

# THANKS A TRILLION



**PEOPLE'S  
BANK**  
THE PULSE OF THE PEOPLE >>

## ABOUT THE BANK

People's Bank is a licensed commercial bank incorporated in 1961 with a mandate to support macroeconomic development in Sri Lanka by mobilising rural savings. As a fully-owned state bank, we partner and support the development of the Nation and its people. Espousing a highly 'people centric' ethos supported by the widest branch and ATM network in the country, the Bank has established itself as the bank closest to its people.

From inception People's Bank has encountered and successfully negotiated varied economic climates and challenges and throughout a history of over five decades we have stayed true to our core mandate - the economic development of Nation and people.

In its most current incarnation, the Bank is seen to have grown beyond parochial borders in function and intent, assuming relevance to the gamut of state and private sector institutions as well as to individuals in equal measure. Our extensive and comprehensive portfolio of products and services cater to every demographic in Sri Lanka. Pragmatic policy and cutting edge strategy and product acumen supported by our one of a kind outreach and highly skilled team of over 11,000 professionals have enabled the Bank to record industry leading achievements. Our Balance Sheet notched Rs.1 Tn while the savings deposit base exceeded Rs. 300 Bn – one of the largest in Sri Lanka. In addition we gained an AA+ rating from Fitch Ratings.

The Bank has been much awarded and rewarded for its achievements. We were selected as the 'Service Brand of the Year' and 'Banking Service Provider of the Year' by the SLIM-Nielsen People's Awards programme. The Bank also garnered the triple accolades of 'Bank of the Year 2014' at The European - Global Banking and Finance Awards 2014, as well as 'Best Banking Group Sri Lanka' and 'Most Sustainable Bank Sri Lanka' at the World Finance Banking Awards 2014.

People's Bank is a strong, vibrant, robust and sustainable entity, founded on rock solid principles, practice and ethics. These are the qualities that will assure our longevity.

That longevity will be spent in fulfilling our core *raison d'être* – the development of Nation and people.

### 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.

This has been a landmark year for People's Bank. Our asset base crossed the trillion mark for the first time ever, making us only the second bank in Sri Lanka to achieve this golden milestone.

With our whole being we say, "Thanks a Trillion"...to our customers, owners, employees and the wider society of this country, for your belief in us, your loyalty, your custom and your trust, so unwaveringly extended to the Bank over 50 years of service to the Nation. It is these qualities in our relationships that have allowed us to aim for and achieve such heights in performance, always with the clear objective of serving all stakeholders with the best of financial solutions.

Going forward, we fully intended to deploy these resources to extend an even better and more lucrative service to all stakeholders.



## ABOUT THE REPORT

### Report Format

This is our third Sustainability Report. We firmly believe that any discussion on sustainability to be valid, must be one with a single discussion on the overall performance of the Bank. Hence, this Report presents a comprehensive and concise account of the performance of the Bank, and the ways in which we create sustainable value for our stakeholders.

### Concept

In its preparation this Report has drawn on concepts, principles and guidance provided by the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. It is a cohesive report which communicates the relationships and interdependence of the varied aspects of our business. These include our strategic imperatives, governance, risk, compliance, management decisions and actions etc.

### Reporting Cycle

This Report covers the 12-month period from 1st January 2014 to 31st December 2014. People's Bank adopts an annual reporting cycle; hence the last published report was in respect of financial year ended 31st December 2013.

### Scope and Boundary

This Report comprehensively covers the economic, environmental and social performance of People's Bank. However, it does not contain content in respect of the Bank's two subsidiaries, People's Leasing & Finance PLC and People's Travels (Pvt) Ltd. nor does it contain any content in respect of the Bank's

associate, People's Merchant Finance PLC. The Financial Review and Financial Statements cover the performance of the Bank inclusive of its subsidiaries and associate.

There were no changes in the Scope, boundary or measurement methods applied in the Report for 2014 compare to 2013.

### Compliance

The information contained in this Report, is in compliance with the applicable laws, regulations and standards. It remains to the best of our ability aligned to the triple bottom line concept based on GRI Guidelines.

### Queries

Your comments and/or queries are welcome and may be directed to:

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## HIGHLIGHTS

### FINANCIAL HIGHLIGHTS

	BANK			GROUP		
	2014	2013	Change %	2014	2013	Change %
<b>Results for the year - Rs. Mn</b>						
Gross Income	96,377	120,456	(20.0)	118,641	139,957	(15.2)
Total Operating Income	41,894	46,530	(10.0)	54,308	55,576	(2.3)
Profit before Tax	17,231	10,304	67.2	21,628	13,412	61.3
Provision for Taxation	3,012	2,816	7.0	4,674	4,248	10.0
Profit after Tax	14,219	7,488	89.9	16,953	9,164	85.0
<b>At the Year-End - Rs. Mn</b>						
Gross Loans and Receivables	685,310	681,467	0.6	782,301	773,251	1.2
Deposits	793,342	762,249	4.1	829,019	789,225	5.0
Total Assets	1,026,769	930,585	10.3	1,139,258	1,031,473	10.4
Shareholders' Fund (Capital and Reserves)	43,470	36,537	19.0	64,062	55,088	16.3
<b>Key Performance Indicators</b>						
Return on Assets (%) - before Tax	1.8	1.1	–	2.0	1.3	–
- after Tax	1.5	0.8	–	1.6	0.9	–
Return on Equity (%)	35.5	22.8	–	28.5	18.2	–
CASA/Total Deposits (%)	46.3	38.5	–	44.7	36.5	–
<b>Statutory Ratios</b>						
<b>Capital Adequacy Ratios (%)</b>						
Tier I Capital Ratio - Minimum Requirement 5%	10.9	10.4	–	12.4	12.5	–
Total Capital Ratio - Minimum Requirement 10%	14.3	15.0	–	14.9	15.9	–
<b>Statutory Liquidity Assets Ratio (%)</b>						
Domestic Banking Unit - Minimum Requirement 20%	30.3	25.2	–	N/A	N/A	–
Off-Shore Banking Unit - Minimum Requirement 20%	21.8	22.3	–	N/A	N/A	–

Highest Ever  
Profit Before Tax

**Rs. 17.2 Bn**

Total Assets Base  
Touched

**Rs. 1 Tn**

## OPERATIONAL HIGHLIGHTS



Customer accounts of **over 16 million**



Extensive island-wide branch network of **over 739 branches** and an ATM network of **over 3,000**



Accessible and approachable anywhere in the world with a correspondent banking network spanning **110 countries**.

Over one million Sri Lankan expatriates served with foreign remittances exceeding the **\$ 1 Bn milestone** in 2014.



Awarded '**Bank of the Year Sri Lanka 2014**' at The "European" Global Banking and Finance Awards 2014.

Awarded '**Best Banking Group Sri Lanka**' and 'Most Sustainable Bank Sri Lanka' at the World Finance Banking Awards 2014.

Reaffirmed **AA+** by Fitch Ratings Lanka.

'I Can Save' - Inculcating the savings habit among *Sisu Udana* children's savings account holders.

People's Relax Saving Plan - solution to brighten the future retirement of today's youth.

**"People's Nirogi"**

Offering exclusive medical benefits through People's Visa credit and debit cards in partnership with Lanka Hospitals.



**#488# Mobile Banking** Module successfully extended to Bank's NRFC customers in collaboration with Mobitel.



## CHAIRMAN'S MESSAGE





Our fifty year history gives us a firm foothold in the country's progress and enables us to develop innovative financial solutions that have a permeating impact within the macro picture

Being appointed to spearhead one of the country's largest state banks is certainly an honour, but, it is an honour that comes with immense responsibility. That responsibility is constructed around the ethos of being true to the people's ideals of what is expected of us, the aspirations they have placed in us and the ultimate journey we charter for them to ensure absolute empowerment. Being the 'Pulse of the People' is about building on those aspirations and expectations and augmenting the relationships we have with our stakeholders into a win-win formula.

People's Bank has been a strong truss in the country's development process but I strongly believe that it is a bank that has much more potential. The fact that the Bank, despite severe competition, crossed the milestone of Rupees one Trillion in our asset base last year, certainly evidences that potential. Our fifty year history gives us a firm foothold in the country's progress and enables us to develop innovative financial solutions that have a permeating impact within the macro picture. It is this innovative capability that I intend to optimise on as we begin our journey into a new era of transformation, not only for the country but for each of her citizens.

The way forward for Sri Lanka is in universal connectivity. As we look around us, we are observing a digital revolution, an explosion of unimaginable proportions which encompasses each of us. It is imperative therefore that People's Bank creates a formidable presence in that digital revolution. As a Bank, our achievements in the past have enabled us collate some large numbers, whether in having one of the largest customer bases, the largest customer reach via branches, ATMs and other service points, an impressive deposit base and a team who have brought in results despite working in an intensely competitive industry. But to retain that leadership, People's Bank must sprint into the digital space.

The digital presence we currently possess is insufficient to compete in the global or even regional arena, because that's where People's Bank intends to position itself. The digital revolution is taking place all around us and it is imperative that People's Bank assimilates into that revolution, if we are to continue being the leader we are. Our mandate dictates that we will always focus on being the 'People's Bank' and to do that, we must push the boundaries of innovation, to place our people firmly aligned to the world around us.

Hence, the natural step we need to take is to move and transform into the digital space. But my vision is not simply in moving into that space but in creating and cementing digital spaces for ourselves, championing digital banking and making the concept of universal connectivity and thereby digital literacy a way of life. I'm totally focused on making People's Bank, the Most Digitalised Bank in Sri Lanka.

It may seem ambitious and it may seem impossible but to me, if People's Bank is to maximise on the positives we have and retain the customer demographics that we attract, then, this is the way forward. Every industry is today utilising a digital platform, especially the financial industry. The smartphone is today's tool for success from the rural farmer to the enterprising executive to the pensioner in his twilight years, it is that phone connectivity that empowers them.

In moving into that digitalised space, our customer profile too is transforming. Today's young student becomes tomorrow's Generation Y. Today's Generation Y becomes tomorrow's corporate captain. Today's corporate captain becomes tomorrow's senior citizen. But all of them are using that one tool which empowers them – a digitalised device which gives them instant access to power their life's journey.

Hence this is where we are heading. We begin with Generation Y, empowering them to optimise on the powers of the digital age and become an imperative conduit in our digital strategy. You will find our products extended onto every digital device and channel, responsively and seamlessly accessible. The focus therefore is to convert People's Bank into a bank that's more digitally capable, but yet able to retain the 'Pulse of the People'.

While I look forward with great exhilaration to taking your Bank forward into an age that would undoubtedly cement its presence among the best of the best in this region, I remain focused that the true ideals of People's Bank in being a bank for the people must always be retained in our overall ethos. While we move towards becoming the Most Digitalised Bank in Sri Lanka, People's Bank will sustain the underlying philosophy of empowering the people.

I look forward to working with the dynamic team we have within this Bank headed by the CEO/GM, who have over the years etched pioneering paths and gained kudos locally and internationally. The Board of Directors and I are now poised to lead this aspirational team into that new era where People's Bank will surely lead the industry, maximising universal connectivity to conquer the digital space.



**Hemasiri Fernando**  
*Chairman*

12th March 2015

## CHIEF EXECUTIVE OFFICER/GENERAL MANAGER'S REVIEW



We closed 2014 with an impressive performance, posting the milestone of Rupees One Trillion in our Balance Sheet and the highest ever Profit before Tax of Rs. 17.2 Bn

As we close this year and embark on the next, I can't help but look back humbly on the way our stakeholders, who have been with us for nearly six decades have carried us to the pinnacle of banking. A team that has displayed incomparable dynamism, customers whose confidence in us goes beyond loyalty and into a realm of being lifelong partners similar to the philosophy cultivated by our valued business partners, communities who have ensured that we maintain our checks and balances so they are empowered to live better lives and a nation that looks towards us, that to partner its development – these are the multiple trusses that sit upon the solid foundation of stability, values and ethics that inks our best achievements yet.

This is why we hold up that flag of champions, given that People's Bank crossed that extraordinary milestone this year of posting Rs. 1 Tn in its balance sheet, only the second bank to achieve such, in Sri Lanka. This brings our entire stakeholder collective under a singular flag of unequivocal achievement and from us at People's Bank, we proclaim, 'Thanks a Trillion' to each of them. Our groundbreaking achievement is further incised in the theme of this Annual Report in which I'm proud to be writing a review of operations for. This review will however, only be a synopsis as the extensive details of both quantitative and qualitative areas can be perused within the detailed sections of this Annual Report.

#### **A BRIEF MACRO OUTLINE**

As was detailed by the Central Bank of Sri Lanka's Department of Census and Statistics, Sri Lanka's GDP grew at 7.4% this year, falling marginally short of the initial 7.8% forecast. However, the economy did perform slightly better than in 2013 wherein GDP grew at 7.3%. In any event, Sri Lanka has performed well from a South Asian and Asian perspective and well above average global growth.

It is interesting that two of the three pillars of the economy, namely the industrial sector and the services sector both recorded some growth, though not too impressive, while the agriculture sector actually declined in growth quite significantly. The industrial sector inclined 11.4% from 9.9% in 2013, the services sector grew marginally from 6.4% to 6.5% and the agriculture sector grew only to 0.3% against 4.7% last year. And hence the contribution to GDP by these three main pillars of the economy, was 8.2% by the agriculture sector and 33.9% and 58% respectively by the industrial and services sectors. The latter two sectors however, did perform exceptionally well when seen in the context of contribution to the economy.

When analysing the sub-sectors, most of which are germane to the Bank, given the business dealings we have with various stakeholder groups, the agriculture, livestock and forestry sub-sector posted just 3.3% compared to last year's 11.3%, while the fishing sub-sector also was relatively slow, growing at 12.7% against 15.8%. The manufacturing sub sector also slowed to 12.5% from 13.4%, primarily due to factory industry growth declining to 13.2% from 13.7%. The textile, wearing apparel and leather sector inclined however to showcase better growth at 17.7% compared to 12.1%. The wholesale and retail trade sub-sector also had declining growth, falling to 10.7% from 13% last year, as did the hotels and restaurants sector which also slowed to 16.1%, compared to 19.3%.

#### **BREAKING FINANCIAL RECORDS**

We closed 2014 with an impressive performance, posting the milestone of Rs. 1 Tn in our balance sheet and the highest profitability since our inception in 1961. Augmenting its formidable balance sheet, this year's Profit Before Tax inclined 67.2% to stand at Rs. 17,231 Mn, while Profit After Tax grew at an impressive 89.9% to Rs. 14,219 Mn. Further details will be found in the Financial Review, although I would like to add a synopsis of the more significant features in our financial performance.

Net Interest Income recorded Rs. 30,118 Mn, while the Net Interest Margin reached 3.1%, despite the entire banking industry battling the downward pressure exerted on interest rates. Gross Interest Income reduced to Rs. 84,480 Mn, compared to Rs. 110,441 Mn last year, primarily due to this decline in interest rates, coupled with the downsizing of the pawning portfolio. Similarly Interest Expense fell to Rs. 54,362 Mn against last year's Rs. 73,791 Mn with the decrease attributed to the cascading impacts of declining interest rates and replacing of higher cost deposits with low cost saving deposits growth.

Of the impressive Rupees one Trillion balance sheet, Gross Loans and Advances reached Rs. 685,310 Mn by end 2014, a growth of 1%. With the permeating global gold crisis impacting the pawning industry significantly from 2013 onwards, the Bank was prudent and strategically decreased its exposure which emerged at 16.6% in 2014 of the total Gross Loans from 28.9% in 2013. Pawning balance reached Rs. 113,946 Mn indicating a reduction of Rs. 83,183 Mn in comparison to last year. The Bank focused emphatically on broadening its lending portfolio, heralding an increase to Rs. 87,026 Mn in lending to other customers.

With probably the country's largest savings base now exceeding Rs. 318 Bn, Deposits reached Rs. 793,342 Mn indicating a 4.1% improvement over 2013. This was due to the Bank taking advantage of the low interest rate regime and aggressive marketing and promotional campaigns aimed at mobilising low

cost deposits. Having a commendable CASA ratio of 46.3%, the Bank's Saving Deposits grew by Rs. 62,967 Mn, although Time Deposits declined by Rs. 42,945 Mn. Advances to Deposits ratio stood at 86.4% at end 2014.

### OPERATIONS IN PERSPECTIVE

It is very apparent by now that the financial services industry in general, the banking sector in particular struggled within a milieu where credit stagnated. There was little growth despite various efforts made by the industry to revive credit off take. This was also probably the reason that the banking, insurance and real estate sector showed only marginal growth, rising to 14.6% from 14.4% last year. Reflective of the gold price slump, we inherited the pawning challenges as well, pushing us to provide for this unforeseen travail, this year too.

It was only in the third quarter of the year that our Bank made some real progress, due to the strategic initiatives instituted to ensure that meeting the targets we had set for ourselves. This dynamism pushed us to garner some exciting milestones, which of course was not only the Rupees one Trillion asset base, but also the highest profitability recorded in our entire history of 53 years.

Given the external operating environment, we initiated a plan that would propel our branch network, the largest in the country at 739, to maximise their contribution towards the bottom line of the bank, aggressively mobilising deposits and disbursing personal loans. In fact, People's Bank has one of the country's largest deposit bases of Rs. 318 Bn, which is a number we intend augmenting, together with the remarkable foreign remittance business of US \$ 1 Bn which we can claim to be is also one of the largest for a single bank.

We have been emphasising considerably on growing our worker remittance base even more in line with the country's goal of achieving US \$10.5 Bn in remittances. This pushed us to institute a range of strategic solutions last year, including strengthening our presence internationally in key countries including the UAE, Qatar and Korea. We augmented these destinations with the deployment of professional teams, to ensure that business growth will be significant and sustainable.

Our Correspondent Agent Network of over 300 spanning across 110 countries facilitates our overseas presence, and help in delivering robust trade finance solutions built on a solid platform of service delivery and value addition. One of our pioneering initiatives launched this year to enable migrant Sri Lankans to conduct banking transactions using mobile phones is People's Mobile Banking in collaboration with Mobitel. The success of this facility, enabled through a free SIM card provided by us, can be seen in the over US \$ 125 Mn transferred using this service since its launch.

We use the worldwide network of Western Union to facilitate money transfers into Sri Lanka, enabling a highly credible and flexible fund transfer solutions for the Sri Lankan diaspora.

Our input into national development has been multi-dimensional. Whether in continuing to be proactive with the micro and SME sectors or in mega infrastructure development and continued investment into national imperatives, as a State Bank we believe it's our responsibility to be the vital conduit that will have a sustainable positive impact on the nation. We have been investing considerably in varied industries especially designed to uplift micro entrepreneurs and SMEs to be larger contributors to the economy. Using our extensive branch network and the 20 dedicated SME centres (numbers of which we intend to grow to cover all four regions), People's Bank's intervention with these entrepreneurs extended not only to giving funding but also to technical awareness, financial management and entrepreneurship skills.

Close monitoring was effected on the qualitative and quantitative features of credit facilities, building on our already well-diversified portfolio of credit interventions. This was initiated to minimise risk exposure and to minimise the probability of default.

Aligned with the State's infrastructure development programme, we have forged partnerships in numerous industries including construction, tourism, manufacturing, services and trading as well as power and energy, using the immense knowledge pool we have within our corporate banking unit. A majority of the infrastructure development projects embarked on this year was State driven, while we also assisted other State organisations with various funding avenues. These included the Ceylon Petroleum Corporation, Ceylon Electricity Board, State Pharmaceutical Corporation, State-owned Fertilizer Import Businesses, National Water Board and the CWE.

### FUELLING A TEAM THAT WINS

We have 8,000 within a dynamic and motivated team whose hard work and innate need to win has seen People's Bank notch some record breaking milestones this year. I've listed the accolades we collated this year further down in my review, both locally and internationally, which amply evidences the amazing feats our team can achieve with the apt tools and skills. Now that we've achieved an impressive portfolio of laurels, our next step is to ensure that this winning team continues to reach horizons that are ambitious and to do this, the learning and development curve must be fuelled.

We have, over this year, begun a comprehensive training and development calendar that collates the entirety of our team under a single umbrella of learning. From enhancing germane financial and technical knowledge to imbuing soft skills to

permeating an expansive culture of customer service excellence, using external and internal specialists to conduct the multitude of programmes, the T&D calendar has undoubtedly been the catalyst in the amazing performance we have had.

In similar vein, IT has been cascaded into the entirety of the Bank's operations, with our core banking solution now firmly ingrained into the way we do business. Working with an external consultant, this has added significant impetus into our objectives and goals and in forming a strong culture of compliance, a cognisant feature in our way forward. We are now well-networked across the country via the 739 strong branch network ably supported through an ATM network of 2,500, the most expansive in the country and accessible through various channels with an inbuilt flexibility resulting from this IT infusion.

### EVOLVING FOR THE FUTURE

In our quest to become one of the best banks in the country, taking our name beyond the shores of Sri Lanka, one of the most exciting paths we forged this year was the formulation of the blueprint for our new Strategic Plan, designed to take this Bank until 2020. Having completed the Strategic Plan which ended in 2014, we engaged international management consultancy MTI Consulting, to develop a five-year Strategic Plan for 2015-2020 based on the globally acclaimed MTI 8S® model.

A key focus of this Strategic Plan will involve creating and fostering a performance oriented and more importantly, a customer-centric culture. Facilitated by a concise process of building clarity and establishing a consensus among its key stakeholders including the management and staff, the Bank aims to position itself as Sri Lanka's premier financial institution in all facets of the banking industry.

Recognising the mounting competitive pressure within the Sri Lankan financial services industry as well as the increasing expectations of key stakeholders, the Bank is conducting an intensive market mapping and scanning exercise which will act as the basis for strategising. Furthermore, aligning the organisational structure of the Bank to the new strategic initiatives is a key component envisaged within the strategic plan and strategy effectiveness is to be ensured by placing greater focus on a competency development plan.

### MOVING ON UP

In our 53 year history, we have always maintained a pioneering stature but last year undoubtedly presented us some lofty kudos. We have etched our prowess of epitomising the ideal of being a true People's Bank. We ended 2014 on a record breaking

note of notching a balance sheet that exceeds the Rs. 1 Tn mark and cemented our endearing recognition with the prestigious Service Brand of the Year and Banking Service Provider of the Year Awards at the SLIM-Nielsen People's Awards for the eighth consecutive year.

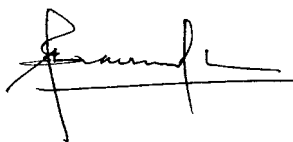
The accolades however continued with the Bank accorded the triple accolades of Bank of the Year 2014 at the European Awards and Best Banking Group Sri Lanka and Most Sustainable Bank Sri Lanka at the World Finance Banking Awards 2014. In addition, cementing the Bank's financial stability, unrelenting compliance focus and consistent performance, Fitch Rating rated as AA+ on the Bank.

### IN APPRECIATION

With our new Strategic Plan on the cusp of implementation as the new year dawns, we are now ready to evolve, grasping the opportunities that are emerging not only in Sri Lanka but certainly in this region. We intend being a crucial facet in the nation's forward journey and it's a journey that I know will be exciting and progressive, given the input I will gain from our new Chairman and Board of Directors. I look forward to their guidance and leadership, in steering our senior management team, to achieve our goals and etch more milestones for the Bank. It is our senior management supported by a very dynamic team that deserves commendation for spearheading this record breaking year.

Appreciations are also extended to our customers and valued business partners, whose continued confidence and loyalty remains a firm foundation upon which we charter our future journey. Being very cognisant of being a life long partner to each of our stakeholders based on forging and nurturing long-term relationships, we appreciate the crucial role that our communities play in infusing impetus for us to grow.

I foresee People's Bank continuing its record breaking pursuits, breaking boundaries and looking beyond horizons to elevate ourselves into being one of the best banks in this region. We intend using the foundations we have already cemented and building on those trusses which are currently being formulated, to evolve into a formidable presence in the banking industry.



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

12th March 2015



## **CUSTOMERS: THANKS A TRILLION!**

To our customers, from across the length and breadth of Sri Lanka – Thank you!

We are proud of our **16 million** strong customer accounts base; it is to serve them that we were established; however, our relationship goes far beyond mere service. We value the friendship, the myriad instances we work together to reach mutually rewarding solutions, the joy of providing a product we know would delight our customers... and so much more.



## BOARD OF DIRECTORS



*From L to R:* Ms. G. D. Chandra Ekanayake | Mr. Janaka Sugathadasa | Mr. Jehan P. Amaratunga | Mr. Hemasiri Fernando | Mr. R.W.D.A.G. Rajasekara | Mr. Felician Perera | Mr. Chrishmal Warnasuriya

**MR. HEMASIRI FERNANDO**  
*CHAIRMAN*

Possessing diverse experience in varied genres, his debut into the public sector was as Secretary to the Prime Minister. He later Chaired Sri Lanka Telecom, Airport and Aviation Services and Telecom Services and has served as Secretary to the Ministry of Postal Services among other postings. His input as the longest serving President of the National Olympic Committee and in international office including as Vice President of the Olympic Council of Asia and Commonwealth Games Federation, in addition to representing Sri Lanka in rifle shooting as three times national champion, makes him the apt choice as Presidential Advisor on Sports to Sri Lanka. With a B.A. (Econ) from the University of Colombo, Associateship in the Institute of Travel and Tourism UK (A INST TT) and Fellowship of the British Institute of Management (FBIM), he is also the Honorary Consul for the Kyrgyz Republic in Sri Lanka. His tenure in the Sri Lanka Navy, from which he retired with the rank of Commander, having served in combat areas, deserves special mention. His association with Sri Lanka Railways led to the penning of two books, The Viceroy Special based on the steam locomotive he created for tourism in Sri Lanka and The Uva Railway. He has been conferred with the OCA Award of Merit by the Olympic Council of Asia and the ANOC Award of Merit by the Association of National Olympic Committees.

**MR. JEHAN P. AMARATUNGA**  
*DIRECTOR*

Mr. Jehan Amaratunga is a Fellow 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.

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

**MR. CHRISHMAL WARNASURIYA**  
*DIRECTOR*

Mr. Chrishmal Warnasuriya BA (Col.), P.Dip. (Hons), LLM (Hons) (Lon.) was appointed to the directorate of the Bank in February 2015.

He was called to the Bar in May 2000 and also holds a Bachelor of Arts (BA) Degree from University of Colombo and a Postgraduate Diploma (Hons.) in International Relations from the Bandaranaike Centre. He read for and was conferred a Master in Laws (LLM) (Hons.) Degree from King's College, London in Corporate and Commercial Law, specialising in Commercial Banking and International Finance Laws. He thereafter completed a term of Pupillage of a Barrister at the Middle Temple and returned to practice in Sri Lanka in June 2007.

He has a practice of over 15 years of post-qualifying experience both here and in the UK, across a wide spectrum between original civil and commercial litigation to public and administrative law, civil and criminal appeals in the superior courts and has also been accepted as a Consultant in Overseas Law by the Law Society of England and Wales. He visits/ lectures as a guest at several professional bodies including the Postgraduate Institute of Medicine (PGIM) and in the construction industry and serves as an advisor/consultant in the corporate sector.

A life member of the Bar Association (BASL) he has convened its Overseas Relations and Law subcommittees, is also a member of the International Bar Association (IBA) and a one time committee member of the Association of Sri Lankan Lawyers UK (ASLLUK).

He was awarded the 'Outstanding Young Persons' (TOYP) in 2008 for legal accomplishment and was recently recognised by the Government of United States of America with an 'International Visitor Leadership (IVLP) Award' in April 2014 on a Programme in 'Judicial Reforms and the Rule of Law' hosted by their State Department and therefore, brings with him extensive academic and professional expertise to our management.

**MS. G. D. CHANDRA EKANAYAKE**  
*DIRECTOR*

Ms. Ekanayake is a member of the Sri Lanka Administrative Service and joined the service in 1984. She was appointed as a Deputy Secretary to the Treasury on 9th March 2015. Prior to this appointment, she had held senior positions in the Treasury as Director of Economic Affairs, Controller of Insurance, Additional Director General, Department of External Resources, Director General, Department of Trade, Tariff and Investment Policy and the Director General, Department of National Budget.

Ms. Ekanayake holds a Science Special Degree from the University of Kelaniya, an MBA from the Postgraduate Institute of Management, Sri Lanka and Postgraduate Diploma in the fields of Development Planning Techniques (ISS, The Hague), International Relations (BCIS - Colombo) and Economic Development (University of Colombo). She represented the Treasury in the Council of the Asian Reinsurance Corporation from 2002 to 2013 and functioned as its Vice-Chairperson during the period from 2008 to 2013. She also represented the Treasury on the Board of the NDB Bank until March 2015. As at now she represents the Treasury on the Board of the People's Bank, Sri Lanka Telecom and the Board of Management of the Superior Courts Complex.

**MR. JANAKA SUGATHADASA**  
*DIRECTOR*

Mr. Janaka Sugathadasa, Secretary to the Ministry of Food Security is a Special Grade Officer of the Sri Lanka Administrative Service (SLAS).

Mr. Sugathadasa obtained a Bachelor of Arts (Honours) Degree from the University of Colombo in 1981. He has also obtained the Postgraduate Diploma in Economic Development from the University of Colombo and the Diploma in International Relations from the Bandaranaike Centre for International Studies in 1985 and 1986 respectively. He has also obtained the Master of Arts Degree in Economic and Social Policy from the University of Manchester, UK in 1989. He won the Hubert H. Humphrey Fellowship, a mid career professional development programme awarded by the Fulbright Commission in 1997 and studied Public Policy Development and Management at the American University in Washington, D.C., USA.

Mr. Sugathadasa, who joined Sri Lanka Administrative Service in 1985, had served as Secretary, Ministry of Resettlement (2012-2015), Additional Secretary, Ministry of Industry and Commerce (2010-2012), Additional Secretary, Ministry of Export Development and International Trade (2007-2010), Additional Secretary, Ministry of Commerce and Consumer Affairs (2001-2007) and Assistant Secretary, Presidential Secretariat (1986-1997). Prior to joining SLAS, he served as an Assistant Manager, Sri Lanka State Trading (General) Corporation during 1981-1985.

Mr. Sugathadasa counts 33 years of experience in public sector management. He has represented Sri Lanka at various international fora and authored the Section on 'Internal Trade' in the National Atlas of Sri Lanka published in 2007.

**MR. R.W.D.A.G. RAJASEKERA**  
*DIRECTOR*

Mr. R.W.D.A.G. Rajasekera was appointed as a member of the Board of Directors of the Bank with effect from 11th February 2015. He counts 33 years Banking services in various areas of the Bank especially Human Resources Development in People's Bank. He has followed BSc Graduate Course and Information Technology at the University of Colombo.

**MR. FELICIAN PERERA**  
*DIRECTOR*

Mr. Felician Perera was appointed to the directorate of People's Bank in March 2015. He holds a M.A. in Criminology. He is an Unofficial Magistrate/Attorney-at-Law/Notary Public/Justice of the Peace/Commissioner for Oaths and Registered Company Secretary. He has served the Mahaweli Venture Capital Co., as the Chairman and Chamber of Commerce (N.W.P.) as a Director.

## **OWNERS: THANKS A TRILLION!**

The Bank's majority ownership vests with the Government of Sri Lanka. From our inception, we have stood with the Nation and the stakeholder 'through thick and thin' and thus have identified closely with their aspirations and well-being. The strength of our relationship with the State, its support and belief in the role of the Bank are incalculable strengths to our enterprise.

Thank you!

We are proud of our over 50 year relationship with our owners, which remains as strong and vibrant as ever today!



## CORPORATE MANAGEMENT



**MR. N. VASANTHA KUMAR**  
*CHIEF EXECUTIVE OFFICER/  
GENERAL MANAGER*

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

He is a Director of People's Leasing Co. 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 a Past President of the Association of Primary Dealers and Sri Lanka Forex Association.



**MR. AHAMED SABRY IBRAHIM**  
*SENIOR DEPUTY GENERAL MANAGER - CREDIT*

Mr. Ibrahim has over 31 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 strategic business development and brand building.

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

He is a Chartered Marketeer 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 the Past President of the Board of Management of The Management Club (TMC) and Senior Vice President of the Association of Professional Bankers and Country Advisory Council Member – Global Marketing Network – UK.



**MS. CHANDANI WERAPITIYA**

*DEPUTY GENERAL MANAGER -  
STRATEGIC PLANNING & RESEARCH*

Ms. Chandani Werapitiya is in charge of the Strategic Planning & Research Department contributing to the Bank's research activities and responsible for the supervision of the Strategic Plan Preparation Process for the period 2015 - 2020.

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

She joined the Bank in June 1987 as a Management Trainee and counts nearly 28 years of experience in a wide spectrum of fields ranging from Corporate and Institutional Banking, International Banking, Customer Services, SME/Project Lending, Branch Operations, Credit Management and Strategic Planning Unit. She has been appointed to revamp the research activities of the Bank in order to streamline research and strategic planning activities.

She is an Alternate Director to the Governing Board of Institute of Bankers' of Sri Lanka (IBSL) and a Committee Member of International Chamber of Commerce of Sri Lanka (ICCSL) and a Member of Women's Chamber of Industry and Commerce (WCIC). She was a Director of Regional Development Bank (RDB) and was a Board Member of Interim Committee of Sri Lanka Handicraft Board (SLHB).



**MR. K.B. RAJAPAKSE**

*DEPUTY GENERAL MANAGER –  
COMMERCIAL CREDIT & SME*

Mr. Rajapakse is in charge of the Commercial Credit & SME Department. He joined the Bank in 1987 as a Management Trainee and counts 28 years of experience in the People's Bank.

He holds a Second 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 Deputy General Manager of Commercial Credit, SME 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 27 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 Jayawardenapura and also he is an Associate Member of the Institute of Bankers, Sri Lanka.

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



**MR. T.A. ARIYAPALA**

*DEPUTY GENERAL MANAGER -  
Released on secondment basis from People's Bank,  
since 01st October 2014*

Mr. Ariyapala has been appointed as Acting General Manager/Chief Executive Officer of the Regional Development Bank (RDB) on secondment basis, since 01st October 2014. Prior to his new appointment, he has served as Deputy General Manager, Co-operatives and Development Banking at People's Bank. His distinguished career spans over 36 years experience at People's Bank.

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

He is a member of the Bar Association of Sri Lanka (BASL) and Association of Professional Bankers (APB) of Sri Lanka. He is also an Alternate Director to the Governing Board of the Institute of Bankers of Sri Lanka (IBSL).

He has received extensive local and overseas training and gathered vast experience in Co-operatives, Project Lending, Micro Finance, SME, Human Resource Management and Branch Business/Banking.

**MR. ROHAN PATHIRAGE**

*DEPUTY GENERAL MANAGER -  
SECRETARY TO THE BOARD OF DIRECTORS*

Mr. Pathirage holds a Law Degree (LL.B) from the University of Colombo and a Master's Degree in Bank Management from Massey University, New Zealand. He also holds a Postgraduate Diploma in Banking. He is an Attorney-at-Law.

He is also the Company Secretary of People's Leasing & Finance PLC, People's Insurance Ltd, People's Fleet Management Ltd, People's Property Development Ltd, and People's Travels (Pvt) Ltd. He has over 20 years of experience in the Bank.



**MS. M.S. ARSACULARATNE**  
*DEPUTY GENERAL MANAGER -  
 COMPLIANCE*

Ms. Arsacularatne joined the Bank's service at Grade II level as a Senior Finance Officer and counts over 29 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 an Accountant and State Engineering Corporation as a Special Grade Accountant.



**MS. G.P.R. JAYASINGHE**  
*DEPUTY GENERAL MANAGER  
 RETAIL BANKING/CO-OPERATIVE &  
 DEVELOPMENT BANKING*

Ms. Renuka Jayasinghe joined the Bank in 1987 as a Management Trainee and counts over 27 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 Special Degree in B.Com from the University of Sri Jayawardenepura and has a professional banking qualification AIB – Sri Lanka. She is a life member of the Association of Professional Bankers of Sri Lanka and the Institute of Bankers of Sri Lanka.

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

**MR. CLIVE FONSEKA***HEAD OF TREASURY & INVESTMENT BANKING*

Mr. Fonseka is a fellow 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. He has received a Distinction for the ACI Dealing Certificate and counts more than 20 years experience in Treasury Management. Furthermore he has completed the Graduate Conversion Programme of Institute of Certified Management Accountants of Australia.

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 - RANGE - I, II (ACTG) &  
CASH MANAGEMENT*

Mr. Silva joined the Bank in 1987 and counts over 27 years of service in the People's Bank.

His career experience covers the areas of branch business banking at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and presently holds the position of Deputy General Manager – Operations – Range – I, Range – II (Actg) & Cash Management.

In addition, Centralised Back Office functions of the entire branch network is also operated under his purview.

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

He holds a Second Class 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 of the Bank since August 2010.

She is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka. She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper 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 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 25 years of experience in the field of Project Lending and Auditing.

**MR. G.B.R.P. GUNAWARDANA***DEPUTY GENERAL MANAGER -  
RISK MANAGEMENT*

Mr. Rasitha Gunawardana counts over 27 years of service at 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 Credit Control & Risk Management functions.

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

He is an Associate Member of the Chartered Institute of Management Accountants, U.K.

**MR. LIONEL GALAGEDARA***DEPUTY GENERAL MANAGER - RECOVERIES*

Mr. Lionel Galagedara is in charge of Credit Recoveries Division of the Bank. He joined the Bank as a Management Trainee and counts over 27 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 Jayawardenapura and (LLB) a Degree from the 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*

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 in overseas. Prior to joining People's Bank, he held positions of the Financial Controller at HSBC Oman, Chief Financial Officer at Bank Sohar Oman, Chief Financial Officer at Pan Asia Bank, Sri Lanka.

His areas of expertise include 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. PRIYANTHA S. EDIRISINGHE***HEAD OF INFORMATION TECHNOLOGY*

Mr. Edirisinghe joined the Bank on 2nd February 2015 as the Head of Information Technology. He holds a Bachelor of Commerce (Major in Information Systems) and Master of Commerce Degrees from the University of Western Sydney, Australia.

Mr. Edirisinghe has been in the field of IT for 20 years spanning various business sectors including, Insurance, Banking and Telecommunication. Prior to joining People's Bank, he has been attached to Citibank Ltd., Singapore as a Project Management Officer. Throughout his professional career, he has held positions from Analyst Programmer to Chief Information Officer in flagship companies such as Citibank (Australia, Singapore) AON Ltd. Australia, Clarity International Ltd., Singapore and Sri Lanka Telecom.

**MR. S. WANNIARACHCHI**

*ACTG. DEPUTY GENERAL MANAGER –  
INTERNATIONAL BANKING*

Mr. Sunil Wanniarachchi joined 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 a B.Sc (Special) Degree from the University of Sri Jayawardenapura 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 the Institute of Bankers of Sri Lanka. At present he holds the position of President and Senior Vice President in professional bodies such as Association of the Institute of Bankers of Sri Lanka and Trade Finance Association of Bankers respectively.

Presently, he looks after Corporate Banking Division (focusing more on Trade Financing, Credit Administration and General Administration therein), Overseas Customer Service Unit (functions involve developing and improving inward remittances and foreign currency deposits), Financial Institution Unit (maintaining Nostro and Vostro and RMA relationships over 900 Correspondent Banks and Financial Institutions in more than 100 countries) and Treasury Back Office (concentrating on delivery of four main treasury functions such as Foreign Exchange, Money Market, Primary Dealing and Investment Banking).

**MR. A.W. WIPULAGUNA**

*ACTG. CHIEF LAW OFFICER*

Mr. A.W. Wipulaguna joined the People's Bank in December, 1978. He has over 35 years in the banking stream and legal experience. During his period of service in the People's Bank, he has held responsible positions in addition to the main stream in the capacity of Law Officer, Senior Law Officer (Human Resources) and Deputy Chief Law Officer (Human Resources and Operations).

He is an Attorney-at-Law. He graduated from the University of Peradeniya. During his banking carrier, he has also followed various international exposure programmes regarding legal systems of Asian Countries attending international conferences held in various countries. His experience covers the areas of Human Resources, Banking Law, Credit, Recoveries, Corporate Law, Commercial Law and Labour Law.



## EXECUTIVE MANAGEMENT



**MS. S. PRATHAPASINGHE**

ASSISTANT GENERAL MANAGER -  
FINANCE AND ACCOUNTING



**MS. S.W.A.D.S. KALYANI**

ASSISTANT GENERAL MANAGER -  
CO-OP AND DEVELOPMENT BANKING



**MR. H.C. FERNANDO**

ASSISTANT GENERAL MANAGER -  
BRANCH OPERATIONS



**MR. W.K.S.B. NANDANA**

DEPUTY CHIEF LAW OFFICER -  
RECOVERIES



**MR. E.A.D.J. PRIYASHANTHA**

DEPUTY CHIEF INTERNAL AUDITOR



**MR. N.G. DISSANAYAKE**

ASSISTANT GENERAL MANAGER -  
RECOVERIES



**MS. P.R. MADURAWALA**

ASSISTANT GENERAL MANAGER -  
AUDIT



**MS. N.C. MUDALIGE**

ASSISTANT GENERAL MANAGER -  
BRANCH OPERATIONS



**MS. V.K. NARANGODA**

ASSISTANT GENERAL MANAGER -  
CORPORATE BANKING





**MS. A.S. LIYANARACHCHI**  
ASSISTANT GENERAL MANAGER -  
CREDIT CONTROL



**MR. S.J. KARUNARATNE**  
ASSISTANT GENERAL MANAGER -  
BANKING SUPPORT SERVICES



**MS. D.Y.S. MENDIS**  
ASSISTANT GENERAL MANAGER -  
MARKETING AND PUBLIC AFFAIRS



**MS. K.N. SENARATNE**  
ASSISTANT GENERAL MANAGER -  
CREDIT UNIT II - C.B.D.



**MR. P.R.S. JAYATISSA**  
ASSISTANT GENERAL MANAGER -  
HUMAN RESOURCES - ADMINISTRATION



**MS. P.S.J. KURUKULASOORIYA**  
ASSISTANT GENERAL MANAGER -  
HUMAN RESOURCE DEVELOPMENT



**MR. R.M.A. KIRIBANDARA**  
ASSISTANT GENERAL MANAGER -  
BRANCH OPERATIONS



**MS. G.M.R.P. WIJERATHNA**  
DEPUTY HEAD OF PRIMARY  
DEALER UNIT



**MR. L. WITHANA**  
ASSISTANT GENERAL MANAGER -  
INVESTIGATION AND INQUIRIES



**MR. R. KODITUWAKKU**  
ASSISTANT GENERAL MANAGER -  
OFFSHORE BANKING



**MR. I.D.S.S. ILLUKKUMBURA**  
ASSISTANT GENERAL MANAGER -  
RETAIL BANKING



**MS. U.S. GERTY**  
ASSISTANT GENERAL MANAGER -  
CREDIT



**MR. A.S.M.V. KUMARASIRI**  
ASSISTANT GENERAL MANAGER -  
TRADE FINANCE



**MS. N.R. WIJAYARATNE**  
ASSISTANT GENERAL MANAGER -  
OCS AND FINANCIAL INSTITUTIONS



**MR. S.N.B.M.W. NARAYANA**  
ASSISTANT GENERAL MANAGER -  
SMALL AND MEDIUM ENTERPRISES

## ZONAL MANAGEMENT



**MR. R.M.S.B. RATNAYAKA**

*ZONAL ASSISTANT GENERAL MANAGER -  
CENTRAL ZONE*



**MR. R. RANATHUNGA**

*ZONAL ASSISTANT GENERAL MANAGER -  
WESTERN ZONE - I*



**MR. W.M.S. WEERAKOON**

*ZONAL ASSISTANT GENERAL MANAGER -  
NORTH CENTRAL ZONE*



**MR. T.D. DE Z. GUNAWARDENA**

*ZONAL ASSISTANT GENERAL MANAGER -  
WESTERN ZONE - II*



**MR. K.D.J. PERERA**

*ZONAL ASSISTANT GENERAL MANAGER -  
SOUTHERN ZONE*

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATING ENVIRONMENT

#### GLOBAL ENVIRONMENT

The global economy expanded marginally in 2014. The lackluster recovery was largely due to accommodative monetary policies, falling commodity prices and weak trade.

The recovery in high-income economies were uneven, as the United States and the United Kingdom exceeded pre-crisis output peaks, while the Euro Area was still below earlier peaks. Middle-income economies were less dynamic than in the past for cyclical reasons, political tensions and also due to a structural slowdown. Despite a challenging global environment, low-income countries continued to grow at a robust pace in 2014.

Going forward, global economic growth is expected to increase by an estimated 3.5% in 2015 and by 3.7% in 2016, supported by gradual recovery in high-income countries, low oil prices, and receding domestic headwinds in developing countries.

#### SRI LANKAN ECONOMY

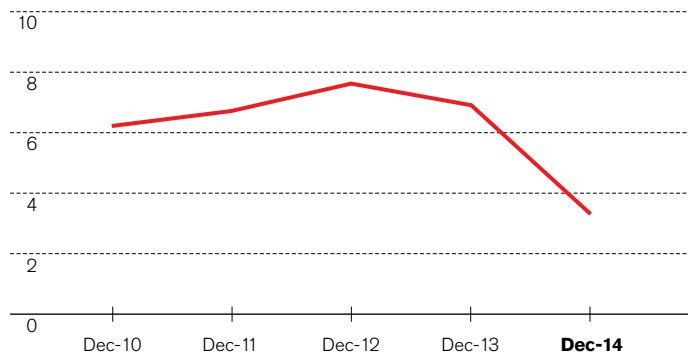
Sri Lanka continued to expand strongly, with real GDP increasing by an estimated 7.5% in 2014. The country's economic growth has been one of the fastest in Asia, exceeding its South Asian peers.

The service sector remained the dominant sector driven by export trade and the hotels and other tourism related activities. The industrial sector recorded the highest growth for the same period with positive contribution from construction, manufacturing and mining and quarrying sub-sectors. Despite adverse weather conditions, the agriculture sector maintained its positive pace of growth during the year.

The per capital income of Sri Lanka has doubled within 5 years to US \$ 3,654 in 2014. This indicates that the country is progressing steadily towards surpassing the per capita income target of US \$ 7,000 by the year 2020.

The Colombo Consumers' Price Index (CCPI) annual average inflation for 2014 was 3.3% basis in December 2014 and has remained a single digit for the past 71 months. This is attributable to prudent demand management, favourable supply conditions and contained inflation expectations.

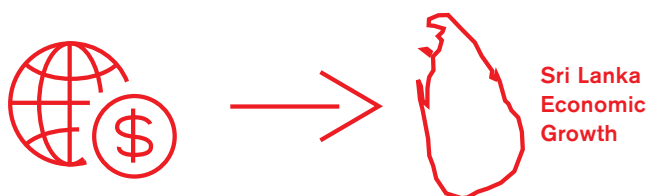
#### INFLATION (12 MONTH MOVING AVERAGE) (%)



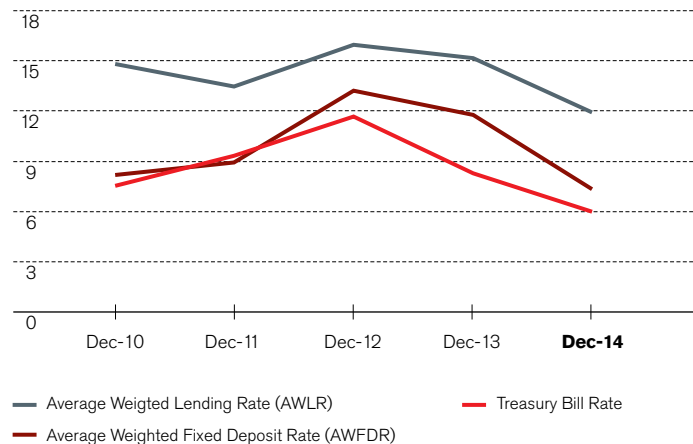
The external sector improved with continued inflows in the Balance of Payments (BOP). Cumulative foreign exchange inflows in the form of earnings from exports and tourism as well as workers' remittances strengthened the current account of the BOP during 2014. This together with foreign direct investments, inflows to the Colombo Stock Exchange (CSE) and the private sector is expected to supported the BOP to record a higher surplus of US \$ 1400 Mn (estimated) compared to the previous year.

The exchange rate was relatively stable amid volatility in international currency markets. Healthy levels of international reserves were maintained to smooth out undue exchange rate volatility throughout the year. By end 2014, the Rupee depreciated against the US Dollar and appreciated against the Sterling Pound, Euro, Japanese Yen and the Indian Rupee.

The market interest rates gradually declined in all segments significantly during the year reflecting the relaxed monetary policy stance and a high level of liquidity prevailed in the market. Despite the excess liquidity, proactive monetary operations enabled to minimise volatility in the inter-bank call money rate.



### INTEREST RATES MOVEMENT (%)



Credit obtained by the private sector from commercial banks saw a declining trend during the first half of the year. Main reasons for such a decline could be attributed to a reduction in credit demand, a drop in pawning advances and the repayment of high interest-bearing loans with newer loans obtained through private sector borrowings and foreign sources. However, towards the latter half of the year, credit to the private sector expanded at a healthy pace, supported by low market interest rates and improvements in income levels of the public.

The country's key performance indicators reflected the positive sentiments during the year. Sri Lanka was ranked 99th in the Ease of Doing Business Index; ahead of the South Asian ranking. The brand value of Sri Lanka has increased from US \$ 45 Bn in 2013 to US \$ 61 Bn in 2014 and has been ranked 58th on the Nation Brands Table amongst 100 world leading countries. This increase is the third best performance amongst the 100 worlds leading countries. In addition Sri Lanka outranked South Asian nations, to be placed 73rd out of 187 nations in the United Nations Human Development Index for 2014. In the Global Competitive Index 2013-2014 Sri Lanka was ranked 65th, five places below India and ahead of other South Asian countries. Further, our country was positioned as an 'Efficiently Driven' economy in the index as well. Another key achievement was Sri Lanka soaring 41 places to be ranked 74th in the UN e-Government Development Index in 2014.

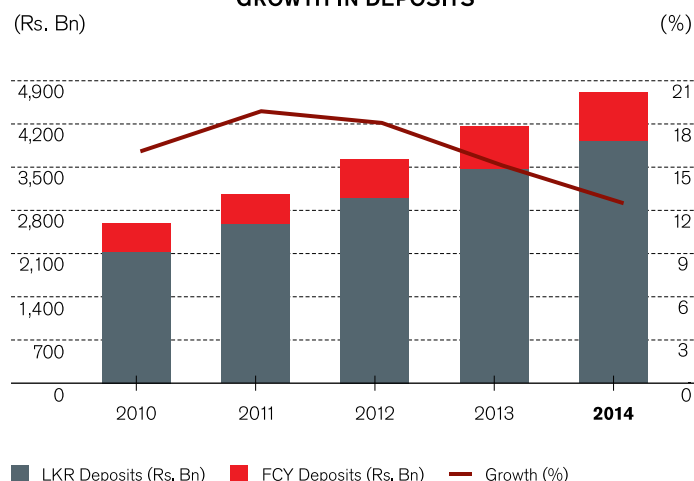
### BANKING INDUSTRY

For the banking industry, year 2014 was a challenging yet rewarding year. The sector maintained its growth momentum and business expansion.

The asset base of the banking sector maintained its growth momentum, increasing to Rs. 6,972 Bn as at end 2014 from Rs. 5,941 Bn in December 2013.

The deposit base increased by Rs. 517 Bn for the twelve months ended 2014. However, there was a decline in the relative importance of deposits, as banks moved to alternative sources of low cost financing.

### GROWTH IN DEPOSITS



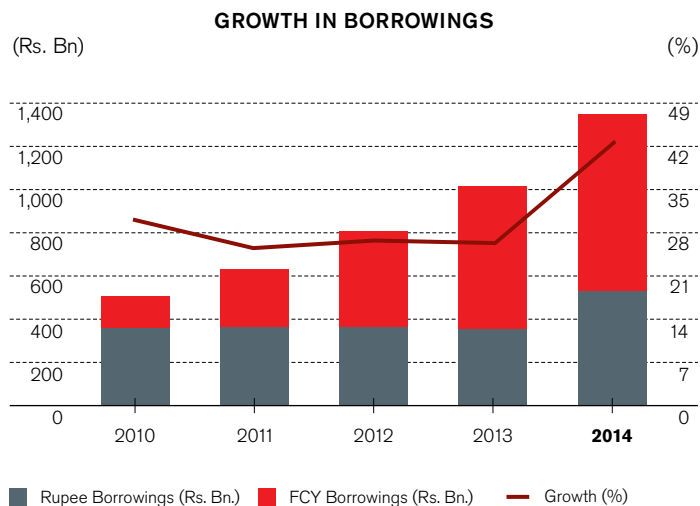
### Analysis of deposits of the banking sector

	2010 Rs. Bn	2011 Rs. Bn	2012 Rs. Bn	2013 Rs. Bn	2014 Rs. Bn
FCY Deposits	466	496	615	680	772
LKR Deposits	2,120	2,577	3,010	3,490	3,914

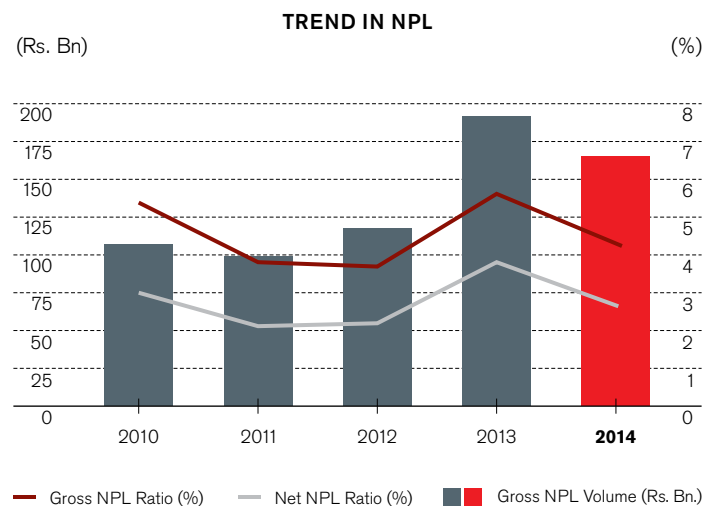
Source: CBSL



In terms of financing, 19.9% of the assets were financed through borrowings, of which approximately 61% were foreign currency borrowings. Close to 95% of this was from foreign sources.



The key indicators reflected the strength and resilience of the banking sector. Healthy capital levels were maintained whilst adequate provisions were kept at manageable levels during the year.



The Central Bank continued to implement measures to strengthen the stability of the banking sector. Some of the measures include the introduction of a new off-site reporting surveillance system, a comprehensive framework for consolidated supervision and a standardised approach for operational risk under Basel II. In addition several policy measures were implemented during the year to enhance the resilience of the sector as well.

**FINANCIAL REVIEW****PERFORMANCE OF THE BANK**

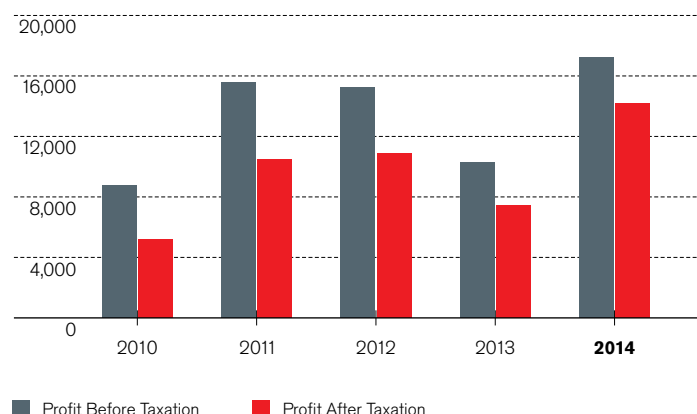
People's Bank, the Bank with the widest branch network in the country achieved its best ever financial performance in the year 2014. It is also noteworthy that we were able to report the best year in terms of profitability in the year when we achieved the milestone of a Rupees One Trillion Balance Sheet.

People's Bank has achieved a Profit before Tax of Rs. 17,231 Mn and a Profit after Tax of Rs. 14,219 Mn for the financial year ended 31st December 2014. This performance as compared with the previous year is higher by 67.2% and 89.9% respectively.

**PROFITABILITY**

The net interest income for the Bank was Rs. 30,118 Mn for 2014. The net interest margin reached 3.1% in 2014 despite downward pressure on the interest rates. The gross interest income of the Bank is Rs. 84,480 Mn as compared with Rs. 110,441 Mn earned in 2013. The decrease in the gross interest income is mainly associated with the general decrease in the interest rates coupled with downsizing of the pawning portfolio. The interest expense reported, Rs. 54,362 Mn in 2014 as compared with Rs. 73,791 Mn in 2013. The decrease in the interest expenses is mainly associated with the general decline in the interest rates coupled with the replacement of higher cost deposits with low cost saving deposits growth.

**PROFITABILITY**  
(Rs. Mn)



The analysis of the net interest income movement due to the change in the interest rates and the volume is as follow:

	Interest Movement*		
	Due to Volume Change Rs. Mn	Due to Interest Rate Change Rs. Mn	Net Movement Rs. Mn
Interest Income	(3,882)	(15,398)	(19,280)
Interest Expenses	569	19,350	19,919
Net Interest Income	(3,313)	3,952	639

\*Excluding new accounting standards impact

The Bank's Balance Sheet exceeded Rupees One Trillion mark for the first time in the Bank's history. People's Bank is the second bank to achieve this feat in Sri Lanka. The gross loans and receivables reached Rs. 685,310 Mn by the end of 2014 indicating a 1% improvement since end 2013. The Bank's pawning exposure was decreased to 16.6% of the total gross loans from 28.9% in 2013. The pawning balance has reached Rs. 113,946 Mn at the end 2014 indicating a Rs. 83,183 Mn reduction as compared with last year. The Bank's lending to other customer segments increased by Rs. 87,026 Mn in 2014.

The deposits balances reached Rs. 793,342 Mn at the end 2014 indicating a 4.1% improvement since last year. The prevailing low interest rate regime coupled with the marketing and promotional activities to mobilise low cost deposits of saving proved successful. The CASA ratio now standing at 46.3% is commendable. The total saving deposit base now exceeding Rs. 318 Bn could be the largest saving base in the country. Whilst the saving deposits grew by Rs. 62,967 Mn and time deposits decreased by Rs. 42,945 Mn in 2014. The advances to deposits ratio stood at 86.4% by the end 2014.



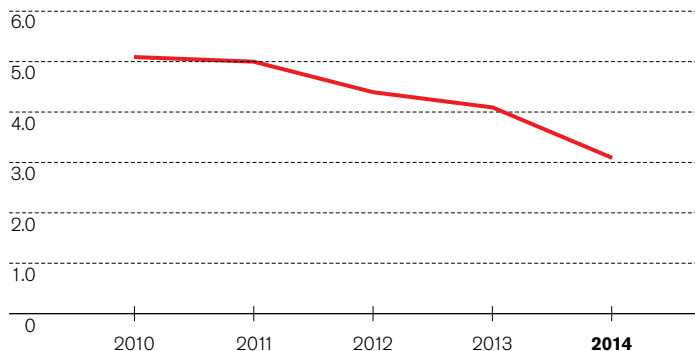
Bank's Balance Sheet  
exceeded

**Rs. 1 Tn**

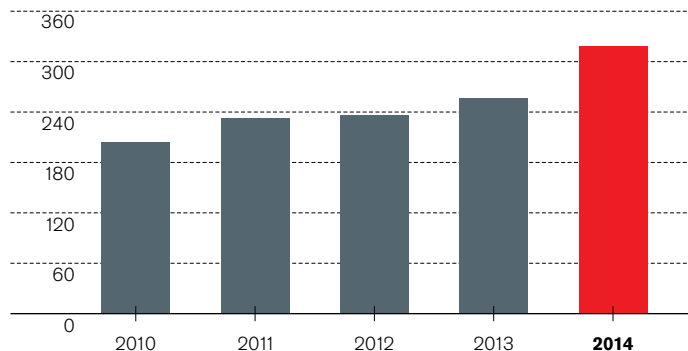
Highest ever Profit recorded

**Rs. 17.2 Bn**

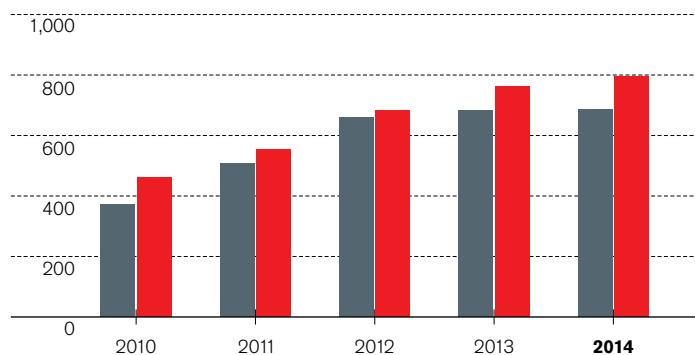
**NET INTEREST MARGIN**  
(%)



**SAVINGS DEPOSITS**  
(Rs. Bn)

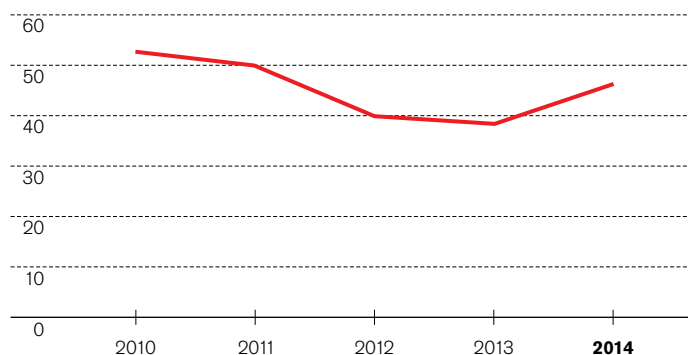


**CUSTOMER LOANS AND DEPOSITS**  
(Rs. Bn)



■ Customer Loans ■ Customer Deposits

**CASA RATIO**  
(%)



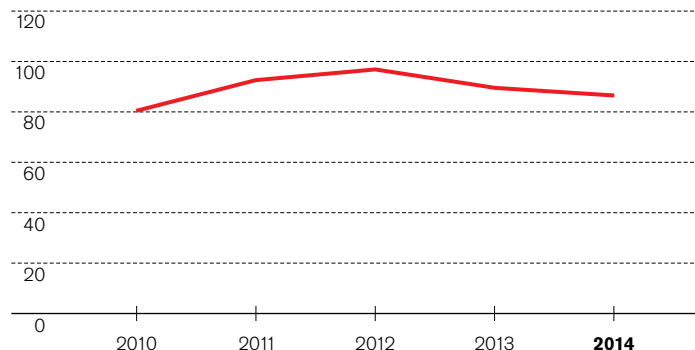
Total loan portfolio reached

**Rs. 685,310 Mn**

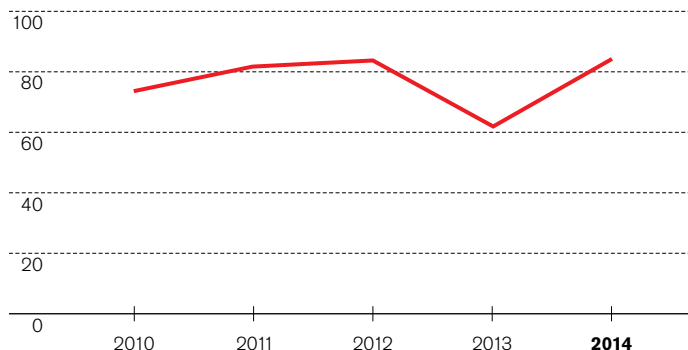
The deposits balance reached

**Rs. 793,342 Mn**  
in 2014



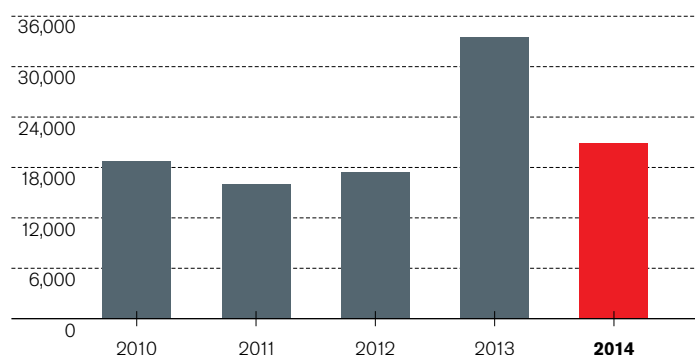
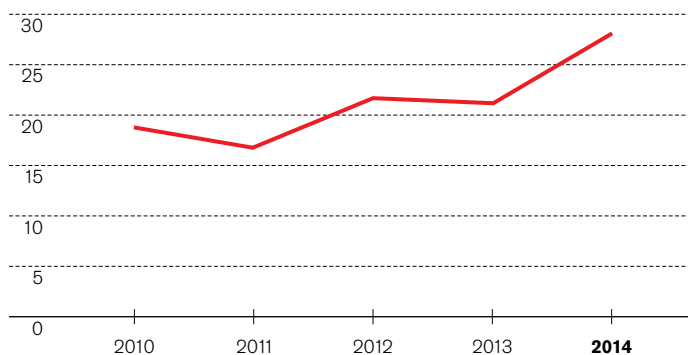
**ADVANCES TO DEPOSITS RATIO**  
(%)

The Loan Loss Provision reached Rs. 17,644 Mn by the end of 2014, Rs. 3,006 Mn lower than that of 2013. The NPL ratio at 3.2% is better than that of 2013 which was 5.3%. Net NPL ratios for 2014 and 2013 reported 0.5% and 2.0% respectively. The improvement in the NPL ratios depicts the improving quality of our loan portfolio. The Bank is maintaining a healthy provision coverage ratio which is better than many competitors. The downsizing of the pawning portfolio and the improvement in the loan to value ratios resulted in reversal of impairment provisions booked in the previous year.

**PROVISION COVERAGE RATIO**  
(%)

Non-Fund-based Income (NFI) of the Bank was Rs. 11,776 Mn for 2014. The main components of the NFI are the exchange income, realised and unrealised gains from the marketable securities and commission income.

The commission income includes the income from trade finance facilities, remittances, guarantees and account services. The NFI grew by Rs. 1,895 Mn to reach Rs. 11,776 Mn at the end of 2014. This is a 19.2% improvement since last year.

**NON-PERFORMING LOAN VALUE**  
(Rs. Mn)**NON-FUNDED INCOME TO NET INCOME RATIO**  
(%)

Non-funded income grew by  
**Rs. 1,895 Mn**  
at the end of 2014

2013 **9,881 Mn**

2014 **11,776 Mn**

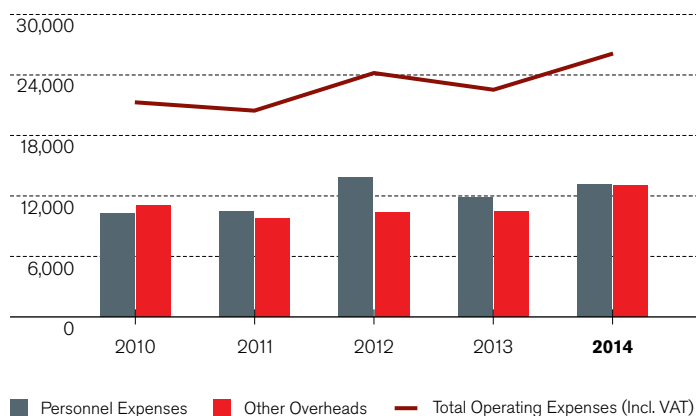


Provision Coverage

**84.3%**

The total overheads (incl. VAT) for the year reached Rs. 26,093 Mn which is 15.9% higher than previous year. The cost to income ratio is reported at 62.3% which is higher than the previous year (2013 - 48.4%).

#### TOTAL OPERATING EXPENSES (Rs. Mn)



The liquidity ratio remained higher than 30% in most parts of the year as against the statutory requirement of 20%. The liquidity ratio at the end of 2014 stood at 30.26%. The increase in the liquidity ratio was a result of our increased deposit volumes (mostly due to the growth in the saving category deposits) and general slowdown in the overall loan growth across the banking industry.

The Capital Adequacy Ratios (CAR) reported at 10.9% for Tier I Core Capital Ratio and 14.3% for Total Capital Ratio. The CAR for 2013 stood at 10.4% and 15.0% respectively for Tier I Core Capital Ratio and Total Capital Ratio. The present decrease in the CAR is mainly due to the expansion in the loan book coupled with reduction in the zero risk-weighted assets such as pawning.

The Return on Assets and Return on Equity improved in 2014 as depicted below;

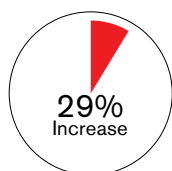
	2010 %	2011 %	2012 %	2013 %	2014 %
Return on Assets (before Tax)	1.7	2.6	2.0	1.1	1.8
Return on Equity	26.9	49.2	41.7	22.8	35.5
CAR - Core	7.9	9.6	9.8	10.4	10.9
CAR - Total	12.8	14.8	14.0	15.0	14.3

#### PERFORMANCE OF SUBSIDIARIES AND ASSOCIATES PEOPLE'S TRAVELS

People's Travels recorded a pre-tax profit of Rs. 11.9 Mn for the financial year 2013/14, an increase of 29% year-on-year. Revenue increased by 36% to Rs. 42.2 Mn in the same period. The improved performance resulted due to our continued commitment to deliver a reliable service of the highest quality to our customers.

The travel industry is rapidly changing as consumers are seeking greater flexibility, more choices and personalised products. In addition technology has facilitated greater convenience and flexibility for consumers to obtain travel products. Therefore, we focused on stabilising our business and building a solid foundation to achieve a profitable growth as per our strategic plan.

**Outbound Travel Sector** – Outbound travel recorded a profit before tax of Rs. 8.6 Mn for 2013/14, an increase of 18% compared to the previous year. Our focus was on providing unique holiday experiences with an end-to-end service delivery and a range of leisure travel packages to meet customer demands effectively. Therefore, we have on offer a wide product range and a choice of destinations. Our proven track record of successful product launches, in contrast to our competitors has given us a competitive edge in the market. We are customer centric in our approach. Whilst anticipating customer needs, maintaining the loyalty and trust of our customers is of utmost importance to us.



People's Travels recorded a pre-tax profit of **Rs. 11.9 Mn** for the financial year 2013/14, an increase of **29%** year-on-year.

Focus was on providing **unique holiday experiences with an end-to-end service delivery and a range of leisure travel packages** to meet customer demands effectively.

**Growth in Air Ticket Sales** – Air ticket sales recorded a strong financial performance with profit before tax increasing by 48% to Rs. 9.3 Mn as at end of the financial year in review. There was a significant increase in ticket sales to both corporate and individual customers as per our strategic plan. These results demonstrate our strong team culture and the effectiveness in ascertaining market trends and responding accordingly.

**Market Strategy** – We are passionate about being the best and winning with integrity. Therefore, we seek ideas and trends that change markets for the better and move quickly to action them. We thrive on teamwork. We are committed to sustainable development and to making a positive impact in the travel industry.

Our aim is to be a leading leisure travel company with a focused strategy and a flexible business model. We are committed to our vision of going further to make dreams come true – exceeding our customers' expectations and offering fulfilling careers to the best team of people in the industry. Our focus is on optimising the value of mainstream package holidays in order to maximise earnings. Our strategic plan facilitates proper investment of the funds and cost control to deliver improved profits.

#### PEOPLE'S LEASING GROUP

A subsidiary of People's Bank, People's Leasing & Finance PLC (PLC) is the highest rated finance company in Sri Lanka, with an asset base of over Rs. 100 Bn. Incorporated on 22nd August 1995 as a private limited liability company, it commenced commercial operations with a mere capital of Rs.10 Mn and three employees. Today it is the largest non-bank financial institution in the nation. Stated below are the key milestones of People's Leasing & Finance PLC.

- In 2011, People's Leasing & Finance PLC was listed on the Main Board of the Colombo Stock Exchange (CSE), owing to the second largest IPO in the history of Sri Lanka.

- On receipt of the Finance Business License in 2012, the status of the Company was changed from a leasing to a finance establishment. In line with this change the corporate identity was changed from People's Leasing Company PLC to People's Leasing & Finance PLC.
- The Company merged with its subsidiary People's Finance PLC with effect from 2nd April 2013.
- In year 2014, the Company was included in the Standard & Poor Sri Lanka 20 Index on the CSE which constitutes the 20 largest blue chip companies listed in the CSE.

Remaining the market leader in the leasing industry for 12 consecutive years, the Company has an island-wide presence of 89 branches and 109 window offices. The core business activities are finance leasing, term loans, margin trading, mobilising public deposits and Islamic finance. Diversifying its operations, People's Leasing & Finance PLC 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.

Capitalising on the opportunities that arise in the market, People's Leasing & Finance PLC issued its first debenture in March 2013, raising Rs. 6 Bn. In addition, in September 2014 the Company announced the Rs. 3 Bn debenture issue which was oversubscribed as the previous debenture, signifying the strong public confidence in the Company.

A new product named 'Fast Track' was initiated in 2014 which is a short-term loan facility for customers preferring overdraft facilities. In addition margin trading operations were accelerated during the year, enabling the portfolio reached Rs. 1.4 Bn as at 31st December 2014. Islamic finance also recorded significant growth during the year in review recording an increase of 33.8% in income.

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A significant **increase in ticket sales** to both corporate and individual customers as per our strategic plan

**Financial Performance** – The People's Leasing Group recorded a post tax profit of Rs. 4,121.8 Mn in 2014, which is the highest profit in its history. This reflects a 24.7% growth compared to 2013. Reduction in interest expense enabled the Group to achieve a 17.3% growth in the net interest income. Net earned premium of Rs. 3,603.8 Mn, made a positive contribution to the 30.1% growth in total operating income of the Group.

Total assets of the Group increased by 4.3% to Rs. 118,987.5 Mn as at 31st December 2014 from Rs. 114,110.1 Mn the previous year. In tandem, the Company's total assets also reached Rs. 113,744.0 Mn reflecting the healthy financial position. The loans and receivables which accounts for 85% of the total asset base of the Company, increased to Rs. 96,929.5 Mn as at 31st December 2014.

In October 2014, the monthly disbursements of the Company surpassed the Rs. 6 Bn mark for the first time in the history of the Company as well as the history of the non- bank financial institutions sector. Consequently, the cumulative disbursement of the Company amounted to Rs. 55.8 Bn in 2014 reflecting a 17.7% increase year-on-year.

Whilst maintaining a healthy portfolio, the Company successfully managed its non-performing ratio to stand at 3.22% as at 31st December 2014. This was well below the industry average of 6.8% as per the Road Map 2015 of the Central Bank of Sri Lanka.

Expanding the shareholder wealth, the Company paid a final dividend of Rs. 0.50 per share amounting to Rs. 789.93 Mn for the financial year 2013/14 in July 2014. In addition, an interim dividend of Rs. 0.75 per share was declared, amounting to Rs. 1,184.90 Mn for the year 2014/15, in December 2014. As the parent company, People's Bank was entitled to a total dividend of Rs. 1,481.12 Mn during the year 2014. In addition, the Company redeemed Rs. 200 Mn preference shares during the year and the gross dividend paid amounted to Rs. 93.5 Mn.

During the year, the PLC share reflected the growth momentum as it surpassed the all time high of Rs. 18.30 per share in September 2014. This has increased the People's Bank investment value in PLC by a staggering Rs. 28,339.09 Mn to Rs. 29,030.05 Mn as at 31st December 2014 compared to the investment cost of Rs. 690.96 Mn .

**Subsidiary Review** – With its five established subsidiaries, People's Leasing & Finance PLC has become a formidable financial conglomerate in Sri Lanka offering a comprehensive service to customers with its diverse product offer. The closely intertwined subsidiary network has enabled to bring in greater synergies to the Group.

**People's Insurance Ltd. (PIL)** – The Company was established in 2009, as a fully-owned subsidiary of People's Leasing & Finance PLC and began commercial operations in 2010. For the financial year 2014, the Company recorded a 5.8% year-on-year growth in Gross Written Premium which amounted to Rs. 3.4 Bn. This surpassed the industry growth rate of 1.7% for the nine months ended 30th September 2014 as per the Insurance Association of Sri Lanka statistics. In addition, the Company has maintained the number five ranking in the general insurance sector in terms of Gross Written Premiums. The underwriting profit for 2014, increased by a staggering 40% to Rs. 153 Mn whilst the Profit after Tax swelled by 21.46% to Rs. 450.4 Mn.

The second annual report of the Company won many awards including 3 awards at the LACP 2013 Vision Awards Annual Report Competition held in Florida, USA and the Gold Award for the Excellence within Insurance Industry, Asia Pacific and the Best Annual Report Narrative Honours in the Asia Pacific region. In addition, the report was ranked 43rd among the Top 80 Annual Reports in the Asia-Pacific region. It also secured the world wide 'Bronze Award' in the 'Non-traditional Annual Report Category – Insurance' at the 28th International ARC Awards held in New York, USA. At the Annual Report Awards 2014 organised by The Institute of Chartered Accountants of Sri Lanka, the report was awarded the 'Insurance Companies Compliance Award' as well.

Cumulative disbursement amounted to

**Rs. 55.8 Bn** in 2014.

A new product named '**Fast Track**' was initiated in 2014 which is a short-term loan facility

**People's Microfinance Ltd. (PML)** – People's Microfinance Ltd. was established with the prime objective of extending financial services to the low income segment of Sri Lanka. The ground belief of the incorporation is that 'a seed today will become a grown plant tomorrow' hence, a low income earner will prospectively become a wealthy customer of the Company in the future. The Company largely supports families who are economically active and engaged in small businesses. The marketing officers of the Company are stationed in 35 branches of People's Leasing & Finance PLC. Total customer base of the Company increased by 10% year-on-year to 42,910 as at 31st December 2014.

**People's Leasing Property Development Ltd. (PLPDL)** – People's Leasing Property Development Ltd. (PLPDL) is engaged in property development projects for the People's Bank and the PLC Group.

In the year under review, PLPDL completed the construction of the Trincomalee Branch, Trincomalee Regional Office and the Vavuniya Branch Phase II projects and handed over to People's Bank. Construction work of the projects in Mathugama, Naula, Beruwala, Hakmana, Hatharaliyadda and Kodikamam for People's Bank are currently in progress. The projects in Wanduramba, Baduraliya and Jaffna are at the tender awarding stage. Going forward, the Company is seeking to expand its operations by partnering with external clients.

**People's Leasing Fleet Management Ltd. (PLFML)** – The Company is mainly engaged in managing the vehicle fleet, hiring, valuation, insurance claim assessment, vehicle services, extending operating leases and providing vehicle break down services. The Company has fleet of 56 vehicles which are hired out by the Group and by People's Bank.

In the year in review, PLFML expanded its Valuation Unit to cover 37 PLC branches island-wide. The Valuation Department of PLFML handles 60% of the total valuations of PLC and 55% of the insurance assessments of PIL.

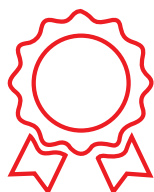
**People's Leasing Havelock Properties Ltd. (PLHPL)** –

People's Leasing Havelock Properties Ltd. was incorporated on 12th August 2010 with the objective of constructing an office complex. This is an approved project under the Board of Investment of Sri Lanka. During the year 2014, the Company continued the construction work of the office complex at Havelock Road, Colombo 5 which is due to be completed by June 2016. In addition, a 72 perch land was purchased adjoining the new office complex project at Havelock Road, Colombo 5.

**Awards and Accolades** – People's Leasing & Finance PLC, gained recognition in the local and international arena for several achievements in 2014. The 2013/14 Annual Report of the Company secured several awards as detailed below:

- Silver Award for Overall Excellence in Financial Reporting, Gold Award for Corporate Social Responsibility Reporting and the Gold Award in the Finance Companies Category at the 50th CA Sri Lanka Annual Report Awards.
- Gold Award in the competition class of annual reports in the Asia Pacific category at the 2014 Spot Light Awards – Global Communication Competition organised by League of American Communications Professionals (LACP).
- Silver Award for the most creative communication material at the LACP Global Communication Competition.
- Ranked among the Top 100 reports at the LACP competition.
- Annual Report 2012/13 was adjudged as the Second Runner-up in the Financial Services Sector category at the Best Presented Annual Report Awards 2013 organised by the South Asian Federation of Accountants.

The Ceylon Chamber of Commerce, ranked People's Leasing & Finance PLC as one of the Top 10 Corporate Citizens in Sri Lanka, at the Best Corporate Citizens Awards Ceremony in 2014.



At the 'Achiever Awards 2014 for Industrial & Service Excellence' organised by the Ceylon National Chamber of Industries, the Company bagged the Gold Award in the National Level Large and Extra-large Service Category and was included in the Top 10 Companies in Sri Lanka as well.

The Company also received the Silver Award in the Non-Banking and Finance Sector at the National Business Excellence Awards 2014 organised by the National Chamber of Commerce of Sri Lanka.

In addition, it bagged the 'SLIM Nielsen People's Award' for the Financial Service Provider of the Year' for the second consecutive year at the SLIM Nielsen People's Awards organised by the Sri Lanka Institute of Marketing in association with the Nielsen Company.

In recognition of the Company's commitment to diversity and inclusive finance, Al-Safa Islamic Finance Unit of the Company was honoured with the Bronze Award for the 'Islamic Finance Entity of the Year 2013/14' at the prestigious Sri Lanka Islamic Banking and Finance Industry (SLIBFI) Awards Ceremony organised by Uto Edu Consult.

People's Leasing & Finance PLC, has raised the bar of finance companies in Sri Lanka 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+' as well. This rating is 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 2014.

#### PEOPLE'S MERCHANT FINANCE

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 a 39.2% stake in PMF. The Company gained its finance company license by the Central Bank of Sri Lanka (CBSL) during April 2012. PMF also obtained the margin trading license from the Securities and Exchange Commission of Sri Lanka. A range of financial services are offered by PMF, including leasing, hire purchase, corporate loans, real estate, margin lending and gold loans through its corporate office and network of eleven branches. Fitch Ratings has conferred a BB+ (stable) outlook for the Company.

Subsequent to obtaining the finance company license, PMF introduced fixed deposits and savings accounts to mobilise funds to support its operations. In addition, Special Foreign Investment Deposit Account (SFIDA) was introduced to expatriates and foreign investors on gaining CBSL approval to engage in foreign currency transactions. A new organisational structure was established to optimise potential and for efficient management of new business lines, by experienced professionals to meet the anticipated growth in business volumes.

The People's Merchant Group recorded a loss of Rs. 219 Mn for the 12 months ended 31st March 2014 compared to the loss of Rs. 91 Mn in the previous comparable period. This was largely due to the increase in the net impairment charges on financial assets.

## BUSINESS REVIEW

Over five decades ago People's Bank was founded to uplift the lives of people in Sri Lanka and partner national development. Fifty years on, we have remained true to our mandate and served the people of our Nation in an effective and meaningful manner. With foresight and fortitude we have offered an extensive portfolio of products to meet the changing aspirations of the people of our Nation. In doing so, we have created a positive impact in our customers, communities, industries and in the Nation as a whole. Our strategic focus and service delivery has enabled us to become a banking giant in Sri Lanka, with our asset base crossing Rupees One Trillion.

Following is an overview of the operations of the Bank.

### PERSONAL BANKING

We provide a full suite of banking solutions supported by an excellent customer experience through our network of 739 branches and over 469 own ATMs and access to over 3,000 ATMs island-wide as well as internet, mobile and telephone banking. Our personal banking product portfolio is comprehensive, aligned to meet the aspirations of customers from cradle to twilight years. Taking into account the diverse needs, emerging trends and expectations of our customers, we proactively meet their varied expectations in an effective manner.

Our investment in technology has enabled us to offer products that are convenient, efficient, accessible and penetrative for banking anywhere anytime. These include Internet Banking, Mobile Banking, SMS Banking, Palmtop Banking and Visa Debit Cards. In addition we offer online payments for EPF and ETF and custom duty payment facilities for our corporate customers.

Our portfolio includes personal loans, credit cards, savings deposits, term deposits, young saver accounts and pension plans.

### ISURU UDANA

This is a savings account for new-born infants up to five years of age. Opened with a nominal deposit of Rs. 100/-, the product offers competitive interest rates and exciting gifts. *Isuru Udana* gift certificates can be used to open a new account or credit an existing account. Once the account holder reaches the age of five, the account automatically converts to a *Sisu Udana* account.

### SISU UDANA

This product caters to our customers between 6-18 years of age. It too can be opened with a nominal Rs.100/- and is accompanied with exciting gifts, special cash awards and rewards for achievers in the Year Five Scholarship and Ordinary Level Examination. Upon reaching 18 years, the account holder automatically moves to our next account, the *YES* account.

### YES

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

### VANITHA VASANA

The myriad roles of women are celebrated with this account offers a competitive interest rates. Opened with an initial deposit of Rs. 500/- women can obtain loan facilities for small entrepreneurship ventures, purchase of property or housing and higher education.

### PARINATHA

An account for senior citizens, which can be opened with Rs. 500/-. It offers a range of benefits including attractive interest rates and health packages at Lanka Hospitals (Pvt) Ltd.

### JANAJAYA

For those with a steady monthly income, the product offers special loan facilities, and attractive interest rates. It can be opened with a minimum deposit of Rs. 2,000/-.



Our network of **739** branches and over **469** own ATMs and access to over **3,000** ATMs island-wide



*Investment in technology to offer Internet Banking, Mobile Banking, SMS Banking, Palmtop Banking and Visa Debit Cards.*



**ASWENNA**

The English translation is 'Harvest.' As the name denotes, the product is aimed at empowering farmers who work on a seasonal income. Opened with an initial deposit of Rs. 1,000/-, the account comes with a bonus interest rate of 1% once the balance exceeds Rs. 10,000/-, concessionary interest rates and agricultural loans.

**DOO DARU ETHERA ISURU MINOR NRFC/RFC**

This is an account specially designed for children whose parents/guardians are employed overseas. It is accompanied with an insurance cover and an extra 0.25% over the prevailing interest rate for NRFC/RFC accounts. The account can be opened with a minimum deposit of US \$ 25 or equivalent in any designated foreign currency.

**ETHERA ISURU NRFC**

Offers a higher interest and facilitates the best mode of saving money in an account maintained in foreign currency. It offers attractive benefits such as an insurance cover and inward remittances free of charge.

**PEOPLE'S RELAX – YOUR BRIGHT FUTURE BEGINS TODAY**

People's Relax Savings Planner is a retirement benefit account that offers a steady monthly income and financial independence after retirement. The account can be opened with an initial deposit of Rs. 500/- with deposits being made periodically or by a lump sum.

**THE PEOPLE'S BANK GIFT VOUCHER**

Available in denominations of Rs. 500/- and Rs. 1,000/-, the gift vouchers can be deposited into any account at any branch. The validity period is six months from the date of issue.

**PEOPLE'S NET**

Enhancing the advantages of internet banking, *People's Net* facilitates management of several accounts and effecting a variety of banking transactions with ease. This has made banking anytime anywhere a true possibility.

**PEOPLE'S VISA INTERNATIONAL DEBIT CARD**

Adding myriad conveniences with the added confidence of secure financial services, this Debit Card offers access to over 30 million merchant outlets and a network of 2 million ATMs globally.

**PEOPLE'S MOBILE BANKING**

By one touch the very versatile mobile phone adds amazing conveniences to our customers 24 x 365 banking environment. It enables customers to check their account balances, make inquiries, transfer funds within accounts maintained at the People's Bank or other banks, pay utility bills, make requests for cheque books and statements, check pawning balances and to indulge in many other banking related transactions, completely free of charge.

**PEOPLE'S NIROGI**

This is a newly introduced medical benefit scheme for all People's Bank account holders, to avail themselves to a wide range of exclusive medical benefits at Lanka Hospitals. These special medical benefits can be obtained by using the *People's Visa Credit* or *People's Visa Debit card* at the hospitals.

**PEOPLE'S EREMITTANCE**

"People's eRemittance" is a web-based remittance product of People's Bank supported by the latest technology. It facilitates remittances to Sri Lanka within minutes ensuring a speedy and smooth customer service. People's eRemittance enable remitters abroad to send money through correspondent agents of People's Bank

**SWARNA PRADEEPA**

*Swarna Pradeepa* offers loan facilities for urgent cash requirements with the security of gold articles.





### CARD BUSINESS

We have been in the card business for over two decades, facilitating the issuance and acquiring of Visa Cards. In 2014, we celebrated a key milestone by being the second largest payment card issuer in the country. Whilst being the pioneers of the local payment card industry, we continue to implement strategies to facilitate greater convenience to consumer spending. In the near future we will be adding MasterCard to our card portfolio as well.

We issue both Visa Classic and Gold Credit Cards to a wide ranging customer base encompassing premium benchmarked products at affordable prices. A distinguishing feature of our market penetration strategy is that we have the lowest tariff structure among the Credit Card issuers for purchases in Sri Lanka. In addition, our cards are issued within a single business day and Pre-Generated Debit Cards can be obtained over the counter from any of our branches.

Our cards provide access to over 30 million Visa accredited merchants globally and a worldwide Visa ATM network of 2 million for cash withdrawals. In Sri Lanka, over 3,000 Visa ATMs and 25,000 Visa merchant outlets accept the People's Credit and Debit Cards.

We experienced a modest growth in our merchant network, accredited with Visa Credit and Debit Cards. We facilitate aspiring merchants in Sri Lanka, to obtain acquiring facility of Visa Credit and Debit Cards at mutually beneficial rates. Our expansive ATM network which is linked to international payment brands and LankaPay Common ATM Switch facilitates an enhanced service delivery to all our cardholders.

In addition, the risk exposure of the card business is managed successfully by the prudent initiatives we have implemented. These have resulted in minimising of losses.

### OVERSEAS CUSTOMER SERVICES

Our Overseas Customer Division continued to contribute significantly to the Bank's bottom line. As in the previous years, the Division enhanced its product and service excellence in order to provide greater convenience.

### REMITTANCE BUSINESS

We are witnessing an exciting phase of growth in remittance business. Our ability to innovate and deliver products of the highest quality has enabled us to address the needs of the expatriate community in an effective and trusted manner.

In order to improve the quantum of foreign remittances, a range of strategic solutions are being introduced by us. During the year we strengthened our presence in overseas markets by deploying team members of the highest caliber in countries such as UAE, Qatar and Korea.

Though bans are imposed on the deployment of representatives in major markets such as Saudi Arabia and Kuwait, we will continue to drive our focus through other channels and other lucrative markets in the ensuing years. We expect these initiatives to deliver excellent results in remittances in the future.



In 2014, we celebrated a key milestone by being the second largest payment card issuer in the country



#### WORLDWIDE PARTNERS AND INNOVATIVE REMITTANCE SOLUTIONS

The strength of our 900 plus Correspondent Agent Network spanned across 110 countries has facilitated cost-effective fund transfer solutions. While delivering powerful Trade Finance solutions, we constantly pursue global partnerships to augment our service delivery and add value to customers.

We place great emphasis on providing innovative solutions to our expatriate community. Hence, during the year an initiative was taken to introduce an online real-time automated remittance channel to enhance convenience and efficiency in remitting money. Our business excellence and focus on quality, reliability and prompt services enabled us to record satisfactory results in inward remittances during 2014.

Teaming up with the UAE Exchange 'Instant Remit' an online e-remittance facility was launched, to attract foreign remittances. Instant crediting of remittances to customer accounts or cash withdrawal by a beneficiary from any People's Bank outlet is made possible with this enhancement.

The #488# Mobile Banking Module was successfully extended to Bank's NRFC customers in collaboration with Mobitel. This facility enables the Banks' NRFC customers to conduct balance inquiries and transfer funds to any Rs. account of the Bank. This module was further expanded to other operators such as Etisalat during the year in review.

We further extended our Internet Banking Facility to benefit Off-Shore Banking Customers. The Customs Online Payment System is now ready to be launched to other Banks, where we act as the payment routing portal.

#### PEOPLE'S MOBILE BANKING

We pride in being the first Sri Lankan bank to introduce the "People's Mobile Banking" facility in year 2014. This enables Sri Lankans who migrate for foreign employment to perform a number of banking transactions using a mobile phone. A free SIM is provided by us in collaboration with Mobitel (Pvt) Ltd. This is another addition to our offering of technology-centric solutions, which are geared to enhance customer convenience.

#### 'ETHERA ISURA' RADIO PROGRAMME

This is a live radio broadcast which caters to the expatriate community of Sri Lanka. The highly popular programme is conducted in collaboration with Sri Lanka Broadcasting Corporation. We have received many positive responses and sincere blessings from our keen listeners world over.

#### WESTERN UNION

We expanded our Western Union network through our branch locations to deepen our penetration in urban, semi-urban and rural areas. Attractive benefits were given to reward our loyal customers, which we will continue in the future as well.

#### COMMERCIAL CREDIT AND SME DEPARTMENT

Our focus for 2014 was enhancing the quality of the domestic credit portfolio, satisfying customer credit requirements, strengthening the assets and the income stream of the Bank, whilst being aligned to the development agenda of the nation.

To this end, we made a collective effort to enhance the profitability of the Bank and to strengthen the portfolio quality by introducing new loan products and also by formulating and implementing effective credit policies.

Amidst a dynamic and challenging economic and business environment, we continued to enhance the domestic credit portfolio of the Bank. This portfolio consists of Small and Medium Scale Business customers, which are connected through our island-wide branch network and also of financing personal financial requirements of individuals who earn a monthly salary.

Throughout the year, equal emphasis was given to both quality and quantity of the credit facilities granted. In addition, we maintained a well-diversified credit portfolio, covering myriad sectors including construction, tourism, manufacturing, services and trading etc. This enabled to minimise the risk and the default probability.



Strength of our

**900**

plus Correspondent Agent Network  
spanned across 110 countries



The policies adopted by Central Bank of Sri Lanka (CBSL) during the year 2014, supported credit growth with continued reduction of interest rates. This was further augmented by the policies adopted by the Government, geared towards accelerating infrastructure development, which added impetus to the tourism industry, domestic enterprises and entrepreneurship. By offering timely financial solutions in a prompt and efficient manner, we used the emergence of opportunities to our advantage.

Innovative personal loan schemes were implemented to cater to the personal financial requirements of customers. In addition, we established flexibility to the existing schemes to suit the changing paradigms in demographics, social strata, income levels and current lifestyles.

*Gurutha, Suwa Sewana, Jaya Niwasa, Pahasu, People's Wisdom, Professional and People's Auto* are some of the personal loan schemes offered by us with flexibility and attractive interest rates. As a state Bank, these products enable us to fulfil our social responsibilities by uplifting the living standards of our customers.

#### JAYA NIWASA HOUSING LOAN SCHEME

Our *Jaya Niwasa* housing loan scheme helps build your dream home with the convenience of providing facilities on flexible terms for longer repayment periods. Loans are considered to purchase land for housing construction, purchase a house, build a house and for adding an extension or renovations.

#### GURUTHA LOAN SCHEME

*Gurutha* loan scheme offers personal loan facilities including housing loans to Teachers in Government Schools, Government Technical Colleges, Approved Private Schools, Government approved private schools and permanent teachers in Government approved pirivenas.

#### SUWA SEWANA LOAN SCHEME

Suwa Sewana loan scheme is designed especially for Government medical sector employees, both in western and Auyurvedic sectors, with tailor-made facilities to suit each grade in the sector from Doctors to minor grades.

#### PEOPLE'S WISDOM HIGHER EDUCATION LOAN SCHEME

In supporting youth of our nation to reach their dreams, our People's Wisdom higher education loan scheme offers facilities up to Rs. 10.0 Mn on flexible conditions with longer repayment periods.

#### PROFESSIONAL LOAN SCHEME

We offer tailor-made loan facilities for the professional segment of the country to fulfil their personal financial requirements on very flexible securities acceptable to the Bank to suit their demanding lifestyles.

#### PEOPLE'S AUTO LOAN SCHEME

People's Auto Loan scheme is especially designed to provide credit facilities to purchase vehicles for personal purposes as well as for business purposes. It is uniquely designed to suit various requirements of our customers in upgrading lifestyles by purchasing their dream vehicle and value additions to businesses by owning their own vehicle.

Housing loan scheme launched in collaboration with the National Housing Development Authority for Government Sector Employees on concessionary terms, was continued during the year. In addition, the concessionary vehicle loan scheme for senior media personnel, artists and authors was enhanced during the year in supporting the Government's view of recognising the service rendered by them. We also participated in the gratuity payments of Government pensioners, by providing credit facilities.

In order to enhance our service standards and maintain the quality of credit facilities granted, the current and potential credit line staff members were given comprehensive training. In addition, we constantly monitor our credit portfolio and take

proactive measures to establish a strong and well diversified portfolio. We take due cognisance of the internal and external factors that impact the credit process and initiate decisions and systems to promote a credit culture focussed on credit quality as well as credit volume.

#### SME BANKING

During the year 2014, Bank further strengthened the presence of SME Centres across the island having opened its dedicated SME Centres in several regions. The officers specially trained and motivated to serve the SME sector are confidently equipped with relevant skills and attitudes not only to find the financial solutions but also to help the entrepreneurs with much needed business advisory and business linkages. Managers at the Branch network continued to develop the cordial and friendly relationships with the clients with both cross selling and up selling. Aggressive marketing campaigns and personal selling mostly initiated by the regional administration resulted in substantial increase in the outstanding SME loan portfolio and new loans granted. Progress in North and East is noteworthy against the sluggish growth in previous years.

At the backdrop of investor confidence, Bank aggressively penetrated strategically growing sectors like, dairy development, tourism, agribusiness, manufacturing industries, health, rice milling, fisheries, education etc. Their varying financial requirements were professionally matched with term financing, working capital financing and trade financing facilities with competitive interest rates, longer repayment tenures, relaxed covenants and comfortable securities. Benefits of refinance and interest subsidy schemes channeled through Ministry of Finance and Planning, Ministry of Industry and Commerce and Central Bank of Sri Lanka were always offered to the customers to optimise their cost of debt capital effectively.

Continuous training and development for upgrading the competencies of officers at all levels who are involved in SME lending were continued with structured residential training facilities. Bank always focuses on young officers who have a fashion of accumulating wealth of new knowledge in selecting for training. This endeavour not only strengthen the team of credit officers, but also succession planning.

Bank also continue to train entrepreneurs as a part of strategic relationship with the clients through its "Entrepreneurial Glory" programme which covers thrust areas like banking, entrepreneurship, marketing strategies, financial management, business planning, taxation etc. Several programmes were conducted through the island with the participation of existing and potential customers whose responses were encouraging.

#### CORPORATE BANKING

##### DOMESTIC BANKING

The Corporate Banking Unit is an integral department of the Bank. Large and small scale corporate clients of both, the Government and the private sector remain our main customer segments. Aligning ourselves with the Government policies, we largely supported the infrastructure development projects of the State during the year 2014. In addition our support extended to emerging sectors such as tourism, transportation, healthcare, agriculture and power and energy.

Our purview extends to project lending and working capital financing, loan syndication, trade finance and extending guarantees. During the year in review, bulk of our financing was for infrastructure development projects of the Government. In addition we supported large State corporations such as the Ceylon Petroleum Corporation, Ceylon Electricity Board, State Pharmaceutical Corporation, the Fertilizer Companies, the National Water Board and the CWE.

##### INTERNATIONAL BANKING

**Financing Imports and Supporting Exports –** Our Trade Finance Department comes under the purview of the Corporate Banking Division. The department was awarded the ISO 9001: 2008 quality management system certification from the Sri Lanka Standard Institution in recognition of the quality of its trade finance products which play a vital role in Off-Balance Sheet and On-Balance Sheet financing.

The Trade Service Department provides a centralised processing mechanism for Sri Lanka's largest commercial banking network with 739 branches with export and import financing facilities backed by over 900 correspondent banks spread across 110 countries.



Serving large and small scale clients including Government and Private sector

We have offered our corporate and retail customers across the island the facility for online payment of custom duty. This service will be extended using our IT Platform to other commercial banks as well in 2015, which is an unique milestone in the banking industry. In addition we have developed IT infrastructure for exporters and importers to pay their port charges online to the Sri Lanka Ports Authority.

**Offshore Banking Unit (OBU)** – The OBU provides innovative financial services to export-oriented businesses, BOI companies and offshore ventures. While contributing significantly to the Bank's bottom line, the OBU directly contributed to the Bank's large portfolio of foreign exchange earnings as well.

There was a subdued growth in credit demand as is observed in other Asian countries. However, the policies of the new Government are geared towards development of export oriented projects. Therefore, the OBU will strengthen its services to facilitate more export financing whilst offering facilities to offshore ventures.

The operating environment during the year was characterised by excess liquidity, low credit off take, reducing interest rates and declining margins. As a result the market became highly competitive. In this milieu the Corporate Banking, together with the Offshore Banking Unit made a significant contribution to the Bank's bottom line.

Going forward, we will continue to align ourselves with Government policies and support the state sector as well as the private sector. Improvements will be effected to our IT platform to offer greater convenience and efficiency to customers. We will continue to improve our service standards and proactively engage in initiatives to further enhance the portfolio quality. With the healthy pipeline of projects, we are well poised for a successful year in 2015.

## DEVELOPMENT AND MICROFINANCE BANKING

The year 2014 has been an extraordinary year for People's Bank in the sphere of development and microfinance activities. The Bank achieved significant milestones in development financing through varied development and microfinance loan schemes and special programme implemented during 2014.

Successful implementation of varied development financing strategies, facing the stiff competition of the banking industry whilst and supporting the large scale development programmes launched by the Government enabled us to achieve the following macroeconomic as well as social responsibility objectives.

### ○ Regional Development

Loan schemes such as 'Awakening North', 'Awakening East', 'Dasuna II', 'Small Holder Plantation Entrepreneurship Development Programme' and 'Mahaweli Aruna' were implemented targeting various regions in the country. We optimised the utilisation of regional resources, reduced regional unemployment and contributed towards rural poverty alleviation by granting loans with moderate securities, and concessionary interest rates.

### ○ Poverty Alleviation

Through the poverty alleviation microfinance project loan scheme and its revolving fund loan scheme, facilities were granted on a massive scale to underprivileged segments of people in the areas of Ampara, Anuradhapura, Puttalam, Polonnaruwa, Vavuniya, Mannar, Kilinochchi and Trincomalee. The objective was to build social-capital by providing non-financial services to members of small groups and transforming them into matured groups.

### ○ Empowerment of Women

As a part of the poverty alleviation microfinance project loan schemes several loans were extended especially for women. The *Vanitha Novodya* Loan Scheme was granted to women adversely affected by natural disasters. The objective of these loan schemes was to alleviate poverty of family units headed by women, empower women and upraise their economic and social standards. The Bank made a considerable contribution of uplifting many displaced and widowed young women by the war, through these loan schemes implemented during the year.



The OBU provides innovative financial services to export-oriented businesses

### ○ Industry Promotions

Financial facilities were made available through loan schemes such as 'New People's Fast', 'Dasuna' and 'Prosperity' (*Saubhagya*) to commence new industries and to improve existing industries island-wide. These loan schemes were instrumental in birthing new micro, small and medium scale entrepreneurs and uplifting projects. We contributed to fulfil the macroeconomic objectives by means of regional development of industries, reducing unemployment, and minimising inequality in distribution of income.

#### PROGRAMME IMPLEMENTED DURING YEAR 2014

**Microfinance Villages Programme – 2014** - We extended loans to industrialists engaged in homogeneous industries in 239 villages, thereby further expanding the MicroFinance Villages Programme in 2014. Approximately, 24,000 loans were granted to matured groups of entrepreneurs.

Villages that were selected included, Guruwala, Dunkanwawa, Pathagama, Pathumgama, Kimbulapitiya and Thelhiriyawa. Financial facilities were extended to entrepreneurs engaged in carpet making, reed based products, sewing, sweets manufacturing and agro-based industries.

Through these initiatives, the Bank contributed to rural entrepreneurial development, rural industrial expansion and minimising rural unemployment.

Entrepreneurs were acquainted with the Bank through the 'Gamin Gamata' radio programme in collaboration with the Sri Lanka Broadcasting Corporation in the latter half of the year 2014. This enabled effective dissemination of information pertaining to microfinance credit service offered by the Bank to the general public.

### TREASURY, PRIMARY DEALER AND INVESTMENT BANKING UNITS

The performance of the Treasury was outstanding this year. Despite a very competitive environment, revenue from foreign exchange, debt trading, equity investments and debt structuring were well above expectation. We successfully used our internal expertise to interpret market direction in foreign exchange, money markets and equity markets to improve revenue.

We further strengthened our position as a market maker in the USD/LKR Rs. currencies, in both spot and forward markets. This facilitated translations of pricing advantages to acquire customer positions by providing competitive rates to importers and exporters. It also enabled us to attract significant business volumes during the year.

A major portion of last year's FX gains were earned from trade-related transactions and remittances. The Treasury Unit was instrumental in facilitating growth in the remittance business by providing competitive rates to all foreign currency remittance houses, especially in the Middle East. As a result, our overseas representatives successfully canvassed more business and elevated People's Bank as a key player in the remittance business.

Substantial revenue was achieved through debt trading via capital gains and interest earnings. Treasury Bills and Bonds portfolio generated significant capital gains during the year in a milieu of declining inflation. The legendary expertise gained by the Bank in reading the market and gaining market entry in a timely manner, enabled optimal results on Rs. yield curve shifts.

The Investment Banking Unit (IBU) raised Rs. 14.4 Bn in 2014, consolidating its debt structuring activities via debentures, securitisations and commercial papers yielding a noteworthy fee income to the Bank. The Unit concluded transactions for a large number of corporate debt issuers and corporate investors gaining a significant market share. Furthermore, IBU successfully constructed a formidable debt securities portfolio yielding a significant interest income and capital gains through trading.



Financial facilities were made available through loan schemes such as 'New People's Fast', 'Dasuna' and 'Prosperity'



Investment Banking unit raised **Rs. 14.4 Bn** in 2014 consolidating its debt structuring activities.



The Treasury played an imperative role in sourcing adequate foreign currency funding to support the growth agenda of the Bank to supplement deposit mobilisation. Foreign funds were raised through overseas financial institutions at extremely competitive rates which had a positive impact on the profitability of the Bank.

Managing the excess liquidity of the Sri Lankan Rupee was a key challenge faced throughout the year. The Treasury Bill yield was significantly low most of the year. This posed a further challenge in generating the best rate of return for the Bank whilst managing the excess liquidity. However, by investing a portion of the excess funds in Gilt Unit Trusts, the Treasury succeeded in maximising the effective yields by taking advantage of the tax benefits.

### SUPPORT SERVICES

#### INFORMATION TECHNOLOGY

Information technology plays a key role in enhancing customer convenience, expansion of branches and business lines and launching of customer solutions. All our customers are now enjoying the Centralised Core Banking facility through the expanded network of 739 branches island-wide. In addition, the concept of 'Banking at your fingertips' has been made a reality with the improved internet and SMS banking facilities.

Whilst we remain the first bank to connect to the National Common ATM Switch, our own ATM network was expanded during the year to 469. Furthermore, after the successful launch of the Common Card and Payment Switch (CCAPS), many banks are now joined with the network.

In collaboration with the CEB, we launched the CEB online Bill Payment System in 2014. This facilitates online real time updates of customers' billing accounts and checking of bill status through mobile phones.

The projects in progress include the Ports Authority Online Payment System, setting up Kiosks to accept cash and cheque deposits and toll collection of the highways.

Other major initiatives:

- IT is engaged in enhancing Bank wide efficiency through the introduction of 'Data Warehousing' solutions to further streamline interactions with customers and to improve the management information capability of the Bank.
- IT has also embarked on a Bank wide 'Digital Strategy' to enable the Bank to transform various customer touch points to truly digital channels.
- Further strengthening compliance initiatives of the Bank, IT was able to receive certification to ISO 27001 (BSS) Security Certification.
- The IT strategy will also be aligned to suit the next 5-year strategy of the Bank.

The IT team has engaged in many projects during the year which had made a positive contribution to the overall operational excellence of the Bank. The dedication, commitment and hard work of the IT team is highly commended.

#### STRATEGIC PLANNING & RESEARCH DEPARTMENT (SP&R)

SP&R is a core department of the Bank. The department was further strengthened with the appointment of a Deputy General Manager with the intention of delivering long-term sustainable value to our stakeholders. We primarily cater to our internal stakeholders with accurate, timely, industry specific information, and research data. The department plays a crucial role in ensuring unparalleled success of the Bank in the years ahead by being responsible for the formation supervision, review, monitoring and implementation of the strategic plan covering the period 2015-2020. The Bank's research initiatives are synthesised with the Government development objectives as well.



Launched the CEB online  
Bill Payment System



Through the introduction of  
'Data Warehousing' solutions,  
IT is engaged in enhancing  
Bank wide efficiency

Given the diversity of the Bank's product range and the varied markets it serves, the accuracy and systematic flow of market relevant information is imperative for the Bank's growth and expansion amidst the turbulent macro and micro market conditions. Our department is geared to meet the research requirements of the Bank covering a wide spectrum of research topics ranging from personal banking to corporate banking, SME, development finance to Treasury operations.

The SP&R Department is involved in the provision of both primary and secondary research, which includes customer surveys, market studies and other qualitative and quantitative data. These are disseminated through management briefs, position papers and reports on industry specific issues, relevant economic sectors. The department is also entrusted with enhancing productivity throughout the largest branch network of the country, by contributing towards process re-engineering.

With the intention of revamping the research activities of the Bank, SP&R has relaunched the Bank wide annual research initiative through the People's Bank Annual Research Conference 2015 or PBARC 2015. The event got off the ground with workshops conducted by two prominent intellectuals in Sri Lankan academia. The PBARC is expected to provide the spring-board to developing innovative ideas of the Bank's staff and promoting the Bank as a knowledge hub. Our aim is to develop PBARC into a research conference in the South Asian region in collaboration with the Central Bank of Sri Lanka and other prominent research institutions in the country.

We also continued the publication of the country's oldest economic journal, the 'Economic Review' since 1975. This has created a platform for the knowledge-gaining fraternity on a wide-range of issues pertaining to the socioeconomic landscape and the country at large. The Bank's official news magazine, *Pulse/Hasuna* is also managed and published by the Strategic Planning and Research Department.

## STAKEHOLDER REVIEW

### SUSTAINABILITY – AN INTEGRAL ASPECT OF OUR BANK

For over 5 decades, we have been a true partner to the people of Sri Lanka. In our journey, we have forged partnerships with our stakeholders, which have formed into strong and stable relationships. We are truly encouraged and humbled by the loyalty, trust and belief extended to us by each and every stakeholder.

These factors have enabled us to reach even greater heights in creating sustainable and increased value for them. In order to achieve this, we have ingrained the concept of sustainability in every facet of our Bank. It gears us to be mindful of the impact we have on the economy, society and the environment, assess the possible risks and emerging paradigms and enable us to create an empowering culture that builds up communities, economies and the nation.

## STAKEHOLDER REVIEW

People's Bank is the second largest bank in Sri Lanka. Therefore, we interact with a number of stakeholders who have an interest in the way we conduct business. The relationships we foster with these stakeholders have a direct impact on the Bank's success and the long-term sustainability. Therefore, we are committed to working with all of our stakeholders – understanding their expectations and interests, creating opportunities and constantly improving our operations to achieve our vision - to be the Bank of the aspiring people of Sri Lanka.

### ENGAGING WITH OUR STAKEHOLDERS

Stakeholder engagement is embedded in all areas of our Bank. It entails a range of activities and interactions including formal and informal consultations, communication, negotiations, participation, mandatory and voluntary disclosures, certification and accreditation to name a few.



Engaged in developing  
**5-year strategic plan** covering  
the period 2015-2020



The table below depicts methods of engaging with our stakeholders:

Stakeholder Category	Method of Engagement
Government	Forums and conferences
	Meetings
	Press releases
	Annual Reports
	Interim Financial Reports
	Press conferences and media releases
	Corporate website
Regulators	Onsite visits
	Discussions and meetings
	Periodic review sessions
	Compliance Department to co-ordinate with CBSL
	Interim Financial Statements
Employees and Trade Unions	Staff meetings
	Defined benefit plan
	Mutually agreed performance
	Internal circulars
	One to one meeting with Trade Unions
	Employee surveys
	Performance Review System
	Employee training workshops and seminars
	Email bulletins
	Special events such as quiz contests, religious activities etc.
Customers	Branches and service centres
	Annual Reports
	Corporate website
	Written communication and response
	Press releases
	Customer meetings

Stakeholder Category	Method of Engagement
Community	CSR initiatives
	Corporate website
	Sponsorship
	Scholarships
	Public events
	Conferences
	Branches
	Media
Media	Press releases
	Annual Report
	Press conferences
	Corporate website
	Interim Financial Statements
Suppliers	On-site visits and meetings
	Public notices in print media

#### OUR INVESTORS

Investors provide the capital needed for growth and expansion of the Bank. In return, we enhance investor value by delivering steady and increased profits, strong capital growth and business sustainability.

The Government of Sri Lanka is the largest investor of our Bank, with a shareholding of 92.27%. Therefore, significant investments are made by Government sources towards various operational projects, which are imperative for the progress of the Bank.



The Government of Sri Lanka  
is the **largest Investor** of our Bank

Detailed below are the significant financial assistance received from the Government for the period under review:

**SIGNIFICANT FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT –  
INTEREST SUBSIDY SCHEMES**

Name of the Scheme	Terms and Donor	Sectors Eligible	No. of Loans Granted as at 31.12.2014	Cumulative Loans Outstanding as at 31.12.2014 (Rs. Mn)
Special Housing Loan Scheme for Government Servants	<ul style="list-style-type: none"> <li>○ Up to Rs. 500,000/- – 8.0%</li> <li>○ Rs. 500,001-1.0 Mn – 4.0%</li> <li>○ Above Rs. 1.0 Mn – 3.0%</li> </ul> <p>Interest subsidy from the Government of Sri Lanka</p>	Officers in the public service with five-year service and entitled to a pension and confirmed in the appointment.	41,091	25,752.92
Housing Loan Scheme for the Employees of Universities under UGC	<ul style="list-style-type: none"> <li>○ Up to Rs. 1.0 Mn – 5.5%</li> <li>○ Above Rs.1.0 Mn – Rs. 2.0 Mn – 5.0%</li> </ul> <p>Interest subsidy from the Government of Sri Lanka</p>	Employees of a university registered under the University Act No.16 of 1978 with five-year service and confirmed in the appointment.	638	677.94
Loan scheme on a concessionary basis to media personnel to purchase motor cycles, computers, cameras, and media equipments	11% Interest subsidy from the Government of Sri Lanka	Media personnel recommended by Ministry of Mass Media and Information	89	5.24
Loan scheme for Senior Media Personnel, Artists and Authors to purchase Motor Vehicles	<ul style="list-style-type: none"> <li>○ Less than Rs. 0.5 Mn – 10.0%</li> <li>○ Rs. 0.5 Mn – Rs. 1.0 Mn – 12.0%.</li> <li>○ Rs. 1.0 Mn – Rs. 1.2 Mn – 14.0%</li> </ul> <p>Total interest is subsidised from the Government of Sri Lanka (100% interest subsidy)</p>	Individuals recommended by Ministry of Mass Media and Information and Ministry of Cultural Affairs	242	224.18

## DEVELOPMENT AND MICROFINANCE AND SME DEVELOPMENT

The SME Development Unit and the Development and Microfinance Departments of People's Bank are key divisions engaged in uplifting communities. We strongly believe that economic empowerment infuses social inclusivity. Hence, the bottom-up approach we have implemented in both SME and Microfinance areas has uplifted numerous rural communities spurring national development.

The table below indicates the sectors benefited through the loans granted by us.

Name of the Loan Scheme	Terms and the Donor	Sectors Eligible		No. of Loans Granted as at 31.12.14	Cumulative Amount of Loans Outstanding as at 31.12.14 Rs. Mn
1. Interest Subsidy					
Krushi Navodaya Loan Scheme	Central Bank of Sri Lanka		Agriculture	8,108	8.15
Agro Livestock Development Loan Scheme (ALDL)	Central Bank of Sri Lanka	6% & 2%	Livestock	3,881	46.29
Loan Scheme to Upraising Living Condition of the Socially-Integrated Trainees who Successfully Completed Rehabilitation Programme (REPIIA)	Rehabilitation of Persons, Properties and Industries Authority	8%	Upgrade living condition of the socially-integrated trainees who successfully completed rehabilitation programme	602	60.05
NCRCS - Cultivation - 2014/15 Maha	Central Bank of Sri Lanka	6%	Agriculture	8,598	596.27
NCRCS - Cultivation - 2014 Yala	Central Bank of Sri Lanka	6%		3,430	106.95
NCRCS - Cultivation - 2013/14 Maha	Central Bank of Sri Lanka	6%		8,237	73.31
NCRCS - Cultivation - 2013 Yala	Central Bank of Sri Lanka	6%		5,487	51.75
NCRCS - Cultivation - 2012/13 Maha	Central Bank of Sri Lanka	6%		11,108	119.37
NCRCS - Cultivation - 2012 Yala	Central Bank of Sri Lanka	6%		7,254	80.01
NCRCS - Cultivation - 2011/12 Maha	Central Bank of Sri Lanka	6%		15,125	103.22
NCRCS - Cultivation - 2011 Yala	Central Bank of Sri Lanka	6%		7,015	19.65
Sub Total				78,845	1,265.01

Name of the Loan Scheme	Terms and the Donor		Sectors Eligible	No. of Loans Granted as at 31.12.14	Cumulative Amount of Loans Outstanding as at 31.12.14 Rs. Mn
<b>2. Refinance</b>					
The Awakening North (Revolving Fund)	Central Bank of Sri Lanka	90%	Agriculture & Economic Activities	<b>4,007</b>	<b>432.67</b>
The Awakening East (Revolving Fund)	Central Bank of Sri Lanka	100%	Agriculture & Economic Activities	<b>2,136</b>	<b>81.09</b>
The Awakening North Loan Scheme	Central Bank of Sri Lanka	90%	Agriculture & Economic Activities	<b>5,787</b>	<b>32.99</b>
The Awakening East Loan Scheme	Central Bank of Sri Lanka	100%	Agriculture & Economic Activities	<b>3,521</b>	<b>37.79</b>
The Awakening East RF PHASE II	Central Bank of Sri Lanka	100%	Agriculture & Economic Activities	<b>1,188</b>	<b>284.87</b>
Provincial Development Loan Scheme	Central Bank of Sri Lanka	100%	Agriculture & Economic Activities	<b>2,996</b>	<b>193.11</b>
Viskam Loan Scheme	Central Bank of Sri Lanka	100%	Agriculture & Livestock	<b>186</b>	<b>177.54</b>
Poverty Alleviation Micro Finance Project Revolving Fund (PAMP RF)	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	<b>1,553</b>	<b>33.64</b>
Poverty Alleviation Microfinance Project Loan Scheme (PAMP - II)	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	<b>12,160</b>	<b>39.70</b>
Poverty Alleviation Micro Finance Project Phase II Revolving Fund (PAMP II RF)	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	<b>8,116</b>	<b>472.12</b>
Dasuna II	NDB	100%	Agriculture & Micro Finance Activities	<b>28</b>	<b>14.38</b>
Subhagya Loan Scheme	Central Bank of Sri Lanka	100%	Micro & Small Medium Entrepreneurs	<b>5,296</b>	<b>787.83</b>
Dry Zone Livelihood Support and Partnership Programme Loan Scheme (Bhagya Loan Scheme)	Central Bank of Sri Lanka	100%	Agriculture & Micro Finance Activities	<b>1,062</b>	<b>7.43</b>
Dasuna Loan Scheme	NDB	100%	Agriculture & Micro Finance Activities	<b>82</b>	<b>2.65</b>
Self-Employment Development Loan Scheme	Central Bank of Sri Lanka	100%	Trained youth who passed out from recognized vocational training institutions for establishment of their own self-employment projects	<b>357</b>	<b>24.82</b>

Name of the Loan Scheme	Terms and the Donor		Sectors Eligible	No. of Loans Granted as at 31.12.14	Cumulative Amount of Loans Outstanding as at 31.12.14 Rs. Mn
Post Tsunami Coastal Rehabilitation and Resource Management Programme (PTCRRMP)	Central Bank of Sri Lanka	100%	Income-generating activities of the communities adversely affected by Tsunami disaster	827	12.40
SPEnDP Loan Scheme	Central Bank of Sri Lanka	100%	Agriculture & Micro Finance Activities	344	28.59
Kapruka Ayojana Loan Scheme	Coconut Cultivation Department Development	100%	Coconut Cultivation & Development	1,314	77.28
Poverty Alleviation Micro Finance Project (PAMP) Loan Scheme (N & E) and Revolving Fund	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	9,699	16.56
Poverty Alleviation Small Enterprise Development Credit Scheme (NDTF Loan Scheme)	Central Bank of Sri Lanka	100%	Small Industry & Agriculture	2,041	3.52
Tea Development Loan Scheme	Central Bank of Sri Lanka	87%	Tea Cultivation	182	15.59
Vidatha Loan Scheme	National Development Trust Fund	100%	Persons who trained from VIDATHA Centres for establishment of their own self-employment projects	1,904	3.70
Sabaragamuwa Province Integrated Rural Development Project Revolving Fund Loan Scheme (SPIRDPFR)	Central Bank of Sri Lanka	100%	Uplift the living standards of people's in Sabaragamuwa Province	248	0.14
Kapruka Nipayum Diriya Loan Scheme	Coconut Cultivation Dep.		Coconut Cultivation & Development	195	97.19
Environmentally Friendly Solution Revolving Fund Loan Scheme	NDB	100%	For any environmental friendly solutions	1	-
Skills Development Loan Scheme	Central Bank of Sri Lanka	100%	For technical purposes	84	1.19
Second Perennial Crop Development Loan Scheme	Central Bank of Sri Lanka	100%	Cultivation	219	0.26
Jeewana Shakthi	Central Bank of Sri Lanka	100%	Micro Finance Sections	980	2.69
Tea Relief Package (Working Capital Loan)	Central Bank of Sri Lanka	100%	For Tea Cultivation	7	3.47
Construction Sector Development Project (CSDP)	Central Bank of Sri Lanka	100%	For Constructions	16	10.23
<b>Sub Total</b>				<b>66,536</b>	<b>2,895.44</b>
<b>Grand Total</b>				<b>145,381</b>	<b>4,160</b>

**SIGNIFICANT FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT -  
SME DEVELOPMENT**

	Name of the Scheme	Terms and the Donor	Sectors Eligible	No. of Loans Granted as at 31.12.14	Cumulative Amount of Loans Outstanding as at 31.12.14 Rs. Mn
1	Interest Subsidy Schemes	Commercial Scale Dairy Development Loan Scheme (CSDDLs)	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	<ul style="list-style-type: none"> <li>○ Purchase of cows</li> <li>○ Expansion of existing farm</li> <li>○ Establishment of sheds</li> <li>○ Production of dairy-based products</li> <li>○ Fodder cultivation</li> <li>○ Purchase of equipment</li> <li>○ Establishment of new farms</li> <li>○ Transport &amp; storage of milk</li> <li>○ Farm development</li> <li>○ Construction of bio gas</li> </ul>	79 <b>217.24</b>
2	Refinance Schemes	Small and Medium Enterprises Development Facility Project (SMEDeF)	Agency - World Bank Maximum Loan Amount - 60 Mn Borrowing rate of interest - Six month's AWDR Lending rate of interest - Six month's AWDR+2% Maximum Tenure - 10 Years Maximum Grace Period - 2 Years	<ul style="list-style-type: none"> <li>○ Agriculture projects</li> <li>○ Health services</li> <li>○ Tourism industry</li> <li>○ Industries</li> <li>○ Constructions</li> <li>○ Livestock</li> <li>○ Dairy and related products</li> <li>○ Ornamental fish</li> <li>○ Education</li> <li>○ Printing services</li> <li>○ Fishery industry</li> <li>○ Garment industry</li> </ul>	89 <b>250.39</b>
		Small and Medium Enterprises Development Facility Project (SMEDeF) - Phase II	Agency - World Bank Maximum Loan Amount - 25 Mn Borrowing rate of interest - Monthly AWDR Lending rate of Interest - Monthly AWDR + 2% (Fixed for tenure) Maximum Grace Period - 10 Years	<ul style="list-style-type: none"> <li>○ Agriculture projects</li> <li>○ Health Services</li> <li>○ Tourism industry</li> <li>○ Industries</li> <li>○ Constructions</li> <li>○ Livestock</li> <li>○ Dairy and related products</li> <li>○ Ornamental fish</li> <li>○ Education</li> <li>○ Printing</li> <li>○ Fishery industry</li> <li>○ Services</li> <li>○ Garment industry</li> </ul>	47 <b>313.46</b>

	Name of the Scheme	Terms and the Donor	Sectors Eligible	No. of Loans Granted as at 31.12.14	Cumulative Amount of Loans Outstanding as at 31.12.14 Rs. Mn
3	Refinance Schemes	SMILE III - Revolving Fund Loan Scheme  Agency - Ministry of Industry & Commerce Maximum Loan Amount - (i) General Loan Scheme - 5.0 Mn (ii) Technical Transfer Assist. Scheme - 2.5 Mn Borrowing rate of interest - (i) General Loan Scheme - 4.5% (ii) Technical Transfer Assist. Scheme - 3% Lending rate of Interest - (i) General Loan Scheme -9% (ii) Technical Transfer Assist. Scheme - 5% Maximum Tenure - (i) General Loan Scheme - 3 - 10 Years (ii) Technical Transfer Assist. Scheme - 7 Years Maximum Grace Period - (i) General Loan Scheme - 2 Years (ii) Technical Transfer Assist. Scheme - 2 Years	<ul style="list-style-type: none"><li>○ Tea</li><li>○ Ceramics</li><li>○ Coir</li><li>○ Spices (Value addition)</li><li>○ Rubber</li><li>○ Wood products</li><li>○ Footwear</li><li>○ Plastic</li><li>○ Textile and apparel</li><li>○ Food products</li><li>○ Herbal products</li><li>○ Information technology</li><li>○ Gem and jewellery</li><li>○ Handloom and handicrafts</li><li>○ Leather</li><li>○ Packaging</li></ul>	53	121.81
4	Government Tax Concession	People's Investment Power Loan Scheme (PIP)  Maximum Loan Amount- 50 Mn Lending rate of Interest - 5 Years 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 Technology-related activities and Business Process Outsourcing Education: vocational training and tertiary educational enterprises Construction of hotels and for related purposes Restructuring of loans extended for the above purposes Women entrepreneurs (lending for venture capital projects up to maximum Rs.10.0 Mn) Investment in sustainable energy sources including solar power Any other agriculture and SME-related projects.	530	1,682.3

## OUR CUSTOMERS

As the Bank closest to the People of Sri Lanka, we strive to build long lasting relationships with our customers. Through the offer of tailor-made financial solutions that meet the diverse and emerging banking needs of customers, we ensure a high level of customer satisfaction and loyalty. Our customer base is diverse, comprising of individuals, SMEs, Corporates and the Government. We have developed channels of interaction with customers to obtain feedback and continuously improve our service standards and internal capabilities to meet their aspirations.

### ASSURING PRODUCT RESPONSIBILITY

We offer a broad spectrum of products and services that meet a range of customer needs. In doing so, we take due cognisance of product responsibility and ensure privacy and compliance with all applicable laws and regulations. As a State Bank we are also mindful of our responsibility of being a good corporate steward that supports the development agenda of the nation, whilst uplifting the quality of life of Sri Lankans.

We ensure that our products and services are readily available and accessible to our customers with complete transparency. We also ensure that our products and advertising are not offensive towards any culture, ethnic or religious group and they maintain and reflect the Sri Lankan culture. In addition, our products and services do not pose a threat to the health and safety of customers as well.

### NEW PRODUCTS LAUNCHED

Reflecting our commitment to promote value added services to our customers through cutting-edge technology and processes, we launched several products and services during the year. As the Bank closest to the people, this further signifies our commitment of being attuned to the emerging needs and aspirations of the people. To patrons engaged in employment overseas, we extended additional mobile banking facilities to communicate with the Bank free of charge and perform a range of banking transactions. As an added benefit, the NRFC account holders are offered the lowest IDD rates. This is a first of its kind in Sri Lanka done in collaboration with Mobitel.

Teaming up with the Ceylon Electricity Board (CEB), we enabled customers to pay their electricity bills from the comfort of their homes. The facility which is offered free of charge, is a key milestone for both institutions which are Sri Lanka's leading public sector organisations that directly serve the people of this country.

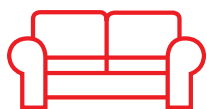
As we play a significant role in SME development, we participated in the Small and Medium Scale Industries Exhibition 2014 organised by the Industrial Development Board. Our trade stall attracted a large number of visitors, who obtained information about the many financial assistance schemes and programmes that are offered by us towards promoting SME development.

People's Relax Saving Plan is another financial solution launched to brighten the future retirement of today's youth. The retirement fund is built with customer savings and is accompanied with a host of retirement benefits.

### OUR STRATEGIC COMMUNICATION APPROACH

Our approach to communication is set out in the Strategic Communication Policy and Vision formulated in 2013 by the Bank. It sets out the basic rules of engagement with media-related stakeholders and is applicable to all our staff members. The policy refers to the standards and codes pertaining to marketing communications including advertising, promotions and sponsorships.

As a responsible Bank, we are committed to a culture of transparency, honesty, conformity with statutory standards and ethics. This is reflected in our marketing communications. We ensure accurate, clear, timely and relevant dissemination of information pertaining to our products and services including interest rates, fees, charges, tariffs and terms and conditions. To optimise our reach and achieve a strong brand presence, we use various channels of communication and communicate in three languages – Sinhala, Tamil and English. Our communication policy is inclusive, engaging with all customers, from individuals to SMEs and corporates. We avoid any form of inapt imagery and information and racial content. We also maintain impartiality with the media agencies, by following a transparent and meticulous evaluation process in selection of media agencies.



People's Relax Saving Plan  
is another financial solution  
launched



## COMMUNICATION GOVERNANCE AND MEASUREMENT

Our communication strategy complies with the Customer Charter and Code of Conduct for Licensed Commercial Banks. We disseminate factual information within the standards of fair banking practices. The communication processes, themes, targets and modes of engagement are derived from the Strategic Communication Policy and Vision of the Bank. All advertising methodologies are aligned with the goals and priorities of the Corporate Brand as well. In addition, we work within a predetermined communication budget to maximise investment.

## MECHANISMS FOR TRANSPARENT AND INTERACTIVE COMMUNICATION

### *With Our shareholders...*

The Government of Sri Lanka is the major shareholder of the Bank. Therefore, we maintain constant dialogue with the Ministry of Finance and Planning which represents the Government of Sri Lanka. A maximum of ten Directors are appointed by the Minister of Finance, including a Director from the Government Treasury and another from the Co-operative Sector.

### *With Our Employees...*

The Board of Directors maintains a continuous dialogue with the Corporate Management on the overall strategic direction, the current performance and the annual budget of the Bank. Corporate management meetings are held regularly to brief the Executive Management, Regional Managers and Branch Managers about performance evaluation, service quality and standards and various other matters relate to the performance. This also provides an open forum for all participants to discuss matters of their interest and seek clarification on any issue relevant to the Bank. Constant dialogue is also maintained with the four Trade Unions pertaining to good governance. When the Board discuss proposals concerning the general interests of the staff, such meetings are attended by the representatives of the Trade Unions.

## OUR BRAND VALUE AND POSITIONING

Our aim is to be the 'People's First Choice' and the Top of Mind Brand. This requires us to be creative and original in our communications, aligned with our core values - strength, stability, trust and accessibility. We remain committed to maintaining our brand positioning, which has received repeated accolades over the years.

## COMPLIANCE

During the year, there were no instances of non-compliance with any regulation or voluntary codes on marketing communications.

## EXPANDING OUR REACH

We have a strong island-wide presence with our 739 branches spread across the nation. This enables us to provide an inclusive service to all our customers. During the year, we expanded our reach by opening the Piliyandala City Branch. We also opened branches to provide selected services at the Regimental Head Quarters in Panagoda, Bokkawela, Magampura Port and the Trincomalee Second City. In addition, 8 ATM machines were installed in strategic locations to enhance customer convenience and accessibility. We plan to have ATMs installed all our branches by 2015.

## OUR EMPLOYEES

An engaged and motivated workforce with the right blend of competencies is the key to our success, as the second largest Bank in Sri Lanka. Our staff strength stands at 8,156 persons, representing different nationalities and religions as well as gender and other aspects of diversity.

We place great emphasis on attracting, retaining and developing competent and dedicated employees who make a significant contribution to the success and sustainability of the Bank. Apart from fostering a climate of mutual respect, team work and accountability, we remain committed to providing a fair, diverse and inclusive workplace and continuous improvement in our human resources practices.



Our staff strength stands at  
**8,156**  
persons

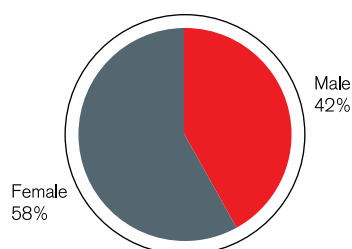
### RECRUITING AND RETAINING THE BEST

During the year, our staff strength increased to 8,156 persons, from 7,409 the previous year. Approximately 85% of staff members were permanent, of whom 56% were female employees. In addition, 69% of the non-permanent employees were females as well. In terms of staff hierarchy, 22% occupying officer and higher grades were females.

We have a strong island-wide presence. Approximately 60% of our staff members are deployed outside the Western Province, reflecting our commitment for inclusive development. During the year under review, 1,102 staff members were recruited, of whom 89% were Customer Service Assistance whilst the rest were on contract. This is in keeping with the strategic expansion plans of the Bank.

We place great emphasis on sourcing the best possible candidate for the job. A formal and transparent recruitment policy is in place conforming to Government guidelines. All recruitments are based on merit, such as experience, skills and ability, regardless of gender, ethnicity, religion or caste. We also treat all staff members fairly and with respect. In order to help them to achieve their full potential, equal opportunities are provided for training and development, based on the strengths and needs of employees. The following tables and charts provide an analysis of our workforce for year 2014:

### WORKFORCE DISTRIBUTION BY GENDER



### WORKFORCE ANALYSIS

Category	Male	Female	Total
Permanent	3,070	3,887	6,957
Other	369	830	1,199
<b>Total</b>	<b>3,439</b>	<b>4,717</b>	<b>8,156</b>

### GEOGRAPHIC DISTRIBUTION OF WORKFORCE BY GENDER

Zonal/Other Business Units/Head Office	Male	Female	Total
Central Zone	367	540	907
Eastern Zone	312	264	576
North Central Zone	254	282	536
Southern Zone	350	507	857
Sabaragamuwa Zone	209	300	509
Western Zone I	389	820	1,209
Western Zone II	259	595	854
Wayamba Zone	300	413	713
Nothorn Zone	174	193	367
Uva Zone	217	241	458
Head Office	574	529	1,103
Treasury & Primary Dealer Unit	15	22	37
Card Centre	19	11	30
<b>Total</b>	<b>3,439</b>	<b>4,717</b>	<b>8,156</b>

Given below is the analysis of workforce based on staff hierarchy and gender as at 31st December 2014:

	Numbers		
	Male	Female	Total
Corporate Management	13	4	17
Executive Management	19	12	31
Officers ( 3-III - Gr. I)	1,446	1,761	3,207
Staff Assistant Grade	1,035	1,832	2,867
Other Categories	562	278	840
Customer Service Assistants	218	734	952
Other Contracted Employees	146	96	242
<b>Total</b>	<b>3,439</b>	<b>4,717</b>	<b>8,156</b>

Recruited

**1,102**

staff members  
from all over the country

A further analysis of the Officer Grade and above is detailed below for the year in review:

	Numbers		
	Male	Female	Total
Corporate Management	13	4	17
Executive Management	19	12	31
Chief Managers (Gr. I)	43	22	65
Senior Managers (Gr. II)	67	76	143
Managers (3 - I)	202	139	341
<b>Total</b>	<b>344</b>	<b>253</b>	<b>597</b>

#### REWARDING OUR EMPLOYEES

Rewarding performance is a cornerstone of our employee retention strategy. We offer competitive remuneration packages on par with industry standards. In addition, permanent employees are entitled to a wide range of benefits as stated below:

- Annual bonus and performance incentives
- Vehicle facilities for Corporate Management and transport allowances for Executive Management
- Staff quarters and holiday bungalow facilities
- 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
- Subscriptions to professional associations/honorarium payments

We are an equal opportunity partner.

#### DEFINED BENEFITS AND CONTRIBUTIONS

We operate a defined pension plan for our permanent staff members who have joined the Bank prior to 1st January 1996. For those who have joined post this date, another pension scheme is approved by the Ministry of Finance and operated by us. Furthermore, in accordance with the Gratuity Act No. 12 of 1983, we have a retirement gratuity scheme in operation. In addition, the Bank contributes to internal defined contribution plans such as the Widows'/Widowers' and Orphans' Pension Plan, Post-Employment medical expenses and also the Employees' Provident Fund and Employees' Trust Fund.

These benefit plan obligations are detailed under Notes to the Financial Statements Section on page 161.

#### COLLECTIVE BARGAINING

We encourage collective bargaining between employees and the Bank, as it promotes mutually beneficial relationships based on common goals and aspirations.

Details pertaining to Collective Agreements at the Bank are given below for 2014.

- Employees Covered - 6,957
- Employees Not Covered - 1,199
- % of Covered Employees - 85%

#### GIVING NOTICE ON OPERATIONAL CHANGES

There is no minimum notice period specified under the Collective Agreements with regard to anticipated operational changes. The change management processes are implemented in consultation with Trade Unions whenever necessary. This helps to establish industrial harmony and improve the transparency of our Bank.

#### DEVELOPING OUR EMPLOYEES

We believe in equipping our employees across all levels to meet the changing needs of the market. Therefore, we continuously invest in improving the skill capacities of our employees to enable them to be future ready and strive for superior performance. We offer a range of personal and professional development opportunities including career development, talent management, education and leadership programmes.

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We are an **equal**  
**opportunity partner**

The Bank employees have spent a total of 183,340 training hours, reflecting a 12% increase compared to previous year's training hours.

Our training and development function is aligned with the Vision and Mission of the Bank. All training programmes are conducted on a need basis to enhance the competency levels of entire workforce. A total of Rs.120 Mn was allocated for this purpose.

Training opportunities were provided throughout the year in diverse areas in both soft skills as well as technical skills.

During the year, we conducted 48 soft skills development programmes for 7,240 staff members. The areas covered were negotiation, presentation, positive thinking, customer care, business and social etiquette, leadership, team building, motivation, stress and conflict management and attitude

development. In addition, 214 technical skills development programmes were held for 15,968 staff members. The areas included were Compliance, Risk Management, Information Technology, Credit Management, Corporate Lending, SME Lending, Pawning, Debt Recovery, Disciplinary Management Audit and checks and controls.

In addition, 770 staff members participated in 149 external training programmes whilst 41 staff members participated in 19 foreign training programmes to acquire external expertise. These were conducted on need basis.

Moreover, we have developed a Training and Development Policy for the Bank to create more skilled, self-confident and professional individuals to provide an excellent service to our valued customers. The table below indicates the training hours provided per employee in 2014, analysed by employee category and gender:

	Training Hours		Total	Average Per Employee
	Male	Female		
<b>Corporate Management</b>				
Local	313	133	446	26.2
Overseas	408	112	520	30.6
<b>Executive Management</b>				
Local	315	389	704	25.0
Overseas	96	32	128	5.0
<b>Officers (3 111-Gr 1)</b>				
Local	43,537	48,712	92,249	28.8
Overseas	632	304	936	0.3
<b>Staff Assistant Grade</b>				
Local	32,897	50,434	83,331	24.0
Overseas	0	0	0	–
<b>Other Categories</b>				
Local	2,132	2,894	5,026	6.0
Overseas	0	0	0	–
<b>Total</b>	<b>80,331</b>	<b>103,009</b>	<b>183,340</b>	<b>145.9</b>



The Bank employees have spent a total of **183,340** training hours, reflecting a 12% increase compared to previous year's training hours

**770** staff members participated in **149** external training programmes, **41** staff members participated in **19** foreign training programmes

## OUR SOCIETY AND ENVIRONMENT

As a responsible organisation, we are committed to enriching the lives of communities whilst promoting sound environmental practices within our Bank. Our aim is to foster excellent relationships with these communities and manage the impact of our operations on the environment responsibly. Therefore, through our actions we strive to demonstrate our commitment for all our stakeholders, including the communities and the environment in which we operate.

The initiatives taken in this regard are summarised below.

### SUSTAINABLE EMPOWERMENT OF WOMEN

Women play a significant role in shaping our nation's socioeconomic landscape. In doing so, they play a multifaceted role, part of working population tending to household chores. The women's contribution to the economy; as an entrepreneur, an intellectual or a business leader is highly valuable. Recognising the importance of these valued members of our society and to give due credit for the services they render. The *Vanitha Vasana* 'Money Planner' Investment Plan Account is launched at the International Women's Day. The product enables women to build a reasonable financial strength with saving in small amounts. It is accompanied by a preferential interest rate and the added advantage of obtaining loans at concessionary interest rates as well.

### CELEBRATING 66 YEARS OF INDEPENDENCE

To commemorate the 66th National Independence Day, we organised several Independence Day Celebrations island-wide in the head office and the branches.

The '*Nidahase Upatha*' program which is aimed at instilling pride and honour towards our motherland and to encourage parents to plan for the future of their children, was carried out this year as well. '*Isuru Udana*' gift certificates worth Rs. 500/- were gifted to every new born baby in Sri Lanka between the 1st and 7th of February. The main event was held at the Castle Street Maternity Hospital in Borella, whilst the island-wide programmes were held in local hospitals where our branches are located as well.

## BUILDING A FINANCIALLY SECURE FUTURE FOR THE YOUNGER GENERATION

A child is a treasure for the entire nation. In order to build a financially-sound future for them, we have taken several steps to nurture the habit of saving for children. We strongly believe that the habit of saving for a young age will not only bring financial benefits in the future, but will pave the way for a successful life. In order to instill this habit on the very first day they commence their school life, we introduced the 'First Day First Lesson' programme. To our *Isuru Udana* and *Sisu Udana* account holders we gave exciting rewards to encourage more saving. Furthermore, we awarded special scholarships to our account holding students who perform exceptionally at the Grade Five Scholarship exam, GCE O/L and A/L examinations. Upon reaching the age of 18 years, a *Sisu Udana* account is automatically upgraded to a People's Bank Yes Account. This offers a high interest rate and loans schemes to ensure the personal and professional growth of the young account holders.

### REBUILDING THE KODIKAMAM RAILWAY STATION

As a part of our commitment towards the nation as a responsible corporate, we restored the Kodikamam Railway Station in partnership with People's Leasing and Finance PLC. The Kodikamam Railway Station is one of the most historic railway stations in Sri Lanka, handling the highest number of passengers on the Yal Devi Line. The restoration project was completed at a cost of approximately Rs. 45 Mn.

### BUSINESS UNITS ANALYSED FOR RISKS RELATED TO CORRUPTION

We have always been committed to carrying out business with integrity, avoiding any form of corruption. We have put in place the adequate checks and controls to deter and detect such incidents. Our in-house audit officers affiliated to respective Regional Head Offices have been posted to every branch to oversee the proper implementation of these checks and controls by the business units and to take appropriate actions where necessary. In this regard, the Compliance Department conducted compliance assessments at 48 branches during the year under review.

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At the International Women's Day the **Vanitha Vasana 'Money Planner' Investment Plan** Account was launched

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We **restored the Kodikamam Railway Station** in partnership with People's Leasing and Finance PLC

### TRAINING ON ANTI-CORRUPTION POLICIES AND PROCEDURES

The Internal Audit Department conducted training programmes for the in-house audit officers and staff members during the year 2014. A total of 399 participants participated in these training programmes conducted over 09 working days. A further, 18 training sessions on Anti-Money Laundering, Know Your Customer Policy, Risk Categorisation and on reporting suspicious transactions were held for 895 employees.

In addition, the Internal Audit Staff were given comprehensive training throughout the year 2014.

### DEALING WITH INCIDENTS OF CORRUPTION

Any incident of corruption is probed and investigated by the Internal Audit Department as well as the Investigations and Inquiries Department. The preliminary investigations are carried out first by the relevant Regional Head Offices and Head Office Departments. Disciplinary actions are implemented under the provisions in the Code of Conduct of the Bank. Depending on the nature and gravity of such incidences, complaints are lodged with the Criminal Investigation Bureau (CID) as well. Based on the circumstances, the CID generally indicts the accused in the Court of Law.

### COMPLIANCE

People's Bank has not been penalised for non-compliance with any rule or regulation during the year.

### PRESERVING OUR HERITAGE

As a State Bank, we are committed to safeguarding and promoting the cultural heritage of our country. For many years, we have been a part of Sri Lanka's most historical pageants and cultural events. In keeping with this tradition, we sponsored and also made financial contributions to several events that promote arts and culture of Sri Lanka during the year.

As in the past years, we continued to be the lead sponsor of the Kandy Esala Maha Perahara, which is the largest cultural pageant in Asia. In addition, we extended our support to the Nawam Maha Perahara, Tissamaharama Maha Vihara Poson Maha Perahara, Ruhunu Kataragama Maha Perahara, Vishnu Devalaya Perahara and the Esala Perahara of the Bellanwila Raja Maha Viharaya.

The Bauddhaloka Vesak Religious Festival, Historical Sithulpawwa Raja Maha Viharaya Poson Festival, Nallur Kanthasamy Festival 2014 and the Buddha Rasmi National Vesak Festival are some of the religious festivals we supported during the year.

In addition, we promoted Sri Lankan music by partnering the Pandit Amaradeva Annual Concert and Workshop, Viru Dana Gee Sara 6 musical extravaganza in aid of the war heroes and the Ranaviru Real star reality programme.

Cultural and religious events of schools and universities which are geared to promote religious and cultural values and also raise funds for a deserving cause, received our support. Rasogaya Art festival of the Sapugaskanda Vishaka Balika Vidyalaya was one such event we partnered.

We sponsored the Sumathi Awards 2014, which is Sri Lanka's premier award ceremony in the television industry and the 'Mul' Rupavahini tele series; a programme to educate Sri Lankans on our national heroes, traditions, folk tales etc. In addition, we supported the Bak Maha Ullela 2014 for the Presidential Secretariat, Presidential Security Division and the Presidential Security Guards.

### RESPONSIBLE MATERIALS USAGE

We are committed to responsible product stewardship. We encourage our staff members to recycle used paper in the day-to-day operations of the Bank. We ensure that materials we use at the Bank and materials we dispose are done with total care and ensure there is no impact to the environment we live.

### ENVIRONMENTAL STEWARDSHIP

In order to maintain sufficient environmental standards, we have issued circulars encompassing mitigation measures, monitoring plans and responsibilities pertaining to the following areas:

- Disposal of damaged/unusable equipment, machinery, furniture and fittings, stationery and other inventory items
- Disposal of garbage in Bank premises
- Prevention of dengue

### COMPLIANCE

There were no incidents of non-compliance with regard to environmental laws and regulations and no monetary fines or non-monetary sanctions were imposed for non-compliance during the year in review.

## **EMPLOYEES: THANKS A TRILLION!**

Over the years the Bank has been extremely fortunate to enjoy an abundant reservoir of loyal, hard working, supremely skilled and committed talent - people who have taken the Bank's strategies from drawing board to customer and beyond.

Whilst not forgetting all those who have served us throughout the years – for this accolade is as much yours as anyone's – we thank the 8,156 employees serving us today, across every branch and locality in the country.

To you all - Thank you!





## PICTORIAL VIEW OF 2014



People's Bank staff members who are Old Boys of Ananda /Nalanda Colleges as well ,presented 'Sisu Udana' Savings accounts under 'First day First Lesson' programme organized by Western Zone – I, for the students who were admitted to grade-1 in January 2014.



To coincide with the Bank's 53rd anniversary, a blood donation campaign was organised by the Kalutara Regional Head Office staff on 1st July 2014, with the participation of over 50 donors.



Students of Bloemendal Vidyalaya – Grandpass and Holy Rosary Vidyalaya - Hyde Park were presented with exercise books under a programme organised jointly by the Buddhist Society of the Bank and Western Zone - 1.



Deepavali festival was celebrated by the Dehiwala, Galle Road branch at the branch premises with the attendance of the regional management, branch manager and staff.



Mr. M. P. Wijesuriya of Makehelwala, Mawanella was gifted with a house (Janahada Piyasa - IV) on 04th October 2014, by staff of the Kegalle Regional Head Office in collaboration with People's Bank Buddhist Society



International Women's Day was celebrated at the Bank's Head Office, where veteran female artists Ms. Sujatha Attanayake and Ms. Geetha Kanthi Jayakody presented a special 'Vanitha Vasana' compliment to culinary demonstrator Ms. Shantha Mayadunne.



Strengthening our efforts to uplift the country's small & medium entrepreneurial community, the Colombo Outer region was instrumental in organising the 'Entrepreneurial Glory' programme with the participation of a large gathering.



Students of colleges in and around the Galigamuwa area participated in the 'I Can Save' walk organised by the Galigamuwa branch, Kegalle.



Students of the Thondaimanaru Veeragaththipillai Maha Vidyalayam of Jaffna participated in the 'I Can Save' programme organised by the Velvetithurai branch, Jaffna.





'Nidahase Upatha 2014' was held at the Castle Street Maternity Hospital on 04th February 2014, under the patronage of Mr. N. Vasantha Kumar - CEO/GM of the Bank.



The opening ceremony of the service centre established at the Army Cantonment in Homagama was held under the patronage of the Commander - Security Forces Head Quarters - West - Major General Sumedha Perera and Mr. N. Vasantha Kumar - CEO/GM of the Bank.



The Wannu Regional Team sings Poson Bhakthi Gee at the Poson Poya day programme held at Ruwanweli Maha Seya, Anuradhapura organised by the Bank.



Mr. A. Sabry Ibrahim - SDGM - CRDIT accepts the first cash deposit at the newly established service centre at the Administrative Building Complex, Sethsiripaya, Battaramulla.



'First day first lesson' conducted at Asoka College by Suduwella Branch



A scanning machine was donated by the Hindu society of the Bank to the District Hospital, Mullaitivu.



A terminally disabled worker was gifted a house by the Buddhist Society of the Bank.



Christ King Church, Ipalogama, Anuradhapura was donated 100 chairs by the Christian Guild of the Bank.



A poor needy family in the Kandy District was gifted a house by the Muslim Majlis of the Bank.

## COMPLIANCE REPORT

### MANAGING COMPLIANCE AND REPUTATION RISK AT THE BANK

The excellent reputation enjoyed by People's Bank is a main aspect of the business success of the Bank. A sound reputation forms the basis for client confidence in the services offered by the Bank. This confidence goes hand in hand with confidence in the integrity and the specialised know how of Bank employees as well as in the high quality of our products. For this reason, key principles of compliance for the Bank are:

- ensuring employee integrity, and
- maintaining service and product quality.

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

Overlooking or losing sight of the current law pertaining to the duties of the Bank is a very high possibility with frequent changes and revisions in laws and regulations. To overcome this situation People's Bank has established the role of compliance function within the organisation.

### COMPLIANCE STRUCTURE OF PEOPLE'S BANK

**Board Integrated Risk Management Committee**

**Deputy General Manager/Compliance**

**Compliance Officer**

Since violation of laws and regulations bring about sanctions and impairs the good name and the reputation of the Bank, the compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry and which are issued by legislative and regular bodies relevant to the business of the Bank.

The compliance function actively educates and supports the business in managing areas such as Anti-Money Laundering, Conflict of Interests, Sales and Trading Conduct, Customer Interest and Protection and Preventing Terrorist Financing.

In addition the compliance function at the Bank -

- (a) Ensures that the Banks business activities are conducted in accordance with the laws and regulations pertaining to the industry.
- (b) Ensures that all employees of the Bank, follow accepted ethical standards in discharging their duties.
- (c) Interprets 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.
- (d) Protects the Bank's tangible and intangible assets, the financial security of the business and most importantly the good reputation of the Bank.
- (e) Provides regular updates to staff when there are changes in legislation/regulations pertaining to the banking business, and conduct training throughout the branch network so as to ensure compliance awareness at all times.
- (f) Ensures that there is an effective corporate governance culture across all levels of the Bank.
- (g) Aligns the Bank's corporate activities and behaviour to ensure that it operates in a safe and sound manner maintaining the trust and confidence of the public.
- (h) Assesses the branches to ensure that the branch network is acting in compliance with the rules and regulations of the industry.
- (i) Carries out a process of periodic confirmation of compliance from respective departments and brings to the notice of the Board of Directors any breaches identified in order to take rectifying measures.
- (j) Submits confirmation reports on compliance with Directives of Central Bank of Sri Lanka (CBSL) to the Bank Supervision Department.

### COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

Today, Money Laundering and Terrorist Financing has become a major issue worldwide creating a huge threat to the Banking and Finance Industry. As a country Sri Lanka has enacted laws pertaining to Money Laundering and Terrorist Financing identifying them as crimes which are punishable by fines or imprisonment.

People's Bank has internally developed the following effective Anti-Money Laundering procedures to reduce the risk of the Bank being facilitating Money Laundering transactions. The Bank exercises its vigilance over the transactions carried out through this system.

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

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

- Training programmes are conducted across the branch network on Anti-Money Laundering/Know Your Customer, Customer Due Diligence, Customer Risk Categorisation and reporting of suspicious transactions.
- E-learning modules have been developed on Anti-Money Laundering/Know Your Customer and Western Union Transactions
- The Bank has put in place a Code of Best Practice in Corporate Governance, Anti-Money Laundering and Know Your Customer Policy, Code of Conduct, Compliance Policy and Customer Charter.

In order to mitigate Compliance and Reputation Risk, People's Bank has taken action and has fully complied with the compliance requirements of the country. The Bank has developed systems and procedures to give the fullest support needed to combat Money Laundering and Terrorist Financing. All applicable laws and regulations are strictly followed in this regard.

Compliance function of the Bank though established as an independent unit within the Bank, acts hand in hand with all other departments, especially, Risk Management, Internal Audit and Operations Departments in order to ensure that the Bank acts in compliance with all rules and regulations within the business while providing a fully compliant banking service to the customers. The compliance function of the Bank acts not only as a policing function but rather as one that is designed to assist all employees and the Bank in complying with the laws pertaining to the industry.

## CORPORATE GOVERNANCE

Corporate governance is very critical to the proper functioning of the banking sector and the economy as a whole. Good corporate governance requires effective legal, regulatory and institutional foundations. Given the important financial intermediation role of banks in Sri Lankan economy, the public and the market have a high degree of sensitivity to any difficulties potentially arising from corporate governance shortcomings in banks.

Sound corporate governance is a vital element in the safe and sound functioning of a bank and may unfavourably affect the bank's risk profile, if not implemented effectively. It also contributes to the protection of depositors and may permit the supervisor to place more confidence on the bank's internal processes.

Corporate governance is most often viewed as both structure and relationships which determine corporate direction and performance. The board of Directors is typically central to corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers and creditors.

**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.**

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. In today's context, 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 one of the largest State-owned Banks in the country, People's Bank also believe in having a high level of corporate governance which will provide the Bank with a competitive advantage over its peers.

### CORPORATE GOVERNANCE FRAMEWORK



**BANK'S ADHERENCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA AND SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA**

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

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
	<ul style="list-style-type: none"> <li>Is employed in another company or business:               <ul style="list-style-type: none"> <li>- in which a majority of the other Directors of the Company are employed or are Directors; or</li> <li>- in which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or</li> <li>- that has a Significant Shareholding in the Company or with which the Company has a Business Connection;</li> </ul> </li> <li>Is a Director of another company:               <ul style="list-style-type: none"> <li>- in which a majority of the other Directors of the Company are employed or are Directors; or</li> <li>- that has a Business Connection with the Company or Significant Shareholding in the Company;</li> </ul> </li> <li>has a Material Business Relationship Shareholding in another company or business:               <ul style="list-style-type: none"> <li>- in which a majority of the other Directors of the Company are employed or are Directors; and/or</li> <li>- which has a Business Connection with the Company or Significant Shareholding in the same.</li> </ul> </li> </ul>		
Nomination Committee	The Chairman and members of the Nomination Committee should be identified.	A.7.1	Complied with.
Appointment of New Directors	When new Directors are appointed, the following details should be disclosed: <ul style="list-style-type: none"> <li>○ A brief résumé of each such Director;</li> <li>○ The nature of his expertise in relevant functional areas;</li> <li>○ The names of companies in which the Director holds directorships or memberships in Board committees; and</li> <li>○ Whether such Director can be considered independent.</li> </ul>	A.7.3	Compiled with. The Directors are appointed as per the provisions under the People's Bank Act.
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"> <li>○ name, qualification and brief profile;</li> <li>○ the nature of his/her expertise in relevant functional areas;</li> <li>○ immediate family and/or material business relationships with other Directors of the Bank;</li> <li>○ whether Executive, Non-Executive and/or Independent Director;</li> <li>○ names of listed companies in Sri Lanka in which the Director concerned serves as a Director;</li> <li>○ 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.)</li> <li>○ number/percentage of Board meetings of the Company attended during the year;</li> <li>○ the total number of Board seats held by each Director indicating listed and unlisted companies and whether in an Executive or Non-Executive capacity;</li> <li>○ names of Board Committees in which the Director serves as the Chairman or a member; and</li> <li>○ number/percentage of committee meetings attended during the year.</li> </ul>	A.10.1	Complied with. The 2014 Annual Report contains comprehensive information in this regard.
Disclosure of Remuneration	<ul style="list-style-type: none"> <li>○ A Statement of Remuneration Policy;</li> <li>○ Details of remuneration of the Board as a whole;</li> <li>○ 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.</li> </ul>	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"> <li>Names of the members of the Audit Committee should be disclosed.</li> <li>Basis for determining the Independence of Auditors.</li> </ul>	D.3.4	Names of members of the Audit Committee are given in the Directors' Report on pages 112 and 113. 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"> <li>Should disclose whether the Bank has a Code of Business Conduct and Ethics for Directors and Key Management Personnel.</li> <li>Should also disclose an affirmative declaration that they have abided by such Code.</li> <li>The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.</li> </ul>	D.4.1 & D.4.2	Complied with. Bank has Code of Ethics for Directors and a Code of Conduct for its Employees.
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
<b>B. REMUNERATION COMMITTEE REPORT</b>			
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 112 and 113 of this Annual Report.
<b>C. DIRECTORS' REPORT</b>			
Directors' Report	<p>Should contain the following declarations made by Directors:</p> <ul style="list-style-type: none"> <li>○ The Company has not engaged in any activity, which contravenes laws and regulations;</li> <li>○ The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested;</li> <li>○ The Company has made all endeavours to ensure the equitable treatment of shareholders;</li> <li>○ The business is a going concern, with supporting assumptions or qualifications as necessary; and</li> <li>○ They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith.</li> </ul>	D.1.2	Complied with.
<b>D. FINANCIAL STATEMENTS</b>			
Financial Statements	<ul style="list-style-type: none"> <li>○ The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements.</li> <li>○ Auditors should also have a statement about their reporting responsibility.</li> </ul>	D.1.3	Complied with.
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	Related Party Transactions were disclosed according to LKAS.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL and SEC	Level of Compliance
<b>E. MANAGEMENT REPORT</b>			
Management Report	<p>Should include a 'Management Discussion and Analysis Report' discussing at least the following issues:</p> <ul style="list-style-type: none"> <li>○ Industry structure and developments;</li> <li>○ Opportunities and threats;</li> <li>○ Risks and concerns;</li> <li>○ Internal control systems and their adequacy;</li> <li>○ Social and environmental protection activities carried out by the Bank;</li> <li>○ Financial performance;</li> <li>○ Material developments in human resources/industrial relations; and</li> <li>○ Prospects for the future.</li> </ul>	D.1.4	Complied with.
<b>F. CORPORATE GOVERNANCE REPORT</b>			
Corporate Governance Report	Should disclose the manner and extent to which the Bank has complied with as per the principles and provisions of the Code.	D.5.1	Complied with.
<b>G. AUDIT COMMITTEE REPORT</b>			
Audit Committee Report	Should set out the work carried out by the Committee.	D.3.3	Complied with.
<b>H. STATEMENT ON INTERNAL CONTROL</b>			
Statement on Internal Control	<p>Should disclose the following as a minimum:</p> <p>(a) The Board should summarise the process it has applied in reviewing the design and effectiveness of the system of internal control.</p> <p>(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.</p> <p>(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.</p>	D.1.3 & D.2.3	Complied with. Refer Directors' Statement on Internal Control on pages 115 and 116.

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>		
<b>I. SUSTAINABILITY REPORTING</b>			
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"> <li>○ Sustainable economic performance</li> <li>○ The environment</li> <li>○ Labour practices</li> <li>○ Society</li> <li>○ Product responsibility</li> <li>○ Stakeholder identification, engagement and effective communication.</li> </ul> <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 Management Discussion and Analysis on pages 54 to 68.

## SUBCOMMITTEES OF THE BOARD

### Board Subcommittees



Board Human Resources and Remuneration Committee (BHRRC)	Board Integrated Risk Management Committee (BIRMC)	Board Nomination Committee (BNC)	Board Investment Banking Committee (BIBC)	Board IT Committee (BITC)	Board Audit Committee (BAC)	Board Executive Credit Committee (BECC)
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### NUMBER OF BOARD MEETINGS AND BOARD SUB COMMITTEE MEETINGS HELD DURING THE YEAR 2014

Name of Committee	No. of Meetings
Board Meetings	13
Board Audit Committee (BAC)	10
Board Executive Credit Committee (BECC)	26
Board Human Resource and Remuneration Committee (BHRRC)	13
Board Integrated Risk Management Committee (BIRMC)	04
Board Nomination Committee (BNC)	02

### ATTENDANCE AT BOARD MEETINGS AND BOARD SUBCOMMITTEE MEETINGS DURING THE YEAR 2014

Name of the Director	Board Meetings	BECC	BHRRC	BIRMC	BAC	BNC
Mr. Gamini Senarath	12	N/M	N/M	N/M	N/M	2
Mr. Jehan P. Amaratunga	12	N/M	N/M	4	10	2
Ms. Lakshmi K. Sangakkara	12	25	N/M	N/M	N/M	N/M
Ms. Dharma N. Gammampila	12	N/M	12	3	8	N/M
Mr. D.M. Pawara Dassanayake	13	24	12	N/M	N/M	N/M
Mr. G.K.D. Amarawardena	13	N/M	13	N/M	9	1
Mr. R.M.P. Ratnayake	8	N/M	N/M	4	10	1
Mr. P. Kudabalage	10	26	N/M	N/M	N/M	N/M

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

## **SOCIETY: THANKS A TRILLION!**

By our very charter, the Bank has been deeply rooted in the social fabric of Sri Lanka. It is the reason we are the People's Bank.

Whether a customer of the Bank or not, every person is a precious resource not just to the Nation but to all of us who conduct enterprise in the country. We are acutely aware of our role within the wider society and value the goodwill of every citizen of this country.

To all of you – Thank you!

We are honoured to have conducted upliftment programmes within society during the year to a value of Rs. 23 Mn.



## INTRODUCTION

## INTRODUCTION

The People's Bank and its subsidiaries are involved in a number of business activities which can be roughly segmented into Banking and Finance, Insurance and Travel. Each of these entities have their own Boards of Directors who monitor and review the risk profiles of the individual companies which are again reviewed by the Board Integrated Risk Management Committee (BIRMC) of the People's Bank at least quarterly to ensure that they remain within set parameters.

The People's Bank Group comprises of two subsidiaries i.e., People's Leasing & Finance PLC (PLC) and People's Travels (Pvt.) Ltd. and four sub-subsidiaries i.e., People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd., People's Insurance Ltd., People's Finance PLC, People's Microfinance Ltd., People's Leasing Havelock Properties Ltd. and an associate company i.e., People's Merchant Finance PLC.

## GROUP RISK MANAGEMENT FRAMEWORK AT PEOPLE'S BANK

In an environment of rapid market changes, growing uncertainty, increasing sophistication of customers, major technological progress and increasing regulatory involvement and oversight, major business decisions are ever more dependent on a robust and reliable assessment of potential risks. As a financial group with a large customer base and a varied product portfolio in its Banking, Finance and Insurance sectors, People's Bank and its subsidiaries and associate companies are exposed to a wide

range of risks of varying severity. This gives rise to the need to identify and limit risks systematically at an early stage to prevent the People's Bank Group being endangered. The aim is to maintain entrepreneurial flexibility and financial stability, to increase systematically the value of the Bank on a sustainable basis and thus to ensure the continued existence of the People's Bank Group in the long term.

## OBJECTIVES

The objective of People's Bank's Group Risk Management Framework is to control and steer Group risks by:

1. managing and optimising Group-wide asset quality and the cost of risk;
2. determining and monitoring the Group's risk appetite and evaluating its capital adequacy;
3. defining - in compliance with regulatory requirements - the Group rules, methodologies, risk limit types, policies and strategies for risk management;
4. verifying the adequacy of the risk measurement systems adopted throughout the Group;
5. creating a Group-wide risk culture.

## RISK IDENTIFICATION

The People's Bank Group is involved in a number of business activities. The major activities can be roughly divided into, Banking and Finance, Insurance and Travel.

Each of these entails various risks which can be analysed as follows:

[illegible]

### **GROUP RISK MANAGEMENT PRINCIPLES OF THE PEOPLE'S BANK GROUP**

1. The risk policy is geared in particular towards both financial and non-financial risks. The Board of Directors (BOD) of People's Bank determines the Group's risk strategy and overall risk appetite and defines accountabilities, reporting structures, documentation and management of identified risks and thresholds.
2. Group wide risk management is carried out in a decentralised manner; risk management, which is geared towards financial resources as well as strategic and operational planning, is considered a primary responsibility of the CEOs and Risk Management Units of the different operating entities.
3. Key Risk Indicators (KRI) and relevant thresholds, which broadly define the Group's risk appetite, are formulated for each Group entity to which People's Bank's exposure exceeds Rs. 500 Mn. These are intended to ensure that corporate decisions and ongoing business activities are kept within defined risk limits and comply with regulatory and legal requirements while also ensuring that the Group as a whole does not encounter any undue stress especially in terms of capital, liquidity or reputation.
4. Each of the Group entities is required to manage and report risks on a quarterly basis to the BIRMC of the People's Bank in accordance with the prescribed KRIs.
5. The BIRMC is responsible to ensure that the measures introduced to manage risk are closely monitored on an ongoing basis and adjusted to a new risk assessment where necessary. This is done on an ongoing basis in consultation with the CEOs and Risk Management Divisions of the individual entities.
6. The BIRMC of People's Bank reviews these reports, especially with regard to exceptions and trends, and takes appropriate preventive, safeguarding and corrective measures to reduce the probability of occurrence of risks or restrict their potential level of damage. If necessary, additional measures are taken in order to further limit and reduce identified potential risks.
7. The BIRMC keeps the main Board of People's Bank and the Board Audit Committee (BAC) of People's Bank informed of any unforeseen significant changes to the risk situation or if any existing or potential risks exceed the overall risk appetite of the Group.
8. The BAC of People's Bank, in conjunction with the Internal Audit Department of People's Bank, periodically examines the adequacy and efficacy of controls in each of the Group entities to ensure that they are in line with Group risk standards.

### **RISK GOVERNANCE - BANK RISK APPETITE**

The Board of Directors has ultimate responsibility for setting the risk appetite of the Bank and ensuring that exposures and risks are maintained within the approved levels. They decide on policies for credit, market, liquidity and operational risks based on recommendations made by the BIRMC, the Asset Liability Committee (ALCO) and the Board Executive Credit Committee (BECC). Internal and External Auditors provide assurance to the Board about the effectiveness of policies and procedures in place.

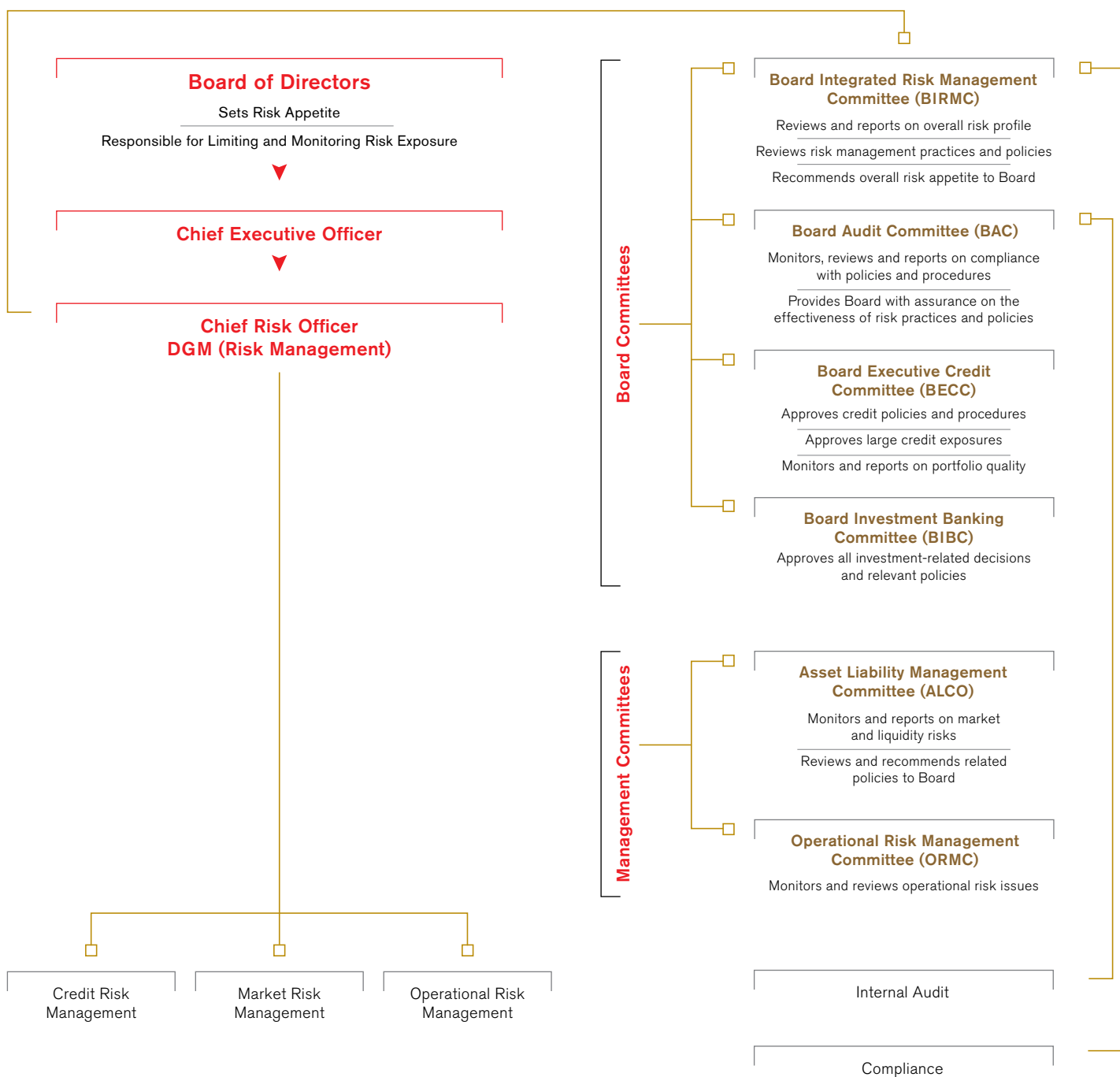
### **RISK MANAGEMENT FRAMEWORK**

People's Bank's risk management framework encompasses the full scope of risks to be managed, the processes/systems and procedures to manage risk and the roles and responsibilities of committees and individuals involved in risk management. The framework is comprehensive enough to capture all risks, the Bank is exposed to and has the flexibility to accommodate any change.

The individuals responsible for review functions (risk review, internal audit, compliance etc.) are independent from risk taking units and report directly to Board or Senior Management who are also not involved in risk taking.



## BOARD AND SENIOR MANAGEMENT OVERSIGHT CORPORATE GOVERNANCE STRUCTURE



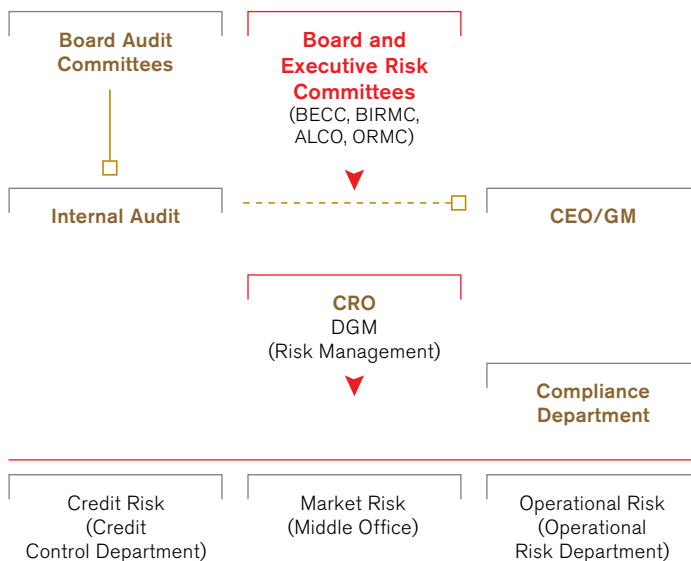
**BOARD AND SENIOR MANAGEMENT OVERSIGHT**

The Board of Directors of People's Bank is responsible for setting the overall risk appetite and oversight of the risk management process and acts through the Board Integrated Risk Management Committee (BIRMC).

**RISK MANAGEMENT DEPARTMENT**

The Risk Management (RM) Department functions completely independent from the business functions. Accordingly, the Head of RM reports directly to the BIRMC to maintain independence of action.

THE ORGANISATION STRUCTURE OF THE RISK MANAGEMENT DIVISION IS SET OUT BELOW:



The Risk Management Department is responsible for:  
Assisting in the preparation of the Risk Policies and Frameworks and carrying out periodic reviews.

**CREDIT RISK MANAGEMENT**

1. Reviewing, restructuring and recommending or declining credits to ensure growth of a healthy portfolio.
2. Ensuring that credit policy guidelines are respected and highlighting deviations.
3. Developing/improving credit scoring models.
4. Portfolio management – concentrations, adverse trends.
5. Providing inputs on economic and industry conditions (with assistance from the Bank's Research Department).
6. Ongoing review and implementing watch-list process for early identification of weak credits.
7. Post-grant reviews of exposures on a sample basis of proposals approved by Regions.

**MARKET RISK AND ASSET LIABILITY MANAGEMENT**

1. Setting limits for Treasury front office activities and reporting breaches.
2. Setting limits and benchmarks for Asset and Liability Management (ALM).
3. Independent verification of valuation rates and methodology.
4. Using Value at Risk (VaR), Duration etc. to quantify and manage market risk and validating models used for their calculations.

**OPERATIONAL RISK MANAGEMENT**

1. Co-ordinating with functional business heads to map business processes, identify risks and controls.
2. Implementing an incident reporting system to building a loss database to quantify operational risk across the Bank.
3. Co-ordinating with Audit Department to continuously verify data captured for operational losses and to ascertain the effectiveness/implementation of the existing controls.
4. Direct the process of self-assessment of operational risks in each operating department.
5. Assist to define KRIs for each operational unit/product.
6. Co-ordinate with DGM Services and Business Units to ensure effective and up-to-date Contingency Planning/Disaster Recovery Plan (DRP) measures are in place across the network.
7. Ensure that risks that have a High Impact and/or High Frequency are adequately transferred by means of appropriate insurance arrangements.

**NEW PRODUCT EVALUATION**

1. Evaluate credit, market, operational, ALM and legal risks at the design stage of a new product.
2. Suggest risk measurement and mitigation measures, if necessary.
3. Facilitate the transition of People's Bank to compliance with the more advanced versions of Basel II.
4. Co-ordinate with IT Department to implement a fully-integrated risk management system.
5. Co-ordinate with IT Department to establish a data warehouse to collect data from various processing systems.
6. Track risk rating migrations and recovery rates to establish Probability of Default and Loss Given Default data.
7. Work with Treasury Department to implement VaR and Duration measures for the measurement of foreign exchange and Interest Rate Risks.

### STRESS TESTING

Conducting stress tests and measuring their impact on the Bank on account of credit, market and liquidity risk exposures is undertaken by the Bank. These tests are carried out in conjunction with the Finance Department who is responsible for providing the required data. These tests are carried out at least quarterly and at a minimum includes those specified by the CBSL and are reported to the BIRMC.

### MONITORING AND CONTROLS

As one of the largest banks in Sri Lanka, providing a full spectrum of services to a wide clientele 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.

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:

1. The individuals who take or manage risks clearly understand it.
2. The organisation's risk exposure is within the limits established by the Board of Directors.
3. Risk-taking decisions are in line with the business strategy and objectives set by the Board of Directors.
4. The expected payoffs compensate for the risks taken.
5. Risk-taking decisions are explicit and clear.
6. We comply with all applicable laws and regulations of the country and with the governance standards prescribed.
7. We apply high and consistent ethical standards to our relationships with all customers, employees, and other stakeholders.
8. 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.
9. Sufficient capital as a buffer is available to take risk.

Counterparty credit risk is the most significant risk that People's Bank is exposed to and on a somewhat lesser scale are operational and market risks.

Accordingly, the management of counterparty credit risk gets the most amount of attention with a Board Executive Credit Committee reviewing and approving the larger risk exposures in addition to monitoring portfolio quality and reviewing and approving policies related to credit risk. Training in the art of credit risk assessment, a hierarchy of approval authorities, well-defined policies and procedures on credit risk assessment, risk acceptance criteria, risk rating systems, prudent limit setting, collateral and pricing form the basis of credit risk management.

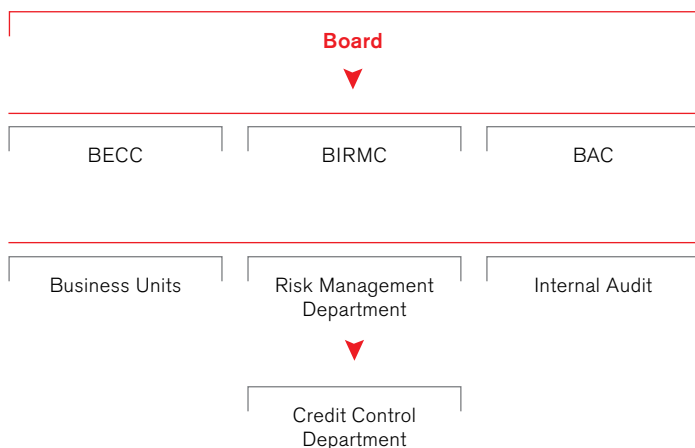
While People's Bank recognises that operational risk is inherent in its activities and cannot be fully-eliminated policies, procedures (including DRP), structures, internal audit, tolerance limits, insurance, training and data form the core of the Operational Risk Management Framework. Loss data is continuously gathered from across the network, which is then analysed for trends and control lapses and reviewed quarterly by the BIRMC to ensure the adequacy and effectiveness of controls in place.

People's Bank is exposed to market risk on the positions it assumes on both its own account and from serving customer requirements. The Treasury Department manages all market risks under the guidance of the ALCO which sets limits and formulates policies and procedures for approval by the Board. These are again reviewed periodically by the ALCO and the BIRMC to ensure that exposures remain within the Bank's overall risk appetite. The Bank uses a suite of risk methodologies to measure, report and limit the market risks taken by it. These include a VaR model, Duration Gap Analysis as well as various stress tests and scenario analyses.

The vast majority of our exposure to State-Owned Enterprises (SOEs) comprises the strategically important Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB) and State-Owned fertilizer import companies. These companies are of national importance and accordingly receive support from the Government to ensure their continuance. Accordingly, our exposures to them are either explicitly or implicitly guaranteed by the Government of Sri Lanka (GOSL) and therefore have not been considered as presenting any undue risk in terms of concentration.

**CREDIT RISK**

Credit risk arises because the Bank's customers and counterparties may fail to meet their contractual obligations and derives principally from the loans and receivables 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 Bank's clients.

**ORGANISATION STRUCTURE FOR CREDIT RISK MANAGEMENT**

The Board has delegated to the BECC the responsibility of the oversight and management of credit risk, which includes:

1. Formulating and updating credit policies in consultation with the BIRMC and Business Units.
2. Establishing credit approval structures so as to ensure that the larger and higher risk exposures are reviewed and approved at the appropriate levels of seniority.
3. Periodic review of individual credit exposures and overall portfolio to ensure that there are no undue risk concentrations.
4. Adequacy of provisions and management of higher risk exposures.
5. Developing and maintaining risk rating systems as a means of quantification of credit risk, differentiating between the various levels of risk and determining the degree of control and supervision required.
6. Sanctioning or declining credit proposals above a pre-defined limit.

In addition, Internal Audit Department conducts regular audits of the branches and business units to provide assurance of the adequacy of controls and an independent assessment of the risks to Senior Management and the Board Audit Committee.

**MANAGEMENT OF CREDIT RISK**

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

1. Independence of the credit risk management function from the business divisions.
2. The internal rating of each borrower which forms the basis for correct risk appetite determination and adequate pricing of transactions.
3. 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 has 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 creditworthiness 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 watch list. The objective of this early warning system is to address potential problems while adequate options for action are still available.

#### 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 31.12.2014
Classified Loans/ Total Loans	< 4.0%	4-5 %	> 5%	<b>3.60%</b>
Overdues/Total Loans	< 5%	5-10%	> 10%	<b>19.59%</b>
Provision Cover	> 90%	75-90%	< 75%	<b>94.76%</b>
HHI – Name Concentration	< 0.15	0.15-0.25	> 0.25	<b>0.04</b>
HHI – Sector Concentration	< 0.15	0.15-0.25	> 0.25	<b>0.19</b>
Corporate Cross Border Exposure – Country Risk	<10%	10-15%	> 15%	<b>0.14%</b>

#### CREDIT CONCENTRATION RISK

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 sectoral factors.

While People's Bank is fully-cognisant of the need to maintain a well-diversified portfolio, it has nevertheless acquired degrees of concentrations in exposures to SOE, Pawning and Housing, arising from its position as a State-Owned Bank, aligned to the Government's socioeconomic development initiatives and its historical position as a pioneer of pawning activities. Both Housing and Pawning exposures are spread over a large number (in excess of 500,000 and 2 million respectively) of customers, mitigating credit concentration risk to a large extent. Suffice to say that, capital losses on either of these two products have been negligible to date. Notwithstanding, control procedures etc. continue to be regularly refined in light of changing operating conditions.

On the other hand, People's Bank's exposures to the SOEs comprise largely of the strategic CPC, CEB and the two fertilizer import companies. While the former two enjoy a near monopolistic position, the latter also are the two largest in an industry that is vital to the growth and stability of the country. Furthermore, exposures to the SOEs are largely underpinned by explicit support from the Government Treasury. Accordingly, exposures to the SOE are not considered at an undue exposure of risk.

**CONCENTRATIONS OF LARGE EXPOSURES  
(OVER RS. 100 MN) AS AT 31ST DECEMBER 2014**

Group Companies	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 SOEs	16	168	325,328	123,820	449,148	52%
Without SOEs	15	143	24,916	29,814	54,730	4%

Position of the top 20 customers of the Bank as at 31st December 2014 in terms of their share of the large exposures (above Rs. 100 Mn exposures):

Share of Large Exposures	Top 3	Top 5	Top 10	Top 20
Name Concentration (with GOSL)	61.8%	72.9%	83.3%	90.3%
Name Concentration (without GOSL)	30.5%	38.1%	48.7%	61.3%
<b>Share of Total Exposure</b>				
Name Concentration (with GOSL)	44.7%	52.8%	60.3%	65.3%
Name Concentration (without GOSL)	2.7%	2.4%	4.3%	4.3%

**MANAGEMENT OF CONCENTRATION RISK**

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 a name and a sector basis. For purposes of the latter, the Bank has further segmented its portfolio into 16 easily identifiable industry sectors (see below). 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 2014 was as follows:

Metric	31.03.2014	30.06.2014	30.09.2014	31.12.2014
Name Conc. W/O SOEs	0.02	0.02	0.03	0.04
Name Conc. with SOEs	0.21	0.22	0.20	0.19
Sector Conc. W/O SOEs	0.12	0.15	0.18	0.19
Sector Conc. with SOEs	0.24	0.26	0.25	0.25

People's Bank has maintained a well-diversified portfolio, both in terms of individual customers and sectors, when exposures to SOEs are ignored.

## Industry Sector Exposure

(Only for exposure over Rs. 100 Mn)

Industry Sector	WARR*	Limit	Outstanding Without GOSL
1. Construction	BBB	20,000	19,426.76
2. Food and Beverages	B	39,000	2,178.45
3. Information Techonology	C	39,000	1,245.36
4. Lease & Finance	B	29,000	64.95
5. Manufacturing/Printing & Packaging	BBB	39,000	2,240.45
6. Vehicle Imports	BB	20,000	1,240.24
7. Pharmaceutical	BB	39,000	405.67
8. Commercial Agriculture (Tea, Suger, Rubber, Plantation)	BBB	29,000	1,284.21
9. Telecommunication/ Power	BBB	29,000	7,795.54
10. Tourism/Hotel Management	BB	29,000	3,281.92
11. Trading	B	39,000	10,270.07
12. Fertilizer (Imports/ Distribution)	BBB	39,000	103.09
13. Garments Manufacturing/ Exports	BB	20,000	3,289.81
14. Retail Trading	A	20,000	500.93
15. Other (Chemical, Furniture, Holding, Personal, Media, Fuel)	CCC	29,000	1,402.41
			<b>54,729.85</b>

\*WARR - Weighted Average Risk Rating

## DIVERSIFICATION OF THE PORTFOLIO

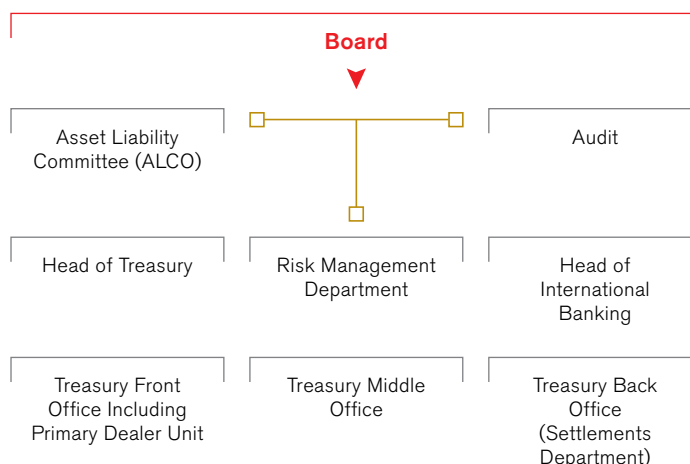
The level of diversification of the Bank's loans and receivables portfolio is regularly monitored by the Risk Management Division against following exposure parameters.

1. At product level
2. At purpose/industry sector level
3. By collateral
4. By borrower risk rating

## MARKET RISK

Market risk is the risk that changes in foreign exchange rates, interest rates and equity prices will adversely affect the Bank's income and/or the value of any financial instruments that it may hold.

## ORGANISATION STRUCTURE FOR MARKET RISK MANAGEMENT



For the management of market risks, the Board, on the recommendations of the ALCO, sets limits for the various Treasury and Investment-related activities. These are closely monitored and reported on by the Middle Office, and discussed fortnightly by the ALCO. The ALCO is responsible for the development of market risk management policies while the Middle Office is responsible for the day-to-day monitoring of exposures against these policies. The Treasury however, is primarily responsible for the overall management of market risks on an ongoing basis.



## RISK APPETITE FOR MARKET RISK

The Bank has a low risk appetite for market risk; proprietary trading is kept to a minimum and bulk of positions are taken on account of client-related transactions. As a policy, the Bank does not deal in derivatives.

The limits for trading in Foreign Exchange, Fixed Income Securities and Equities, as approved by the Board of Directors, are given below:

## LIMITS AND POSITIONS FOR MARKET RISK DURING 2014

	Approved Limit	31.12. 2014
Fx Net Open Position	US \$ +/- 16 Mn	Max: US \$ 12.67 Mn Min: US \$ 0.01 Mn
Value at Risk (VaR) (Conf. Level 99%, 1 day)	US \$ 250,000	<b>Bloomberg</b> Max: US \$ 45,028 Min: US \$ 1,813 <b>Finacle Treasury</b> US \$ 37,428 US \$ 2,948
Cumulative Losses		
1. Fx Trading	US \$ 175,000	Max: US \$ 5,512
2. FIS Trading (Realised)	Rs. 25 Mn	Max: Rs. 17.2 Mn
(Unrealised)	Rs. 500 Mn	No losses
Forward Fx Gap Limit	US \$ 210 months millions	Max: US \$ 308.73 months millions Min: US \$ 0.04 months millions
GOSL Trading Securities	Rs. 90 Bn	Max: Face value: Rs. 79.8 Bn
GOSL Investment Securities	Rs. 155 Bn	Max: Face Value: Rs. 90.4 Bn
Sri Lanka Development Bonds (SLDB)	US \$ 350 Mn	Max: US \$ 335.0 Mn
Inter-Bank Borrowings	Rs. 150 Bn	Max: Rs. 139.0 Bn Min : Rs. 37.4 Bn
DBU Foreign Currency Borrowings	US \$ 50 Mn	Max: US \$ 30.0 Mn Min : US \$ 0.9 Mn
Investment Value of Share Portfolio	Rs. 1,000 Mn	Max: Rs. 976.0 Mn (MV: Rs. 1,234.3 Mn)
Shares Consist on the S&P SL20 Index	Min 25%	Max: 52% Min: 24%
Interest Rate Risk (DGap+VaR on Fwd FX)	Rs. 5 Bn	Max: Rs. 4.51

### PAWNING

The Bank has been a pioneer of pawning activities where advances, usually up to one year, are made against the pledge of gold and items made of gold. This provides a quick and easy access to finance for customers who normally would not be bankable risks. As at the end of 2014, the Bank had around 16.6% of its loans exposed to this business comprising of well over 2 million clients.

As the exposure is backed by gold, which is considered to be readily resalable, no risk weighting has been assigned by the regulator. However, the price of gold, like any other commodity, is volatile and can quickly reduce the security margins. After a number of years of steady increase in world gold prices, 2013 and 2014 witnessed a rapid price fall of close to 30%. This resulted in a number of clients not redeeming their pledge items on due dates, requiring the Bank to auction the items pledged as required under the Pawning Act. As this phenomenon was experienced by all Pawnors, this increased the supply at auctions, causing further reduction in recoveries, resulting in the Bank having to write-off a significant portion of its interest income. However, capital losses were negligible.

### MANAGEMENT OF PAWNING

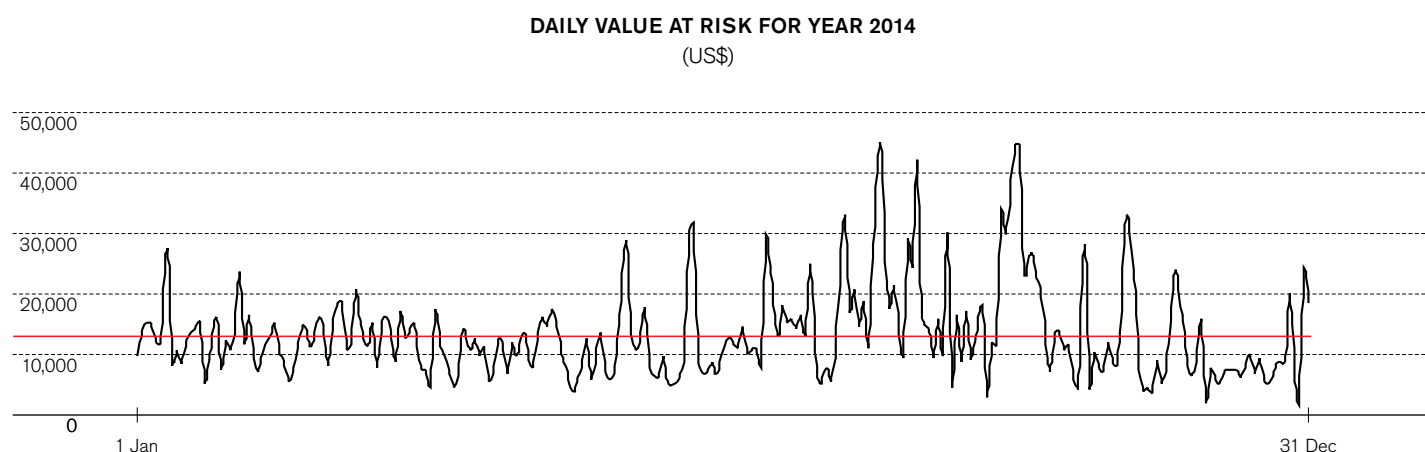
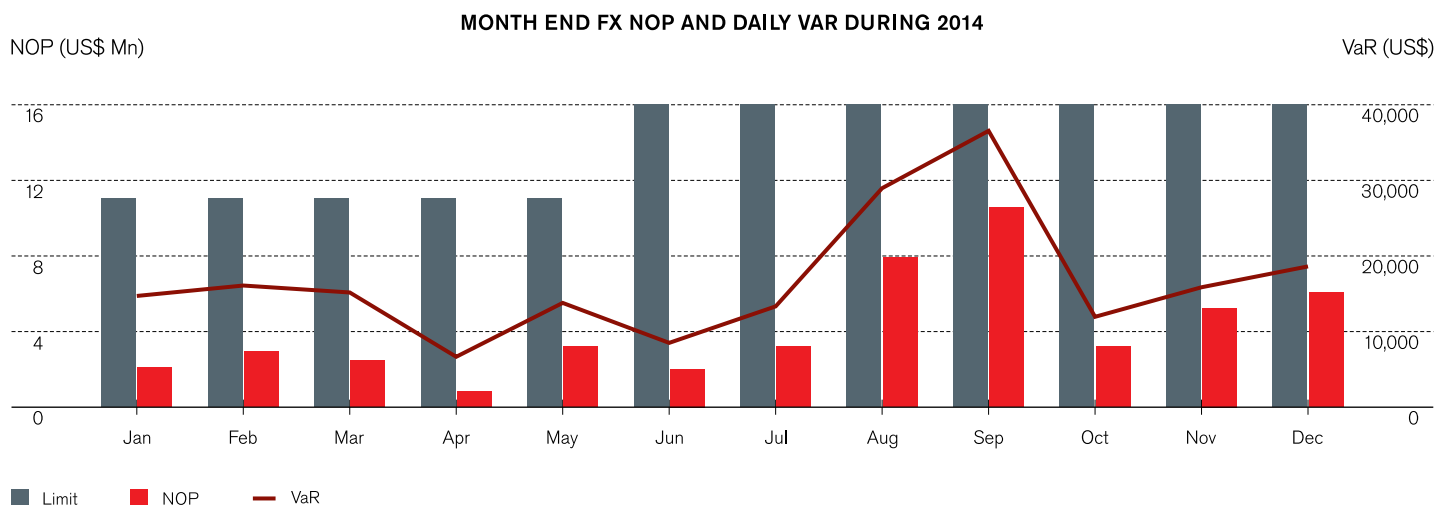
The Bank uses the following to manage and mitigate the inherent risks in pawning:

- 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 (Gold content) 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
- Increase the frequency of auction cycle
- Following provisions are also made:
  - (a) 0.75% of the incremental value of the portfolio
  - (b) 2% of the gross interest income net of any reversals
  - (c) 1.5% of pawning advances granted

### FOREIGN EXCHANGE RISK

Foreign exchange risk is being managed on a day-to-day basis by the Bank's Treasury Department. Volume limits are set on open positions by currency and also for the overall open position, for both daylight and overnight positions. These volume limits are the less of those approved by ALCO or set by the CBSL. In addition, Daily Value at Risk is also used and will, eventually, become the primary mechanism for 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. This means, the Bank estimates there is a 1 in 100 chance that a mark to market loss from the Bank's trading positions will be at least as large as the reported value-at-risk. For internal capital assessment purposes, the holding period is taken as ten days.

VaR calculations are performed by the Bank's Treasury Management System (Finacle) purchased from Infosys India and uses the Parametric Method (Variance-Covariance). In the absence of a formal model validation (the expertise for which is as yet not available locally), we also continue to use the VaR capability provided by the internationally accepted Bloomberg system and against which the outcomes from Finacle are compared and validated.



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.

The risk arising out of foreign exchange maturity gaps is controlled by setting a forward maturity gap limit measured in months millions USD.

The Middle Office monitors these exposures against the limits set by the ALCO and other regulatory guidelines.

#### VALUATIONS

**Mark to Market** - This is a process through which the Treasury Back Office values all outstanding positions at the current market rate to determine the current market value of these. This exercise also provides the profitability of the outstanding contracts. The Treasury Back Office gathers the market rates

from an independent source i.e., other than dealers of the same organisation which is required to avoid any conflict of interest. The Middle Office and Back Office then validate these rates independently.

The valuation exercise is carried out on a daily basis and a full revaluation of all outstanding foreign currency assets, liabilities and contingents at the end of each calendar month. The rates used for revaluation are the market rates prevailing as at 4.00 p.m.

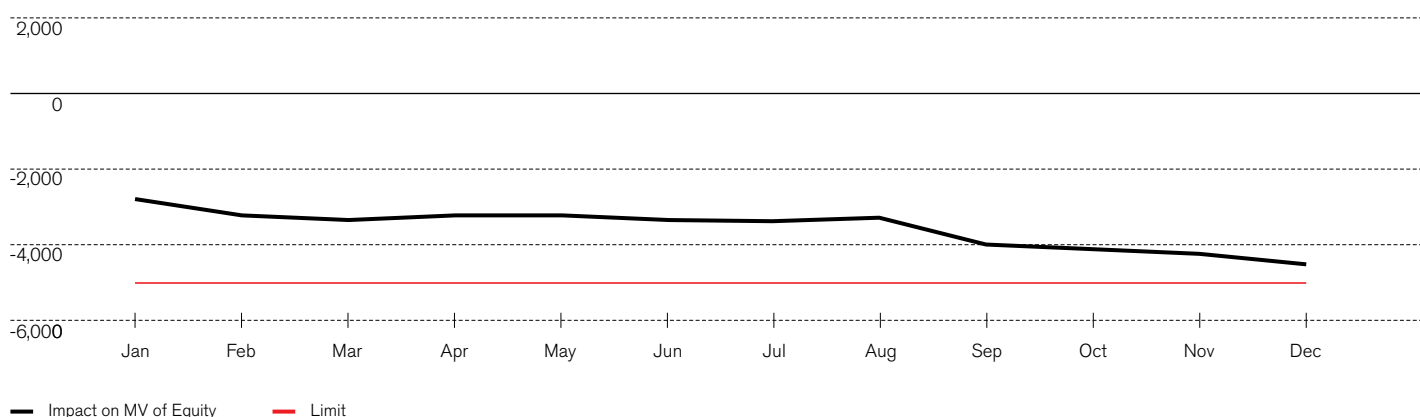
Foreign currency assets and liabilities are revalued at the mid market rate and any gains or losses dealt through the Profit or Loss Account.

Forward contracts are valued at forward market rates and the gains and losses dealt through the Profit or Loss Account.

### 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 should be 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 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 are utilised. An overall limit for interest rate risk is also set.

#### IMPACT ON MARKET VALUE OF EQUITY DUE TO 1% ADVERSE INTEREST RATE CHANGE USING DURATION GAP ANALYSIS (Rs. Mn)



Interest Gaps are measured on both 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 also used to manage interest rate risk.

#### INTEREST RATE RISK IN THE BANKING BOOK

The Bank is subject to interest rate risk due to the re-pricing mismatch of its loans and deposits. This risk is managed by endeavouring to match the re-pricing tenors as far as possible. Further, the relevant assets and liabilities are placed into the maturity band where the contract or agreement is due to be repaid, or when the interest rate may be re-fixed or re-negotiated.

Exposures are measured (in Rs. '000s) in each currency on an individual basis and the net total of each maturity band is then calculated for each currency and the totals for all currencies are then aggregated. Currencies that constitute in excess of 25% of total deposit liabilities are reported separately. As People's Bank's Balance Sheet has no other currency that meets this criteria all other currencies are aggregated into Rupees at prevailing exchange rates.

### 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. Specific policies on managing market risk are contained in the Bank's Investment Banking Policy Manual. In addition to the trading portfolio, the Bank also has a portfolio of strategic investments.

#### RISK APPETITE

The Board has approved limits against following measurement parameters.

- (i) Total exposure to the equity market
- (ii) Concentration limits (Diversification targets)
- (iii) Trading losses

### OPERATIONAL RISK

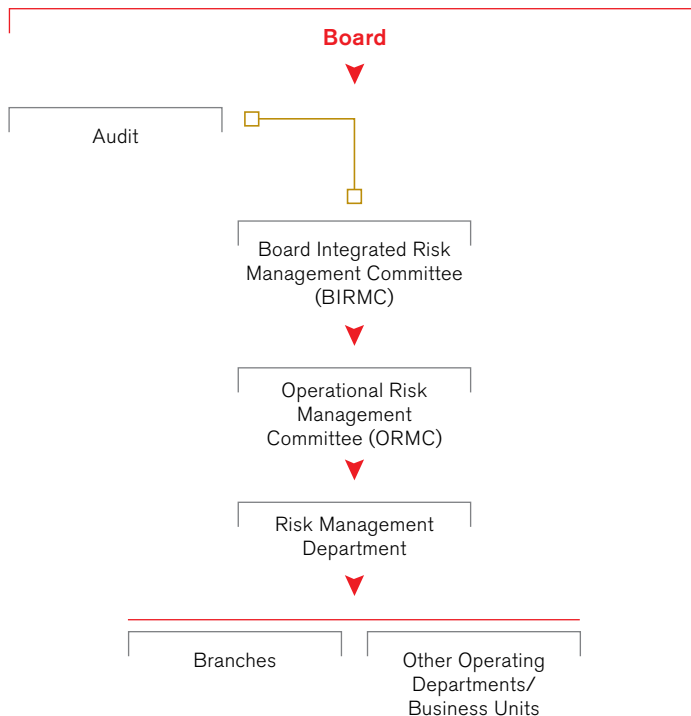
Operational Risk is inherent in all businesses and is the risk of direct or indirect impacts resulting from inadequate or failed internal processes or systems or from external events.

Operational risk covers the following causes of risk:

1. Internal and external fraud
2. Damage to physical assets
3. Business disruption and system failures
4. Execution, delivery and process management
5. Clients, products and business practices
6. Employment practices/workplace safety

Fraud (both internal and external), error, IT system breakdowns, natural disasters, terrorist actions 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.

#### ORGANISATION STRUCTURE FOR MANAGING OPERATIONAL RISK



The prime responsibility for the control of operational risk lies with the branches and business units where the risks originate. 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 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.

Certain risks that have high profitability and low impact and those of low profitability and high impact are insured to minimise losses.

The internal audit function also periodically reviews the entire operational risk management process across the network to provide an assurance to the Board and the Senior Management.

Specific policies to manage operational risk are contained in the Bank's Operational Risk Policy document.

#### MANAGEMENT OF OPERATIONAL RISK

Operational risk is basically managed by:

1. Ensuring that clearly defined operational risk policies and procedures are in place. These include methodologies to help identify, assess, control, manage and report on key operational risks and include:
  - A framework for the Bank to identify their major operational risks and mitigation plans
  - Key control standards
  - Key risk indicators
  - Incident and issues tracking mechanisms to identify causal factors and operational losses.
2. Ensure that roles and responsibilities are agreed and clearly understood by all management levels.
3. Ensure that all staff, in business and support functions, are aware of their responsibilities for operational risk management.
4. Analyse the potential operational risk impact of activities and products prior to launch so as to minimise these as far as possible.
5. Ensure that control failures are properly reported to and to escalate material issues to the Operational Risk Committee and BIRMC as appropriate.
6. Ensure that staff is given operational risk training appropriate to their roles.

7. Ensure that staff and Bank assets are adequately protected.
8. Establish workable Business Continuity Plans (including Disaster Recovery and Crisis Management procedures) to minimise the impact of unplanned events on business operations and customer service.
9. Minimise the financial impact of operational losses, through the utilisation of insurance or other risk transfers where appropriate.

### RISK APPETITE

The Board has laid down the following thresholds for operational risk management

Indicator	Low Risk	Medium Risk	High Risk	2014 Position
Operational Losses - Internal	< 10	10 - 25	> 25	12
Operational Losses - External	< 400	400 - 1000	> 1000	685
Total Value of Operational Losses as a percentage Operational Expenses	< 0.5%	0.5% - 1.0%	1.0%	0.49%
Percentage of Branch Audits Rated Less than Satisfactory	Nil	1%-15%	> 15%	71%

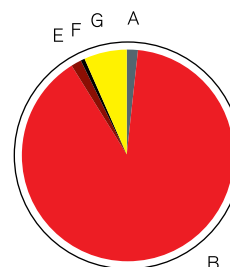
Branch Audits rated "less than satisfactory" are subject to review by the Board Audit Committee and regular follow-up until satisfactory resolution.

### Operational loss record over the last six years up to 2014

	Number	%	Value Rs. Mn	%
Internal Frauds	62	1.56	225.61	21.69
External Frauds	3,570	89.59	684.51	65.82
Employment Practices and Workplace Safety	0		0	
Client, Products and Business Practices	0		0	
Damage to Physical Assets	70	1.76	81.17	7.8
Business Disruption and System Failures	21	0.53	1.8	0.17
Execution, Delivery and Process Management	262	6.57	46.96	4.52
Total	3,985	100	1,040.05	100
Average Per Annum	664.17		173.34	

Most instances of 'External Fraud' are related to the pawning of spurious and stolen articles.

### 2009-2014 OPERATIONAL LOSSES EVENTS BY NUMBERS



A - Internal Frauds	- 1.56%
B - External Frauds	- 89.59%
C - Employment Practices & Work Place Safety	- 0%
D - Client, Products & Business Practices	- 0%
E - Damage to Physical Assets	- 1.76%
F - Business Disruption & System Failures	- 0.53%
G - Execution, Delivery & Process Management	- 6.57%

### 2009-2014 OPERATIONAL LOSSES BY AMOUNT



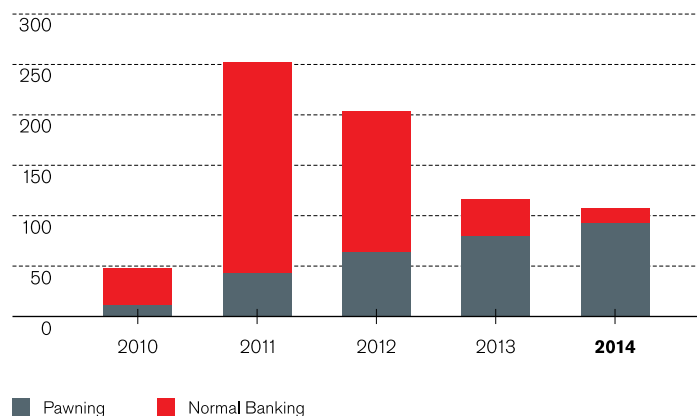
A - Internal Frauds	- 21.69%
B - External Frauds	- 65.82%
C - Employment Practices & Work Place Safety	- 0.0%
D - Client, Products & Business Practices	- 0.0%
E - Damage to Physical Assets	- 7.80%
F - Business Disruption & System Failures	- 0.17%
G - Execution, Delivery & Process Management	- 4.52%

### OPERATIONAL LOSSES RECORD FROM 2009 – 2014, SEGREGATED BETWEEN THOSE ARISING FROM PAWNING AND THOSE FROM NORMAL BANKING BUSINESS

Year	Pawning Rs. Mn	Normal Banking Rs. Mn	Total Rs. Mn
2009	21.4	186.6	208.0
2010	12.5	36.0	48.5
2011	43.2	208.4	251.6
2012	63.8	140.0	203.8
2013	80.1	35.5	115.6
2014	92.86	14.88	107.74

Pawning losses have a much higher frequency, although impact is smaller.

**OPERATIONAL LOSSES FROM 2010-2014**  
(Rs. Mn)



### IT RISKS

As IT system availability is crucial to Bank's service quality and control aspects, its management is a vital part of the overall Operational Risk Management Framework of the Bank.

Accordingly, the Bank has established the following norms to measure the availability of its most critical systems. These are monitored continuously and reviewed quarterly by the BIRMC.

The IT Key Risk Indicators of the Bank for the year 2014 are shown below:

Category	Systems	Availability as a percentage of total working hours	Risk level	Actual availability
High Critical (online real-time systems)	- Central ATM Switch - CORE Banking System - SWIFT - Credit/Debit Card Management System	$\geq 99.9\%$	Low Risk	100%
		99.8% - 97.5%	Moderate Risk	
		$< 97.5$	High Risk	
Medium Critical	- Image Capturing and Presentment System - SMS Banking System - Web Remittance System - Internet Banking System - Finacle (Treasury) - ATM (Individual)	$\geq 97.5\%$	Low Risk	100%
		97.4% - 95%	Moderate Risk	
		$< 95\%$	High Risk	98.60%
Low Critical	IHRM System SLIPS System	$\geq 90\%$	Low Risk	100%
		89.9% - 87%	Moderate Risk	
		$< 87\%$	High Risk	

Overall there has been a high availability of the systems.



### 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.

### MANAGING LIQUIDITY

The Head of Treasury (HOT) is responsible for the day-to-day treasury operations which include funding and liquidity management and ensuring these activities are done in accordance with the Bank's policy and within the stipulated risk limits. The Head of Treasury is also responsible, in conjunction with the Head of Finance, for the reporting of the Bank's funding and liquidity management. The HOT is also responsible for bringing liquidity and other important related issues to the attention of the ALCO for decision-making.

If any limits have been breached, this must be advised to ALCO together with a plan for bringing the positions back within limits. The Middle Office independently monitors the Bank's liquidity position and reports any breaches.

People's Bank manages its liquidity requirements in a number of ways:

- a) Appropriate matching of the maturities of assets and liabilities
- b) Holding an adequate stock of liquid assets such as cash deposits or marketable securities
- c) Having available, adequate borrowing facilities in the form of inter-bank lines
- d) Not being overly reliant on large wholesale deposits. It is the Bank's policy to strive to maintain at least 25% of its total deposits in the form of retail current and savings accounts.

### CONTINGENCY PLANNING

While it is the Bank's policy to ensure that it has sufficient liquidity to meet any emergency at times, it is possible that the Bank may experience liquidity problems due to both external and internal conditions. The Bank also has in place a contingency liquidity plan to manage such situations.

### MEASURING LIQUIDITY RISK – MATURITY MISMATCH APPROACH

The mismatch approach measures liquidity through the difference or mismatch between inflows and outflows in various time bands. A mismatch figure is obtained by deducting the outflows from inflows, the net mismatch. Mismatches are measured on a net cumulative basis by accumulating the net mismatches in each successive time band and are evaluated in the cumulative time bands of sight to seven days, sight to thirty days, sight to three months, sight to six months, sight to twelve months, sight to three years, sight to five years and sight to beyond five years. These mismatches are measured using both the Residual method and the Behavioural method.

### KEY CONTROL GUIDELINES

The following ratios will be used by the Bank to measure and manage its liquidity risk:

1. Loans to Deposits Ratio (in total and in Foreign Currency) =  $\frac{\text{Total Loans and Receivables}}{\text{Total Customer Deposits}}$
2. Commitments Ratio =  $\frac{\text{Unutilised Portion of Overdrafts/Unutilised Inter-bank Lines}}{\text{Total Commitments}}$  (This ratio is to be calculated, both, with and without the DST account balance)
3. Medium Term Mismatch =  $\frac{\text{Liabilities over one year/Assets over one year}}{\text{Total Assets}}$  (Ratio to be calculated on both the Behavioural and Residual maturity methods)
4. Cumulative Mismatch to Total Liabilities across the time bands described above (Behavioural Maturity method)
5. Cumulative Mismatch to Unutilised Inter-bank lines across the time bands described above (Behavioural Maturity method)
6. Statutory Liquid Assets Ratio (SLAR) =  $\frac{\text{Liquid Assets}}{\text{Total Liability Base}}$

## RISK APPETITE

The Board has articulated its appetite for liquidity risk in the form of guidelines which along with the position as at 31st December 2014 is shown below:

## Key Performance Measures and Control Guidelines

	December 14	Guideline
<b>1. Loans/Deposits Ratio Rs. (net)</b>		
(I) Rate-based on Existing Basis	67.6%	<83%
(II) DST A/c - POD Balance is Rs. 2 Bn	61.8%	<80%
<b>2. Loans/Deposits Ratio</b>		
Foreign Currency	206.1%	<90%
<b>3. Commitments Ratio to (Inter-bank Borrowing Capacity)</b>		
(Unutilised Limits on O/D's/(I) With DST A/c	18.9%	<100%
(Unutilised Limits on O/D's/(I) With DST A/c & Money Market	13.0%	<100%
Unused Inter-bank Limits) (II) Without DST A/c	7.4%	<75%
<b>4. Medium-Term Mismatch – Funding (Residual Method)</b>	85.3%	>15%
(% of Liabilities over Assets of Total Balance Sheet over 1 Year)		
<b>5. Medium-Term Mismatch – Funding (Behavioural Method)</b>	88.9%	>15%
(Percentage of Liabilities over Assets of Total Balance Sheet over 1 Year)		
<b>6. Cumulative Gap as a percentage of Total Liabilities (Behavioural Method)</b>		
- Up to 1 month	34.3%	-20%
- 1 to 3 months	-30.5%	-40%
- 3 months to 6 months	-38.6%	-50%
- 6 months to 9 months	-32.5%	-50%
- 9 months to 12 months	-9.8%	-25%
- 1 to 3 years	0.2%	-10%
- 3 to 5 years	-3.4%	-10%
- over 5 years	0%	0%
<b>7. Cumulative Mismatch Over Unutilised Inter-bank Limits percentage (Behavioral Method)</b>		
- Up to 1 month	19%	75%
- 1 to 3 months	-42.6%	25%
- 3 months to 6 months	-73.7%	10%
- 6 months to 9 months	-75.2%	5%
- 9 months to 12 months	-26.8%	5%
- 1 to 3 years	0.6%	26%
- 3 to 5 years	-12.1%	5%
- over 5 years	0%	0%
<b>8. Statutory Liquid Assets Ratio</b>	30.3%	>20%

	December 14	Guideline
<b>9. Liquidity Measurement</b>		
- Net Loans to Total Assets	60.7%	<70%
- Liquid Assets to Short-term Liabilities	37.4%	>25%
- Large Liabilities (minus) Temporary Investments to Earning Assets (minus) temporary investments	14.3%	<25%
- Purchased Funds to Total Assets	15.2%	<25%
- Commitments to Total Loans	26%	<30%
<b>10. Interest Rate Gaps</b>	-1.2%	
- Zero	11.8%	5.0%
- Less than 7 days	-4.3%	7.5%
- 7-30 days	-5.7%	10.0%
- 1-3 months	-1.3%	12.5%
- 3 months to 6 months	-10.0%	15.0%
- 6 months to 12 months	2.7%	15.0%
- 1 to 3 years	4.1%	10.0%
- 3 to 5 years	13.7%	10.0%
- over 5 years	-1.2%	10.0%
<b>11. Earnings at Risk over 1 year</b>		
Impact on Change of 1% Interest Rate on P&L	731 Mn	2 Bn

### COMPLIANCE RISK

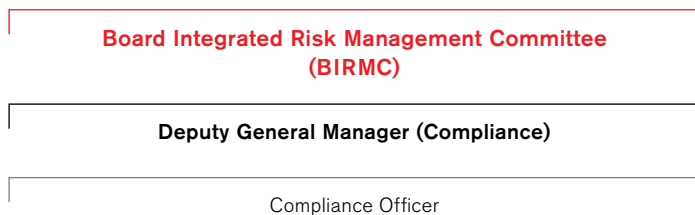
The excellent reputation enjoyed by People's Bank is a prime driver of the business success of the Bank. A sound reputation forms the basis for client confidence in the services offered by the Bank. This confidence goes hand in hand with confidence in the integrity and the specialised know how of Bank employees as well as in the high quality of our products. For this reason, key principles of compliance for the Bank are:

- Ensuring employee integrity; and
- Maintaining service and product quality.

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

Overlooking or losing sight of the current law pertaining to the duties of the Bank is a very high possibility with frequent changes and revisions in laws and regulations. To overcome this situation People's Bank has established the Compliance function within the Organisation.

### COMPLIANCE STRUCTURE OF PEOPLE'S BANK



Since violation of laws and regulations could bring about sanctions and impair the good name and reputation of the Bank, the compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry and which are issued by legislative and regulatory bodies relevant to the business of the Bank. The compliance function actively educates and supports the business in managing areas such as Anti-Money Laundering, Conflict of Interests, Sales and Trading Conduct, Customer Interests and Protection and Prevention of Terrorist Financing.

In addition, the Compliance function at the Bank -

- Ensures that the Bank's Business activities are conducted in accordance with the laws and regulations pertaining to the industry.
- Ensures that all employees at the Bank, follow accepted ethical standards in discharging their duties.

- Interprets 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.
- Protects the Bank's tangible and intangible assets, the financial security of the business and most importantly the good reputation of the Bank.
- Provides regular updates to staff when there are changes in legislations/regulations pertaining to the banking business, and conduct training throughout the branch network so as to ensure compliance awareness at all times.
- Ensures that there is an effective corporate governance culture across all levels of the Bank.
- Aligns the Bank's corporate activities and behaviour to ensure that it operates in a safe and sound manner maintaining the trust and confidence of the public.
- Assesses the branches to ensure that the branch network acts in compliance with the rules and regulations of the industry.
- Carries out periodic process of confirmation of compliance from respective departments and brings to the notice of the Board of Directors any breaches identified in order to take measures of rectification.
- Submits confirmation reports on compliance with Directives of Central Bank of Sri Lanka (CBSL) to the Bank Supervision Department.

### COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

Today, Money Laundering and Terrorist Financing has become a major issue worldwide creating a huge threat to the Banking & Finance Industry. As a country Sri Lanka has enacted laws pertaining to Money Laundering and Terrorist Financing identifying them as crimes which are punishable by fines or imprisonment.

People's Bank has internally developed the following effective anti-money laundering procedures to reduce the risk of the Bank being used in Money Laundering transactions. The Bank is exercising its vigilance over the transactions carried out through this system.

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

## Key Risk Indicators for Compliance

Compliance	Low Risk	Moderate Risk	High Risk	Position	Position
				As at 31.12.2013	As at 31.12.2014
Number of STRs Filed at FIU	NONE	< 16	>16	39	21
Amount of Regulatory Fines Imposed on the Bank	NIL	< Rs. 0.5 Mn	> Rs. 0.5 Mn	Nil	Nil

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

- Training programmes are conducted across the branch network on Anti-Money Laundering/Know Your Customer, Customer Due Diligence and Risk Categorisation.
- E-learning modules have been developed on Anti-Money Laundering/Know Your Customer and Western Union Transactions.
- The Bank has put in place a Code of Best Practice in Corporate Governance, Anti-Money Laundering and Know Your Customer Policy, Code of Conduct, Compliance Policy and Customer Charter.

In order to mitigate compliance and reputation risk, People's Bank has taken action and has fully-complied with the compliance requirements of the country. The Bank has developed systems and procedures to give the fullest support needed to combat Money Laundering and Terrorist Financing. All applicable laws and regulations are strictly followed in this regard.

Also, in order to assess the effectiveness of compliance function, a scorecard was formulated and this indicates a score of 84 for the year 2014, which corresponds to 'Low Risk' category.

## STRATEGIC/BUSINESS RISK

This means the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, or from the overlooking of changes in the business environment.

Typical sources of strategic risk are e.g. endeavours to achieve a growth rate or market share that does not harmonise with the market environment, lack of timely and proper adherence to environmental changes, assignment of inappropriate means to correctly chosen objectives, poorly timed alignment to changes in the business environment, or specific actions that do not comply with strategic objectives.

## RISK APPETITE

Business risk appetite is encapsulated in the Bank's budget and medium-term plan, which are sanctioned by the Board on an annual basis. Divisions' and business units plans are aligned to the Bank's overall risk appetite.

The Bank's strategy is reviewed and approved by the Board.

## SOURCES OF STRATEGIC RISK

Strategic risk can arise mainly from, external risk factors and internal risk factors.

- internal factors: resource capability and availability, customer treatment, products and funding and the risk appetite of other risk categories; and
- external factors: economic, technological, political, social, competitive behaviour.

## MITIGATING STRATEGIC RISK

In order to minimise strategic risk the Bank adopts the following:

- Involve all levels of management in formulating strategy
- Establish a robust strategic planning process
- Regular reviews incorporating changes to strategic environment

An annual budgeting process is undertaken by the Finance Department which includes a quantitative and qualitative assessment of the risks that could impact the Bank's plans. The exercise tries to take into account the current and expected socioeconomic and regulatory environment.

## MONITORING

As part of the annual business planning process, the Bank develops a set of management actions to prevent or mitigate the impact on earnings in the event that business risks materialise.

Additionally, business performance is tracked on weekly (Balance Sheet data) and monthly (Profit and Loss and other KPIs) basis by the ALCO and the Board. This results in developing corrective actions and plans to minimise adverse deviations in the future or even revisiting strategies.

### SOUND STRESS TESTING PROCESSES

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. As a starting point the following tests are mandatory:

- (a) Credit risk
- (b) Exchange rate risk
- (c) Equity risk
- (d) Liquidity risk
- (e) Pawning
- (f) Economic stress test

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.

The goal of the stress test is a forward-looking capital assessment of how much capital is needed today to maintain a 'well capitalised' status if the economy were to mirror the stress scenarios.

### STRESS TEST FOR CREDIT RISK

The stress test for credit risk assesses the impact of increase in the level of non-performing loans of the Bank. This involves five types of shocks which have:

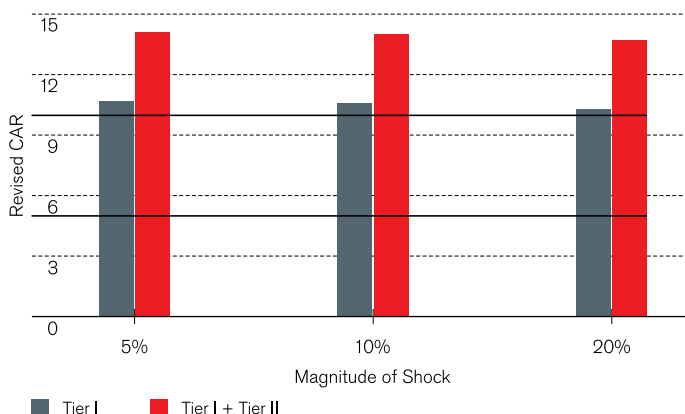
- a. Credit Shock - Increase in NPLs
- b. Credit Shock - Shift in NPLs categories
- c. Credit Shock - Fall in the FSV of Mortgaged Collateral
- d. Credit Risk - Slippage of performing loans to NPL
- e. Credit Risk - Increase in NPLs due to Top 10 large borrowers

### INCREASE IN NPL

	Balance as at 31.12.2014	Minor	Moderate	Major
Magnitude of Shock		5%	10%	20%
Total NPL (Rs. Mn)	<b>20,942</b>			
Increase in NPL (Rs. Mn)		1,047	2,094	4,188
Increase in Provisions (Rs. Mn)		823	1,646	3,291
Tax Adjusted Impact on P&L (Rs. Mn)		494	987	1,975
<b>Revised CAR %</b>				
Core Capital as a % of RWA	<b>10.87%</b>	10.73%	10.58%	10.29%
Total Capital as a % of RWA	<b>14.27%</b>	14.13%	13.98%	13.69%

**Conclusion:** Even a 20% increase in NPL balance will have no major impact on our Capital Adequacy Ratio.

### EFFECT OF INCREASE IN NPLs ON CAR (%)

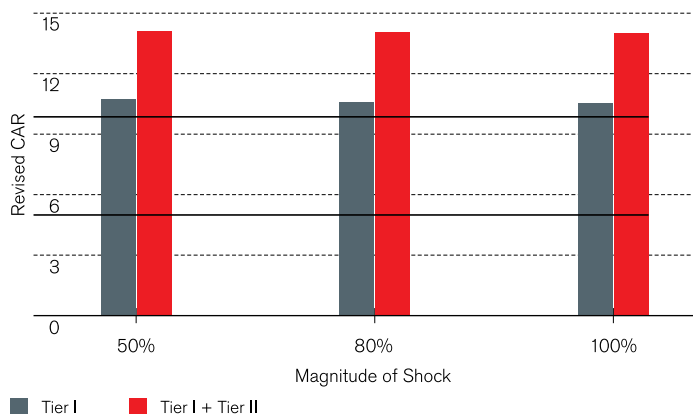


## NEGATIVE SHIFTS IN THE NPL CATEGORIES

	Balance as at 31.12.2014	Minor	Moderate	Major
Magnitude of Shock		50%	80%	100%
Total NPL (Rs. Mn)	<b>20,942</b>			
Increase in Provisions after Shift in NPL Categories (Rs. Mn)		843	1,349	1,687
Tax Adjusted Impact on P&L (Rs. Mn)		506	810	1,012
<b>Revised CAR %</b> Core Capital as a % of RWA	<b>10.87%</b>	10.72%	10.63%	10.57%
Total Capital as a % of RWA	<b>14.27%</b>	14.12%	14.03%	13.97%

**Conclusion:** Core Capital and Total Capital ratios remain above the minimum requirements in all 3 scenarios.

## EFFECT OF NEGATIVE SHIFTS IN NPL CATEGORIES ON CAR (%)

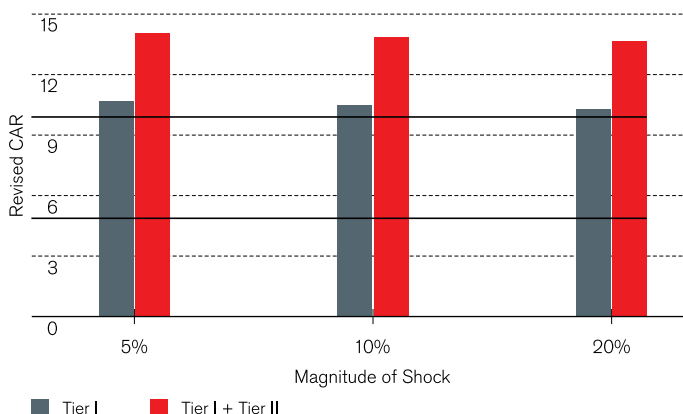


## FALL IN FORCED SALE VALUE (FSV) OF MORTGAGED COLLATERAL

	Balance as at 31.12.2014	Minor	Moderate	Major
Magnitude of Shock		5%	10%	15%
FSV of Mortgaged Collateral (Rs. Mn)	<b>22,679</b>			
Revised FSV (Rs. Mn)		21,545	20,411	19,277
LLP (Rs. Mn)	<b>8,514</b>			
Increase in LLP (Rs. Mn)		1,134	2,268	3,402
Tax Adjusted Impact on P&L (Rs. Mn)		680	1,361	2,041
<b>Revised CAR %</b> Core Capital as a % of RWA	<b>10.87%</b>	10.67%	10.47%	10.27%
Total Capital as a % of RWA	<b>14.27%</b>	14.07%	13.87%	13.67%

**Conclusion:** Even if FSV of mortgaged collateral falls by 15% our CAR will not be affected.

## EFFECT OF FALL IN FSV OF MORTGAGED COLLATERAL ON CAR (%)





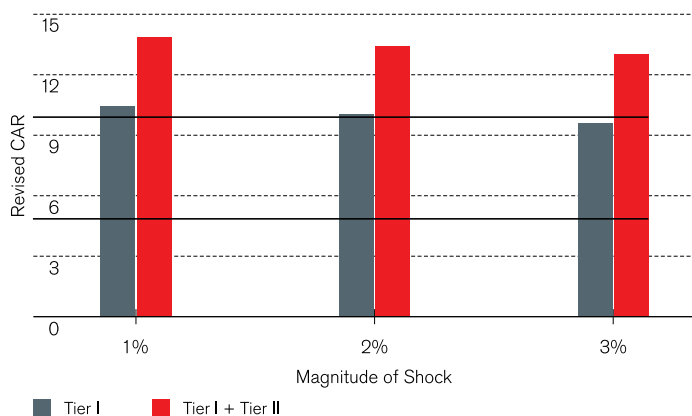
### INCREASE IN NPLS DUE TO SLIPPAGE PERFORMING LOANS TO NPLS

Total Performing Loans excludes advances granted to State-Owned Enterprises (SOEs) and Pawning

	Balance as at 31.12.2014	Minor	Moderate	Major
Magnitude of Shock		1%	2%	3%
Total Performing Loans	236,169			
Increase in NPL (Rs. Mn)		2,362	4,723	7,085
Tax Adjusted Impact on P&L		1,417	2,834	4,251
<b>Revised CAR %</b> Core Capital as a % of RWA	<b>10.87%</b>	10.46%	10.04%	9.62%
Total Capital as a % of RWA	<b>14.27%</b>	13.86%	13.44%	13.02%

**Conclusion:** Even a 3% increase in NPLs will not affect the CARs; Performing Loans have to slip by 14.08% and 10.25% to NPL to affect our Core Capital Ratio and Total Capital Ratio respectively.

### EFFECT OF INCREASE IN NPLs (DUE TO SLIPPAGE OF PERFORMING TO NON PERFORMING) ON CAR (%)

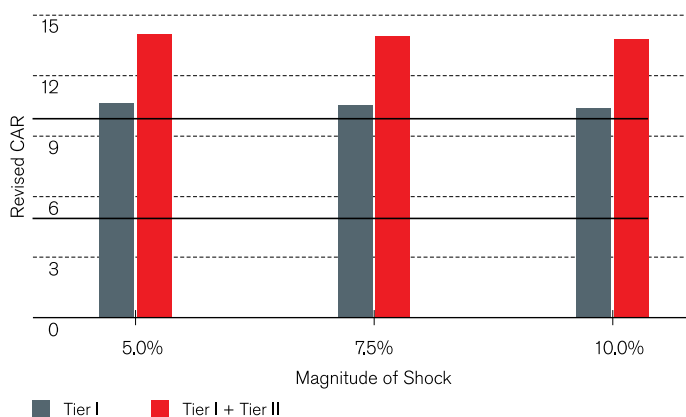


### SLIPPAGE TO NPL OF TOP 10 BORROWERS, WITH FULL PROVISION REQUIREMENT

	Balance as at 31.12.2014	Minor	Moderate	Major
Magnitude of Shock		5%	7.5%	10%
O/S to top 10 Borrowers (Other Than GOSL)	26,654			
Increase in NPL (Rs. Mn)		1,333	1,999	2,665
Tax Adjusted Impact on P&L		800	1,199	1,599
<b>Revised CAR %</b> Core Capital as a % of RWA	<b>10.87%</b>	10.64%	10.52%	10.40%
Total Capital as a % of RWA	<b>14.27%</b>	14.04%	13.92%	13.80%

**Conclusion:** Even if NPLs increase by 10% due to top 10 borrowers our CAR will not be affected.

### EFFECT OF INCREASE IN NPLs DUE TO TOP 10 BORROWERS ON CAR (%)



**INTEREST RATE RISK**

1. Duration Gap Analysis method was used to calculate interest rate risk.

NB: Given system limitations we have overestimated the durations of our assets, and consequently the negative impact of interest rate risk.

Total Liabilities (Less Capital & Reserves) (MVL)	981,798
Total Assets (MVA)	1,023,332
Liabilities/Assets	0.96
Duration of Assets (DA)	1.42
Duration of Liabilities (DL)	0.66
Effective YTM of all Assets (y)	6.50%

2. Effect of yield curve twist on Banking Book and Fixed Income Securities

(1% increase up to 1 year and 1% decrease beyond 1 year)

**BANKING BOOK**

	< 7 Day	7-30 Day	1-3 Month	3-6 Month	6-12 Month	1-3 Year	3-5 Year	Over 5 Year
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Assets	96,218	109,203	60,142	59,603	160,844	0	0	117,301
Liabilities	0	161,867	133,610	91,313	249,765	0	0	15,000
Impact	10.5	(21.6)	(122.4)	(118.9)	(666.9)	0	0	(5,115.1)
<b>Total IRR</b>	(6,034.4)							

	Balance as at 31.12.2014	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Change in Interest Rates percentage		1%	0.75%	0.50%	0.25%
Change in Equity Rs. Mn		-7,522	-5,642	-3,761	-1,881
Tax adjusted impact on P & L Rs. Mn		-4,513	-3,385	-2,257	-1,128
Tier I Capital Rs. Mn	<b>36,939</b>	32,426	33,554	34,682	35,811
Tier I + Tier II Rs. Mn	<b>48,491</b>	43,978	45,106	46,234	47,363
Risk-Weighted Assets Rs. Mn	<b>339,751</b>	339,751	339,751	339,751	339,751
Revised CAR - Core Capital	<b>10.87%</b>	9.54%	9.88%	10.21%	10.54%
Revised CAR - Total Capital	<b>14.27%</b>	12.94%	13.27%	13.61%	13.94%

**Conclusion:** Revised Core Capital and Total Capital ratios are above the minimum requirement in all 4 scenarios. Interest rate will have to increase by 4.42% and 3.22% respectively to affect our minimum requirement of Core Capital and Total Capital ratios.

**FIXED INCOME SECURITIES**

	< 7 Day	7-30 Day	1-3 Month	3-6 Month	6-12 Month	1-3 Year	3-5 Year	Over 5 Year
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Assets	0	17,682	27,127	21,278	7,491	21,985	33,508	9,483
Liabilities	0	0	0	0	0	0	0	0
Impact	0	7.3	45.2	79.8	56.2	(439.7)	(1,340.3)	(474.2)
<b>Total IRR</b>	(2,065.7)							

Net IRR: Rs. 3,968.7 Mn

Conclusion: Net interest rate risk is below the limit of Rs. 5 Bn.

**STRESS TESTING FOR LIQUIDITY RISK**

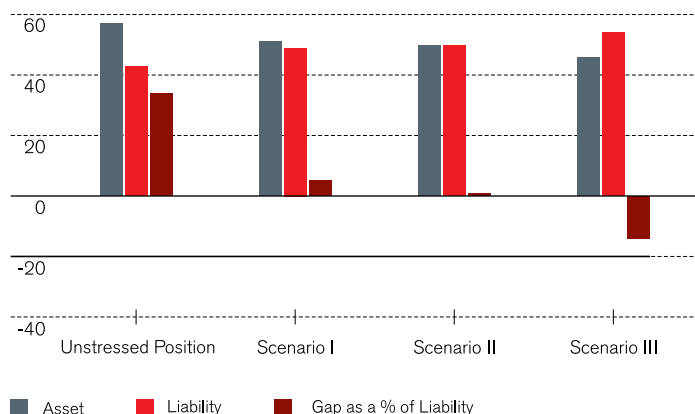
A further stress test to see the effect of withdrawals of 'Hot Money' (i.e. those deposits of over Rs. 50 Mn and which are considered as being sensitive to interest rates) on the most critical time band shows that the gaps will not deteriorate below the Bank's internally set limit of 20%.

Scenario I - 5% 'Retail' funds and 5% 'Hot Money' withdrawn

Scenario II - 5% 'Retail' funds and 10% 'Hot Money' withdrawn

Scenario III - 10% 'Retail' funds and 10% 'Hot Money' withdrawn

#### EFFECT OF HOT MONEY/RETAIL FUND WITHDRAWALS ON GAP IN 'UP TO 1 MONTH' TIME BAND (%)



#### INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The Bank's approach to calculating its own internal capital requirements has been to take the capital and risk-weighted assets as reported for Pillar 1 risks to the CBSL as the starting point, and then to identify other risks that the Bank is exposed to and to assess the required levels of capital to meet them.

People's Bank uses the following methods to calculate risk-weighted assets for the three types of Pillar 1 risks:

- Credit risk: The standardised approach
- Market risk: The standardised measurement method
- Operational risk: Basic indicator approach

People's Bank does not take diversification effects between the risk types into account. The capital charge for each risk category is simply aggregated, and this method provides a more conservative picture of Capital Adequacy.

#### STRESS TESTING APPROACH

Stress testing is an integral part of ICAAP and also gives management a clear understanding of how the Bank's risk profile is affected by changes in the macroeconomy and market variables. (Impact on the Bank's equity under different stress scenarios has been measured and shown in the preceeding section of this Report.)

#### MATERIAL RISKS

Counterparty credit risk is the most significant risk that People's Bank is exposed to and on a somewhat lesser scale are operational and market risks.

Accordingly, the management of counterparty credit risk gets the most amount of attention with a Board Executive Credit Committee reviewing and approving the larger risk exposures in addition to monitoring portfolio quality and reviewing and approving policies related to credit risk. Training in the art of credit risk assessment, a hierarchy of approval authorities, well-defined policies and procedures on credit risk assessment, risk acceptance criteria, risk rating systems, prudent limit setting, collateral and pricing form the basis of credit risk management.

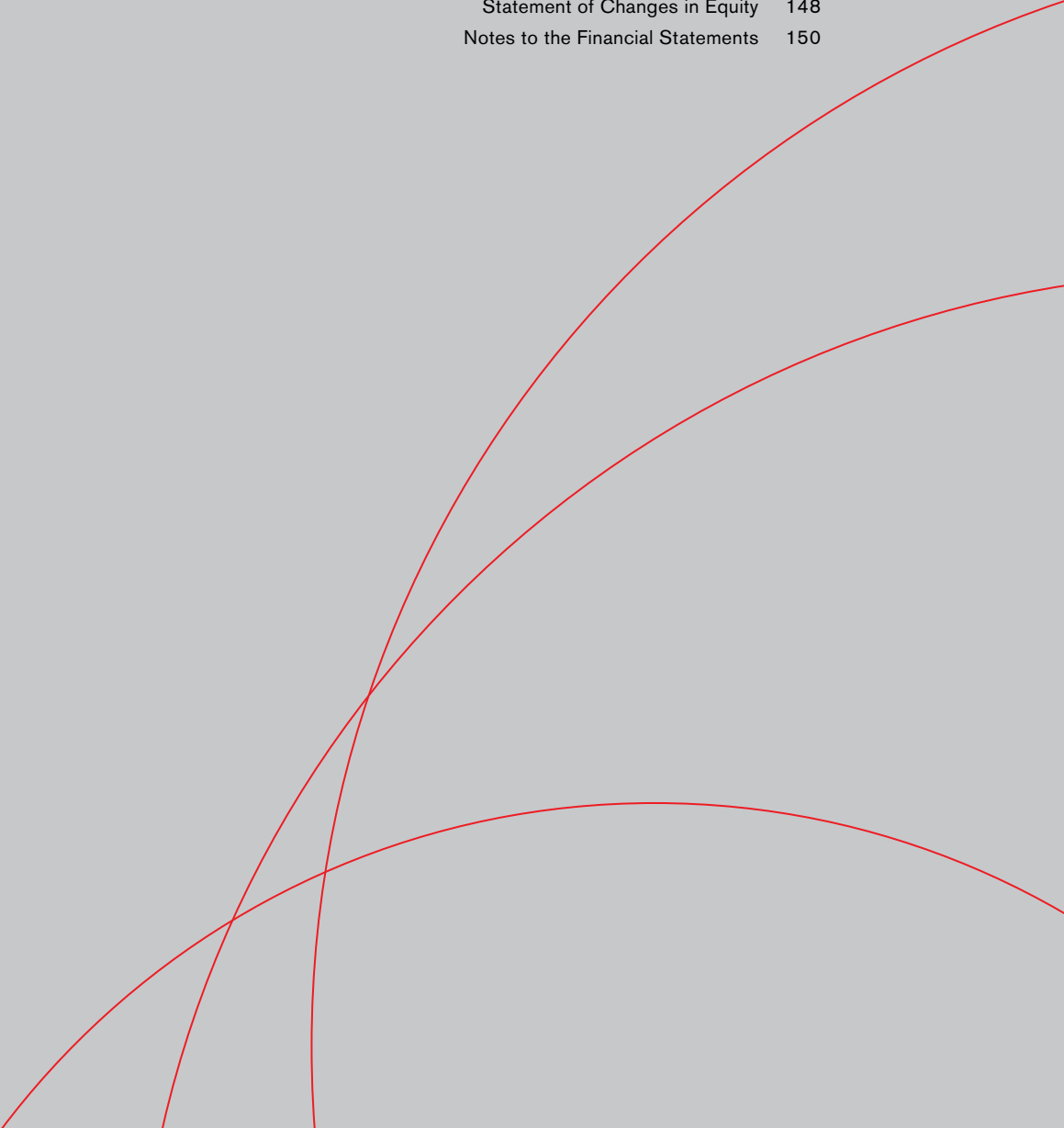
While People's Bank recognises that operational risk is inherent in its activities and cannot be fully eliminated, policies, procedures (including DRP), structures, internal audit, tolerance limits, insurance, training and data form the core of the Operational Risk Management Framework. Loss data is continuously gathered from across the network, which are then analysed for trends and control lapses and reviewed quarterly by the BIRMC to ensure the adequacy and effectiveness of controls in place.

People's Bank is exposed to market risk on the positions it assumes on both its own account and from serving customer requirements. The Treasury Department manages all market risks under the guidance of the ALCO which sets limits and formulates policies and procedures for approval by the Board. These are again reviewed periodically by ALCO and the BIRMC to ensure that exposures remain within the Bank's overall risk appetite. The Bank uses a suite of risk methodologies to measure, report and limit the market risks taken by it. These include a VaR model, Duration Gap Analysis as well as various stress tests and scenario analyses.



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## 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 13 times in 2014. The quorum for a Board meeting is five members. The Directors of the Bank during the year 2014 were as follows:

Mr. Gamini Senarath  
Mr. Jehan P. Amaratunga  
Ms. Lakshmi K. Sangakkara  
Ms. Dharma N. Gammampila  
Mr. D.M. Pawara Dassanayake  
Mr. G.K.D. Amarawardena  
Mr. R.M.P. Ratnayake  
Mr. P. Kudabalage

### DIRECTORS' ATTENDANCE AT BOARD MEETINGS

Number of meetings held during the year 2014 - 13.

Name	No. of Meetings held Eligible to Attend	No. of Meetings Attended
Mr. Gamini Senarath	13	12
Mr. Jehan P. Amaratunga	13	12
Ms. Lakshmi K. Sangakkara	13	12
Ms. Dharma N. Gammampila	13	12
Mr. Pawara Dassanayake	13	13
Mr. G.K.D. Amarawardena	13	13
Mr. R.M.P. Ratnayake	13	8
Mr. P. Kudabalage	13	10

### 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  
Mr. N. Vasantha Kumar - 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  
Mr. N. Vasantha Kumar - Director

#### (C) PEOPLE'S MERCHANT FINANCE PLC

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 74 to 82.

### COMPLIANCE REPORTING

A separate Compliance Function Unit has been set up within the Bank. Compliance Reports certified by the CEO/General Manager and the Deputy General Manager (Compliance) are submitted to the Board monthly. A Code of Conduct for staff has been formulated and issued to all members of staff.

A detailed report is given on pages 72 and 73.

Subcommittees of the Board as at 31st December 2014 are as follows:

#### BOARD AUDIT COMMITTEE (BAC)

Committee Members

Mr. Jehan P. Amaratunga - Chairman - BAC  
Ms. D.N. Gammampila - Director  
Mr. G.K.D. Amarawardena - Director  
Mr. R.M.P. Ratnayake - Director

Main functions 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**

## Committee Members

Mr. P. Kudabalage - Chairman - BECC  
 Ms. L. Kumari Sangakkara - Director  
 Mr. Pawara Dassanayake - Director  
 Mr. N. Vasantha Kumar - CEO/General Manager

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 (BHRRRC)**

## Committee Members

Mr. G.K.D. Amarawardena - Chairman - BHRRRC  
 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 and corporate and executive management employment contracts.

**BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)**

## Committee Members

Mr. Jehan P. Amaratunga - Director as Chairman  
 Mr D.N. Gammampila - Director  
 Mr. R.M.P. Ratnayake - Director  
 Mr. N. Vasantha Kumar - CEO/General Manager

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 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 84 to 109.

**BOARD NOMINATION COMMITTEE (BNC)**

## Committee Members

Mr. Gamini Senarath - Chairman  
 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 Chief Executive Officer/General Manager 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 Chief Executive Officer/General Manager 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)**

## Committee Members

Mr. Jehan P. Amaratunga - Chairman - BIBC  
 Mr. R.M.P. Ratnayake - Director  
 Mr. P. Kudabalage - Director  
 Mr. N. Vasantha Kumar - CEO/General Manager

The purpose of setting up of the 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)**

## Committee Members

Mr. Gamini Senarath - Chairman  
 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*

13th February 2015



## 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 139 to 141.

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 judgement and estimates in preparing the Financial Statements for the year 2014 exhibited on pages 144 to 222.

The Bank's Financial Statements for the year ended 31st December 2014 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*

24th February 2015

## 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 Bank has already documented the internal controls covering all the significant processes and has commenced documentation of checks carried out at the internal audits.

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. With the adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure are being addressed.
- Further, based on the Sri Lanka Standard on Assurance Engagements SLSAE 3050, comments made by us in the financial year ended 31 December 2013 in connection with Internal Control System have been taken into consideration by the management and appropriate measures have been initiated to develop a guideline on impairment of loans and advances by way of procedure manual and to further improve the controls documentation on identification of related party transactions. Management intends to complete these initiatives in the ensuing year.

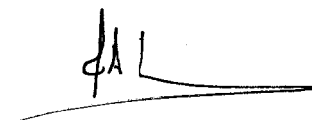
#### CONFIRMATION

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 2014 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**

*Director*

*Chairman of the Audit Committee*

30th March 2015

## AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROL



### විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல. } FB/G/PB/IC/2014  
My No.

ඔබේ අංකය  
உமது இல. }  
Your No.

දිනය  
திகதி } 2 April 2015  
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 ("Bank") included in the annual report for the year ended 31 December 2014. 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 the directors to support their Statement made.
- 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.

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 aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

## CONCLUSION

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

Further, based on the Sri Lanka Standard on Assurance Engagements SLSAE 3050, comments made by me in the financial year ended 31 December 2013 in connection with Internal Control System have been taken into consideration by the management and appropriate measures have been initiated to develop a guideline on impairment of loans and advances by way of a procedure manual and to further improve the controls documentation on identification of related party transactions. Management intends to complete these initiatives in the ensuing year.

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.

**W.P.C. Wickramaratne**  
Auditor General (Acting)

## AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS AND CORPORATE GOVERNANCE



### විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



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My No. }

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உமது இல. }  
Your No. }

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திகதி } 2 April 2015  
Date }

#### AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS OF PEOPLE'S BANK TO THE BOARD OF DIRECTORS OF THE PEOPLE'S BANK ON 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 Corporate 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 Accountants in public practice.

I report my findings in the attached Annexure to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards, 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 annexure and does not extend to any financial statements of People's Bank, taken as a whole.

**W.P.C. Wickramaratne**  
Auditor General (Acting)

## ANNEXURE - 1 TO THE REPORT OF FACTUAL FINDINGS

Section	Procedure Performed	Degree of Compliance
3 (1)	<b>The responsibilities of the Board</b>	
3 (1) (i)	Procedures to be carried out to ensure 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. Strategic plan for the period of 2015 - 2020 is in progress.
	○ 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. Strategic plan for the period of 2015 - 2020 is in progress.
	○ 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 meetings.
	○ 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. Strategic plan for the period of 2015 - 2020 is in progress.
	(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 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, shareholders and borrowers;	Complied with There is an approved strategic policy on communication with stakeholders.
	(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;	Key Management personnel include Chairman, Non-Executive Directors and Chief Executive Officer/General Manager of the Bank.
	(i) significantly influence policy;	
	(ii) direct activities; and	
	(iii) exercise control over business activities, operations and risk management;	



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>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 2014 are as follows.</p> <table><tr><td>Board Meetings</td><td>13</td></tr><tr><td>Board Audit Committee</td><td>10</td></tr><tr><td>Board Executive Credit Committee</td><td>26</td></tr><tr><td>Board Human Resource &amp; Remuneration Committee</td><td>13</td></tr><tr><td>Board Integrated Risk Management Committee</td><td>04</td></tr><tr><td>Board Nomination Committee</td><td>02</td></tr></table> <p>Executive Operations Committee which is represented by Chief Executive Officer/General Manager and selected DGMs meet once a week to make operational decisions of the Bank.</p>	Board Meetings	13	Board Audit Committee	10	Board Executive Credit Committee	26	Board Human Resource & Remuneration Committee	13	Board Integrated Risk Management Committee	04	Board Nomination Committee	02
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Board Audit Committee	10													
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Board Human Resource & Remuneration Committee	13													
Board Integrated Risk Management Committee	04													
Board Nomination Committee	02													
	(h) Check that the Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for key management personnel;	<p>Complied with</p> <p>Directors are allocated to the subcommittees. In 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"><li>the selection, nomination and election of Directors and key management personnel;</li><li>the management of conflicts of interests;</li><li>the determination of weaknesses and implementation of changes where necessary.</li></ul>	<p>Complied with</p> <p>Selections, nominations and election of Board of Directors are made by the Minister of Finance under section 8 of the People's Bank Act. Assessment of effectiveness of the Board of Directors done through the self evaluation process and by the process of obtaining declarations from the Directors.</p> <p>Weaknesses and implementation of changes are being discussed and determined at the board meetings through the submission of annual self evaluations of the board members carried out through a self-evaluation.</p> <p>The Code of the Best Practice on Corporate Governance of the Bank includes a provision on management on conflicts of Interest of the Directors. However, the process of identifying/disclosure of conflicts of Interest needs to be further strengthened.</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>												

Section	Procedure Performed	Degree of Compliance
	(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.	Key management personnel include Chairman, Non-Executive Directors and Chief Executive Officer/General Manager of the Bank.  Arrangements have been taken to include DGMs under key management personnel definition.  Executive Operations Committee which is represented by chairman and selected DGMs meet once a week to make significant operational decisions of the Bank.
	(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.	Complied with Board Audit Committee assists the Bank in this regard. Statutory examination reports are submitted to the CBSL. The Board has appointed a Compliance Officer in this regard.
	(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.
	○ 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 13 times for the year 2014.
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.

Section	Procedure Performed	Degree of Compliance
3 (1) (vii)	Check that the Board has appointed a Bank 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 Bank secretary 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 Bank Secretary.	Complied with All Directors have unlimited access to advice and for the service of the Board Secretary. This is mentioned in the approved Code of Best Practice of the Bank.
3 (1) (ix)	Check that the Bank 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 Secretary for inspection of 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.	The Code of the Best Practice on Corporate Governance of the Bank includes a provision on management on conflicts of Interest of the Directors. However the process of identifying/ disclosure of conflicts of Interest needs to be further strengthened.
	<ul style="list-style-type: none"> <li>○ 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.</li> </ul>	Complied with
	<ul style="list-style-type: none"> <li>○ Check that has he/she been not counted in the quorum for the relevant agenda item at the Board meeting.</li> </ul>	Complied with

Section	Procedure Performed	Degree of Compliance
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
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.	No such situations have arisen.
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 This 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
<b>3 (2)</b>	<b>The Board's composition</b>	
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.  (b) In the event of any Director serving more than 9 years, check that the transitional provisions have been applied with.	Complied with Directors have not exceeded 9 years of services in the capacity of Directors. (All Directors were appointed after 2007). With effective from February 2015 a new Board was appointed by the Minister of Finance.  Directors have not exceeded 9 years of services in the capacity of Directors. (All Directors were appointed after 2007). With effective from February 2015 new Board was appointed by the Minister of Finance.
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.

Section	Procedure Performed	Degree of Compliance
3 (2) (iv)	<p>Check that the Board has at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher</p> <p>Check if Non-Executive Directors can be considered independent if he/she:</p> <p>(a) Holds a direct and indirect shareholding of more than 1 percent 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 percent of the regulatory capital of the Bank;</p> <p>(c) Has been employed by the Bank during the two year period immediately preceding the appointment as Director.</p> <p>(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)</p> <p>(e) Represents a specific stakeholder of the Bank;</p> <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 percent 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 percent of regulatory capital in the Bank.</p>	<p>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.</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 percent of the Directors and out of this quorum, more than 50 percent should include Non-Executive Directors.	<p>Complied with</p> <p>According to the Code of Best Practice of the Bank the stipulated quorum is five. All Directors are Non-Executive Directors.</p>

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.	<p>Composition of the Board as at the reporting date is given below;</p> <table><tr><td>Mr. Gamini Senarath - Chairman</td><td rowspan="6">} All the Directors are Non-Independent Non-Executive Directors</td></tr><tr><td>Mr. Jehan P. Amaratunga</td></tr><tr><td>Ms. Dharma N. Gammampila</td></tr><tr><td>Mr. Pawara Dassanayake</td></tr><tr><td>Mr. G.K.D. Amarawardena</td></tr><tr><td>Mr. R.M.P. Rathnayake</td></tr></table> <p>Mr. Kudabalage</p> <p>With effective from February 2015 new Board was appointed by the Ministry of Finance. Composition of which is given below;</p> <table><tr><td>Mr. Hemasiri Fernando - Chairman</td><td rowspan="6">} All the Directors are Non-Independent Non-Executive Directors</td></tr><tr><td>Mr. Jehan P. Amaratunga</td></tr><tr><td>Mr. A.C.S. Warnasuriya</td></tr><tr><td>Ms. G.D.C. Ekanayake</td></tr><tr><td>Mr. P.H.J.B. Sugathadasa</td></tr><tr><td>Mr. R.W.D.A.G. Rajasekara</td></tr></table> <p>Mr. K.F.J.C.W. Perera</p>	Mr. Gamini Senarath - Chairman	} All the Directors are Non-Independent Non-Executive Directors	Mr. Jehan P. Amaratunga	Ms. Dharma N. Gammampila	Mr. Pawara Dassanayake	Mr. G.K.D. Amarawardena	Mr. R.M.P. Rathnayake	Mr. Hemasiri Fernando - Chairman	} All the Directors are Non-Independent Non-Executive Directors	Mr. Jehan P. Amaratunga	Mr. A.C.S. Warnasuriya	Ms. G.D.C. Ekanayake	Mr. P.H.J.B. Sugathadasa	Mr. R.W.D.A.G. Rajasekara
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Mr. R.W.D.A.G. Rajasekara																
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 8 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. 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 gets declarations from the Directors at the time of the appointment as a Director of the Bank. However, the the process of obtaining periodic declarations is not in place. Bank intends to improve the process in order to improve prudence of process.														

Section	Procedure Performed	Degree of Compliance
<b>3 (3)</b>	<b>Criteria to Assess the Fitness and Propriety of Directors</b>	
3 (3) (i)	Check that the age of a person who serves as Director does not exceed 70 years.	Complied with. None of the Directors of the Bank are over 70 years of the age as at 31st December 2014.
	(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 As per the declaration made by the Directors at the time of appointment, there are no Directors who hold office as a Director of more than 20 companies.
<b>3 (4)</b>	<b>Management Functions Delegated by the Board</b>	
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.
<b>3 (5)</b>	<b>The Chairman and CEO</b>	
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 strengthen of the process.



Section	Procedure Performed	Degree of Compliance
3 (5) (iv)	Check that the Board has a self-evaluation process where the Chairman: (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the Board in a timely manner.	An annual self-evaluation process is carried out in the meeting No. 02/2014 and Board Paper No. 105/2014.
3 (5) (v)	Check that a formal agenda is circulated by the Bank 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 2014 has been carried out. This emphasises on the special contributions made by Directors.
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 does not engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	No such instances have come to our attendance.
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.	Complied with 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.
<b>3 (6)</b>	<b>Board Appointed Committees</b>	
3 (6) (i)	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.	Complied with.
	Check that each Board Committee report is addressed directly to the Board.	Complied with. See pages 112 and 113 in the Annual Report for the Report of the Subcommittee duties, roles and performance.
	Check that the Board presents in its Annual Report, a Report on each Committee on its duties, roles and performance.	

Section	Procedure Performed	Degree of Compliance
3 (6) (ii)	<b>Audit Committee:</b>	
	(a) Check that the Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.	The Chairman in the year under review is a Non-Independent Non-Executive 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-Independent 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:	Not Applicable. 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.	Not Applicable. 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.
	(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.	Not Applicable.
	(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.	Nature and scope of the audit is determined by the Auditor General.

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 judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption;</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>There is a continuing process carried out in reviewing monthly, quarterly and annual financials of the Bank by the committee.</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 Auditor's 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. 53/2014.</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>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</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>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>(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;</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 to service. Bank intends for further strengthen the process.</p> <p>Complied with.</p> <p>Outsourced services used by the internal audit function was approved by the committee.</p> <p>No such situation has arisen during the year 2014.</p>

Section	Procedure Performed	Degree of Compliance
	(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.
	(l) Check whether the Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	The Auditor General is the auditor of the Bank and his representative was present at six Audit Committee meetings out of ten meetings.
	(m) Check the terms of reference of the Committee to ensure that there is: <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	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 10 times for the year 2014.
	(o) Check that the Board has disclosed in the Annual Report, <ul style="list-style-type: none"> <li>(i) details of the activities of the Audit Committee;</li> <li>(ii) the number of Audit Committee meetings held in the year; and</li> <li>(iii) details of attendance of each individual Director at such meetings.</li> </ul>	Complied with. Please refer 'Board Audit Committee Report' on pages 139 to 141 and page 82.
	(p) Check that the Secretary of the Committee is the Bank Secretary or the head of the internal audit function.	Complied with. The Secretary of the Board Audit Committee is the Board Secretary, Mr. Rohan Pathirage.
	(q) Check that the 'Whistle-Blower Policy' covers the process of dealing with; <ul style="list-style-type: none"> <li>(i) The improprieties in financial reporting, internal control or other matters.</li> <li>(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</li> <li>(iii) Appropriate follow-up action.</li> </ul>	Complied with. The 'Whistle-Blower Policy' of the People's Bank was approved by the Board B.P. No. 138/2013.

Section	Procedure Performed	Degree of Compliance
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.	Complied with. The remuneration for Directors determined by the Ministry of Finance. The Human Resource and Remuneration Committee will determine the remuneration (salaries, allowances and other financial payments) relating CEO and DGMs by considering the collective agreement.
	(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.	Complied with. The Bank is in the process of developing a performance-based rewards scheme.
	(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.	Complied with. 'Terms of Reference' provides that CEO should be present at all meetings of the Committee, except when matters relating to the CEO are discussed.
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.	Complied with. Directors are appointed by the Minister of Finance as per provisions of the People's Bank Act. Main functions of the Board Nomination 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 the eligibility to be considered for the 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.
	(b) Check that the Committee has considered and recommended (or not recommended) the re-election of current Directors.	The Directors are appointed by the Finance Minister under the Section 8 of People's Bank Act No. 29 of 1961.
	(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.	The General Manager is appointed based on the Bank's accepted procedure with the approval of the Board and the Minister-in-Charge of the subject of Finance as specified in the People's Bank Act No. 29 of 1961 and its amendments. The Board approved promotion schemes stipulate the attributes required to be eligible to be selected or promoted to the other key management positions.

Section	Procedure Performed	Degree of Compliance
	(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. Bank has obtained signed declarations from the CEO/GM and Directors at the time of appointment stating that they are fit and proper persons to hold office.
	(e) Check that the Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	The Directors are appointed by the Finance Minister under Section 8 of People's Bank Act No. 29 of 1961.  A succession plan for the General Manager, Directors and DGMs are in place.
	(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 three Non-Executive Directors, CEO/GM, SDGM (Risk and Compliance) and other DGMs by invitation.
	(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. - 15/2014, BIRMC No. - 22/2014, BIRMC No. - 29/2014.
	(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.
	(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 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 is available.

Section	Procedure Performed	Degree of Compliance
	(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.
<b>3 (7)</b>	<b>Related party transactions</b>	
3 (7) (i)	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:  (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.	The Bank follow the 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.
3 (7) (ii)	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:  (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation. (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments. (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank. (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.	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.

Section	Procedure Performed	Degree of Compliance
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>(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>(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>(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>(d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>A Board approved process is in place to ensure compliance.</p> <p>The Bank is in the process of further strengthening the monitoring mechanism in this regard.</p>
3 (7) (iv)	<p>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.</p>	Complied with



Section	Procedure Performed	Degree of Compliance
3 (7) (v)	<p>(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;</p> <p>(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.</p> <p>(c) Check that there is a process to identify any Director who fails to comply with the above sub-directions be deemed to have vacated the office of Director and has the Bank disclose such fact to the public.</p> <p>(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.</p>	No such situation has arisen during the year.
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.	Accommodation specified in the Direction was granted to employees only under "Staff Benefit Schemes" of the Bank.
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 Directions 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.	Not applicable due to the reasons mentioned above in 3 (7) (v) and 3 (7) (vi).

Section	Procedure Performed	Degree of Compliance
<b>3 (8)</b>	<b>Disclosures</b>	
3 (8) (i)	<p>Check that the Board has disclosed -</p> <p>(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.</p> <p>(b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form in Sinhala, Tamil and English.</p>	Complied with.
3 (8) (ii)	<p>Check that the Board has made the following minimum disclosures in the Annual Report:</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>	<p>Complied with.</p> <p>Disclosures on the compliance with the applicable accounting standards and regulatory requirements have been made in the 'Statement of Directors' Responsibility'. Please refer page 114.</p> <p>Complied with.</p> <p>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 115 and 116.</p> <p>Complied with.</p> <p>The Bank has obtained an assurance Report from the External Auditors on the effectiveness of the Internal Control mechanism. Please refer pages 117 and 118.</p> <p>Complied with.</p> <p>The Profiles of the Directors are given on pages 17 to 18 and the total of fees/remuneration paid to Directors by the Bank given in Note 45 to the Financial Statements on page 203.</p> <p>Disclosure needs to be improved.</p>

Section	Procedure Performed	Degree of Compliance
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with. The aggregate value of the transactions of the Bank with its Key Management Personnel is given in Note 45 to the Financial Statements on page 203.
	(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 72 and 73.
	(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 Department of the CBSL which requires disclosure to the public.
<b>3 (9)</b>	<b>Transitional and Other General Provisions</b>	The Bank has complied with the transitional provisions.

## BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (BAC) proceedings were based on the charter adopted by the Board of Directors for the functioning of the Committee. The 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 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, is a Member of The Institute of Chartered Accountants of Sri Lanka and Fellow Chartered Management Accountant, counting over 26 years of extensive experience in financial and management industry.

He was also a member of the Governing Council of The Institute of Chartered Accountants of Sri Lanka.

By invitation of the BAC, Chief Internal Auditor, Deputy General Manager (Risk Management), Deputy General Manager (Compliance) and the representation of the Auditor General 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 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 Statements 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 of accounting and financial reporting, risk management processes and regulatory compliance.
- Reviewing 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.
- Reviewing of 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 Chief Internal Auditor.
- Overseeing the appointment, compensation, resignation, dismissal of the external audit, its cost and effectiveness and monitoring of the External Auditors' independence.
- Reviewing of 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 2014 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 ten (10) meetings during the year under review. The Chief Internal Auditor, Senior Deputy General Manager (Risk Management)/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 2014.

The Bank assessed the effectiveness of its internal control over financial reporting as at 31st December 2014 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 2014 is included in the Annual Report 2014.

## 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 manuals/programmes and 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 and Executive Management of the Internal Audit Department 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 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 frauds, 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 2014. 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.

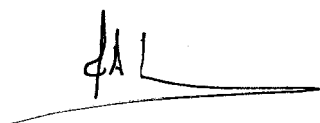
**CBSL STATUTORY EXAMINATIONS**

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 'wrong doing', 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.

19th December 2014

## AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS



### විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல.  
My No.

FB/G/PB/FA/2014

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

26 March 2015

#### REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PEOPLE'S BANK AND ITS SUBSIDIARIES FOR THE YEAR ENDED 31 DECEMBER 2014

The audit of the financial statements of the People's Bank ("the Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries ("Group") for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014, the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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.

#### BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board 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 Board, as well as evaluating the overall presentation of the financial statements.





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සමස්ත/සමස්ත කාලයේ ස්වාධීන  
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, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014 and of its financial performance and 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 Group as at 31 December 2014, and of financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

These financial statements 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.

**W.P.C Wickramaratne**  
Auditor General (Acting)



## INCOME STATEMENT

For the year ended 31st December	Note	BANK			GROUP		
		2014 Rs. '000	2013 Rs. '000	Change %	2014 Rs. '000	2013 Rs. '000	Change %
<b>Gross Income</b>	5	<b>96,377,482</b>	120,456,473	(20.0)	<b>118,640,808</b>	139,956,605	(15.2)
Interest Income		<b>84,479,961</b>	110,440,562	(23.5)	<b>104,180,951</b>	129,204,762	(19.4)
Interest Expenses		<b>(54,362,126)</b>	(73,791,102)	(26.3)	<b>(64,211,046)</b>	(84,244,882)	(23.8)
<b>Net Interest Income</b>	6	<b>30,117,835</b>	36,649,460	(17.8)	<b>39,969,905</b>	44,959,880	(11.1)
Fee and Commission Income		<b>3,820,242</b>	3,478,015	9.8	<b>7,733,299</b>	5,590,860	38.3
Fee and Commission Expenses		<b>(121,627)</b>	(135,446)	(10.2)	<b>(121,627)</b>	(135,446)	(10.2)
Net Fee and Commission Income	7	<b>3,698,615</b>	3,342,569	10.7	<b>7,611,672</b>	5,455,414	39.5
Net Gain from Trading	8	<b>2,508,352</b>	2,803,219	(10.5)	<b>2,648,889</b>	2,819,045	(6.0)
Other Operating Income (Net)	9	<b>5,568,927</b>	3,734,677	49.1	<b>4,077,669</b>	2,341,938	74.1
<b>Total Operating Income</b>		<b>41,893,729</b>	46,529,925	(10.0)	<b>54,308,135</b>	55,576,277	(2.3)
Net Impairment Loss on Financial Assets	10	<b>1,430,440</b>	(13,716,320)	(110.4)	<b>117,980</b>	(14,822,427)	(100.8)
<b>Net Operating Income</b>		<b>43,324,169</b>	32,813,605	32.0	<b>54,426,115</b>	40,753,850	33.5
Personnel Expenses	11	<b>(13,083,142)</b>	(11,958,251)	9.4	<b>(14,849,137)</b>	(13,371,475)	11.1
Other Expenses	12	<b>(9,371,603)</b>	(8,844,614)	6.0	<b>(13,950,630)</b>	(11,877,082)	17.5
<b>Operating Profit before Value Added Tax (VAT)</b>		<b>20,869,424</b>	12,010,740	73.8	<b>25,626,348</b>	15,505,293	65.3
Value Added Tax (VAT) on Financial Services		<b>(3,638,367)</b>	(1,706,458)	113.2	<b>(3,978,924)</b>	(2,015,923)	97.4
<b>Operating Profit after Value Added Tax (VAT)</b>		<b>17,231,057</b>	10,304,282	67.2	<b>21,647,424</b>	13,489,370	60.5
Share of Profits/(Loss) of Associates (Net of Tax)		<b>-</b>	-		<b>(19,872)</b>	(76,978)	(74.2)
<b>Profit before Tax</b>		<b>17,231,057</b>	10,304,282	67.2	<b>21,627,552</b>	13,412,392	61.3
Tax Expenses	13	<b>(3,012,245)</b>	(2,816,395)	7.0	<b>(4,674,356)</b>	(4,248,210)	10.0
<b>Profit for the Year</b>		<b>14,218,812</b>	7,487,887	89.9	<b>16,953,196</b>	9,164,182	85.0
<b>Profit Attributable to:</b>							
Equity Holders of the Bank		<b>14,218,812</b>	7,487,887	89.9	<b>15,896,075</b>	8,364,337	90.0
Non-Controlling Interest		<b>-</b>	-		<b>1,057,121</b>	799,845	32.2
		<b>14,218,812</b>	7,487,887	89.9	<b>16,953,196</b>	9,164,182	85.0
<b>Earnings Per Share on Profit</b>	14						
Basic Earnings per Ordinary Share (Rs.)	14.1	<b>14,219</b>	7,488	89.9	<b>15,896</b>	8,364	90.0
Diluted Earnings per Ordinary Share (Rs.)	14.2	<b>99</b>	52	89.9	<b>110</b>	58	90.0

The Notes appearing on pages 150 to 222 form an integral part of these Financial Statements.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Profit for the year</b>	<b>14,218,812</b>	<b>7,487,887</b>	<b>16,953,196</b>	<b>9,164,182</b>
<b>Other Comprehensive Income Net of Tax</b>				
<b>Items that will never be Reclassified to Profit or Loss</b>				
Actuarial Gains and Losses on Defined Benefit Plans	(1,066,589)	(715,204)	(1,124,163)	(715,204)
Deferred Tax Effect on Defined Benefit Plan Liability	(77,795)	–	(58,094)	–
Gains on Revaluation of Land and Buildings	–	5,934,089	(10,439)	6,567,654
Gains on Revaluation of Land and Buildings - Associate	–	–	–	182,475
Tax Expense Relating to Components of Other Comprehensive Income	–	(521,038)	–	(698,436)
	<b>(1,144,384)</b>	<b>4,697,847</b>	<b>(1,192,696)</b>	<b>5,336,489</b>
<b>Items that are or may be Reclassified to Profit or Loss</b>				
Gains and Losses on Remeasuring Available-for-Sale Financial Assets	<b>77,970</b>	(133,988)	<b>148,829</b>	(132,690)
Gains and Losses on Derivative Financial Assets	–	–	(21,062)	–
	<b>77,970</b>	<b>(133,988)</b>	<b>127,767</b>	<b>(132,690)</b>
<b>Other Comprehensive Income for the Year, Net of Taxes</b>	<b>(1,066,414)</b>	<b>4,563,859</b>	<b>(1,064,929)</b>	<b>5,203,799</b>
<b>Total Comprehensive Income for the Year</b>	<b>13,152,398</b>	<b>12,051,746</b>	<b>15,888,267</b>	<b>14,367,981</b>
<b>Attributable to:</b>				
Equity Holders of the Bank	<b>13,152,398</b>	<b>12,051,746</b>	<b>14,830,774</b>	<b>13,453,770</b>
Non-Controlling Interest	–	–	<b>1,057,493</b>	<b>914,211</b>
	<b>13,152,398</b>	<b>12,051,746</b>	<b>15,888,267</b>	<b>14,367,981</b>

The Notes appearing on pages 150 to 222 form an integral part of these Financial Statements.

## STATEMENT OF FINANCIAL POSITION

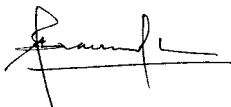
As at 31st December	Note	BANK			GROUP		
		2014 Rs. '000	2013 Rs. '000	Change %	2014 Rs. '000	2013 Rs. '000	Change %
Assets							
Cash and Cash Equivalents	16	37,355,549	18,774,605	99.0	39,418,068	20,803,240	89.5
Balance with the Central Bank of Sri Lanka	17	43,584,872	40,370,892	8.0	43,584,872	40,370,892	8.0
Placements with Banks	18	13,681,425	2,551,215	436.3	13,681,425	2,551,215	436.3
Derivative Financial Instruments	19	22,233	35,391	(37.2)	22,233	35,391	(37.2)
Other Financial Assets Held-for-Trading	20	59,888,466	63,748,857	(6.1)	60,310,150	64,057,091	(5.8)
Loans and Receivables to Banks	21	129,488,851	82,223,079	57.5	133,005,677	82,337,394	61.5
Loans and Receivables to Other Customers	22	627,209,062	619,829,735	1.2	722,099,483	710,074,499	1.7
Financial Investments – Available-for-Sale	23	3,387,770	311,733	986.8	5,011,892	1,737,175	188.5
Financial Investments – Held-to-Maturity	24	82,720,707	75,784,287	9.2	87,930,254	78,322,900	12.3
Investments in Subsidiaries	25	1,045,908	1,245,908	(16.1)	–	–	–
Investments in Associates	26	273,100	207,568	31.6	426,502	274,470	55.4
Goodwill and Intangible Assets	27	114,548	33,535	241.6	462,073	392,073	17.9
Property, Plant & Equipment	28	14,946,764	14,705,723	1.6	19,364,133	18,183,658	6.5
Investment Properties	29	187,420	189,774	(1.2)	187,420	189,774	(1.2)
Prepaid Leases	30	558,877	295,732	89.0	558,877	295,732	89.0
Deferred Tax Assets	31	1,440,924	1,071,381	34.5	1,475,879	1,075,651	37.2
Other Assets	32	10,862,382	9,205,859	18.0	11,719,016	10,771,639	8.8
Total Assets		1,026,768,858	930,585,274	10.3	1,139,257,954	1,031,472,794	10.4
Liabilities							
Due to Banks	33	143,754,943	81,794,017	75.8	162,433,372	101,987,002	59.3
Derivative Financial Instruments	34	17,377	215,844	(91.9)	148,243	215,844	(31.3)
Due to Other Customers	35	793,341,733	762,248,529	4.1	829,018,697	789,225,314	5.0
Other Borrowings	36	13,442,898	20,353,986	(34.0)	31,391,206	38,878,017	(19.3)
Current Tax Liabilities		459,612	393,380	16.8	1,052,833	877,476	20.0
Deferred Tax Liabilities	31	1,060,634	885,232	19.8	2,936,209	2,557,359	14.8
Other Liabilities	37	16,189,567	13,124,900	23.4	23,331,984	19,501,922	19.6
Subordinated Term Debts	38	15,032,542	15,032,542	–	24,883,132	23,141,451	7.5
Total Liabilities		983,299,306	894,048,430	10.0	1,075,195,676	976,384,385	10.1
Equity							
Stated Capital/Assigned Capital	39	7,201,998	7,201,998	–	7,201,998	7,201,998	–
Statutory Reserve Fund	40	3,522,626	2,811,685	25.3	3,522,626	2,811,685	25.3
Other Reserves	41	19,947,366	24,409,753	(18.3)	20,493,406	25,959,057	(21.1)
Retained Earnings	42	12,797,562	2,113,408	505.5	27,520,829	14,168,284	94.2
Total Shareholders' Equity		43,469,552	36,536,844	19.0	58,738,859	50,141,024	17.1
Non-Controlling Interest		–	–	–	5,323,419	4,947,385	7.6
Total Equity		43,469,552	36,536,844	19.0	64,062,278	55,088,409	16.3
Total Equity and Liabilities		1,026,768,858	930,585,274	10.3	1,139,257,954	1,031,472,794	10.4
Contingent Liabilities and Commitments	43	182,573,202	197,118,649	(7.4)	182,597,120	197,376,033	(7.5)

The Notes appearing on pages 150 to 222 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



**Hemasiri Fernando**  
Chairman

12th March 2015  
Colombo

## CASH FLOW STATEMENT

		BANK		GROUP	
For the year ended 31st December	Note	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Cash Flows from Operating Activities</b>					
Profit Before Tax		17,231,057	10,304,282	21,627,552	13,412,392
Adjustment for:					
Non-Cash Items Included in Profit before Tax	49	(417,875)	13,807,869	1,154,021	15,190,322
Changes in Operating Assets	50	(68,905,022)	(72,844,293)	(77,940,172)	(84,184,926)
Changes in Operating Liabilities	51	86,697,864	43,844,904	93,785,221	45,811,564
Net Gains from Investing Activities		-	-	-	-
Share of Profits in Associates and Joint Ventures		-	-	19,872	(96,703)
Dividend Income from Subsidiaries, Associates and Others		(1,648,601)	(1,640,672)	(98,589)	(174,007)
Interest Expense on Subordinated Debt		2,014,583	1,695,043	2,014,583	1,695,043
Contribution Paid to Defined Benefit Plans/Gratuity		1,443,255	921,907	1,472,621	938,973
Tax Paid		(3,217,949)	(4,489,304)	(4,578,472)	(4,883,503)
<b>Net Cash Generated from Operating Activities</b>		<b>33,197,313</b>	<b>(8,400,264)</b>	<b>37,456,637</b>	<b>(12,290,845)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Property, Plant & Equipment		(1,124,878)	(1,168,692)	(2,161,371)	(1,654,618)
Proceeds from the Sale of Property, Plant & Equipment		59,055	30,288	50,608	118,591
Purchase of Financial Investments		(7,067,599)	-	(9,738,534)	-
Proceeds from the Sale and Maturity of Financial Investments		-	3,673,079	-	2,019,533
Net Purchase of Intangible Assets		(97,275)	(27,792)	(104,801)	(41,953)
Net Cash Flow from Acquisition of Investment in Subsidiaries and Associates		-	-	-	142,794
Net Cash Flow from Preference Shares of Subsidiaries		200,000	7,526	-	-
Proceeds from Disposal of Associates and Joint Ventures		-	-	-	-
Dividends Received from Investment in Subsidiaries and Associates		1,648,601	1,640,672	98,589	174,007
<b>Net Cash (Used in) from Investing Activities</b>		<b>(6,382,096)</b>	<b>4,155,081</b>	<b>(11,855,509)</b>	<b>758,354</b>
<b>Cash Flows from Financing Activities</b>					
Net Proceeds from the Issue of Subordinated Debt		-	5,032,542	1,741,681	13,141,451
Interest Paid on Subordinated Debt		(2,014,583)	(1,695,043)	(2,014,583)	(1,695,043)
Dividend Paid to GOSL		(219,690)	(219,690)	(219,690)	(219,690)
Dividend Paid to Non-Controlling Interest		-	-	(493,708)	(493,710)
Dividend Paid to Holders of Other Equity Instruments		(6,000,000)	(4,500,000)	(6,000,000)	(4,500,000)
<b>Net Cash from Financing Activities</b>		<b>(8,234,273)</b>	<b>(1,382,191)</b>	<b>(6,986,300)</b>	<b>6,233,008</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		<b>18,580,944</b>	<b>(5,627,374)</b>	<b>18,614,828</b>	<b>(5,299,483)</b>
Cash and Cash Equivalents at the Beginning of the Year		18,774,605	24,401,979	20,803,240	26,102,723
Exchange Difference in Respect of Cash & Cash Equivalents		-	-	-	-
Cash and Cash Equivalents at the end of the Year		37,355,549	18,774,605	39,418,068	20,803,240

The Notes appearing on pages 150 to 222 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
<b>Bank</b>									
<b>Balance as at 01.01.2013</b>	49,998	7,152,000	2,437,291	5,463,496	5,078,873	5,043,545	297,964	3,681,621	29,204,788
Profit for the Year	-	-	-	-	-	-	-	7,487,887	7,487,887
<b>Other Comprehensive Income</b>									
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	(133,988)	-	(133,988)
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(715,204)	(715,204)
Gain on Revaluation of Land & Buildings	-	-	-	5,934,089	-	-	-	-	5,934,089
Tax on Other Comprehensive Income	-	-	-	(521,038)	-	-	-	-	(521,038)
<b>Total Other Comprehensive Income</b>	-	-	-	5,413,051	-	-	(133,988)	(715,204)	4,563,859
<b>Total Comprehensive Income</b>	-	-	-	5,413,051	-	-	(133,988)	6,772,683	12,051,746
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>									
Transfer to Reserve during the Period	-	-	374,394	-	1,875,000	1,371,812	-	(3,621,206)	-
Dividend Paid to GOSL	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury	-	-	-	-	-	-	-	(4,500,000)	(4,500,000)
<b>Total Transactions with Equity Holders</b>	-	-	374,394	-	1,875,000	1,371,812	-	(8,340,896)	(4,719,690)
<b>Balance as at 31.12.2013</b>	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
<b>Balance as at 01.01.2014</b>	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
Profit for the Year	-	-	-	-	-	-	-	14,218,812	14,218,812
<b>Other Comprehensive Income</b>									
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	77,970	-	77,970
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(1,066,589)	(1,066,589)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	(77,795)	(77,795)
Gain on Revaluation of Land & Buildings	-	-	-	-	-	-	-	-	-
<b>Total Other Comprehensive Income</b>	-	-	-	-	-	-	77,970	(1,144,384)	(1,066,414)
<b>Total Comprehensive Income</b>	-	-	-	-	-	-	77,970	13,074,428	13,152,398
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>									
Transfers to Reserves during the Period	-	-	710,941	-	1,875,000	157,096	-	(2,743,037)	-
Transfers to Retained Earnings during the Period	-	-	-	-	-	(6,572,453)	-	6,572,453	-
Dividend Paid to GOSL (Note: 41.6)	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury (Note: 41.7)	-	-	-	-	-	-	-	(6,000,000)	(6,000,000)
<b>Total Transactions with Equity Holders</b>	-	-	710,941	-	1,875,000	(6,415,357)	-	(2,390,274)	(6,219,690)
<b>Balance as at 31.12.2014</b>	49,998	7,152,000	3,522,626	10,876,547	8,828,873	-	241,946	12,797,562	43,469,552

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
<b>Group</b>											
<b>Balance as at 01.01.2013</b>	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 for the Year	-	-	-	-	-	-	-	8,364,337	8,364,337	799,845	9,164,182
<b>Other Comprehensive Income</b>											
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
Tax on Other Comprehensive Income	-	-	-	(654,087)	-	-	-	-	(654,087)	(44,349)	(698,436)
<b>Total Other Comprehensive Income</b>	-	-	-	5,937,651	-	-	(133,015)	(715,204)	5,089,432	114,367	5,203,799
<b>Total Comprehensive Income</b>	-	-	-	5,937,651	-	-	(133,015)	7,649,133	13,453,771	914,212	14,367,981
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>											
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	-	-	-	-	-	-	-	(219,690)	(219,690)	-	(219,690)
Special Levy to Treasury	-	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	(71,881)	(71,881)	(23,962)	(95,843)
Dividend Payment	-	-	-	-	-	-	-	-	-	(493,710)	(493,710)
<b>Total Transactions with Equity Holders</b>	-	-	374,394	-	1,875,000	1,611,397	(3,780)	(8,339,088)	(4,482,077)	(546,663)	(5,028,740)
<b>Balance as at 31.12.2013</b>	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
<b>Balance as at 01.01.2014</b>	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
Profit for the Year	-	-	-	-	-	-	-	15,896,075	15,896,075	1,057,121	16,953,196
<b>Other Comprehensive Income</b>											
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	131,114	-	131,114	17,715	148,829
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(1,109,769)	(1,109,769)	(14,394)	(1,124,163)
Gain on Revaluation of Land and Building	-	-	-	(7,829)	-	-	-	-	(7,829)	(2,610)	(10,439)
Gains and Losses on Derivative Financial Assets	-	-	-	-	-	-	-	(15,797)	(15,797)	(5,265)	(21,062)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	(63,019)	(63,019)	4,925	(58,094)
<b>Total Other Comprehensive Income</b>	-	-	-	(7,829)	-	-	131,114	(1,188,585)	(1,065,300)	372	(1,064,929)
<b>Total Comprehensive Income</b>	-	-	-	(7,829)	-	-	131,114	14,707,490	14,830,775	1,057,493	15,888,267
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>											
Transfer to Reserve during the Period	-	-	710,941	-	1,875,000	157,096	-	(2,743,787)	(750)	(250)	(1,000)
Transfers to Retained Earnings during the Period	-	-	-	-	-	(7,621,032)	-	7,621,032	-	-	-
Dividend Paid to GOSL (Note 41.6)	-	-	-	-	-	-	-	(219,690)	(219,690)	-	(219,690)
Special Levy to Treasury (Note 41.7)	-	-	-	-	-	-	-	(6,000,000)	(6,000,000)	-	(6,000,000)
Movement in Deemed Disposal Profit	-	-	-	-	-	-	-	(12,500)	(12,500)	(187,500)	(200,000)
Dividend Payment	-	-	-	-	-	-	-	-	-	(493,708)	(493,708)
<b>Total Transactions with Equity Holders</b>	-	-	710,941	-	1,875,000	(7,463,936)	-	(1,354,945)	(6,232,940)	(681,459)	(6,914,398)
<b>Balance as at 31.12.2014</b>	49,998	7,152,000	3,522,626	11,393,318	8,828,873	-	271,215	27,520,829	58,738,859	5,323,419	64,062,278

## 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 2014 comprises the Bank, its Subsidiaries (together referred to as the 'Group') and the Equity interest in Associate.

#### 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 the Bank's subsidiaries are as follows;

Name of Company	Principal Activity
People's Leasing and Finance PLC	Providing finance leases, hire purchase assets financing, term loans, margin trading, issuing of debt instruments and mobilisation of deposits.
People's Travels (Pvt) Ltd.	Arrangement of tours and air ticketing (travel agent)

##### 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 micro enterprises.
People's Leasing Havelock Properties Ltd.	Construct and operate an office complex.

### ASSOCIATES

The principal activities of the Group's associates are as follows:

Name of Company	Principal Activity
People's Merchant Finance PLC	Trade finance, leasing, hire purchase, real estate, short-term investments and corporate finance services.
City Finance Corporation Ltd.	Mobilisation of deposits, providing finance leases, hire purchase assets financing, term loans, real estate developments and related services.

### 2. BASIS OF PREPARATION

#### 2.1 STATEMENT OF COMPLIANCE

The Statement of Financial Position, Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS) as issued by the Institute of Chartered Accountants of Sri Lanka. The preparation and presentation of these Financial Statements are in compliance with the requirements of the People's Bank Act No. 29 of 1961. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988.

#### 2.2 DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and presentation of the Consolidated Financial Statements in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS).

#### 2.3 APPROVAL OF FINANCIAL STATEMENTS

The Consolidated Financial Statements for the year ended 31st December 2014 were authorised for issue on 12th March 2015 by the Board of Directors.

#### 2.4 BASIS OF MEASUREMENT

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following:

- Non-derivative 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.
- Lands and Buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and any impairment losses

## 2.5 FUNCTIONAL AND PRESENTATION CURRENCY

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

## 2.6 MATERIALITY AND AGGREGATION

Each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has exercised judgement & 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.

Information about judgements, assumptions and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the Consolidated Financial Statements is set out below:

### 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 46.

### 3.3 IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

The Bank reviews its individually significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the profit or loss. 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.

### 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 receivables.

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 costs. The determination of what is 'significant' or 'prolonged' requires judgement.

### 3.5 DEFINED BENEFIT OBLIGATIONS

The value of the defined benefit obligations are determined using actuarial valuation technique. 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 Notes 37.1.5 and 37.2.1 for the assumptions used.

### 3.6 FAIR VALUE OF PROPERTY, PLANT & EQUIPMENT

The freehold land and buildings and the buildings on leasehold land of the Group are reflected at fair value. The Group engaged independent valuation specialists to determine fair value of such properties. When current market prices of similar assets are available, such evidences are considered in estimating fair value of these assets.



### 3.7 USEFUL LIFE TIME OF PROPERTY, PLANT & EQUIPMENT

The Group reviews the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

## 4. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes set out in Note 4.1 the Group has consistently applied the accounting policies as set out from Note 4.2 to Note 4.28 to all periods presented in these Consolidated Financial Statements.

### 4.1. CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1st January 2014:

- SLFRS 10 - Consolidated Financial Statements.
- SLFRS 12 - Disclosure of interests in other entities.
- SLFRS 13 - Fair value measurement.

The nature and the effects of the changes are explained below:

#### 4.1.1 SUBSIDIARIES

As a result of SLFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. SLFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

The change did not have a material impact on the Group's Financial Statements.

#### 4.1.2 INTERESTS IN OTHER ENTITIES

As a result of SLFRS 12, the Group has expanded disclosures about its interests in subsidiaries (See Note 25.3).

#### 4.1.3 FAIR VALUE MEASUREMENT

In accordance with the transitional provisions of SLFRS 13, the Group has applied the new definition of fair value, as set out in Note 4.7, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the Financial Statements, which are required under SLFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of SLFRS 13, the Group has provided the relevant comparative disclosures under those standards.

### 4.2 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 2014. 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.

#### 4.2.1 BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e., when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

#### 4.2.2 NON-CONTROLLING INTERESTS ('NCI')

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### 4.2.3 SUBSIDIARIES

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

#### 4.2.4 LOSS OF CONTROL

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### 4.2.5 TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-Group balances and transactions and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from Intra-Group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains and losses resulting from transactions between the Group and its associates are also eliminated in preparing the Consolidated Financial Statements 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.

#### 4.2.6 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 resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

#### 4.3 FOREIGN CURRENCY TRANSLATION

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.

#### 4.4 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

##### 4.4.1 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.

##### 4.4.2 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.

##### 4.4.3 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.

#### 4.4.4 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.

#### 4.4.5 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'.

#### 4.4.6 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'.

#### 4.4.7 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.

#### 4.4.8 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 Receivables 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'.

#### 4.4.9 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.

#### 4.4.10 '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 one 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.

#### 4.4.11 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, amounts due from banks, borrowings from banks and others and debentures.

After initial measurement, other financial liabilities are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

### 4.5 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### 4.5.1 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.
- The Bank has transferred substantially all risks and rewards of the asset
- or

- The Bank has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

#### 4.5.2 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.

### 4.6 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash Collateral on Securities Borrowed and Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net Interest Income' and is accrued over the life of the agreement using the EIR.

### 4.7 DETERMINATION OF FAIR VALUE

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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 46.

#### 4.8 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 re-organisation; 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.

##### 4.8.1 FINANCIAL ASSETS CARRIED AT AMORTISED COST

For financial assets carried at amortised cost (such as amounts due from Banks and loans and receivables 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 assets'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.

##### 4.8.2 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 impairments are recognised in other comprehensive income.

See Note 23 for details of impairment losses on financial investments – available-for-sale.

#### 4.8.3 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.

#### 4.8.4 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.

#### 4.8.5 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.

#### 4.9 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.

#### 4.10 LEASES

##### 4.10.1 FINANCE LEASE INCOME

Assets leased to customers to whom the Bank transfers substantially all risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

##### 4.10.2 LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### 4.11 CASH AND CASH EQUIVALENTS

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short-term funds are given in Note 16 to the Financial Statements.

#### 4.12 DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES AND HEDGE ACCOUNTING

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the Statement of Financial Position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge,



together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80%-125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

These hedging relationships are discussed below.

#### 4.12.1 FAIR VALUE HEDGES

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the Statement of Profit or Loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

#### 4.12.2 CASH FLOW HEDGES

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect Profit or Loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss and in the same line item in the Statement of Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash

flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

#### 4.12.3 NET INVESTMENT HEDGES

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in Profit or Loss. The amount recognised in OCI is reclassified to Profit or Loss as a reclassification adjustment on disposal of the foreign operation.

#### 4.12.4 OTHER NON-TRADING DERIVATIVES

If a derivative is not held-for-trading and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in Profit or Loss as a component of net income from other financial instruments at fair value through Profit or Loss.

#### 4.12.5 EMBEDDED DERIVATIVES

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the Statement of Financial Position together with the host contract.

### 4.13 PROPERTY, PLANT & EQUIPMENT

Property, Plant & Equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

**COST MODEL**

Plant & Equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant & equipment when the cost is incurred, if the recognition criteria are met.

**REVALUATION MODEL**

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Revaluations are performed every 7 years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the 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.

**LEASED ASSETS**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the Sri Lanka Accounting Standard (LKAS) 17 - 'Leases'.

**DEPRECIATION**

Depreciation is calculated using the straight-line method to write down the cost of property & 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 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.

**4.14 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.

#### 4.15 INTANGIBLE ASSETS AND GOODWILL

##### 4.15.1 GOODWILL

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see 4.2.1. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

##### 4.15.2 SOFTWARE

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

##### 4.15.3 AMORTISATION

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

Amortisation methods, useful lives and residual values are reviewed at each Reporting date and adjusted if appropriate.

#### 4.16 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.

#### 4.17 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.

#### 4.18 PENSION BENEFITS

##### 4.18.1 DEFINED BENEFIT PENSION PLAN

**4.18.1.1 Pre - 1996 - Pension Scheme** - The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st January 1996, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected benefit actuarial valuation method. Actuarial gains and losses are fully-recognised as income or expense in the respective financial year.

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

The latest actuarial valuation was carried out as of 31st December 2014, by Mr. Piya 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 31st December 2014 are as follows:

Interest/Discount Rate	9.5% p.a.
Increase in Cost of Living Allowances	5% p.a.
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 the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

**4.18.1.2 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.

#### 4.18.2 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:

**4.18.2.1 Employees' Provident Fund** - The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act and is maintained internally.

**4.18.2.2 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.

#### 4.18.3 POST-1996 PENSION PLAN

As approved by the Ministry of Finance the Bank has almost finalised a new pension scheme for permanent employees who joined the Bank post 1st January 1996. Total fund balance as at end December 2014 was Rs. 1,804 Mn.

#### 4.18.4 WIDOWS'/WIDOWERS' AND ORPHANS' PENSION PLAN (PRE-1996)

A separate fund is maintained by the Bank to meet future obligations under the scheme, based on the advice of a qualified actuary.

#### 4.19 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.

#### 4.20 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.

#### 4.21 TAXES

##### 4.21.1 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 as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

##### 4.21.2 DEFERRED TAXATION

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

**4.21.2.1 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.

**4.21.2.2 Deferred tax Assets** - Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each Balance Sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Balance Sheet date.

**4.21.3 VALUE ADDED TAX ON FINANCIAL SERVICES (FSVAT)**  
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.

#### 4.21.4 VALUE ADDED TAX (VAT)

Value Added Tax is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT is payable at 12%.

#### 4.21.5 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.

#### 4.21.6 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.

#### 4.21.7 CROP INSURANCE LEVY (CIL)

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy (CIL) was introduced with effect from 1st April 2013. Accordingly, the Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund.

#### 4.21.8 NATION BUILDING TAX (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1st January 2011 on the liable turnover as per the relevant provisions of the Act.

### 4.22 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.

#### 4.22.1 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.

**4.22.2 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.

**4.22.3 DIVIDEND INCOME**

Dividend income is recognised when the Bank's right to receive the payment is established.

**4.22.4 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'.

**4.22.5 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.

**4.22.6 INCOME FROM GOVERNMENT SECURITIES AND SECURITIES PURCHASED UNDER RESALE AGREEMENTS**

Discounts/premium on Treasury Bills and Treasury Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the Income Statement on an accrual basis over the period of the agreement.

**4.22.7 RENTAL INCOME**

Rental income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Income Statement in 'other operating income'.

**4.23 SEGMENTAL REPORTING**

The Bank's segmental reporting is based on the following operating segments: Banking, Leasing and Travels. Information relating to above is disclosed in Note 47.

**4.24 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.

**4.25 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 0.1% 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.

**4.26 SUBSEQUENT EVENTS**

Events occurring after the reporting date are those events, favorable and unfavorable, that occur between the reporting date and the date of the Financial Statements are authorised for issue.

All material and important events which occur after reporting date have been considered and disclosed in Note 44 to the Financial Statements as adjusted as applicable.

**4.27 COMPARATIVE INFORMATION**

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

## 4.28 POLICIES SPECIFIC TO INSURANCE SECTOR

### 4.28.1 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

**Non-life Insurance Contract Liabilities** – For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims, form the majority of the liability in the Statement of Financial Position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods and frequency/severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claim costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

### 4.28.2 PRODUCT CLASSIFICATION

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders, if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable, if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

### 4.28.3 REVENUE RECOGNITION

**Gross Written Premium** – Non-life insurance gross written premium comprises the total premium receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

**Reinsurance Premium** – Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and is recognised on the date on which the policy incepts. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies.

**Unearned Premium Reserve** – Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premium is calculated on the 365 basis.

### 4.28.4 CLAIMS AND EXPENSES RECOGNITION

**Gross Claims** – Gross claims for non-life insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claim. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

**Reinsurance Claims** – Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

#### 4.28.5 REINSURANCE

The Company cedes insurance risk in the normal course of business for all its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Statement of Income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

#### 4.28.6 REINSURANCE RECEIVABLES

Re-insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Income.

#### 4.28.7 INSURANCE RECEIVABLES

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Income.

#### 4.28.8 DEFERRED EXPENSES

**Deferred Acquisition Costs (DAC)** – The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses, which vary with and directly related to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, DAC for non-life insurance is amortised over the period on the basis UPR is amortised.

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 and are treated as a change in an accounting estimate.

DAC are derecognised when the related contracts are either expired or cancelled.

**Reinsurance Commissions** – Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

#### 4.28.9 INSURANCE CONTRACT LIABILITIES

**Non-life Insurance Contract Liabilities** – Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related Claims handling costs and reduction for the

expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the balance sheet date. The liability is calculated at the Reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the Statement of Income by setting up a provision for liability adequacy.

#### **4.29 NEW ACCOUNTING STANDARDS ISSUED BUT NOT 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 2015. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements.

##### **4.29.1 SLFRS 9 - FINANCIAL INSTRUMENTS**

SLFRS 9 – 'Financial Instruments' replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual period beginning on or after 1st January 2018 with early adoption permitted.

The Group is assessing the potential impact on its Consolidated Financial Statements resulting from the of SLFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's Financial Statements.

##### **4.29.2 SLFRS 15 – REVENUE RECOGNITION FROM CUSTOMER CONTRACTS**

SLFRS 15 – 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance LKAS 18 Revenue, LKAS 11 Construction Contracts.

SLFRS 15 is effective for annual reporting period beginning on or after 1st January 2017, with early adoption permitted.



	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>5. GROSS INCOME</b>				
Interest Income (Note 6)	84,479,961	110,440,562	104,180,951	129,204,762
Fee and Commission Income (Note 7)	3,820,242	3,478,015	7,733,299	5,590,860
Net Gain from Trading (Note 8)	2,508,352	2,803,219	2,648,889	2,819,045
Other Operating Income (Net) (Note 9)	5,568,927	3,734,677	4,077,669	2,341,938
<b>Total Gross Income</b>	<b>96,377,482</b>	<b>120,456,473</b>	<b>118,640,808</b>	<b>139,956,605</b>
<b>6. NET INTEREST INCOME</b>				
<b>Interest Income</b>				
Cash and Cash Equivalents	131,830	73,608	1,151,366	627,601
Placements with Banks	210,715	42,492	210,715	42,493
Other Financial Assets Held-for-Trading	5,334,622	5,143,907	5,334,622	5,143,907
Loans and Receivables to Banks	8,505,256	3,729,361	8,505,256	3,729,361
Loans and Receivables to Other Customers	61,930,546	89,311,381	80,611,982	107,521,533
Financial Investments - Held-to-Maturity	7,461,705	11,292,774	7,461,705	11,292,774
Financial Investments - Available-for-Sale	-	37,859	-	37,859
Day One Difference on Staff Loans	905,287	809,180	905,287	809,180
Others	-	-	18	54
<b>Total Interest Income</b>	<b>84,479,961</b>	<b>110,440,562</b>	<b>104,180,951</b>	<b>129,204,762</b>

#### 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 and Group from the secondary market transactions in Government securities for the year has been grossed up in these Financial Statements. Accordingly, the Bank has accounted for Rs. 1,758.738 Mn for the year 2014. (Rs. 1,545.521 Mn for 2013).

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Interest Expenses</b>				
Due to Banks	(2,238,661)	(4,366,150)	(6,716,711)	(11,480,768)
Due to Other Customers	(49,029,935)	(65,397,445)	(52,856,901)	(68,671,801)
Other Borrowings	(1,078,947)	(2,332,464)	(2,622,850)	(2,397,270)
Debt Securities Issued	(2,014,583)	(1,695,043)	(2,014,584)	(1,695,043)
<b>Total Interest Expenses</b>	<b>(54,362,126)</b>	<b>(73,791,102)</b>	<b>(64,211,046)</b>	<b>(84,244,882)</b>
<b>Net Interest Income</b>	<b>30,117,835</b>	<b>36,649,460</b>	<b>39,969,905</b>	<b>44,959,880</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>7. NET FEE AND COMMISSION INCOME</b>				
<b>Fee and Commission Income</b>				
Loans	26,239	8,824	26,239	8,824
Cards	252,428	243,520	252,428	243,520
Trade and Remittances	1,387,899	1,265,448	1,387,899	1,265,448
Investment Banking	23,580	19,648	23,580	19,648
Deposits	1,490,945	1,469,718	1,490,945	1,469,718
Guarantees	503,771	365,927	503,771	365,927
Others	135,380	104,930	4,048,437	2,217,775
	3,820,242	3,478,015	7,733,299	5,590,860
<b>Fee and Commission Expenses</b>				
Loans	-	-	-	-
Cards	(66,077)	(63,385)	(66,077)	(63,385)
Trade and Remittances	(2,470)	(3,246)	(2,470)	(3,246)
Investment Banking	(8,992)	(6,724)	(8,992)	(6,724)
Guarantees	(4,403)	(6,682)	(4,403)	(6,682)
Others	(39,685)	(55,409)	(39,685)	(55,409)
	(121,627)	(135,446)	(121,627)	(135,446)
<b>Net Fee and Commission Income</b>	<b>3,698,615</b>	<b>3,342,569</b>	<b>7,611,672</b>	<b>5,455,414</b>
<b>8. NET GAIN FROM TRADING</b>				
Foreign Exchange	1,598,506	1,418,430	1,598,506	1,418,430
Equities	292,363	93,999	432,900	109,825
Others				
Capital Gain Treasury Bills/Bonds	1,042,108	396,910	1,042,108	396,910
Change in Fair Valuation of Treasury Bills	(452,120)	487,676	(452,120)	487,676
Change in Fair Valuation of Treasury Bonds	13,535	404,068	13,535	404,068
Others	13,960	2,136	13,960	2,136
<b>Total</b>	<b>2,508,352</b>	<b>2,803,219</b>	<b>2,648,889</b>	<b>2,819,045</b>
<b>9. OTHER OPERATING INCOME</b>				
Gain on Sale of Property, Plant & Equipment	34,505	28,812	43,804	29,377
Gain/(Loss) on Revaluation of Foreign Exchange	185,308	(181,528)	185,308	(181,528)
Dividend from Investment				
- Quoted	36,480	13,217	63,588	27,682
- Unquoted	35,026	18,384	35,001	146,325
- Subsidiaries and Associate Companies	1,577,096	1,609,071	-	-
Recovery of Bad Debts Written Off and Provision Reversals	1,351,166	1,316,764	1,425,796	1,364,663
Others	2,349,346	929,957	2,324,172	955,419
<b>Total</b>	<b>5,568,927</b>	<b>3,734,677</b>	<b>4,077,669</b>	<b>2,341,938</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>10. NET IMPAIRMENT LOSS</b>				
Loans and Receivables to Other Customers [Note 22 (b)]	(1,364,908)	13,650,788	(803,202)	13,922,095
- Individual Impairment	1,560,111	1,935,783	1,891,100	2,064,074
- Collective Impairment (Note 10.1)	(2,925,019)	11,715,005	(2,694,302)	11,858,021
Financial Investments				
Held-to-Maturity	-	-	-	-
Available-for-Sale	-	-	25,000	-
Investment Properties	-	-	-	-
Investments in Associates and Joint Ventures (Note 26)	(65,532)	65,532	(171,909)	171,908
Others	-	-	832,131	728,424
<b>Total</b>	<b>(1,430,440)</b>	<b>13,716,320</b>	<b>(117,980)</b>	<b>14,822,427</b>
<b>10.1 COLLECTIVE IMPAIRMENT</b>				
Loans and Receivables to Customers Excluding Pawning	3,260,444	2,575,383	3,491,161	2,718,399
Pawning [Note 22 (c)]	(6,185,463)	9,139,622	(6,185,463)	9,139,622
	(2,925,019)	11,715,005	(2,694,302)	11,858,021
<b>11. PERSONNEL COSTS</b>				
Salaries, Bonus & Related Expenses	7,512,806	7,109,444	9,249,436	8,401,102
Contribution to Defined Benefit Plan - Pre - 1996 Pension Fund (Note 37.1.3)	1,362,872	867,653	1,362,872	867,653
Contribution to Defined Benefit Plan - Gratuity (Note 11.1)	80,384	54,254	109,749	71,320
Amortisation of Pre-paid Staff Cost	905,287	809,180	905,287	809,180
Others	3,221,793	3,117,720	3,221,793	3,222,220
<b>Total</b>	<b>13,083,142</b>	<b>11,958,251</b>	<b>14,849,137</b>	<b>13,371,475</b>
<b>11.1 CONTRIBUTION TO DEFINED CONTRIBUTION PLAN-GRATUITY</b>				
Current Service Cost	32,606	22,758	61,971	39,824
Interest Cost	47,778	31,496	47,778	31,496
<b>Net Expense</b>	<b>80,384</b>	<b>54,254</b>	<b>109,749</b>	<b>71,320</b>
<b>12. OTHER EXPENSES</b>				
Directors' Emoluments	2,100	2,516	2,885	3,759
Auditors' Remunerations	15,766	13,283	23,667	19,458
Non-Audit Fees to Auditors	2,450	-	5,519	2,364
Professional and Legal Expenses	80,418	85,474	104,176	103,777
Depreciation of Property, Plant & Equipment	844,293	763,487	1,115,749	999,043
Depreciation of Investment Property	2,354	1,754	2,354	1,754
Amortisation of Leasehold Property	74,174	40,739	80,908	47,535
Amortisation of Intangible Assets	16,262	38,609	37,540	57,339
Amortisation of Prepayment Leases	7,485	29,034	7,485	29,034
Office Administration and Establishment Expenses	6,569,551	6,341,587	8,134,139	9,057,923
Others	1,756,750	1,528,131	4,436,208	1,555,096
<b>Total</b>	<b>9,371,603</b>	<b>8,844,614</b>	<b>13,950,630</b>	<b>11,877,082</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>13. TAX EXPENSES</b>				
<b>Current Tax Expense</b>				
Current Year	946,086	3,120,480	2,420,610	3,925,887
Deemed Dividend Tax	2,351,553	451,260	2,351,552	451,260
Prior Years'(Over)/Under Provision	(13,459)	(549,745)	(18,334)	(549,745)
Temporary Differences	(271,935)	(205,600)	(79,472)	420,808
<b>Total</b>	<b>3,012,245</b>	<b>2,816,395</b>	<b>4,674,356</b>	<b>4,248,210</b>
<b>Effective Tax Rate</b>	<b>19.1%</b>	<b>30.3%</b>	<b>22.1%</b>	<b>29.3%</b>
<b>A. RECONCILIATION OF TAX EXPENSES</b>				
Profit Before Tax	17,231,057	10,304,282	21,627,552	13,412,392
Income Tax for the Period (Accounting Profit @ Applicable Tax Rate)	4,824,696	2,885,199	6,055,715	3,755,470
Adjustment in respect of Current Income Tax of Prior Periods	(13,458)	(549,745)	(18,334)	(549,745)
Add:				
Tax Effect of Expenses that are Deductible for Tax Purposes	1,636,935	2,965,997	6,746,438	7,325,344
(Less):				
Tax Effect of Expenses that are Deductible for Tax Purposes	(5,515,546)	(2,730,716)	(10,381,543)	(7,154,927)
Deemed Dividend Tax	2,351,553	451,260	2,351,552	451,260
<b>Tax Expense for the Period</b>	<b>3,284,180</b>	<b>3,021,995</b>	<b>4,753,828</b>	<b>3,827,402</b>
<b>B. THE DEFERRED TAX (CREDIT)/CHARGE IN THE PROFIT/(LOSS) COMPRISE OF THE FOLLOWING:</b>				
Deferred Tax Assets	(369,543)	(380,068)	(400,228)	(573,654)
Deferred Tax Liabilities	97,608	695,506	320,756	1,692,898
Other Temporary Difference - Revaluation of Assets	-	(521,038)	-	(698,436)
Deferred Tax (Credit)/Charge to Profit or Loss	(271,935)	(205,600)	(79,472)	420,808
<b>Income Tax Expenses</b>	<b>3,012,245</b>	<b>2,816,395</b>	<b>4,674,356</b>	<b>4,248,210</b>
<b>C. THE DEFERRED TAX (CREDIT)/CHARGE IN OTHER COMPREHENSIVE INCOME COMPRISE OF THE FOLLOWING:</b>				
The Deferred Tax (Credit)/Charge in Other Comprehensive Income	77,795	-	58,094	-
	77,795	-	58,094	-
<b>Net Deferred Tax for the Year</b>	<b>(194,140)</b>	<b>(205,600)</b>	<b>(21,378)</b>	<b>420,808</b>

	2014 %	2013 %
<b>Applicable Rates Exemptions, Concessions or Holidays Granted on Income Tax</b>		
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

The tax liabilities of the Group are computed at the above rates except for the following companies which enjoy exemptions and concessions.

#### PEOPLE'S LEASING PROPERTY DEVELOPMENT LTD.

Pursuant to the agreement dated 3rd December 2008, entered into by People's Leasing Property Development Ltd. with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of 2 years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

#### PEOPLE'S LEASING HAVELOCK PROPERTIES LTD.

Pursuant to the agreement dated 16th December 2010, entered into by People's Leasing Havelock Properties Ltd. with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations, whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of 2 years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

## 14. EARNINGS PER SHARE

### 14.1 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	BANK		GROUP	
	2014	2013	2014	2013
Net Profit Attributable to Ordinary Equity Holders (Rs. '000)	14,218,812	7,487,887	15,896,075	8,364,337
Weighted Average Number of Ordinary Shares in Issue ('000)	1,000	1,000	1,000	1,000
Basic Earnings Per Share (Rs.)	14,219	7,488	15,896	8,364

## 14.2 DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	BANK		GROUP	
	2014	2013	2014	2013
Net Profit Attributable to Ordinary Equity Holders (Rs. '000)	14,218,812	7,487,887	15,896,075	8,364,337
Weighted Average Number of Ordinary Shares in Issue ('000)	1,000	1,000	1,000	1,000
Number of Ordinary Shares in Capital Pending Allotment ('000)	143,040	143,040	143,040	143,040
Total Number of Shares in issue and Pending Allotment ('000)	144,040	144,040	144,040	144,040
<b>Diluted Earnings per Share (Rs.)</b>	<b>99</b>	<b>52</b>	<b>110</b>	<b>58</b>

## 15. MEASUREMENT OF FINANCIAL INSTRUMENTS

### BANK - 2014

	HFT	Financial Derivatives at FVTPL	HTM	Amortised Cost	AFS	Total
<b>Assets</b>						
Cash and Cash Equivalents	-	-	-	37,355,549	-	37,355,549
Balances with Central Banks	-	-	-	43,584,872	-	43,584,872
Placements with Banks	-	-	-	13,681,425	-	13,681,425
Derivative Financial Instruments	-	22,233	-	-	-	22,233
Financial Assets Held-for-Trading	59,888,466	-	-	-	-	59,888,466
Loans and Receivables to Banks	-	-	-	129,488,851	-	129,488,851
Loans and Receivables to Other Customers	-	-	-	627,209,062	-	627,209,062
Financial Investments	-	-	82,720,707	-	3,387,770	86,108,476
<b>Total Financial Assets</b>	<b>59,888,466</b>	<b>22,233</b>	<b>82,720,707</b>	<b>851,319,759</b>	<b>3,387,770</b>	<b>997,338,934</b>
<b>Liabilities</b>						
Due to Banks	-	-	-	143,754,943	-	143,754,943
Derivative Financial Instruments	-	17,377	-	-	-	17,377
Due to Other Customers	-	-	-	793,341,733	-	793,341,733
Other Borrowings	-	-	-	13,442,898	-	13,442,898
Subordinated Term Debts	-	-	-	15,032,542	-	15,032,542
<b>Total Financial Liabilities</b>	<b>-</b>	<b>17,377</b>	<b>-</b>	<b>965,572,116</b>	<b>-</b>	<b>965,589,493</b>

**BANK - 2013**

	HFT	Financial Derivatives at FVTPL	HTM	Amortised Cost	AFS	Total
<b>Assets</b>						
Cash and Cash Equivalents	-	-	-	18,774,605	-	18,774,605
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	-	-	-	82,223,079	-	82,223,079
Loans and Receivables to Other Customers	-	-	-	619,829,735	-	619,829,735
Financial Investments	-	-	75,784,287	-	311,733	76,096,020
<b>Total Financial Assets</b>	<b>63,748,857</b>	<b>35,391</b>	<b>75,784,287</b>	<b>763,749,526</b>	<b>311,733</b>	<b>903,629,794</b>
<b>Liabilities</b>						
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
Subordinated Term Debts	-	-	-	15,032,542	-	15,032,542
<b>Total Financial Liabilities</b>	<b>-</b>	<b>215,844</b>	<b>-</b>	<b>879,429,074</b>	<b>-</b>	<b>879,644,918</b>

**GROUP - 2014**

	HFT	Designated at FVTPL	HTM	Amortised Cost	AFS	Total
<b>Assets</b>						
Cash and Cash Equivalents	-	-	-	39,418,068	-	39,418,068
Balances with Central Banks	-	-	-	43,584,872	-	43,584,872
Placements with Banks	-	-	-	13,681,425	-	13,681,425
Derivative Financial Instruments	-	22,233	-	-	-	22,233
Financial Assets Held-for-Trading	60,310,150	-	-	-	-	60,310,150
Loans and Receivables to Banks	-	-	-	133,005,677	-	133,005,677
Loans and Receivables to Other Customers	-	-	-	722,099,483	-	722,099,483
Financial Investments	-	-	87,930,254	-	5,011,892	92,942,146
<b>Total Financial Assets</b>	<b>60,310,150</b>	<b>22,233</b>	<b>87,930,254</b>	<b>951,789,526</b>	<b>5,011,892</b>	<b>1,105,064,055</b>
<b>Liabilities</b>						
Due to Banks	-	-	-	162,433,372	-	162,433,372
Derivative Financial Instruments	-	148,243	-	-	-	148,243
Due to Other Customers	-	-	-	829,018,697	-	829,018,697
Other Borrowings	-	-	-	31,391,206	-	31,391,206
Debt Securities Issued	-	-	-	-	-	-
Subordinated Term Debts	-	-	-	24,883,132	-	24,883,132
<b>Total Financial Liabilities</b>	<b>-</b>	<b>148,243</b>	<b>-</b>	<b>1,047,726,407</b>	<b>-</b>	<b>1,047,874,650</b>

**GROUP - 2013**

	HFT	Designated at FVTPL	HTM	Amortised Cost	AFS	Total
<b>Assets</b>						
Cash and Cash Equivalents	-	-	-	20,803,240	-	20,803,240
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	-	-	-	82,337,394	-	82,337,394
Loans and Receivables to Other Customers	-	-	-	710,074,499	-	710,074,499
Financial Investments	-	-	78,322,900	-	1,737,175	80,060,074
<b>Total Financial Assets</b>	<b>64,057,091</b>	<b>35,391</b>	<b>78,322,900</b>	<b>856,137,240</b>	<b>1,737,175</b>	<b>1,000,289,796</b>
<b>Liabilities</b>						
Due to Banks	-	-	-	101,987,002	-	101,987,002
Derivative Financial Instruments	-	215,844	-	-	-	215,844
Due to Other Customers	-	-	-	789,225,314	-	789,225,314
Other Borrowings	-	-	-	38,878,017	-	38,878,017
Debt Securities Issued	-	-	-	-	-	-
Subordinated Term Debts	-	-	-	23,141,451	-	23,141,451
<b>Total Financial Liabilities</b>	<b>-</b>	<b>215,844</b>	<b>-</b>	<b>953,231,784</b>	<b>-</b>	<b>953,447,628</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>16. CASH AND CASH EQUIVALENTS</b>				
Cash in Hand	15,386,808	16,323,823	15,751,665	16,636,873
Cash at Banks	15,959,741	1,448,772	17,657,403	3,164,357
Money at Call and Short Notice	6,009,000	1,002,010	6,009,000	1,002,010
	<b>37,355,549</b>	<b>18,774,605</b>	<b>39,418,068</b>	<b>20,803,240</b>
<b>17. BALANCES WITH THE CENTRAL BANK</b>				
Statutory Balances with the Central Bank of Sri Lanka	43,584,872	40,370,892	43,584,872	40,370,892
	<b>43,584,872</b>	<b>40,370,892</b>	<b>43,584,872</b>	<b>40,370,892</b>

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	
		2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>18. PLACEMENTS WITH BANKS</b>					
Placements		13,681,425	2,551,215	13,681,425	2,551,215
		13,681,425	2,551,215	13,681,425	2,551,215
<b>19. DERIVATIVE FINANCIAL INSTRUMENTS</b>					
Foreign Currency Derivatives					
Currency Swaps		3,455	31,421	3,455	31,421
Forward Foreign Exchange Contracts		18,778	3,970	18,778	3,970
Total		22,233	35,391	22,233	35,391
<b>20. OTHER FINANCIAL ASSETS HELD-FOR-TRADING</b>					
<b>20.1 SRI LANKA GOVERNMENT SECURITIES</b>					
Treasury Bills		53,047,428	62,679,998	53,047,428	62,679,998
Treasury Bonds		5,460,503	231,533	5,460,503	231,533
<b>20.2 EQUITY SECURITIES</b>		1,034,516	607,447	1,456,200	915,681
<b>20.3 UNITS TRUST</b>		187,085	149,803	187,085	149,803
<b>20.4 DEBT SECURITIES</b>		158,934	80,076	158,934	80,076
		59,888,466	63,748,857	60,310,150	64,057,091

	No. of Shares/ Unit	Cost 2014 Rs. '000	Market Value as at 31.12.2014 Rs. '000	No. of Shares/ Unit	Cost 2013 Rs. '000	Market Value as at 31.12.2013 Rs. '000
<b>20.2 HELD-FOR-TRADING EQUITY SECURITIES - BANK</b>						
<b>Quoted</b>						
Overseas Reality (Ceylon ) PLC	20,722,353	317,052	544,998	20,722,353	317,052	379,219
Access Engineering PLC	-	-	-	605,995	12,259	13,392
Aitken Spence PLC	450,000	51,634	46,575	230,000	29,735	23,529
Asiri Hospital Holdings PLC	2,325,000	53,190	50,220	-	-	-
Cargills (Ceylon) PLC	295,968	47,426	45,283	-	-	-
CIC Holdings PLC	-	-	-	263,799	18,051	12,636
Colombo Dockyard PLC	249,362	56,839	48,127	222,362	51,956	42,160
Diesel Engineering Motor Company PLC	28,469	14,251	18,106	33,469	16,751	16,099
Expolanka PLC	2,739,892	24,776	23,563	-	-	-
Hayleys PLC	61,650	18,643	20,955	75,052	20,068	21,990
Hemas Power PLC	-	-	-	600,000	12,485	10,560
Hemas Holdings PLC	170,000	11,760	12,631	-	-	-
Janashakthi Insurance PLC	-	-	-	513,075	1,225	6,516
John Keells Holdings PLC	300,000	74,999	75,000	119,053	27,841	27,061
Kelani Tyres PLC	213,948	16,332	16,859	-	-	-
Lanka Hospitals PLC	-	-	-	20,000	680	810
Lanka Walltile PLC	-	-	-	61,521	3,526	3,316
Nawaloka Hospitals PLC	-	-	-	1,260,000	4,284	3,780
Pelawatta Sugar	58,100	1,829	-	58,100	1,829	-
Piramal Glass PLC	-	-	-	2,021,878	11,152	9,098
Renuka Shaw PLC	450,000	9,870	12,015	-	-	-
Royal Ceramic PLC	-	-	-	192,300	26,425	16,269
Singer Sri Lanka PLC	350,000	32,047	41,265	-	-	-
Textured Jersey PLC	1,710,228	32,753	35,231	-	-	-
The Finance Company PLC	2,080,400	83,400	43,688	2,080,400	83,400	21,012
<b>Total Value of the Quoted Equity Securities</b>		<b>846,801</b>	<b>1,034,516</b>		<b>638,719</b>	<b>607,447</b>
<b>20.3 INVESTMENT IN UNIT TRUSTS</b>						
National Equity Fund	5,112,735	161,000	187,085	5,112,735	161,000	149,803
<b>Total Value of the Unit Trusts</b>		<b>161,000</b>	<b>187,085</b>		<b>161,000</b>	<b>149,803</b>

	No. of Shares/ Unit	Cost 2014 Rs. '000	Market Value as at 31.12.2014 Rs. '000	No. of Shares/ Unit	Cost 2013 Rs. '000	Market Value as at 31.12.2013 Rs. '000
<b>20.2 HELD-FOR-TRADING EQUITY SECURITIES - GROUP</b>						
<b>Quoted</b>						
Overseas Reality (Ceylon) PLC	20,722,353	317,052	544,998	20,722,353	317,052	379,219
Access Engineering PLC	-	-	-	605,995	12,259	13,392
Aitken Spence PLC	312,800	67,921	55,145	312,800	46,022	31,999
Asiri Hospital Holdings PLC	2,825,000	64,780	61,020	-	-	-
Cargills (Ceylon) PLC	295,968	-	45,283	-	-	-
CIC Holdings PLC	263,799	15,004	15,004	263,799	18,051	12,636
Colombo Dockyard PLC	249,362	56,839	48,127	222,362	51,956	42,160
Commercial Bank PLC - Voting	391,134	38,936	66,884	572,677	57,172	68,020
Commercial Bank PLC - Non-Voting	165,279	13,624	20,676	457,953	38,102	42,384
Diesel Engineering Motor Company PLC	28,469	14,251	18,106	33,469	16,751	16,099
Distilleries Company PLC	200,000	24,133	42,000	200,000	24,133	37,800
Expolanka PLC	2,739,892	24,776	23,563	-	-	-
Hayleys PLC	61,650	18,643	20,955	75,052	20,068	21,990
Hemas Holdings PLC	170,000	11,760	12,631	25,000	1,109	850
Hemas Power PLC	-	-	-	600,000	12,484	10,560
Hatton National Bank PLC - Non-Voting	110,183	12,021	16,847	224,271	24,366	24,825
Horana Plantations PLC	20,000	768	482	20,000	768	456
Janashakthi Insurance PLC	-	-	-	513,075	1,225	6,516
John Keells Holdings PLC	458,067	108,821	114,517	188,283	43,061	42,797
John Keells Holdings PLC - Warrants - 22	3,076	197	209	-	-	-
John Keells Holdings PLC - Warrants - 23	3,076	222	223	-	-	-
Keells Hotels PLC	100,000	201	1,700	100,000	2,001	1,250
Kelani Tyres PLC	213,948	16,332	16,859	-	-	-
Lanka Hospitals PLC	-	-	-	20,000	680	810
Lanka Walltile PLC	-	-	-	61,521	3,526	3,316
Mackwoods Energy PLC	100,000	1,400	640	100,000	1,400	710
National Development Bank PLC	60,855	8,651	15,214	60,855	8,651	8,751
Nations Trust Bank PLC	392,871	25,877	38,108	912,971	55,704	56,277
Nawaloka Hospitals PLC	-	-	-	1,260,000	4,284	3,780
Pelawatta Sugar PLC	58,100	1,829	-	58,100	1,829	-
Piramal Glass PLC	-	-	-	2,021,878	11,152	9,098
Renuka Shaw PLC	450,000	9,870	12,015	-	-	-
Royal Ceramics PLC	-	-	-	192,300	26,425	16,269
Sampath Bank PLC - Voting	393,555	69,775	92,997	118,555	21,681	20,330
Seylan Bank PLC - Voting	167,421	12,343	15,905	92,421	6,102	5,638
Seylan Bank PLC - Non-Voting	403,122	12,484	23,180	403,122	12,484	12,513
Singer Sri Lanka PLC	350,000	32,047	41,265	-	-	-
Textured Jersey PLC	1,710,228	32,753	35,231	-	-	-
Tokyo Cement PLC - Non-Voting	110,000	4,650	5,159	110,000	4,650	2,574
The Finance Company PLC	2,080,400	83,400	43,688	2,080,400	83,400	21,012
Vallibel One PLC	100,000	2,196	2,390	100,000	2,196	1,650
United Motors Lanka PLC	50,000	5,000	5,179	-	-	-
		1,108,556	1,456,200		930,744	915,681

	No. of Shares/ Unit	Cost 2014 Rs. '000	Market Value as at 31.12.2014 Rs. '000	No. of Shares/ Unit	Cost 2013 Rs. '000	Market Value as at 31.12.2013 Rs. '000
<b>20.3 INVESTMENT IN UNIT TRUSTS</b>						
National Equity Fund	5,112,735	161,000	187,085	5,112,735	161,000	149,803
<b>Total Value of the Unit Trusts</b>		<b>161,000</b>	<b>187,085</b>		<b>161,000</b>	<b>149,803</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>21. LOANS AND RECEIVABLES TO BANKS</b>				
Gross Loans and Receivables	129,488,851	82,223,079	133,005,677	82,337,394
	129,488,851	82,223,079	133,005,677	82,337,394
<b>(A) ANALYSIS</b>				
By Product				
Sri Lanka Development Bonds	44,664,675	44,318,479	44,664,675	44,318,479
Restructuring Bonds (Note 21.1)	7,689,150	7,689,150	7,689,150	7,689,150
Securities Purchased Under Resale Agreements	77,135,022	30,118,162	80,651,848	30,232,476
Others	4	97,288	4	97,289
<b>Gross Total</b>	<b>129,488,851</b>	<b>82,223,079</b>	<b>133,005,677</b>	<b>82,337,394</b>

#### 21.1 GOVERNMENT OF SRI LANKA RESTRUCTURING BONDS

21.1.a In April 1993, the Bank received Restructuring Bonds amounting to Rs. 10,541 Mn from the Government of Sri Lanka (GOSL) for the following purposes:

Rs. Mn
i. 1,152.0 To achieve the capital adequacy requirement in accordance with CBSL guidelines.
ii. 1,700.5 To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board for 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).
<b>10,541.0</b>

21.1.b The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under state recommendation, which were deemed as irrecoverable.

21.1.c The Agreement underlying the granting of these Bonds, stipulates the following:

- A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.  
As at Statement of Financial Position 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 2014 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	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>22. LOANS AND RECEIVABLES TO OTHER CUSTOMERS</b>				
Gross Loans and Receivables	685,309,929	681,466,864	782,301,028	773,250,598
Impairment Allowance for Loans and Receivables				
Less: Individual Impairment (Note 22 B)	(40,901,653)	(39,341,542)	(41,422,080)	(39,530,980)
Collective Impairment (Note 22 B)	(17,199,214)	(22,295,587)	(18,779,465)	(23,645,119)
<b>Net Loans and Receivables</b>	<b>627,209,062</b>	<b>619,829,735</b>	<b>722,099,483</b>	<b>710,074,499</b>
<b>(A) ANALYSIS</b>				
<b>By Product</b>				
Loans and Receivables				
Bills of Exchange	1,068,366	14,519,457	1,068,366	14,519,457
Overdrafts	72,722,968	67,486,987	71,953,215	67,335,271
Trade Finance	167,631,931	103,231,590	167,631,931	103,231,590
Credit Cards	1,405,769	1,327,925	1,405,769	1,327,925
Pawning	113,946,014	197,128,580	113,946,014	197,128,580
Staff Loans	11,526,012	10,363,315	11,929,494	10,702,650
Term Loans:				
Short-Term	49,780,009	48,603,534	49,780,009	48,603,534
Medium-Term	159,141,517	143,185,349	178,211,872	155,423,762
Long-Term	106,809,306	94,974,902	106,809,306	94,974,902
Securities Purchased Under Resale Agreements	–	411,510	–	411,510
Others	1,278,037	233,715	2,313,194	364,190
Lease Rental Receivable	–	–	77,251,858	79,227,227
<b>Gross Total</b>	<b>685,309,929</b>	<b>681,466,864</b>	<b>782,301,028</b>	<b>773,250,598</b>
Staff Loans	19,384,633	17,586,008	19,788,115	17,925,343
(Less): Allowance for Day One Difference	(7,858,621)	(7,222,693)	(7,858,621)	(7,222,693)
<b>Net Staff Loans</b>	<b>11,526,012</b>	<b>10,363,315</b>	<b>11,929,494</b>	<b>10,702,650</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>By Currency</b>				
Sri Lankan Rupee	542,971,340	590,330,246	639,962,439	682,113,980
United States Dollar	139,043,533	87,858,833	139,043,533	87,858,833
Great Britain Pound	4,433	3,644	4,433	3,644
Others	3,290,623	3,274,141	3,290,623	3,274,141
<b>Gross Total</b>	<b>685,309,929</b>	<b>681,466,864</b>	<b>782,301,028</b>	<b>773,250,598</b>
<b>By Industry</b>				
Agriculture and Fishing	124,938,736	179,434,380	127,378,501	182,072,414
Manufacturing	10,867,165	13,166,471	10,876,326	13,178,077
Tourism	4,317,318	4,381,817	4,675,061	4,759,220
Transport	1,026,866	1,036,626	16,089,637	15,588,755
Construction	152,492,193	128,747,395	156,048,506	132,006,729
Traders	72,037,024	52,731,604	92,128,756	75,840,484
New Economy	5,543	8,269	9,525,354	8,155,987
Others	319,625,084	301,960,302	365,578,887	341,648,932
<b>Gross Total</b>	<b>685,309,929</b>	<b>681,466,864</b>	<b>782,301,028</b>	<b>773,250,598</b>
<b>(B) MOVEMENTS IN INDIVIDUAL AND COLLECTIVE IMPAIRMENT DURING THE YEAR</b>				
<b>Allowance for Individual Impairment</b>				
Balance as at 1st January	39,341,542	37,405,759	39,530,980	37,466,907
Movement in Individual Impairment	1,560,111	1,935,783	1,891,100	2,064,073
<b>Balance as at 31st December</b>	<b>40,901,653</b>	<b>39,341,542</b>	<b>41,422,080</b>	<b>39,530,980</b>

Around 80% of the individual impairment is pertaining to non-performing which is over 10 years advances.

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Allowance for Collective Impairment</b>				
Balance as at 1st January	22,295,587	11,804,074	23,645,119	13,010,589
Gross Charge/(Reversal) for Impairment	(2,925,019)	11,715,005	(2,694,302)	11,858,021
Reversals Made during the Year	(1,279,442)	(1,207,124)	(1,279,442)	(1,207,123)
Exchange Rate Variance on Foreign Currency Provision	28,984	67,234	28,986	67,234
Write-Off during the Year	(920,896)	(83,602)	(920,896)	(83,602)
<b>Balance as at 31st December</b>	<b>17,199,214</b>	<b>22,295,587</b>	<b>18,779,465</b>	<b>23,645,119</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Movement in Impairment Allowance for Loans and Receivables</b>				
<b>Balance as at 1st January</b>	<b>61,637,129</b>	49,209,832	<b>63,176,099</b>	50,477,496
Gross Charge/(Reversal) for Impairment	(1,364,908)	13,650,788	(803,202)	13,922,095
Reversals Made during the Year	(1,279,442)	(1,207,124)	(1,279,442)	(1,207,124)
Exchange Rate Variance on Foreign Currency Provision	28,984	67,234	28,986	67,234
Write-Off during the Year	(920,896)	(83,601)	(920,896)	(83,602)
<b>Balance as at 31st December</b>	<b>58,100,867</b>	61,637,129	<b>60,201,545</b>	63,176,099

**(C) PAWNING**

Write back of the Pawning (gold back loan exposures) related impairment is due to the downsisng of the Pawning balances (2013 - Rs. 197.1 Bn, 2014 Rs. 113.9 Bn) coupled with the movement of the international gold prices.

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>23. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE</b>				
Equity Securities (Note 23.1)	238,058	1,284,758	398,068	1,384,768
(Less): Impairment	-	(1,137,000)	-	(1,159,600)
Loss on Fair Valuation	(180)	(71)	(180)	(71)
Gain on Fair Valuation	242,125	164,046	241,200	164,046
	480,003	311,733	639,088	389,143
Investment in Unit Trusts (Note 23.2)	2,507,767	-	3,057,767	50,000
Gain on Fair Valuation	-	-	24,038	-
	2,507,767	-	3,081,805	50,000
Sri Lanka Government Securities	-	-	890,999	1,191,388
Debt Securities	400,000	-	400,000	106,644
Others	-	-	-	-
<b>Net Available-for-Sale Investments</b>	<b>3,387,770</b>	311,733	<b>5,011,892</b>	1,737,175

	No. of Shares	Fair Value as at 31.12.2014	Cost as at 31.12.2014	Fair Value as at 31.12.2013	Cost as at 31.12.2013
<b>23.1 EQUITY SECURITIES - AVAILABLE-FOR-SALE - BANK</b>					
SriLankan Airlines	4,236,135	-	-	-	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	-	-	-	-
Society for Worldwide Inter-Bank Fund Transfer	14	1,168	1,168	1,168	1,168
Regional Development Bank	16,448,448	404,425	162,300	236,046	72,000
Lanka Financial Services Bureau	225,000	2,070	2,250	2,179	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	625	625
LankaClear (Pvt) Ltd.	2,100,000	21,000	21,000	21,000	21,000
Magpeck Ltd.	125,000	-	-	-	-
		480,003	238,058	311,733	1,284,758

	No. of Shares	Fair Value as at 31.12.2014	Cost as at 31.12.2014	Fair Value as at 31.12.2013	Cost as at 31.12.2013
<b>23.2 INVESTMENT IN UNIT TRUSTS - AVAILABLE-FOR-SALE- BANK</b>					
Gilt Unit Trust Fund	237,653,656	2,507,767	2,507,767	–	–
		<b>2,507,767</b>	<b>2,507,767</b>	–	–

	No. of Shares	Fair Value as at 31.12.2014	Cost as at 31.12.2014	Fair Value as at 31.12.2013	Cost as at 31.12.2013
<b>23.1 EQUITY SECURITIES - AVAILABLE FOR SALE - GROUP</b>					
SriLankan Airlines	4,236,135	–	–	–	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	–	–	–	–
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168	1,168	1,168
Regional Development Bank	16,448,448	404,425	162,300	236,046	72,000
Lanka Financial Services Bureau	225,000	2,070	2,250	2,179	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	625	625
LankaClear (Pvt) Ltd.	2,100,000	21,000	21,000	21,000	21,000
Sanasa Development Bank Ltd.	1,000,000	159,075	160,000	77,400	100,000
Magpeck Ltd.	125,000	–	–	–	–
		<b>639,088</b>	<b>398,068</b>	389,143	1,384,768

	No. of Shares	Fair Value as at 31.12.2014	Cost as at 31.12.2014	Fair Value as at 31.12.2013	Cost as at 31.12.2013
<b>23.2 INVESTMENT IN UNIT TRUSTS - AVAILABLE-FOR-SALE - GROUP</b>					
Gilt Unit Trust Fund	237,653,656	2,507,767	2,507,767	–	–
Cey Bank Unit Trust Management Finance Ltd	1,893,222	61,151	50,000	50,000	50,000
Orient Gilt Edge	42,955,326	512,887	500,000	–	–
		<b>3,081,805</b>	<b>3,057,767</b>	50,000	50,000

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>A MOVEMENTS IN IMPAIRMENT DURING THE YEAR</b>				
<b>Balance as at 1st January</b>	1,137,000	1,137,000	1,159,600	1,182,200
Charge/(Write-back) to Income Statement	(1,137,000)	–	(1,159,600)	(22,600)
<b>Balance as at 31st December</b>	–	1,137,000	–	1,159,600
<b>24. FINANCIAL INVESTMENTS HELD-TO-MATURITY</b>				
Sri Lanka Government Securities				
Treasury Bills	–	16,373,829	4,567,793	18,532,631
Treasury Bonds	82,090,475	58,780,226	82,732,229	59,160,036
Long-Term Treasury Bonds (Note 24.A)	630,232	630,232	630,232	630,233
<b>Net Held-to-Maturity Investments</b>	<b>82,720,707</b>	<b>75,784,287</b>	<b>87,930,254</b>	<b>78,322,900</b>



**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	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>25.1 Quoted Equity Share</b>	<b>1,040,958</b>	1,240,958	-	-
<b>25.2 Unquoted Equity Share</b>	<b>4,950</b>	4,950	-	-
(Less): Impairment	-	-	-	-
<b>Net Total</b>	<b>1,045,908</b>	1,245,908	-	-

	No. of Shares	Holding % as at 31.12.2014	Cost 2014 Rs. '000	No. of Shares	Holding % as at 31.12.2013	Cost 2013 Rs. '000
<b>Quoted</b>						
People's Leasing and Finance PLC						
- Ordinary Shares	1,184,896,862	75	690,958	1,184,896,862	75	690,958
- Preference Shares	35,000,000		350,000	55,000,000		550,000
<b>Unquoted</b>						
People's Travels (Pvt) Ltd.	495,000	99	4,950	495,000	99	4,950
<b>Total</b>			<b>1,045,908</b>			1,245,908

**25.3 NON-CONTROLLING INTERESTS**

The following subsidiary have material NCI:

Name	Principal Place of Business/ Country of Incorporation	Operating Segment	Ownership Interests held by NCI	
			2014 %	2013 %
People's Leasing and Finance PLC	No. 1161, Maradana Road, Colombo 08, Sri Lanka	Leasing and Finance	25	25

The following is summarised financial information for the People's Leasing and Finance PLC, prepared in accordance with SLFRS/ LKAS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies. The information is before inter-company eliminations with other companies in the Group.

	People's Leasing and Finance PLC	
	2014 Rs. '000	2013 Rs. '000
Revenue	24,767,947	22,209,913
Profit	4,121,821	3,305,384
<b>Profit Attributable to NCI</b>	<b>1,030,455</b>	<b>826,346</b>
Other Comprehensive Income	127,612	421,851
Total Comprehensive Income	4,249,433	3,727,234
<b>Total Comprehensive Income Attributable to NCI</b>	<b>1,062,358</b>	<b>931,809</b>
Total Assets	118,987,470	114,110,126
Total Liabilities	(97,675,987)	(95,072,248)
Net Assets	21,311,483	19,037,878
<b>Net Assets Attributable to NCI</b>	<b>5,327,871</b>	<b>4,759,470</b>
Cash Flows from Operating Activities	352,088	9,960,445
Cash Flows from Investing Activities	(1,201,847)	(478,138)
Cash Flows from Financing Activities	(3,641,462)	(240,892)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(4,491,221)</b>	<b>9,241,415</b>
<b>Dividends Paid to NCI during the Year</b>	<b>493,708</b>	<b>493,710</b>

## 26. INVESTMENTS IN ASSOCIATES

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Associates</b>				
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	-	-	(51,758)	(31,882)
(Less): Impairment	(25,000)	(90,532)	(75,000)	(246,908)
<b>Sub Total</b>	<b>273,100</b>	<b>207,568</b>	<b>426,502</b>	<b>274,470</b>

	BANK				GROUP			
	Cost 2014 Rs. '000	Cost 2013 Rs. '000	Holding % as at 31.12.2014	Holding % as at 31.12.2013	Cost 2014 Rs. '000	Cost 2013 Rs. '000	Holding % as at 31.12.2014	Holding % as at 31.12.2013
<b>Quoted</b>								
People's Merchant Bank PLC								
- Ordinary Shares (17,639,984 Shares)	263,100	263,100	26.13	26.13				
- Preference Shares (1,000,000 Shares)	10,000	10,000						
- Ordinary Shares (26,459,976 Shares)					468,260	468,260	39.2	39.2
- Preference Shares (1,000,000 Shares)					10,000	10,000		
<b>Unquoted</b>								
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. (50,000,000 Ordinary Shares)	-	-			50,000	50,000	21.4	21.4
	298,100	298,100			553,260	553,260		
Less: Share of Profit/(Loss) from Associate					(51,758)	(31,882)		
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)		
<b>Total Value of Investment at the Year end</b>	<b>273,100</b>	<b>207,568</b>			<b>426,502</b>	<b>274,470</b>		

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>(A) MOVEMENT IN IMPAIRMENT DURING THE YEAR</b>				
<b>Associates</b>				
Balance as at 1st January	90,532	25,000	246,908	75,000
Charge/(Reversal) to Profit or Loss	(65,532)	65,532	(171,908)	171,908
Balance as at 31st December	25,000	90,532	75,000	246,908

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>27. GOODWILL AND INTANGIBLE ASSETS</b>				
<b>27.1 INTANGIBLE ASSETS</b>				
<b>Cost</b>				
As at beginning of the Year	914,126	886,334	1,061,791	1,006,470
Acquired during the Year	97,276	27,792	104,802	41,953
Disposals/Reversals during the Year	-	-	(6,033)	(2,993)
Transfers	-	-	3,221	16,361
As at end of the Year	1,011,402	914,126	1,163,781	1,061,791
<b>Accumulated Amortisation</b>				
As at beginning of the Year	880,591	841,982	978,263	909,247
Amortisation for the Year	16,263	38,609	37,540	57,339
Disposals during the Year	-	-	(6,033)	(997)
Transfers	-	-	483	12,674
As at end of the Year	896,854	880,591	1,010,252	978,263
Net Book Value	114,548	33,535	153,528	83,528
<b>27.2 Goodwill</b>				
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
<b>Accumulated Amortisation</b>				
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	114,548	33,535	462,073	392,073

Goodwill on acquisition represents the excess of purchase price over the net tangible assets acquired, in respect of the acquisition of People's Leasing and Finance PLC.

At the reporting date an impairment testing for goodwill and intangible assets with indefinite useful lives has been performed by the Group, 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) PROPERTY, PLANT & EQUIPMENT - BANK**

	Freehold Land	Freehold Building	Leasehold Building	Motor Vehicles	Leasehold Motor Vehicles	Furniture	Machinery & Equipment	Computer	<b>Total 31.12.2014</b>	<b>Total 31.12.2013</b>
<b>Cost/Fair Value</b>										
Opening Balance as at 01.01.2014	7,005,551	3,864,075	1,851,583	649,535	386,261	658,040	2,873,223	6,364,153	<b>23,652,421</b>	17,834,457
Additions	-	304,426	302,777	22,443	-	22,626	339,554	133,052	<b>1,124,878</b>	1,531,008
Disposals	(735)	-	(889)	(18,590)	-	-	(536)	-	<b>(20,750)</b>	(15,355)
Transfers/Adjustments	-	-	(12,229)	-	-	-	-	-	<b>(12,229)</b>	227,150
Revaluation Gain	-	-	-	-	-	-	-	-	<b>-</b>	4,075,161
<b>Closing Balance as at 31.12.2014</b>	<b>7,004,816</b>	<b>4,168,501</b>	<b>2,141,242</b>	<b>653,388</b>	<b>386,261</b>	<b>680,666</b>	<b>3,212,241</b>	<b>6,497,205</b>	<b>24,744,320</b>	<b>23,652,421</b>
<b>Accumulated Depreciation</b>										
Opening Balance as at 01.01.2014	-	47,899	26,460	439,570	305,536	581,158	2,129,520	5,651,568	<b>9,181,711</b>	10,217,991
Charge for the Year	-	102,457	74,174	87,764	55,035	24,296	265,793	308,948	<b>918,467</b>	804,226
Disposals	-	-	(15)	(18,590)	-	-	-	-	<b>(18,605)</b>	(13,879)
Transfers/Adjustments	-	-	10,176	-	-	-	-	-	<b>10,176</b>	32,301
Revaluation Adjustments on Accumulated Depreciation	-	-	-	-	-	-	-	-	<b>-</b>	(1,858,928)
<b>Closing Balance as at 31.12.2014</b>	<b>-</b>	<b>150,355</b>	<b>110,795</b>	<b>508,744</b>	<b>360,571</b>	<b>605,454</b>	<b>2,395,313</b>	<b>5,960,516</b>	<b>10,091,749</b>	<b>9,181,711</b>
<b>Net Book Value at 31.12.2014</b>	<b>7,004,816</b>	<b>4,018,145</b>	<b>2,030,447</b>	<b>144,644</b>	<b>25,690</b>	<b>75,212</b>	<b>816,928</b>	<b>536,689</b>	<b>14,652,571</b>	<b>14,470,710</b>
Capital Work-in-Progress at Cost									<b>227,952</b>	141,666
Furniture Equipment and Machinery at Store									<b>66,241</b>	93,347
									<b>14,946,764</b>	<b>14,705,723</b>

(B) 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. Book values of the properties were adjusted for the revalued amounts and revaluation surplus was credited to the Revaluation Reserve.

(C) The Carrying amount of revalued assets, in the Financial Statements if carried at Net Book Value is as follows:

<b>Class of Assets</b>	<b>Cost Rs. '000</b>	<b>Accumulated Depreciation Rs. '000</b>	<b>Net Book Value As At 31.12.2014 Rs. '000</b>
Freehold Land and Building	6,479,803	1,338,377	<b>5,141,426</b>
Leasehold Land and Building	1,249,850	586,080	<b>663,770</b>
	7,729,653	1,924,456	<b>5,805,197</b>

**(D) PROPERTY, PLANT & EQUIPMENT – GROUP**

	Freehold Land	Freehold Building	Leasehold Building	Motor Vehicles	Leasehold Motor Vehicles	Furniture	Machinery & Equipment	Computer	Total 31.12.2014	Total 31.12.2013
<b>Cost/Fair Value</b>										
Opening Balance as at 01.01.2014	8,273,929	5,007,795	1,909,002	1,076,395	386,261	981,387	3,449,535	6,778,073	<b>27,862,377</b>	21,247,379
Additions	853,924	304,426	303,045	54,273	–	53,899	415,391	176,415	<b>2,161,373</b>	1,938,350
Disposals	(735)	–	(889)	(51,315)	–	(245)	(4,217)	(146)	<b>(57,547)</b>	(190,109)
Transfers/Adjustments	–	–	(12,229)	(6,335)	–	113	(10,868)	13,868	<b>(15,451)</b>	210,789
Revaluation Adjustment on Accumulated Depreciation	–	–	–	–	–	–	–	–	<b>–</b>	–
Revaluation Gain	(31,692)	–	–	–	–	–	–	–	<b>(31,692)</b>	4,655,968
<b>Closing Balance as at 31.12.2014</b>	<b>9,095,426</b>	<b>5,312,221</b>	<b>2,198,929</b>	<b>1,073,018</b>	<b>386,261</b>	<b>1,035,154</b>	<b>3,849,841</b>	<b>6,968,210</b>	<b>29,919,060</b>	<b>27,862,377</b>
<b>(Less): Accumulated Depreciation</b>										
Opening Balance as at 01.01.2014	–	47,898	72,351	578,866	305,536	739,151	2,356,353	5,907,238	<b>10,007,393</b>	10,969,911
Charge for the Year	–	123,710	80,908	127,289	55,035	84,110	352,884	372,721	<b>1,196,657</b>	1,046,577
Disposals	–	–	(15)	(49,853)	–	(136)	(665)	(73)	<b>(50,742)</b>	(100,895)
Transfers/Adjustments	–	–	10,176	–	–	–	1,756	(1,272)	<b>10,660</b>	19,626
Remeasurement	–	–	–	–	–	–	–	–	<b>–</b>	(16,140)
Revaluation Adjustments on Accumulated Depreciation	–	(21,253)	–	–	–	–	–	–	<b>(21,253)</b>	(1,911,686)
<b>Closing Balance as at 31.12.2014</b>	<b>–</b>	<b>150,355</b>	<b>163,420</b>	<b>656,302</b>	<b>360,571</b>	<b>823,125</b>	<b>2,710,328</b>	<b>6,278,614</b>	<b>11,142,715</b>	<b>10,007,393</b>
<b>Net Book Value as at 31.12.2014</b>	<b>9,095,426</b>	<b>5,161,866</b>	<b>2,035,509</b>	<b>416,716</b>	<b>25,690</b>	<b>212,029</b>	<b>1,139,513</b>	<b>689,596</b>	<b>18,776,345</b>	<b>17,854,984</b>
Capital Work-in-Progress at Cost									<b>521,547</b>	235,329
Furniture Equipment and Machinery at Store									<b>66,241</b>	93,345
									<b>19,364,133</b>	<b>18,183,658</b>

(E) 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 31.12.2014 Rs. '000
Freehold Land and Building	9,165,017	1,419,894	<b>7,745,123</b>
Leasehold Land and Building	1,249,850	586,080	<b>663,770</b>
	10,414,867	2,005,974	<b>8,408,893</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>29. INVESTMENT PROPERTIES</b>				
Balance as at 1st January	217,186	456,463	217,186	456,463
Additions	-	-	-	-
Disposals	-	-	-	-
Transfer/Adjustments	-	(239,277)	-	(239,277)
<b>Balance as at 31st December</b>	<b>217,186</b>	<b>217,186</b>	<b>217,186</b>	<b>217,186</b>
<b>(Less): Accumulated Depreciation</b>				
Balance as at 1st January	27,412	57,955	27,412	57,955
Charge for the Year	2,354	1,754	2,354	1,754
Disposals	-	-	-	-
Transfer/Adjustments	-	(32,297)	-	(32,297)
<b>Balance at 31st December</b>	<b>29,766</b>	<b>27,412</b>	<b>29,766</b>	<b>27,412</b>
<b>Net Book Value as at 31st December</b>	<b>187,420</b>	<b>189,774</b>	<b>187,420</b>	<b>189,774</b>

Bank has recorded its investment properties at cost and revalued these properties periodically on a systematic basis for disclosure purpose.

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 approximate fair value of the Investment Properties are as follows:

Class of Assets	Amount Rs. '000
Lands	224,000
Building	146,000
<b>Total Fair Value of Investment Property</b>	<b>370,000</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>30. PREPAID LEASES</b>				
Balance as at 1st January	738,464	706,204	738,464	706,204
Additions	271,191	21,187	271,191	21,187
Disposals	(865)	(640)	(865)	(640)
Transfer/Adjustments	-	11,713	-	11,713
<b>Closing Balance as at 31st December</b>	<b>1,008,790</b>	<b>738,464</b>	<b>1,008,790</b>	<b>738,464</b>
<b>(Less): Accumulated Amortisation</b>				
Balance as at 1st January	442,732	414,338	442,732	414,338
Charge for the Year	7,485	29,034	7,485	29,034
Disposals	(304)	(640)	(304)	(640)
<b>Balance as at 31st December</b>	<b>449,913</b>	<b>442,732</b>	<b>449,913</b>	<b>442,732</b>
<b>Net book value as at 31st December</b>	<b>558,877</b>	<b>295,732</b>	<b>558,877</b>	<b>295,732</b>

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>31. DEFERRED TAX ASSETS/LIABILITIES</b>				
Deferred Tax Liabilities (Note 31.a)	1,060,634	885,232	2,936,209	2,557,359
Deferred Tax Assets (Note 31.b)	(1,440,924)	(1,071,381)	(1,475,879)	(1,075,651)
	(380,290)	(186,149)	1,460,330	1,481,708

	BANK				GROUP			
	2014		2013		2014		2013	
	Temporary Difference Rs. '000	Tax Effects Rs. '000	Temporary Difference Rs. '000	Tax Effects Rs. '000	Temporary Difference Rs. '000	Tax Effects Rs. '000	Temporary Difference Rs. '000	Tax Effects Rs. '000
<b>31.A DEFERRED TAX LIABILITIES</b>								
Balance as at 1st January	3,161,543	885,232	677,593	189,726	9,133,425	2,557,359	3,087,361	864,461
Originating During the Year	626,435	175,402	2,483,950	695,506	1,353,035	378,850	6,046,064	1,692,898
Balance as at 31st December	3,787,978	1,060,634	3,161,543	885,232	10,486,460	2,936,209	9,133,425	2,557,359
<b>31.B DEFERRED TAX ASSETS</b>								
Balance as at 1st January	3,826,361	1,071,381	2,468,975	691,313	3,841,611	1,075,651	1,792,846	501,997
Originating During the Year	1,319,796	369,543	1,357,386	380,068	1,429,387	400,228	2,048,764	573,654
Balance as at 31st December	5,146,157	1,440,924	3,826,361	1,071,381	5,270,998	1,475,879	3,841,610	1,075,651

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>32. OTHER ASSETS</b>				
Deposits and Prepayments	191,292	213,847	604,084	557,588
Unamortised Day One Difference Staff Loans	7,858,621	7,222,693	7,858,621	7,222,693
Others	2,812,469	1,769,319	3,256,311	2,991,358
<b>Total</b>	10,862,382	9,205,859	11,719,016	10,771,639
<b>33. DUE TO BANKS</b>				
Money Market Borrowings	136,939,204	79,553,628	136,939,204	79,553,628
Call Money Borrowings	5,780,435	1,327,081	5,780,435	1,327,081
Other Borrowings	1,035,304	913,308	19,713,733	21,106,293
<b>Total</b>	143,754,943	81,794,017	162,433,372	101,987,002



		BANK		GROUP	
		2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>34. DERIVATIVE FINANCIAL INSTRUMENTS</b>					
Foreign Currency Derivatives					
Foreign Currency Swaps		13,786	215,178	144,652	215,178
Forward Foreign Exchange Contracts		3,591	666	3,591	666
<b>Total</b>		<b>17,377</b>	<b>215,844</b>	<b>148,243</b>	<b>215,844</b>
<b>35. DUE TO OTHER CUSTOMERS</b>					
Total Amount Due to Other Customers		793,341,733	762,248,529	829,018,697	789,225,314
<b>Total</b>		<b>793,341,733</b>	<b>762,248,529</b>	<b>829,018,697</b>	<b>789,225,314</b>
<b>a. Analysis</b>					
<b>Product-Wise Analysis</b>					
Demand Deposit (Current Accounts)		48,155,509	37,372,309	46,150,575	34,355,111
Savings Deposits		318,947,100	255,980,538	324,228,574	254,013,565
Fixed Deposits		423,369,750	466,314,410	455,770,174	498,275,367
Other Products		2,869,374	2,581,272	2,869,374	2,581,271
<b>Total</b>		<b>793,341,733</b>	<b>762,248,529</b>	<b>829,018,697</b>	<b>789,225,314</b>
<b>By Currency</b>					
Sri Lankan Rupee		725,311,579	699,086,111	760,988,543	726,062,896
United States Dollar		59,779,820	53,590,759	59,779,820	53,590,759
Great Britain Pound		3,017,669	3,375,465	3,017,669	3,375,465
Others		5,232,665	6,196,194	5,232,665	6,196,194
<b>Total</b>		<b>793,341,733</b>	<b>762,248,529</b>	<b>829,018,697</b>	<b>789,225,314</b>
<b>36. OTHER BORROWINGS</b>					
Central Bank of Sri Lanka		2,335,464	1,924,151	2,335,464	1,924,151
Other Financial Institutions		1,293,125	1,254,530	19,339,951	21,039,486
Borrowings Under Repurchase Agreement (Note 36.1)		9,814,309	17,175,305	9,715,791	15,914,380
		<b>13,442,898</b>	<b>20,353,986</b>	<b>31,391,206</b>	<b>38,878,017</b>

36.1 The following assets have been pledged as security for repurchase liabilities.

		BANK		GROUP	
Nature of Liabilities	Nature of Assets	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Borrowings Under Repurchase Agreements	Treasury Bills	-	-	-	-
	Treasury Bonds	10,637,049	19,073,795	10,538,531	17,812,870

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>37. OTHER LIABILITIES</b>				
Interest Payable	-	-	-	-
Deferred Income in Respect of Off-Balance Sheet Items	348,790	246,529	348,789	246,528
Sundry Creditors	3,309,830	3,748,076	6,272,033	5,762,412
Net Defined Benefit Obligation (Note 37.1)	5,234,601	3,816,507	5,234,601	3,816,507
Provision for Gratuity (Note 37.2)	274,969	477,778	428,947	549,455
Other Payables	7,021,377	4,836,010	11,047,614	9,127,020
<b>Total</b>	<b>16,189,567</b>	<b>13,124,900</b>	<b>23,331,984</b>	<b>19,501,922</b>
<b>37.1 NET DEFINED BENEFIT OBLIGATION- PRE-1996 PENSION PLAN</b>				
Fair Value of Plan Assets (Note 37.1.1)	(43,479,745)	(41,185,153)	(43,479,745)	(41,185,153)
Present Value of Obligations (Note 37.1.2)	48,714,347	45,001,660	48,714,347	45,001,660
<b>Net Defined Benefit Obligation</b>	<b>5,234,602</b>	<b>3,816,507</b>	<b>5,234,602</b>	<b>3,816,507</b>
<b>37.1.1 FAIR VALUE OF PLAN ASSETS</b>				
<b>Plan Assets Comprise:</b>				
Fixed Deposits	24,530,814	21,557,512	24,530,814	21,557,512
Government Securities	3,948,000	4,333,186	3,948,000	4,333,186
Debentures	15,000,000	15,000,000	15,000,000	15,000,000
Net Current Assets	931	294,455	931	294,455
	43,479,745	41,185,153	43,479,745	41,185,153
Actual Return on Plan Assets	4,703,251	4,539,934	4,703,251	4,539,934
<b>Movement in the Fair Value of Plan Assets</b>				
Fair Value of Plan Assets as 1st January	41,185,153	40,259,510	41,185,153	40,259,510
Expected Return on Plan Assets	3,896,605	4,025,951	3,896,605	4,025,951
Benefit Paid by the Plan	(4,096,560)	(3,950,925)	(4,096,560)	(3,950,925)
Actual Employer Contribution	1,289,206	794,724	1,289,206	794,724
Actuarial (Gain)/Losses	1,205,342	55,893	1,205,342	55,893
Fair Value of Plan Assets as 31st December	43,479,746	41,185,153	43,479,746	41,185,153
<b>37.1.2 MOVEMENT IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS</b>				
Defined Benefit Obligations as 1st January	45,001,660	43,402,066	45,001,660	43,402,066
Benefit Paid by the Plan	(4,096,560)	(3,950,925)	(4,096,560)	(3,950,925)
Current Service Cost	665,043	553,397	665,043	553,397
Interest Cost	4,594,434	4,340,207	4,594,434	4,340,207
Actuarial (Gain)/Losses	2,549,770	656,915	2,549,770	656,915
Defined Benefit Obligation as 31st December	48,714,347	45,001,660	48,714,347	45,001,660

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>37.1.3 NET EXPENSES RECOGNISED IN PROFIT OR LOSS</b>				
Current Service Cost	665,043	553,397	665,043	553,397
Interest Cost	4,594,434	4,340,207	4,594,434	4,340,207
Expected Return	(3,896,605)	(4,025,951)	(3,896,605)	(4,025,951)
<b>Net Expenses</b>	<b>1,362,872</b>	<b>867,653</b>	<b>1,362,872</b>	<b>867,653</b>
<b>37.1.4 ACTUARIAL GAINS/LOSSES RECOGNISED IN OTHER COMPREHENSIVE INCOME</b>				
Amount Accumulated in Retained Earnings at 1st January	(4,163,270)	(3,562,248)	(4,163,270)	(3,562,248)
Recognised During the Year	(1,344,428)	(601,022)	(1,344,428)	(601,022)
<b>Amount Accumulated in Retained Earnings at 31st December</b>	<b>(5,507,698)</b>	<b>(4,163,270)</b>	<b>(5,507,698)</b>	<b>(4,163,270)</b>

The following are the principal actuarial assumptions at the Reporting date

	BANK		GROUP	
	2014	2013	2014	2013
<b>37.1.5 ACTUARIAL ASSUMPTIONS</b>				
Discount Rate	9.5%	10.0%	9.5%	10.0%
Expected Return on Plan Assets	9.5%	11.0%	9.5%	11.0%
Future Salary Increase	7.0%	7.0%	7.0%	7.0%

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Statement of Profit or Loss and the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follow:

	2014			
	BANK		GROUP	
	Effect on Comprehensive Income Statement Increase/(Reduction) Rs. '000	Effect on employee benefit obligation Increase/(Reduction) in the Liability Rs. '000	Effect on Statement of Profit or Loss Increase/(Reduction) Rs. '000	Effect on employee benefit obligation Increase/(Reduction) in the Liability Rs. '000
<b>37.1.6 SENSITIVITY OF ASSUMPTIONS EMPLOYED IN ACTUARIAL VALUATION</b>				
Increase/(Decrease) in Discount Rate				
1%	3,377,470	(3,377,470)	3,377,470	(3,377,470)
-1%	(3,879,630)	3,879,630	(3,879,630)	3,879,630
Increase/(Decrease) in Salary Increment				
1%	(625,339)	625,339	(625,339)	625,339
-1%	576,918	(576,918)	576,918	(576,918)

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>37.2 PROVISION FOR GRATUITY</b>				
Opening Balance	477,778	314,964	549,455	369,575
Current Service Cost	32,606	22,758	61,971	39,824
Interest Cost	47,778	31,497	47,778	31,496
Benefits Paid During Year	(5,354)	(5,623)	(9,993)	(5,622)
Actuarial Losses/(Gains)	(277,839)	114,182	(220,264)	114,182
<b>Closing Balance</b>	<b>274,969</b>	<b>477,778</b>	<b>428,947</b>	<b>549,455</b>

37.2.1 The principal financial assumptions used in the valuations are as follows:

	2014	2013
Discount Rate	9.5% p.a.	10% p.a.
Basic Salary Increase for All Grades	7% p.a.	7% p.a.
Normal Age of Retirement	55 years	56 years

#### 37.2.2 SENSITIVITY OF ASSUMPTIONS EMPLOYED IN ACTUARIAL VALUATION

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follow:

	2014	
	BANK	
	Effect on Comprehensive Income Statement Increase/(Reduction) Rs. '000	Effect on Employee Benefit Obligation Increase/(Reduction) in the Liability Rs. '000
Increase/(decrease) in Discount Rate		
1%	31,627	(31,627)
-1%	(37,817)	37,817
Increase/(decrease) in Salary Increment		
1%	(47,055)	47,055
-1%	39,175	(39,175)

**38. SUBORDINATED TERM DEBTS**

	Interest Rate and Repayment Terms	Issue Date	Maturity Date	BANK		GROUP	
				2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Issued by the Bank							
(i) Tranch 1	16.0% - Biannually	2008.12.30	2016.12.29	2,500,814	2,500,814	2,500,814	2,500,814
(ii) Tranch 2	13.5% - Biannually	2009.12.30	2017.12.29	2,500,894	2,500,894	2,500,894	2,500,894
(iii) Tranch 3	12.0% - Biannually	2011.12.30	2019.12.29	5,002,486	5,002,486	5,002,486	5,002,486
(iv) Tranch 4	13.0% - Biannually	2013.06.15	2021.06.14	5,028,348	5,028,348	5,028,348	5,028,348
Issued by the Subsidiary							
(i) Option 1	16.5% - Biannually	2013.03.27	2017.03.26	–	–	2,127,841	2,112,187
(ii) Option 2	16.75% - Biannually	2013.03.27	2018.03.26	–	–	1,646,017	1,672,872
(iii) Option 3	17.0% - Annually	2013.03.27	2018.03.26	–	–	2,757,717	2,648,688
(iv) Type A	8.75% - Annually	2014.09.15	2017.09.14	–	–	1,524,834	–
(v) Type B	9.63% - Annually	2014.09.15	2018.09.14	–	–	1,527,839	–
Non-Listed Debentures				–	–	266,342	1,675,162
Redeemable Preference Shares							
Total				15,032,542	15,032,542	24,883,132	23,141,451
Due within 1 Year				–	–	–	–
Due after 1 Year				15,032,542	15,032,542	24,883,132	23,141,451
Total				15,032,542	15,032,542	24,883,132	23,141,451

**39. STATED CAPITAL/ASSIGNED CAPITAL**

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 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
	<b>7,201,998</b>	<b>7,201,998</b>	<b>7,201,998</b>	<b>7,201,998</b>
<b>39.1 STATED CAPITAL</b>				
39.1.1 MOVEMENT OF STATED CAPITAL				
<b>Authorised</b>				
20,000,000 Ordinary Shares of Rs. 50/- each	1,000,000	1,000,000	1,000,000	1,000,000
<b>Issued and Fully-Paid</b>				
999,960 Ordinary Shares of Rs. 50/- each	49,998	49,998	49,998	49,998

All issued shares of Rs.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:**

	2014 %	2013 %
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 Statutory Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of profits after taxation but before any dividend is declared, transfer to the Statutory Reserve Fund 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. 710 Mn for the current year.

**41. OTHER RESERVES****41.1 REVALUATION RESERVE**

This reserve has been 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 the safety, soundness and the stability of the Primary Dealer System and to build-up Primary Dealer Capital Base.

According to Central Bank Direction 08/11/011/0019/001 dated 14th February 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 RESERVE**

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.

As per the Central Bank Circular Ref. No. 02/17/800/0014/02, the requirement to transfer an amount equal to 8% of the profit calculated for the payment of VAT on financial service to IFA has been ceased with effect from 31st December 2013 and hence, the Bank has made the last payment to IFA based on the payment which was due on 20th January 2014.

Further, the requirement to transfer an amount equal to 5% of the profit before tax calculated for income tax purpose on dates specified in section 113 of the Inland Revenue Act to IFA in the Y/E 2013/2014 expired on 31st march 2014. Hence, the Bank made the last payment to IFA based on the final tax payment on income tax for the Y/E 2013/2014 which was due on 30 September 2014. Therefore the full operations of IFA has been ceased with effect from 1st October 2014. Accordingly, the Bank has transferred the remaining balance in IFA to retained earnings through the Statement of Changes in Equity.

**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 21.1.1.C

**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 2014 is Rs. 6,000 Mn.

	Statutory Reserve Rs. '000	Revaluation Reserve Rs. '000	Capital Reserve Rs. '000	Special Risk Reserve Rs. '000	General Reserve Rs. '000	Investment Fund Rs. '000	Available- For-Sale Reserve Rs. '000	Retained Earnings Rs. '000	Total Equity Rs. '000
<b>42. MOVEMENT IN RETAINED EARNINGS AND OTHER RESERVES</b>									
<b>Bank</b>									
<b>Balance as at 01.01.2013</b>	2,437,291	5,463,496	5,663	1,633,710	3,439,500	5,043,545	297,964	3,681,621	22,002,790
Profit 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
Transfer to Reserve During the Period	374,394	-	-	-	1,875,000	1,371,812	-	(3,621,206)	-
Dividend Paid to GOSL	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury	-	-	-	-	-	-	-	(4,500,000)	(4,500,000)
Tax on Other Comprehensive Income	-	(521,038)	-	-	-	-	-	-	(521,038)
<b>Balance as at 31.12.2013</b>	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
Profit for the Year	-	-	-	-	-	-	-	14,218,812	14,218,812
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	77,970	-	77,970
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(1,066,589)	(1,066,589)
Revaluation Surplus	-	-	-	-	-	-	-	-	-
Transfer to Reserve During the Period	710,941	-	-	-	1,875,000	157,096	-	(2,743,037)	-
Transfer to Retained Earnings During the Period	-	-	-	-	-	(6,572,453)	-	6,572,453	-
Dividend Paid to GOSL (Note 41.6)	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury (Note 41.7)	-	-	-	-	-	-	-	(6,000,000)	(6,000,000)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	(77,795)	(77,795)
<b>Balance as at 31.12.2014</b>	3,522,626	10,876,547	5,663	1,633,710	7,189,500	-	241,946	12,797,562	36,267,554
Notes	40	41.1	41.2	41.3	41.4	41.5			



	Statutory Reserve	Revaluation Reserve	Capital Reserve	Special Risk Reserve	General Reserve	Investment Fund	Available-For-Sale Reserve	Retained Earnings	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
<b>Group</b>											
<b>Balance as at 01.01.2013</b>	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 for the Year	-	-	-	-	-	-	-	8,364,337	8,364,337	799,845	9,164,182
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	-	-	-	-	-	-	-	(219,690)	(219,690)	-	(219,690)
Special Levy to Treasury	-	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	(71,881)	(71,881)	(23,962)	(95,843)
Dividend Payment	-	-	-	-	-	-	-	-	-	(493,710)	(493,710)
Tax on Other Comprehensive Income	-	(654,087)	-	-	-	-	-	-	(654,087)	(44,349)	(698,436)
<b>Balance as at 01.01.2014</b>	2,811,685	11,401,147	5,663	1,633,710	5,314,500	7,463,936	140,101	14,168,284	42,939,026	4,947,385	47,886,411
Profit for the Year	-	-	-	-	-	-	-	15,896,075	15,896,075	1,057,121	16,953,196
Changes in Fair Value in											
AFS Investments	-	-	-	-	-	-	131,114	-	131,114	17,715	148,829
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(1,109,769)	(1,109,769)	(14,394)	(1,124,163)
Revaluation Surplus	-	(7,829)	-	-	-	-	-	-	(7,829)	(2,610)	(10,439)
Transfer to Reserve During the Period	710,941	-	-	-	1,875,000	157,096	-	(2,743,037)	-	-	-
Transfer to Retained Earnings											
During the Period	-	-	-	-	-	(7,621,032)	-	7,621,032	-	-	-
Dividend Paid to GOSL (Note 41.6)	-	-	-	-	-	-	-	(219,690)	(219,690)	-	(219,690)
Special Levy to Treasury (Note 41.7)	-	-	-	-	-	-	-	(6,000,000)	(6,000,000)	-	(6,000,000)
Movement in Deemed Disposal Profit	-	-	-	-	-	-	-	(12,500)	(12,500)	(187,500)	(200,000)
Deferred Tax Effect on Defined											
Benefit Plans	-	-	-	-	-	-	-	(63,019)	(63,019)	4,925	(58,094)
Gains and Losses on											
Derivative Financial Assets	-	-	-	-	-	-	-	(15,797)	(15,797)	(5,265)	(21,062)
Transfer to Reserves	-	-	-	-	-	-	-	(750)	(750)	(250)	(1,000)
Dividend Payment	-	-	-	-	-	-	-	-	-	(493,708)	(493,708)
Tax on Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 31.12.2014</b>	3,522,626	11,393,318	5,663	1,633,710	7,189,500	-	271,215	27,520,829	51,536,861	5,323,419	56,860,280
Notes	40	41.1	41.2	41.3	41.4	41.5					

**43. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions:

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>43.1 CONTINGENT LIABILITIES</b>				
Acceptances	43,502,800	49,864,088	43,502,800	49,864,088
Documentary Credit	57,471,641	73,766,374	57,484,307	73,789,225
Guarantees	36,863,667	27,157,319	36,874,919	27,391,852
Forward Exchange Contracts	5,674,078	22,289,294	5,674,078	22,289,294
	143,512,186	173,077,075	143,536,104	173,334,459

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>43.2 COMMITMENTS</b>				
Non-Disbursed Overdrafts	39,061,016	24,041,574	39,061,016	24,041,574
	39,061,016	24,041,574	39,061,016	24,041,574
Total Commitments and Contingencies	182,573,202	197,118,649	182,597,120	197,376,033

**43.3 OTHER CAPITAL COMMITMENTS**

Capital expenditure approved by the Board of Directors for which provisions has not been made in these Financial Statements amounted to:

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Approved and Contracted for	3,051,944	773,563	4,017,534	1,488,040
Approved but not Contracted for	1,900	915,943	10,130	915,943
	3,053,844	1,689,506	4,027,664	2,403,983

**43.4 ASSESSMENT RECEIVED BY THE BANK**

Assessment ITA 13291100319V1 for income tax for 2010/11 to Rs. 2,422,289,525/- and the assessment number ITA 14271100064V1 for income tax for 2011/12 amounting to Rs. 1,383,827,443/- are pending year of taxes at present. However, the Bank has properly appealed for the said assessments.

The Tax consultants of the Bank is of the view that the above assessments will not have any material impact on the Financial Statements.

**43.5 LITIGATION AGAINST THE BANK AND COMPANIES WITHIN THE GROUP**

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. 8.39 Bn, of which details are given below:

Zone	Region	Value Rs.
Legal	Legal Department	977,497,519
Western I	Western Zone I	23,517,512
	Gampaha	6,735,505
Central	Kandy	11,485,364
	Nuwara Eliya	404,723
Eastern	Ampara	300,350
	Batticaloa	1,200,000
North-Central	Anuradhapura	500,000
Northern	Vanni	2,000
Southern	Galle	2,400,200
	Hambantota	13,700,000
	Matara	2,655,000
Uva	Badulla	12,700,000
Wayamba	Kurunegala	13,735,696
	Puttalam	19,676,957
Sabaragamuwa	Kegalle	5,190,097
Western II	Western II	42,163,558
	Kalutara	1,200,410
Special Assets Unit/Corporate Banking Division		7,261,355,213
<b>Total</b>		<b>8,396,420,103</b>

**44. SUBSEQUENT EVENTS**

In the Interim Budget Proposal presented by the Minister of Finance on the 29th January 2015, an additional one-off tax of 25% was proposed to be charged on entities who earned a profit in excess of Rs. 2,000 Mn for the year of assessment 2013/14. Though, the Bank made a profit in excess of such amount for such year, in the absence of a measurement criteria being enacted or substantially enacted at the time of issue of these Financial Statements, no provision has been made for such an amount in these Financial Statements.

**45. RELATED PARTY DISCLOSURES**

The Bank has carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard - LKAS 24 - 'Related Party Disclosures', except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates. Those transactions include lending activities, acceptance of deposits, Off-Balance Sheet transactions and provision of other banking and finance services.

**45.1 PARENT AND THE ULTIMATE CONTROLLING PARTY**

People's Bank is a Government-owned Bank.

**45.2 KEY MANAGEMENT PERSONNEL (KMPs) AND THEIR CLOSE FAMILY MEMBERS (CFMS)**

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Such Key Management Persons include Chairman, Executive and Non-Executive Directors, Chief Executive Officer/General Manager of the Bank. Close family members of an individual are those family members who may be expected to influence, or to be influenced by, that individual in their dealings with the entity. They may include individual's domestic partner and children, children of the individual's domestic partner and dependants of the individual or the individual's domestic partner.

**45.2.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL (KMPs)**

<i>For the year ended 31st December</i>	<b>2014 Rs. '000</b>	<b>2013 Rs. '000</b>
Short-Term Employee Benefits	<b>15,820</b>	16,270
Post-Employment Pension	-	-
Termination Benefits	-	-
Share-Based Payments	-	-

## 45.2.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMPs) AND THEIR CLOSE FAMILY MEMBERS (CFMs)

<i>For the year ended 31st December</i>	<b>2014</b> Rs. '000	<b>2013</b> Rs. '000
<b>A. ITEMS IN INCOME STATEMENT</b>		
Interest Income	1	1

<i>As at 31st December</i>	<b>2014</b> Rs. '000	<b>2013</b> Rs. '000
<b>B. ITEMS IN STATEMENT OF FINANCIAL POSITION</b>		
Residential Mortgages	–	–
Credit Cards	–	319
Guarantees	–	–

## 45.3 TRANSACTIONS WITH GROUP ENTITIES

The Group entities include the subsidiaries and associates of the Bank.

## 45.3.1 TRANSACTIONS WITH SUBSIDIARIES, SUB-SUBSIDIARIES AND ASSOCIATE COMPANIES OF THE BANK

The aggregate amount of income and expenses arising from the transactions during the year, amount due to and due from the relevant related party and total contract sum of Off-Balance Sheet transactions at the year-end are summarised below:

	Subsidiary Companies of the Bank		Sub-Subsidiary Companies of the Bank		Associate Company of the Bank	
<i>For the year ended 31st December</i>	<b>2014</b> Rs. '000	<b>2013</b> Rs. '000	<b>2014</b> Rs. '000	<b>2013</b> Rs. '000	<b>2014</b> Rs. '000	<b>2013</b> Rs. '000
<b>a. Items in Income Statement</b>						
Interest Income	77,574	581,282	243	–	7,169	23,016
Interest Expense	331,362	106,094	18,300	17,617	9	3,328
Dividend Income	1,575,859	1,609,071	–	–	–	–
Other Income	28,364	21,103	252,781	56,273	2	–
Other Expenses	11,440	21,893	227,866	359,919	–	–

<i>As at 31st December</i>	Subsidiary Companies of the Bank		Sub-Subsidiary Companies of the Bank		Associate Company of the Bank	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>b. Items in Statement of Financial Position</b>						
<b>Assets</b>						
Investments	1,045,908	1,245,908	-	-	273,100	273,100
Loans	-	1,773,598	9,905	-	31,195	56,215
Overdrafts	756,008	140,783	3,840	10,934	-	335
Assets Backed Securities	1,050,000	-	-	-	-	-
Other Receivables	3,396	6,150	301,045	212,097	-	-
	2,855,312	3,166,439	314,790	223,031	304,295	329,650
<b>Liabilities</b>						
Deposits	4,145,000	5,235,797	299,334	94,463	43,672	26,687
Securities Sold Under Repurchase Agreements	3,723,799	1,052,825	98,518	210,269	184,000	370,851
Other Payables	85,315	149,144	954,472	49,215	-	-
	7,954,114	6,437,766	1,352,324	353,947	227,672	397,538
<b>c. Off-Balance Sheet Items</b>						
Guarantees	29,500	23,550	-	-	2,500	-

#### 45.4 TRANSACTIONS WITH GOVERNMENT OF SRI LANKA (GOSL) AND STATE-OWNED ENTERPRISES (SOEs).

Transactions and arrangements entered into by the Bank with the Government of Sri Lanka and State-Owned Enterprises as follows:

<i>For the year ended 31st December</i>	2014 Rs. '000	2013 Rs. '000
<b>a. Items in Income Statement</b>		
Interest Income	20,178,389	16,683,649
Other Income	757,720	439,505
Interest Expenses	5,154,824	5,531,094
Dividends Paid	219,690	201,382
Special Levy	6,000,000	4,500,000

<i>As at 31st December</i>	<b>2014 Rs. '000</b>	<b>2013 Rs. '000</b>
<b>b. Items in Statement Of Financial Position</b>		
<b>Assets</b>		
Loans	<b>251,986,793</b>	182,587,287
Overdrafts	<b>46,075,832</b>	38,816,596
Bills	<b>1,071,215</b>	111,083
	<b>299,133,840</b>	221,514,966
<b>Liabilities</b>		
Savings - Demand	<b>15,675,889</b>	10,756,256
Savings	<b>1,568,637</b>	1,781,499
Time	<b>41,942,081</b>	66,903,950
	<b>59,186,608</b>	79,441,705
<b>c. Off-Balance Sheet Items</b>		
Acceptances	<b>39,877,715</b>	48,013,310
Documentary Credit	<b>41,598,423</b>	66,109,938
Guarantees	<b>2,678,034</b>	1,195,207
	<b>84,154,172</b>	115,318,455

#### 45.5 TRANSACTIONS WITH POST-EMPLOYMENT BENEFIT PLANS FOR BANK'S EMPLOYEES

Transactions and arrangements entered into by the post-employment benefit plans for Bank's employees as follows:

<i>For the year ended 31st December</i>	<b>2014 Rs. '000</b>	<b>2013 Rs. '000</b>
<b>a. Items in Income Statement</b>		
Contribution Made	<b>1,362,872</b>	867,653

<i>As at 31st December</i>	<b>2014 Rs. '000</b>	<b>2013 Rs. '000</b>
<b>b. Items in Statement of Financial Position</b>		
<b>Liabilities</b>		
Deposits	<b>24,530,814</b>	21,131,775
Securities Sold Under Repurchase Agreements	<b>3,948,000</b>	4,333,186
Subordinated Term Debts	<b>15,000,000</b>	15,000,000

**46. 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:

31st December 2014	Bank				Group			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>Financial Assets</b>								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts	–	22,233	–	22,233	–	22,233	–	22,233
<b>Other Financial Assets Held-for-Trading</b>								
Treasury Bills and Bonds	58,507,931	–	–	58,507,931	58,507,931	–	–	58,507,931
Quoted equity Securities	1,193,450	–	–	1,193,450	1,615,134	–	–	1,615,134
Investment in Unit Trust	–	187,085	–	187,085	–	187,085	–	187,085
<b>Financial Investments Available-for-Sale</b>								
Treasury Bills and Bonds	–	–	–	–	891,000	–	–	891,000
Unquoted Equity Securities	–	–	480,003	480,003	–	–	639,088	639,088
Investment in Unit Trust	–	–	2,507,767	2,507,767	–	–	3,081,805	3,081,805
Debt Securities	400,000	–	–	400,000	400,000	–	–	400,000
	60,101,381	209,318	2,987,770	63,298,469	61,414,065	209,318	3,720,893	65,344,276
<b>Financial Liabilities</b>								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts	–	17,377	–	17,377	–	148,243	–	148,243



31st December 2014	Bank				Group			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>Financial Assets</b>								
<b>Derivative Financial Instruments</b>								
Forward Foreign Exchange Contracts	–	35,391	–	35,391	–	35,391	–	35,391
<b>Other Financial Assets Held-for-Trading</b>								
Treasury Bills and Bonds	62,911,531	–	–	62,911,531	62,911,531	–	–	62,911,531
Quoted Equity Securities	687,523	–	–	687,523	995,757	–	–	995,757
Investment in Unit Trust	–	149,803	–	149,803	–	149,803	–	149,803
<b>Financial Investments Available-for-Sale</b>								
Treasury Bills and Bonds	–	–	–	–	1,191,388	–	–	1,191,388
Unquoted Equity Securities	–	–	311,733	311,733	–	–	389,143	389,143
Investment in Unit Trust	–	–	–	–	–	–	50,000	50,000
Debt Securities	–	–	–	–	106,644	–	–	106,644
	63,599,054	185,194	311,733	64,095,981	65,098,676	185,194	389,143	65,673,013
<b>Financial Liabilities</b>								
<b>Derivative Financial Instruments</b>								
Forward Foreign Exchange Contracts	–	215,844	–	215,844	–	215,844	–	215,844

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets and liabilities which are recorded at fair value.

	Bank					Group				
	As at 1st Jan 2014 Rs. '000	Total Gains/ (Losses) Recorded in Profit or Loss Rs. '000	Total Gains/ (Losses) Recorded in OCI Rs. '000	Purchases/ (Sales) Rs. '000	As at 31st Dec 2013 Rs. '000	As at 1st Jan 2014 Rs. '000	Total Gains/ (Losses) Recorded in Profit or Loss Rs. '000	Total Gains/ (Losses) Recorded in OCI Rs. '000	Purchases/ (Sales) Rs. '000	As at 31st Dec 2014 Rs. '000
<b>Financial Assets</b>										
<b>Financial Investments Available-for-Sale</b>										
Unquoted Equity Securities	311,733	1,137,000	77,970	(1,046,700)	480,003	389,143	1,111,854	124,791	(986,700)	639,088
Investment in Unit Trust	–	–	–	2,507,767	2,507,767	50,000	–	24,038	3,007,767	3,081,805
<b>Total Level 3 Financial Assets</b>	<b>311,733</b>	<b>1,137,000</b>	<b>77,970</b>	<b>1,461,067</b>	<b>2,987,770</b>	<b>439,143</b>	<b>1,111,854</b>	<b>148,829</b>	<b>2,021,067</b>	<b>3,720,893</b>
<b>Financial Liabilities</b>	–	–	–	–	–	–	–	–	–	–
Total Level 3 Financial Liabilities	–	–	–	–	–	–	–	–	–	–
<b>Total Net Level 3 Financial Assets/(Liabilities)</b>	<b>311,733</b>	<b>1,137,000</b>	<b>77,970</b>	<b>1,461,067</b>	<b>2,987,770</b>	<b>439,143</b>	<b>1,111,854</b>	<b>148,829</b>	<b>2,021,067</b>	<b>3,720,893</b>

	Bank				Group					
	As at 1st Jan 2013	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales)	As at 31st Dec 2014	As at 1st Jan 2013	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales)	As at 31st Dec 2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>										
<b>Financial Investments</b>										
<b>Available-for-Sale</b>										
Unquoted Equity Securities	445,720	–	(133,988)	–	311,733	451,070	70,763	(132,690)	–	389,143
Investment in Unit Trust	–	–	–	–	–	50,000	–	–	–	50,000
<b>Total Level 3</b>										
<b>Financial Assets</b>	445,720	–	(133,988)	–	311,733	501,070	70,763	(132,690)	–	439,143
<b>Financial Liabilities</b>	–	–	–	–	–	–	–	–	–	–
Total Level 3 Financial Liabilities	–	–	–	–	–	–	–	–	–	–
<b>Total Net Level 3 Financial Assets/(Liabilities)</b>	445,720	–	(133,988)	–	311,733	501,070	70,763	(132,690)	–	439,143

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.

	BANK				GROUP			
	2014		2013		2014		2013	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
<b>Financial Assets</b>								
Cash and Cash Equivalents	37,355,549	37,355,549	18,774,605	18,774,605	39,418,068	39,418,068	20,803,240	20,803,240
Balances with Central Banks	43,584,872	43,584,872	40,370,892	40,370,892	43,584,872	43,584,872	40,370,892	40,370,892
Placements with Banks	13,681,425	13,681,425	2,551,215	2,551,215	13,681,425	13,681,425	2,551,215	2,551,215
Loans and Receivables to Banks	129,488,851	129,488,851	82,223,079	82,223,079	133,005,677	133,005,677	82,337,394	82,337,394
Loans and Receivables to Other Customers	627,209,062	628,334,968	619,829,735	620,069,711	722,099,483	728,220,493	710,074,499	704,553,944
Financial investments – Held-to-Maturity	82,720,707	84,238,248	75,784,287	75,709,750	87,930,254	89,471,452	78,322,900	78,263,337
<b>Financial Liabilities</b>								
Due to Banks	143,754,943	143,754,943	81,794,017	81,794,017	162,433,372	162,701,154	101,987,002	97,487,580
Due to Other Customers	793,341,733	794,198,285	762,248,529	762,614,291	829,018,697	830,144,158	789,225,314	791,626,119
Other Borrowings	13,442,898	13,442,898	20,353,986	20,353,986	31,391,206	31,391,206	38,878,017	38,878,017
Subordinated Term Debts	15,032,542	15,032,542	15,032,542	15,032,542	24,883,132	24,883,132	23,141,451	23,141,451

**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 other variable interest-bearing loans were considered as carrying value equal fair value. Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customers end of the reporting period.

**47. FINANCIAL REPORTING BY SEGMENT**

	BANKING		LEASING		TRAVELS		ELIMINATIONS		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Interest	84,419,796	109,859,280	6,272,958	5,256,598	-	-	(455,785)	(707,529)	90,236,969	114,408,349
Exchange	1,598,506	1,418,430	-	-	-	-	-	-	1,598,506	1,418,430
Leasing	-	-	13,488,180	14,088,830	-	-	(11,440)	(21,893)	13,476,740	14,066,937
Share Trading/Dividend	167,480	146,325	27,108	14,465	-	-	-	-	194,589	160,790
Commissions and Fees	3,820,242	3,478,015	3,890,910	348,511	44,289	33,638	(219,225)	(115,219)	7,536,216	3,744,945
Other	4,642,375	3,431,415	268,944	1,852,606	18	54	(288,899)	(450,540)	4,622,438	4,833,535
Total Revenue from External Customers	94,648,400	118,333,465	23,948,099	21,561,010	44,307	33,691	(975,349)	(1,295,181)	117,665,458	138,632,985
Inter-Segment Revenue	1,729,081	2,123,008	819,847	648,903	3,541	4,400	(1,577,121)	(1,481,130)	975,349	1,295,181
Unallocated Income	-	-	-	-	-	-	-	28,442	-	28,442
Total Revenue	96,377,481	120,456,473	24,767,947	22,209,913	47,848	38,091	(2,552,469)	(2,747,869)	118,640,807	139,956,608
Segment Result	17,231,057	10,304,282	5,779,831	4,734,536	13,780	9,618	-	-	23,024,668	15,048,436
Unallocated Expenses	-	-	-	-	-	-	-	-	(1,377,244)	(1,559,064)
Income from Associates	-	-	-	-	-	-	-	-	(19,872)	(76,978)
Income Tax Expenses	(3,012,245)	(2,816,395)	(1,658,010)	(1,429,153)	(4,101)	(2,662)	-	-	(4,674,356)	(4,248,210)
Profit for the Period	-	-	-	-	-	-	-	-	16,953,196	9,164,184
Non-Controlling Interests	-	-	-	-	-	-	-	-	(1,057,121)	(799,845)
Profit for Equity Holders of the Bank	-	-	-	-	-	-	-	-	15,896,075	8,364,339
Profit for the Year	-	-	-	-	-	-	-	-	16,953,196	9,164,182
Other Comprehensive Income Net of Tax	-	-	-	-	-	-	-	-	(1,064,929)	5,203,799
Total Comprehensive Income	-	-	-	-	-	-	-	-	15,888,268	14,367,981
Non-Controlling Interest	-	-	-	-	-	-	-	-	(1,057,493)	(914,211)
Profit for the Equity Holders of the Bank	-	-	-	-	-	-	-	-	14,830,775	13,453,770
Segment Assets	1,026,495,758	930,377,707	118,797,106	114,011,339	87,842	69,549	(6,549,253)	(13,264,132)	1,138,831,452	1,031,198,325
Investment in Associates	273,100	207,568	205,160	98,787	-	-	(51,758)	(31,886)	426,502	274,469
Total Assets	1,026,768,858	930,585,274	119,002,266	114,110,126	87,842	69,549	(6,601,011)	(13,296,018)	1,139,257,954	1,031,472,794
Segment Liabilities	983,299,306	894,048,429	96,960,532	94,322,248	39,186	28,072	(5,853,346)	(12,719,491)	1,075,195,676	976,384,384
Total Equity and Liabilities	1,026,768,858	930,585,274	119,002,266	114,110,126	87,842	69,549	(6,601,011)	(13,296,018)	1,139,257,954	1,031,472,794

## 48. FINANCIAL RISK MANAGEMENT

### 48.1 INTRODUCTION AND OVERVIEW

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Bank's objectives, policies and processes for measuring and managing risk.

### 48.2 RISK MANAGEMENT FRAMEWORK

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has ultimate responsibility for defining the Group's risk appetite. The Board is assisted and advised in its risk management endeavours by a number of sub-committees, namely the BIRMC (Board Integrated Risk Management Committee), BECC (Board Executive Credit Committee), BAC (Board Audit Committee), BIBC (Board Investment Banking Committee) comprising of both independent Board members and Senior executives. ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) which also play significant roles in the risk management process of the Bank are comprised of senior executives of the Bank.

The Bank recognises the business units as owners of the risk and the first line of defence in risk management. 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.

The Risk Management Department functions completely independent from the business functions. Accordingly, the head of risk management reports directly to the BIRMC to maintain independence of action and acts as an effective second line of defence.

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.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### 48.3 CREDIT RISK

Credit risk is the risk of financial loss to the Bank, if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and receivables to customers and other banks and investment debt securities.

#### MANAGEMENT OF CREDIT RISK

The Board of Directors has delegated responsibility for the oversight of credit risk to the Board Executive Credit Committee (BECC). The Credit Control Department, under the guidance of Risk Management Division is responsible for managing the Bank's credit risk, including the following:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require establishing credit approval structures so as to ensure that the larger and higher risk exposures are reviewed and approved at the appropriate levels of seniority. All credit decisions require the sanctioning by at least two officers.
- *Reviewing and assessing credit risk*: Credit Control Department assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and receivables, financial guarantees and similar exposures).
- 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.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are monitored by the Credit control dept, which may require appropriate corrective action to be taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

Regular audits of business units and credit processes are undertaken by internal audit.

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.

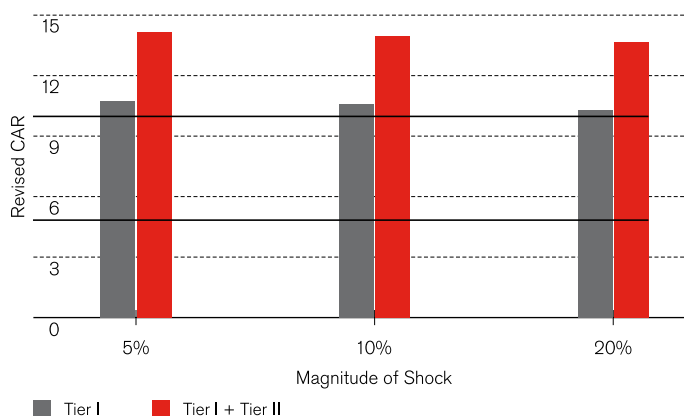
- i. Credit origination and maintenance procedure.
- ii. Portfolio management guidelines, such as, maximum exposure limits for industries and individual borrowers.
- iii. Remedial/Rehabilitation management guidelines.
- iv. Credit review policy.
- v. High value credit extensions are authorised by at least two or more credit officers including an independent officer from Credit Risk Management Department for exposures beyond a certain predetermined limit.
- vi. We have set up a loan review mechanism. Discriminatory time schedules for review are imposed for lower rated borrower (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.

## STRESS TESTING

### I. INCREASE IN NPL

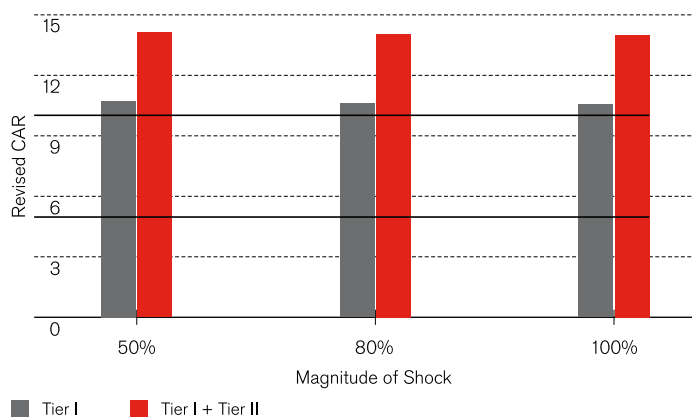
Magnitude of Shock	Revised CAR	
	Tier I %	Tier I + Tier II %
5%	10.73	14.13
10%	10.58	13.98
20%	10.29	13.69

### EFFECT OF INCREASE IN NPLs ON CAR (%)

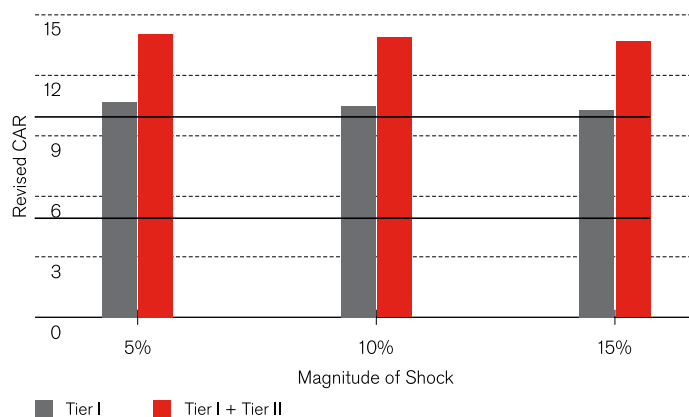


**II. NEGATIVE SHIFTS IN NPL CATEGORIES**

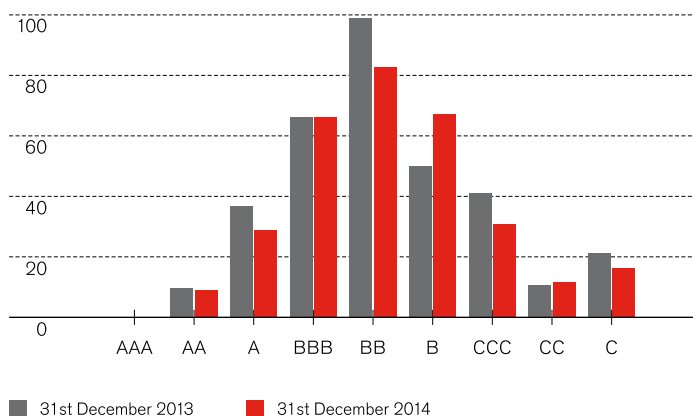
Negative shifts in NPL	Revised CAR	
	Tier I %	Tier I + Tier II %
50%	10.72	14.12
80%	10.63	14.03
100%	10.57	13.97

**EFFECT OF NEGATIVE SHIFTS IN NPL CATEGORIES ON CAR (%)****III. FALL IN FORCED SALE VALUE OF MORTGAGED COLLATERAL**

Magnitude of Shock	Revised CAR	
	Tier I %	Tier I + Tier II %
5%	10.67	14.07
10%	10.47	13.87
15%	10.27	13.67

**EFFECT OF FALL IN FSV OF MORTGAGED COLLATERAL ON CAR (%)**

### RATING PROFILE RISK PROFILE OF CORPORATE CUSTOMERS (%)



	AAA	AA	A	BBB	BB	B	CCC	CC	C
31st December 2013	-	10	37	66	99	50	41	11	21
31st December 2014	-	9	29	66	83	67	31	12	16

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.

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 adopted LKAS 32 and LKAS 39 and impairments of assets is booked in accordance with statutory requirements.

### Loans and Receivables to Other Customers

Loans and receivables to other customers have been classified into individually significant exposure and collective exposure as required by the Sri Lanka Accounting Standards (LKAS 39).

	2014 Rs. '000	2013 Rs. '000
<b>Individually Significant Impaired Loans</b>		
Amortised Cost	46,423,220	45,885,774
Allowances for Impairment	(40,901,653)	(39,341,542)
<b>Carrying amount as at 31st December</b>	<b>5,521,567</b>	<b>6,544,232</b>
<b>Collectively Assessed Loans</b>		
Amortised Cost	638,886,709	635,581,090
Allowances for Impairment	(17,199,214)	(22,295,587)
<b>Carrying amount as at 31st December</b>	<b>621,687,495</b>	<b>613,285,503</b>

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:

	2014 Rs. '000	%	2013 Rs. '000	%
Agriculture and Fishing	124,938,736	18.2	179,434,380	26.3
Manufacturing	10,867,165	1.6	13,166,471	1.9
Tourism	4,317,318	0.6	4,381,817	0.6
Transport	1,026,866	0.2	1,036,626	0.2
Construction	152,492,193	22.3	128,747,395	18.9
Traders	72,037,024	10.5	52,731,604	7.7
Others	319,630,627	46.6	301,968,571	44.3
<b>Gross Total</b>	<b>685,309,929</b>	<b>100.0</b>	<b>681,466,864</b>	<b>100.0</b>

Adherence to credit concentration risk limits

	As at 31/12/2014	HHI Threshold
Individual customer (with GOSL)	0.19	
Individual customer (w/o GOSL)	0.04	0.15
Industry segment (with GOSL)	0.25	
Industry segment (w/o GOSL)	0.19	0.20

### 48.4 LIQUIDITY RISK

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

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.

#### MANAGEMENT OF LIQUIDITY RISK

The Bank's Board of Directors sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. The Treasury Department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

The key elements of the Bank's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Carrying out stress testing of the Bank's liquidity position.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. The Treasury Department maintains a portfolio of short-term liquid assets, largely made-up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

Regular liquidity stress testing is conducted by the Risk Management Department, under a variety of scenarios covering both normal and more severe market conditions.

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	2014 %	2013 %
Loan/Customer Deposits	86.4	89.4
Unutilised Inter-Bank Borrowing Lines	19	20
Medium-Term Funding	85	86
Statutory Liquid Assets Ratio - DBU	30.3	25.2
- FCBU	21.8	22.3



## ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITY

Maturity Profile of Assets and Liabilities (Rs. '000) as at 31st December 2014

	Up to 3 Months Rs. '000	3-12 Months Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 Years Rs. '000	Total	
						2014 Rs. '000	2013 Rs. '000
<b>Assets</b>							
Cash and Cash Equivalents	37,355,549	–	–	–	–	37,355,549	18,774,605
Balances with Central Bank	4,353,274	18,605,253	6,600,247	6,681,224	7,344,874	43,584,872	40,370,892
Placements with Banks	13,681,425	–	–	–	–	13,681,425	2,551,215
Derivative with Banks	22,233	–	–	–	–	22,233	35,391
Other Financial Assets Held-for-Trading	6,985,176	52,903,290	–	–	–	59,888,466	63,748,857
Loans and Receivables to Banks	43,765,537	23,597,703	15,154,718	21,751,893	25,219,000	129,488,851	82,223,080
Loans and Receivables to Other Customers	212,064,730	114,279,910	73,391,881	105,340,949	122,131,592	627,209,062	619,829,736
Financial Investments – Available-for-Sale	–	3,387,770	–	–	–	3,387,770	311,733
Financial Investments – Held-to-Maturity	10,620,189	13,040,524	18,228,852	33,508,142	7,323,000	82,720,707	75,784,287
Investments in Subsidiaries	–	–	–	–	1,045,908	1,045,908	1,245,908
Investments in Associates	–	–	–	–	273,100	273,100	207,568
Goodwill and Intangible Assets	–	–	–	–	114,548	114,548	33,535
Property, Plant & Equipment	–	–	–	–	14,946,764	14,946,764	14,705,721
Investment Properties	–	–	–	–	187,420	187,420	189,776
Prepaid Leases	–	–	–	–	558,877	558,877	295,732
Deferred Tax Assets	–	–	–	–	1,440,924	1,440,924	1,071,381
Other Assets	8,223,921	492,123	955,855	753,224	437,259	10,862,382	9,205,858
<b>Total Assets 2014</b>	337,072,035	226,306,573	114,331,552	168,035,432	181,023,266	1,026,768,858	–
<b>Total Assets 2013</b>	312,152,879	255,881,216	118,648,021	103,440,384	140,462,774	–	930,585,275
<b>Liabilities</b>							
Due to Banks	117,218,149	26,536,794	–	–	–	143,754,943	81,794,018
Derivative with Banks	17,377	–	–	–	–	17,377	215,844
Due to Other Customers	245,458,692	237,652,294	82,960,474	83,930,683	143,339,591	793,341,733	762,248,529
Other Borrowings	10,961,374	2,481,525	–	–	–	13,442,898	20,353,986
Debt Securities Issued	–	–	–	–	–	–	–
Current Tax Liabilities	459,612	–	–	–	–	459,612	393,380
Deferred Tax Liabilities	–	–	–	–	1,060,634	1,060,634	885,233
Other Provisions	–	–	–	–	–	–	–
Other Liabilities	10,203,614	4,859,924	539,124	586,905	–	16,189,567	13,124,900
Due to subsidiaries	–	–	–	–	–	–	–
Subordinated Term Debts	–	–	5,001,708	5,002,486	5,028,348	15,032,542	15,032,542
Stated Capital	–	–	–	–	7,201,998	7,201,998	7,201,998
Statutory Reserve Fund	–	–	–	–	3,522,626	3,522,626	2,811,685
Retained Earnings	–	–	–	–	12,797,562	12,797,562	2,409,607
Revaluation Reserve	–	–	–	–	10,876,547	10,876,547	10,876,547
Other Reserves	–	–	–	–	9,070,819	9,070,819	13,237,006
<b>Total Equity and Liabilities 2014</b>	384,318,818	271,530,536	88,501,306	89,520,074	192,898,125	1,026,768,858	–
<b>Total Equity and Liabilities 2013</b>	328,237,856	280,382,594	80,780,320	72,450,823	168,733,682	–	930,585,275

**STRESS TESTING****I. LIQUIDITY SHOCK – FALL IN LIQUID LIABILITY (SLRs)**

DBU	Balance as at 31.12.2014	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock %		5%	10%	15%
Liquid Assets (Rs. Mn)	244,731	244,731	244,731	244,731
Total Liabilities (Rs. Mn)	808,670	808,670	808,670	808,670
Fall in the Liabilities (Rs. Mn)		40,434	80,867	121,301
Revised Liquid Liabilities (Rs. Mn)		768,237	727,803	687,370
Revised Liquid Assets (Rs. Mn)		204,298	163,864	123,431
Liquid Asset Ratio After Shock %	30.26	26.59	22.51	17.96

**II. LIQUIDITY SHOCK – FALL IN LIQUID LIABILITY (USD)**

OSBU	Balance as at 31.12.2014	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock %		5%	10%	15%
Liquid Assets (USD '000)	230,652	230,652	230,652	230,652
Total Liabilities (USD '000)	1,060,183	1,060,183	1,060,183	1,060,183
Fall in the Liabilities (USD '000)		53,009	106,018	159,027
Revised Liquid Liabilities (USD '000)		1,007,174	954,165	901,155
Revised Liquid Assets (USD '000)		177,643	124,634	71,625
Liquid Asset Ratio after shock %	21.76	17.64	13.06	7.95

**III. STRESS TEST HOT MONEY AND RETAIL MONEY WITHDRAWAL.**

Scenario I – 5% 'Retail' funds and 5% 'Hot money' withdrawn  
 Scenario II – 5% 'Retail' funds and 10% 'Hot money' withdrawn  
 Scenario III – 10% 'Retail' funds and 10% 'Hot money' withdrawn

Unstressed position was created based on the assumptions given in CBSL Guidelines.

	Up to 1 Month %	1 - 3 Months %	3 - 6 Months %	6 - 9 Months %	9 - 12 Months %	1 - 3 Years %	3 - 5 Years %	Over 5 Years %
<b>Limit</b>	<b>-20</b>	<b>-40</b>	<b>-50</b>	<b>-50</b>	<b>-25</b>	<b>-10</b>	<b>-10</b>	<b>0</b>
Unstressed	34	-31	-39	-32	-10	0	-3	0
Scenario I	5	-36	-41	-34	-11	0	-3	0
Scenario II	1	-37	-42	-34	-11	0	-3	0
Scenario III	-14	-40	-44	-36	-12	0	-4	0

**48.5 MARKET RISK**

'Market risk' is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

**MANAGEMENT OF MARKET RISKS**

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolio is held by the Treasury unit, which include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

Overall authority for management of market risk is vested in The Board Integrated Risk Management Committee, assisted by the ALCO. The Board Integrated Risk Management Committee is responsible for the development of risk management policies. The head of risk management reports direct to the BIRMC. ALCO sets up limits for each type of risk in aggregate and for portfolios and for the day-to-day review of their implementation.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is VaR. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based on a 99% confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation.

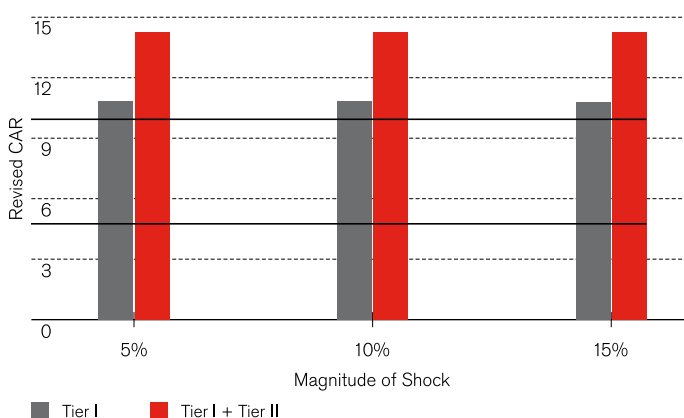
The Bank uses VaR limits for market risks, specifically foreign exchange, interest rate and other price risks. The overall structure of VaR limits is subject to review and approval by BIRMC. VaR limits are allocated to trading portfolios. VaR is measured and monitored against VaR limits at least daily by Treasury Middle Office, under the Direction of the Risk Management Department. Regular summaries are submitted to ALCO.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. (Currency-wise limits on exposures and maturity-wise limits on exposures to fixed income yielding assets). In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall financial position. Economic stress testing carried out by the Risk Management Department consider potential macro economic events – e.g. periods of prolonged market illiquidity, reduced fungibility of currencies, GDP contraction etc. The analysis of scenarios and stress tests is reviewed by BIRMC

#### EXCHANGE RATE SHOCK STRESS TEST

Magnitude of Shock	Revised CAR	
	Tier I %	Tier I + Tier II %
5%	10.85	14.25
10%	10.84	14.24
15%	10.82	14.22

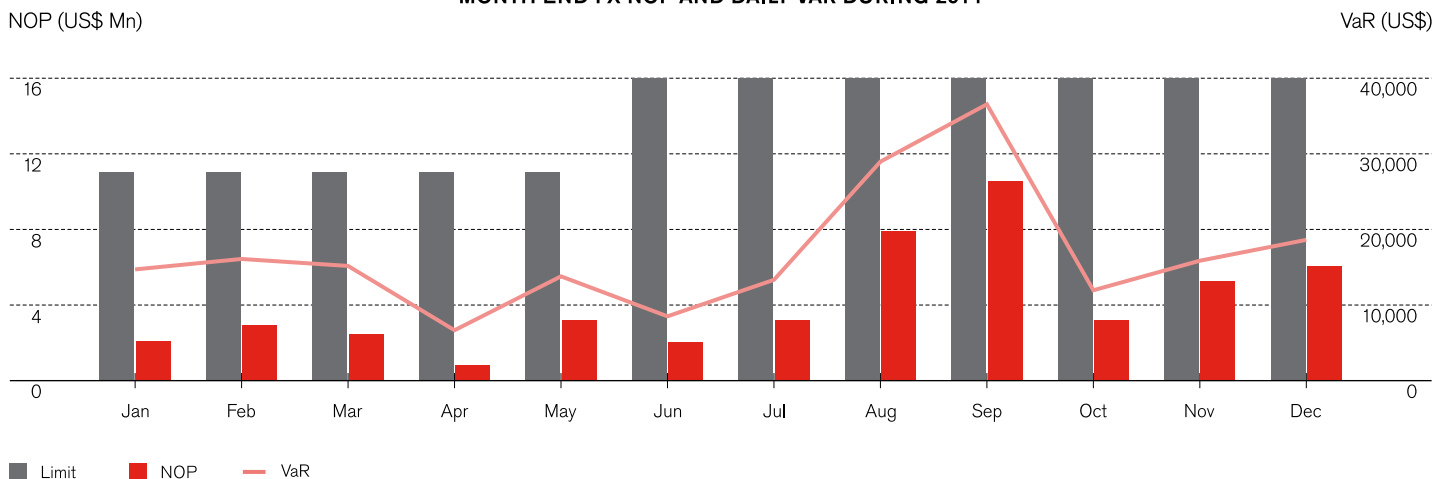
#### EFFECT OF ADVERSE MOVEMENTS IN EXCHANGE RATES ON CAR (%)



#### EXCHANGE RATE RISK

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\$ 45,000.

#### MONTH END FX NOP AND DAILY VAR DURING 2014



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

**INTEREST RATE RISK****TRADING PORTFOLIO:**

Following tools are used to manage interest rate risk in the trading portfolio:

1. We use daily VaR model at 99% confidence level to monitor Interest rate risk in the Trading portfolio of fixed Income-bearing Securities. VaR limits are strictly observed.
2. The portfolio is marked to market on a daily basis and stop loss limits are established.

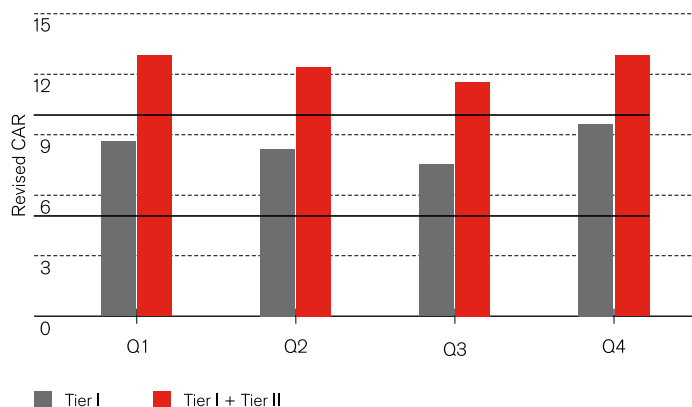
**EXPOSURE TO MARKET RISK – NON-TRADING PORTFOLIOS**

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

**STRESS TEST FOR INTEREST RATE RISK**

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

2013	Revised CAR	
	Tier I %	Tier I + Tier II %
Q1	8.64	12.90
Q2	8.30	12.34
Q3	7.56	11.59
Q4	9.54	12.94

**EFFECT OF 1% INTEREST RATE INCREASE ON CAR (%)**

Capital adequacy ratios continue above the minimum requirements even if interest rate increase by 1%.

	Balance as at 31.12. 2014	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Change in interest Rates %		1	0.75	0.50	0.25
Change in Equity (Rs. Mn)		-7,522	-5,642	-3,761	-1,881
Tax adjusted impact on P&L (Rs. Mn)		-4,513	-3,385	-2,257	-1,128
Tier I Capital (Rs. Mn)	36,939	32,426	33,554	34,682	35,811
Tier I + Tier II (Rs. Mn)	48,492	43,979	45,107	46,235	47,364
Risk Weighted Assets (Rs. Mn)	339,751	338,134	338,134	338,134	338,134
Revised CAR - Core Capital	10.87%	9.54%	9.88%	10.21%	10.54%
Revised CAR - Total Capital	14.27%	12.94%	13.27%	13.61%	13.94%

**48.6 OPERATIONAL RISK**

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors.

**MANAGEMENT OF OPERATIONAL RISK**

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements. The Board of Directors has delegated the responsibility for Management of Operational Risk to the BIRMC. The BAC and the Operational Risk Management Committee (ORMC), assisted by the Internal Audit Department, is responsible for monitoring the compliance to operational control standards set by the Board.

Compliance with standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the Operational Risk Management Committee and thereafter submitted to the Board, through the Board Audit Committee.

This development of overall standards for the management of operational risk encompasses the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;

- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- risk mitigation, including insurance where this is cost effective.

## 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 2013 and 31st December 2014 are given below:

As at 31st December	Balance		Risk Weight %	Risk-Weighted Balance	
	2014 Rs. '000	2013 Rs. '000		2014 Rs. '000	2013 Rs. '000
<b>Assets</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	252,476,983	195,897,060	0	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	64,066,560	57,257,876	20-150	64,066,560	57,257,876
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	0-150	-	-
Claims on Banks	28,913,629	5,397,837	20-150	6,002,222	1,718,197
Claims on Financial Institutions	4,238,349	4,233,092	20-150	877,394	1,661,229
Claims on Corporates	36,406,473	32,655,340	20-150	31,506,764	27,951,567
Retail Claims	106,464,378	73,549,901	75-100	96,680,348	64,211,592
Claims Secured by Residential Property	68,673,792	60,365,862	50-100	34,336,896	30,182,931
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-Performing Assets (NPAs)	6,892,750	7,881,019	50-150	9,210,282	9,011,634
Cash Items	16,842,700	18,933,707	0-20	137,600	387,651
Property, Plant & Equipment	15,693,064	15,191,229	100	15,693,064	15,191,229
Other Assets	4,268,799	5,166,109	100	4,268,799	5,166,109
<b>Total</b>	<b>604,937,477</b>	<b>476,529,032</b>		<b>262,779,929</b>	<b>212,740,015</b>

## OFF-BALANCE SHEET EXPOSURES

As at 31st December	Balance		Risk Weight %	Risk-Weighted Balance	
	2014 Rs. '000	2013 Rs. '000		2014 Rs. '000	2013 Rs. '000
<b>Instruments</b>					
Direct Credit Substitutes	18,168,418	7,088,177	100	18,168,418	7,088,177
Transaction-Related Contingencies	15,481,494	18,143,570	50	7,740,747	9,071,785
Short-Term Self-Liquidating Trade-Related Contingencies	66,662,753	60,942,106	20	13,332,551	12,188,221
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	19,942,368	8,650,328	0-20	3,988,474	1,672,559
Commitments with an Original Maturity up to 1 Year	-	-	20	-	-
Other Commitments with an Original Maturity of Over One Year	-	-	50	-	-
Foreign Exchange Contracts	6,703,245	22,895,199	0-5	134,065	457,904
Interest Rate Contracts	-	-	0-3	-	-
<b>Total</b>	<b>126,958,278</b>	<b>117,719,380</b>		<b>43,364,255</b>	<b>30,478,646</b>

**COMPUTATION OF CAPITAL**

	2014 Rs. '000	2013 Rs. '000
<b>Tier I : Core Capital</b>		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	7,201,998	7,201,998
Statutory Reserve Fund	3,522,626	2,811,685
Published Retained Profits	18,271,319	12,858,139
General and Other Reserves	8,828,873	6,953,873
<b>Deductions - Tier I</b>	<b>885,720</b>	<b>528,535</b>
Net deferred tax assets	186,149	–
Other intangible assets	114,548	–
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	345,479	345,479
50% Investments in the Capital of Other Banks and Financial Institutions	239,544	183,056
<b>Total Eligible Core Capital (Tier I)</b>	<b>36,939,096</b>	<b>29,297,160</b>
<b>Tier II: Supplementary Capital</b>		
Revaluation Reserves (as Approved by Central Bank of Sri Lanka)	5,179,916	5,179,916
General Provisions	3,537,854	3,391,718
Approved Subordinated Term Debt	3,420,000	4,900,000
<b>Deductions - Tier II</b>		
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	345,479	345,479
50% Investments in the Capital of Other Banks and Financial Institutions	239,544	183,056
<b>Total Eligible Supplementary Capital (Tier II)</b>	<b>11,552,747</b>	<b>12,943,099</b>
<b>Total Capital Base</b>	<b>48,491,843</b>	<b>42,240,259</b>

**COMPUTATION OF RATIOS**


	2014 Rs. '000	2013 Rs. '000
Total Risk-Weighted Assets for Credit Risk	262,779,929	212,740,015
Total Risk-Weighted Assets for Market Risk	11,888,148	6,222,767
Total Risk-Weighted Assets for Operational Risk	65,083,185	62,787,563
<b>Total Risk-Weighted Assets (RWA)</b>	<b>339,751,262</b>	<b>281,750,345</b>
<b>Core Capital Ratio - Tier I (Minimum Requirement 5%)</b>		
Core Capital Total Risk-Weighted Assets x 100	10.9%	10.4%
<b>Total Capital Ratio (Minimum Requirement 10%)</b>		
Total Capital Base Total Risk-Weighted Assets x 100	14.3%	15.0%

Note: The above report has being prepared in accordance with the Basel II Guidelines set out by the Central Bank of Sri Lanka.

	BANK		GROUP	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>49. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX</b>				
Depreciation of Property, Plant & Equipment	844,293	763,487	1,115,750	999,043
Amortisation of Leasehold Properties	74,174	40,739	80,908	47,535
Amortisation of Prepayment Leases	7,485	29,034	7,485	29,034
Amortisation of Intangible Assets	16,262	38,609	37,540	57,339
Depreciation of Investment Properties	2,354	1,754	2,354	1,754
Impairment Losses on Loans and Receivables	(1,364,908)	13,650,788	(803,202)	13,922,095
Other Impairments	(65,532)	65,532	685,222	900,332
Share Based Payment Expenses	—	—	—	—
Profit on Sale of Fixed Assets	(34,504)	(28,812)	(43,804)	(29,377)
Changes in Derivative Financial Instruments	(185,309)	181,534	(75,506)	181,538
Changes in Fair Value of Trading Securities	156,631	(987,880)	(16,095)	(972,054)
Premium Amortisation of Held-to-Maturity Investments	131,180	53,083	131,180	50,083
	(417,875)	13,807,869	1,154,021	15,190,322
<b>50. CHANGES IN OPERATING ASSETS</b>				
Net Increase in Debt Securities, Treasury Bills & Bonds and Equity Shares Held at Fair Value through Profit or Loss	3,703,760	(44,976,147)	3,730,846	(45,054,954)
Net Increase in Balance with Central Bank	(3,213,980)	3,041,156	(3,213,980)	3,041,156
Net Increase in Placement with Bank	(11,130,210)	10,792,047	(11,130,210)	10,792,047
Net Increase in Loans and Receivable to Banks	(47,265,771)	(46,874,991)	(50,668,284)	(46,989,304)
Net Increase in Loans and Receivable to Customers	(6,014,420)	(12,484,248)	(11,221,777)	(33,159,748)
Net Increase/(Decrease) in Financial Investments Available-for-Sale	(2,998,067)	27,531,768	(3,150,888)	26,112,973
Change in Other Assets	(1,986,334)	(9,873,878)	(2,285,879)	1,074,593
	(68,905,022)	(72,844,293)	(77,940,172)	(84,184,926)
<b>51. CHANGES IN OPERATING LIABILITIES</b>				
Changes in Due to Banks	61,960,926	(12,330,696)	60,446,370	(32,000,862)
Change in Deposits from Banks, Customers and Debt Securities Issued	31,093,203	72,844,667	39,793,383	80,188,819
Change in Other Borrowings	(6,911,088)	(20,670,972)	(7,486,811)	(1,862,081)
Change in Other Liabilities	554,823	4,001,905	1,032,279	(514,312)
Total	86,697,864	43,844,904	93,785,221	45,811,564

# ANNEXES

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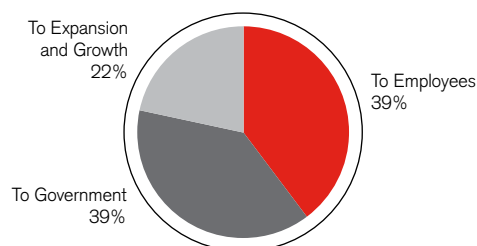
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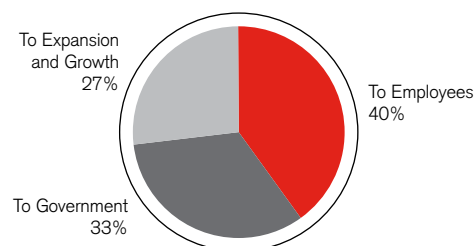
## VALUE ADDED STATEMENT

<i>For the year ended 31st December</i>				
	2014 Rs. '000	%	2013 Rs. '000	%
<b>Value Added</b>				
Income Earned by Providing Banking Services	86,078,468		111,858,992	
Cost of Services	(61,801,799)		(81,525,399)	
Value Added by Banking Services	24,276,669		30,333,593	
Non-Banking Income	10,299,015		8,597,480	
Net Impairment Loss on Financial Assets	1,430,440		(13,716,320)	
Revaluation Surplus on Land and Building	-		5,413,051	
	36,006,124		30,627,806	
<b>Value Allocated to Employees</b>				
Salaries, Wages and Other Benefits	14,005,555	38.9	12,384,396	40.4
<b>To Government</b>				
Dividend Paid on GOSL Bonds	219,690	0.6	219,690	0.7
Special Levy to Treasury	6,000,000	16.7	4,500,000	14.7
PAYE Tax	144,176	0.4	289,060	0.9
Income Tax	3,012,245	8.4	2,816,395	9.2
Value Added Taxation (VAT)	3,857,068	10.7	1,953,447	6.4
Other Indirect Taxes	892,466	2.5	260,891	0.9
<b>To Expansion and Growth</b>				
Retained Income	6,932,710	19.3	7,332,056	23.9
Depreciation/Amortisation	942,214	2.6	871,870	2.8
	36,006,124	100.0	30,627,806	100.0

**CONTRIBUTION TO VALUE ADDED  
2014**



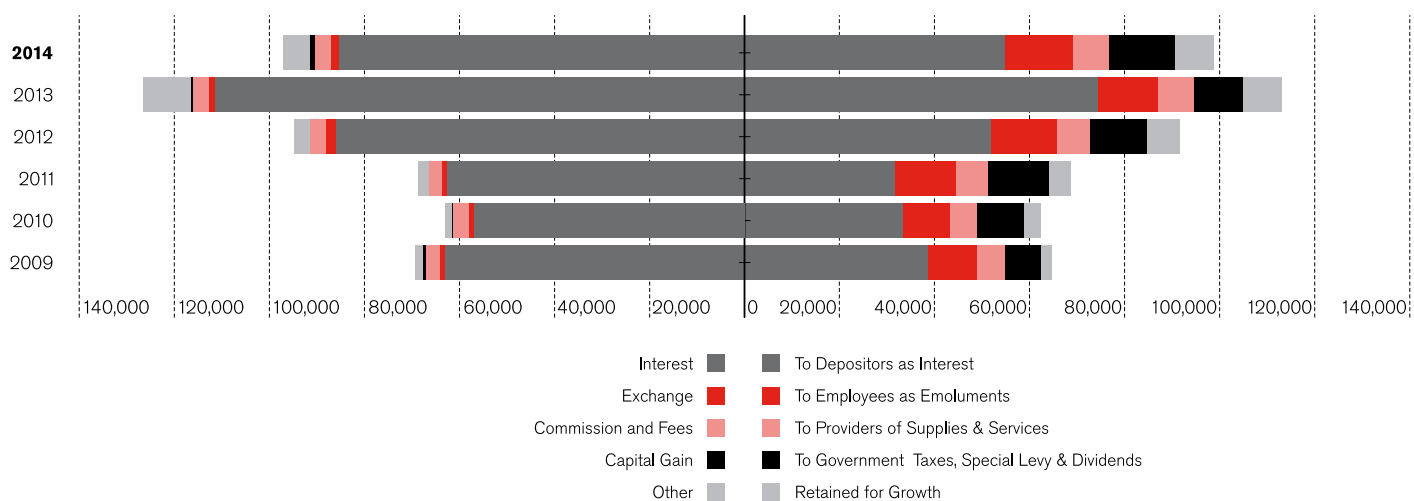
**CONTRIBUTION TO VALUE ADDED  
2013**



## SOURCES AND UTILISATION OF INCOME

For the Year ended 31st December	2009 Rs. '000	2010 Rs. '000	2011 Rs. '000	2012 Rs. '000	2013 Rs. '000	2014 Rs. '000
<b>Sources of Income</b>						
Interest	62,341,236	56,534,172	61,788,438	85,241,301	110,440,562	<b>84,479,961</b>
Exchange	1,120,819	1,120,022	1,207,902	2,126,109	1,418,430	<b>1,598,506</b>
Commission and Fees	3,108,401	3,170,590	2,929,812	3,541,589	3,478,015	<b>3,820,242</b>
Capital Gain	674,447	174,373	133,485	127,794	396,910	<b>1,042,108</b>
Other	1,804,705	1,533,270	2,238,616	3,740,606	10,135,606	<b>5,436,664</b>
<b>Total</b>	<b>69,049,608</b>	<b>62,532,427</b>	<b>68,298,253</b>	<b>94,777,399</b>	<b>125,869,523</b>	<b>96,377,482</b>
<b>Utilisation of Income</b>						
To Depositors as Interest	38,414,583	33,178,175	31,470,220	51,523,506	73,791,102	<b>54,362,126</b>
To Employees as Emoluments	10,063,967	9,778,541	12,692,931	13,503,921	12,384,396	<b>14,005,555</b>
To Providers of Goods & Services	5,743,785	5,553,225	6,527,845	6,935,375	7,734,295	<b>7,439,673</b>
Net Impairment Loss on Financial Assets	5,272,496	1,013,406	410,443	3,874,384	13,716,320	<b>(1,430,440)</b>
To Government as Taxes, Special Levy & Dividends	7,654,273	9,970,964	12,489,254	12,311,765	10,039,483	<b>14,125,646</b>
Retained for Growth	1,900,504	3,038,116	4,707,560	6,828,448	8,203,927	<b>7,874,923</b>
<b>Total</b>	<b>69,049,608</b>	<b>62,532,427</b>	<b>68,298,253</b>	<b>94,977,399</b>	<b>125,869,523</b>	<b>96,377,482</b>

### SOURCES AND UTILISATION OF INCOME (Rs.Mn)



## INCOME STATEMENT US\$

<i>For the year ended 31st December</i>	BANK			GROUP		
	2014 US\$ '000	2013 US\$ '000	Change %	2014 US\$ '000	2013 US\$ '000	Change %
<b>Gross Income</b>	<b>729,166</b>	920,851	(20.8)	<b>897,604</b>	1,069,923	(16.1)
Interest Income	<b>639,152</b>	844,282	(24.3)	<b>788,205</b>	987,728	(20.2)
Interest Expenses	<b>(411,289)</b>	(564,109)	(27.1)	<b>(485,803)</b>	(644,025)	(24.6)
<b>Net Interest Income</b>	<b>227,863</b>	280,173	(18.7)	<b>302,401</b>	343,704	(12.0)
Fee and Commission Income	<b>28,903</b>	26,588	8.7	<b>58,508</b>	42,740	36.9
Fee and Commission Expenses	<b>(920)</b>	(1,035)	(11.1)	<b>(920)</b>	(1,035)	(11.1)
Net Fee and Commission Income	<b>27,983</b>	25,553	9.5	<b>57,588</b>	41,705	38.1
Net Gain/(loss) from Trading	<b>18,978</b>	21,430	(11.4)	<b>20,041</b>	21,551	(7.0)
Other Operating Income (Net)	<b>42,133</b>	28,550	47.6	<b>30,851</b>	17,903	72.3
<b>Total Operating Income</b>	<b>316,957</b>	355,706	(10.9)	<b>410,881</b>	424,863	(3.3)
Net Impairment Loss on Financial Assets	<b>10,822</b>	(104,857)	(110.3)	<b>893</b>	(113,313)	(100.8)
<b>Net Operating Income</b>	<b>327,779</b>	250,849	30.7	<b>411,773</b>	311,550	32.2
Personnel Expenses	<b>(98,983)</b>	(91,417)	8.3	<b>(112,345)</b>	(102,221)	9.9
Other Expenses	<b>(70,903)</b>	(67,614)	4.9	<b>(105,547)</b>	(90,796)	16.2
<b>Operating Profit before Value Added Tax (VAT)</b>	<b>157,892</b>	91,818	72.0	<b>193,882</b>	118,533	63.6
Value Added Tax (VAT) on Financial Services	<b>(27,527)</b>	(13,045)	111.0	<b>(30,103)</b>	(15,411)	95.3
<b>Operating Profit after Value Added Tax (VAT)</b>	<b>130,365</b>	78,773	65.5	<b>163,779</b>	103,122	58.8
Share of Profits/(Loss) of Associates (Net of Tax)	-	-		<b>(150)</b>	(588)	(74.5)
<b>Profit before Tax</b>	<b>130,365</b>	78,773	65.5	<b>163,628</b>	102,533	59.6
Tax Expenses	<b>(22,790)</b>	(21,530)	5.8	<b>(35,365)</b>	(32,476)	8.9
<b>Profit for the Year</b>	<b>107,576</b>	57,242	87.9	<b>128,263</b>	70,057	83.1
<b>Profit Attributable to:</b>						
Equity Holders of the Bank	<b>107,576</b>	57,242	87.9	<b>120,265</b>	63,943	88.1
Non-Controlling Interests	-	-	-	<b>7,998</b>	6,115	30.8
	<b>107,576</b>	57,242	87.9	<b>128,263</b>	70,057	83.1

Exchange Rate: 1 US\$ was Rs. 132.175 as at 31st December 2014 (Rs. 130.81 as at 31st December 2013).

The Income Statement and the Statement of Financial Position given on pages 226 and 227 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		
	2014 US\$ '000	2013 US\$ '000	Change %	2014 US\$ '000	2013 US\$ '000	Change %
<b>Assets</b>						
Cash and Cash Equivalents	282,622	143,526	96.9	298,226	159,034	87.5
Balance with the Central Bank of Sri Lanka	329,751	308,622	6.8	329,751	308,622	6.8
Placements with Banks	103,510	19,503	430.7	103,510	19,503	430.7
Derivative Financial Instruments	168	271	(37.8)	168	271	(38.0)
Other Financial Assets Held-for-Trading	453,100	487,339	(7.0)	456,290	489,696	(6.8)
Loans and Receivables to Banks	979,677	628,569	55.9	1,006,285	629,443	59.9
Loans and Receivables to Other Customers	4,745,293	4,738,397	0.1	5,463,208	5,428,289	0.6
Financial Investments - Available-for-Sale	25,631	2,383	975.5	37,919	13,280	185.5
Financial Investments - Held-to-Maturity	625,842	579,346	8.0	665,256	598,753	11.1
Investments in Subsidiaries	7,913	9,525	(16.9)	-	-	-
Investments in Associates	2,066	1,587	30.2	3,227	2,098	53.8
Goodwill and Intangible Assets	867	256	238.0	3,496	2,997	16.6
Property, Plant & Equipment	113,083	112,420	0.6	146,504	139,008	5.4
Investment Properties	1,418	1,451	(2.3)	1,418	1,451	(2.3)
Prepaid Leases	4,228	2,261	87.0	4,228	2,261	87.0
Deferred Tax Assets	10,902	8,190	33.1	11,166	8,223	35.8
Other Assets	82,182	70,376	16.8	88,663	82,346	7.7
<b>Total Assets</b>	<b>7,768,253</b>	<b>7,114,022</b>	<b>9.2</b>	<b>8,619,315</b>	<b>7,885,275</b>	<b>9.3</b>
<b>Liabilities</b>						
Due to Banks	1,087,611	625,289	73.9	1,228,927	779,658	57.6
Derivative Financial Instruments	131	1,650	(92.0)	1,122	1,650	(32.0)
Due to Other Customers	6,002,207	5,827,143	3.0	6,272,129	6,033,371	4.0
Other Borrowings	101,705	155,600	(34.6)	237,497	297,210	(20.1)
Current Tax Liabilities	3,477	3,007	15.6	7,965	6,708	18.7
Deferred Tax Liabilities	8,024	6,767	-	22,215	19,550	13.6
Other Liabilities	122,486	100,336	22.1	176,523	149,086	18.4
Subordinated Term Debts	113,732	114,919	(1.0)	188,259	176,909	6.4
<b>Total Liabilities</b>	<b>7,439,374</b>	<b>6,834,710</b>	<b>8.8</b>	<b>8,134,637</b>	<b>7,464,142</b>	<b>9.0</b>
<b>Equity</b>						
Stated Capital/Assigned Capital	54,488	55,057	(1.0)	54,488	55,057	(1.0)
Statutory Reserve Fund	26,651	21,494	24.0	26,651	21,494	24.0
Other Reserves	150,916	186,605	(19.1)	155,048	198,449	(21.9)
Retained Earnings	96,823	16,156	499.3	208,215	108,312	92.2
Total Shareholders' Equity	328,879	279,312	17.7	444,402	383,312	15.9
Non-Controlling Interests	-	-	-	40,276	37,821	6.5
<b>Total Equity</b>	<b>328,879</b>	<b>279,312</b>	<b>17.7</b>	<b>484,678</b>	<b>421,133</b>	<b>15.1</b>
<b>Total Equity and Liabilities</b>	<b>7,768,253</b>	<b>7,114,022</b>	<b>9.2</b>	<b>8,619,315</b>	<b>7,885,275</b>	<b>9.3</b>
<b>Contingent Liabilities and Commitments</b>	<b>1,381,299</b>	<b>1,506,908</b>	<b>(8.3)</b>	<b>1,381,480</b>	<b>1,508,876</b>	<b>(8.4)</b>

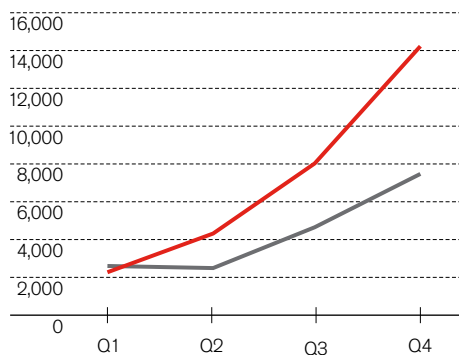
Exchange Rate: 1 US\$ was Rs. 132.175 as at 31st December 2014 (Rs. 130.81 as at 31st December 2013).

The Income Statement and the Statement of Financial Position given on pages 226 and 227 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

## QUARTERLY FINANCIAL HIGHLIGHTS

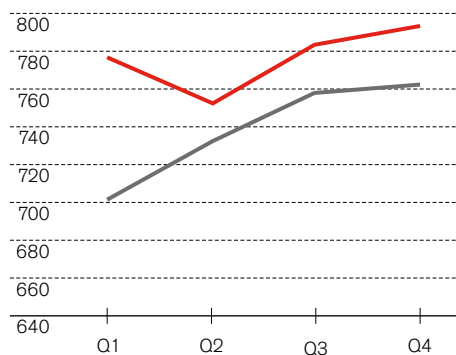
For the Quarter Ended	2014				2013			
	Quarter 1 Rs. Mn	Quarter 2 Rs. Mn	Quarter 3 Rs. Mn	Quarter 4 Rs. Mn	Quarter 1 Rs. Mn	Quarter 2 Rs. Mn	Quarter 3 Rs. Mn	Quarter 4 Rs. Mn
<b>Income Statement - YTD</b>								
Net Interest Income	6,339	13,127	19,949	30,118	7,820	15,326	25,190	36,649
Non-Funded Income	3,103	4,980	8,184	11,776	2,088	3,749	6,157	9,880
Operating Expenses	(5,422)	(10,713)	(16,363)	(22,455)	(5,119)	(10,481)	(15,814)	(20,803)
Net Profit before VAT	3,724	7,034	13,085	20,869	4,313	4,280	7,596	12,011
VAT on Financial Services	(557)	(1,043)	(1,821)	(3,638)	(643)	(736)	(1,102)	(1,706)
Net Profit before Tax	3,166	5,991	11,264	17,231	3,671	3,545	6,494	10,304
Provision for Income Tax	(880)	(1,694)	(3,226)	(3,012)	(1,050)	(1,049)	(1,858)	(2,816)
Net Profit after Tax	2,287	4,297	8,038	14,219	2,621	2,496	4,636	7,488
<b>Balance Sheet</b>								
Total Assets	917,071	911,170	948,800	1,026,769	892,219	905,740	936,794	930,585
Loans and Receivables (Net)	565,594	557,495	579,709	627,209	606,092	602,209	623,559	619,830
Total Deposits	776,548	752,260	783,282	793,342	701,240	732,407	758,121	762,249
Total Shareholders' Funds	39,033	38,989	40,675	43,470	28,513	28,235	31,070	36,537
<b>Key Performance Indicators</b>								
Return on Assets (before Tax)	1.4%	1.3%	1.6%	1.8%	1.7%	0.8%	1.0%	1.1%
Return on Equity (after Tax)	24.2%	22.8%	27.8%	35.5%	34.4%	16.8%	20.2%	22.8%
Cost/Income Ratio	63.3%	64.9%	64.6%	62.3%	58.1%	58.8%	54.0%	48.4%
Fee-Based Income/Net Income	32.9%	27.5%	29.1%	28.1%	21.1%	19.7%	19.6%	21.2%
NPL Ratio	6.2%	6.9%	4.5%	3.2%	3.4%	4.3%	4.8%	5.3%
Total Capital Adequacy Ratio	14.4%	14.2%	13.4%	14.3%	14.5%	13.7%	12.8%	15.0%

**Net Profit After Tax**  
(Rs. Mn)



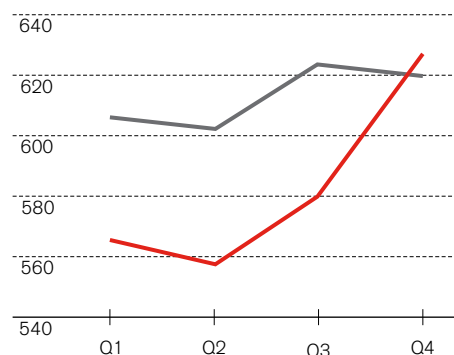
— 2013 — 2014

**Total Deposits**  
(Rs. Bn)



— 2013 — 2014

**Loans and Receivables (net)**  
(Rs. Bn)



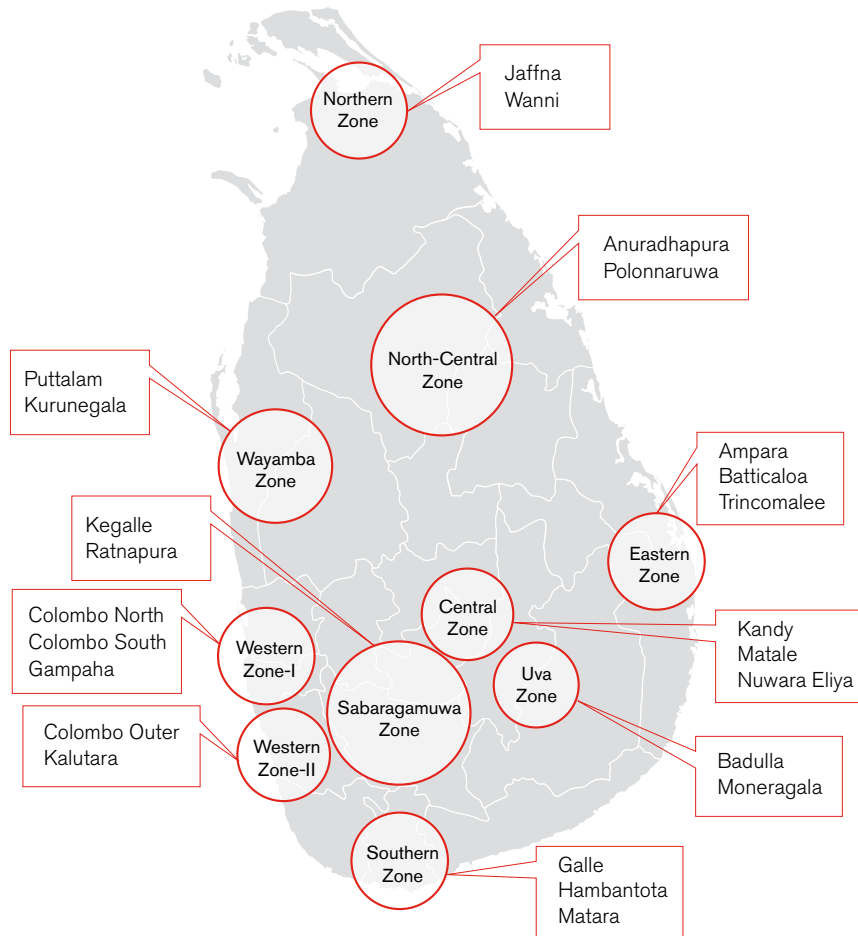
— 2013 — 2014

## PERFORMANCE REVIEW 2005-2014

	2005	2006	2007	2008	2009	2010	Based on New SLASs			
							2011	2012	2013	2014
(Sri Lanka Rs. Mn)										
<b>Assets</b>										
Cash and Short-Term Funds	65,592	47,191	57,090	39,663	83,973	87,062	52,510	67,814	59,143	80,940
Investments	50,583	62,682	61,095	80,109	84,807	82,688	129,977	175,491	226,075	290,486
Loans and Receivables (Net)	142,497	207,138	238,293	248,626	283,760	357,336	461,656	611,414	619,830	627,209
Property, Plant & Equipment	4,862	8,936	8,414	8,362	7,939	8,385	7,523	8,235	14,706	14,947
Other Assets	11,727	12,608	15,691	20,787	15,766	12,144	10,412	10,343	10,832	13,186
<b>Total Assets</b>	<b>275,262</b>	<b>338,555</b>	<b>380,584</b>	<b>397,548</b>	<b>476,245</b>	<b>547,616</b>	<b>662,077</b>	<b>873,296</b>	<b>930,585</b>	<b>1,026,769</b>
<b>Liabilities</b>										
Customer Deposits	225,600	269,947	300,956	324,489	396,158	462,140	550,226	683,951	762,249	793,342
Borrowing from Banks and Others	29,134	35,840	49,063	33,714	36,884	39,132	64,053	135,150	102,148	157,198
Other Liabilities	16,512	22,496	17,670	20,965	20,404	20,505	14,709	14,991	14,619	17,727
Debentures	–	–	–	2,500	5,000	5,000	10,000	10,000	15,033	15,033
<b>Total Liabilities</b>	<b>271,246</b>	<b>328,283</b>	<b>367,689</b>	<b>381,668</b>	<b>458,445</b>	<b>526,778</b>	<b>638,988</b>	<b>844,092</b>	<b>894,048</b>	<b>983,299</b>
Total Equity	4,017	10,271	12,895	15,880	17,800	20,838	23,089	29,205	36,537	43,470
<b>Total Equity &amp; Liabilities</b>	<b>275,262</b>	<b>338,555</b>	<b>380,584</b>	<b>397,548</b>	<b>476,245</b>	<b>547,616</b>	<b>662,077</b>	<b>873,296</b>	<b>930,585</b>	<b>1,026,769</b>
Commitments & Contingencies	45,177	39,450	74,222	138,989	100,867	131,751	190,732	207,021	197,119	182,573
<b>Operations</b>										
Gross Income	27,202	35,131	47,984	58,948	69,050	62,532	68,298	94,777	120,456	96,377
Total Operating Income	14,784	19,509	21,442	24,456	30,635	31,897	36,431	43,310	46,530	41,894
Total Overheads	11,070	15,038	15,736	17,159	19,719	21,305	20,421	24,186	22,509	26,093
Profit before Taxation	4,035	4,079	5,002	5,664	6,076	8,771	15,600	15,249	10,304	17,231
Provision for Taxation	1,263	922	2,628	2,959	2,755	3,565	5,154	4,355	2,816	3,012
Profit after Taxation	2,772	3,157	2,374	2,705	3,320	5,206	10,446	10,894	7,488	14,219
<b>Performance Indicators</b>										
No. of Employees (Permanent)	9,531	9,645	8,416	8,587	8,863	8,399	8,249	7,823	7,409	8,156

	2005	2006	2007	2008	2009	2010	Based on New SLASs			
							2011	2012	2013	2014
<i>(Sri Lanka Rs. '000)</i>										
<b>Per Employee</b>										
Deposits	23,670	27,988	35,760	37,788	44,698	55,023	66,702	87,428	102,881	97,271
Loans & Receivables	14,951	21,476	28,314	28,954	32,016	42,545	55,965	78,156	83,659	76,902
Gross Earnings	2,854	3,642	5,702	6,865	7,791	7,445	8,280	12,115	16,258	11,817
<b>Profit after Tax</b>	<b>291</b>	<b>327</b>	<b>282</b>	<b>315</b>	<b>375</b>	<b>620</b>	<b>1,266</b>	<b>1,393</b>	<b>1,011</b>	<b>1,743</b>
<i>(Sri Lanka Rs.)</i>										
<b>Per Share</b>										
Profit after Taxation	2,772	3,157	2,374	2,705	3,320	5,206	10,446	10,894	7,488	14,219
Total Assets	275,262	338,555	380,584	397,547	476,245	547,616	662,077	873,296	93,585	1,026,769
Net Worth	4,017	10,271	12,895	15,880	17,800	20,838	23,089	29,205	36,537	43,470
Return on Assets (%) (Before Tax)	1.6	1.3	1.4	1.5	1.4	1.7	2.6	2.0	1.1	1.8
Return on Equity (%)	139.2	44.2	20.5	18.8	19.7	26.9	49.2	41.7	22.8	35.5
Cost/Income Ratio (%)	72.7	73.8	68.7	65.4	60.6	60.2	56.1	55.8	48.4	62.3
Capital Adequacy Ratio (CAR) (%)	1.9	5.6	6.9	10.5	13.4	12.8	14.8	14.0	15.0	14.3
<b>Based on Previous SLASs</b>										
Non-Performing Loan (NPL) Ratio (Gross) (%)	11.0	7.1	5.9	6.8	6.7	5.0	3.4	2.8	5.3	3.2
Non-Performing Loan (NPL) Ratio (Net) (%)	1.8	0.9	0.7	1.6	2.0	1.3	0.5	0.4	2.0	0.5
Non-Performing Loan (NPL) Coverage Ratio (%)	83.9	87.1	88.0	75.7	70.6	73.6	81.5	84.0	61.8	84.3
Fitch Rating	BBB+	A-	A-	A-	A	AA-	AA	AA+	AA+	AA+
RAM Ratings						AAA	AAA	AAA	AAA	AAA

## BRANCH NETWORK



Zone/Region	Branch	Branch Code
<b>Ampara</b>	Addalachchenei	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

Zone/Region	Branch	Branch Code
<b>Anuradhapura</b>	Anuradhapura	008
	Nuwarawewa	220
	Eppawala	170
	Galenbindunuwewa	177
	Galkiriyagama	301
	Galnewa	179
	Horoupathana	218
	Kahatagasdigiliya	051
	Kebithigollewa	150
	Pulmoddai	352
	Kekirawa	042
	Medawachchiya	096
	Meegalewa	246
	Nochchiyagama	171
	Padaviya	043
	Talawa	315
	Thambuttegama	219

Zone/Region	Branch	Branch Code
<b>Badulla</b>	Badulla	010
	Muthiyangana	269
	Bandarawela	037
	Boralanda	209
	Diyatalawa	151
	Giradurukotte	268
	Haldummulla	195
	Haliela	225
	Haputale	216
	Kandaketiya	250
	Keppetipola	240
	Koslanda	260
	Lunugala	251
	Mahiyangana	058
	Passara	116
	Uwaparanagama	156
	Welimada	016



Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code
<b>Batticaloa</b>	Batticaloa	075	<b>Colombo Outer</b>	Awissawella	029		Pamunugama	318
	Batticaloa Town	113		Battaramulla	208		Pugoda	093
	Chenkalady	227		Boralesgamuwa	348		Ragama	316
	Eravur	123		Dehiwala	019		Seeduwa	324
	Kaluwanchikudy	190		Dehiwala Galle Rd.	337		Veyangoda	079
	Katankudy	065		Gangodawila	097		Wattala	222
	Kallar	339		Hanwella	229		Yakkala	333
	Kokkadicholei	342		Homagama	049		Kochchikade	142
	Oddamavadi	340		Kaduvela	196		Negombo	034
	Valachchenai	102		Katubedda	313			
<b>Puttalam</b>	Anamaduwa	267		Kesbewa	327	<b>Hambantota</b>	Ambalantota	072
	Chilaw	024		Kolonnawa	194		Angunakolapelessa	205
	Dankotuwa	291		Kotikawatta	098		Beliatta	244
	Kalpitiya	125		Kottawa	328		Hambantota	007
	Madampe	215		Maharagama	306		Kudawella	288
	Mahawewa	303		Moratumulla	290		Middeniya	265
	Marawila	322		Moratuwa	091		Ranna	345
	Nattandiya	083		Mount Lavinia	336		Suriyawewa	264
	Puttalam	009		Nugegoda	174		Tangalle	067
	Wennappuwa	076		Nugegoda City	335		Tissamaharama	061
<b>Western Zone I</b>	Bambalapitiya	310		Piliyandala	103		Walasmulla	120
	Borella	078		Piliyandala City	359		Weeraketiya	350
	Central Rd	298		Pitakotte	279	<b>Jaffna</b>	Atchuvely	107
	Dam Street	297		Ratmalana	080		Chankanai	108
	Dematagoda	071	<b>Galle</b>	Ahangama	188		Chavakachcheri	110
	Duke Street	001		Ambalngoda	035		Chunnakam	109
	First City Branch	046		Baddegama	087		Kannathiddy	284
	Grandpass	126		Balapitiya	154		J/Main Street	104
	Golden Jubilee	320		Batapola	234		J/Stanley Road	030
	Head Quarters	204		Elpitiya	073		J/University	162
	Hyde Park Corner	025		Galle Fort	013		Kankasanthrai	031
	Kehelwatta	259		Galle Main	169		Kayts	105
	Kirillapona	319		Hikkaduwa	136		Nelliady	106
	Kollupitiya Co-op.House	210		Imaduwa	247		Point Pedro	285
	Kotahena	308		Karapitiya	343		Velvettithurai	141
	Liberty Plaza	309		Koggala	329	<b>Kalutara</b>	Aluthgama	084
	Lucky Plaza	331		Talgaswala	272		Badureliya	283
	Malwatte Rd	312		Udugama	131		Bandaragama	121
	Maradana	236		Uragasmanhandiya	197		Beruwala	311
	Majestic City	200		Wanduramba	325		Bulathsinghala	161
	Mid City	176	<b>Gampaha</b>	Delgoda	118		Horana	041
	Mutwal	214		Gampaha	026		Ingiriya	300
	Narahenpita	119		Ganemulla	332		Kalutara	039
	Olcott Mw.	275		Ja-ela	239		Maggona	282
	Pettah	139		Kadawatha	273		Matugama	070
	Queens Branch	033		Kandana	175		Neboda	249
	Sangaraja Maw.	056		Katunaikie	276		Panadura	148
	Sea Street	277		Kelaniya	055		Panadura Town	321
	Suduwellla	143		Kiribathgoda	237		Pelawatta	261
	Thimbrigasyaya	086		Kirindiwela	202		Wadduwa	262
	Town Hall	167		Mahara	217			
	Union Place	014		Malwana	191			
	Wellawatte	145		Maradagahamula	100			
				Meerigama	198			
				Minuwangoda	021			
				Nittambuwa	278			

Zone/Region	Branch	Branch Code
<b>Kandy</b>	Akurana	153
	Alawathugoda	294
	Ankumbura	183
	Daulagala	206
	Deltota	257
	Galagedara	114
	Hataraliyadda	341
	Gampola	018
	Hasalaka	140
	Kadugannawa	159
	Kandy	003
	Kandy City Centre	357
	Katugastota	089
	Menikhinna	157
	Nawalapitiya	053
	Panwila	211
	Peradeniya	057
	Pilimalawala	256
	Poojapitiya	358
	Pussellawa	274
	Senkadagala	158
	Teldeniya	112
	Wattagama	074
<b>Kegalle</b>	Aranayaka	248
	Bulathkohupitiya	252
	Dehiowita	293
	Deraniyagala	180
	Galigamuwa	185
	Gonagaldeniya	238
	Hemmathagama	221
	Kegalle Main	027
	Kegalle Bazaar	299
	Kotiyakumbura	355
	Mawanella	069
	Rambukkana	101
	Ruwanwella	081
	Thulhiriya	270
	Warakapola	054
	Yatiantota	047
<b>Kurunegala</b>	Alawwa	149
	Bingiriya	172
	Galgamuwa	184
	Giriulla	092
	Hettipola	144
	Ibbagamuwa	207
	Kobeigane	281
	Ethugalpura	334
	Kuru-Maliyadewa	226
	Kuliyapitiya	028
	Kurunagala	012
	Maho	052
	Makandura	137

Zone/Region	Branch	Branch Code
	Mawathagama	199
	Melsiripura	344
	Narammala	082
	Nikaweratiya	124
	Polgahawela	059
	Pothuhera	280
	Ridigama	193
	Wariyapola	163
<b>Matale</b>	Dambulla	138
	Galewela	115
	Matale	002
	Naula	146
	Pallepola	241
	Raththota	128
	Ukuwela	201
<b>Matara</b>	Wilgamuwa	122
	Akuressa	117
	Deniyaya	132
	Devinuwara	243
	Dickwella	135
	Gandara	307
	Hakmana	130
	Kamburupitiya	133
	Matara Dha.Maw	152
	Matara Uyanwatta	032
<b>Moneragala</b>	Morawaka	060
	Urubokka	271
	Walasgala	304
	Weligama	077
	Badalkumbura	347
	Bibila	011
	Buttala	147
	Kataragama	168
	Medagama	258
	Monaragala	068
<b>Nuwara Eliya</b>	Thanamalwila	230
	Wellawaya	062
	Bogawantalawa	354
	Ginigathhena	302
	Hatton	186
	Maskeliya	178
	Nildandahinna	127
	Nuwaraeliya	134
	Pundaluoya	173
	Ragala	036
	Rikillagaskada	353
	Talawakele	038
	Udapussellawa	292
	Hanguranketha	022

Zone/Region	Branch	Branch Code
<b>Ratnapura</b>	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
<b>Polonnaruwa</b>	Ratnapura	088
	Rathnapura Town	317
	Udawalawa	295
	Aralaganwila	253
	Bakamuna	242
	Dehiattakandiya	330
	Habarana	203
	Hingurakgoda	006
	Medirigiriya	231
	Polonnaruwa	005
<b>Trincomalee</b>	Polonnaruwa Town	232
	Thambala	351
	Welikanda	254
	Kantalai	090
	Kinniya	094
	Muttur	095
	Serunuwara	233
<b>Wanni</b>	Trincomalee	066
	Trincomalee Town	255
	Chettikulam	356
	Kilinochchi <i>Re-opened</i>	048
	Mankulam <i>Re-opened</i>	165
	Mullaitivu <i>Re-opened</i>	020
	Paranthan <i>Re-opened</i>	111
	Murunkan	166
	Mannar	044
	Vauniya	040

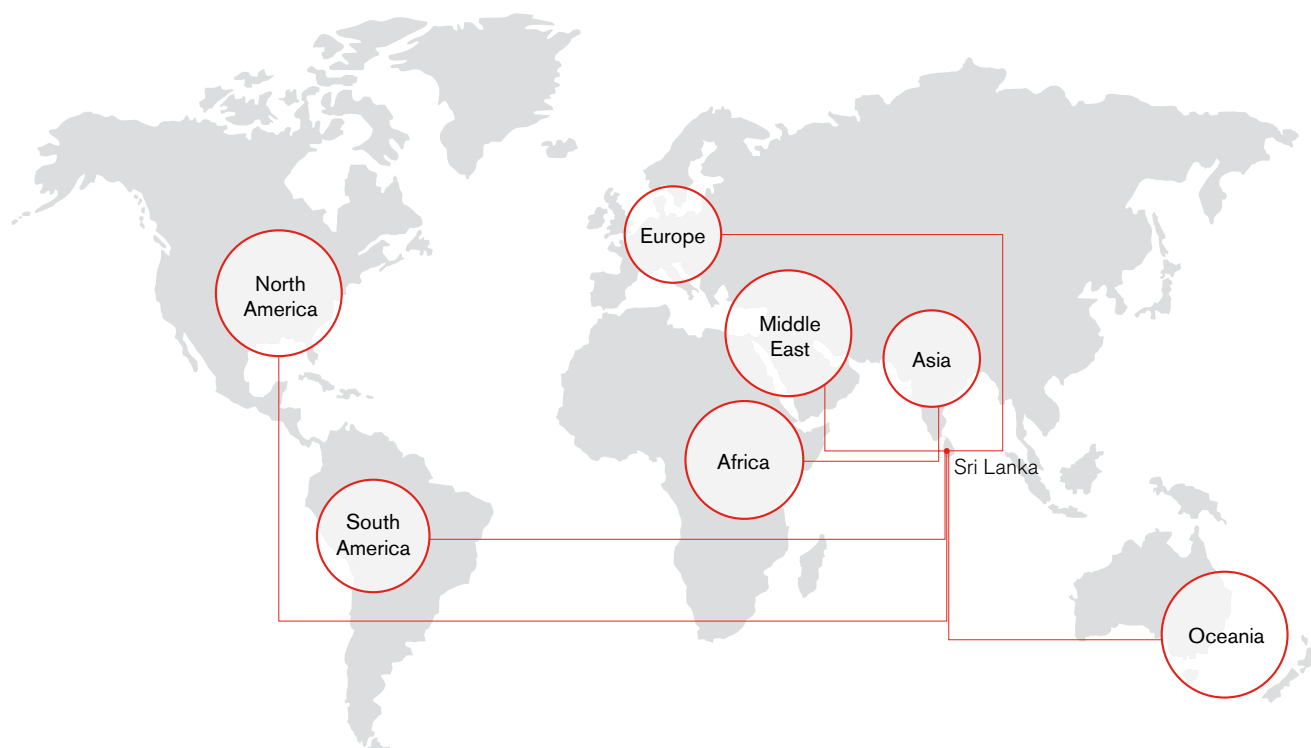
## BRANCHES WITH SELECTED SERVICES

Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code
Ampara	Oluvil	863	Batticaloa	Iruthayapuram	909	Colombo Outer	Kosgama	439
	South - East University - Oluvil	814		Puttur	952		Thalduwa	460
	Palamunai	598		Siththandy	934		Talawathugoda	413
	Alayadiwembu	902		Mandur	874		Malabe	896
	Erakkamam	861		Palugamam	974		Hokandara	926
	Nawagampura	597		Ariyampathi	859		Sri Lanka Foreign Employment Bureau Premises	806
	Padiyathalawa	860		Kirankulam	772		Sethsiripaya	785
	Panama	972		Wakarai	953		Attidiya	457
	Sammanthurai	862		Kiran	750		Nedimala	521
	Vilinaiyady Town - Sammanthurai	924	Puttalam	Andigama	554		Kalubowila	746
	Central Camp	870		Arachchikattuwa	467		Delkanda	407
	Gonagolla	916		Udappuwa	908		Sri Jayawardenapura University Premises	812
Anuradhapura	Anuradhapura	410		Fisheries S.C.	589		Hanwella Town	418
	Nachchiyaduwa	829		Norochcholei	500		Kahahena	551
	Rambewa	866		Toduwawa	547		Padukka	419
	North Central Provincial Service Centre	778		Kottaramulla	498		Godagama	497
	Mihintale	434		Welipennagahamulla	570		Homagama City	572
	Vilachchiya - Pemaduwa	832		Narawila	571		Army H.Q.	807
	Thirappane	912		Madurankuliya	546		Meegoda	883
	Bulnewa	931		Bolawatta	482		Palali Army Camp	809
	Gomarankadawala	938		Lunuwila	483		Regimental Headquarters Sc - Panagoda	786
	Maradankadawala	507		Ulthiyawa	828		Nawagamuwa	535
	Ganewelpola	738	Western Zone I	Mihindu Mawatha	884		Bandarawatta	982
	Saliyawewa	508		Dematagoda	514		Soyzapura	428
	Padavi Sri Pura	827		Sri Lanka Customs Premises	747		Kahatuduwa	409
	Padavi Parakkramapura	986		Colombo Harbour Premises	822		Wellampitiya	900
	Rajanganaya	833		Grandpass	403		Gothatuwa	415
	Damsopura	950		St.Joseph's Street	843		Mulleriyawa (Angoda)	838
	Rajina Handiya - Thambuttegama	911		Wekanda	515		Athurugiriya	416
Badulla	Badulla Bazzar	402		Slave Island	891		Mattegoda	531
	Badulla - Welekade	910		Havelock Town	513		Pannipitiya (Moraketiya)	429
	Badulla - Pahala Wediya	897		Jampata Street	553		Pamunuwa	922
	Uva Provincial Council Premises	824		Bloemendhol	919		Puwakaramba	449
	Badulla Muthiyangana	775		Lotteries Board H/O Premises	831		Rawathawatta	448
	Bandarawela Town	431		Hultsdorf Courts Premises	808		Katukurunda	494
	Ballaketuwa	542		Nagalagam Street	484		Embuldeniya	412
	Bandarawela Commercial Centre	906		Muthuella	840		Nawala Campus Premises	450
	Perahettiya	745		Registrar of Motor Vehicles Premises - Narahenpita	818		Chapel Lane	526
	Bogahakumbura	548		Central Bank Premises	820		Welikada Plaza	821
	Nawa Medagama	928		Maligawatta	485		Kohuwala	464
	Attampitiya	564		Suduwella	401		Piliyandala City	839
	Demodara	895		Colombo Campus Premises	803		Ethulkotte	586
	Meegahakivula	872		Colombo Medical College Premises	892		Sri Jayawardenapura Thalapatthipitiya	932
	Madolsima	890		Treasury Unit Ministry of Finance	826		Economic Centre	949
	Lunuwaththa	880						
	Medawela	770						
	Welimada Town	875						

Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code
<b>Galle</b>	Ambalangoda Main Street	549	<b>Hambantota</b>	Mudungoda (Belummahara)	532	<b>Kandy</b>	Ambathanna	882
	Watugedera	560		Katana	465		Welamboda	894
	Kosgoda	889		Negombo Main Street	523		Galaha	877
	Meetiyaigoda	937		Fisheries Bank - Negombo	590		Pallegama	988
	Pitigala	441					Geliya	491
	Karadeniya	444		Hungama	961		Gampola	492
	Kurudugaha Hethekma	869		Weerawila (Pannegamuwa)	565		Kurunduwatta	493
	Gintota	420		Hambantota Administrative Complex	776		Kolongoda	490
	Wanchawala	520		Katuwana	856		Mahaiyawa	885
	Pettigalawatta	987		Vitharadeniya	960		Kandy Court Premises	903
	Galle Town Service Centres	815		Tangalla S.C.	774		Kundasale	927
	Kaluwella	404		Migrant Resource Centre SC - Bureau of Foreign Employment	781		Kandy Lawyers Complex	773
	Pinnaduwa	587		Magapura Port	788		District Secretarial Service Centre - Kandy	777
	Ratgama	469		Lunugamwehera	941		Central Provincial Council SC	780
	Gonapeenuwala	561	<b>Jaffna</b>				Hedeniya	584
	Dodanduwa/ Kumarakanda	748		Puttur	970		Polgolla	984
	Yakkalamulla	424		Pandatherippu	957		Digana	455
	Bogahagoda	980		Kodikamam	904		Huluganga	920
	Nagoda	522		Kaithady	784		Muruthalawa	583
	Neluwa	442		Kopay	966		Peradeniya University SC	801
<b>Gampaha</b>				Alaweddy	744		Pottapitiya	915
	Weliweriya	512		Inuvil	905		Bokkawela	787
	Gampaha - Ja-ela Road	533		Urumpirai	865		Talatuoya	454
	Udugampola	907		Manipai	837		Marassana	858
	Welipillewa	575		Jaffna - Navalar Road	956		Medamahanuwara	456
	Weligampitiya	528					Udu Dumbara	854
	Dehiyagatha Junction	529		Thirunelvally	855		Madawala Bazar	898
	Ekala	925		Kalviyankadu	964	<b>Kegalle</b>		
	Kirillawela	446		Mallakam	899		Nelundeniya	873
	Kadawata	973		Puloly	963		Amithirigala	943
	Averiwatte	576		Uduppidy	971		Morontota	435
	Sinharamulla	445	<b>Kalutara</b>				Dewalagama	489
	Peliyagoda - Pattiya handiya	536		Darga Town	451		Mawanella	436
	Mawaramandiya	525		Canowin Arcade A	783		Aluthnuwara	946
	Urapola	511		Canowin Arcade B	782		Pattampitiya	592
	Enderamulla	555		Alubomulla	568		Karawanella	936
	Divulapitiya	437		Moragahahena	567		Galapitamada	488
	Demanhandiya	530		Millaniya	588		Horagasmanakada	518
	Kotadeniyawa	830		Gonapola	871		Algama	935
	Pallewela	969		Pokunuwita	989		Kitulgala	519
	Thihariya	438		Handapangoda	981	<b>Kurunegala</b>		
	Pasyala	510		Kalutara Central Junction	458		Boyawalana	851
	Watupitiwala	539		Kalutara North	476		Weerapokuna	577
	Dompe	538		Kalutara Hospital Junction	929		Ambanpola	433
	Mahabage	524		Katukurunda	749		Dambadeniya	474
	Batuwatta	917		Agalawatta	447		Bammanna	985
	Raddolugama	834		Dodamgoda	968		Bandarakoswatta	848
	Bandaranayake Int'l Airport Premises	805		Panadura Keselwatta	462		Kumbukgete	473
	Naiwala	556		Eluwila	591		Boraluwewa	544
	Oliyamulla (Wattala)	557		Modarawila	811		Hiripitiya	850
	Welisara Economic centre	893		Meegahathenna	975		Mallawapitiya	736
				Moronthuduwa	534		Piduruwella	503
							Kuru/Maliyadewa	737
							Dummalasooriya	504
							Bihalpola	545
							Kandanegedera	566

Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code	Zone/Region	Branch	Branch Code
	Udubaddawa	868	<b>Monaragala</b>	Okkampitiya	857	<b>Trincomalee</b>	Mullipothanai	842
	Kurunegala Govt. Hospital Premises	816		Monaragala	569		Kachchakodithivu	959
	Kurunagala Municipal Council Premises	947		Dambagalla	867		Thoppur	958
	Polpitiyagama	414		Siyambaladuwa	977		Echilampathai	594
	Nagollagama	573		Hambegamuwa	596		Palaoothu	841
	Pannala	475		Ethiliwewa	976		Uppuveli - Nilaveli	881
	Paragahadeniya	432	<b>Nuwara Eliya</b>	Watawala	540		Kuchchuweli	593
	Katupotha	405		Kotagala	427		Central Road - SPC	501
	Nikaweratiya	574		Dickoya	541		Trincomalee Second City	789
	Girilla	886		Upcott	552	<b>Wanni</b>	Kilinochchi Town	732
	Rasnayakapura	743		Walapane	581		Mallavi S.C.	978
	Godawela	502		Kandapola	516		Kanagarajankulam	731
	Mathawa	735		Nanuoya	582		Oddusuddan	599
	Panagamuwa	543		Thawalantenna	876		Puthukudiruppu	779
	Dodangaslanda	849		Hapugastalawa	913		Pallai	979
	Maspotha	878		Ragala	495		Nanattan	967
<b>Matale</b>	Inamaluwa (Sigiriya)	499		Agarapatana	496		Silawathurei	742
	Madatugama	852		Talawakele	517		Pesalai	955
	Dewahuwa	509		Adikarigama	739		Vavuniya Town	983
	Matale Trinco Street	406		Padiyapelella	470		Nedunkerny	595
	Matale - Gongawela	559		Hewaheta	471			
	Porcelain Factory Premises	802	<b>Ratnapura</b>	Weligepola	480			
	Madawala Ulpotha	853		Pambahinna	562			
	Yatawatta	558		Eheliyagoda	430			
	Kaikawala	887		Padalangala	453			
	Warakamura	585		Kolonna	537			
	Laggala - Pallegama	466		Sevanagala Sugar Corporation Premises	813			
<b>Matara</b>	Telijjawila	463		Weli-Oya	771			
	Pallegama	918		Ayagama	477			
	Kottegoda	487		Karawita	478			
	Kekanadura	921		Opanayake	479			
	Deiyandara	459		Ratnapura New Town	810			
	Kirinda - Puhulwella	930		Wewelwatta	940			
	Makandura	440	<b>Polonnaruwa</b>	Diyabeduma	563			
	Walgama	578		Sirirpura	965			
	Kotuwegoda	408		Sandunpura	733			
	Yatiyana	443		Diyasenpura	939			
	Ruhunu University Unit	825		Kaduruwela	835			
	Matara Hospital Premises	945		Lankapura	580			
	Pitabeddara	417		Jayanthipura	734			
	Opatha	942		Sewanapitiya	933			
	Mawarala	579						
	Mirissa	468						

## WORLDWIDE PARTNERS



### 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

Komerční Bank NA, Prague

MKB Bank ZET, Budapest

National Westminster Bank PLC, London

Natixis, Paris

Nordea Bank AB (Publ), Stockholm

Nordea Bank Norge ASA, Oslo

Raiffeisen 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

## 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
MashreqBank PSC, New York
Standard Chartered Bank, New York
The Royal Bank of Scotland NV, New York
Wells Fargo Bank NA, USA

## South America

Banco de Chile, Santiago
Banco Santander Brazil SA, Sao Paulo
BBVA Banco Continental, Lima
Deutsche Bank, Sao Paulo

## Africa

ABSA Bank Ltd., Johannesburg
Bank Misr, Cairo
Barclays Bank of Kenya Ltd., Nairobi
Citi Bank, Abidjan
Mauritius Commercial Bank Ltd., Port Louis
National Bank of Egypt, Cairo
Nedbank Ltd., Johannesburg

## Asia

Axis Bank Ltd., Mumbai
Bank for Foreign Trade, Hanoi
Bank of Ceylon, Chennai
Bank of China, China
Bank of Communications Co. Ltd., 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
MashreqBank 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

## 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

## Middle East

Ahli United Bank, Kuwait
Al Rajhi Banking & Investment Corporation, Riyadh
Bank Dhofar, Muscat
Bank of Bahrain and Kuwait, Manama
Bank Muscat SAOG, Muscat
Byblos Bank SAL, Beirut
Commercial Bank of Dubai PSC, Dubai
Commercial Bank of Qatar, Doha
Doha Bank, Doha
Emirates NBD Bank PJSC, Dubai
Jordan Islamic Bank, Amman
MashreqBank PSC, Dubai
National Bank of Abu Dhabi, Abu Dhabi
National Bank of Oman SAOG, Muscat
UBAE S.P.A., Dubai
United Bank Ltd., Dubai

## DECADES AT A GLANCE

- 1961**  
People's Bank was inaugurated on 1st July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy in addition to the Foreign Branch in Colombo. The total number of employees stood at 169.
- 1962**  
The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.
- 1963**  
The Bank commenced its pawning services.
- 1964**  
The Co-operative Rural Banking Scheme was inaugurated.
- 1965**  
Some departments of the Bank were relocated to the GCSU building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, this included new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiliya, Ragala and Talawakelle.
- 1967**  
The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.
- 1970**  
The 'Athamaru' Loan Scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a Credit-Linked Savings Scheme was launched to attract regular savers.
- 1971**  
The Bank's hundredth branch was opened at Marandagahamula.
- 1973**  
A comprehensive Rural Credit Scheme was launched to provide both production and consumption credit facilities. The Bank initiated the 'Ganu-Denu' practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.
- 1975**  
An aggressive branch expansion programme brought our total branch count to 158.
- 1977**  
Our two hundredth branch opened at Kollupitiya. The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first Fisheries Bank was opened at Koralawella.
- 1981**  
Our branch network increased to 290 branches. The Extended Minor Savings Scheme was launched.
- 1982**  
The three hundredth branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.
- 1984**  
The People's Merchant Bank, a subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.
- 1986**  
The process of computerisation began at our Central Head Office and selected City branches and a Black Light System was introduced. Customer 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. 'Vanitha Vasana', a savings scheme for women was introduced.
- 1994**  
Eight new ATMs were installed and 160 branches were computerised under the automation programme.
- 1995**  
'Gurusettha', 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 Ethera Isura' a foreign currency deposit product for children and 'Special Foreign Investment Deposit Account' [SFIDA].

**2009**

The 13th CEO/General Manager of the Bank, Mr. P.V. Pathirana assumed duties in January 2009. The Bank issued its second Debenture for Rs. 2.5 Bn during the year.

214 branches and 236 service centres were connected online. The Bank strategically placed over 300 ATMs 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 receivables 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 receivables 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.

**2014**

Bank's asset base crossed rupees one trillion as the second bank in the industry.

Bank garnered the triple accolades of 'Bank of the Year 2014' at the 'European' Global Banking and Finance Award - Sri Lanka 2014 as well as 'Best Banking Group Sri Lanka' and 'Most Sustainable Bank Sri Lanka' at the World Finance Banking Awards 2014.

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	Performance Indicators & Sector Supplement Performance Indicators	Output →	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human Rights, Labour, Society, Product Responsibility.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human Rights, Labour, Society, Product Responsibility.	Report on each core G3 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.	Report on each core G3 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.
			Report Externally Assured	Report Externally Assured	Report Externally Assured	Report Externally Assured	Report Externally Assured

## 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.

#### Actuarial Valuation

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets and other relevant costs and values

#### 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.

#### Capital Adequacy Ratio

The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

#### 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.

### Dealing Securities

Securities acquired and held with the intention of reselling them in the short-term.

### Defined Benefit Plan

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

### 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.

**Foreclosed Properties**

Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

**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.

**Guarantees**

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds

**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.

**Interest in Suspense**

The interest due on non-performing assets.

**Interest Margin**

Net interest income as a percentage of average interest-earning assets.

**K****Key Management Personnel**

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

**Key Performance Indicators (KPIs)**

KPIs are quantifiable measurements, agreed beforehand that reflects the critical success factors of a company.

**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.

**Liquid Assets Ratio**

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

**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.

**Risk-Weighted Assets**

On Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk-weighting factors.

**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.

## This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.





## 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  
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Cable JANABANK

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+9411 248 1481

e-mail: info@peoplesbank.lk

web: www.peoplesbank.lk

VAT Registration No. 409000037-7000

### AUDITORS

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Auditor General's Department  
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KPMG,  
(Chartered Accountants),  
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P.O. Box 186,  
Colombo 0300, Sri Lanka.

### SECRETARY

Mr. Rohan Pathirage, LLB, MMgt.  
in Banking Attorney-at-Law

### CORPORATE BANKING DIVISION

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e-mail: fastcash@peoplesbank.lk  
nrfc@peoplesbank.lk,  
teletran@peoplesbank.lk  
SWIFT PSBKLKX

### SUBSIDIARIES OF PEOPLE'S BANK

#### PEOPLE'S TRAVELS (PVT) LTD.

No. 59, D.R. Wijewardena Mawatha,  
Colombo 10, Sri Lanka.

Tel.: +9411 247 0190,  
+9411 247 8385, +9411 239 6296  
Fax: +9411 243 4530  
e-mail: ptravel@peoplesbank.lk  
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#### PEOPLE'S LEASING & FINANCE PLC

No. 1,161, Maradana Road, Borella,  
Colombo 08.

Tel: +9411 263 1631  
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### SUB-SUBSIDIARIES OF PEOPLE'S BANK

(Subsidiaries of People's Leasing & Finance PLC)

#### PEOPLE'S INSURANCE LTD.

No. 53, Dharmapala Mawatha, Colombo 03.

Tel: +9411 220 6406  
Fax: +9411 220 6399

#### PEOPLE'S LEASING PROPERTY DEVELOPMENT LTD.

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#### PEOPLE'S MICROFINANCE LTD.

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