

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

Seylan Bank PLC ('Bank') is a public quoted company incorporated on 28th August 1987 and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 90, Galle Road, Colombo 03. The Consolidated Financial Statements of the Bank as at and for the year ended 31st December 2010 comprise the Bank and its subsidiary (together referred as the 'Group' and individually as "Group entities"). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The staff strength of the Bank as at 31st December 2010 is 3,622 (2009 - 3,733).

### 1.1 Principal Activities

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, telebanking facilities, Internet banking, dealing in Government Securities, etc.

The subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with the Sri Lanka Accounting Standards as issued by The Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

### 2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 18th February 2011.

### 2.3 Basis of Measurement

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

- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Dealing securities are measured at market value.

### 2.4 Functional and Presentation Currency

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

## 2.5 Use of Estimates and Judgments

The preparation of Financial Statements in conformity with SLASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements are described in the following notes:

- Notes 18 and 19 - Classification of Dealing (Trading) and Investment Securities
- Note 19 - Assessment of Impairment of Investment Securities
- Note 21.2 - Analysis of Provision for Loan Losses
- Note 27 - Investment Property
- Note 28 - Deferred Taxation
- Note 36.1 - Measurement of Defined Benefit Obligations

## 2.6 Materiality and Aggregation

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

## 3 CONSISTENCY OF ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and have been applied consistently by Group entities where applicable and deviations if any, have been disclosed accordingly.

### 3.1 Basis of Consolidation

#### 3.1.1 Subsidiaries

Subsidiaries are entities that are controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights, which presently are exercisable, are taken into account. The Financial Statements of the subsidiary are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases. The minority interests are presented in the Consolidated Balance Sheet within Equity, separately from the equity attributable to the equity holders of the Bank. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its subsidiary incorporated in Sri Lanka, Seylan Developments PLC (50.29%). Financial Statements of Seylan Bank Asset Management Limited (100%) has been deconsolidated with effect from 31st March 2010.

Central Bank of Sri Lanka has approved in principle the amalgamation of Seylan Bank Asset Management Limited with Seylan Bank PLC (amalgamation was done after its operations up to 31st March 2010) and the appointment of Seylan Bank as a primary dealer subject to the fulfilment of the terms and conditions applicable to the appointment of Licensed Commercial Banks as Primary Dealers as stipulated in Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009 and Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009.

The total profit/loss of the subsidiaries are included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Minority Interest' (SLAS 26). All assets and liabilities of the Bank and its subsidiaries are included in the Group Balance Sheet. The interest of the outside shareholders in the net assets of the Group is stated separately in the Consolidated Balance Sheet within Equity under the heading 'Minority Interest'.

### **3.1.2 Transactions Eliminated on Consolidation**

#### **3.1.2.1 Intra-Group Transactions**

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### **3.1.2.2 Profit and Loss**

In arriving at the profit attributable to the shareholders of Seylan Bank PLC, the total profits or losses of the subsidiaries are included in the Consolidated Income Statement after eliminating intra-group transactions and the portion of the profit or loss after taxation applicable to non-group shareholders.

#### **3.1.2.3 Assets and Liabilities**

All assets and liabilities of the Bank and its subsidiary is included in the Consolidated Balance Sheet. The proportionate interest of the non-group shareholders in the net assets employed is stated separately in the Consolidated Balance Sheet under the heading 'Minority Interest'.

#### **3.1.2.4 Non-Uniform Accounting Policies**

The impact of non-uniform accounting policies adopted by subsidiaries has been adjusted in the consolidated Financial Statements. The details of the adjustments are disclosed in Note 50.

### **3.2 Foreign Currency Translation**

Transactions in foreign currencies in Domestic Banking Unit are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies at the Balance Sheet date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at that date. Foreign exchange differences arising on the settlement or reporting of the Bank's monetary items at rates different from those which were initially recorded are dealt in the Income Statement.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historic cost at the Balance Sheet date are translated to Sri Lankan Rupees at the foreign exchange rates ruling at that date.

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

Foreign Currency Banking Unit (FCBU) balances have been converted at closing rate for all monetary items and historic rate for non-monetary items. Income Statement of the FCBU has been converted at the monthly average rate. Differences arising from conversion are recognised in the Income Statement.

### 3.3 Assets and Basis of their Valuation

#### 3.3.1 Statutory Deposit with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees. The details of reserve requirements are given in Note 17.

#### 3.3.2 Government of Sri Lanka Treasury Bills and Bonds

##### 3.3.2.1 Investment in Treasury Bills and Bonds held for Dealing

The Bank has adopted a policy of marking to market its 'Trading Portfolio' of Government Securities in line with the directions made by the Monetary Board of the Central Bank of Sri Lanka under Section 46 (1) of the Banking Act No. 30 of 1988 amended by the Banking (Amendment) Act No. 33 of 1995 and Act No. 2 of 2005.

##### 3.3.2.2 Securities Purchased Under Resale Agreements (Reverse Repurchase Transactions)

These are loans collateralised by the purchase of Treasury Bills and /or Guaranteed Commercial Papers from the counter party to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price. These loans are stated in the Balance Sheet at cost.

#### 3.3.3 Advances to Customers

Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and also net of interest which is not accrued to revenue. Bank's policy is to discontinue accruing interest on non-performing loans and advances after 12 months.

#### 3.3.4 Provision for Loan Losses

##### 3.3.4.1 Specific Provision for Loan Losses and Leases

In accordance with the Direction issued by the Central Bank of Sri Lanka on 08th May 2008, Direction No. 3 of 2008 'Classification of Loans and Advances, Income Recognition and Provisioning' specific provisions on NPA (as a minimum) are made as follows.

Category of NPA Credit Quality	Minimum Specific Provision Requirement (Net of Security)
Substandard:	
Credit Cards	25%
Other Advances	20%
Doubtful	50%
Loss	100%

The provision made relates to all categories of loans and advances including pawning and leasing identified as substandard, doubtful and loss.

Where necessary, specific provisions have been made over and above the minimum percentages stipulated above, on a case by case basis.

In addition to the specific provisions for possible loan losses made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard 23 - 'Revenue Recognition and Disclosures in the Financial Statements of Banks' and the directions issued by the Central Bank of Sri Lanka, the Bank evaluates the need for additional provisions for loans and advances based upon management's best estimate of recoverability. In estimating the recoverability the management makes judgments about the borrower's financial situation, the workout strategy and the net realisable value of any underlying collateral.

### **3.3.4.2 General Provision**

The general provisions cover loan losses inherent in portfolios with similar credit risk characteristics (eg.: portfolio of loans, advances and lease receivables) when there is objective evidence to suggest that they contain impaired loans, but the individual impaired loans cannot yet be identified. In assessing the need for general provision for loan losses, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required provisions, assumptions are made to define the way inherent losses are determined based on historical experience.

The amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans, advances and lease receivables are recognised as a general provision in profit or loss.

In addition, the Direction issued by the Monetary Board of the Central Bank of Sri Lanka, in terms of Section 46 of the Banking Act No. 30 of 1988, as amended, in 'Requirements to maintain a general provision for Advances' requires all licensed commercial banks to maintain a general provision of 1% of the total on Balance Sheet performing loans and advances and on Balance Sheet overdue loans and advances, net of interest in suspense and credit facilities secured by cash deposits, gold or Government Securities with the same bank up to 30th September 2010.

Commencing from 1st January 2012, the above requirement changes from 1% to 0.5% as referred in Banking Act Direction No. 3 of 2010, amendments to direction on classification of loans and advances, income recognition and provisioning for licensed commercial banks in Sri Lanka.

For this purpose, Bank has reduced the existing general provision requirement of 1% to 0.5% at a rate of 0.1% per quarter during the five quarters commencing 1st October 2010 as required by the above Direction.

### **3.3.5 Investments**

#### **3.3.5.1 Investments in Subsidiaries**

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard 26 on 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries'.

#### **3.3.5.2 Investments in Associates**

Investments in Associates are accounted under the Equity Method in Consolidated Financial Statements accordance with the Sri Lanka Accounting Standard 27 - 'Accounting for Investments in Associates'.

### **3.3.5.3 Dealing Securities**

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are recorded at market values; adjustments for changes in market values are accounted for in Profit or Loss. In classifying securities as 'Dealing' (Trading), the Bank has determined that it meets the description for such classification.

### **3.3.5.4 Investment Securities**

These are acquired and held for yield or capital growth in the medium /long-term. Such securities are recorded at cost. Changes in market values of these securities are not taken into account unless there is considered to be a permanent diminution in value. In classifying securities as 'Investment', the Bank has determined that it has both the positive intention and ability to hold the securities until their maturity date. Unquoted long-term investments are stated at cost.

### **3.3.5.5 Investment Properties**

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is completed. The Bank applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 - 'Investment Property' (Revised 2005). Accordingly, land classified as investment properties are stated at cost and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses. Fair values of these properties are disclosed in Note 27 to the Financial Statements. Seylan Developments PLC, the subsidiary of the Bank, applies the fair value model in accordance with the above standard. Accordingly, investment properties are stated at fair value and an external independent valuation company having an appropriate recognised professional qualification values the portfolio every three-year period. Any gain or loss arising from a change in fair value is recognised in profit or loss.

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected.

When an item of property, plant & equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant & equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property, plant & equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy 3.5.11 below.

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the group and adjustments are made for consolidated purposes and changes are disclosed in Note 50 to the Financial Statements.

#### **3.3.5.6 Other Investments**

Where the Bank's interest in equity is less than 20% and or in companies where the Bank does not exercise significant influence and/or control over the financial and operating policies, any such long-term investments are valued at cost.

#### **3.3.6 Property, Plant & Equipment**

Property, Plant & Equipment is tangible items that are held for servicing, or for administrative purposes and are expected to be used during more than one period.

##### ***Recognition and Measurement***

Items of Property and equipment are measured at cost or revaluation less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (Major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

##### ***Cost Model***

The Bank applies cost model to Property, Plant & Equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

##### ***Revaluation Model***

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Bank are revalued every five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the Balance Sheet date. On revaluation of an asset, any increase in the carrying amount is credited directly to equity, under revaluation reserve or used to reverse a previous revaluation decrease

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

relating to the same asset, which was debited to the Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited directly to equity under revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

**Subsequent Costs**

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day-to-day servicing of Property, Plant & Equipment are recognised in profit or loss as incurred.

**Derecognition**

The carrying amount of an item of Property, Plant & Equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property, Plant & Equipment is included in Income Statement when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

**Depreciation**

Depreciation is recognised in profit or loss on straight line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Useful Life (Years)	Depreciation Rate (%)
Freehold Building	40	2.5
Motor Vehicles	5	20
Computer Equipment	6	16.67
Office Equipment, Furniture & Fittings	3-10	10-33 ⅓

The rate of depreciation of freehold buildings was revised with effect from 1st January 99 (from 4% to 2.5%). Freehold Buildings purchased prior to 1st January 99 have been depreciated over the remaining useful life based on the revised depreciation rates. Freehold Buildings purchased after 1st January 99 have been depreciated based on revised rates.

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

Lease hold building has been depreciated over the useful economic life as the lease period is greater than the useful life of the asset.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

### Seylan Developments PLC

Property, Plant & Equipment are recorded at cost of purchase or valuation together with any incidental expenses thereon. The assets are stated at cost or valuation less accumulated depreciation which is provided for on the basis specified below.

Depreciation of common types of assets within the Group is in line with the Group policy disclosed above. Freehold land, antiques and ornamental paintings are not depreciated. Leasehold land and buildings are depreciated over the remaining unexpired lease period. The depreciation of other assets that are unique to Seylan Developments PLC is provided on the straight-line method at varying rates per annum based on their useful lives as follows:

	Useful Life (years)	Depreciation Rate(%)
Furniture & Fittings	10	10
Equipment	05	20
Interior Décor	02	50
Motor Cars	05	20
Motorcycles	04	25
Tools	03	33 1/3
Cutlery & Crockery	02	50
Accounting Software	05	20

#### 3.3.7 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

#### 3.3.8 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 20 - 'Borrowing Costs'. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

#### 3.3.9 Leased Assets – Lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with SLAS 19 – 'Leases'.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Group Balance Sheet.

#### 3.3.10 Impairment

##### 3.3.10.1 Financial Assets

The Bank assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Balance Sheet date ('a loss event'), and that loss event or events have had an impact on the estimated realisable value of the asset.

The Bank assesses whether objective evidence of impairment exists for financial assets that are significant (except for loans and advance explained in Note 3.3.4). For loans and advances, impairment loss is measured individually and collectively as explained in Note 21.5.

When a loan is uncollectible, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are included under 'Other Income' in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the Income Statement.

### **3.3.10.2 Non-Financial Assets**

The carrying values of Property, Plant & Equipment and Investment Properties are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less cost to sell or its value in use. Any decrease in the carrying value is recognised as an expense in the Income Statement in the reporting period in which the impairment loss occurs.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which that asset belongs. Management judgment is applied to establish cash-generating units. Each of these cash-generating units is represented by an individual primary reporting segment, or a subdivision of a primary segment.

In respect of assets, impairment losses recognised in prior periods, are assessed at each Balance Sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **3.3.11 Inventory**

Inventory mainly consists of stationery and Gold. Bank's policy for the accounting of inventory is as follows:

Stationery: At weighted average cost method

Gold Stock: Market value at the year-end

### **3.4 Liabilities and Provisions**

#### **3.4.1 Deposits from Customers**

Deposits include non interest bearing deposits, saving deposits, term deposits, deposits redeemable at call and certificates of deposit. They are brought to account at the gross value of the outstanding balance. Interest paid is recognised through profit or loss.

#### **3.4.2 Dividends Payable**

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 07 of 2007.

#### **3.4.3 Borrowings**

Borrowings include refinance borrowings, call money borrowings, Vostro account balances and borrowings from financial institutions. They are accounted at the gross value of the outstanding balance.

#### **3.4.4 Securities Sold under Repurchase Agreement ('REPOs')**

This relates to Treasury Bills and Bonds sold subject to a commitment to repurchase them at a predetermined price. Such Treasury Bills and Bonds remain on the Balance Sheet and the liability is recorded in respect of the consideration received. The liability is disclosed as borrowing under repurchase agreement. These Treasury Bills and Bonds are not marked to market as the corresponding liability is also not marked to market.

#### **3.4.5 Bills Payable and Other Liabilities**

Bills payable and other liabilities include all financial liabilities, interest, fees, expenses payable and securities purchased but not delivered. These liabilities are recorded at the cash value to be realised when settled.

#### **3.4.6 Employee Benefits**

##### **3.4.6.1 Defined Benefit Plan**

A defined benefit plan is a post employment benefit plan other than a defined contribution plan.

The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

The Bank's obligation in respect of defined benefit gratuity plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value, then deducting the fair value of any plan assets. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit Method which is the method recommended by Sri Lanka Accounting Standard 16 (Revised 2006) - 'Employee Benefits'.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Income Statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

In respect of actuarial gains and losses that arise in calculating the Bank's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The percentage of contributions is determined by the same actuary and retirement benefits are provided to all permanent staff. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', the method recommended by SLAS 16. The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawals from service and retirement on medical grounds, death before and after retirement etc.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

#### ***Changes to Gratuity Policy***

Board of Directors of the Bank at its meeting held on 24th March 2009 decided to change the previous policy of gratuity payments of paying one month's salary (last drawn) to resigned staff members who have completed ten years of service in the Bank with effect from 5th March 2009.

The policy of paying half a month salary (last drawn) to resigned staff members who have completed five years of service (not completed ten years of service) in the Bank remains unchanged.

Subsidiary has also adopted the Revised SLAS 16 from 1st January 2008.

Defined benefit obligations are partly funded by the Bank to a separate Gratuity Trust Fund, which is an approved investment for tax purposes. The Bank makes annual contributions to the fund not exceeding a total sum equivalent to the half a month salary of each employee as depicted in the last month of the accounting year together with an additional 25% of the total thereof.

#### ***3.4.6.2 Defined Contribution Plans***

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in profit or loss as and when they are due.

##### ***3.4.6.2.1 Employees' Provident Fund***

The Bank and employees contribute 12% and 8% respectively on the salary of each employee to the approved Private Provident Fund. [Refer Note 10]

##### ***3.4.6.2.2 Employees' Trust Fund***

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund (ETF). The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Notes to Financial Statements. [Refer Note 10]

#### **3.4.6.3 Short-Term Benefits**

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term compensated absences if the Bank has a present legal or constructive obligation to pay as a result of past services provided by the employees and the obligation can be estimated reliably. Leave encashment provision has been computed for the annual leave entitlement up to a maximum of 90 working days that could be carried forward up to the date of retirement by the staff member.

#### **3.4.6.4 Provisions**

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

#### **3.4.6.5 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Balance Sheet, but are disclosed unless they are remote.

#### **3.4.6.6 Events after the Balance Sheet Date**

All material and important events which occur after the Balance Sheet date have been considered and disclosed in Note 43 or adjusted as applicable.

### **3.5 Income Statement**

#### **3.5.1 Revenue Recognition**

Interest Income: Interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for 90 days. Thereafter interest on advances is accounted for on a cash basis.

Interest on non-performing debts is credited to the 'Interest in Suspense Account', which is netted in the Balance Sheet against the relevant balance.

### **3.5.2 Interest Income**

Interest receivable is recognised on an accrual basis. Interest from loans and advances ceases to be accrued when they are classified as non-performing as explained in Note 21.5. Interest on non-performing loans and advances is accounted for on a cash basis. Interest on non-performing loans and advances is credited to the 'Interest in Suspense Account' which is netted in the Balance Sheet against the relevant loans and advances. Interest income from investments is recognised on an accrual basis.

### **3.5.3 Dividend Income**

Dividend Income is recognised in the period in which it is declared.

### **3.5.4 Accounting for Finance Lease Income**

Assets leased to customers who transfer substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amount receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Balance Sheet after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

### **3.5.5 Income Tax Expense**

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

#### **3.5.5.1 Current Taxation**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Balance Sheet date, and any adjustment to tax payable in respect of previous years. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006, and the amendments thereto at the rates specified in Note 13.

#### **3.5.5.2 Deferred Taxation**

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax liabilities are not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects both accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **3.5.6 Economic Service Charge (ESC)**

ESC is payable on the liable turnover at specified rates. As per the provision of the Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is deductible from the income tax liability. Any unclaimed payment can be carried forward and set off against the income tax payable as per the relevant provision in the Act.

### **3.5.7 Withholding Tax on Dividends**

Dividend distributed out of taxable profit of the subsidiaries attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax in the Consolidated Financial Statements as a consolidation adjustment. Withholding taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

### **3.5.8 VAT on Financial Services**

The value base for value added tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the Financial Statements.

### **3.5.9 Fee and Commission Income**

All fee and commission income have been recorded when a trade takes place.

### **3.5.10 Profit or Loss on sale of Property, Plant & Equipment/Investments**

Gains or losses of a revenue nature on the disposal of Property Plant & Equipment and share portfolio are accounted for in profit or loss.

### **3.5.11 Lease Payments**

Lease payments made under operating leases are recognised in profit or loss of each period during the lease term.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **3.5.12 Interest Expenses**

Interest payable is recognised on an accrual basis. Other expenses have been recognised in the accounts as they are incurred in the period to which they relate.

### **3.5.13 Earnings per Share**

The Bank presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

### **3.5.14 Segment Reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns different from those of other business segments. For the purposes of segment reporting disclosures, the information is presented in respect of the Group's business segments, which is based on the Group's management and internal reporting structure. The Group comprises the following major business segments - Banking, Leasing, Treasury and Property/Investments.

Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets, liabilities, segment revenue and results is based on the accounting policies set out above. Segment revenue results, assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis.

Disclosure by geographical region is not provided for as the Group's activities are located in Sri Lanka and the economic environment in which the Group operates is not subject to risk and return that are significantly different on a geographical basis.

### **3.5.15 Cash Flow**

The cash flow has been prepared using the Direct Method of preparing cash flows in accordance with the Sri Lanka Accounting Standard 9 - 'Cash Flow Statements'.

For the purpose of the Cash Flow Statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

### **3.5.16 Financial Risk Management**

#### **3.5.16.1 Introduction and Overview**

Bank has implemented a risk management framework in order to identify, measure, mitigate and control the various risk falling within market credit and operational risk.

Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

### **3.5.16.2 Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability (ALCO), Risk Management Committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the risk management policies and procedures.

### **3.5.16.3 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 loans and advances to customers and other banks and investment debt securities.

#### *3.5.16.3.1 Past due but not impaired loans and investment debt securities*

Past due but not impaired loans and investment debt securities are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed.

#### *3.5.16.3.2 Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions, that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

#### *3.5.16.3.3 Write-off policy*

The Bank writes off a loan or investment debt security balance, and any related allowances for impairment losses, when Bank Credit determines that the loan or security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's/ issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

**3.5.16.4 Liquidity Risk**

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

*Exposure to liquidity risk*

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents.

Liquidity Management	2010 Domestic Banking Unit	2009 Domestic Banking Unit	2010 Foreign Currency Banking Unit	2009 Foreign Currency Banking Unit
As at 31st December	<b>25.07%</b>	28.80%	<b>29.39%</b>	24.94%
Highest	<b>31.60%</b>	28.80%	<b>31.12%</b>	24.94%
Lowest	<b>25.07%</b>	11.87%	<b>24.52%</b>	12.85%
Average	<b>28.46%</b>	19.19%	<b>26.93%</b>	20.24%

**3.5.16.5 Market Risks**

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

Market Risk is the risk arising from fluctuations in the market price/value of tradable assets such as foreign exchange, fixed income securities and shares that are held for trading purposes where the Bank holds either long positions or short positions of such assets.

The two risk components of the market risk most applicable to the Bank are foreign exchange risk and interest rate risk.

*3.5.16.5.1 The Foreign Exchange Risk* arises from the foreign exchange positions maintained by the Bank where either the foreign currency denominated assets exceed such liabilities (long positions) or the foreign currency denominated liabilities exceed the assets (short positions). Such long or short positions could also be created through the sale or purchase transactions both in spot and forward markets as well as through swap transactions. Bank is conservative and prudent in its management of foreign exchange exposures and has set out limits on its transactions and exposures including dealer limits, portfolio limits, daylight limits, overnight limits, long position limits, short position limits, counterparty limits, etc.

3.5.16.5.2 *Interest Rate Risk* arises from the movement of interest rates affecting the value of tradable fixed income securities as well as the interest rate re-pricing gaps of the interest rate sensitive assets and liabilities. The Bank evaluates the risk level of the tradable fixed income securities portfolio by assessing the sensitivity of the market value towards a change of interest rates by one hundred basis points, which is one percentage point. The size and duration of the trading portfolio is capped based on the potential risk exposure as well as the board approved limits placed on absolute values. Banks also typically have mismatches in the re-pricing periods of assets and liabilities and an approach of minimising the gaps and limiting long term fixed rates is followed by the Bank.

Seylan as a policy does not carry a significant exposure to the equity market whilst of course being an active investor within applicable prudential limits.

The different types of market risks and the Balance Sheet structure with a long term focus are monitored by the Asset and Liability Management Committee (ALCO).

### **3.5.16.6 Operational Risk**

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc. The Bank manages most elements of the operational risk through sound internal control systems and well defined processes both technology driven and with human intervention.

The areas of risk include process risks where faulty processes or errors in the processes could trigger losses. Continuous review of the systems and the processes either on a regular review basis or pursuant to observed loss events and incidents addresses potential weaknesses of the processes.

In implementation of new products that invariably relies on technology as well as human involvement, a risk review is an essential aspect that needs both the marketing objectives as well as the risk management requirements. Bank strives to subject such new product introductions to adequate review.

Bank also maintains its policies with regard to access control and data protection and necessary safeguards are constantly introduced and upgraded to ensure the integrity of the information and the data bases. Preventive measure such as firewalls and virus guards among other steps are put in place.

### **3.5.16.7 Capital Management**

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) was measured on the basis of credit and market risk under the Basel I accord and under Basel-II, it takes into account the credit, market and operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel II CAR calculation from January 2008 after conducting parallel calculations in 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*3.5.16.7.1 Available Capital*

Basel I and Basel II accords recognise three capital elements, namely, Tier I, Tier II and Tier III capital. Tier I capital includes paid up ordinary share capital, paid up non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained earnings, general and other reserves less goodwill.

Tier II capital includes 50% of asset revaluation reserves (created by revaluation carried out in every seven years) general provision for advances, hybrid debt/equity instruments and approved subordinated term debts. Tier II capital cannot exceed Tier I capital and subordinated debt cannot exceed 50% of the Tier I capital.

Tier III capital will consist only of short-term debt instrument and will be used for calculation of market risk only. Tier III is subject to a maximum of 250% of Tier I capital after meeting the credit and operational risk.

Equity investments in unconsolidated banking and financial subsidiaries and investments in capital of other banks/financial associates are deducted from capital in arriving at the capital base. The Bank is required to maintain a minimum total risk-weighted capital ratio of 10% in respect of Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) operations.

**Capital Adequacy Details - 31st December ( Basel II)**

	Bank		Group	
	2010 Rs. Mn.	2009 (Restated) Rs. Mn.	2010 Rs. Mn.	2009 (Restated) Rs. Mn.
Total Tier I Capital	<b>11,554</b>	10,115	<b>11,936</b>	10,919
Total Tier I & II Capital	<b>13,180</b>	12,140	<b>13,601</b>	13,235
Risk-weighted Assets and Off Balance Sheet Exposure				
Sheet Exposure	<b>109,192</b>	98,708	<b>111,133</b>	102,764
Off Balance Sheet Exposure	<b>4,934</b>	4,405	<b>5,001</b>	4,405
Capital Adequacy Ratios				
Tier I	<b>10.58%</b>	10.25%	<b>10.74%</b>	10.63%
Tier I & II	<b>12.07%</b>	12.30%	<b>12.24%</b>	12.88%

**3.5.17 New Accounting Standards Issued but not Effective as at Balance Sheet Date**

The Institute of Chartered Accountants of Sri Lanka (ICASL), has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1st January 2012. These Standards have many changes and consequential changes from the adaption of SLAS 44 and 45. These new Accounting Standards are prefixed both SLFRS and LKAS, which correspond to the relevant IFRS and IAS. Disclosure

requirement under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new Standards are not presented in these Financial Statements. However, significant changes arising from the implementation of SLAS 44 and 45 are given below:

Sri Lanka Accounting Standard 44 – ‘Financial Instruments’: Presentation provides for the following,

- Guidance regarding the classification of financial instruments as equity or debt, and for the accounting for compound instruments with characteristics of both equity and debt instruments based on the substance of the contractual arrangement.
- Criteria are specified for the netting of financial assets and financial liabilities. Netting requires a legal right of set off as well as the intention to off set the assets and liabilities or settle simultaneously.

Sri Lanka Accounting Standard 45 – ‘Financial Instruments’: Recognition and Measurement provides the principles for recognising and measuring financial assets and financial liabilities.

The requirements are summarised below:

#### **3.5.17.1 Recognition and Derecognition**

- All financial assets and financial liabilities should be recognised in the Balance Sheet. Previously certain instruments, in particular derivatives, were held by enterprises without being reflected in the Balance Sheet.
- In order to remove (‘derecognise’) assets from its Balance Sheet, the Bank must be deemed to have lost control over those financial assets.
- In order to derecognise a liability, the Bank must be legally released from primary responsibility related to that liability.

#### **3.5.17.2 Measurement**

- Financial assets must be classified into one of four categories: fair value through profit or loss (trading); loans and receivables; held-to-maturity; and available-for-sale. The categorisation determines whether and where the remeasurement is recognised in the Bank’s Financial Statements.
- Loans and receivables and held to maturity financial assets should be measured at amortised cost using the effective interest method. Loan impairment is recognised when objective evidence is available that, a loss event has occurred and as a consequence the Bank will not likely receive all amounts owed to it. Loan impairment is calculated as the difference between the carrying amount of the loan and the present value of future expected cash flows associated with the loan discounted at the loan’s original effective interest rate. This will be a significant change compared to the current method applied by the bank for loan loss provisioning based on the direction issued by the Central Bank of Sri Lanka, which is primarily time based.
- Financial liabilities are categorised as either measured at amortised cost using effective interest rate or at fair value through profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Financial assets should be carried at fair value, with the exception of loans and receivables, held-to-maturity assets, and in the rare circumstances where the fair value of a financial instrument cannot be reliably measured. Remeasurement to fair value must be performed at each financial reporting date.
- Derivatives are always categorised as trading and therefore measured at fair value with changes recorded in the Income Statement, unless the enterprise can establish that an effective hedging relationship exists.
- The effect of remeasurement to fair value must be recognised and consistently applied in one of two ways: recognise all changes in fair value in the Income Statement; or recognise changes in fair value of only trading instruments in the Income Statement, and available-for-sale instruments as a component of equity until sold or otherwise disposed.

**3.5.17.3 Derivatives and Hedge Accounting**

- All derivatives must be measured at fair value in the Balance Sheet in situations where these are categorised as trading, as well as when designated as a hedging instrument.
- SLAS 45 provides detailed guidance as to when and how hedge accounting should be applied. The Bank must designate all of its hedging relationships and document their assessment of effectiveness prior to the application of hedge accounting.
- Hedge accounting is permitted provided that the Bank can establish that the hedging instrument and the hedged item have an effective hedging relationship throughout the financial reporting period.
- There are three hedging models under SLAS 45. These are the fair value hedge, the cash flow hedge and the hedge of a net investment in a foreign operation. Each of these models is based on accounting for the hedging instruments at fair value.

The impact of the above requirements has not been quantified as exempted by the ICASL.

The above Standards are effective for annual periods beginning on or after 1st January 2012.

**3.5.18 Comparative Information**

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation. The details of restatements are disclosed in Notes 48 and 49 to the Consolidated Financial Statements.

**3.5.19 Directors' Responsibility Statement**

The Board of Directors of the Bank is responsible for the preparation and presentation of these Financial Statements. Please refer pages 210 and 211 for the Statement of the Directors' Responsibility for Financial Reporting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>4. INCOME</b>				
Interest Income (Note 5)	16,596,094	20,708,034	16,696,073	21,796,473
Foreign Exchange Profit	403,066	521,388	403,066	521,388
Fee and Commission Income (Note 7)	1,427,046	1,274,251	1,426,918	1,341,416
Other Income (Note 8)	1,606,271	650,856	1,655,277	879,701
	<b>20,032,477</b>	<b>23,154,529</b>	<b>20,181,334</b>	<b>24,538,978</b>

Income of the Company resulted mainly from the business of banking and related activities.

**5. INTEREST INCOME**

Customer Advances	11,483,183	14,836,462	11,467,723	15,074,475
Treasury Bills, Bonds & Placements with Other Banks	5,047,605	5,820,916	5,163,013	6,603,455
Debentures	28,765	-	28,765	-
Other	36,541	50,656	36,572	118,543
	<b>16,596,094</b>	<b>20,708,034</b>	<b>16,696,073</b>	<b>21,796,473</b>

According to the Section 137 of the Inland Revenue Act No. 10 of 2006, any person who derives income from the secondary market transactions in Government Securities is entitled to a notional tax credit in relation to the tax payable by such person. Notional tax credit would be determined by grossing up of the income from the secondary market transactions to an amount equal to 1/9 of same and credit to be afforded for a like sum. Accordingly, Bank has accounted for Rs. 441,466,527/- as notional tax credit for the year 2010 (Rs. 439,968,584/- for 2009).

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>6. INTEREST EXPENSES</b>				
Customer Deposits	7,257,825	11,106,062	7,257,811	11,105,997
Borrowings	77,677	249,884	147,371	729,053
Refinance	70,261	108,292	70,261	108,292
Treasury Bills Repurchased	476,522	1,300,100	530,412	1,691,580
Debentures	646,722	727,715	646,722	744,942
Other	-	-	-	9,439
	<b>8,529,007</b>	<b>13,492,053</b>	<b>8,652,577</b>	<b>14,389,303</b>

**7. NET FEE & COMMISSION INCOME****7.1 Fee & Commission Income**

Fee Income	603,806	499,842	603,769	567,528
Commission Income	823,240	774,409	823,149	773,888
	<b>1,427,046</b>	<b>1,274,251</b>	<b>1,426,918</b>	<b>1,341,416</b>

**7.2 Fee & Commission Expenses**

Commission Expenses	69,954	105,127	75,495	116,106
	<b>69,954</b>	<b>105,127</b>	<b>75,495</b>	<b>116,106</b>
<b>Net Fee &amp; Commission Income</b>	<b>1,357,092</b>	<b>1,169,124</b>	<b>1,351,423</b>	<b>1,225,310</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>8. OTHER INCOME</b>				
Dividend Income from Dealing Securities - Quoted	3,800	2,498	3,800	2,498
Dividend Income from Dealing Securities - Unquoted	349	-	349	-
Dividend Income from Investment Securities - Quoted	637	540	637	540
Dividend Income from Investment Securities - Unquoted	1,717	2,161	1,717	2,161
Profit/(Loss) on Sale of Property, Plant & Equipment	39,070	2,978	43,815	22,531
Profit/(Loss) on Sale of Investment Securities	89,388	-	87,587	(7,590)
Share of Associate Company Profit/(Loss) after Tax	-	-	-	(16,962)
Profit/(Loss) on Sale of Shares of Subsidiaries	-	(6,630)	-	187,825
Profit/(Loss) on Sale of Dealing Securities	375,803	(9,213)	375,803	(9,213)
Bad Debts Written Back and Recovered	1,095,507	658,522	1,095,507	658,522
Others	-	-	46,062	39,389
	<b>1,606,271</b>	<b>650,856</b>	<b>1,655,277</b>	<b>879,701</b>

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 (Restated) Rs. '000

**9. OPERATING EXPENSES**

Operating Expenses include the following:

Directors' Emoluments	15,650	10,779	24,639	26,225
Auditors' Remuneration - Audit Fees & Expenses	5,462	6,043	6,185	7,642
- Audit-Related Fee & Expenses	2,174	480	2,174	480
- Non-Audit Services	332	-	796	157
Depreciation - Freehold Property, Plant & Equipment (Note 29)	747,822	785,318	784,185	844,413*
Depreciation - Leasehold Property, Plant & Equipment (Note 30)	1,992	1,082	9,870	8,960
Depreciation - Investment Property (Note 27)	-	-	20,068	20,066
Donations	2,281	6,693	2,281	6,693
Expenses on Litigation	93,031	79,890	93,031	79,789
Issue Expenses on Debentures/Shares	6,223	18,758	6,223	18,758
Value Added Tax on Financial Services	857,240	561,440	868,136	638,325
Impairment Loss - Provision/(Reversal)	844,615	(3,855)	844,615	(3,855)
Provision for Doubtful Receivables	-	32,880	11,241	81,762

\* Includes depreciation charge of Seylan Merchant Bank PLC for the nine-month period ended 30th September 2009 (Rs. 3.188 Mn.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010	2009	2010	2009
	Rs. '000	Rs. '000	Rs. '000	(Restated) Rs. '000
<b>10. PERSONNEL EXPENSES</b>				
Personnel Expenses includes the following:				
Salaries and Wages	1,864,989	1,934,286	1,887,472	2,007,101
Contribution to Employees' Provident Fund	223,591	229,342	226,563	238,078
Contribution to Employees' Trust Fund	55,997	57,306	56,719	59,491
Provision for/(Reversal from) Staff Retirement Benefit	28,135	(458,111)	10,315	(461,272)
Other	745,977	622,432	755,152	649,641
	<b>2,918,689</b>	<b>2,385,255</b>	<b>2,936,221</b>	<b>2,493,039</b>

	BANK		GROUP	
	2010	2009	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>11. PROVISION FOR LOAN LOSSES</b>				
Provision for Bad & Doubtful Debts - Specific (Note 21.3)	1,509,512	2,411,886	1,509,512	2,411,886
Provision/(Reversal) for Bad & Doubtful Debts - General (Note 21.3)	61,479	(247,441)	61,479	(216,949)*
Direct Write Off	10,851	18,687	10,851	32,686
	<b>1,581,842</b>	<b>2,183,132</b>	<b>1,581,842</b>	<b>2,227,623</b>

\* Includes (Reversal of) General provision for loan losses of Seylan Merchant Bank PLC (Rs. 30.492 Mn.)

## 12. DIMINUTION/(APPRECIATION) IN VALUE OF INVESTMENTS

Diminution/(Appreciation) Provision as at 1st January	(6,361)	40,733	146,208	326,943
Diminution/(Appreciation) Provision as at 31st December (Notes 18 & 19)	(86,270)	(6,361)	(29,941)	146,208
Less: Adjustment on Deconsolidation/Amalgamation	-	-	(121,090)	(138,770)
Diminution/(Appreciation) in Value of Investments	<b>(79,909)</b>	<b>(47,094)</b>	<b>(55,059)</b>	<b>(41,965)</b>

## 13. INCOME TAX EXPENSE

### 13.1 Charge to Taxation is as follows:

Taxation Based on Profits for the Year	869,573	601,671	889,294	736,593
Charge/(Reversal) from Deferred Tax (Note 28)	174,776	(362,631)	175,424	(358,874)
(Over)/Under Provision of Taxes in Previous Years	(275,696)	110,231	(275,647)	107,160
	<b>768,653</b>	<b>349,271</b>	<b>789,071</b>	<b>484,879</b>

(i) Income tax on profits has been computed at the rate of 35% on the taxable income arising from the domestic operations and On-Shore Banking operations of the Foreign Currency Banking Unit (FCBU) and 20% on the taxable income from Off-Shore Banking operations of the FCBU together with Social Responsibility Levy (SRL).

(ii) The Group companies have computed taxation based on the applicable rates for such companies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010	2009	2010	2009 (Restated)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>13.2 Reconciliation of Accounting Profit and Taxable Income</b>				
<b>Profit/(Loss) as per the Income Statement</b>	<b>1,997,634</b>	892,572	<b>1,954,498</b>	906,028
Add: Disallowable Expenses	<b>5,888,706</b>	5,787,110	<b>5,987,801</b>	5,922,039
Less: Allowable Expenses	<b>4,849,225</b>	4,615,483	<b>4,849,549</b>	4,607,903
Exempt/Allowable Income	<b>580,393</b>	77,123	<b>580,537</b>	[149,892]
<b>Business Income</b>	<b>2,456,722</b>	1,987,076	<b>2,512,213</b>	2,370,056
<b>Income from Other Sources</b>	-	-	<b>33</b>	-
<b>Statutory Income</b>	<b>2,456,722</b>	1,987,076	<b>2,512,246</b>	2,370,056
Less: Tax Loss Set Off	-	289,795	<b>11</b>	292,957
<b>Assessable Income</b>	<b>2,456,722</b>	1,697,281	<b>2,512,235</b>	2,077,099
Less: Approved Donations for Charity	-	500	-	500
<b>Taxable Income</b>	<b>2,456,722</b>	1,696,781	<b>2,512,235</b>	2,076,599
	<b>Taxable Income</b>	<b>Tax Expense</b>	<b>Taxable Income</b>	<b>Tax Expense</b>
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank - Domestic Banking Unit & On-Shore Profits of FCBU - 35%	<b>2,435,855</b>	<b>852,549</b>	1,689,489	591,321
Off-Shore Profits of FCBU - 20%	<b>20,867</b>	<b>4,173</b>	7,292	1,458
Social Responsibility Levy (SRL)	-	<b>12,851</b>	-	8,892
	<b>2,456,722</b>	<b>869,573</b>	1,696,781	601,671
	<b>2,456,722</b>	<b>869,573</b>	<b>2,512,235</b>	<b>889,294</b>
			2,076,599	736,593

**14. BASIC EARNINGS PER SHARE**

Basic Earnings per Share has been calculated by dividing profit after taxation, minority interest and preference dividends by the weighted average number of ordinary shares in issue (both voting and non-voting) during the year ended 31st December.

	BANK		GROUP	
	2010	2009	2010	2009 (Restated)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net Profit Attributable to Shareholders of the Bank	<b>1,228,981</b>	543,301	<b>1,207,233</b>	555,322
Preference Dividends	<b>(3,560)</b>	[6,238]	<b>(3,560)</b>	[6,238]
Net Profit after Preference Dividends	<b>1,225,421</b>	537,063	<b>1,203,673</b>	549,084
Weighted Average Number of Ordinary Shares	<b>253,560</b>	189,813	<b>253,560</b>	189,813
Basic Earnings per Share (Rs.)	<b>4.83</b>	2.83	<b>4.75</b>	2.89

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>15. DIVIDENDS</b>				
Ordinary Share Dividends (15.1)	126,780	-	126,780	-
Preference Share Dividends (15.2)	3,560	6,238	3,560	6,238
	<b>130,340</b>	<b>6,238</b>	<b>130,340</b>	<b>6,238</b>

**15.1 Ordinary Share Dividends**

<b>Net Dividend</b>	<b>114,102</b>	<b>-</b>	<b>114,102</b>	<b>-</b>
Tax Deducted at Source	12,678	-	12,678	-
<b>Gross Dividend (Note 43)</b>	<b>126,780</b>	<b>-</b>	<b>126,780</b>	<b>-</b>

**15.2 Preference Share Dividends**

<b>Net Dividend (Rs. 1.05 per share in 2010)</b>	<b>3,560</b>	<b>6,238</b>	<b>3,560</b>	<b>6,238</b>
Tax Deducted at Source	-	-	-	-
<b>Gross Dividend</b>	<b>3,560</b>	<b>6,238</b>	<b>3,560</b>	<b>6,238</b>

**16. CASH AND CASH EQUIVALENTS**

Cash in Hand - Local Currency	3,561,087	4,070,066	3,561,125	4,070,114
Cash in Hand - Foreign Currency	181,902	197,341	181,902	197,341
Cash at Bank	-	-	1,518	2,085
Balances with Local Banks	23,885	13,146	23,885	13,146
Balances with Foreign Banks	931,532	358,252	931,532	358,252
Money at Call and Short Notice	-	45,000	-	45,000
Placements with Banks and Finance Companies (16.1)	-	-	-	5,943
	<b>4,698,406</b>	<b>4,683,805</b>	<b>4,699,962</b>	<b>4,691,881</b>

**16.1 Placements with Banks and Finance Companies**

Fixed Deposit with Finance Companies	-	-	5,943	5,943
Provision for Doubtful Receivable	-	-	(5,943)	-
	-	-	-	5,943

**17. BALANCE WITH CENTRAL BANK OF SRI LANKA**

Cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. At present, the minimum cash reserve requirement is 7% of the deposit liabilities for 2010, Rate has been reduced from 7.75% to 7% with effect from 27th February 2009.

	BANK	
	2010 Rs. '000	2009 Rs. '000
Average Deposit Liabilities for the Last Week of December	102,371,365	95,665,565
Statutory Reserve Requirement	7,165,996	6,696,590
Less: Average Sri Lanka Currency Notes and Coins held over & above 2% of Average Deposit Liabilities, but not Exceeding 4%	1,708,414	1,209,967
<b>Total Reserve Required to be held with Central Bank</b>	<b>5,457,582</b>	<b>5,486,623</b>
Average Balance held by the Bank for the Last Week of the Year	5,453,929	5,620,347
Balance with Central Bank of Sri Lanka as at 31st December (As per the books of the Bank)	5,453,833	5,084,229

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010		2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>18. DEALING SECURITIES</b>				
Seylan Bank PLC (Note 18.1)	16,185,949	16,330,618	13,965,322	14,544,172
Seylan Bank Asset Management Limited (Note 18.2)	-	-	1,830,943	1,931,361
<b>Total Dealing Securities - Group</b>	<b>16,185,949</b>	<b>16,330,618</b>	<b>15,796,265</b>	<b>16,475,533</b>

	2010				2009		
	No. of Ordinary Shares	Cost Rs. '000	% of Total Cost	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
<b>18.1 Seylan Bank PLC</b>							
<b>18.1.1 Quoted Shares</b>							
<b>Hotels &amp; Travel</b>							
Galadari Hotels Lanka PLC	3,000,000	101,710		109,500	443,200	6,465	6,648
Eden Hotel Lanka PLC	100,000	6,645		5,760	44,200	1,110	1,138
Hotel Sigiriya PLC	-	-		-	26,700	1,326	1,435
Stafford Hotels PLC	-	-		-	51,500	1,346	1,416
Serendib Hotels PLC	-	-		-	38,900	2,363	2,577
John Keells Hotels PLC	7,500,000	146,153		150,000	-	-	-
The Lighthouse Hotel PLC	308,000	19,435		19,404	-	-	-
The Fortress Resorts PLC	500,000	11,626		10,300	-	-	-
Hotel Services (Ceylon) PLC	2,350,000	69,689		61,100	-	-	-
		355,258	42.80	356,064	-	12,610	13,214

**Banks, Finance & Insurance**

DFCC Bank PLC	-	-		-	200,000	31,442	33,400
Hatton National Bank PLC	-	-		-	100,000	16,597	17,025
Hatton National Bank PLC - Non-Voting	-	-		-	60,000	5,953	6,285
National Development Bank PLC	-	-		-	150,000	25,683	30,900
Sampath Bank PLC	-	-		-	50,000	8,749	10,213
Nations Trust Bank PLC	-	-		-	99,300	3,555	3,649
Nation Lanka Finance PLC	2,700	41		47	2,700	41	39
The Finance Company PLC	110,160	6,197		4,285	110,160	6,197	2,121
Asian Alliance Insurance PLC	-	-		-	50,000	2,881	2,800
Janashakthi Insurance Company PLC	-	-		-	200,000	2,328	1,900
Merchant Bank of Sri Lanka PLC	100,000	4,367		4,560	-	-	-
SMB Leasing PLC - Non-Voting	92,369,666	83,133		92,370	-	-	-
SMB Leasing PLC - Voting	34,361,382	27,489		65,287	-	-	-
SMB Leasing PLC - Share Warrants	43,607,888	21,796		31,255	-	-	-
Citizens Development Business Finance PLC	175,000	7,000		9,170	-	-	-
Singer Finance (Lanka) Limited	14,000	210		210	-	-	-
Vallibel Finance PLC	1,000,000	12,000		9,000	-	-	-
HDFC Bank	5,300	3,099		2,915	-	-	-
		165,332	19.92	219,099		103,426	108,332

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010				2009		
	No. of Ordinary Shares	Cost Rs. '000	% of Total Cost	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
<b>Diversified Holdings</b>							
John Keells Holdings PLC	-	-	-	-	114,800	16,463	19,688
Hayleys PLC	100,000	32,670		34,500	-	-	-
Hemas Holdings PLC	100,000	4,020		4,440	-	-	-
		36,690	4.42	38,940		16,463	19,688
<b>Beverage, Food &amp; Tobacco</b>							
Lanka Milk Foods (CWE) PLC	-	-	-	-	50,000	3,275	3,238
Renuka Agri Foods PLC	650,000	4,322		4,420	-	-	-
Coco Lanka PLC	87,800	4,910		5,672	-	-	-
		9,232	1.11	10,092		3,275	3,238
<b>Investment Trusts</b>							
Renuka Holdings PLC	76,900	4,556	0.55	4,768	-	-	-
<b>Land &amp; Property</b>							
Colombo Land & Development Company PLC	-	-	-	-	250,000	1,771	1,625
Overseas Reality (Ceylon) PLC	112,500	1,826		1,721	-	-	-
		1,826	0.22	1,721		1,771	1,625
<b>Manufacturing</b>							
Richard Peiris & Company PLC	1,500,000	14,269		15,900	133,300	5,193	5,199
Tokyo Cement Company (Lanka) PLC	-	-	-	-	50,000	875	988
ACL Cables PLC	-	-	-	-	75,000	5,293	5,756
Blue Diamonds Jewellery Worldwide PLC	643	2		2	3,191,543	8,617	6,383
Hayleys - MGT Knitting Mills PLC	168,500	6,671		5,392	-	-	-
Ceylon Grain Elevators PLC	56,800	3,550		4,203	-	-	-
Sierra Cables PLC	10,000,000	46,453		43,000	-	-	-
Parquet (Ceylon) PLC	27,100	856		583	-	-	-
Lanka Tiles PLC	100,000	10,177		13,470	-	-	-
		81,978	9.88	82,550		19,978	18,326
<b>Chemicals &amp; Pharmaceuticals</b>							
Chemical Industries (Colombo) PLC	-	-	-	-	93,800	6,448	5,909
Nawaloka Hospitals PLC	4,000,000	17,165		14,400	-	-	-
Haycarb PLC	10,000	1,911		1,685	-	-	-
		19,076	2.30	16,085		6,448	5,909
<b>Telecommunication</b>							
Dialog Axiata PLC	14,703,100	144,095		174,967	-	-	-
Sri Lanka Telecom PLC	250,000	11,973		12,000	-	-	-
		156,068	18.80	186,967	-	-	-
<b>Total - Quoted Shares - Bank</b>		830,016	100.00	916,286		163,971	170,332
Marked to Market Valuation							
Gain/(Loss) from Quoted Shares- (Note 12)		86,270				6,361	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010		2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>18.1.2 Government of Sri Lanka Treasury Bills</b>				
Discounted Value	1,846,682	1,847,707	1,220,260	1,229,788
Marked to Market Valuation				
Gain/(Loss) from Treasury Bills	1,025	-	9,528	-

**18.1.3 Government of Sri Lanka Treasury Bonds**

Face Value Rs. '000	Year of Maturity	Discounted Value Rs. '000
237,801	2011	238,714
561,033	2012	580,290
1,425,308	2013	1,386,949
2,176,392	2014	2,052,150
5,405,850	2015	5,529,487
3,408,000	2016	3,036,907
550,000	2018	526,586
200,000	2020	158,168

<b>Total Treasury Bonds - Bank</b>	<b>13,509,251</b>	<b>13,566,625</b>	12,581,091	13,144,052
Marked to Market Valuation				
Gain/(Loss) from Treasury Bonds	57,374	-	562,961	-
<b>Total Dealing Securities - Bank (Notes 18.1.1, 18.1.2 &amp; 18.1.3)</b>	<b>16,185,949</b>	<b>16,330,618</b>	13,965,322	14,544,172

\* Marked to market valuation gain from Treasury Bills and Bonds is included in interest income - Treasury Bills, Bonds and placements with other Banks (Note 5).

	2010		2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>18.2 Seylan Bank Asset Management Limited</b>				
<b>18.2.1 Government of Sri Lanka Treasury Bills</b>				
Discounted Value	-	-	157,598	159,095
Marked to Market Valuation				
Gain/(Loss) from Treasury Bills	-	-	1,497	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010		2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>18.2.2 Government of Sri Lanka Treasury Bonds</b>				
Total Treasury Bonds	-	-	1,673,345	1,772,266
Marked to Market Valuation Gain/(Loss) from Treasury Bonds	-	-	98,921	-
<b>Total Dealing Securities - Seylan Bank Asset Management Limited (Notes 18.2.1 &amp; 18.2.2)</b>	-	-	1,830,943	1,931,361
<b>Total Dealing Securities - Subsidiaries (Note 18.2)</b>	-	-	1,830,943	1,931,361
<b>Total Dealing Securities - Group (Notes 18.1 &amp; 18.2)</b>	<b>16,185,949</b>	<b>16,330,618</b>	15,796,265	16,475,533

	2010		2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>19. INVESTMENT SECURITIES</b>				
Seylan Bank PLC (19.1)	21,974,282	22,309,698	14,897,394	15,046,527
Seylan Developments PLC (19.2)	2,394	3,275	27,244	3,272
Seylan Bank Asset Management Limited (19.3)	-	-	1,497,039	1,511,939
<b>Total Investment Securities - Group</b>	<b>21,976,676</b>	<b>22,312,973</b>	16,421,677	16,561,738

**19.1 Seylan Bank PLC****Quoted Shares**

	2010			2009		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
<b>19.1.1 Quoted Shares</b>						
Visa Inc.	13,328	61,422	104,121	13,328	65,184	133,294
SMB Leasing PLC	-	-	-	22,064,566	249,535	105,910
Less - Loss on Impairment SMB Leasing PLC	-	-	-	-	(168,701)	-
<b>Total Quoted Shares - Bank</b>		<b>61,422</b>	<b>104,121</b>		146,018	239,204

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Unquoted Shares**

	2010			2009		
	No. of Ordinary Shares	Cost Rs. '000	Directors' Valuation Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Directors' Valuation Rs. '000
<b>19.1.2 Unquoted Shares</b>						
Credit Information Bureau of Sri Lanka*	2,900	290	6,790	2,900	290	5,627
Transnational Lanka Records Solutions (Pvt) Limited*	1,000,000	10,000	16,780	1,000,000	10,000	14,250
Lanka Clear (Pvt) Limited*	1,000,000	10,000	38,720	1,000,000	10,000	35,010
Lanka Financial Services Bureau Limited*	225,000	2,250	2,948	225,000	2,250	2,828
Grameen Micro Credit Company Limited** (15% Cumulative/ Redeemable/ Convertible Preference Shares)	100,000,000	1,000,000	519,944	-	-	-
Less - Provision for impairment Grameen Micro Credit Company Limited***		(480,056)			-	-
<b>Total Unquoted Shares - Bank</b>		<b>542,484</b>	<b>585,182</b>		<b>22,540</b>	<b>57,715</b>

\* The valuation is based on net assets per share basis as per the Audited Financial Statements of these companies as at following dates:

Credit Information Bureau of Sri Lanka - 31st December 2009

Transnational Lanka Records Solutions (Pvt) Limited - 30th June 2010

Lanka Clear (Pvt) Limited - 31st March 2010

Lanka Financial Services Bureau Limited - 31st March 2010

\*\* The Bank has restructured its loan portfolio to Grameen Micro Credit Company Limited (Rs. 2.725 Bn.) by obtaining approval from the Monetary Board and converted Rs. 1 Bn. of the outstanding loan to 15% Cumulative/Redeemable/Convertible/Preference shares. Further, Bank has converted the balance of Rs. 1.725 Bn. to Secured Debentures at an Interest Rate of Treasury Bills + 10% per annum which will mature in 2012 to 2019. (Refer Note 19.1.7)

\*\*\* Board of Directors decided to impair the total investment in Grameen Micro Credit Company Limited. The Bank has provided Rs. 960.112 Mn. for the investment during the year after discounting for the Securities available (Note 19.1.2 and 19.1.7).

Subsequent to the Balance Sheet date approval has been granted by the Central Bank of Sri Lanka to convert the investments in Grameen Micro Credit Company Limited, of Rs. 1,000 Mn. in Preference Shares and Rs. 1,060 Mn. debentures, into 206 Mn. Preference Shares of Rs. 10 each (Rs. 2,060 Mn.).

Further, the balance Rs. 665 Mn. of debentures is to be converted into secured long-term debentures maturing from 2020 to 2040.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010		2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>19.1.3 Government of Sri Lanka Treasury Bills</b>				
Face Value Rs. '000	Year of Maturity	Discounted Value Rs. '000		
150,000	2011	143,392	<b>143,392</b>	<b>143,411</b>
			4,821	4,822
<b>Total Treasury Bills - Bank</b>			<b>143,392</b>	<b>143,411</b>
			4,821	4,822
<b>19.1.4 Government of Sri Lanka Treasury Bonds</b>				
Face Value Rs. '000	Year of Maturity	Discounted Value Rs. '000		
515,000	2011	509,860		
6,706,575	2012	6,727,552		
625,000	2013	642,705		
2,050,000	2014	1,947,164		
6,150,000	2015	6,221,069		
1,100,000	2016	977,950		
			<b>17,026,300</b>	<b>17,276,300</b>
			12,495,760	12,516,531
CWE Bond	2016		<b>250,000</b>	<b>250,000</b>
			250,000	250,000
<b>Total Bonds - Bank</b>			<b>17,276,300</b>	<b>17,526,300</b>
			12,745,760	12,766,531
<b>19.1.5 Foreign Currency Bonds</b>				
Face Value USD. '000	Year of Maturity	Discounted Value USD. '000		
17,000	2011	17,000		
3,000	2012	3,000		
		20,000	<b>2,220,000</b>	<b>2,220,000</b>
			1,978,255	1,978,255
<b>Total Foreign Currency Bonds - Bank</b>			<b>2,220,000</b>	<b>2,220,000</b>
			1,978,255	1,978,255
<b>Total Bonds - Bank</b>			<b>19,496,300</b>	<b>19,746,300</b>
			14,724,015	14,744,786

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010		2009	
	Cost Rs. '000	Director's Valuation Rs. '000	Cost Rs. '000	Director's Valuation Rs. '000
<b>19.1.6 Quoted Debentures</b>				
SMB Leasing PLC				
(187,240 debentures of Rs. 100/- each)	18,724	-	128,724	-
Less - Provision for Impairment	(18,724)	-	(128,724)	-
<b>Total Quoted Debentures - Bank</b>	-	-	-	-
<b>19.1.7 Unquoted Debentures</b>				
Grameen Micro Credit Company Limited				
(1,725 debentures of Rs. 1,000,000/-each)	1,725,000	1,244,944	-	-
People's Leasing Company Limited				
(500,000 debentures of Rs. 100/-each)	50,000	50,000	-	-
Urban Development Authority				
(4,357,400 debentures of Rs. 100/-each)	435,740	435,740	-	-
Less - Provision for impairment				
Grameen Micro Credit Company Limited	(480,056)		-	-
<b>Total Unquoted Debentures - Bank</b>	1,730,684	1,730,684	-	-
<b>Total Debentures - Bank</b>	1,730,684	1,730,684	-	-
<b>Total Investment Securities - Bank (Note 19.1.1, 19.1.2, 19.1.3, 19.1.4, 19.1.5, 19.1.6 &amp; 19.1.7)</b>	21,974,282	22,309,698	14,897,394	15,046,527

## INVESTMENT SECURITIES HELD BY SUBSIDIARIES

## 19.2 Seylan Developments PLC

	2010			2009		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost (Reclassified) Rs. '000	Market Value Rs. '000
<b>19.2.1 Quoted Shares</b>						
Nation Lanka Finance PLC	200,000	2,000	2,900	200,000	2,000	2,900
C T Land Developers PLC	100	1	2	100	1	2
Ceylinco Housing & Real Estate PLC	250	2	7	250	2	5
Colombo Fort Land & Building Company Limited	100	1	3	100	1	3
Overseas Realty Ceylon PLC	100	-	2	100	-	2
Kelsey Developments PLC	100	1	1	100	1	1
Property Development PLC	100	2	3	100	2	2
Colombo Land & Development Company PLC	1,250	-	8	1,250	-	8
East West Company PLC	200	1	2	200	1	2
Equity One PLC	100	1	2	100	1	2
O'nally Holdings PLC	100	1	4	100	1	4
York Arcade Holdings PLC	100	-	1	100	-	1
Blue Diamonds Jewellery & Worldwide PLC	170,000	383	340	170,000	383	340
<b>Total Quoted Shares</b>		2,393	3,275		2,393	3,272

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010			2009		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost (Reclassified) Rs. '000	Market Value Rs. '000
<b>19.2.2 Unquoted Shares</b>						
Ceylinco Venture Capital Investment Limited	95,000	950	-	95,000	950	-
Ceylinco Sports Complex Limited	220,000	2,200	-	220,000	2,200	-
Ceycom Global Communications Limited	40,500	405	-	40,500	405	-
Asian Finance Company Limited	75,000	750	-	75,000	750	-
MBSL Savings Bank Limited	25,000	250	-	25,000	250	-
Ceylinco - Cisco Security Corporation (Pvt) Limited	10,000	-	-	10,000	-	-
Ceylinco International Property Developers (Pvt) Limited	50,000	500	-	50,000	500	-
Ceyenergy Electronics Co. (Pvt) Limited	15,000	150	-	15,000	150	-
Ceylinco Swiftcare (Pvt) Limited	75,000	750	-	75,000	750	-
Independent Financial News & Views (Pvt) Limited	4,900	49	-	4,900	49	-
Ceylinco International Realty (Pvt) Limited	200,000	2,000	-	200,000	2,000	-
e.Ceylinco. Com (Pvt) Limited	60,000	600	-	60,000	600	-
International Consultancy & Corporate Services (Pvt) Limited	5,000	50	-	5,000	50	-
Ceylinco PLC Technology (Pvt) Limited	177,500	1,775	-	177,500	1,775	-
Ceylinco Investments & Realty (Pvt) Limited	4,000,000	40,000	-	4,000,000	40,000	-
Associated Property Developers PLC	100	1	-	100	1	-
The Sitar (Pvt) Limited	60,000	600	-	60,000	600	-
Ceylinco Seraka Investments Limited	510,000	5,100	-	510,000	5,100	-
Ceylinco Cisco Ranaviru Services (Pvt) Limited	10,000	100	-	10,000	100	-
Ceylinco Cisco Cash Management and Transport Company Limited	10,000	100	-	10,000	100	-
Diminution in Value (Note 12)		(56,329)	-		(31,479)	-
<b>Total Unquoted Shares</b>		<b>1</b>	<b>-</b>		<b>24,851</b>	<b>-</b>
<b>Total Investment Securities - Seylan Developments PLC (Note 19.2.1 &amp; 19.2.2)</b>		<b>2,394</b>	<b>3,275</b>		<b>27,244</b>	<b>3,272</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**19.3 Seylan Bank Asset Management Limited**

	2010			2009		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
<b>19.3.1 Quoted Shares</b>						
Blue Diamonds Jewellery & Worldwide PLC	-	-	-	300,000	2,392	600
Diminution in Value (Note 12)	-	-	-		(1,792)	-
<b>Total Quoted Shares</b>		-	-		600	600

**19.3.2 Unquoted Shares**

Ceylinco Venture Capital Co. Limited	-	-	-	500,000	5,000	-
Ceylinco Foliage Exports (Pvt) Limited	-	-	-	850,000	8,500	-
Ceylinco - CISCO Ranaviru Services (Pvt) Limited	-	-	-	50,000	500	-
Ceylinco Niranjan Invention (Pvt) Limited	-	-	-	33,249	350	-
Ceylinco Travels & Tours Limited	-	-	-	100,000	1,000	-
Ceylinco Tourist Hotels Limited - Hotel Ceysands	-	-	-	33,000	3,500	-
Ceylinco Development Bank Limited	-	-	-	725,000	7,250	-
Ceylinco Vocational Training (Pvt) Limited	-	-	-	120,000	1,482	-
The Finance & Guarantee Co Limited	-	-	-	30,000	3,000	-
Ceylinco Employees Sports Complex (Pvt) Limited	-	-	-	200,000	2,000	-
Ceylinco Lexcon Services (Pvt) Limited	-	-	-	77,847	778	-
Ceylinco Automobiles Limited	-	-	-	500,000	5,000	-
Tropical Foliage Limited	-	-	-	150,000	1,500	-
Ceylinco Bio Tech Limited	-	-	-	150,000	1,500	-
Economic Resurgence Association (Pvt) Limited	-	-	-	1,000,000	10,000	-
Ceylinco Seylan Housing & Commercial Properties Limited	-	-	-	20,000	200	-
Ceylinco Building Society	-	-	-	10,000	5,000	-
Ceylinco Aruna Accessories (Pvt) Limited	-	-	-	25,000	250	-
The Sitar (Pvt) Limited	-	-	-	380,000	6,000	-
Independent Financial News & Views (Pvt) Limited	-	-	-	100,000	1,000	-
Ceylinco Coloured Stones (Pvt) Limited	-	-	-	1,000,000	10,000	-
Ceylinco Freight International (Pvt) Limited	-	-	-	400,000	4,000	-
Ceylinco Hotels Limited	-	-	-	475,000	4,750	-
Ceylinco Cellular Company (Pvt) Limited	-	-	-	100,000	1,000	-
South Asian Travels Limited	-	-	-	500,000	5,000	-
Ceylinco Packaging Company Limited	-	-	-	500,000	5,000	-
Ceylinco Cisco Cash Management & Transit Company	-	-	-	50,000	500	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010			2009		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
Ceylinco Consolidated International Property Development (Pvt) Limited	-	-	-	700,000	7,000	-
Middleway Printing (Pvt) Limited	-	-	-	1,375,000	13,750	-
Ceylinco Design & Project Management (Pvt) Limited	-	-	-	200,000	2,000	-
Diminution in Value (Note 12)	-	-	-	-	(116,810)	-
<b>Total Unquoted Shares</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**19.3.3 Unquoted Debentures**

Ceylinco Vocational Training (Pvt) Limited (8,000 Debentures of Rs. 100/= each)	-	-	-	-	988	-
MBSL Savings Bank Limited (15,000 Debentures of Rs. 100/= each)	-	-	-	-	1,500	-
Diminution in Value (Note 12)	-	-	-	-	(2,488)	-
<b>Total Unquoted Debentures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	2010		2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>19.3.4 Government of Sri Lanka Treasury Bonds</b>				
<b>Treasury Bonds</b>	-	-	1,496,439	1,511,339
<b>Total Bonds</b>	-	-	1,496,439	1,511,339
<b>Total Investment Securities - Seylan Bank Asset Management Limited (Note 19.3.1, 19.3.2, 19.3.3 &amp; 19.3.4)</b>	-	-	1,497,039	1,511,939
<b>Total Investment Securities - Subsidiaries (Note 19.2 &amp; 19.3)</b>	<b>2,394</b>	<b>3,275</b>	<b>1,524,283</b>	<b>1,515,211</b>
<b>Total Investment Securities - Group (Note 19.1, 19.2 &amp; 19.3)</b>	<b>21,976,676</b>	<b>22,312,973</b>	<b>16,421,677</b>	<b>16,561,738</b>

**19.4 Assets Pledged as Security**

Out of the Treasury Bills and Bonds classified as Investment Securities the following amount has been pledged as security for repurchase agreements.

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Treasury Bills & Bonds	<b>6,256,152</b>	2,066,574	<b>6,256,152</b>	4,408,935
Sri Lanka Development Bond (USD 500,000) *	<b>55,500</b>	57,175	<b>55,500</b>	57,175

\* The Bank has pledged a Sri Lanka Development Bond amounting to USD 500,000 with Bank of Ceylon as security for a guarantee obtained on behalf of Seylan Credit Card Centre.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>20. BILLS OF EXCHANGE</b>				
Export Bills	800,637	849,682	800,637	849,682
Import Bills	505,557	319,993	505,557	319,993
Local Bills	109,430	181,781	109,430	181,781
	<b>1,415,624</b>	1,351,456	<b>1,415,624</b>	1,351,456
Less: Loan Loss Provision (Note 21.1)	(21,946)	(29,092)	(21,946)	(29,092)
	<b>1,393,678</b>	1,322,364	<b>1,393,678</b>	1,322,364

**21. LOANS AND ADVANCES****Sri Lanka Rupee Loans and Advances**

Overdrafts	23,494,117	20,565,334	23,494,117	20,565,334
Trust Receipt Loans/Revolving Import Loans (RIL)	4,896,895	2,377,152	4,896,895	2,377,152
Staff Loans	5,152,669	4,543,552	5,152,669	4,549,431
Housing Loans	8,323,123	8,426,228	8,323,123	8,426,228
Pawning Advances	8,113,661	3,550,851	8,113,661	3,550,851
Refinance Loans	946,777	1,185,931	946,777	1,185,931
Other Loans	38,750,946	38,547,615	38,750,946	38,548,150
	<b>89,678,188</b>	79,196,663	<b>89,678,188</b>	79,203,077

**Foreign Currency Loans and Advances**

Overdrafts	518,957	677,773	518,957	677,773
Trust Receipt Loans/Revolving Import Loans (RIL)	158,421	155,603	158,421	155,603
Other Loans	6,091,486	7,769,329	6,091,486	7,769,329
	<b>6,768,864</b>	8,602,705	<b>6,768,864</b>	8,602,705
<b>Total Loans &amp; Advances - Gross</b>	<b>96,447,052</b>	87,799,368	<b>96,447,052</b>	87,805,782
Less: Loan Loss Provision (Note 21.1)	(6,034,555)	(6,167,662)	(6,034,555)	(6,167,662)
Interest in Suspense (Note 21.1)	(4,790,323)	(5,592,735)	(4,790,323)	(5,592,735)
<b>Total Loans &amp; Advances - Net</b>	<b>85,622,174</b>	76,038,971	<b>85,622,174</b>	76,045,385

**21.1 Analysis of Provision for Loan Losses and Interest in Suspense**

	BANK				GROUP			
	2010		2009		2010		2009	
	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000
Bills of Exchange	21,946	-	29,092	-	21,946	-	29,092	-
Loans and Advances	6,034,555	4,790,323	6,167,662	5,592,735	6,034,555	4,790,323	6,167,662	5,592,735
Lease Rental Receivable	230,978	48,909	269,254	66,156	230,978	48,909	269,254	66,156
	<b>6,287,479</b>	<b>4,839,232</b>	6,466,008	5,658,891	<b>6,287,479</b>	<b>4,839,232</b>	6,466,008	5,658,891

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**21.2 Analysis of Provision for Loan Losses**

	BANK				GROUP			
	2010		2009		2010		2009	
	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000
Bills of Exchange	12,267	9,679	17,490	11,602	12,267	9,679	17,490	11,602
Loans and Advances	5,508,722	525,833	5,698,546	469,116	5,508,722	525,833	5,698,546	469,116
Lease Rental Receivable	195,835	35,143	240,796	28,458	195,835	35,143	240,796	28,458
	<b>5,716,824</b>	<b>570,655</b>	5,956,832	509,176	<b>5,716,824</b>	<b>570,655</b>	5,956,832	509,176
Loan Loss Provision - Specific	<b>5,716,824</b>		5,956,832		<b>5,716,824</b>		5,956,832	
Loan Loss Provision - General	<b>570,655</b>		509,176		<b>570,655</b>		509,176	
<b>Total Loan Loss Provision - (Note 21.1)</b>	<b>6,287,479</b>		6,466,008		<b>6,287,479</b>		6,466,008	

**21.3 Movement in Loan Loss Provision**

	BANK				GROUP			
	2010		2009		2010		2009	
	Specific Rs. '000	General Rs. '000	Specific Rs. '000	General Rs. '000	Specific Rs. '000	General Rs. '000	Specific Rs. '000	General Rs. '000
Balance Brought Forward	5,956,832	509,176	5,803,649	756,617	5,956,832	509,176	5,993,754	756,617
Additional Provision Made	1,509,512	61,479	2,411,886	[247,441]	1,509,512	61,479	2,411,886	[247,441]
Fully Provided Loans Written Off	(681,393)	-	(1,673,732)	-	(681,393)	-	(1,673,732)	-
Recoveries Made During the Year	(1,024,823)	-	(598,040)	-	(1,024,823)	-	(598,040)	-
Exchange Rate Variance on Foreign Currency Provisions	(43,304)	-	13,069	-	(43,304)	-	13,069	-
Adjustment on Deconsolidation	-	-	-	-	-	-	(190,105)	-
	<b>5,716,824</b>	<b>570,655</b>	5,956,832	509,176	<b>5,716,824</b>	<b>570,655</b>	5,956,832	509,176

**21.4 Movement in Interest in Suspense**

	BANK		GROUP	
	2010	2009	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance Brought Forward	5,658,891	3,522,694	5,658,891	3,601,410
Interest Suspended During the Year	2,135,062	4,754,247	2,135,062	4,754,247
Interest Recovered During the Year	(1,266,686)	(1,422,925)	(1,266,686)	(1,422,925)
Reversal of Interest for Write-Off/Write-Down	(1,681,923)	(1,197,101)	(1,681,923)	(1,197,101)
Exchange Rate Variance on Foreign Currency Provisions	(6,112)	1,976	(6,112)	1,976
Adjustment on Deconsolidation	-	-	-	(78,716)
	<b>4,839,232</b>	5,658,891	<b>4,839,232</b>	5,658,891

## 21.5 Basis for Provisioning

As detailed in Note 21.2 General provision is made as per the Central Bank of Sri Lanka guidelines on performing loans and advances except for credit facilities secured by Cash Deposits, Gold and Government Securities. The cumulative general provision of Seylan Bank as at 31.12.2010 is Rs. 570.65 Mn. (2009 – Rs. 509.17 Mn.) and meets the regulatory requirement. The general provision is 0.58% (2009 – 0.59%) of loans and advances net of interest in suspense as at the Balance Sheet date.

As per Banking Act Direction No. 30 of 2010, the applicable general provision rate will be 0.5% of performing loans and advances commencing from 1st January 2012. For this purpose, Bank will be reducing the existing General Provision requirement of 1% to 0.5% at a rate of 0.1% per quarter during the five quarters commencing 1st October 2010.

### 21.5.1 Non-Performing Lending Portfolio

Loans, advances and leases are classified as non-performing as detailed in Note 21.6.1. The criteria used for the classification of lending portfolio of the Bank as non-performing is set out below. This is in accordance with the Direction issued by the Central Bank of Sri Lanka on 8th May 2008, on 'Classification of Loans and Advances, Income Recognition and Provisioning'.

#### *Categoryisation of Non-Performing Lending Portfolio*

Type of Facility	Determinant	Overdue/Special Mention	Substandard	Doubtful	Loss
Overdrafts	Exceeds the sanctioned limit for a continuous period of	90 days or more but less than 180 days	180 days or more but less than 360 days	360 days or more but less than 540 days	540 days or more
Credit facilities repayable in monthly instalments	Principal and/or interest due and unpaid	3 instalments or more but less than 6 instalments	6 instalments or more but less than 12 instalments	12 instalments or more but less than 18 instalments	18 instalments or more
Other credit facilities	Payments are in arrears from the due date	90 days or more but less than 180 days	180 days or more but less than 360 days	360 days or more but less than 540 days	540 days or more
Credit Cards	Minimum payments are in arrears from the due date	90 days or more but less than 120 days	120 days or more but less than 180 days	180 days or more but less than 240 days	240 days or more

Provisions for loan losses are made on the basis of continuous review of all advances to the customers in accordance with the Sri Lanka Accounting Standard 23 - 'Revenue Recognition and Disclosure in the Financial Statements of Banks', and the direction issued by the Central Bank of Sri Lanka, which has been disclosed in the Financial Statements of the Bank after considering the values of the collateral, obtained against the respective non-performing loans and advances.

Valuation of collateral is performed based on the direction issued by the Central Bank of Sri Lanka as explained in Note 21.5.2.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**21.5.2 Valuation of Securities for Provisioning Purpose**

As per the amendment to the direction issued by the Central Bank of Sri Lanka on 15th August 2003 (Effective from 1st January 2004), under Section 46 of the Banking Act No. 30 of 1988, as amended by Banking (Amended) Act No. 33 of 1995, the initial and progressive discount that need to be applied to the forced sale value of immovable properties held as collateral, are as follows:

Category	Forced Sale Value of Immovable Property that can be Considered as the Value of Security (%)
At the Time of 1st Provisioning	75
1 - 2 Years in the Loss Category	60
2 - 3 Years in the Loss Category	50
3 - 4 Years in the Loss Category	40
Over 4 Years in the Loss Category	At the Discretion of the Management

**Provision for Loans and Advances - Ceylinco Group Exposure**

In view of the special circumstances under which the Bank was reconstituted by the Direction of the Central Bank of Sri Lanka, the Monetary Board has granted an exemption to Seylan Bank PLC, from the requirement to apply progressive discount on the forced sale value of immovable property, in terms of the Banking Act Direction No. 03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning' when computing the provisioning to be made as at 31st December 2010, for non-performing facilities of Golden Key Credit Card Company and Ceylinco Homes International.

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>21.6 Non-Performing Advances Disclosures</b>				
<b>Non-Performing Advances (with BCCI)</b>				
Bills of Exchange	340,128	191,269	340,128	191,269
Loans & Advances	20,190,762	24,734,686	20,190,762	24,734,686
Lease Rentals Receivable	323,937	565,113	323,937	565,113
<b>Total</b>	<b>20,854,827</b>	<b>25,491,068</b>	<b>20,854,827</b>	<b>25,491,068</b>

**21.6.1 Non-Performing Assets included in the Bills of Exchange, Loans and Advances, and Lease Rentals Receivable on which Interest is not being Accrued are as follows:**

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Total Non-Performing Advances				
Excluding Former BCCI Advances	20,854,710	25,460,589	20,854,710	25,460,589
Former BCCI Advances	117	30,479	117	30,479
	<b>20,854,827</b>	<b>25,491,068</b>	<b>20,854,827</b>	<b>25,491,068</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK				
	2010 Advances Rs. '000		2009 Advances Rs. '000		Change %
		%*		%*	
Total Gross Loans and Advances including Bills of Exchange, Lease Rentals Receivable and Group Balance Receivable	<b>102,468,983</b>		92,680,732		10.56
Interest in Suspense (Note 21.1)	<b>(4,839,232)</b>		(5,658,891)		(14.48)
Total Loans and Advances including Bills of Exchange, Lease Rentals Receivable and Group Balance Receivable (Net of Interest in Suspense)	<b>97,629,751</b>		87,021,841		12.19
Non-Performing Advances (Gross)	<b>25,694,059</b>	<b>25.07</b>	31,149,959	33.61	(17.51)
Non-Performing Advances (Net of Interest in Suspense)	<b>20,854,827</b>	<b>21.36</b>	25,491,068	29.29	(18.19)
Less: Provision for Bad & Doubtful Debts (Note 21.1)	<b>(6,287,479)</b>		(6,466,008)		(2.76)
<b>Net Non-Performing Advances</b>	<b>14,567,348</b>	<b>14.92</b>	19,025,060	21.86	(23.43)

\* As a percentage of total loans and advances as at 31st December.

Rs. 14,567.348 Mn. net non-performing advances is covered by tangible securities valued at approximately Rs. 15,986.352.

**21.6.2** As per the Direction issued by the Central Bank of Sri Lanka on 31st December 2004, the Non-Performing Ratio Net of Interest in Suspense after inclusion of Investment Properties is as follows:

	2010 %	2009 %
Non-Performing Ratio before Adjusting Investment Properties	<b>21.36</b>	29.29
Non-Performing Ratio after Adjusting Investment Properties	<b>21.75</b>	29.71

### 21.7.1 Collateral-Wise Analysis of Gross Non-Performing Portfolio

The Bank holds collateral against its lending portfolio in the form of mortgage interest over property, other registered securities and assets. Estimation of fair value/realisable value are based on the value of collateral assessed at the time of lending and generally are not updated except when a loan is individually assessed as non-performing.

	2010 Rs. '000	2009 Rs. '000 (Restated)
Secured by Immovable Assets	<b>11,855,579</b>	8,857,849
Secured by Movable Assets	<b>370,390</b>	565,214
Secured by Cash/Shares	<b>466,624</b>	813,857
Secured by Pawned Articles	<b>4,166</b>	20,665
Other Securities	<b>109,664</b>	66,374
Clean	<b>12,887,636</b>	20,826,000
	<b>25,694,059</b>	31,149,959

### 21.7.2 Foreclosed Properties

Loans & Advances	<b>1,672,512</b>	1,099,823
Bills of Exchange	-	68,630
	<b>1,672,512</b>	1,168,453

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**21.8 Balance Outstanding on Advances Granted to Employee Share Owning Trust Companies**

	Amount Outstanding 2010 Rs. '000	Amount Outstanding 2009 Rs. '000
Seybest (Pvt) Limited	30,321	30,898
Sotse (Pvt) Limited	29,892	30,225
Esot (Pvt) Limited	30,978	31,540
Seyshop (Pvt) Limited	30,360	30,937
	<b>121,551</b>	<b>123,600</b>

**21.9 Concentration of Credit Risk**

Sector-wise analysis of credit portfolio given below, reflects the exposure to credit risk in the various sectors of the economy.

	BANK				GROUP			
	2010 Rs. '000	%	2009 Rs. '000	%	2010 Rs. '000	%	2009 Rs. '000	%
Food, Beverages & Tobacco	738,563	0.77	1,314,948	1.50	738,563	0.77	1,314,948	1.50
Agriculture, Agro Business & Fisheries	5,697,329	5.91	3,467,424	3.95	5,697,329	5.91	3,467,424	3.95
Textiles & Wearing Apparel	1,635,893	1.70	2,117,555	2.41	1,635,893	1.70	2,117,555	2.41
Wood & Paper Products	733,893	0.76	1,058,202	1.21	733,893	0.76	1,058,202	1.21
Rubber & Leather Products	383,473	0.40	721,436	0.82	383,473	0.40	721,436	0.82
Metals, Chemicals & Engineering	648,714	0.67	2,564,190	2.92	648,714	0.67	2,564,190	2.92
Hotels	834,100	0.86	1,897,208	2.16	834,100	0.86	1,897,208	2.16
Services	4,115,470	4.27	7,275,258	8.29	4,115,470	4.27	7,275,258	8.29
Others	81,659,617	84.66	67,383,147	76.74	81,659,617	84.66	67,389,561	76.74
<b>Gross Loans &amp; Advances</b>	<b>96,447,052</b>	<b>100.00</b>	<b>87,799,368</b>	<b>100.00</b>	<b>96,447,052</b>	<b>100.00</b>	<b>87,805,782</b>	<b>100.00</b>
Loans & Advances	96,447,052		87,799,368		96,447,052		87,805,782	
Lease Rentals Receivable	4,223,180		3,261,880		4,223,180		3,261,880	
Bills of Exchange	1,415,624		1,351,456		1,415,624		1,351,456	
Inter-Company Loans	383,127		268,028		-		-	
<b>Gross Loans &amp; Advances Including Lease Receivables &amp; Bills of Exchange</b>	<b>102,468,983</b>		<b>92,680,732</b>		<b>102,085,856</b>		<b>92,419,118</b>	

**'Others' Category Comprises the following Advances:**

Exports	7,768,333	9.51	7,418,660	11.01	7,768,333	9.51	7,418,660	11.01
Imports	7,379,605	9.04	3,719,104	5.52	7,379,605	9.04	3,719,104	5.52
Trading	12,095,134	14.81	8,194,541	12.16	12,095,134	14.81	8,194,541	12.16
Financial Services	6,661,041	8.16	4,059,196	6.02	6,661,041	8.16	4,059,196	6.02
Housing	13,397,670	16.40	14,851,747	22.04	13,397,670	16.40	14,851,747	22.04
Consumption	11,924,359	14.60	8,610,171	12.78	11,924,359	14.60	8,610,171	12.78
Miscellaneous	22,433,475	27.48	20,529,728	30.47	22,433,475	27.48	20,536,142	30.47
	<b>81,659,617</b>	<b>100.00</b>	<b>67,383,147</b>	<b>100.00</b>	<b>81,659,617</b>	<b>100.00</b>	<b>67,389,561</b>	<b>100.00</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>22. LEASE RENTALS RECEIVABLE WITHIN ONE YEAR</b>				
From the Balance Sheet date	<b>2,313,471</b>	2,470,278	<b>2,313,471</b>	2,470,278
Less: Unearned Income	<b>(604,778)</b>	(536,184)	<b>(604,778)</b>	(536,184)
	<b>1,708,693</b>	1,934,094	<b>1,708,693</b>	1,934,094
Less: Loan Loss Provision (Note 21.1)	<b>(230,978)</b>	(269,254)	<b>(230,978)</b>	(269,254)
Interest in Suspense (Note 21.1)	<b>(48,909)</b>	(66,156)	<b>(48,909)</b>	(66,156)
	<b>1,428,806</b>	1,598,684	<b>1,428,806</b>	1,598,684

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>23. LEASE RENTALS RECEIVABLE LATER THAN ONE YEAR AND NOT LATER THAN FIVE YEARS</b>				
From the Balance Sheet Date (Note 23.1)	<b>3,032,315</b>	1,606,273	<b>3,032,315</b>	1,606,273
Less: Unearned Income	<b>(518,650)</b>	(280,381)	<b>(518,650)</b>	(280,381)
	<b>2,513,665</b>	1,325,892	<b>2,513,665</b>	1,325,892
<b>23.1 Lease Rentals Receivable</b>	<b>3,120,618</b>	1,787,491	<b>3,120,618</b>	1,787,491
Less: Deposit of Rentals	<b>(88,303)</b>	(181,218)	<b>(88,303)</b>	(181,218)
	<b>3,032,315</b>	1,606,273	<b>3,032,315</b>	1,606,273

**24. LEASE RENTALS RECEIVABLE LATER THAN FIVE YEARS**

From the Balance Sheet Date (Note 24.1)	<b>822</b>	1,971	<b>822</b>	1,971
Less: Unearned Income	-	(77)	-	(77)
	<b>822</b>	1,894	<b>822</b>	1,894
<b>24.1 Lease Rentals Receivable</b>	<b>822</b>	1,971	<b>822</b>	1,971
Less: Deposits of Rentals	-	-	-	-
	<b>822</b>	1,971	<b>822</b>	1,971

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**25. INVESTMENTS IN SUBSIDIARIES - BANK**

Principal Activity	Number of Shares as at 31.12.2010	Holding %	Market Value as at 31.12.2010		Number of Shares as at 31.12.2009	Holding %	Market Value as at 31.12.2009		
			Cost as at 31.12.2010 Rs. '000	Rs. '000			Cost as at 31.12.2009 Rs. '000	Rs. '000	
<b>Quoted - Ordinary Shares</b>									
Seylan Developments PLC	Property Development/ Management	37,203,584	50.29	358,916	625,020	37,203,584	50.29	358,916	353,434
				<b>358,916</b>	<b>625,020</b>			<b>358,916</b>	<b>353,434</b>
Principal Activity	Number of Shares as at 31.12.2010	Holding %	Directors' Valuation 31.12.2010		Number of Shares as at 31.12.2009	Holding %	Directors' Valuation 31.12.2009		
			Cost as at 31.12.2010 Rs. '000	Rs. '000			Cost as at 31.12.2009 Rs. '000	Rs. '000	
<b>Unquoted - Ordinary Shares</b>									
Seylan Bank Asset Management Limited	Primary Dealers	-	-	-	-	19,750,000	100.00	501,250	573,234
<b>Total</b>				<b>358,916</b>	<b>625,020</b>			<b>860,166</b>	<b>926,668</b>

The Bank's fully-owned subsidiary, Seylan Bank Asset Management Limited was amalgamated with Seylan Bank PLC under the provisions of Section 242 (1) of the Companies Act No. 07 of 2007. The amalgamation took effect on 31st March 2010 (after its operations).

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>26. GROUP BALANCES RECEIVABLE</b>				
<b>Name of Company</b>				
Seylan Developments PLC	461,843	349,028	-	-
Seylan Bank Asset Management Limited	-	459,627	-	-
<b>Total</b>	<b>461,843</b>	<b>808,655</b>	<b>-</b>	<b>-</b>
	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 (Restated) Rs. '000
<b>27. INVESTMENT PROPERTIES</b>				
<b>Cost</b>				
Balance as at 01st January	520,812	520,812	1,748,139	1,764,455
Add: Additions During the Year	-	-	89	-
Adjustment on Deconsolidation	-	-	-	(16,316)
<b>Cost as at 31st December (Note 27.1 &amp; 27.2)</b>	<b>520,812</b>	<b>520,812</b>	<b>1,748,228</b>	<b>1,748,139</b>
<b>Less - Provision for Impairment</b>	<b>(32,099)</b>	<b>-</b>	<b>(166,894)</b>	<b>(134,795)</b>
<b>Cost Less Impairment as at 31st December</b>	<b>488,713</b>	<b>520,812</b>	<b>1,581,334</b>	<b>1,613,344</b>
<b>Accumulated Depreciation</b>				
Balance as at 01st January	-	-	108,668	88,602
Charge for the year	-	-	20,068	20,066
<b>Balance as at 31st December</b>	<b>-</b>	<b>-</b>	<b>128,736</b>	<b>108,668</b>
<b>Carrying Value as at 31st December 2010</b>	<b>488,713</b>	<b>-</b>	<b>1,452,598</b>	<b>-</b>
Carrying Value as at 31st December 2009		520,812		1,504,676

**27. INVESTMENT PROPERTIES****Cost**

Balance as at 01st January	520,812	520,812	1,748,139	1,764,455
Add: Additions During the Year	-	-	89	-
Adjustment on Deconsolidation	-	-	-	(16,316)
<b>Cost as at 31st December (Note 27.1 &amp; 27.2)</b>	<b>520,812</b>	<b>520,812</b>	<b>1,748,228</b>	<b>1,748,139</b>
<b>Less - Provision for Impairment</b>	<b>(32,099)</b>	<b>-</b>	<b>(166,894)</b>	<b>(134,795)</b>
<b>Cost Less Impairment as at 31st December</b>	<b>488,713</b>	<b>520,812</b>	<b>1,581,334</b>	<b>1,613,344</b>
<b>Accumulated Depreciation</b>				
Balance as at 01st January	-	-	108,668	88,602
Charge for the year	-	-	20,068	20,066
<b>Balance as at 31st December</b>	<b>-</b>	<b>-</b>	<b>128,736</b>	<b>108,668</b>
<b>Carrying Value as at 31st December 2010</b>	<b>488,713</b>	<b>-</b>	<b>1,452,598</b>	<b>-</b>
Carrying Value as at 31st December 2009		520,812		1,504,676

Bank has accounted its investment properties at cost and revalued these properties periodically on a systematic basis for disclosure purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**27.1 Investment Properties (Bank) - 2010**

BANK				
Address	Extent	Date of Valuation	Cost Rs. '000	Market Value Rs. '000
Kohalwila Road, Gonawala, Gampaha**	0A 1R 19.14P	-	6,166	7,500
Walpolawatte, Kudawaskaduwa, Wadduwa	2A 0R 25.4P	13.11.2010	28,799	30,000
Kahapola, Piliyandala	20A 1R 39.5P	10.11.2010	114,429	130,000
97, Station Road, Kandana	1A 1R 9.84P	21.11.2010	139,319	139,500
611, Galle Road, Wellawatta	0A 1R 27.48P	11.10.2010	232,099	200,000
			<b>520,812</b>	

\*\* An offer for sale of Rs. 7.5 Mn. received to the above property at Kohalwila Road, Gonawala, Gampaha. However, arrangement to dispose the above was not yet made as at 31st December 2010.

**27.2 Investment Properties (Group) - 2010**

GROUP				
Address	Extent	Date of Valuation	Cost/ Valuation Rs. '000	Market Value Rs. '000
Kohalwila Road, Gonawala, Gampaha	0A 1R 19.14P	-	6,166	7,500
Walpolawatte, Kudawaskaduwa, Wadduwa	2A 0R 25.4P	13.11.2010	28,799	30,000
Kahapola, Piliyandala	20A 1R 39.5P	10.11.2010	114,429	130,000
97, Station Road, Kandana	1A 1R 9.84P	21.11.2010	139,319	139,500
611, Galle Road, Wellawatta	0A 1R 27.48P	11.10.2010	232,099	200,000
[Seylan Towers (West Tower)]*				
90, Galle Road, Colombo 3	111,191 Sq.Ft.	29.12.2009	1,022,881	1,502,061
257, Union Place, Colombo 2**	0A 1R 12.27 P	28.12.2008	204,535	250,255
			<b>1,748,228</b>	

\* The rent income from the Seylan Towers-West Tower for the year 2010 is Rs. 53.4 Mn. (2009 Rs. 54.8 Mn.).

\* The Seylan Towers (West Tower) was valued by A.Y Daniel & Son, Incorporated Valuer and having recent experience in the location and category of the investment property being valued. He has used capitalisation method in valuation, assuming,

- a) The prospect of ascending land values and expected improvements in economic conditions.
- b) Depreciation and obsolescence.
- c) The steep and continuing construction cost escalation.
- d) The acceptance and proliferation of the phenomenon of high rise buildings.
- e) The difference in the value impacting phenomena of Capital cost and Capital value.
- f) The corpus being in full occupation with stabilisation.
- g) The ranking norms of maintenance and repair.
- h) The steep slump in the national interest rates.

\*\* The Property at No. 257 Union Place was valued by Mr. G.J. Sumanasena, Incorporated Valuer and having recent experience in the location and category of the investment property being valued. He has used open market method in valuation.

The open market value is intended to mean the best price at which an interest in a property might reasonably be expected to be sold in the Private Treaty as the date of valuation, assuming,

- a) The property is prime and most suitable for high rise development
- b) Located in a prime commercial area.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010	2009 (Restated)	2010	2009 (Restated)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>28. DEFERRED TAXATION</b>				
Balance Brought Forward	442,711	91,582	442,858	95,790
Deferred Tax Liability Brought Forward				
O/A Revaluation Surplus	-	(11,502)	-	(11,502)
(Charge)/Reversal for the Year (Note 13)	(174,776)	362,631	(175,424)	358,874
Adjustment for Seylan Merchant Bank PLC	-	-	-	(304)
Transfer from Seylan Asset Management Limited	(501)	-	-	-
Transfer from Revaluation Reserve (Note 39.2)	2,128	-	2,128	-
Balance Carried Forward (Note 28.1 & 28.2)	269,562	442,711	269,562	442,858

As proposed in the Budget 2011 current income tax rate of 35% will be reduced to 28%. However, the Bank has considered tax rate at 35% for deferred taxation; as the new rate is not yet substantially enacted.

	2010 - BANK		2009 - BANK (Restated)	
	Temporary Difference	Tax	Temporary Difference	Tax
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>28.1 Analysis of Deferred Assets and Liabilities</b>				
<b>Deferred Tax - Liability</b>				
Property, Plant & Equipment	1,030,744	360,760	1,060,002	371,000
Lease Rentals	590,651	206,728	242,702	84,946
Revaluation Gain B/F	32,863	11,502	32,863	11,502
	1,654,258	578,990	1,335,567	467,448
<b>Deferred Tax - Assets</b>				
Defined Benefit Obligation*	888	311	-	-
Unclaimed Bad Debt Provision - Specific	2,174,377	761,032	2,451,368	857,979
Bad Debt Provision - General**	112,020	39,207	149,087	52,180
Tax Losses Carried Forward	-	-	-	-
Transfer of Revaluation Losses	131,069	45,874	-	-
Gain on Revaluation	6,080	2,128	-	-
	2,424,434	848,552	2,600,455	910,159
<b>Net Deferred Tax Assets/Liabilities - (Note 28.1.1)</b>	<b>770,176</b>	<b>269,562</b>	<b>1,264,888</b>	<b>442,711</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010 - BANK				2009 - BANK (Restated)			
	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000
<b>28.1.1 Movement in Temporary Differences</b>								
<b>Deferred Tax - Liability</b>								
Property, Plant & Equipment	1,060,002	(29,258)	-	1,030,744	1,083,333	(23,331)	-	1,060,002
Lease Rentals	242,702	347,949	-	590,651	289,417	(46,715)	-	242,702
Revaluation Gain B/F	32,863	-	-	32,863	32,863	-	-	32,863
	1,335,567	318,691	-	1,654,258	1,405,613	(70,046)	-	1,335,567
<b>Deferred Tax - Assets</b>								
Defined Benefit Obligation*	-	888	-	888	614,318	(614,318)	-	-
Unclaimed Bad Debt Provision - Specific	2,451,368	(276,991)	-	2,174,377	874,778	1,576,590	-	2,451,368
Bad Debt Provision - General**	149,087	(37,067)	-	112,020	128,474	20,613	-	149,087
Tax Losses Carried Forward	-	-	-	-	16,843	(16,843)	-	-
Impact on Devaluation	-	131,069	-	131,069	-	-	-	-
Gain on Revaluation	-	-	6,080	6,080	-	-	-	-
	2,600,455	(182,101)	6,080	2,424,434	1,634,413	966,042	-	2,600,455
<b>Net Deferred Tax Assets/Liabilities</b>	<b>1,264,888</b>	<b>(500,792)</b>	<b>6,080</b>	<b>770,176</b>	<b>228,800</b>	<b>1,036,088</b>	<b>-</b>	<b>1,264,888</b>

	2010 - GROUP		2009 - GROUP (Restated)	
	Temporary Difference Rs. '000	Tax Rs. '000	Temporary Difference Rs. '000	Tax Rs. '000
<b>28.2 Analysis of Deferred Tax Assets and Liabilities</b>				
<b>Deferred Tax - Liability</b>				
Property, Plant & Equipment	1,030,744	360,760	1,062,455	371,859
Lease Rentals	590,651	206,728	242,702	84,946
Revaluation Gain B/F	32,863	11,502	32,863	11,502
	1,654,258	578,990	1,338,020	468,307
<b>Deferred Tax - Assets</b>				
Defined Benefit Obligation*	888	311	2,874	1,006
Unclaimed Bad Debt Provision - Specific	2,174,377	761,032	2,451,368	857,979
Bad Debt Provision - General**	112,020	39,207	149,087	52,180
Tax Losses Carried Forward	-	-	-	-
Impact on Devaluation	131,069	45,874	-	-
Gain on Revaluation	6,080	2,128	-	-
	2,424,434	848,552	2,603,329	911,165
<b>Net Deferred Tax Assets/Liabilities (Note 28.2.1)</b>	<b>770,176</b>	<b>269,562</b>	<b>1,265,309</b>	<b>442,858</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010 - GROUP				2009 - GROUP (Restated)			
	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Revaluation Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000
<b>28.2.1 Movement in Temporary Differences</b>								
<b>Deferred Tax - Liability</b>								
Property, Plant & Equipment	1,062,455	(31,711)	-	1,030,744	1,071,311	(8,856)	-	1,062,455
Lease Rentals	242,702	347,949	-	590,651	289,417	(46,715)	-	242,702
Revaluation Gain B/F	32,863	-	-	32,863	32,863	-	-	32,863
	<b>1,338,020</b>	<b>316,238</b>	<b>-</b>	<b>1,654,258</b>	<b>1,393,591</b>	<b>(55,571)</b>	<b>-</b>	<b>1,338,020</b>
<b>Deferred Tax - Assets</b>								
Defined Benefit Obligation*	2,874	(1,986)	-	888	614,318	(611,444)	-	2,874
Unclaimed Bad Debt Provision - Specific	2,451,368	(276,991)	-	2,174,377	874,778	1,576,590	-	2,451,368
Bad Debt Provision - General**	149,087	(37,067)	-	112,020	128,474	20,613	-	149,087
Tax Losses Carried Forward	-	-	-	-	16,843	(16,843)	-	-
Impact on Devaluation	-	131,069	-	131,069	-	-	-	-
Gain on Revaluation	-	-	6,080	6,080	-	-	-	-
	<b>2,603,329</b>	<b>(184,975)</b>	<b>6,080</b>	<b>2,424,434</b>	<b>1,634,413</b>	<b>968,916</b>	<b>-</b>	<b>2,603,329</b>
<b>Net Tax Assets/Liabilities</b>	<b>1,265,309</b>	<b>(501,213)</b>	<b>6,080</b>	<b>770,176</b>	<b>240,822</b>	<b>1,024,487</b>	<b>-</b>	<b>1,265,309</b>

\* Defined Benefit Obligation (Gratuity Provision)

The Bank has a separate Gratuity Trust Fund which was approved by the Commissioner General of Inland Revenue. As per the approval, Bank could transfer Gratuity Provision of 62.5% of the last month's salary of the year and deduct from the tax computation. Therefore, temporary differences have not arisen.

\*\* General Provision

Recognition of deferred tax assets arising from General Provision at Balance Sheet date was limited to non-performing ratio of the temporary difference. In management's view the Bank's NPA Ratio as at Balance Sheet date is an indicator of deferred tax assets which could be recovered in the future periods.

The Bank has recognised deferred tax assets on the General Provision of Rs. 112,019,740/- (Amount not recognised - Rs. 458,636,092/-).

## Seylan Developments PLC

### Deferred Tax Assets and Liability

No provision has been made in respect of deferred taxation as the Company has incurred tax losses and the temporary differences are not expected to reverse due to the effect of tax losses and it is not probable that future taxable profits will be available against which the Company can utilise the benefits therefrom. The amount of taxable temporary differences and the resultant tax effects are as follows:

	2010 Rs. '000	2009 Rs. '000
<b>Unrecognised Deferred Tax Assets</b>		
Tax Losses Carried Forward	<b>751,397</b>	697,995
Total Taxable Temporary Difference	<b>751,397</b>	697,995
Unrecognised Deferred Tax Assets	<b>262,989</b>	244,298
<b>Unrecognised Deferred Tax Liability</b>		
Property, Plant & Equipment and Investment Property	<b>(362,290)</b>	(325,693)
Total Taxable Temporary Difference	<b>(362,290)</b>	(325,693)
Unrecognised Deferred Tax Liability	<b>(126,801)</b>	(113,992)
Unrecognised Net Deferred Tax Assets	<b>136,188</b>	130,306

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**29. PROPERTY, PLANT & EQUIPMENT**

<b>Bank</b>	Freehold Land Rs. '000	Freehold Building Rs. '000	Computer Equipment Rs. '000	Machinery & Equipment Rs. '000
<b>Cost/Valuation</b>				
Balance as at 01st January	426,632	960,464	4,748,857	1,176,443
Additions & Improvements	-	-	31,145	82,114
Surplus/(Impairment) on Revaluation	194,959	(116,838)	-	-
Disposals	-	-	(54,445)	(22,443)
Transfers	-	-	18,202	3,085
<b>As at 31st December</b>	<b>621,591</b>	<b>843,626</b>	<b>4,743,759</b>	<b>1,239,199</b>
<b>Accumulated Depreciation</b>				
Balance as at 01st January	-	121,243	3,247,703	951,926
Charge for the year	-	22,543	530,197	83,992
Revaluation Adjustment on Accumulated Depreciation	-	(143,786)	-	-
Disposals	-	-	(54,414)	(22,242)
Transfers	-	-	14,933	962
<b>As at 31st December</b>	<b>-</b>	<b>-</b>	<b>3,738,419</b>	<b>1,014,638</b>
<b>Carrying Amount as at 31.12.2010</b>	<b>621,591</b>	<b>843,626</b>	<b>1,005,340</b>	<b>224,561</b>
Carrying Amount as at 31.12.2009	426,632	839,221	1,501,154	224,517
<b>Group</b>				
	Freehold Land Rs. '000	Freehold Building Rs. '000	Computer Equipment Rs. '000	Machinery & Equipment Rs. '000
<b>Cost/Valuation</b>				
Balance as at 01st January (Restated)	426,632	1,663,635	4,781,334	1,240,393
Additions & Improvements	-	-	31,169	82,594
Surplus/(Impairment) on Revaluation	194,959	(116,838)	-	-
Disposals	-	-	(54,452)	(23,689)
Transfers	-	-	(1,722)	(840)
Adjustment due to Amalgamation/ Deconsolidation	-	-	-	-
<b>As at 31st December</b>	<b>621,591</b>	<b>1,546,797</b>	<b>4,756,329</b>	<b>1,298,458</b>
<b>Accumulated Depreciation</b>				
Balance as at 01st January (Restated)	-	138,826	3,271,801	970,931
Charge for the Year	-	40,122	532,579	95,750
Revaluation Adjustment on Accumulated Depreciation	-	(143,786)	-	-
Disposals	-	-	(54,414)	(23,153)
Transfers	-	-	(2,167)	(2,430)
Adjustment due to Amalgamation/ Deconsolidation	-	-	2,186	(457)
<b>As at 31st December</b>	<b>-</b>	<b>35,162</b>	<b>3,749,985</b>	<b>1,040,641</b>
<b>Carrying Amount as at 31.12.2010</b>	<b>621,591</b>	<b>1,511,635</b>	<b>1,006,344</b>	<b>257,817</b>
Carrying Amount as at 31.12.2009 (Restated)	426,632	1,524,809	1,509,533	269,462

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Furniture/ Fittings Rs. '000	Motor Vehicles Rs. '000	Leased Assets Rs. '000	Capital Work- in-Progress Rs. '000	31.12.2010 Total Rs. '000	31.12.2009 Total Rs. '000
962,541	417,209	57,718	1,007	<b>8,750,871</b>	8,907,434
50,342	13,735	-	12,332	<b>189,668</b>	227,235
-	-	-	-	<b>78,121</b>	-
(13,014)	(136,160)	(1,650)	-	<b>(227,712)</b>	(383,798)
2,667	16,214	(105)	-	<b>40,063</b>	-
1,002,536	310,998	55,963	13,339	<b>8,831,011</b>	8,750,871
774,819	273,454	57,692	-	<b>5,426,837</b>	4,834,081
59,379	51,693	18	-	<b>747,822</b>	785,318
-	-	-	-	<b>(143,786)</b>	-
(12,825)	(104,346)	(1,650)	-	<b>(195,477)</b>	(192,562)
3,228	6,938	(105)	-	<b>25,956</b>	-
824,601	227,739	55,955	-	<b>5,861,352</b>	5,426,837
<b>177,935</b>	<b>83,259</b>	<b>8</b>	<b>13,339</b>	<b>2,969,659</b>	
187,722	143,755	26	1,007		3,324,034
Furniture/ Fittings Rs. '000	Motor Vehicles Rs. '000	Leased Assets Rs. '000	Capital Work- in-Progress Rs. '000	31.12.2010 Total Rs. '000	31.12.2009 Total (Restated) Rs. '000
972,756	433,425	73,289	1,007	<b>9,592,471</b>	9,907,839
50,396	13,735	-	12,332	<b>190,226</b>	227,941
-	-	-	-	<b>78,121</b>	-
(13,014)	(136,155)	(10,935)	-	<b>(238,245)</b>	(391,059)
2,667	2,428	(2,533)	-	<b>-</b>	-
-	-	-	-	<b>-</b>	(152,250)
1,012,805	313,433	59,821	13,339	<b>9,622,573</b>	9,592,471
782,182	278,165	67,326	-	<b>5,509,231</b>	5,042,889
60,435	52,504	2,795	-	<b>784,185</b>	841,225
-	-	-	-	<b>(143,786)</b>	(73,670)
(12,825)	(104,346)	(8,883)	-	<b>(203,621)</b>	(199,059)
3,037	4,014	(2,454)	-	<b>-</b>	-
-	(191)	-	-	<b>1,538</b>	(102,154)
832,829	230,146	58,784	-	<b>5,947,547</b>	5,509,231
<b>179,976</b>	<b>83,287</b>	<b>1,037</b>	<b>13,339</b>	<b>3,675,026</b>	-
190,574	155,260	5,963	1,007	-	4,083,240

## 29.1 Fully Depreciated Assets

The initial cost of fully-depreciated plant, machinery, equipment and furniture as at 31st December 2010 which are still in use as at Balance Sheet date:

	BANK 2010 Rs. '000	GROUP 2010 Rs. '000
Buildings	-	-
Computer Equipment	2,341,183	2,341,945
Office Machines & Equipment	755,695	756,498
Fixtures, Fittings & Furniture	638,959	639,514
Motor Vehicles	96,110	96,110
Leased Assets	55,584	55,584
	<b>3,887,531</b>	<b>3,889,651</b>

## 29.2 Temporarily Idle Plant and Equipment

No assets have been identified as temporarily idle plant and equipment as at 31.12.2010.

	2009 - BANK			2009 - GROUP		
	Cost	Depreciation	Net Book Value	Cost	Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
ATM Machines	7,834	1,814	6,020	7,834	1,814	6,020
Mobile Banking Equipment	31,454	6,870	24,584	31,454	6,870	24,584
	39,288	8,684	30,604	39,288	8,684	30,604

## 29.3 Freehold/Leasehold Land & Buildings - Bank

Address	Extent	Cost/ Valuation Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2010 Rs. '000
<b>Freehold</b>				
<b>Mt. Lavinia</b>				
198, Galle Road, Ratmalana	36.30P	90,000	-	<b>90,000</b>
<b>Badulla</b>				
10, Cocowatte Road, Badulla	1R5.50P	66,000	-	<b>66,000</b>
<b>Kochchikade</b>				
66, Chilaw Road, Kochchikade	8.0P	20,000	-	<b>20,000</b>
<b>Avissawella</b>				
71, Ratnapura Road, Avissawella	18.92P	24,000	-	<b>24,000</b>
<b>Grandpass</b>				
401, Sirimavo Bandaranayake Mawatha, Colombo 14	1R6.0P	66,850	-	<b>66,850</b>
<b>Hingurakgoda</b>				
13 and 14, Airport Road, Hingurakgoda	15.84P	12,900	-	<b>12,900</b>
<b>Bandarawela</b>				
240, Badulla Road, Bandarawela	27.01P	45,000	-	<b>45,000</b>
<b>Sarikkamulla</b>				
97, Old Galle Road, Sarikkamulla	12.10P	14,000	-	<b>14,000</b>
<b>Tissamaharama</b>				
547, Debarawewa, Tissamaharama	1R1.5P	15,000	-	<b>15,000</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Address	Extent	Cost/ Valuation Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2010 Rs. '000
<b>Raddolugama</b>				
171, National Housing Scheme, Raddolugama	12.08P	12,500	-	<b>12,500</b>
<b>Nuwara Eliya</b>				
61, Haddon Hill Road, Nuwara Eliya	1R36P	50,000	-	<b>50,000</b>
<b>Maradagahamulla</b>				
150, Divulapitiya Road, Maradagahamulla	35.0P	12,500	-	<b>12,500</b>
<b>Anuradhapura</b>				
23-A1, Anuradhapura	1R3.65P	38,000	-	<b>38,000</b>
<b>Embilipitiya</b>				
53 & 53/1, New Town Road, Embilipitiya	22.1P	30,000	-	<b>30,000</b>
<b>Nugegoda</b>				
211, High Level Road, Nugegoda	14.0P	68,000	-	<b>68,000</b>
<b>Nawalapitiya</b>				
77/1, 79, Dolosbage Road, Nawalapitiya	10.63P	10,000	-	<b>10,000</b>
<b>Ratnapura</b>				
6, Goods Shed Road, Ratnapura	6.13P	16,000	-	<b>16,000</b>
<b>Embilipitiya</b>				
Pettigala Road, Balangoda	2R22.04P	28,100	-	<b>28,100</b>
<b>Siri Nivasa</b>				
2, Deal Place, Colombo 3	19.0P	121,800	-	<b>121,800</b>
<b>Gampola</b>				
44, Kandy Road, Gampola	13.5P	39,000	-	<b>39,000</b>
<b>Negombo</b>				
115, Rajapaksa Broadway, Negombo	29.15P	72,000	-	<b>72,000</b>
<b>Head Office</b>				
90, Galle Road, Colombo 3 (Level - 1, 2, 13, 14)	38,656 Square Feet	613,567	-	<b>613,567</b>
<b>Total Freehold Land &amp; Buildings - Bank</b>		<b>1,465,217</b>	<b>-</b>	<b>1,465,217</b>
Total Freehold Buildings - Seylan Developments PLC (Seylan Towers - East Tower)		703,171	35,162	<b>668,009</b>
<b>Total Freehold Land &amp; Buildings - Group</b>		<b>2,168,388</b>	<b>35,162</b>	<b>2,133,226</b>
<b>Leasehold Properties - (Note 30)</b>				
<b>Nuwara Eliya</b>				
48 & 48/1, Park Road, Nuwara Eliya	20.28P	42,183	1,347	<b>40,836</b>
<b>Total Leasehold Land &amp; Buildings - Bank</b>		<b>42,183</b>	<b>1,347</b>	<b>40,836</b>
<b>Seylan Tower Land</b>				
90, Galle Road, Colombo 3		640,549	47,290	<b>593,259</b>
<b>Total Leasehold Land &amp; Buildings - Group</b>		<b>682,732</b>	<b>48,637</b>	<b>634,095</b>
<b>Total Land &amp; Buildings - Bank</b>		<b>2,851,120</b>	<b>83,799</b>	<b>2,767,321</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		
	Cost/Valuation Rs. '000	Depreciation Rs. '000	Net Book Value Rs. '000
<b>29.4 Summary of Freehold/Leasehold Properties</b>			
Freehold Land	621,591	-	621,591
Freehold Building	843,626	-	843,626
	<b>1,465,217</b>	<b>-</b>	<b>1,465,217</b>
Leasehold Land	22,603	1,347	21,256
Leasehold Building	19,580	-	19,580
	42,183	1,347	40,836
<b>Total - Bank</b>	<b>1,507,400</b>	<b>1,347</b>	<b>1,506,053</b>
Leasehold Land - Seylan Developments PLC	640,549	47,290	593,259
Freehold Building - Seylan Developments PLC	703,171	35,162	668,009
<b>Total Land &amp; Buildings - Group</b>	<b>2,851,120</b>	<b>83,799</b>	<b>2,767,321</b>

**29.5 Revaluation - Land & Buildings**

The Bank's entire land & buildings were revalued in year 2010 by a qualified valuer. Valuation was made on the basis of open market value and the revaluation surplus or deficit was transferred to the Revaluation Reserve/ Income Statements respectively. If land & buildings were stated at historical cost, the amounts would have been as follows:

	BANK					
	2010			2009		
	Land Rs. '000	Building Rs. '000	Total Rs. '000	Land Rs. '000	Building Rs. '000	Total Rs. '000
<b>Properties Revalued</b>						
<b>Cost</b>						
Freehold	426,632	960,464	1,387,096	22,204	61,588	83,792
Leasehold	-	43,545	43,545	8,894	31,596	40,490
<b>Accumulated Depreciation</b>						
Freehold	-	(143,787)	(143,787)	-	(12,490)	(12,490)
Leasehold	-	(3,710)	(3,710)	-	(1,153)	(1,153)
<b>Carrying Value</b>	<b>426,632</b>	<b>856,512</b>	<b>1,283,144</b>	<b>31,098</b>	<b>79,541</b>	<b>110,639</b>
<b>Properties Not Revalued</b>						
<b>Cost</b>						
Freehold	-	-	-	364,726	827,497	1,192,223
Leasehold	22,603	-	22,603	-	-	-
<b>Accumulated Depreciation</b>						
Freehold	-	-	-	-	(114,130)	(114,130)
Leasehold	(1,347)	-	(1,347)	-	-	-
<b>Carrying Value</b>	<b>21,256</b>	<b>-</b>	<b>21,256</b>	<b>364,726</b>	<b>713,367</b>	<b>1,078,093</b>
<b>Total Carrying Value</b>	<b>447,888</b>	<b>856,512</b>	<b>1,304,400</b>	<b>395,824</b>	<b>792,908</b>	<b>1,188,732</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010	2009	2010	2009
	Rs. '000	Rs. '000	Rs. '000	(Restated) Rs. '000
<b>30. LEASEHOLD RIGHTS</b>				
<b>Cost/Valuation</b>				
Balance as at 01st January	66,148	66,148	706,697	706,697
Additions for the Year	-	-	-	-
Surplus/(Impairment) on Revaluation	(23,965)	-	(23,965)	-
<b>As at 31st December</b>	<b>42,183</b>	<b>66,148</b>	<b>682,732</b>	<b>706,697</b>
<b>Accumulated Depreciation</b>				
Balance as at 01st January	3,065	1,983	42,477	33,517
Charge for the Year	1,992	1,082	9,870	8,960
Revaluation Adjustment on Accumulated Depreciation	(3,710)	-	(3,710)	-
<b>As at 31st December</b>	<b>1,347</b>	<b>3,065</b>	<b>48,637</b>	<b>42,477</b>
<b>Carrying Amount as at 31st December</b>	<b>40,836</b>	<b>63,083</b>	<b>634,095</b>	<b>664,220</b>

Bank - Leasehold property consists of the property situated at Park Road, Nuwara Eliya, acquired in the year 2001.

Seylan Developments PLC entered into a 99-year operating lease with the view to set up/conduct and operate a business for the construction of an office and apartment complex in the year 1992.

	BANK		GROUP	
	2010	2009	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>31. OTHER ASSETS</b>				
Deposits & Prepayments	477,049	461,808	492,016	482,080
Interest Receivable	1,192,883	1,289,039	1,192,883	1,289,039
Clearing House Balance	1,792,811	1,189,688	1,782,850	1,164,869
Inventories	236,527	334,630	236,527	335,904
Investment in Projects (Note 31.1)	-	-	210,652	226,363
Sundry Debtors	137,365	99,130	137,365	115,447
Other Receivables	54,071	133,513	54,071	255,626
Due From Trust Companies	46,054	124,154	46,054	124,154
Others	436,654	249,528	458,021	202,319
	<b>4,373,414</b>	<b>3,881,490</b>	<b>4,610,439</b>	<b>4,195,801</b>

**31.1 Investment in Projects**

Ja-Ela Commercial Complex	-	-	70,351	70,351
Moratuwa Housing Project	-	-	140,301	139,149
Naiwala Project	-	-	-	16,863
	-	-	<b>210,652</b>	<b>226,363</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>32. DEPOSITS</b>				
<b>Local Currency Deposits</b>				
Demand Deposits	9,442,613	7,923,720	9,442,613	7,923,720
Savings Deposits	33,197,056	28,867,299	33,197,056	28,867,299
Time Deposits	54,919,329	56,351,640	54,919,329	56,351,640
Certificates of Deposit	3,269,812	3,056,958	3,269,812	3,056,958
	<b>100,828,810</b>	<b>96,199,617</b>	<b>100,828,810</b>	<b>96,199,617</b>
<b>Foreign Currency Deposits</b>				
Demand Deposits	969,404	1,134,245	969,404	1,134,245
Savings Deposits	2,958,744	2,949,285	2,958,744	2,949,285
Time Deposits	5,134,380	4,532,752	5,134,380	4,532,752
	<b>9,062,528</b>	<b>8,616,282</b>	<b>9,062,528</b>	<b>8,616,282</b>
<b>Total Deposits</b>	<b>109,891,338</b>	<b>104,815,899</b>	<b>109,891,338</b>	<b>104,815,899</b>
<b>32.1 Maturity</b>				
Due within One Year	95,036,998	93,067,958	95,036,998	93,067,958
Due after One Year	14,854,340	11,747,941	14,854,340	11,747,941
	<b>109,891,338</b>	<b>104,815,899</b>	<b>109,891,338</b>	<b>104,815,899</b>
<b>32.2 Deposits From</b>				
Non-Bank Customers	108,318,812	103,038,963	108,318,812	103,038,963
Banks	348,816	87,670	348,816	87,670
Finance Companies	1,223,710	1,689,266	1,223,710	1,689,266
	<b>109,891,338</b>	<b>104,815,899</b>	<b>109,891,338</b>	<b>104,815,899</b>
<b>33. BORROWINGS</b>				
Call Money Borrowings	2,095,680	1,376,475	2,095,680	1,376,475
Refinance Borrowings	1,141,304	1,200,397	1,141,304	1,200,397
Borrowings from Local Banks	-	-	275,759	314,026
Borrowings from Foreign Banks	1,149,701	476,006	1,149,701	476,006
Other Borrowings	-	2,962	147,800	131,800
	<b>4,386,685</b>	<b>3,055,840</b>	<b>4,810,244</b>	<b>3,498,704</b>
<b>33.1 Maturity</b>				
Due within One Year	3,297,280	2,078,671	3,720,839	2,227,251
1-5 Years	576,309	639,072	576,309	933,356
After Five Years	513,096	338,097	513,096	338,097
	<b>4,386,685</b>	<b>3,055,840</b>	<b>4,810,244</b>	<b>3,498,704</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>34. GROUP BALANCES PAYABLE</b>				
Seylan Developments PLC	8,255	3,509	-	-
Seylan Bank Asset Management Limited	-	6,066	-	-
	<b>8,255</b>	<b>9,575</b>	<b>-</b>	<b>-</b>

**35. SUBORDINATED DEBENTURES****Debentures**

Year of Issue	Redemption Period	Private/Public Issue	Fixed Rate Annual	Fixed Rate Quarterly	Fixed Rate Monthly	Fixed Rate at Maturity	Floating Rate Annual	Floating Rate Quarterly	BANK	GROUP
									Outstanding as at 31.12.2010 Rs. '000	Outstanding as at 31.12.2010 Rs. '000
2006	2006-11	Public Issue	13.50%	-	13.00%	-	11.25%	-	1,257,315	1,257,315
2006	2006-11	Private Issue	15.00%	-	14.00%	18.50%	11.00%	-	162,250	162,250
2007	2007-12	Public Issue - I	16.75%	-	15.75%	-	14.00%	-	749,400	749,400
2007	2007-12	Public Issue - II	18.00%	-	17.00%	-	11.77%	9.63%	559,285	559,285
2007	2007-12	Private Issue	19.50%	-	-	-	-	-	100,000	100,000
2008	2008-13	Private Issue	20.00%	-	18.50%	-	22.50%	-	72,550	72,550
2008	2008-13	Public Issue	21.50%	-	20.50%	22.50%	11.80%	9.63%	630,565	630,565
2010	2010-15	Private Issue	-	11.00%	-	-	-	9.98%	465,000	465,000
									<b>3,996,365</b>	<b>3,996,365</b>

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>As at Beginning of the Year</b>	<b>4,230,365</b>	4,056,900	<b>4,230,365</b>	4,253,835
Transfer from Advance Received *	-	630,565	-	630,565
Issues During the Year	<b>465,000</b>	-	<b>465,000</b>	-
Redemptions During the Year	<b>(699,000)</b>	(457,100)	<b>(699,000)</b>	(654,035)
<b>As at End of the Year</b>	<b>3,996,365</b>	4,230,365	<b>3,996,365</b>	4,230,365

\* Proceeds received for Debenture Issue 2008/2013 allotted in 2009.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Debenture Category

		BANK						
	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date/Period		Maturity Date/Period	Value as at 31.12.2010 Rs. '000	Value as at 31.12.2009 Rs. '000	
<b>Fixed Rate Debentures</b>								
2005/2010 - 14.50% p.a.	Not Listed	Annually	31.08.2005 - 30.12.2005		30.08.2010 - 29.12.2010	-	699,000	
2006/2011 - 13.50% p.a.	Listed	Annually	13.07.2006		12.07.2011	462,080	462,080	
2006/2011 - 13.00% p.a.	Listed	Monthly	13.07.2006		12.07.2011	764,640	764,640	
2006/2011 - 15.00% p.a.	Not Listed	Annually	24.11.2006 - 29.12.2006		23.11.2011 - 28.12.2011	51,900	51,900	
2006/2011 - 14.00% p.a.	Not Listed	Monthly	27.11.2006 - 29.12.2006		26.11.2011 - 28.12.2011	34,500	34,500	
2006/2011 - 18.50% p.a.*	Not Listed	At Maturity	18.12.2006		17.12.2011	74,850	74,850	
2007/2012 - 16.75% p.a.	Listed	Annually	30.05.2007		29.05.2012	427,545	427,545	
2007/2012 - 15.75% p.a.	Listed	Monthly	30.05.2007		29.05.2012	291,620	291,620	
2007/2012 - 18.00% p.a.	Listed	Annually	10.12.2007		09.12.2012	296,240	296,240	
2007/2012 - 17.00% p.a.	Listed	Monthly	10.12.2007		09.12.2012	298,955	208,955	
2007/2012 - 19.50% p.a.	Not Listed	Annually	27.09.2007		26.09.2012	100,000	100,000	
2008/2013 - 20.00% p.a.	Not Listed	Annually	12.09.2008 - 31.10.2008		11.09.2013 - 30.10.2013	23,800	23,800	
2008/2013 - 18.50% p.a.	Not Listed	Monthly	22.09.2008 - 31.10.2008		21.09.2013 - 30.10.2013	18,800	18,800	
2008/2013 - 21.50% p.a.	Listed	Annually	12.01.2009		11.01.2014	231,610	231,610	
2008/2013 - 20.50% p.a.	Listed	Monthly	12.01.2009		11.01.2014	395,445	395,445	
2008/2013 - 22.50% p.a.	Not Listed	At Maturity	01.09.2008 - 31.10.2008		31.08.2013 - 30.10.2013	29,950	29,950	
2010/2015 - 11.00% p.a.	Not Listed	Quarterly	07.12.2010 - 29.12.2010		06.12.2015 - 28.12.2015	245,000	-	
						<b>3,656,935</b>	<b>4,110,935</b>	

\* Zero coupon debenture offered at a discount on par value with the investment doubled at maturity of the debentures which will be six years from the date of allotment (investment is doubled after the exclusion of the withholding tax element of 10%. Therefore the investor receives double the amount invested after payment of withholding tax).

## Floating Rate Debentures

2006/2011 - Note 01	Listed	Annually	13.07.2006		12.07.2011	30,595	30,595
2006/2011 - Note 02	Not Listed	Annually	18.12.2006		17.12.2011	1,000	1,000
2007/2012 - Note 03	Listed	Annually	30.05.2007		29.05.2012	30,235	30,235
2007/2012 - Note 04	Listed	Annually	10.12.2007		09.12.2012	10,755	10,755
2007/2012 - Note 05	Listed	Quarterly	10.12.2007		09.12.2012	43,335	43,335
2008/2013 - Note 06	Listed	Annually	12.01.2009		11.01.2014	120	120
2008/2013 - Note 07	Listed	Quarterly	12.01.2009		11.01.2014	3,390	3,390
2010/2015 - Note 08	Not Listed	Quarterly	07.12.2010 - 29.12.2010		06.12.2015 - 28.12.2015	220,000	-
						<b>339,430</b>	<b>119,430</b>
Total Debentures						<b>3,996,365</b>	<b>4,230,365</b>

## Note

- Two percentage points (2%) above the simple average of the one year weighted average Treasury Bill Rate (after tax on interest) at the primary auctions during the month of May each year applicable for the succeeding year until redemption with a floor of 11.0% p.a. and a cap of 15.0% p.a. payable annually.
- Two and half percentage points (2 ½%) above the one year weighted average Treasury Bill rate (after tax on interest) as published by Central Bank of Sri Lanka, initially decided during the month of October 2006 and applicable for the ensuing year calculated from the respective dates of allotment and thereafter determined in a similar manner based on the primary auctions during the month of October each year applicable for the succeeding year until redemption with a floor (minimum interest rate) of 11.0% p.a. and a cap (maximum interest rate) of 17.0% p.a.: payable annually on par value. Tenor of the debentures - five years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Two percentage points (2%) above the simple average of the one year weighted average Treasury Bill Rate (after tax on interest) at the primary auctions during the month of March each year applicable for the succeeding year until redemption with a floor of 14.0% p.a. and a cap of 19.0% p.a. payable annually.
4. One (1) year net Treasury Bill rate plus 2 ½% payable annually on par value (simple average of the one year weighted average Treasury Bill rate during the month immediately preceding the commencement of the respective years).
5. 3 months net Treasury Bill rate plus 2 ½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill rate during the month immediately preceding the commencement of the respective quarters).
6. One (1) year net Treasury Bill rate plus 2 ½% payable annually on par value (simple average of the one year weighted average treasury bill rate during the month preceding the commencement of the respective years).
7. 3 months net Treasury Bill rate plus 2 ½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill rate during the month preceding the commencement of the respective quarters).
8. AWPLR (Five-year floating rate) - ('AWPLR' means the simple average of the Average Weighted Prime Lending Rate published by the Central Bank of Sri Lanka for the 12-week period immediately preceding each Interest Determination Date).

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 (Restated) Rs. '000
<b>36. OTHER LIABILITIES</b>				
Accrued Expenses & Interest Payable	<b>4,134,829</b>	4,283,666	<b>4,183,474</b>	4,308,554
Margin Accounts	<b>820,571</b>	604,512	<b>820,571</b>	604,512
Deposit Funding Accounts	<b>1,786,834</b>	1,189,313	<b>1,786,834</b>	1,189,313
Dividend Payable	<b>22,398</b>	22,668	<b>23,044</b>	23,314
Provision for Defined Benefit Obligations (Net) (Note 36.1)	<b>(44,508)</b>	36,322	<b>(48,824)</b>	50,714
Sundry Creditors	<b>340,570</b>	422,149	<b>340,570</b>	451,536
Value Added Tax & Other Statutory Payables	<b>255,724</b>	350,987	<b>255,724</b>	526,782
Cheques & Drafts Payable	<b>536,201</b>	711,826	<b>536,201</b>	711,826
Others	<b>2,240,889</b>	581,572	<b>2,306,624</b>	610,578
	<b>10,093,508</b>	8,203,015	<b>10,204,218</b>	8,477,129

### 36.1 Defined Benefit Obligations

The Bank pays half-a-month's salary (last drawn) for each completed year of service as gratuity for employees who have worked for more than 5 years at the time of retirement/resignation.

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>36.1.1 The Amount Recognised in the Balance Sheet</b>				
Present Value of Defined Benefit Obligations (Note 36.1.3)	<b>708,494</b>	663,119	<b>717,844</b>	693,568
Fair Value of Plan Assets (Note 36.1.4)	<b>(713,180)</b>	(595,920)	<b>(726,846)</b>	(611,977)
Unrecognised Actuarial Gain or (Loss) (Note 36.1.5)	<b>(43,367)</b>	(37,966)	<b>(43,367)</b>	(37,966)
Unrecognised Past Service Gain				
Non-Vested (Note 36.1.6)	<b>3,545</b>	7,089	<b>3,545</b>	7,089
<b>Provision for Defined Benefit Obligations</b>	<b>(44,508)</b>	36,322	<b>(48,824)</b>	50,714

#### 36.1.2 Plan Assets Consists the Following

Balance with Banks	<b>31,859</b>	28,729	<b>37,511</b>	44,786
Investment in Treasury Bills & Bonds	<b>681,321</b>	567,191	<b>689,335</b>	567,191
<b>Provision for Defined Benefit Obligations</b>	<b>713,180</b>	595,920	<b>726,846</b>	611,977

Plan assets are held by an approved external gratuity fund.

#### 36.1.3 Movement in the Present Value of Defined Benefit Obligations

Liability for Defined Benefit Obligations as at 1st January	<b>663,119</b>	1,258,285	<b>693,568</b>	1,300,355
Current Service Cost	<b>54,853</b>	52,295	<b>55,804</b>	55,481
Interest Cost	<b>72,943</b>	150,994	<b>76,118</b>	155,012
Past Service Cost/(Gain) Non-Vested Benefits	-	(10,633)	-	(10,633)
Past Service Cost/(Gain) Vested Benefits	-	(588,269)	-	(588,269)
Unrecognised Actuarial (Gains)/Losses	<b>(4,714)</b>	(149,068)	<b>(20,336)</b>	(148,383)
Payments Made (Including Benefits Paid by the Plan)	<b>(77,707)</b>	(50,485)	<b>(85,725)</b>	(61,037)
Adjustment on Deconsolidation/Amalgamation	-	-	<b>(1,585)</b>	(8,958)
<b>Liability for Defined Benefit Obligations as at 31st December</b>	<b>708,494</b>	663,119	<b>717,844</b>	693,568

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>36.1.4 Movement in Plan Assets</b>				
Fair Value of Plan Assets as at 1st January	595,920	542,563	611,977	558,254
Expected Return on Plan Assets	93,540	75,959	94,568	78,085
Contribution Paid into Plan	108,965	31,739	108,967	31,739
Benefits Paid by the Plan	(77,707)	(50,485)	(85,725)	(61,169)
Unrecognised Actuarial Gains/(Loss) on Plan Assets	(7,538)	(3,856)	(2,941)	5,068
<b>Fair Value of Plan Assets at 31st December</b>	<b>713,180</b>	<b>595,920</b>	<b>726,846</b>	<b>611,977</b>

**36.1.5 Unrecognised Actuarial (Gain) or Loss**

Balance as at 1st January	37,966	189,550	37,966	189,550
Actuarial (Gain)/Loss for Year - Obligation	(4,714)	(149,068)	(20,336)	(148,524)
Actuarial (Gain)/Loss for Year - Plan Assets	7,538	3,856	7,538	3,856
Actuarial Gain/(Loss) Immediately Recognised	2,577	(6,372)	18,199	(6,916)
<b>Balance as at 31st December</b>	<b>43,367</b>	<b>37,966</b>	<b>43,367</b>	<b>37,966</b>

**36.1.6 Unrecognised Past Service Cost Non-Vested Benefits**

Balance as at 1st January	7,089	-	7,089	-
Past Service Cost/(Gain) Non-Vested Benefits*	-	10,633	-	10,633
Amount Recognised in the Income Statement	(3,544)	(3,544)	(3,544)	(3,544)
<b>Balance as at 31st December</b>	<b>3,545</b>	<b>7,089</b>	<b>3,545</b>	<b>7,089</b>

\* The Past Service Cost on Non-Vested Benefits is recognised on a straight line basis over 3 years.

**36.1.7 Amount Recognised in the Income Statement**

Current Service Cost	54,853	52,295	55,838	55,481
Interest Cost	72,943	150,994	76,160	155,012
Expected Return on Plan Assets	(93,540)	(75,959)	(94,568)	(78,085)
Actuarial (Gains)/Loss Immediately Recognised	(2,577)	6,372	(23,571)	(1,867)
Past Service Cost/(Gain) Vested Benefits	-	(588,269)	-	(588,269)
Past Service Cost/(Gain) Non-Vested Benefits	(3,544)	(3,544)	(3,544)	(3,544)
	<b>28,135</b>	<b>(458,111)</b>	<b>10,315</b>	<b>(461,272)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK			
	2010		2009	
<b>36.1.8 Actuarial Assumptions - Bank</b>				
Normal Retirement Age	55 years		55 years	
Rate of Discount	10.5%		11%	
Salary Increase	7%, 8%, 8% and thereafter 7.5% per annum. (Next increment due on 1st January 2011)		5%, 7.5% and thereafter 8% per annum. (Next increment due on 1st July 2010)	
	BANK		GROUP	
	2010	2009	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>37. STATED CAPITAL</b>				
Ordinary Shares - Voting (Note 37.1)	3,461,000	3,461,000	3,461,000	3,461,000
Ordinary Shares - Non-Voting (Note 37.2)	1,235,600	1,235,600	1,235,600	1,235,600
Preference Shares - Non-Redeemable, Non-Cumulative, Non-Convertible and Non-Voting (Note 37.3)	33,901	33,901	33,901	33,901
Share Premium (Note 37.4)	837,319	837,319	837,319	837,319
	<b>5,567,820</b>	<b>5,567,820</b>	<b>5,567,820</b>	<b>5,567,820</b>
<b>37.1 Ordinary Shares - Voting</b>				
Balance as at 01st January	3,461,000	435,600	3,461,000	435,600
Issued during the Year - 86,440,000 Ordinary Shares of Rs. 35/- each	-	3,025,400	-	3,025,400
<b>130,000,000 Ordinary Shares - Voting*</b>	<b>3,461,000</b>	<b>3,461,000</b>	<b>3,461,000</b>	<b>3,461,000</b>
* (43,560,000 shares of Rs. 10/- each and 86,440,000 shares of Rs. 35/- each).				
<b>37.2 Ordinary Shares - Non-Voting</b>				
Balance as at 1st January - 123,560,000 Ordinary Shares	1,235,600	1,235,600	1,235,600	1,235,600
<b>123,560,000 Ordinary Shares - Non-Voting</b>	<b>1,235,600</b>	<b>1,235,600</b>	<b>1,235,600</b>	<b>1,235,600</b>
<b>37.3 Preference Shares</b>				
Balance as at 1st January - 3,390,100 Preference Shares of Rs. 10/- each	33,901	33,901	33,901	33,901
<b>3,390,100 Preference Shares</b>	<b>33,901</b>	<b>33,901</b>	<b>33,901</b>	<b>33,901</b>
<b>37.4 Movement in Share Premium</b>				
Balance as at 01st January	837,319	837,319	837,319	837,319
<b>Balance as at 31st December</b>	<b>837,319</b>	<b>837,319</b>	<b>837,319</b>	<b>837,319</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>38. STATUTORY RESERVE FUND</b>				
Balance as at 01st January	506,919	479,754	506,919	481,650
Add: Transferred during the Year **	61,449	27,165	61,449	27,165
Adjustment on Deconsolidation	-	-	-	(1,896)
<b>Balance as at 31st December</b>	<b>568,368</b>	<b>506,919</b>	<b>568,368</b>	<b>506,919</b>

\*\* 5% of Net Profit after Tax.

Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2010 Rs. '000	2009 (Restated) Rs. '000	2010 Rs. '000	2009 (Restated) Rs. '000
<b>39. RESERVES</b>				
Capital Reserve (Note 39.1)	418,021	418,021	418,021	418,021
Revaluation Reserve (Note 39.2)	460,123	125,238	818,777	483,892
General Reserve (Note 39.3)	33,787	33,787	33,787	33,787
Capital Redemption Reserve Fund (Note 39.4)	-	-	255,213	255,213
Special Risk Reserve (Note 39.5)	79,769	-	79,769	42,595
Retained Profits	4,969,137	3,919,187	4,759,940	3,783,208
	<b>5,960,837</b>	<b>4,496,233</b>	<b>6,365,507</b>	<b>5,016,716</b>

**39.1 Movement in Capital Reserve**

	BANK	GROUP
	2010 Rs. '000	2009 Rs. '000
Balance as at 01st January	418,021	418,021
<b>Balance as at 31st December</b>	<b>418,021</b>	<b>418,021</b>

Consists of the Debenture Redemption Reserve Fund of Rs. 400 Mn. transferred to Capital Reserve in 2004. Debenture Redemption Reserve Fund was created for the redemption of five-year debentures amounting to Rs. 400 Mn. issued in November 1999. Balance consisting of Rs. 18 Mn. transferred to Capital Reserve in 1991.

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>39.2 Movement in Revaluation Reserve</b>				
Balance as at 01st January	125,238	125,238	483,892	490,562
Transferred to/from Revaluation Reserve	332,757	-	332,757	(6,670)
Transferred from Deferred Tax (Refer Note 28)	2,128	-	2,128	-
<b>Balance as at 31st December</b>	<b>460,123</b>	<b>125,238</b>	<b>818,777</b>	<b>483,892</b>

In addition to the Bank's Revaluation Reserve, Group includes the surplus on revaluation of fixed assets of Seylan Developments PLC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>39.3 Movement in General Reserve</b>				
Balance as at 01st January	<b>33,787</b>	33,787	<b>33,787</b>	33,787
<b>Balance as at 31st December</b>	<b>33,787</b>	33,787	<b>33,787</b>	33,787

Consist of Rs. 25 Mn. transferred in 1995 to General Reserve, Rs. 2.7 Mn. transferred from Bad Debts Reserve and Rs. 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>39.4 Movement in Capital Redemption Reserve Fund</b>				
Balance as at 01st January	-	-	<b>255,213</b>	258,997
Less: Adjustment on Consolidation	-	-	-	(3,784)
<b>Balance as at 31st December</b>	-	-	<b>255,213</b>	255,213

Capital Redemption Reserve Fund was created at the time of redeeming the preference shares of Seylan Developments PLC.

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>39.5 Movement in Special Risk Reserve</b>				
Balance as at 01st January	-	-	<b>42,595</b>	4,515
Add: Transferred during the Year	<b>32,038</b>	-	<b>37,174</b>	38,080
Less : Adjustment due to Amalgamation of Seylan Bank Asset Management Limited	<b>47,731</b>	-	-	-
<b>Balance as at 31st December</b>	<b>79,769</b>	-	<b>79,769</b>	42,595

According to the Circular Ref. No. 08/24/002/005/003 issued by the Central Bank of Sri Lanka, Primary Dealer Unit is required to appropriate 25% of the net profit after tax for the year towards the Special Risk Reserve Fund.

## 40. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	BANK		GROUP	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>40.1 Commitments</b>				
Undrawn Credit Lines	<b>11,966,858</b>	8,698,972	<b>11,966,858</b>	8,698,972
Capital Commitments (Note 42.1)	<b>21,892</b>	2,684	<b>21,892</b>	2,684
	<b>11,988,750</b>	8,701,656	<b>11,988,750</b>	8,701,656

## 40.2 Contingencies

Acceptances	<b>4,066,223</b>	2,781,914	<b>4,066,223</b>	2,781,914
Stand by Letters of Credit	<b>25,565</b>	283,255	<b>25,565</b>	283,255
Guarantees	<b>8,262,274</b>	7,194,304	<b>8,329,274</b>	7,194,304
Documentary Credit	<b>3,952,136</b>	2,007,403	<b>3,952,136</b>	2,007,403
Bills for Collection	<b>1,919,301</b>	1,335,048	<b>1,919,301</b>	1,335,048
Forward Exchange Contracts (Net)	<b>(17,171)</b>	(41,018)	<b>(17,171)</b>	(41,018)
	<b>18,208,328</b>	13,560,906	<b>18,275,328</b>	13,560,906
<b>Total Commitments &amp; Contingencies</b>	<b>30,197,078</b>	22,262,562	<b>30,264,078</b>	22,262,562

## 41 LITIGATION AND CLAIMS

### 41.1 Cases Against the Bank

#### Civil Cases

1. CHC 14/98, CA (Rev). 1788/04, CHC 157/2001 (1), [SC 01/2010], HC (Civil) 137/99(1), DC Colombo 15958/M are in appeal.
2. DC Mt. Lavinia 234/Claim Case is filed against the Bank claiming wrongful seizure.
3. DC Colombo 157/2007 claiming that Bank had honoured 3rd party cheque which was allegedly forged by the customer of our Raddolugama branch (RDL) and credited to his account.
4. DC Ratnapura 23391/M case filed by customer for wrongful take over of assets not mortgaged.
5. CHC Colombo 403/09/MR. Case filed by plaintiff. Bank has not permitted the customer to utilise the facilities and charging high rate of interest.
6. DC Colombo 07219/09/DMR. Case filed by the customer collecting proceeds of a cheque crediting to a fictitious account. Case was transferred to Commercial High Court. Plaintiff to take steps.
7. DC Colombo DSP 212/2009 an enjoining order preventing the Bank from paying monies under the Letter of Credit issued by the Bank to Bank of China. Order delivered against the Bank and appealed against the same in case No. WPCA 108/2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. DC Bandarawela 1687/L to 1695/L (9 cases) occupants before the mortgage have filed actions against the Bank. Government intervened and acquired the property and we lodged the claim. Case laid by.
9. DC Mt. Lavinia 500/4/P Bank has been added as 13th defendant and 10th defendant had mortgaged the property to the Bank. There is no claim against the Bank. Case to be called. Statement of claim and report on 5/10/2010. Case will be called on 7/12/2010 for Commission Report. Case will be called on 22/2/2011 for commission/ report of the 1st and 2nd defendants.
10. DC Colombo 26321/M action claiming an ex-gratia payment of Rs. 10.0 Mn.
11. CHC 638/09/MR (DC Colombo 6033/SPL) Bank has filed the case to prevent the defendant by using the information he gathered during his tenor of service. Counter claim has been made by the defendant.
12. CHC 232/2002, CHC 320/2002, CHC 243/2002 these cases are instituted with regard to sale of shares of Blue Diamond Jewellery World Wide (BDJWWL) held as security for the facility of Gold Lada.
13. DC Colombo 04768/09 DMR client filed action claiming damages from the bank for negligence prosecution and wrongful act. This case transferred to Commercial High Court and still not received the notices. DC Colombo Case No. 04767/09/DMR client filed case claiming damages for Rs. 5.0 Mn. and case transferred to Commercial High Court.
14. Case No. 30780/MR customer filed a case against the Bank for fraudulent withdrawal of Rs. 280,000/- made by a third party apparently the sister of the customer, claiming the said amount from the Bank.
15. DC Chilaw 312/M case filed by the Company alleging that certain cheques not been credited by the Bank to the accounts of Kiriya Milk Products. Judgment not in favour of Bank.
16. DC Colombo Case No. 367/DMR/09 customer filed claiming Rs. 5.0 Mn., claiming that the Bank has wrongfully refused to issue foreign exchange for travel purpose. Court ordered transfer the matter to Commercial High Court since the same has arisen out of a banking transaction.

**Labour Tribunal Cases**

1. A Writ Application bearing No. 891/2009 was filed in the Court of Appeal by the Bank against the Order of the Commissioner of Labour to pay gratuity at the rate of one month salary for employees who completed ten years of service. The Case is fixed for argument on 3rd March 2011.
2. There have been 6 cases instituted against the Bank and 10 other defendants in the District Court of Colombo by former employees of the Bank. The cases relate to the shares owned by Sotse (Private) Limited, Seyshop (Private) Limited, Seyfest (Private) Limited, Esots (Private) Limited, Seybest (Private) Limited and Sesot (Private) Limited in the Bank and the only relief which has been sought against the Bank from Court is that the Bank is not entitled to receive any part of the trust property referred to in the plaint other than for the specific purpose of transferring such monies to the beneficiaries identified in the relevant Trust Deed. The Seylan Bank Employees Union has also applied to be added as a party to these cases and the matter is now fixed for 23rd March 2011 for notice to be issued to the other parties in respect of this application.
3. LT applications before the Labour Tribunal by Ex employees. Case Nos. LT/01/32/2010, LT/01/33/2010, LT/01/34/2010, LT/01/35/2010, LT/01/36/2010, LT/01/37/2010, LT/01/38/2010, LT/01/39/2010, LT/01/40/2010, LT/01/41/2010, LT/01/42/2010, LT/01/43/2010, LT/01/44/2010, LT/02/109/2010, LT/08/505/2010, LT/13/78/2010, LT/13/79/2010, LT/13/80/2010, LT/13/81/2010, LT/13/82/2010.

Based on the available information and current status of the above cases, the Bank is not in a position to quantify the potential financial impact if any, as at the Balance Sheet date. Further, based on legal advice the Bank, does not expect the outcome of any action to have a material effect on the financial position of the Bank.

## 41.2 Tax Assessments

### Against the Bank

1. Assessment No. VATFS/BFSU/2009/130 for VAT on Financial Services for 2007, amounts to Rs. 359,126,231/-. Bank is not in agreement with the settlement optioned at the unit level amounting to Rs. 179,563,116/-. Therefore, the Bank requested to refer the matter for Commissioner General hearing.
2. Assessment No. VATFS/BFSU/2010/263 for VAT on Financial Services for 2008, amounts to Rs. 174,148,569/-. Bank made an appeal on 27th January 2011.
3. Assessment No. 6129284 for Income Tax for Year of Assessment 2007/08, amounts to Rs. 316,456,174/- and penalty as Rs. 113,539,923/-. Bank made an appeal on 27th April 2010 and the Department of Inland Revenue acknowledged the same on 12th May 2010.

The Bank is of the view that the above assessments will not have any material impact on the Financial Statements.

### Against Seylan Developments PLC

The Company made appeals on the assessments raised for the years of assessment 2005/06 and 2006/07. However, the Company is in disagreement with the settlement options proposed at the unit level and by the Commissioner General of Inland Revenue and an appeal has been now referred to the Board of Review. Board of Review has acknowledged the appeal for hearing and date of hearing is due to be informed by the Board of Review.

## 42. CAPITAL COMMITMENTS

Capital expenditure approved by the Board of Directors for which provision has not been made in these accounts amounted to approximately:

	BANK		GROUP	
	2010 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.
<b>42.1</b> Approved and Contracted for	<b>21.892</b>	2.684	<b>21.892</b>	2.684
<b>42.2</b> Approved but not Contracted for	-	-	-	-

## 43. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Board of Directors of the Bank recommends a final ordinary dividend of Rs. 1.00 per share and preference dividend of Rs. 1.05 per share for the year 2010 and to be approved at the Annual General Meeting.

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements other than those disclosed above and in Note 19.1.2 to the Financial Statements.

#### 44. RELATED PARTY TRANSACTIONS

**44.1** According to Sri Lanka Accounting Standard 30 (Revised 2005) Related Party Disclosures, Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors, General Manager/Chief Executive Officer (GM/CEO), Key Employees of the Bank holding Directorships in subsidiary companies and their immediate family members have been classified as Key Management Personnel (KMP) of the Bank.

Immediate family members is defined as spouse or dependent. Dependent is defined as any one who depends on the respective Director for more than 50% of his/her financial needs.

As the Bank is the Ultimate Parent of its subsidiaries listed in Note 45 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group, the Directors of the Bank and their immediate family members have been identified as the KMP of the Group.

Therefore, officers who are only Directors of the subsidiaries and not of the Bank have also been classified as KMP of that respective subsidiary only.

#### 44.2 Transactions with Key Management Personnel (KMP) for Credit Facilities

	Facilities	Limit Rs. Mn.	Outstanding Rs. Mn.	Security
Mr. Ajita Pasqual	Overdraft	4.678	2.142	Lien over principal sum of Repo Ref: REPO/TRY/2009/950007141 for Rs. 250,000/-, Lien over Fixed Deposit Ref. PBG/10/012A for USD 14,403.68 (Rs. 1,598,808.48) Lien over deposits for LKR 935,588.77 and Lien over deposits for EURO 3,703.63 (Rs. 546,725.79) and AUD 3,504.97 (Rs. 395,587.74)
	Employee Provident Fund Loan	5.900	5.121	Against Employees' Provident Fund balance of Rs. 7,409,465/-
	Housing Loan - I	6.000	2.086	Primary Mortgage Bond for Rs. 6,000,000/- over the property at Kirulapone
	Term Loan - I	3.558	2.839	} Lien over deposits for Rs. 656,311.87. USD 80,244.14 (Rs. 8,907,099.54)
	Term Loan - II	3.000	0.150	
	Term Loan - III	1.000	0.599	
	Term Loan - IV	4.000	1.510	
Mr. S. Paliawadana	Overdraft	0.015	0.015	DPN /Overdraft Agreement
	Employee Provident Fund Loan	3.910	3.910	Against Employees' Provident Fund balance of Rs. 4,398,183/-
	Housing Loan - I	1.582	0.636	Primary Mortgage Bond for Rs. 1,582,000/- over the property at Pita-Kotte
	Piyasa Housing Loan	2.375	0.151	} Secondary Mortgage Bond for Rs. 2,375,000/- over the above property
	Housing Loan - II	1.500	0.887	
	Housing Loan - III	0.500	0.290	
Mr. C. Kotigala	Employee Provident Fund Loan	7.139	7.139	Against Employee Provident Fund balance of Rs. 9,610,574/-
	Housing Loan - I	2.475	1.636	Primary Mortgage Bond for Rs. 2,475,000/- over the property at Beddegana North
	Housing Loan - II	1.000	0.569	Secondary Mortgage Bond for Rs. 1,000,000/- over the above property
	Housing Loan - III	0.500	0.279	Additional Mortgage Bond for Rs. 2,000,000/- over the above property
	Housing Loan - IV	1.345	1.033	Covered by Additional Mortgage Bond for Rs. 2,000,000/-
	Overdraft	-	0.053	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**44.3 Deposits by Key Management Personnel**

		Rs. Mn.
Mr. E. Narangoda	Total	1,708
Mr. R. Nadarajah	Total	0.851
Mr. C. Kotigala	Total	0.082
Mr. S. Palihawadana	Total	0.497
Mr. Ajita Pasqual	Total	11,441
Mr. M.P.V.R. De Silva	Total	0.270
Mr. Kapila Ratnayake	Total	0.171
Mr. A. Madurapperuma (Balance as at 07.04.2010)	Total	0.719
Ms. S. Pasqual	Total	1,599

**44.4 Other Instruments by Key Management Personnel**

		Rs. Mn.
Mr. E. Narangoda	Treasury Bonds	5,279
Mrs. G.H.C.S. Narangoda	Treasury Bonds	2,047
Mr. R. Nadarajah	Treasury Bills	4,044
Mr. A.L. Devasurendra	Treasury Bonds	1,000
Mr. S. Palihawadana	Treasury Bonds	3,545
	Treasury Bills	0,590
	Reverse Repo	0,382
Mr. A. Madurapperuma	Treasury Bills	2,294
	Treasury Bonds	0,149
Mr. Ajita Pasqual	Repo	0,300

**44.5 Accommodation Granted to KMP for Credit Cards**

Name of Key Management Personnel	Credit Card Limit Rs. '000	Outstanding Rs. '000	Security Type
Mr. E. Narangoda	500	Nil	
Mr. R. Nadarajah	500	1	
Mr. N.M. Jayamanne	500	4	
Mr. P.L.P. Withana	-	-	
Rear Admiral (Rtd.) B.A.J.G. Peiris	500	55	
Mr. A.L. Devasurendra	500	Nil	
Mr. I.C. Nanayakkara	500	Nil	
Mr. S.P.S. Ranatunga	500	242	
Mr. A.M.M. De Alwis	-	-	
Mr. P. Kudabalage	-	-	
Mr. P.G.S. Kariyawasam*	-	-	
Dr. N.H. Godahewa**	500	Nil	
Mr. Kapila Ratnayake	350	16	
Mr. M.P.V.R. De Silva	-	-	
Mr. S. Palihawadana	500	42	
Mr. C. Kotigala	500	179	
Mr. A. Madurapperuma***	500	Nil	
Mr. Ajita Pasqual	1,750	230	Rs. 1.0 Mn. Treasury Bills

\* Mr. P.G.S. Kariyawasam resigned on 14th May 2010.

\*\* Dr. N.H. Godahewa resigned on 30th June 2010.

\*\*\* Mr. A. Madurapperuma resigned from Seylan Developments PLC on 7th April 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**44.6 Compensation to KMP**

	2010 Rs. Mn.	2009 Rs. Mn.
Short-Term Employee Benefits	<b>46.674</b>	28.630
Post-Employment Benefits	<b>7.695</b>	3.980

In addition to their salaries Bank also provides non-cash benefits to the Directors and Executive Officers and contributes to a post-employment defined benefit plan on their behalf. Directors emoluments are disclosed in Note 9 to the Financial Statements.

**44.7** All the other interests of each director, direct or indirect in financial and other arrangements are disclosed under Note 45 - Other Related Party Transactions.

**45. OTHER RELATED PARTY TRANSACTIONS**

The Bank had the following financial dealings during the year 2010 with companies which are considered, related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates with companies mentioned below. The parties given below are considered related parties mainly due to significant influence arising as a result of common Directorships and through shareholdings. These companies, names of the directors and the nature of transactions entered into are listed below:

Party/Parties Accommodated	Name of Director/ Key Management Personnel	Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation Outstanding as at 31.12.2010				
					Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision
					Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
<b>(a) Direct Subsidiaries of the Bank</b>									
Seylan Developments PLC	Mr. R. Nadarajah <i>Chairman</i>								
	Rear Admiral (Rtd.) B.A.J.G. Peiris <i>Chairman</i> <i>[Resigned on 07.04.2010]</i>	Demand Deposit	7.717	Temporary Overdraft		1.552			
			7.717	Guarantee			10.245		
				Term Loan	668.000	371.558		53.780	
					668.000	373.110	10.245	53.780	
	Mr. S. Paliawadana <i>Director</i>			Primary Mortgage Bond for unit nos. of 324 Rs. 17.6 Mn. Secondary Mortgage for Rs. 9.4 Mn. over condominium unit numbers of 3 and 4 of Seylan Towers, Colombo 03 valued at Rs. 23.3 Mn. (Market Value) Rs. 18.0 Mn. Forced Sale Valued by Mr. D. Baranage in November 2010.					
	Mr. M.P.V.R. De Silva <i>Director</i>			Primary Mortgage Bond for Rs. 11 Mn. and Secondary Mortgage Bond for Rs. 19 Mn. over the Condominium unit No 40-14th floor (level 15) of east tower of Seylan Towers situated at No. 90, Galle Road, Colombo 03. Committee valuation for same is Rs. 54.5 Mn. (Market Value). Rs. 50.0 Mn. (Forced Sale Value).					
	Mr. K. Rathnayake <i>Executive Director/ Acting GM</i>			Primary Mortgage Bond for Rs. 21 Mn. over unit 8 in 1st Floor valued at Rs. 23.5 Mn (Market Value) Rs. 18.0 Mn. Forced Sale Valued by D. Baranage in November 2010.					
	Mr. C. Kotigala <i>Director</i>			Primary Mortgage Bond for Rs. 150 Mn. and Secondary Mortgage Bond for Rs. 6 Mn. over Lot A in Plan No. 2372 dated 18th October 2008 prepared by S.G. Ranasinghe (Licensed Surveyor) in the extent of 0A-1R-12.27P. Property situated at No. 257, Union Place, Colombo 02. Committee valuation for the property is Rs. 300 Mn. (Market Value), Rs. 260 Mn. (Forced Sale Value) and Rs. 70 Mn. (Insurance Value).					
	Mr. A. Madurapperuma <i>Director</i> <i>[Resigned on 07.04.2010]</i>			Primary Mortgage Bond for Rs. 187.0 Mn. over 3 condominium units 27,30 and 33 (7th, 8th and 9th Floors) of Seylan Towers in Plan No. 59/2004 dated 04th December 2004 prepared by M.C.L. Perera L.S. of property situated at No. 90, Galle Road, Colombo 03 valued at Rs. 388.8 Mn. (Market Value), Rs. 300.0 Mn. Forced Sale Valued on 08th September 2008 by D. Baranage (Committee Valuation Rs. 300.0 Mn. Market Value, Rs. 275.0 Mn. (Forced Sale Value)					
				Facilities are provided at the rate of 12%.					

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Services Obtained/Other Transactions**

Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/ Receivable	Amount Paid/Received
		Rs. Mn.	Rs. Mn.

**Expenses**

	Rent		98.634
	Work Order Jobs		1.052
2.423	Management Fees		
	Paid/Payable	0.538	3.500
	Interest Paid		0.014
		0.538	103.200

**Income**

	Fee Income		0.037
	Interest Income	10.016	15.460
		10.016	15.497

\*Rent and Security Deposit Rs. 78.716 Mn.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Services Obtained/Other Transactions

Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/ Receivable	Amount Paid/Received
		Rs. Mn.	Rs. Mn.

Interest Payable/Paid	9,268	37,656
	<u>9,268</u>	<u>37,656</u>

Dividend Paid	1,010	1,010
	<u>1,010</u>	<u>1,010</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Party/Parties Accommodated	Name of Director/ Key Management Personnel	Deposit	Aggregate Amount of Accommodation Outstanding as at 31.12.2010				
			Nature of Accommodation	Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision
	Relationship		Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Seyfest (Pvt) Limited	Mr. E. Narangoda <i>Chairman</i>						
	Mr. R. Nadarajah <i>Director</i>	Demand Deposit	0.939	Rs. 23.0 Mn. Payable to Seylan Bank PLC			
	Mr. S.J. Jebaratnam <i>Director</i>		0.939	No. of Voting Shares - 2,972,596			
	Mr. A.M. Pasqual <i>Director</i>						
	Mr. M.P.V.R. De Silva <i>Director</i>						
	Mr. C. Kotigala <i>Director</i>						
Sotse (Pvt) Limited	Mr. E. Narangoda <i>Chairman</i>			38.550	29.892		5.978
	Mr. R. Nadarajah <i>Director</i>			38.550	29.892		5.978
	Mr. S.J. Jebaratnam <i>Director</i>			Loan Agreement Form for Rs. 38.8 Mn.			
	Mr. A.M. Pasqual <i>Director</i>			No. of Voting Shares - 962,331			
	Mr. M.P.V.R. De Silva <i>Director</i>			Rs. 8 Mn. Payable to Seylan Bank PLC			
	Mr. C. Kotigala <i>Director</i>			Facilities are provided at the rate of 4%			
Seyshop (Pvt) Limited	Mr. E. Narangoda <i>Chairman</i>			54.375	30.360		6.072
	Mr. R. Nadarajah <i>Director</i>			54.375	30.360		6.072
	Mr. S.J. Jebaratnam <i>Director</i>			Loan Agreement Form for Rs. 55.1 Mn.			
	Mr. A.M. Pasqual <i>Director</i>			No. of Voting Shares - 2,132,900			
	Mr. M.P.V.R. De Silva <i>Director</i>			Rs. 14.14 Mn. Payable to Seylan Bank PLC			
	Mr. C. Kotigala <i>Director</i>			Facilities are provided at the rate of 4%			
Seybest (Pvt) Limited	Mr. E. Narangoda <i>Chairman</i>			54.510	30.321		6.064
	Mr. R. Nadarajah <i>Director</i>			54.510	30.321		6.064
	Mr. S.J. Jebaratnam <i>Director</i>			Loan Agreement Form for Rs. 55.1 Mn.			
	Mr. A.M. Pasqual <i>Director</i>			No. of Voting Shares - 2,132,900			
	Mr. M.P.V.R. De Silva <i>Director</i>			Rs. 14.14 Mn. Payable to Seylan Bank PLC			
	Mr. C. Kotigala <i>Director</i>			Facilities are provided at the rate of 4%			
Esots (Pvt) Limited	Mr. E. Narangoda <i>Chairman</i>			53.860	30.978		6.196
	Mr. R. Nadarajah <i>Director</i>			53.860	30.978		6.196
	Mr. S.J. Jebaratnam <i>Director</i>			Loan Agreement Form for Rs. 54.6 Mn.			
	Mr. A.M. Pasqual <i>Director</i>			No. of Voting Shares - 2,115,857			
	Mr. M.P.V.R. De Silva <i>Director</i>			Rs. 13.14 Mn. Payable to Seylan Bank PLC			
	Mr. C. Kotigala <i>Director</i>			Facilities are provided at the rate of 4%			

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Services Obtained/Other Transactions

Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/ Receivable	Amount Paid/Received
		Rs. Mn.	Rs. Mn.
	Dividend Paid		1.338
			<u>1.338</u>
0.181	Dividend Paid		0.433
			<u>0.433</u>
	Interest Received		1.200
			<u>1.200</u>
0.184	Dividend Paid		0.960
			<u>0.960</u>
	Interest Received		1.222
			<u>1.222</u>
0.184	Dividend Paid		0.960
			<u>0.960</u>
	Interest Received		1.220
			<u>1.220</u>
0.188	Dividend Paid		0.952
			<u>0.952</u>
	Interest Received		1.246
			<u>1.246</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Party/Parties Accommodated	Name of Director/ Key Management Personnel	Deposit Relationship	Nature of Accommodation	Aggregate Amount of Accommodation Outstanding as at 31.12.2010				
				Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision
			Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
<b>(c) Common Directorship Entities</b>								
Brown & Company PLC	Mr. A.L. Devasurendra <i>Deputy Chairman</i>	Demand Deposit	2.112					
			<u>2.112</u>					
	Mr. I.C. Nanayakkara <i>Director</i>			No. of voting shares - 12,416,966 Repo Rs. 21.536 Mn.				
Taprobane Holdings Limited	Mr. A.L. Devasurendra <i>Managing Director</i>	Demand Deposit	0.161	Margin Trading	100.000	94.136		
	Mr. I.C. Nanayakkara <i>Director</i>		<u>0.161</u>		<u>100.000</u>	<u>94.136</u>		
				Secured by Rs. 367.299 Mn. worth of quoted shares No. of Voting Shares - 9,500 Reserve Repo Rs. 360.85 Mn. Facilities are provided at the rate of 13.5%				
Lanka ORIX Finance Company Limited	Mr. I.C. Nanayakkara <i>Deputy Chairman</i>			Overdraft	10.000	4.225		
				Letter of Credit	(10.000)*			
				Post Dated Cheque Facility	5.000			
				Short-Term Loan	629.500	629.500		
					<u>644.500</u>	<u>633.725</u>		
				Special Power of Attorney for Rs. 15.00 Mn. over lease agreement for Rs. 30.00 Mn. Lien over gold 1,505,000 units- Market Value Rs. 752.5 Mn. * [ ] - within which Facilities are provided at the rate of AWPLR priced weekly				
Lanka ORIX Leasing Company PLC	Mr. I.C. Nanayakkara <i>Deputy Chairman</i>	Special foreign Currency Account (USD)	23.778	Overdraft	10.000			
		Foreign Currency Fixed Deposits (USD)	217.106	Treasury Loan	135.000	135.000		
			<u>240.884</u>	Revolving Lease	180.000	13.806		
				Short-Term Loan	640.000	421.000		
				Commercial Paper Loan	378.000	215.000		
					<u>1,343.000</u>	<u>784.806</u>		
				Assignment/Special Power of Attorney over performing leases for Rs. 95.00 Mn. over a portfolio not less than Rs. 190.00 Mn. Assignment/Special Power of Attorney over performing leases for Rs. 650 Mn. over a portfolio not less than Rs. 1.3 Bn. Secured on special foreign currency account Rs. 23.614 Mn. Secured from USD Fixed Deposit worth Rs. 217.106 Mn. Reverse Repo Rs. 660 Mn. Treasury Bond Rs. 720 Mn. No. of Voting Shares No. of Non-Voting Shares Facilities are provided at the rate of AWPLR priced weekly			66	4,980,900

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Services Obtained/Other Transactions

Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/ Receivable	Amount Paid/Received
		Rs. Mn.	Rs. Mn.
	Purchased Office Machineries, Equipment & Repairs		29.331
	Repair of fax machine		0.006
	Interest Paid		0.004
			<u>29.341</u>
	Interest Received		0.828
			<u>0.828</u>
0.714	Interest Received		7.259
			<u>7.259</u>
4.808			
		-	-
		-	-
		-	-
5.955			

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Party/Parties Accommodated	Name of Director/ Key Management Personnel  Relationship	Deposit  Nature of Accommodation	Aggregate Amount of Accommodation Outstanding as at 31.12.2010				
			Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision
		Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	
Maturata Plantations Limited	Mr. I.C. Nanayakkara <i>Director</i>	Overdraft	125.000	102.530			
		Term Loan (PSRP I)	41.911	18.740			
	Mr. A.L. Devasurendra <i>Director</i>	Term Loan (PSRP II)	18.737	10.939			
		Term Loan (PSRP III)	2.274	1.573			
		Term Loan (PSRP IV)	10.600	8.200			
		Term Loan (PSRP V)	13.732	12.730			
		Term Loan (eFRIENDS)	0.380	0.169			
		Term Loan	100.000	91.664			
		Term Loan (Tea Relief)	43.748	28.677			
		Term Loan (Tea Relief)	26.000	14.082			
		Guarantee	2.000	-	0.655		
			<b>384.382</b>	<b>289.304</b>	<b>0.655</b>		
						<b>Mortgage Value Rs. Mn.</b>	<b>Bond 60% of FSV Rs. Mn.</b>
		Mortgage over leasehold rights of Bramley Estate for Rs. 13.0 Mn. Forced Sale Value Rs. 22.0 Mn. Market Value Rs. 27.0 Mn. valued by Mr. S.N. Wijepala on 11.05.2009.				13.00	13.00
		Primary Mortgage for Rs. 36.0 Mn. Secondary Mortgage for Rs. 50.0 Mn. over leasehold rights of Gonapitiya Estate Forced Sale Value Rs. 120.0 Mn, Market Value Rs. 160.0 Mn. valued by Mr. S.N. Wijepala on 17.04.2009				86.00	72.00
		Mortgage over leasehold rights of Alma Estate for Rs. 26.0 Mn. Forced Sale Value Rs. 65.0 Mn. Market Value Rs. 75.0 Mn. valued by Mr. S.N. Wijepala on 17.04.2009				26.00	39.00
		Mortgage over leasehold rights of Ragala Estate for Rs. 74.75 Mn. Forced Sale Value Rs. 160.0 Mn. Market Value Rs. 190.0 Mn. valued by Mr. S.N. Wijepala on 17.04.2009				74.75	96.00
		Mortgage over leasehold rights of Maha Uva Estate for Rs. 19.5 Mn. Forced Sale Value Rs. 65.0 Mn. Market Value Rs. 75.0 Mn. valued by Mr. S.N. Wijepala on 17.04.2009				19.50	39.00
		Mortgage over leasehold rights of Enselwatte Estate for Rs. 102.25 Mn. Forced Sale Value Rs. 220.0 Mn. Market Value Rs. 270.0 Mn. valued by Mr. S.N. Wijepala on 03.06.2009				102.25	132.00
		Letter of Comfort from Free Lanka Trading Co. and Free Lanka Plantations Co. (Pvt) Limited for Rs. 75.0 Mn.					
		Overdraft Agreement for Rs. 125.0 Mn.					
		Loan Agreement Forms for Rs. 296.986 Mn.					
		<b>Existing security cover and mortgage bonds are adequate to cover enhanced overdraft.</b>					
		Proposed security: (Additional if any) <b>Treasury Guarantee to be obtained to cover proposed Term Loan of Rs. 26.0 Mn.</b>					
		Facilities are provided at the commercial rate					

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Services Obtained/Other Transactions**

Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/ Receivable	Amount Paid/Received
		Rs. Mn.	Rs. Mn.

2.195

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Party/Parties Accommodated	Name of Director/ Key Management Personnel	Deposit Relationship	Nature of Accommodation	Aggregate Amount of Accommodation Outstanding as at 31.12.2010				
				Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision
			Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	
The Lanka Hospital Corporation PLC	Mr. A.M.M. De Alwis <i>Director</i> <i>Appointed w.e.f. 20.08.2010</i>	Term Loan		98.750	3.795			
				98.750	3.795			
	Mr. P.G.S. Kariyawasam <i>Director</i> <i>Resigned on 14.05.2010</i>		Syndicate Loan Agreement entered into by Lanka Hospital Corporation PLC and Seylan Bank PLC.					
	Dr. N.H. Godahewa <i>Director</i> <i>Resigned on 30.06.2010</i>		Concurrent mortgage over all moneys receivable executed in favour of International Finance Corporation (IFC), DFCC, NDB, HNB and the Bank. Partial Syndication Loan Guarantee from IFC up to 57.5% of the principal amount. Facilities are provided at the commercial rate					
Sri Lanka Insurance Corporation Limited	Mr. A.M.M. De Alwis <i>Managing Director/ CEO</i> <i>Appointed w.e.f. 20.08.2010</i>	Fixed Deposit	500.000					
			500.000					
	Mr. P. Kudabalage <i>Executive Director</i> <i>Appointed w.e.f. 20.08.2010</i>		No. of Voting Shares - 19,500,000 No of Non-Voting Shares - 714,000					
	Mr. P.G.S. Kariyawasam <i>Chairman</i> <i>Resigned on 14.05.2010</i>							
	Dr. N.H. Godahewa <i>Managing Director</i> <i>Resigned on 30.06.2010</i>							
Commercial Leasing Company PLC	Mr. I.C. Nanayakkara <i>Deputy Chairman</i>		No. of Non-Voting Shares - 72,400					
The Ceylon Chamber of Commerce	Mr. S.P.S. Ranatunga <i>Member</i>		-	-	-			
Royal Fernwood Porcelain Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit	0.048	Overdraft [Sub Limit]	* [5.000]	} 8.706		
			0.048	Temporary Overdraft	4.300			
				Letter of Credit	47.397		3.654	
				Export Bills Purchased	* [47.397]			
				Packing Credit Loan	* [47.397]	35.884		
				Term Loan	13.542	11.283		
					65.239	55.873	3.654	
					Rs. 30.0 Mn. worth of Treasury Bonds Rs. 18.03 Mn. worth Repos Facilities are provided at the commercial rate	* [ ] - within which		
CIC Agribusiness (Pvt) Limited	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit	0.029	Overdraft	100.000	2.686		
			0.029	Letter of Credit	800.000		630.000	
					900.000	2.686	630.000	
			Negative Pledge over moveables					
			Facilities are provided at the rate of AWPLR priced weekly					

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Services Obtained/Other Transactions

Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/ Receivable	Amount Paid/Received
		Rs. Mn.	Rs. Mn.

0.029

Interest Payable	58.500	
Sharing Creative Production		0.363
Costs with Seylan Assurance	-	22.134
Insurance	-	
	<u>58.500</u>	<u>22.497</u>

Bank Association & Club Fees		0.140
		<u>0.140</u>

0.424

0.020

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit	Nature of Accommodation	Aggregate Amount of Accommodation Outstanding as at 31.12.2010				
				Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision
				Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Chemanex PLC	Mr. S.P.S. Ranatunga <i>Director</i>		- No. of Voting Shares - 20 - No of Non-Voting Shares - 20					
e-Channelling PLC	Mr. P. Kudabalage <i>Chairman</i> <i>Appointed w.e.f. 20.08.2010</i>	Demand Deposit		0.598				
				0.598				
Akzo Nobel Paints Lanka (Pvt) Limited	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit		0.727				
		Saving Deposit		2.912				
				3.639				
Sierra Construction Limited	Mr. A.L. Devasurendra <i>Director</i>	Fixed Deposit		37.025				
			Overdraft	-	1.461			
			Short-Term Loan	4.911	4.911			
			Guarantee	300.000		159.011		
			Letter of Credit Sight	50.000				
	Mr. I.C. Nanayakkara <i>Director</i>		Revolving Import Loan/Letter of Credit Usance	(50.000)*				
			Bill Discounted	150.000				
				504.911	6.372	159.011		
			Lien over Rupee Fixed Deposit for Rs. 36.060 Mn.					
			Joint & Several Guarantees of Directors for Rs. 465.0 Mn.					
			Mortgage over Stocks for Rs. 50.0 Mn.					
			Assignment over Contract Funds					
			Assignment over Bills Discounted					
			Bid Bond on NIL Margin					
			Performance Bond on 10% Margin					
			Advance Payment Guarantee on 10% Margin					
			Lien over Rupee Fixed Deposit for Rs. 0.965 Mn. for Guarantee Margin *[] within which Facilities are provided at commercial rates					
Diriya Investment (Pvt) Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit		2.122				
				2.122				
	Mr. I.C. Nanayakkara <i>Director</i>							
Ceylon Asset Management Co. Limited	Mr. A.M.M. De Alwis <i>Chairman</i> <i>Appointed w.e.f. 20.08.2010</i>	Demand Deposit		0.020				
				0.020				
	Mr. P. Kudabalage <i>Director</i> <i>Appointed w.e.f. 20.08.2010</i>							
Taprobane Fund Management Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit		0.025				
				0.025				
	Mr. I.C. Nanayakkara <i>Director</i>							
Standard Finance (Pvt) Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit		8.563				
				8.563				
Browns Investments (Pvt) Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit		1.735				
				1.735				



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Party/Parties Accommodated	Name of Director/ Key Management Personnel	Deposit  Relationship	Nature of Accommodation	Aggregate Amount of Accommodation Outstanding as at 31.12.2010				
				Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision
			Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	
Agstar Fertilizers Limited	Mr. I.C. Nanayakkara <i>Director</i>	Demand Deposit	1,543	Lease	6,000	0,958		
			1,543		6,000	0,958		
				Security Rs. 8 Mn. worth of Machinery				
				Facilities are provided at commercial rates				
<b>(d) Significant Provision of Finance/Economic Dependence</b>								
Seylan Credit Card Company Limited	Mr. A.M. Pasqual <i>Director</i>			The Bank jointly controlled operations for the Seylan Credit Card activities		Nil		
	Mr. C. Kotigala <i>Director</i>			Until 01/12/2010				
	Mr. T. Nanayakkara <i>Director</i>							



**46. MATURITY ANALYSIS****Bank**

**46.1** An analysis of the total assets employed as at 31st December 2010, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	<b>Total as at 31.12.2010 Rs. '000</b>
<b>Interest Earning Assets</b>						
Bills of Exchange	1,181,338	155,720	56,620	-	-	<b>1,393,678</b>
Loans & Advances	25,793,200	20,296,510	15,928,704	8,122,210	15,481,550	<b>85,622,174</b>
Lease Receivable	493,450	935,356	1,816,685	696,980	822	<b>3,943,293</b>
Balances with Banks	955,417	-	-	-	-	<b>955,417</b>
Commercial Paper	-	215,000	-	-	-	<b>215,000</b>
Treasury Bills/Bonds	975,882	2,330,037	11,323,009	15,750,026	4,675,070	<b>35,054,024</b>
Securities Purchased Under Resale Agreement	1,265,665	606	-	-	-	<b>1,266,271</b>
Group Balance Receivable	-	-	-	-	383,127	<b>383,127</b>
	<b>30,664,952</b>	<b>23,933,229</b>	<b>29,125,018</b>	<b>24,569,216</b>	<b>20,540,569</b>	<b>128,832,984</b>
<b>Non-Interest Earning Assets</b>						
Cash in Hand	3,742,989	-	-	-	-	<b>3,742,989</b>
Balances with CBSL	5,453,833	-	-	-	-	<b>5,453,833</b>
Investments	916,286	-	-	-	2,693,506	<b>3,609,792</b>
Investment Property	488,713	-	-	-	-	<b>488,713</b>
Group Balances Receivable	78,716	-	-	-	-	<b>78,716</b>
Property, Plant & Equipment/ Leasehold Rights	-	-	-	-	3,010,495	<b>3,010,495</b>
Income Taxation	42,026	-	-	-	-	<b>42,026</b>
Deferred Tax Assets	269,562	-	-	-	-	<b>269,562</b>
Other Assets	4,373,414	-	-	-	-	<b>4,373,414</b>
	<b>15,365,539</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,704,001</b>	<b>21,069,540</b>
<b>Total Assets</b>	<b>46,030,491</b>	<b>23,933,229</b>	<b>29,125,018</b>	<b>24,569,216</b>	<b>26,244,570</b>	<b>149,902,524</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**46.2** An analysis of the total liabilities as at 31st December 2010, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	<b>Total as at 31.12.2010 Rs. '000</b>
<b>Interest Bearing Liabilities</b>						
Deposits	59,402,101	25,222,880	4,742,550	3,037,790	7,074,000	<b>99,479,321</b>
Securities Sold Under						
Repurchase Agreements	8,563,924	865,424	-	-	-	<b>9,429,348</b>
Borrowings	3,267,088	30,192	178,293	398,016	513,096	<b>4,386,685</b>
Debentures	-	1,419,565	2,111,800	465,000	-	<b>3,996,365</b>
	71,233,113	27,538,061	7,032,643	3,900,806	7,587,096	<b>117,291,719</b>
<b>Non-Interest Bearing Liabilities</b>						
Deposits	9,457,547	954,470	-	-	-	<b>10,412,017</b>
Other Liabilities	10,071,110	-	-	-	-	<b>10,071,110</b>
Dividend Payable	22,398	-	-	-	-	<b>22,398</b>
Group Balances Payable	8,255	-	-	-	-	<b>8,255</b>
Equity	-	-	-	-	12,097,025	<b>12,097,025</b>
	19,559,310	954,470	-	-	12,097,025	<b>32,610,805</b>
<b>Total Liabilities</b>	<b>90,792,423</b>	<b>28,492,531</b>	<b>7,032,643</b>	<b>3,900,806</b>	<b>19,684,121</b>	<b>149,902,524</b>

Note - Equity is classified into 'More than 5 years' category since no contractual date of maturity can be identified.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Group**

**46.3** An analysis of the total assets employed as at 31st December 2010, based on the remaining period at the Balance Sheet date to the respective contractual maturity date is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	<b>Total as at 31.12.2010 Rs. '000</b>
<b>Interest Earning Assets</b>						
Bills of Exchange	1,181,338	155,720	56,620	-	-	<b>1,393,678</b>
Loans & Advances	25,793,200	20,296,510	15,928,704	8,122,210	15,481,550	<b>85,622,174</b>
Lease Receivable	493,450	935,356	1,816,685	696,980	822	<b>3,943,293</b>
Balances with Banks	955,417	-	-	-	-	<b>955,417</b>
Commercial Paper	-	215,000	-	-	-	<b>215,000</b>
Treasury Bills/Bonds	975,882	2,330,037	11,323,009	15,750,026	4,675,070	<b>35,054,024</b>
Securities Purchased Under Resale Agreement	1,265,665	606	-	-	-	<b>1,266,271</b>
	<b>30,664,952</b>	<b>23,933,229</b>	<b>29,125,018</b>	<b>24,569,216</b>	<b>20,157,442</b>	<b>128,449,857</b>
<b>Non-Interest Earning Assets</b>						
Cash in Hand	3,744,545	-	-	-	-	<b>3,744,545</b>
Balances with CBSL	5,453,833	-	-	-	-	<b>5,453,833</b>
Investments	916,286	-	-	-	2,336,984	<b>3,253,270</b>
Investment Properties	488,713	-	-	-	963,885	<b>1,452,598</b>
Property, Plant & Equipment/ Leasehold Rights	-	-	-	-	4,309,121	<b>4,309,121</b>
Income Taxation	45,015	-	-	-	-	<b>45,015</b>
Deferred Tax Assets	269,562	-	-	-	-	<b>269,562</b>
Other Assets	4,573,126	30,584	6,729	-	-	<b>4,610,439</b>
	<b>15,491,080</b>	<b>30,584</b>	<b>6,729</b>	<b>-</b>	<b>7,609,990</b>	<b>23,138,383</b>
<b>Total Assets</b>	<b>46,156,032</b>	<b>23,963,813</b>	<b>29,131,747</b>	<b>24,569,216</b>	<b>27,767,432</b>	<b>151,588,240</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**46.4** An analysis of the total liabilities as at 31st December 2010, based on the remaining period at the Balance Sheet date to the respective contractual maturity date is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	<b>Total as at 31.12.2010 Rs. '000</b>
<b>Interest Bearing Liabilities</b>						
Deposits	59,402,101	25,222,880	4,742,550	3,037,790	7,074,000	<b>99,479,321</b>
Securities Sold Under Repurchase Agreements	8,563,924	865,424	-	-	-	<b>9,429,348</b>
Borrowings	3,267,088	453,751	178,293	398,016	513,096	<b>4,810,244</b>
Debentures	-	1,419,565	2,111,800	465,000	-	<b>3,996,365</b>
	71,233,113	27,961,620	7,032,643	3,900,806	7,587,096	<b>117,715,278</b>
<b>Non-Interest Bearing Liabilities</b>						
Deposits	9,457,547	954,470	-	-	-	<b>10,412,017</b>
Other Liabilities	10,020,269	115,191	-	45,714	-	<b>10,181,174</b>
Dividend Payable	23,044	-	-	-	-	<b>23,044</b>
Equity	-	-	-	-	12,501,695	<b>12,501,695</b>
Minority Interest	-	-	-	-	755,032	<b>755,032</b>
	19,500,860	1,069,661	-	45,714	13,256,727	<b>33,872,962</b>
<b>Total Liabilities</b>	<b>90,733,973</b>	<b>29,031,281</b>	<b>7,032,643</b>	<b>3,946,520</b>	<b>20,843,823</b>	<b>151,588,240</b>

Note - Equity is classified into 'More than 5 years' category since no contractual date of maturity can be identified.

## 47. SEGMENT REPORTING

### 47.1 Group

Segment information is presented in respect of the Group's business segments. The primary format, business segments are based on the Group's management and internal reporting structure.

#### Business Segments

The Group comprises the following main business segments:

**Banking:** Loans and Advances (including leases and bills) deposits and other transactions and balances with corporate and retail customers.

**Consumer Financing (Leasing):** Margin Trading, Insurance and Leasing for corporate and retail customers.

**Treasury:** Undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purpose and investing in liquid assets such as short-term placements and corporate and Government debt securities.

**Property/Investment:** The property investment income, expenses, assets and liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Banking		Consumer Financing		Treasury		Property/Investments		Total	
	2010	2009	2010	2009	2010	2009	2010	2009 (Restated)	2010	2009 (Restated)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>External Revenue</b>										
Interest Income	13,240,609	16,053,472	177,242	212,720	2,825,425	5,448,666	33	2,949	16,243,309	21,717,807
Foreign Exchange Profit	141,655	130,003	-	-	267,116	376,481	-	-	408,771	506,484
Fee & Commission Income	1,411,786	1,245,899	7,656	29,134	68,855	62,382	(5,454)	-	1,482,843	1,337,415
Dividend Income & Other Income	980,875	754,309	11,759	9,704	392,569	85,092	153,993	158,669	1,539,196	1,007,774
Total Revenue from External Customers	15,774,925	18,183,683	196,657	251,558	3,553,965	5,972,621	148,572	161,618	19,674,119	24,569,480
Inter Segment Revenue	2,550,319	1,654,387	(193,557)	(266,113)	(2,356,762)	(1,388,274)	-	-	-	-
Total Segment Revenue	18,325,244	19,838,070	3,100	(14,555)	1,197,203	4,584,347	148,572	161,618	19,674,119	24,569,480
Depreciation Charge for the Year	238,947	248,835	591	678	13,810	27,313	6,456	29,565	259,804	306,391
<b>Reportable Segment Profit Before Income Tax</b>	<b>2,565,138</b>	<b>(22,981)</b>	<b>167,090</b>	<b>85,701</b>	<b>1,875,118</b>	<b>2,759,979</b>	<b>(30,069)</b>	<b>(303,546)</b>	<b>4,577,277</b>	<b>2,519,153</b>
<b>OTHER INFORMATION</b>										
Reportable Segment Assets	128,950,472	114,335,758	234,570	118,823	12,582,340	12,970,249	4,890,920	2,938,495	146,658,302	130,363,325
Segment Amortisations	(1,923,419)	(1,789,743)	(6,494)	(9,018)	(125,776)	(115,374)	(25,608)	(142,576)	(2,081,297)	(2,056,711)
<b>Total Assets</b>	<b>127,027,053</b>	<b>112,546,015</b>	<b>228,076</b>	<b>109,805</b>	<b>12,456,564</b>	<b>12,854,875</b>	<b>4,865,312</b>	<b>2,795,919</b>	<b>144,577,005</b>	<b>128,306,614</b>
Reportable Segment Liabilities	127,027,053	111,696,536	228,076	109,805	12,087,840	12,581,641	4,034,727	1,074,937	143,377,696	125,462,919
<b>Total Liabilities</b>	<b>127,027,053</b>	<b>111,696,536</b>	<b>228,076</b>	<b>109,805</b>	<b>12,087,840</b>	<b>12,581,641</b>	<b>4,034,727</b>	<b>1,074,937</b>	<b>143,377,696</b>	<b>125,462,919</b>

	<b>2010</b>	2009
	<b>Rs. '000</b>	(Restated) Rs. '000

## 47.2 Reconciliation of Reportable Segment Revenue, Profit or Loss and Assets and Liabilities

### Total Segment Revenue

Total Revenue for Reportable Segments	<b>19,674,119</b>	24,569,480
Unallocated Amounts	<b>628,541</b>	262,792
Elimination of Inter-Segment Revenue	<b>(121,326)</b>	(293,294)
	<b>20,181,334</b>	24,538,978

### Reportable Segment Profit before Income Tax

Total Profit for Reportable Segments	<b>4,577,277</b>	2,519,153
Unallocated Amounts	<b>(2,622,779)</b>	(1,613,125)
	<b>1,954,498</b>	906,028

### Reportable Segment Total Assets

Total Assets for Reportable Segments	<b>144,577,005</b>	128,306,614
Other Unallocated Amounts	<b>7,011,235</b>	8,921,395
<b>Consolidated Total Assets</b>	<b>151,588,240</b>	137,228,009

### Reportable Segment Total Liabilities

Total Liabilities for Reportable Segments	<b>143,377,696</b>	125,462,919
Other Unallocated Amounts	<b>8,210,544</b>	11,765,090
<b>Consolidated Total Liabilities</b>	<b>151,588,240</b>	137,228,009

#### 48. COMPARATIVE INFORMATION

The following comparative figures have been reclassified in the 2010 Financial Statements to maintain comparability of Financial Statements in order to provide a better presentation.

##### 48.1 Balance Sheet

	Note No.	BANK		Adjustment Rs. '000
		As Disclosed in 2009 Rs. '000	Restated in 2010 Rs. '000	
Deferred Taxation	28	454,213	<b>442,711</b>	11,502
Reserves (Retained Profits)	39	3,930,689	<b>3,919,187</b>	11,502

Bank has separately identified deferred tax impact on the assets revalued in 2006, on the revaluation component of the building constructed.

#### 49. COMPARATIVE INFORMATION IN THE CONSOLIDATED FINANCIAL STATEMENTS HAVE BEEN RESTATED AS FOLLOWS:

##### Income Statement for the year ended 31st December 2009

	Net Profit/(Loss) After Tax Rs. '000
As per the Annual Report Published for 2009	(448,761)
As per the Annual Report Published for 2010	(421,149)
Change - Profit/(Loss)	27,612

##### Balance Sheet as at 31st December 2009

	Assets Rs. '000	Liabilities Rs. '000	Equity Rs. '000
As per the Annual Report Published for 2009	137,267,851	125,355,764	11,912,087
As per the Annual Report Published for 2010	137,228,009	125,339,716	11,888,293
Change	(39,842)	(16,048)	(23,794)

Net profit before tax has been restated due to adjustments carried out in 2010 due to revaluation/transfers done for investment properties, adjustment for Plan Assets and Defined Benefit Obligation, booking of Social Responsibility Levy (SRL) in the Seylan Developments PLC (SD) and the depreciation charge as explained in Note 50.

	Seylan Developments PLC		
	2009 Restated Rs. '000	2009 Published Rs. '000	Change Rs. '000
<b>49.1 Income Statement for the year ended 31st December 2009</b>			
Income	235,418	276,767	(41,349)
Net Interest Income	(191,159)	(191,159)	-
Other Income	509,236	273,818	235,418
Operating Income	318,077	82,659	235,418
Less: Operating Expenses	222,651	223,389	(738)
Profit/(Loss) before Taxation	95,426	(140,730)	236,156
Less: Income Tax Expense	662	652	10
Profit/(Loss) after Taxation	94,764	(141,382)	236,146

#### **49.2 Balance Sheet as at 31st December 2009**

Total Assets	4,968,294	3,251,828	1,716,466
Liabilities	1,087,228	1,103,276	(16,048)
Equity	3,881,066	2,148,552	1,732,514
Minority Interest	-	-	-
Total Liabilities & Equity	4,968,294	3,251,828	1,716,466

#### **49.3 Reconciliation of Profit After Tax**

##### **Change in Profit of Seylan Developments PLC**

Revaluation Gains on Investment Properties	235,418
Adjustment to Plan Assets	367
Adjustment to Defined Benefit Obligation	371
SRL Charge	(10)
	236,146

##### **Impact of Non-Uniform Accounting Policies by Subsidiaries**

Reversal of Revaluation Gains adjusted to Income Statement of 2009 (not accounted in 2009 Consolidated Financial Statements) (Note 50.1)	(235,418)
Depreciation Charges adjusted to Consolidated Income Statement of 2009 (Note 50.1)	(28,340)
	(27,612)
Adjustments to Equity Holders of the Bank	(13,886)
Minority Holders	(13,726)
	(27,612)

#### **49.4 RECONCILIATION OF EQUITY**

Change in Equity of Seylan Developments PLC (SD)	1,732,514
Reversal of Revaluation Gains Adjusted (Not Accounted in 2009 Consolidated Financial Statements)	(1,716,466)
Prior year adjustment made by the Bank (Note 48)	(11,502)
Impact of Non-Uniform Accounting Policies by Subsidiaries (Note 50.2)	(28,340)
	(23,794)

## 50. NON-UNIFORM ACCOUNTING POLICIES

The impact of non-uniform accounting policies adopted by subsidiary companies has been adjusted in the Consolidated Financial Statements as set out below.

### 50.1 Adjustment due to different accounting policies of the Parent and the Group Entity Seylan Developments PLC (SD)

Seylan Bank PLC accounts Investment Properties at cost, whereas Seylan Developments PLC accounts Investment Properties at fair value.

Seylan Towers (East Tower) owned by SD is rented out to Seylan Bank PLC and occupied by the Bank.

Therefore the Land & Building does not qualify as investment property in the Consolidated Accounts.

The Land is treated as Lease Hold Rights and the building as a Property in the Consolidated Financial Statements and have been depreciated accordingly (SLAS 40).

	Rs. '000	Group Impact Rs. '000	Minority Impact Rs. '000
<b>Reversal of Revaluation Gains on Investment Properties</b>			
Reversal of Revaluation Gains Adjusted to Income Statement			
of 2009 (Not Accounted in 2009 Consolidated Accounts)	(235,418)	(118,392)	(117,026)
	(235,418)	(118,392)	(117,026)
<b>Depreciation Charges</b>			
Charges Depreciation Adjusted to Income			
Statement of 2009 (Note 50.2)	(28,340)	(14,252)	(14,088)
Charges Depreciation Adjusted to Income			
Statement of 2010	(56,360)	(28,343)	(28,017)
	(84,700)	(42,595)	(42,105)
<b>Total Adjustments Made - Income/(Charge)</b>	(320,118)	(160,987)	(159,131)

### 50.2 Impact on Opening Equity of 2010 (Adjusted to Profit/(Loss) for 2009)

	Rs. '000
Depreciation	(28,340)
	(28,340)