BANKING ON RELATIONSHIPS

RDB

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பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank

Annual Report 2015

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.

Regional Development Bank...

The beginning of Regional Development Bank (RDB) goes back to the year 1985, when district level banks under the category of Regional Rural Development Banks were established.

In 1997, seventeen such Regional Rural Development Banks were merged into six Provincial Level Banks, namely Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks.

These six provincial banks were further merged in May 2010, as a national level development bank and named the Pradeshiya Sanwardhana Bank (Regional Development Bank or RDB). The 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.

Originally based on the 'barefoot banking concept', the Bank strives to provide innovative, simple and effective financial instruments (mainly deposit mobilisation and lending) to those at the middle and bottom of the income pyramid. The Bank is keen on empowering its customers in the micro, small and medium-scale industries, women entrepreneurs as well as those in the agriculture, livestock, fisheries and other small industries, all of which in turn would contribute towards the country's economic development. The Bank has also taken steps to inculcate the savings habit amongst the rural people providing higher returns on savings and fixed deposits, while also encouraging school children and minors to save.

Today, with six million loyal account holders complemented by 265 branches and empowered by over 2,300 professional permanent staff members, the RDB continues to implement its vision of providing financial assistance to the rural sector and developing the Nation through this sector, thereby empowering all Sri Lankans.

WHICHEVER WAY YOU LOOK AT OUR COVER STATEMENT...
IT RINGS ABSOLUTELY TRUE!

TO SAY WE RELY (BANK) ON RELATIONSHIPS WOULD BE TRUE.
IMMERSED AS WE ARE IN SERVING A 'GRASSROOTS BANKING' CLIENTELE, THE FOUNDING ASPECT OF THE BANK'S INTERACTIONS WITH CUSTOMERS IS FIRM RELATIONSHIPS UNDERPINNED BY HIGH LEVELS OF TRUST AND RESPONSIBILITY.
TO SAY WE HAVE EVOLVED OUR BUSINESS MODEL AND THE OPERATIONS OF THE BANK (BANKING) ON RELATIONSHIPS WOULD ALSO BE TRUE FOR THE SAME REASONS.

WITH A MANDATE TO SPUR ON AGRICULTURAL DEVELOPMENT AND EMPOWER WOMEN AND YOUTH OF SRI LANKA, NOTHING ENCAPSULATES OUR VISION BETTER THAN OUR PURSUIT OF BANKING ON RELATIONSHIPS.

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Milestones

Success Story after Merging Six Provincial Development Banks as One National Level

Regional Development Bank

"Within the six years after merging in 2010, RDB has more than doubled the previous Provincial Development Banks' achievements made during a span of twenty-four years from 1985 through 2009."

RDB
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தன்னம்பிக்கையுள்ள இலங்கையருக்காக
Empowering Sri Lankans

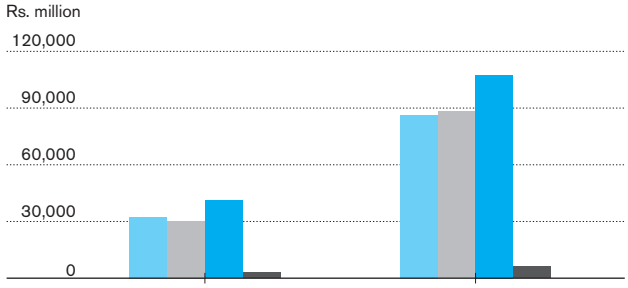
192%
Total Loans and Advances Growth
Rs. 30 billion to Rs. 88 billion

167%
Total Deposits Growth
Rs. 32 billion to Rs. 86 billion

162%
Total Assets Growth
Rs. 41 billion to Rs. 107 billion

98%
Total Equity Growth
Rs. 3 billion to Rs. 6 billion

Growth from May 2010 to December 2015



	01 May 2010 Rs. million	31 December 2015 Rs. million
Total Deposits	32,350	86,324
Total Loans and Advances	30,311	88,396
Total Assets	41,018	107,376
Total Equity	3,148	6,218

Results achieved by Provincial Development Banks (i.e. Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks) during the twenty-four year period from 1985 to 2009, have drastically improved during the five year period (2010-2015) after establishing Regional Development Bank (RDB) in 2010 merging all previous Provincial Development Banks.

During 2010 May and 2015 December

- Total Deposits of RDB has increased by Rs. 54 billion from Rs. 32,350 million to Rs. 86,324 million.
- Total Loans and Advances of RDB has increased by Rs. 58 billion from Rs. 30,311 million to Rs. 88,396 million.
- Total Asset of RDB has increased by Rs. 66 billion from Rs. 41,018 million to Rs.107,376 million.
- Total Equity of RDB has increased by Rs. 3 billion from Rs. 3,148 million to Rs. 6,218 million.

History of RDB

The beginnings of Regional Development Bank (RDB) can be traced back to 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, under the Regional Development Bank Act No. 6 of 1997, seventeen Regional Rural Development Banks were amalgamated into six Provincial Development Banks; Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa. With the introduction of the Pradeshiya Sanwardhana Bank Act No. 41of 2008 these six banks were merged into one national entity as Pradeshiya Sanwardhana Bank (Regional Development Bank) on 1 May 2010. In 2015, RDB celebrated its 30th Anniversary. Being a national level Government-owned development bank, the objectives of the Bank shall be to facilitate the overall regional economic development of Sri Lanka by promoting the development activities such as in 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.

Compliance with Central Bank Regulatory Requirements

Equity – RDB exceeded the regulatory requirement for Equity Balance of Rs. 5 billion by achieving Rs. 6.2 billion of Equity Balance as at 31 December 2015.

Total Assets - RDB exceeded the regulatory requirement for Total Asset Balance of Rs. 100 billion by achieving Rs. 107 billion of Total Asset Balance as at 31 December 2015.

The Bank established Treasury Division within the Finance Division after obtaining necessary approvals from the relevant authorities and started to invest excess funds in risk free Government Securities through Licensed Commercial Banks and Primary Dealers appointed by the CBSL. The Bank also invested in FDs with Licensed Commercial Banks having stable credit rating resulting in additional income to the Bank. Accordingly, the Bank is now in a better position to meet corporate customers' requirements, accepting deposits matching the market rate.

Financial Highlights

- As a financial institution dedicated to the development of finance, Regional Development Bank continues to play a vital role in the uplifting of social and economic development activities in the country. The Bank has been in the forefront of most development programmes in the island taking a significant role as a financier. Our key asset is our customer base of over six million spread throughout the country, including North and East. Development of the country and its people is the main focus of the Bank. Hence, the Bank is committed to empowering them and thereby developing the Nation through the 265 branches and 3 extension service centres in its island-wide network.
- The total income of the Bank has increased by 12%, compared to the previous year. In the year 2015, operating profit increased to Rs. 1,963 million, which is 40% over the operating profit of Rs. 1,400 million, recorded in 2014. ROA before Tax of the Bank has increased to 1.5% compared to 1.1% in 2014.
- Improving the savings habit among the under-privileged communities through deposit mobilisation is the base to developing their living conditions. Therefore, the Bank aggressively worked towards inculcating the savings habits among the vulnerable people in the financial environment. In order to arrest such adverse situations and increase savings, the Bank launched special savings mobilisation programmes such as *'Ithurum Wasana', 'Janahamu Dasadahasak', 'Liya Saviya'* and '*Divineguma*' programmes. These programmes cover all segments of society, ranging from a child to a senior citizen. The deposit base of the Bank increased to Rs. 86 billion and it represents a 19% growth over the previous year. The Bank was able to increase the savings deposit by Rs. 4.3 billion during the year 2015. The Bank held more deposit campaigns all over the regions to achieve this deposit balance. With the dawn of New Year on January First, a 1st day campaign was held at branch level very successfully. Most of our customers representing all segments gathered and started their New Year transaction with the Bank.

- International Women's Day is one key event the Bank commemorate every year. A special savings promotion scheme was introduced to uplift women's savings based on Women's Day.
- Also there is a significant contribution for minor savings accounts every year in parallel to the Children's Day celebrations on 1 October. The Bank took another step to expand its Children's Day programme up to national and school level through the RDB *Sith Roo Rata* Art Competition. There was significant participation, representing all segments ranging from pre school level to the upper school levels and it contributed a vast portion to the present year savings portfolio.
- During 2015, special attention was given by the Bank to reduce its non-performing loan (NPL) portfolio, which was 7.6% of the total portfolio at the end of 2014 especially because of NPLs incurred on pawning. As a result of the special efforts made, this ratio was brought down to 4% by end of 2015.
- Currently, the Bank has more than six million customers' accounts and has been serving customers through a branch network of 265 branches, three extension centres, ten District Offices and seven Provincial Offices spread throughout the country. RDB has more than 2,300 permanent employees and more than 3,500 employees with the contract employees, trainees, deposit collectors, rural leaders, etc.
- Considering the above achievements ICRA Lanka Limited has assigned RDB Credit Rating '[SL] A (Stable)', the adequate credit-quality rating with a stable outlook.

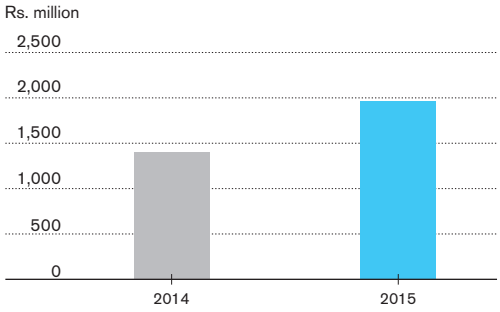
Measures Taken to Increase Fee Based Income and Provide Better Services to Our Customers.

- **Western Union** with NDB - Money transfers through the Western Union is easier and a speedy way to transfer funds with total security from any foreign destination to our country Customers are able to collect them through all RDB branches of which are primarily located in rural and semi-urban areas.
- **Lanka Money Transfer (LMT)** with DFCC - Lanka Money Transfer remits money directly and instantly to customer bank accounts with no down time. Lanka Money Transfer has a wide international network consisting of over 275 locations and this service is available at 265 RDB branches island-wide.
- **Online Bill Payment Service** with Mobitel M cash - Online Bill Payment Service facilitates customers in paying utility bills, reloads and update online instantly.
- **RDB ATM and LankaPay ATM Facilities** - Now our customers are able to withdraw their money at any one of over 3,000 ATMs island-wide. Over 20,000 ATM cards have already been issued to customers now.
- ***Dorin Dora* Deposit Collection/Door-to-Door Service** - RDB has assigned Door-to-Door agents to visit customers in order to provide for all their banking needs including collecting daily deposits and loan repayments, opening new accounts etc. During 2015, RDB introduced a new android based smart solution for its *Dorin Dora* savings agents who visit to potential customers to collect their day-to-day savings and repayments ensuring better customer satisfaction and trust. As a feature of this solution, RDB *Dorin Dora* agents will be able to issue a receipt to the depositor while a SMS message will be sent to the depositor's mobile phone confirming his/her savings account update. This helps entrepreneurs do their banking needs without any disturbance to their daily business operations, and it is useful in protecting our customers against costly informal financial market activities.
- **Small Group and *Janatha Samagam*** - The Bank has conducted several programmes to empower the rural masses. Under the Small Group Methodology special programmes are operated island-wide to develop their economic activities by establishing economic literacy through community leaders who link the rural masses to the Bank. They are engaged with establishing, facilitating and monitoring small groups of people ranging from five to eight members and clusters of such groups. The small groups are organised with over 90% women's participation and the Bank targets lower income families under this programme and introduces them to banking practices. Further to facilitate the rural masses, the Bank uses people's companies/'*Janatha Samagam*'. Furthermore these entities use their savings as capital under the people's companies established under Centre Development Associations and District levels and are carrying out a massive task to empower the lower income people. It is being operated in Matara, Puttalam and Kandy Districts very strongly and successfully for 15 years.
- **Senior Citizens** - Regional Development Bank offers competitively higher interest rates than in the market for both fixed deposits and savings deposits of senior citizens.

Financial Highlights

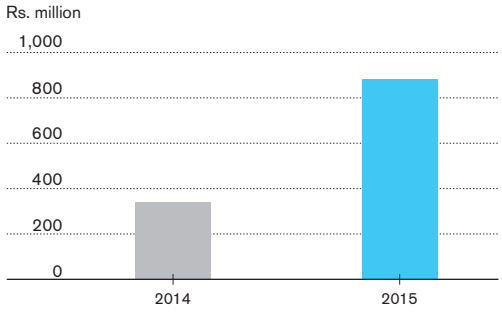
	2015 Rs. '000	2014 Rs. '000	Change %
Operating Results for the Year			
Gross Income	**12,510,119**	11,186,356	12
Operating Profit Before Tax on Financial Service	**1,962,795**	1,400,341	40
Taxation	**1,080,336**	1,058,054	2
Profit After Tax	**882,459**	342,287	158
Profit Attributable to Shareholders	**929,646**	350,010	166
Assets & Liabilities			
Customer Deposits	**86,324,097**	72,525,365	19
Loans and Advances	**88,396,437**	62,005,439	43
Total Assets	**107,376,493**	92,359,182	16
Total Liabilities	**101,158,085**	86,933,327	16
Shareholders' Fund	**6,218,407**	5,425,855	15
Profitability			
Net Interest Margin (%)	**6.6**	6.2	
Non-Performing Loan Ratio (%)	**4.0**	7.6	
Return on Assets (%)	**1.5**	1.1	
Return on Equity (%)	**15.2**	7.4	
Regulatory Ratio			
Capital Adequacy Ratio (%)			
Tier I (minimum ratio of 5%)	**7.56**	8.87	
Tier II (minimum ratio of 10%)	**10.53**	9.26	
Statutory Liquid Assets Ratio (%)	**21.77**	35.51	

Operating Profit Before Tax



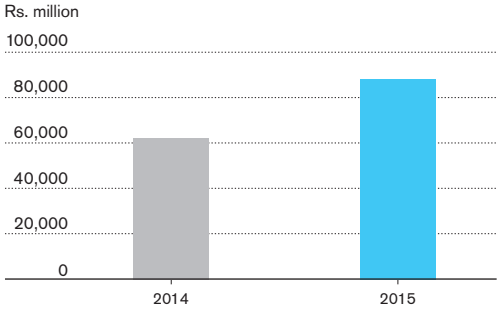
40% Growth

Profit After Tax



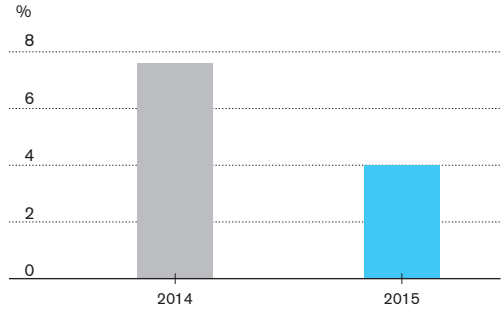
158% Growth

Loans and Receivables

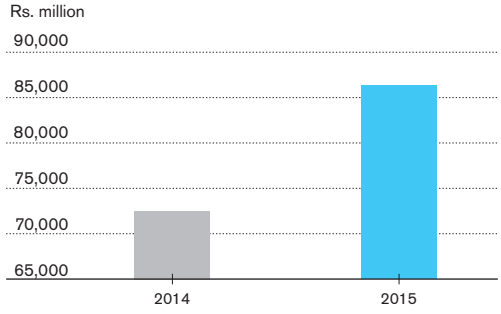


43% Growth

Non-Performing Loan Ratio

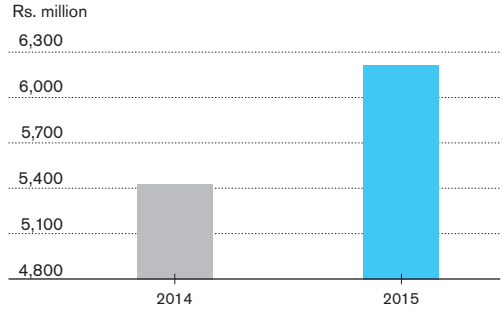


Customer Deposits



19% Growth

Shareholders' Funds



15% Growth

Chairman's Statement

RDB IS A POWERFUL SUPPORTER IN DRIVING SRI LANKA'S RURAL ECONOMY TOWARDS ECONOMIC PROSPERITY

Dear Shareholders,

It is with great pleasure that I present the Annual Report of the Regional Development Bank (RDB) for the financial year 2015.

RDB is uniquely positioned as a powerful supporter in driving Sri Lanka's rural economy towards economic prosperity. Its more than six million direct relationships with our Nation's micro and small enterprises give us unrivalled access to and insights into the minds and hearts of these people. We strive to build and empower them financially to make them strong cogs in the economic development of our Nation.

Over the years Regional Development Bank has been a reliable partner to deliver Government priorities. We have proven ourselves to the task of handling new challenges. I strongly believe that with our successful track record we will continue to be a useful and effective Bank in promoting financial inclusion in our Nation.

Operating Environment

Globally, economic activity remained subdued during 2015. According to World Economic Outlook issued by IMF, it is currently estimated at 3.1% in 2015 and projected to increase to 3.4% in 2016 and to 3.6% in 2017. Emerging market and developing economies drove economic growth accounting for over 70% of global growth. Advanced economies displayed a modest recovery during the year.

The Sri Lankan economy was subdued, recording a growth of only 4.8% mainly due to lack of performance in exports. The favourable macroeconomic environment, peaceful atmosphere in the country with good governance initiatives and re-energised tourism industry provided an impetus for this growth. The economy was primarily driven by the Services sector followed by the Agriculture sector and the Industry sector.

Uplifting the Rural Masses

Being a 100% Sri Lankan state bank, we have remained true to our mandate of uplifting the rural masses through a dedicated, efficient and professional staff. Our focus has been empowering women and youth and developing rural agriculture and small industries. Through our extensive network of 265 branches we reach the most remote parts of the island and bring the masses towards economic prosperity.

Operations

During the year, we have done tremendous work to build an even better bank including empowering our staff members and investments in technology. The unwavering focus on our customers and the great team that serves them are the foundations for our ongoing success in the long-term. We enhanced our access points by launching our ATM system and joining the LankaPay common switch providing customers access to over 3,000 touch points island-wide.

Our people are dedicated and passionate about their work. They bring a strong service ethos to everything they do and take pride and ownership in their work. They go to the doorstep of the customer and deliver an excellent customer service. The relationships they nurture extend beyond a mere banking transaction.

Apart from maintaining an open door policy in our Organisation we have improved our communication system with staff members. A performance evaluation system was introduced during the year to reward them transparently and gear them to achieve an even higher level of performance.

We formulated our corporate strategy which maps out the Bank's direction for the next five years. Accordingly, the Bank will undergo certain structural changes which would take our Bank to a higher level in the next few years. We would see a much stronger, agile and efficient Bank emerging through these changes.

In keeping with the Government's intention of developing the SME sector, we signed an agreement with ADB to obtain a new loan scheme for the SME development.

Significant investments were made in information technology and process improvement to make our operations more efficient and also move towards a paperless office environment.

Performance

The Bank earned a Profit After Tax of Rs. 882 million for the financial year, reflecting a growth of 158% year on year. Interest income swelled by 11% to Rs. 11,759 million.

Our NPL dropped from 7.6% in the previous year to 4% in 2015 which is a significant achievement for a development bank. Despite stiff competition in the financial services industry, we grew our loan and deposit books by 40% and 19% respectively. Total equity increased to Rs. 6.2 billion and the total assets increased to Rs. 107.4 billion.

Building a Stronger Bank

We believe that strong governance is an important foundation of the Bank's performance. Our Board is enriched with the right balance of qualified people with diversity of gender, age, background, geography and thought. Since our volumes are large, we pay much emphasis to compliance and risk management by closely monitoring our operations. The average loan size of RDB's six million customer base is approximately Rs. 150,000.

Future

As we move ahead to the financial year 2016, we aim to augment our geographical spread by opening new branches in strategic locations. We will strengthen our presence in the North and the East, in particular.

New systems will be introduced to improve our processes in areas such as HR and Administration. Accordingly, we will continue to centralise our operations and increase the productivity of the branches. As per the new Strategic Plan we will effect certain structural changes which would enable us to be more efficient and productive.

Banking is all about trust. Hence, we will continue to strengthen areas such as corporate governance and compliance keeping the best interest of our customers in mind. We believe deeply in helping our customers prosper, and we will continue to partner with them in their journey of economic development and sustainability.

Many Thanks

As I conclude, my deep appreciation goes out to His Excellency the President Maithripala Sirisena and the Hon. Prime Minister Ranil Wickramasinghe for their keen interest and support in the operations of the Bank. I am grateful to Hon. Minister of Public Enterprise Development Kabir Hashim, Hon. Deputy Minister Eran Wickramarathne and the Ministry officials, Hon. Minister of Finance Ravi Karunanayake and the officials of the Treasury for their direction and assistance and also to the guidance and support extended. I acknowledge with gratitude the guidance extended by the Governor of the Central Bank, Deputy Governor, and the officials of the Development Banking Department of the Central Bank. I appreciate the support extended to us by the Auditor General and his staff members. A special appreciation is extended to District Secretaries, Asst. Secretaries and all other categories of Government and Non-Government officials who supported RDB in its journey to uplift the livelihood of millions of the less fortunate rural community in our country.

I am thankful to my colleagues on the Board for their contributions, their dedication, expertise and work ethics. A special appreciation is extended to Mr Janaprith Fernando, Dr. Pradeep Weerasinge and Mr Mohammed Rizwi who retired from the Board during the year. We deeply value their leadership and important contribution to the Bank.

My appreciation is extended to GM/CEO Mr T. A. Ariyapala, Corporate Management and all the staff members who worked hard to deliver strong results. I thank our valued customers and depositors for their continued patronage and trust. I am grateful to the support extended to us by the international lending and investment institutions. And thank you, our shareholders, for your continued confidence in us.

On behalf of the Board of Directors I extend my sincere appreciation to the Print, Electronic and Social Media for their continued support as well.

Regional Development Bank is a great bank. We have an attractive geographic footprint, a strong financial position, great people and a highly motivated team of leaders. I am confident that we will continue to fulfil our mandate and generate greater value to all our stakeholders in the years ahead.

Prasanna Premaratne
Chairman

General Manager/CEO's Review

WE CONTINUED TO EMPOWER OUR CUSTOMERS IN THE MICRO AND SMALL SCALE INDUSTRIES, WOMEN, YOUTH AS WELL AS THE AGRICULTURE, LIVESTOCK, FISHERIES AND INDUSTRIES WHO WOULD IN TURN CONTRIBUTE TOWARDS THE NATION'S ECONOMIC DEVELOPMENT

Financial year 2015 was significant for the Regional Development Bank (RDB). We celebrated three decades of serving our Nation, Bank's Net Profit After Tax grew by a staggering 158% and our asset base surpassed the Rs. 100 billion milestone. As these results are most encouraging, I am proud that we have contributed to strengthening our Nation's rural economy by improving the lives of rural masses through accessible and affordable finance facilities.

Serving the Rural Masses

Originally based on the 'barefoot banking concept', we strive to provide innovative yet simple financial services to those at the middle and bottom of the income pyramid. It is noteworthy that today we have a loyal customer base of over six million and 265 service points employing 3,549 staff members.

This has enabled us to become the leading development bank in the country.

We continued to empower our customers in the micro and small scale industries, women, youth as well as the agriculture, livestock, fisheries and industries who would in turn contribute towards the Nation's economic development. The saving habit was inculcated amongst the rural people providing higher returns on savings and fixed deposits and encouraging school children and minors to save.

I am happy to state that most of the Self Help Groups (SHGs) which comprise of 5-10 members have successfully developed their small businesses and come up in life. Over the years, most of these businesses have developed to SMEs in their first stage. Our dedicated staff members continue to serve and support them in their journey of prosperity. As we move forward we will support the lower end of the SMEs as well. Our field officers go to the customer's doorstep and carry out the financial transactions through 'Palm Top banking'. Customers are highly appreciative of this service.

In order to promote financial inclusion in Sri Lanka, we conducted several training and awareness programmes for the rural folk. They were mostly related to what banking is and its benefits, maintaining basic banking accounts, starting and developing business targeting mainly youth and women. Many young school leavers who completed their training at the National Vocational Training Institute approach us for financial support to start-up their businesses.

During the year, we consolidated our branch network by moving 265 branches to new strategic locations and improving the facilities. We were able to provide greater convenience and better customer service through this. In addition, we joined the LankaPay common ATM switch system enabling our customers with access to over 3,000 ATMs island-wide.

Significant investments were made in information technology and process improvement. Our operations were automated and adequate training was given to our staff members. I am pleased to state that our operations have become much efficient and speedier as a result.

Nurturing a Winning Team

We provide a culture which attracts, empowers, rewards, and provides growth opportunities for employees. We have a dedicated and highly capable team of employees, majority of whom have served the Bank for over 25 years. We have a family oriented culture and maintain an open-door policy. Through close communication, the management team provides guidance and direction to the team, who in turn execute their responsibilities with great dedication and skill. A knowledge-based culture is inculcated in the Bank, providing continuous and extensive training to staff members including overseas training to ensure that they would be able to work productively and efficiently. During the year, several training programmes were organised through the Small and Medium Enterprises Development Fund (SMEDeF) which is a World Bank SME development programme. We maintain fair and transparent policies for a range of areas including grievance handling and staff transfers. In addition, we work closely with the trade unions that extend their fullest support to us.

Under the Bank's restructuring process, 53 staff members were appointed as Assistant District Managers with each having responsibility for five branches. This not only empowered them but enabled the Bank to develop their leadership qualities and align their mindset with the Bank's vision. Each branch has a customer base more than 25,000 and targets to be achieved via increasing productivity and efficiency. Aligned with this process we empowered District Managers and Regional General Managers as well.

Supporting Government Initiatives

Our geographic diversity plays an important unifying role in reaching and developing the rural masses, as well as financing them. The Government recognises us as the most suitable Bank to reach the farming community as most of them maintain accounts with us.

In addition, the Government is very keen to develop the SME sector. Hence, we signed several agreements with international funding agencies to obtain loan schemes to develop the SMEs. The ADB loan scheme for the SME's, World Bank SMEDeF and the European Investment Bank Loan scheme are three such schemes.

During the year, the Government selected us to manage two warehouses in a transparent bidding process after making an expression of interest. The massive warehouse complexes with a capacity of 500,000 tons are situated in the Anuradhapura District and the Moneragala District. This was an initiative by the Ministry of Finance funded by the Word Bank to enable farmers to obtain a higher income during the off-season than the prices they could get for their products during the harvesting periods.

At a nominal monthly charge per kilogram the warehouse provides storage facilities for grains and cereals. Apart from managing the warehouse complexes, we provide marketing facilities to farmers as well. The project is geared to increase agricultural productivity and livelihoods in rural areas of Sri Lanka.

Commemorating 30 Years

Several CSR activities were launched to commemorate our 30th Anniversary. A blood donation campaign, refurbishing 30 rural hospitals and organising an exhibition in Colombo with the participation of some of our customers displaying their products were some of the events. Several religious ceremonies were conducted as well during the year.

Performance

We achieved a commendable performance during the financial year. Net Profit Before Tax increased by 40% to Rs. 1,963 million in 2015. Deposit base swelled by 19% to Rs. 86 billion whilst the loan book increased to Rs. 88 billion reflecting an increase of 43% year on year. Through efficient NPL management we successfully reduced the NPL Ratio to 4% during the year. On account of higher profits the EPS increased from Rs. 3.04 in 2014 to Rs. 6.44 in 2015.

Future

As we move to the next financial year, we will embark on initiatives to increase the productivity and the efficiency of the Bank. The performance evaluation system which will come into effect in 2016 would motivate employees to perform at a higher level through an objective and transparent reward mechanism. In addition we would invest in a HR system to automate all HR related activities.

Now we are initially in the process of preparing a five-year Strategic Plan for 2016-2020.

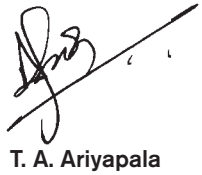
A separate Credit Administration Unit will be set up along with a Loan Origination System moving to a paperless office environment and introducing cutting edge IT solutions to improve customer service environment.

We will expand our reach by opening approximately 30 new branches in line with the Government's Budget Proposals, thereby increasing the branch network by 15% in the ensuing year. Our main focus will be on the North and the East.

Our Bank is a dynamic, regional development institution, operating meaningfully and profitably we play an important role in poverty reduction and development of the country. Working as a team, we will provide the means, by which our society achieves economic prosperity through strong customer relationships delivering relevant and superior products and services to our customers in the years ahead.

Acknowledgement

As I conclude the review of a commendable year, I extend my appreciation to the Chairman and the Board of Directors for their guidance and continued support. I greatly appreciate the commitment and dedication of the management team and all staff members. I extend my appreciation to the Hon. Minister of Public Enterprise Development and Deputy Ministers, Hon. Minister of Finance and the Governor General and the officials of the Central Bank of Sri Lanka for their guidance and assistance. A special acknowledgement goes out to the Government Treasury, Bank of Ceylon, People's Bank and National Savings Bank for the support extended to us. I convey my appreciation to the Auditor General and the Government and Non-Government institutions and their officials who assisted us throughout the year. I deeply appreciate the continued patronage and loyalty of our customers.



T. A. Ariyapala
General Manager/Chief Executive Officer

Supporting entrepreneurs of Wadduwa to develop their domestic industries

Management Discussion and Analysis

Financial Review

As a financial institution, dedicated to Development Finance, Regional Development Bank (RDB) is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programmes in the island, playing a significant role as a financier. RDB has now emerged as a unique Financial Institution for Regional Development in the island, serving the sectors of the economy, where most financial institutions are reluctant to actively participate in this sensitive and sophisticated arena. Our key asset is our customer base of over six million, spread throughout the country, including both North and East. Development of the country and its people are the main focuses of the Bank. So, the Bank is committed in empowering them and thereby developing the Nation through its 265 branches in its island-wide network.

Profitability

The total income of the Bank has increased by 12%, compared to the previous year. In the year 2015, operating profit increased to Rs. 1,963 million, which is 40% over the operating profit of Rs. 1,400 million, recorded in 2014. ROA before tax of the Bank has increased by 1.5% that stood at 1.1% in 2014. Also, the Bank achieved the regulatory requirement of total assets, Rs. 100 billion during year 2015.

RDB's Quarterly Financial Performance

RDB's quarterly financial performance has improved significantly during the year 2015.

Year 2015	31 December Rs. '000	30 September Rs. '000	30 June Rs. '000	31 March Rs. '000
Net Operating Income	7,504,923	5,084,485	2,995,232	1,399,216
Profit Before Tax	1,962,795	1,081,264	378,548	41,154
Profit After Tax	882,459	522,350	142,292	(58,856)
Loans and Receivables	88,396,437	82,884,171	74,240,240	66,756,504
Customer Deposits	86,324,097	84,814,331	78,187,607	73,522,026
Total Assets	107,376,493	103,028,634	101,692,324	97,512,189
Shareholders' Funds	6,218,407	5,811,097	5,568,132	5,370,164

Income

Total income of the Bank showed an increase of 12% from Rs. 11.1 billion to Rs. 12.5 billion. The major contributors to this was interest income which grew by 11% and fee and commission income which contributed 6% to total income.

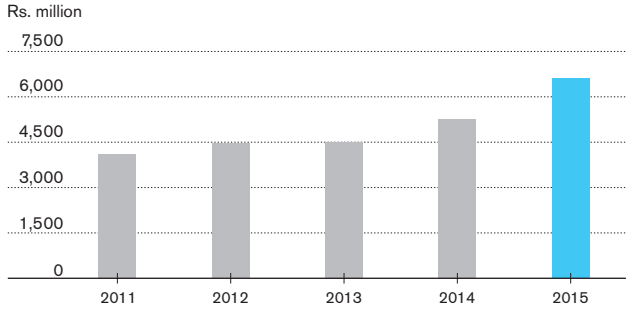
Composition of Total Income

	Rs. '000
Interest Income	11,759,233
Fee and Commission Income	739,950
Other Operating Income	10,936
Total Income	**12,510,119**

Net Interest Income (NII)

Net interest income grew significantly by 25% in the financial year 2015, as it increased from Rs. 5,282 million to Rs. 6,590 million.

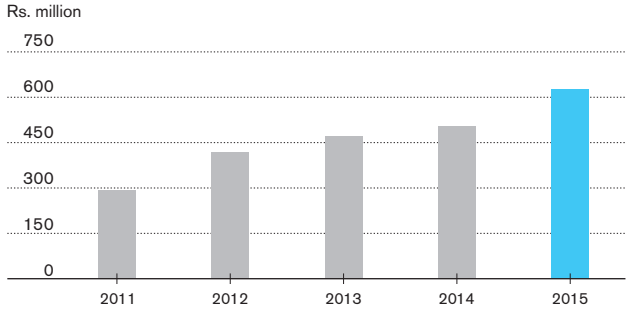
Net Interest Income



Net Fee and Commission Income

A 24% growth was recorded during the year 2015. It reached Rs. 625 million in the year 2015 and it was Rs. 505 million in the year 2014.

Net Fee and Commission Income



EXCEEDED REGULATORY REQUIREMENT FOR EQUITY BY ACHIEVING RS. 6.2 BILLION

RDB'S Total Assets are valued at Rs. 107 billion and had grown

16% YoY

Taxation

	2015 Rs. '000	2014 Rs. '000	Change %
VAT on Financial Services	**413,904**	404,291	2%
Nation Building Tax	**89,623**	67,382	33%
Income Tax	**576,808**	586,381	-2%
Total Tax Paid	**1,080,335**	1,058,054	2%

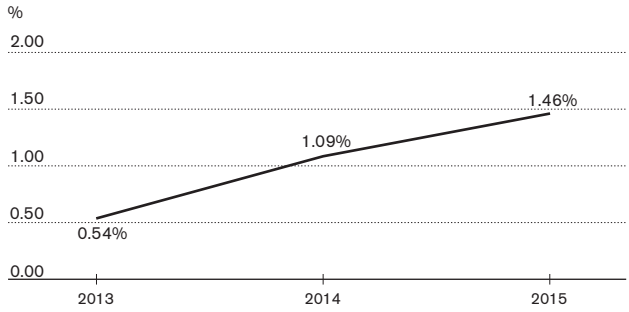
During the year 2015, the Bank has paid Value Added Tax on financial services and Nation Building Tax, amounting to Rs. 504 million and Income Tax amounting to Rs. 577 million. A total of Rs. 1,080 million has been paid during the year as taxes.

Profit Attributed to Shareholders

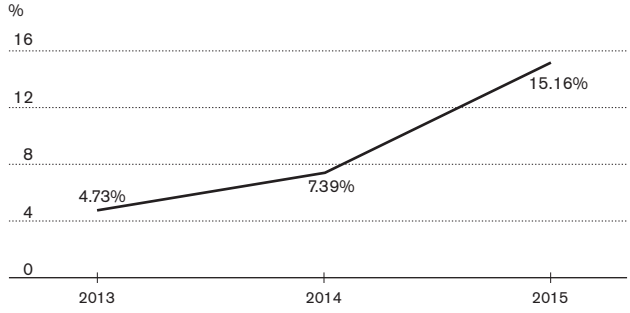
The profit attributed to shareholders was Rs. 930 million, compared to Rs. 350 million in year 2014, recording a 166% growth when compared with the previous year.

	2015 Rs. '000	2014 Rs. '000	Change Rs. '000	Change %
Profit for the Year	**882,459**	342,287	540,172	158%
Comprehensive Income	**47,187**	7,724	39,463	511%
Total Comprehensive Income	**929,646**	350,010	579,636	166%

Return on Assets (ROA)



Return on Equity (ROE)



Total Assets

The Bank recorded a growth of 16% in total assets as at the end of the year, over the corresponding year. Accordingly, the total assets base crossed the Rs. 100 billion mark to reach Rs. 107 billion.

Intangible Assets

Intangible assets was Rs. 79 million, compared to Rs. 55 million in the year 2014, recording a 43% growth when compared with the previous year. The Bank focused on IT improvements for the Bank operations through the introduction of the Core Banking system, Palmtop banking, ATM etc.

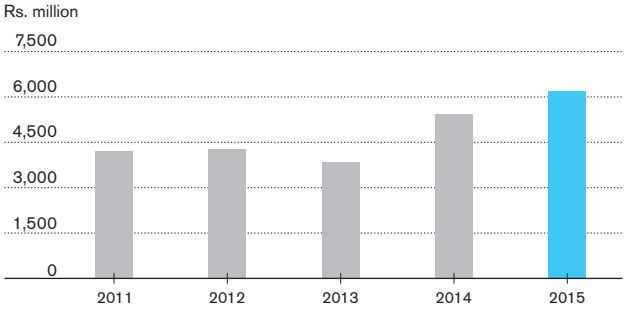
Subordinated Term Debt

During the year, the Bank issued unsecured subordinated redeemable listed debentures with a face value of Rs. 2.5 billion. The debenture was issued in three types of debentures and with a maturity period of five years.

Total Shareholders' Equity

Total shareholders' equity of the Bank was Rs. 6,218 million at the end of year 2015. The movements in shareholders' equity over the previous year, primarily includes the profit attributable to shareholders for the year, appropriation for the period and dividend payment for year 2014. The Bank crossed the regulatory requirement of Rs. 5,000 million of shareholders' equity.

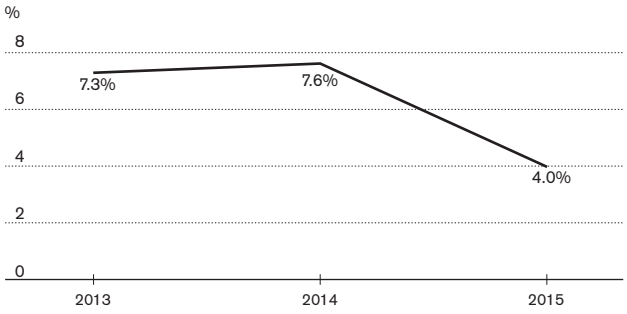
Total Equity



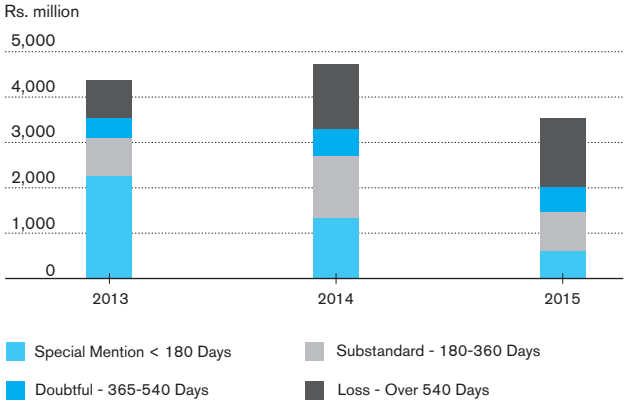
Assets Quality

Non-Performing Loan ratio (NPL) of the Bank improved to 4% as at 31 December 2015, from 7.6% recorded as at the previous year end. Strong reviewing, monitoring and recovery processes helped to reduce the NPL ratio.

Non-Performing Loan (NPL) Ratio



Given below is an analysis of the Bank's non-performing loans, based on the credit risk classification of the Central Bank of Sri Lanka



Liquidity

	2015 %	2014 %
Statutory Liquid Ratio	**21.77**	35.51

The Bank has consistently maintained its liquidity levels well above the regulatory requirements.

IT Improvements

In 2015, information technology played a key role in enhancing internal efficiencies and customer services.

Consolidation of Core Banking system activities continued after all 265 branches island-wide were networked, enhancing features and reports besides making significant contributions.

A database upgrade to a more feature/functions rich enterprise version occurred during the year.

To coincide with our 30th Anniversary celebration, RDB joined the LankaPay Network ATM switch as its first shared switch customer (SAS) of LankaClear (Private) Limited. Through this initiative, customers of RDB can now access their RDB accounts through more than 3,000 ATMs of LankaPay member banks, located island-wide.

During 2015, RDB introduced a new android based smart solution for its *Dorin Dora* savings agents who visit doorsteps of potential customers to collect deposits. As a feature of this solution RDB *Dorin Dora* agent will issue a receipt to the depositor while, a SMS message will be sent to the depositor's mobile phone confirming his/her savings account update.

Another major activity of the IT team was to introduce a Management Information System (MIS). Through this system, approximately100 MIS reports required for operations at various levels were made available. This initiative resulted in improving the efficiency of the staff and decision-making based on latest information.

Many projects completed by the IT team have made positive contributions to the operational improvements of the Bank, delivering improved customer services. Throughout the year, the dedication, commitment and hard work shown by the IT team is highly commendable.

Customer and Relationship Review

Credit

The Bank is expected to make a significant contribution towards the upliftment of the Nation as a Development Bank, which has a national presence. Credit is the most important function, with this instrument being used by the Bank in meeting this objective. Credit can be used to stimulate important segments such as Agriculture, Small Industries, Fisheries, Animal Husbandry, Housing and Service sectors of the economy, thereby enhancing the contributions made by these sectors towards national income. One of the noteworthy features of the Bank is its strong presence in rural areas, which has been continuing from the inception of the Regional Rural Development Banks since 1986.

The Bank therefore, has executed a strategy to meet the given objectives in all activities of the Bank, including lending operations. Terms of loan facilities were designed to suit the needy sectors by offering concessionary interest rates, conveniently crafted repayment plans with comfortable grace periods on soft security requirements. In addition, the Bank provided credit plus facilities, such as Entrepreneurship Development, Training, Advisory support on Management and Marketing. Credit plus services also helps to reduce the risk of lending and thereby reduces the dependency on securities for lending.

Currently, the Bank is operating an assortment of different loan schemes, designed for various needs of all customer categories. Accordingly, '*RDB Nilketha*', '*RDB Ranketha*' and '*RDB Isuru Boga*' loan schemes are all focused at Agriculture sector development. Further, another six loan schemes are available for development of Small and Medium Enterprises (SME) and Self-employment development. Accordingly, the Bank has initiated '*RDB Jaya Isura*' loan scheme to support SME entrepreneurs allocating its own funds. Separate loan schemes are available for trade and business purposes. Four loan schemes have been introduced for Mahaweli farmers and their families, considering all farming and non-farming activities. Another two loan schemes in the names of '*Seth Mithuru*' and '*RDB Praja Shakthi*' have been put into operation for the benefit of the members of various societies and cluster groups, so that such societies can obtain bulk loans from the Bank to be given to its members. '*RDB Detu Savi*' loan scheme is for senior citizens of the country, which will help them to diversify their income sources or meet other capital needs. The Bank operates '*RDB Isuru*' loan scheme to help the poorest of the poor families to enter into formal banking systems and thereby enable them to obtain loan facilities. Under this scheme, loan recipients are formed into small groups and loans are granted individually, taking the

guarantees of the peer members of the same group/s. Some other loan schemes, such as Housing loans, Consumption loans, Transport loans etc, are also in operation in catering to the needs of the societies.

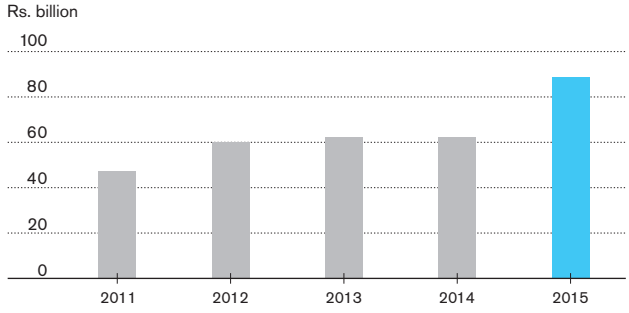
Funds for operation of most of the development loan programmes are received through refinancing schemes implemented by multilateral organisations such as the World Bank, Asian Development Bank, European Investment Bank and Central Bank of Sri Lanka (CBSL). Accordingly, during the year under review, the Bank continued to act as a Participating Credit Institution (PCI) under 12 such refinancing programmes of which, seven are from the CBSL. The Bank strongly represented itself by participating in all refinance schemes operated by the CBSL. The Bank was able to provide the highest amount of loans among all banks under the 'Poverty Elevation Microfinance Project Revolving Fund' (PAMPII- RF) 'Smallholder Plantation Entrepreneurship Development Programme' (SPEnDP) and 'New Comprehensive Rural Credit Scheme' (NCRCS) funded by the CBSL. In addition, in March 2015, the Bank was selected as a PCI for a new credit line for Small and Medium-sized enterprises, financed by European Investment Bank. Approximately Rs. 800 million was allocated for the Bank from this credit line and was expected to be fully committed within a period of six months.

During the year under review, loans and advances granted by the Bank increased from Rs. 62 billion in 2014, to Rs. 85 billion in 2015, representing a growth of 36.7%. Accordingly, the total loan portfolio grew from Rs. 62 billion in 2014, to Rs. 88 billion at the end of 2015.

During the year under review, the Bank was in position to create a novel instrument for lending in the name of 'Warehouse Receipt Financing'. This was the first time in Sri Lanka, such an innovative instrument was used for financing by a bank to help farmer communities. This instrument will facilitate farmers to obtain temporary funds by pledging stocks during harvesting periods, without selling their produce at low market prices. The Bank commenced the management of a warehousing project in Upuldeniya in the Anuradapura District, on behalf of the Government, constructed with the support of the World Bank. The farmers can now store their harvests in this store, without selling until the price levels stabilise. In the meantime, the farmers can get short-term loans on the warehouse receipt to meet urgent cash needs, until disposal of the harvest, once prices have come up to a reasonable level.

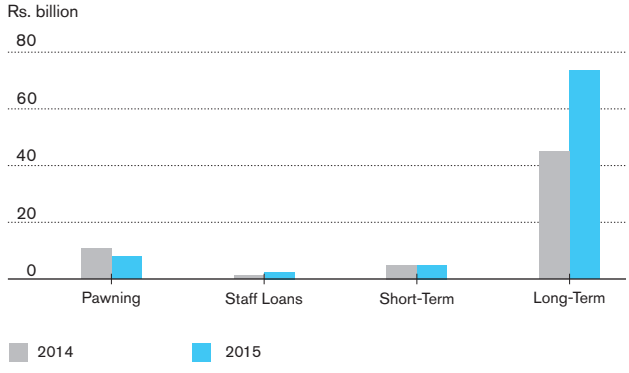
The Bank initiated generation of a fee income by channelling insurance activities relating to the loans granted by the Bank during 2015. For this purpose, the Bank obtained the services of five insurance companies to obtain insurance policies such as Agriculture insurance, Livestock insurance, Vehicle loan insurances, Housing loan insurances etc. Based on this experience, the Bank is now considering formalising insurance activity by setting up a Bank assurance unit in the Bank during the ensuing year.

Loan and Advances Growth



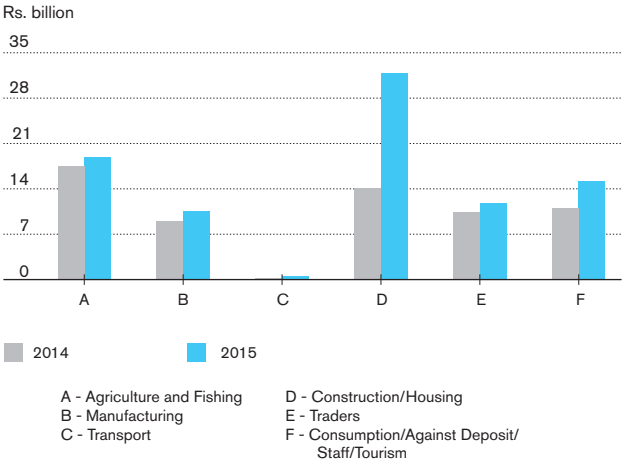
Analysis – By Product

Category	2015 Rs. million	2014 Rs. million
Pawning	**7,653**	10,615
Staff Loans	**2,391**	1,364
Short-Term	**5,002**	4,934
Long-Term	**73,350**	45,092
Total	**88,396**	62,005



By Industry

Category	2015 Rs. million	2014 Rs. million
Agriculture and Fishing	18,907	17,472
Manufacturing	10,450	8,992
Transport	368	212
Construction/Housing	31,731	14,022
Traders	11,744	10,322
Consumptions/ Against Deposit/Staff/Tourism	15,197	10,986
Total	88,396	62,005



Recoveries

During 2015, special attention was given by the Bank to reduce its non-performing loan (NPL) portfolio, which was around 8% of the total portfolio at the end of 2014. As a result of the special efforts made, this ratio was brought down to 4% by end of 2015.

Non-Performing Category	2015 Rs. million	2014 Rs. million
Special Mention	625	1,344
Substandard	840	1,369
Doubtful	543	603
Loss	1,529	1,420
Total Non-Performing	3,538	4,735
NPL Ratio	4%	8%

Deposit

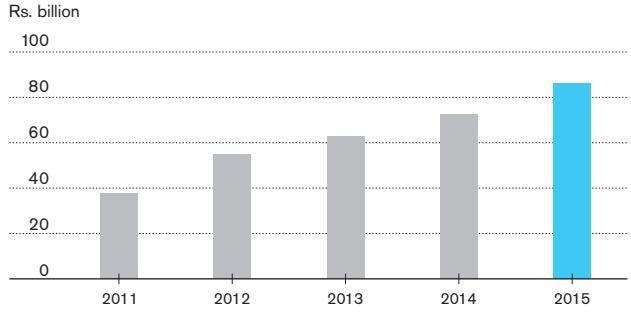
Deposit Base of the Bank increased to Rs. 86 billion and it represents a 19% growth over the previous year. The Bank was able to increase the savings deposit by Rs. 6.4 billion during the year.

The Bank held more deposit campaigns all over the regions to achieve this deposit balance. With the dawn of the New Year on January first the1st day campaign was held at branch level which was very successful. Most of our customers representing all segments started their New Year transaction with their Bank.

International Women's Day is one key event the Bank commemorates every year. A special savings promotion scheme was introduced to uplift women's savings based on the International Women's Day. Also on the Sinhala and Tamil New Year day, the Bank invites its customers to start the New Year at the auspicious time and get special benefits through their transactions with the Bank.

Also there is a significant contribution for minor savings accounts every year in parallel to Children's Day on 1st of October. The Bank takes another step to expend its Children's Day programme up to national and school level through *RDB Sith Roo Rata* art competition. There was a significant participation representing all segments like pre-schools and schools, and it contributes a vast portion to the present year savings portfolio.

Deposit Growth



Deposit Mix

Type of Deposit	2015 Rs. million	2014 Rs. million
Savings Deposits	28,793	22,417
Long-term Savings	8,074	7,705
Fixed Deposits	49,457	42,403
Total Deposit	86,324	72,525

Employee Review

Emphasis has been given to improve professional standards and the performance of the staff, providing opportunities to impart knowledge and skills. Administrative reform activities have been carried out rearranging staff and allocating persons to vacant positions.

Action initiated to prepare a Corporate Plan for the Bank for the period of 2016-2020, with resource support obtained from an external agency is negatively viewed from a HR perspective of the Bank, as HR is an integral part of business strategies.

HR in Electronic Platform

Arrangements have been made to develop an automated HR system, which would support maintenance of personal records in an electronic platform. This system would be capable of capturing automated attendance recording systems and process employee attendance records as an input to payroll processing, maintaining leave records etc., with minimum human intervention. While operating the integral HR system, it could save administrative costs as some of HR functions will be carried out under centralised operations.

Manpower Strength

The manpower of the Bank consists of employees who have been deployed for cadre positions on both permanent and contract basis. Apart from that, Deposit Mobilisation, Field Assistants and Rural Leaders linked with microfinance systems, would provide manpower service to the Bank. Also, the Bank provides opportunities for trainees to undergo training (6-12 months) as requested by Universities, Technical Colleges, recognised professional institutions and school leavers, those who are eligible for university entrance. These categories would provide valuable inputs to the Bank's performance. A summary of the Bank's manpower strength is as follows:

Manpower Type	Headcount
Permanent/Contract Employees	2,368
Deposit Mobilisation Field Assistants	197
Rural Leaders	300
Trainees	684
Total	**3,549**

The Bank filled the positions with 2,368 permanent and contract employees, who have been attached to the head office and seven provinces, of which details are given below:

Province	No. of Branches	Headcount	%
Western	33	271	11.4
Central	33	298	12.6
North Central	35	288	12.2
Southern	54	396	16.7
Uva	43	340	14.3
Sabaragamuwa	34	264	11.1
North Western	32	346	14.6
Head Office	1	165	7.1
Total	**265**	**2,368**	**100.0**

The Bank provides equal employment opportunities for both males and females. Accordingly, a segregated profile is given below:

Province	Males	Females
Western	141	130
Central	147	151
North Central	181	107
Southern	215	181
Uva	228	112
Sabaragamuwa	142	122
North Western	225	121
Head Office	110	55
Total	**1,389**	**979**
Percentage	58.6%	41.4%

Age Profile: The Bank is privileged and capitalises on the fact that it has the most experienced and senior staff, with 58.6% of the staff being age 40 years and above, this is shown in the age profile given below:

Age Category (Years)	No. of Employees	Percentage
50 or above	544	23.0
40-49	815	34.4
30-39	551	23.3
29 or below	458	19.3
Total	**2,368**	**100.0**

Career Planning and Sourcing

The Scheme of Recruitment (SOR) and Internal Promotions were reviewed in order to create career paths for high flyers, which will be implemented in adopting succession planning and career development planning processes.

With the implementation of CBS, it was found that a new IT structure has to be in place. Applications were called from internal candidates to fill positions in the IT structure and advertised to recruit persons/skills not in the Bank.

Human Capital Development

A training policy is implemented in order to provide adequate training opportunities to entire staff. The training plan 2015, was implemented in line with the training policy with a budgetary provision of Rs. 81 million. The training calendar was drawn to conduct 217 programmes, covering training areas of customer charter, branch banking operations, legal implications for banks etc.

In addition, attitude development trainings were conducted, covering all provinces with the participation of 22% of total staff and seven outbound training programmes, focused on staff personality development. The Bank sponsored seven foreign trainings with the participation of 15 Senior Management personnel during the year.

Five (05) to ten days SME training programmes were conducted with the resource support of the Institute of Bankers of Sri Lanka. 50% of which were reimbursed under SMED. The summary of the progress of training programmes conducted during the year is given below:

No. of Programmes	217
No. of Programmes Conducted	164
No. of Participants	4,388
Training Budget	Rs. 81 million
Training Cost	Rs. 55 million
Reimbursed Amount	Rs. 9 million

Rewards and Recognition

The collective agreement for salary benefits 2015-2017 has been signed between the Bank and the Ceylon Bank Employees' Union (CBEU) with the intention of increasing gross salaries by 18% - 45%.

The 30th Anniversary was celebrated, recognising and rewarding employees who have completed 25 years service. 328 employees who had completed 25 years satisfactory service, were awarded gold coins.

HR Board Sub-Committee

The BHRRNC appointed for the year 2015, comprised three (03) Directors, General Manager/CEO, Head of HRD and Chief Legal Officer functioned as the Secretary to the Committee. The Committee was headed by the Chairman of the Bank. The Committee members were changed during the year with the new appointment of the Board of Directors.

The said Committee functioned in accordance with the regulation of the Board and guidelines issued by the Central Bank of Sri Lanka. It is authorised to determine the remuneration policy, evaluate performance, monitor and review the development of HR performance. Four meetings were held during the year 2015.

The Board of Directors were given self-assessment formats according to guidelines, where feedback was discussed at Board level.

Society and Environmental Review

Conducted Environmental Friendly Programmes for Environmental Protection Activities

To protect the environment against pollution, RDB planned to sponsor several programmes island-wide through its branch network.

Green Life Sri Lanka is one of the volunteer organisation that conducts more programmes to fulfil social responsibility activities. In 2015 we planned to conduct a special campaign to clean the *Sripadha Adaviya* amalgamating with them. During the season lots of pilgrims came to *Sripadha* to worship Lord Buddha's Footprint and as a result more garbage and disposable polythene littered this green surrounding and led to increased environmental pollution.

Therefore RDB initiated to clean the *Sripadha* surrounding and informed the people about the importance of protecting the environment. RDB sponsored this programme as an environment friendly Bank.

Special product introduced for the benefit of the senior people in the society such as senior citizen etc.

To secure and respect our senior citizens, RDB introduced special deposits scheme for their savings. Bank offers highest interest rate for their deposits and RDB provide donations for the special welfare programmes which conducted for senior citizens.

Sponsorship on education and scholarships

Education is the path that children follow to reach their full potential in life. To this effect RDB introduced many programmes and events to uplift children's creativity and education.

RDB *Sith Roo Rata*

Creativity appears as an important component of child education and RDB continues this Art Competition for the second consecutive year at national level inclusive of the participation of all grades in school level and pre-school category.

Winners are entitled to receive cash prices with a valuable certificate. There were approximately 28,420 students participating in this art competition throughout the island.

Grade 5 Scholarship Programme

Bank has special savings schemes to develop savings habit of children while they enjoy other benefits. Grade 5 Scholarship Programme is one of the most needed programmes for the needy children living in remote areas. The Bank plans educational seminars targeting Grade 5 scholarship at branch level across the island. Also cash scholarships granting for account holders till G.C.E. Ordinary Level Examination stage who passed grade 5 with national level rank.

Janahamu Programme

From the inception of the Banks' the '*Janahamu*' programme is the key event of the Bank which reaches rural masses in the most convenient and friendly way.

At branch level the community meetings were held covering each and every village within the command areas of the Bank. These community meetings were held very successfully throughout the year and hundreds of thousands of new accounts were opened and billions of rupee deposits were mobilised.

Trade Fair and Exhibitions

Beyond giving financial assistance to its entrepreneurs' RDB enabled them to find market opportunities for their products and services as well. In addition to organising provincial trade fairs RDB launched a national level Trade Fair and Exhibition bringing around 100 entrepreneurs to Sri Lanka Exhibition and Conventional Centre (SLECC) Colombo and held a three days mega trade fair in parallel to RDB's 30th Year Anniversary main ceremony.

Swarna Thilina Award Ceremony

The Bank commemorated its staff members who completed 25 years of their golden service to the Bank this year as well. It was held at SLECC, Colombo in parallel to the main event of 30th Anniversary on 11 July 2015. 328 members were recognised with, gold coins and an award at this ceremony.

Warehouses for Farmers

The Finance Ministry along with the Treasury has taken the initial step to construct four warehouses of international standard. First two warehouses were constructed in Upuldeniya and Galenbindunuwewa of the Anuradhapura District.

As the prices of farm products fell during the harvesting period, farmers store their products in the houses until the price increases. But the harvest then faces attacks from pest and subjected to varying damages. Further the space in the house is obstructed by storing them. Dust too affects the produce, so the provision of warehouses to farmers is the best solution.

Bank appointed a full-time store manager and relevant staff for operational activities while also granting credit facilities whenever farmers are in need.

International Women's Day

In order to mark the International Women's Day that falls on 8 March 2015, the staff in all 265 branches of the Bank island-wide got together to launch a number of specialised services as well as a series of programmes, in every branch with the objective of providing a prosperous tomorrow for women through one goal and vision.

Bank provides financial strength granted by the loan facilities attached to the RDB *Liyasaviya* account to achieve their needs, increasing the interest in the savings habit through the RDB *Liyasaviya* savings account and strengthening women in the society by convincing them of the strength of unity through the introduction of group savings methods and it is an extremely valuable service carried out by the Bank.

Bank was the official sponsor for the national event of International Women's Day 2015 with the amalgamation of Women's Bureau.

Palm Top

The Bank has taken steps to provide convenience to the customers and is one of the first banks to introduce savings agents who visit the customers at their doorsteps and collect the repayments and their day-to-day savings. These transactions are carried out via electronic portable devices (Palm Top) and the transaction is automatically updated to the Bank's system.

This helps entrepreneurs to do their banking transactions without any disturbance to their daily business operations.

Pokuru Gammana

Pokuru Gammana concept is a national project, planning to establish 25,000 villages to the upliftment of economic, social and healthcare situations of villagers. The Bank has started its first step at Galenbindunuwewa. In this field visit, the Bank has provided consulting service to uplift their rural life.

Mahaweli Mehewara

Mahaweli Development Project is a huge project in operation in the Mahaweli area in Sri Lanka. It is a physical and human development project. The Bank has introduced a new programme, together with Mahaweli Authority to enhance the economic and social life of Mahaweli Villagers.

As such, RDB has introduced strategically planned loan schemes in order to bring the benefits of these projects to the people. Therefore individuals can select a financial product that suits their needs. Under this facility, financial assistance is given to Agriculture, Animal Husbandry, Fishing, Industries, Business Expansions, Small and Medium Entrepreneurs and Micro Finance.

Janahamu (Financial Inclusion)

The Bank set a target to conduct community meetings covering each and every village within the command areas of the Bank branches. The Bank has carried out such a mission of empowering people. Mainly we can change their attitudes, improve financial literacy, highlighting financial management and financial disciplines.

Under this programme, Bank provides following benefits to our customers:

- Inculcate savings habit of rural masses and uplifting of socio-economy
- Granting financial services
- Providing consultation service to customers

Small Group and *Janatha Samagam*

The Bank has conducted several programmes especially to empower rural masses. Under the Small Group Methodology, special programmes are operated island-wide to develop their economic activities through establishing economic literacy, through community leaders, who link rural masses to the Bank. They are engaged with establishing, facilitating and monitoring small groups of people ranging from five to eight members and clusters of such groups.

The small groups were organised with over 90% women's participation and the Bank targeted lower income families under this programme and introduced them to banking practices.

Further to facilitate rural masses, the Bank using '*Janatha Samagam*' which is establishes one of namely '*Isuru* Programme'. It is using even their savings as capital under the people's companies established under Centre, Development Associations and District levels are carrying out a massive task to empower the lower income people.

It operated in the Matara, Puttalam and Kandy Districts very strongly and successfully over the 15 year time period.

Industrious women entrepreneurs in Polpithigama creating vibrant handlooms

Stewardship

Board of Directors

01 02 03 04 05 06

01. Mr Prasanna Premaratne
Chairman

Mr Prasanna Premaratne holds a Masters Degree in Agriculture from the USSR, a Postgraduate Diploma in Bank Management from the Institute of Bankers of Sri Lanka and a Postgraduate Executive Diploma in International Relations from the Bandaranaike Centre for International Studies (BCIS) Colombo.

He is an Agriculturist and a qualified Banker with nearly 25 years of experience working as a Development Banker specially involved in small and medium enterprise (SME) sector development. Mr Prasanna Premaratne was a pioneer member of the Pelwatte Sugar Industries management team, a Vice-President of DFCC Bank and the Chief Executive Officer of DFCC Consulting Private Limited, a fully-owned Subsidiary of DFCC Bank. He is a Board Member of the South Asia Partnership of Sri Lanka (SAPSRI).

02. Mr Sarath Hewage
Director

Mr Sarath Hewage is a BA graduate from the University of Peradeniya and also holds a Postgraduate Diploma in Economics (P.G. Dip. in Econ.) and a Master of Arts Degree in Economics (MA) from the University of Peradeniya.

Mr. Hewage is reading for the Master of Philosophy Degree in Economics (M.Phil.) and his research area of the M.Phil Degree is 'Economics and Political Pressures for Violate the Fiscal Responsibility Management by the Governments: A Case Study of Sri Lanka.' In addition, he holds a Certificate in Youth Affairs from the Commonwealth Youth Secretariat Asia Centre in Chandigarh, India.

Mr Hewage is the Co-ordinating Secretary to Hon Minister of Higher Education and Highways. In addition, he is a Research Assistant to the Members of Parliament of the Ministry of Parliamentary Affairs. He has held several positions in the Ministry of Tourism and Sports, Coconut Cultivation Board and also has served as a Government school teacher.

Mr Hewage works as a Lecturer for External Degree Programmes in academic work and is presently teaching the subjects of Micro and Macro Economics, Managerial Economics and International Business Studies.

03. Mr Mukthar Marikkar
Director

Mr Mukthar Marikkar, who is an Engineer by profession, is also a Fellow Member of the Chartered Institute of Marketing (UK), and the American Society of Heating, Refrigerating

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and Air Conditioning Engineers. He is the Chairman and Managing Director of the Frostaire Group of Companies. Furthermore, he is a member of the Board of Directors of the State Pharmaceutical Corporation of Sri Lanka.

Mr Marikkar has served as the Consul General for the Republic of Tunisia in Sri Lanka since 2001 and was the Founder Director and Deputy Chairman of Pan Asia Banking Corporation Limited. He has also served in the State sector as the Deputy Chairman at Rupavahini Corporation of Sri Lanka as well as Deputy Chairman at the Sri Lanka Broadcasting Corporation.

04. Ms Shamara Herath

Director

Ms Shamara Herath holds a Bachelor of Commerce Degree from the University of Delhi in India. Shamara commenced her career in the field of Finance/Accounting and worked for the Corporate Finance Division of Vanik Incorporation Limited. Thereafter, she set up her own advertising agency. In her present role as Head of Marketing and Human Resources for a global jewellery brand (Sifani Jewellers), she is responsible for the promotion of fine jewellery through its worldwide supply chain in London, Maldives, Sri Lanka, Seychelles and Malaysia. She also guides and manages the overall Human Resources of the Company.

05. Mr S. R. Attygalle

Director

Mr S. R. Attygalle is an Assistant Governor of the Central Bank of Sri Lanka and currently serves as a Deputy Secretary to the Treasury. He has over 24 years of experience in the areas of Monetary and Fiscal Policy.

Mr Attygalle holds a Masters (M.Sc.) Degree in Quantitative Development Economics from the University of Warwick, United Kingdom and a Bachelor of Science (B.Sc.) Degree in Physical Science from the University of Colombo.

Prior to the appointment as the Deputy Secretary to the Treasury, Mr Attygalle had been serving as the Director General of the Department of Fiscal Policy and Department of Public Enterprises of the Ministry of Finance & Planning and has contributed substantially to the Government's endeavours in the fiscal consolidation process.

Mr Attygalle had also served as a Director and Acting Chairman of National Savings Bank and a Director to the Board of Bank of Ceylon and also represented the Treasury as a Board Member in several Boards in key Government institutions such as Sri Lanka Ports Authority, University Grants Commission and Insurance Board of Sri Lanka.

At present, Mr Attygalle is representing the Treasury at the Securities and Exchange Commission of Sri Lanka and Sevana Fund.

06. Mr Jagath Gamanayaka

Director

Mr Jagath Gamanayaka is the Senior Deputy General Manager (Branch Operations and Marketing) of National Savings Bank. He counts over 18 years of experience in the Banking Industry. Prior to joining National Savings Bank he has gained working experience in different industries including fertilizer, building products, and consumer products etc.

He is a Fellow Member of the Sri Lanka Institute of Marketing (SLIM), Member of American Marketing Association (AMA) and an Associate Member of the Institute of Bankers of Sri Lanka (IBSL). He holds a Masters Degree in Business Administration (MBA) from the University of Colombo and a Bachelor of Science (Special) Degree from the University of Peradeniya. He also holds a Diploma in Banking & Finance from IBSL, and a Diploma in Marketing from the Chartered Institute of Marketing (CIM) in UK and is a Chartered Marketer.

He has contributed to the marketing fraternity by joining SLIM and served as one of the former Secretaries of SLIM. He has also serving as a member of the Sri Lanka Region Financial Interest Group of CIM.

He is a lecturer at IBSL for MBA, CMA, CIM and Postgraduate Diploma in Management Studies and lectures on Marketing and Management. He also lectures at Aquinas University College.

07. Mr K. B. S. Bandara

Director

Mr Koliya Bandara is a nominee Director of Bank of Ceylon since February 2014 and Chairman of the Integrated Risk Management Committee. He is a permanent employee of Bank of Ceylon holding the position of Deputy General Manager since March 2012. His current business portfolio at BOC includes Product Management, Islamic Financing, Development Banking, Electronic Banking and Credit/Debit Cards Operations.

He counts over 27 years of experience in banking, both local and abroad, gaining wide exposure in the fields of information systems, investments, treasury management, international banking operations and corporate banking. He worked at Bank of Ceylon (UK) Limited as the Chief Executive Officer. Prior to joining the Bank, he was an Assistant Lecturer at the University of Kelaniya and served at the Mahaweli Authority.

He had been a resource person at the Institute of Bankers of Sri Lanka (IBSL) in the fields of Credit and Investment Management.

Mr. Bandara is a Physical Science graduate of the University of Kelaniya, Sri Lanka and holds an MBA, with Merit Pass from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, Sri Lanka. He is a Fellow Member of the Institute of Bankers of Sri Lanka and obtained a Postgraduate Diploma in Bank Management from the same Institute, achieving the 'Best Student' award in 1998.

Mr. Bandara is currently in the Governing Board of institute of Bankers of Sri Lanka. He is also in the Council of the National Chamber of Commerce

08. Mrs Renuka Jayasinghe

Director

Mrs Renuka Jayasinghe joined the People's Bank in 1987 as a Management Trainee, counts over 28 years of experience in the field of banking and is in charge of Personal Banking as well as Cooperative & Development Banking. She holds a First Class Special Degree in B.Com. from the University of Sri Jayewardenepura and has a professional banking qualification AIB – Sri Lanka.

09. Mr Niranjan Arulpragasam

Director

Mr Niranjan Arulpragasam assumed duties as a Board Director on 16th November 2015. Mr Arulpragasam holds an MBA from the INSEAD School of Business and was awarded a Kofi Annan International Scholarship to pursue his BA in Economics and Law from Macalester College, USA. Mr Arulpragasam is an Attorney-at-Law by profession specialised in public law and civil litigation, and works as a Consultant to the Ministry of Finance. Previously he was an investment banker at Merrill Lynch, New York, and an Associate Vice-President at AMBA Research.

10. Mr W. A. Priyantha Abeysinghe

Director

Mr W. A. Priyantha Abeysinghe assumed duties as Working Director of Regional Development Bank on 2 November 2015.

Mr Abeysinghe holds a B.Com. (Special) Degree from the University of Sri Jayewardhenepura, a Diploma in Gemology with 10 years of experience in gem mining, gem identification, gem valuation and machinery mining and a Diploma in Hotel Management.

Mr Abeysinghe had served as a District Manager at Regional Rural Development Bank from 1988 to 1994.

11. Mr A. H. M. Riyaz

Director

An investment banker with 26 years experience in management consultancy, corporate finance, investment management, risk management, treasury operations and primary dealer operations.

His areas of exposure includes setting up businesses and business units, restructuring of companies and listing of companies in the financial industry including investment departments, investment management companies, primary dealer operations and restructuring of licensed finance companies.

An accountant by profession with ACMA (UK), CGMA, BBA (Hons.) – 2nd class upper from University of Colombo and M.Sc. in Management from the University of Sri Jayewardenepura.

In 2013 he joined Natwealth Securities Limited; a Primary Dealer regulated by CBSL, as the CEO and was promoted to the position of Group CEO within three months, overlooking the holding company, which is also an Investment Manager under Securities and Exchange Commission of Sri Lanka. As the Group CEO was able to turnaround the company from a loss to a profitable venture.

He also served as a Board Director of Janatha Estate Development Board. (JEDB)

Currently Mr Riyaz is carrying out his professional duties as a consultant/advisor to many companies in the areas of investment management and treasury management.

Corporate Management Team

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01. Mr T. A. Ariyapala

General Manager/CEO

Mr T. A. Ariyapala, who is currently the General Manager/ Chief Executive Officer of Regional Development Bank, completes 37 years of banking service in various capacities having specialised in Development Banking, Cooperatives and Branch Banking & SME. Mr Ariyapala joined the People's Bank in 1978 and served at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and Deputy General Manager up to September 2014. He holds a B.Sc. Business Administration Special Degree and also a Bachelor of Law Degree (L.L.B.) and is an Attorney-at-Law. He is a Fellow Member of the Institute of Bankers of Sri Lanka (IBSL, FIB) and also an Associate Member of the Association of Accounting Technicians of Sri Lanka (MAAT). He has received extensive local and overseas training and exposure in Cooperatives, Project Lending, Micro Finance, Human Resource Management and Branch Business/ Banking and has rejuvenated SME Banking, SME Centre Concept & Development Lending during his tenure at People's Bank.

02. Mr Vajira Jayasinghe

Chief Information Officer

Mr Vajira Jayasinghe, an IT professional with more than twenty years of experience, joined Regional Development Bank in June 2011. He holds a B.Sc. Engineering Degree from the University of Moratuwa. He also has a Master of Engineering Degree from the Asian Institute of Technology in Thailand and Master of Business Administration degree from the University of Hawaii, USA. After graduation, he started his career as a Systems Engineer at IBM World Trade Corporation. He counts more than twelve years of work experience in Management positions of financial services and banking industry. A Certified Information Technology Professional (CITP) of the British Computer Society and a Certified Project Management Professional (PMP) of the Project Management Institute of USA, Mr Jayasinghe is a Chartered Engineer in Information and Communication Technology.

03. Mr T. Kuhan

Chief Risk Officer

Mr T. Kuhan, a professional banker, joined RDB in September 2011 after serving two reputed private banks, namely HNB and Union Bank. He counts over 25 years of continuous service exclusively in the banking sector in different managerial capacities with exposure to development banking, corporate credit, branch banking, risk management and trade financing. He is a holder of Masters in Financial Economics and Postgraduate Diploma in Economic Development both from the University of Colombo. His other qualifications are Postgraduate Diploma in Bank Management and Diploma in Banking & Finance both from the Institute of Bankers of Sri Lanka (IBSL) and National Diploma in Technology (NDT) in Mechanical Engineering awarded by University of Moratuwa. He is an Associate member of IBSL.

04. Mr Ajith Alahakoon

DGM/Credit and Recovery

Mr Ajith Alahakoon, graduated from the University of Sri Jayewardenepura Sri Lanka with a Special Degree in Commerce, in 1987. He is an Associate Member of The Institute of Chartered Accountants of Sri Lanka as well as the Institute of Bankers of Sri Lanka. He started his banking career at People's Bank in 1979. Moreover, he has been deeply involved in the formation of SANASA Development Bank as a member of the steering committee. Subsequently, he moved to LB Finance Limited, and dedicated his service for seven successful years as an Assistant General Manager. Mr Alahakoon has over 37 years of finance and general management experience in the banking industry and financial services. Furthermore, he was involved in the formation of Abans Finance Limited and became its first General Manager in 2006. He undertook the assignment of the formation of Global Trust Finance Limited in 2010 as its first General Manger/CEO. Before joining Regional Development Bank, he had worked at Housing Development Finance Corporation as Head of Credit.

05. Mr C. Kalupahana

Chief Finance Officer

Mr. Kalupahana, joined the Bank in September 2013. Prior to his appointment as Chief Financial Officer at RDB, he has held senior positions at companies local and overseas, including Head of Finance, Head of Audit, Assistant General Manager, Senior Deputy General Manager and General Manager/CEO in the fields of Banking, Finance, Insurance and other different fields. He has more than 33 years experience and obtained true international exposure having worked with foreign nationals at British, Irish and American companies for several years in Tanzania, Saudi Arabia and Angola/UK, in addition, he has worked at several companies in Sri Lanka. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), a Fellow Member of the Association of Accounting Technicians of Sri Lanka, a Fellow Member of the Institute of Professional Managers of Sri Lanka and had a membership at the Board of Certified Public Accountants & Auditors of Tanzania. Mr Kalupahana has obtained four years training required to admit as a member of CA Sri Lanka from KPMG - Sri Lanka.

06. Mr Jagath Karunathilaka

Head of HRD and Administration

Mr Jagath Karunathilaka, a HR specialist with more than 29 years experience, joined RDB in July 2014. He worked as Assistant General Manager/Head (Human Resources & Logistics) of State Mortgage and Investment Bank (SMIB). He served as Additional Project Director (HRD & Admin.) in *Gemidiriya* (World Bank-aided project). He also worked as Director (HRD and Admin.) of Sri Lanka Rupavahini Corporation and Senior Management Consultant and Manager (Admin and Finance) of Sri Lanka Institute of Co-operative Management. Mr. Karunathilaka possesses a Degree in (Business Admin.) from University of Sri Jayewardenepura (1986), holds a Postgraduate Certificate in HRM (1996) and an MBA (2003) from the Postgraduate Institute of Management (PIM). He is an Associate Member of the Institute of Personnel Management of Sri Lanka (IPM). He is a recipient of the National HR Excellence Award 2010 from IPM.

Regional General Managers/ Senior Assistant General Managers

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01
North Western Province
Regional General Manager
Mr U. B. Semasinghe
B.Com. (Special), University of Colombo

02
Southern Province
Regional General Manager
Mr C. L. Pihillanda
B.Com. (Special) University of Kelaniya
PG Diploma in Management
University of Peradeniya

03
North Central Province
Regional General Manager
Mr D. M. Senarathna Bandara
B.Com. (Special) University of Sri Jayewardenepura

04
Western Province
Regional General Manager
Mr A. H. M. M. B. Jayasinghe
BBA, University of Sri Jayewardenepura
PG Diploma in Management – University of Wayamba.
Post Graduate Diploma in Regional Development NIBM and RVB Netherland Post
Graduate Executive Diploma in Bank Management
Institute of Bankers of Sri Lanka

05
Uva/Eastern Province
Regional General Manager
Mr D. M. T. S. Kumara
Business Administration (Special) - B.Sc.
University of Sri Jayewardenepura

06
Sabaragamuwa Province
Regional General Manager
Mr Sanath Senadeera
B.Com. (Special) – University of Kelaniya

07
Mr W. G. J. Premadasa
Senior Assistant General Manager
(Finance & Planning)
B.Com. (Special)
University of Sri Jayewardenepura.
Higher National Diploma in Commerce
A.M.P.M.A. (UK)

08
Mr S. A. U. R. K. Sinhalagoda
Senior Assistant General Manager
(Operations)
B.Com. (Special) University of Kelaniya

09
Mr W. S. Hewawasam
Senior Assistant General Manager
(Human Resource Development)
B.A. (Econ Special) – University of Sri Jayewardenepura

10
Mr K. P. Dahanayake
Senior Assistant General Manager
(Credit Administration)
B.Com. University of Ruhuna.
Post Graduate Diploma in Management – University of Rajarata

Assistant General Managers

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01
Mr W. M. Nimal de Silva
Assistant General Manager

Southern Province
B.Sc. - Business Administration (Special)
University of Sri Jayewardenepura

02
Mr I. J. Wijesekara
Assistant General Manager

Sabaragamuwa Province
B. Com. (Special) – University of Sri Jayewardenepura

03
Mr K. Ariyathilake
Assistant General Manager

Southern Province
Higher National Diploma in HRD
National Institute of Business Management

04
Ms C. S. Weragoda
Assistant General Manager

Sabaragamuwa Province
B.Sc. – Business Administration (Special)
University of Sri Jayewardenepura

05
Mr. J. P. K. Herath
Assistant General Manager
(Administration)
Diploma in Agriculture - Gannoruwa

06
Mr W. M. D. S. Wickramasinghe
Assistant General Manager
Compliance Officer
B.Com. (Special) – University of Ruhuna
PG in Business Management Diploma – University of Colombo
Certificate in Risk Management in Banking – Sweden

07
Mr Sisil De Silva
Assistant General Manager
(Credit & Recovery)
B.Sc. – Business Administration (Special)
University of Sri Jayewardenepura

08
Mr W. Kottage
Assistant General Manager

Western Province
B.Com. (Special) University of Ruhuna

09
Mr W. V. E. G. Warakagoda
Assistant General Manager

Uva Province
B.Com. (Special) University of Sri Jayewardenepura
Intermediate – The Institute of Chartered Accountants of Sri Lanka

10
Mr B. H. M. S. Basnayake
Assistant General Manager

Central Province
B.Sc. Business Administration (Special) –
University of Sri Jayewardenepura
Management Diploma – University of Uva

11
Mr L. B. Upali
Assistant General Manager

North Western Province
B.Com. (Special) – University of Kelaniya

12
Mr B. M. U. S. Basnayake
Assistant General Manager

North Central Province
Diploma in Agriculture
College of Agriculture, Palvehera

13
Mr R. M. R. Randeniya
Assistant General Manager

North Central Province
Bachelor of Arts, University of Peradeniya

14
Mr A. H. M. G. Abeyrathne
Assistant General Manager

Western Province
B.Com. (Special) University of Kelaniya
Diploma in Micro Finance – Open University of Sri Lanka

15
Mr D. S. P. C. Hadunhewa
Assistant General Manager
(Marketing & Business Promotion)

16
Mr D. P. Dharmadasa
Assistant General Manager

Uva Province
Bachelor of Arts University of Peradeniya

17

18

Board Secretary

Ms Kasuni Pinnawele
Chief Legal Officer

17
Ms B. R. D. Pushpakumari
Assistant General Manager
North Western Province
B.Com. (Special) University of Kelaniya

18
Mr P. Koralegedara
Chief Internal Auditor
BA, AIB

Risk Management

In financial markets, as well as its many commercial activities, especially in banking activities, if an investor wants to achieve a higher rate of return, it's obvious that the investor may have to assume more risk. However, the transparency of trade between risk and return is highly variable.

Today, in the competitive banking business, bankers refer risk management as a business strength, an indication of profitability, an incept for good governance and finally, a means of business.

Banking business is originally exposed to various types of risks, those are inherent in business. In general, banks face many risks such as credit, operations and market, but in addition to those main three risk categories, currently the Bank has considered various other risk categories like strategic risk, compliance risk, legal risk, reputation risk etc. Every banking institute tends to give high consideration to their risk culture and risk practices. In line with this, RDB is also in the process of adopting best practices to the Bank.

Credit Risk Management

Credit risk, is the risk associated with the loss of principal or the loss of a financial reward, stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Credit Risk Management at RDB

The total credit exposure of RDB is 82.32% of the total assets of the Bank. Credit is the major business line of the Bank, so credit risk is a major type of risk that is being maintained.

Our lending portfolio has increased up to Rs. 88.39 billion during the year, which is a 42.56% increase, compared to last year. However, the banking industry continued to face the gold market crisis of 2015 as well which resulted in the Bank's lending portfolio also being affected.

RDB also adapted/continued the following actions to keep the risk of pawning at a manageable level:

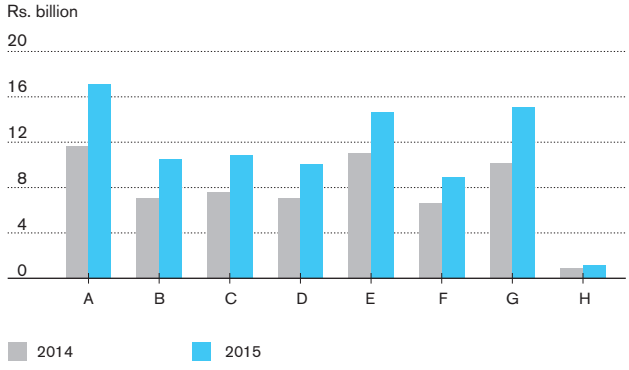
- Reinforce the recovery process
- Strengthen the auction process frequently
- Diversify the credit portfolio in to several industries like SME, Agriculture and Housing

Accordingly, RDB have successfully mitigated bank concentration risk by diversifying its lending portfolio into other sectors as well.

Sector	HHI	
	2015	2014
Agriculture	**0.020**	0.037
Animal Husbandry	**0.001**	0.001
Industrial (SME)	**0.059**	0.085
Trading and Services	**0.000**	0.000
Housing	**0.128**	0.043
Pawning	**0.004**	0.014
Other Priority	**0.020**	0.018
Staff	**0.001**	0.000
Total	**0.232**	0.199

Geographical Concentration

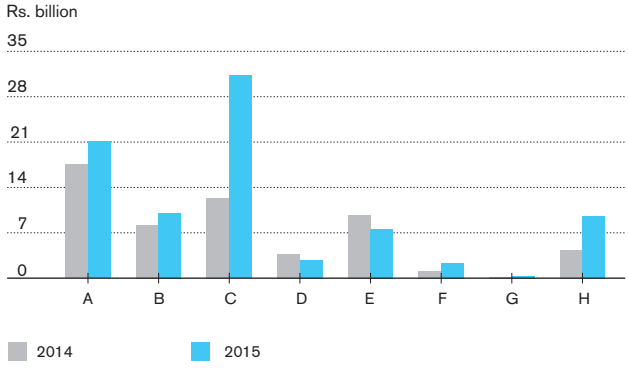
Geographical Concentration



A - North Western
B - North Central
C - Sabaragamuwa
D - Uva
E - Southern
F - Central
G - Western
H - Head Office

Product Wise Concentration

Performing Advances - Product Wise



A - Development Loans
B - Micro Enterprises Loans
C - Housing Loans
D - Loans Against Deposit
E - Pawning
F - Staff Loans
G - Leasing/Transport Service Loans
H - Other Loans

Credit Risk Management Process

Credit is the major business line of RDB like any other bank which tends to increase the overall risk exposure of the Bank. Therefore, the Bank has placed a considerable weightage on credit risk management process. Accordingly, RDB has already established a Board approved Credit Risk Management Policy and it is being reviewed annually. The Bank mitigates, manages and measures its credit risk, according to this Credit Risk Management Policy and its framework.

Sectoral Limits and Delegated Approving Authority

The Bank has established approved credit sectoral limits and the Risk Management Department, monthly analyses these sectoral limits and is in turn, reported to Board of Directors. The Credit Department and Business Units (265 branches) to adjust their targets according to approved limits. Periodically, the Credit Department enhances knowledge of its staff, who are engaged in credit functions, by organising various training programmes and sharing of circulars. The Bank has specific delegated authority levels to approve credit facilities. Normally, credit proposals are analysed by experienced credit officers and handed over to the relevant approval authority level. However, high value credit proposals are approved by the Credit Committee and Board. At present, loan proposals which exceeds authority level of Deputy General Manager Credit and Recovery, are subject to an independent evaluation by the CRO. This structured evaluating and approving process introduced in 2014, has comparatively declined the Bank's credit risk on its portfolio, which has been continuing from last ear.

Loan Loss Provisioning

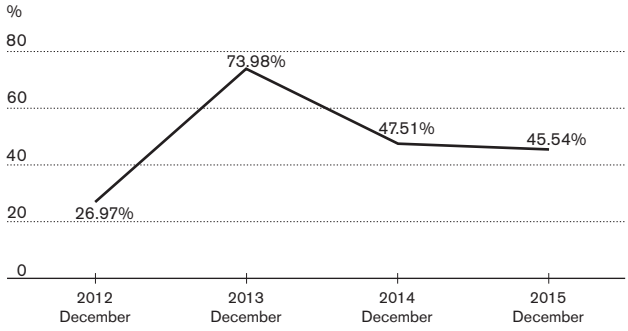
According to Central Bank (CBSL) Guidelines, the Bank follows two types of provisioning methods. Provisioning categories are:

- General Provision (according to Central Bank Guideline)
- Specific Provision (according to Central Bank Guideline)

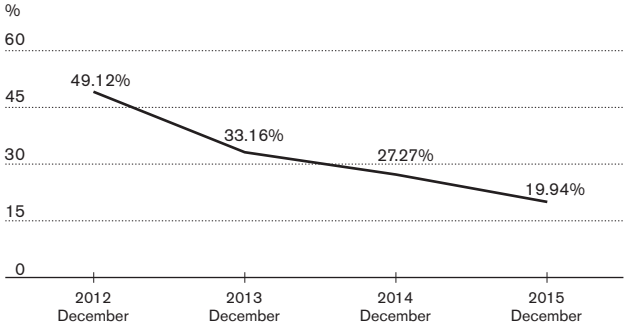
Provision cover ratio and open exposure ratio of the Bank is calculated and analysed by the Risk Management Department periodically. The Risk Management Department submits these ratios with their observations to Board of Directors at every months end.

As of end of December 2015, the open exposure and provision cover ratio of the Bank is as follows:

Open Exposure



Provision Cover Ratio



Impairment Assessment on Loan Loss

RDB also has adapted to new Accounting Standards SLAS 44 and 45 for impairment and the Bank has used these options to match their loan losses with their profit.

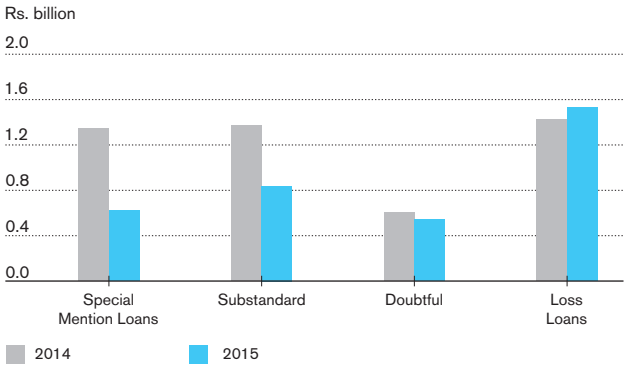
Credit Risk Monitoring and Reporting

Lending officers closely monitor their total credit portfolio and individual credit facilities at ground level (branch level) through daily customer analysis and recovery processes. However, at Head Office level, Risk Management Department analyse the credit portfolio of the Bank and reports to the Board of Directors under the KRI (Key Risk Indicator) Report with independent observations on a monthly basis. The KRI Report includes Total Credit Portfolio Analysis, NPA Analysis, Loan Provisioning Analysis etc. At Risk Management Division, RDB do a close monitoring of the Bank's top 20 borrowers on a monthly basis as well.

As of end of 2015, the top 20 borrowers and depositors were contributing 0.96% and 9.55 % on Credit and Deposit Portfolios respectively.

NPL Analysis

Non-Performing Advances



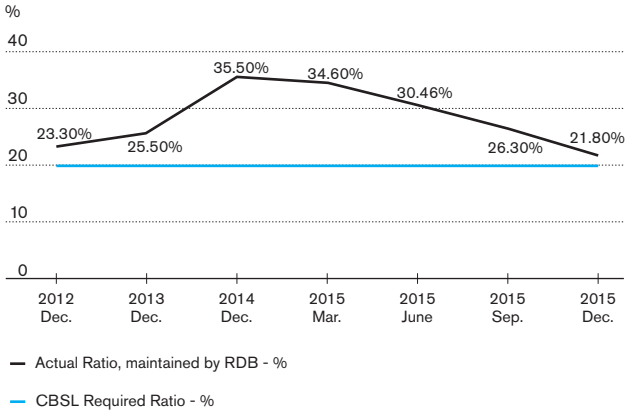
Liquidity Risk Management

It is the risk that a Bank encounters difficulties in meeting its financial commitments that are settled by delivering cash or other financial assets.

Liquidity Risk Management at RDB

RDB is maintaining a Liquidity Risk Management Policy since 2013 and reviews it annually. The Bank has always complied with Bank Liquidity Management Framework and CBSL guidelines on Bank liquidity. The Bank makes an effort to maintain a sound liquidity position, above the regulatory requirement of 20%. To achieve this objective, the Bank evaluates and monitors liquid assets and liabilities and keeps a high quality liquid assets base through ALCO.

Required vs Actual Liquid Asset Ratio of the Bank



	2015	2014
1st quarter	**34.60%**	31.70%
2nd quarter	**30.46%**	35.70%
3rd quarter	**26.30%**	36.70%
Year end	**21.80%**	35.50%

Comparative figure (2014-2015)

ALCO

The main responsibility of managing the Bank's liquidity lies with the Assets and Liability Management Committee (ALCO). ALCO consist of the Bank's Corporate and Executive level employees and it is an Executive Level Committee. The Committee meets at least once a month or as and when it is necessary.

The Bank will adopt the new LCR (Liquidity Cover Ratio) requirements announced by the regulator from the year 2016.

Stress Testing on Liquidity

The Risk Management Department regularly carries out a stress testing on Bank Liquidity under three scenarios, which is related to different severity positions. Every month, the Department evaluates the result of the stress testing and measures the possible impacts of unexpected situations on liquidity of the Bank. According to the result of stress testing, the Board of Directors are informed by the Risk Management Department on appropriate solutions and funding arrangements for such situations through ALCO.

All figures in Rs '000

Details	Balance as at 31.12.2015	Shocks		
		Minor	Moderate	Major
Magnitude of Shock		2%	3%	4%
Liquid Assets	18,534,483	18,534,483	18,534,483	18,534,483
Total Liabilities	85,155,276	85,155,276	85,155,276	85,155,276
Value Fall on Total Liabilities		1,703,106	2,554,658	3,406,211
Revised Total Liabilities after Shock		83,452,171	82,600,618	81,749,065
Revised Liquid Assets after Shock		16,831,378	15,979,825	15,128,272
Liquid Asset Ratio	21.77%	20.17%	19.35%	18.51%

Operational Risk Management

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

Loss Data Reporting

RMD has been involved with the loss of data capturing and reporting processes since 2012. All losses reported to investigation unit are recorded by the RMD and every quarter, loss data which has exceeded the threshold limit of Rs. 500,000/- are reported to the Central Bank and the Bank has maintained a database related to various types of loss data.

IT Infrastructure Development

Up to the end of 2014, the Bank has worked on four different IT platforms. Now RDB is on a new centralised IT solution. After introducing the new IT solution, the Bank has automatically exposed to IT risk. So the Bank has approved information security and acceptable usage policies, commenced Information Security Management System (ISMS) functions during the year 2015.

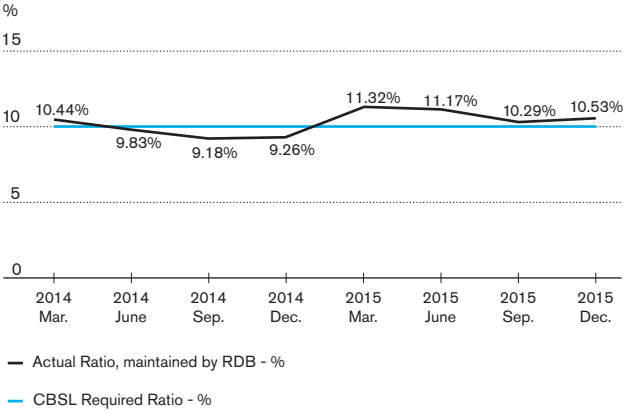
Business Continuity Plan (BCP)

The Bank has finalised its Business Continuity Plan (BCP) during the year 2015. The implementation/drill of this BCP is to commence from 2016.

Capital Adequacy

The Bank's Capital Adequacy during the past two years, is in the following manner.

Required vs Actual Capital Adequacy Ratio



Since the minimum requirements have not been met on several occasions, which is evidenced from the above graph, the Board of Directors approved the following actions to strengthen the capital base of the Bank:

1. To call for additional infusion of capital from the existing shareholders, according to the Pradeshiya Sanwardhana Bank Act, which is not allowing a new investor to come in as a shareholder.
2. To issue debentures

According to the first option, the Bank has raised Rs. 2.5 billion from the existing shareholders during the year 2014. The Board has also approved to raise capital through a debenture issue up to Rs. 2.5 billion and has successfully completed its debenture issue during the year 2015 and raised capital by Rs. 2.5 billion.

Carrying out the above two options, the Bank has strengthened its capital base to surpass the minimum requirement imposed by the regulator.

The Board and the Management are also conscious of the NPA movement on the credit portfolio, which affects capital adequacy of RDB. Periodic stress testing is being done by the Risk Management Department, according to the approved stress testing policy guidelines of the Bank. The results are notified to the Board through IRMC on a quarterly basis.

The results of the stress testing for the year 2015 are as follows:

Non-Performing Advance Portfolio	Original CAR	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock	-	2%	3%	4%
Directly to Loss category	10.53%	8.19%	8.14%	8.10 %
Shift of Shock within all Categories	10.53%	8.25%	8.25%	8.24%

RDB promoting a better future for our sons and daughters

Auditor General's Report of Corporate Governance

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය எனது இல. My No. BAF/F/RDB/CG/2016

ඔබේ අංකය உமது இல. Your No.

දිනය திகதி Date 17 June 2016

The Chairman,
Pradeshiya Sanwardhana Bank

Auditor General's Report of Factual Findings of Pradeshiya Sanwardhana Bank to the Board of Directors of the Pradeshiya Sanwardhana 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 this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate 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 engagement. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive.

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

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

Had I performed additional procedures or had I performed an audit or review of the Financial Statements in accordance with Sri Lanka Auditing Standards, other matters 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 Pradeshiya Sanwardhana Bank, taken as a whole.

H. M. Gamini Wijesinghe
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 oaggov@sltnet.lk www.auditorgeneral.gov.lk

Corporate Governance

3 (1)	The Responsibilities of the Board	Level of Compliance
3 (1) (i)	Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the Bank.	
	(a) The Board approval, the Bank's strategic objectives and corporate values.	**Complied with.** Board approved the strategic objectives and corporate values for the period 2011-2015 as determined by Pradeshiya Sanwardhana Bank Act No. 41 of 2008.
	Whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.	Communicating the objectives through the Bank is done by circulars, e-mails, awareness programmes through Key Management Personnel where necessary.
	(b) The Board approval of the overall business strategy of the Bank.	**Complied with.**
	The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	The Board approved corporate plan which includes the overall business strategy for the period 2011-2015 was available. The overall risk policy and risk management procedures of the Bank was reviewed by the Integrated Risk Management Committee and approved by the Board which is in line with the strategic plan of the Bank.
	The overall business strategy contains measurable goals, for at least the next three years.	Strategic plan with corporate goals for next five years from 2016 onward has been drafted.
	(c) The appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	**Complied with.** A prudent process has been implemented to manage identified risk; policies and procedures are approved and reviewed by Integrated Risk Management Committee is functioning and continuous assessment is in practice.
	(d) The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	**Complied with.** The policy has been reviewed and approved by the Board. The implementation of the policy is done by all managerial levels with the close monitoring process.
	(e) The Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems.	**Complied with.** Internal control systems relating to the deposits, cash control and branch operations are documented in the operational manual. Internal control systems for other operations have established through internal circulars. The effectiveness of the Bank's internal control systems were reviewed by the Internal Audit Department and discuss with the Board Audit Committee.

		There was no Management Information System Policy approved by the Board. However, integrity of the Management Information System was assessed by the Internal Audit Department from 2016 onwards, through information system audit and issues are discussed in the Board Audit Committee and refer those for the Board review.
(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.	**Complied with.** Policy on Related Party Transactions was approved by the Board in 2015.
(g)	The Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel.	**Complied with.** The areas of authority for the Board are governed by the Pradeshiya Sanwardhana Bank Act. The areas of authorities of Key Management Personnel, are defined in the respective job descriptions of each Key Management Personnel.
(h)	The Board has exercised appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy.	**Complied with.** The Board has exercised appropriate oversight of the affairs of the Bank through Board Sub-Committees. Key Management Personnel are also called by the Board to explain matters relating to their respective areas.
(i)	The Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including:	**Partially complied with.**
	(i) the selection, nomination and election of Directors and Key Management Personnel.	Appointments of Directors are done by the Minister in consultation with the Secretary to the Treasury.
	(ii) the management of conflicts of interests; and	Self-assessment scheme initiated by the Board helps to manage the conflict of interest.
	(iii) the determination of weaknesses and implementation of changes where necessary.	The Board has not periodically assessed the weaknesses of the Board Directors' own governance practices and implementation of changes where necessary.
(j)	The Board has a succession plan for Key Management Personnel.	**Partially complied with.** Board has approved a succession plan is in place. However, it has not reviewed, implemented or adhered to fill the successors.

	(k) The Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	**Complied with.** Board meetings conduct monthly and progress of business performance with regards to relevant Departments are reviewed. Also, Review meetings have been scheduled and conducted with CEO and Corporate Management. Any matter concern is reported to Board. Twelve Regional General Manager's meetings and two District Manager's meetings were held during the year 2015.
	(l) The Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	**Complied with.** The Board is concerned and update on the changes in the regulatory environment and maintains relationship with regulators. The process and the level of compliance is managed and reviewed by the Compliance Officer.
	(m) The Board has a process in place for hiring and oversight of External Auditors.	**Not Applicable.** Under Section 33 of the Pradeshiya Sanwardhana Bank Act, Auditor General is the External Auditor of the Bank.
3 (l) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO).	**Complied with.** Minister nominates and appoints the Chairman and the Board appoints the General Manager/Chief Executive Officer.
	The functions and responsibilities of the Chairman and the CEO are in line with Direction 3 (5) of these Directions.	Pradeshiya Sanwardhana Bank Act No. 41 of 2008 states the functions and responsibilities of the CEO and the Chairman's functions is in a non-executive capacity.
3 (l) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	**Partially complied with.** During the Year, only 11 Board meetings have been conducted. However, after the resignation of the earlier Board, first appointments to the new Board were made on 10 February 2015 which cause for the Bank's inability to fulfil the regulatory requirements.
3 (l) (iv)	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	**Complied with.** Board meetings are scheduled monthly and Directors are notified of the date of the next meeting well in advance, enabling them to include matters and proposals.

3 (l) (v)	The Board has given notice of at least seven days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	**Complied with.** Notice of monthly Board meetings, provide to the Directors seven days prior to the meeting date as a practice.
3 (l) (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 Register of Directors is maintained. No occasions have reported during the year 2015.
3 (l) (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 secretarial 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 to the Board as defined by Section 43 of the Banking Act No. 30 of 1988.
3 (l) (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 advice and services of the Board secretary.
3 (l) (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 Board meetings are maintained by the Secretary and open to any Director for inspection.
3 (l) (x)	The minutes of a Board meeting contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	**Complied with.** Following will cover with the minutes. (i) Discussed matters in decisions taken on particular subjects. (ii) Approvals/comments or reviews on submitted Board papers. (iii) Instructions and matters directed to Management. (iv) Decisions on policy matters and review of performances. (v) Highlights and recommendations on Board Sub-Committees. (vi) Other contemporary matters discussed.
3 (l) (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.** Professional advice could be obtained at Bank's expense by taking decisions at Board meetings. However, there is no laid down procedure formulated.
3 (l) (xii)	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.	**Complied with.** When a resolution is passed at the Board meetings regarding a particular matter on which Directors are personally interested, he/she abstains from voting for the resolution.

	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.	**Complied with.**
	Has he/she been counted in the quorum for the relevant agenda item at the Board meeting.	**Complied with.**
3 (l) (xiii)	The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	**Complied with.** A schedule of matters reserved for Board's decisions is included in the agenda to ensure Board's contribution in the decision-making process to make the ultimate decisions.
3 (l) (xiv)	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.	**Complied with.** Although, this situation has not arisen, the Board is aware of the need to inform the Director of Bank Supervision prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors. The IRMC analyse the liquidity risk of the Bank and may bring promptly to the notice of the Board of any event about to become insolvent.
3 (l) (xv)	The Board has the Bank capitalised at levels as required by the Monetary Board.	**Complied with.** Bank has maintained the minimum level of capital adequacy as required by the Monetary Board.
3 (l) (xvi)	The Board publishes, in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	**Complied with.** This Corporate Governance Report discloses the extent to which the Bank has complied with Direction 3 of the Banking Act Directions on Corporate Governance.
3 (l) (xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	**Complied with.** Bank initiated a self-assessment scheme which is undertaken by each Director annually.
3 (2)	**The Board's Composition**	
3 (2) (i)	The Board comprise not less than seven and not more than 13 Directors.	**Complied with.** Board comprises with 11 Directors in 2015.
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 described in the Direction.
	(b) In the event of any Director serving more than nine years, check that the transitional provisions have been applied with.	**Complied with.** None of the Directors have completed nine years as described in the Direction.
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.** The Board comprises of eleven Directors which ten are Non-Executive Directors and only one becomes an Executive Director.

		Non-Executive Directors and the Chairperson of the Board are designated as Independent Directors.
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. Check if Non-Executive Directors can be considered independent if he/she: (a) holds a direct and indirect shareholdings of more than 1% of the 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% of the regulatory capital of the Bank; (c) has been employed by the Bank during the two-year period immediately preceding the appointment as Director; (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.); (e) represents a specific stakeholder of the Bank; (f) is an employee or a Director or a material shareholder in a company or business organisation: (i) which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank, or (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% of regulatory capital in the Bank.	**Complied with.** The Board comprises 11 Directors out of which 10 are Non-Executive Directors. Six Non-Executive Directors are designated as Independent Non-Executive Directors.
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.	No Alternate Director was appointed.
3 (2) (vi)	The Bank has a process for appointing Independent Directors.	All Directors are appointed by the Minister in consultation with Secretary to the Treasury.
3 (2) (vii)	The stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% 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.	**Complied with.** Annual Report carries the details of the Board of Directors by category.

3 (2) (ix)	Procedure for the appointment of new Directors to the Board.	**Complied with.** All Directors are appointed by the Minister in consultation with Secretary to the Treasury.
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.	**Not applicable.**
3 (2) (xi)	If a Director resigns or is removed from office, the Board: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	**Complied with.** All appointments and removal of Directors are done by the Ministry in consultation with Secretary to the Treasury.
3 (2) (xii)	Check if there is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another bank.	**Complied with.** The Minister of Finance takes into account this requirement when considering appointments of the Directors. Annual Declarations obtain from Directors and Key Management Personnel also helps to identify such type of situations.
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.	**Complied with.** No any Director comprises in the Board who are over 70 Years.
	(a) The transitional provisions have been 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.	**Complied with.** No Director holds directorships in 20 companies.
3 (4)	**Management Functions Delegated by the Board**	
3 (4) (i)	The delegation arrangements have been approved by the Board.	**Complied with.** The Board has delegated matters pertaining to the affairs of the Bank to the Board Sub-Committees and also to the CEO and other Key Management Personnel. The Board periodically reviews and approves the delegation arrangements in place. The Board also reviews and approve the Terms of References of each of the Board Committees which enabling the Board to discharge their functions effectively.
3 (4) (ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	
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.	

3 (5)	The Chairman and CEO	
3 (5) (i)	The roles of Chairman and CEO is separate and not performed by the same individual	**Complied with.** The positions of the Chairman and the CEO have been separated and held by two individuals.
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.	**Complied with.** Chairman is a Non-Executive Director and no Senior Directors 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.	**Complied with.** Annual Declarations provided by the Directors help to identify such relationships.
3 (5) (iv)	The Board has a self-evaluation process where the Chairman - (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the Board in a timely manner.	**Complied with.** The Chairman provides leadership to the Board and ensure that the Board functions effectively in discharge its responsibilities. The self-evaluation process carried out by the members of the Board biannually each year, assist the Chairman to effectively carry out its responsibilities.
3 (5) (v)	A formal agenda is circulated by the Company Secretary approved by the Chairman.	**Complied with.** The agenda for each Board meeting is prepared and circulated by the Board Secretary in consultation with Chairman and CEO.
3 (5) (vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	**Complied with.** Matters to be taken up for discussions in Board meetings are circulated with the Notice of the Meeting at least seven days prior to the meeting. However in some instances other urgent matters are circulated to the Board without giving seven days prior period.
3 (5) (vii)	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.	**Complied with.** Chairman provides the leadership to all Directors to act in the best interest of the Bank. The self-evaluation process carried out by the members of the Board biannually each year, assist the Chairman to effectively carry out its responsibilities.

3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	**Complied with.** The feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contribution of Non-Executive Directors.
3 (5) (ix)	The Chairman engages in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	**Complied with.** Chairperson is a Non-Executive Director and does not get directly involved with supervision of Key Management Personnel.
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	**Complied with.** Effective communication is maintained with the Government of Sri Lanka, Bank of Ceylon, People's Bank and National Savings Bank who are the shareholders of the Bank. The ex-officio Directors act as a channel between the Board and the shareholders.
3 (5) (xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	**Complied with.** The CEO is supported by the Key Management Personnel to manage the day-to-day-management of the Bank's operations and business and reports directly to the Board.
3 (6)	**Board-Appointed Committees**	
3 (6) (i)	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. Each Board Committee report is addressed directly to the Board.	**Complied with.** The Bank has established four Board Committees which directly report to the Board as set out in Directions 3 (6) (ii), 3 (6) (iii) and 3 (6) (v) of these Directions. However the Bank's Human Resource and Remuneration Committee represents an amalgamation of the Remuneration Committee and the Nomination Committee.
	The Board presents in its Annual Report, a report on each Committee on its duties, roles and performance.	**Complied with.**
3 (6) (ii)	Audit Committee:	
	(a) The Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.	**Complied with.** Chairman of the Audit Committee is a Non-Executive Director who possesses qualifications and experience.
	(b) All members of the Committee are Non-Executive Directors.	**Complied with.**

(c)	The Committee has made recommendations on matters in connection with - (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	**Not applicable.** Since the Auditor General is the External Auditor of the Bank, the Committee has no role to play in the engagement of the External Auditor. However the implementation of Central Bank Guidelines issued to Auditors from time to time and application of relevant accounting standards are discussed in the meetings.
(d)	The Committee has obtained representations from the External Auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	**Not applicable.** Auditor General is the External Auditor for the Bank.
(e)	The Committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	**Not applicable.** This does not arise since Auditor General is the Auditor of the Bank.
(f)	The Committee has discussed and finalised, the nature and scope of the audit, with the External Auditor in accordance with SLAuS before the audit commences.	**Complied with.** 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. However the scope was discussed through Committee Paper No. 2015/02 in the second meeting of the audit committee.
(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: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii)the going concern assumption; and (iv)the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	**Partially complied with.** The Board Audit Committee reviewed two sets of financial statements for the period of 30 June 2015 and 31 December 2015, in its two meetings held. However the Board has a formal 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 the significant financial reporting judgments contained therein.
(h)	The Committee has met the External Auditor relating to any issue in the absence of the executive management with relation to the audit.	**Not complied with.**

(i)	Whether the Committee has reviewed the External Auditor's Management letter and the Management's response thereto.	**Partially complied with.** It was scheduled to discuss the External Auditor's Management Letter in the 4th Audit Committee meeting in 2015. The circulated paper erroneously contain 14 (2) (c) draft report instead of the Management Letter. Therefore the discussion was postponed and it is due to be discussed in the 2nd Audit Committee Meeting held on 14 June 2016.
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank -	
	(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;	**Complied with.**
	(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	**Complied with.**
	(iii)Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	**Complied with.** Annual Performance Appraisal Report of the Chief Internal Auditor for the year 2014/15 has been submitted to the Board Audit Committee on 24 February 2016.
	(iv)Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	**Complied with.**
	(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;	No such situation arose during the year 2015.
	(vi)The internal audit function is independent of the activities it audits.	**Complied with.** Internal audit function is independent of the activities it audits and directly reports to the Board Audit Committee.
(k)	The minutes to determine whether the Committee has considered major findings of internal investigations and management's responses thereto.	**Complied with.** The major internal audit findings and the management responses were discussed by the Audit Committee and the necessary recommendations were made.

	(l) The Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	**Complied with.** Chief Finance Officer, Chief Internal Auditor and a representative of the Auditor General may normally attend meetings. Chief Executive Officer may also attend meetings upon the invitation of the Committee. Four Audit Committee meetings were held during the year 2015. No Executive Directors were present for the meetings held during the year 2015.
	(m) The Terms of Reference of the Committee to ensure that there is - (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii)full access to information; and (iv)authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	**Complied with.** The 'Terms of Reference' of the Audit Committee covers the under-mentioned areas except part (iv).
	(n) The Committee has met, at least four times and maintained minutes.	**Complied with.** Four Committee meetings were conducted during the year 2015.
	(o) The Board has disclosed in the annual report – (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii)details of attendance of each individual Director at such meetings.	 **Complied with.** **Complied with.** **Complied with.**
	(p) The secretary of the Committee is the Company Secretary or the head of the internal audit function.	**Complied with.** Board Secretary is the Secretary to the Committee.
	(q) The 'whistle blower' policy covers the process of dealing with - (i) The improprieties in financial reporting, internal control or other matters; (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 (iii)Appropriate follow-up action.	**Not complied with.** The Bank has no any Board-approved Whistle Blower Policy.
3 (6) (iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	

	(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.	**Partially complied with.** Remuneration of the Directors is governed by the PED Circulars. Remuneration of other employees who are in Regional General Manager and below categories is governed by the collective agreement. Remuneration of employees who are not covered by the collective agreement was approved by the Board. However no remuneration policy was documented and approve by the Committee which cover the above requirements.
	(b) The goals and targets for the Directors, CEO and the Key Management Personnel are documented.	**Partially complied with.** No targets for the Directors have been documented. The goals and targets for Key Management Personnel have been assigned through the Business plan and annual budget.
	(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.	**Partially complied with.** Key Performance Indicators (KPI) for District Managers, Branch Managers and Regional General Managers to measure individual performance have been approved by the Committee. Details for the evaluation forms have been collected as a trial during the year 2015. It is proposed to revisit the key performance indicators and duly implement in 2016 onwards.
	(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.	**Complied with.** 'Terms of Reference' of the HRRC provides that the CEO is not present at meetings of the Committee, when matters relating to the CEO are being discussed. However the remuneration for the CEO has been discussed in the forth meeting of the Board of Directors, for which CEO was attended.
3 (6) (iv)	Does the following rules apply in relation to the Nomination Committee:	
	(a) The Committee has implemented a procedure to select/appoint new Directors, CEO and Key Management Personnel.	**Partially complied with.** Appointments of Directors are done by the Minister in consultation with the Secretary to the Treasury and the Board appoints the CEO. However the Committee has not implemented a procedure to select/ appoint Key Management Personnel.
	(b) The Committee has considered and recommended (or not recommended) the re-election of current Directors.	**Not applicable.** The Minister appoints the Board of Directors in consultation with Secretary to the Treasury.

	(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.	**Complied with.** The Pradeshiya Sanwardhana Bank Act No. 41 of 2008 gives itself the required qualification and experience to be eligible for the selection for the posts of Chief Executive Officer, Deputy General Manager and Regional General Manager.
	(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.	**Complied with.** Declarations of the Directors, CEO and Key Management Personnel were obtained annually by the Board Secretary.
	(e) The Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	**Partially complied with.** Board approved succession plan is in place. However it has not reviewed implemented or adhered to fill the successors.
	(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.	**Complied with.**
3 (6) (v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	(a) The Committee shall consist of at least three Non-Executive Directors, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the Committee.	**Complied with.** The Committee consists of three Independent Non-Executive Directors.
	(b) The Committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a bank basis and group basis.	**Complied with.** Report on the Key Risk Indicators of the Bank is prepared monthly by the Chief Risk Officer of the Bank and submitted for the review of the Board of Directors.
	(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.	**Complied with.** Committee reviews the quantitative risk limits of other management committees. All these committees policies/charters were reviewed and submitted to the Board.
	(d) The Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	**Complied with.** Reviewed the risk profile report.
	(e) How many times the Committee has met at least quarterly.	**Partially complied with.** Committee has met only three times for the year 2015. The Committee was appointed on 25 March 2015. It caused for the inability for the meet during the first quarter.

	(f) The Committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	**Complied with.** The formal disciplinary code is in place. The Committee has taken decision to recommend disciplinary action procedure related to risk matters through the Committee papers.
	(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.	**Not Applicable.** Board meetings are conducted once a month. It is not possible to submit Risk assessment report to the Board within a week. It is submitted to the next nearest Board meeting.
	(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.	**Complied with.** Compliance function of the Bank is headed by a compliance officer. A quarterly and monthly certification report on statuary and mandatory requirements was submitted to the IRMC by the compliance officer. Compliance officer also submit a Statement of Certification to the Bank Supervision Department which certify the weekly, monthly and quarterly return submission.
3 (7)	**Related Party Transactions**	
3 (7) (i)	There is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction: (a) Any of the Bank's Subsidiary Companies; (b) Any of the Bank's Associate Companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.	**Complied with.** There is a Board approved policy on Related Party Transactions. Those transactions are monitored through CBS system.
3 (7) (ii)	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. (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation. (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.	**Partially complied with.** All transactions except transaction (a) do not cover by the Related Party Transactions Policy of the Bank.

	(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank. (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	
3 (7) (iii)	Does the Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. (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: (i) 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No. 07 of 2007 on Maximum Amount of Accommodation. (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 five years or more. (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. (c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties. (d) Providing services to or receiving services from a related-party without an evaluation procedure. (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.	**Complied with.** Board approval is required for all type of transactions with related parties. When granting approval by the Board for such type of transactions, the Board ensures that all are arm's length transactions.
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.	**Complied with.** The Bank's policy on Related Party Transactions requires sanction by two third members of the Board for granting accommodation to Directors or Key Management Personnel.
3 (7) (v)	(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, 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.	**Complied with.** The Board approved policy on Related Party Transactions cover this area.

	(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.	No such situations have arisen.
	(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.	No such situations have arisen.
	(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.	No such situations have arisen.
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.	**Complied with.** Board approval is required for all type of transactions with related parties. When granting approval by the Board for such type of transactions, the Board ensures that all are arm's length transactions.
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.	**Complied with.** Prior approval for the accommodations granted under Direction 3 (7) (v) require through the Related Party Policy of the Bank.
3 (8)	**Disclosures**	
3 (8) (i)	The Board has disclosed - (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. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	**Complied with.** Annual audited financial statements and quarterly financial statements are prepared and published in accordance with the format prescribed by the supervisory and regulatory authorities and applicable accounting standards, in Sinhala, Tamil and English.
3 (8) (ii)	The Board has made the following minimum disclosures in the Annual Report:	
	(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.	**Complied with.** The notes to the financial statements disclosure that the financial statements have been prepared in accordance with Sri Lanka Accounting Standards in compliance with the requirement of the Banking Act No. 30 of 1988 and amendments thereto. Compliance with Sri Lanka Accounting Standards and regulatory requirements has also been reported under "Directors' Responsibilities for Financial reporting".

(b)	The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	**Complied with.** Directors' Statement on the Effectiveness of the Internal Control System over financial reporting is given under the "Directors' Statement on Internal Control".
(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.** The Bank has obtained a certificate on the Effectiveness of Internal Controls over financial reporting from the Auditor General.
(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.** Details of Directors have been given. Short-Term Employment Benefits paid to the CEO and Board of Directors has also been given under notes to the financial statements.
(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.	**Not complied with.**
(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	**Complied with.** The aggregate value of remuneration paid to the Director's and CEO and transactions with Key Management Personnel which include accommodations granted, deposits with the Bank and relevant interest income and expenses were disclosed under notes to the financial statements. The aggregate values of remunerations paid to Key Management Personnel were also disclosed in the Annual Report
(g)	The Board has obtained the External Auditor's report on the compliance with Corporate Governance Directions.	**Complied with.** External Auditors report on compliance requirements of the Corporate Governance Directions issued by the Central Bank of Sri Lanka was submitted in the Annual Report.
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	**Complied with.** The Directors' report included in the Annual Report clearly sets out details regarding compliance with prudential requirements, regulations and laws and internal controls.
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	**Complied with.** No such direction was give as disclose to the public by the Monetary Board.

The dairy farmers of the Uva farming village reaping the bounty of their hard work

Attendance of Board and the Committees

Attendance of Board and Board Sub-Committee Meetings during 2015

Name of Directors and Executive/ Non-Executive/Independent Capacity	Board of Directors		Board Audit Committee			Board Integrated Risk Management Committee			Board HR and Remuneration Committee			Board IT Steering Committee		
	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A
1. Mr Prasanna Premaratne (*Chairman*)	12	12							C	04	04			
2. Mr T. A. Ariyapala (*General Manager/CEO*)	12	12				M	03	03	M	04	04			
3. Mr S. R. Attygalle (*Director*)	12	09	C	04	04	M	03	02	M	04	01			
4. Mr Mukthar Marikkar (*Director*)	12	10										C	01	01
5. ★Mr J. K. Gamanayaka (*Director*)	10	09	M	03	02									
6. ◆Mr K. B. S. Bandara (*Director*)	09	06				C	03	03				M	01	01
7. ✱Mrs. G. P. R. Jayasinghe (*Director*)	09	07				M	03	01				M	01	01
8. Ms Shamara Herath (*Director*)	12	09	M	04	02									
9. Mr Sarath Hewage (*Director*)	12	08	M	04	03									
10. ■Mr M. I. M. Rezwie (*Director*)	08	08	M	02	02	M	02	02				M	01	01
11. ●Mr Janaprith Fernando (*Director*)	10	09							M	04	04			
12. ●Dr. P. N. Weerasinghe (*Working Director*)	10	07							M	04	02			
13. ❖Mr Niranjan Arulpragasam (*Director*)	02	01							M	–	–	M	–	–
14. ✪Mr A. H. M. Riyaz (*Director*)	02	02	M	01	01	M	01	01						
15. ✪Mr W. A. Priyantha Abeysinghe (*Working Director*)	02	02				M	01	01						

** S – Status of Director in Respective Committees*

C – Chairman of Committee; M – Member of the Committee

** E – Eligibility of Attend * A – Attendance BI – By Invitation*

★ *Appointed on 25 March 2015*

◆ *Appointed on 18 May 2015*

✱ *Appointed on 05 May 2015*

■ *Appointed on 17 March 2015 and Resigned from November 2015*

● *Resigned from November 2015*

❖ *Appointed on 16 November 2015*

✪ *Appointed on 02 November 2015*

Annual Report of the Board of Directors

General

The Directors of the Pradeshiya Sanwardhana Bank (RDB) take pleasure in presenting their Annual Report on the affairs of the Bank, together with the audited financial statements of the Bank's fifth year ended 31 December 2015. The Report also confirms to the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and Direction on Corporate Governance. The Bank was originally established in 1997 when seventeen regional development banks were merged into six banks namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. These six Provincial Development Banks were further merged in May 2010 as a national level development bank and named the Pradeshiya Sanwardhana Bank (Regional Development Bank or RDB). RDB was established under the Pradeshiya Sanwardhana Bank Act No. 41 of 2008. The RDB is a fully State-owned national level bank with the objectives of empowering 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.

Principal Activities

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

Vision, Mission

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

Going Concern

The Board of Directors are 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

The financial statements of the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and complied with the Banking Act No. 30 of 1988. The financial statements of the Bank's fifth year ended 31 December 2015, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 83 and 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 83 of this Annual Report describes in detail the Directors' responsibilities in relation to the financial statements, which forms an integral part of the Annual Report of the Board of Directors.

Auditor's Report

The Auditor General carried out the audit of the Bank in 2014, 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 80 of 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 necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

Significant Accounting Policies

Significant accounting policies adopted in the preparation of financial statements are given on pages 86 to 94.

Directors' Remuneration

Details of Directors' emoluments paid during the year are given in Note 11 of the financial statements.

Future Developments

An overview of future developments of the Bank is given in the Chairman's Statement (pages 8 to 10), the General Manager/CEO's Review (pages 11 to 13) and the Management Discussion and Analysis (pages 16 to 25).

Review of Business Performance

A review of the Bank's performance during the financial year 2015 is contained in the Chairman's Statement (pages 8 to 10), the General Manager/CEO's Review (pages 11 to 13) and the Management Discussion and Analysis (pages 16 to 25). These reports form an integral part of the Annual Report.

Financial Results

The Bank's financial and operational performance is given on the General Manager/CEO's Review on pages 11 to 13 and in the Financial Highlights on pages 6 to 7.

Stated Capital

The total shareholders' funds as at 31 December 2015 is Rs. 6.2 billion, which is significantly higher than the minimum capital requirement imposed by the Central Bank of Sri Lanka. The Stated Capital contributed by shareholders at the end of year is Rs. 1.37 billion and their percentage of shareholding is as follows.

	Rs.	%
1. Government Treasury	877,446,711	64
2. Bank of Ceylon	164,484,480	12
3. People's Bank	164,484,480	12
4. National Savings Bank	164,521,260	12
Total	1,370,936,931	100

Income

The income of the Bank for 2015 was Rs.12.5 billion. Details of the income are given in page 95.

Taxation

The Bank contributed Rs. 1,205 million by way of taxes and levies to the Government in 2015. This consisted of Rs. 577 million of Income Tax, Rs. 414 million of Value Added Tax and Rs. 90 million of NBT. 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 was also liable for Financial VAT at 11%.

Property, Plant and Equipment

The total capital expenditure incurred by the Bank on the acquisition of property, plant and equipment, leasehold property and intangible assets during the year amounted to Rs. 359 million (2014 - Rs. 251 million), the details of which are given in Note 24 of the financial statements on pages 103 to 104 of this Annual Report.

Events After the Statement of Financial Position Date

The events occurring after the date of the statement of financial position are disclosed in Note 37 of the financial statements.

Outstanding Litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 34 of the financial statements will not have a material impact on the financial position of the Bank or its future operations.

Reserves

The reserves of the Bank including retained earnings consist of the following:

	2015 Rs.	2014 Rs.
Stated Capital	**1,370,936,931**	1,370,936,931
Statutory Reserve Fund	**567,391,265**	523,268,291
Special Reserve Fund	**421,781,593**	377,658,619
General Reserve Fund	**2,458,164,810**	2,281,672,916
Retained Earnings	**1,400,132,731**	872,318,223
Total	**6,218,407,329**	5,425,854,981

Board of Directors

The Board of Directors comprises eleven members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders and represent the Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following were the newly-appointed Board of Directors whose brief profiles appear on pages 28 to 31 of this Annual Report.

Mr Prasanna Premaratne - *Chairman*
Mr S. R. Attygalle - *Non-Independent Non-Executive Director*
Mr Mukthar Marikkar - *Independent Non-Executive Director*
Ms Shamara Herath - *Independent Non-Executive Director*
Mr Koliya B. Senarath Bandara - *Non-Independent Non-Executive Director*
Mr Sarath Hewage - *Independent Non-Executive Director*
Mr Jagath Gamanayaka - *Non-Independent Non-Executive Director*
Mrs G. P. R. Jayasinghe - *Non-Independent Non-Executive Director*
Mr. A. H. M. Riyaz - *Independent Non-Executive Director*
Mr. Niranjan Arulpragasam - *Independent Non-Executive Director*
Mr. W. A. P Abeysinghe - *Working Director*

Resignation of Directors

Ms Keshala Jayawardana, Mr H. A. Amarasena, Ms A. V. K. Madhavie Herath, Dr. B. M. S. Batagoda, Mrs C. K. Nanayakkara, Mr S. D. N. Perera, Mr K. B. S. Banadara, Mrs J. M. S. D. Rathnayake, Mr Russell De Mel and Mrs R. Jayasinghe resigned from the Board with effect from 20 January 2015. Mr Janaprith Fernando, Mr M. I. M. Rezwie and Dr. P. N. Weerasinghe resigned from the Board with effect from 13 November 2015.

New Appointment of Directors

Director	Appointment Date
Mr Prasanna Premaratne	10.02.2015
Mr S. R. Attygalle	24.02.2015
Mr Mukthar Marikkar	10.02.2015
Mr Niranjan Arulpagasam	16.11.2015
Ms Shamara Herath	10.02.2015
Mr Koliya B. Senarath Bandara	18.05.2015
Mr Sarath Hewage	10.02.2015
Mr W. A. P. Abeysinghe	02.11.2015
Mr Jagath Gamanayaka	25.03.2015
Mrs G. P. R. Jayasinghe	05.05.2015
Mr A. H. M. Riyaz	02.11.2015

Board Sub-Committees

The Board of Directors of the Bank while assuming the overall responsibility and accountability, has also appointed the following Board Sub-Committees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances. The composition of Board Sub-Committees are as follows:

Audit Committee

1. Mr S. R. Attygalle (*Chairman of the Committee*)
2. Mr Sarath Hewage
3. Ms Shamara Herath
4. Mr J. K. Gamanayaka
5. Mr A. H. M. Riyaz
6. Mr Koralegedara (*Chief Internal Auditor*)
7. External Auditor

Report of the Audit Committee is given on page 69 and forms a part of the Director's Report of the Board.

Integrated Risk Management Committee

Mr K. B. S. Bandara (*Chairman of the Committee*)

1. Mr S. R. Attygalle
2. Ms G. P. R. Jayasinghe
3. Mr A. H. M. Riyaz
4. Mr T. A. Ariyapala
   (General Manager/Chief Executive Officer)
5. Mr T. Kuhan - *Chief Risk Officer*
6. Mr Sumanadasa - *Compliance Officer*
7. Mr W. A. P. Abeysinghe

Report of the Integrated Risk Management Committee is given on page 73 which forms part of the Directors' Report of the Board.

Human Resource and Remuneration Committee

1. Mr Prasanna Premaratne - *(Chairman of the Committee)*
2. Mr S. R. Attygalle
3. Mr Niranjan Arulpragasam
4. Mr T. A. Ariyapala
   (General Manager/Chief Executive Officer)
5. Mr K. M. J. S. Karunathilaka - *Head of HRD and Administration*

Board IT Steering Committee

1. Mr Mukthar Marikkar *(Committee Chairman)*
2. Mr K. B. S. Bandara
3. Mrs G. P. R. Jayasinghe
4. Mr Niranjan Arulpragasam
5. Mr. T. A. Ariyapala
   (General Manager/Chief Executive Officer)
6. Mr. Vajira Jayasinghe - *DGM - Information Technology*

Directors' Meetings

The number of Directors' meetings which comprise Board meetings, Audit Committee meetings, Integrated Risk Management Committee meetings, Board Human Resource and Remuneration Committee meetings and Board IT Steering Committee meetings and the attendance of Directors at these meetings are given on Corporate Governance Report page 64 of this Annual Report.

Related Party Transactions

The Directors have also disclosed the transactions, if any, that could classify as related party transactions in terms of Sri Lanka Accounting Standards (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 36 to the financial statements forming part of the Annual Report of the Board of Directors.

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 creating sustainable value through high quality service.

Operational Excellence

To increase efficiency and reduce operating cost, the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.

Environmental Protection

The Bank has taken initiatives to safeguard and enhance the environment which is vital for sustainable development and growth of the Bank. The Bank has not engaged in any activity that is harmful or hazardous to the 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 employees have been made on 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 and 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 risks are detailed on pages 76 to 77.

Directors' Statement of 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 statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on pages 76 to 77 Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 75 of this Annual Report.

Corporate Governance

In the management of the Bank, the Directors have placed emphasis on conforming to 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 44 to 62 for which the Board has obtained an Assurance Report from the Auditor General.

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 31 December 2015.

Audit Committee Reports

Composition of the Audit Committee

The Audit Committee appointed by the Board of Directors of the bank consists of the following Non-Executive Directors.

1. Mr S. R. Attygalle - *Director (Chairman of the Committee)*
2. Mr J. K. Gamanayaka - *Director*
3. Ms Shamara Herath - *Director*
4. Mr Sarath Hewage - *Director*
5. Mr A. H. M. Riyaz - *Director*
6. Mr M. I. M. Rezwie - *Director (Resigned)*

The Audit Committee consists of five Non-Executive Directors and Mr S. R. Attygalle has been nominated as the Chairman of the Committee. The Head of Finance & Planning participates at the meetings of the Committee by invitation while the Superintendent of the Auditor General's Department participates at the Committee meetings as an observer. The General Manager/Chief Executive Officer of the Bank participates by invitation as and when required, while the Secretary to the Board of Directors also function as the Secretary to the Audit Committee. Chief Internal Auditor coordinates Audit Committee meetings.

Objectives

The main objective of the Audit Committee is to encourage and safeguard the highest standards of integrity in financial reporting, risk management and internal controls. In achieving the main objectives/goals the Committee is responsible with regard to the following:

- Make recommendations on matters related to appointment of the External Auditors for audit services to be provided in compliance with the relevant laws/regulations, the application of accounting standards, the service period, the audit fees, any resignations or dismissal of the Auditor and other connected matters.
- Monitoring the structure and content of procedures to ensure the integrity of financial statements and Financial Reports of the Bank.
- Monitoring and reviewing existing arrangements to assure objectivity and effectiveness of external and internal audit functions of the Bank.
- Reviewing Internal Control System and Risk Management System of the Bank to ensure their effectiveness and making appropriate recommendations.
- Reviewing of Internal Audit Reports, External Audit Management Letters as well as follow-up audits thereon.
- Reviewing and monitoring compliance with the ethical standards of the Bank and regulatory and financial reporting requirements. Reviewing and making recommendations in order to maintain smooth relations with relevant regulatory authorities such as the Central Bank of Sri Lanka.

Meetings

Meetings of the Committee are convened quarterly, in accordance with the regulations/guidelines for organisational corporate governance issued by the Central Bank of Sri Lanka. Four Audit Committee meetings have been held during the year ended 31 December 2015.

Attendance of committee members

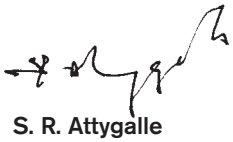
Name of committee member	Attendance
Mr S. R. Attygalle	4
Mr J. K. Gamanayaka	2
Ms Shamara Herath	2
Mr Sarath Hewage	3
Mr M. I. M. Rezwie	2
Mr A. H. M. Riyaz	1 (Appointed on 2 November 2015)

During the year 2015, the Audit Committee directed its attention primarily on the following matters with regard to corporate governance:

- Maintenance of the Internal Audit Department under a professional, capable and experienced/skilled staff.
- Ensuring independence of Internal Audit Department.
- Reviewing Internal Control System and providing recommendations for further enhancement of its efficiency.
- Approval for grading of branches based on risk factors identified using risk-based internal audit strategies.
- Reviewing the Internal Audit Action Plan for the year 2015.
- Reviewing the Internal Audit Reports prepared for 2015.
- Reviewing the External Audit Management Letter submitted by the External Auditors.
- Reviewing the External Auditors observations and making necessary recommendations.
- Follow-up with regard to the implementation of recommendations highlighted in the Audit Reports and advise relevant divisions accordingly.

According to the Internal Audit Plan, during the reviewing year two hundred and six branches have been audited by the Internal Audit Department under the supervision of the Audit Committee. Furthermore, action has already been taken for improving Internal Control System and mitigating frauds, errors and other loss events. The Audit Committee evaluates the Bank's sustainability, profitability and other related concerns. Information System Audit Unit has been established to identify the system's weaknesses, errors etc. during the year 2015. Arrangements have also been made enhance the knowledge and skills of Audit Officers.

Accordingly, the Audit Committee certifies that the Bank maintains adequate and appropriate controls and adheres to the procedures/systems for compliance in financial reporting and risk management.



S. R. Attygalle
Chairman
Board Audit Committee

Board Human Resources, Remuneration and Nomination Committee (BHRRNC) Report

Introduction

In terms of the Directions issued by Central Bank of Sri Lanka two Sub-Committees namely Board Human Resources and Remuneration Committee and Nomination Committee are to be established.

Since the scope and the functions of these two committees are interrelated regulatory requirements have been coped up by forming and functioning as a single Committee under combined Terms of Reference (TOR) as BHRRNC.

Scope

The BHRRNC is responsible in developing and reviewing HR policies, strategies and plans which include remuneration policy and other employee benefits, criteria for recruitment and selection, performance assessment, staff development, superannuation and employee discipline etc. The Committee has also been granted authority to work as an appeal board of the disciplinary dismissal and consider extension of service of the Corporate Management. The Committee is also responsible for determination of remuneration policy relating to Directors, CEO and Key Management Personnel and set targets for them and evaluate the performance against set targets periodically.

Composition

The Committee was headed by the Chairman of the Bank. The Committee members were changed during the year with the new appointment of Board of Directors.

Committee Members (November 2015 to date)

1. Mr. Prasanna Premaratne –
   Chairman of the Bank/Chairman of the Committee
2. Mr. S. R. Attygalle –
   Director of the Bank/Member of the Committee
3. Mr. Niranjan Arulpragasam –
   Director of the Bank/Member of the Committee
4. Mr. T. A. Ariyapala –
   GM/CEO of the Bank/Member of the Committee
5. Mr. K. M. J. S. Karunathilaka –
   Head of HRD & Admin./Member of the Committee

Committee Members (February 2015 – November 2015)

1. Mr Prasanna Premaratne –
   Chairman of the Bank/Chairman of the Committee
2. Mr S. R. Attygalle –
   Director of the Bank/Member of the Committee
3. Mr Janaprith Fernando –
   Director of the Bank/Member of the Committee
4. Dr. P. N. Weerasinge –
   Director of the Bank/Member of the Committee
5. Mr T. A. Ariyapala –
   GM/CEO of the Bank/ Member of the Committee
6. Mr K. M. J. S. Karunathilaka –
   Head of HRD & Admin./Member of the Committee

Committee Meetings

1. Four meetings were held during the year 2015.
2. Head of HRD and Administration shall present all papers through General Manager with background and other related information and analysis to enable Committee members to derive at decisions.
3. The Secretary to this Committee will be the Secretary to the Board. Division or Unit Heads are invited for opinion on their respective functions as and when required.
4. The General Manager/CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.
5. The quorum for a meeting shall be two members.
6. The Committee shall meet at least quarterly.

Prasanna Premaratne
Chairman
Board Human Resources,
Remuneration and Nomination Committee

Board IT Steering Committee (BITSC) Report

Scope

The BITSC has been established to ensure the degree of reliance on information technology and to assist the Bank with the growing demands of IT Governance.

The Committee is responsible to set overall strategies for IT and recommend to the Board of Directors the newest technologies to cater for the upcoming demands.

Composition

The Committee consists of four Directors of the Board as Chairman and Members respectively.

- Mr Mukthar Marikkar - *Chairman*
- Mr K. B. S. Bandara - *Member*
- Mr Niranjan Arulpragasam - *Member*
- Mrs Renuka Jayasinghe - *Member*

General Manager/Chief Executive Officer, Deputy General Manager/Chief Information Officer, Chief Risk Officer are members of the Corporate Management who attend to these meetings as invitees. Any other officers of the Bank can also attend the meetings on invitation.

The quorum for the meeting of BITSC is two members.

Mukthar Marikkar
Chairman
Board IT Steering Committee (BITSC)

Integrated Risk Management Committee (IRMC) Report

Regional Development Bank aims at improved shareholder value delivery for which the IRMC is monitoring the overall risk profile of the Bank thereby striking a balance between risk and returns.

In the year 2015 RDB has further strengthened and taken steps to improve the risk management framework of the Bank in order to ensure that the functions are within the required parameters of the board risk appetite and in line with the CBSL Guidelines.

Composition of the Committee

The IRMC approved by the Board of Directors of Regional Development Bank (RDB) comprises the following members of which three are Non-Executive members which is in line with the Statutory requirements imposed by the Regulator CBSL.

1. Mr K. B. S. Bandara – *Chairman of the Committee/Non-Executive Director*
2. Mr S. R. Attygalle – *Member/Non-Executive Director*
3. Mrs Renuka Jayasinghe – *Member/Non-Executive Director*
4. Mr A. H. M. Riyaz – *Member/Non-Executive Director*
5. Mr W. A. Priyantha Abeysinghe – *Member/Working Director*
6. Mr T. A. Ariyapala – *Member/GM/CEO of the Bank*
7. Mr T. Kuhan – *Member/CRO of the Bank*
8. Mr W. Sumanadasa – *Member/Compliance Officer of the Bank*

DGM Credit, SAGM Operations and Chief Finance Officer are attending the meetings on invitation.

The brief profiles of the members of the Committee represent in the Director Board and the Corporate Management are given on pages 28 to 33 of this Annual Report.

The Secretary to the Board is also the Secretary to the Committee as well.

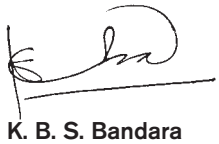
Terms of Reference

The Board approved Terms of Reference of the Committee is indicated 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 that 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 the 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 road map implementation and regulatory guidelines. We draw your attention to the Risk Management section of the report (pages 39 to 42) which extensively covers level of adherence against the Terms of Reference, achievements during the year and actions taken to mitigate key risks.

Meetings

The complete members to the Board for the Bank has been appointed by the Ministry during the third week of April 2015. Therefore, the Board Sub-Committee has been appointed thereafter which has resulted the Committee has met only three times during the year without been having a single meeting in the 1st quarter of 2015. This has resulted in non-compliance of minimum requirements of four meetings as directed by the Regulator.



K. B. S. Bandara
Chairman
Integrated Risk Management Committee

CEO's and CFO's Responsibility Statement

The financial statements of the Regional Development Bank as at 31 December 2015 are prepared and presented in compliance with the following regulatory requirements:

1. Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka;
2. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
3. Companies Act No. 07 of 2007;
4. Banking Act No. 30 of 1988 and amendments thereto;
5. Directions, Circulars and Guidelines issued to Licensed Commercial Banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka on corporate governance; and
6. Pradeshiya Sanwardhana Bank Act No. 41 of 2008.

The formats used in the presentation of the financial statements and disclosures are in compliance with the specified formats for the preparation of annual financial statements of Licensed Specialised Banks, issued by the Central Bank of Sri Lanka.

The accounting policies of the Bank are in compliance with Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, which came into effect from 1 January 2012. The accounting policies are consistently applied by the Bank. Comparative information has been reclassified wherever necessary to comply with the current year's presentation. All significant items have been disclosed and explained by way of Notes to the financial statements. We confirm to the best of our knowledge, that the financial statements presented herewith give a true and fair view of the financial position, statement of profit or loss and the cash flows of the Bank for the year. We also believe that the Bank has adequate resources to continue its operations in the foreseeable future and accordingly adopt the going concern basis for the preparation of the financial statements.

The Board of Directors and the Management of the Bank accept responsibility for the integrity and the objectivity of the financial statements. The estimates and judgments relating to the financial statements were made on a reasonable and prudent basis; in order that the financial statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Bank is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in implementing internal control systems, with the use of a core banking system, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Internal Auditor of the Bank has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

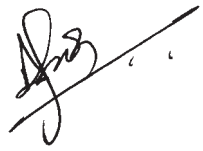
The financial statements of the Bank was audited by Auditor General's Department. The Report issued by Auditor General is available on page 80 of this Report.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with the Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Audit Committee Report is available on pages 69 to 70 to ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee at the Audit Committee meeting to discuss any matters of substance.

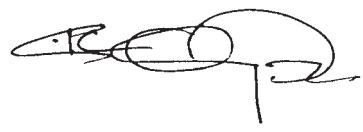
We confirm to the best of our knowledge that:

The Bank has complied with all applicable laws, rules, regulations and guidelines;
There is no material non-compliance;
There is no material litigation against the Bank other than those disclosed in Note 34 of the financial statements section of this Report;

All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank as at the reporting date have been paid, or where relevant provided for.



T. A. Ariyapala
General Manager/CEO



Chandrasiri Kalupahana
Chief Finance Officer

Auditor General's Report on Statement on Internal Control

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය எனது இல. My No. } BAF/F/RDB/IC/2015

ඔබේ අංකය உமது இல. Your No. }

දිනය திகதி Date } 06 June 2016

The Chairman,
Pradeshiya Sanwardhana Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of Pradeshiya Sanwardhana Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ('Statement') of Pradeshiya Sanwardhana Bank included in the annual report for the year ended 31 December 2015.

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 Accountant s 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 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.

The procedures performed are limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

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.

The CORE Banking System of the Bank was completed at the end of the year 2014. Information before completion of the CORE banking system was not readily available within the Bank. This limitation effects on the adequacy and integrity of internal controls with respect to impairment provision on Loans and Advances.

My Conclusion

Based on my review except for the effect of the deficiency described in the previous paragraph, 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 has adopted in the review of the design and effectiveness of internal control of the Bank.

H. M. Gamini Wijesinghe
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 oaggov@sltnet.lk www.auditorgeneral.gov.lk

Directors' Statement on Internal Control Over Financial Reporting

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 (CA Sri Lanka).

Responsibility

The Board of Directors is responsible for Internal Control System and risk management in Regional Development Bank and for reviewing its effectiveness and adequacy. However, such a system is designed to manage the Bank's key areas of risk within and 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 of against financial losses or fraud.

The Directors are of the view that the Bank has adequate resources to continue in business for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the financial statement.

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 over Financial Reporting 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 relation to the financial and other controls of the Bank in its all transactions. The procedures laid down in the manual have 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 adopted the new Sri Lanka Accounting Standards comprising SFLRS and LKAS in 2012. The process and procedures initially applied to adopt the aforementioned accounting standards were further strengthened during the year 2015 based on the feedback received from External Audit Department, Regulators and the Board Audit Committee. The Bank will continue to further strengthen the process such as impairment of loans and advances and financial statement disclosures related to risk management.

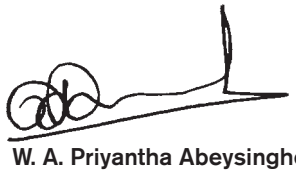
Confirmation

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 Auditor General

Auditor General commented that information before completion of CORE banking system which requires for the impairment provision on loans and advances are not readily available hence it effects on the adequacy and integrity of internal controls with respect to the impairment provision on loans and advances.

T. A. Ariyapala
General Manager/CEO



W. A. Priyantha Abeysinghe
Director

Prasanna Premaratne
Chairman

Young talent recognised at RDB *Sith Roo Rata*

Financial Reports

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Auditor General's Report

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය எனது இல. My No. BAF/F/RDB/1/15/29

මඟේ අංකය உமது இல. Your No.

දිනය திகதி Date 24th May 2016

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 2015 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 2015 comprising the Statement of Financial Position as at 31 December 2015 and the Statement of Income, 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 (l) 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.

Board's Responsibility for the Financial Statements

Board of Directors is responsible for the preparation and fair presentation of these Financial Statement s 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statement s based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). 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.

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

Basis for Qualified Opinion

As explained in Note No. 2.10.2 to the Financial Statements, the Bank has collectively assessed loans and advances below Rs. 10 million for impairment. This cause for a reversal of impairment provision previously recognised by Rs. 611,450,091/- . The loans collectively assessed represent 99 percent of the total loan portfolio of the Bank and the data used for the collective assessment was limited only to one year information which I believe does not contribute to generate more accurate result. Had the Bank used more information for the collective assessment, the impairment provision may be different and it may affect to the profit for the year, loans and advances and other liabilities. The effects on the Financial Statements of the above have not been determined.

Qualified Opinion

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the Financial Position of the Pradeshiya Sanwardhana Bank as at 31 December 2015 and its Financial Performance and its Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirement

These financial statements had been presented the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto.

Report to Parliament

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

H. M. Gamini Wijesingbe
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
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Income Statement

For the Year ended 31 December	Note	Bank 2015 Rs.	Bank 2014 Rs.
Gross income	4	**12,510,118,902**	11,186,356,204
Interest income		**11,759,232,735**	10,593,086,967
Interest expenses		**(5,168,680,370)**	(5,310,868,124)
Net interest income	5	**6,590,552,365**	5,282,218,843
Fee and commission income		**739,950,446**	595,406,906
Fee and commission expenses		**(114,174,850)**	(90,296,171)
Net fee and commission income	6	**625,775,596**	505,110,735
Net gain/(loss) from financial instruments at fair value through profit or loss	7	**(6,300)**	55,580
Other operating income (net)	8	**10,935,721**	(2,137,669)
Total operating income		**7,227,257,382**	5,785,247,489
Impairment charges for loans and other losses	9	**277,665,228**	452,377,502
Net operating income		**7,504,922,610**	6,237,624,991
Less-Operating expenses			
Personnel expenses	10	**4,082,141,685**	3,003,545,285
Amortisation of intangible assets		**35,364,098**	13,005,537
Other expenses	11	**1,299,268,713**	1,610,614,900
Levy Paid to general treasury		**125,353,097**	210,118,527
Operating profit before value added tax (VAT)		**1,962,795,017**	1,400,340,742
NBT		**(89,623,396)**	(67,381,811)
Value added tax (VAT) on financial services		**(413,904,359)**	(404,290,867)
Operating profit after value added tax (VAT) before tax		**1,459,267,262**	928,668,064
Profit before tax		**1,459,267,262**	928,668,064
Tax expenses	12	**(576,807,793)**	(586,381,354)
Profit for the year		**882,459,469**	342,286,709
Earnings per share			
Earnings per share: Basic	13	**6.44**	3.04

The Notes to the financial statements from pages 86 to 122 form an integral part of these financial statements.

Statement of Comprehensive Income

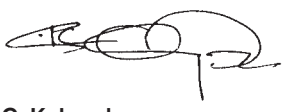
For the Year ended 31 December	Note	Bank 2015 Rs.	Bank 2014 Rs.
Profit for the year		**882,459,469**	342,286,709
Comprehensive income/(expenses)			
Other comprehensive income not to be reclassified to income statement			
Actuarial gains and losses on defined benefit plans	29.1.3	**61,260,084**	10,997,545
Deferred tax effect on above	22	**(14,073,511)**	(3,273,872)
Comprehensive income for the year, net of taxes		**47,186,573**	7,723,673
Total comprehensive income for the year		**929,646,041**	350,010,383
Attributable to:			
Equity holders of the parent		**929,646,041**	350,010,383
Non-controlling interest		**–**	–
		929,646,041	350,010,383

The Notes to the financial statements from pages 86 to 122 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December	Note	Bank 2015 Rs.	2014 Rs.
Assets			
Cash and cash equivalents	16	**310,591,598**	236,997,574
Sri Lankan Government Securities	17	**607,814,250**	1,789,084,271
Balances with banks	18	**15,813,954,858**	26,165,415,422
Financial assets held for trading	19	**200,000**	206,300
Loans and receivables from other customers	20	**87,907,153,173**	61,579,234,734
Intangible assets	21	**78,815,975**	54,961,763
Deferred Tax assets	22	**171,634,073**	188,321,788
Other assets	23	**1,441,723,782**	1,519,103,148
Property and equipment	24	**1,044,604,902**	825,856,722
Total assets		**107,376,492,611**	92,359,181,722
Liabilities			
Due to banks	25	**7,915,016,520**	9,790,601,772
Due to other customers	26	**86,324,097,162**	72,525,364,971
Debt issued and other borrowed funds	27	**2,693,032,538**	–
Other liabilities	28	**3,253,841,708**	3,704,157,314
Retirement benefit obligation	29	**972,097,354**	913,202,684
Total liabilities		**101,158,085,282**	86,933,326,741
Equity			
Stated capital/Assigned capital	30	**1,370,936,931**	1,370,936,931
Statutory reserve fund	31	**567,391,265**	523,268,291
Retained earnings	32	**1,400,132,731**	872,318,223
Other reserves	33	**2,879,946,402**	2,659,331,535
Total shareholders' equity		**6,218,407,329**	5,425,854,981
Total equity		**6,218,407,329**	5,425,854,981
Total equity and liabilities		**107,376,492,611**	92,359,181,722
Contingent liabilities and commitments	34	**232,012,133**	168,961,738

The Significant accounting policies on pages 86 to 122 and accompanying notes on pages 95 to 122 form an integral part of these financial statements. These financial statements are in compliance with the requirements of the Banking Act No. 30 of 1988 and the Pradeshiya Sanwardhana Banking Act No. 41 of 2008.



C. Kalupahana
Chief Finance Officer

T. A. Ariyapala
CEO/General Manager

The Board of Directors is responsible for the preparation and presentation of these financial statements which were approved by the Board of Directors and signed on their behalf.

H. Prasanna Premaratne
Chairman

W. A. P. Abeysinghe
Director

Cash Flow Statement

For the Year ended 31 December	Note	Bank 2015 Rs.	2014 Rs.
Cash flow from operating activities			
Profit before tax		**1,962,795,017**	1,400,340,742
Adjustment for:			
Non-cash items included in profit before tax	38	**103,092,883**	535,118,905
Changes in operating assets	39	**(24,796,383,446)**	(3,203,229,786)
Changes in operating liabilities	40	**12,674,109,741**	11,025,663,165
Others reclassification	41	**(306,755)**	19,821,386
Contribution paid to defined benefit plans		**(19,647,842)**	(19,090,431)
Tax paid		**(1,157,331,384)**	(360,708,539)
Net cash generated from operating activities		**(11,233,671,788)**	9,397,915,443
Cash flows from investing activities			
Purchase of Property, plant and equipment	24	**(413,677,439)**	(170,027,634)
Net purchase of intangible assets	21	**(59,218,310)**	(45,099,278)
Proceeds from the sale of property, plant and equipment		**7,772,518**	1,709,703
Net proceeds from sales of investment share market		**–**	691,705
Net cash (used in)/from investing activities		**(465,123,231)**	(212,725,504)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital	30	**–**	271,536,780
Net proceeds from the issue of subordinate debt		**2,500,000,000**	–
Dividend paid		**(137,093,693)**	(21,129,614)
Net cash from financing activities		**2,362,906,307**	250,407,166
Net increase/(decrease) in cash & cash equivalents		**(9,335,888,712)**	9,435,597,105
Cash & cash equivalents at the beginning of the year		**25,282,309,307**	15,846,712,202
Cash and cash equivalents at the end of the year		**15,946,420,596**	25,282,309,307
Reconciliation of Cash & Cash Equivalents			
Cash and balances with Central Bank	16	**310,591,598**	236,997,574
Favourable Balances with banks	18	**15,813,954,858**	26,165,415,422
Unfavourable Balances with banks		**(178,125,860)**	(1,120,103,689)
		15,946,420,596	25,282,309,307

The Notes to the financial statements from pages 86 to 122 form an integral part of these financial statements.

Statement of Changes in Equity

	Bank						
	Stated Capital	Statutory Reserve Fund	Special Reserve Fund	General Reserve Fund	Investment Fund	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01.01.2014	1,099,400,151	506,153,956	360,544,284	2,213,215,574	–	(336,320,804)	3,842,993,161
Issued Stated Capital	271,536,780	–	–	–	–	–	271,536,780
Profit for the year	–	–	–	–	–	342,286,709	342,286,709
Other Comprehensive Income	–	–	–	–	–	7,723,673	7,723,673
Transferred to Investment Fund	–	–	–	–	961,314,657	–	961,314,657
Transferred to Statutory Reserve Fund	–	17,114,335	–	–	–	(17,114,335)	–
Transferred to Special Reserve Fund	–	–	17,114,335	–	–	(17,114,335)	–
Transferred to General Reserve Fund	–	–	–	68,457,342	–	(68,457,342)	–
Transferred from Investment Fund	–	–	–		(961,314,657)	961,314,657	–
Balance as at 31.12.2014	1,370,936,931	523,268,291	377,658,619	2,281,672,916	–	872,318,223	5,425,854,981
Issued Stated Capital	–	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	882,459,469	882,459,469
Other Comprehensive Income	–	–	–	–	–	47,186,573	47,186,573
Transferred to Statutory Reserve Fund	–	44,122,973	–	–	–	(44,122,973)	–
Transferred to Special Reserve Fund	–	–	44,122,973	–	–	(44,122,973)	–
Transferred to General Reserve Fund	–	–	–	176,491,894	–	(176,491,894)	–
Dividend 2014	–	–	–	–	–	(137,093,693)	(137,093,693)
Balance as at 31.12.2015	1,370,936,931	567,391,265	421,781,593	2,458,164,810	–	1,400,132,731	6,218,407,329

The Notes to the financial statements from pages 86 to 122 form an integral part of these financial statements.

Notes to the Financial Statements

1. Corporate Information

1.1 General

Pradeshiya Sanwardhana 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, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. In May 2010, these six banks were merged into one national level bank and designated as the Pradeshiya Sanwardhana Bank. The Bank was established as a statutory body under the Pradeshiya Sanwardhana Bank Act No. 41 of 2008. The registered office of the Bank is located at No. 933, Kandy Road, Wedamulla, Kelaniya.

Permanent, training and contract staff strength of the Bank as at 31 December 2015 was 3,052. (as at 31 December 2014 - 3,112).

1.2 Principal Activities and Nature of Operations

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

There were no significant changes in the nature of the principal activities of the Bank during the financial year under review.

2. Accounting Policies

2.1 Statement of Compliance

The Income Statement, the Statement of Comprehensive Income, Statement of Financial Position, Cash Flow Statement, Statement of Changes in Equity, together with the Significant Accounting Policies and Notes to the financial statements, ('financial statements'), as at 31 December 2015 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs), 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 and Pradeshiya Sanwardhana Bank Act No. 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008 and amendments thereto.

2.2 Basis of Preparation

The Financial Statements have been prepared on a historical cost basis, except for available-for-sale investments, other financial assets and liabilities held for trading and liabilities for defined benefit obligations all of which have been measured at fair value.

2.3 Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of these financial statements of the Bank, in compliance with provisions of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, the Companies Act No. 07 of 2007 and SLFRSs.

2.4 Approval of Financial Statements by Directors

The financial statements of the Bank for the year ended 31 December 2015 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 21 March 2016.

2.5 Functional and Presentation Currency

The financial statements of the Bank are presented in Sri Lankan Rupees, which is the currency of the primary economic environment in which Pradeshiya Sanwardhana Bank operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest rupees unless indicated otherwise.

2.6 Presentation of Financial Statements

The items of the Bank presented in their statements of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. 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 43.

2.7 Materiality and Aggregation

In compliance with LKAS 1 – '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 recognised amounts and there is an intention to settle on a net basis, or to realise 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.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's presentation.

2.9 Statement of Cash Flow

The cash flow statement has been prepared by using The Direct Method in accordance with the Sri Lanka Accounting Standard – (LKAS) 7 – 'Statement of Cash Flows', whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Details of cash and cash equivalents are given in Note 16 and Note 18 to the financial statements.

Cash and cash equivalents include cash in hand, balances with banks, money at call and short notice net of unfavourable balances.

2.10 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements of the Bank in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the financial statements of the Bank are as follows:

2.10.1 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.

2.10.2 Impairment Losses on Loans and Advances

The Bank review its individually significant loans and advances more than Rs. 10 million as per the Board decisions, at each reporting date commencing from 31 December 2015 to assess whether an impairment loss should be recorded in the statement of profit or loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

All loans and advances which are more than Rs. 10 million have been assessed individually and found not impaired and all individually insignificant loans and advances are then assessed collectively.

The collective assessment takes account of data from the loan portfolio (such as levels of arrears, type of loans, etc.), and judgments on the effect of concentrations of risks and economic data.

The Bank uses net flow rate method to establish historical loss experience.

The impairment loss on loans and advances is disclosed in more detail in Note 20 and further described under the Note 44.

2.10.3 Taxation

The Bank is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, which results in adjustments to tax income and expenses and deferred tax amounts that were initially recorded in the financial statements. Note 12 and Note 22.

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. Judgment 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.

2.10.4 Defined Benefit Plans

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lankan Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

2.10.5 Useful Lifetime of the Property and Equipment

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

2.10.6 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

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

3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Bank in preparation of the financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements of the Bank, unless otherwise indicated.

3.1 Financial Instruments - Initial Recognition and Subsequent Measurement

3.1.1 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.

3.1.2 Classification and 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.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities at fair value through profit and loss as per the Sri Lanka Accounting Standard (LKAS) - 39 'Financial Instruments: Recognition and Measurement'. Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through income statement.

3.1.3 Classification and Subsequent Measurement of Financial Assets

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 Financial Assets at Fair Value Through Profit or Loss

The subsequent measurement of financial assets depends on their classification.

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 of loss.

3.1.3.2 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 recognised 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.

3.1.3.3 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.

3.1.3.4 Due from Banks and Loans and Receivables to Customers

Due from banks and loans and receivables to 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 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'.

3.1.3.5 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.

3.1.4 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.

3.1.5 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.

3.2 Derecognition of Financial Assets and Financial Liabilities

3.2.1 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
- 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.

3.2.2 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.

3.3 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 42.

3.4 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.

3.4.1 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.

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

3.5 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.

3.5.1 Leases -Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in Note 3.7.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

3.6 Cash and Cash Equivalents

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

3.7 Property and Equipment

Property and equipment 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.

The depreciation is calculated using the straight-line basis over the useful life of the assets, commencing from when the assets are available for use. 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.

3.8 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 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 year-end. 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

3.9 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.

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.

3.10 Pension Benefits

3.10.1 Defined Benefit Pension Plan-Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan' as defined in the Sri Lanka Accounting Standard (LKAS 19) – 'Employee Benefits' Please refer Note 3.10.2 for the definition of Defined Contribution Plan.

3.10.1.1 Gratuity

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

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31 December 2015 by Messrs Actuarial and Management Consultants (Private) Limited, a qualified actuary.

Recognition of actuarial gains and losses: The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in

other comprehensive income during the period in which it occurs.

Funding Arrangements: The Gratuity liability is not externally funded.

3.10.2 Defined Contribution Pension Plan

'A defined contribution pension plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods' as defined in the Sri Lanka Accounting Standard (LKAS) 19 - 'Employee Benefits'.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability.

1. Employees' Provident Fund

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

2. Employees' Trust Fund

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

3.11 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.

3.12 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.

3.12.1 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 3.1.5) 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.

3.12.2 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:

3.12.2.1 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.

3.12.3 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.

3.12.4 Significant Accounting Policies – Tax Expense

As per Sri Lanka Accounting Standard (LKAS) – 12 'Income Taxes', tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the income statement except to the extent it relates to items recognised directly in 'Equity' or 'other comprehensive income (OCI)', in which case it is recognised in equity or in OCI.

3.12.4.1 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.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified in Note 12 to the financial statements.

3.12.4.2 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 utilised.

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.

3.12.4.3 Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendment thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.12.4.4 Nation Building Tax (NBT) on Financial Services

Nation Building Tax on Financial Services is calculated in accordance with Nation Building Tax Act No. 09 of 2009 and subsequent amendments thereto with effect from 01st January 2014. NBT on the Financial Services is calculated as 2% of the value addition used for the purpose of VAT on Financial Services.

3.12.4.5 Withholding Tax (WHT) on Dividends

Dividend distributed out of taxable profit of the local Subsidiaries attracts a 10% deduction at source and is not available-for-set-off against the tax liability of the Bank.

WHT that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

3.12.4.6 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.

3.13 Other

3.13.1 Earnings Per Share (EPS)

The Bank presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.13.2 Cash Flow Statement

The cash flow statement has been prepared by using 'The Direct Method' in accordance with the Sri Lanka Accounting Standard (LKAS) 7 - 'Statement of Cash Flows', whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks, placements with banks, money at call and short notice.

3.14 Standards Issued but Not yet Effective as at 31 December 2015

The following Sri Lanka Accounting Standards have been issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2015. Accordingly these Accounting Standards have not been applied in the preparation of the financial statements for the year ended 31 December 2015.

SLFRS 14 – Regulatory Deferral Accounts

The scope of this Standard is limited to first-time adopters of SLFRS that already recognise regulatory deferral account balances in their financial statements. Consequently, the financial statements of rate regulated entities that already apply SLFRS, or that do not otherwise recognise such balances, will not be affected by this Standard. This Standard is effective for the annual periods beginning on or after 01 January 2016.

SLFRS -15 – Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

SLFRS -15 will become effective on 01 January 2018. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 9 – Financial Instruments: Classification and Measurement

This Standard will replace Sri Lanka Accounting Standard (LKAS) 39 - 'Financial Instruments: Recognition and Measurement'. The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting which are detailed below:

Phase 1: Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in the financial statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply.

Phase 2: Impairment

SLFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses.

Phase 3: Hedge Accounting

SLFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

SLFRS 9 will become effective on 1 January 2018. The impact on the implementation of the above Standard has not been quantified yet. Given the nature of the Group's operations, this Standard is expected to have a pervasive impact on the consolidated financial statements of the Group. In particular, an increase in the overall impairment allowance is expected due to the introduction of the expected credit loss model.

4. Gross Income

For the Year ended 31 December	Bank 2015 Rs.	2014 Rs.
Total interest income (Note 5)	**11,759,232,735**	10,593,086,967
Fee and commission income (Note 6)	**739,950,446**	595,406,906
Other operating income (Note 8)	**10,935,721**	(2,137,669)
Total gross income	**12,510,118,902**	11,186,356,204

5. Net Interest Income

Interest Income		
Sri Lankan Government Securities	**1,014,712,067**	92,119,663
Financial assets designated at fair value through profit or loss	**328,590**	244,336
Loans and receivables to banks	**519,840,169**	2,049,940,127
Loans and receivables to other customers	**10,224,351,909**	8,450,782,841
Total interest income	**11,759,232,735**	10,593,086,967
Interest expenses		
Due to banks	**(600,145,332)**	(448,762,673)
Due to other customers	**(4,568,535,038)**	(4,862,105,451)
Total interest expenses	**(5,168,680,370)**	(5,310,868,124)
Net interest income	**6,590,552,365**	5,282,218,843

6. Net Fee and Commission Income

Fee and commission income	**739,950,446**	595,406,906
Fee and commission expenses	**(114,174,850)**	(90,296,171)
Net fee and commission income	**625,775,596**	505,110,735
Comprising		
Loans	**538,665,994**	538,674,195
Trade and remittances	**5,849,748**	7,886,712
Deposits	**(89,617,052)**	(78,847,510)
Others	**170,876,906**	37,397,338
Net fee and commission income	**625,775,596**	505,110,735

7. Net Gain/(Loss) from Financial Instruments Fair Value through Profit or Loss

Financial assets designated at fair value through profit or loss	**(6,300)**	55,580
Total	**(6,300)**	55,580

8. Other Operating Income (Net)

Gain on sale of property, plant and equipment	**7,643,520**	1,640,580
Capital gain on Equity securities	**–**	141,543
Loss on sale of property, plant and equipment	**(388,860)**	(3,968,440)
ATM Income	**294,808**	–
Recoveries of NPL loans	**3,386,253**	48,649
Other operating income (net)	**10,935,721**	(2,137,669)

9. Impairment Charges for Loans and Other Losses

	Bank	
For the Year ended 31 December	**2015 Rs.**	2014 Rs.
To other customers collective impairment [Note 20(b)]	**(368,699,781)**	(452,377,502)
To other customers Individual impairment [Note 20(b)]	**91,034,553**	–
Total	**(277,665,228)**	(452,377,502)

10. Personnel Expenses

Salary and bonus	**2,500,869,114**	1,858,217,835
Contributions to defined contribution plans	**139,802,596**	136,897,691
Others	**1,441,469,975**	1,008,429,759
Total	**4,082,141,685**	3,003,545,285

11. Other Expenses

Directors' emoluments	**3,434,646**	3,147,970
Auditors' remuneration	**3,694,456**	1,918,114
Professional and legal expenses	**30,717,109**	9,355,902
Depreciation of property, plant and equipment	**192,887,422**	151,124,569
Office administration and establishment expenses	**882,025,845**	804,839,413
Computerisation expenses	**60,737,149**	48,070,734
Business tax expenses	**468,614**	354,719
Other commission paid	**1,883,233**	1,877,433
Savings insurance fund	**81,443,936**	67,016,914
Crop insurance levy	**2,799,472**	5,849,793
Staff security deposits interest	**1,815,151**	2,262,933
Capital loss on pawning advance	**29,071,253**	67,368,645
Liya isuru fair value adjustment provision (11.1)	**8,290,427**	447,427,762
Total	**1,299,268,713**	1,610,614,900

11.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable or when the instrument is derecognised.

12. Tax Expenses

	Bank	
For the Year ended 31 December	**2015 Rs.**	2014 Rs.
Income taxation		
Taxation based on profits for the year [Note 12(a)]	**562,173,219**	515,589,086
(Over)/under provision in respect of previous year [Note 12(c -i)]	**6,529**	32,458,751
(Over)/under provision in respect of 2012/13 year [Note 12(c -ii)]	**12,013,835**	–
Deem dividend tax	**–**	46,310,153
Transfers to/(from) deferred taxation [Note 12(b)]	**2,614,211**	(7,976,635)
Total	**576,807,793**	586,381,354

12 (a) Reconciliation of Tax Expenses

For the Year ended 31 December	Bank 2015 Rs.	2014 Rs.
Profit/(loss) before tax	**1,459,267,262**	928,668,064
Add: Tax effect of expenses that are not deductible for tax purposes	**1,033,598,420**	1,296,011,137
(Less): Tax effect of expenses that are deductible for tax purposes	**(485,104,186)**	(383,289,608)
Taxable profit	**2,007,761,496**	1,841,389,593
Income tax for the period (taxable profit @ applicable tax rate)	**28%**	28%
Tax expense for the period	**562,173,219**	515,589,086

Notional Tax Credit on Secondary Market Transactions

Any company which derived income from the secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, such a company is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transaction to an amount of one ninth of the same. Accordingly, the net interest income earned by the Bank from above transactions has been grossed up in the financial statements for the year ended 31 December 2015 and the notional tax credit amounts to Rs. 76,912,303/- (Rs. 4,644,278/-).

12 (b) The Deferred Tax (Credit)/Charge in the Income Statement Comprise the following:

For the Year ended 31 December	Bank 2015 Rs.	2014 Rs.
Deferred tax assets	**(30,564,018)**	30,450,227
Deferred tax liabilities	**33,178,229**	(38,426,862)
Deferred tax (credit)/charge to income statement (Note 22)	**2,614,211**	(7,976,635)

12 (c) (Over)/Under Provision in Respect of Previous Year

12 (c) i During the period tax payable amount corrected as per the income tax return submitted to the department of inland revenue for the year of assessment 2013/2014.

12 (c) ii During the 2012/2013 period tax payable amount corrected according to the department of inland revenue and finalised the said period income tax liability.

13. Earnings Per Share

For the Year ended 31 December	Bank 2015 Rs.	2014 Rs.
Net profit attributable to ordinary equity holders	**882,459,469**	342,286,709
Net profit attributable to ordinary equity holders	**882,459,469**	342,286,709

	Numbers	Numbers
Weighted average number of ordinary shares for basic earnings per share	**137,093,693**	112,543,792
Basic earnings per ordinary share	**6.44**	3.04

14. Dividend Paid and Proposed

The Board of the Directors of the Bank has recommended the payment of a final dividend of Rs. 1/- per share for the year ended 31 December 2015, a distribution of approximately Rs. 137,093,693/-.

In accordance with Sri Lanka Accounting Standards (LKAS 10) – 'Event after the reporting period', above proposed final divided has not been recognised as a liability as at the year end. Necessary disclosures have been made under Note 36 to the financial statements, 'Events after the Reporting Period' as required by the said standard.

15. Measurement of Financial Instruments

a. Bank - Current Year (2015)

As at 31 December	FVTPL Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Total Rs.
ASSETS					
Cash and Cash Equivalents	–	–	310,591,598	–	310,591,598
Sri Lanka Government Securities	–	607,814,250	–	–	607,814,250
Balances with banks	–	–	15,813,954,858	–	15,813,954,858
Financial assets held for trading	200,000	–	–	–	200,000
Loans and receivables from other customers	–	–	87,907,153,173	–	87,907,153,173
Other assets	–	–	775,982,749	–	775,982,749
Total financial assets	200,000	607,814,250	104,807,682,377	–	105,415,696,628

b. Bank - Current Year (2015)

As at 31 December	Amortised cost Rs.	Total Rs.
LIABILITIES		
Due to banks	7,915,016,520	7,915,016,520
Due to other customers	86,324,097,162	86,324,097,162
Debt issued and other borrowed funds	2,693,032,538	2,693,032,538
Total financial liabilities	96,932,146,220	96,932,146,220
Other liabilities	2,833,291,169	2,833,291,169
Total other liabilities	2,833,291,169	2,833,291,169
Total liabilities	99,765,437,389	99,765,437,389

a. Bank - Previous Year (2014)

As at 31 December	FVTPL Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Total Rs.
ASSETS					
Cash and Cash Equivalents	–	–	236,997,574	–	236,997,574
Sri Lanka Government Securities	–	1,789,084,271	–	–	1,789,084,271
Balances with banks	–	–	26,165,415,422	–	26,165,415,422
Financial assets held for trading	206,300	–	–	–	206,300
Loans and receivables from other customers	–	–	61,579,234,734	–	61,579,234,734
Other assets	–	–	617,825,721	–	617,825,721
Total financial assets	206,300	1,789,084,271	88,599,473,451	–	90,388,764,022

b. Bank - Previous Year (2014)

As at 31 December	Amortised cost Rs.	Total Rs.
LIABILITIES		
Due to banks	9,790,601,772	9,790,601,772
Due to other customers	72,525,364,971	72,525,364,971
Total financial liabilities	82,315,966,743	82,315,966,743
Other liabilities	3,334,595,573	3,334,595,573
Total other liabilities	3,334,595,573	3,334,595,573
Total liabilities	85,650,562,316	85,650,562,316

16. Cash and Cash Equivalents

As at 31 December	Bank 2015 Rs.	Bank 2014 Rs.
Cash in hand	**310,591,598**	236,997,574
Total	**310,591,598**	236,997,574

17. Sri Lanka Government Securities

Treasury bills and bonds	**607,814,250**	1,789,084,271
Subtotal	**607,814,250**	1,789,084,271
Held-to-maturity		
Treasury bills	**607,814,250**	1,789,084,271
Subtotal	**607,814,250**	1,789,084,271
Total	**607,814,250**	1,789,084,271

18. Balances with Banks

Fixed deposit	**2,915,651,530**	24,698,711,942
Money market placement	**12,861,621,185**	1,017,169,314
Other bank balances	**36,682,143**	449,534,166
Total	**15,813,954,858**	26,165,415,422

19. Financial Assets at Fair Value through Profit or Loss (excluding Sri Lanka Government Securities)

Held for trading		
Equity securities (19.1)	**206,300**	698,759
Less: Disposal of investment	**–**	(548,039)
Less: Devaluation	**(6,300)**	–
Add: Capital gain	**–**	55,580
Subtotal	**200,000**	206,300
Total	**200,000**	206,300

19.1 Equity Securities

	2015			2014		
	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
People's Merchant Bank PLC	**600**	**12,000**	**12,000**	600	12,000	15,300
Ceylinco Seylan Development Limited	**10,000**	**150,000**	**138,000**	10,000	150,000	141,000
CRIB	**50,000**	**50,000**	**50,000**	50,000	50,000	50,000
		212,000	**200,000**		212,000	206,300
Provision for shares - devaluation		**(12,000)**	**–**		(5,700)	–
		200,000	**200,000**		206,300	206,300

20. Loans and Receivables from Other Customers

	Bank	
As at 31 December	**2015 Rs.**	2014 Rs.
Gross loans and receivables	**89,469,402,355**	63,127,939,906
(Less): Zero rate loan fair value adjustment	**(257,836,074)**	(407,480,802)
	89,211,566,281	62,720,459,104
(Less): Staff loan fair value adjustment	**(508,043,485)**	–
	88,703,522,796	62,720,459,104
(Less): Collective impairment charges	**(705,335,071)**	(1,141,224,370)
(Less): Individual impairment charges	**(91,034,553)**	–
Net loans and receivables	**87,907,153,173**	61,579,234,734

a. Analysis

By product		
Pawning	**7,653,380,215**	10,615,275,145
Staff loans	**2,390,935,056**	1,363,939,927
Short-term	**5,002,175,566**	4,933,877,757
Long-term	**73,349,945,990**	45,092,346,330
Interest receivable on loans & advances	**1,072,965,528**	1,122,500,746
Gross total	**89,469,402,355**	63,127,939,906
By currency		
Sri Lankan Rupee	**89,469,402,355**	63,127,939,906
Gross total	**89,469,402,355**	63,127,939,906
By industry		
Agriculture and fishing	**18,906,817,764**	17,471,567,441
Manufacturing	**10,449,660,782**	8,992,240,366
Transport	**368,156,284**	211,615,710
Construction/housing	**31,730,771,783**	14,021,697,256
Traders	**11,744,233,768**	10,322,142,893
Others (consumptions/against deposit/staff/tourism)	**15,196,796,446**	10,986,175,495
Interest receivable on loans & advances	**1,072,965,528**	1,122,500,746
Gross total	**89,469,402,355**	63,127,939,906
By CBSL		
Performing	**85,931,895,206**	58,393,365,874
Special mention	**624,868,328**	1,343,559,301
Substandard	**839,900,643**	1,368,547,932
Doubtful	**543,358,691**	602,509,068
Loss	**1,529,379,487**	1,419,957,731
Gross total	**89,469,402,355**	63,127,939,906

b. Movements in Individual and Collective Impairment Charges during the Year

As at 31 December	Bank 2015 Rs.	2014 Rs.
Collective Loan Impairment		
Collective impairment charges		
Opening balance as at 1 January	**1,141,224,370**	1,696,519,008
Charge/(write back) to income statement (9)	**(368,699,781)**	(452,377,502)
Recoveries during the year	**–**	(48,649)
Other movements	**(67,189,519)**	(102,868,487)
Closing balance as at 31 December	**705,335,071**	1,141,224,370
Individual Loan Impairment		
Individual impairment charges		
Opening balance as at 1 January	**–**	–
Charge/(Write back) to income statement (9)	**91,034,553**	–
Recoveries during the year	**–**	–
Other movements	**–**	–
Closing balance as at 31 December	**91,034,553**	–

21. Intangible Assets

As at 31 December	Bank 2015 Rs.	2014 Rs.
Computer Software		
Opening balance as at 1 January	**81,591,017**	112,179,008
Additions	**59,218,310**	45,099,278
Written off	**–**	(8,784,553)
Reclassify	**–**	(66,902,715)
Closing balance as at 31 December	**140,809,327**	81,591,017
(Less): Amortisation		
Opening balance as at 1 January	**26,629,254**	40,165,135
Charge for the year	**35,364,098**	13,005,537
Written off	**–**	(5,539,004)
Reclassify	**–**	(21,002,415)
Closing balance as at 31 December	**61,993,352**	26,629,254
(Less): Impairment charges	**–**	–
Net book value	**78,815,975**	54,961,763

22. Deferred Tax Assets/Liabilities

	Bank			
	Balance Sheet as at 31-12-2015 Rs.	Balance Sheet as at 31-12-2015 Rs.	Income Statement for the Year Ended 31-12-2015 Rs.	Income Statement for the Year Ended 31-12-2015 Rs.
Deferred Tax Liability				
Capital allowances for tax purposes	100,553,192	67,374,970	(33,178,229)	38,426,862
	100,553,192	67,374,970	(33,178,229)	38,426,862
Deferred Tax Assets				
Defined benefit plans – income statement	289,340,089	258,776,071	30,564,018	33,087,670
Defined benefit plans – comprehensive income	(17,152,823)	(3,079,313)	(14,073,511)	(3,273,872)
General provision for performing Loans and advances	–	–	–	(48,328,722)
Unclaimed bad debt provision – specific provision	–	–	–	(15,209,175)
	272,187,266	255,696,758	16,490,507	(33,724,099)
Deferred income tax income/(expense) – income statement	–	–	(2,614,211)	7,976,635
Deferred income tax income/(expense) – statement of comprehensive income	–	–	(14,073,511)	(3,273,872)

As at 31 December	Bank 2015 Rs.	Bank 2014 Rs.
Reflected in the balance sheet as follows:		
Deferred tax assets	**272,187,266**	255,696,758
Deferred tax liabilities	**100,553,192**	67,374,970
Deferred tax assets (net)	**171,634,073**	188,321,788

23. Other Assets

As at 31 December	Bank 2015 Rs.	Bank 2014 Rs.
Cost		
Receivables	**305,006,436**	121,027,618
Deposits and pre-payments	**327,614,849**	446,161,164
Sundry debtors	**56,012,301**	41,840,826
Others	**753,090,196**	290,141,866
Inter-bank transaction in transit	**–**	619,931,675
Total	**1,441,723,782**	1,519,103,148

24. Property, Plant and Equipment

Property and Equipment

	Bank 2015						
	Land and Buildings	Computer, Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Partition and Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2015 (Current year) Cost/fair value							
Opening balance at 1 January 2015	359,114,252	415,810,019	629,423,076	178,506,009	69,930,682	–	1,652,784,039
Additions	4,165,045	42,421,736	58,131,880	108,483,205	28,921,680	56,941,201	299,064,747
Disposals	–	(9,711,378)	(8,914,751)	(5,067,533)	–	(63,852)	(23,757,514)
Written off	–	–	(35,508)	–	–	(2,022,179)	(2,057,688)
Transfers during the Year	32,766,852	–	–	–	(32,766,852)	114,612,692	114,612,692
Reclassify	–	81,080	(180,320)	–	–	–	(99,240)
Closing balance at 31 December 2015	**396,046,149**	**448,601,457**	**678,424,377**	**281,921,681**	**66,085,510**	**169,467,861**	**2,040,547,036**
Finance Lease							
Opening balance at 1 January 2015	–	–	–	103,703,000	–	–	103,703,000
Additions	–	–	–	221,400	–	–	221,400
Closing balance at 31 December 2015	**–**	**–**	**–**	**103,924,400**	**–**	**–**	**103,924,400**
(Less): Accumulated depreciation							
Opening balance at 1 January 2015	58,400,212	255,028,444	454,988,350	137,382,113	–	–	905,799,118
Charge for the year	13,399,861	53,246,126	59,401,922	16,720,577	–	28,641,883	171,410,369
Disposals	–	(9,469,812)	(8,701,948)	(5,067,522)	–	(375)	(23,239,656)
Written off	–	–	(5,553)	–	–	–	(5,553)
Reclassify	–	102,145	(508,141)	–	–	–	(405,996)
Closing balance at 31 December 2015	**71,800,073**	**298,906,903**	**505,174,630**	**149,035,169**	**–**	**28,641,508**	**1,053,558,282**
Finance Lease							
Opening balance at 1 January 2015	–	–	–	24,831,198	–	–	24,831,198
Charge for the year	–	–	–	21,477,053	–	–	21,477,053
Closing balance at 31 December 2015	–	–	–	46,308,251	–	–	46,308,252
(Less): Impairment charges	–	–	–	–	–	–	–
Net book value at 31 December 2015	**324,246,076**	**149,694,554**	**173,249,747**	**190,502,662**	**66,085,510**	**140,826,353**	**1,044,604,902**

	Bank 2014					
	Land and Buildings	Computer, Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2014 (Current year) Cost/fair value						
Opening balance at 1 January 2014	304,455,199	302,646,355	639,031,995	159,064,556	70,735,765	1,475,933,869
Additions	480,118	58,221,087	32,252,488	24,227,392	54,846,549	170,027,634
Disposals	–	(10,427,334)	(8,013,339)	(4,783,850)	–	(23,224,523)
Transfers during the Year	54,198,935	–	–	–	(54,198,935)	–
Reclassify	(20,000)	65,369,912	(33,848,067)	(2,090)	(1,452,697)	30,047,059
Closing balance at 31 December 2014	**359,114,252**	**415,810,019**	**629,423,076**	**178,506,009**	**69,930,682**	**1,652,784,039**
Finance Lease						
Opening balance at 1 January 2014	–	–	–	67,668,000	–	67,668,000
Additions	–	–	–	36,035,000	–	36,035,000
Closing balance at 31 December 2014	**–**	**–**	**–**	**103,703,000**	**–**	**103,703,000**
(Less): Accumulated depreciation						
Opening balance at 1 January 2014	46,824,072	207,432,041	411,304,242	126,057,977	–	791,618,332
Charge for the year	11,584,367	37,943,048	67,016,923	16,100,814	–	132,645,151
Disposals	–	(10,072,231)	(7,576,439)	(4,783,839)	–	(22,432,509)
Reclassify	(8,227)	19,725,586	(15,756,376)	7,161	–	3,968,144
Closing balance at 31 December 2014	**58,400,212**	**255,028,444**	**454,988,350**	**137,382,113**	**–**	**905,799,118**
Finance Lease						
Opening balance at 1 January 2014	–	–	–	6,351,781	–	6,351,781
Charge for the year	–	–	–	18,479,418	–	18,479,418
Closing balance at 31 December 2014	–	–	–	24,831,198	–	24,831,199
(Less): Impairment charges	–	–	–	–	–	–
Net book value at 31 December 2014	**300,714,040**	**160,781,576**	**174,434,727**	**119,995,697**	**69,930,682**	**825,856,722**

Fully-Depreciated Property, Plant and Equipment

A class-wise analysis of the initial cost of fully-depreciated property, plant and equipment of the Bank which are still in use as at reporting date is as follows:

	Bank	
As at 31 December	**2015 Rs.**	2014 Rs.
Asset Class		
Computer, hardware	**193,467,425**	92,090,049
Office, equipment, furniture and fittings	**306,445,902**	242,418,405
Motor vehicles	**106,862,912**	98,494,370
Partition and fittings	**557,243**	–
	607,333,482	433,002,825

Partition and fittings which was accounted under other assets has been Transferred to property, plant and equipment for better presentation.

25. Due to Banks

As at 31 December	Bank 2015 Rs.	2014 Rs.
Borrowings	**178,125,860**	2,153,383,689
Leasing (Note 25.1)	**54,418,780**	77,567,191
Refinance	**7,682,471,880**	7,559,650,892
Total	**7,915,016,520**	9,790,601,772

The Maturity analysis of borrowings is given in Note 44.3.4.

25.1 Maturity of the Leasing

Not later than 1 year	**32,688,204**	32,688,204
Later than 1 year and not later than 5 year	**28,679,084**	60,961,489
Later than 5 years	**–**	–
	61,367,288	93,649,693
Less – Interest in suspense	**(6,948,508)**	(16,082,502)
Total	**54,418,780**	77,567,191

26. Due to Other Customers

At amortised cost	**86,324,097,162**	72,525,364,971
Total	**86,324,097,162**	72,525,364,971

a. Analysis

By product		
Savings deposits	**28,792,809,211**	22,417,310,614
Long-term savings	**8,073,606,645**	7,704,623,927
Fixed deposits	**49,457,681,306**	42,403,430,430
Total	**86,324,097,162**	72,525,364,971
By currency		
Sri Lanka Rupee	**86,324,097,162**	72,525,364,971
Total	**86,324,097,162**	72,525,364,971

27. Debt Issued and Other Borrowed Funds

Redeemable debentures (Note 27.1)	**2,693,032,538**	–
Total	**2,693,032,538**	–

27.1 Redeemable Debentures

Opening balance as at 1 January	**–**	–
Debenture issued	**2,500,000,000**	–
Debenture redeemed	**–**	–
Interest payable	**206,867,546**	–
Interest paid	**(13,835,008)**	–
Closing balance as at 31 December	**2,693,032,538**	–

27.1.1 Debenture Issued in 2015

Unsecured subordinated redeemable 5-Year debentures of Rs. 100/- each issued in 2015. The debentures are quoted on the Colombo Stock Exchange.

Type	No. of debentures	Face value (Rs.)	Amortised cost 2015 (Rs.)	Allotment date	Maturity date	Rate of the interest
A	21,288,500	2,128,850,000	2,128,850,000	30.01.2015	30.01.2020	Fixed – 9.00% per annum payable annually
B	3,610,200	361,020,000	361,020,000	30.01.2015	30.01.2020	Fixed – 8.81% per annum payable bi-annually
C	101,300	10,130,000	10,130,000	30.01.2015	30.01.2020	Fixed – 8.71% per annum payable quarterly
	25,000,000	2,500,000,000	2,500,000,000			

28. Other Liabilities

	Bank	
As at 31 December	**2015 Rs.**	2014 Rs.
Sundry creditors	**129,956,036**	1,179,952,660
Interest payable	**1,466,844,840**	1,230,580,467
Other payables	**1,657,205,591**	1,293,472,158
Inter bank transaction in transit	**(164,759)**	152,029
Total	**3,253,841,708**	3,704,157,314

29. Retirement Benefit Obligation

Provisions for retiring gratuity (Note 29.1)	**972,097,354**	913,202,684
	972,097,354	913,202,684

29.1 Provisions for Retiring Gratuity

29.1.1 Net Asset/(Liability) Recognised in the Statement of Financial Position

Opening balance as at 1 January	**913,202,684**	806,724,857
Provision made during the year (Note 29.1.2)	**139,802,596**	132,218,133
Provision made during the year (Note 29.1.3)	**(61,260,084)**	(10,997,545)
	991,745,196	927,945,445
Benefits paid by the plan	**(19,647,842)**	(14,742,761)
	972,097,354	913,202,684

29.1.2 Amount Recognised in Income Statement

Service cost	**48,482,327**	47,512,023
Net interest on the net defined benefit liability (asset)	**91,320,269**	84,706,110
Total amount recognised in income statement	**139,802,596**	132,218,133

29.1.3 Amount Recognised in Statement of Comprehensive Income

Liability experience (gains) losses arising during the year	**(61,260,084)**	(10,997,545)
Total amount recognised in income statement	**(61,260,084)**	(10,997,545)

29.1.4 Defined Benefit Obligation Reconciliation

Benefit obligation at end of prior year	**913,202,684**	806,724,857
Company service cost	**48,482,327**	47,512,023
Interest cost	**91,320,269**	84,706,110
Actual benefit paid from plan	**(19,647,842)**	(14,742,761)
(Gain)/loss due to changers in assumptions	**(61,260,084)**	(10,997,545)
Total amount recognised in income statement	**972,097,354**	913,202,684

29.2 An actuarial valuation of the gratuity fund was carried out as at 31 December 2015 by Messrs Actuarial & Management Consultants (Pvt) Limited a firm of professional actuaries. The valuation method use by the actuary to value the fund is the 'Projected Unit Credit Method', recommended by Sri Lanka Accounting Standard (LKAS) 19 – 'Employee Benefits'.

Actuarial assumptions	2015	2014
Discount rate as at 31 December	**10.00%**	10.00%
Future salary increment rate	**20% (Every three years with the next increment due on 1 January 2018)**	20% (Every three years with the next increment due on 1 January 2015)
Mortality	**A1967/70 Mortality Table**	A1967/70 Mortality Table
Retirement age	**57 Years**	57 Years

Expected average future working life of the active participants is 14 years.

29.3 Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the statement of profit or loss and the statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		2015		2014	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	**Sensitivity Effect on Income Statement Increase/(Reduction) in results for the year**	**Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability**	Sensitivity Effect on Income Statement Increase/(Reduction) in results for the year	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability
		Rs.	**Rs.**	Rs.	Rs.
1%	–	**915,107,948**	**(915,107,948)**	855,732,000	(855,732,000)
(-1%)	–	**(1,036,027,713)**	**1,036,027,713**	(977,644,963)	977,644,963
–	1%	**(987,070,567)**	**987,070,567**	(935,478,253)	935,478,253
–	(-1%)	**957,472,054**	**(957,472,054)**	891,514,809	(891,514,809)

30. Stated Capital

As at 31 December	Bank 2015 Rs.	2014 Rs.
Ordinary shares		
Opening balance as at 1 January	**1,370,936,931**	1,099,400,151
Issue of shares	**–**	271,536,780
Closing balance as at 31 December	**1,370,936,931**	1,370,936,931

31. Statutory Reserve Fund

Opening balance as at 1 January	**523,268,291**	506,153,956
Transfer during the period	**44,122,973**	17,114,335
Closing balance as at 31 December	**567,391,265**	523,268,291

32. Retained Earnings

As at 31 December	Bank 2015 Rs.	2014 Rs.
Opening balance as at 1 January	**872,318,223**	(336,320,804)
Profit for the year	**882,459,469**	342,286,709
Other comprehensive income	**47,186,573**	7,723,673
Transfers to other reserves	**(264,737,841)**	858,628,644
Dividend	**(137,093,693)**	–
Closing balance as at 31 December	**1,400,132,731**	872,318,223

33. Other Reserves

a. Bank - Current Year (2015)

	Opening balance as at 1 January Rs.	Movement/ transfers Rs.	Closing balance as at 31 December Rs.
General reserve	2,281,672,916	176,491,894	2,458,164,810
Special reserve fund	377,658,619	44,122,974	421,781,593
Total	2,659,331,535	220,614,868	2,879,946,402

a. Bank - Previous Year (2014)

	Opening balance as at 1 January Rs.	Movement/ transfers Rs.	Closing balance as at 31 December Rs.
General reserve	2,213,215,574	68,457,342	2,281,672,916
Special reserve fund	360,544,284	17,114,335	377,658,619
Total	2,573,759,857	85,571,677	2,659,331,535

The general reserve is the result of the Bank transferring a certain amount of profit from retained earning accounts to general reserve account. The purpose of setting up the general reserve is to meet potential future unknown liabilities.

34. Contingent Liabilities and Commitments

As at 31 December	Bank 2015 Rs.	2014 Rs.
Guarantees performance bonds	**91,600,799**	61,655,651
Other contingent items	**140,411,334**	107,306,087
Total	**232,012,133**	168,961,738

34.1 Litigation Against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the date of the statement of financial position date three clients have filed cases against the Bank preventing the sale of assets mortgaged to the Bank, twenty-one staff members have filed cases with Labour Tribunal against the Bank, one client has filed cases against the Bank for claiming damage and the Bank has filed a appeal to the Supreme Court against decision given by the District Court. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

35. Related Party Disclosures Compensation of Key Management Personnel of the Bank

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) 24 – 'Related Party Disclosures' i.e., significant investors, subsidiary and associate companies, post-employment benefit plans for the Bank's employees, Key Management Personnel (KMPs), Close Family Members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

35.1 Parent and the Ultimate Controlling Party

Regional Development Bank is a Government-owned Bank.

35.2 Key Management Personnel (KMPs) of the Bank

As per the Sri Lanka Accounting Standard (LKAS 24) – 'Related Party Disclosures', the KMPs includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. KMPs include the members of the Board of Directors of the Bank, including the Chief Executive Officer.

35.3 Compensation to Key Management Personnel (KMPs)

(a) Compensation to Board of Directors and CEO

	Bank	
	2015 Rs.	2014 Rs.
Short-term employment benefits	**4,065,586**	4,566,123
Total	**4,065,586**	4,566,123

35.4 Key Management of the Bank and their close family members had the following facilities with the Bank:

	2015 Rs.	2014 Rs.
Items in the Statement of Financial Position		
Assets		
Loans and receivables	**14,764,911**	1,020,836
Total	**14,764,911**	1,020,836
Liabilities		
Deposits	**14,732,808**	2,826,065
Total	**14,732,808**	2,826,065
Items in the Statement of Profit or Loss		
Interest income	**808,627**	156,290
Interest expenses	**555,731**	260,148
Total	**1,364,358**	416,437

35.5 Transactions with the Significant Investors

	2015 Rs.	2014 Rs.
Levy paid to general treasury	**125,353,097**	210,118,527
Total	**125,353,097**	210,118,527

Further Rs. 249,646,903/- presented under the other asset as pre-payment to the General Treasury.

35.6 Goods and Services Purchased

During the year, goods and services purchased from the entities where KMPs have either control and/or joint control in the normal course of the business, are detailed below:

	2015 Rs.	2014 Rs.
Goods and services purchased	**8,232,570**	–
Total	**8,232,570**	–

35.7 Transactions with the Government of Sri Lanka and its Related Entities

A number of entities in which the Government of Sri Lanka has an interest have a significant interest in the Bank.

35.7.1 The Bank enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The significant financial dealings during the year and as of the date of the Statement of Financial Position are as follows:

	Outstanding Balance	
	2015 Rs.	2014 Rs.
Items in the Statement of Financial Position		
Assets		
Loans and receivables	**437,014,212**	459,293,248
Total	**437,014,212**	459,293,248
Liabilities		
Deposits	**12,822,454,563**	15,895,800,770
Total	**12,822,454,563**	15,895,800,770
Items in the Statement of Profit or Loss		
Interest income	**32,419,550**	64,319,968
Interest expenses	**863,230,637**	536,551,005
Total	**895,650,187**	600,870,973

35.7.2 Further transactions as detail below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

- Investment in Treasury Bills and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - (EPF, ETF)

36. Events Occurring after the Statement of Financial Position Date

36.1 Proposed Dividends

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 1/- per share for the year ended 31 December 2015, a distribution of approximately Rs. 137,093,693/-.

In accordance with Sri Lanka Accounting Standard (LKAS 10) – 'Events after the Reporting Period', above proposed final divided has not been recognised as a liability as at the year-end.

37. Assets Pledged

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

	Type of Facility	Amount of Facility Rs. million	Nature of Security	Value of Security Rs. million	Balance as at 31.12.2015 Rs. million
1	Over Draft – BOC	1,564	FD-70963965	600 with interest	–
			FD-74353124	161.396 with interest	–
			FD-74361333	217.350 with interest	–
			FD-74817306	196.128 with interest	–
			FD-74588793	181.769 with interest	–
			FD-74619066	181.701 with interest	–
			FD-74041168	445.683 with interest	–
2	Over Draft – PB	200	FD-14-6001-00009136-8	287.913 with interest	–

	Type of Facility	Amount of Facility Rs. million	Nature of Security	Value of Security Rs. million	Balance as at 31.12.2014 Rs. million
1	Over Draft – BOC	1,564	FD-70963965	600 with interest	–
			FD-74353124	150.332 with interest	–
			FD-74361333	205.026 with interest	–
			FD-74817306	183.468 with interest	–
			FD-74588793	169.320 with interest	–
			FD-74619066	169.320 with interest	–
			FD-74041168	424.764 with interest	–
2	Over Draft – PB	200	FD-14-6001-00009136-8	268.576 with interest	–
3	Borrowings (Term Loan – BOC)	1,000	Clean	–	1,000
3	Borrowings (Term Loan – Public Bank)	100	Pledge agriculture Loan	–	33.28

38. Non-Cash Items Included in Profit Before Tax

For the Year ended 31 December	Note	Bank 2015 Rs.	2014 Rs.
Depreciation of property, plant and equipment	11	**192,887,422**	151,124,569
Amortisation of intangible assets	21	**35,364,098**	13,005,537
EIR adjustment		**712,143**	2,703,290
Impairment losses on loans and advances	9	**(277,665,228)**	(452,377,502)
Capital loss on pawning advance	11	**29,071,253**	67,368,645
Property and equipment write-off	24	**2,052,134**	–
Liya Isuru fair value adjustment		**(149,644,728)**	407,480,802
Levy paid to General Treasury		**125,353,097**	210,118,527
Capital gain on investment	7	**6,300**	(55,580)
Capital gain on equity securities	8	**–**	(141,543)
Charge for defined benefit plans	10	**139,802,596**	136,897,691
Movements of other funds		**12,408,456**	(3,333,391)
(Profit)/loss on sale of fixed assets	8	**(7,254,660)**	2,327,861
Total		**103,092,883**	535,118,905

39. Change in Operating Assets

For the Year ended 31 December	Note	Bank 2015 Rs.	2014 Rs.
Net change in Sri Lankan Government Securities	17	**1,181,270,021**	–
Net change in loans and receivables from other customers	20	**(25,929,679,736)**	(22,471,945)
Change in other assets	23	**(47,973,731)**	(210,118,527)
Total		**(24,796,383,446)**	(232,590,472)

40. Change in Operating Liabilities

Net change in due to banks	25	**(933,828,822)**	(1,109,224,537)
Net change in due to other customers	26	**13,798,020,048**	(2,703,290)
Net change in other liabilities	28	**(190,081,485)**	173,643,699
Total		**12,674,109,741**	(938,284,128)

41. Change in Reclassification of Intangible Assets and Property and Equipment

Intangible assets	21	**–**	45,900,301
Property and equipment	24	**(306,755)**	(26,078,915)
Total		**(306,755)**	19,821,386

42. Fair Value of Financial Instruments

42.1 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.

42.2 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.

42.3 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.

42.4 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:

	2015			
As at 31December	**Level 1**	**Level 2**	**Level 3**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Financial asset held for trading	**200,000**	**–**	**–**	**200,000**
	200,000	**–**	**–**	**200,000**

	2014			
As at 31December	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
Financial asset held for trading	206,300	–	–	206,300
	206,300	–	–	206,300

42.5 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.

		2015		2014	
	Fair value classification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
		Rs.	**Rs.**	Rs.	Rs.
Financial assets					
Cash and cash equivalents	Note 41.5.1	**310,591,598**	**310,591,598**	236,997,574	236,997,574
Sri Lankan Government Securities	Note 41.5.1	**607,814,250**	**607,814,250**	1,789,084,271	1,789,084,271
Balances with banks	Note 41.5.1	**15,813,954,858**	**15,813,954,858**	26,165,415,422	26,165,415,422
Loans and receivables from other customers - without impairment					
Pawning	Level 2	**7,653,380,215**	**7,653,380,215**	10,615,275,145	10,615,275,145
Staff loans	Level 2	**2,390,935,056**	**2,390,935,056**	1,363,939,927	1,363,939,927
Short-term	Level 2	**5,002,175,566**	**5,002,175,566**	4,933,877,757	4,933,877,757
Long-term	Level 2	**73,349,945,990**	**73,349,945,990**	45,092,346,330	45,092,346,330
Interest Receivable on Loans & Advances	Level 2	**1,072,965,528**	**1,072,965,528**	1,122,500,746	1,122,500,746
Other assets	Note 41.5.1	**775,982,749**	**775,982,749**	617,825,721	617,825,721
		106,977,745,810	**106,977,745,810**	91,937,262,894	91,937,262,894
Financial liabilities					
Due to banks	Note 41.5.1	**7,915,016,520**	**7,915,016,520**	9,790,601,772	9,790,601,772
Due to other customers	Level 2	**86,324,097,162**	**86,324,097,162**	72,525,364,971	72,525,364,971
Debt issued and other borrowed funds	Level 2	**2,693,032,538**	**2,693,032,538**	–	–
Other liabilities	Note 41.5.1	**3,253,841,708**	**3,253,841,708**	3,704,157,314	3,704,157,314
		100,185,987,928	**100,185,987,928**	86,020,124,057	86,020,124,057

42.5.1 Basis of measurement for the fair value of financial assets and liabilities not carried at fair value

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

Financial Investment Held-to-Maturity

The fair value of financial investment held-to-maturity is estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

43. Maturity Analysis

2015

	Bank		
	Within 12 Months	After 12 Months	Total
	Rs.	Rs.	Rs.
Assets			
Cash and cash equivalents	310,591,598	–	310,591,598
Sri Lankan Government Securities	607,814,250	–	607,814,250
Balances with banks	15,813,954,858	–	15,813,954,858
Financial assets held for trading	–	200,000	200,000
Loans and receivables from other customers	32,235,367,096	55,671,786,077	87,907,153,173
Goodwill and intangible assets	–	78,815,975	78,815,975
Deferred Tax assets	–	171,634,073	171,634,073
Other assets	667,884,434	773,839,348	1,441,723,782
Property and equipment	–	1,044,604,902	1,044,604,902
Total assets	49,635,612,236	57,740,880,375	107,376,492,610
Liabilities			
Due to banks	2,131,431,830	5,783,584,691	7,915,016,520
Due to other customers	54,783,295,124	31,540,802,038	86,324,097,162
Debt issued and other borrowed funds	–	2,693,032,538	2,693,032,538
Other liabilities	1,713,315,980	1,540,525,728	3,253,841,708
Retirement benefit obligation	–	972,097,354	972,097,354
Total liabilities	58,628,042,934	42,530,042,349	101,158,085,282
Maturity Gap	(8,992,430,698)	15,210,838,026	6,218,407,328
Cumulative Gap	(8,992,430,698)	6,218,407,328	–

2014

	Bank		
	Within 12 Months	After 12 Months	Total
	Rs.	Rs.	Rs.
Assets			
Cash and cash equivalents	236,997,574	–	236,997,574
Sri Lankan Government Securities	1,789,084,271	–	1,789,084,271
Balances with banks	26,165,415,422	–	26,165,415,422
Financial assets held for trading	–	(286,159)	(286,159)
Loans and receivables from other customers	29,672,109,600	31,907,125,134	61,579,234,734
Goodwill and intangible assets	–	37,909,654	37,909,654
Deferred Tax assets	–	188,321,788	188,321,788
Other assets	1,051,353,375	467,749,774	1,519,103,148
Property and equipment	–	825,856,722	825,856,722
Total assets	58,914,960,242	33,426,676,912	92,341,637,154
Liabilities			
Due to banks	2,391,482,239	7,399,119,533	9,790,601,772
Due to other customers	46,409,476,092	26,115,888,879	72,525,364,971
Other liabilities	2,481,010,452	1,223,146,862	3,704,157,314
Retirement benefit obligation	–	913,202,684	913,202,684
Total liabilities	51,281,968,783	35,651,357,958	86,933,326,741
Maturity Gap	7,632,991,459	(2,224,681,046)	5,408,310,413
Cumulative Gap	7,632,991,459	5,408,310,413	–

44. Risk Management

44.1 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

44.1.1 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.

44.1.2 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.

44.1.3 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).

44.1.4 Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate 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.

44.2 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 obliger default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

44.2.1 Impairment Assessment

The methodology of the impairment assessment has explained in the Note 3.4 under Accounting Policies.

For all financial assets recognised in Bank's financial statement, the maximum exposure to credit risk is equivalent to the respective carrying amount.

	2015 Rs.	2014 Rs.
Agriculture	**18,906,817,764**	17,471,567,441
Industrial	**10,449,660,782**	8,992,240,366
Trade & Business	**11,744,233,768**	10,322,142,893
Transport Service	**368,156,284**	211,615,710
Housing	**31,730,771,783**	14,021,697,256
Consumption	**10,077,747,067**	4,188,071,102
Loans Against Deposit	**2,715,264,217**	2,764,028,998
Leasing	**12,850,106**	9,352,816
Staff	**2,390,935,056**	4,024,722,579
Interest Receivable on Loans & Advances	**1,072,965,528**	1,122,500,746
Total	**89,469,402,355**	63,127,939,906

44.2.2 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 personal guarantees

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

The 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 one days or more beyond their contractual due date are 'past due'.

44.2.3 Credit Quality of Financial Assets (2015)

	Neither past due nor impaired	Past due but not impaired individually	Individually impaired	Total
	Rs.	Rs.	Rs.	Rs.
Cash and balances with Central Bank	310,591,598	–	–	310,591,598
Sri Lankan Government Securities	607,814,250			607,814,250
Balances with banks	15,813,954,858	–	–	15,813,954,858
Financial assets held for trading	200,000	–	–	200,000
Loans and receivables from other customers - without impairment	85,828,548,363	2,686,385,729	954,468,263	89,469,402,355
Other assets	775,982,749	–	–	775,982,749
Total	103,337,091,818	2,686,385,729	954,468,263	106,977,945,810

Credit Quality of Financial Assets (2014)

	Neither past due nor impaired	Past due but not impaired individually	Individually impaired	Total
	Rs.	Rs.	Rs.	Rs.
Cash and balances with Central Bank	236,997,574	–	–	236,997,574
Sri Lankan Government Securities	1,789,084,271	–	–	1,789,084,271
Balances with banks	26,165,415,422	–	–	26,165,415,422
Financial assets held for trading	(286,159)	–	–	(286,159)
Loans and receivables from other customers - without impairment	59,736,925,175	3,391,014,731	–	63,127,939,906
Other assets	617,825,721	–	–	617,825,721
Total	88,545,962,004	3,391,014,731	–	91,936,976,735

44.2.4 Ageing Analysis of past due but not impaired loans by class of Financial Assets (2015)

	90-180 Days	180-365 Days	365-545 Days	Total
	Rs.	Rs.	Rs.	Rs.
Loans and receivables from other customers	432,818,309	934,902,227	1,318,665,193	2,686,385,729
Total	432,818,309	934,902,227	1,318,665,193	2,686,385,729

Ageing Analysis of past due but not impaired loans by class of Financial Assets (2014)

	90-180 Days	180-365 Days	365-545 Days	Total
	Rs.	Rs.	Rs.	Rs.
Loans and receivables from other customers	1,368,547,932	602,509,068	1,419,957,731	3,391,014,731
Total	1,368,547,932	602,509,068	1,419,957,731	3,391,014,731

44.2.5 Maximum Exposure to Credit Risk

Products	Maximum Exposure to Credit Risk Rs.	Exposure Net of Collateral Rs.
2015		
Cash and cash equivalents	**310,591,598**	**310,591,598**
Sri Lankan Government Securities	**607,814,250**	**607,814,250**
Balances with banks	**15,813,954,858**	**15,813,954,858**
Financial assets held for trading	**200,000**	**200,000**
Loans and receivables from other customers	**87,907,153,173**	**87,907,153,173**
Other assets	**775,982,749**	**775,982,749**
2014		
Cash and cash equivalents	236,997,574	236,997,574
Sri Lankan Government Securities	1,789,084,271	1,789,084,271
Balances with banks	26,165,415,422	26,165,415,422
Financial assets held for trading	206,300	206,300
Loans and receivables from other customers	61,579,234,734	61,579,234,734
Other assets	617,825,721	617,825,721

44.2.6 Analysis of Risk Concentration

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

44.2.7 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 would 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 and Contingent Liabilities

	2015 Rs.	2014 Rs.
Contingent Liabilities		
Bank Guarantee	**91,600,799**	61,655,651
Bills Send for Collection	**140,411,334**	107,306,087
Total Contingent Liabilities and Commitments	**232,012,133**	168,961,738

44.3 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. The Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, the 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 2015 is as follow:

44.3.1 Offsetting of Financial Instruments

2015

	Gross amounts	Gross amounts set of on the statement of financial position	Net amount presented on the statement of financial position	Cash collateral	Financial instrument collateral	Net Amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Lease rentals receivable	8,036,465	–	8,036,465	–	–	8,036,465
Financial Liabilities						
Due to customers	86,324,097,162	–	86,324,097,162	–	–	86,324,097,162

The financial instruments and cash collateral amount disclosed reflect their fair values. The rights of set off relating to the financial instruments and cash collateral are conditional upon the default of the counterparty.

2014

	Gross amounts	Gross amounts set of on the statement of financial position	Net amount presented on the statement of financial position	Cash collateral	Financial instrument collateral	Net Amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Lease rentals receivable	9,352,816	–	9,352,816	–	–	9,352,816
Financial Liabilities						
Due to customers	72,525,364,971	–	72,525,364,971	–	–	72,525,364,971
Statutory Liquid Assets Ratio						
For the month of December 2015						21.77%
For the month of December 2014						35.51%

44.3.3 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).

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

As at 31 December 2015	102.40%
As at 31 December 2014	87.10%

44.3.4 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 2015. 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 (2015)

	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Assets						
Cash and balances with Central Bank	310,591,598	–	–	–	–	310,591,598
Sri Lankan Government Securities	607,814,250	–	–	–	–	607,814,250
Balances with banks	12,850,483,964	2,963,470,894	–	–	–	15,813,954,858
Financial assets held for trading	–	–	–	–	200,000	200,000
Loans and receivables from other customers	8,479,623,628	23,755,743,468	34,692,941,299	17,994,213,305	8,081,666,905	93,004,188,605
Other assets	420,851,787	89,335,098	265,795,864	–	–	775,982,749
Total assets	22,669,365,227	26,808,549,460	34,958,737,163	17,994,213,305	8,081,866,905	110,512,732,060
Liabilities						
Due to banks	666,452,352	1,464,979,477	3,862,966,721	1,920,617,970	–	7,915,016,520
Due to other customers	27,426,191,266	27,357,103,858	7,391,469,470	9,635,496,117	16,327,432,568	88,137,693,280
Debt issued and other borrowed funds	–	–	–	2,693,032,538	–	2,693,032,538
Other liabilities	1,003,237,411	353,820,665	594,912,750	323,459,271	557,861,071	2,833,291,169
Total liabilities	29,095,881,029	29,175,904,001	11,849,348,940	14,572,605,896	16,885,293,640	101,579,033,506
Total Net Asset/ (Liability)	(6,426,515,802)	(2,367,354,541)	23,109,388,223	3,421,607,409	(8,803,426,735)	8,933,698,554

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities (2014)

	Up to 3 Months	3-12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and balances with Central Bank	236,997,574	–	–	–	–	236,997,574
Sri Lankan Government Securities	–	1,789,084,271	–	–	–	1,789,084,271
Balances with banks	18,631,657,491	7,974,193,222	–	–	–	26,605,850,713
Financial assets held for trading	–	–	–	–	206,300	206,300
Loans and receivables from other customers	10,641,256,097	19,030,853,503	17,951,645,172	11,028,353,538	9,685,055,527	68,337,163,837
Other assets	177,692,089	49,337,768	390,795,864	–	–	617,825,721
Total assets	29,687,603,252	28,843,468,763	18,342,441,036	11,028,353,538	9,685,261,826	97,587,128,416
Liabilities						
Due to banks	599,573,675	1,793,611,679	4,782,964,477	3,054,887,233	–	10,231,037,063
Due to other customers	25,603,386,928	20,806,089,165	5,935,939,862	8,088,148,842	13,922,523,985	74,356,088,781
Other liabilities	1,680,781,534	451,943,705	495,034,379	272,607,287	434,228,669	3,334,595,573
Total liabilities	27,883,742,136	23,051,644,549	11,213,938,718	11,415,643,362	14,356,752,653	87,921,721,418
Total Net Asset/ (Liability)	1,803,861,116	5,791,824,214	7,128,502,319	(387,289,824)	(4,671,490,827)	9,665,406,999

44.3.5 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.

2015

Contingent Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank guarantee	3,926,799	7,690,000	79,234,000	750,000	–	91,600,799
Bills sent for collection	140,411,334	–	–	–	–	140,411,334
Total Contingent Liabilities	144,338,133	7,690,000	79,234,000	750,000	–	232,012,133

2014

Contingent Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank guarantee	4,332,852	8,236,000	42,786,799	6,300,000	–	61,655,651
Bills sent for collection	107,306,087	–	–	–	–	107,306,087
Total Contingent Liabilities	111,638,939	8,236,000	42,786,799	6,300,000	–	168,961,738

44.4 Interest Rate Risk

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

2015

There were no any borrowings at variable interest rate.

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

2014

Change Interest Rate	Effect on Profit Rs. million	Effect on Equity Rs. million
+ 1%	(0.33)	(0.33)
- 1%	0.33	0.33

44.5 Currency Risk

The Bank does not have any foreign currency transactions and therefore does not expose itself to any foreign currency risk.

44.6 Equity Price

If Bank holding any equity interest which is classed as held to trading where if the market price increases by 10%, the profit and equity will increase by Rs. 21,200/- and vice versa.

Geographical Distribution of Branches

Provinces of Sri Lanka

1. Northern Province
2. North Central Province
3. North Western Province
4. Eastern Province
5. Central Province
6. Uva Province
7. Western Province
8. Sabaragamuwa Province
9. Southern Province

Districts of Sri Lanka

1. Jaffna District
2. Kilinochchi District
3. Mullaitivu District
4. Mannar District
5. Vavuniya District
6. Trincomalee District
7. Anuradhapura District
8. Puttalam District
9. Polonnaruwa District
10. Kurunegala District
11. Matale District
12. Kandy District
13. Kegalle District
14. Gampaha District
15. Nuwara-Eliya District
16. Badulla District
17. Batticaloa District
18. Ampara District
19. Moneragala District
20. Ratnapura District
21. Colombo District
22. Kalutara District
23. Galle District
24. Matara District
25. Hambanthota District

District	Branches
1. Jaffna District	Jaffna Chunnakam
2. Kilinochchi District	Kilinochchi
3. Mannar District	Mannar
4. Vavuniya District	Vavuniya Kanagarayankulam Bogaswewa
5. Trincomalee District	Trincomalee Kanthale Muthur
6. Anuradhapura District	Anuradhapura City Galnewa Kahatagasdigiliya Medawachchiya Rambawa Thambuththegama Anuradhapura New Town Galenbindunuwewa Gonapathirawa Kekirawa Mihinthale Thalawa Thirappane Thambuththegama E/C
7. Puttalam District	Anamaduwa Chilaw Kirimetiyana Mampuri Naththandiya Nawagaththegama Puttalam Bowaththa Dummalasuriya St. Anapura Mahawewa Mundel Palakuda Pannala
8. Polonnaruwa District	Aralaganvila Galamuna Kaduruwela Medirigiriya Pulasthigama Siripura Bakamoona Hingurakgoda Manampitiya Polonnaruwa Sewanapitiya

District	Branches
9. Kurunegala District	Alawwa
	Galgamuwa
	Ibbagamuwa
	Kurunegala
	Mawathagama
	Narammala
	Panduwasnuwara
	Pothuhera
	Wariyapola
	Headquarters Branch
	Ambanpola
	Giriulla
	Kuliyapitiya
	Maho
	Melsiripura
	Nikaweratiya
	Polpitigama
	Rideegama
10. Matale District	Dambulla
	Laggala
	Matale
	Wilgamuwa
	Galewela
	Naula
	Rattota
11. Kandy District	Danthure
	Hataraliyadda
	Kandy
	Manikhinna
	Peradeniya
	Marketing Information Centre
	Dawlagala
	Hedeniya
	Katugastota
	Udadumbara
	Theldeniya
	Gampola
	Marassana
	Udawela
	Wattegama
	Morayaya
	Pujapitiya
	Nawalapitiya

District	Branches
12. Kegalle District	Aranayake
	Dehiowita
	Dewalegama
	Kegalle
	Kotiyakumbura
	Nelundeniya
	Rambukkana
	Warakapola
	Bulathkohupitiya
	Deraniyagala
	Hemmathagama
	Kitulgala
	Mawanella
	Pitagaldeniya
	Ruwanwella
	Yatiyanthota
13. Gampaha District	Divulapitiya
	Ja-Ela
	Mawaramandiya
	Mirigama
	Negombo
	Ragama
	Gampaha
	Kiridiwela
	Minuwangoda
	Miriswattha
	Nittambuwa
	Kelaniya
14. Nuwara-Eliya District	Agarapathana
	Ginigathhena
	Kotagala
	Nuwara-Eliya
	Rikillagaskada
	Haguranketha
	Nildandahinna
	Pundaluoya
15. Badulla District	Badulla
	Bogahakumbura
	Diyathalawa
	Haldummulla
	Kandaketiya
	Mahiyangana
	Meegahakiula
	Rideemaliyadda
	Welimada
	Bandarawela
	Girandurukotte
	Haputhale
	Lunugala
	Maligathanna
	Passara
	Uva Paranagama

District	Branches
16. Batticaloa District	Batticaloa
	Kalavanchikudy
	Kaththankudy
	Valachchenai
	Chenkaladi
	Eravur
	Kokkadicholai
17. Ampara District	Akkaraipaththu
	Damana
	Mahaoya
	Pothuvil
	Uhana
	Ampara
	Kalmunai
	Nintavur
	Sammanthurai
	Dehiattakandiya
18. Moneragala District	Badalkumbura
	Buttala
	Medagama
	Sevanagala
	Thanamalvila
	Bibila
	Madulla
	Moneragala
	Siyambalanduwa
	Wellawaya
19. Ratnapura District	Balangoda
	Embilipitiya
	Godakawela
	Kalawana
	Kolonna
	Nivithigala
	Pothupitiya
	Rakwana
	Sri Palabaddala
	Eheliyagoda
	Erathna
	Kahawatta
	Kiriella
	Kuruwita
	Pelmadulla
	Pulingupitiya
	Ratnapura
	Weligepola
20. Colombo District	Homagama
	Kolonnawa
	Awissawella
	Piliyandala

District	Branches
21. Kalutara District	Agalawatta
	Beruwela
	Dodangoda
	Horana
	Kalutara
	Meegahathanna
	Moragahahena
	Panadura
	Walagedara
	Baduraliya
	Bulathsinhala
	Gonapola
	Ingiriya
	Mathugama
	Millaniya
	Moronthuduwa
	Wadduwa
	Warakagoda
22. Galle District	Ahangama
	Baddegama
	Batapola
	Galle
	Hikkaduwa
	Karandeniya
	Karapitiya
	Pitigala
	Udugama
	Uragasmanhandiya
	Akmeemana
	Balapitiya
	Elpitiya
	Gonagalpura
	Imaduwa
	Kaluwella
	Neluwa
	Thalgaswala
	Yakkalamulla

District	Branches
23. Matara District	Akuressa
	Deiyandara
	Devinuwara
	Gandara
	Kamburugamuwa
	Mawarala
	Morawaka
	Pitabaddara
	Urubokka
	City Branch
	Deniyaya
	Dikwella
	Hakmana
	Kirinda
	Kamburupitiya
	Mirissa
	Pamburana
	Thihagoda
	Weligama
	Kekenadura
24. Hambantota District	Agunakolapalassa
	Barawakumbuka
	Hambantota
	Lunugamwehera
	Ranna
	Tangalle
	Tissamaharamaya
	Ambalantota
	Beliatta
	Katuwana
	Middeniya
	Sooriyawewa
	Walasmulla
	Warapitiya
	Weeraketiya

Notes

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

Independent Non-Executive Directors
Mr Prasanna Premaratne – Chairman
Mr Sarath Hewage – Director
Mr Mukthar Marikkar – Director
Ms Shamara Herath – Director
Mr Niranjan Arulpragasam – Director
Mr A. H. M. Riyaz – Director

Non-Independent Non-Executive Directors
Mr J. K. Gamanayake – Director
Mr K. B. S. Bandara – Director
Ms Renuka Jayasinghe – Director
Mr S. R. Attygalle – Director

Independent Executive Director
Mr W. A. Priyantha Abeysinghe – Director

General Manager/CEO
Mr T. A. Ariyapala

Secretary to the Board of Directors/ Chief Legal Officer
Ms Kasuni Pinnawele

Number of Branches
265

Head Office
No. 933, Kandy Road,
Wedamulla, Kelaniya
Tel : 011 2035454/ 011 2035455-9
Fax : 011 2035467
E Mail: info@rdb.lk
Web Site: www.rdb.lk
VAT Reg. No.: 409272339 - 7000

Auditors
Auditor General
Auditor General's Department
No. 306/72, Polduwa Rd,
Battaramulla.

Provincial Offices

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

Uva Provincial Office
No. 1/315, Passara Road, Badulla.

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

Southern Provincial Office
No. 28B, Esplanade Road, Uyanwatta, Matara.

Central Provincial Office
No. 15, Dharmashoka Mawatha, Kandy.

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

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

RDB

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தன்னம்பிக்கையுள்ள இலங்கையருக்காக
Empowering Sri Lankans

Regional Development Bank
No. 933, Kandy Road,
Wedamulla, Kelaniya,
Sri Lanka.
www.rdb.lk