

## Accounting Policy

The Statement of Cash Flow has been prepared by using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating, investing and financing activities have been recognized. For the purpose of the preparation of the Statement of Cash Flow, cash and cash equivalents include cash and cash equivalents, balances with Central Bank and placements with banks net of unfavourable Nostro balances, as presented in the Statement of Financial Position.

For the year ended 31 December	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
<b>Cash flows from operating activities</b>				
Interest received	20,919,252	20,603,610	21,111,971	20,841,634
Fee and commission income received	1,856,202	1,623,266	2,319,114	1,982,017
Dividend income received	339,962	718,461	(13,856)	45,116
Other income received	1,671,597	1,449,324	1,671,965	1,672,511
Interest paid	(13,195,780)	(13,791,503)	(13,197,274)	(13,791,743)
Personnel costs paid	(2,857,404)	(2,469,540)	(2,857,404)	(2,714,920)
General expenses paid	(2,267,278)	(2,040,890)	(2,351,710)	(2,057,470)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>6,466,551</b>	<b>6,092,728</b>	<b>6,682,806</b>	<b>5,977,145</b>
Net increase in loans and receivables	(38,496,570)	(21,548,181)	(38,496,570)	(21,548,181)
Net increase due to other customers	22,505,047	22,229,446	22,505,047	22,229,446
Net (increase)/decrease in other receivables	(570,535)	406,097	(375,769)	409,522
Net increase/(decrease) in other liabilities	2,266,544	(616,508)	2,042,163	(585,420)
<b>Net cash inflow/(outflow) from operating activities before taxation</b>	<b>(7,828,963)</b>	<b>6,563,582</b>	<b>(7,642,323)</b>	<b>6,482,512</b>
VAT on Financial Services paid	(840,240)	(806,647)	(840,240)	(806,647)
Income taxes paid	(652,006)	(1,244,414)	(699,930)	(1,293,080)
<b>Net cash provided by/(used in) operating activities (Note a)</b>	<b>(9,321,209)</b>	<b>4,512,521</b>	<b>(9,182,493)</b>	<b>4,382,785</b>
<b>Cash flows from investing activities</b>				
Net changes in financial investments	(17,009,180)	(23,389,900)	(16,959,756)	(17,292,330)
Disposal of subsidiaries/associates	147,068	5,954,774	147,068	(13,016)
Expenditure on property, plant & equipment	(392,997)	(308,681)	(443,312)	(309,257)
Proceeds from sale of property, plant & equipment	14,765	3,981	14,765	3,981
<b>Net cash used in investing activities</b>	<b>(17,240,344)</b>	<b>(17,739,826)</b>	<b>(17,241,235)</b>	<b>(17,610,622)</b>
<b>Cash flows from financing activities</b>				
Issue of shares	52,258	–	52,258	–
Net proceeds from issue of subordinated debts	–	9,488,350	–	9,488,350
Interest paid on subordinated debts	(1,573,625)	(282,446)	(1,573,625)	(282,446)
(Decrease)/increase in other borrowings	34,403,497	2,547,719	34,403,501	2,547,719
Dividends paid to non-controlling interests	–	–	(25,377)	(96,867)
Dividends paid to shareholders of the parent Company	(1,966,761)	(3,430,480)	(1,966,755)	(3,430,480)
<b>Net cash provided by/(used in) financing activities</b>	<b>30,915,369</b>	<b>8,323,143</b>	<b>30,890,002</b>	<b>8,226,276</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,353,816</b>	<b>(4,904,162)</b>	<b>4,466,274</b>	<b>(5,001,561)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>8,077,934</b>	<b>12,982,096</b>	<b>8,135,121</b>	<b>13,136,682</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>12,431,750</b>	<b>8,077,934</b>	<b>12,601,395</b>	<b>8,135,121</b>

For the year ended 31 December	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents	3,104,391	2,611,075	3,274,036	2,668,262
Balances with Central Bank	6,740,590	5,339,000	6,740,590	5,339,000
Placements with banks	2,721,891	130,751	2,721,891	130,751
	12,566,872	8,080,826	12,736,517	8,138,013
Amount due to foreign banks	135,122	2,892	135,122	2,892
	12,431,750	8,077,934	12,601,395	8,135,121

The balances with Central Bank represent the reserve for the rupee deposits of the Bank and it is not available to finance the Bank's day-to-day operations.

For the year ended 31 December	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
<b>Note a</b>				
<b>Reconciliation of operating profit</b>				
Operating profit before value added tax on financial services	5,786,773	9,682,512	6,526,732	4,724,401
Non-cash items included in the profit	679,784	(3,589,784)	156,076	1,252,745
Net increase in loans and receivables	(38,496,570)	(21,548,181)	(38,496,570)	(21,548,181)
Net increase in due to other customers	22,505,047	22,229,446	22,505,047	22,229,446
Net (increase)/decrease in operating receivables	(570,535)	406,098	(375,771)	409,519
Net increase/(decrease) in operating liabilities	2,266,538	(616,510)	2,042,162	(585,418)
VAT on financial services paid	(840,240)	(806,647)	(840,240)	(806,647)
Income taxes paid	(652,006)	(1,244,413)	(699,929)	(1,293,080)
<b>Net cash provided by/(used in) operating activities</b>	<b>(9,321,209)</b>	<b>4,512,521</b>	<b>(9,182,493)</b>	<b>4,382,785</b>

The Notes to the Financial Statements disclosed from pages 277 to 376 are an integral part of these Financial Statements.