

**PUBLIC BANK BERHAD
SRI LANKA BRANCH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013**



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.ik.kpmg.com

Independent Auditors' Report

TO THE SHAREHOLDERS OF PUBLIC BANK BERHAD - SRI LANKA BRANCH

Report on the Financial Statements

We have audited the accompanying financial statements of Public Bank Berhad - Sri Lanka Branch ("the Bank"), which comprise the statement of financial position as at December 31, 2013, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended December 31, 2013 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2013, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements present the information required by the Banking Act, No 30 of 1988.

CHARTERED ACCOUNTANTS

6th January 2014
Colombo, Sri Lanka

PUBLIC BANK BERHAD - SRI LANKA BRANCH
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Note	2013 Rs.	2012 Rs.
Interest Income	5	593,996,551	538,605,708
Interest Expenses	5	98,268,968	111,321,663
Net Interest Income		<u>495,727,583</u>	<u>427,284,045</u>
Fee and Commission Income	6	21,558,872	25,009,303
Fee and Commission Expenses	6	756,110	633,723
Net Fee and Commission Income		<u>20,802,762</u>	<u>24,375,580</u>
Net Trading Income	7	16,695,686	25,497,241
Other Operating Income	8	3,704,089	3,086,997
Total Operating Income		<u>536,930,120</u>	<u>480,243,863</u>
Impairment Charges for / (Reversal of) Loan Losses	9	3,317,620	2,778,898
Net Operating Income		<u>533,612,500</u>	<u>477,464,965</u>
Personnel Expenses	10	80,132,250	71,701,204
Premises, Equipment and Establishment Expenses		53,916,709	49,804,221
Depreciation and Amortisation		29,454,994	30,741,713
Other Overhead Expenses		42,445,321	39,255,434
Operating Profit Before Value Added Tax (VAT)	11	<u>327,663,226</u>	<u>285,962,393</u>
Value Added Tax on Financial Services		38,872,016	35,253,078
Profit Before Income Tax		<u>288,791,210</u>	<u>250,709,315</u>
Income Tax Expenses	12	87,653,786	81,942,501
Profit for the Year		<u>201,137,424</u>	<u>168,766,814</u>
Other Comprehensive Income, Net of Income Tax			
Actuarial gain/ (losses) on defined benefit plans		(1,014,359)	-
Gain on translation of FCBU		8,312,279	31,148,788
Total Other Comprehensive Income		<u>7,297,920</u>	<u>31,148,788</u>
Total Comprehensive Income for the Year		<u><u>208,435,344</u></u>	<u><u>199,915,602</u></u>

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION


As at 31st December,

	Note	2013 Rs.	2012 Rs.
Assets			
Cash and Cash Equivalents	14	179,480,377	1,321,140,895
Statutory Deposit with Central Bank of Sri Lanka	15	38,178,146	72,321,734
Sri Lanka Government Securities	16	2,095,425,732	693,888,863
Loans and Receivables	17	3,435,643,407	2,791,835,505
Property, Plant and Equipment	18	50,556,439	56,542,440
Intangible Assets	19	19,979,914	32,100,576
Deferred Tax Assets	20	3,776,004	3,214,893
Other Assets	21	65,214,894	68,176,318
Total Assets		5,888,254,913	5,039,221,224
Liabilities and Equity			
Liabilities			
Deposits from Banks	22	82,161,336	58,620,568
Deposits from Customers	23	1,359,000,513	1,469,969,005
Current Tax Liability	24	49,181,674	47,779,348
Employee Benefits	25	13,485,729	11,481,761
Deferred Tax Liabilities	20	5,428,345	1,945,723
Other Liabilities	26	71,930,009	64,792,856
Total Liabilities		1,581,187,606	1,654,589,261
Equity			
Assigned Capital	27	3,170,318,132	2,456,318,132
Statutory Reserve Fund	28	50,909,475	40,852,604
FCBU Revaluation Reserve		106,715,631	98,403,352
Retained Earnings		870,733,221	723,615,935
Other Reserve		(1,014,359)	-
Investment Fund Account	29	109,405,207	65,441,940
Total Equity		4,307,067,307	3,384,631,963
Total Liabilities and Equity		5,888,254,913	5,039,221,224
Commitments and Contingent Liabilities			
Contingent Liabilities	30	227,246,000	248,869,191
Commitments	30	443,492,874	391,047,816


The annexed notes to the Financial Statements form an integral part of these Financial Statements.

The Management is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Management.


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Country Head


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Head of Finance

6th January 2014
Colombo

PUBLIC BANK BERHAD - SRI LANKA BRANCH
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2013

	Assigned Capital Rs.	Statutory Reserve Fund Rs.	Other reserve Rs.	FCBU Revaluation Reserve Rs.	Retained Earnings Rs.	Investment Fund Account Rs.	Total Rs.
Balance as at 1st January 2012	2,456,318,132	32,414,263	-	67,254,564	601,629,126	27,100,276	3,184,716,361
Total Comprehensive Income for the Year							
Profit for the Year	-	-	-	-	168,766,814	-	168,766,814
Other Comprehensive Income, Net of Income Tax							
Actuarial gain/ (losses) on defined benefit plans	-	-	-	-	-	-	-
Gain on translation of FCBU	-	-	-	31,148,788	-	-	31,148,788
Total Other Comprehensive Income, Net of Income Tax	-	-	-	31,148,788	-	-	31,148,788
Total Comprehensive Income for the Year	-	-	-	31,148,788	168,766,814	-	199,915,602
Transactions Recorded Directly in Equity							
Transfer to Investment Fund Account (Note 29)	-	8,438,341	-	-	(38,341,664)	38,341,664	-
Transfer to Statutory Reserve Fund	-	8,438,341	-	-	(8,438,341)	-	-
Total Transactions Recorded Directly in Equity	-	8,438,341	-	-	(46,780,005)	38,341,664	-
Balance as at 31st December 2012	2,456,318,132	40,852,604	-	98,403,352	723,615,935	65,441,940	3,384,631,963
Balance as at 1st January 2013	2,456,318,132	40,852,604	-	98,403,352	723,615,935	65,441,940	3,384,631,963
Total Comprehensive Income for the Year							
Profit for the Year	-	-	-	-	201,137,424	-	201,137,424
Other Comprehensive Income, Net of Income Tax							
Actuarial gain/ (losses) on defined benefit plans	-	-	(1,014,359)	-	-	-	(1,014,359)
Gain on translation of FCBU	-	-	-	8,312,279	-	-	8,312,279
Total Other Comprehensive Income, Net of Income Tax	-	-	(1,014,359)	8,312,279	-	-	7,297,920
Total Comprehensive Income for the Year	-	-	(1,014,359)	8,312,279	201,137,424	-	208,435,344
Transactions Recorded Directly in Equity							
Transfer to Investment Fund Account (Note 29)	-	-	-	-	(43,963,267)	43,963,267	-
Transfer to Statutory Reserve Fund	-	10,056,871	-	-	(10,056,871)	-	-
Capital Infusion	714,000,000	-	-	-	-	-	714,000,000
Total Transactions Recorded Directly in Equity	714,000,000	10,056,871	-	-	(54,020,138)	43,963,267	714,000,000
Balance as at 31st December 2013	3,170,318,132	50,909,475	(1,014,359)	106,715,631	870,733,221	109,405,207	4,307,067,307

Figures in brackets indicate deductions.

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
CASH FLOW STATEMENT

<i>For the year ended 31 December</i>	2013 <u>Rs.</u>	2012 <u>Rs.</u>
Cash flows from operating activities		
Profit Before Income Tax	288,791,210	250,709,315
Adjustments for:		
Depreciation and amortisation	29,454,994	30,741,713
Net impairment loss on loans and advances	3,294,710	2,689,741
Net interest income	(495,727,583)	(427,284,045)
Provision for employee benefits	2,885,641	1,759,633
Dividend income	(54,000)	(189,000)
Gain on sale of property, plant and equipment	(182,877)	(10,000)
	<u>(171,537,905)</u>	<u>(141,582,643)</u>
Change in Statutory Deposits with Central Bank of Sri Lanka (CBSL)	34,143,588	33,954,067
Change in loans and advances to customers	(640,660,054)	(25,234,770)
Change in other assets	(12,816,608)	(57,840,081)
Change in deposits from banks	23,540,768	(112,511,612)
Change in deposits from customers	(110,977,026)	(86,144,549)
Change in other liabilities and provisions	7,137,153	19,741,999
	<u>(871,170,084)</u>	<u>(369,617,588)</u>
Interest received	587,553,993	542,471,500
Dividends received	54,000	189,000
Interest paid	(98,260,434)	(104,815,362)
Tax paid	(67,551,920)	(24,658,426)
Gratuity paid	(1,896,029)	-
Net cash generated from/ (used in) operating activities	<u>(451,270,474)</u>	<u>43,569,124</u>
Cash flows from investing activities		
Net (Purchase of) / Proceeds from sale of Sri Lanka Government Securities	(1,401,536,869)	640,942,916
Acquisition of property, plant and equipment	(9,802,985)	(38,142,102)
Proceeds from the sale of property, plant and equipment	232,000	10,000
Acquisition of intangible assets	(1,594,469)	(32,206,364)
Net cash (used in) /from investing activities	<u>(1,412,702,323)</u>	<u>570,604,451</u>
Cash flows from financing activities		
Capital infusion	714,000,000	-
Net cash from financing activities	<u>714,000,000</u>	<u>-</u>
Net (decrease)/ increase in cash and cash equivalents	(1,149,972,797)	614,173,575
Cash and cash equivalents at the beginning of the reporting year	1,321,140,895	675,818,532
Effect of exchange rate fluctuations on cash and cash equivalents held	8,312,279	31,148,788
Cash and cash equivalents at end of the year	<u>179,480,377</u>	<u>1,321,140,895</u>

Figures in brackets indicate deductions.

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

PUBLIC BANK BERHAD – SRI LANKA BRANCH

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

1.1.1 Reporting Entity

Public Bank Berhad – Sri Lanka Branch, (the “Bank”) is a registered Branch of Public Bank Berhad a limited liability Company incorporated in Malaysia. Public Bank Berhad – Sri Lanka Branch commenced its business in January 1992 and is approved to carryout both domestic & off- shore banking under the Banking Act No 30 of 1988 of Sri Lanka.

The registered office of the Bank and the principal place of business are both located at No.340, R.A.De Mel Mawatha, Colombo 03.

1.1.2 Principal Activities

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, project finance, dealing in government securities, etc.

There have been no significant changes to these principal activities during the financial year.

1.1.3 Number of employees

The number of employees of the Bank as at 31st December 2013 was 57 (2012 : 54).

2 BASIS OF PREPARATION

2.1. Statement of Compliance

The financial statements of the Bank have been prepared in accordance with new Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Banking Act No 30 of 1988 and amendments thereto.

The Bank maintains separate books for Domestic Banking Unit and Foreign Currency Banking Unit. Accompanying financial statements have been prepared by consolidating the financial statements of the Domestic Banking Unit and Foreign Currency Banking Unit.

The consolidated financial statements were authorised for issue by the Management on 6 January 2014.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- The defined benefit asset is recognized at the present value of the defined benefit obligation.

2.3 Functional and presentation currency

These financial statements are presented in Sri Lanka rupees, which is the Bank’s functional currency.

PUBLIC BANK BERHAD – SRI LANKA BRANCH

NOTES TO THE FINANCIAL STATEMENTS

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with SLAS 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. Judgements and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Impairment losses on loans, advances and financing (Note 3.4.7)
- Impairment of other assets (Note 3.8)
- Current Income taxes (Note 3.17.1)
- Deferred tax assets (Note 3.17.2)
- Defined Benefit Plan (Note 3.10.3)
- Provisions and contingencies (Note 3.9)

2.5 Materiality and Aggregation

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Foreign Currency Translation

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available for-sale equity instruments, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

3.2 Translation of Measurement Currency

The Bank uses Sri Lankan Rupees as their measurement currency for Domestic Banking Unit and United State Dollars as their measurement currency for Foreign Currency Banking Unit books,

For consolidation purposes accompanying financial statements have been prepared in Sri Lanka Rupees after converting the Foreign Currency Banking Unit financial statements in to Sri Lanka Rupees.

The translation is performed based on the guidelines in the LKAS 21 “The Effects of Changes in Foreign Exchange Rates” stated below:

- All current assets and current liabilities (i.e including comparatives) are translated at the closing rate of each balance sheet date
- Income and expense items for all periods (i.e including comparatives) are translated at month end exchange rates pertaining to each period
- Equity items other than the net profit or loss for the period are translated at the historical rate existing at the date of each transaction
- All exchange differences resulting from translation in accordance with the above are recognised directly in the equity.

Foreign currency differences arising on translation of the above are recognised in OCI:

ASSETS AND BASES OF THEIR VALUATION

3.3 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Central Banks of Sri Lanka and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Statutory deposits with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

3.4 Financial instruments

3.4.1 Initial Recognition and Subsequent Measurement

Financial instruments are classified in the following categories – financial instruments at fair value through profit or loss, loans and receivables, financial investments held-to-maturity and financial

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NOTES TO THE FINANCIAL STATEMENTS

investments available-for-sale. Management determines the classification of financial instruments at initial recognition.

a. Financial Instruments at Fair Value through Profit or Loss

Financial assets classified in this category consist of financial assets held-for-trading. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing it in the near term.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses from changes in fair value and dividend income are included directly in "Net gains and losses on financial instruments" in the income statement. Interest income is recognised as "Interest income" in the income statement. Regular way purchases and sales of financial assets held-for-trading are recognised on settlement date.

The Bank does not have any financial instruments designated at fair value through profit or loss.

b. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks, reverse repurchase agreements and loans, advances and financing. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Interest income" in the income statement. Impairment losses on loans, advances and financing are recognised in the income statement as "Allowance for impairment on loans, advances and financing". Regular way recognition of loans, advances and financing is recorded on settlement date, when all the conditions under the loan contract have been fulfilled.

c. Financial Investments Held-to-Maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments that management has the intention and ability to hold to maturity. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest on investments held-to-maturity is included in "Interest income" in the income statement. Impairment losses, if any, are recognised in the income statement as "Impairment on other assets". Regular way purchases and sales of financial investments held-to-maturity are recognised at settlement date.

If the Bank is to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity, the entire category would be tainted and be reclassified to available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial assets as held-to-maturity for the following two years.

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d. Financial Investments Available-for-Sale

Financial investments available-for-sale are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories above. Financial investments available-for-sale include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market conditions.

These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statement. If an investment available-for-sale is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. Likewise, upon disposal of investments available-for-sale, the cumulative fair value gain or loss recognised in the statement of comprehensive income is also transferred to the income statement. Interest income on financial investments available-for-sale is included in “Interest income” and dividend income is recognised in “Net gains and losses on financial instruments” in the income statement. Regular way purchases and sales of financial investments available-for-sale are recognised at settlement date.

Investments in unquoted equity instruments which are classified as available-for-sale and whose fair value cannot be reliably measured are measured at cost. These investments are assessed for impairment at each reporting date.

The Bank does not have any financial instruments designated at available-for-sale.

e. Financial Liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost. The Bank does not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks and debt securities issued and other borrowed funds.

3.4.2 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or when the rights to receive further cash flows from the assets have been transferred to a third party and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they are redeemed or extinguished.

Collateral furnished by the Bank under repurchase agreements are not derecognised as the Bank retain substantially all the risks and rewards on the basis of the pre-determined repurchase price, and hence the criteria for derecognition are not met.

3.4.3 Reclassification of Financial Assets

The Bank may choose to reclassify non-derivative assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Bank may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or

PUBLIC BANK BERHAD – SRI LANKA BRANCH
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available-for-sale categories if the Bank have the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in the income statement is not reversed.

As at reporting date, the Bank have not made any such reclassifications of financial assets.

3.4.4 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.4.5 Determination of Fair Value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments measured at fair value are measured in accordance with the valuation methodologies as set out in Note 33.

Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost, and assessed for impairment at each reporting date.

3.4.6 Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and to settle the liability simultaneously. This is not generally the case with master netting agreements and therefore, the related assets and liabilities are presented on a gross basis in the statement of financial position.

3.4.7 Identification and measurement of impairment

a. Loans and advances

Specific allowance for impairment

For the determination of impairment on loans, the Bank assess at each reporting date whether there is any objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (ie. an “incurred loss event”) and that loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

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The criteria that the Bank use to determine that there is objective evidence of an impairment include:

- i. any significant financial difficulty of the obligor;
- ii. a breach of contract, such as a default or delinquency in interest or principal payments;
- iii. a high probability of bankruptcy or other financial reorganisation of the obligor;
- iv. concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; and
- v. any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the borrower.

The Bank first assess individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective allowance for impairment

Collective assessment of loans of the Bank which are not subject to this transitional arrangement is computed via grouping of these loans on the basis of similar credit risk characteristics. Future cash flows of each of these groups of loans are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment impairment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the income statement.

b. Financial Investments Held-to-Maturity

The Bank assess at each reporting date whether objective evidence of impairment of financial investments held-to-maturity exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

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3.5 Property, plant and equipment

3.5.1 Recognition and measurement

Items of property and equipment are measured at cost 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, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment. 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 is recognised in other income/other expenses in profit or loss.

3.5.2 Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.5.3 Depreciation

Depreciation is recognised in the Income Statement on a 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 asset. 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 years are as follows:

Office Renovation	5 years
Computer Equipment	5 years
Furniture, Fixture & Fittings	10 years
Air Conditioners & Equipment	6 2/3 years
Motor Vehicle	5 years

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Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.6 Intangible Assets

Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.7 Leased assets – Operating Lease

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

Other leases are operating leases and are not recognised in the Group's statement of financial position.

3.8 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful

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lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss.

LIABILITIES AND PROVISIONS

3.9 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10 Employee benefits

3.10.1 Short-term benefits

Short-term employee benefit obligations 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 cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.10.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit and loss when incurred.

3.10.3 Defined benefit plans

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

The liability recognised in the balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the balance sheet date.

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The Bank measures the present value of retirement benefits of gratuity annually by applying an internally generated model based on formula using projected unit credit method as recommended by LKAS 19 – Employee Benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in OCI.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 – Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded nor actuarially valued.

INCOME STATEMENT

3.11 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income includes the interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

3.12 Dividends

Dividend income is recognised when the right to receive income is established. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

3.13 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate).

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.14 Profit/loss from sale of Property, plant & equipment

Profit/loss from sale of property, plant and equipment is recognised in the period in which the sale occurred and is classified as other income

3.15 Other expenses

The expenditure incurred on personal cost, premises, equipment and establishment has been apportioned between the FCBU and the DBU at the rate of 10% and 90% respectively.

3.16 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.17 Income tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

3.17.1 Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3.17.2 Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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NOTES TO THE FINANCIAL STATEMENTS

3.17.3 Value Added Tax on financial services

The basis for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.18 Events occurring after the Reporting date

All material subsequent events after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

3.19 Off-balance sheet transactions

The Bank enters into off-balance sheet transactions such as forward exchange contracts and currency swaps. At the year-end unrealised gains and losses are recognised in profit and loss.

3.20 Cash flow statement

The cash flow statement has been prepared by using the “Direct Method” of preparing of cash flow statement in accordance with the LKAS 7, Cash Flow Statements.

Cash and Cash equivalents comprises cash balances, call deposits and placement. They are net of Government of Sri Lanka Treasury Bills held by the Bank.

3.21 Comparative information

The comparative information is reclassified wherever necessary to conform with the current year’s presentation in order to provide a better presentation.

3.21 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank’s other components, whose operating results are reviewed regularly by the *Management Committee* to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4. New Accounting Standards issued but not effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014/2015.

Accordingly, these Standards have not been applied in preparing these financial statements.

• **Sri Lanka Accounting Standards –SLFRS 10 “Consolidated financial statements”**

The objective of this SLFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

SLFRS 10 will become effective from 1 January 2014.

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NOTES TO THE FINANCIAL STATEMENTS

- **Sri Lanka Accounting Standards –SLFRS 11 “Joint Arrangements”**

The objective of this SLFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (ie *joint arrangements*).

SLFRS 11 will become effective from 1 January 2014. This SLFRS will supersede the requirements relating to consolidated financial statements in LKAS 31” Interests in Joint Ventures

- **Sri Lanka Accounting Standard-SLFRS 12 ”Disclosure of Interests in Other Entities”**

SLFRS 10 will become effective from 1 January 2014.

As SLFRS 10, 11 and 12 will be applicable only to groups and joined arrangements, these standards will not anyway apply to the Bank.

- **Sri Lanka Accounting Standard - SLFRS 13, “Fair Value Measurement”**

This SLFRS defines fair *value*, sets out in a single SLFRS a framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS will become effective from 1 January 2014. This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

- **Sri Lanka Accounting Standard – SLFRS 9 “Financial Instruments”**

The objective of this SLFRS is to establish principles for the financial reporting of *financial assets* and *financial liabilities* that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

This SLFRS will become effective from 1 January 2015.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December

	2013	2012
	<u>Rs.</u>	<u>Rs.</u>
5. Net Interest Income		
Interest Income		
Sri Lanka government securities	164,672,205	206,456,924
Balances with banks	23,923,790	41,232,068
Loans and advances to customers	405,070,888	290,914,249
Others	329,668	2,467
	<u>593,996,551</u>	<u>538,605,708</u>
Interest expenses		
Deposits from banks	(1,786,213)	(1,447,261)
Deposits from customers	(96,482,755)	(109,874,402)
	<u>(98,268,968)</u>	<u>(111,321,663)</u>
Net Interest Income	<u>495,727,583</u>	<u>427,284,045</u>
Interest income on impaired financial assets included in interest income	<u>3,634,923</u>	<u>981,610</u>
6. Net Fee and Commission Income		
Fee and commission income		
Trade and remittances	6,243,447	8,724,620
Guarantees	3,124,812	2,833,372
Other fee and commission income	12,190,613	13,451,311
	<u>21,558,872</u>	<u>25,009,303</u>
Fee and Commission Expenses	<u>(756,110)</u>	<u>(633,723)</u>
	<u>20,802,762</u>	<u>24,375,580</u>
7. Net Trading Income		
Foreign exchange gain	16,695,686	25,497,241
	<u>16,695,686</u>	<u>25,497,241</u>
8. Other Operating Income		
Gain on sale of property, plant and equipment	182,877	10,000
Processing fees	2,369,797	1,996,462
Dividend income	54,000	189,000
Other income	1,097,415	891,535
	<u>3,704,089</u>	<u>3,086,997</u>
9. Impairment Charges for / (Reversal of) Loan Losses		
Bills of exchange	22,910	89,157
Loans and advances to other customers (Note 9.1)	3,294,710	2,689,741
	<u>3,317,620</u>	<u>2,778,898</u>
9.1 Loans and advances to other customers		
Specific allowances for impairment	1,834,156	278,898
Collective allowances for impairment	1,460,554	2,410,843
	<u>3,294,710</u>	<u>2,689,741</u>
10. Personnel Expenses		
Wages and salaries	48,135,794	51,918,754
Contribution to defined contribution plans	7,242,416	6,637,910
Provision for defined benefit plans	2,885,641	1,759,633
Other staff expenses	21,868,399	11,384,907
	<u>80,132,250</u>	<u>71,701,204</u>

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NOTES TO THE FINANCIAL STATEMENTS
As at 31st December 2013

13. Financial Assets and Liabilities

Basis of Measurement applied for Financial Instruments

Assets	2013				2012			
	Held to Maturity	Loans and Receivables	Others	Total	Held to Maturity	Loans and Receivables	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	-	179,480,377	-	179,480,377	-	1,321,140,895	-	1,321,140,895
Statutory Deposit with CBSL	-	38,178,146	-	38,178,146	-	72,321,733	-	72,321,733
Sri Lanka Government Securities	2,095,425,732	-	-	2,095,425,732	693,888,863	-	-	693,888,863
Loans and Advances	-	3,435,643,407	-	3,435,643,407	-	2,791,835,505	-	2,791,835,505
Total Financial Assets	2,095,425,732	3,653,301,930	-	5,748,727,662	693,888,863	4,185,298,133	-	4,879,186,996
Property, Plant and Equipment	-	50,556,439	-	50,556,439	-	56,542,440	-	56,542,440
Intangible Assets	-	19,979,914	-	19,979,914	-	32,100,576	-	32,100,576
Deferred Tax Assets	-	3,776,004	-	3,776,004	-	3,214,893	-	3,214,893
Other Assets	-	65,214,894	-	65,214,894	-	68,176,318	-	68,176,318
Total Assets	2,095,425,732	3,653,301,930	139,527,251	5,888,254,913	693,888,863	4,185,298,133	160,034,227	5,039,221,223
Liabilities	Financial Liabilities at amortised cost				Financial Liabilities at amortised cost			
Deposits from Banks	-	82,161,336	-	82,161,336	-	58,620,568	-	58,620,568
Deposits from Customers	-	1,359,000,513	-	1,359,000,513	-	1,469,969,005	-	1,469,969,005
Total Financial Liabilities	1,441,161,849	1,441,161,849	-	1,441,161,849	1,528,589,573	1,528,589,573	-	1,528,589,573
Current Tax Liability	-	49,181,674	-	49,181,674	-	47,779,348	-	47,779,348
Employee Benefits	-	13,485,729	-	13,485,729	-	11,481,761	-	11,481,761
Deferred Tax Liabilities	-	5,428,345	-	5,428,345	-	1,945,723	-	1,945,723
Other Liabilities	-	71,930,009	-	71,930,009	-	64,792,855	-	64,792,855
Total Liabilities	1,441,161,849	140,025,757	140,025,757	1,581,187,606	1,528,589,573	125,999,687	160,034,227	1,654,589,261

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NOTES TO THE FINANCIAL STATEMENTS

As at 31st December,

	2013	2012
	<u>Rs.</u>	<u>Rs.</u>
14 Cash and Cash Equivalents		
Cash and balances with banks	37,297,625	18,247,855
Deposits with banks	100,020,823	1,273,779,773
Placements with Head office and other banks	42,161,929	29,113,267
	<u>179,480,377</u>	<u>1,321,140,895</u>
15 Statutory Deposit with Central Bank of Sri Lanka		
Central Bank of Sri Lanka - Rupee reserve	38,178,146	72,321,734
	<u>38,178,146</u>	<u>72,321,734</u>
<p>As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31st December 2013, the minimum cash reserve requirement is 8% (8% as at 31st December 2012) of the rupee deposit liabilities. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.</p>		
16 Sri Lanka Government Securities		
Held-to-maturity		
Treasury bills	2,095,425,732	693,888,863
	<u>2,095,425,732</u>	<u>693,888,863</u>
17 Loans and Receivables		
Government Securities Eligible for Rediscounting with CBSL (Note 17.1)	160,146,414	4,000,824
Bills of Exchange (Note 17.2)	9,489,368	21,395,854
Loans and Advances to Customers (Note 17.3)	3,000,403,070	2,636,428,234
Sri Lanka Development Bonds	265,604,555	130,010,593
	<u>3,435,643,407</u>	<u>2,791,835,505</u>
17.1 Government Securities Eligible for Rediscounting with Central Bank of Sri Lanka		
Held-to-maturity		
Securities Purchased under Resale Agreement	160,146,414	4,000,824
	<u>160,146,414</u>	<u>4,000,824</u>
17.2 Bills of Exchange		
Import Bills	9,619,795	21,503,371
Collective allowances for impairment	(130,427)	(107,517)
	<u>9,489,368</u>	<u>21,395,854</u>
17.3 Loans and Advances to customers at amortised cost		
Overdrafts	628,300,593	614,709,102
Staff loans	28,533,616	21,036,182
Packing credit loans	24,999,563	25,000,000
Vehicle loans	404,958,724	399,616,221
Ordinary and term loans	1,139,399,785	892,923,040
Customer housing loans	519,641,520	481,047,915
Import finance	248,167,824	198,842,177
Interest receivable	22,346,634	15,904,076
	<u>3,016,348,259</u>	<u>2,649,078,713</u>
Specific allowances for impairment (Note 17.3.1)	(2,392,152)	(557,996)
Collective allowances for impairment (Note 17.3.1)	(13,553,037)	(12,092,483)
	<u>3,000,403,070</u>	<u>2,636,428,234</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

As at 31st December,

	2013 <u>Rs.</u>	2012 <u>Rs.</u>
17. Loans and Advances to Customers (cont.)		
17.3.1 Allowance for impairment		
Specific allowances for impairment		
Balance at the beginning of the year	557,996	279,098
Impairment loss for the year	1,834,156	278,898
Balance at the end of the year	<u>2,392,152</u>	<u>557,996</u>
Collective allowances for impairment		
Balance at the beginning of the year	12,092,483	9,681,640
Impairment loss for the year	1,460,554	2,410,843
Balance at the end of the year	<u>13,553,037</u>	<u>12,092,483</u>
	<u>15,945,189</u>	<u>12,650,479</u>
17.4 Impaired loans and advances		
Allowance for / (reversal of) impairment during the year		
Specific allowance	1,834,156	278,898
Collective allowance		
Bills of Exchange	22,910	89,157
Loans and advances	1,460,554	2,410,843
	<u>1,483,464</u>	<u>2,500,000</u>
	<u>3,317,620</u>	<u>2,778,898</u>
17.5 Concentration of credit risk		
Sector wise analysis for Bank's credit portfolio (Loans and advances and Bills of Exchange) given below reflects the Bank's exposure to credit risk in the various sectors of the economy.		
Agriculture	329,341,756	362,062,735
Manufacturing	329,764,040	287,094,327
Construction	51,629,377	27,062,992
Purchase of land and property -residential	534,920,582	491,268,733
General commerce	944,446,944	740,885,944
Transport, Storage and commission	157,614,912	25,589,429
Finance, Insurance and business services	155,116,206	222,727,474
Consumption credit	316,300,709	142,705,393
Real estate	1,562,692	3,869,492
Others	205,270,836	367,315,565
	<u>3,025,968,054</u>	<u>2,670,582,084</u>
17.5.a		
17.3 Loans and Advances to customers at amortised cost	3,016,348,259	2,649,078,713
17.2 Bills of Exchange	9,619,795	21,503,371
	<u>3,025,968,054</u>	<u>2,670,582,084</u>
17.6 Exposure to currency risk		
Sri Lankan Rupee	2,743,841,240	2,400,808,253
United States Dollar	282,126,814	269,773,831
	<u>3,025,968,054</u>	<u>2,670,582,084</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. Property, Plant and Equipment

	Office Renovations		Computer Equipment		Equipment/ Furniture		Office Equipment		Motor Vehicles		Air Conditioners		Safes		Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost																
As at 1st January	32,105,767	61,884,726	7,010,559	16,252,436	11,927,841	7,251,942	1,960,704	138,393,975	100,711,539							
Additions for the year	2,184,041	3,262,535	309,510	3,877,342	-	-	169,557	9,802,985	38,142,102							
Disposals during the year	-	-	-	(1,182,428)	-	-	-	(1,182,428)	(459,666)							
As at 31st December	34,289,808	65,147,261	7,320,069	18,947,350	11,927,841	7,251,942	2,130,261	147,014,532	138,393,975							
Accumulated Depreciation																
As at 1st January	13,211,027	47,943,591	2,200,736	8,351,842	5,955,105	3,384,669	804,565	81,851,535	70,630,769							
Charge for the year	3,910,546	6,536,152	638,172	1,718,175	2,100,568	628,728	207,522	15,739,863	11,680,432							
Depreciation on disposals	-	-	-	(1,133,305)	-	-	-	(1,133,305)	(459,666)							
As at 31st December	17,121,573	54,479,743	2,838,908	8,936,712	8,055,673	4,013,397	1,012,087	96,458,093	81,851,535							
Carrying amount																
31st December 2013	17,168,235	10,667,518	4,481,161	10,010,638	3,872,168	3,238,545	1,118,174	50,556,439								
31st December 2012	18,894,740	13,941,135	4,809,823	7,900,594	5,972,736	3,867,273	1,156,139	56,542,440								

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

As at 31st December,

	2013	2012
	<u>Rs.</u>	<u>Rs.</u>
19. Intangible Assets		
Cost		
At the beginning of the year	137,606,523	105,400,159
Additions during the year	1,594,469	32,206,364
At the end of the year	<u>139,200,992</u>	<u>137,606,523</u>
Accumulated amortisation		
At the beginning of the year	105,505,947	86,444,666
Amortisation for the year	13,715,131	19,061,281
At the end of the year	<u>119,221,078</u>	<u>105,505,947</u>
Carrying amount	<u>19,979,914</u>	<u>32,100,576</u>
20. Deferred Taxation		
Deferred tax liabilities (Note 20.1)	(5,428,345)	(1,945,723)
Deferred tax assets (Note 20.2)	3,776,004	3,214,893
	<u>(1,652,341)</u>	<u>1,269,170</u>
20.1 Deferred tax liabilities		
Balance at the beginning of the year	1,945,723	-
Origination during the year	3,482,622	1,945,723
Balance at the end of the year	<u>5,428,345</u>	<u>1,945,723</u>
20.2 Deferred tax assets		
Balance at the beginning of the year	3,214,893	3,967,969
(Reversal) / origination during the year	561,111	(753,076)
Balance at the end of the year	<u>3,776,004</u>	<u>3,214,893</u>
20.3 Recognized deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
	Assets	Liabilities
	31/12/2013	31/12/2013
	<u>Rs.</u>	<u>Rs.</u>
Property, plant and equipment	-	(5,428,345)
Employee benefits	3,776,004	-
Net deferred tax assets/(liabilities)	<u>3,776,004</u>	<u>(1,652,341)</u>
21. Other Assets		
Deposits and prepayments	18,903,494	16,381,771
Others receivables	27,506,025	35,537,504
Prepayment made to Misys Banking Systems	18,805,375	16,257,043
	<u>65,214,894</u>	<u>68,176,318</u>
22. Deposits from Banks		
Borrowings under REPO's	2,651,173	4,772,048
Other deposits from banks	79,510,163	53,848,520
	<u>82,161,336</u>	<u>58,620,568</u>
22.1		
Due within one year	82,161,336	58,620,568
	<u>82,161,336</u>	<u>58,620,568</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st December,</i>	2013 <u>Rs.</u>	2012 <u>Rs.</u>
23. Deposits from Customers		
At amortised cost		
Retail customers (Note 23.1)	668,335,829	712,496,244
Corporate customers (Note 23.2)	674,678,920	741,495,531
Interest payable	15,985,764	15,977,230
	<u>1,359,000,513</u>	<u>1,469,969,005</u>
23.1 Retail customers		
Demand deposits (current accounts)	67,595,235	59,793,248
Savings deposits	130,229,192	138,481,795
Fixed deposits	470,511,402	514,221,201
Call deposits	-	-
Other deposits	-	-
	<u>668,335,829</u>	<u>712,496,244</u>
23.2 Corporate customers		
Demand deposits (current accounts)	272,548,443	263,131,291
Savings deposits	24,435,322	46,956,764
Fixed deposits	363,642,441	416,861,576
Call deposits	8,604,036	2,000,000
Other deposits	5,448,678	12,545,900
	<u>674,678,920</u>	<u>741,495,531</u>
23.3 Analysis by product		
Demand deposits (current accounts)	340,143,678	322,924,539
Savings deposits	154,668,197	185,448,524
Fixed deposits	849,804,386	946,888,396
Call deposits	8,935,573	2,151,646
Other deposits	5,448,679	12,545,900
	<u>1,359,000,513</u>	<u>1,469,959,005</u>
23.4 Analysis by currency		
Sri Lanka Rupee	1,160,863,743	1,216,306,744
United States Dollar	178,131,117	233,664,343
Great Britain Pound	18,252,769	17,469,973
Singapore Dollar	50,450	55,080
Australian Dollar	484	540
Euro	1,640,565	2,399,070
Japanese Yen	61,385	73,255
	<u>1,359,000,513</u>	<u>1,469,969,005</u>
24. Current Tax Liability		
At the beginning of the year	47,779,348	15,732,468
Provision for the year	91,015,657	75,225,531
Under / (over) provision in respect of prior years	(6,283,382)	4,018,171
Tax credit on Treasury bills	(15,778,029)	(20,085,756)
Payments made during the year	(67,551,920)	(24,658,426)
Economic service charge paid	-	(2,452,640)
At the end of the year	<u>49,181,674</u>	<u>47,779,348</u>

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NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st December,</i>	2013	2012
	<u>Rs.</u>	<u>Rs.</u>
25. Employee Benefits		
25.1 Defined contribution plans		
Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.		
Employees' Provident Fund		
Employers' contribution	5,793,937	5,310,328
Employees' contribution	3,862,625	3,540,219
Employees' Trust Fund	1,448,479	1,327,582
25.2 Defined benefit plan - Gratuity		
At the beginning of the year	11,481,761	9,722,128
Current service cost	1,973,721	1,605,682
Interest cost	911,917	1,068,399
Actuarial loss / (gain)	1,014,359	(914,448)
Payments made during the year	<u>(1,896,029)</u>	-
At the end of the year	<u>13,485,729</u>	<u>11,481,761</u>
The Bank has adopted LKAS 19 - Employee Benefits which applies prospectively for the financial period.		
LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation. The following key assumptions were made in arriving at the retirement obligation as at 31st December 2013.		
Expected salary increment rate	7.5%	7.5%
Discount rate	9.5%	11%
26. Other Liabilities		
Other payables	71,898,255	64,792,856
Sundry Creditors	31,754	-
	<u>71,930,009</u>	<u>64,792,856</u>
27. Assigned Capital		
At the beginning of the year	2,456,318,132	2,456,318,132
Capital infusion	714,000,000	-
At the end of the year	<u>3,170,318,132</u>	<u>2,456,318,132</u>
28. Statutory Reserve Fund		
At the beginning of the year	40,852,604	32,414,263
Transfer during the year	10,056,871	8,438,341
At the end of the year	<u>50,909,475</u>	<u>40,852,604</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. Transfers to Investment Fund Account

As proposed in the Budget 2011, as and when taxes are paid after 1 January 2011, licensed Banks shall make transfers to the Investment Fund Account to build up a permanent fund with in the Bank as follows:

i) 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services on dates as specified in the VAT Act for payment of VAT.

ii) 5% of the profit before tax calculated for payment of income tax purposes on dates specified in section 113 of the Inland Revenue Act for the self assessment payment of tax.

<i>As at 31st December,</i>	2013	2012
	<u>Rs.</u>	<u>Rs.</u>
Balance as at the beginning of the year	65,441,940	27,100,276
Transfers to Investment Fund Account	<u>43,963,267</u>	<u>38,341,664</u>
Balance at the end of the year	<u><u>109,405,207</u></u>	<u><u>65,441,940</u></u>

29.1 Utilisation of Investment Fund Account (IFA)

Sector	As at 31 December 2013			
	Interst rate %	Tenure (Years)	No of loans granted	Total amount outstanding <u>Rs</u>
Factory/Mills modernisation	13.5%	7	1	39,982,748
Small and Medium Enterprises	13.75% & 14%	7 & 9	2	<u>65,625,947</u>
				<u><u>105,608,695</u></u>

Sector	As at 31 December 2012			
	Interst rate %	Tenure (Years)	No of loans granted	Total amount outstanding <u>Rs</u>
Factory/Mills modernisation	14.5%	7	1	14,924,467
Small and Medium Enterprises	15.0%	7	2	<u>50,517,473</u>
				<u><u>65,441,940</u></u>

29.2 Investments in Government Securities

	As at 31 December 2013			
	Face value <u>Rs.</u>	Year of maturity	Cost of investments <u>Rs.</u>	Total amount outstanding <u>Rs.</u>
Treasury Bills	Nil	-	Nil	Nil
Total Investments in Government Securities	<u>-</u>		<u>-</u>	<u>-</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

As at 31st December,

	2013	2012
	<u>Rs.</u>	<u>Rs.</u>

30. Commitments and Contingent Liabilities

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.

30.1 Commitments

Acceptances	56,047,000	115,299,311
Guarantees	172,362,674	107,784,941
Bills for collection	203,920,100	88,580,078
Letters of Credit	11,163,100	79,383,486
	<u>443,492,874</u>	<u>391,047,816</u>
Contingent liabilities		
Undrawn loans and advances	227,246,000	248,869,191
	<u>227,246,000</u>	<u>248,869,191</u>
Total Contingent Liabilities and Commitments	<u>670,738,874</u>	<u>639,917,007</u>

Non cancellable operating lease rentals are payable as follows.

	<u>2013</u>	<u>2012</u>
	<u>Rs.</u>	<u>Rs.</u>
Less than one year	8,203,342	7,151,987
Between one and five years	8,203,342	5,173,013
More than five years.	Nil	Nil

During the year an amount of Rs.13,130,738/- was recognized as an expense in the profit or loss in respect of operating leases (2012 - Rs.9,519,956/-)

30.2 Litigation against the bank

There were no pending litigation of a material nature against the Bank.

30.3 Capital commitments

The Bank has under the instructions of it's head office, committed itself to upgrade its IT system at a total cost of Rs.52,695,000/- (2012- Rs. 28,335,140/-).

The Bank utilised the approved capital budget on IT system as follows:

Year	Rs.
2010	47,859,103
2011	6,684,332
2012	28,024,978
2013	4,857,004
	<u>87,425,417</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2013

31. Related party disclosure

31.1 Transactions with Head office

Details of the transactions with Head Office in Malaysia during the year are as follows.

Nature of Transaction	Transaction value 2013 Rs.	Transaction value 2012 Rs.	Balance as at 31-12-2013 Rs.	Balance as at 31-12-2012 Rs.
Reimbursement of expenses	(1,684,639)	(2,667,991)		
Net trading and foreign exchange transactions	4,778,207	(7,901,798)		
Net lending/(borrowing)	1,712,672	(6,652,959)	(14,127,354)	(18,933,593)

31.2 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosure, Key Management Personnel are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) and the Country Head of the Company and their immediate family members have been classified as KMP of the Bank.

Compensation paid to key management personnel of the Bank is as follows:

	2013 Rs.	2012 Rs.
Short term employee benefits	8,786,708	7,987,762
Post employment benefits	Nil	Nil

32. Maturity analysis

An analysis of the total assets employed by the Bank as at 31st December 2013 based on the remaining period at the Balance Sheet date to the respective contractual maturity dates given below:

	less than 1 year Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	more than 5 Years Rs.	Total as at 31.12.2013 Rs.	Total as at 31.12.2012 Rs.
Interest earnings assets						
Cash and Cash Equivalents	179,480,377	-	-	-	179,480,377	1,321,140,895
Statutory Deposit with Central Bank of Sri Lanka	38,178,146	-	-	-	38,178,146	72,321,734
Sri Lanka Government Securities	2,095,425,732	-	-	-	2,095,425,732	693,888,863
Loans and Receivables	1,661,241,366	865,286,731	424,677,627	484,437,683	3,435,643,407	2,791,835,505
Intangible Assets	11,976,197	8,003,717	-	-	19,979,914	32,100,576
Property, Plant and Equipment	14,500,536	12,053,030	9,537,693	14,465,180	50,556,439	56,542,440
Deferred Taxation	-	3,776,004	-	-	3,776,004	3,214,893
Other Assets	65,214,894	-	-	-	65,214,894	68,176,318
Total Assets	4,066,017,248	889,119,482	434,215,320	498,902,863	5,888,254,913	5,039,221,224
Liabilities and Equity						
Liabilities						
Deposits from Banks	82,161,336	-	-	-	82,161,336	58,620,568
Deposits from Customers	1,359,000,513	-	-	-	1,359,000,513	1,469,969,005
Current Tax Liability	49,181,674	-	-	-	49,181,674	47,779,348
Employee Benefits	1,523,100	-	1,441,461	10,521,168	13,485,729	11,481,761
Deferred Tax Liabilities	5,428,345	-	-	-	5,428,345	1,945,723
Other Liabilities	71,930,009	-	-	-	71,930,009	64,792,856
Total Liabilities	1,569,224,977	-	1,441,461	10,521,168	1,581,187,606	1,654,589,261
Equity						
Assigned Capital	-	-	-	3,170,318,132	3,170,318,132	2,456,318,132
Statutory Reserve Fund	-	-	-	50,909,475	50,909,475	40,852,604
FCBU Revaluation Reserve	-	-	-	106,715,631	106,715,631	98,403,352
Retained Earnings	-	-	-	870,733,221	870,733,221	723,615,935
Other Reserve	-	-	-	(1,014,359)	(1,014,359)	-
Investment Fund Account	-	-	-	109,405,207	109,405,207	65,441,940
Total Equity	-	-	-	4,307,067,307	4,307,067,307	3,384,631,963
Total Equity and Liabilities	1,569,224,977	-	-	4,317,588,475	5,888,254,913	5,039,221,224

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

33. Fair Values of Financial Instruments

Fair values of financial instruments not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the financial instruments of the Bank which are not measured at fair value in the financial statements. These tables do not include non-financial assets and liabilities.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Financial assets				
Cash and Cash Equivalents	179,480,377	179,480,377	1,321,140,895	1,321,140,895
Statutory Deposits with Central Bank of Sri Lanka	38,178,146	38,178,146	72,321,734	72,321,734
Sri Lanka Government Securities	2,095,425,732	2,083,961,442	693,888,863	854,806,465
Loans and Receivables	3,435,643,407	3,413,721,559	2,791,835,505	2,661,600,249
Financial liabilities				
Deposits from customers				
Retail customers	668,335,829	668,335,829	712,496,244	712,496,244
Corporate customers	674,678,920	674,678,920	741,495,532	741,495,532
Interest payable	15,985,764	15,985,764	15,977,229	15,977,229
Deposits from Banks	82,161,336	82,161,336	58,620,568	58,620,568

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

- (a) *Cash and balances with banks and reverse repurchase agreements* – The carrying amount of cash and bank balances approximate fair value due to the relatively short maturity of the financial instruments. The fair values of money market placements and reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using market interest rates at which similar placements would be made with financial institutions of similar credit risk and remaining period to maturity.
- (b) *Financial investments held-to-maturity* – The fair values of financial investments held-to-maturity are estimated based on broker/dealer price quotations. All financial investments held at reporting date were held-to-maturity.
- (c) *Loans and advances* – The fair values of fixed rate loans and advances with remaining maturity of less than one year and variable rate loans and advances are estimated to approximate their carrying amounts. For fixed rate loans/financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of loans/financing of similar credit risks and maturity. The fair values of impaired loans/financing are represented by their carrying amounts, net of any individual assessment allowance, being the expected recoverable amount.

For the year ended 31 December 2013

33. Fair Values of Financial Instruments (cont.)

Fair values of financial instruments not carried at fair value (cont.)

- (d) *Deposits from customers* – The fair values of deposits payable on demand (demand and savings deposits), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturity of more than one year are estimated using discounted cash flows based on market rates for similar deposits from customers. As at reporting date there were no deposits with a remaining maturity date of more than one year.
- (e) *Deposits from banks and bills and acceptances payable* – The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments.

34. Financial Risk Management

34.1 Overview

The Bank's business activities involve the use of financial instruments. These activities expose the Bank to a variety of financial risks, mainly credit risk, liquidity risk, market risk, operational risk and interest rate risk.

The Bank's financial risks are subject to Management's oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee (ORMC).

34.2 Credit Risk

Credit risk is the potential loss of revenue-as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Bank's primary business is in commercial banking, the Bank's exposure to credit risk is primarily from its lending and financing to retail consumers, Small- and Medium-sized Enterprises ("SMEs") and corporate customers. Trading and investing the surplus funds of the Bank, such as trading or holding of debt securities, settlement of transactions, also expose the Bank to credit risk and counterparty credit risk.

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)
Risk Governance (cont.)

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

Risk Management Approach

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

Independent credit reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Internal risk management reports are presented to both the CRMC and the RMC, containing information on economic trends across major portfolios, quality of credit portfolios, results of independent credit review, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer are included in the loan application.

(b) Lending to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated. Credit officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Bank's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the Bank's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Head Office. As at reporting date, the Bank does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit Risk Exposures and Credit Risk Concentration

The table in Note 17.5 presents the Bank's maximum exposure to credit risk of on-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

By Industry Analysis

The analysis of credit risk concentration is presented in note 17.5 presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Bank categorised by the geographical distribution is not included as the Bank's concentration of credit risk resides only in Sri Lanka.

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2013
Rs.

2012
Rs.

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(d) Counterparty Credit Risk on Financial Instruments (cont.)

(ii) Credit Quality of Loans and Advances

Neither Past Due nor impaired	2,253,592,774	2,084,052,621
Past due but not impaired	753,537,178	573,340,211
Impaired	18,838,102	13,189,252
	<u>3,025,968,054</u>	<u>2,670,582,084</u>

(a) Neither Past Due Nor Impaired

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows:

Housing loan	315,179,868	325,529,864
Corporate loan	1,368,051,163	1,198,540,206
Other retail	570,361,743	559,982,551
Total gross loan outstanding	<u>2,253,592,774</u>	<u>2,084,052,621</u>

(b) Past due but not impaired loans and advances where the customer has failed to make a principal or interest/profit payment when contractually due, and includes loans and advances which are due one or more days after the contractual due date but less than three (3) months.

An aging analysis of loans, advances and financing which are past due but not impaired is as follows:

Aging Profile of Past Due Loans by Loan Type

Gross loans and advances

As at 31 December 2013

<u>Loan Type</u>	DAYS / MONTHS IN ARREARS			Total <u>Rs.</u>
	1 day to <1 mth <u>Rs.</u>	1 mth to <2 mths <u>Rs.</u>	2 mths to <3 mths <u>Rs.</u>	
	Retail Loans:			
- Housing Loans	89,818,818	124,348,681	-	214,167,499
- Other Retail Loans	114,828,202	49,426,047	-	164,254,249
Corporate Loans	306,306,650	68,808,780	-	375,115,430
Total Loans	<u>510,953,670</u>	<u>242,583,508</u>	-	<u>753,537,178</u>

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34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(d) Counterparty Credit Risk on Financial Instruments (cont.)

Aging Profile of Past Due Loans by Loan Type

Gross loans and advances

As at 31 December 2012

Loan Type	DAYS / MONTHS IN ARREARS			Total Rs.
	1 day to <1 mth	1 mth to <2 mths	2 mths to <3 mths	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	
Retail Loans:				
- Housing Loans	88,554,122	66,868,459	-	155,422,581
- Other Retail Loans	114,371,458	28,762,545	5,429,311	148,563,314
Corporate Loans	193,796,985	56,377,021	19,180,310	269,354,316
Total Loans	396,722,565	152,008,025	24,609,621	573,340,211

Note:

- Loans for Corporate/Housing Loans/HP/Other Retail Loans/Credit Card are classified according to Product/Facility Type
- Past due loans are loans that has been contractually past due as at the balance sheet date excluding individually impaired loan.

c) Impaired Loans and Advances

Loans and advances are classified as impaired when they fulfill any of the following criteria:

- (i) principal or interest/profit or both are past due for three (3) months or more;
- (ii) where a loan or advance is in arrears for less than three (3) months, the loan or financing exhibits indications of credit weaknesses; or
- (iii) where an impaired loan or advance has been rescheduled or restructured, the loan or advance continues to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months

In addition, loans and advances that are considered individually significant, the Bank assesses on a case-by-case basis at each quarter whether there is any objective evidence that a loan or advance is impaired. The criteria that the Bank uses to determine that there is objective evidence of impairment include:

- (i) any significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest/profit or principal payments;
- (iii) high probability of bankruptcy or other financial reorganisation of the borrower;
- (iv) the viability of the customer's business operations and its capability to trade successfully out of financial difficulties and to generate sufficient cash flow to service its debt obligations; and
- (v) any adverse news or developments affecting the local economic conditions or business environment of the borrower which will adversely affect the repayment capacity of the borrower.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(d) Counterparty Credit Risk on Financial Instruments (cont.)

The breakdown of the gross amount of loans and advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Bank as security are as follows:

	2013		2012	
	Individually Assessed as Impaired	Fair Value of Collateral	Individually Assessed as Impaired	Fair Value of Collateral
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Housing loan	3,287,126	3,575,000	4,115,810	13,175,000
Corporate loan	200	22,000,000	200	-
Other retail	15,550,776	91,900,000	9,073,242	82,000,000
Total	18,838,102	117,475,000	13,189,252	95,175,000

(iii) Collateral

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

- for residential mortgages – charges over residential properties
- for commercial property loans – charges over the properties being financed
- for motor vehicle financing – ownership claims over the vehicles financed
- for share margin financing – pledges over securities from listed exchange
- for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

a) Estimates of fair value of collateral for gross loans and advances are based on the value of the the collateral assessed at the time of loan application, and are updated whenever there is new information available or when a loan or advance is classified as impaired. Estimates of fair value of collateral for other financial assets are based on available, quoted and observable market prices or dealer price quotations.

	2013		2012	
	Outstanding Balance	Fair Value of Collateral	Outstanding Balance	Fair Value of Collateral
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Reverse repurchase agreements	160,146,414	160,146,414	4,000,824	4,000,824
Gross loans and advances & Bills of Exchange	3,025,968,054	6,223,228,990	2,670,582,084	5,996,259,050

b) Repossessed Collateral

Assets obtained by taking possession of collateral held as security against loans, advances and financing, and held as at the end of the financial year are as follows:

	2013	2012
	<u>Rs.</u>	<u>Rs.</u>
Residential properties	1,143,602,890	1,699,271,450
Non-residential properties	947,401,208	668,069,160

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(d) Counterparty Credit Risk on Financial Instruments (cont.)

(iv) Credit Quality of Financial Investments

The Bank does not analyse the credit quality of money market instruments and non-money market instruments-debt securities by ratings from external credit ratings agencies.

Financial Assets Held-for-Trading:- The Bank does not have financial assets held for trading.

Financial Investments Available-for-sale:- The Bank does not have financial investments available for sale.

Financial Investments Held-to-maturity:- The Bank possess financial investments held to maturity.

34.3 Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

34.3.1 Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Bank's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risk remains within established risk tolerance level. The market risk of the Bank is identified into traded market risk and non-traded market risk.

34.3.2 Types of Market Risk

(i) Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exist in the Bank's trading book positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

34.3.3 Risk Management Approach

The Bank's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. In addition, the Treasury Back Office is also responsible to monitor and report on limit excesses and the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board of Directors. The trading book positions and limits are regularly reported to the ALCO. The Bank maintains its policy of prohibiting exposures in trading financial derivative positions.

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

(ii) Non-Traded Market Risk

The Bank's core non-traded market risks are interest rate/rate of return risk in the banking book, foreign exchange risk and equity risk.

a. Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

IRR/RoRBB is the risk to the Bank's earnings and economic value of equity ("EVE") arising from adverse movements in interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Bank's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities and the acquisition of new financial assets and liabilities to narrow the mismatch in interest rate/rate of return sensitive assets and liabilities.

The Bank uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

The following tables indicate the effective interest rate/rate of return at the reporting date the Bank's sensitivity to interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

a. Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB") (cont.)

ASSETS	Less than 7 Days		7-30 Days		1-3 Months		3-6Months		6-12Months		1-3 Years		3-5 Years		Over 5 Years		Non-interest Sensitive		Total		
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		
Cash and balances with banks	179,480,377		-		-		-		-		-		-		-		-		-		179,480,377
Financial investments held-to-maturity	178,754,713	282,140,510	1,115,589,550	517,584,070	1,356,889																2,095,425,732
Loans, advances and financing	887,549,058	69,791,212	223,510,269	270,001,843	210,388,984	865,286,731	424,677,627	484,437,683													3,435,643,407
Other non-interest/profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	177,705,397
Sensitive balances	1,245,784,148	351,931,722	1,339,099,819	787,585,913	211,745,873	865,286,731	424,677,627	484,437,683													5,888,254,913

LIABILITIES AND EQUITY

	Less than 7 Days		7-30 Days		1-3 Months		3-6Months		6-12Months		1-3 Years		3-5 Years		Over 5 Years		Non-interest Sensitive		Total		
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		
Deposits from customers	539,672,801	96,151,368	251,263,041	275,536,834	196,376,469																1,359,000,513
Deposits from Banks	16,786,336	65,375,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	82,161,336
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	140,025,757
Total Liabilities	556,459,137	161,526,368	251,263,041	275,536,834	196,376,469																1,581,187,606

Equity attributable to equity holders of the Bank

	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,307,067,307
TOTAL LIABILITIES AND EQUITY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,307,067,307

On-balance sheet interest/ profit sensitivity gap

	689,325,011	190,405,354	1,087,836,778	512,049,079	15,369,404	865,286,731	424,677,627	484,437,683													(4,269,387,667)
TOTAL INTEREST/PROFIT SENSITIVITY GAP	689,325,011	190,405,354	1,087,836,778	512,049,079	15,369,404	865,286,731	424,677,627	484,437,683													(4,269,387,667)

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

a. Interest Rate/Rate of Return Risk in the Banking Book (“IRR/RoRBB”) (cont.)

(ii) Interest Rate/ Rate of Return Risk Sensitivity Analysis

The following tables present the projected Group’s and Bank’s sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank’s interest rate/rate of return sensitivity gap as at the reporting date. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

	2013		2012	
	Profit	Equity	Profit	Equity
1% Increase in Interest Rate				
Assets denominated in LKR	49,464	-	2,480	-
Assets denominated in USD	42	-	326	-
Deposits denominated in LKR	11,454	-	654	-
Deposits denominated in USD	14	-	101	-
Deposits denominated in GBP	1	-	10	-
	60,975	-	3,571	-
1% Decrease in Interest Rate				
Assets denominated in LKR	(49,464)	-	(2,480)	-
Assets denominated in USD	(42)	-	(326)	-
Deposits denominated in LKR	(11,454)	-	(654)	-
Deposits denominated in USD	(14)	-	(101)	-
Deposits denominated in GBP	(1)	-	(10)	-
	(60,975)	-	(3,571)	-

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that interest rate/rate of return of all maturities move by the same amount and, therefore, does not reflect the potential impact on the NII/NPI and EVE of some rates changing while others remain unchanged. The projection also assumes constant statements of financial position and that all positions run to maturity.

The repricing profile of loans/financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Loans/financing prepayment is generally estimated based on past statistics and trends, where possible and material. The impact on the NII/NPI is measured on a monthly basis and the impact on the EVE is on a quarterly basis, both of which are reported to the ALCO and the RMC.

(iii) Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate/rate of return movements on the Bank’s statements of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate/rate of return risk.

**PUBLIC BANK BERHAD - SRI LANKA BRANCH
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For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

b. Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Bank's investments and retained earnings whose functional currencies is not Sri Lankan Rupees. The main foreign currency in which the Bank's businesses are transacted in are United States Dollars.

Risk Management Approach

(i) The Bank manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies by the ALCO.

The following note summarise the assets, liabilities and net open position by currency as at the reporting date.

2013

Assets	United States Dollars		Australian Dollars		Japanese Yen		Singapore Dollars		Euro		Sterling Pounds		Malaysian Ringgit		Total	
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.	
Cash and Cash Equivalents	99,587,874		1,461,679		61,385		613,462		2,184,911		20,527,854		26		124,437,191	
Loans and Advances	282,127,312		-		-		-		-		-		-		282,127,312	
Sri Lanka Government Securities	265,604,555		-		-		-		-		-		-		-	
Other Assets	-		9		-		-		-		15,501		-		15,501	
Total Assets	647,319,741		1,461,689		61,385		613,462		2,184,911		20,543,355		26		406,580,013	
Liabilities and Equity																
Liabilities																
Deposits from Banks	115,119,689		-		244,561		5,176		776,978		604,633		-		116,751,037	
Deposits from Customers	178,123,309		484		61,385		50,450		1,640,565		18,252,769		-		198,128,962	
Other Liabilities	2,647,846		-		2,548		-		-		205,637		-		2,856,031	
Total Liabilities	295,890,844		484		308,494		55,626		2,417,543		19,063,039		-		317,736,030	
Total Equity	340,880,686		-		-		1,242		8,679		5,974		-		340,896,581	
Total Equity and Liabilities	636,771,530		484		308,494		56,868		2,426,222		19,069,013		-		658,632,611	
On-Balance Sheet Open Position	10,548,211		1,461,205		(247,109)		556,594		(241,311)		1,474,342		26		13,551,958	
Off-Balance Sheet Open Position	-		-		-		-		-		-		-		-	
NET OPEN POSITION	10,548,211		1,461,205		(247,109)		556,594		(241,311)		1,474,342		26		13,551,958	

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

b. Foreign Exchange Risk (cont.)

(ii) Given below is the Bank's exposure in foreign currency:

	2013	2012
	Rs.	Rs.
United States Dollars	10,548,211	(13,944,042)
Australian Dollars	1,461,205	(22,072)
Japanese Yen	(247,109)	24,538
Singapore Dollar	556,594	192,285
Euro	(241,311)	(169)
Sterling Pounds	1,474,342	368,771
Malaysian Ringgit	26	42
	<u>13,551,958</u>	<u>(13,380,647)</u>

34.4 Liquidity and Funding Risk

Liquidity risk is the risk that the Bank is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the Bank is aligned with the New Liquidity Framework followed by and is measured and managed based on projected cash flows. In addition to ensuring compliance with the New Liquidity Framework, the Bank maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flow and the replenishment of funds as they matured or are borrowed by customers. As at 31 December 2013, the Bank holds a sizeable balance of government securities amounting to LKR. 2,361,030,287 of its portfolio of securities.

The Bank's liquidity and funding position is supported by the Bank's significant retail deposit base, accompanied by funding from the money markets. The Bank's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Bank's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity.

The primary tools for monitoring liquidity are the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the ALCO on a monthly basis in Sri Lankan Rupees and United States Dollars.

For the year ended 31 December 2013

34. Financial Risk Management (cont.)

34.4 Liquidity and Funding Risk (cont.)

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed to determine the cash flow mismatches under the “Specific Institution Liquidity Problem” and “Systemic Liquidity Problem” scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Note 32 shows the maturity analysis of the carrying amounts of the Bank’s assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioural patterns.

34.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed through an operational risk management framework with established operational risk management processes put in place. To manage and mitigate operational risk, the Bank places great emphasis on the importance of proper monitoring and reporting of business units’ adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and independent assessment of the adequacy and reliability of the risk management processes by the Internal Audit Division at Head Office.

The operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations, self-compliance audit, and operational risk incident reporting and data collection.

For the year ended 31 December 2013

35. Capital Adequacy

Capital Adequacy is a measure of a bank's financial strength expressed as a ratio of its capital to its risk weighted assets. The Central Bank of Sri Lanka has specified the minimum capital requirements for banks, which operate as a limiting factor on creation of risk-associated assets by banks. Under this requirement there is a universally accepted risk measurement framework and minimum capital levels to be maintained by banks.

Basel II is the current international standard framework for assessing capital adequacy of banks and is built on three pillars, namely

Pillar 1 - Minimum capital requirement

Pillar 2 - Supervisory review processes

Pillar 3 - Market discipline

Pillar 1 - Minimum capital requirement

This represents the calculation of the total minimum capital requirements for credit, market and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk weighted assets. The total capital ratio must be no lower than 10%.

Pillar 2 - Supervisory review processes

The supervisory review process aims to give supervisors a greater responsibility to verify whether the banks have taken account of their entire risk profile including some of the risks not specifically covered under Pillar 1 such as credit concentration risk, interest rate risk, liquidity risk and strategic and reputation risk and determine whether banks maintain sufficient capital for their total risk profile.

Pillar 3 - Market discipline

Market discipline requires banks to publicly disclose key information regarding their risk exposure, risk appetite and performance, with a view to promoting market discipline. It is expected that transparency and enhanced disclosure requirements, will allow market participants to better assess the safety and soundness of banks.

35.1 Maintenance of Capital Adequacy

The Bank actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Bank's capital management strategy is to continue to maximize shareholder value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Bank's strategic planning review.

The Bank's capital is managed in line with the objectives of the Group Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimizing return to shareholders, maintaining adequate levels and optimum mix of capital and maintaining strong external credit ratings. In order to meet these objectives, the Bank actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations.

The Bank's regulatory capital is determined under Central Bank of Sri Lanka's Risk-Weighted Capital Adequacy Framework and their capital ratios have complied with the minimum requirements set under this guideline.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

35. Capital Adequacy (Cont.)

35.2. Capital Adequacy Computation

	2013	2012
	<u>Rs.'000</u>	<u>Rs.'000</u>
Core Capital Ratio (Minimum Ratio - 5%)		
Core Capital (Tier I) * 100%	4,296,172	3,303,967
Total Risk - Weighted Assets	<u>3,608,063</u>	<u>3,669,184</u>
Core Capital Ratio	<u>119.07%</u>	<u>90.05%</u>
Total Capital Ratio (Minimum Ratio - 10%)		
Capital Base * 100%	4,309,985	3,316,167
Total Risk - Weighted Assets	<u>3,608,063</u>	<u>3,669,184</u>
Total Capital Ratio	<u>119.45%</u>	<u>90.38%</u>

36. Events occurring after the reporting date

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements.

37. Management's responsibility for financial statements

The Management is responsible for preparation and presentation of the financial statements.