	25,959,057	16,671,804	55.7
Retained Earnings	42	2,113,408	3,681,621	(42.6)	14,168,284	14,858,239	(4.6)
Total Shareholders' Equity		36,536,844	29,204,788	25.1	50,141,024	41,169,332	21.8
Non-Controlling Interests	43	—	—	—	4,947,385	4,579,836	8.0
Total Equity		36,536,844	29,204,788	25.1	55,088,409	45,749,168	20.4
Total Equity and Liabilities		930,585,274	873,296,329	6.6	1,031,472,794	960,860,080	7.3
Contingent Liabilities and Commitments							
	44	197,118,649	207,021,384	(4.8)	197,376,033	208,570,108	(5.4)

The Notes appearing on pages 191 to 262 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.



G.G. Mangala
Head of Finance



N. Vasantha Kumar
Chief Executive Officer/General Manager



Gamini S. Senarath
Chairman

26th March 2014, Colombo

Cash Flow Statement

For the year ended 31st December		BANK		GROUP	
		2013	2012	2013	2012
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flows from Operating Activities					
Profit Before Tax		10,304,282	15,249,382	13,412,394	17,671,404
Adjustment for:					
Non-cash items included in profits before tax	45	14,561,131	3,431,840	15,927,755	4,515,991
Changes in operating assets	46	(72,878,904)	(173,144,405)	(84,217,843)	(188,289,730)
Changes in operating liabilities	47	44,113,293	204,656,120	46,097,018	217,986,741
Share of profits in associates and joint ventures		–	–	(96,703)	67,207
Dividend income from subsidiaries and associates		(1,627,455)	(1,622,503)	(160,790)	(1,622,503)
Interest expense on subordinated debt		1,695,043	1,337,500	1,695,043	1,337,500
Contribution paid to defined benefit plans		867,653	1,108,383	867,653	1,108,384
Tax paid		(4,489,304)	(5,608,101)	(4,883,503)	(6,919,856)
Net Cash-Generated from Operating Activities		(7,454,261)	45,408,216	(11,358,976)	45,855,138
Cash Flows from Investing Activities					
Purchase of property, plant & equipment		(1,168,692)	(1,327,807)	(1,654,618)	(2,190,339)
Proceeds from the sale of property, plant & equipment		30,288	23,879	118,591	383,938
Purchase of financial investments		–	(32,245,111)	–	(32,379,047)
Net increase/(decrease) in financial investments held-to-maturity		2,738,283	–	1,100,562	–
Net purchase of intangible assets		(27,792)	–	(43,644)	(18,557)
Net cash flow from acquisition of investment in subsidiaries and associates		–	–	142,794	–
Net cash flow from disposal of subsidiaries		7,526	166,516	–	–
Proceeds from disposal of associates and joint ventures		–	–	–	50,000
Dividends received from investment in subsidiaries and associates		1,627,455	1,622,503	160,790	1,622,503
Net Cash (Used in) from Investing Activities		3,207,068	(31,760,020)	(175,525)	(32,531,502)
Cash Flows from Financing Activities					
Net proceeds from the issue of subordinated debt		5,032,542	–	13,141,451	–
Interest paid on subordinated debt		(1,695,043)	(1,337,500)	(1,695,043)	(1,337,500)
Dividend paid to non-controlling interest		(219,690)	–	(713,400)	(34,027)
Dividend paid to holders of other equity instruments		(4,500,000)	(4,701,382)	(4,500,000)	(4,701,382)
Share issue expenses		–	–	–	(14,429)
Net Cash from Financial Activities		(1,382,191)	(6,038,882)	6,233,008	(6,087,338)
Net Increase/(Decrease) in Cash & Cash Equivalents		(5,629,384)	7,609,314	(5,301,493)	7,236,298
Cash and cash equivalents at the beginning of the year		24,401,979	16,792,665	26,102,723	18,866,425
Exchange difference in respect of cash & cash equivalent		–	–	–	–
Cash and cash equivalents at the end of the year	16	18,772,595	24,401,979	20,801,230	26,102,723

The Notes appearing on pages 191 to 262 form an integral part of these Financial Statements.

Statement of Changes in Equity

For the year ended 31st December

	Stated Capital/Assigned Capital		Reserves						Total
	Ordinary Shares	Assigned Capital	Statutory Reserve Fund	Revaluation Reserve	Other Reserves	Investment Fund	Available-for-Sale Reserve	Retained Earnings	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
BANK									
Balance as at 01.01.2011	49,998	7,152,000	49,998	5,630,460	2,198,971	–	413,124	3,914,771	19,409,322
Profit/(Loss) for the year	–	–	–	–	–	–	–	10,446,373	10,446,373
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(96,671)	–	(96,671)
Impairment Charges in Respect of Off-Balance Sheet Items	–	–	–	–	–	–	–	–	–
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(2,170,391)	(2,170,391)
Transfer to Reserve during the period	–	–	1,842,593	–	1,447,598	1,897,702	–	(5,187,893)	–
Dividend Paid to GOSL	–	–	–	–	–	–	–	–	–
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)
Balance as at 31.12.2011	49,998	7,152,000	1,892,591	5,630,460	3,646,569	1,897,702	316,453	2,502,860	23,088,633
Profit/(Loss) for the Year	–	–	–	–	–	–	–	10,893,992	10,893,992
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(18,489)	–	(18,489)
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(57,966)	(57,966)
Transfer to Reserve during the period	–	–	544,700	(166,964)	1,432,304	3,145,843	–	(4,955,883)	–
Dividend Paid to GOSL	–	–	–	–	–	–	–	(201,382)	(201,382)
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)
Balance as at 31.12.2012	49,998	7,152,000	2,437,291	5,463,496	5,078,873	5,043,545	297,964	3,681,421	29,204,788
Profit/(Loss) for the Year	–	–	–	–	–	–	–	7,487,887	7,487,887
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(133,988)	–	(133,988)
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(715,204)	(715,204)
Gain/(Loss) on Revaluation of Property, Plant & Equipment	–	–	–	5,934,089	–	–	–	–	5,934,089
Transfers to Reserves During the Period	–	–	374,394	–	1,875,000	1,371,812	–	(3,621,206)	–
Dividend Paid to GOSL (Note 41.6)	–	–	–	–	–	–	–	(219,690)	(219,690)
Special Levy to Treasury (Note 41.7)	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)
Tax on Other Comprehensive Income	–	–	–	(521,038)	–	–	–	–	(521,038)
Balance as at 31.12.2013	49,998	7,152,000	2,811,685	10,876,547	6,953,873	6,415,357	163,976	2,113,408	36,536,844

For the year ended 31st
December

	Stated Capital/ Assigned Capital		Reserves						Total	Non- Controlling Interest	Total Equity
	Ordinary Shares	Assigned Capital	Statutory Reserve Fund	Revaluation Reserve	Other Reserves	Investment Fund	Available for Sale Reserve	Retained Earnings			
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GROUP											
Balance as at 01.01.2011	49,998	7,152,000	49,998	5,630,460	2,198,971	–	413,124	10,559,847	26,054,398	83,225	26,137,623
Profit/(Loss) for the year	–	–	–	–	–	–	–	12,117,411	12,117,411	406,127	12,523,538
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(93,985)	–	(93,985)	895	(93,090)
Net Defined Benefit obligation	–	–	–	–	–	–	–	(2,169,579)	(2,169,579)	271	(2,169,308)
Transfer to Reserve during the period	–	–	1,842,593	–	1,447,598	2,230,900	–	(5,521,091)	–	–	–
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(3,580)	–	(3,580)	–	(3,580)
Deemed Disposal Profit	–	–	–	–	–	–	–	3,150,026	3,150,026	–	3,150,026
Share Issue Expenses	–	–	–	–	–	–	–	(211,190)	(211,190)	–	(211,190)
Goodwill Adjustment	–	–	–	–	–	–	–	(2,969)	(2,969)	–	(2,969)
Disposal of Change of holdings	–	–	–	–	–	–	–	(29,362)	(29,362)	–	(29,362)
Acquired during the year	–	–	–	–	–	–	–	–	–	3,932,085	3,932,085
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)	–	(4,500,000)
Balance as at 31.12.2011	49,998	7,152,000	1,892,591	5,630,460	3,646,569	2,230,900	315,559	13,393,093	34,311,170	4,422,603	38,733,773
Profit/(Loss) for the year	–	–	–	–	–	–	–	11,230,199	11,230,199	666,494	11,896,693
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(38,663)	–	(38,663)	54	(38,609)
Net Defined Benefit obligation	–	–	–	–	–	–	–	(52,754)	(52,754)	(4,994)	(57,748)
Transfer to Reserve during the period	–	–	544,700	(166,964)	1,432,304	3,621,639	–	(5,431,679)	–	–	–
Movement in deemed disposal profit	–	–	–	–	–	–	–	435,191	435,191	(504,322)	(69,131)
Share Issue Expenses	–	–	–	–	–	–	–	(14,429)	(14,429)	–	(14,429)
Dividend Paid to GOSL (Note 40.6)	–	–	–	–	–	–	–	(201,382)	(201,382)	–	(201,382)
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)	–	(4,500,000)
Balance as at 31.12.2012	49,998	7,152,000	2,437,291	5,463,496	5,078,873	5,852,539	276,896	14,858,239	41,169,332	4,579,836	45,749,168
Profit/(Loss) for the Year	–	–	–	–	–	–	–	8,364,339	8,364,339	799,845	9,164,184
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(133,015)	–	(133,015)	325	(132,690)
Net Defined Benefit obligation	–	–	–	–	–	–	–	(715,204)	(715,204)	–	(715,204)
Gain on revaluation of Land and Building	–	–	–	6,409,263	–	–	–	–	6,409,263	158,391	6,567,654
Gain on revaluation of Land and Building - Associate	–	–	–	182,475	–	–	–	–	182,475	–	182,475
Transfer to Reserve during the period	–	–	374,394	–	1,875,000	1,611,397	(3,780)	(3,856,261)	750	250	1,000
Dividend Paid to GOSL (Note 41.6)	–	–	–	–	–	–	–	(219,690)	(219,690)	–	(219,690)
Special Levy to Treasury (Note 41.7)	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)	–	(4,500,000)
Movement in deemed disposal profit	–	–	–	–	–	–	–	100,190	100,190	(98,759)	1,431
Share Issue Expenses	–	–	–	–	–	–	–	208,554	208,554	69,518	278,072
Merger Adjustment	–	–	–	–	–	–	–	(71,883)	(71,883)	(23,961)	(95,844)
Dividend payment	–	–	–	–	–	–	–	–	–	(493,710)	(493,710)
Tax on Other comprehensive income	–	–	–	(654,087)	–	–	–	–	(654,087)	(44,350)	(698,437)
Balance as at 31.12.2013	49,998	7,152,000	2,811,685	11,401,147	6,953,873	7,463,936	140,101	14,168,284	50,141,024	4,947,385	55,088,409

Notes to the Financial Statements

1. Reporting Entity

1.1 Corporate Information

The People's Bank ('The Bank') is a Government-owned Bank, established under People's Bank Act No. 29 of 1961 on 1st July 1961 and is domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended 31st December 2013 comprises the Bank, its Subsidiaries i.e., People's Leasing & Finance PLC and People's Travels (Pvt.) Ltd. and the Sub-Subsidiaries of People's Leasing Fleet Management Ltd, People's Leasing Property Development Ltd., People's Insurance Ltd., People's Microfinance Ltd., People's Leasing Havelock Properties Ltd. and the Group's Associate Company, People's Merchant Finance PLC. The Consolidated Financial Statements for the year ended 31st December 2013 were authorised for issue on 26th March 2014 by the Board of Directors.

1.2 Principal Activities

Bank

The Bank's business comprises, accepting deposits, granting credit facilities, personal banking, development banking, pawn brokering, international trade, dealing in Government Securities, credit card operations and Off-Shore Banking Unit for foreign currency banking, *inter alia*.

Subsidiaries

The principal activities of People's Leasing & Finance PLC are providing finance leases, hire purchase assets financing, term loans, margin trading, issuing of debt instruments and mobilisation of deposits. People's Travels Ltd., relates to arrangement of tours and air ticketing.

Sub-Subsidiaries

The principal activities of the Bank's Sub-Subsidiaries are as follows:

Name of Company	Principal Activity
People's Leasing Fleet Management Ltd.	Fleet management, vehicle valuation and operations of a service station.
People's Leasing Property Development Ltd.	Carrying out a mixed development project and property development activities.
People's Insurance Ltd.	Carrying out general insurance business.
People's Microfinance Ltd.	Providing financial services excluding banking to low income earners and microenterprises.
People's Leasing Havelock Properties Ltd.	Construct and operate an office complex.

Associates

The principal activities of People's Merchant Finance PLC, relate to Trade Finance, Leasing, Hire Purchase, Real Estate, Short-Term Investments and Corporate Finance Services.

1.3 Directors' Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its subsidiaries in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

2. Basis of Preparation

2.1 Basis of Measurement

The Consolidated Financial Statements of the Bank and the Group encompassing the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes thereto have prepared in conformity with Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka and on the basis of historical cost convention except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value
- Derivative financial instruments are measured at fair value

- Available-for-sale financial assets are measured at fair value
- The liability for defined benefit obligations are actuarially valued and recognised as the present value of the defined benefit obligation less the net total of the plan assets

Adjustments have not been made for inflationary factors.

2.2 Statement of Compliance

The Financial Statements of the Bank and Group are prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by The Institute of Chartered Accountants of Sri Lanka.

2.3 Presentation of Financial Statements

The Bank and the Group presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 51.

2.4 Basis of Consolidation

The Financial Statements of the Bank and Group comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31st December 2013. The Financial Statements of the Bank's subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of People's Bank, using consistent accounting policies.

Acquisitions on or after 1st January 2012

For acquisitions on or after 1st January 2012, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Acquisitions Prior to 1st January 2012

As part of its transition to SLFRSs, the Group elected not to restate those business combinations that occurred on or after 1st January 2012. In respect of acquisitions prior to 1st January 2012, goodwill represents the

amount recognised under the Group's previous Sri Lanka Accounting Standards.

2.5 Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

There are no significant restrictions on the ability of subsidiaries to transfer funds to Parent in the form of cash dividends or to repay loans and advances. All subsidiaries of the Bank have been incorporated in Sri Lanka.

2.6 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associate's entities are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The Consolidated Financial Statements include the Bank's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reported at nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Bank's resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

2.7 Business Combinations

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets acquired, the discount on acquisition is recognised directly in the Income Statement in the year of acquisition.

2.8 Acquisitions of Non-Controlling Interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Therefore, no goodwill is recognised as a result of such transactions.

2.9 Transactions Eliminated on Consolidation

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or losses) are eliminated on consolidation. Unrealised gains and losses resulting from transactions between the Group and its associates are also eliminated on consolidation to the extent of the Group's interests in the associates.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.10 Material Gain or Loss, Provision Value or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of the business combinations that took place in previous periods.

3. Significant Accounting Judgements, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates and

assumptions in determining the amounts recognised in the Financial Statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant uses of judgements and estimates are as follow:

3.1 Going Concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

3.2 Fair value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible. However, if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 50.

3.3 Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ.

If impairment is not required based on the individual assessment all such individually significant loans and advances are then assessed collectively, in groups of

assets with similar risk characteristics. This is required to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan ownership types, levels of arrears, industries, etc.), and judgements on the effect of concentration of risks and economic data. The impairment loss on loans and advances is disclosed in more detail in Note 22.

In carrying out the impairment assessment, the Bank uses the parameters disclosed in Note 50.

3.4 Impairment of Available-for-Sale Investments

The Bank reviews its securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement.

The impairment loss on available-for-sale investments is disclosed in more detail in Note 23.

3.5 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

3.6 Defined Benefit Plan

The cost of the defined benefit pension plan (Pre-1996 employed staff members) is determined using an actuarial valuation. The actuarial valuation involves making assumptions on discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each

reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Note 35.1 for the assumptions used.

4. Summary of Significant Accounting Policies

4.1 Foreign Currency Translation

The Bank's and the Group's Financial Statements are presented in Sri Lankan Rupees, which is the functional currency of the Bank and all its subsidiaries.

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange on the reporting date. All differences arising on non-trading activities are taken to 'other operating income' in the Income Statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

4.2 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

4.2.1 Date of Recognition

Purchases of financial assets which are traded regularly are recognised using settlement date accounting. The settlement date is the date that an asset is delivered to an entity. Settlement date accounting refers to the recognition of an asset on the day it is received by the entity. When settlement date accounting is applied an entity accounts for any change in the fair value of the assets to be received during the period between the trade date and settlement date.

Non-regular purchases of financial assets and liabilities are recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

A regular purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the time frame established generally by a regulation or convention in the market place concerned.

4.2.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus significant transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

4.2.3 Classification and Subsequent Measurement of Financial Assets and Financial Liabilities

Financial Assets

At inception a financial asset is classified in one of the following categories:

- At fair value through profit or loss held-for-trading, or
Designated at fair value through profit or loss
- Available-for-sale
- Loans and receivables
- Held-to-maturity

The subsequent measurement of financial assets depends on their classification.

Financial Liabilities

The Group initially recognises all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

The subsequent measurement of financial liabilities depends on their classification.

4.2.4 Financial Assets or Financial Liabilities Held-for-Trading

Financial assets or financial liabilities held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'net trading income'. Interest and dividend income or expense is recorded in 'net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of trading in the short-term.

4.2.5 Derivatives Recorded at Fair Value through Profit or Loss

The Bank uses derivatives such as forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'net trading income'.

4.2.6 Available-for-Sale Financial Investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein.

Unrealised gains and losses are recognised in the other comprehensive income. In the event of disposal of such an investment, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'other operating income'. Dividends earned whilst holding available-for-sale financial investments are recognised in the Income Statement as 'other operating income' at the date of declaration by the Company in which the investment is made. The losses arising from impairment of such investments are recognised in the Income Statement in 'net gain/(loss) from financial investments' and removed from the respective asset/investment account in the 'Statement of Financial Position'.

4.2.7 Held-to-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold-to-maturity. Such investments are mainly Treasury Bonds. Subsequent to initial measurement, held-to-maturity financial investments are later measured at amortised cost using Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition.

and significant fees that are an integral part of the EIR. The amortisation is included in 'interest income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line 'net gain/(loss) from financial investments'. If the Bank were to sell or reclassify a significant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, if this happens the Bank would be prohibited from classifying any financial asset as held-to-maturity for two subsequent years.

4.2.8 Financial Assets Classified as Loans and Receivables

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available-for-sale
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts 'due from banks' and 'loans and advances to customers' are subsequently measured at amortised cost using EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment expenses'.

4.2.9 Reclassification of Financial Assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

The Bank may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

4.2.10 'Day 1' Difference for Staff Loans

All staff loans are granted at below market interest rates and were recognised at fair value. The difference between the fair value and the amount disbursed were treated as 'Day 1' difference and amortised as staff cost in the Income Statement over the loan period by using the effective interest rate. This amount is shown as interest income as well. Hence, the net effect on the Income Statement is zero.

4.2.11 Other Financial Liabilities

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, deposits from customers, amount due from banks, borrowings from banks, others and debentures.

After initial measurement, other financial liabilities are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

4.3 Derecognition of Financial Assets and Financial Liabilities

4.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or either:
 - o The Bank has transferred substantially all the risks and rewards of the asset; or
 - o The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same borrower on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

4.4 Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'net interest income' and is accrued over the life of the agreement using the EIR.

4.5 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 50.

4.6 Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4.6.1 Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not

yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited as an income.

The present values of the estimated future cash flows are discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as asset type, industry, ownership type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4.6.2 Available-for-Sale Financial Investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement - is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in other Comprehensive Income.

See Note 23 for details of impairment losses on financial investments - available-for-sale.

4.6.3 Renegotiated Loans

Where possible, the Bank seeks to reschedule loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

4.6.4 Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements.

4.6.5 Collateral Repossessed or where Properties have Devolved to the Bank

The immovable property acquired by foreclosure of collateral from defaulting customers, or which has devolved on the Bank as part settlement of debt, has not been accounted for as an investment property or as part of the assets of the Bank in accordance with directions issued by the Central Bank of Sri Lanka.

4.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

4.8 Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

4.8.1 Bank as a Lessee

Operating Leases

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

Finance Leases

Finance leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at fair value of the leased property or, if lower, at present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of lease liability so as to achieve a constant rate of interest

on the remaining balance of liability. Finance charges are recognised in finance costs in Income Statement. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

4.8.2 Bank as a Lessor

Finance Leases

Assets leased to customers who transfer substantially all risks and rewards associated with ownership other than legal title are classified as finance leases. Lease rentals receivables are stated in the Statement of Financial Position net of provision for impairments.

4.9 Cash and Cash Equivalents

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of cash and short-term funds are given in Note 16 to the Financial Statements.

4.10 Property, Plant & Equipment

Property, Plant & Equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Cost Model

Plant and Equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the Plant and Equipment when the cost is incurred, if the recognition criteria are met.

Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Revaluations are performed every 7 years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

A revaluation deficit is recognised in profit or loss, except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Subsequent Cost

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Group and its cost can be reliably measured.

Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain future economic benefits is charged to Statement of Comprehensive Income as incurred.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Leased assets under finance leases are depreciated over the shorter of either lease term and its useful life, which is

limited to a maximum tenor of 50 years. Freehold Land is not depreciated. The estimated useful lives are as follows:

Category of Asset	Period of Depreciation
Freehold Buildings	Estimated useful life
Leasehold Building	Shorter of lease term or its useful life, which is limited to a maximum tenor of 50 years.
Furniture, Equipment and Machinery	20% p.a.
Freehold and Leasehold Motor Vehicles	25% p.a.
Prepaid Leases	over the period of lease

Derecognition

Property, Plant & Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other operating income' in the Income Statement in the year the asset is derecognised.

4.11 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Basis of Recognition

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) - 'Investment Property'.

Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

4.12 Intangible Assets

Basis of Recognition

The Bank's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistently with the functioning of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

The Class of Intangible Assets	Useful Life	Amortisation Method
IT-Related Capital Items	5 Years	Straight-line method

4.13 Impairment of Non-Financial Assets

Basis of Recognition

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Measurement

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

Impairment losses relating to goodwill are not reversed in future periods.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business

combination is, from the acquisition date, allocated to each of the Bank's CGUs or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with SLFRS 8 - 'Operating Segments'.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

4.14 Financial Guarantees

Basis of Recognition

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the Financial Statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Measurement

Any increase in the liability relating to financial guarantees is recorded in the Income Statement in 'credit loss expense'. The premium received is recognised in the Income Statement in 'net fees and commission income' on a straight line basis over the life of the guarantee.

4.15 Pension Benefits

4.15.1 Defined Benefit Pension Plan

4.15.1.1 Pre-1996-Pension Scheme

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

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

The latest actuarial valuation was carried out as of 1st January 2013, and an attestation on the same has been obtained on 31st December 2013 from Piyal S. Gunatilleke FSA (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the attestation valuation are as follows:

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

The Bank provides a pension to retiring staff on the following basis; Staff are eligible to draw a pension after 10 years of service and after reaching normal age of

retirement of 55 years. The quantum of pension paid is dependent on the length of service as follows:

Length of Service	Quantum of Pension
(i) 10 to 20 years	80% of last drawn salary
(ii) 21 to 29 years	80% plus 1% for each additional year in excess of 20 years of last drawn salary
(iii) 30 years and above	90% of last drawn salary

The accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditors' Report are tabled and reviewed by the Board of Trustees. These Statements of Accounts and Auditors' Report are also submitted for review of disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

4.15.1.2 Gratuity

Employees who joined the Bank on or after 1st January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post 1996 pension scheme and if so such employees will forfeit their right to gratuity.

Other employees whose services are terminated other than by retirement are eligible to receive terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of gross salary applicable to the last month of the financial year in which employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Bank makes a monthly provision towards such gratuity payment liabilities and this value is reflected in the Statement of Financial Position of the Bank. Up to 31st December 2007, the Bank made a provision based on the gratuity formula. However, as per Sri Lanka Accounting Standards the Bank has provided for gratuity liability based on an actuary valuation.

The subsidiary and associate companies of the Bank provide for gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for Gratuity has been made for employees who have completed one year of service with the companies. These liabilities are not externally funded.

4.15.2 Defined Contribution Plans

The Bank also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'personnel expenses'. Unpaid contributions are recorded as a liability.

The Bank contributes to the following Schemes:

4.15.2.1 Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Employees' Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act and is maintained internally.

4.15.2.2 Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

4.15.3 Post-1996 Pension Plan

As approved by the Ministry of Finance the Bank has almost finalised a new pension scheme for permanent employees who joined the Bank after 1st January 1996. The Bank has transferred Rs. 198 Mn of the gratuity fund as an initial start up or seed money for this new pension scheme. In addition Rs. 1,308 Mn has been added to this fund; totalling Rs. 1,506 Mn as at end December 2013. This amount was derived using an Actuary valuation. The Bank has received close to 3,300 applications from the eligible 4,187 employees to join this scheme.

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

A separate fund is maintained by the Bank to meet future obligations under this scheme, based on the advice of a qualified actuary.

4.15.5 Post-Employment Medical Benefits

The Bank expenses post employment medical benefits as and when it arises based on the schemes approved by the Bank. A separate medical fund which is maintained amounted to Rs. 348 Mn as at 31st December 2013 in order to meet abnormally high medical expenses in the future. Management discretion is used to utilise this fund as and when required.

4.16 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

4.17 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary or associate for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

4.18 Taxes

4.18.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

4.18.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

4.18.2.1 Deferred Tax Liability

Deferred tax liabilities are recognised for all temporary differences, except-

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4.18.2.2 Deferred Tax Assets

Deferred tax assets are recognised for all deductible differences. Group carried forward unused tax credits and unused tax losses, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except-

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be

available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

4.18.3 Value Added Tax on Financial Services (VAT)

Bank's total value addition was subjected to a 12% Value Added Tax as per section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

4.18.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years.

4.18.5 Withholding Tax on Dividends (WHT)

Dividend distributed out of taxable profit of the local subsidiaries attracts a 10% deduction at source and is not available for set-off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the subsidiaries in the Consolidated Financial Statements as a consolidation adjustment.

4.18.6 Corporate Insurance Levy (CIL)

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the Corporate Insurance Levy (CIL) was introduced with effect from 1st April 2013. Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund.

4.19 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

4.19.1 Interest and Similar Income and Expense

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4.19.2 Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commission income are recognised when the service is performed. Fees earned for the provision of services over a period of time are accrued over that period.

4.19.3 Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established.

4.19.4 Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held-for-trading'.

4.20 Profit/Loss from Sale of Property, Plant & Equipment

Profit/loss from sale of Property, Plant & Equipment is recognised in the period in which the sale occurs and is classified as other income.

4.21 Segmental Reporting

The Bank's segmental reporting is based on the following operating segments: Banking, Leasing, and Travels and others. Information relating to above is disclosed in Note 48.

4.22 Cash Flow Statement

The Cash Flow Statement has been prepared using the 'Indirect Method' of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS 7) - 'Statement of Cash Flows'. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks and money at call and short notice.

4.23 Deposit Insurance Scheme

In terms of the Banking Act Direction No. 5 of 2010 'Insurance of Deposit Liabilities' issued on 27th September 2010 and subsequent amendments there to, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under 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 Government of Sri Lanka
- Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a Capital Adequacy Ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other licensed commercial banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

4.24 Investment Fund Account

As proposed in the budget proposals of 2011, every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account (IFA)

As and when taxes are paid after 1st January 2011, Licensed Commercial Banks are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the Bank.

8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT.

Five percent of the profit before tax calculated for the payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payment of tax.

The monies in this account should be utilised to fund long-term (over 5 years) projects and SME loans (as specified) at preferential interest rates.

4.25 Comparative Information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

4.26 Effect of Accounting Standards Issued But Not Yet Effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014/15. Accordingly,

these Standards have not been applied in preparing these Financial Statements.

SLFRS 9 - 'Financial Instruments'

The objective of this Accounting Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of Financial Statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The effective date for SLFRS 9 is yet to be announced by The Institute of Chartered Accountants of Sri Lanka.

SLFRS 10 - 'Consolidated Financial Statements'

The objective of this SLFRS is to establish principles for the presentation and preparation of Consolidated Financial Statements when an entity controls one or more other entities. SLFRS 10 will become effective from 1st January 2014 for the Group with early adoption permitted. This SLFRS will supersede the requirements relating to Consolidated Financial Statements in LKAS 27 - 'Consolidated and Separate Financial Statements'.

SLFRS 12 - 'Disclosure of Interests in Other Entities'

The objective of this Accounting Standard is to require an entity to disclose information that enables users of its Financial Statements to evaluate the nature of, and risks associated with its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. SLFRS 12 will become effective from 1st January 2014 for the Group with early adoption permitted.

SLFRS 13 - 'Fair Value Measurement'

This Accounting Standard defines fair value, sets out in a single SLFRS a framework for measuring fair value; and requires disclosures about fair value measurements. SLFRS 13 will be effective for financial periods beginning on or after 1st January 2014. The extent of the impact of the above Standards to the Financial Statements has not been determined as at 31st December 2013. None of these are expected to have a significant effect on the Consolidated Financial Statements of the Group.

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
5. Gross Income				
Interest Income	110,440,562	85,241,301	129,204,762	100,844,387
Fee and Commission Income	3,478,015	3,541,588	3,551,800	4,289,051
Net Gain from Trading	2,816,436	2,072,563	2,832,261	2,095,881
Other Operating Income (Net)	3,721,459	3,921,946	4,367,784	2,744,423
Total Gross Income	120,456,472	94,777,398	139,956,607	109,973,740
6. Net Interest Income				
Interest Income				
Cash and Cash Equivalents	73,608	162,947	627,601	473,377
Placements with Banks	42,492	88,076	42,493	88,076
Other Financial Assets Held-for-Trading	5,143,907	1,993,291	5,143,907	1,993,291
Loans and Receivables - To Banks	3,729,361	2,098,733	3,729,361	2,098,733
Loans and Receivables to Other Customers	89,311,381	73,486,158	107,521,533	88,778,811
Financial Investments - Held-to-Maturity	11,292,774	6,659,250	11,292,774	6,659,250
Financial Investments - Available-for-Sale	37,859	39,274	37,859	39,274
Day One Difference on Staff Loans	809,180	713,573	809,180	713,573
Others	—	—	54	—
Total Interest Income	110,440,562	85,241,301	129,204,762	100,844,385
Interest Expenses				
Due to Banks	(4,366,150)	(2,811,482)	(11,480,768)	(2,963,011)
Due to Other Customers	(65,397,445)	(43,798,066)	(68,671,802)	(45,201,363)
Other Borrowings	(2,332,464)	(3,376,458)	(2,397,270)	(10,709,415)
Debt Securities Issued	(1,695,043)	(1,337,500)	(1,695,042)	(1,337,500)
Total Interest Expenses	(73,791,102)	(51,323,506)	(84,244,882)	(60,211,289)
Net Interest Income	36,649,460	33,917,795	44,959,879	40,633,096
7. Net Fee and Commission Income				
Fee and Commission Income				
Loans	8,824	2,433	8,824	554,794
Cards	243,520	219,283	243,520	219,283
Trade and remittances	1,265,448	1,374,740	1,265,448	1,374,740
Investment banking	19,648	16,110	19,648	16,110
Deposits	1,469,718	1,408,209	1,469,718	1,408,209
Guarantees	365,927	418,318	365,927	418,318
Others	104,930	102,496	178,715	297,597
	3,478,015	3,541,589	3,551,800	4,289,051

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fee and Commission Expenses				
Loans	–	(578)	–	(578)
Cards	(63,385)	–	(63,385)	–
Trade and remittances	(3,246)	–	(3,246)	–
Investment banking	(6,724)	(24,948)	(6,724)	(24,948)
Guarantees	(6,682)	(8,953)	(6,682)	(8,953)
Others	(55,408)	(109,884)	(55,409)	(109,885)
	(135,446)	(144,364)	(135,446)	(144,364)
Net Fee and Commission Income	3,342,569	3,397,225	3,416,354	4,144,687

8. Net Gain/(Loss) from Trading

Foreign Exchange	1,418,430	2,126,109	1,418,430	2,126,109
Equities	107,216	(75,733)	123,041	(52,415)
Others				
Capital Gain Treasury Bills/Bonds	396,910	127,794	396,910	127,794
Revaluation Gain/(Loss) of Treasury Bills	487,676	71,973	487,676	71,973
Revaluation Gain/(Loss) of Treasury Bonds	404,068	(177,580)	404,068	(177,580)
Others	2,136	–	2,136	–
Total	2,816,436	2,072,563	2,832,261	2,095,881

9. Other Operating Income

Gain/(loss) on Sale of Property, Plant & Equipment	28,812	22,566	29,377	80,878
Gain /(Loss) on revaluation of Foreign Exchange	(181,528)	1,076	(181,528)	1,076
Dividend from Investment				
Unquoted	18,384	17,850	160,790	17,850
Subsidiaries and Associate Companies	1,609,071	1,622,503	–	–
Recovery of Bad Debts Written Off and Provision Reversals	1,316,764	1,314,985	1,364,663	1,368,585
Others	929,956	942,966	2,994,482	1,276,034
Total	3,721,459	3,921,946	4,367,784	2,744,423

BANK		GROUP	
2013	2012	2013	2012
Rs. '000	Rs. '000	Rs. '000	Rs. '000

10. Impairment Charges for Loans and Other Losses

Loans and Receivables to Other Customers [Note 22 (b)]	13,650,788	3,874,384	13,922,095	4,535,386
- Individual Impairment	1,935,783	545,724	2,064,074	541,461
- Collective Impairment	11,715,005	3,328,660	11,858,021	3,993,925
Financial Investments Available-for-Sale	–	–	–	6,174
Investments in Associates and Joint Ventures [Note 26 (a)]	65,532	–	171,908	50,000
Others	–	–	728,424	(16,183)
Total	13,716,320	3,874,384	14,822,427	4,575,377

11. Personnel Expenses

Salaries, Bonus & Related Expenses	7,109,444	7,938,472	8,401,102	8,948,236
Contribution to Defined Benefits Plan (Note 11.1)	867,653	1,108,383	867,653	1,108,383
Cost on Staff Loans	809,180	713,573	809,180	713,573
Others	3,171,974	4,058,219	3,293,539	4,162,579
Total	11,958,251	13,818,647	13,371,475	14,932,771

11.1 Contribution to Defined Benefits Plan

Current Service Cost	553,397	535,681	553,397	535,681
Interest Cost	4,340,207	4,191,535	4,340,207	4,191,535
Expected Return	(4,025,951)	(3,627,807)	(4,025,951)	(3,627,807)
Actual Expenses & Taxes	–	8,974	–	8,974
Net Expense	867,653	1,108,383	867,653	1,108,383

12. Other Expenses

Directors' Emoluments	2,516	3,900	3,759	6,107
Auditors' Remunerations	13,283	7,675	19,458	12,286
Non-Audit Fees to Auditors	–	–	2,364	13,094
Professional and Legal Expenses	85,474	67,790	103,777	83,038
Depreciation of Property, Plant & Equipment	763,487	510,590	999,043	783,718
Depreciation of Investment property	1,754	–	1,754	–
Amortisation of Leasehold Property	40,739	111,890	47,535	111,890
Amortisation of Intangible Assets	38,609	56,455	57,339	73,596
Amortisation of Prepayment Leases	29,034	33,359	29,034	33,359
Office Administration and Establishment Expenses	6,341,587	5,548,412	9,057,923	6,970,167
Others	1,528,131	1,562,083	1,555,096	1,538,963
Total	8,844,614	7,902,154	11,877,082	9,626,218

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
13. Tax Expenses				
Current Tax Expense				
Current Year	3,120,480	4,800,563	3,925,887	5,682,718
Deemed Dividend Tax	451,260	–	451,260	–
Prior Years'(Over)/ Under Provision	(549,745)	(130,475)	(549,745)	(128,663)
Temporary Differences	(205,600)	(314,698)	420,808	220,661
Total	2,816,395	4,355,390	4,248,210	5,774,716
a. Reconciliation of Tax Expenses				
Profit/(Loss) Before Tax	10,304,282	15,249,382	13,412,394	17,671,403
Income Tax for the Period (Accounting Profit @ Applicable Tax Rate)	2,885,199	4,269,826	3,755,470	4,947,992
Adjustment in respect of Current Income Tax of Prior Periods	(549,745)	(130,475)	(549,745)	(128,663)
Add:				
Tax Effect of Expenses that are not Deductible for Tax Purposes	2,965,997	1,748,161	7,325,344	7,240,430
(Less):				
Tax Effect of Expenses that are not Deductible for Tax Purposes	(2,730,716)	(1,217,424)	(7,154,927)	(6,505,704)
Deemed Dividend Tax	451,260	–	451,260	–
Tax Expense for the Period	3,021,995	4,670,088	3,827,402	5,554,055
b. The Deferred Tax (Credit)/Charge in the Income Statement Comprise of the Following:				
Deferred Tax Assets	(380,068)	76,939	(573,654)	(306,263)
Deferred Tax Liabilities	695,505	(391,637)	1,692,898	526,924
Other Temporary Difference - Revaluation of Assets	(521,038)	–	(698,436)	–
Deferred Tax (Credit/Charge to Income Statement)	(205,601)	(314,698)	420,808	220,661
Income Tax Expenses	2,816,395	4,355,390	4,248,210	5,774,716
Effective Tax Rate	30.3%	31.5%	29.3%	32.2%

	2013	2012
	%	%
Income Tax has been Provided on the Taxable Income at the Following Rates:		
Domestic Operation of the Bank	28	28
On-Shore Banking Operations of the Off-Shore Banking Unit	28	28
Off-Shore Banking Operations of the Off-Shore Banking Unit	28	28
People's Leasing & Finance PLC	28	28
People's Travels (Pvt) Ltd.	15	15
People's Merchant Finance PLC	28	28

Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) Act No. 10 of 2006, provides that a company which derives interest income from the secondary market transactions in Government Securities would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment. Accordingly the net interest income earned by the Bank & Group from the secondary market transactions in Government securities for the year has been grossed up in these Financial Statements.

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

14. Earnings Per Share

14.1 Basic

Net Profit Attributable to Ordinary Equity Holders	7,487,887	10,893,992	8,364,339	11,230,194
Weighted Average Number of Ordinary Shares in Issue	1,000	1,000	1,000	1,000
Basic Earnings Per Share	7,488	10,894	8,364	11,230

14.2 Diluted

Net Profit Attributable to Ordinary Equity Holders	7,487,887	10,893,992	8,364,339	11,230,194
Weighted Average Number of Ordinary Shares in Issue	1,000	1,000	1,000	1,000
Number of Ordinary Shares in Capital Pending Allotment	143,040	143,040	143,040	143,040
Total Number of Shares in issue and Pending Allotment	144,040	144,040	144,040	144,040
Diluted Earnings per Share	52	76	58	78

15. Measurement of Financial Instruments

Bank - 2013

	HFT	Financial Derivatives at FV	HTM	L & R	AFS	Others	Total
ASSETS							
Cash and Cash Equivalents	–	–	–	18,772,595	–	–	18,772,595
Balances with Central Banks	–	–	–	40,370,892	–	–	40,370,892
Placements with Banks	–	–	–	2,551,215	–	–	2,551,215
Derivative Financial Instruments		35,391	–	–	–	–	35,391
Financial Assets Held-for-Trading	63,748,857	–	–	–	–	–	63,748,857
Loans and Receivables to Banks	–	–	–	82,225,089	–	–	82,225,089
Loans and Receivables to Other Customers	–	–	–	619,829,735	–	–	619,829,735
Other Financial Investments	–	–	75,784,287	–	311,733	–	76,096,020
Investments in Subsidiaries	–	–	–	–	–	1,245,908	1,245,908
Investments in Associates	–	–	–	–	–	207,568	207,568
Goodwill and Intangible Assets	–	–	–	–	–	33,535	33,535
Property, Plant & Equipment	–	–	–	–	–	14,705,721	14,705,721
Investment Properties	–	–	–	–	–	189,776	189,776
Prepaid Leases	–	–	–	–	–	295,732	295,732
Deferred Tax Assets	–	–	–	–	–	1,071,381	1,071,381
Other Assets	–	–	–	–	–	9,205,859	9,205,858
Total Assets	63,748,857	35,391	75,784,287	763,749,526	311,733	26,955,480	930,585,274
LIABILITIES							
Due to Banks	–	–	–	81,794,017	–	–	81,794,017
Derivative Financial Instruments	–	215,844	–	–	–	–	215,844
Due to Other Customers	–	–	–	762,248,529	–	–	762,248,529
Other Borrowings	–	–	–	20,353,986	–	–	20,353,986
Current Tax Liabilities	–	–	–	–	–	393,380	393,380
Subordinated Term Debts	–	–	–	15,032,542	–	–	15,032,542
Other Liabilities	–	–	–	–	–	13,124,900	13,124,900
Deferred Tax Liability	–	–	–	–	–	885,232	–
Total Liabilities	–	215,844	–	879,429,074	–	–	894,048,430

Bank - 2012

	HFT	Financial Derivatives at FV	HTM	L & R	AFS	Others	Total
ASSETS							
Cash and Cash Equivalents	–	–	–	24,401,979	–	–	24,401,979
Balances with Central Banks	–	–	–	43,412,048	–	–	43,412,048
Placements with Banks	–	–	–	13,341,252	–	–	13,341,252
Derivative Financial Instruments	–	2,791	–	–	–	–	2,791
Financial Assets Held-for-Trading	18,772,710	–	–	–	–	–	18,772,710
Loans and Receivables to Banks	–	–	–	35,350,098	–	–	35,350,098
Loans and Receivables to Other Customers	–	–	–	611,414,266	–	–	611,414,266
Other Financial Investments	–	–	78,522,570	–	27,977,488	–	106,500,059
Investments in Subsidiaries	–	–	–	–	–	1,253,434	1,253,434
Investments in Associates	–	–	–	–	–	273,100	273,100
Goodwill and Intangible Assets	–	–	–	–	–	44,352	44,352
Property, Plant & Equipment	–	–	–	–	–	8,234,565	8,234,565
Investment Properties	–	–	–	–	–	398,508	398,508
Prepaid Leases	–	–	–	–	–	291,866	291,866
Deferred Tax Assets	–	–	–	–	–	691,313	691,313
Other Assets	–	–	–	–	–	8,913,987	8,913,990
Total Assets	18,772,710	2,791	78,522,570	727,919,643	27,977,488	20,101,128	873,296,329
LIABILITIES							
Due to Banks	–	–	–	94,124,713	–	–	94,124,713
Derivative Financial Instruments	–	1,710	–	–	–	–	1,710
Due to Other Customers	–	–	–	683,950,837	–	–	683,950,837
Other Borrowings	–	–	–	41,024,958	–	–	41,024,958
Current Tax Liabilities	–	–	–	–	–	1,860,689	1,860,689
Subordinated Term Debts	–	–	–	10,000,000	–	–	10,000,000
Other Liabilities	–	–	–	–	–	12,938,907	12,938,907
Deferred Tax Liability	–	–	–	–	–	189,726	189,726
Total Liabilities	–	1,710	–	829,100,508	–	14,989,323	844,091,541

Group - 2013

	HFT	Financial Derivatives at FV	HTM	L & R	AFS	Others	Total
ASSETS							
Cash and Cash Equivalents	–	–	–	20,801,230	–	–	20,801,230
Balances with Central Banks	–	–	–	40,370,892	–	–	40,370,892
Placements with Banks	–	–	–	2,551,215	–	–	2,551,215
Derivative Financial Instruments	–	35,391	–	–	–	–	35,391
Financial Assets Held-for-Trading	64,057,091	–	–	–	–	–	64,057,091
Loans and Receivables to Banks	–	–	–	82,339,402	–	–	82,339,402
Loans and Receivables to Other Customers	–	–	–	710,074,499	–	–	710,074,499
Other Financial Investments	–	–	78,322,900	–	1,737,175	–	80,060,074
Investments in Subsidiaries	–	–	–	–	–	–	–
Investments in Associates	–	–	–	–	–	274,470	274,470
Goodwill and Intangible Assets	–	–	–	–	–	392,073	392,073
Property, Plant & Equipment	–	–	–	–	–	18,183,658	18,183,658
Investment Properties	–	–	–	–	–	189,776	189,776
Prepaid Leases	–	–	–	–	–	295,732	295,732
Deferred Tax Assets	–	–	–	–	–	1,075,651	1,075,651
Other Assets	–	–	–	–	–	10,771,638	10,771,639
Total Assets	64,057,091	35,391	78,322,900	856,137,238	1,737,175	31,182,998	1,031,472,794
LIABILITIES							
Due to Banks	–	–	–	101,987,002	–	–	101,987,002
Derivative Financial Instruments	–	215,844	–	215,844	–	–	215,844
Due to Other Customers	–	–	–	789,225,314	–	–	789,225,314
Other Borrowings	–	–	–	38,878,017	–	–	38,878,017
Current Tax Liabilities	–	–	–	–	–	877,476	877,476
Subordinated Term Debts	–	–	–	23,141,451	–	–	23,141,451
Other Liabilities	–	–	–	–	–	–	–
Other Liabilities	–	–	–	–	–	19,501,921	19,501,921
Deferred Tax	–	–	–	–	–	2,557,359	2,557,359
Total Liabilities	–	215,844	–	953,231,784	–	22,936,758	976,384,385

Group - 2012

	HFT	Financial Derivatives at FV	HTM	L & R	AFS	Others	Total
ASSETS							
Cash and Cash Equivalents	–	–	–	26,102,723	–	–	26,102,723
Balances with Central Banks	–	–	–	43,412,048	–	–	43,412,048
Placements with Banks	–	–	–	13,341,252	–	–	13,341,252
Derivative Financial Instruments	–	2,791	–	–	–	–	2,791
Financial Assets Held-for-Trading	19,002,137	–	–	–	–	–	19,002,137
Loans and Receivables to Banks	–	–	–	35,350,098	–	–	35,350,098
Loans and Receivables to Other Customers	–	–	–	690,197,310	–	–	690,197,310
Other Financial Investments	–	–	80,151,886	–	27,982,838	–	108,134,724
Investments in Subsidiaries	–	–	–	–	–	–	–
Investments in Associates	–	–	–	–	–	309,994	309,994
Goodwill and Intangible Assets	–	–	–	–	–	405,768	405,768
Property, Plant & Equipment	–	–	–	–	–	10,923,098	10,923,098
Investment Properties	–	–	–	–	–	398,508	398,508
Prepaid Leases	–	–	–	–	–	291,866	291,866
Deferred Tax Assets	–	–	–	–	–	501,997	501,997
Other Assets	–	–	–	–	–	12,485,770	12,485,770
Total Assets	19,002,137	2,791	80,151,886	808,403,431	27,982,838	25,316,999	960,860,080
LIABILITIES							
Due to Banks	–	–	–	133,987,864	–	–	133,987,864
Derivative Financial Instruments	–	1,710	–	–	–	–	–
Due to Other Customers	–	–	–	708,896,611	–	–	708,896,611
Other Borrowings	–	–	–	40,740,098	–	–	40,740,098
Current Tax Liabilities	–	–	–	–	–	1,933,576	1,933,576
Subordinated Term Debts	–	–	–	10,000,000	–	–	10,000,000
Other Liabilities	–	–	–	–	–	–	–
Other Liabilities	–	–	–	–	–	18,686,594	18,686,594
Deferred Tax	–	–	–	–	–	864,461	864,461
Total Liabilities	–	1,710	–	893,624,572	–	21,484,629	915,110,912

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
16. Cash and Cash Equivalents				
Cash in Hand	16,323,823	12,463,527	16,636,873	12,943,463
Cash at Banks	1,448,772	11,938,452	3,164,357	13,159,260
Money at Call and Short Notice	1,000,000	–	1,000,000	–
	18,772,595	24,401,979	20,801,230	26,102,723

17. Balances with Central Banks

Statutory Balances with Central Bank of Sri Lanka	40,370,892	43,412,048	40,370,892	43,412,048
	40,370,892	43,412,048	40,370,892	43,412,048

The Balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 6% of Rupee Deposit Liabilities. This is a non-interest bearing balance. A similar reserve is not required in respect of Foreign Currency Deposits Liabilities in the Domestic Banking Unit and Deposit Liabilities in the Off-Shore Banking Unit.

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
18. Placements with Banks				
Placements	2,551,215	13,341,252	2,551,215	13,341,252
	2,551,215	13,341,252	2,551,215	13,341,252

19. Derivative Financial Instruments

Foreign Currency Derivatives				
Currency Swaps	31,421	2,791	31,421	2,795
Forward Foreign Exchange Contracts	3,970	–	3,970	–
Total	35,391	2,791	35,391	2,795

20. Other Financial Assets Held-for-Trading

20.1 Held-for-Trading

20.1.1 Sri Lanka Government Securities

Treasury Bills	62,679,998	12,632,775	62,679,998	12,632,775
Treasury Bonds	231,533	5,466,398	231,533	5,466,398

20.1.2 Equity Securities

Debt Securities	757,250	673,537	1,065,484	902,964
	80,076	–	80,076	–
	63,748,857	18,772,710	64,057,091	19,002,137

	No. of Shares/ Unit	Cost 2013 Rs. '000	Market Value as at 31.12.2013 Rs. '000	No. of Shares/ Unit	Cost 2012 Rs. '000	Market Value as at 31.12.2012 Rs. '000
20.1.2.a Held-for-Trading Equity Securities - Bank						
Quoted						
Magpeck Ltd.	125,000	5,000	–	125,000	5,000	–
Overseas Reality (Ceylon) PLC	20,722,353	317,052	379,219	20,722,353	300,474	298,402
Access Engineering PLC	605,995	12,259	13,392	–	–	–
Aitken Spence Company PLC	230,000	29,735	23,529	119,140	14,011	14,535
CIC Holdings PLC	263,799	18,051	12,636	79,800	5,028	5,171
CT Holdings PLC	–	–	–	55,000	6,795	6,820
Colombo Dockyard PLC	222,362	51,956	42,160	165,000	35,198	36,300
Diesel Engineering Motor Company PLC	33,469	16,751	16,099	–	–	–
Distilleries Company PLC	–	–	–	100,000	15,000	16,570
Expo Lanka PLC	–	–	–	462,750	3,129	3,286
Hayles PLC	75,052	20,068	21,990	–	–	–
Hemas Power PLC	600,000	12,485	10,560	176,000	3,590	3,872
Janashakthi Insurance PLC	513,075	1,225	6,516	371,325	3,754	3,936
John Keells Holdings PLC	119,053	27,841	27,061	249,200	51,958	54,799
Lanka Hospitals PLC	20,000	680	810	40,000	1,470	1,560
Lanka Indian Oil Company PLC	–	–	–	563,095	10,980	11,205
Lanka Walltile PLC	61,521	3,526	3,316	–	–	–
National Development Bank PLC	–	–	–	77,100	10,277	10,640
Nawaloka Hospitals PLC	1,260,000	4,284	3,780	1,282,640	3,848	3,848
Pelwatta Sugar	58,100	1,829	–	58,100	1,365	–
Piramal Glass PLC	2,021,878	11,152	9,098	–	–	–
Royal Ceramic PLC	192,300	26,425	16,269	192,300	17,057	19,115
Tokyo Cement PLC NV	–	–	–	600,000	–	11,520
The Finance Company PLC	2,080,400	83,400	21,012	2,080,400	34,534	38,695
		643,719	607,447		523,468	540,274
20.1.2.b Unquoted						
National Equity Fund	5,112,735	161,000	149,803	5,112,735	161,000	133,263
Total Value of the Dealing Securities		804,719	757,250		684,468	673,537

	No. of Shares/ Unit	Cost 2013 Rs. '000	Market Value as at 31.12.2013 Rs. '000	No. of Shares/ Unit	Cost 2012 Rs. '000	Market Value as at 31.12.2012 Rs. '000
20.2.2.a Held-for-Trading Equity Securities - Group						
Quoted						
Magpeck Ltd.	125,000	5,000	–	125,000	5,000	–
Overseas Realty (Ceylon) PLC	20,722,353	317,052	379,219	20,722,353	300,474	298,402
Access Engineering PLC	605,995	12,259	13,392	–	–	–
Aitken Spence Company PLC	312,800	46,022	31,999	201,940	30,298	24,471
CIC Holdings PLC	263,799	18,051	12,636	79,800	5,028	5,171
CT Holdings PLC	–	–	–	55,000	6,795	6,820
Colombo Dockyard PLC	222,362	51,956	42,160	165,000	35,198	36,300
Commercial Bank PLC - Voting	572,677	57,172	68,020	715,162	64,409	70,069
Commercial Bank PLC - Non-Voting	457,953	38,102	42,384	–	–	–
Diesel Engineering Motor Company PLC	33,469	16,751	16,099	–	–	–
Distilleries Company PLC	200,000	24,133	37,800	300,000	39,133	49,770
Expo Lanka PLC	–	–	–	462,750	3,129	3,286
Hayleys PLC	75,052	20,068	21,990	–	–	–
Hemas Holdings PLC	25,000	1,109	850	25,000	1,109	675
Hemas Power PLC	600,000	12,484	10,560	176,000	3,590	3,872
Hatton National Bank PLC NV	224,271	24,366	24,825	224,271	24,366	25,230
Horana Plantations PLC	20,000	768	456	20,000	768	490
Janashakthi Insurance PLC	513,075	1,225	6,516	371,325	3,754	3,936
John Keells Holdings PLC	188,283	43,061	42,797	309,200	65,563	67,993
Keells Hotels PLC	100,000	2,001	1,250	100,000	2,001	1,380
Lanka Hospitals PLC	20,000	680	810	40,000	1,470	1,560
Lanka Indian Oil Company PLC	–	–	–	563,095	10,980	11,205
Lanka Walltile PLC	61,521	3,526	3,316	–	–	–
Mackwoods Energy PLC	100,000	1,400	710	100,000	1,400	1,320
National Development Bank PLC	60,855	8,651	8,751	77,100	10,277	10,640
Nations Trust Bank PLC	912,971	55,704	56,277	912,971	55,704	51,126
Nawaloka Hospitals PLC	1,260,000	4,284	3,780	1,282,640	3,848	3,848
Pelwatta Sugar	58,100	1,829	–	58,100	1,365	–
Piramal Glass PLC	2,021,878	11,152	9,098	–	–	–
Royal Ceramics PLC	192,300	26,425	16,269	192,300	17,057	19,115
Sampath Bank PLC - Voting	118,555	21,681	20,330	–	–	–
Seylan Bank PLC - Voting	92,421	6,102	5,638	459,676	17,355	18,037
Seylan Bank PLC - Non-Voting	403,122	12,484	12,513	–	–	–
Tokyo Cement PLC - Non-Voting	110,000	4,650	2,574	700,000	4,650	13,450
The Finance Company PLC	2,080,400	83,400	21,012	2,080,400	34,534	38,696
Vallibel One PLC	100,000	2,196	1,650	100,000	2,196	1,810
People's Leasing Finance PLC	–	–	–	29,800	1,130	1,029
		935,744	915,681		752,581	769,701
20.2.2.b Unquoted						
National Equity Fund	5,112,735	161,000	149,803	5,112,735	130,630	133,263
Total Value of the Dealing Securities		1,096,744	1,065,484		883,211	902,964

BANK		GROUP	
2013	2012	2013	2012
Rs. '000	Rs. '000	Rs. '000	Rs. '000

21. Loans and Receivables to Banks

Gross Loans and Receivables	82,225,089	35,350,098	82,339,403	35,350,098
Net Loans and Receivables	82,225,089	35,350,098	82,339,403	35,350,098

(a) Analysis

Sri Lanka Government Securities

Sri Lanka Development Bonds	44,318,479	27,651,601	44,318,479	27,651,601
Restructuring Bonds (Note 21.1)	7,689,150	7,689,150	7,689,150	7,689,150
Securities Purchased under Resale Agreements	30,118,162	–	30,232,476	–
Others	99,298	9,347	99,298	9,347
Gross Total	82,225,089	35,350,098	82,339,403	35,350,098

21.1 Government of Sri Lanka Restructuring Bonds

21.1.a In April 1993, the Bank received Restructuring Bonds amounting to Rs. 10,541 Mn from the Government of Sri Lanka (GOSL) for the following purposes:

	Rs. Mn	
i.	1,152.0	To achieve the capital adequacy requirement in accordance with CBSL guidelines.
ii.	1,700.5	To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board of Rs. 1,467 Mn and Rs. 233.5 Mn, respectively.
iii.	4,355.0	To finance pension liabilities.
iv.	3,231.0	To provide for loan loss provision.
v.	102.5	For loans to be transferred to Special Recovery Unit (RACA).
	10,541.0	

21.1.b The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.

21.1.c The Agreement underlying the granting of these Bonds, stipulates the following:

- A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.
End of the reporting date, no recoveries have been made of those specific loan losses.
- As per the initial agreement an interest rate of 12% p.a. would apply, with half-yearly payment of interest.
- A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

21.1.d As indicated in 21.1, a sum of Rs. 4,355 Mn of this tranche of Bonds was assigned to the Pension Fund (Rs. 3,218 Mn) and to the W&OP Fund (Rs. 1,137 Mn).

Accordingly, the carrying balance of Bonds reflected on the Statement of Financial Position does not include the value assigned to the Pension Fund, which is managed as an Independent Trust Fund.

21.1.e The financial implications of these Bonds in the year 2013 are as follows:

- A value of Rs. 7,689 Mn is reflected on the Statement of Financial Position as Loans and Receivables to Banks.
- A value of Rs. 879 Mn is received during the year as income and is reflected under Interest Income.

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
22. Loans and Receivables to Other Customers				
Gross Loans and Receivables	681,466,864	660,624,099	773,250,598	740,674,806
Impairment Allowance for Loans and Receivables				
Less: Individual Impairment (Note 22 b)	(39,341,542)	(37,405,759)	(39,530,980)	(37,466,907)
Collective Impairment (Note 22 b)	(22,295,587)	(11,804,074)	(23,645,119)	(13,010,589)
Net Loans and Receivables	619,829,735	611,414,266	710,074,499	690,197,310

(a) Analysis

By Product

Loans and Advances

Bills of Exchange	14,519,457	24,475,964	14,519,457	24,475,964
Overdrafts	67,486,987	84,887,272	67,335,271	82,846,131
Trade Finance	103,231,590	94,008,361	103,231,590	94,008,361
Credit Cards	1,327,925	1,064,377	1,327,925	1,064,377
Pawning	197,128,580	250,772,083	197,128,580	250,772,083
Staff Loans	10,363,315	9,908,894	10,702,650	10,205,514
Term Loans:				
Short-Term	48,603,534	47,384,946	48,603,534	47,384,946
Medium-Term	143,185,349	83,317,824	155,423,762	86,031,918
Long-Term	94,974,902	64,515,820	94,974,902	64,515,820
Securities Purchased Under Resale Agreements	411,510	85,308	411,510	435,209
Others	233,715	203,250	364,190	203,250
Lease Rental Receivable	—	—	79,227,227	78,731,233
Gross Total	681,466,864	660,624,099	773,250,598	740,674,806
Staff Loans	17,586,008	16,843,164	17,925,343	17,139,784
(Less): Allowance for Day One Difference	(7,222,693)	(6,934,270)	(7,222,693)	(6,934,270)
Net Staff Loans	10,363,315	9,908,894	10,702,650	10,205,514

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
By Currency				
Sri Lankan Rupee	590,330,246	580,990,045	682,113,980	661,040,752
United States Dollar	87,858,833	76,943,272	87,858,833	76,943,272
Great Britain Pound	3,644	3,255	3,644	3,255
Others	3,274,141	2,687,527	3,274,141	2,687,527
Gross Total	681,466,864	660,624,099	773,250,598	740,674,806
By Industry				
Agriculture and Fishing	179,434,380	206,758,307	182,072,414	209,843,660
Manufacturing	13,166,471	19,954,340	13,178,077	20,108,491
Tourism	4,381,817	4,036,184	4,759,220	4,492,502
Transport	1,036,626	957,592	15,588,755	18,210,366
Construction	128,747,395	112,624,992	132,006,729	116,599,680
Traders	52,731,604	40,931,668	75,840,484	65,122,380
New Economy	8,269	5,665	8,155,987	–
Others	301,960,302	275,355,351	341,648,932	306,297,727
Gross Total	681,466,864	660,624,099	773,250,598	740,674,806

(b) Movements in Individual and Collective Impairment during the Year

Allowance for Individual Impairment				
Opening Balance at	37,405,759	36,860,035	37,466,907	36,925,445
Movement in Individual Impairment	1,935,783	545,724	2,064,073	541,462
Closing Balance at	39,341,542	37,405,759	39,530,980	37,466,907

Around 80% of the individual impairment is pertaining to non-performing which is over 10 years advances.

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Allowance for Collective Impairment				
Opening Balance at	11,804,074	9,718,943	13,010,589	10,394,778
Gross Charge for Impairment	11,715,005	3,328,660	11,858,021	3,993,925
Reversals Made during the Year	(1,207,124)	(1,225,922)	(1,207,123)	(1,360,508)
Exchange Rate Variance on Foreign Currency Provision	67,234	239,519	67,234	239,519
Write Off during the Year	(83,602)	(257,126)	(83,602)	(257,126)
Closing Balance at	22,295,587	11,804,074	23,645,119	13,010,588
Movement in Impairment Allowance for Loans and Receivables				
Balance as at 1st January	49,209,832	46,578,978	50,477,496	47,320,224
Gross Charge for Impairment	13,650,788	3,874,383	13,922,095	4,535,386
Reversals Made during the Year	(1,207,124)	(1,225,922)	(1,207,124)	(1,360,507)
Exchange Rate Variance on Foreign Currency Provision	67,234	239,519	67,234	239,519
Write Off during the Year	(83,602)	(257,126)	(83,602)	(257,126)
Balance as at 31st December	61,637,129	49,209,832	63,176,099	50,477,496

23. Financial Investments - Available-for-Sale

Equity Securities (Note 23.1)	1,284,758	1,309,758	1,384,768	1,459,768
(Less): Impairment	(973,025)	(864,037)	(995,625)	(1,008,697)
	311,733	445,720	389,143	451,070
Sri Lanka Government Securities	–	–	1,191,388	–
Debt Securities	–	531,768	106,644	531,768
Others	–	27,000,000	50,000	27,000,000
Net Available-for-Sale Investments	311,733	27,977,488	1,737,175	27,982,838

	No. of Shares	Fair Value as at 31.12.2013	Cost as at 31.12.2013	Fair Value as at 31.12.2012	Cost as at 31.12.2012
23.1 Equity Securities - Available-for-Sale - Bank					
SriLankan Airlines	4,236,135	–	1,137,000	–	1,137,000
Credit Information Bureau of Sri Lanka	47,400	50,715	50,715	50,715	50,715
Southern Development Financial Company Ltd.	2,500,000	–	–	–	25,000
Society for Worldwide Inter-Bank Fund Transfer	14	1,168	1,168	1,168	1,168
Regional Development Bank	7,418,448	236,046	72,000	369,865	72,000
Lanka Financial Services Bureau	225,000	2,179	2,250	2,347	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	625	625
Lanka Clear (Pvt) Ltd.	2,100,000	21,000	21,000	21,000	21,000
		311,733	1,284,758	445,722	1,309,758

	No. of Shares	Fair Value as at 31.12.2013	Cost as at 31.12.2013	Fair Value as at 31.12.2012	Cost as at 31.12.2012
23.2 Equity Securities - Available-for-Sale - Group					
SriLankan Airlines	4,236,135	–	1,137,000	–	1,137,000
Credit Information Bureau of Sri Lanka	47,500	50,725	50,725	50,725	50,725
Southern Development Financial Company Ltd.	2,500,000	–	–	–	25,000
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168	1,168	1,168
Regional Development Bank	7,418,448	236,046	72,000	369,866	72,000
Lanka Financial Services Bureau	225,000	2,179	2,250	2,347	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	625	625
Lanka Clear (Pvt) Ltd.	2,100,000	21,000	21,000	21,000	21,000
Sanasa Development Bank Ltd.	1,000,000	77,400	100,000	5,339	100,000
Ceybank Unit Trust Management Finance Ltd.					50,000
		389,143	1,384,768	451,070	1,459,768

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) Movements in Impairment during the Year				
Opening Balance at	864,037	845,547	1,008,697	962,234
Charge/(Write-back) to Income Statement	108,988	18,490	(13,072)	46,463
Closing Balance at	973,025	864,037	995,625	1,008,697

24. Financial Investments Held-to-Maturity

Sri Lanka Government Securities

Treasury Bills	16,373,829	23,710,583	18,532,631	25,316,497
Treasury Bonds	58,780,226	54,186,987	59,160,036	54,210,389
Long-Term Treasury Bonds (Note 24.a)	630,232	625,000	630,233	625,000
Net Held-to-Maturity Investments	75,784,287	78,522,570	78,322,900	80,151,886

24.a Long-Term Treasury Bonds

Long-term Treasury Bonds represent bonds received during 2003 on account of loans and overdrafts granted by the Bank to Co-operative Wholesale Establishment (CWE) amounting to Rs. 625 Mn. These Bonds have been received as part of the restructuring process of the Co-operative Wholesale Establishment and its financial obligations. These Bonds are not negotiable and carry a zero coupon rate of interest with a maturity of 13 years. However, these Bonds carry an interest payment scheme for which CWE is required to make a semi-annual payment of interest at 3.68% p.a. net of withholding tax.

25. Investments in Subsidiaries

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Quoted Equity Share (Note 25.1)	1,240,958	1,248,484	—	—
Unquoted Equity Share (Note 25.2)	4,950	4,950	—	—
(Less): Impairment	—	—	—	—
Net Total	1,245,908	1,253,434	—	—

	No. of Shares	Holding % as at 31.12.2013	Cost 2013 Rs. '000	No. of Shares	Holding % as at 31.12.2012	Cost 2012 Rs. '000
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25.1 Quoted

People's Leasing & Finance PLC

- Ordinary Shares	1,184,896,862	75	690,958	1,172,680,069	75.17	498,484
- Preference Shares	55,000,000		550,000	75,000,000		750,000

25.2 Unquoted

People's Travels (Pvt) Ltd.	495,000	99	4,950	495,000	99	4,950
Total			1,245,908			1,253,434

26. Investments in Associates

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Quoted Equity Share	273,100	273,100	478,260	478,260
Unquoted Equity Share	25,000	25,000	75,000	75,000
Less: Share of Profit/(Loss) from Associate	—	—	(31,882)	(168,271)
(Less): Impairment	(90,532)	(25,000)	(246,908)	(75,000)
Sub Total	207,568	273,100	274,470	309,999

	BANK				GROUP			
	Cost	Cost	Holding %	Holding %	Cost	Cost	Holding %	Holding %
	2013	2012	as at	as at	2013	2012	as at	as at
	Rs. '000	Rs. '000	31.12.2013	31.12.2012	Rs. '000	Rs. '000	31.12.2013	31.12.2012
Quoted								
People's Merchant Bank PLC								
- Ordinary Shares	263,100	263,100	26.13	26.13	468,260	468,260	39.2	39.2
- Preference Shares	10,000	10,000			10,000	10,000		
Unquoted								
Smart Net Lanka (Pvt) Ltd. (Non-Operational)	25,000	25,000	37.3	37.3	25,000	25,000	37.3	37.3
City Finance Corporation Ltd.					50,000	50,000	21.4	21.4
	298,100	298,100			503,260	553,260		
Less: Share of Profit/(Loss) from Associate					(31,882)	(168,271)		
Less: Impairment								
Smart Net Lanka (Pvt) Ltd. (Non-Operational)	(25,000)	(25,000)			(25,000)	(25,000)		
City Finance Corporation Ltd.	-	-			(50,000)	(50,000)		
People's Merchant Bank PLC	(65,532)	-			(171,908)	-		
Total Value of Investment at the Year end	207,568	273,100			224,470	309,989		

BANK		GROUP	
2013	2012	2013	2012
Rs. '000	Rs. '000	Rs. '000	Rs. '000

(a) Movement in Impairment During the Year

Associates

Opening Balance	25,000	25,000	75,000	25,000
Charge/(Write-back) to Income Statement	65,532	-	171,908	50,000
Closing Balance at	90,532	25,000	246,908	75,000

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
27. Goodwill and Intangible Assets				
27.1 Intangible Assets				
Cost or Valuation				
As at beginning of the Year	886,334	886,334	1,006,470	988,003
Acquired during the Year	27,792	–	41,953	18,607
Disposals/Reversals during the Year	–	–	(2,993)	(140)
Transfers	–	–	16,361	–
As at end of the Year	914,126	886,334	1,061,791	1,006,470
Accumulated Amortisation				
As at beginning of the Year	841,982	785,527	909,247	835,741
Amortisation for the Year	38,609	56,455	57,339	73,551
Disposals during the Year	–	–	(997)	(45)
Transfers	–	–	12,674	–
As at end of the Year	880,591	841,982	978,264	909,247
Net Book Value	33,535	44,352	83,528	97,223
27.2 Goodwill				
Cost or Valuation				
As at beginning of the Year	–	–	308,545	308,545
Additions during the Year	–	–	–	–
Disposals/Reversals during the Year	–	–	–	–
As at end of the Year	–	–	308,545	308,545
Accumulated Amortisation				
As at beginning of the Year	–	–	–	–
Amortisation for the Year	–	–	–	–
As at end of the Year	–	–	–	–
Net Book Value	–	–	308,545	308,545
Total Net Book Value	33,535	44,352	392,073	405,768

At the reporting date an impairment testing for goodwill and intangible assets with indefinite useful lives has been performed, regardless of whether there is an indication of impairment and management has determined that there is no possible impairment loss as at the reporting date.

28. Property, Plant & Equipment

a. Bank

	Freehold Land and Buildings	Leasehold Buildings	Motor Vehicles	Leasehold Motor Vehicles	Furniture	Machinery & Equipment	Computer	Total 31.12.2013	Total 31.12.2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Fair Value									
Opening Balance as at 01.01.2013	6,241,379	1,291,587	604,440	387,737	620,898	2,485,852	6,202,564	17,834,457	16,456,889
Additions	523,659	362,274	58,974	–	37,142	387,371	161,588	1,531,008	1,392,430
Disposals	–	–	(13,879)	(1,476)	–	–	–	(15,355)	(14,862)
Transfers/Adjustments	348,662	(121,512)	–	–	–	–	–	227,150	–
Revaluation Gain	3,755,927	319,234	–	–	–	–	–	4,075,161	–
Closing Balance as at 31.12.2013	10,869,627	1,851,583	649,535	386,261	658,040	2,873,223	6,364,152	23,652,421	17,834,457
Accumulated Depreciation									
Opening Balance as at 01.01.2013	1,126,796	656,447	375,010	245,240	555,712	1,925,264	5,333,521	10,217,991	9,616,611
Charge for the Year	77,004	40,739	78,439	60,296	25,446	204,256	318,046	804,226	613,216
Disposals	–	–	(13,879)	–	–	–	–	(13,879)	(11,836)
Transfers/Adjustments	127,069	(94,768)	–	–	–	–	–	32,301	–
Revaluation Adjustments on Accumulated Depreciation	(1,282,970)	(575,958)	–	–	–	–	–	(1,858,928)	–
Closing Balance as at 31.12.2013	47,899	26,460	439,570	305,536	581,158	2,129,520	5,651,567	9,181,711	10,217,991
(Less): Impairment Charges									
Net Book Value at 31.12.2013	10,821,728	1,825,123	209,965	80,725	76,882	743,703	712,585	14,470,710	7,616,466
Capital Work-in-Progress at Cost								141,666	470,184
Furniture Equipment and Machinery at Store								93,345	147,915
								14,705,721	8,234,565

a.1 The Bank has carried out a valuation of all its land and buildings. The valuation has been carried out by the Chief Government Valuer as at 30th June 2013 on market value basis.

a.2 The carrying amount of revalued assets, in the Financial Statements if carried at Net Book Value is as follows.

Class of Assets	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value As At 31.12.2013 Rs. '000
Freehold Land & Building	6,480,538	1,236,899	5,243,639
Leasehold Land & Building	1,250,739	526,384	724,355
	7,731,277	1,763,283	5,967,994

a.3 Movement of Revaluation Reserve

Balance as at 01.01.2013	5,463,496
Revaluation Surplus - 2013	5,413,051
Balance as at 31.12.2013	10,876,547

b. Group

	Freehold Land and Buildings	Leasehold Buildings	Motor Vehicles	Leasehold Motor Vehicles	Furniture	Machinery & Equipment	Computer	Total 31.12.2013	Total 31.12.2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Fair Value									
Opening Balance as at 01.01.2013	8,084,771	1,349,940	935,157	387,737	903,357	2,965,792	6,620,625	21,247,379	19,345,003
Additions	560,558	363,044	199,697	–	96,886	497,749	220,416	1,938,350	2,287,900
Disposals	(49,001)	(1,704)	(58,459)	(1,476)	(8,977)	(36,587)	(33,905)	(190,109)	(385,524)
Transfers/Adjustments	348,662	(121,512)	–	–	(9,879)	22,581	(29,063)	210,789	
Revaluation Gain	4,336,734	319,234	–					4,655,968	
Closing Balance as at 31.12.2013	13,281,724	1,909,002	1,076,395	386,261	981,387	3,449,535	6,778,073	27,862,377	21,247,379
(Less): Accumulated Depreciation									
Opening Balance as at 01.01.2013	1,156,495	697,245	547,208	245,240	674,420	2,084,298	5,565,005	10,969,911	10,198,850
Charge for the Year	100,062	47,535	119,308	60,296	76,002	270,490	372,884	1,046,577	886,476
Disposals	–	(1,703)	(61,737)	–	(4,762)	(15,052)	(17,641)	(100,895)	(115,415)
Transfers/Adjustments	127,069	(94,768)	–	–	(7,859)	12,096	(16,912)	19,626	–
Remeasurement			(25,913)		1,350	4,521	3,902	(16,140)	–
Revaluation Adjustments on Accumulated Depreciation	(1,335,728)	(575,958)	–	–	–	–	–	(1,911,686)	–
Closing Balance as at	47,898	72,351	578,866	305,536	739,151	2,356,353	5,907,238	10,007,393	10,969,911
(Less): Impairment Charges									
Net Book Value at 31.12.2013	13,233,826	1,836,651	497,529	80,725	242,236	1,093,182	870,835	17,854,984	10,277,468
Capital Work-in-Progress at Cost								235,329	497,713
Furniture Equipment and Machinery at Store								93,345	147,917
								18,183,658	10,923,098

BANK		GROUP	
2013	2012	2013	2012
Rs. '000	Rs. '000	Rs. '000	Rs. '000

29. Investments Properties

Opening Balance	456,463	455,049	456,463	455,049
Additions	–	1,414	–	1,414
Disposals	–	–	–	–
Transfer/Adjustments	(239,278)	–	(239,278)	–
Closing Balance	217,185	456,463	217,185	456,463

(Less): Accumulated Depreciation

Opening Balance	57,955	48,884	57,955	48,884
Charge for the Year	1,754	9,071	1,754	9,071
Disposals	–	–	–	–
Transfer/Adjustments	(32,300)	–	(32,300)	–
Closing Balance	27,409	57,955	27,409	57,955
Net Book Value	189,776	398,508	189,776	398,508

The valuation of Investment Properties have been carried out by the Chief Government Valuer, as at 30th June 2013 and based on his valuation the fair value of the Investment Properties are as follows:

Class of Assets	Rs. '000
Lands	224,000
Building	146,000
Total Fair Value of Investment Property	370,000

BANK		GROUP	
2013	2012	2013	2012
Rs. '000	Rs. '000	Rs. '000	Rs. '000

30. Prepaid Leases

Opening Balance	706,204	706,204	706,204	706,204
Additions	21,187	–	21,187	–
Disposals	(640)	–	(640)	–
Transfer/Adjustments	11,713	–	11,713	–
Closing Balance	738,464	706,204	738,464	706,204

(Less): Accumulated Amortisation

Opening Balance	414,338	380,979	414,338	380,979
Charge for the Year	29,034	33,359	29,034	33,359
Disposals	(640)	–	(640)	–
Transfer/Adjustments	–	–	–	–
Closing Balance	442,732	414,338	442,732	414,338
Net Book Value	295,732	291,866	295,732	291,866

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
31. Deferred Tax Assets/Liabilities				
Deferred Tax Liabilities (Note 31. a)	885,232	189,726	2,557,359	864,461
Deferred Tax Assets (Note 31. b)	(1,071,381)	(691,313)	(1,075,651)	(501,997)
	(186,149)	(501,587)	1,481,708	362,464

	BANK				GROUP			
	2013		2012		2013		2012	
	Temporary Difference	Tax Effects	Temporary Difference	Tax Effects	Temporary Difference	Tax Effects	Temporary Difference	Tax Effects
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

31.a Deferred Tax Liabilities

Balance as at 1st January	677,593	189,726	2,076,296	581,363	3,087,361	864,461	1,205,489	337,537
Originating During the Year	2,483,950	695,506	(1,398,704)	(391,637)	6,046,064	1,692,898	1,881,871	526,924
Balance as at 31st December	3,161,543	885,232	677,592	189,726	9,133,425	2,557,359	3,087,360	864,461

31.b Deferred Tax Assets

Balance as at 1st January	2,468,975	691,313	2,743,757	768,252	1,792,846	501,997	699,050	195,734
Originating During the Year	1,357,386	380,068	(274,782)	(76,939)	2,048,764	573,654	1,093,796	306,263
Balance as at 31st December	3,826,361	1,071,381	2,468,975	691,313	3,841,610	1,075,651	1,792,846	501,997

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

32. Other Assets

Deposits and Prepayments	213,847	245,650	557,588	349,021
Unamortised Day One Difference Staff Loans	7,222,693	6,934,270	7,222,693	6,941,258
Others	1,769,319	1,734,069	2,991,357	5,195,492
Total	9,205,859	8,913,989	10,771,638	12,485,771

33. Due to Banks

Money Market Borrowings	79,553,628	80,560,402	79,553,628	80,560,402
Call Money Borrowings	1,327,081	12,840,334	1,327,081	12,840,334
Other Borrowings	913,308	723,977	21,106,293	40,587,128
Total	81,794,017	94,124,713	101,987,002	133,987,864

BANK		GROUP	
2013	2012	2013	2012
Rs. '000	Rs. '000	Rs. '000	Rs. '000

34. Derivative Financial Instruments

Foreign Currency Derivatives

Foreign Currency Swaps	215,178	1,710	215,178	1,710
Forward Foreign Exchange Contracts	666	–	666	–
Total	215,844	1,710	215,844	1,710

35. Due to Other Customers

Total Amount due to Other Customers	762,248,529	683,950,837	789,225,314	708,896,611
Total	762,248,529	683,950,837	789,225,314	708,896,611

a. Analysis

Product-Wise Analysis

Demand Deposit (Current Accounts)	37,372,309	36,343,016	34,355,111	36,343,016
Savings Deposits	255,980,538	236,230,243	254,013,565	236,779,366
Fixed Deposits	466,314,410	381,570,595	498,275,367	391,593,923
Other Products	2,581,272	29,806,983	2,581,271	44,180,306
Total	762,248,529	683,950,837	789,225,314	708,896,611

By Currency

Sri Lankan Rupee	699,086,111	619,601,386	726,062,896	644,547,160
United States Dollar	53,590,759	37,302,953	53,590,759	37,302,953
Great Britain Pound	3,375,465	3,401,353	3,375,465	3,401,353
Others	6,196,194	23,645,145	6,196,194	23,645,145
Total	762,248,529	683,950,837	789,225,314	708,896,611

36. Other Borrowings

Central Bank of Sri Lanka	1,924,151	2,029,468	1,924,151	2,029,468
Other Financial Institutions	1,254,530	1,688,372	21,039,486	1,688,372
Borrowings Under Repurchase Agreement	17,175,305	37,307,118	15,914,380	37,022,258
	20,353,986	41,024,958	38,878,017	40,740,098

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
37. Other Liabilities				
Interest Payable	—	—	—	65,439
Impairment Charges in Respect of Off-Balance	246,529	251,959	246,528	251,958
Sundry Creditors	3,748,076	3,305,033	5,762,412	3,044,909
Net Defined Benefit Obligation (Note 37.1)	3,816,507	3,142,555	3,816,507	3,142,555
Provision for Gratuity (Note 37.2)	477,778	314,964	549,455	369,575
Other Payables	4,836,011	5,924,397	9,127,020	11,812,156
Total	13,124,900	12,938,908	19,501,922	18,686,592

37.1 Net Defined Benefit Obligation Pre-1996 Pension Plan

Balance as at	3,142,555	3,236,543	3,142,555	3,236,543
Current Service Cost	553,397	535,681	553,397	535,681
Interest Cost	4,340,207	4,191,535	4,340,207	4,191,535
Expected Return	(4,025,951)	(3,627,807)	(4,025,951)	(3,627,807)
Provision Adjustment	(794,723)	(1,260,337)	(794,723)	(1,260,337)
Actuarial Loss	656,915	1,025,294	656,915	1,025,294
Difference Between Expected Return and Actual Return	(55,893)	(967,327)	(55,893)	(967,327)
Actual Expenses and Taxes	—	8,973	—	8,973
Net Liability on Defined Benefit Pension Plan	3,816,507	3,142,555	3,816,507	3,142,555

37.2 Provision for Gratuity

Opening Balance	314,964	314,682	369,575	348,476
Current Service Cost	22,758	15,088	39,824	35,905
Interest Cost	31,497	26,323	31,497	26,323
Benefits paid during Year	(5,623)	(6,494)	(5,623)	(6,494)
Actuarial Losses/(Gains) on Obligations	114,182	(34,635)	114,182	(34,635)
	477,778	314,964	549,455	369,575

The Principal financial assumptions used in the valuation as at 31.12.2013 are as follows:

Discount Rate	10% p.a.
Basic Salary Increase for All Grades	7% p.a.
Normal age of Retirement	55 Years

38. Subordinated Term Debts

Face value in Rupees Millions	Interest Rate and Repayment Terms	Issue Date	Maturity Date	BANK		GROUP	
				2013	2012	2013	2012
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Issued by the Bank							
(i) Tranch 1	16.0% - Biannually	2008.12.30	2016.12.29	2,500,814	2,500,000	2,500,814	2,500,000
(ii) Tranch 2	13.5% - Biannually	2009.12.30	2017.12.29	2,500,894	2,500,000	2,500,894	2,500,000
(iii) Tranch 3	12.0% - Biannually	2011.12.30	2019.12.29	5,002,486	5,000,000	5,002,486	5,000,000
(iv) Tranch 4	13.0% - Biannually	2013.06.15	2021.06.14	5,028,348	–	5,028,348	–
Issued by the Subsidiary							
(i) Tranch 1	16.5% - Biannually	2013.03.27	2017.03.26			2,112,187	
(ii) Tranch 2	16.75% - Biannually	2013.03.27	2018.03.26			1,672,872	
(iii) Tranch 3	17.0% - Biannually	2013.03.27	2018.03.26			2,648,688	
Non-Listed Debentures						1,675,162	
Total				15,032,542	10,000,000	23,141,451	10,000,000
Due within 1 Year				–	–	–	–
Due after 1 Year				15,032,542	10,000,000	23,141,451	10,000,000
Total				15,032,542	10,000,000	23,141,451	10,000,000

39. Stated Capital/Assigned Capital

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Ordinary Shares (Note 39.1)	49,998	49,998	49,998	49,998
Assigned Capital (Note 39.2)	7,152,000	7,152,000	7,152,000	7,152,000
	7,201,998	7,201,998	7,201,998	7,201,998

39.1 Share Capital

39.1.1 Movement of Share Capital

Authorised

20,000,000 Ordinary Shares of Rs. 50/- each	1,000,000	1,000,000	1,000,000	1,000,000
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Issued and Fully-Paid

999,960 Ordinary Shares of Rs. 50/- each	49,998	49,998	49,998	49,998
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All issued shares of 1 Mn are fully-paid except for 40 shares for which calls have been made, but remain unpaid.

39.1.2 Principal Shareholders of the Bank are as follows:

	2013	2012
	%	%
Government of Sri Lanka	92.27	92.27
Co-operative Societies	7.73	7.73
	100.00	100.00

39.2 Assigned Capital (Capital Pending Allotment)

39.2.1 The Government of Sri Lanka has injected Rs. 7,152 Mn as capital to the Bank. This amount is currently in the Capital Pending Allotment Account. The Bank is planning to issue 143,040,000 shares of Rs. 50/- each, subsequent to the increase in authorised Share Capital.

39.2.2 The increase in paid up capital requires an amendment to the People's Bank Act and it is yet to be finalised.

39.2.3 The Ministry of Finance of the Government of Sri Lanka infused capital to the Bank as follows. Four tranches of Rs. 1 Bn, Rs. 2 Bn, Rs. 1.5 Bn and Rs. 1.5 Bn for the years 2005, 2006, 2007 and 2008 to meet the stipulated minimum capital requirement by the Central Bank of Sri Lanka.

40. Statutory Reserve Fund

The Permanent Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of net profit after taxation but before any dividend is declared, transfer to the Permanent Reserve a sum equivalent to not less than 5% of the Bank's paid-up capital until the Permanent Reserve is equal to 50% of the paid-up capital and not less than 2% until the Permanent Reserve equals the paid-up capital. Accordingly, Bank has transferred Rs. 374 Mn for the current year.

41. Other Reserves

41.1 Revaluation Reserve

This reserve was created on revaluation of assets of the Bank as per Board approval in compliance with Section 19 (7) of the Banking Act No. 30 of 1988.

41.2 Capital Reserve

This reserve was created in 1987 and increased in 1998, has no transfers to date.

41.3 Special Risk Reserve

In terms of Central Bank Directives, 25% of Primary Dealer Unit (PDU) profit has been transferred to Special Risk Reserve in order to promote safety, soundness and the stability of the Primary Dealer System and to build-up a Primary Dealer Capital Base.

According to Central Bank Direction 08/11/011/0019/001 dated 14.02.2013, Bank is exempted from the requirement of maintaining the reserve. Therefore no transfer is made to the reserve this year based on the direction from the Central Bank of Sri Lanka.

41.4 General Reserve

This reserve has been created under Section 22 (2) of the People's Bank Act No. 29 of 1961. The General Reserve represents accumulated unallocated retained Profits and Losses which are available for distribution and for settlement of debentures issued.

41.5 Investment Fund Account

As per Central Bank of Sri Lanka guidelines, this fund is created using the nominal tax savings from the reduced taxation rates applicable on Financial VAT and mainstream taxation from 2011.

41.6 Dividend Paid to GOSL

According to the Agreement between the Government of Sri Lanka and the People's Bank, the Bank is required to pay back 25% of the Restructuring Bond interest to the General Treasury as a dividend. Additional details relating to this expense is reflected in Note 21.

41.7 Special Levy to Treasury

This pertains to a special dividend paid to the consolidated fund of the Government of Sri Lanka as determined by the Ministry of Finance. The amount paid for 2013 is Rs. 4,500 Mn.

	Statutory Reserve	Revaluation Reserve	Capital Reserve	Special Risk Reserve	General Reserve	Investment Fund	Available-For-Sale Reserve	Profit/(Loss) (Restated)	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
42. Movement in Retained Earnings and Other Reserves									
BANK									
Balance as at 01.01.2011	49,998	5,630,460	5,663	1,253,808	939,500	–	413,124	3,914,771	12,207,324
Profit/(Loss) for the Year	–	–	–	–	–	–	–	10,446,373	10,446,373
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(96,671)	–	(96,671)
Impairment Charges in Respect of Off-Statement of Financial Position Items	–	–	–	–	–	–	–	–	–
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(2,170,391)	(2,170,391)
Transfer to Reserve During the Period	1,842,593	–	–	197,598	1,250,000	1,897,702	–	(5,187,893)	–
Dividend Paid to GOSL	–	–	–	–	–	–	–	–	–
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)
Balance as at 31.12.2011	1,892,591	5,630,460	5,663	1,451,406	2,189,500	1,897,702	316,453	2,502,860	15,886,635
Profit/(Loss) for the Year	–	–	–	–	–	–	–	10,893,992	10,893,992
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(18,489)	–	(18,489)
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(57,966)	(57,966)
Transfer to Reserve During the Period	544,700	(166,964)	–	182,304	1,250,000	3,145,843	–	(4,955,883)	–
Dividend Paid to GOSL	–	–	–	–	–	–	–	(201,382)	(201,382)
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)
Balance as at 31.12.2012	2,437,291	5,463,496	5,663	1,633,710	3,439,500	5,043,545	297,964	3,681,621	22,002,789
Profit/(Loss) for the Year	–	–	–	–	–	–	–	7,487,887	7,487,887
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(133,988)	–	(133,988)
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(715,204)	(715,204)
Revaluation Surplus	–	5,934,089	–	–	–	–	–	–	5,934,089
Transfers to Reserves During the Period	374,394	–	–	–	1,875,000	1,371,812	–	(3,621,206)	–
Dividend Paid to GOSL (Note 41.6)	–	–	–	–	–	–	–	(219,690)	(219,690)
Special Levy to Treasury (Note 41.7)	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)
Tax on Other Comprehensive Income		(521,038)							(521,038)
Balance as at 31.12.2013	2,811,685	10,876,547	5,663	1,633,710	5,314,500	6,415,357	163,976	2,113,408	29,334,846
Notes	40	41.1	41.2	41.3	41.4	41.5		42	

	Statutory Reserve	Revaluation Reserve	Capital Reserve	Special Risk Reserve	General Reserve	Investment Fund	Available-For-Sale Reserve	Profit/(Loss)	Total	Non-Controlling Interest	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GROUP											
Balance as at 01.01.2011	49,998	5,630,460	5,663	1,253,808	939,500	–	413,124	10,559,847	18,852,400	83,225	18,935,625
Profit/(Loss) for the Year	–	–	–	–	–	–	–	12,117,411	12,117,411	406,127	12,523,538
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(93,985)	–	(93,985)	895	(93,090)
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(2,169,579)	(2,169,579)	271	(2,169,308)
Transfer to Reserve During the Period	1,842,593	–	–	197,598	1,250,000	2,230,900	–	(5,521,091)	–	–	–
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(3,580)	–	(3,580)	–	(3,580)
Deemed Disposal Profit	–	–	–	–	–	–	–	3,150,026	3,150,026	–	3,150,026
Share Issue Expenses	–	–	–	–	–	–	–	(211,190)	(211,190)	–	(211,190)
Goodwill Adjustment	–	–	–	–	–	–	–	(2,969)	(2,969)	–	(2,969)
Disposal of Change of Holdings	–	–	–	–	–	–	–	(29,362)	(29,362)	–	(29,362)
Acquired During the Year	–	–	–	–	–	–	–	–	–	3,932,085	3,932,085
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)	–	(4,500,000)
Balance as at 31.12.2011	1,892,591	5,630,460	5,663	1,451,406	2,189,500	2,230,900	315,559	13,393,093	27,109,172	4,422,603	31,531,775
Profit/(Loss) for the Year	–	–	–	–	–	–	–	11,230,199	11,230,199	666,494	11,896,693
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(38,663)	–	(38,663)	54	(38,609)
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(52,754)	(52,754)	(4,993)	(57,747)
Transfer to Reserve During the Period	544,700	(166,964)	–	182,304	1,250,000	3,621,639	–	(5,431,679)	–	–	–
Movement in Deemed Disposal Profit	–	–	–	–	–	–	–	435,191	435,191	(504,322)	(69,131)
Share Issue Expenses	–	–	–	–	–	–	–	(14,429)	(14,429)	–	(14,429)
Dividend Paid to GOSL	–	–	–	–	–	–	–	(201,382)	(201,382)	–	(201,382)
Special Levy to Treasury	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)	–	(4,500,000)
Balance as at 31.12.2012	2,437,291	5,463,496	5,663	1,633,710	3,439,500	5,852,539	276,896	14,858,239	33,967,334	4,579,836	38,547,170
Profit/(Loss) for the Year	–	–	–	–	–	–	–	8,364,339	8,364,339	799,845	9,164,184
Changes in Fair Value in AFS Investments	–	–	–	–	–	–	(133,015)	–	(133,015)	325	(132,690)
Net Defined Benefit Obligation	–	–	–	–	–	–	–	(715,204)	(715,204)	–	(715,204)
Revaluation Surplus	–	6,409,263	–	–	–	–	–	–	6,409,263	158,391	6,567,654
Revaluation Surplus on Associate	–	182,475	–	–	–	–	–	–	182,475	–	182,475
Transfer to Reserve During the Period	374,394	–	–	–	1,875,000	1,611,397	(3,780)	(3,856,261)	750	250	1,000
Dividend Paid to GOSL (Note 41.6)	–	–	–	–	–	–	–	(219,690)	(219,690)	–	(219,690)
Special Levy to Treasury (Note 41.7)	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)	–	(4,500,000)
Movement in Deemed Disposal Profit	–	–	–	–	–	–	–	100,190	100,190	(98,759)	1,431
Share Issue	–	–	–	–	–	–	–	208,554	208,554	69,518	278,072
Merger Adjustment	–	–	–	–	–	–	–	(71,883)	(71,883)	(23,961)	(95,844)
Dividend Payment	–	–	–	–	–	–	–	–	–	(493,710)	(493,710)
Tax on Other Comprehensive Income	–	(654,087)	–	–	–	–	–	–	(654,087)	(44,350)	(698,436)
Balance as at 31.12.2013	2,811,685	11,401,147	5,663	1,633,710	5,314,500	7,463,936	140,101	14,168,283	42,939,026	4,947,385	47,886,411
Notes	40	41.1	41.2	41.3	41.4	41.5		42			

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
43. Non-Controlling Interest				
Balance at Beginning of the Year	–	–	4,579,836	4,422,603
Share of Net Profit/(Loss) for the Year	–	–	799,845	666,494
Change in Fair Value of AFS Investment	–	–	325	54
Net Defined Benefit Obligation	–	–	–	(4,994)
Revaluation Surplus	–	–	158,391	–
Tax on Other Comprehensive Income	–	–	(44,350)	–
Disposal During the Year	–	–	(98,759)	(176,824)
Share Issue	–	–	69,518	–
Transfer to Reserves	–	–	250	–
Merger Adjustment	–	–	(23,962)	–
Dividend Payments During the Year	–	–	(493,709)	(327,497)
Balance as at end of the Year	–	–	4,947,385	4,579,836

44. Commitments and Contingencies

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
44.1 Contingent Liabilities				
Acceptances	49,864,088	79,408,496	49,864,088	79,408,496
Documentary Credit	73,766,374	62,340,734	73,789,225	62,414,458
Guarantees	27,157,319	24,119,294	27,391,852	25,594,294
Forward Exchange Contracts	22,289,294	2,680,654	22,289,294	2,680,654
	173,077,075	168,549,178	173,334,459	170,097,902
44.2 Commitments				
Non-Disbursed Overdrafts	24,041,574	38,472,206	24,041,574	38,472,206
	24,041,574	38,472,206	24,041,574	38,472,206
Total Commitments and Contingencies	197,118,649	207,021,384	197,376,033	208,570,108

44.3 Litigation

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defences. The Bank is also contesting certain Labour Tribunal cases. In the opinion of management, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank and the Group will not have a material impact on the financial condition or future operations of the Bank and the Group as a whole. The total value of litigation against the Bank amounts to approximately Rs. 8.45 Bn, of which details are given below:

Zone	Region	Value Rs.	Total
Legal	Legal Department	893,636,980	893,636,980
Western I	Western Zone I	28,500,000	36,015,405
	Gampaha	7,515,405	–
Central	Kandy	500,000	898,223
	Matale	–	–
	Nuwara-Eliya	398,223	–
Eastern	Ampara	1,800,000	2,150,000
	Batticaloa	350,000	–
	Trincomalee	–	–
North-Central	Anuradhapura	850,000	850,000
	Polonnaruwa	–	–
Northern	Jaffna	–	–
	Vanni	–	–
Southern	Galle	17,850,000	97,805,000
	Hambantota	77,300,000	–
	Matara	2,655,000	–
Uva	Badulla	11,700,000	11,700,000
	Monaragala	–	–
Wayamba	Kurunegala	14,728,030	47,570,030
	Puttalam	32,842,000	–
Sabaragamuwa	Kegalle	9,304,722	9,304,722
Western II	Western II	42,142,001	43,342,001
	Kalutara	1,200,000	–
	Ratnapura	–	–
Special Assets Unit/Corporate Banking Division		7,311,656,790	7,311,656,790
Total			8,454,929,151

44.4 Other Capital Commitments

The following indicates the contractual amounts of the Group's Off-Balance Sheet financial instruments that commits it to extend credit to customers:

	BANK		GROUP	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Approved and Contracted for	773,563	264,180	1,488,040	264,180
Approved but Not Contracted for	915,943	543,170	915,943	543,170
	1,689,506	807,350	2,403,983	807,350

45. Non-Cash Items Included in Profit Before Tax

Depreciation of Property, Plant & Equipment	763,487	510,590	999,043	783,718
Amortisation of Leasehold Properties	40,739	102,626	47,535	111,890
Amortisation of Prepayment Leases	29,034	33,358	29,034	33,358
Amortisation of Intangible Assets	38,609	56,455	57,339	73,596
Depreciation of Investment Property	1,754	9,071	1,754	9,071
Impairment Losses on Loans and Advances	13,650,788	2,742,305	13,922,095	3,585,236
Other Impairments	65,532	–	900,332	–
Profit on Sale of Fixed Assets	(28,812)	(22,565)	(29,377)	(80,878)
	14,561,131	3,431,840	15,927,755	4,515,991

46. Changes in Operating Assets

Changes in Derivative Financial Instruments	(32,600)	–	(32,596)	–
Net Increase in Debt Securities, Treasury Bills & Bonds and Equity Shares Held at Fair Value through Profit or Loss	(44,976,147)	5,143,928	(45,054,954)	5,007,667
Net Increase in Balance with Central Bank	3,041,156	(394,408)	3,041,156	(394,408)
Net Increase in Placement with Bank	10,790,037	(3,748,532)	10,790,037	(3,748,532)
Net Increase in Loans and Receivable to Banks	(46,874,991)	(3,339,657)	(46,989,304)	(3,339,657)
Net Increase in Loans and Receivable to Customers	(12,484,249)	(143,465,972)	(33,159,748)	(158,834,289)
Net Increase/(Decrease) in Financial Investments Available-for-Sale	27,531,768	(27,531,767)	26,112,973	(27,485,305)
Change in Other Assets	(9,873,878)	192,003	1,074,593	504,794
	(72,878,904)	(173,144,405)	(84,217,843)	(188,289,730)

BANK		GROUP	
2013	2012	2013	2012
Rs. '000	Rs. '000	Rs. '000	Rs. '000

47. Changes in Operating Liabilities

Changes in Due to Banks	(12,330,696)	50,522,643	(32,000,862)	52,603,790
Changes in Derivative Financial Instruments	214,134	–	214,134	–
Change in Deposits from Banks, Customers and Debt Securities Issued	72,844,667	133,724,389	80,188,819	136,573,324
Change in Other Borrowings	(20,670,972)	20,237,823	(1,862,081)	20,759,777
Change in Other Liabilities	4,056,160	171,265	(442,992)	(8,049,845)
Total	44,113,293	204,656,120	46,097,018	217,986,736

48. Financial Reporting by Segment

	BANKING		LEASING		TRAVELS		ELIMINATION'S		GROUP	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest	109,859,280	84,504,278	5,256,598	1,992,659	–	–	(707,529)	(742,593)	114,408,349	85,754,344
Exchange	1,418,430	2,126,109	–	–	–	–	–	–	1,418,430	2,126,109
Leasing	–	12,332	14,088,830	14,587,867	–	–	(21,893)	(52,921)	14,066,937	14,547,278
Share Trading/Dividend	146,325	31,135	14,465	40,392	–	–	–	–	160,790	71,527
Commissions and Fees	3,478,015	3,541,589	348,511	262,999	33,638	27,071	(115,219)	(298,437)	3,744,945	3,533,222
Other	3,431,415	1,984,223	1,852,606	859,628	54	3,458	(450,540)	(1,622,505)	4,833,534	1,224,804
Total Revenue from External Customers	118,333,466	92,199,666	21,561,009	17,743,545	33,691	30,529	(1,295,181)	(2,716,456)	138,632,986	107,257,284
Inter-Segment Revenue	2,123,008	2,577,734	648,903	138,722	4,400	–	(1,481,130)	–	1,295,181	2,716,456
Unallocated Income	–	–	–	–	–	–	28,442	–	28,442	–
Total Revenue	120,456,473	94,777,400	22,209,913	17,882,267	38,091	30,529	(2,747,869)	(2,716,456)	139,956,608	109,973,740
Segment Result	10,304,282	15,249,382	4,734,536	4,102,631	9,618	9,104	–	–	15,048,436	19,361,117
Unallocated Expenses	–	–	–	–	–	–	–	–	(1,559,064)	(1,622,503)
Income from Associates	–	–	–	–	–	–	–	–	(76,978)	(67,207)
Income Tax Expenses	(2,816,395)	(4,355,390)	(1,429,153)	(1,418,547)	(2,662)	(779)	–	–	(4,248,210)	(5,774,716)
Profit for the Period	–	–	–	–	–	–	–	–	9,164,184	11,896,690
Non-Controlling Interests	–	–	–	–	–	–	–	–	(799,845)	(666,494)
Profit for Equity Holders of the Bank	–	–	–	–	–	–	–	–	8,364,339	11,230,196
Profit for the Year	–	–	–	–	–	–	–	–	9,164,184	11,896,688
Other Comprehensive Income Net of Tax	–	–	–	–	–	–	–	–	5,203,799	(96,357)
Total Comprehensive Income	–	–	–	–	–	–	–	–	14,367,983	11,800,330
Non-Controlling interest	–	–	–	–	–	–	–	–	(914,211)	(661,554)
Profit for the Equity Holders of the Bank	–	–	–	–	–	–	–	–	13,453,772	11,138,776
Segment Assets	930,377,706	873,023,229	114,011,339	96,119,835	69,549	46,654	(13,264,132)	(11,304,988)	1,031,194,463	960,550,091
Investment in Associates	207,568	273,100	98,787	205,160	–	–	(31,886)	(51,064)	274,469	309,989
Total Assets	930,585,274	873,296,329	114,110,126	96,324,995	69,549	46,654	(13,296,018)	(11,356,052)	1,031,468,934	960,860,080
Segment Liabilities	894,048,430	844,091,541	94,322,248	79,151,549	28,072	11,007	(12,018,224)	(10,779,525)	976,384,385	915,110,912
Total Equity and Liabilities	930,585,274	873,296,329	114,110,126	96,324,995	69,549	46,654	(13,296,018)	(11,356,052)	1,031,472,794	960,860,080

49. Related Party Disclosures

49.1 Transactions with Key Management Personnel of the Bank

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling activities of the Bank. Such Key Management Personnel include Chairman, Executive and Non-Executive Directors, Chief Executive Officer/General Manager of the Bank and their close family members.

	2013	2012
	Rs. '000	Rs. '000
49.1.1 Compensation of Key Management Personnel of the Bank		
Short-Term Employee Benefits	16,270	17,470
Post-Employment Pension	—	—
Termination Benefits	—	—
Share-Based Payments	—	—

49.1.2 Transactions with Key Management Personnel

The following table provides the outstanding balance and the corresponding interest, which have been entered into with Key Management Personnel of the Bank during the year:

	Balance as at the Year-end		Income during the Year	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Residential Mortgages	—	—	—	—
Credit Cards	319	441	1	5
Guarantees	—	—	—	—

49.2 Transactions with Subsidiary Companies

The following table provides the outstanding balance of loans and advances and other credit facilities and deposits and the corresponding interest during the year of the subsidiary companies:

	Balance as at the Year-end		Income/Expenses during the Year	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
People's Leasing Co. Ltd.				
Investments - Ordinary Shares	690,958	498,484	1,480,333	1,464,016
- Preference Shares	550,000	750,000	127,500	157,250
Loans and Advances	1,914,380	6,230,062	581,282	670,542
Deposits	6,271,733	136,429	104,234	44,350
Other Receivables (Loan Interest, Building Rentals, etc.)	6,150	3,100	—	—
Other Payables (Agency Commission, Hiring Rentals, Lease Rentals, etc.)	149,144	252,055	—	—
Building Rental Received	—	—	20,475	18,600
Agency Commission Paid	—	—	—	744
Lease Rental Paid	—	—	21,893	36,416
People's Travels (Pvt) Ltd.				
Investments - Ordinary Shares	4,950	4,950	1,238	1,238
Loans and Advances	—	—	—	—
Off-Balance Sheet Accommodations	23,550	24,050	628	459
Deposits	16,889	13,558	1,860	1,679

49.3 Transactions with Sub-Subsidiary Companies

The following table provides the outstanding balance of loans and advances and other credit facilities and deposits and the corresponding interest during the year of the Sub-Subsidiary companies.

	Balance as at the Year-end		Income/Expenses during the Year	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
People's Leasing Fleet Management Ltd.				
Deposits	6,018	3,241	–	64
Hiring Rental Payable	10,511	11,528	–	–
Hiring Rental Paid	–	–	66,159	44,913
People's Leasing Property Development Ltd.				
Deposits	7,383	2,827	–	24
Other Payables	38,514	26,027	–	–
Expenses Paid	–	–	28,585	49,043
People's Insurance Ltd.				
Loans and Advances	10,934	–	–	–
Deposits	81,062	–	1,558	–
Repo Investments	208,100	262,207	15,277	31,093
Claims Receivables	209,388	–	–	–
Other Receivables	2,709	1,241	–	–
Insurance Premium Payable	190	571	–	–
Service Charges and Claims Received	–	–	50,309	78,117
Insurance Premium Paid	–	–	265,175	247,143
Other Income Received	–	–	5,964	6,077
People's Finance PLC				
Overdrafts	–	169,664	–	1,988
Deposits	–	58,560	–	1,855
Repo Investments	–	22,653	–	5,712
People's Microfinance Ltd.				
Deposits	–	3,526	–	73
People's Leasing Havelock Property Ltd.				
Repo Investment	2,169	14,873	782	1,067

49.4 Transactions with Associate Companies

The following table provides the outstanding balance of loans and advances and other credit facilities and deposits and the corresponding interest during the year of the associate company:

	Balance as at the Year-end		Income/Expenses during the Year	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
People's Merchant Bank PLC				
Investments - Ordinary Shares	263,100	263,100	—	—
- Preference Shares	10,000	10,000	—	—
Loans and Advances	56,550	314,579	23,016	39,987
Off-Balance Sheet Accommodations	—	—	—	—
Deposits	397,538	131,918	3,328	14,761

49.5 Transactions with Government of Sri Lanka (GOSL) and State-Owned Enterprises (SOEs)

49.5.1 GOSL and SOE Loans and Advances

	2013				2012			
	Balance				Balance			
	Overdrafts	Loans & Advances	Bills	Total	Overdrafts	Loans & Advances	Bills	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Government	32,245,313	4,750,368	111,083	37,106,764	35,712,233	4,058,085	12,837	39,783,155
Local Government Bodies	32,703	—	—	32,703	15,384	—	—	15,384
Provincial Councils	166	—	—	166	166	—	—	166
Government Corporations	6,538,415	177,836,919	—	184,375,334	22,653,774	91,346,349	22,248,456	136,248,579
Total	38,816,596	182,587,287	111,083	221,514,966	58,381,556	95,404,434	22,261,293	176,047,283

49.5.2 GOSL and SOE Deposits

	2013				2012			
	Balance				Balance			
	Demand	Savings	Time	Total	Demand	Savings	Time	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Government	6,298,933	508,565	1,636,053	8,443,551	8,388,864	599,095	2,051,654	11,039,614
Local Government Bodies	1,167,764	—	462,808	1,630,572	1,214,892	—	501,378	1,716,270
Provincial Councils	1,281,878	—	1,130	1,283,008	891,389	—	1,504	892,893
Government Corporations	2,007,680	1,272,934	64,803,959	68,084,573	2,545,445	502,889	44,642,808	47,691,141
Total	10,756,256	1,781,499	66,903,950	79,441,705	13,040,590	1,101,984	47,197,344	61,339,918

49.5.3 GOSL and SOE Off-Balance Sheet Items

	2013				2012			
	Acceptances	Documentary Credit	Guarantees	Total	Acceptances	Documentary Credit	Guarantees	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Government	–	2,761,792	–	2,761,792	–	3,113,279	–	3,113,279
Government Corporations	48,013,310	63,348,146	1,195,207	112,556,663	77,020,354	53,045,162	633,847	130,699,363
Total	48,013,310	66,109,938	1,195,207	115,318,455	77,020,354	56,158,441	633,847	133,812,642

49.5.4 Government-Directed Loans and Advances

	Balance as at the Year-end		Income during the Year	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Microfinance and Development Loans	9,376,673	10,583,278	1,181,621	1,712,928
Housing Loans Granted to Government Servants	23,542,743	23,842,103	3,070,487	2,926,909
Total	33,374,152	34,880,117	4,272,873	4,660,602

50. Fair Value of Financial Instruments

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

Financial Investments - Available-for-Sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities. These assets are valued using models that use both observable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions.

Other Financial Assets Held-for-Trading

Other trading assets valued using quoted (unadjusted) prices in active markets available for each of identical assets.

Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>31st December 2013</i>	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial Assets				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts		35,392		35,392
Other Financial Assets Held-for-Trading				
Treasury Bills and Bonds		62,911,531		62,911,531
Quoted Investments	837,326			837,326
Financial Investments Available-for-Sale				
Unquoted Investments			311,733	311,733
	837,326	62,946,923	311,733	64,095,982
Financial Liabilities				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts		215,844		215,844
<i>31st December 2012</i>				
Financial Assets				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts		2,791		2,791
Other Financial Assets Held-for-Trading				
Treasury Bills and Bonds		18,099,173		18,099,173
Quoted Investments	673,537			673,537
Financial Investments Available-for-Sale				
Unquoted Investments			445,722	445,722
	673,537	18,101,964	445,722	19,221,223
Financial Liabilities				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts		1,710		1,710

Set out below is a comparison by class, of the carrying amount and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

For the year ended 31st December

	2013	2012	2013	2012
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets				
Cash and Cash Equivalents	18,772,595	18,772,595	24,401,979	24,401,979
Balances with Central Banks	40,370,892	40,370,892	43,412,048	43,412,048
Placements with Banks	2,551,215	2,551,215	13,341,252	13,341,252
Loans and Receivables to Banks	82,225,089	82,225,089	35,350,098	35,350,098
Loans and Receivables to Other Customers	619,829,735	620,069,711	611,414,268	610,729,551
Financial Investments - Held-to-Maturity	75,784,287	75,709,750	78,522,570	76,615,352
Investment in Subsidiaries	1,245,908	16,432,568	1,253,434	16,234,327
Investment in Associates	207,568	207,568	273,100	274,600
Financial Liabilities				
Due to Banks	81,794,017	81,794,017	94,124,713	94,124,713
Due to Other Customers	762,248,529	762,614,291	683,950,837	684,106,858
Other Borrowings	20,353,986	20,353,986	41,024,958	41,024,958
Subordinated Term Debts	15,032,542	15,032,542	10,000,000	9,907,647

Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to demand deposits, call deposits and savings deposits without specific maturity.

Fixed Rate Financial Instruments

Loans and receivables with fixed interest rates were fair valued using market rates end of the reporting period and these loans contract allows the Bank to change the contracted rate, if there is a material difference between the contracted rate and the market interest rate. Hence, loans and receivables reported at amortised cost are comparable to their fair value. Other variable interest-bearing loans were considered as carrying value equal fair value. Approximately 56% of the total portfolio of loans and receivables to customers have a remaining contractual maturity of less than one year.

Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customers end of the reporting period.

51. Financial Risk Management

51.1 Introduction

Financial risk management is the practice of economic value in the Bank by using financial instruments to manage exposure to risk. Similar to general risk management, financial risk management requires identifying its sources, measuring it, and plans to address them.

The Bank identifies the following key financial risks in its business operations:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

51.2 Risk Management Framework

While the Board of Directors (BOD) of People's Bank is ultimately responsible for the management of risks and the Bank's overall risk appetite, a Board subcommittee (Board Integrated Risk Management Committee) comprising of at least 3 Directors, the CEO/GM and the Head of Risk Management is responsible for reviewing the Bank's overall risk profile, its risk management framework and the necessary policies and procedures to manage risks across the organisation. It will be assisted in this endeavour by the relevant Senior Managers responsible for originating and managing risks across the Bank.

The Risk Management Department is responsible for preparing the risk policies and designing the frameworks and carrying out periodic reviews.

The Risk Management Department functions completely independent from the business functions. Accordingly, the Head of Risk Management reports directly to the Board Integrated Risk Management Committee to maintain independence of action

The Bank recognises the business units as owners of the risk and the First Line of Defence. They are required to identify, manage, mitigate and report on the different risks that arise from their business activities on a day-to-day basis.

Risk Management Department, which comprises the BIRMC (Board Integrated Risk Management Committee), BECC (Board Executive Credit Committee), BAC (Board Audit Committee), BIC (Board Investment Committee), ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) is the Second Line of Defence.

These committees, under the guidance and in collaboration with the Risk Management Department, design and deploy the overall risk management framework and develop risk management methodologies, policies and procedures.

These committees also approve and review various risk exposures within parameters laid down by the Board and undertake aggregated risk reporting. The policies and procedures are reviewed on a regular basis and updated in line with the changes in market conditions, products and services offered.

The Third and Last Line of Defence is internal audit which provides independent testing and verification of the effectiveness of the risk management framework, including policies and procedures and compliance with these policies and also assesses management assurance processes. The Internal Audit Department, should report directly to the Board Audit Committee (BAC) so as to ensure its independence.

51.3 Credit Risk

We consider credit risk as the most important risk category having the highest impact on our resource base. Credit risk arises because the Bank's customers and counterparties may fail to meet their contractual obligations and credit risk derives principally from the loans and advances made to and due from them and counterparties. Credit risk also arises from financial guarantees, letters of credit and acceptances issued and made on behalf of the Banks' clients and undertaking exposures in different countries.

Management of Credit Risk

Key principles in relation to the management of credit risk include:

- Independence of the credit risk management function from the business divisions.

- The internal rating of each borrower which forms the basis for correct risk appetite determination and adequate pricing of transactions.
- Credit approvals are based on credit authority which is assigned to committees based on personnel and seniority.

The primary driver of credit risk management is in the initial assessment of client risk profiles. The basic principle adopted by the Bank in credit risk management is assessment of the borrower's capacity to repay the debt (customer creditworthiness). In addition to repayment capacity, the quality of credit exposures is also affected by the quality of the collateral held. Hence, the quality and value of the collateral taken is precisely and thoroughly assessed, based on clearly defined rules provided in the internal procedures. The important criterion for approving offered collateral is liquidity. Total loans and receivables had been covered by collateral value of Rs. 913 Bn.

Prudent client selection is achieved by the Bank's business line leaders who are the First Line of Defence, by applying stringent underwriting standards combined with prudent collateralisation as deemed necessary. These extensions of credit are then periodically reviewed.

Each of the business lines have clearly defined risk acceptance criteria, processes and principles which are consistently applied.

The Bank actively aims to prevent undue concentration by ensuring a diversified credit portfolio, effectively protecting the Bank's capital in varying market conditions.

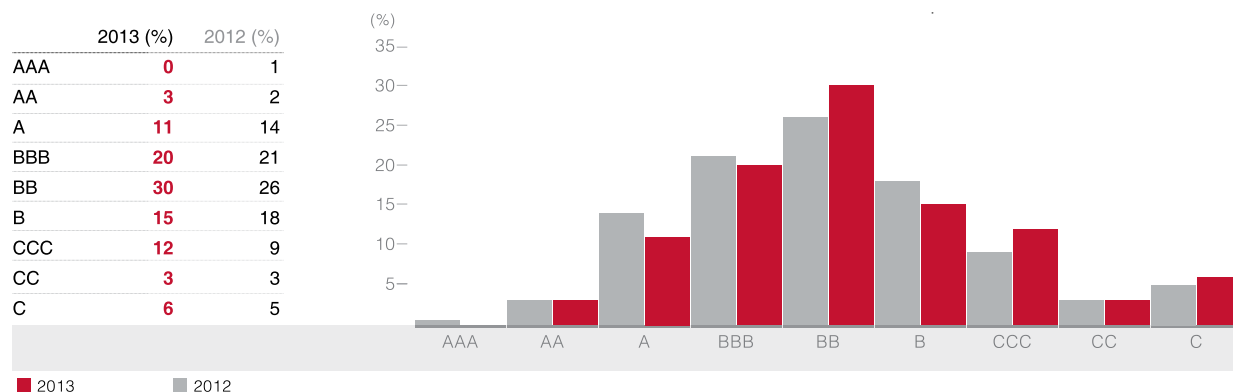
Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level. The Bank assigns credit approval authorities to individuals according to their levels of seniority, and reviews these periodically.

The Bank measures and consolidates its overall credit exposures to each obligor across the entire network, in line with regulatory requirements.

A basic and key element of the credit approval process is a detailed risk rating of each borrower above a certain level of exposure. Risk ratings assist in setting prudential exposure limits as well as determining pricing parameters.

When rating a borrower, the Bank applies in-house assessment methodologies, scorecards and the Bank's 9-grade rating scale for evaluating the credit worthiness of the borrower. The Bank has developed different risk rating scorecards for large Corporate Borrowers, Middle Size/SME Borrowers and Financial Institutions. These rating scorecards are periodically reviewed and validated by the BIRMC.

Risk Profile of Corporate Customers



Ongoing active monitoring and management of credit risk positions is an integral part of the Bank's credit risk management activities. Monitoring tasks are primarily performed by the Business Units in close co-operation with the Credit Control Department. The individual credit officers within the Business Units have the relevant expertise and experience to manage the credit risks associated with their borrowers. It is the responsibility of each credit officer to undertake ongoing credit monitoring for their allocated portfolio of borrowers.

The Bank also has procedures in place intended to identify at an early stage credit exposures for which there may be an increased risk of loss. In instances where the Bank has identified exposures where problems might arise, the respective exposure is generally placed on a watch list. The objective of this early warning system is to address potential problems while adequate options for action are still available.

In addition to the principles discussed above, following policy guidelines are in place to ensure uniformity in management of credit risk.

- i. Credit origination and maintenance procedure.
- ii. Portfolio management guidelines, such as, maximum exposure limits for industries and individual borrowers.
- iii. Remedial/Rehabilitation management guidelines.
- iv. Credit review policy.
- v. Credit extension is authorised by at least two or more credit officers including an officer from the Credit Controller Department for exposures beyond a certain quantum.
- vi. We have set up a loan review mechanism. Discriminatory time schedules for review are imposed for lower rated borrowers (6 months/1 year reviews). A percentage of quarterly loan disbursements at Branch/Regional/Zonal authority levels is selected on a random basis and subjected to post-grant reviews at regional as well as headoffice level to monitor and ensure quality of lending decisions, and also to ensure timely remedial action.

It is the Bank's policy to be in full compliance with Central Bank Guidelines and Directions, especially with regard to:

- Recognition and classification of delinquent loans
- Provisioning of delinquent loans
- Single Borrower Limit restrictions

The Bank has already adopted Sri Lanka Accounting Standards 32 and 39 (LKAS 32 and LKAS 39), for impairment of assets based on objective evidence of incurred losses. Loan loss provisioning is effected in accordance with the statutory requirements.

51.3.1 Loans and Receivables to Other Customers

Loans and receivables to other customers has been classified in to individually significant exposure and collective exposure as required by the Sri Lanka Accounting Standards (LKAS 39).

	2013	2012
	%	%
Individually Significant Impaired Loans		
Amortised Cost	45,885,774	44,763,478
Allowances for Impairment	(39,341,542)	(37,405,759)
Carrying amount as at 31st December	6,544,232	7,357,719
Collectively Assessed Loans		
Amortised Cost	635,581,090	615,860,621
Allowances for Impairment	(22,295,587)	(11,804,073)
Carrying amount as at 31st December	613,285,503	604,056,548

The Bank reviews its individually significant loans and receivables at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ.

If impairment is not required based on the individual assessment all such individually significant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics. This is required to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan ownership types, levels of arrears, industries, etc.), and judgements on the effect of concentration of risks and economic data.

Concentrations of Credit Risk

An analysis of concentration of credit risk from loans and receivables as at the 31st December as follows:

	2013		2012	
	Rs. '000	%	Rs. '000	%
Agriculture and Fishing	179,434,380	26.3	206,758,307	31.3
Manufacturing	13,166,471	1.9	19,954,340	3.0
Tourism	4,381,817	0.6	4,036,184	0.6
Transport	1,036,626	0.2	957,592	0.1
Construction	128,747,395	18.9	112,624,992	17.0
Traders	52,731,604	7.7	40,931,668	6.2
New Economy	8,269	0.0	5,665	0.0
Others	301,960,302	44.3	275,355,351	41.7
Gross Total	681,466,864	100.0	660,624,099	100.0

51.4 Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its contractual obligations as and when they arise. It also encompasses the difficulty to fund assets at appropriate maturities and rates and the inability to liquidate assets at a reasonable price and in an appropriate time frame.

The Bank's Treasury Department is charged with the responsibility of managing the Bank's liquidity within both internal and regulatory guidelines, under the supervision of the ALCO and monitored by the Middle Office.

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

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

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

Liquidity Risk is Managed by

- Gap management of cash flow maturities (on residual, contractual and behavioural basis).

- Maintaining a portfolio of high quality liquid assets that can be easily converted to cash to meet any contingencies. Hence our liquidity management strategy focuses on maintaining a portfolio of liquid assets and also maintaining a diversified portfolio of retail deposits attracted to the Bank through well thought out product introduction and effective relationship management of such sources. The widely dispersed branch network and the access to extensive retail customer base are vital ingredients in our liquidity strategy.
- Having ready access to the inter-bank money market.
- Stress testing of liquidity positions to assess the vulnerability of the Bank to any unlikely but potential threats and extent of reliance on any particular source of funds.
- Contingency planning - The Bank has developed a comprehensive contingency funding plan, which is augmented by a number of committed credit lines from external sources of foreign and local origin.

The Bank uses following tools for the liquidity risk monitoring and management:

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

Liquidity Indicators	2012	2013
	%	%
Loan/Customer Deposits	96.6	89.4
Unutilised Inter-Bank Borrowing Lines	44	20
Medium-Term Funding	102	86
Statutory Liquid Assets Ratio - DBU	21.8	25.2
- FCBU	21.8	22.3

This indicates that liquidity position has improved during the year.

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

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Maturity Profile of Assets and Liabilities (Rs. '000) as at 31st December 2013

	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total	
						2013	2012
						Rs. '000	Rs. '000
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets							
Cash and Cash Equivalents	18,772,595	–	–	–	–	18,772,595	24,401,979
Balances with Central Bank	14,339,316	14,227,837	3,919,656	3,760,235	4,123,848	40,370,892	43,412,048
Placements with Banks	2,551,215	–	–	–	–	2,551,215	13,341,252
Derivative Financial Instruments	35,391	–	–	–	–	35,391	2,791
Other Financial Assets Held-for-Trading	41,521,610	22,147,171	80,076	–	–	63,748,857	18,772,710
Loans and Receivables to Banks	30,100,949	24,153,320	8,922,790	11,358,880	7,689,150	82,225,089	35,350,098
Loans and Receivables to Other Customers	186,513,677	163,020,187	86,158,072	74,744,904	109,392,896	619,829,736	611,414,267
Financial Investments - Available-for-Sale	–	311,733	–	–	–	311,733	27,977,489
Financial Investments - Held-to-Maturity	10,806,727	31,761,846	19,082,572	13,063,142	1,070,000	75,784,287	78,522,570
Investments in Subsidiaries	–	–	–	–	1,245,908	1,245,908	1,253,434
Investments in Associates	–	–	–	–	207,568	207,568	273,100
Goodwill and Intangible Assets	–	–	–	–	33,535	33,535	44,352
Property, Plant & Equipment	–	–	–	–	14,705,721	14,705,721	8,234,565
Investment Properties	–	–	–	–	189,776	189,776	398,508
Prepaid Leases	–	–	–	–	295,732	295,732	291,866
Deferred Tax Assets	–	–	–	–	1,071,381	1,071,381	501,587
Other Assets	7,511,398	259,123	484,855	513,223	437,259	9,205,858	8,913,987
Total Assets 2013	312,152,879	255,881,216	118,648,021	103,440,384	140,462,774	930,585,274	–
Total Assets 2012	284,700,055	286,159,067	102,198,603	72,001,463	128,047,415	–	873,106,604
Liabilities							
Due to Banks	69,490,607	12,303,411	–	–	–	81,794,018	94,124,713
Derivative Financial Instruments	215,844	–	–	–	–	215,844	1,710
Due to Other Customers	238,253,734	255,360,744	80,011,136	67,311,307	121,311,608	762,248,529	683,950,837
Other Borrowings	17,292,351	3,061,635	–	–	–	20,353,987	41,024,958
Current Tax Liabilities	393,380	–	–	–	–	393,380	1,860,689
Deferred Tax Liabilities	–	–	–	–	885,231	885,231	–
Other Liabilities	2,559,398	9,656,804	769,184	139,515	–	13,124,900	12,938,910
Subordinated Term Debts	32,542	–	–	5,000,000	10,000,000	15,032,542	10,000,000
Stated Capital	–	–	–	–	7,201,998	7,201,998	7,201,998
Statutory Reserve Fund	–	–	–	–	2,811,685	2,811,685	2,437,291
Retained Earnings	–	–	–	–	2,409,607	2,409,607	3,977,820
Revaluation Reserve	–	–	–	–	10,876,547	10,876,547	5,463,496
Other Reserves	–	–	–	–	13,237,006	13,237,006	10,124,182
Total Equity and Liabilities 2013	328,237,856	280,382,594	80,780,320	72,450,822	168,733,682	930,585,274	–
Total Equity and Liabilities 2012	310,769,057	265,288,246	80,251,248	67,514,339	149,283,713	–	873,106,604

51.5 Market Risk

Market risk is the risk that changes in foreign exchange rates, interest rates, equity prices and commodity prices will adversely affect the Bank's income and or the value of any financial instruments that it may hold. Exposure to such risk is present in our trading book as well as the banking book. Specific policies on managing market risk are contained in the Bank's Treasury Policy Manual.

1. Market Risk and Asset Liability Management Encompasses:

- a. Setting limits for Treasury Front Office activities and reporting breaches
- b. Setting limits and benchmarks for Assets and Liability Management
- c. Independent verification of valuation rates and methodology
- d. Introducing VaR, duration etc. to quantify and manage market risk and validating models used for their calculations.

Organisation Structure for Market Risk Management

A comprehensive set of policies and limits have been adopted in order to manage market risks. The Board, on the recommendations of the ALCO, set limits for various treasury and investment related activities.

The ALCO is responsible for the development of market risk management policies. All material sources of market risks are identified and risk limits defined by the ALCO.

These policies/procedures encompass the statutory requirements whilst adhering to best practices.

Various market risk exposures are closely monitored by the Treasury Middle Office, and reported to Chief Risk Officer and ALCO, for control action. However, the front line responsibility for market risk management (Trading/Investment Book) rests with the Treasury Trading Department.

Treasury Front Office, Middle Office and Back Office are clearly segregated into 3 different reporting lines with clear and well-defined responsibilities.

Foreign Exchange Risk Management

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

Foreign exchange exposures arise both from proprietary trading and from undertaking foreign currency denoted transactions on behalf of clients on account of imports exports, remittances and other activities.

Foreign exchange risk is managed on a day-to-day basis by the Bank's Treasury Department. Daily Value at Risk is the primary mechanism for quantifying and controlling foreign exchange risk. Daily Value at Risk (DVAR) is an estimate, with a 99% confidence level, of the potential loss which might arise if the current positions were to be held unchanged for one business day.

We also use following tools to measure and manage foreign exchange risk.

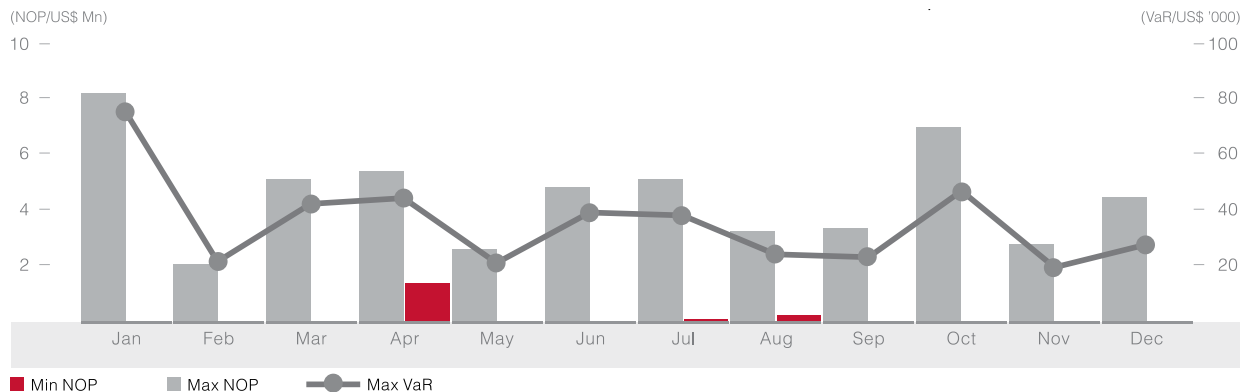
- i. Maturity gap analysis of foreign currency denominated assets and liabilities measured in month-millions.
- ii. Stress tests to measure impact of exchange rate movements on capital adequacy ratio.

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

- i. Volume limits by currency/trader
- ii. Overall room limits.
- iii. Stop loss limits by currency and trader
- iv. Forward foreign currency maturity gap limit measured in months-millions US\$.

The Middle Office monitors these exposures against the limits set on a real time basis.

Fx NOP & Daily VaR During 2013



Date	January	February	March	April	May	June	July	August	September	October	November	December
Max NOP	8,266,792	2,103,726	5,145,902	5,475,482	2,665,981	4,881,729	5,160,119	3,315,269	3,393,200	6,997,024	2,835,538	4,553,700
Min NOP	9,768	2,491	10,667	1,447,844	6,587	124	163,347	316,382	10,953	6,655	11,959	2,575
Max VaR	76,387	22,134	42,961	44,872	21,793	39,877	38,818	24,962	23,696	47,507	19,908	28,170

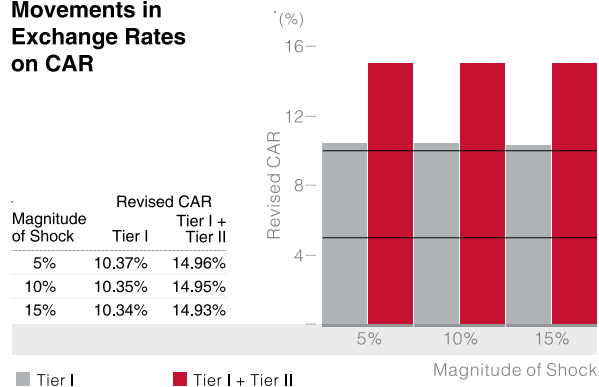
The Daily Value at Risk (DVaR) has been maintained well below the internal limit throughout the year with the maximum level of less than US\$ 80,000.

This chart shows that even an adverse movement in the magnitude of 15% has negligible impact on the capital adequacy of the Bank.

Stress tests measure impact of exchange rate movements on capital adequacy ratio.

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

Effect of Adverse Movements in Exchange Rates on CAR



Interest Rate Risk

Interest rate risk is the possibility that changes in level of market interest rates will adversely affect the Bank's net interest income and the value of any financial instruments held. This risk is managed by setting and monitoring limits for interest gaps and matching the re-pricing profile of the various interest sensitive assets and liabilities. The interest rate risk in both the banking and trading books (including the risk in forward exchange contracts) is ascertained and for this purpose both Duration Gap Analysis and Value at Risk is utilised.

Interest gaps are measured on both a contractual and behavioural basis. In addition volume limits on the holding of fixed income securities on the trading book and cumulative stop loss limits are used to manage interest rate risk.

Any adverse change in interest rates can impact the net interest margins of the Bank. The Bank ensures that interest rate risk in both the trading book and the banking book is captured and quantified. An overall limit for interest rate risk is established.

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

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

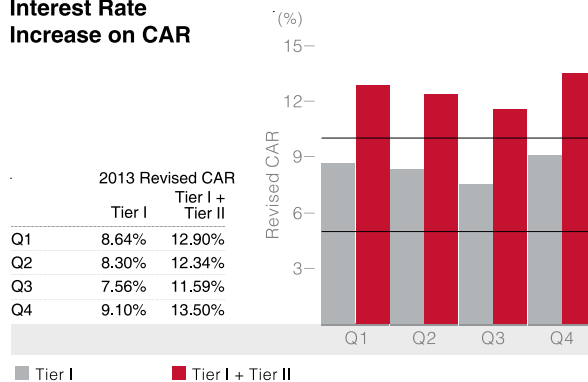
Re-pricing maturity gaps in the Balance Sheet is the major source of interest rate risk in the banking book. This is quantified by using the re-pricing gap statement of assets and liabilities (maturity gap analysis).

One significant challenge in analysing the re-pricing mismatch risk arises due to the quality of assumptions regarding the embedded options of certain products, such as housing loans-fixed rate loans, savings and current accounts. During the ensuing year, both the behavioural gap analysis statements and duration gap analysis were further refined through use of behavioural data.

Stress Test for Interest Rate Risk

Duration gap analysis method was applied to the entire Balance Sheet (both the banking and trading books) to determine the effect of interest rate changes on the capital of the Bank.

Effect of 1% Interest Rate Increase on CAR



Equity Risk

Equity Risk arises from changes in the prices of any equities held. This risk is managed by a combination of volume limits and stop loss limits.

Bank continue to maintain a portfolio of quoted equities for trading purposes.

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

- Overall exposure limits
- Level of diversification of the portfolio
- Strict investment qualification criteria
- Loss limits on individual exposures

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

51.6 Operational Risk

Operational risk is inherent in all businesses and is the risk of direct or indirect impacts resulting from inadequate or failed internal processes or systems or from external events.

Operational risk covers the following causes of risk:

- Internal and external fraud
- Damage to physical assets
- Business disruption and system failures
- Execution, delivery and process management
- Clients, products and business practices
- Employment practices/workplace safety

Fraud (both internal and external), error, IT system breakdowns natural disasters, terrorist action are some of the common sources of operational risk. Obviously, operational risk cannot be totally eliminated and the challenge is to manage and contain any operational losses within acceptable levels as determined by the Board.

The prime responsibility for the control of operational risk lies with the branches and business units where the risks originate. The foundation of operational risk management framework is the definition by all functions of their roles and responsibilities so that, collectively they can assure that there is adequate segregation of duties, complete coverage of risks and clear accountability.

The Board has clearly defined the roles and responsibilities of all staff, branches and business and functional units in the management of operational risk. This includes risk identification and assessment, capturing and reporting of risk events, appropriate segregation of duties, BCP and ongoing review of controls and procedures.

Business units and branches are required to periodically report on any operational loss events to the Risk Management Division who maintains a database of loss events. This is being analysed on an ongoing basis to identify trends, if any and thereby review procedures and controls to minimise future operational losses. The Operational Risk Management Committee assists and co-ordinates this process.

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

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

The internal audit function also periodically reviews the entire operational risk management process across the network to provide an assurance to the Board and Senior Management with regard to the integrity and adequacy of the operational risk control regime.

Managing Operational Risk

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

- i. **Information on Loss Incidents:** A data base is being developed on losses and damages occurred in the past. Careful analysis of the data help us to identify and estimate risks that may occur in the future provided there is no significant change to the business and operating environment and of course no deterioration in the current internal control standards.
- ii. **Key Risk Indicators:** Risk indicators are a broad category of measures used to monitor the activities and status of the control environment of a particular business area for a given risk category. Risk indicators are monitored on a regular basis (i.e., daily/weekly/monthly/quarterly).

- iii. **Controls Assessment:** After operational risks have been identified as above, the Bank then assess the probability of an operational risk loss event occurring and also the maximum loss such an event could have on the Bank. Then it assesses these against the overall risk appetite of the Bank. During this process, the adequacy of internal control systems, the nature of risk factors, the adequacy of documentation, computer systems and responsible personnel are evaluated and weak areas are highlighted for corrective action. The control assessment process occurs only periodically (annually).

Risk Treatment

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

Following measures are taken:

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

- ii. **Business Continuity Planning**
Every Branch/Business Unit has a business continuity and disaster recovery plan to minimise losses from major disruptions to operations, whether it is to our IT infrastructure or branch premises.
- iii. **New Products and Services**
New products and services are critically examined before they are introduced. This provides assurance that all risks inherent in new product and services are clearly identified and mitigated to the extent possible; and residual risk should be within the Bank's risk tolerance levels.
- iv. **Outsourcing**
Being aware of the risks associated with outsourcing activities, the Bank has established policy guidelines for managing risks associated with such activities.

Capital Management

The Bank's lead regulator Central Bank of Sri Lanka sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital.

The details of the computation of the capital and the ratios as at 31st December 2012 and 31st December 2013 are given below:

Capital Adequacy

Computation of Risk-Weighted Assets

As at 31st December	Balance		Risk Weight	Risk-Weighted Balance	
	2013	2012		2013	2012
	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	195,897,060	182,154,670	0	—	—
Claims on Foreign Sovereigns and Their Central Banks	—	—	0-150	—	—
Claims on Public Sector Entities (PSEs)	57,257,876	49,819,564	20-150	57,257,876	49,819,564
Claims on Official Entities and Multilateral Development Banks (MDBs)	—	—	0-150	—	—
Claims on Banks	5,397,837	25,368,126	20-150	1,718,197	5,425,564
Claims on Financial Institutions	4,233,092	5,341,828	20-150	1,661,229	1,696,389
Claims on Corporates	32,655,340	33,123,597	20-150	27,951,567	30,278,250
Retail Claims	73,549,901	75,545,905	75-100	64,211,592	66,360,215
Claims Secured by Residential Property	60,365,862	59,152,057	50-100	30,182,931	29,576,029
Claims Secured by Commercial Real Estate	—	—	100	—	—
Non-Performing Assets (NPAs)	7,881,019	6,662,790	50-150	9,011,634	7,576,487
Cash Items	18,933,707	14,890,441	0-20	387,651	436,951
Property, Plant & Equipment	15,191,229	8,969,291	100	15,191,229	8,969,291
Other Assets	5,166,109	5,795,262	100	5,166,109	5,795,262
Total	476,529,032	466,823,531		212,740,015	205,934,002

Off-Balance Sheet Exposures

	Balance		Credit Conversion Factor (%)	Credit Equivalent	
	2013	2012		2013	2012
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
Instruments					
Direct Credit Substitutes	7,088,177	5,747,890	100	7,088,177	5,747,890
Transaction-Related Contingencies	18,143,570	17,142,802	50	9,071,785	8,571,401
Short-Term Self-Liquidating Trade-Related Contingencies	60,942,106	59,185,437	20	12,188,221	11,837,087
Sale and Repurchase Agreements and Assets Sale with Recourse Where the Credit Risk Remains with the Bank	—	—	100	—	—
Obligations Under an On-going Underwriting Agreement	—	—	50	—	—
Other Commitments with an Original Maturity of up to One Year or Which Can be Unconditionally Cancelled at any Time	8,650,328	15,407,639	0-20	1,672,559	2,817,589
Commitments with an Original Maturity up to 1 year	—	—	20	—	—
Other Commitments with an Original Maturity of Over One Year	—	—	50	—	—
Foreign Exchange Contracts	22,895,199	10,408,741	0-5	457,904	208,175
Interest Rate Contracts	—	—	0-3	—	—
Total	117,719,380	107,892,509		30,478,646	29,182,142

Computation of Capital

	2013	2012
	Rs. '000	Rs. '000
Tier I : Core Capital		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	7,201,998	7,201,998
Statutory Reserve Fund	2,811,685	2,437,291
Published Retained Profits	7,777,731	6,714,080
General and Other Reserves	11,998,127	10,123,127
Deductions - Tier I	528,535	427,456
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	345,479	232,500
50% Investments in the Capital of Other Banks and Financial Institutions	183,056	194,956
Total Eligible Core Capital (Tier I)	29,261,006	26,049,041
Tier II: Supplementary Capital		
Revaluation Reserves (as Approved by Central Bank of Sri Lanka)	5,179,916	2,208,884
General Provisions	3,391,718	3,177,379
Approved Subordinated Term Debt	4,900,000	6,400,000
Deductions - Tier II		
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	345,479	232,500
50% Investments in the Capital of Other Banks and Financial Institutions	183,056	194,956
Total Eligible Supplementary Capital (Tier II)	12,943,099	11,358,807
Total Capital Base	42,204,105	37,407,848

Computation of Ratios

	2013	2012
	Rs. '000	Rs. '000
Total Risk-Weighted Assets for Credit Risk	212,740,015	205,934,002
Total Risk-Weighted Assets for Market Risk	6,222,767	5,301,416
Total Risk-Weighted Assets for Operational Risk	62,787,563	55,927,977
Total Risk-Weighted Assets (RWA)	281,750,345	267,163,395
Core Capital Ratio - Tier I (Minimum Requirement 5%)	10.4%	9.8%
Core Capital _____ x 100 Total Risk-Weighted Assets		
Total Capital Ratio (Minimum Requirement 10%)	15.0%	14.0%
Total Capital Base _____ x 100 Total Risk-Weighted Assets		

Note: The above report has being prepared in accordance with the Basel II Guidelines set out by the Central Bank of Sri Lanka.

Annexes

Contents

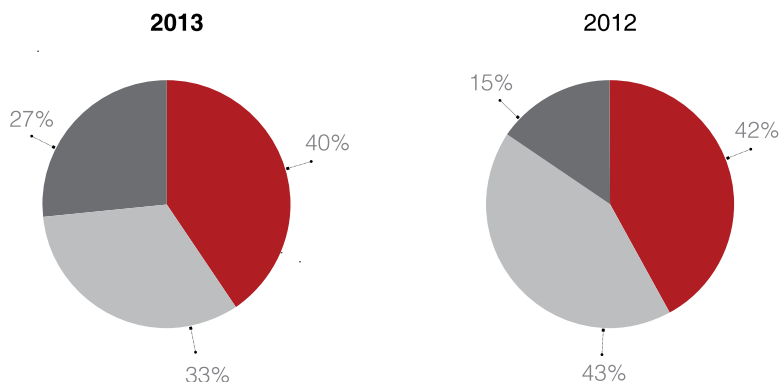
Value Added Statement.....	264
Sources and Utilisation of Income.....	265
Income Statement US\$.....	266
Statement of Financial Position US\$.....	267
Quarterly Financial Highlights	268
Branch Network.....	269
Branches with Selected Services.....	274
Worldwide Partners	279
Decades at a Glance	281
Performance Review 2004-2013	284
Glossary of Financial/Banking Terms	286

Value Added Statement

For the year ended 31st December

	2013		2012	
	Rs. '000	%	Rs. '000	%
Value Added				
Income Earned by Providing Banking Services	111,858,992		87,367,410	
Cost of Services	(81,525,397)		(58,258,881)	
Value Added by Banking Services	30,333,595		29,108,529	
Non-Banking Income	8,597,480		7,409,989	
Impairment for Loans & Other Losses	(13,716,320)		(3,874,384)	
Revaluation surplus on Land and Building	5,413,051		–	
	30,627,806		32,644,134	
Value Allocated to Employees				
Salaries, Wages and Other Benefits	12,384,396	40.4	13,503,921	41.9
To Government				
Dividend Paid on GOSL Bonds	219,690	0.7	201,382	0.1
Special Levy to Treasury	4,500,000	14.7	4,500,000	9.2
PAYE Tax	289,060	0.9	372,692	1.3
Income Tax	2,816,395	9.2	4,355,390	15.3
Value Added Taxation (VAT)	1,953,447	6.4	2,679,191	16.4
Other Indirect Taxes	260,891	0.9	203,110	0.4
To Expansion and Growth				
Retained Income	7,332,056	23.9	6,116,155	13.0
Depreciation/Amortisation	871,870	2.8	712,293	2.5
	30,627,806	100.0	32,644,134	100.0

Contribution to Value Added



Sources and Utilisation of Income

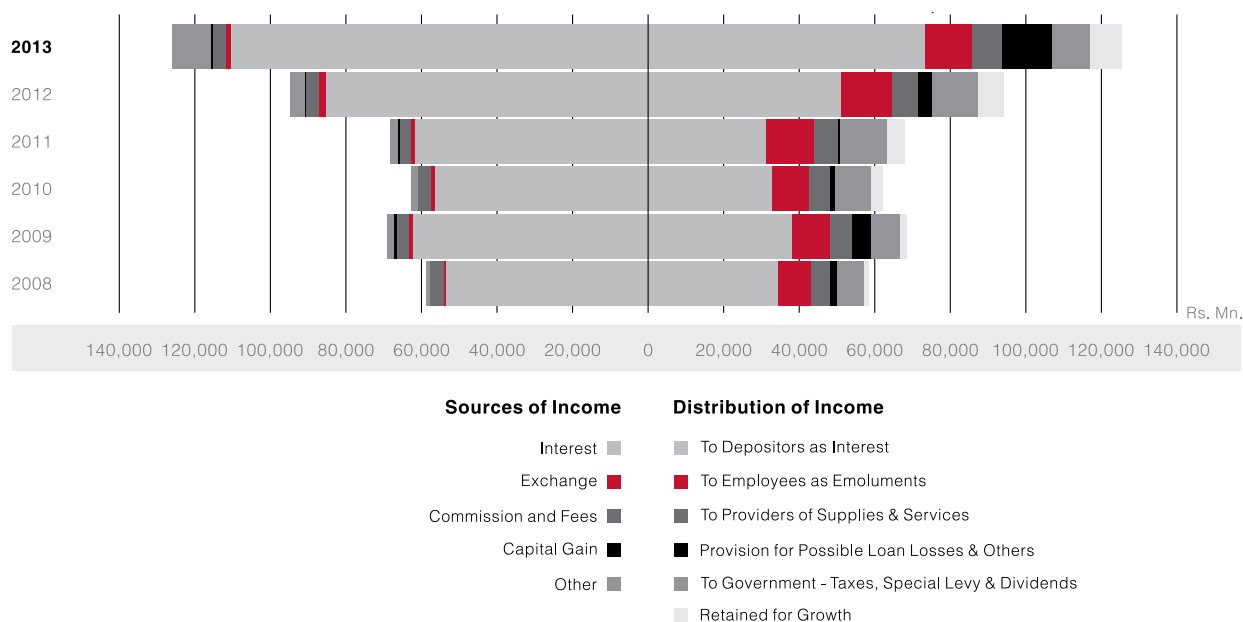
For the Year ended 31st December

	2008	2009	2010	2011	2012	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sources of Income						
Interest	53,453,556	62,341,236	56,534,172	61,788,438	85,241,301	110,440,562
Exchange	818,399	1,120,819	1,120,022	1,207,902	2,126,109	1,418,430
Commission and Fees	3,591,387	3,108,401	3,170,590	2,929,812	3,541,589	3,478,015
Capital Gain	110,988	674,447	174,373	133,485	127,794	396,910
Other	973,780	1,804,705	1,533,270	2,238,616	3,740,606	10,135,607
Total	58,948,110	69,049,608	62,532,427	68,298,253	94,777,398	125,869,524

Utilisation of Income

To Depositors as Interest	34,491,766	38,414,583	33,178,175	31,470,220	51,323,506	73,791,102
To Employees as Emoluments	8,895,182	10,063,967	9,778,541	12,692,931	13,503,921	12,384,396
To Providers of Supplies & Services	5,107,471	5,743,785	5,553,225	6,527,845	6,935,375	7,734,295
Impairment for Loans & Other Losses	1,620,025	5,272,496	1,013,406	410,443	3,874,384	13,716,320
To Government - Taxes, Special Levy & Dividends	7,348,508	7,654,273	9,970,964	12,489,254	12,311,765	10,039,483
Retained for Growth	1,485,158	1,900,504	3,038,116	4,707,560	6,828,447	8,203,928
Total	58,948,110	69,049,608	62,532,427	68,298,253	94,777,398	125,869,524

Sources and Utilisation of Income



Income Statement US\$

For the year ended 31st December	BANK			GROUP		
	2013	2012	Change	2013	2012	Change
	US\$ '000	US\$ '000	%	US\$ '000	US\$ '000	%
Gross Income	920,851	744,520	23.7	1,069,923	863,894	23.8
Interest Income	844,282	669,610	26.1	987,728	792,179	24.7
Interest Expenses	(564,109)	(403,170)	39.9	(644,025)	(472,987)	36.2
Net Interest Income	280,173	266,440	5.2	343,704	319,192	7.7
Fee and Commission Income	26,588	27,821	(4.4)	27,152	33,692	(19.4)
Fee and Commission Expenses	(1,035)	(1,134)	(8.7)	(1,035)	(1,134)	(8.7)
Net Fee and Commission Income	25,553	26,687	(4.2)	26,117	32,558	(19.8)
Net Gain from Trading	21,531	16,281	32.2	21,652	16,464	31.5
Other Operating Income (Net)	28,449	30,809	(7.7)	33,390	21,559	54.9
Total Operating Income	355,706	340,216	4.6	424,863	389,773	9.0
Impairment for Loans and Other Losses	(104,857)	(30,435)	244.5	(113,313)	(35,942)	215.3
Net Operating Income	250,849	309,781	(19.0)	311,550	353,831	(11.9)
Personnel Expenses	(91,417)	(108,552)	(15.8)	(102,221)	(117,304)	(12.9)
Other Expenses	(67,614)	(62,075)	8.9	(90,796)	(75,618)	20.1
Operating Profit/(Loss) before Value Added Tax (VAT)	91,818	139,154	(34.0)	118,533	160,909	(26.3)
Value Added Tax (VAT) on Financial Services	(13,045)	(19,363)	(32.6)	(15,411)	(21,564)	(28.5)
Operating Profit after Value Added Tax (VAT)	78,773	119,791	(34.2)	103,122	139,345	(26.0)
Share of Profits of Associates	–	–	–	(588)	(528)	(11.4)
Profit/(Loss) before Tax	78,773	119,791	(34.2)	102,533	138,817	(26.1)
Tax Expenses	(21,530)	(34,214)	(37.1)	(32,476)	(45,363)	(28.4)
Profit/(Loss) for the Year	57,242	85,577	(33.1)	70,057	93,454	(25.0)
Profit Attributable to:						
Equity Holders of the Bank	57,242	85,577	(33.1)	63,943	88,218	(27.5)
Non-Controlling Interests	–	–	–	6,115	5,236	16.8
Profit for the Year	57,242	85,577	(33.1)	70,057	93,454	(25.0)

Exchange Rate: 1 US\$ was Rs. 130.81 as at 31st December 2013 (Rs. 127.30 as at 31st December 2012).

The Income Statement and the Statement of Financial Position given on pages 266 and 267 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

Statement of Financial Position US\$

As at 31st December

	BANK			GROUP		
	2013	2012	Change	2013	2012	Change
	US\$ '000	US\$ '000	%	US\$ '000	US\$ '000	%
Assets						
Cash and Cash Equivalents	143,510	191,689	(25.1)	159,019	205,049	(22.4)
Balance with the Central Bank of Sri Lanka	308,622	341,022	(9.5)	308,622	341,022	(9.5)
Placements with Banks	19,503	104,802	(81.4)	19,503	104,802	(81.4)
Derivative Financial Instruments	271	22	1,134.0	271	22	1,134.0
Other Financial Assets Held-for-Trading	487,339	147,468	230.5	489,696	149,271	228.1
Loans and Receivables to Banks	628,584	277,691	126.4	629,458	277,691	126.7
Loans and Receivables to Other Customers	4,738,397	4,802,940	(1.3)	5,428,289	5,421,817	0.1
Financial Investments - Available-for-Sale	2,383	219,776	(98.9)	13,280	219,818	(94.0)
Financial Investments - Held-to-Maturity	579,346	616,831	(6.1)	598,753	629,630	(4.9)
Investments in Subsidiaries	9,525	9,846	(3.3)	—	—	—
Investments in Associates	1,587	2,145	(26.0)	2,098	2,435	(13.8)
Goodwill and Intangible Assets	256	348	(26.4)	2,997	3,187	(6.0)
Property, Plant & Equipment	112,420	64,686	73.8	139,008	85,806	62.0
Investment Properties	1,451	3,130	(53.7)	1,451	3,130	(53.7)
Prepaid Leases	2,261	2,293	(1.4)	2,261	2,293	(1.4)
Deferred Tax Assets	8,190	5,431	50.8	8,223	3,943	108.5
Other Assets	70,376	70,023	0.5	82,346	98,081	(16.0)
Total Assets	7,114,022	6,860,144	3.7	7,885,275	7,547,997	4.5
Liabilities						
Due to Banks	625,289	739,393	(15.4)	779,658	1,052,536	(25.9)
Derivative Financial Instruments	1,650	13	12,183.8	1,650	13	12,183.8
Due to Other Customers	5,827,143	5,372,748	8.5	6,033,371	5,568,709	8.3
Other Borrowings	155,600	322,270	(51.7)	297,210	320,032	(7.1)
Current Tax Liabilities	3,007	14,617	(79.4)	6,708	15,189	(55.8)
Deferred Tax Liabilities	6,767	1,490	—	19,550	6,791	187.9
Other Liabilities	100,336	101,641	(1.3)	149,086	146,792	1.6
Subordinated Term Debts	114,919	78,555	46.3	176,909	78,555	125.2
Total Liabilities	6,834,710	6,630,727	3.1	7,464,142	7,188,617	3.8
Equity						
Stated Capital/Assigned Capital	55,057	56,575	(2.7)	55,057	56,575	(2.7)
Statutory Reserve Fund	21,494	19,146	12.3	21,494	19,146	12.3
Other Reserves	186,605	124,775	49.6	198,449	130,965	51.5
Retained Earnings	16,156	28,921	(44.1)	108,312	116,718	(7.2)
Total Shareholders' Equity	279,312	229,417	21.7	383,312	323,404	18.5
Non-Controlling Interests	—	—	—	37,821	35,977	5.1
Total Equity	279,312	229,417	21.7	421,133	359,381	17.2
Total Equity and Liabilities	7,114,022	6,860,144	3.7	7,885,275	7,547,997	4.5
Contingent Liabilities and Commitments	1,506,908	1,626,248	(7.3)	1,508,876	1,638,414	(7.9)

Exchange Rate: 1 US\$ was Rs. 130.81 as at 31st December 2013 (Rs. 127.30 as at 31st December 2012).

The Income Statement and the Statement of Financial Position given on pages 266 and 267 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

Quarterly Financial Highlights

For the Quarter Ended

	2013				2012			
	Quarter 1 Rs. Mn	Quarter 2 Rs. Mn	Quarter 3 Rs. Mn	Quarter 4 Rs. Mn	Quarter 1 Rs. Mn	Quarter 2 Rs. Mn	Quarter 3 Rs. Mn	Quarter 4 Rs. Mn
Income Statement - YTD								
Net Interest Income	7,820	15,326	25,190	36,649	7,668	15,796	24,056	33,918
Non-Funded Income	2,088	3,749	6,157	9,880	1,735	2,979	6,291	9,392
Operating Expenses	(5,119)	(10,481)	(15,814)	(20,803)	(5,044)	(10,626)	(15,820)	(21,721)
Net Profit before VAT	4,313	4,280	7,596	12,011	3,775	7,043	12,294	17,714
VAT on Financial Services	(643)	(736)	(1,102)	(1,706)	(660)	(1,310)	(1,964)	(2,465)
Net Profit before Tax	3,671	3,545	6,494	10,304	3,115	5,734	10,330	15,249
Provision for Income Tax	(1,050)	(1,049)	(1,858)	(2,816)	(1,125)	(2,074)	(3,628)	(4,355)
Net Profit after Tax	2,621	2,496	4,636	7,488	1,990	3,660	6,701	10,894

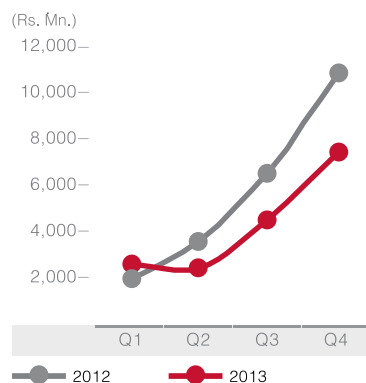
Balance Sheet

Total Assets	892,219	905,740	936,794	930,585	706,760	772,170	778,297	873,296
Loans and Receivables (Net)	606,092	602,209	623,559	619,830	505,954	544,769	558,475	611,414
Total Deposits	701,240	732,407	758,121	762,249	554,495	589,496	610,520	683,951

Key Performance Indicators

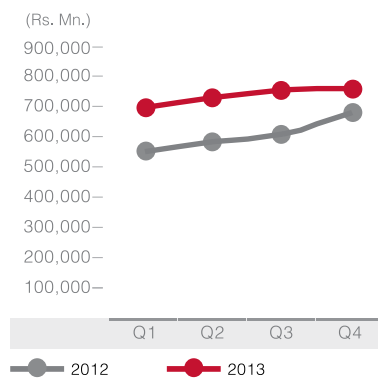
Return on Assets (before Tax)	1.7%	0.8%	1.0%	1.1%	1.9%	1.7%	1.9%	2.0%
Return on Equity (after Tax)	34.4%	16.8%	20.2%	22.8%	30.1%	28.1%	31.2%	41.7%
Cost/Income Ratio	58.1%	58.8%	54.0%	48.4%	60.7%	63.6%	58.6%	55.8%
Fee Based Income/Net Income	21.1%	19.7%	19.6%	21.2%	18.5%	15.9%	20.7%	21.7%
NPL Ratio	3.4%	4.3%	4.8%	5.3%	3.5%	3.2%	3.3%	2.8%
Total Capital Adequacy Ratio	14.5%	13.7%	12.8%	15.0%	14.8%	13.7%	14.0%	14.0%

Net Profit after Tax



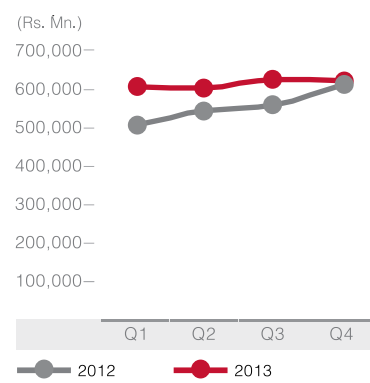
	2013	2012
Q1	2,621	1,990
Q2	2,496	3,660
Q3	4,636	6,701
Q4	7,488	10,894

Total Deposits



	2013	2012
Q1	701,240	554,495
Q2	732,407	589,496
Q3	758,121	610,520
Q4	762,249	683,951

Loans & Receivables (Net)



	2013	2012
Q1	606,092	505,954
Q2	602,209	544,769
Q3	623,559	558,475
Q4	619,830	611,414

Branch Network

a. Central Zone

- a1. Kandy
- a2. Matale
- a3. Nuwara Eliya

b. Eastern Zone

- b1. Ampara
- b2. Batticaloa
- b3. Trincomalee

c. Northern Zone

- c1. Jaffna
- c2. Wanni

d. North-Central Zone

- d1. Anuradhapura
- d2. Polonnaruwa

e. Wayamba Zone

- e1. Puttalam
- e2. Kurunegala

f. Sabaragamuwa Zone

- f1. Kegalle
- f2. Ratnapura

g. Southern Zone

- g1. Galle
- g2. Hambantota
- g3. Matara

h. Uva Zone

- h1. Badulla
- h2. Moneragla

i. Western Zone I

- i1. Colombo North
- i2. Colombo South
- i3. Gampaha

j. Western Zone II

- j1. Colombo Outer
- j2. Kalutara



Zone/Region	Branch	Branch Code
Ampara	Addalachchenai	228
	Akkaraipattu	063
	Ampara	015
	Kalmunai	023
	Karaitivu	223
	Mahaoya	181
	Maruthamunai	346
	Nintavur	296
	Pottuvil	164
	Sainthamaruthu	338
	Sammanthurai	064
	Thirukkivil	224
	Uhana	189
Anuradhapura	Anuradhapura	008
	Nuwarawewa	220
	Eppawala	170
	Galenbindunuwewa	177
	Galkiriyagama	301
	Galnewa	179
	Horowpathana	218
	Kahatagasdigiliya	051
	Kebithigollewa	150
	Pulmuday	352
	Kekirawa	042
	Medawachchiya	096
	Meegalewa	246
	Nochchiyagama	171
	Padaviya	043
	Talawa	315
	Thambuttegama	219
Badulla	Badulla	010
	Muthiyangana	269
	Bandarawela	037
	Boralanda	209
	Diyatalawa	151
	Girandurukotte	268
	Haldummulla	195
	Haliela	225
	Haputale	216
	Kandaketiya	250
	Keppetipola	240
	Koslanda	260
	Lunugala	251
	Mahiyangana	058

Zone/Region	Branch	Branch Code
	Passara	116
	Uva-Paranagama	156
	Welimada	016
Batticaloa	Batticaloa	075
	Batticaloa Town	113
	Chenkalady	227
	Kaluwanchikudy	190
	Kattankudy	065
	Kallar	339
	Kokkadicholai	342
	Oddamavadi	340
Puttalam	Valachchenai	102
	Anamaduwa	267
	Chilaw	024
	Dankotuwa	291
	Kalpitiya	125
	Madampe	215
	Mahawewa	303
	Marawila	322
	Nattandiya	083
	Puttalam	009
Western Zone I	Wennappuwa	076
	Bambalapitiya	310
	Borella	078
	Borella Town (Golden Jubilee)	320
	Central Road	298
	Dam Street	297
	Dematagoda	071
	Duke Street	001
	First City Branch	046
	Grandpass	126
	Headquarters	204
	Hyde Park Corner	025
	Kehelwatta	259
	Kirillapona	319
	Kollupitiya Co-op. House	210
	Kotahena	308
	Liberty Plaza	309
	Lucky Plaza	331
	Malwatte Road	312
	Maradana	236
	Majestic City	200
	Mid City	176

Zone/Region	Branch	Branch Code
	Mutwal	214
	Narahenpita	119
	Olcott Mawatha	275
	Pettah	139
	Queens Branch	033
	Sangaraja Mawatha	056
	Sea Street	277
	Suduwella	143
	Thimbirigasyaya	086
	Town Hall	167
	Union Place	014
	Wellawatte	145
Colombo Outer	Awissawella	029
	Battaramulla	208
	Boralesgamuwa	348
	Dehiwala	019
	Dehiwala - Galle Road	337
	Gangodawila	097
	Hanwella	229
	Homagama	049
	Kaduwela	196
	Katubedda	313
	Kesbewa	327
	Kolonnawa	194
	Kotikawatta	098
	Kottawa	328
	Maharagama	306
	Moratumulla	290
	Moratuwa	091
	Mount Lavinia	336
	Nugegoda	174
	Nugegoda City	335
	Piliyandala	103
	Pitakotte	279
	Ratmalana	080
Galle	Ahangama	188
	Ambalangoda	035
	Baddegama	087
	Balapitiya	154
	Batapola	234
	Elpitiya	073
	Galle Fort	013
	Galle Main Street	169
	Hikkaduwa	136

Zone/Region	Branch	Branch Code
	Imaduwa	247
	Karapitiya	343
	Koggala	329
	Thalgaswala	272
	Udugama	131
	Uragasmanhandiya	197
	Wanduramba	325
Gampaha	Delgoda	118
	Gampaha	026
	Ganemulla	332
	Ja-Ela	239
	Kadawatha	273
	Kandana	175
	Katunayake	276
	Kelaniya	055
	Kiribathgoda	237
	Kirindiwela	202
	Mahara	217
	Malwana	191
	Marandagahamula	100
	Meerigama	198
	Minuwangoda	021
	Nittambuwa	278
	Pamunugama	318
	Pugoda	093
	Ragama	316
	Seeduwa	324
	Veyangoda	079
	Wattala	222
	Yakkala	333
	Kochchikade	142
	Negombo	034
Hambantota	Ambalantota	072
	Angunakolapelessa	205
	Beliatta	244
	Hambantota	007
	Kudawella	288
	Middeniya	265
	Ranna	345
	Suriyawewa	264
	Tangalle	067
	Tissamaharama	061
	Walasmulla	120
	Weeraketiya	350

Zone/Region	Branch	Branch Code
Jaffna	Atchuvely	107
	Chankanai	108
	Chavakachcheri	110
	Chunnakam	109
	Kannathiddy	284
	J/Main Street	104
	J/Stamley Road	030
	J/University	162
	Kankesanthurai	031
	Kayts	105
	Nelliady	106
	Point Pedro	285
	Velvettithurai	141
Kalutara	Aluthgama	084
	Baduraliya	283
	Bandaragama	121
	Beruwala	311
	Bulathsinhala	161
	Horana	041
	Ingiriya	300
	Kalutara	039
	Maggonna	282
	Matugama	070
	Neboda	249
	Panadura	148
	Panadura Town	321
	Pelawatta	261
	Wadduwa	262
Kandy	Akurana	153
	Alawathugoda	294
	Ankumbura	183
	Davulagala	206
	Deltota	257
	Galagedara	114
	Hataraliyadda	341
	Gampola	018
	Hasalaka	140
	Kadugannawa	159
	Kandy	003
	Kandy City Centre	357
	Katugastota	089
	Menikhinna	157
	Nawalapitiya	053
	Panwila	211

Zone/Region	Branch	Branch Code
	Peradeniya	057
	Pilimatalawa	256
	Poojapitiya	358
	Pussellawa	274
	Senkadagala	158
	Teldeniya	112
	Wattegama	074
Kegalle	Aranayake	248
	Bulathkohupitiya	252
	Dehiowita	293
	Deraniyagala	180
	Galigamuwa	185
	Gonagaldeniya	238
	Hemmathagama	221
	Kegalle Main	027
	Kegalle Bazaar	299
	Kotiyakumbura	355
	Mawanella	069
	Rambukkana	101
	Ruwanwella	081
	Thulhiriya	270
	Warakapola	054
	Yatiantota	047
Kurunegala	Alawwa	149
	Bingiriya	172
	Galgamuwa	184
	Giriulla	092
	Hettipola	144
	Ibbagamuwa	207
	Kobeigane	281
	Ku/Ethugalpura	334
	Ku/Maliyadeva	226
	Kuliyapitiya	028
	Kurunegala	012
	Maho	052
	Makandura	137
	Mawathagama	199
	Melsiripura	344
	Narammala	082
	Nikaweratiya	124
	Polgahawela	059
	Pothuhera	280
	Ridigama	193
	Wariyapola	163

Zone/Region	Branch	Branch Code
Matale	Dambulla	138
	Galewela	115
	Matale	002
	Naula	146
	Pallepola	241
	Raththota	128
	Ukuwela	201
	Wilgamuwa	122
Matara	Akuressa	117
	Deniyaya	132
	Devinuwara	243
	Dickwella	135
	Gandara	307
	Hakmana	130
	Kamburupitiya	133
	Matara - Dharmapala Mawatha	152
	Matara - Uyanwatta	032
	Morawaka	060
	Urubokka	271
	Walasgala	304
	Weligama	077
Moneragala	Badalkumbura	347
	Bibile	011
	Buttala	147
	Kataragama	168
	Medagama	258
	Moneragala	068
	Thanamalwila	230
	Wellawaya	062
Nuwara Eliya	Bogawantalawa	354
	Ginigathhena	302
	Hatton	186
	Maskeliya	178
	Niildandahinna	127
	Nuwara Eliya	134
	Pundaluoya	173
	Ragala	036
	Rikillagaskada	353
	Talawakelle	038
	Udapussellawa	292
	Hanguranketha	022

Zone/Region	Branch	Branch Code
Ratnapura	Balangoda	017
	Eheliyagoda	085
	Embilipitiya	045
	Godakawela	245
	Kahawatta	155
	Kalawana	235
	Kaltota	289
	Kiriella	266
	Kuruwita	263
	Nivitigala	192
	Pallebedda	349
	Pelmadulla	160
	Rakwana	129
	Ratnapura	088
	Ratnapura Town	317
	Udawalawa	295
Polonnaruwa	Aralaganwila	253
	Bakamuna	242
	Dehiattakandiya	330
	Habarana	203
	Hingurakgoda	006
	Medirigiriya	231
	Polonnaruwa	005
	Polonnaruwa Town	232
	Thambala	351
	Welikanda	254
Trincomalee	Kantalai	090
	Kinniya	094
	Muttur	095
	Serunuwara	233
	Trincomalee	066
	Trincomalee Town	255
Wanni	Chettikulam	356
	Kilinochchi re-opened	048
	Mankulam re-opened	165
	Mullaitivu re-opened	020
	Paranthan re-opened	111
	Murunkan	166
	Mannar	044
	Vavuniya	040

Branches with Selected Services

Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code
Ampara	Oluvil	863		Meegahakivula	872
	South-East University, Oluvil	814		Madolsima	890
	Palamunai	598		Lunuwatte	880
	Alayadiwembu	902		Medawela	770
	Erakkamam	861		Welimada Town	875
	Nawagampura	597			
	Padiyathalawa	860	Batticaloa	Iruthayapuram	909
	Panama	972		Puttur	952
	Sammanthurai	862		Siththandy	934
	Vilinaiyady Town, Sammanthurai	924		Mandur	874
	Central Camp	870		Palugamam	974
	Gonagolla	916		Ariyampathi	859
Anuradhapura	Anuradhapura	410		Kirankulam	772
	Nachchiyaduwa	829		Wakarai	953
	Rambewa	866		Kiran	750
	North-Central Provincial Service Centre	778			
	Mihintale	434	Puttalam	Andigama	554
	Vilachchiya - Pemaduwa	832		Arachchikattuwa	467
	Thirappane	912		Udappuwa	908
	Bulnewa	931		Fisheries S.C.	589
	Gomarankadawala	938		Norochcholai	500
	Maradankadawala	507		Thoduwawa	547
	Ganewelpola	738		Kottaramulla	498
	Saliyawewa	508		Welipennagahamulla	570
	Padavi Sri Pura	827		Narawila	571
	Padavi Parakkramapura	986		Madurankuliya	546
	Rajanganaya	833		Bolawatta	482
	Damsopura	950		Lunuwila	483
	Rajina Handiya - Thambuttegama	911		Ulhitiyawa	828
Badulla	Badulla Bazaar	402	Western Zone I	Mihindu Mawatha	884
	Badulla - Welekade	910		Dematagoda	514
	Badulla - Pahala Weediya	897		Sri Lanka Customs Premises	747
	Uva Provincial Council Premises	824		Colombo Harbour Premises	822
	Badulla Muthiyangana	775		Grandpass	403
	Bandarawela Town	431		St. Joseph's Street	843
	Ballaketuwa	542		Wekanda	515
	Bandarawela Commercial Centre	906		Slave Island	891
	Perahettiya	745		Havelock Town	513
	Bogahakumbura	548		Jampettah Street	553
	Nawa Medagama	928		Bloemendhal	919
	Attampitiya	564		Lotteries Board H/O Premises	831
	Demodara	895		Hultsdorf Courts Premises	808
				Nagalagam Street	484
				Mutuwella	840

Zone/Region	Branch	Branch Code
	Registrar of Motor Vehicles Premises - Narahenpita	818
	Central Bank Premises	820
	Maligawatta	485
	Suduwella	401
	Colombo University Premises	803
	Colombo Medical College Premises	892
	Treasury Unit Ministry of Finance	826

Colombo Outer	Kosgama	439
	Thalduwa	460
	Talawathugoda	413
	Malabe	896
	Hokandara	926
	Sri Lanka Foreign Employment Bureau Premises	806
	Sethsiripaya	785
	Attidiya	457
	Nedimala	521
	Kalubowila	746
	Delkanda	407
	Sri Ja'pura University Premises	812
	Hanwella Town	418
	Kahahena	551
	Padukka	419
	Godagama	497
	Homagama City	572
	Army H.Q.	807
	Meegoda	883
	Palali Army Camp	809
	Nawagamuwa	535
	Bandarawatta	982
	Soyzapura	428
	Kahatuduwa	409
	Wellampitiya	900
	Gothatuwa	415
	Mulleriyawa (Angoda)	838
	Athurugiriya	416
	Mattegoda	531
	Pannipitiya (Moraketiya)	429
	Pamunuwa	922
	Puwakaramba	449
	Rawathawatta	448
	Katukurunda	494
	Embuldeniya	412

Zone/Region	Branch	Branch Code
	Nawala University Premises	450
	Chapel Lane	526
	Welikada Plaza	821
	Kohuwala	464
	Piliyandala City	839
	Bokundara	741
	Ethulkotte	586
	Sri Ja'pura - Thalapathpitiya	932
	Economic Centre	949

Galle	Ambalangoda - Main Street	549
	Watugedera	560
	Kosgoda	889
	Meetiyagoda	937
	Pitigala	441
	Karadeniya	444
	Kurundugaha Hethekma	869
	Gintota	420
	Wanchawala	520
	Pettigalawatta	987
	Galle Town Service Centres	815
	Kaluwella	404
	Pinnaduwa	587
	Ratgama	469
	Gonapeenuwala	561
	Dodanduwa/Kumarakanda	748
	Yakkalamulla	424
	Bogahagoda	980
	Nagoda	522
	Neluwa	442

Gampaha	Weliweriya	512
	Gampaha - Ja-Ela Road	533
	Udugampola	907
	Welipillewa	575
	Weligampitiya	528
	Dehiyagatha Junction	529
	Ekala	925
	Kirillawela	446
	Kadawatha	973
	Averiwatta	576
	Sinharamulla	445
	Peliyagoda (Pattiyahandiya)	536
	Mawaramandiya	525
	Urapola	511

Zone/Region	Branch	Branch Code
	Enderamulla	555
	Divulapitiya	437
	Demahandiya	530
	Kotadeniyawa	830
	Pallewela	969
	Thihariya	438
	Pasyala	510
	Wathupitiwala	539
	Dompe	538
	Mahabage	524
	Batuwatta	917
	Raddolugama	834
	Bandaranaike International Airport Premises (Attached to International Division)	805
	Naiwala	556
	Oliyamulla (Wattala)	557
	Welisara Economic Centre	893
	Mudungoda (Belummahara)	532
	Katana	465
	Negombo Main Street	523
	Fisheries Bank - Negombo	590
Hambantota	Hungama	961
	Weerawila (Pannegamuwa)	565
	Hambantota Administrative Complex	776
	Katuwana	856
	Vitharandeniya	960
	Tangalla SC	774
	Migrant Resource Centre SC Bureau of Foreign Employment	781
	Lunugamwehera	941
Jaffna	Puttur	970
	Pandatherippu	957
	Kodikamam	904
	Kaithady	784
	Kopay	966
	Alaweddy	744
	Inuvil	905
	Urumpirai	865
	Manipai	837
	Jaffna Navalar Road	956
	Thirunelvely	855
	Kalviyankadu	964

Zone/Region	Branch	Branch Code
	Mallakam	899
	Puloly	963
	Uduppidy	971
Kalutara	Dargatown	451
	Canowin Arcade A	783
	Canowin Arcade B	782
	Alubomulla	568
	Moragahahena	567
	Millaniya	588
	Gonapola	871
	Pokunuwita	989
	Handapangoda	981
	Kalutara Central Junction	458
	Kalutara North	476
	Kalutara Hospital Junction	929
	Katukurunda	749
	Agalawatta	447
	Dodangoda	968
	Panadura Keselwatta	462
	Eluwila	591
	Modarawila	811
	Meegahathenna	975
	Moronthuduwa	534
Kandy	Ambathanna	882
	Welamboda	894
	Galaha	877
	Pallegama	988
	Geliya	491
	Gampola	492
	Kurunduwatta	493
	Kolongoda	490
	Mahaiyawa	885
	Kandy Court Premises	903
	Kundasale	927
	Kandy Lawyers' Complex	773
	District Secretarial Service Centre - Kandy	777
	Central Provincial Council SC	780
	Hedeniya	584
	Polgolla	984
	Digana	455
	Huluganga	920
	Muruthalawa	583

Zone/Region	Branch	Branch Code
	Peradeniya University SC	801
	Pottapitiya	915
	Talatuoya	454
	Marassana	858
	Medamahanuwara	456
	Udu Dumbara	854
	Madawala Bazaar	898

Kegalle	Nelundeniya	873
	Amithirigala	943
	Morontota	435
	Dewalagama	489
	Mawanella	436
	Aluthnuwara	946
	Pattampitiya	592
	Karawanella	936
	Galapitamada	488
	Horagasmankada	518
	Algama	935
	Kitulgala	519

Kurunegala	Boyawalana	851
	Weerapokuna	577
	Ambanpola	433
	Dambadeniya	474
	Bammanna	985
	Bandarakoswatta	848
	Kumbukgete	473
	Boraluwewa	544
	Hiripitiya	850
	Mallawapitiya	736
	Piduruwella	503
	Kuru/Maliyadewa	737
	Dummalasooriya	504
	Bihalpola	545
	Kandanegedera	566
	Udubaddawa	868
	Kurunegala Government Hospital Premises	816
	Kurunegala Municipal Council Premises	947
	Polpitigama	414
	Nagollagama	573
	Pannala	475
	Paragahadeniya	432
	Katupotha	405
	Nikaweratiya	574

Zone/Region	Branch	Branch Code
	Giriulla	886
	Rasnayakapura	743
	Godawela	502
	Mathawa	735
	Panagamuwa	543
	Dodangaslanda	849
	Maspotha	878

Matale	Inamaluwa (Sigiriya)	499
	Madatugama	852
	Dewahuwa	509
	Matale - Trinco Street	406
	Matale - Gongawela	559
	Porcelain Factory Premises	802
	Madawala Uipotha	853
	Yatawatta	558
	Kaikawala	887
	Warakamura	585
	Laggala - Pallegama	466

Matara	Telijawila	463
	Pallegama	918
	Kottegoda	487
	Kekanadura	921
	Deiyandara	459
	Kirinda - Puhulwella	930
	Makandura	440
	Walgama	578
	Kotuwegoda	408
	Yatiana	443
	Ruhunu University Unit	825
	Matara Hospital Premises	945
	Pitabeddara	417
	Opatha	942
	Mawarala	579
	Mirissa	468

Moneragala	Okkampitiya	857
	Moneragala	569
	Dambagalla	867
	Siyabalanduwa	977
	Hambegamuwa	596
	Ethiliwewa	976

Nuwara Eliya	Watawala	540
	Kotagala	427

Zone/Region	Branch	Branch Code
	Dickoya	541
	Upcott	552
	Walapane	581
	Kandapola	516
	Nanu Oya	582
	Thawalantenna	876
	Hapugastalawa	913
	Ragala	495
	Agarapatana	496
	Talawakelle	517
	Adikarigama	739
	Padiyapelella	470
	Hewaheta	471
Ratnapura	Weligepola	480
	Pambahinna	562
	Eheliyagoda	430
	Padalangala	453
	Kolonna	537
	Sevanagala Sugar Corporation Premises	813
	Weli-Oya	771
	Ayagama	477
	Karawita	478
	Opanayake	479
	Ratnapura New Town	810
	Wewelwatta	940
Polonnaruwa	Diyabeduma	563
	Siripura	965
	Sandunpura	733
	Diyasenpura	939
	Kaduruwela	835
	Lankapura	580
	Jayanthipura	734
	Sewanapitiya	933

Zone/Region	Branch	Branch Code
Trincomalee	Mullipothanai	842
	Kachchakodithivu	959
	Thoppur	958
	Echilampathai	594
	Palaoothu	841
	Uppuveli (Nilaveli)	881
	Kuchchuweli	593
	Central Road, SPC	501
Wanni	Kilinochchi Town	732
	Mallavi SC	978
	Kanagarajankulam	731
	Oddusudan	599
	Puthukudiruppu	779
	Pallai	979
	Nanattan	967
	Silawathurei	742
	Pesalai	955
	Vavuniya Town	983
	Nedunkerny	595

Worldwide Partners



(a) Europe

Banca Nazionale del Lavoro SpA, (BNL) Rome

Bank of Ceylon, London

Bank of Cyprus Public Company Ltd., Nicosia

Barclays Bank PLC, London

BHF Bank Aktiengesellschaft, Frankfurt am Main

BNP Paribas SA, Paris

Budapest Bank RT, Budapest

Commerzbank AG, Frankfurt am Main

Credit Suisse, Zurich

Czechoslovenka Obchodna Banca AS, Bratislava

Danske Bank A/S, Copenhagen

Deutsche Bank AG, Frankfurt am Main

Gorengska Banka DD, Ljubljana

HSBC Bank PLC, London

ING Bank NV, Amsterdam

ING Belgium SA/NV, Brussels

Intesa Sanpaolo SpA, Milano

Komerčni Bank NA, Prague

MKB Bank ZET, Budapest

National Westminster Bank PLC, London

Natixis, Paris

Nordea Bank AB (Publ), Stockholm

Nordea Bank Norge ASA, Oslo

Raifaizen Bank, Vienna

SEB Bank, Tallinn

SEB Bank, Vilnius

Skandinaviska Enskilda Banken AB (Publ), Stockholm

Societe Generale, Paris

Sparkasse Kolnbonn, Cologne

Svenska Handelsbanken AB (Publ), Stockholm

The Royal Bank of Scotland NV, Amsterdam

The Royal Bank of Scotland, Athens

UBAE S.P.A, Rome

UBAF, Paris

UBS AG, Zurich

Ukrexim Bank, Kiev

Unicredit Bank Austria AG, Vienna

Unicredit Bank, Sofia

UniCredito Italiano SpA, Milan

Zagrebacka Banka DD, Zagreb

(b) North America

Bank of Montreal, Montreal
Bank of Nova Scotia, Montreal
Canadian Imperial Bank of Commerce, Toronto
Citibank NA, New York
Deutsche Bank Trust Company Americas, New York
Habib American Bank, New York
HSBC Bank USA NA, New York
JP Morgan Chase Bank NA, New York
Mashreq Bank PSC, New York
Standard Chartered Bank, New York
The Royal Bank of Scotland NV, New York
Wells Fargo Bank NA, USA

(c) South America

Banco de Chile, Santiago
Banco Santander Brazil SA, Sao Paulo
BBVA Banco Continental, Lima
Deutsche Bank, Sao Paulo

(d) Africa

ABSA Bank Ltd., Johannesburg
Bank Misr, Cairo
Barclays Bank of Kenya Ltd., Nairobi
Citi Bank, Abidjan
Mauritius Commercial Bank Ltd., Port Louis
National Bank of Egypt, Cairo
Nedbank Ltd., Johannesburg

(e) Asia

Axis Bank Ltd., Mumbai
Bank for Foreign Trade, Hanoi
Bank of Ceylon, Chennai
Bank of China, China
Bank of Communications Co. Ltd., Shanghai
Bank of Maldives, Malé
Bank of Tokyo Mitsubishi UFJ Ltd., Tokyo
China Construction Bank, Beijing
China Development Bank, Shanghai
CIMB Bank Ltd., Kuala Lumpur
DBS Bank Ltd., Singapore
Exim Bank of Korea, Seoul
Export Import Bank of China, Beijing
Hana Bank, Seoul
HSBC Bank, Hong Kong
ICICI Bank Ltd., Mumbai

Korea Exchange Bank, Seoul
Mashreq Bank PSC, Mumbai
MCB Bank Ltd., Karachi
Mizuho Corporate Bank Ltd., Tokyo
Myanmar Foreign Trade Bank, Yangon
Nepal Bank Ltd., Kathmandu
Oversea-Chinese Banking Corp. Ltd., Hong Kong
Oversea-Chinese Banking Corp. Ltd., Kuala Lumpur
Oversea-Chinese Banking Corp. Ltd., Singapore
Pubali Bank Ltd., Dhaka
Rupali Bank Ltd., Dhaka
Standard Chartered Bank, Khartoum
Standard Chartered Bank (Pakistan) Ltd., Karachi
Standard Chartered Bank, Dhaka
Standard Chartered Bank, Kathmandu
Standard Chartered Bank, Tokyo
State Bank of India, Chennai
Sumitomo Mitsui Banking Corporation, Tokyo
UBAF, Singapore
Woori Bank, Hanoi

(f) (g) Oceania

ANZ National Bank Ltd., Wellington
Australia & New Zealand Banking Group Ltd., Melbourne
National Australia Bank Ltd., Melbourne
Westpac Bank PNG Ltd., Port Moresby
Westpac Banking Corporation, Suva

(h) Middle East

Ahli United Bank, Kuwait
Al Rajhi Banking & Investment Corporation, Riyadh
Bank Dhofar, Ruwi
Bank of Bahrain and Kuwait, Manama
Bank Muscat SAOG, Ruwi
Byblos Bank SAL, Beirut
Commercial Bank of Dubai PSC, Dubai
Commercial Bank of Qatar, Doha
Doha Bank, Doha
Emirates NBD Bank PJSC, UAE
Jordan Islamic Bank, Amman
Mashreq Bank PSC, Dubai
National Bank of Abu Dhabi, Abu Dhabi
National Bank of Oman SAOG, Muscat
UBAE S.P.A., Dubai
United Bank Ltd., UAE

Decades at a Glance

1961

People's Bank was inaugurated on 1st July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy in addition to the Foreign Branch in Colombo. The total number of employees stood at 169.

1962

The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.

1963

The Bank commenced its pawning services.

1964

The Co-operative Rural Banking Scheme was inaugurated.

1965

Some departments of the Bank were relocated to the GCSU building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, this included new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiliya, Ragala and Talawakelle.

1967

The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.

1970

The '*Athamaru*' Loan Scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a Credit-Linked Savings Scheme was launched to attract regular savers.

1971

The Bank's hundredth branch was opened at Marandagamula.

1973

A comprehensive Rural Credit Scheme was launched to provide both production and consumption credit facilities. The Bank initiated the '*Ganu-Denu*' practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.

1975

An aggressive branch expansion programme brought our total branch count to 158.

1977

Our two hundredth branch opened at Kollupitiya. The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first Fisheries Bank was opened at Koralawella.

1981

Our branch network increased to 290 branches. The Extended Minor Savings Scheme was launched.

1982

The three hundredth branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.

1984

The People's Merchant Bank, a subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.

1986

The process of computerisation began at our Central Head Office and selected City branches and a Black Light System was introduced. Customer turnaround time was thereby significantly reduced.

1987

Our Headquarters Branch became the Bank's first fully-automated branch. A Special Loan Scheme for rural electrification was implemented in collaboration with the CEB.

1989

The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide for housing against assignment of EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983. A *Janasaviya* Associated Loan Scheme was introduced during the year. The Bank also commenced the issue of Negotiable Savings Certificates during the year.

1990

An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully-computerised.

1991

The first ATM was installed at our Headquarters Branch.

1992

The Bank supported the Government's 200 Garment Factory Programme. 'People's Automated Banking System' (PABS) a banking application developed in-house, commenced live operations.

1993

The 330 Bank branches were operating throughout the country and 35 main branches were fully-automated. '*Vaniitha Vasana*', a savings scheme for women was introduced.

1994

Eight new ATMs were installed and 160 branches were computerised under the automation programme.

1995

'*Gurusetha*', a new deposit mobilisation and loan scheme catering to Government teachers was launched with the co-operation of the Ministry of Education.

1996

'*Suwa Sevana*', a credit package for Government sector health personnel was launched. '*Sisu Udana*', a new deposit scheme for schoolchildren was introduced. The Bank participated in two ADB-funded credit schemes - the Tea Small Holdings Development Project and the Perennial Crops Development Project. The Bank's fully-owned subsidiaries, People's Leasing Co. (PA) Ltd. and People's Travels (Pvt) Ltd. commenced operations. Zonal offices were opened to strengthen decentralised administration and to facilitate better customer service.

1997

The '*Surathura*' Loan Scheme was launched to assist self-employment projects. The Bank extended its credit facilities to small and medium scale enterprises and industries under the NDB-funded Small and Medium Enterprises Assistance Project (SMEAP).

1998

The total number of ATMs increased to 36 serving over 125,000 PET cardholders. 175 branches were fully-automated and the number of pawning centres increased to 188. A special credit cum deposit scheme known as '*Videshika*' was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers.

1999

The Bank launched '*Isuru Udana*', a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.

2000

The '*Jana Jaya*', savings cum loan scheme was launched. The newly introduced '*Jaya Sri*' draw offered attractive prizes for depositors. The ATM network expanded to 74 machines throughout the country. The Central ATM Switch was introduced to connect the PABS branches and the ATM.

2001

The Bank's Corporate Management Team was strengthened by the recruitment of certain Heads of Division from the private banking sector. Restructuring of the Bank was initiated through the launch of a Strategic Plan. The total number of ATM machines grew to 90.

2002

The number of PABS automated branches increased to 218 and 119 branches were connected to the Central ATM Switch. A Treasury automation package was implemented.

2003

The 11th CEO/General Manager of the Bank, Mr. Asoka de Silva assumed duties on 1st February 2003. The Young Executive Saver's (YES) Account was launched. The Bank signed up with Silver Lake System SDV BUD Malaysia to install a state-of-the-art core banking package and Trade Services Solutions which will initially be operational in 60 selected branches including Head Office.

2004

The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalisation support of ADB. The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka. The Core Banking project was implemented successfully.

2005

The 15th Chairman of the Bank Dr. P.A. Kiriwandeniya assumed duties at the beginning of December 2005. This was followed immediately thereafter with a receipt of Rs. 2 Bn as the first tranche of Equity Capital Investment in the Bank by the Government of Sri Lanka in keeping with the agreement signed between the Government, ADB and People's Bank. The Core Banking project was further extended across the branch network. The Bank also was a major intermediary in bringing Government granted financial assistance for the rebuilding of lives, homes and businesses affected by the tsunami of December 2004.

2006

The Bank obtained an A-rating from Fitch Ratings Lanka Ltd. indicating progress from its earlier Rating level.

People's Bank was awarded the POP Award for 2006 in the Banking and Financial Services Sector by the Sri Lanka Institute of Marketing. The second tranche of capital of Rs. 1 Bn was received from the Government of Sri Lanka.

2007

The 16th Chairman of the Bank Mr. W. Karunajeewa assumed duties in May 2007. The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of Rs. 1.5 Bn into People's Bank. People's Bank won the People's Award for the Banking and Financial Services Brand of the Year for the second consecutive year. The Bank surpassed the Rs. 300 Bn mark in total deposits during the year 2007.

2008

Mr. M. Wickremasinghe assumed office as the 12th CEO/General Manager of the Bank.

The Government of Sri Lanka released the fourth capital tranche of Rs. 1.5 Bn. The Bank reached the Capital Adequacy Level of 10.5% by the end of the year. Further, the Bank's first Debenture issue of Rs. 2.5 Bn was made in the year.

A notable advancement in the Bank's remittance service with the introduction of 'People's e-Remittance', a web-based remittance product supported by latest technology to remit money from overseas within minutes. Two new foreign currency deposit products were launched, viz., '*Doo Daru Ethern Isura*' a foreign currency deposit product for children and 'Special Foreign Investment Deposit Account' [SFIDA].

2009

The 13th CEO/General Manager of the Bank, Mr. P.V. Pathirana assumed duties in January 2009.

The Bank issued its second Debenture for Rs. 2.5 Bn during the year.

214 branches and 236 service centres were connected online. The Bank strategically placed over 300 ATMs island-wide.

Total deposits reached Rs. 400 Bn.

The highest recorded profit before tax of Rs. 6.1 Bn was achieved.

Received a SAFA (South Asian Federation of Accountants) Award for the 2008 Annual Report for the first time in the Bank's history.

2010

Mr. H.S. Dharmasiri assumed office as the 14th CEO/General Manager of the Bank in October 2010.

Branch Network and service centres expanded to 679. ATMs increased to 330.

People's International VISA Debit Card was launched in July 2010.

The Bank obtained AA- from Fitch Rating Lanka Ltd. and AAA from Ram Ratings.

Total deposits surpassed Rs. 462 Bn during the year 2010. The highest recorded profit before tax of Rs. 8.7 Bn was achieved.

ARC awarded two Gold Awards to People's Bank Annual Report held at New York.

The Bank received SAFA (South Asian Federation of Accountants) Award for the 1st place in the Public Sector Category for the 2009 Annual Report.

2011

Mr. N. Vasantha Kumar assumed office as the 15th CEO/General Manager of the Bank on 22nd February 2011.

The Bank celebrated the Golden Jubilee on 1st July 2011.

Total branch network reached 714 whilst ATM locations increased to 382 covering almost all parts of the island.

The Bank obtained an upgraded rating of AA (stable) from Fitch Rating Lanka Ltd.

The Bank's total assets, total deposits and total loans and advances surpassed Rs. 663 Bn, Rs. 539 Bn and Rs. 478 Bn respectively. The highest recorded profit before tax of Rs. 15.3 Bn and a profit after tax of Rs. 10.2 Bn was achieved.

People's Bank won the SLIM-Nielsen People's Award for the Most Popular Bank in the Sri Lankan Banking and Financial Services Sector, SLIM-Nielsen People's Awards - Service Brand of the Year and also won the Bronze Award for Service Category at the SLIM Brand Excellence Awards 2011.

2012

Total branch network reached 728, whilst ATM locations increased to 420 covering almost all parts of the island.

The Bank obtained an upgraded rating of AA + (stable) from Fitch Rating Lanka Ltd. The Bank's total assets, total deposits and total loans and advances surpassed Rs. 873 Bn, Rs. 683 Bn and Rs. 660 Bn respectively.

The Bank's 2011 Annual Report won one Grand Award and three Gold Awards in the Banks: National Category at 2012 International ARC Awards.

2013

Mr. Gamini S. Senarath assumed duties as the 17th Chairman of the Bank in February 2013.

23 SME Centres were established across the island.

Surpassed 1 Mn cards milestone during the year with access to over 30 Mn Visa accredited merchants globally.

Corporate customers were provided with on line real time payment facility for EPF, ETF and Customs Duty Payments.

People's Bank became the first Bank to be connected to the National Common ATM Switch.

ATM locations increased to 460 with the Branch Network expanding to 735.

Rs. 5 Bn worth Debentures issued during the year at the Bank's Fourth Debenture issue.

Performance Review 2004-2013

	2004	2005	2006	2007	2008	2009	2010	Based on New SLASs		
								2011	2012	2013
<i>(Sri Lanka Rs. Mn)</i>										
Assets										
Cash and Short-Term Funds	55,386	65,592	47,191	57,090	39,663	83,973	87,062	52,510	67,814	59,143
Investments	31,978	50,583	62,682	61,095	80,109	84,807	82,688	129,977	175,491	226,075
Loans and Advances (Net)	122,477	142,497	207,138	238,293	248,626	283,760	357,336	461,656	611,414	619,830
Property, Plant & Equipment	4,756	4,862	8,936	8,414	8,362	7,939	8,385	7,523	8,235	14,706
Other Assets	9,451	11,727	12,608	15,691	20,787	15,766	12,144	10,412	10,343	10,832
Total Assets	224,048	275,262	338,555	380,584	397,548	476,245	547,616	662,077	873,296	930,585
Liabilities										
Customer Deposits	185,643	225,600	269,947	300,956	324,489	396,158	462,140	550,226	683,951	762,249
Borrowing from Banks and Others	24,925	29,134	35,840	49,063	33,714	36,884	39,132	64,053	135,150	102,148
Other Liabilities	13,514	16,512	22,496	17,670	20,965	20,404	20,505	14,709	14,991	14,619
Debentures	–	–	–	–	2,500	5,000	5,000	10,000	10,000	15,033
Total Liabilities	224,082	271,246	328,283	367,689	381,668	458,445	526,778	638,988	844,092	894,048
Capital & Reserves	(34)	4,017	10,271	12,895	15,880	17,800	20,838	23,089	29,205	36,537
Total Equity & Liabilities	224,048	275,262	338,555	380,584	397,548	476,245	547,616	662,077	873,296	930,585
Commitments & Contingencies	30,060	45,177	39,450	74,222	138,989	100,867	131,751	190,732	207,021	197,119
Operations										
Gross Income	22,601	27,202	35,131	47,984	58,948	69,050	62,532	68,298	94,777	120,456
Total Operating Income	13,705	14,784	19,509	21,442	24,456	30,635	31,897	36,431	43,310	46,530
Total Overheads	10,362	11,070	15,038	15,736	17,159	19,719	21,305	20,421	24,186	22,509
Profit before Taxation	2,463	4,035	4,079	5,002	5,664	6,076	8,771	15,600	15,249	10,304
Provision for Taxation	377	1,263	922	2,628	2,959	2,755	3,565	5,154	4,355	2,816
Profit after Taxation	2,086	2,772	3,157	2,374	2,705	3,320	5,206	10,446	10,894	7,488
Performance Indicators										
No. of Employees (Permanent)	9,592	9,531	9,645	8,416	8,587	8,863	8,399	8,249	7,823	7,409
Return on Assets (%) (Before Tax)	1.2	1.6	1.3	1.4	1.5	1.4	1.7	2.6	2.0	1.1
Return on Equity (%)	(289.0)	139.2	44.2	20.5	18.8	19.7	26.9	49.2	41.7	22.8
Cost/Income Ratio (%)	73.1	72.7	73.8	68.7	65.4	60.6	60.2	56.1	55.8	48.4
Capital Adequacy Ratio (CAR) (%)	(2.3)	1.9	5.6	6.9	10.5	13.4	12.8	14.8	14.0	15.0

Based on New SLASs

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<i>(Sri Lanka Rs. '000)</i>										
Per Employee										
Deposits	19,354	23,670	27,988	35,760	37,788	44,698	55,023	66,702	87,428	102,881
Advances	12,769	14,951	21,476	28,314	28,954	32,016	42,545	55,965	78,156	83,659
Gross Earnings	2,356	2,854	3,642	5,702	6,865	7,791	7,445	8,280	12,115	16,258
Profit after Tax	217	291	327	282	315	375	620	1,266	1,393	1,011

*(Sri Lanka Rs.)***Per Share**

Profit after Taxation	2,086	2,772	3,157	2,374	2,705	3,320	5,206	10,446	10,894	7,488
Total Assets	224,048	275,262	338,555	380,584	397,547	476,245	547,616	662,077	873,296	930,585
Net Worth	(34)	4,017	10,271	12,895	15,880	17,800	20,838	23,089	29,205	36,537

Based on Previous SLASs

Non-Performing Loan (NPL) Ratio (Gross) (%)	14.1	11.0	7.1	5.9	6.8	6.7	5.0	3.4	2.8	5.3
Non-Performing Loan (NPL) Ratio (Net) (%)	2.4	1.8	0.9	0.7	1.6	2.0	1.3	0.5	0.4	2.0
Non-Performing Loan (NPL) Coverage Ratio (%)	83.0	83.9	87.1	88.0	75.7	70.6	73.6	81.5	84.0	61.8

Fitch Rating	BBB+	BBB+	A-	A-	A-	A	AA-	AA	AA+	AA+
RAM Ratings							AAA	AAA	AAA	AAA

Glossary of Financial/Banking Terms

A

Accounting Policies

Principles, rules and procedures selected and consistently followed by the management of an entity in preparing and reporting the Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortisation

Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and Amortisation both have the same meaning.

Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Associate Company

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

Available-for-Sale Financial Asset

Those financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

B

Bill Discounted

A promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

Bill of Exchange

A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

C

Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

Capital Adequacy

The ability of a bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, Local Banks should maintain a stipulated minimum capital.

Credit Risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Tier I Capital (Core Capital)

Core Capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

Tier II Capital (Supplementary Capital)

Supplementary Capital includes, approved revaluation reserves, general provisions, hybrid (debt/equity) capital items and approved subordinated term debts.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Certificate of Deposit (CD)

A certificate issued by a bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

Commercial Paper

Unsecured short-term Promissory Notes issued by banks and credit worthy corporate borrowers.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank that acts as an agent for another bank. The correspondent bank will generally provide a wide variety of banking services on behalf of the other banks in the

region in which the correspondent bank is located.

Cost Income Ratio

Operating expenses as a percentage of net income.

Counterparty

The other party (including a bank) with whom a deal is made or closed.

Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

Cross Rate

The calculated foreign exchange rate from two separate quotations involving the same currency.

Currency Swap

A current exchange of principal amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency is received.

D

Deferred Tax

Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current financial year.

Depreciation

The systematic allocations of the depreciable amount of the assets over its useful life.

Derivative

A financial instrument with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the 'underlying'). (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types. (c) It is settled at a future date.

Disintermediation

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

Documentary Bill

A Bill of Exchange that is accompanied by various documents, such as a Bill of Lading, an invoice and an insurance policy.

Documentary Credit

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

Draft

A term generally synonymous with Bill of Exchange but sometimes used specifically in the context of inter-bank bills. A banker's draft is a draft, payable on demand, drawn by or on behalf of a bank.

E**Effective Interest Method**

The method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

Equity Instrument

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

F**Fair Value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fixed Charge

A charge on specific property, usually freehold or leasehold property, or plant and machinery, given under a legal mortgage.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Floating Charge

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the Company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the Company's default.

Foreign Exchange Income

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Balance Sheet date at prevailing rates which differ from those rates in force at inception or on the previous Balance Sheet date. Foreign exchange income also arises from trading in foreign currencies.

Forward Contract

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

Forward Rate

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward rate is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

Forward Rate Agreement (FRA)

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

G**Group**

A group is a parent and all its subsidiaries.

H**Hedging**

A methodology used to cover against risk of unfavourable price movements (interest rates, prices, commodities, etc.).

Held-to-Maturity Investments

A financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, other than those that the entity on initial recognition elects to designate as held-for-trading or available-for-sale, or that meet the definition of loans and receivables.

I**Impairment**

This arises due to decline in recoverable amount below carrying amount.

Indemnity

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primary liability, unlike a guarantor who assumes secondary liability.

Interest Rate Risk

The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

K**Key Management Personnel**

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

L**Letter of Credit (LC)**

A document issued by a bank, requesting another bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

M**Mark to Market**

The policy to periodically revaluing positions up or down to their current market or fair value.

Market Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Minority Interest

The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

Mortgage

A lien on real property used to secure a borrowing.

N**Negotiable Instrument**

A security or other financial instrument which can be freely sold to a third party (i.e. 'negotiated'). Bank notes, bearer bonds, Bills of Exchange and cheques are normally negotiable instruments.

Net Interest Margin

Interest income as a percentage of Average Interest Earning Assets.

Non-Performing Loan

A loan where principal or interest payments are not being made on the due dates, or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

Nostro Account

A foreign currency current account maintained with another bank, usually but not necessarily a foreign correspondent bank. At the other bank, the deposit is called a nostro account.

O**Objective Evidence**

Information based on facts that can be proved through analysis, measurement, observation, and other such means of research.

Off-Balance Sheet Transactions

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

P**Position**

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or short (more currency sold than bought oversold).

Prime Rate

The interest rate which a bank charges its most credit worthy corporate customers.

Promissory Note

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at

fixed or determinable future time a fixed sum to, or to the order of, a specified person, or to bearer.

R**Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repo

Jargon for sale and repurchase agreement.

Reserve Assets

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

Reverse Repo

The opposite of a repo, i.e. a purchase and resale agreement.

Revolving Credit

A line of credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

S**Securitisation**

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes or commercial paper).

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

Settlement Date

The date on which a securities transaction is completed by actual exchange of securities for cash.

Short Position

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Suspense Account

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

Syndicated Loan

A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single bank to accommodate without distorting its loan portfolio.

T**Time Deposit**

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

Total Capital

Is the sum of Tier I capital (core capital) and Tier II capital (supplementary capital).

Trading Financial Assets and Liabilities

A financial asset or financial liability is classified as held-for-trading if it is: (a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) A derivative (except for a derivative that is a designated and effective hedging instrument).

Transaction Costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Treasury Bonds (T-Bond)

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

V**Value Added**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expansion and growth.

Value at Risk (VAR)

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

Vostro Account

A local currency current account maintained with a bank by another bank (compare with Nostro account).

Y**Yield Curve**

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping: interest rates increase with the term of the instrument.

Corporate Information

Name of the Bank

People's Bank

Legal Status

A Licensed Commercial Bank under the Banking Act No. 30 of 1988 incorporated as a Commercial Bank by People's Bank Act No. 29 of 1961.

Head Office (Registered Office)

No. 75, Sir Chittampalam
A. Gardiner Mawatha,
Colombo 02, Sri Lanka.
Cable JANABANK

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+94 112446316 (15 Lines),
+94 112481481

e-mail: info@peoplesbank.lk

web: www.peoplesbank.lk

VAT Registration No. 409000037-7000

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Secretary

Mr. Rohan Pathirage, LLB, MMgt.
in Banking Attorney-at-Law

Corporate Banking Division

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SWIFT PSBKLKXLX

Offshore Banking Unit

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Fax : +94 112458752 / 2458821

Telex : 21500 (PBSWTCE)

e-mail : fcbu@peoplesbank.lk

SWIFT PSBKLKXLX

Overseas Customer Services

No. 59, D.R. Wijewardena Mawatha,
Colombo 10, Sri Lanka.

Tel.: +94 112332746,

+94 112334278, +94 112446409

Telex: 21486 PBKFMS CE

e-mail: fastcash@peoplesbank.lk

nrhc@peoplesbank.lk,

teletran@peoplesbank.lk

SWIFT PSBKLKXLX

Subsidiaries of People's Bank

People's Travels (Pvt) Ltd.

No. 59, D.R. Wijewardena Mawatha,
Colombo 10, Sri Lanka.

Tel.: +94 112470190,

+94 112478385, +94 112396296

Fax: 2434530

e-mail: ptravel@peoplesbank.lk

Web: www.peoplestravels.com

People's Leasing & Finance PLC

No. 1161, Maradana Road, Borella,
Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

Sub-Subsidiaries of People's Bank

(Subsidiaries of People's Leasing & Finance PLC)

People's Insurance Ltd.

No. 53, Dharmapala Mawatha,
Colombo 03.

Tel: +94 112206406

Fax: +94 112206399

People's Leasing Property Development Ltd.

No. 1161, Maradana Road, Borella,
Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

People's Leasing Fleet Management Ltd.

No. 1161, Maradana Road, Borella,
Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

People's Microfinance Ltd.

No. 1161, Maradana Road, Borella,
Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

People's Leasing Havelock Properties Ltd.

No. 1161, Maradana Road, Borella,
Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

Associate of People's Bank

People's Merchant Finance PLC

No. 21, Nawam Mawatha,
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This Annual Report is Carbon Neutral

This People's Bank annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.



www.smart.lk



www.carbonfund.org