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பிரதேசிய சங்கவர்தனை வங்கி
Pradeshiya Sanwardhana Bank



Self Sufficiency
through
Rural Development



Annual Report
2012

Empowering Sri Lankans

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தன்னம்பிக்கையுள்ள இலங்கையருக்காக



ප්‍රාදේශීය සංවර්ධන බැංකුව
பிரதேசிய சங்வர்தனை வங்கி
Pradeshiya Sanwardhana Bank

Our Vision

“To take Sri Lanka
towards prosperity by
empowering people through
regional economic
development.”

Our Mission

“To be a strong financial institution
that aims at uplifting the
socio-economic status of the
regions by providing an
innovative banking service through a
dedicated, efficient and
professional staff.”

Annual Report
2012

Self Sufficiency
through
Rural Development



பிரதேசிய ஸ்வர்தன ரெங்குவ
பிரதேசிய சங்வர்தனை வங்கி
Pradeshiya Sanwardhana Bank



Cover Story



“The Cover of the 2012 Annual Report of the RDB reflects its primary objectives in improving the living standards of the rural masses, with a focus on Self Sufficiency through Rural Development. The island of Sri Lanka lays claim to a glorious heritage, one filled with tradition and innovation. The rural population, whilst maintaining such practices, today finds themselves and their livelihoods, revolutionized, with the support of the RDB. Even today, the RDB continues to provide accessible and affordable Financial Services, in turn strengthening the rural economy; the backbone of this developing nation: subsequently, proudly empowering Sri Lankans, of all walks of life. The cover page also echoes the multi-faceted nature of the Bank’s pioneering endeavours, that helps to support those working, not only in the spheres of the agriculture, livestock and fisheries, but also improving the livelihoods and futures of all individuals and groups involved in micro, small and medium scale industries; paying special attention to the upliftment of women, in particular. As the RDB persists in facing the challenges of the future, let its vision, mission and values, continue to provide innovative yet simple financial services, to those at the middle and bottom of the income pyramid: ensuring Self Sufficiency through Rural Development.”

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About RDB

In 1998, 17 Regional Rural Development banks were merged in to 06 Provincial Level Banks (Rajarata, Ruhuna, Wayamba, Uva, Kandurata, Sabaragamuwa)

These banks were further merged in May 2010 as National Level Development Bank namely Pradeshiya Sanwardhana Bank (RDB)

RDB was established under the Pradeshiya Sanwardhana Bank Act. No. 41 of 2008, as a fully state owned national level bank with the long term objective of improving the living standards of the rural masses by providing them accessible and affordable financial services that in turn, would contribute to uplift the rural economy.

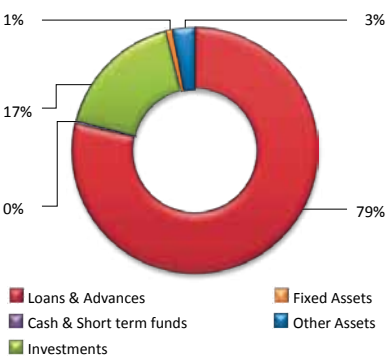
With four million loyal customer base complemented by 264 branches and empowered by approximately 2390 staff, the RDB continues to implement its vision of providing financial assistance to the rural sector and developing the nation through this sector thereby empowering the Sri Lankans.

Today the team RDB is proud to serve the nation as banking partner/ financial solution provider of the rural community by offering innovative simple financial instruments (deposit and lending) together with able staff who is dedicated to serve our clientele, those who are in the middle and the bottom of income pyramid.

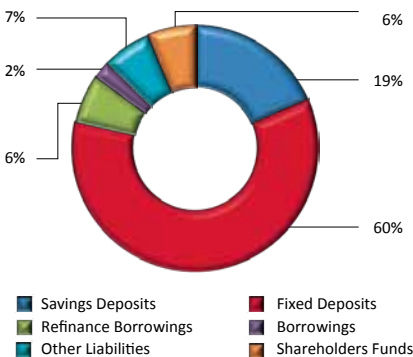


Financial Highlights

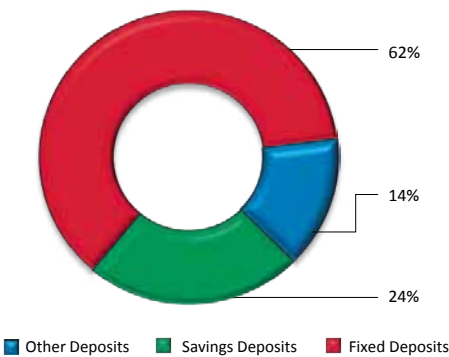
Assets Composition



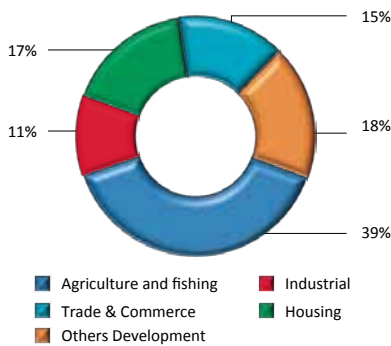
Liability Composition



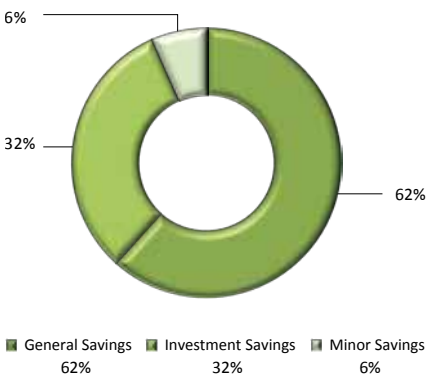
Deposit Mix



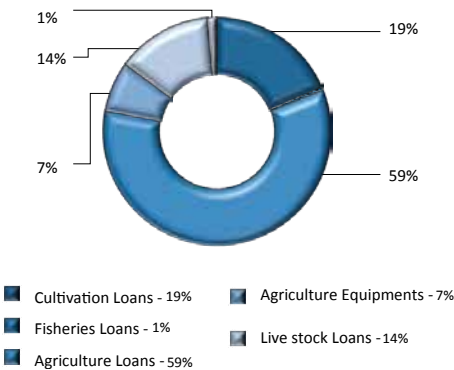
Loans Outstanding - Purpose Wise



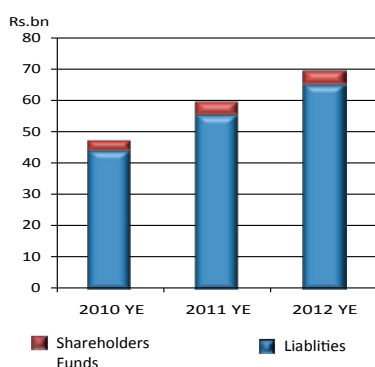
Saving Deposit Mix



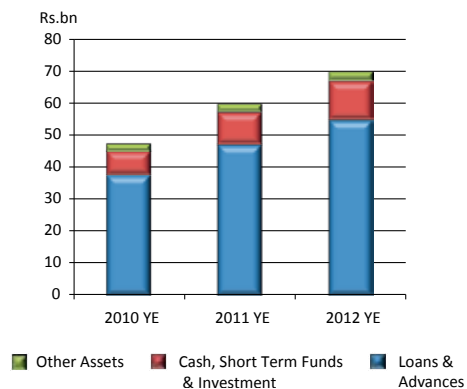
Agriculture Based Advance Mix



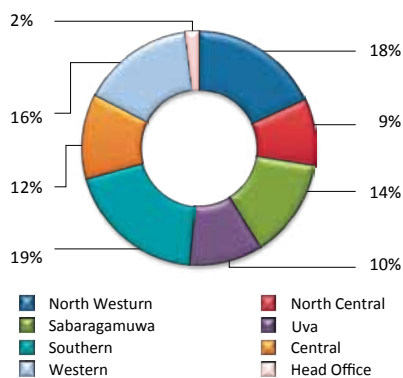
Liability Growth



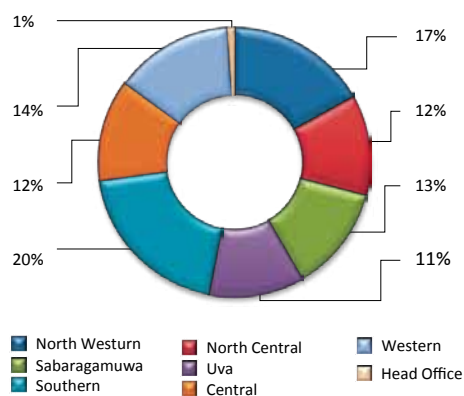
Assets Growth



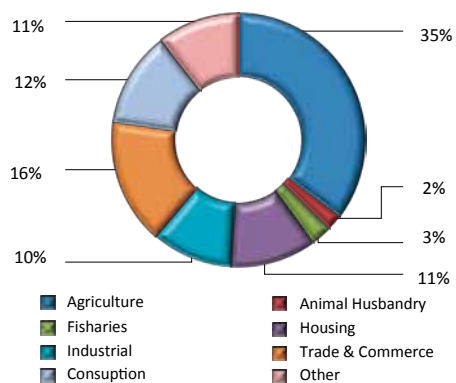
Province Wise Deposits



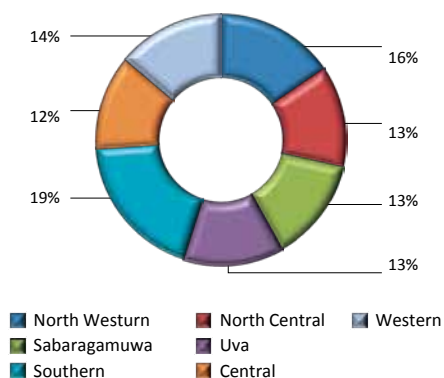
Province Wise Loan Outstanding



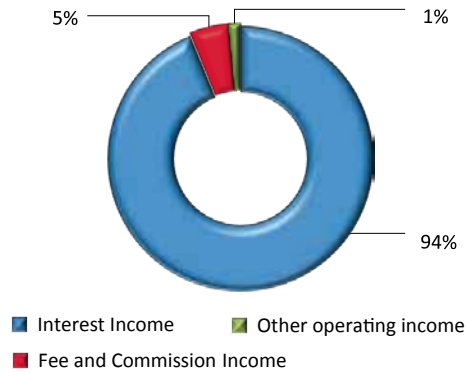
Loans Granted- Purpose Wise



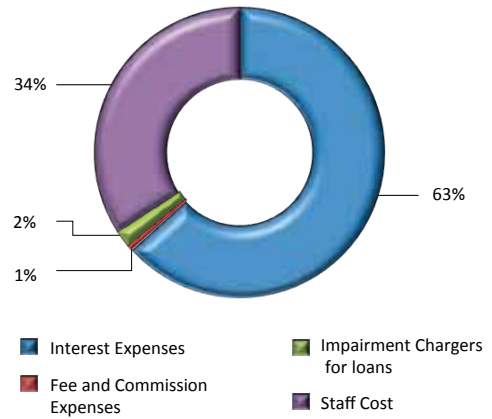
Loans Granted - Province Wise



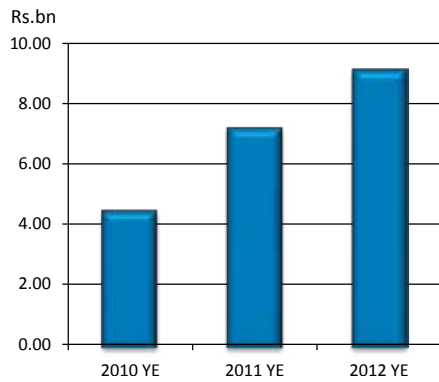
Income Mix



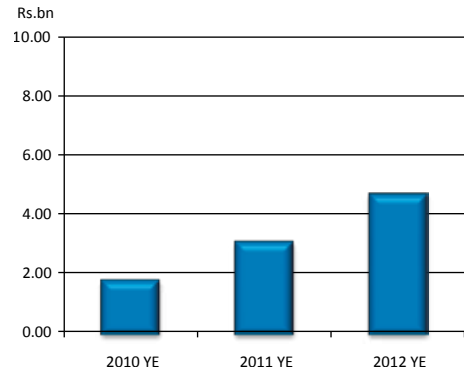
Expenditure Mix



Interest Income



Interest Expenditure





RDB



ഇന്ത്യയിലെ സംവിധാന വികസന
പ്രദേശ വികസന ബാങ്ക്
Regional Development Bank

Head Office





Chairperson's Review

It is with much satisfaction that I present the third Annual report of the bank for the year ended 31st December 2012. Although we are in operation for nearly three years as a national level bank, The beginnings of the Regional Development Bank can be traced as far back as 1985 when district level banks under the category of Regional Rural Development Banks were established in terms of the Regional Rural Development Bank act No 15 of 1985.

Subsequently in 1997, Seventeen such Regional Rural Development Banks were amalgamated in to six provincial development banks which were functioning as Rajarata, Ruhuna, Wayamba, Kadurata ,Uva and Sabaragamuwa Development Banks.

Thereafter these six banks were merged in to one national entity as Pradeshiya Sanwardhana Bank on 1st May 2010, Absorbing the assets, liabilities, contracts,

employees of those provincials banks established under the Regional Development Bank act no 06 of 1997.

Being a Pradeshiya Sanwardhana Bank at national level, The object of the bank shall be to facilitate regional economic development of Sri Lanka by promoting the development activities such as agriculture, industry, trade, commerce, livestock, fisheries and empowerment of women, mainly by granting financial assistance to micro financial institutions and small and medium scale enterprises.

POVERTY FREE SRI LANKA

During the past two years and eight months the management and the board of directors have focused much attention to consolidate different practices and corporate cultures of the then six provincial banks. I am very much happy that we have now been able to

consolidate all policies and operational procedures that have been practiced by six deferent entities over the years. We now work as one family with one vision towards creating a poverty free Sri Lanka by empowering low income earners through regional economic development.

We are proud to announce that the bank has reached its goals. We believe that these remarkable results have been yielded due to our consistent focus and meticulous strategies in framing policies for the bank. The profit earned, deposit mobilizations, disbursements of micro financial services to the needy sectors, recovery of loans and advances and other social activities conducted during the year under review are the evidences for our success.

We are happy to report that the bank has made 1.07 Bn before tax profit and has achieved deposit base of Rs. 54.67 Bn and a loan portfolio of Rs. 56.05 Bn. The bank has recorded very high recovery rate.

We, As a Pradeshiya Sanwardhana Bank firmly believe that our bank has to play a major role in the microfinance Industry. In fact we should lead the industry promoting women by granting financial assistance to micro finance institutions and small and medium scale enterprises.

For a financial system to be truly inclusive, It should meet the needs of every one who can fruitfully use financial services, Including the poor. Poor people or low income households in developing countries, like everyone else need access to a wide range of financial services that are convenient, flexible and reasonably priced. Not just loans, In addition to credit they want savings, Insurance and money transfer services.

However there is an acute gap between the demand and supply of micro financial services to the needy people especially in the rural sector. This has been attributed to several factors. Such as non availability of collateral, insufficient importance attach to the appraisal in making lending decisions, failure of the banks to establish a cadre of trained field personal to assess credit risk and follow-up loans, disproportionately high cost for small loans which too were subject same procedures for large loans and high transaction cost etc.

SAVINGS MOBILIZATION

UNDER “DIVI NAGUMA”

Poor people want to save and many of them save. But they are constrained by the multiple demands on their low incomes and also lack of available deposit services. Saving is a financial service for poor and excluded households. The consequence of scarce availability of appropriate saving services is that most poor people save in informal ways in various methods. The problem with these methods’ of savings is that they are risky and they can also be fairly illiquid. As such our primary motive is to inculcate savings habit amongst the poor under the group formation. Some low income earners save rupees 10/= to 50/= for a week that runs in to Millions. The Bank launched an exclusive savings account branded “Divinaguma” savings account on 04th February 2012. I am very much pleased to note that we have been able to open nearly 300,000 “Divinaguma accounts mobilizing Rs. 417 Million as at 31-12-2012. We have targeted to open another 700,000. “Divinaguma” accounts to reach one million accounts as at the end of 2013.

FORMATION OF SMALL GROUPS

During the past we have seen exponential growth in linkages between the Regional Development Bank and the Self Help Groups (SHG’s). In every parts of Sri Lanka these self help groups have attracted much attention over the past years as a source of rural financial services, especially for poor women. The current model links informal SHG’s of 5 to 10 people with source of finance. SHG’s start by collecting member’s small amount of saving and if all goes well many of them eventually gain access to bank loans. All these loans are given on the group guarantee and the problem of non availability of collateral does not exist for the economically active poor. Surveys show that almost all the members of the groups are from the low income and poorest groups: landless and marginal farmers.

MAHINDA CHINTHANAYA

Being a fully government owned development bank it is the view of the board of directors and the

management of the bank that we should play a key role in providing financial services to small and medium scale enterprises and the rural sector. We should reposition our selves to capitalize the emerging opportunities out of the government's commitment announced by the national economic policy envisaged in the "Mahinda Chinthanaya" and also annunciated in the budget proposals for the year 2012. Falling in line with the budget proposals where ever it is applicable to our bank, We have been able to frame our policies to follow suit in fulfilling the objectives of the bank.

FOOD SECURITY

It was proposed in the year 2012 budget that the surest way to consolidate food security is to expand our self sufficiency goal. This goal was expanded beyond rice to include peanuts, green gram, black gram, sesame and maize. Since all these grains are cultivated by small scale farmers who are mostly our customers, RDB had a key role to play in framing policies in the year 2012 to accommodate them. Needed financial services were provided to the farmers and they were made available to promote related activities in many part of the Island. I am very much happy that we were able to open several branches in the northern and eastern provinces and our presence was very much useful to the rural masses of those provinces to support government's aggressive development drive in the aftermath of the 30 year old conflict. We were able to provide financial facilities to the small scale farmers of north and east provinces, for the purpose of growing above mentioned grains.

Further, we have had negotiations with the food processing industrialists enabling them to purchase the requirement of Kurahan (FingerMillet) from the local market which has been hitherto import. This project has been extremely successful.

FORWARD SALES AGREEMENTS.

Generally the small farmers who are engaged in Agriculture are isolated from markets. They are exposed

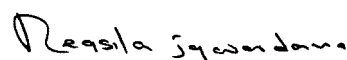
to higher risks on the volatility of prices. On the other hand small farmers are scattered and therefore the cost of financial services are expensive. In order to avoid isolation in markets the forward sales agreement is one of the most suitable instruments available with us and that links the farmers to the market effectively.

During the year 2012, we have had several negotiations with some of the importers of food grains. And the farmers who cultivated finger millet, peanuts, green gram, black gram, sesame and maize with a view of promoting financial structures for contract farming. As a development bank we will look for all avenues throughout the future with a view to decrease the import of food grains.

On behalf of the board I wish to convey my appreciation to General Manager / Chief Executive, the management team and the staff for their continuous support, co-operation and helping me to achieve the best for the bank.

The guidance and support extended to us during this period by His excellency the President as the minister of finance, The secretary of Treasury and the officials, the Governor Central Bank of Sri Lanka and its officials, all the other government officials and the board of directors have been extremely helpful and encourage

I would also like to thank our auditors Ernst and Young and the department of auditor general for conducting the year end audit. Finally I extend appreciation and gratitude to our much valued customers whose participation and partnership has made our growth possible. We are confident with the support of shareholders and employees of the Bank we will continue to fulfill our objectives throughout the future.



Keshala Jayawardana
Chairperson.



General Manager/ CEO's Review



It is my pleasure as the General Manager of the Bank to present 3rd successive review and analysis for the year 2012 annual report on bank's performance. In my view the Bank has performed comparatively successful in achieving its specific objectives as the Government's main development bank distinguish on facilitating rural/regional development of the country.

I personally discover year 2012 as a year which immensely accommodated the process of attaining our corporate vision "To take Sri Lanka towards prosperity by empowering people through regional economic development" despite of macroeconomic factors affecting the banking industry of the country together with credit ceiling imposed by the regulator.

We now being a national level development Bank serve the people who mostly in need of financial services

of our society, specially the rural sector of the nation which represents 70% of the total population. In order to fulfill this requirement, we have opened 08 new branches in Northern and Eastern provinces and 04 branches in other parts of the country to reach our target market and upgraded the facilities of 20 existing branches during the past financial year.

In my view the year 2012 is also considered as the year of consolidation after the establishment of the Bank in 2010. The brand name RDB was less popular among the general public while the earlier 6 regional level bank names were very popular. Hence, we have made all efforts to establish the RDB brand in the year 2012 by over shadowing the names of the previous regional level banks. This is an achievement for the Bank as the other major banks have reached this position after operating for several years.

In the year 2012, as planned in the previous year, we have commenced the implementation of the IT solution with the Indian IT solution provider namely Polaris. The Bank is expected to complete this implementation and go live to serve our clientele in 2013.

In keeping with the Governments' previous year budget proposal we were able to introduce new products and implement several services to meet our national goal of self sufficiency in food through rural development. We have extended financial assistance for the agriculture sector specially for Black grams, Kurakkan, Peanut, Green grams and Maize etc. Last year we have also introduced a new savings account product under the name "Divi Neguma" to facilitate/promote small time savers, I am proud to mention that by the end of the year we have opened more than 300,000 accounts with total deposits over of Rs. 417 mn under Divi Neguma accounts. Further in December 2012, we have also introduced "Ranaviru Divi Neguma" account to facilitate the self employment and savings habit of the injured security personnel of the armed forces who have sacrificed their young ages for the security of the country and suffered many physical ailments during the conflict days.

FINANCIAL AND OPERATIONAL PERFORMANCE

In the year 2012 the Bank has reached the gross income level to Rs. 9.06 bn which is an increase of 27% compared to the previous financial year, indicating a satisfactory growth position as a national level specialized bank for its 3rd year of operation. However, due to increase in interest cost which is a common phenomenon for the banking industry in year 2012 coupled with increased personnel cost, the Bank has reordered a pretax profit of Rs. 1.07 bn compared to the previous year figure of Rs. 1.58 bn which is a decline of 32.28%. Although, the income level has increased, managing interest cost and personnel costs were difficult in view of the market conditions and increasing trend in wages.

At present the Team RDB which is spread all over the country including North and East and includes more than 2500 individuals who are well trained and experienced in catering to our 4 mn customer base.

Further, in line with the government's policy to afford more employment opportunities to the state sector institutions, the Bank has offered employment for 64 graduates as management trainees and further 327 employments for other categories. Most of the recruited staff was deployed in the new branches of Northern and Eastern provinces.

The Bank's post tax profit was Rs. 0.55 bn as against Rs. 1.12 bn in the previous year. During the year 2012 the Bank experienced a credit expansion of 14% as against regulator's credit ceiling of 18%. The drop was mainly due to concentrating only on development lending activities rather than expanding credit with pawning facilities. Out of the total loan portfolio, agriculture and industrial sectors carry around 43.70%.

The Bank continued with a persistent strategy towards deposit mobilization and reached the deposit portfolio of Rs. 54.67 bn in 2012 as against the previous year figure of Rs. 46.11 bn which is an increase of 18.56%. However, the concentration of the portfolio was mainly towards fixed deposits. We have already made arrangements to bring down this concentration and to change the composition to have a higher percentage in long term savings deposits in the forthcoming years.

The Bank continues to maintain the asset quality, an area of critical focus for the banking industry. RDB was extending credit facilities to the rural sector, commonly identified as most vulnerable sector for lending by the industry. Although, the Bank has taken a higher risk by lending to this sector we managed to curtail our NPA ratio at 4.34% as of last financial year which is above the industry average. The figure is also higher than the previous year. The main contributory factor for the ratio increase was the unforeseen climatic conditions experienced in most of the districts of North Central, North Western and Eastern provinces which results to low harvest and losses to our clientele.

FUTURE OF THE BANK

I firmly believe that our future sustainability mainly depends on strengthening the microfinance activities of the Bank and we need to re-think our business model moving away from the traditional development banking model where most of Sri Lankan development banks are following now. In this journey we have

to be mindful of the necessity to achieve a balance between asset growth, maintaining sufficient liquidity and capital buffer. Further, profitability also cannot be compromised merely to facilitate the microfinance activities. Hence, we need to make all our lending and other connected activities of microfinance towards better profitability. The Bank also has to concentrate on customer service and managing risk in order to achieve this target. The implementation of CORE banking solution will have an added advantage for the Bank to facilitate the above requirements.

In the forthcoming year the Bank, with the implementation of the CORE banking solution for the entire network proposed to facilitate the rural community with electronic cash dispensing facility for which the Bank has to incur additional capital expenditure. We also have to educate the rural community, our existing clientele to adjust to the new changes from our conventional banking practices.

The Bank will also continue its compliance journey on risk management satisfying the regulator and adopting the best practices to achieve the Basel II and III recommendations. To complete these targets the Bank needs additional human capital together with capital expenditure which will be another challenge for the Bank in the year 2013.

The Bank has to expand its branch network in Northern and Eastern provinces by 10 more branches in the year 2013 to cater the areas previously effected by internal conflicts and to upgrade the facilities to at least 10 existing branches in order to extend better customer service.

APPRECIATIONS

My sincere appreciations to the Secretary to the Treasury & Ministry of Finance together with his staff, the Central Bank Governor and his able staff for their

support given throughout the last financial year and expect the same level of support in the coming year.

My gratitude to the Chairperson and Board of Directors for their continuous support, encouragement and guidance during year 2012.

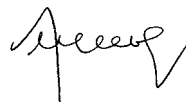
I wish to thank, my fellow team members of entire RDB network for their fullest support to achieve the Bank's successful results and our valuable customers for the relationship they maintain with the Bank.

I am also confident that the staff of RDB will play a key role in shaping-up the future of the Bank through their dedicated service.

CONCLUSION

RDB is a bank differentiate itself from other financial institutions by extending products and services to the rural sector of the nation which represents 70% of the total population who mostly in need of financial services of our society. Hence, RDB is not just a another bank but a specialized development bank involved in upgrading the socio economic living conditions of the rural mass by inculcating the savings habit and a new credit culture.

I assure that the Bank's upcoming operations will stand to achieve the objectives which go hand in hand with the government policies on the economic development of the country.



R Siriwardhane

General Manger/ CEO



Board of Directors



C. K. Nanayakkara
Non-Executive Independent
Director

T. A. Ariyapala
Non-Executive Director

Keshala Jayawardana
Chairperson
Non-Executive Independent
Director

S.D.N. Perera
Non-Executive Director

Dayani Fernando
Non-Executive Director

P.V. Pathirana
Non-Executive
Independent Director





Ms. Keshala Jayawardana

Chairperson

1

Ms. Keshala Jayawardana resumed duties as the Chairperson of Regional Development Bank in December 2011. She commenced her professional career as a lecturer at University of Peradeniya, where she completed her special Degree in Political Science. She also holds a MA in Public Administration from the same University and served the University for a period over 14 years. She commenced her banking career as the Chairperson of Kadurata Development Bank and after serving 4 years in this position. In 2009, with a view to serve the public she entered into politics and became a member of the Central Provincial Council and served 3 years, where she was instrumental in implementing following projects which immensely assist the people in the area. • Skill development training programmes for young entrepreneurs and school leavers. • Uplifting economic status of the rural poor providing self employment opportunities. Currently she also serves as a Director of NAITA. (National Apprentices Industrial Training Authority)

Mr. R. Siriwardhane

General Manager/CEO

2

Mr. Siriwardhane joined the Rajarata Development Bank as its first General Manager / CEO in 1998. After the amalgamation

of the six provincial banks, he was appointed as the General Manager/CEO of the Regional Development Bank with effect from 1st May 2010. He commenced his banking career with Bank of Ceylon in 1976 and subsequently joined Hatton National Bank and served for a period of 12 years. In 1990 he joined the Sri Lanka Export Development Board and thereafter the National Development Trust Fund and Pubic Bank Malaysia.

He counts over 34 years of service in the banking industry in various capacities specialized in development banking. He is a B.Sc (Business Management) graduate from Sri Jayawardenepura University and holds a post graduate diploma in regional development from the University of Colombo. He is also an associate member of the Institute of Bankers of Sri Lanka.

Mr. Sarath De Alwis

Executive Director

3

Mr. Sarath de Alwis holds a degree in Geography in University of Ruhuna and a post graduate diploma in education. He has gained 20 years of experience as a Geography teacher for advanced level students. Mr. Alwis was the Chairman of Ruhuna Development Bank during the years 2009 - 2010. He holds the position of the Advisor to honorable Minister Dullas Alahpperuma (Minister of Youth Affairs and Skills Development).

Ms. A.V.K. Madhavie Herath

Executive Director

4

Qualified with B. A. (Hons) - Economics and M. Phil – Economics from University of Peradeniya, Mrs. A.V.K. Madhavie Herath acted as former Chairperson in Kandurata Development Bank for the period of 2009.03.01 to 2010.04.31. Mrs. Herath currently acts as a Senior Lecturer in Department of Economics of University of Peradeniya, and she does lectures for internal students and post graduate students in subjects of Money and Banking, International Trade, International Finance, Economics Development, History of Economic Thoughts, and Comparative Economics. Mrs. Madhavie Herath has done researches in areas of Money and Banking, and Economic Development. Her seminars and publications have been done relevant to Money and Banking, Economic Development, and Subsidies and Economic Development.

Dr. B.M.S Batagoda

Director

5

Dr. Batagoda is a BA Honours (in Geography) Graduate from the University of Sri Jayawardanapura and also holds a Ph.D. in Environmental Science from University of East Anglia, UK, MSc in Natural Resources Management from Michigan State University, USA and an Attorney-at-Law of

the Supreme Court of Sri Lanka. In addition, he holds a Certificate in Public Administration from the Institute of Development Administration, Sri Lanka.

Dr. Batagoda is a Board member of the Board of Directors of Ceylon Electricity Board, Litro Gas Lanka Ltd., SAARC Development Fund, Lanka Sugar Company, Sri Lanka Insurance, Institute of Policy Studies and Post Graduate Institute of Management, Sri Lanka Carbon Fund and Sri Lanka Fulbright Commission. In addition, he is the Deputy Secretary to the Treasury. He was the Director-General of the Department of Public Enterprises and National Planning, Ministry of Finance and Planning. He held several senior positions in the Ministry of Public Administration, Ministry of Plantation Industries, Ministry of Environment and Natural Resources and Ministry of Finance and Planning. Further, he has served as an Assistant Secretary to his Excellency the President of Sri Lanka, Presidential Secretariat, Sri Lanka. Dr. Batagoda has authored several books including State of the Environment in Sri Lanka, The Economic Valuation of Alternative Uses of Mangrove Forests in Sri Lanka and co-authored books including Urban Air Quality Management in Sri Lanka, Theoretical Manual for Environmental Valuation in Sri Lanka and Fiscal Policies on Fuels and Vehicles in Sri Lanka etc.

Mr. P. V. Pathirana 6 Director

Mr. P. V. Pathirana was appointed as a director of the Board of Regional Development Bank in October 2010. He holds a B. Sc.

(Business Administration) Degree and is a Fellow Member of the Institute of Bankers of Sri Lanka (FIBSL). He also holds a Diploma in Bank Management from the Institute of Bankers of Sri Lanka. Mr. Pathirana is an experienced banker who has risen from the level of a Branch Manager to GM / CEO post covering a wide area of banking practices at Peoples Bank. He has specialized in Micro Financing and Development Banking. His 39 years experience at Peoples Bank elevated him to the post of GM / CEO of Peoples Bank Sri Lanka. Mr. Pathirana also served as a Director of People's Merchant Bank, Credit Information Bureau, Institute of Bankers of Sri Lanka, Agricultural and Agrarian Insurance Board, People's Travels and People's Leasing Finance (PLC) Company. Currently, Mr. Pathirana is the Senior Advisor to Ministry of Finance on SME Finance.

Ms. C. K. Nanayakkara 7 Director

Ms C.K Nanayakkara former Assistant Governor of the Central Bank of Sri Lanka was appointed as a member of the Board of Directors of the Regional Development Bank in February, 2011. She has served the Central Bank for 35 years and has gained wide experience in Central Bank activities, holding senior positions in the Departments of Regional Development, Training and Management Development, Communications, and, as the Secretary of the Central Bank. While in the Central Bank she was particularly involved in implementing several Rural Credit programs initiated by the Bank and has also been a member of the

Board of Directors of the former Regional Development Banks of Gampaha, Kalutara and Uva. Ms. Nanayakkara holds a honours degree in Geography from the University of Ceylon Colombo and Bachelor of Philosophy from the same university. She has also followed Post Graduate Studies in Economics at the London School of Economics U.K

Mr. S.D.N. Perera 8 Director

Mr. Dhammika Perera joined the Board of Regional Development Bank in May 2010, at its inception. At present Mr. Dammika Perera serves as Senior Deputy General Manager of National Savings Bank. He joined the NSB in 1986 and since then he has held many key positions at the Bank such as Deputy Chief Internal Auditor, Chief Internal Auditor, Assistant General Manager (Internal Audit) and Deputy General Manager (Audit & Vigilance). At present he oversees the Audit, Investigations, IT, Credit, Administration, and Security of the Bank. Mr. Dhammika Perera is a Certified Information Systems Auditor and was the President of Information Systems Audit and Control Association, Sri Lanka Chapter. He is also a member of the Institute of Internal Auditors, USA; and serves in the Board of Governor of the Sri Lanka Chapter of Institute of Internal Auditors. He holds a B.Com Special Degree and Diploma in Bank Management and is a finalist of the Institute of Chartered Accountants, Sri Lanka. He has delivered presentations at various Seminars organized by the ISACA Sri Lanka Chapter and Institute of Chartered Accountants on internal audit and information systems audit related subjects and fraud investigations.

Ms. Dayani Fernando 9

Director

Mrs. Dayani Fernando holds a Degree in Bachelor of Commerce (Hons) from the University of Colombo and a Bachelor of Philosophy in Economics from the same University. She has diversified experience in banking for 36 years and has specialized in Corporate Credit Management and Administration. She served in Bank of Ceylon, London for 3 years and has gained wide experience in international banking operations. She presently serves as the Deputy General Manager (Corporate & Offshore Banking). She also serves as a member on the Technical Evaluation Committee of Ceylon Petroleum Corporation and as a Non-Executive Nominee Director of Ceylease Financial Services Ltd., an affiliate of BOC, for the last 4 years.

Mr. T.A. Ariyapala 10

Director

Mr. Ariyapala joined People's Bank in 1978 and is in charge of Cooperative, Development & SME Banking. He holds a B.SC Business Administration Degree and Degree in Bachelor of Laws and is Attorney-at-Law. He is a Fellow Member of the Institute of Bankers of Sri Lanka (FIBSL) and an Associate Member of the Institute of Accounting Technicians of Sri Lanka (MAAT). His career experience is over 33 years at the levels of Branch Manager, Assistant Regional Manager, Regional Manager, Zonal Assistant General Manager and Deputy General Manager. He has received extensive local and overseas training and exposure in Cooperative, Project Lending, Micro Finance, Human Resource Management and Branch Business / Banking. He has been responsible for rejuvenating SME Banking & development lending in People's Bank.

Ms. Kasuni Pinnawele 11

Board Secretary & Chief Legal Officer

Ms Kasuni Pinnawele joined the bank in 2011. Prior to assuming her duties as Chief Legal Officer and Board Secretary at the Bank, she held positions in the public and private sectors, including Deputy Director (Legal) at the Consumer Affairs Authority under the Ministry of Internal Trade & Co-operatives, Chief Executive Officer of a Company within the Capital Maharajah Group and Industrial Relations Advisor at the Employers Federation of Ceylon. She holds a Bachelor of Arts (Honours) Degree in Law & Criminology from the University of Keele, United Kingdom and is an Attorney-at-Law with 12 years of experience in Commercial Law, Litigation, Conveyancing, Company Secretarial, Labour Law, Employment Law, Commercial Arbitration, Consumer Protection Law, Industrial Relations, Administration and Human Resource Management.



Corporate Management Team



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Mr. S. A. Alahakoon

Deputy General Manager
(Credit & Recovery, Finance)
B.Com (Special) Sri J
ACA, AIB (SL)

Mr. A.A.P.B.E. Tennakoon

Deputy General Manager
(Human Resources Development & Administration)
M.Sc Eng. (Moscow), M.Eng. (AIT, Bangkok)

Mr. R. Siriwardhane

General Manager/CEO
B.Sc (Business Management), Sri J, PG Diploma - Regional
Development - (Colombo) AIB (SL).

Mr. T. Kuhan

Chief Risk Officer
MA (Fin Econ) Colombo, PG Dip. (Econ Dev) Colombo, PG Dip
Bank Mgt. (SL), AIB (SL)

Mr. Vajira Jayasinghe

Deputy General Manager - (IT)
B.Sc Eng. (Moratuwa), M.Eng. (Thailand) MBA (USA)

Regional General Managers/ Senior Assistant General Managers



NORTH WESTERN PROVINCE
MR. U.B. SEMASINGHE
B.Com (Special) Colombo



CENTRAL PROVINCE
MR. K.P. DAHANAYAKE
B.Com (Special) Ruhuna.
Post Graduate Diploma in
Rajarata



Mr. W.G.J. Premadasa
Senior Assistant General Manager
(Finance & Planning)
B.Com (Special) Sri J
Higher National Diploma in Commerce A.M.P.M.A. (UK)



SOUTHERN PROVINCE
MR. C.L. PIHILLANDA
B.Com (Special) Kelaniya.
PG Diploma in Management-Peradeniya



WESTERN PROVINCE
MR. A.H.M.M.B. JAYASINGHE
BBA, Sri J
PG Diploma in Management - Wayamba
Post Graduate Diploma
in Regional Development NIBM and RVB Netherland Post
Graduate Executive Diploma in Bank Management
Institute of Bankers of Sri Lanka

NORTH CENTRAL /NORTHERN PROVINCE
MR. D.M. SENARATHNA BANDARA
 B.Com (Special) Sri J



SABARAGAMUWA PROVINCE
MR. SANATH SENADHEERA
 B.com (Special) Kelaniya



UVA/EASTERN PROVINCE
MR. D.M.T.S KUMARA
 Bsc. - Business Administration (Special Sri J



Mr. S.A.U.R.K. Sinhalagoda
 Senior Assistant General Manager
 (Operation)
 B.Com (Special) Kelaniya



Mr. W.S. Hewawasam
 Senior Assistant General Manager
 (Human Resource Dev. & Administration)
 B.A.(Special) Sri J





Assistant General Managers in Head Office



Mr. S.C. Fernando

Assistant General Manager
(Business Dev. & Marketing)

MBA Sri J, FIB (SL), FSLIM (SL), FASMI (Aus),
Certified Professional Marketer (Asia Pacific Marketing
Federation), Dip. in Bank Mgt. (IBSL), Dip. Mkt. SL (SLIM),
Practising Marketer (SLIM)



Mr. A.H.M.G. Abeyrathne

Assistant General Manager
(Micro Finance)

B.com. (Special) Kelaniya
Diploma in Micro Finance - Open University of Sri Lanka



Mr. I.J. Wijesekara

Assistant General Manager
(Credit & Recovery)
B.com-Sri J



Mr. D.S.P.C. Hadunhewa

Assistant General Manager
(Special Unit)



Mr. W.M.D.S. Wickramasinghe

Assistant General Manager
(Compliance Officer)

B.com. (Special)-Ruhuna, PG in Business Management
Diploma-Colombo
Certificate in Risk Management in Banking - Sweden

Chief Internal Auditor



Ms. H.M.N. Manojika Herath

FAAT, ACA, Dip. in Banking & Fin (IBSL),
B.sc (Bus. Admin. special in Fin.),
MBA (Wayamba)

Assistant General Managers in Regions

Mr. T.M.G. Tennakoon

Sabaragamuwa Province
Diploma in Agriculture



Ms. C.S. Weragoda

Sabaragamuwa Province
BSc. - Business Administration (Special)
Sri J



Mr.K. Ariyathilake

Southern Province
Higher National Diploma in HRD NIBM



Mr. W.M. Nimal de Silva

Southern Province
BSc. - Business Administration
Sri J



Mr. D.P. Darmadasa

Uva Province
BA-Peradeniya



Mr. J.P.K. Herath

Central Province
Diploma in Agriculture





Ms.B.R.D. Pushpakumari
NorthWestern Province
B.com. (Special) Kelaniya



Mr.G.S.D. De Silva
Central Province
B.com. (Special) Sri J



Mr. W.V.A.G. Warakagoda
Uva Province
B.com. (Special) Sri J



Mr.R.M.R. Randeniya
North Central Province
Bachelor of Arts Peradeniya



Mr.B.M.U.S. Basnayake
North Central Province
Diploma in Agriculture



Mr.W. Kottage
Western Province
B.com. (Special) Ruhuna



Mr.L.B. Upali
North Western Province
B.com. (Special) Kelaniya



Mr.B.H.M.S. Basnayake
Western Province
B.com. (Special) Sri J
Management Diploma - Uva



Management Discussion

As a development financial institution Regional development Bank is playing a vital role in the development process in the country. The Bank has been in the forefront of almost all the development programs in the island taking a significant role as a financier. Regional development Bank is now emerging as a unique Development Financial Institution in the island serving to the needy sectors of the economy where most financial institutions are reluctant to be present. Our key asset is our customer base of over 4,265,000 spread all parts of the country. Development of the country and its people is the main focus the Bank. Hence the bank is committed to empowering them and thereby developing the nation as well.

SAVINGS MOBILIZATION

Improvement of savings habits among under-privileged community is the base for developing their living conditions. Therefore the Bank aggressively engaged in savings mobilization programs and our savings programs cover all segments of the society ranging from children under 12 years of age to senior citizens. During 2012 the Bank commenced two new savings programs viz. Ranawiru Mapiya Rekawarana Accounts in order to strengthen the economic condition of the parents of disabled and deceased personnel of armed forces and “Divinaguma investment accounts” to support the poverty alleviation program of the government.

As at end of the year the Bank had 3,690,000 savings accounts (11% increase over the year) and 580,000

fixed deposit Accounts (14% Increase over the period). During 2012 total amount of savings increased to Rs. 54,710.1 million from Rs. 46,154.0 million as at end of 2011. (18.5 % increase). Nearly 61.9 % of our savings are in the form of fixed deposits as reflected in the table 01 The Bank is constantly trying to bring this ratio down to a reasonable percentage as a strategy of bringing down its cost of funds.

NEW CREDIT POLICY TO GEAR LENDING ACTIVITIES

During the year under review the Bank approved a new credit policy as a broad guide line for its lending operations. The new credit policy has been structured with the objective of strengthening its development oriented lending. Present micro sector bios lending portfolio is expected to diversified in the future by gradual inclusion of SME and other project loans as a result of implementation of the new lending policy. This will also help the Bank to act as a national level development financial institution in a more meaningful manner.

LENDING TO STIMULATE DEVELOPMENT OF THE COUNTRY

Granting of loan facilities for investment purposes too will help improvement of business sector and entrepreneurship Development in the country. Hence the Bank provided necessary facilities to all needy sectors by relaxing most of the conditions imposed by traditional Banks. Rather than asking for collateral from our borrower the Bank has constantly built up the credit discipline of the borrowers and strengthen supervision of the projects and wherever necessary Credit Plus services were provided as tool to protect the loan portfolio.

| Table 01 | Savings Deposits | |
|-------------------|--------------------------|-------|
| | As at 31st December 2012 | |
| | Amount (Rs.) | % |
| Savings Deposits | 12,887,172,000 | 24 |
| Long Term Savings | 7,947,862,000 | 14 |
| Fixed Deposits | 33,875,039,000 | 62 |
| Total Savings | 54,710,073,000 | 100.0 |

Table 02

Purpose classification of loans granted – 2012

| Sector | No. of Loans | % | Value Rs. Mn. | % |
|------------------|--------------|------|---------------|------|
| Agriculture | 743,198 | 49.7 | 19,328.9 | 35.3 |
| Animal Husbandry | 21,609 | 1.4 | 1,093.6 | 2.0 |
| Fisheries | 33,162 | 2.2 | 1,449.5 | 2.6 |
| Industries | 116,784 | 7.8 | 5,720.0 | 10.5 |
| Trade & Commerce | 170,477 | 11.4 | 8,773.3 | 16.0 |
| Housing | 105,392 | 7.1 | 5,964.3 | 10.9 |
| Consumption | 219,602 | 14.7 | 6,664.5 | 12.2 |

During 2012 the Bank commenced two new loan schemes to upgrade three identified sectors. The Ranaviru Service Authority of the Government selected RDB as the sole banker for channeling funds to commence a loan scheme. The intention of the loan scheme is to get the disabled soldiers and parents and the immediate family members of disabled and deceased personnel of armed forces into the economic activities of the country.

Secondly the Bank entered as a participating Bank under National Agri Business Loan scheme implemented by Central bank of Sri Lanka. In addition The Bank continued to operate Janasevena Housing Loan Scheme for Development of Housing and dwelling sector and Paddy purchase loans to protect paddy farmer's interest and by guaranteeing a stable price for paddy.

Our range of loan products includes all types of facilities from micro credit to Project Financing with an emphasis to SMEs. During the year under review the loan portfolio

of the Bank increased to Rs. 53,667.2 Million from Rs. 47,199.8 million as at end of 2011 which represent an increase of 13.7%. In depth analysis of the lending activities during the period under review is an evidence for the developmental role played by the Bank.

Over 66% of the loans granted during the year were for productive purposes such as Agriculture, Animal Husbandry, Fisheries, industries and other commercial activities which contribute to economic development. A summary of the loans granted with a purpose classification is in the table 02 Which clearly shows the bank development role in lending.

Noteworthy feature of the loans given is that large majority of them have been disbursed in provinces other than western province which evidence the bank's commitment on rural development. As shown in the table 03 Only 8.8% of the number of loans and 13.8% of the value of loans has been disbursed in western province. 91.2% of the number of loans and 86.2% of the value of loans has been given in rural areas in Sabaragamuwa, Uva, Central, Southern and North central provinces.

In order to mobilize financial resources for lending purposes the Bank participated in all accessible refinance schemes. These refinancing loan schemes aimed at development of important economic sectors have been implemented by the Government and the Central Bank of Sri Lanka and other donors. These loan schemes are aimed at up-liftment of important sectors such as Micro enterprises, Small and Medium Enterprises, Livelihood improvement, Self employment, Livestock development, Poverty alleviation etc. The Bank participated in almost all such refinancing schemes in the country. Accordingly loans amounting to Rs. 3,353 million have been approved in 2012 under 23 refinancing loan schemes. This records a 73% increase from Rs. 1,936 million in 2011. The bank was able to take the leading position by utilizing maximum amount of refinance under three of the above refinancing schemes namely, Saubagya Self Employment Loan scheme, Poverty Alleviation and Micro Finance Project and Self Employment Promotion Initiative Loan Scheme.

Table 03

Geographical distribution of loans granted – 2012

| Province | No. of Loans | % | Value Rs. Mn. | % |
|---------------|--------------|-------|---------------|-------|
| Sabaragamuwa | 320,232 | 21.5 | 7,297.7 | 13.3 |
| Uva | 213,141 | 14.3 | 7,155.7 | 13.1 |
| Central | 214,884 | 14.3 | 6,680.5 | 12.2 |
| Southern | 244,791 | 16.4 | 10,398.3 | 19.0 |
| North Central | 212,911 | 14.3 | 7,169.6 | 13.1 |
| North Western | 155,710 | 10.4 | 8,447.5 | 15.4 |
| Western | 130,995 | 8.8 | 7,578.9 | 13.8 |
| Total | 1,492,664 | 100.0 | 54,728.3 | 100.0 |

DEVELOPMENT OF STAFF MEMBERS

The staff the Bank consists of the employees from former six provincial banks who possess different experiences, skills, attitudes, visions, expectations etc. One of the challenges faced by the Bank during the past two years was to gather them into one group by minimizing the differences. Training and capacity building is one of the strong techniques to harmonize the situation. Therefore the Bank among the other training programs undertook training of its staff on development lending activities to culture development oriented thinking and attitudes among the staff. During the year all the branch managers were given training on project oriented lending techniques. Further 321 Field officers were also trained on this subject. In total 1231 officers of the bank representing 51.5 % of the entire staff was given training on project lending.

During the year under review The Bank increased the salary levels of its entire staff by approximately 25 Percent in 2012, which will be a motivating factor. This salary increase resulted in a enhancement of the monthly salary bill from Rs.98 Million to Rs.130 Million. This step was taken as a result of the renewal of the collective agreement with the staff unions.

Further 223 employees were promoted to higher levels with a view to fill urgent gaps to improve efficiency of the structure. Accordingly four Regional General Managers, 12 Asst. General Managers, 14 Chief Managers and 46 Senior managers assume duties during the year. Further 147 employees were promoted to the other grades.

In addition to training of its staff the Bank was instrumental in training of its customers i.e. mainly micro entrepreneurs to built-up their capacity to manage respective projects and on group lending programs. Accordingly 171 entrepreneurs were trained incurring a cost of Rs.263,765 This type of training will strengthen the viability of respective business and thereby improve loan repayment capacity of the projects.

BRANCH EXPANSION

Within the recent past with the expansion of the Branch network and the range of services there was a need for recruitment of additional staff. The bank was partly fulfilled this requirement by recruiting 64 new Management Trainees and 327 Bank Assistants. We expect to rationalize the staff of the Bank on completion of the present restructuring programs underway.

During 2012 the branch network of the Bank was improved by opening 13 new branches of which 9 branches are in the North and East. Expansion of our service network mainly in the former conflict areas is a necessary to reach poor community who needs our support to improve their livelihood. As a result of opening new branches in these areas the bank has been able to actively involve in 'Uthuru Wasanthaya' loan scheme dedicated for development of the North and 'Nagenahiira Nawodaya' loan scheme intended for eastern province development. Both these loan schemes were implemented by the Government of Sri Lanka.

In addition to opening of new branches 19 branches were relocated in new buildings to improve the convenience of the customers.

RELOCATION OF THE HEAD OFFICE

The bank during the year under review purchased a four store building at Kelaniya to house its head office building. The cost incurred was Rs. 139,509,000 and this building is located on the Kandy road just outside the Colombo city limits. Refurbishment activities are under way with the expectation of moving to the new premises during the first quarter of 2013. Present head office is located in a rented premises at union place paying a monthly rent of approximately Rs. 1,550,000 Once the project is completed our Bank will become the first Bank in the island to set its head office outside the Colombo city.

PEOPLES COMPANIES

Three of the former provincial banks took initiative to setup four peoples Companies for micro finance activities in Puttalam, Matara, Galle, and Kandy. The

Bank continued to provide funds as bulk loans to these companies for their operations. During the year 2012 total of Rs. 26.3Mn. Were granted to these companies from the Bank. These companies provide a convenient service mainly to micro sector and therefore the acceptance of the clients is also satisfactory. The Bank is seriously considering setting up of new similar companies in the other parts of the island and restructuring present peoples companies for better leverage by the bank.

MOBILE BANKING

Mobile banking by doorstep agents is one of the unique services provided by the Bank. This service is getting more and more popular in the suburbs and rural areas. This improves savings habits of the people as well as facilitates repayment of loans by the customers.

SYSTEM IMPROVEMENTS

As mentioned in our last year report a major activity under taken by the Bank was automation of the

activities of the bank by introducing a core banking system. Accordingly the Bank purchased Intellect Core Banking software and during the year under review implementation activities were carried out by the IT department with consultation of the vendors namely Polaris Financial Technology Limited and Millenium Information Technologies pvt Ltd. Customization work has been all most completed and the system parallel implementation is now underway for testing purposes. On completion of implementation in the coming year it is expected to increase the efficiency of the branches and the bank will be in a position utilize its staff rationally for more productive operations.

During 2012 the Bank entered to the Sri Lanka Interbank Payment system (SLIPS) which improves the speed payments within the banking system of the country. Hence the Bank is now in a position to provide a better service to its customers in making payments.



STEPPING TO
NORTH AND EAST

RDB Stepping to North and East

Pradeshiya Sanwardhana Bank opened nine Branches in the Northern and Eastern provinces. Large crowds gathered at all these branch openings. Mostly women participated at all branch openings. Minister of traditional industries and small enterprise development, Honourable Douglas Dewananda ceremonially opened Jaffna branch.



Door to door campaigns in Jaffna



Chunnakam Branch opening



Celebrating International Women's day @ Vavuniya



Empowering women at village level in Eastern province



Inculcating savings habit and empowering women through door to door services at Kanakarayankulam

RDB Stepping to North and East



Door to door campaigns in Jaffna



Field promotion campaigns @ Chunnakam



Kathankudi branch was opened by deputy minister of resettlement, Honorable Vinayaga Moorthi Muralitharan



Trincomalee Branch Opening



Bringing light to a new generation at Chunnakam. Rewarding children's savings account holders.



Assisting farmers through micro finance schemes at Kanakarayankulam

Branch Openings



RDB Ja Ela branch opening



The Pothuwil branch opening



Kalpitiya branch opening



Valachchenei branch opening



Northern crop lands



Hand made products from Eastern Province



Special Events

Relocation of Branches 2012

In Order to provide much better facilities to customers and staff, Twenty one branches were relocated to new premisses in 2012.



Re - location of Balangoda Branch

| Date | | Branch Name |
|-----------|----|-----------------------------|
| January | 17 | Mahiyanganaya |
| March | 29 | Balangoda |
| March | 30 | Haldummulla |
| April | 01 | Giriulla |
| April | 09 | Pothuvil |
| April | 10 | Uragasmanhandiya |
| June | 28 | Eheliyagoda |
| July | 09 | Diyathalawa |
| August | 27 | Avissawella |
| August | 27 | Kaduruwela |
| August | 27 | Lunugamwehera |
| September | 17 | Kithulgala & Pannala |
| September | 24 | Yatiyantota & Bogahakumbura |
| October | 15 | Wellawaya |
| November | 12 | Millaniya |
| November | 19 | Kahawaththa |
| November | 28 | Horana |
| December | 03 | Welimada |
| December | 10 | Walasmulla |



Pannala branch was re - located in a new and convenient location.



Re - location of Horana Branch



Re - location of Welimada Branch



Re - location of Lunugamwehera Branch

Deyata Kirula -2012

RDB Bank actively participated at the "Deyata kirula" exhibition 2012, held at Oyamaduwala in the Anuradhapura district. Bank's exhibition stall was designed to depict the economic activities of the entrepreneurs maintaining accounts with RDB. Selected small scale entrepreneurs from the bank's clientele was given the opportunity to display their products and benefit by getting large orders.

Bank erected the world's first ever pandall made out of maze in front of the Bank's exhibition stall. The special Loan schemes release for meze cultivation helped the country to completely discontinue importing maze.

Bank launched a very special account branded 'RDB Divineguma' at the site amidst a packed gathering. Minister for Economic Development, honorable Basil Rajapaksha handed over the first ten RDB Divineguma savings pass books to farmers in the area. This account, by the end of the year became one of the fastest growing savings accounts in the country.





Corporate Social Responsibility

Promotion of Fresh Milk Consumption

With the dawn of the year, bank embarked on a very special project of promoting fresh milk with the objectives of providing better nourishment to all Sri Lankans and also to contribute to the economy by saving the huge cost of milk powder imports. The bank commenced the project setting and example, using only fresh milk in all its branches and offices during morning and evening tea for staff. Bank also coordinated supply of fresh milk to government offices and assisted dairy farming through micro finance schemes. Bank also sponsored number of publicity activities.



Promoting of Fresh Milk usage in Central Province

Forward Sales Agreements (FSA)

For Kuda oya potato farmers in Nuwara Eliya



For over generations, Sri Lankan farmers were at the receiving end due to many adverse situations. Adverse Price fluctuation in the market due to excessive production was one of the worst problems they have faced.

Pradeshiya Sanwaradhana Bank introduced forward sales agreements between the farmer and the wholesale buyers ensuring fixed prices even before they commence the cultivations. This system not only protected the income of farmers, but made them to plan well and handle cultivations in a more advanced manner..

RDB introduced this system to potato farmers in kuda oya Nuwara Eliya.

Continuation of Forward Sales Agreement (FSA)

For Ginger farming community at Pujapitiya

RDB Bank continued facilitating forward sales agreements between ginger farmers in Pujapitiya and M/S Elephant House (Pvt) Ltd.



Launching of RDB Divineguma Account

Over 400,000 accounts opened within a year,

During the month of February 2013, RDB launched a new Investment account for Sri Lankans engaged in Home Gardening, Fisheries, Animal Husbandry and Cottage Industries, the new product branded as RDB Divineguma became popular in every village. The product performed extremely well surpassing all targets, to achieve more than 400,000 accounts within a year.



International Women's Day-2012

RDB, celebrated international women's day at Matara. A large gathering of women representing almost every village in the area participated.



Children's Day - 2012

Pradeshiya Sanwardhana Bank conducted several events to promote savings habit among children during October 2012.

Wilgamuwa branch of the bank held a very successful art competition for the children in the area.



Divineguma Training Programmes

Bank conducted several training programmes Island wide for 'grama niladharis, samurdhi officers, assistant agricultural research officers, graduates trainees, peoples's representatives and rural community leaders in grama seva divisions on "Divi Neguma"



Ranaviru Divineguma Account

RDB launched a special investment account branded "Ranaviru Divi Neguma" with the objective of integrating family members of war heroes and disabled war heroes into the country's development process and uplifting their living standards.

The Government allocated Rs. 400 million for this scheme through the 2012 Budget. The families of the said heroes who wish to initiate their own projects can now obtain loans up to Rs. 500,000 under this program.

This program was launched by the bank with the assistance from Economic Development Ministry and Ranaviru Seva Authority.





Our Financial Solutions



Products & Services

Investment / Saving Accounts

SAVING ACCOUNTS

RDB DIVINEGUMA

"RDB Divi Neguma " is the latest savings account introduced by Pradeshiya Sanwaradhana Bank. It is meant for sri Lankans engaged in home gradening, fisheries, animal husbandry and cottage industries etc. The special features of the product contain an attractive interest rate for deposits and a special loan scheme customized for the target segment.



offer for balances in the accounts at different levels.

The account is designed with three main objectives. They are, Inculcating savings habit among the children for a better future, assisting children's education and also helping them to become good citizens. Gifts/prizes are offered for account holders who obtain best results at the year 5 scholarship exams. Further educational seminars are arranged for the account holders who sit for the above examination.

RDB KEKULU

"RDB Kekulu" is a savings scheme exclusively designed for children under 12 years of age. The initial deposit to open a "RDB Kekulu" account has been lowered to Rs. 100/- enabling every child in our mother land to save for their future with RDB. The Bank offers an attractive plastic till for every new account opened under this scheme. Further there is a wide range of gift items such as exclusively designed valampoori tills, mugs, school bags, watches, gift vouchers and children's bicycles on

RDB YOVUN SAVINGS ACCOUNT

The "RDB Yovun" savings account is specially designed for the children between 12 to 17 years of age. The minimum balance to open a "RDB Yovun" account is Rs. 250. A higher interest rate than the normal savings rate is paid for this account. The account holder is due to receive gifts from the Bank when the account balances reach different thresholds. Further, RDB offers the account holders many seminars and motivation schemes for G.C.E. O/L Examination. Special gift

schemes are introduced during the month of October every year. The Bank also rewards the account holders who obtain the best results in G.C.E. (O/L) examination.



RDB SUBHA MANGALAM

RDB Subha Mangalam is a unique savings account offered by RDB for those who wish to invest money either in a lump sum or in small but regular sums at their convenience over a long period of time until they get married. At the time of their marriage, the “Subha Mangalam” account holder gets the capital with a higher interest and also a special bonus interest of 7% on the interest earned.



DAILY COLLECTION SYSTEM RDB “DORIN DORA”

The Regional Development Bank’s flagship product/service is the daily collection system branded as “Dorin Dora”. This system operates through a dedicated set of

agents, who on daily basis visit the business premises and the residences in the command areas of respective branches. It provides great relief and convenience to the target group and saves their opportunity cost, as otherwise they would have to sacrifice their valuable time visiting the branch again and again for their banking transactions. The Dorin Dora product / service is not only limited to collecting deposits, but has helped the target clientele to obtain loans for development purposes, service the loan account and pay the installments and interest promptly at their convenience. This unique product /service helped many small scale entrepreneurs and individuals to build up healthy account balances over periods of time without much effort and hassle. Thus it has been able to fulfill the vision of the Bank “Empowering Sri Lankans”.



RDB ATHATA POLIYA

RDB “Athata Poliya” is an innovative investment scheme where the investor gets the interest component (usually paid at the time of maturity) to



his hand at the time of placing the deposit. This comes handy to those who have disposed valuable assets and want to spend a small portion of the proceeds immediatly. They can now invest the entire proceeds of the sale whilst meeting small commitments thanks to the RDB “Athata Poliya” investment scheme.

RDB LIYA SAVIYA

Pradeshiya Sanwardhana Bank introduced “RDB Liya Saviya” in order to honor courageous women in Sri Lanka. It provides financial facilities, consultancy services for women who contribute to the economy of the country through self employment. There are more special features in this account such as offering bonus interest, higher interest for savings balances and competitive interest rates for advances etc., the scheme also provides an opportunity for the account holders to win gold coins through an annual draw.



RDB ADULTS/SENIOR CITIZENS SAVING ACCOUNTS

Pradeshiya Sanwardhana Bank offers interest rates compared with the ongoing market rates. Individuals above the age of 18 years are entitled to open adult savings accounts with an initial deposit of Rs. 500/=. Special Savings Accounts are available for senior citizens offering higher interest rates.



RDB FIXED DEPOSITS

Fixed deposits are identified as a popular mode of investments. The fixed deposits are available at RDB for periods of 1, 2, 3 and 6 months as well as 1-5 years. Since the inception, RDB was able to provide very attractive interest rates compared with other banks. Special interest rates are offered for fixed deposits with maturity periods of 1 year and above.



LOANS

The loan schemes offered by RDB are in line with empowering Sri Lankans. An array of small scale loans are on offer to priority sectors such as Agriculture, Fisheries, Small Industries, which are usually not available in many financial institutions.

S.M.E. SECTOR SPECIALIZED LOANS

The country which is rapidly moving forward with a vibrant economy means, it is necessary that due

support is rendered to targeted sectors. Which is why RDB has involved itself in micro financing. Pradeshiya Sanwardhana Bank has always been assisting small and medium scale enterprises, such as small scale industrialists, entrepreneurs and self employed individuals. These facilities are available on soft securities at concessional interest rates, convenient repayment periods with reasonable grace period. The facility requests are mostly evaluated on the viability of the project. These loan schemes are operated through refinance facility of Ministry of Finance.



LOANS FOR SELF EMPLOYMENT

A number of start up loans are available at RDB under different brand names for different sectors 'SEPI' (Self Employment Promotion Innovative loan scheme) loans are offered to entrepreneurs who have obtained professional qualifications in a specific field and wish to start up a project. These loans, operated under refinance facility of Central Bank of Sri Lanka, are provided at attractive interest rates on soft securities.



SAUBHAGYA

Saubhagya Loans are offered with the main aim of boosting self employment in the country. Competitive interest rates are offered exclusively to encourage the self employment sector.



AGRICULTURE

RDB is one of the few financial institutions in the country that provides loans to farmers for paddy and soya bean cultivation and to stock their produce until the market prices become favorable in a short time span of 270 days. RDB was amongst the pioneers who assisted soya bean farmers to stock soya beans when the prices drastically dropped due to excessive production. These loans too are offered at concessional interest rates against soft securities.



FISHERIES INDUSTRY LOANS

Loans to the fisheries sector are available at concessional rates and soft securities to purchase



fishing equipment and for community development. Loan facilities are also offered to purchase multi-day fishing boats and other small boats. RDB also offers special loans for Inland fish farming and Ornamental fish breeding.

TECHNO BASED INDUSTRIES

RDB is aware of the ongoing fuel crisis. Addressing the scarcity issue, RDB offers loans for solar power generation and small scale power generation projects at comfortable terms and at lower interest rates.



COMMERCIAL & BUSINESS PURPOSE LOANS

RDB's commercial and business loans are offered for retail trading and stock purchasing purposes. The uniqueness of these facilities are, that most of these facilities are operated through the bank's collection agents who make visits from door to door. Thus, the clientele has the comfort of servicing the debts even without coming to the bank.



TRANSPORT SECTOR LOANS



RDB is also among the few banks that provide loans to meet transport requirements of rural sector providing loans to purchase vehicles. These loan facilities are available at low interest rates and soft securities.

ISURU



Isuru is a loan scheme designed with the aim of eliminating poverty. Small groups comprising of five to seven women earning incomes lower than the poverty level could apply for these loans for income generating projects. These facilities are also offered at concessionary interest rates and on soft securities.

HOUSING LOANS



RDB offers special housing loan schemes for the lower income sectors at attractive interest rates. These loans are granted with repayment periods up to 15 years. Housing loans are offered for purposes such as outright purchase of a house, to buy a land to build a house, renovations and to add new units to an existing house.

RANAVIRU DIVI NAGUMA



RDB launched the Ranaviru Divi Neguma program with the objective of integrating the family members of war heroes and disabled war heroes into the country's development process and uplift their living standards.

The Government allocated Rs. 400 million for this

scheme through the 2012 Budget. The families of war heroes and disabled soldiers who like to initiate their own projects are given loans not exceeding Rs. 500,000 under this program through the Pradeshiya Sanwaradhana Bank.

This program has been launched by the bank along with the Economic Development Ministry and Ranaviru Seva Authority.

OUR SERVICES WESTERN UNION



Western Union offers one of the easier & speedier ways to transfer money from foreign destinations to Sri Lanka. This service is available at all RDB branches.

SME & MICRO FINANCE SECTOR



Pradeshiya Sanwaradhana Bank's main purpose is to facilitate Regional Economic Development of the country by promoting Agriculture, Industry, Trade, Commerce, Livestock, Fisheries activities and Empowerment of women mainly by granting financial assistance through Micro Finance.

RDB SANCHARAKA SATHKARAKA SEWA

RDB marked an important milestone in history of banking in Sri Lanka by introducing a custom designed loan scheme to the Tourism Industry in Sri Lanka. “RDB Sancharaka Sathkaraka Sewa” was launched to provide financial assistance to build small hotels/convert houses to accommodation units, make additions to existing houses for tourism etc. in order to meet the needs of foreign and domestic tourists. Further this loan scheme also provides financial assistance to industries related to tourism such as guiding tourists, souvenir manufacturing, Ayurvedic/Herbal treatments etc. These loans are available at attractive interest rates

and soft securities and generates many employment opportunities.





Risk Management

Financially regulated institutions like banks have legal as well as social responsibility to maintain a sound risk management practice. This is further aggravated to banks due to their highly leveraged nature of business. RDB being a development Bank risk management is a vital and challenging aspect as most of our loans are granted to development activities with marginal coverage of security. Hence, realizing the importance the Board of Directors of RDB has taken a decision to set up a separate Risk Management Department (RMD) in the latter part of year 2011.

Hence, the year 2012 could be considered as the formation/initial foundation of the RMD for the Bank. The Bank considered risk management as a tool for sustainable growth while catering to the required sector of the economy. The above was considered during the formation of the department and establishing policies and procedures.

The department was successfully formed with minimum staff level and was focused on updating/establishing risk management policies and procedures for the Bank while adhering to Central Bank of Sri Lanka (CBSL) regulatory requirements of important risk areas.

All policies have been formulated with the objective of analyzing overall risk profile and to integrate all the risks of the Bank, hence they have been drafted in line with the directions issued by CBSL.

By the end of year 2012 RMD was able to have the required Board approved policy documents on various risk exposures, control mechanisms and measuring procedures of the Bank in place.

RMD is also instrumental for functioning of the following committees to assist the Board in managing the risks of the Bank:

- **INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)**

IRMC reviews risk management policies, procedures of the Bank and makes appropriate recommendations to the Board. Observations and recommendations made by the RMD based on their analysis/studies are reviewed by the committee and assessed the impact of such observations and recommendations. Mainly this is done through the “Portfolio Analysis Reports” prepared on quarterly basis by the RMD. IRMC is also provided with all information and vital decisions taken at other Executive-level committees allowing it to evaluate the effectiveness of the executive decisions taken and the Bank’s exposure to various risks.

- **EXECUTIVE RISK MANAGEMENT COMMITTEE (ERMC)**

The committee exercises the powers and authority of the IRMC with respect to day-to-day management of risk including Credit, Investment and Operational Risk in accordance with the policies and directives determined by the IRMC. Managing the balance sheet and off-balance sheet exposures and capital within the performance and risk parameters laid down by the IRMC is a key responsibility of ERMC.

ERMC also analyses, manages and controls the credit portfolio of the Bank by reviewing exposure and risks at overall bank, single borrower, group, industry, geography and lending type levels, considering the concentrations, scenarios and stresses and give appropriate directions to relevant business units.

This committee monitors Credit, Investment and Operational Risk Indicators, reviews the potential

impact of concentrations and various scenarios on the Bank's business and gives directives to mitigate and manage the related risks.

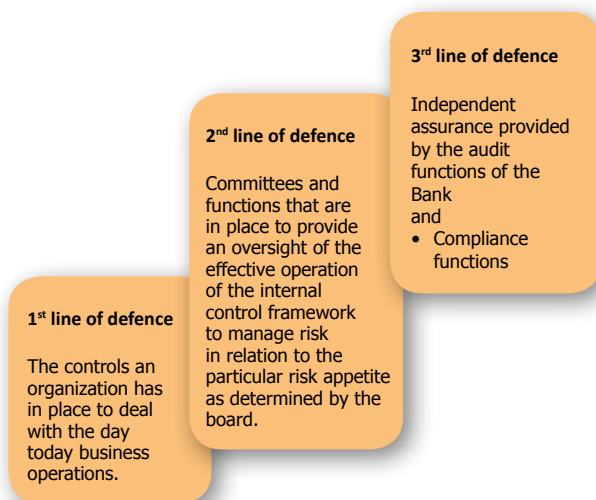
• ASSETS & LIABILITY COMMITTEE (ALCO)

ALCO is responsible for reviewing/managing Transfer Pricing of branches and gives directions to improve the key performance drivers of them.

Committee also reviews economic conditions and trends in interest rates, market liquidity, liquidity of the Bank, mismatches in maturities & pricing and gives directions to the management to improve Bank's performance.

MANAGING KEY RISK FACTORS OF THE BANK

At RDB process of risk management is based on the 3 lines of defence, where both first and second lines are stand to strengthen the standardized operational mechanism and internal control systems of the Bank and third defence line stands on rectification of the limitations in the systems through both internal and external audit and compliance functions.



Moreover, we are keen to take steps on enhancing effectiveness of the 2nd line of defence of the Bank by initiating compliance unit under the preview of RMD of the Bank and an experienced banker has been appointed as Compliance officer for the Bank as well. Proposed "credit administration unit" formation in 2013 within the Credit department will also ensure the effectiveness of the 2nd line of defence in near future of the Bank.

CREDIT RISK MANAGEMENT

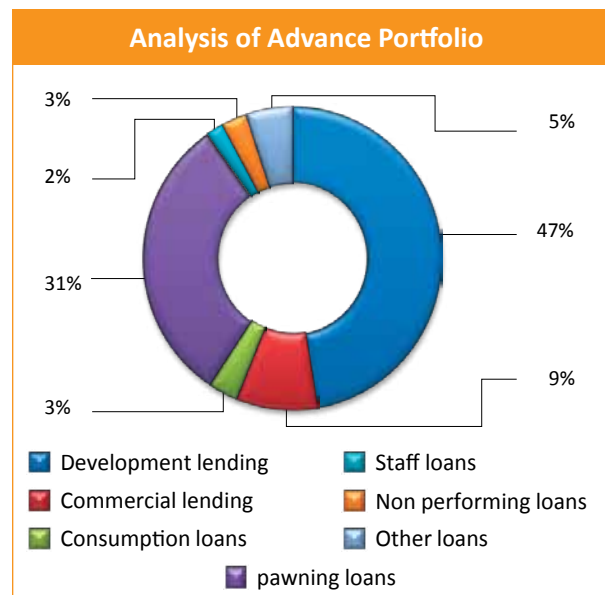
Credit risk simply can be defined as the probability of bank borrower or counterparty fail to meet its obligations in accordance with agreed terms and conditions towards the Bank. In risk management relates to credit exposures of the Bank we try to maximize bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters of the business.

Like in any other bank around the world, interest income remains the main source of income to RDB as well. It implicitly says that how large and obvious source of risk it is in the Bank. Hence, credit risk can be considered as the single largest risk exposure for the Bank.

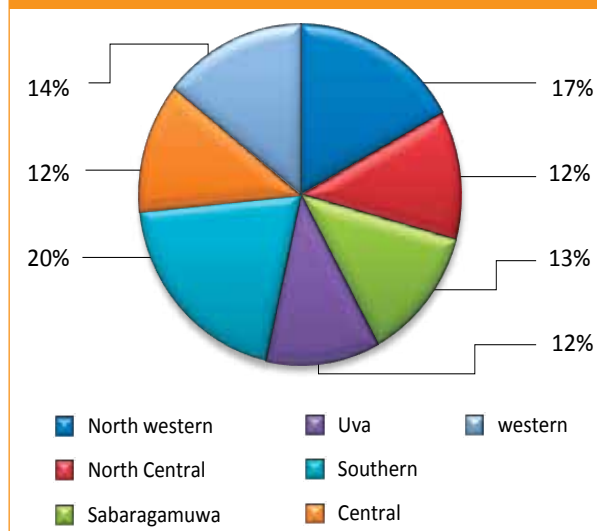
Sector Wise Concentration

Possibility of credit concentration is one of the key credit related risk to which the Bank is exposed. This can be defined as possible loss arising from significantly imbalanced exposure to a particular group of counterparties.

RDB experienced in the past that 30% of the pawning portfolio is being used for the development activities especially in agriculture sector. Hence, lending portfolio has been re-adjusted with allocating 30% of pawning advances towards development lending. Following is the graphical presentation of how loan portfolio of the Bank has spread among major credit categories.

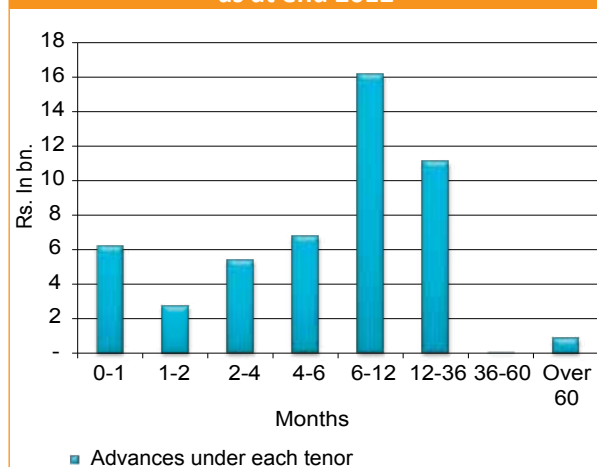


Geograpycal Distribution of the Advance Portfolio



Geographical concentration on credit of the Bank is very much similar within the regions (All regions are within 20%) which show an equally diversified credit portfolio for the Bank. Southern region which have the highest share consist of large branch network than the other regions.

Tenor-wise Breakdown of Advance Portfolio as at end 2012



Herfindhal - Hirshman Index (HHI)

HHI is a statistical measure of concentration used by many of the financial institutions in the market in order to measure concentration risk. Total score of the index which is closer to zero indicates a well diversified portfolio while, increasing value of the index

shows threatening behavior of concentration into one particular portion of the portfolio.

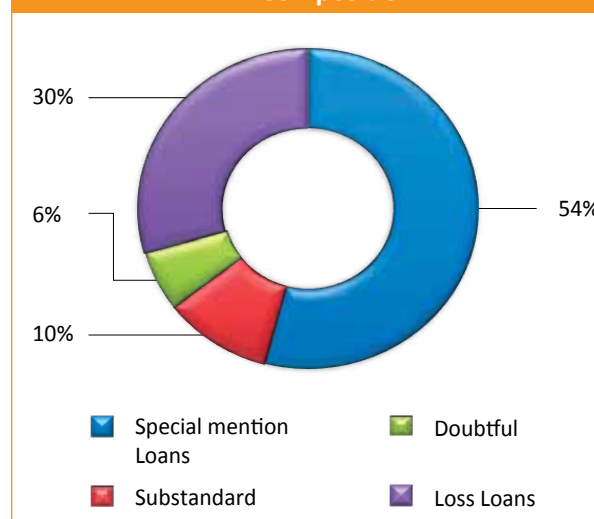
Given bellow is the HHI values calculated on RDB loans and advances portfolio. The highest concentration 0.2249 is recorded by the development lending category and highlights our achievement of catering to the needy sector of the country as one of the major development bank.

| Category | HHI |
|---------------------|---------------|
| Development lending | 0.2249 |
| Commercial lending | 0.0076 |
| Consumption loans | 0.0010 |
| pawning loans | 0.0959 |
| Staff loans | 0.0004 |
| Nonperforming loans | 0.0007 |
| Other loans | 0.0026 |
| Total | 0.3332 |

Nonperforming Advances (NPA)

RMD concerns variation in four nonperforming advance categories of the Bank in view of identifying adverse behavioral patterns in total NPA portfolio of the Bank. Following is the distribution of NPA among four NPA categories.

NPA Composition



RDB maintains a gross NPA ratio of 4.34% as at December 2012.

INTEREST RATE RISK MANAGEMENT

The exposure of a bank financial condition to adverse movements in interest rates is call as interest rate risk. Changes in interest rates can have significant impact on a bank's earnings as well as the underlying economic value of a bank assets, liabilities, and off-balance sheet items.

RDB has understands the importance of managing interest rate risk from the earnings perspective so that interest rate movements will not adversely impact the net interest income of the Bank.

Transfer pricing mechanism is used with a view to manage the interest rate risk at head office level and to provide directions to the regions and branches.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that a bank cannot fulfill its obligations/commitments on given due dates as result of unforeseen factors or be forced to borrow funds on unfavorable terms. Liquidity acts as an important buffer in all banks to compensate for planned and unplanned balance sheet fluctuations and to provide a means for growth.

This risk is managed by ALCO within the overall liquidity and funding framework of the Bank and response to market conditions as well.

Liquidity being an aspect of paramount importance in a bank, several measures is in place to monitor and control the risks associated with liquidity inadequacies.

One such indicator is liquidity ratio. This ratio is being regulated by the CBSL to be maintained over 20% and following is the graphical presentation of the movement in ratio during past 2 years.

OPERATIONAL RISK MANAGEMENT

Operational Risk is an expression of the danger of unexpected direct or indirect losses resulting from inadequate or failed internal processes, people and systems and external events caused by as credit or market risks.

Operational risk management framework should focus on the following:

Understanding and ensuring mitigating measures relating to the Operational Risk associated with the activities of the Bank.

Capturing, analyzing, reporting and ensuring appropriate controls are in place to avoid operational lapses in the course of the Bank's business.

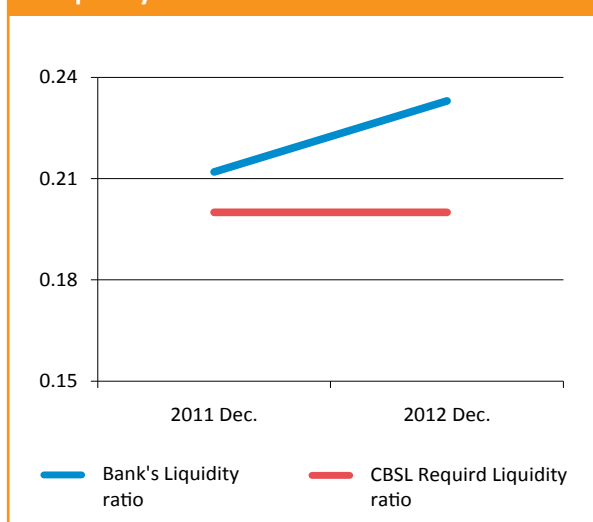
The Bank has a Board approved operational risk management policy in place. A subcommittee on operational risk management is also formed within the RMD to discuss/evaluate the main operational risk areas and to collect loss event data for the Bank.

The operational risk management subcommittee comprises CRO, DGM Operations, SAGM Operations, and Chief Internal Auditor and the Officer over look the operational risk management within RMD.

As an initial stage in the year 2012 loss event data was collected and submitted to the regulator from the investigations made on actual losses to the Bank. This will be expanded to near losses data and will be analyzed with the expansion of the department.

This area will be further strengthen to evaluate risk and control self assessments (RCSA), Key Risk Indicators (KRIs) and to standardized approach for the regulatory capital calculation. As mandated by the regulator in future.

Liquidity Ratio of The Bank for 2011 - 2012



COMPLIANCE RISK MANAGEMENT

Management of the Bank highly emphasizes on and wanted to make sure that the Bank is moving concurrence with its statute and rules and regulations imposed by the monetary authority in order to avoid failures or breaches of such obligations toward bank.

The key objectives of the compliance officer is also to ensure the internal regulatory requirements, are complied.

The Bank's compliance function is falling under the purview of RMD, headed by AGM Compliance. In order to achieve this objective he has already commenced to monitor and assess the compliance requirements and submits quarterly reports on compliance statues of the Bank to IRMC for review.

The Compliance Officer is also responsible for the submission of necessary statutory reports of the Bank to the regulator.

STRESS TESTING

Stress testing is a tool of risk management to assist the decision makers to face and create a culture of preparedness towards unforeseen situations which are very common in increasingly volatile banking industry. Stress testing aims at investigating the possibility of exceptional losses by stressing the value of risk factors. It is essentially a combination of sensitivity analysis and of "factor-push" technique. It is carried out by stressing the factors that influence the portfolio values in different scenarios.

At RDB we have commenced carrying out stress testing to assess how the NPA portfolio would react if business conditions/environment deteriorated significantly and

the consequent impact on the capital base of the Bank under the various risks scenarios.

A stress testing framework/policy is in place and RMD submits the results of stress tests to the IRMC for review and action as appropriate.

As mentioned above RDB has implemented to measure the impact of its NPA movements by adopting scenarios ranging from 5% to 20% negative shift in NPA categories within the NPA portfolio and increase in the level of NPA on credit portfolio to assess the impact on Capital Adequacy Ratio (CAR).

FUTURE OUTLOOK

In order to inculcate the risk management culture and the awareness across the Bank, the RMD will initiate to conduct training/awareness programs in year 2013 using both internal, external resources. Further initiatives will also be taken to update the staff involved in risk management function at head office and regional levels.

Since the technology plays a significant role in risk management, ongoing process of implementation of CORE banking solution is critical and vital. On completion of CORE banking solution implementation, required software packages to assist the analysis functions in risk management especially in integrated risk management, operational risk management and rating of customers etc. are to be introduced/invested to streamline the risk management function of the Bank.

RMD will also be further strengthened with new eligible individuals and experienced officers to track/monitor and upgrade the risk management procedures of the Bank.



Corporate Governance

RDB compliance statement with the provisions of the Banking Act Direction No. 11 of 2007 and subsequent amendments there to, of the Central Bank of Srilanka on Corporate Governance for Licensed Specialized Bank in Sri Lanka. Rules of Corporate Governance shall be complied by all licensed specialized banks in Sri Lanka and such compliance shall be as provided for in Direction 3(g) (i).

| Section | Rule | Level of Compliance |
|-------------|--|---|
| 3(1) | Procedures carried out to ensure the board has strengthened the safety and soundness of the bank. | |
| 3(1)(i) | <p>a) The board approval of the bank's strategic objectives and corporate values.</p> <p>Whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.</p> <p>b) The board approval of the overall business strategy of the bank.</p> <p>The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</p> <p>The overall business strategy contains measurable goals, for at least the next three years.</p> <p>c) The appropriate systems to manage the risks identified by the board are prudent and are properly implemented.</p> | <p>Complied with</p> <p>Objective of the Bank is determined by the Act. Approving and overseeing the Bank strategic objectives and corporate values are preformed via monthly and special Board meetings. The decisions made at the Board levels are communicated across the Bank through circulars, awareness programmes and through the key Resource personnel wherever necessary.</p> <p>Complied with</p> <p>Board approved corporate plan for five years commencing year 2010 is available.</p> <p>Annual budgets and targets are structured and approved by the Board and that are conveyed to Regional offices and Branches through Regional General Managers.</p> <p>Operational manual for internal controls and procedures is formulated and followed.</p> <p>Complied with</p> <p>Identifying and implementing the principal risk are performed by the Board through Integrated Risk Management Committee (IRMC). There were four meetings held during the year 2012. Policy documents, are structured, and circulars, guidelines are issued.</p> |

| Section | Rule | Level of Compliance |
|---------|--|---|
| | d) The board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers; | The policy of communication prepared in accordance with the directions issued by CBSL with regard to statutory requirements and customer care is tabled for the approval of the Board of Directors. |
| | e) The board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems; | Complied with Board has approved the operational manual which consists of documented internal control procedures. |
| | f) The board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) Significantly influence policy; (ii) Direct activities; and (iii) Exercise control over business activities, operations and risk management; | Refer the comment made in 3(7) |
| | g) The board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy; | Complied with Board approved policies are communicated through the circulars to Key Management Personnel. |
| | h) The board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel; | Complied with Areas of authority and key responsibility of the Key Management personnel are according to Pradeshiya Sanwardhana Bank Act., and included in the job description. |
| | i) The board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) The selection, nomination and election of directors and key management personnel; (ii) The management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary. | Not applicable. Nominated Directors are appointed by the Ministry in consultation with the Secretary to the Treasury. |
| | j) The board has a succession plan for key management personnel. | Complied with. A Board approved succession plan is in place. |

| Section | Rule | Level of Compliance |
|-----------|--|--|
| | <p>k) The board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.</p> <p>l) The board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.</p> <p>m) The board has a process in place for hiring and oversight of external auditors.</p> | <p>Complied with</p> <p>Review meetings have been scheduled monthly with key management personnel with the participation of executive directors and the corporate management. The matters discussed at this meeting are subsequently referred to the Board. Chairperson also attends the review meetings as an observer.</p> <p>18 Management Committee meetings and 10 RGM Review meetings were held in the year 2012.</p> <p>Complied with</p> <p>The Bank was maintains relationship with regulatory through AGM with the Bank Supervision Department of CBSL and the Bank also has Compliance officer who manages the reporting process.</p> <p>Complied with</p> <p>By act (Section 33 of Part V) the Auditor General represent as the external auditor.</p> |
| 3(1)(ii) | <p>The board has appointed the chairman and the Chief Executive Officer (CEO).</p> <p>The functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.</p> | <p>Complied with</p> <p>Functions and the responsibilities of the Chairperson and Chief Executive Officer (CEO) are documented in the Act. Chairperson is appointed by the Hon. Minister of Finance. CEO is appointed by the Board in consultation with the Secretary to the Treasury.</p> |
| 3(1)(iii) | <p>The board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.</p> | <p>Complied with</p> <p>Board of Directors meets monthly and as and when necessary, special Board Meetings also called for. Thirteen board meetings were held during the year 2012.</p> |
| 3(1)(iv) | <p>The board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.</p> | <p>Complied with</p> <p>Equal opportunity is given to all Directors to present their proposal to the board relating to promotions of the business and management of the Bank.</p> |
| 3(1)(v) | <p>The board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.</p> | <p>Complied with</p> <p>Notice of monthly Board meetings, agenda and Board papers are circulated to the Directors seven days prior to the meeting.</p> |

| Section | Rule | Level of Compliance |
|------------|---|--|
| 3(1)(vi) | The board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance. | Complied with Attendance registry of directors maintained and no such situation has been taken place. |
| 3(1)(vii) | The board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations. | Complied with The Board has appointed a Secretary. Board Secretary's primary responsibility is to handle the secretarial functions to the Board and the shareholder meetings as per statute and other regulations. |
| 3(1)(viii) | The process to enable all directors to have access to advice and services of the company secretary. | Complied with All directors have access to advise and obtain service from the company Secretary. |
| 3(1)(ix) | The company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes. | Complied with Minutes of the Board meeting are opened to any Director for inspection and are maintained in sufficient detail by the Board secretary. |
| 3(1)(x) | The minutes of a board meeting contain or refer to the following: A summary of data and information used by the board in its deliberations The matters considered by the board The fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; The understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and The decisions and board resolutions. | Complied with Minutes of the Board meetings are maintained in sufficient detail by the Board Secretary. |
| 3(1)(xi) | There are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense. | Complied with The Board of Directors seeks professional advice as and when necessary by making a decision at the Board meeting. |

| Section | Rule | Level of Compliance |
|----------------|---|---|
| 3(1)(xii) | <p>There is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.</p> <p>A director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested</p> <p>Has he/she been counted in the quorum for the relevant agenda item at the board meeting</p> | <p>Complied with</p> <p>The Board was conscious of its obligations to ensure the Directors avoid conflicts of interest between their duty to the Bank and their other interest. The Directors also declare this on their annual declarations.</p> |
| 3(1)(xiii) | <p>The board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.</p> | <p>Complied with</p> <p>The Board operates on a formal pre-set agenda which covers areas directly coming under its responsibility. However, in urgency, board papers are circulated for approval with the consent of Chairperson, CEO and the members of the Board.</p> |
| 3(1)(xiv) | <p>The board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.</p> | <p>Complied with</p> <p>The Board informs the Director of Bank supervision of CBSL if the Bank is unable to meet any of its obligations or is about to become insolvent. The decisions made in ALCO meetings are reported to the Board. The compliance officer also sends monthly reports to CBSL.</p> <p>The board is aware of the above requirement and such situation have not taken place.</p> |
| 3(1)(xv) | <p>The board has the bank capitalized at levels as required by the Monetary board.</p> | <p>Complied with</p> <p>Capital adequacy ratio has been met as prescribed by the regulator.</p> |
| 3(1)(xvi) | <p>The board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.</p> | <p>Complied with</p> <p>Annual cooperate governance report addresses status of compliance.</p> |
| 3 (1) (xvii) | <p>The board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.</p> | <p>Self assessment was not carried out since the Board of Directors is nominated by the Finance Ministry and the Shareholder Banks in consultation with the Secretary to the Treasury.</p> |
| 3(2) | <p>THE BOARD'S COMPOSITION</p> | |
| 3(2)(i) | <p>The board comprise of not less than 7 and not more than 13 directors.</p> | <p>Complied with</p> <p>Board comprises of 10 Directors.</p> |

| Section | Rule | Level of Compliance |
|-----------|---|--|
| 3(2)(ii) | a) The total period of service of a director other than a director who holds the position of CEO, does not exceed nine years | Complied with None of the Directors have completed nine years as describe in the Direction. The percent board was appointed in 2010. |
| | b) The event of any director serving more than 9 years, check that the transitional provisions have been applied with. | Not applicable. |
| 3(2)(iii) | The number of executive directors, including the CEO does not exceed one-third of the number of directors of the board. | Complied with |
| 3(2)(iv) | The board has at least three independent Non-Executive Directors or one-third of the total number of directors, whichever is higher | The board comprises ten Directors out of which eight are Non-Executive Directors. |
| | If Non-Executive Directors can be considered independent if he/she: | Two Non-Executive Directors and the Chairperson of the board of are designated as Independent Non-Executive Directors. However, The Chairperson participates in the Management Committee as an observer. |
| | a) Holds a direct and indirect share holdings of more than 1 per cent of the bank; | Directors of the Bank are representing the Treasury, Bank of Ceylon, National Saving Bank and Peoples Bank. |
| | b) Currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank. | Refer 3(2)(iv) a) |
| | c) Has been employed by the bank during the two year period immediately preceding the appointment as director. | Refer 3(2)(iv) a) |
| | d) Has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a “close relation” means the spouse or a financially dependent child) | Refer 3(2)(iv) a) |
| | e) Represents a specific stakeholder of the bank | Refer 3(2)(iv) a) |
| | f) Is an employee or a director or a material shareholder in a company or business organization: | Refer 3(2)(iv) a) |
| | i. Which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or | |

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| | <ul style="list-style-type: none"> ii. In which any of the other directors of the bank are employed or are directors or are material shareholders; or iii. In which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank. | |
| 3(2)(v) | In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director. | <p>The Directors of the Bank are appointed by the Ministry in consultation with Secretary to the Treasury.</p> <p>No alternate directors have been appointed.</p> |
| 3(2)(vi) | The bank has a process for appointing independent directors. | The Directors are appointed by the Ministry in consultation with Secretary to the Treasury. |
| 3(2)(vii) | The stipulated quorum of the bank includes more than 50 per cent of the directors and out of this quorum more than 50 per cent should include Non-Executive Directors. | Complied with |
| 3(2)(viii) | The bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, Non-Executive Directors and independent Non-Executive Directors in the annual corporate governance report. | <p>Complied with</p> <p>Annual report carries the details of the Board of Directors.</p> |
| 3(2)(ix) | The procedure for the appointment of new directors to the board. | <p>Complied with.</p> <p>The Directors of the Bank are appointed by the Ministry in consultation with Secretary to the Treasury.</p> |
| 3(2)(x) | All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment. | <p>Complied with.</p> <p>The Directors of the Bank are appointed by the Ministry in consultation with Secretary to the Treasury.</p> |
| 3(2)(xi) | <p>Check if a director resigns or is removed from office, the board:</p> <ul style="list-style-type: none"> a. Announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and b. Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. | <p>Complied with</p> <p>All resignation and new appointments are disclosed in the annual report. All appointments and removal of Directors are done by the Ministry in consultation with the secretary to the Treasury.</p> |

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| 3(2)(xii) | if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank | None of the present Directors act as a Director of any other bank/s. However, three Directors are employees of the banks who are shareholder banks. |
| 3(3) | CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS | |
| 3(3)(i) | The age of a person who serves as director does not exceed 70 years. a) The transitional provisions have been complied with. | Complied with Not applicable |
| 3(3)(ii) | If a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank. | Not applicable |
| 3(4) | Management Functions Delegated By The Board | |
| 3(4)(i) | The delegation arrangements have been approved by the board. | Complied with All delegated authorities are approved by the Board in accordance with the Pradeshiya Sanwardhana Bank Act. |
| 3(4)(ii) | The board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated. | Complied with No such instances have occurred. |
| 3(4)(iii) | The board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank. | Complied with Board reviews on a timely basis the delegation process to ensure that such delegations meet the business requirement of the Bank |
| 3(5) | The Chairman and CEO | |
| 3(5)(i) | The roles of chairman and CEO are separate and not performed by the same individual | Complied with |
| 3(5)(ii) | The chairman is a Non-Executive director. In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference. The designation of the senior director be disclosed in the bank's Annual Report. | Chairperson is a Non-Executive Director and no senior Directors is designated in the Bank. |
| 3(5)(iii) | The board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board. | The related party transactions are disclosed in the annual report. The directors have disclosed this through their annual declarations. |

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| 3(5)(iv) | <p>The board has a self-evaluation process where the chairman:</p> <p>Provides leadership to the board;</p> <p>Ensures that the board works effectively and discharges its responsibilities; and</p> <p>Ensures that all key and appropriate issues are discussed by the board in a timely manner.</p> | <p>Complied with.</p> <p>The Board meetings are chaired by the Chairperson who provides the leadership to the board and all key issues are discussed and resolved.</p> |
| 3(5)(v) | <p>A formal agenda is circulated by the company secretary approved by the chairman.</p> | <p>Complied with.</p> <p>The agenda for each Board meeting is prepared by the Board Secretary in consultation with Chairperson and CEO.</p> |
| 3(5)(vi) | <p>The chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.</p> | <p>Complied with.</p> <p>The agenda and the relevant papers for the Board meeting are circulated seven days prior to the meeting.</p> |
| 3(5)(vii) | <p>The board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.</p> | <p>The Directors are appointed by the Ministry in consultation with the Secretary to the Treasury.</p> |
| 3(5)(viii) | <p>The board has a self evaluation process that assesses the contribution of Non-Executive Directors.</p> | <p>Refer 3(5)(vii)</p> |
| 3(5)(ix) | <p>The chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.</p> | <p>Complied with</p> <p>Chairperson is a non executive director and does not get directly involved with supervision of Key management personnel.</p> <p>Chairperson participates in the management committee as an observer.</p> |
| 3(5)(x) | <p>There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.</p> | <p>Complied with.</p> <p>Adequate time is allocated to the shareholders to raise any question at the annual general meeting. All queries are answered by the Chairperson, CEO or any other key management personnel of the Bank. All share holders are represented by a Director in the Board.</p> |
| 3(5)(xi) | <p>The CEO functions as the apex executive incharge of the day-to-day management of the bank's operations and business.</p> | <p>Complied with.</p> <p>CEO is in-charge of the day to day management of the bank's operations and supported by the cooperate management.</p> |
| 3(6) | BOARD APPOINTED COMMITTEES | |

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| 3(6)(i) | <p>The bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.</p> <p>Each board committee report is addressed directly to the board.</p> <p>The board presents in its annual report, a report on each committee on its duties, roles and performance.</p> | <p>Complied with.</p> <p>The Board has implemented the following four committees which report to Board directly.</p> <ol style="list-style-type: none"> Audit Committee. Integrated Risk Management Committee (IRMC) Credit committee. |
| 3(6)(ii) | <p>Audit Committee:</p> <ol style="list-style-type: none"> The chairman of the committee is an independent non-executive director and possesses qualifications and related experience. All members of the committee are Non-Executive Directors. The committee has made recommendations on matters in connection with: <ol style="list-style-type: none"> The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; The implementation of the Central Bank guidelines issued to auditors from time to time; The application of the relevant accounting standards; and The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. The committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAS. The committee has implemented a policy on the engagement of an external auditor to provide non audit services in accordance with relevant regulations. The committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAUS before the audit commences. | <p>The Board appointed Non-Executive Directors who has also posses experience in banking and audit.</p> <p>Complied with</p> <p>Complied with</p> <p>Auditor General is the external auditor for the Bank.</p> <p>Refer 3(6)(ii)(c)</p> <p>Complied with</p> <p>Board approval obtained as and when necessary to obtain non audit services from any External Auditors.</p> <p>Refer. 3(6)(ii) c)</p> |

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| | <p>g) The committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <ol style="list-style-type: none"> Major judgmental areas; Any changes in accounting policies and practices; The going concern assumption; and The compliance with relevant accounting standards and other legal requirements, and; In respect of the annual financial statements the significant adjustments arising from the audit. | <p>Complied with.</p> <p>Quarterly and annual financial statements and report prepared for disclosures are reviewed by the committee.</p> |
| | <p>h) The committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.</p> | <p>Complied with.</p> <p>The representative of the Auditor General is also present in the Audit Committee Meetings.</p> |
| | <p>i) The committee has reviewed the external auditor's management letter and the management's response thereto.</p> | <p>Complied with.</p> |
| | <p>j) The committee shall take the following steps with regard to the internal audit function of the bank:</p> <ol style="list-style-type: none"> Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; | <p>Complied with</p> <p>Complied with</p> <p>Internal audit program is reviewed at the Audit Committee Meetings (quarterly).</p> <p>Complied with</p> <p>The assessment of the operational function and performance is done by the Audit Committee.</p> <p>Not applicable.</p> <p>Such situation has not taken place.</p> |

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| | <p>v. The committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>vi. The internal audit function is independent of the activities it audits.</p> | <p>Not applicable. Such situation has not taken place.</p> |
| | k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto. | <p>Complied with Internal audit function is an Independent Unit and the functions are reported to the audit committee.</p> |
| | l) The committee has had at least two meetings with the external auditors without the executive directors being present. | <p>Complied with The major Internal Audit findings and the management responses were discussed by the audit committee and the necessary recommendation were made.</p> |
| | m) The terms of reference of the committee to ensure that there is; | <p>Complied with</p> |
| | <p>i. explicit authority to investigate into any matter within its terms of reference;</p> <p>ii. the resources which it needs to do so;</p> <p>iii. full access to information; and</p> <p>iv. Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p> | |
| | n) The committee has met, at least four times and maintained minutes. | <p>Complied with. Four meetings were held in year 2012.</p> |
| | o) The board has disclosed in the annual report, | |
| | i. details of the activities of the audit committee; | <p>Complied with.</p> |
| | ii. the number of audit committee meetings held in the year; and | <p>Complied with. Four audit committee meetings are held in year 2012.</p> |

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| | <p>iii. details of attendance of each individual director at such meetings</p> <p>p) The secretary of the committee is the company secretary or the head of the internal audit function.</p> <p>q) The “whistle blower” policy covers the process of dealing with;</p> <p>i. The improprieties in financial reporting, internal control or other matters.</p> <p>ii. In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>iii. Appropriate follow-up action.</p> | <p>Not Complied with</p> <p>Complied with</p> <p>Secretary of committee is the Head of audit.</p> <p>Complied with</p> |
| 3(6)(iii) | <p>The following rules apply in relation to the Human Resources and Remuneration Committee:</p> <p>a) The committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.</p> <p>b) The goals and targets for the directors, CEO and the key management personnel are documented.</p> <p>c) The committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.</p> <p>d) The “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.</p> | <p>All the matters regard to this was taken to the collective agreements up to 2011 which were signed between Bank and the Trade Union.</p> <p>Not Complied with</p> <p>Human resources Remuneration Committee Charter has been approved by the Board. Since 2012 onward some key officers exempted from the collective agreement.</p> <p>Refer 3(6)(iii)a)</p> <p>Refer 3(6)(iii)a)</p> <p>Refer 3(6)(iii)a)</p> |
| 3(6)(iv) | <p>The following rules apply in relation to the Nomination Committee:</p> <p>a) The committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.</p> <p>b) The committee has considered and recommended (or not recommended) the re-election of current directors.</p> | <p>Not applicable</p> <p>Nominated Directors are appointed by the Ministry in consultation with the Secretary to the Treasury.</p> <p>Refer 3(6)(iv) a)</p> |

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| | <p>c) The committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.</p> <p>d) The committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.</p> <p>e) The committee has considered a formal succession plan for the retiring directors and key management personnel.</p> <p>f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.</p> | <p>Refer 3(6)(iv) a)</p> <p>Complied with The declaration has been obtained by the Human Resource division of the Bank from the CEO and key management personnel.</p> <p>Refer 3(6)(iv)a)</p> <p>Refer 3(6)(iv)a)</p> |
| 3(6)(v) | <p>The following rules apply in relation to the Integrated Risk Management Committee (IRMC):</p> <p>a) The committee shall consist of at least three nonexecutive directors, CEO and key management personnel supervising broad risk categories, <i>i.e.</i>, credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.</p> <p>b) The committee has a process to assess all risks, <i>i.e.</i>, credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.</p> <p>c) The committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.</p> <p>d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.</p> | <p>Complied with The committee consists of three Non-Executive Directors. Four meetings were held during the year 2012.</p> <p>Complied with. Report on risk profile of the bank is submitted by the Committee.</p> <p>Complied with. Committee reviews the quantitative risk limits of other management committees.</p> <p>Complied with. Reviewed in the risk profile report.</p> |

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| | <p>e) how many times the committee has met at least quarterly.</p> <p>f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.</p> <p>g) The committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.</p> <p>h) The committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.</p> | <p>Committee has met four times during the year 2012 out of which only one in the first two quarters.</p> <p>Such situation has not taken place.</p> <p>Complied with.</p> <p>Complied with.</p> <p>A monthly / quarterly report on statutory and mandatory requirements and statements of compliance to Central Bank of Sri Lanka is submitted by the finance department and the compliance officer. Compliance officer also submitted a report to IRMC to assess compliance risk of the Bank.</p> |
| 3(7) | RELATED PARTY TRANSACTIONS | |
| 3(7)(i) | <p>There is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>a) Any of the bank's subsidiary companies;</p> <p>b) Any of the bank's associate companies;</p> <p>c) Any of the directors of the bank;</p> <p>d) Any of the bank's key management personnel;</p> <p>e) A close relation of any of the bank's directors or key management personnel;</p> <p>f) A shareholder owning a material interest in the bank;</p> <p>g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest</p> | <p>The Bank did not formulate documented a policy on related party transactions and conflict of interest. The transactions of the directors representing the shareholder banks are disclosed in the financial statements.</p> <p>Transactions related to the directors have been identified through the Director's declaration submitted to CBSL.</p> |
| 3(7)(ii) | <p>There is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.</p> | Refer 3(7)(i) |

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| | <p>a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.</p> <p>b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.</p> <p>c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank.</p> <p>d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p> | <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> |
| 3(7)(iii) | <p>The board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business.</p> <p>a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>i. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>ii. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of 5 years or more.</p> <p>b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> | <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> |

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| | <p>d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p> | <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> |
| 3(7)(iv) | The bank has a process for granting accommodation to any of its directors and key management personnel, and that. Such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well. | Refer 3(7)(i) |
| 3(7)(v) | <p>a) The bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest,</p> <p>and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.</p> <p>b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.</p> <p>c) There is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public</p> <p>d) The process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank</p> | <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> <p>Refer 3(7)(i)</p> |

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| 3(7)(vi) | There is a process in place to identify when the bank grants any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above. | Refer 3(7)(i) |
| 3(7)(vii) | There is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect. | Refer 3(7)(i) |
| 3(8) | DISCLOSURES | |
| 3(8)(i) | <p>The board has disclosed:</p> <p>(a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p> <p>(b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p> | <p>Complied with</p> <p>Audited financial statements are disclosed in the Annual Report and quarterly financial statements are published in the newspapers in all three languages.</p> <p>Complied with</p> |
| 3(8)(ii) | <p>The board has made the following minimum disclosures in the Annual Report:</p> <p>a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p> <p>b) The report by the board on the bank’s internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting,</p> | <p>Complied with</p> <p>Complied with</p> |

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| | and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements | |
| | c) The board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above. | Complied with |
| | d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank. | Complied with |
| | e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital. | Refer 3(7)(i) |
| | f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank. | Complied with The disclosures have been made in the financial statement. |
| | g) The board has obtained the external auditor's report on the compliance with Corporate Governance Directions. | Complied with |
| | h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material noncompliance | Complied with Relevant disclosures are made in Chairperson's, CEO's review and the Directors' report. |
| | i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or noncompliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns | Complied with |

Auditor Generals Report



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No.

දිනය
திகதி } 14 March 2013
Date

The Chairman,
Regional Development Bank.

AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS OF REGIONAL DEVELOPMENT BANK TO THE BOARD OF DIRECTORS OF THE REGIONAL DEVELOPMENT BANK ON THE COMPLIANCE REQUIREMENT OF THE CORPORATE GOVERNANCE DIRECTION ISSUED BY THE CENTRAL BANK OF SRI LANKA.

I have performed the procedures enumerated in Annexure to the report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the corporate Governance direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive. To perform this agreed upon procedures, I was assisted by a firm of Chartered Accounts in public Practice.

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

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards, I do not express any assurance on the compliance with directives of corporate governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Financial Statements in accordance with Sri Lanka Auditing Standards, other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any financial statements of Regional Development Bank, taken as a whole.



H.A.S. Samareweera.
Auditor General

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No.306/72, Polduwa Road,
Battaramulla, Sri Lanka

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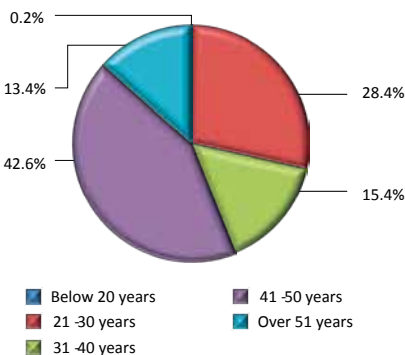


Composition of Human Resource

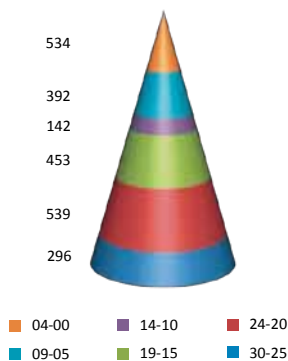
By Grade



Age Wise



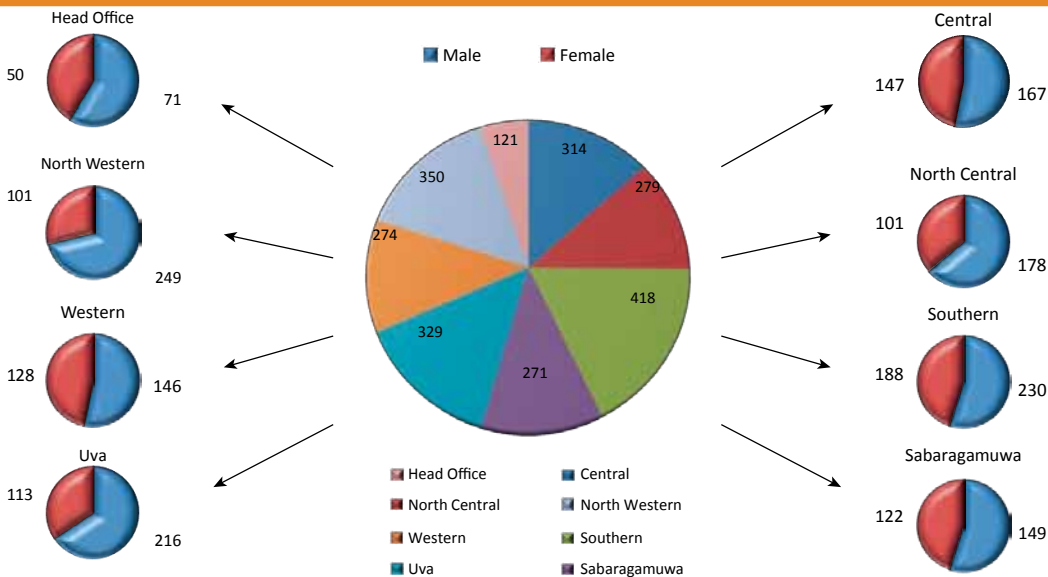
Seniority Pyramid



Promotion of The Year

| Designation | No. of Promotions |
|-------------------------|-------------------|
| RGM | 4 |
| AGM | 12 |
| Chief Manager | 14 |
| Senior Manager | 46 |
| Officer 3 - III | 122 |
| Banking Assistant 5 - I | 25 |
| Total | 223 |

Provincial Vice Staff Details



Attendance of Board and the Committies

The number of the meetings of the Board, Board appointed Sub - Committees and individual attendance by members is shown below

| Names | Directorship Status | Board | Audit Committee | Integrated Risk Management Committee |
|---|---------------------------------------|-------|-----------------|--------------------------------------|
| Total No. Meeting | | 13 | 5 | 4 |
| Ms. Keshala Jayewardhane | Non Executive Independent Chairperson | 13/13 | | 4/4 |
| Mr. R. Siriwardhane | General Manager / CEO | 13/13 | | 4/4 |
| Mr. Sarath De Alvis | Executive Director | 13/13 | | |
| Ms. A.V.K. Madavi Herath | Executive Director | 9/13 | | |
| Mr. P.V.Pathirana | Independent Non Executive Director | 12/13 | 5/5 | |
| Mrs. C.K. Nanayakkara | Independent Non Executive Director | 13/13 | | |
| Mr. D. Widanagamachchi | Non Executive Director | 3/5 | 1/1 | |
| Mr. S.D.N. Perera | Non Executive Director | 11/13 | 3/5 | 4/4 |
| Mrs. Dayani Fernando | Non Executive Director | 10/13 | | 2/4 |
| Mr. T.A. Ariyapala | Non Executive Director | 11/11 | | |
| Dr. B.M.S. Batagoda | Non Executive Director | 4/9 | 2/2 | |
| Ms. C.Werapitiya | Non Executive Director | 2/3 | | |
| Ms. Kasuni Pinnawala | Board Secretary | 13/13 | | 4/4 |
| <ul style="list-style-type: none"> Chief Risk Officer Mr. T. Kuhan and Compliance Officer AGM Mr. W. Sumanadasa has participated in all IRMC meetings as members of the committee. Chief Internal Auditor Ms. H.M.N.Manojika Herath has participated in all ACM Meeting as Committee Secretary. | | | | |



Directors' Statement on Internal Control

REQUIREMENT

This report has been issued in line with the Banking Act Direction 11 of 2007, section 3 (8) (ii) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (ICASL).

RESPONSIBILITY

The Board of Directors is responsible for Internal Control in Regional Development Bank and for reviewing its effectiveness. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objective of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

BOARD REVIEW PROCESS

The process was reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the Bank has taken steps to improve the system of internal controls to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

KEY FEATURES OF THE PROCESS

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

Board sub committees of Audit and IRMC are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

The Board has approved an Operational Manual in related to the Financial and other controls of the Bank in its all transactions. The procedures laid down in the manual has been communicated to all members of the staff.

The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance.

Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed

and approved by the Audit Committee. Findings of the Internal Audit are submitted to the Audit Committee for review at their periodic meetings.

The Audit Committees of the Bank review internal control issues identified by the respective Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

The Bank has prepared year ending Financial Statements in manual process where management information system (MIS) team at Head Office and Regional Offices who involved in preparation and presentation. At present Bank is in the process of implementing a centralized software core- banking platform.

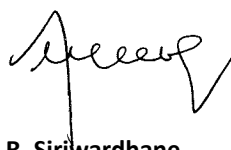
CONFIRMATION

Based on the above processes the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka

Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' statement on internal control for the year ended 31 December 2012 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board review of the design and effectiveness of the internal control system of the Bank.



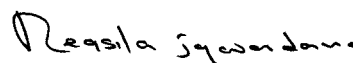
R. Siriwardhane

General Manager/ CEO



P.V. Pathirana

Chairman of the Audit Committee



Keshala Jayawardana

Chairperson

Internal Control Report



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Date } 14 March 2013

The Chairman,
Regional Development Bank

ASSURANCE REPORT OF THE AUDITOR GENERAL TO THE BOARD OF DIRECTORS ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL OF REGIONAL DEVELOPMENT BANK

INTRODUCTION

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of Regional Development Bank included in the annual report for the year ended 31 December 2012. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in Public practice.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

MY RESPONSIBILITY AND COMPLIANCE WITH SLSAE 3050

My responsibility is to issue a report to the board on the statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for the Banks on Directors' statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

SUMMARY OF WORK PERFORMED

My engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

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Battaramulla, Sri Lanka

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#- மெயில் } oaggov@slt.net.lk
E-mail.

To achieve this objective, following procedures were performed to obtain appropriate evidence:

- Enquired the Management to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to accompanying Statement made by the Directors.
- Reviewed the documentation prepared by Directors to support their Statement made.
- Obtained written representation from Directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require me to consider whether

the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures.

SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspect of any significant problems disclosed in the annual report will, in fact, remedy the problems.

CONCLUSION

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process the Board of directors have adopted in the review of the design and effectiveness of internal control of the Bank.



H.A.S. Samaraweera

Auditor General



Directors' Report

GENERAL

The Directors of the Pradeshiya Sanwardhana Bank (RDB) pleasure in presenting their Annual Report on the affairs of the Bank together with the audited Financial Statements of the bank for the year ended 31st December 2012. The audited Financial Statements were authorized to be issued on 16th May 2013. The Report also includes certain disclosures required to be made under the Banking Act Direction on Corporate Governance. The Annual Report and Accounts Together with the Auditor General's Report will be submitted to the Minister of Finance, on or before 31st May 2012 as per Circular No. PED/27 of 27th January 2005. Issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

PRINCIPAL ACTIVITIES

The principal activities of the Bank to facilitate the overall economic development of Sri Lanka by promoting the development of agriculture, Industry, trade, commerce, livestock, fisheries activities and empowerment of women, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

VISION, MISSION

The bank's Vision & Mission are given on page front inner cover of this Annual Report, The Bank maintains high ethical standards in its activities while pursuing the objectives stated under 'Vision' and 'Mission'

GOING CONCERN

The Board is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going concern basis in preparing the Financial Statements.

FINANCIAL STATEMENTS

Sri Lanka converged fully with International Financial Reporting Standards (IFRS) with effect from 1st of January 2012. Accordingly the Institute of Chartered Accountants of Sri Lanka has issued new volume of Sri Lanka accounting Standards which become applicable for financial period beginning on or after 1st January 2012. These Sri Lanka accounting Standards prefixed both SLFRS & LKAS. Application of Sri Lanka Accounting Standards prefixed SLFRS & LKAS for the first time shall be deemed to be an adoption of SLFRS's.

The Financial Statement of the Bank has been prepared accordance with these Sri Lanka accounting Standards (SLFRS's) laid down by Institute of Chartered Accountants of Sri Lanka and complied with Banking Act No. 30 of 1988.

The Financial Statements of the Bank for the year ended 31st Dec.2012 duly signed by the Deputy General Manager-Finance & Planning, Chief Executive Officer and two Directors of the Bank are given on page 90 Which form an integral part of the Annual report of the Board of Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments. The Directors' Responsibility Statement appearing on page 74 of this Annual Report describes in detail the Directors' responsibilities in relation to Financial Statements,

which forms an integral part of the Annual Report of Directors.

AUDITOR'S REPORT

The Auditor General carried out the audit of the Bank. In 2012, the audit was carried out throughout the year. Issues identified in their report were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 86 on this Annual Report.

As a regulatory supervisory body the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the required level so that the interests of the stakeholders, particularly depositors are safeguarded.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of Financial Statements are given on pages 93 to 107

DIRECTORS' REMUNERATION

Details of Directors' emoluments paid during the year are given in Note 6 to the Financial Statements

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the Message from the Chairman (pages 7 to 9) the Message from the General Manager/CEO (pages 11 to 12) and Management Discussions and Analysis (page 25 to 28)

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2012 is contained in the Message from the Chairman (Pages 7 to 9), the Message from the General Manager/CEO (Page 11 to 12) and Management

Discussions and Analysis (Page 25 to 28). These reports form an integral part of the Annual Report.

FINANCIAL RESULTS

The Bank Financial and Operational Performance is given on the General Manager's CEO's Review on pages 11 and financial highlights on pages 02

STATED CAPITAL

The total share holders fund as at 31.12.2012 is Rs. 4.4 bn Which is very much higher than the minimum capital requirement of Rs. 1.5 Bn imposed by the Central Bank of Sri Lanka. The stated Capital contributed by share holders at the end of year is Rs. 1.09 Bn and there percentage of shares shareholding is as follows.

| | | | |
|--------------------------|-----|--------------------------|-------------|
| 1. Government Treasury | Rs. | 877,446,711 | 79.81% |
| 2. Bank of Ceylon | Rs. | 74,184,480 | 6.75% |
| 3. Peoples Bank | Rs. | 74,184,480 | 6.75% |
| 4. National Savings Bank | Rs. | 73,584,480 | 6.69% |
| Total | | Rs. 1,099,400,151 | 100% |

Income

The income of the Bank for 2012 was Rs. 9.64 bn details of the income is given in page 108.

CONTRIBUTION TO THE GOVERNMENT

The Bank contributed Rs. 1052 mn by way of taxes and levies to the Government in 2012. This consisted of Rs. 521 mn of Income Tax Rs. 425 mn of value Added Tax & Rs. 105 mn as dividend. The Income Tax Rate applicable on the Bank's operations is 28% It is the bank's policy to provide for deferred taxation on all known temporary differences under the liability method. The Bank is also liable for Financial VAT at 12%

DIVIDENDS

The Directors recommended that the final dividend of Rs. 105 mn.

PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment,

leasehold property and intangible assets during the year amounted to Rs. 301 mn (2011 Rs. 168mn) amounted to Rs. 352 their details of which are given in Notes 21 to the Financial Statements on pages 13 to 115 of this Annual report.

EVENTS AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in, the account

OUTSTANDING LITIGATION

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 31 of the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

BOARD OF DIRECTORS

The Board of Directors comprises Nine Directors including the Chairperson and three Deputy General Managers from each share holder Banks, Deputy Secretary to the Treasury nominated by the secretary to the treasury and Ministry of finance consultation with the secretary to the treasury appoints chairperson and the other four Directors which include two Executive Directors who works as chairman of Previous Regional Banks. The following were the Directors during the year and whose brief profiles appear on page 122 of this Annual Report.

Ms. Keshala Jayawardana

Mr.P.V.Pathirana

Mr. S.D.N. Perera

Ms. Dayani Fernando

Ms. A.V.K. Madhavi Herath

Mr. Sarath de Alwis

Mr. T.A. Ariyapala

Ms. C.K. Nanayakkara

Dr. B.M.S. Batagoda

RESIGNATION OF DIRECTOR

Mrs. Chandani Werapitiya and Mr.D. Widanagamachchi, Directors were resigned from the board with effect from 03/04/2012 and 27/05/2012 respectively.

NEW APPOINTMENT OF DIRECTOR

Mr. T.A. Ariyapala and Dr. B.M.S. Batagoda were appointed to the board as Directors with effect from 02nd April 2012 and 7th of June 2012.

BOARD COMMITTEES

The Board while assuming the overall responsibility and accountability has also appointed the following Board Sub Committees to ensure conformity with Corporate Governness Standards of the Central Bank and other statutory compliances. The composition of mandatory Sub Committees as at 31st December 2012 was as follows

AUDIT COMMITTEE

1. Mr. P.V.Pathirana (Chairman)
2. Mr. D. Widanagamachchi
(ceased to be a director with effect from 27th May 2012)
3. Mr. Dammika Perera
4. Dr. B.M.S. Batagoda
(Appointed with effect from 07/06/2012)
5. Ms. Manojika Herath
(Secretary to the Committee)

Report of the Audit committee is given on page 83 to page 84 Which forms part of the Directors report of the Board.

Board Integrated Risk Management Committee

1. Mr. Dammika Perera
2. GM/CEO
3. Chief Risk Officer

Report of the Integrated Risk Management Committee is given on page 47 to page 51 Which forms part of the Directors report of the Board.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

1. Ms. Keshala Jayawardana
2. Mr. D. Widanagamachchi (ceased to be a director with effect from 27/05/ 2012)
3. Mr. P.V. Pathirana

DIRECTORS' MEETINGS

The number of Directors meetings which comprise Board Meetings, Audit Committee Meetings, Integrated Risk Management Committee Meetings and the attendance of Directors at these meetings are given on Corporate Governance Report page of this Annual Report.

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts with the bank both direct and indirect are referred to in Note 33 to the Financial Statements. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

RELATED PARTY TRANSACTIONS

The Directors have also disclosed the transactions if any. That could classified as related party transactions in terms of Sri Lanka Accounting Standard (LKAS 24) Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note XX to the Financial Statements forming part of the Annual Report of the Board.

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER (GM/CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. The General Manager has the right to be present at, and to participate in the meetings of the Board.

HUMAN RESOURCES

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value through quality service.

ENVIRONMENTAL PROTECTION

The bank has taken initiatives to safeguard and enhance the environment which are vital for sustainable development and growth of the Bank. The Bank has not engaged in any activity that is harmful or hazardous to environment.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government and in relation to the employees have been made in time.

RISK MANAGEMENT INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

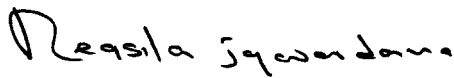
The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system, of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the bank is exposed. To provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 45 to 51.

DIRECTORS' STATEMENT ON INTERNAL CONTROL

The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, that the preparation of financial statement for external purposes has been done in accordance with relevant accounting principal and regulatory requirement. The above report which forms an integral part of the annual report of the board of directors is given on page 74 to 75. Board has obtained an assurance report from Auditor General on Directors' statement on Internal Control which is given on pages 76 to 77 in Annual Report.

CORPORATE GOVERNANCE

In the management of the Bank, the directors have placed emphasis on conforming with, the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced /improved from time to time to enhance risk management measures and to improve accountability and transparency. A separate report on corporate governance is given on pages 52 to 71 which Board has obtain an assurance report from the Auditor General.



Keshala Jayawardana

Chairperson



P. V. Pathirana

Director

COMPLIANCE WITH LAWS REGULATIONS AND PRUDENTIAL REQUIREMENTS

The bank has at all times ensured that it complied with Pradeshiya Sanwardhana Bank Act and all other applicable laws, regulations and prudential requirements.

AUDITORS

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31st December 2012



Audit Committee Report

COMMITTEE COMPOSITION

The Audit Committee comprises of three Non Executive Directors and the Committee is chaired by Mr. P.V. Pathirana who is an independent Director.

The following Directors serve/served on the Audit Committee.

Mr. P.V. Pathirana

Chairman of the Committee (IND/NED)
Director

Dr. B.S. Batagoda

Director (NED)

Mr. Dhammika Perera

Director (NED)

Mr. D. Widanagamachchi

Director (NED)

Dr. B. S. Batagoda has appointed as a member of the audit committee with effect from May 2012, on the resignation of Mr. D. Widanagamachchi from the Board.

(IND – Independent Director and NED – Non Executive Director)

The Superintendent of Government Audit is invited to attend the Committee Meetings as an observer.

Brief profiles of the members are given on pages 16 to 18 of the Annual Report.

The Chief Internal Auditor functions as the Secretary to the Audit Committee.

MEETINGS

The Audit Committee met five times during the year. Attendance by the Committee members at each of these meeting is given in the table on page 73 of the Annual Report. General Manager/ Chief Executive Officer also attended these meetings by invitation.

INTERNAL AUDIT

During the year, the Audit Committee reviewed the independence, objectivity & performance of the internal audit function, the finding of the internal audits completed and evaluation of the Bank's internal control including internal control systems. The Audit Committee also reviewed the adequacy of coverage of the internal audit plan and approved same. The Committee also assessed the Internal Audit Department's resource requirements including succession planning.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters within its purview.

Mr. P.V. Pathirana

Chairman

Audit Committee



The Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC) comprises six members of which three are Non-Executive Directors.

Mr. S.D.N. Perera
Chairman of the Committee
Director (NED)

Ms. Keshala Jayawardhana
Chairperson/Director (IND/NED)

Mr. R. Siriwardhana
GM/CEO

Mr D. Fernando
Director (IND/NED)

Mr. T. Kuhan
CRO

Mr. W. Sumanadasa
AGM - Compliance

(IND – Independent Director and NED – Non Executive Director)

DGM Credit and SAGM Operational are usually attend the Committee Meeting by invitation.

Brief profiles of the Directors representing the Committee are given on pages 16 to 18 of the Annual Report.

The Secretary to the Board functions as the Secretary to the Risk Management Committee as well. The broader level outlook of terms of reference of the Committee approved by the Board of Directors is appended below.

1. To ensure that the Bank has a comprehensive risk management framework, appropriate compliance and systems in place.
2. To assess all risk types, including but not limited to: credit, liquidity, operational and strategic/

reputational risks to the Bank through appropriate risk indicators and management information.

3. To ensure risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risks taken beyond the risk tolerance set by the Committee, on the basis of Bank's policies and regulatory and supervisory requirements.
4. To monitor and assess the effectiveness of the Bank's Risk Management System and the robustness of the risk management function.
5. To periodically assess performance against internally defined risk appetite.
6. To review the Bank's compliance report and action taken in relation to report.
7. To review issues related to integrated Risk Management framework.
8. To review progress on Basel II Roadmap implementation and regulator guidelines.

We draw your attention to the Risk Management Section of the report (pages 47 to 51) which extensively covers level of adherence against the terms of reference, achievements during the year and actions taken to mitigate key risks.

The Committee has met four times during the year 2012.

Attendance at the meetings are given in table on page 73 of the Annual Report.

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice.

Mr. S.D.N. Perera
Chairman
Integrated Risk Management Committee



Financial Reports

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය }
துலைவா } FB/M/RDB/FA/2012
My No }

මගේ අංකය }
உமது இல }
No. }

දිනය }
திகதி } 16 May 2013
Date }

The Chairman,
Pradeshiya Sanwardhana Bank.

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PRADESHIYA SANWARDHANA BANK FOR THE YEAR ENDED 31 DECEMBER 2012 IN TERMS OF SECTION 14(2)(C) OF THE FINANCE ACT, NO. 38 OF 1971.

The audit of financial statements of the Pradeshiya Sanwardhana Bank for the year ended 31 December 2012 comprising the statement of financial position as at 31 December 2012 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 33 of the Pradeshiya Sanwardhana Bank Act, No 41 of 2008

1.2 MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards.

අංක 306/72 පොල්දූව පාර,
බත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය }
தொலைபேசி } 112887028-34

இல. 306/72, பொல்துவ வீதி,
புத்தரமுல்லை இலங்கை

ෆැක්ස් අංකය }
பக்ஸ் இல } 112887223
Fax No. }

No.306/72, Polduwa Road,
Battaramulla, Sri Lanka

ඉලෙක්ට්‍රොනික් තැපෑල }
#- மெயில் } oaggov@sltnet.lk
E-mail. }

Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.



H.A.S. Samaraweera

Auditor General

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. FINANCIAL STATEMENTS

2.1 OPINION

In my opinion, the financial statements give a true and fair view of the financial position of the Pradeshiya Sanwardhana Bank as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

2.3 REPORT TO PARLIAMENT

My report to parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

Statement of Comprehensive Income

| For the Year ended 31st December | Note | Bank | |
|--|----------|----------------------|----------------------|
| | | 2012 Rs. | 2011 Rs. |
| Interest Income | | 9,049,146,825 | 7,122,991,767 |
| Interest Expenses | | (4,612,377,985) | (3,004,971,413) |
| Net Interest Income | 4 | 4,436,768,840 | 4,118,020,354 |
| Fee and Commission Income | | 464,645,217 | 329,616,105 |
| Fee and Commission Expenses | | (46,524,259) | (36,429,659) |
| Net fee and commission Income | 5 | 418,120,958 | 293,186,446 |
| Net gain/(Loss) from financial instruments at fair value through profit or loss | 6 | (194,255) | (13,358) |
| Other operating income (net) | 7 | 130,957,554 | 163,474,195 |
| Total Operating Income | | 4,985,653,097 | 4,574,667,637 |
| Impairment Chargers for loans and other losses | 8 | (139,399,324) | 42,607,650 |
| Net Operating Income | | 4,846,253,772 | 4,617,275,286 |
| Staff Cost | 9 | 2,488,611,791 | 1,915,380,556 |
| Amortization of impairment of intangible assets | | 4,731,869 | 2,698,452 |
| Other expenses | 10 | 860,483,857 | 722,873,324 |
| Operating profit/(loss) before value added tax (VAT) | | 1,492,426,255 | 1,976,322,954 |
| Value added tax (VAT) on financial services | | (425,673,865) | (396,847,936) |
| Operating profit/(loss) after value added tax (VAT) before tax | | 1,066,752,390 | 1,579,475,018 |
| Profit/(Loss) before tax | | 1,066,752,390 | 1,579,475,018 |
| Tax expenses | 11 | (521,261,660) | (463,750,566) |
| Profit/(Loss)for the year | | 545,490,730 | 1,115,724,452 |
| Earnings per share on profit | | | |
| Basic earnings per ordinary share | | 4.96 | 10.15 |

Statement of other Comprehensive Income

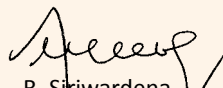
| For the Year ended 31 December | Note | Bank | |
|--|------|--------------------|----------------------|
| | | 2012 Rs. | 2011 Rs. |
| Profit for the year | | 545,490,730 | 1,115,724,452 |
| Other comprehensive income/(expenses) | | | |
| Gains and losses on re-measuring available-for-sale financial | | - | - |
| Less: Tax expense/(income) relating to components of other comprehensive income assets | | - | - |
| Other comprehensive income for the year, net of taxes | | - | - |
| Total comprehensive income for the year | | 545,490,730 | 1,115,724,452 |
| Attributable to: | | | |
| Equity holders of the parent | | 545,490,730 | 1,115,724,452 |
| Non-controlling interest | | - | - |
| | | 545,490,730 | 1,115,724,452 |

Statement of Financial Position

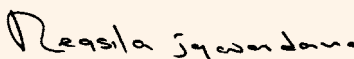
| For the Year ended 31 December | Note | 2012 Rs. | Bank 2011 Rs. | 2010 Rs. |
|---|------|-----------------------|-----------------------|-----------------------|
| Assets | | | | |
| Cash and balances with central bank | 14 | 202,978,066 | 173,611,095 | 155,377,751 |
| Sri Lankan government securities | 15 | - | 173,697,739 | 551,473,663 |
| Balances with banks | 16 | 11,972,103,907 | 9,675,524,006 | 6,730,660,636 |
| Financial assets held for trading | 17 | 628,900 | 823,155 | 836,514 |
| Loans and receivables from banks | 18 | 12,108,219 | 112,833,151 | 125,384,279 |
| Loans and receivables from other customers | 19 | 54,734,881,685 | 47,065,657,195 | 37,589,553,648 |
| Goodwill and intangible assets | 20 | 55,441,895 | 2,230,033 | 5,521,854 |
| Property and equipment | 21 | 614,955,873 | 440,202,042 | 399,459,859 |
| Deferred Tax assets | 22 | 94,639,347 | 183,041,280 | 92,624,370 |
| Other assets | 23 | 1,936,635,069 | 1,948,366,107 | 1,866,894,195 |
| Total assets | | 69,624,372,961 | 59,775,985,803 | 47,517,786,771 |
| Liabilities | | | | |
| Due to banks | 24 | 6,078,629,948 | 5,130,477,017 | 2,456,757,599 |
| Due to other customers | 25 | 54,669,870,235 | 46,108,862,027 | 37,949,924,535 |
| Other liabilities | 26 | 4,480,855,636 | 4,314,295,879 | 3,831,729,454 |
| Total liabilities | | 65,229,355,819 | 55,553,634,923 | 44,238,411,587 |
| Equity | | | | |
| State capital/Assigned capital | 27 | 1,099,400,151 | 1,099,400,151 | 1,099,400,151 |
| Statutory reserve fund | 28 | 506,153,956 | 504,066,435 | 316,410,261 |
| Retained earnings | 29 | (75,428,565) | (126,875,295) | 41,765,656 |
| Other reserves | 30 | 2,864,891,600 | 2,745,759,589 | 1,821,799,116 |
| Total shareholders' equity | | 4,395,017,142 | 4,222,350,880 | 3,279,375,184 |
| Total equity | | 4,395,017,142 | 4,222,350,880 | 3,279,375,184 |
| Total equity and liabilities | | 69,624,372,961 | 59,775,985,803 | 47,517,786,772 |
| Contingent liabilities and commitments | 31 | 163,182,094 | 171,699,314 | 136,746,467 |

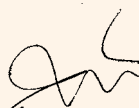
The significant accounting policies and notes on pages to from an integral part of these financial statements. These financial statements have been prepared in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS)


S.A. Alahakoon
DGM (Finance & Planning)


R. Siriwardena
CEO/General Manager

The Board of directors are responsible for the preparation and presentation of these Financial Statements which were approved by the Board of Directors and signed on their behalf.


Ms. Keshala Jayawardana.
Chairperson


P.V. Pathirana
Director

Statement of Changes in Equity

| For the Year ended 31 December | Bank | | | | | | |
|--|-----------------------|----------------------------------|--------------------------------|--------------------------------|------------------------|-----------------------------|----------------------|
| | Stated capital Rs. | Statutory Reserve Fund Rs. | Special Reserve Fund Rs. | General Reserve Fund Rs. | Investment Fund Rs. | Retained earnings Rs. | Total Rs. |
| Balance as at 01/01/2011 | 1,099,400,151 | 316,410,261 | 245,795,139 | 1,576,003,976 | - | 41,765,656 | 3,279,375,183 |
| Profit/(loss) for the year | - | - | - | - | - | 1,115,724,452 | 1,115,724,452 |
| Transferred to Statutory Reserve Fund | - | 187,656,174 | - | - | - | (187,656,174) | - |
| Transferred to Special Reserve Fund | - | - | 112,661,624 | - | - | (112,661,624) | - |
| Transferred to General Reserve Fund | - | - | - | 450,646,500 | - | (450,646,500) | - |
| Transferred to Investment Fund | - | - | - | - | 360,652,351 | (360,652,351) | - |
| Transferred to Staff Welfare Fund | - | - | - | - | - | (22,000,000) | (22,000,000) |
| Transferred to Staff Medical Fund | - | - | - | - | - | (35,000,000) | (35,000,000) |
| Transferred to Staff Loan Assurance Fund | - | - | - | - | - | (5,808,739) | (5,808,739) |
| Dividened | - | - | - | - | - | (109,940,015) | (109,940,015) |
| Balance as at 31/12/2011 | 1,099,400,151 | 504,066,435 | 358,456,763 | 2,026,650,476 | 360,652,351 | (126,875,295) | 4,222,350,881 |
| Profit/(loss) for the year | - | - | - | - | - | 545,490,730 | 545,490,730 |
| Transferred to Statutory Reserve Fund | - | 2,087,521 | - | - | - | (2,087,521) | - |
| Transferred to Special Reserve Fund | - | - | 2,087,521 | - | - | (2,087,521) | - |
| Transferred to General Reserve Fund | - | - | - | 8,350,083 | - | (8,350,083) | - |
| Transferred to Investment Fund | - | - | - | - | 376,865,016 | (376,865,016) | - |
| Transferred from Staff Welfare Fund | - | - | - | 22,300,000 | - | - | 22,300,000 |
| Transferred from Staff Medical Fund | - | - | - | 40,166,261 | - | - | 40,166,261 |
| Transferred from Staff Loan Assurance Fund | - | - | - | 5,808,739 | - | - | 5,808,739 |
| Transferred from dividend payable | - | - | - | 109,940,015 | - | - | 109,940,015 |
| Transferred from Investment Fund | - | - | - | - | (446,385,625) | - | (446,385,625) |
| Dividend | - | - | - | - | - | (104,653,859) | (104,653,859) |
| Balance as at 31/12/2012 | 1,099,400,151 | 506,153,956 | 360,544,284 | 2,213,215,574 | 291,131,742 | (75,428,565) | 4,395,017,142 |

Cash Flow Statement

| For the Year ended 31 December | Note | Bank | |
|---|------|-----------------------|----------------------|
| | | 2012 Rs. | 2011 Rs. |
| Cash flow from operating activities | | | |
| Profit before tax | | 1,492,426,255 | 1,976,322,954 |
| Adjustment for: | | | |
| Non cash items included in profit before tax | 36 | 395,817,656 | 119,445,478 |
| Changes in operating assets | 37 | (7,522,470,104) | (9,124,640,756) |
| Changes in operating liabilities | 38 | 9,243,041,509 | 11,033,223,109 |
| Contribution paid to defined benefit plans | | (7,288,495) | (7,620,916) |
| Tax paid | | (937,630,765) | (901,915,970) |
| Net cash generated from operating activities | | 2,663,896,055 | 3,094,813,899 |
| Cash flows from investing activities | | | |
| Purchase of Property, plant and equipment | | (281,745,822) | (168,408,574) |
| Net purchase of intangible assets | | (57,555,819) | (227,785) |
| Proceeds from the sale of property, plant and equipment | | 160,076 | 13,608,589 |
| Property, plant and equipment net adjustment | | 1,580,292 | 22,489,432 |
| Intangible assets net adjustment | | (387,911) | 821,153 |
| Net cash (used in)/from investing activities | | (337,949,184) | (131,717,185) |
| Cash flows from financing activities | | | |
| Net cash from financing activities | | - | - |
| Net increase/(decrease) in cash & cash equivalents | | 2,325,946,871 | 2,963,096,714 |
| Cash & cash equivalents at the beginning of the year | | 9,849,135,102 | 6,886,038,388 |
| Exchange difference in respect of cash & cash equivalents | | | |
| Cash and cash at the end of the year | | 12,175,081,973 | 9,849,135,102 |
| Reconciliation of Cash & Cash Equivalents | | | |
| Cash and balances with central bank | | 202,978,066 | 173,611,095 |
| Balances with banks | | 11,972,103,907 | 9,675,524,006 |
| | | 12,175,081,973 | 9,849,135,101 |

Notes to the Financial Statement

For the Year ended 31 December 2012

1. Corporate Information

1.1. General

Pradeshiya Sanwardana Bank (RDB) can be traced back to as far as 1985 when district level banks under the category of Regional Rural Development Banks were established. Later in 1997, seventeen such Regional Development Banks were merged into six provincial level banks, which functioned as Rajarata, Ruhuna, W ayamba, Uva, Kandurata and Sabaragamuwa Development Banks. In May 2010, these six banks were merged into one national level bank and designated as the Pradheshiya Sanwardana Bank. The Bank was established as a statutory body under the Pradheshiya Sanwardana Bank Act No.41 of 2008. The registered office of the Bank is located at No 933, Kandy Road, Wedamulla, Kelaniya.

The staff strength of the bank as at 31 December 2012 was 2357. (2653 as at December 31, 2011).

1.2. Principal Activities and Nature of Operations

The principal activities of the Bank to facilitate the overall economic development of Sri Lanka by promoting the development of agriculture, Industry, trade, commerce, livestock, fisheries activities and empowerment of women, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

2. Accounting Policies

2.1. Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for available –for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss and liabilities for cash–settled share–based payments, all of which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Sri Lanka Rupees and all values are rounded to the nearest Rupee, except when otherwise indicated.

2.2. Statement of Compliance

The Statement of Comprehensive Income, the Statement of Other Comprehensive Income, Statement of Financial Position, Cash Flow Statement, Statement of Changes in Equity, together with the Significant Accounting Policies and Notes, ('Financial Statements') , as at 31 December 2012 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS'S/LKAS'S), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto.

For all periods up to and including the year ended 31 December 2011, the Bank prepared the financial statements in accordance with the Sri Lanka Accounting Standards which were effective prior to 1 January 2012. These financial statements for the year ended 31 December 2012 are the first set of statements the Bank has prepared in accordance with SLFRS.

These SLFRSs are in effective from 1 January 2012 and comparatives (year 2011 and 2010) too were reclassified and re-measured. Hence the date of transition to SLFRS is 1 January 2011 and beginning of the day, 1 January 2011, balances were considered.

2.3. Presentation of Financial Statements

The items in Statement of Financial Position of the Bank are presented broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note no 41.

Notes to the Financial Statement

For the Year ended 31 December 2012

2.4. Materiality & Aggregation

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.5. Comparative Information

The accounting policies have been consistently applied by the Bank with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements, except those which had to be changed as a result of application of the new SLFRS. Further, comparative information is reclassified wherever necessary to comply with the current presentation.

2.6. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

2.6.1. Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

2.6.1.1. Taxation

The Bank is subject to income taxes and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guideline on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Bank recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred tax amounts in the period in which the determination is made.

2.6.1.2. Useful Life-Time of the Property and Equipment

The Bank reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.6.2. Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Notes to the Financial Statement

For the Year ended 31 December 2012

2.6.2.1. Going Concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.6.2.2. Impairment Losses on Loans and Advances

The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgments on the effect of concentrations of risks and economic data.

The Bank uses probability of default method under this methodology the movement in number of customers into non –performing categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the date of the Statement of Financial Position which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated

The impairment loss on loans and advances is disclosed in more detail in Note 19 and further described under the note 40.

2.6.2.3. Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profits will be available against which such tax losses can be set off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Bank in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening SLFRS statement of financial position at 1 January 2011 for the purpose of transition to SLFRS, unless otherwise is indicated.

3.1. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with banks, and money at call & short notice. For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short-term deposits as defined above, net of unfavorable balances.

3.2. Financial Instruments

3.2.1. Initial Recognition and Subsequent Measurement

Financial assets - Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as Fair value through Profit & Loss, Held to Maturity, Loans and Receivables as appropriate Bank determines the classification of its financial assets at initial recognition.

3.2.2. Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Notes to the Financial Statement

For the Year ended 31 December 2012

3.2.3. Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

3.2.4. Non-Derivative Financial Assets

The Bank recognizes non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

3.2.4.1. Financial Assets at Fair Value Through Profit or Loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

● Financial assets held for trading

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading income'. Dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Financial assets at fair value through profit or loss are recorded in the statement of Financial Position at Fair Value. Changes in fair value are recorded in 'Net gain or loss on financial instrument designated at fair value through profit or loss. Interest earned or incurred is accrued in 'Interest income' or 'Interest expense, respectively, using the effective interest rate (EIR), while dividend income is recorded in 'other operating income' when the right to the payment has been established.

3.2.4.2. Held-To-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement.

If the Bank was to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

3.2.4.3. Due from Banks and Loans and Receivables from Customers

Due from banks and Loans & receivables from customers include non- derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available for sale
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts 'Due from banks' and 'Loans and receivables from customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost

Notes to the Financial Statement

For the Year ended 31 December 2012

is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the income statement in 'impairment gain/ (loss) on loans and receivables'.

3.2.4.4. Available-for-Sale Financial Investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

3.2.5. Debt Issued and Other Borrowed Funds

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the classified as liabilities under Financial assets held for trading, where the substance of the contractual holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

3.2.6. Reclassification of Financial Assets

The Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

3.3. De-recognition of Financial Assets and Financial Liabilities

3.3.1. Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset or

Notes to the Financial Statement

For the Year ended 31 December 2012

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3.3.2. Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.4. Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs. NOTE - FAIR VALUE).

3.5. Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.5.1. Foreclosed Properties

Foreclosed properties represent properties that are acquired in full or partial satisfaction of debts the shortfall between the prevailing market value of the foreclosed asset and related loan outstanding is recognised as a provision for loan losses in the income statement during the year of acquiring the said property in satisfaction of debt.

3.5.2. Offsetting Financial Instruments

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

Notes to the Financial Statement

For the Year ended 31 December 2012

3.6. Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.6.1. Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.6.2. Bank as a Lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

3.7. Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

3.8. Property and Equipment

Property and equipment (including equipment under operating leases where the Bank is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

| | |
|--------------------|---------------|
| Building | 5% Per annum |
| Computer Equipment | 20% Per annum |
| Office Equipment | 20% Per annum |
| Motor Vehicles | 20% Per annum |
| Furniture | 15% Per annum |
| Iron Safes | 10% Per annum |

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised.

3.9. Intangible Assets

The Bank's other intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible

Notes to the Financial Statement

For the Year ended 31 December 2012

assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 3 years

3.10. Impairment of Non-financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

3.11. Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in credit loss expense. The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

3.12. Pension Benefits

3.12.1. Defined Benefit Pension Plan-Gratuity

In compliance with the Gratuity Act No.12 of 1983 provision is made in the accounts.

An actuarial valuation is carried out at every other year to ascertain the full liability under the Fund. The valuation was carried out as at 31 December 2012 by M/s. Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary.

3.12.2. Defined Contribution Pension Plan

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

3.12.2.1 Employees' Provident Fund

The Bank and Employees contribute to the Employees Provident Fund at 15% and 10% respectively.

Notes to the Financial Statement

For the Year ended 31 December 2012

3.12.2.2 Employees' Trust Fund

The Bank contributes to the Employees' Trust Fund at 3%.

3.13. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

3.14. Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.14.1. Interest and Similar Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities. However, for a reclassified financial asset (Refer Note 3.2.6) for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.14.2. Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following category:

3.14.2.1. Fee Income Earned from Services that are Provided over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, loan service charges, inspection charges and stationary charges recovered from the customers.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

3.14.3. Dividend Income

Revenue is recognised when the Bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Notes to the Financial Statement

For the Year ended 31 December 2012

3.15. Taxes

3.15.1. Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

3.15.2. Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.15.3. VAT on Financial Services

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto.

Notes to the Financial Statement

For the Year ended 31 December 2012

3.16. Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

3.17. Cash Flow Statement

The cash flow statement has been prepared using 'The Indirect Method', whereby profit before tax has been adjusted to find out operational cash flows while gross cash receipts and gross cash payments of finance activities and investing activities have been directly recognised.

3.18. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the financial statements are set out below. The Bank will adopt these standards when they become effective. Pending a detailed review the financial impact is not reasonably estimated as at the date of publication of these financial statements.

SLFRS 9 -Financial Instruments:

Classification and Measurement SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

SLFRS 9 will be effective for financial periods beginning on or after 01 January 2015 whilst

SLFRS 13 -Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 13 will be effective for financial periods beginning on or after 01 January 2014.

In addition to the above, following standards have also been issued and will be effective from 01 January 2014.

SLFRS 12 - Disclosure of Interests in Other Entities

3.19. First Time Adoption of SLFRS

As stated in Note 2.2, this is the Bank's first financial statements prepared in accordance with SLFRS.

The accounting policies set out in Note 3 have been applied in preparing the Financial Statements for the year ended 31 December 2012, the comparative information presented for the year ended 31 December 2011 and in the preparation of an opening SLFRS based Statement of Financial Position at 1 January 2011 (the date of transition).

Notes to the Financial Statement

For the Year ended 31 December 2012

3.19.1. Significant Differences between SLAS and SLFRS

Reconciliation of Equity as at January 1, 2011 (Beginning of the day balances)

| ASSETS | SLAS after Reclassification Rs. | Remeasurement Rs. | SLFRS Rs. | |
|---|---------------------------------------|----------------------|-----------------------|---|
| Cash and Short Term Funds | 155,377,751 | - | 155,377,751 | Cash and balances with central bank |
| Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank | 551,473,663 | - | 551,473,663 | Sri Lankan government securities |
| | 6,730,660,636 | - | 6,730,660,636 | Balances with banks |
| Other Investments | 836,514 | - | 836,514 | Financial assets held for trading |
| | 125,384,279 | - | 125,384,279 | Loans and receivables from banks |
| Loans and Advances A | 37,967,487,475 | (377,933,826) | 37,589,553,648 | Loans and receivables from other customers |
| Bills Purchases | - | - | - | |
| Interest Receivables | - | - | - | |
| | 5,521,854 | - | 5,521,854 | Goodwill and intangible assets |
| Property, Plant and Equipments | 399,459,859 | - | 399,459,859 | Property, plant and equipment |
| Deferred Tax Assets | 92,624,370 | - | 92,624,370 | Deferred Tax assets |
| Other Assets | 1,866,894,195 | - | 1,866,894,195 | Other assets |
| Total Assets | 47,895,720,597 | (377,933,826) | 47,517,786,771 | Total assets |
| LIABILITIES | | | | |
| Deposits from Customers | 37,949,924,535 | - | - | |
| Borrowings | 2,456,757,599 | - | 2,456,757,599 | Due to banks |
| | - | - | 37,949,924,535 | Due to other customers |
| Other Liabilities | 3,831,729,454 | - | 3,831,729,454 | Other liabilities |
| Deferred Government Grants | - | - | - | |
| Total Liability | 44,238,411,587 | - | 44,238,411,587 | Total liabilities |
| SHAREHOLDERS' FUNDS | | | | |
| Stated Capital | 1,099,400,151 | - | 1,099,400,151 | State capital/Assigned capital |
| Statutory Reserve Fund | 316,410,261 | - | 316,410,261 | Statutory reserve fund |
| Reserves | 1,821,799,116 | - | - | |
| Retained Profit A | 419,699,482 | (377,933,826) | 41,765,656 | Retained earnings |
| | - | - | 1,821,799,116 | Other reserves |
| Total Equity | 3,657,309,010 | (377,933,826) | 3,279,375,184 | Total equity |
| Total Liabilities and Shareholders' Funds | 47,895,720,597 | (377,933,826) | 47,517,786,772 | Total equity and liabilities |

Notes to the Financial Statement

For the Year ended 31 December 2012

Reconciliation of Equity as at December 31, 2011 (Beginning of the day balances)

| ASSETS | | SLAS after Reclassification Rs. | Remeasurement Rs. | SLFRS Rs. | |
|---|----|---------------------------------------|----------------------|-----------------------|---|
| Cash and Short Term Funds | | 173,611,095 | - | 173,611,095 | Cash and balances with central bank |
| Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank | | 173,697,739 | - | 173,697,739 | Sri Lankan government securities |
| | | 9,675,524,006 | - | 9,675,524,006 | Balances with banks |
| Other Investments | | 823,155 | - | 823,155 | Financial assets held for trading |
| | | 112,833,151 | - | 112,833,151 | Loans and receivables from banks |
| Loans and Advances | A | 47,387,874,757 | (322,217,562) | 47,065,657,195 | Loans and receivables from other customers |
| Bills Purchases | | - | - | - | |
| Interest Receivables | | - | - | - | |
| | | 2,230,033 | - | 2,230,033 | Goodwill and intangible assets |
| Property, Plant and Equipments | | 440,202,042 | - | 440,202,042 | Property, plant and equipment |
| Deferred Tax Assets | | 183,041,280 | - | 183,041,280 | Deferred Tax assets |
| Other Assets | | 1,948,366,107 | - | 1,948,366,107 | Other assets |
| Total Assets | | 60,098,203,365 | (322,217,562) | 59,775,985,803 | Total assets |
| LIABILITIES | | | | | |
| Deposits from Customers | | 46,154,039,178 | - | - | |
| Borrowings | | 5,130,477,017 | - | 5,130,477,017 | Due to banks |
| | B | - | (45,177,151) | 46,108,862,027 | Due to other customers |
| Other Liabilities | | 4,314,295,879 | - | 4,314,295,879 | Other liabilities |
| Deferred Government Grants | | - | - | - | |
| Total Liability | | 55,598,812,074 | (45,177,151) | 55,553,634,923 | Total liabilities |
| SHAREHOLDERS' FUNDS | | | | | |
| Stated Capital | | 1,099,400,151 | - | 1,099,400,151 | State capital/Assigned capital |
| Statutory Reserve Fund | | 504,066,435 | - | 504,066,435 | Statutory reserve fund |
| Reserves | | 2,745,759,589 | - | - | |
| Retained Profit | AB | 150,165,116 | (277,040,411) | (126,875,295) | Retained earnings |
| | | - | - | 2,745,759,589 | Other reserves |
| Total Equity | | 4,499,391,291 | (277,040,411) | 4,222,350,880 | Total equity |
| Total Liabilities and Shareholders' Funds | | 60,098,203,365 | (322,217,562) | 59,775,985,803 | Total equity and liabilities |

Notes to the Financial Statement

For the Year ended 31 December 2012

Reconciliation to the profit 2011

| ASSETS | SLAS after Reclassification Rs. | Remeasurement Rs. | SLFRS Rs. | |
|---|---------------------------------------|----------------------|----------------------|---|
| Income | 7,611,262,729 | | | |
| Interest Income | 7,122,991,767 | - | 7,122,991,767 | Interest Income |
| Interest Expense | (3,050,148,564) | 45,177,151 | (3,004,971,413) | Interest Expenses |
| Net Interest Income | 4,072,843,203 | 45,177,151 | 4,118,020,354 | Net Interest Income |
| | 329,616,105 | - | 329,616,105 | Fee and Commission Income |
| | (36,429,659) | - | (36,429,659) | Fee and Commission Expenses |
| | 293,186,446 | - | 293,186,446 | Net fee and commission Income |
| | (13,358) | - | (13,358) | Net gain/(Loss) from financial instruments at fair value through profit or loss |
| Other Income | 163,474,195 | - | 163,474,195 | Other operating income (net) |
| | 4,529,490,486 | 45,177,151 | 4,574,667,637 | Total Operating Income |
| | (13,108,615) | 55,716,265 | 42,607,650 | Impairment Chargers for loans and other losses |
| | 4,516,381,871 | 100,893,416 | 4,617,275,286 | Net Operating Income |
| LESS : NON INTEREST EXPENSES | | | | |
| Operating Expenses | | | | |
| Personnel Costs | 1,915,380,556 | - | 1,915,380,556 | Staff Cost |
| Provision for Staff Retirement Benefits | - | - | 2,698,452 | Amortization of impairment of intangible assets |
| Premises, Equipment and Establishment Expenses | - | - | 722,873,324 | Other expenses |
| Fee and Commission Expenses | - | - | - | |
| Provision for Loan Losses | - | - | - | |
| Other Overhead Expenses | 725,571,776 | - | - | |
| PROFITS ON ORDINARY ACTIVITIES BEFORE TAXATION | 1,875,429,539 | 100,893,416 | 1,976,322,954 | Operating profit/(loss) before value added tax (VAT) |
| Less: Value Added Tax | (396,847,936) | - | (396,847,936) | Value added tax (VAT) on financial services |
| | 1,478,581,603 | 100,893,416 | 1,579,475,018 | Operating profit/(loss) after value added tax (VAT) before tax |
| Less: Tax on Profit on Ordinary Activities | (463,750,566) | - | (463,750,566) | Tax expenses |
| PROFITS ON ORDINARY ACTIVITIES AFTER TAXATION | 1,014,831,037 | 100,893,416 | 1,115,724,452 | Profit/(Loss) for the year |

Notes to the Financial Statement

For the Year ended 31 December 2012

A .Adjustment on loan impairment

Under previous SLAS, the provision for loan losses consists of both Specific provision for incurred losses and General provision for expected future losses. In compliance with the Direction No. 3 of 2008 and subsequent amendment there to, specific loan loss provision were made based on the arrears time period after considering the collateral values and General provision were made at a specified rate given by CBSL time to time.

The previously recognised loan loss provision amounting to Rs. 1,098 Mn was reversed and impairment provision of Rs. 1,476 Mn was recognised as at January 1, 2011, the date of transition after making necessary adjustments to retained earnings.

As at 31st December 2011 the impairment provision of Rs.1,293 Mn was recognized against sum total of loan loss provision which was previously recognised in SLAS based accounts. The movement between the impairment balances of two years was recognised in the Income Statement as an impairment charge.

B .Effective Interest Rate

Under previous SLAS, deposits are shown at their original deposit value and interest was charged on straight-line basis. Under SLFRS, interest should be recognised on EIR method and amortised cost should be shown in the accounts. At the date of transition, the difference between the interest already provided under SLAS and requirement under SLFRS was Rs. 44 Mn. It was added to the retained earnings and netted off against the amount due to Banks and other customers.

As at December 31, 2011, the difference between the interest provision under EIR method and under straight-line method was Rs. 1,144 Mn and the net movement of Rs. 1,190 Mn was charged to Income Statement.

Notes to the Financial Statement

| For the Year ended 31 December 2012 | Bank | |
|---|------------------------|------------------------|
| | 2012 Rs. | 2011 Rs. |
| 4 Net Interest Income | | |
| Interest Income | | |
| Sri Lankan government securities | 37,344,775 | 189,765,653 |
| Financial assets designated at fair value through profit or loss | 143,474 | 110,309 |
| Loans and receivables to banks | 1,157,600,201 | 542,654,969 |
| Loans and receivables to other customers | 7,854,058,375 | 6,390,460,836 |
| Total interest income | 9,049,146,825 | 7,122,991,767 |
| Interest expenses | | |
| Due to banks | (351,325,756) | (214,119,720) |
| Due to other customers | (4,261,052,229) | (2,790,851,693) |
| Total interest expenses | (4,612,377,985) | (3,004,971,413) |
| Net Interest Income | 4,436,768,840 | 4,118,020,354 |
| 5 Net Fee and Commission Income | | |
| Fee and commission income | 464,645,217 | 329,616,105 |
| Fee and commission expenses | (46,524,259) | (36,429,659) |
| Net fee and commission income | 418,120,958 | 293,186,446 |
| Comprising | | |
| Loans | 265,478,143 | 223,287,812 |
| Trade and remittances | 6,619,163 | 7,131,933 |
| Deposits | (37,726,619) | (29,582,954) |
| Others | 183,750,271 | 92,349,655 |
| Net fee and commission income | 418,120,958 | 293,186,446 |
| 6 Net Gain/(Loss) from Financial Instruments Designated at Fair Value through Profit or Loss | | |
| Profit or Loss | | |
| Financial assets designated at fair value through profit or loss | (194,255) | (13,358) |
| Total | (194,255) | (13,358) |
| 7 Other Operating Income (net) | | |
| Gain on sale of property, plant and equipment | 95,998 | 6,489,040 |
| (Less): | | |
| Loss on sale of property, plant and | (19,595) | - |
| Recoveries of NPL Loans (Note 19(b)) | 130,881,151 | 156,985,155 |
| Other Operating Income (net) | 130,957,554 | 163,474,195 |

Notes to the Financial Statement

| For the Year ended 31 December 2012 | Bank | |
|--|----------------------|----------------------|
| | 2012 Rs. | 2011 Rs. |
| 8 Impairment Charges for Loans and other Losses | | |
| Loans and receivables | | |
| To other customers (Note 19(b)) | 139,399,324 | (42,607,650) |
| Total | 139,399,324 | (42,607,650) |
| 9 Staff Costs | | |
| Salary and bonus | 1,513,385,300 | 1,112,765,315 |
| Contributions to defined contribution plans | 114,407,687 | 94,196,983 |
| Others | 860,818,804 | 708,418,258 |
| Total | 2,488,611,791 | 1,915,380,556 |
| 10 Other Expenses | | |
| Directors' emoluments | 3,076,885 | 2,645,019 |
| Auditors' remunerations | 610,793 | 1,312,075 |
| Professional and legal expenses | 10,194,327 | 12,001,923 |
| Depreciation of property, plant and equipment | 112,268,023 | 98,057,411 |
| Office administration and establishment expenses | 665,902,120 | 561,011,513 |
| Computerization Expenses | 3,517,488 | 3,138,213 |
| Debit Tax Expenses | - | 2,933,058 |
| Business Tax Expenses | 390,815 | 355,855 |
| Other Commission Paid | 880,751 | 622,867 |
| Savings Insurance Fund | 63,642,654 | 40,795,390 |
| Total | 860,483,857 | 722,873,324 |
| 11 Tax Expenses | | |
| Current tax expense | - | |
| Current year | 458,668,298 | 558,459,913 |
| Prior years' provision | (25,808,571) | (4,295,437) |
| Deferred tax expense | | |
| Temporary differences | 88,401,933 | (90,413,910) |
| Total | 521,261,660 | 463,750,566 |
| a. Reconciliation of tax expenses | | |
| Profit/(loss) before tax | 1,066,752,390 | 1,585,773,953 |
| Income tax for the period (Accounting profit @ applicable tax rate) | 28% | 28% |
| IFRS Adjustments | - | (100,893,416) |
| Add: Tax effect of expenses that are not deductible for tax purposes | 718,506,002 | 625,290,600 |
| (Less): Tax effect of expenses that are deductible for tax purposes | (147,157,326) | (115,671,450) |
| Tax expense for the period | 458,668,298 | 558,459,913 |

Notes to the Financial Statement

| For the Year ended 31 December 2012 | Bank | |
|---|--------------------|----------------------|
| | 2012 Rs. | 2011 Rs. |
| b. The deferred tax (credit)/charge in the income statement comprise of the following. | | |
| Deferred tax assets | (32,565,130) | 45,509,100 |
| Deferred tax liabilities | 120,967,063 | (135,923,010) |
| Deferred tax (credit)/charge to income statement | 88,401,933 | (90,413,910) |
| 12 Earnings Per Share | | |
| Net profit attributable to ordinary equity holders | 545,490,730 | 1,115,724,452 |
| Net profit attributable to ordinary equity holders | 545,490,730 | 1,115,724,452 |
| | Numbers | Numbers |
| Weighted average number of ordinary shares for basic earnings per share | 109,940,015 | 109,940,015 |
| Basic earnings per ordinary share | 4.96 | 10.15 |

13 Measurement of Financial Instruments

a. Bank - Current year (2012)

| As at 31 December | HFT Rs. | HTM Rs. | L & R Rs. | Others Rs. | Total Rs. |
|--|----------------|------------|-----------------------|-----------------------|-----------------------|
| ASSETS | | | | | |
| Cash and balances with central banks | - | - | 202,978,066 | - | 202,978,066 |
| Balances with banks | - | - | - | 11,972,103,907 | 11,972,103,907 |
| Financial assets held for trading | 628,900 | - | - | - | 628,900 |
| Loans and receivables to banks | - | - | 12,108,219 | - | 12,108,219 |
| Loans and receivables to other customers | - | - | 54,734,881,685 | - | 54,734,881,685 |
| Other assets | - | - | - | 194,141,165 | 194,141,165 |
| Total financial assets | 628,900 | - | 54,949,967,969 | 12,166,245,073 | 67,116,841,942 |
| Other Assets | - | - | - | 1,742,493,904 | 1,742,493,904 |
| Deferred Tax | - | - | - | 94,639,347 | 94,639,347 |
| Goodwill and intangible assets | - | - | - | 55,441,895 | 55,441,895 |
| Fixed Assets | - | - | - | 614,955,873 | 614,955,873 |
| Total other assets | - | - | - | 2,507,531,019 | 2,507,531,019 |
| Total assets | 628,900 | - | 54,949,967,969 | 14,673,776,091 | 69,624,372,961 |

Notes to the Financial Statement

Measurement of Financial Instruments

b. Bank - Current year (2012)

| As at 31 December | Amortised cost Rs. | Others Rs. | Total Rs. |
|------------------------------------|-----------------------|----------------------|-----------------------|
| LIABILITIES | | | |
| Due to banks | 6,078,629,948 | - | 6,078,629,948 |
| Due to other customers | 54,669,870,235 | - | 54,669,870,235 |
| Total financial liabilities | 60,748,500,183 | - | 60,748,500,183 |
| Other liabilities ² | - | 4,480,855,636 | 4,480,855,636 |
| Total other liabilities | - | 4,480,855,636 | 4,480,855,636 |
| Total liabilities | 60,748,500,183 | 4,480,855,636 | 65,229,355,819 |

Measurement of Financial Instruments

Bank - Previous year (2011)

| As at 31 December | HFT Rs. | HTM Rs. | L & R Rs. | Others Rs. | Total Rs. |
|--|----------------|--------------------|-----------------------|-----------------------|-----------------------|
| ASSETS | | | | | |
| Cash and balances with central banks | - | - | 173,611,095 | - | 173,611,095 |
| Sri Lanka government securities | - | 981,959,676 | - | - | 173,697,739 |
| Balances with banks | - | - | - | 9,675,524,006 | 9,675,524,006 |
| Financial assets held for trading | 823,155 | - | - | - | 823,155 |
| Loans and receivables to banks | - | - | 112,833,151 | - | 112,833,151 |
| Loans and receivables to other customers | - | - | 47,065,657,195 | - | 47,065,657,195 |
| Other assets | - | - | - | 86,584,285 | 86,584,285 |
| Total financial assets | 823,155 | 981,959,676 | 47,352,101,441 | 9,762,108,291 | 57,288,730,626 |
| Other assets | | | | | |
| Other Assets | - | - | - | 1,861,781,822 | 1,861,781,822 |
| Deferred Tax | - | - | - | 183,041,280 | 183,041,280 |
| Goodwill and intangible assets | - | - | - | 2,230,033 | 2,230,033 |
| Fixed Assets | - | - | - | 440,202,042 | 440,202,042 |
| Total other assets | - | - | - | 2,487,255,177 | 2,487,255,177 |
| Total assets | 823,155 | 981,959,676 | 47,352,101,441 | 12,249,363,468 | 59,775,985,803 |

Notes to the Financial Statement

| As at 31 December | Amortised cost Rs. | Others Rs. | Total Rs. |
|--------------------------------|-----------------------|----------------------|-----------------------|
| LIABILITIES | | | |
| Due to banks | 5,130,477,017 | - | 5,130,477,017 |
| Due to other customers | 46,108,862,027 | - | 46,108,862,027 |
| Total financial liabilities | 51,239,339,044 | - | 51,239,339,044 |
| Other liabilities ² | - | 4,314,295,879 | 4,314,295,879 |
| Total other liabilities | - | 4,314,295,879 | 4,314,295,879 |
| Total liabilities | 51,239,339,044 | 4,314,295,879 | 55,553,634,923 |

| As at 31 December | Bank | |
|---|-----------------------|----------------------|
| | 2012 Rs. | 2011 Rs. |
| 14 Cash and Balances with Central Banks | | |
| Cash in hand | 202,978,066 | 173,611,095 |
| Total | 202,978,066 | 173,611,095 |
| 15 Sri Lanka Government Securities | | |
| Held-to-maturity | | |
| Treasury bills | - | 173,697,739 |
| Sub total | - | 173,697,739 |
| Total | - | 173,697,739 |
| 16 Balances with Banks | | |
| Fixed Deposit | 11,296,217,045 | 8,634,761,737 |
| Money Market Placement | 460,731,457 | 808,261,937 |
| Other Bank Balances | 215,155,405 | 232,500,332 |
| Total | 11,972,103,907 | 9,675,524,006 |
| 17 Financial Assets at Fair Value through Profit or Loss (excluding Sri Lanka Government Securities) | | |
| Held for trading | | |
| Equity securities (17.1) | 823,155 | 737,245 |
| Less: Devaluation | (194,255) | - |
| Add: Capital Gain | - | 85,910 |
| Sub total | 628,900 | 823,155 |
| Designated at fair value through profit or loss | | |
| Equity securities | - | - |
| Total | 628,900 | 823,155 |

Notes to the Financial Statement

| 17.1 Equity Securities | 2012 | | | 2011 | | |
|------------------------------------|---------------|------------------------|------------------|---------------|------------------------|------------------|
| | No. of Shares | Cost of Investment Rs. | Market Value Rs. | No. of Shares | Cost of Investment Rs. | Market Value Rs. |
| D.F.C.C. Bank | 722 | 14,580 | 81,514 | 722 | 14,580 | 81,514 |
| Lanka Walltiles Ltd. | 1,890 | 45,000 | 114,912 | 1,890 | 45,000 | 178,605 |
| Merchant Bank Ltd. | 3,461 | 274,665 | 68,874 | 3,461 | 274,665 | 137,056 |
| People's Merchant Bank Ltd. | 1,400 | 28,000 | 21,000 | 1,400 | 28,000 | 21,980 |
| Kelani Tyres Ltd. | 6,000 | 175,000 | 201,600 | 6,000 | 175,000 | 231,000 |
| Ceylinco Seylan Development Ltd | 10,000 | 150,000 | 91,000 | 10,000 | 150,000 | 123,000 |
| CRIB | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| | | 737,245 | 628,900 | | 737,245 | 823,155 |
| Provision for Shares - Devaluation | | (108,345) | - | | 85,910 | - |
| | | 628,900 | 628,900 | | 823,155 | 823,155 |

| As at 31 st December | | Bank | |
|----------------------|--|-----------------------|-----------------------|
| | | 2012 Rs. | 2011 Rs. |
| 18 | Loans and Receivables from Banks | | |
| | Gross loans and receivables | 12,108,219 | 112,833,151 |
| | Net loans and receivables | 12,108,219 | 112,833,151 |
| a. | Analysis | | |
| | Debenture | 12,108,219 | 112,833,151 |
| | Gross total | 12,108,219 | 112,833,151 |
| | By currency | | |
| | Sri Lankan Rupee | 12,108,219 | 112,833,151 |
| | Gross total | 12,108,219 | 112,833,151 |
| 19 | Loans and Receivables from other Customers | | |
| | Gross loans and receivables | 56,052,581,101 | 48,358,693,885 |
| | (Less): | | |
| | Collective impairment charges | (1,317,699,416) | (1,293,036,690) |
| | Net loans and receivables | 54,734,881,685 | 47,065,657,195 |

Notes to the Financial Statement

| As at 31 st December | | Bank | |
|---|-----------------------|-----------------------|------|
| | | 2012 | 2011 |
| | | Rs. | Rs. |
| a. Analysis | | | |
| By product | | | |
| Pawning | 23,743,351,832 | 20,411,715,135 | |
| Staff loans | 940,873,099 | 930,346,392 | |
| Short-term | 9,489,189,883 | 8,174,650,392 | |
| Long-term | 19,493,756,684 | 17,683,045,108 | |
| Interest Receivable on Loans & Advances | 2,385,409,604 | 1,158,936,858 | |
| Gross total | 56,052,581,101 | 48,358,693,885 | |
| By currency | | | |
| Sri Lankan Rupee | 56,052,581,101 | 48,358,693,885 | |
| Gross total | 56,052,581,101 | 48,358,693,885 | |
| By industry | | | |
| Agriculture and fishing | 20,927,906,366 | 16,225,861,014 | |
| Manufacturing | 5,779,965,510 | 5,457,130,653 | |
| Transport | 243,671,453 | 214,170,963 | |
| Construction /Housing | 9,154,822,442 | 8,590,798,805 | |
| Traders | 7,818,665,860 | 8,078,383,266 | |
| Others (Consumptions/Against Deposit/Staff) | 9,742,139,865 | 8,633,412,327 | |
| Interest Receivable on Loans & Advances | 2,385,409,604 | 1,158,936,858 | |
| Gross total | 56,052,581,101 | 48,358,693,885 | |
| b. Movements in Individual and Collective Impairment Charges during the Year | | | |
| Collective impairment charges | | | |
| Opening balance at 01/01/ 2012 | 1,293,036,689 | 1,475,972,785 | |
| Charge/(Write back) to income statement (8) | (139,399,324) | 42,607,650 | |
| Recoveries during the year (7) | 130,881,151 | 156,985,155 | |
| Other Movements | 33,180,901 | (382,528,901) | |
| Closing balance at 31/12/2012 | 1,317,699,417 | 1,293,036,689 | |
| 20 Goodwill and Intangible Assets | | | |
| Computer Software | | | |
| Opening balance at 01/01/ 2012 | 26,558,727 | 25,591,640 | |
| Additions | 57,555,819 | 227,785 | |
| Written off | (6,569,742) | - | |
| Adjustments | (47,344) | 739,302 | |
| | - | - | |
| Closing balance at 31/12/2012 | 77,497,461 | 26,558,727 | |
| (Less): Amortisation | | | |
| Opening balance at 01/01/ 2012 | 24,328,694 | 20,069,786 | |
| Charge for the year | 4,731,869 | 2,698,452 | |
| Written off | (6,458,307) | - | |
| Adjustments | (546,691) | 1,560,456 | |
| Closing balance at 31/12/2012 | 22,055,565 | 24,328,694 | |
| | - | - | |
| Net book value | 55,441,895 | 2,230,033 | |

Notes to the Financial Statement

21 Property, Plant and Equipment

a. Property and Equipment -Bank

| | Bank 2012 | | | | | Total Rs. |
|---|--------------------------------|---|--|--------------------------|------------------------------|----------------------|
| | Land and Build- ings Rs. | Computer, Hardware, and software Rs. | Office, Equip- ment, furniture and fittings Rs. | Motor Vehicles Rs. | Working Pro- gress Rs. | |
| 2012(Current year) Cost/fair value | | | | | | |
| Opening balance at 01/01/2012 | 111,813,985 | 229,997,186 | 478,923,465 | 150,379,336 | 31,345,789 | 1,002,459,762 |
| Additions | 159,149,282 | 37,496,800 | 71,423,876 | 6,017,455 | 20,451,130 | 294,538,543 |
| Disposals | - | - | (834,079) | - | - | (834,079) |
| Transfers during the Year | - | - | - | - | (12,792,721) | (12,792,721) |
| Adjustments | - | 422,265 | (334,722) | - | - | 87,543 |
| Closing balance at 31/12/2012 | 270,963,267 | 267,916,252 | 549,178,540 | 156,396,791 | 39,004,199 | 1,283,459,048 |
| Finance Lease | | | | | | |
| Opening balance at 01/01/2012 | - | - | - | - | - | - |
| Additions | - | - | - | 6,940,000 | - | 6,940,000 |
| Disposals | - | - | - | - | - | - |
| Closing balance at 31/12/2012 | - | - | - | 6,940,000 | - | 6,940,000 |
| (Less): Accumulated depreciation | | | | | | |
| Opening balance at 01/01/2012 | 28,943,830 | 144,994,909 | 288,284,996 | 100,033,987 | - | 562,257,722 |
| Charge for the year | 7,811,694 | 30,977,030 | 57,646,400 | 15,764,451 | - | 112,199,574 |
| Disposals | - | - | (750,406) | - | - | (750,406) |
| Adjustments | (7,623) | 1,007,789 | 667,619 | 50 | - | 1,667,836 |
| Closing balance at 31/12/2012 | 36,747,901 | 176,979,727 | 345,848,610 | 115,798,488 | - | 675,374,726 |
| Finance Lease | | | | | | |
| Opening balance at 01/01/2012 | - | - | - | - | - | - |
| Charge for the year | - | - | - | 68,449 | - | 68,449 |
| Closing balance at 31/12/2012 | - | - | - | 68,449 | - | 68,449 |
| (Less): Impairment charges | | | | | | |
| Net book value at 31/12/2012 | 234,215,366 | 90,936,524 | 203,329,930 | 47,469,853 | 39,004,199 | 614,955,873 |

Notes to the Financial Statement

21 Property, Plant and Equipment

| | Bank 2012 | | | | | Total Rs. |
|---|------------------------|--------------------------------------|---|--------------------|----------------------|----------------------|
| | Land and Buildings Rs. | Computer, Hardware, and software Rs. | Office, Equipment, furniture and fittings Rs. | Motor Vehicles Rs. | Working Progress Rs. | |
| 2011 (Previous year) Cost/fair value | | | | | | |
| Opening balance at 01/01/2011 | 108,637,926 | 187,877,617 | 434,742,695 | 134,922,088 | 16,946,419 | 883,126,745 |
| Additions | 3,549,252 | 47,869,898 | 53,240,860 | 49,349,192 | 14,399,372 | 168,408,574 |
| Disposals | (373,193) | (3,110,018) | (4,853,851) | (4,092,001) | - | (12,429,063) |
| Adjustments | - | (2,640,310) | (4,206,240) | (29,799,941) | - | (36,646,491) |
| Total Closing balance at 31/12/2012 | 111,813,985 | 229,997,187 | 478,923,464 | 150,379,338 | 31,345,791 | 1,002,459,765 |
| (Less): Accumulated depreciation | | | | | | |
| Opening balance at 01/01/2011 | 24,198,458 | 124,151,919 | 237,588,163 | 97,728,346 | - | 483,666,886 |
| Charge for the year | 4,582,548 | 24,866,293 | 53,113,551 | 15,495,018 | - | 98,057,410 |
| Disposals | - | (3,014,620) | (1,982,894) | (312,000) | - | (5,309,514) |
| Adjustments | 162,824 | (1,008,682) | (433,825) | (12,877,376) | - | (14,157,059) |
| Closing balance at 31/12/2011 | 28,943,830 | 144,994,910 | 288,284,995 | 100,033,988 | - | 562,257,723 |
| (Less): Impairment charges | - | - | - | - | - | - |
| Net book value at 31/12/2011 | 82,870,155 | 85,002,277 | 190,638,469 | 50,345,350 | 31,345,791 | 440,202,042 |

Notes to the Financial Statement

| 22 | Deferred Tax Assets/Liabilities | Bank | | | |
|----|---|------------------------------------|--|------------------------------------|--|
| | | Balance Sheet as at 31-12-2012 Rs. | Income Statement for the Year Ended 31-12-2012 Rs. | Balance Sheet as at 31-12-2011 Rs. | Income Statement for the Year Ended 31-12-2011 Rs. |
| | Deferred Tax Liability | | | | |
| | Capital allowances for tax purposes | 137,209,417 | (120,967,063) | 16,242,353 | 135,923,010 |
| | | 137,209,417 | (120,967,063) | 16,242,353 | 135,923,010 |
| | Deferred Tax Assets | | | | |
| | Defined Benefit Plans | 195,348,982 | 29,993,373 | 165,355,608 | (11,037,278) |
| | General Provision for Performing Loans and Advances | 36,499,782 | 2,571,757 | 33,928,025 | (34,471,822) |
| | | 231,848,764 | 32,565,130 | 199,283,633 | (45,509,100) |
| | Deferred income tax income / (expense) | - | (88,401,933) | - | 90,413,910 |

| As at 31 December | Bank | |
|---|-------------------|--------------------|
| | 2012 Rs. | 2011 Rs. |
| Reflected in the Balance Sheet as follows | | |
| Deferred Tax Assets | 231,848,764 | 199,283,633 |
| Deferred Tax Liabilities | 137,209,417 | 16,242,353 |
| Deferred Tax Assets /Liabilities (Net) | 94,639,347 | 183,041,280 |

| As at 31 December | Bank | |
|--------------------------|----------------------|----------------------|
| | 2012 Rs. | 2011 Rs. |
| 23 Other Assets | | |
| Cost | | |
| Receivables | 252,069,726 | 446,361,212 |
| Deposits and prepayments | 580,899,469 | 46,474,250 |
| Sundry debtors | 113,241,696 | 40,110,035 |
| Others | 210,043,704 | 124,585,199 |
| Claim Voucher | 780,380,474 | 1,290,835,411 |
| Total | 1,936,635,069 | 1,948,366,107 |

Notes to the Financial Statement

| As at 31 December | Bank | |
|--|-----------------------|-----------------------|
| | 2012 Rs. | 2011 Rs. |
| 24 Due to Banks | | |
| Borrowings | 1,600,901,118 | 2,153,013,069 |
| Leasing | 8,981,887 | - |
| Refinance | 4,468,746,943 | 2,977,463,948 |
| Total | 6,078,629,948 | 5,130,477,017 |
| 25 Due to Other Customers | | |
| At amortised cost | 54,669,870,235 | 46,108,862,027 |
| Total | 54,669,870,235 | 46,108,862,027 |
| a. Analysis | | |
| By product | | |
| Savings deposits | 12,887,172,039 | 12,974,678,779 |
| Fixed deposits | 33,834,835,714 | 26,710,909,670 |
| Other deposits / Long Term Savings | 7,947,862,483 | 6,423,273,578 |
| Total | 54,669,870,235 | 46,108,862,027 |
| By currency | | |
| Sri Lanka rupee | 54,669,870,235 | 46,108,862,027 |
| Total | 54,669,870,235 | 46,108,862,027 |
| The Maturity analysis of borrowings is given in Note No 40.3.3 | | |
| 26 Other Liabilities | | |
| Sundry creditors | 133,779,502 | 221,004,638 |
| Interest payable | 1,242,611,197 | 861,062,469 |
| Other payables | 2,485,780,866 | 2,691,823,857 |
| Branch advice | 618,684,070 | 540,404,914 |
| Total | 4,480,855,636 | 4,314,295,879 |
| 27 Stated Capital | | |
| Ordinary Shares | 1,099,400,151 | 1,099,400,151 |
| Total | 1,099,400,151 | 1,099,400,151 |

Notes to the Financial Statement

| As at 31 December | Bank | |
|--------------------------------------|---------------------|----------------------|
| | 2012 Rs. | 2011 Rs. |
| 28 Statutory Reserve Fund | | |
| Opening balance at 01/01/2012 | 504,066,435 | 316,410,261 |
| Transfer during the period | 2,087,521 | 187,656,174 |
| Closing balance at 31/12/2012 | 506,153,956 | 504,066,435 |
| 29 Retained Earnings | | |
| Opening balance at 01/01/2012 | (126,875,295) | 41,765,655 |
| Profit for the year | 545,490,730 | 1,115,724,452 |
| Transfers to other reserves | (389,390,141) | (1,174,425,388) |
| Dividend | (104,653,859) | (109,940,015) |
| Closing balance at 31/12/2012 | (75,428,565) | (126,875,295) |

30 Other Reserves

| a. Bank - Current year (2012) | Opening balance as at 01/01/2012 Rs. | Movement/ Transfers Rs. | Closing balance as at 31/12/ 2012 Rs. |
|-------------------------------|---|-------------------------------|---|
| General reserve | 2,026,650,475 | 186,565,099 | 2,213,215,574 |
| Investment Fund | 360,652,351 | (69,520,609) | 291,131,742 |
| Special Reserve Fund | 358,456,764 | 2,087,521 | 360,544,284 |
| Total | 2,745,759,589 | 119,132,011 | 2,864,891,600 |

| b. Bank – Previous year (2011) | Opening balance at 01/01/2011 Rs. | Movement/ Transfers Rs. | Closing balance at 31/12/2011 Rs. |
|--------------------------------|--|-------------------------------|---|
| General reserve | 1,576,003,975 | 450,646,500 | 2,026,650,475 |
| Investment Fund | - | 360,652,351 | 360,652,351 |
| Special Reserve Fund | 245,795,140 | 112,661,624 | 358,456,764 |
| Total | 1,821,799,114 | 923,960,475 | 2,745,759,589 |

| 31 Contingent Liabilities and Commitments | Bank | |
|---|--------------------|--------------------|
| | 2012 Rs. | 2011 Rs. |
| Guarantees performance bonds | 53,311,000 | 41,273,500 |
| Other contingent items | 109,871,094 | 130,425,814 |
| Total | 163,182,094 | 171,699,314 |

Notes to the Financial Statement

For the Year ended 31 December 2012

31 Contingent Liabilities and Commitments (Contd.....)

North Central Province

Case No.SC/HC/CALA : 247/2011 — Supreme Court

NCP/HCCA/ARP/675/09

D.C. Polonnaruwa Case No.DR 417/2003

Mr Kushan De Alwis, Presidents Counsel appears on behalf of the Bank.

"The Bank filed action in the District Court of Polonnaruwa to recover a sum of Rs.210,387/62 against the 15th Defendant (deceased) who was a customer of the Bank and after ""Decree Nisi"" was entered the Defendant —Respondent- Respondents sought to set aside the ""Decree Nisi"" and defend the action. The Bank appealed to the Provincial High Court of Civil Appeal of the North Central Province against the judgement of the District Court and said appeal was dismissed. Thereafter the Bank sought leave to appeal to the Supreme Court to hear the appeal and set aside the judgment of the Provincial High Court of Civil Appeal."

The case is fixed for argument on 19th June 2013.

Southern Province

Case No.DMR/2230/2011 — District Court Colombo

K.K.G.D.R.S. Wijethileke

Mr. Ravindra Pathirana, Senior State Counsel appears on behalf of the Bank in this matter.

"This is a claim for damages for Rs.20,000,000/= and the Action has been filed by the Plaintiff K.K.G.D.R.S. Wijethileke who had been an account holder at the Imaduwa branch and had obtained a loan of Rs.25, 000/= which had been later settled. However her account at the branch had not been closed and the branch had failed to remove her details from the. CRIB and in the CRIB information sheet the Plaintiffs name has appeared with her Identity Card Number, with regard to a loan of Rs.75, 0001= obtained by another account holder, P.G. Nadeesha Priyangani. The plaintiff alleges that when she attempted to obtain loans from other banks, her requests had been rejected as her details had not been removed from the CRIB, and is claiming damages of Rs.20,000,000/= against the Bank in this regard."

Trial has commenced and next date of trial is 27th June 2013.

Wayamba Province

Case No.2895/M – District Court Puttalam

Mr. M.A.T.A. Marasinghe, Attorney-at-Law appears on behalf of the Bank.

The case has been filed against the bank by N.I.Mallawarchchi. By executing, parate rights bank has sold the subject land to the plaintiff by a auction dated 29/12/2004. The Plaintiff has now pleaded Rs.2500000/- as damages from the bank for the failure to execute the transfer deed in due course. Case is fixed on 20th June 2013 in order to file the proxy.

Negombo Labour Tribunal – Case Number 21/Athi/306/2004

The case has been filed against the Bank by Mr. Harshana Kumarasinghe, the branch manager of Negambo Branch who has interdicted on August 28, 2001 as per disciplinary action taken against him. He has demanded the re-employment and claimed a fair compensation.

Notes to the Financial Statement

For the Year ended 31 December 2012

31 Contingent Liabilities and Commitments (Contd.....)

Wayamba Province (Contd....)

Case No.1663/L – District Court Marawila

Mr. M.A.T.A. Marasinghe, Attorney-at-Law appears on behalf of the Bank.

1st Defendant (our customer) has mortgaged a land to the Bank which was bought by him under a transfer deed from the plaintiff. Plaintiff's position was that, the transfer deed is a fraudulently executed deed by the 1st defendant. Plaintiff has filed the case against 1st Defendant – the customer and the Bank as the 2nd defendant and pleaded Rs.800,000/- as damages. Bank is in the position that, respective panel lawyer has duly checked the title and there were no discrepancies on the title.

Case No.L.T. 01/57/2011 — Labour Tribunal Colombo

Mr Dhananjaya Jayakody, Attorney-at-Law and Senior Industrial Relations Advisor, of the Employers Federation of Ceylon, appears on behalf of the Bank.

The Ceylon Bank Employees Union, on behalf of the Applicant, U.B. Ranjith, filed action in the Labour Tribunal and is seeking the relief prayed for in the application, whilst the Bank is maintaining that the termination of the applicant's services were on just and equitable grounds as he had been found guilty of charges of serious misconduct, whilst serving as the acting manager of a branch of the Wayamba Development Bank.

Trial is continuing in this matter. Next date of inquiry 01st July 2013.

Sabaragamuwa Province

Mr. M S D Jayathilake (employee number 185) has filed two separate cases against the Bank at Ratnapura High Court and Labour Tribunal of Ratnapura. Labour Tribunal case has been postponed until High Court case finalized.

Uva Province

Mr. H A D Chandrasiri – Case Number 3392

The above person has filed a case against the Bank at Industrial Court of Kandy. Mr. S Shanmugam appears on behalf of the Bank.

Ms. M P T Gothami (Ex Employee)

She has resigned on August 20, 2010 and filed a complaint at Assistant Labour Commissioner's Office of Badulla claiming surcharges for delay in payment of gratuity.

Mr. W K Wisidagama –Case Number 19711

Above person has interdicted from the Bank and he has filed a case against the Bank at Labour Tribunal of Badulla. Mr. Shantha Imbulana appears on behalf of the Bank.

Mrs. W M Suwendra Kumarihami – High Court Case Number -64/2012/Appeal

The above employee has interdicted and paid compensation of Rs. 290,000/- as per the decision of case number 05/19493/2006 at the Labour Tribunal of Badulla. She has filed an appeal at High Court of Badulla challenging the decision made by Labour Tribunal. Mr. Shantha Imbulana appears on behalf of the Bank.

Mr. Mohommad Seiyadu – Case Number 34/9/F

He has filed an appeal at Uva Provincial High Court after ruling out the case filed under 62/6 at High Court Badulla. Mr. Ravi Molligoda and Mr. Upali Nishshanka appear on behalf of the Bank. The decision has been made in favour of the Bank.

Notes to the Financial Statement

For the Year ended 31 December 2012

32 Events Occurring After the Reporting Date

There have been no material events occurred after the reporting date that requires adjustment to or disclosure in the Financial Statements other than disclosed above.

33 Directors' Interest in Contracts

Transaction with key Management Personnel of the bank(KMPs).
The key management personnel of the bank are the members of its Board of Directors.

The Directors of the Bank During the financial period were:

Mrs. Keshala Jayewardane
Mr. Sarath de Alwis
Ms. Madavi Herath
Mr. Dammika Perera
Mr. T.A Ariyapala
Ms. Dayani Fernando
Dr. B.M.S Batagoda
Mr. P V Pathirana
Ms. C K Nanayakkara

During the Period, the bank has entered in to transactions with the following related parties.

Mr. Sarath De Alwis is an Executive Director of the Bank and no any transactions with the bank.

Ms. Madavi Herath is an Executive Director of the Bank and no any transactions with the bank.

Mr. Dammika Perera is a Director of the Bank, is also the Deputy General Manager of National Saving Bank., with which ,the Bank has had the following transactions.

The Bank has had borrowing of Rs. 500 Million and the amount outstanding remains Rs. 500 Million as at December 31, 2012 and also invested in Fixed Deposit amounting to Rs. 154,927,500.

Mr. T.A Ariyapala is a Director of the Bank, is also Deputy General Manager of Corporative Development & SME of People's Bank, with which, the bank has had following transactions.

The bank maintains current accounts with the said Bank and the balance as at December 31, 2012 was amounted to Rs. 72,654,808 and also invested in Fixed Deposit and in Repurchase Agreement amounting to Rs. 5950,382,696/- and Rs.190,000,000/-respectively.

Ms. Dayani Fernando is a Director of the Bank, is also the Deputy General Managers of Bank of Ceylon., with which ,the bank has had following transactions.

The Bank maintains current accounts with the said Bank and the balance as at December 31, 2012 was amounted to Rs.39,380,042 and also invested in Debenture, Fixed Deposit and short term investment as a special savings account amounting to Rs. 10,000,000/- ,Rs. 4072,376,112 and Rs.270,624,736 Respectively, and has had borrowing of Rs.1000 Million and the amount outstanding remains Rs. 1000 Million as at December 31, 2012. Furthermore we have borrowing leasing facility of Rs. 9,110,820 and the amount outstanding remains Rs. 8,963,665.21 as at December 31, 2012.

Dr. B.M.S Batagoda is a Director of the Bank, is also Deputy Secretary of the Treasury.

Mr. P V Pathirana is a Director of the Bank, is also senior Advisor of the treasury.

Ms. C K Nanayakkara is a Director of the Bank, is also Retired Assistant Governor

Notes to the Financial Statement

For the Year ended 31 December 2012

34 Details of Related Party Disclosures

Except for the matters stated under directors interest, there were no related party transactions during the period.

35 Assets Pledged

The Assets pledged as security for credit facilities obtained are as follows:

| | Type of Facility | Amount of Facility Rs. Mn | Nature of Security | Value of Security Rs. Mn | Balance as at 31-12-2012 Rs. Mn |
|---|---|------------------------------|-----------------------------|--|---------------------------------------|
| 1 | Over Draft (BOC) | 990 | FD-070963965 FD-71935244 | 600 with Interest 500 With interest | - - |
| 2 | Borrowing (Term Loan) (NSB) | 500 | Clean | - | 500 |
| 3 | Borrowing (Term Loan) (BOC) | 1,000 | Clean | - | 1,000 |
| 4 | Borrowing (Short term loan) (Public Bank) | 100 | Pledge Agriculatural Loan | - | 100 |
| 5 | Over Draft (PB) | 200 | FD-014-60-01-0000-8138-8 | 232.94 | - |

| For the Year ended 31 December | | Note | Bank | |
|--------------------------------|--|------|------------------------|------------------------|
| | | | 2012 Rs. | 2011 Rs. |
| 36 | Non- Cash items included in Profit Before Tax | | | |
| | Depreciation of property, plant and equipment | 10 | 112,268,023 | 98,057,411 |
| | Amortisation of intangible assets | 20 | 4,731,869 | 2,698,452 |
| | EIR Adjustment | | 4,977,218 | (45,177,151) |
| | Impairment losses on loans and advances | 8 | 139,399,324 | (42,607,650) |
| | Capital Loss On Investment | 6 | 194,255 | 99,268 |
| | Capital Gain On Investment | 6 | - | (85,910) |
| | Charge for defined benefit plans | 9 | 114,407,687 | 94,196,983 |
| | Adjustment | | 19,915,681 | 18,753,114 |
| | (Profit) / Loss On Sale Of Fixed Assets | 7 | (76,403) | (6,489,040) |
| | Total | | 395,817,656 | 119,445,478 |
| 37 | Change in Operating Assets | | | |
| | Net change in Sri Lankan government securities | 15 | 173,697,739 | 377,775,925 |
| | Net change in Loans and receivables from banks | 18 | 100,724,932 | 12,551,129 |
| | Net change in Loans and receivables from other customers | 18 | (7,808,623,813) | (9,433,495,898) |
| | Change in other assets (please specify) | 23 | 11,731,038 | (81,471,912) |
| | Total | | (7,522,470,104) | (9,124,640,756) |
| 38 | Change in Operating Liabilities | | | |
| | Net change in Due to banks | 24 | 941,212,931 | 2,673,719,418 |
| | Net change in Due to other customers | 25 | 8,556,030,990 | 8,204,114,643 |
| | Net change in other liabilities | 26 | (254,202,411) | 155,389,048 |
| | Total | | 9,243,041,509 | 11,033,223,109 |

Notes to the Financial Statement

For the Year ended 31 December 2012

39. Fair Value of Financial Instruments

Financial instruments recorded at fair value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives - assets and liabilities

Derivative products are foreign exchange contract swaps and forward foreign exchange contracts, valued using a valuation technique with market-observable inputs. The most frequently applied valuation techniques include forward foreign exchange spot and forward premiums.

Financial investments – Available- For- Sale

Available - for - sale financial assets primarily consist of quoted equities and Government debt securities are valued using valuation techniques or pricing models. These assets are valued using models that use observable data. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka and quoted equities are valued using quoted market prices in the active markets as at the reporting date.

Trading assets and other assets measured at fair value

Trading assets and other assets measured at fair value are the government debt securities, asset-backed securities and quoted equities. Government debt securities and asset-back securities are valued using yield curves published by the Central Bank of Sri Lanka. For quoted equities bank uses quoted market price in active markets as at the reporting date.

Determination of fair value and fair value hierarchy

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:

Level 1 – quoted market price (unadjusted): financial instruments with quoted prices in active markets.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: financial instruments are valued using valuation techniques where one or more significant inputs are unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| As at 31December | 2012 | | | |
|-----------------------------------|----------------|---------|---------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held for trading | 628,900 | - | - | 628,900 |
| | 628,900 | - | - | 628,900 |

Notes to the Financial Statement

For the Year ended 31 December 2012

Determination of fair value and fair value hierarchy

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| Financial assets | 2012 | | 2011 | |
|---|------------------------|-----------------------|------------------------|-----------------------|
| | Carrying amount Rs. | Fair value Rs. | Carrying amount Rs. | Fair value Rs. |
| Cash and balances with central bank | 202,978,066 | 202,978,066 | 173,611,095 | 173,611,095 |
| Sri Lankan government securities | - | - | 173,697,739 | 173,697,739 |
| Due from banks | 11,972,103,907 | 11,972,103,907 | 9,675,524,006 | 9,675,524,006 |
| Financial assets held for trading | | | | |
| Loans and receivables from banks | 12,108,219 | 12,108,219 | 112,833,151 | 112,833,151 |
| Loans and advances to customers | | | | |
| Pawning | 23,743,351,832 | 23,743,351,832 | 20,411,715,135 | 20,411,715,135 |
| Staff loans | | | | |
| Short-term | 9,489,189,883 | 9,489,189,883 | 8,174,650,392 | 8,174,650,392 |
| Long-term | 19,493,756,684 | 19,493,756,684 | 17,683,045,108 | 17,683,045,108 |
| Interest Receivable on Loans & Advances | 2,385,409,604 | 2,385,409,604 | 1,158,936,858 | 1,158,936,858 |
| | 55,111,708,002 | 55,111,708,002 | 47,428,347,493 | 47,428,347,493 |
| | 67,298,898,194 | 67,298,898,194 | 57,564,013,484 | 57,564,013,484 |
| Financial liabilities | | | | |
| Due to banks | 6,078,629,948 | 6,078,629,948 | 5,130,477,017 | 5,130,477,017 |
| Due to other customers | 54,669,870,235 | 54,669,870,235 | 46,108,862,027 | 46,108,862,027 |
| | 60,748,500,183 | 60,748,500,183 | 51,239,339,044 | 51,239,339,044 |

40. Risk Management

40.1 Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is mainly exposed to;

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

Notes to the Financial Statement

For the Year ended 31 December 2012

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises of non-executive directors and members of senior management of the Bank. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Risk Management Division

The business units (i.e Credit Departments, Branches & Regional Offices and Treasury etc.) have primaty responsibility for Risk Management. The Risk Management Division, which has no repsonsibility for profit or volume targets, act as 2nt line of defense and reports to the Bank chief Risk officer (BCRO) who, in turn, directly reports to the interated Risk Management Committee. (IRMC).

ALCO Committee

ALCO is chaired by the General Manager and has representatives from Finance Department, Credit Departments, and the Bank Chief Risk Officer. The Committee meets regularly to monitor and manage the assets & liabilities of the Bank and also overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

Risk Measurement & Reporting

The Bank's Risks are measured using appropriate techniques based on the type of risk, and industry best practices. The bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (Risk Appetite).

Risk Mitigation

As part of its overall risk management, the bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

40.2 Credit Risk

Credit risk is the risk of financial loss to the Bank if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers/ other banks and investments in debt securities. In addition to the credit risk from direct funding exposure, the bank would also be exposed to indirect liabilities such as guarantees etc, which would carry credit risk. The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

Notes to the Financial Statement

For the Year ended 31 December 2012

40.2.1 Impairment Assessment

The methodology of the impairment assessment has explained in the Note no 3.5 under Accounting Policies.

40.2.2 Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties and personnel guarantees

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for Business use.

Definition of Past Due

Banks consider that any amounts uncollected ninety days or more beyond their contractual due date are 'past due'.

40.2.3 Aging Analysis of past due (i.e. facilities in arrears of 90 day and above) but not impaired loans by class of Financial Assets

| | Neither past due nor impaired Rs. | Individually not impaired Rs. | Individually impaired Rs. | Total Rs. |
|--|-----------------------------------|-------------------------------|---------------------------|-----------------------|
| Cash and balances with central bank | 202,978,066 | - | - | 202,978,066 |
| Balances with banks | 11,972,103,907 | - | - | 11,972,103,907 |
| Financial assets held for trading | 628,900 | - | - | 628,900 |
| Loans and receivables from banks | 12,108,219 | - | - | 12,108,219 |
| Loans and receivables from other customers | 54,734,881,685 | - | - | 54,734,881,685 |
| Other assets | 1,936,635,069 | - | - | 1,936,635,069 |
| Total | 68,859,335,845 | - | - | 68,859,335,845 |

40.2.4 Aging Analysis of past due (i.e. facilities in arrears of 90 days and above) but not impaired loans by class of Financial Assets

| | 90 Days Rs. | Total Rs. |
|--|-------------|-----------|
| Loans and receivables from other customers | - | - |
| Total | - | - |

Notes to the Financial Statement

For the Year ended 31 December 2012

40.2.5 Analysis of Risk Concentration

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The Concentration risk is monitored/managed through Sector, product etc. maximum exposure to a single borrower and geographical area.

40.2.6 Commitments and Contingencies

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

The table below shows the Bank's maximum credit risk exposure for commitments and contingencies. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the Statement of Financial Position.

Commitments

Contingent liabilities

| | |
|--|--------------------|
| Bank Guarantee | 53,311,000 |
| Bills Send for Collection | 109,871,094 |
| Total Commitments and contingencies | 163,182,094 |

40.3 Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The most important of these is to maintain the minimum 20% liquid assets ratio to meet the regulatory requirement. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale. Further the Statutory Liquid Assets Ratio of the Bank for the month of December 2012 is as follows.

40.3.1 Statutory Liquid Assets Ratio

For the month of December 2012 23.30%

40.3.2 Due to Banks & Due to Other Customers (Deposits) to Loans and Receivables from Banks & Other Customers (Advances) Ratio

The Bank is aware of the importance of due to banks & other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks & Due to other customers (Deposits).

Notes to the Financial Statement

For the Year ended 31 December 2012

Due to banks & due to other customers to Loans and receivables from banks & other customers Ratio

As at 31 December 2012 98.1%

40.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2012. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Contractual maturities of undiscounted cash flows of financial assets and liabilities.

40.3.4 Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Notes to the Financial Statement

For the Year ended 31 December 2012

Maturity Gap Analysis as at 31/12/2012

| Assets | Up to 3 Months Rs. | 3-12 Months Rs. | 1 - 3 Years Rs. | 3 - 5 Years Rs. | Over 5 Years Rs. | Total Rs. |
|--|-----------------------|------------------------------|------------------------|------------------------|------------------------|-----------------------|
| Cash and balances with central bank | 202,978,066 | - | - | - | - | 202,978,066 |
| Sri Lankan government securities | - | - | - | - | - | - |
| Balances with banks | 4,618,375,581 | 7,353,728,326 | - | - | - | 11,972,103,907 |
| Financial assets held for trading | - | - | - | - | 628,900 | 628,900 |
| Loans and receivables from banks | 2,108,219 | 10,000,000 | - | - | - | 12,108,219 |
| Loans and receivables from other customers | 12,693,786,705 | 24,868,680,582 | 10,742,118,218 | 4,595,189,689 | 1,835,106,491 | 54,734,881,685 |
| Other assets | 1,275,602,275 | 654,378,855 | 6,653,939 | - | - | 1,936,635,069 |
| Total assets | 18,792,850,846 | 32,886,787,763 | 10,748,772,157 | 4,595,189,689 | 1,835,735,391 | 68,859,335,845 |
| Liabilities | | | | | | |
| Due to banks | 288,993,343 | 1,364,276,675 | 3,304,657,799 | 1,120,702,131 | - | 6,078,629,948 |
| Due to other customers | 15,119,622,610 | 17,418,164,430 | 5,821,618,859 | 5,824,531,750 | 10,485,932,585 | 54,669,870,235 |
| Other liabilities | 3,382,534,547 | 727,619,638 | 40,494,737 | 1,774,366 | 328,432,348 | 4,480,855,636 |
| Total liabilities | 18,791,150,499 | 19,510,060,743 | 9,166,771,396 | 6,947,008,247 | 10,814,364,933 | 65,229,355,819 |
| Total net Asset/(Liability) | 1,700,347 | 13,376,727,020 | 1,582,000,761 | (2,351,818,559) | (8,978,629,542) | 3,629,980,026 |
| | On Demand Rs. | Less than 3 Months Rs. | 3 -to 12 Months Rs. | 1 to 5 Years Rs. | Over 5 Years Rs. | Total Rs. |
| Contingent Liabilities | | | | | | |
| Bank Guarantee | - | 2,555,000 | 42,656,000 | 8,100,000 | - | 53,311,000 |
| Bill Send | - | 109,871,094 | - | - | - | 109,871,094 |
| Total Commitments and Contingencies | - | 112,426,094 | 42,656,000 | 8,100,000 | - | 163,182,094 |

Notes to the Financial Statement

For the Year ended 31 December 2012

40.4 Interest Rate Risk

Bank does not have any Interest Rate sensitivity financial asset or liability except for borrowings at variable interest rate.

Below table explain the changers to income statement if market rate change by 1%.

| Change Interest Rate | Effect on Profit Rs. Mn. | Effect on Equity Rs. Mn. |
|----------------------|-----------------------------|-----------------------------|
| +1% | (2.26) | (2.26) |
| -1% | 2.26 | 2.26 |

40.5 Currency Risk

Bank does not have any foreign currency transaction and therefore do not expose to any foreign currency risk.

40.6 Equity Price

If bank holding any equity interest which is classing as held to trading if the market price increase by 10% the profit and equity will increase by Rs. 73,725/- and vice versa.

41. Maturity Analysis

41.1 Maturity Gap Analysis as at 31/12/2012

| Assets | Withing 12 Months Rs. | Bank After 12 Months Rs. | Total Rs. |
|--|-----------------------------|-----------------------------------|-----------------------|
| Cash and balances with central bank | 202,978,066 | - | 202,978,066 |
| Sri Lankan government securities | - | - | - |
| Balances with banks | 11,972,103,907 | - | 11,972,103,907 |
| Fianacial assets held for trading | - | 628,900 | 628,900 |
| Loans and receivables from banks | 12,108,219 | - | 12,108,219 |
| Loans and receivables from other customers | 37,562,467,287 | 17,172,414,398 | 54,734,881,685 |
| Goodwill and intangible assets | - | 55,441,895 | 55,441,895 |
| Property and equipment | - | 614,955,873 | 614,955,873 |
| Deferred Tax assets | - | 94,639,347 | 94,639,347 |
| Other assets | 1,928,981,130 | 7,653,939 | 1,936,635,069 |
| Total assets | 51,678,638,609 | 17,945,734,351 | 69,624,372,961 |
| Liabilities | | | |
| Due to banks | 1,653,270,018 | 4,425,359,930 | 6,078,629,948 |
| Due to other customers | 32,537,787,040 | 22,132,083,195 | 54,669,870,235 |
| Other liabilities | 4,110,154,184 | 370,701,451 | 4,480,855,636 |
| Total liabilities | 38,301,211,242 | 26,928,144,577 | 65,229,355,819 |
| Maturity Gap | 13,377,427,367 | (8,982,410,225) | 4,395,017,141 |
| Cumulative Gap | 13,377,427,367 | 4,395,017,141 | - |

Notes to the Financial Statement

For the Year ended 31 December 2012

41.2 Maturity Gap Analysis as at 31/12/2011

| Assets | Bank | | |
|--|-----------------------------|---------------------------|-----------------------|
| | Withing 12 Months Rs. | After 12 Months Rs. | Total Rs. |
| Cash and balances with central bank | 173,611,095 | - | 173,611,095 |
| Sri Lankan government securities | 173,697,739 | - | 173,697,739 |
| Balances with banks | 9,675,524,006 | - | 9,675,524,006 |
| Financial assets held for trading | | 823,155 | 823,155 |
| Loans and receivables from banks | 112,833,151 | - | 112,833,151 |
| Loans and receivables from other customers | 28,374,492,152 | 18,691,165,043 | 47,065,657,195 |
| Goodwill and intangible assets | 2,230,033 | - | 2,230,033 |
| Property and equipment | 440,202,042 | - | 440,202,042 |
| Deferred Tax assets | - | 183,041,280 | 183,041,280 |
| Other assets | 429,304,660 | 1,519,061,447 | 1,948,366,107 |
| Total assets | 39,381,894,878 | 20,394,090,925 | 59,775,985,803 |
| Liabilities | | | |
| Due to banks | 1,557,852,380 | 3,572,624,637 | 5,130,477,017 |
| Due to other customers | 24,632,278,397 | 21,476,583,630 | 46,108,862,027 |
| Other liabilities | 3,659,692,307 | 654,603,572 | 4,314,295,879 |
| Total liabilities | 29,849,823,084 | 25,703,811,839 | 55,553,634,923 |
| Maturity Gap | 9,532,071,794 | (5,309,720,914) | 4,222,350,880 |
| Cumulative Gap | 9,532,071,794 | 4,222,350,880 | - |



Branch List

Central Province

Agarapathana
 Dambulla
 Danthure
 Daulagala
 Galewela
 Gampola
 Ginigathhena
 Hanguranketha
 Hatharaliyadda
 Hedeniya
 Kandy
 Katugastota
 Kotagala
 Laggala
 Manikhinna
 Marassana
 Marketing Information Centre
 Matale
 Morayaya
 Naula
 Nawalapitiya
 Nildandahinna
 Nuwara Eliya
 Peradeniya
 Pujapitiya
 Pundaluoya
 Raththota
 Rikillagaskada
 Theldeniya
 Udawela
 Ududumbara
 Wattegama
 Wilgamuwa

North Central Province

Anuradhapura City
 Anuradhapura New City
 Aralaganvila
 Bakamuna
 Chunnakam
 Galamuna

Galenbidunuwewa
 Galnewa
 Gonapathirawa
 Hingurakgoda
 Jaffna
 Kaduruwela
 Kahatagasdigiliya
 Kanagarayankulam
 Kanthale
 Kekirawa
 Kilinochchi
 Manampitiya
 Mannar
 Medawachchiya
 Medirigiriya
 Mihinthale
 Polonnaruwa
 Pulasthigama
 Rambawa
 Sewanapitiya
 Siripura
 Thalawa
 Thambuththegama
 Thambuththegama E/C
 Thirappane
 Trincomalee
 Vauniya

North-Western Province

Alawwa
 Ambanpola
 Anamaduwa
 Bowaththa
 Chilaw
 Dummalasuriya
 Galgamuwa
 Giriulla
 Headquarters Branch
 Ibbagamuwa
 Kirimetiya
 Kuliyaipitiya
 Kurunegala

Mahawewa
 Maho
 Mampuri
 Mawathagama
 Melsiripura
 Mundel
 Narammala
 Naththandiya
 Nawagaththegama
 Nikaweratiya
 Palakuda
 Panduwasnuwara
 Pannala
 Polpithigama
 Pothuhera
 Puttalam
 Rideegama
 St: Anapura
 Wariyapola

Sabaragamuwa Province

Aranayake
 Balangoda
 Bulathkohupitiya
 Dehiowita
 Deraniyagala
 Dewalegama
 Eheliyagoda
 Embilipitiya
 Erathna
 Godakawela
 Hemmathagama
 Kahawatta
 Kalawana
 Kegalle
 Kiriella
 Kithulgala
 Kolonna
 Kotiyakumbura
 Kuruwita
 Mawanella

Nelundeniya
Nivithigala
Pelmadulla
Pitagaldeniya
Pothupitiya
Pulingupitiya
Rakwana
Rambukkana
Ratnapura
Ruwanwella
Sri Palabaddala
Warakapola
Weligepola
Yatyanthota

Southern Province

Agunakolapelassa
Ahangama
Akmeemana
Akurassa
Ambalantota
Baddegama
Balapitiya
Barawakumbuka
Batapola
Beliatta
City Branch
Deiyandara
Deniyaya
Devinuwara
Dikwella
Elpitiya
Galle
Gandara
Gonagalpura
Hakmana
Hambanthota
Hikkaduwa
Imaduwa
Kakenadura
Kaluwella
Kamburugamuwa
Kamburupitiya
Karandeniya
Karapitiya
Katuwana
Kirinda
Lunugamwehera
Mawarala
Middeniya

Mirissa
Morawaka
Neluwa
Pamburana
Pitabaddara
Pitigala
Ranna
Sooriyawewa
Tangalle
Thalgaswala
Thissamaharamaya
Tihagoda
Udugama
Uragasmanhandiya
Urubokka
Walasmulla
Warapitiya
Weeraketiya
Weligama
Yakkalamulla

Uva Province

Akkareipaththu
Ampara
Badalkumbura
Badulla
Bandarawela
Baticoloa
Bibila
Bogahakumbura
Buttala
Chenkaladi
Damana
Dehiaththakandiya
Diyathalawa
Eravur
Girandurukotte
Haldummulla
Haputhale
Kalawanchikudi
Kalmunai
Kandaketiya
Kaththankudi
Kokadicholei
Lunugala
Madulla
Mahaoya
Mahiyanganaya
Maligathanne
Medagama
Meegahakiula

Monaragala
Nintavur
Passara
Pothuvil
Rideemaliyadda
Sammanthurei
Sevanagala
Siyabalanduwa
Thanamalvila
Uhana
Uva Paranagama
Valachchanai
Welimada
Wellawaya

Western Province

Agalawaththa
Awissawella
Baduraliya
Beruwala
Bulathsinghala
Divulapitiya
Dodangoda
Gampaha
Gonapola
Head Office Branch
Homagama
Horana
Ingiriya
Je-ela
Kalutara
Kiridiwela
Kolonnawa
Mathugama
Mawaramandiya
Meegahathanna
Millaniya
Minuwangoda
Mirigama
Miriswattha
Moragahahena
Moronthuduwa
Negombo
Nittambuwa
Panadura
Piliyandala
Ragama
Wadduwa
Walagedara
Warakagoda



Corporate Information

REGISTERED NAME OF THE BANK

Pradeshiya Sanwardhana Bank

LEGAL STATUS

A Licensed Specialised Bank established under Pradeshiya Sanwardhana Bank Act No.41 of 2008

BOARD OF DIRECTORS

Ms. Keshala Jayawardana (Chairperson)
Mr. Sarath de Alwis (ED)
Ms. A.V.K. Madhavi Hearth (ED)
Mr. P.V. Pathirana (NEID)
Mr. S.D.N. Perera (NED)
Mr. T.A. Ariyapala (NED)
Ms. C.K. Nanayakkara (NEID)
Ms. Dayani Fernando (NED)
Dr. B.M.S. Batagoda (NED)

GENERAL MANAGER / CEO

Mr. R. Siriwardhane

HEAD OFFICE

No. 933, Kandy Road,
Wedamulla,
Kelaniya
Tel: 011 2035454/ 011 2035455-9
Fax: 011 2035467
Email: info@rdb.lk
Website: www.rdb.lk
VAT Registration No. 409272339-7000

AUDITORS

Auditor General
Auditor General's Department
Independence Square, Colombo 7, Sri Lanka

SECRETARY TO THE BOARD OF DIRECTORS

Ms. Kasuni Pinnawala (Chief Legal Officer)

PROVINCIAL OFFICES

North Central Provincial Office,
No. 65 D, 4th Lane, Abaya Place,
Anuradhapura.

Sabaragamuwa Provincial Office,
No. 28, Bandaranayaka Mawatha,
Rathnapura.

Central Provincial Office,
No. 16, Dharmashoka Mawatha,
Kandy.

North Western Provincial Office,
No. 155, Negombo Road,
Kurunegala.

Uva Provincial Office,
No. 26, Bank Road, Badulla.

Southern Provincial Office,
No. 382 A, Anagarika Dharmapala Mawatha,
Pamburana, Matara.

Western Provincial Office,
No. 36, Kandy Road, Miriswatta,
Gampaha.

