LEVERAGING FOR EMPOWERMENT

ANNUAL REPORT 2016

RDB
ප්‍රාදේශීය සංවර්ධන බැංකුව
பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank

Our Vision

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

Our Mission

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

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.

THE REGIONAL DEVELOPMENT BANK'S CORE ETHOS IS CONCERNED WITH THE DEVELOPMENT OF REGIONAL SRI LANKA. OUR BUSINESS IMPULSE IS TO LEVERAGE EVERY AVENUE AND OPPORTUNITY BOTH FROM WITHIN AND OUTSIDE THE REGIONS FOR THE BENEFIT OF THE RURAL MASSES WE SERVE. IT IS THEIR EMPOWERMENT WE ULTIMATELY SEEK AND WITH IT AN EMPOWERED AND FAST DEVELOPING REGIONAL SRI LANKA.

CONTENTS

Milestones 03
Financial Highlights 05
Chairman's Statement 06
General Manager/Chief Executive Officer's Review 09

Management Discussion and Analysis
Financial Review 14
Customer and Relationship Review 18
Society and Environmental Review 21
Employee Review 28
Products and Services 30

Stewardship
Board of Directors 34
Corporate Management Team 40
Regional General Managers/Senior Assistant General Managers 42
Assistant General Managers/Heads of Divisions 44
Risk Management 46
Auditor General's Report on Corporate Governance 51
Corporate Governance 52
Attendance of the Board and the Board Committees 68
Annual Report of the Board of Directors 69
Audit Committee Report 73
Board Human Resources, Remuneration and Nomination Committee (BHRRNC) Report 74
Board IT Steering Committee (BITSC) Report 75
Integrated Risk Management Committee (IRMC) Report 76
CEO's and CFO's Responsibility Statement 77
Directors' Responsibility for Financial Reporting 78
Auditor General's Report on Statement on Internal Control 79
Directors' Statement on Internal Control 80

Financial Reports
Auditor General's Report 84
Income Statement 85
Statement of Comprehensive Income 86
Statement of Financial Position 87
Cash Flow Statement 88
Statement of Changes in Equity 89
Notes to the Financial Statements 91

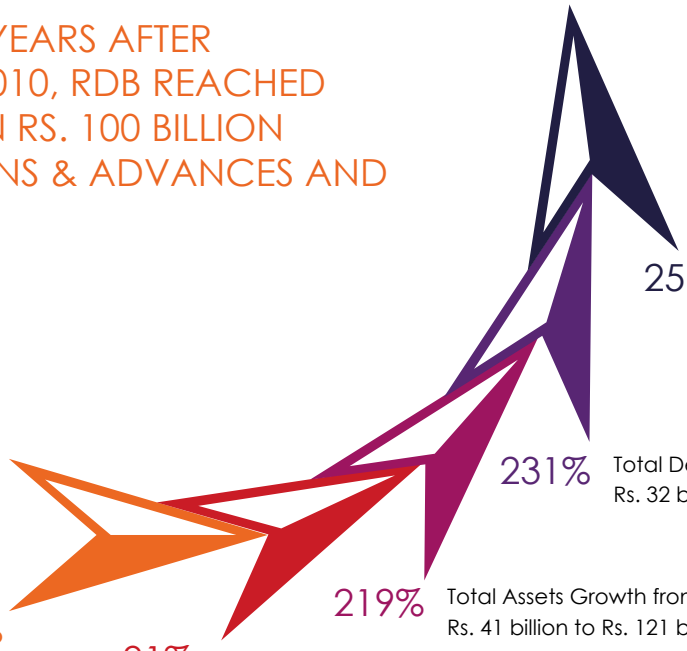
Three Year Summary 141
Geographical Distribution of Branches 143
Corporate Information Inner Back Cover

SUCCESS STORY AFTER MERGING SIX PROVINCIAL DEVELOPMENT BANKS AS ONE NATIONAL LEVEL

REGIONAL DEVELOPMENT BANK

RDB
දෙපයින් නැගිටින ශ්‍රී ලාංකිකයන්ට
தன்னம்பிக்கையுள்ள இலங்கையருக்காக
Empowering Sri Lankans

WITHIN SEVEN YEARS AFTER MERGING IN 2010, RDB REACHED TO MORE THAN RS. 100 BILLION DEPOSITS, LOANS & ADVANCES AND TOTAL ASSETS



257% Total Loans and Advances Growth from Rs. 30 billion to Rs. 108 billion

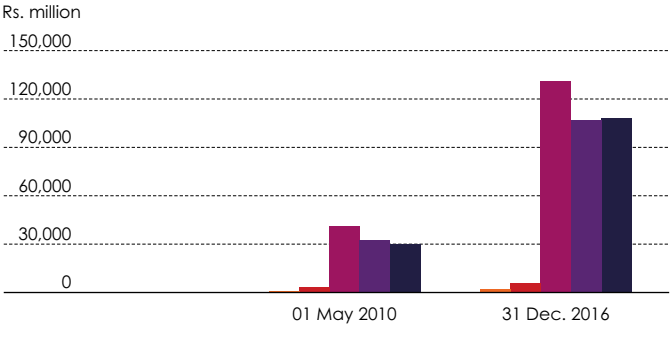
231% Total Deposit Growth from Rs. 32 billion to Rs. 107 billion

219% Total Assets Growth from Rs. 41 billion to Rs. 121 billion

474% Operating Profit Growth from Rs. 371 million to Rs. 2,131 million

91% Total Equity Growth from Rs. 3 billion to Rs. 6 billion

Growth from May 2010 to December 2016



	01 May 2010	31 Dec. 2016
Operating Profit	371	2,131
Total Equity	3,148	5,999
Total Assets	41,018	130,914
Total Deposits	32,350	107,032
Total Loans & Advances	30,311	108,103

Results achieved by Provincial Development Banks (i.e., Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks) during the Twenty-Four years' period from 1985 to 2009, have drastically improved during the six years' period (2010-2016) after establishing Regional Development Bank (RDB) in 2010 merging all previous Provincial Development Banks.

During May 2010 to December 2016

- Total Deposits of RDB has increased by Rs. 75 billion from Rs. 32,350 million to Rs. 107,032 million.
- Total Loans and Advances of RDB has increased by Rs. 78 billion from Rs. 30,311 million to Rs. 108,103 million.
- Total Assets of RDB has increased by Rs. 90 billion from Rs. 41,018 million to Rs. 130,914 million.

HISTORY OF RDB

The beginnings of Regional Development Bank (RDB) can be traced 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. 06 of 1997, seventeen Regional Rural Development Banks were amalgamated into six provincial development banks; Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. With the introduction of the Pradeshiya Sanwardena Bank Act No. 41of 2008 these six banks were merged in to one national entity as Pradeshiya Sanwardhana Bank (Regional Development Bank) on 01 May 2010. In 2015, RDB celebrated 30th Anniversary. Being the RDB at 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 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.

FINANCIAL HIGHLIGHTS

- As a financial institution dedicated to 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 almost all the 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 its 265 service centres in the island-wide network.
- The total income of the Bank has increased by 26%, compared to the previous year. In the year 2016, operating profit increased to Rs. 2,131 million, which is 44% over the operating profit of Rs. 1,484 million, recorded in 2015. ROA before tax of the Bank has increased to 1.8% that stood at 1.5% in 2015.

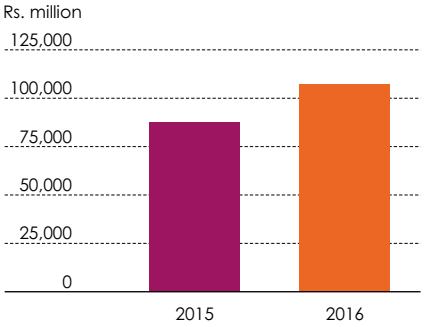
SUPPORT SERVICES TO OUR CUSTOMERS

- **Western Union with NDB –** Money transfers through the Western Union is an easier and speedy way to transfer funds with total security from any foreign destination to our country and customers are able to collect them through all branches of the RDB which are widely located in rural and semi urban areas.
- **Lanka Money Transfer (LMT) with DFCC –** Lanka Money Transfer remits money directly and instantly to customer bank account with no downtime. Lanka Money Transfer is with 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 Mcash –** Online Bill Payment Service facilitates customers to pay utility bills & Reloads, and update online instantly.
- **RDB ATM and LankaPay ATM facility –** Now our customers are able to withdraw their money at any one of over 3,000 ATMs island-wide. At around twenty thousand ATM cards have been issued to customers now.

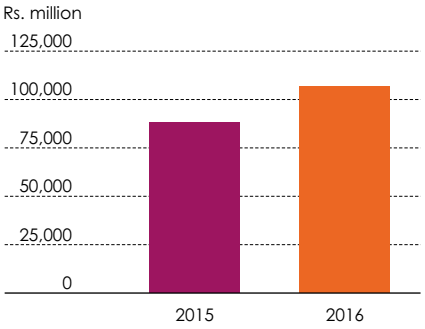
FINANCIAL HIGHLIGHTS

	2016 Rs. '000	2015 Rs. '000	Change %
Operating Results for the Year			
Gross income	**15,744,337**	12,510,119	26
Operating profit before tax	**2,130,568**	1,484,064	44
Taxation	**1,489,280**	954,913	56
Profit after tax	**641,288**	529,152	21
Profit attributable to shareholders	**518,605**	576,338	-10
Assets and Liabilities			
Customer deposits	**107,031,721**	87,753,700	22
Loans and advances (Gross)	**108,102,760**	89,469,402	21
Total assets	**130,913,984**	106,780,543	23
Total liabilities	**124,915,039**	101,163,108	23
Shareholders' funds	**5,998,946**	5,617,434	7
Profitability			
Return on assets (%)	**1.79**	1.49	
Return on equity (%)	**11.04**	9.80	
Non-Performing loans ratio (%)	**2.85**	4.00	
Regulatory Ratios			
Capital adequacy ratio (%)			
Tier I (minimum ratio of 5%) (%)	**6.50**	7.56	
Tier I & II (minimum ratio of 10%) (%)	**9.27**	10.53	
Statutory liquid assets ratio (%)	**21.25**	21.77	

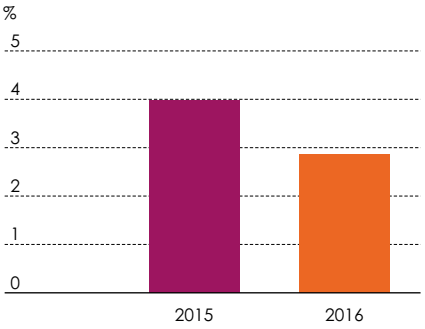
Customer Deposits



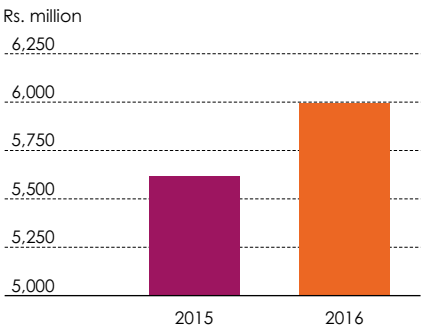
Loans and Receivables



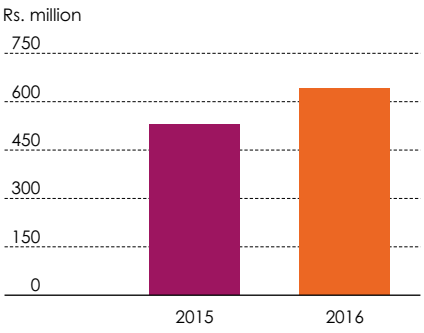
Non-Performing Loans Ratio



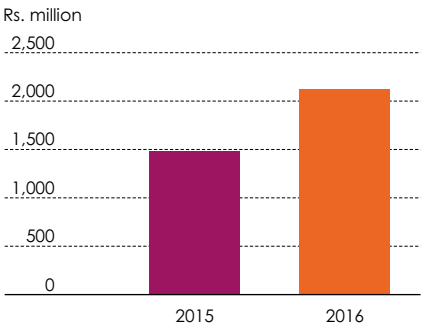
Shareholders' Funds



Profit After Tax



Operating Profit Before Tax



CHAIRMAN'S STATEMENT

As we forge ahead to the financial year 2017, we aim to implement many other components of the five-year strategic plan. While this will prompt structural changes, we will continue to ensure the growth of our valued customers while keeping our staff happy and satisfied.

Dear Shareholders,

It is with a sense of contentment and joy that I present the Annual Report of the Regional Development Bank (RDB) for the financial year 2016.

RDB's commitment to the Nation and its rural population has grown significantly within the year. By primarily focusing on microfinance and Small and Medium Enterprises (SMEs), we have established fruitful relationships with over six million Sri Lankans. Our commitment to this segment of the Nation's population is reflected in the distribution of our branches.

As the leading state-owned development bank, RDB adopts a holistic approach to the advancement of micro and small enterprises. While continuously extending our support to the agriculture sector, we will also ensure the development of the dairy and fishery industries. RDB nurtures its customers and employees and by doing so has helped the Nation and its people achieve their goals.

OPERATING ENVIRONMENT

The global economy remained subdued in 2016 despite predictions of growth. As recorded in the World Economic Outlook issued by the IMF, the growth is estimated at 3.1% in 2016. However, growth is predicted to increase to 3.4% in 2017 and 3.6% in 2018. Following the Brexit, it is reported that most advanced economies including that of the United States weakened. Nevertheless, Asian economies such as that of India have not been adversely affected.

A decline was also noted in the overall growth of the Sri Lankan economy as it was revised down to 5% in 2016. In the first half of the year, Sri Lanka's GDP grew by 3.9%. While the tourism sector largely contributed to the growth of the economy, the services and industry sectors declined. Progress was made in the goods and passenger transportation sector. The agriculture sector despite being temporarily affected by adverse weather conditions also noted a growth of 5.5% as the paddy, vegetable and fruit harvests were relatively bountiful.

OPERATIONS

In keeping with our corporate strategy, certain components of the five-year plan were successfully implemented throughout the year. We made significant changes to the operations of the Bank through the introduction of the loan originator system and ensured the growth of vital departments such as the legal department. We also instigated progress and technological advancements in our branches. Furthermore, we made it a point to train our employees to take on this future of unprecedented change.

More specifically we concentrated on providing development loans in keeping with our commitment to rural development while reducing housing, consumer and commercial loans. This ensured that the Bank met its goal of facilitating development processes in rural Sri Lanka.

PERFORMANCE

In 2016, RDB earned a Profit After Tax of Rs. 641 million while also demonstrating a growth of 21% year on year. The Bank's Interest income swelled by 26% to Rs. 14,813 million.

RDB is now a Triple Hundred Billion Rupee Bank as we exceeded Rs. 100 billion each in the advances, deposits and assets portfolios. NPL dropped to 2.85% in comparison to 4% in the previous year. Total equity increased to Rs. 6 billion and the total assets increased to Rs. 131 billion.

FORWARD-THINKING

As we forge ahead to the financial year 2017, we aim to implement many other components of the five-year strategic plan. While this will prompt structural changes, we will continue to ensure the growth of our valued customers while keeping our staff happy and satisfied.

We also hope to embark on a project that will propel the advancement of the Dairy sector. Together with experts from New Zealand, the Government of Sri Lanka along with RDB will introduce a pilot project that will enhance the productivity in selected dairy farms in Sri Lanka.

Three granaries that were established in Anuradhapura, Buttala and Mannar have also been of great assistance to the modern farmer of Sri Lanka. As was achieved this year, we believe the granaries will be of immense benefit for the farmers, enabling them to increase their profitability.

While engaging in projects that strengthen the grassroots of the Sri Lankan economy, we hope to further strengthen the bonds with our employees and customers. In doing so we hope to achieve the goals of the Nation, the Bank and most importantly the rural populous.

THANKFUL TO...

Sincere gratitude to His Excellency the President Maithripala Sirisena and the Hon. Prime Minister Ranil Wickramasinghe for their interest and for supporting the operations of the Bank. I am grateful to Hon. Minister of Public Enterprise Development Kabir Hashim, Hon. Deputy Minister Eran Wickremeratne and the Ministry officials for the valuable advice and continuous support, Hon. Minister of Finance Ravi Karunanayake and the officials of the Treasury for their direction and assistance.

I acknowledge with gratitude the guidance extended by the Governor of the Central Bank, Deputy Governors, and the officials of the Regional Development 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, Divisional Secretaries and all other categories of Government and Non-Government officials who supported RDB in its journey to uplift the rural masses.

I am thankful to my colleagues on the Board for their contributions, their dedication and expertise. 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 also grateful to the support extended to us by the multilateral lending organisations and investment institutions. And thank you to 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 the exposure that is being provided to our Bank.

Regional Development Bank is a bank with great potential. With an ever-growing customer base and diligent staff, I am certain that the Bank will reach the pinnacle of success as a state-owned development bank.

Prasanna Premaratne
Chairman

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER'S REVIEW

We are the leading State-owned development bank, who takes care of this special segment in country's economy. The focus on empowering women will continue.

The year 2016 proved to be an exceptionally successful financial year for the Regional Development Bank. Today, we are a Triple Hundred Billion Rupee Bank as we achieved hundred billion in advances, deposits and assets. Our aspiration is to provide convenient financial solutions to the regional entrepreneurs and self-help groups (SHGs), while sharing their burden as they contribute towards the advancement of the Sri Lankan Economy.

We are the leading state-owned development bank, who takes care of this special segment in country's economy. The focus on empowering women will continue.

UNWAVERING CARE

RDB's ethos of nurturing and enabling the growth of rural population has gained a solid customer base of 6.2 million. RDB's customers have always been our driving force and are always at the heart of our mission. Since its inception we have made timely changes in keeping with technological advancements and changing economic conditions. These developments are reflected through the 265 upgraded branches located outside Colombo District. These extraordinary achievements are further facilitated by the Bank's 2,342 committed employees.

RDB provides support to farmers in their time of need. The very first granary situated in Upuldeniya in the Anuradhapura District proved to be a great success this year. The 64 farmers who stored their harvest in the granary received a net profit of over Rs. 4 million. Motivated by the success, RDB is involved in opening another granary in Buttala during the year and plans to establish more storage facilities in Mannar, Kilinochchi, Polonnaruwa and Embilipitiya. As a token of appreciation for the overall support extended by RDB, the *Govi Sanvidanaya* presented the Bank with an award. It is with a great sense of joy that we accept awards of this kind, especially because they represent the gratitude of the rural masses.

In the previous years, we made specific technological advancements while upgrading our branches. This year, we developed on these changes and are happy to report that over 5,000 ATM cards are being issued every month which can be used in the fourty upgraded branches that are dispersed around the island. RDB's *Dorin Dora* deposit collection system was updated, and upgraded. *Dorin Dora* staff is very popular in the areas as they help cultivate the savings habit while assisting depositors to be in control of their finances.

While caring for and sustaining the pastoral communities of Sri Lanka, we have made changes to our Bank to ensure inclusivity at all levels.

OUR BACKBONE, OUR TEAM

We are convinced that success would not be possible without the support of our strong and growing team. As RDB family, we ensure the well-being of each member and harness their talents with the surety that they will reap benefits for all. This year, as indicated in the five-year strategic plan, many structural changes were made. Extensive local and foreign training programmes were conducted for the benefit of RDB's middle level and managerial level staff. Now, they are prepared to take on their new challenges in order to give the best service to the customers at all the time.

The Legal Department was strengthened while setting up of a Research and Development Department. In keeping with these changes, it is crucial that our teams are prepared to facilitate these operations. A reputed management consultancy firm was used to formulate a strategic plan for 2016-2020 and conducted extensive interviews with staff members and the Board in order to brief all parties on the changes that are to be expected in the future.

We strongly believe that our staff should have more ownership of the Bank. In addition to our four main shareholders, we hope to make contributions from our staff. We hope this will give the staff a sense of belonging and encourage them to contribute to the overall performance of the Bank.

REINFORCING STATE INITIATIVES

As our footprint is embedded among the most needy communities, the Government is convinced that the Bank plays a pivotal role in nourishing the microfinance sector and SMEs of the country. The success recorded among the farming communities has convinced the Government to improve the productivity of the Dairy sector.

Proven technology and new methods will be used in selected farms as a pilot project. The Regional Development Bank is one of leading financiers to the small and medium-scale dairy farms.

We believe all industries in Sri Lanka need the guidance and financial assistance offered by RDB. We hope to extend our help to all micro industries and SMEs in Sri Lanka in keeping with the goals and missions of the Government.

PERFORMANCE

We performed exceedingly well during the financial year. The Net Profit Before Tax increased by 29% to Rs. 1,255 million in 2016. The deposit and loan bases swelled by 22% and 21% which are Rs. 19,278 million and Rs. 18,633 million respectively. We further reduced our NPL ratio to 2.85% during 2016 as opposed to 4% in 2015. Higher profits resulted in an increase of the EPS from Rs. 3.86 in 2015 to Rs. 4.68 in 2016. We have granted 770,821 loans and opened 585,133 deposit accounts during 2016. Also conducted 12,776 *Janahamu* Programmes for financial inclusion of the rural people who were not having formal banking experience.

FUTURE

In accordance with the strategic plan, many structural changes will be made in 2017, which include the establishment of research and development, strengthening the credit control and administration system, streamlining the Legal Department, improving the IT Section and the Branch Infrastructure. Furthermore, the Human Resource Management System which will be in operation from 2017, will also take on more projects as it educates and trains all the members that constitute the RDB family. The Staff who shared excellent performance will be promoted to the next levels of Staff Assistants to Deputy General Managers.

While fortifying the farming communities with the establishment of granaries, we will also commence projects that focus on the development of the dairy sector. In 2017, we hope to concentrate on the small group concept that will educate the women and youth in rural areas. In order that this project comes into fruition we will be working closely with the assistance of International Agencies and other foreign funding agencies.

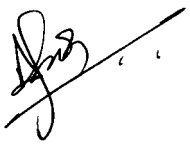
As we aim to cater to the needs of our growing customer base we will also be opening more branches around Sri Lanka. Moreover we will be the first bank in Sri Lanka to provide sanitary facilities for rural schools that are in dire need. This will be the Corporate Social Responsibility (CSR) Project undertaken by the RDB.

I strongly believe that RDB will grow exponentially in the coming years while always standing by its mission to uplift the rural economy and the life style. RDB will forge towards a future that is bright for all Sri Lankans.

ACKNOWLEDGEMENT

As I conclude the review of a commendable year, I extend appreciation to the Chairman, Mr. Prasanna Premaratne 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 Minister, Hon. Minister of Finance and the Governor and the officials of the Central Bank of Sri Lanka for their guidance and assistance.

A special acknowledgement goes 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

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 26%, compared to the previous year. In the year 2016, operating profit increased to Rs. 2,131 million, which is 44% over the operating profit of Rs. 1,484 million, recorded in 2015. ROA before tax of the Bank has increased to 1.8% that stood at 1.5% in 2015. Also, the Bank achieved ROE of 11.04% that stood at 9.8% in 2015.

RDB'S QUARTERLY FINANCIAL PERFORMANCE

RDB's quarterly financial performance has improved significantly during the year 2016.

INCOME

Total income of the Bank showed an increase of 26% from Rs. 12.5 billion to Rs. 15.7 billion. The major contributor to this was interest income which grew by 26% whilst fee and commission income which grew by 22% too contributed to total income.

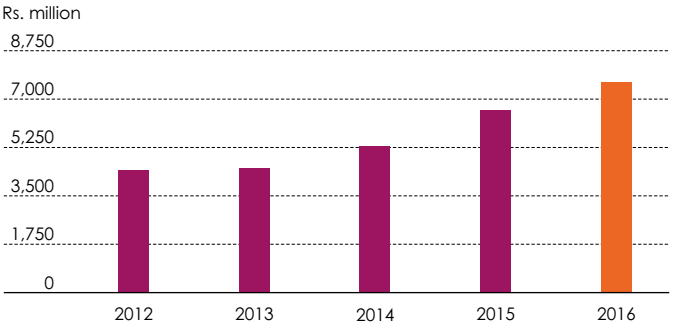
COMPOSITION OF TOTAL INCOME

	Rs. '000
Interest income	14,813,083
Fee and commission income	905,637
Other operating income	25,617

NET INTEREST INCOME (NII)

Net interest income grew significantly by 16% in the financial year 2016, as it increased from Rs. 6,591 million to Rs. 7,616 million.

Net Interest Income

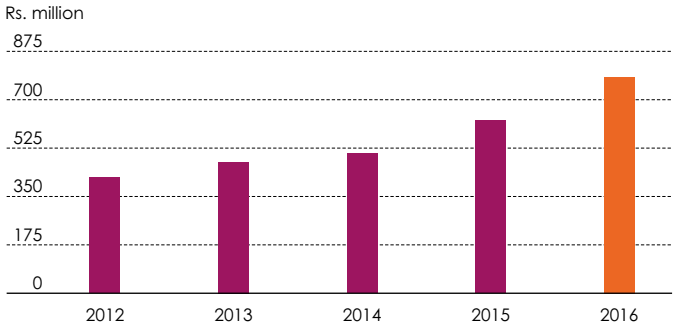


	2016				2015
	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000	31 December Rs.'000
Net operating income	**8,451,603**	**5,680,568**	**3,539,858**	**1,649,093**	7,026,192
Operating profit	**2,130,568**	**1,214,589**	**742,043**	**302,413**	1,484,064
Profit after tax	**641,288**	**341,987**	**162,865**	**85,397**	529,152
Loans and receivables	**108,102,760**	**102,035,927**	**95,971,314**	**92,596,024**	89,469,402
Customer deposits	**107,031,721**	**98,807,488**	**90,440,139**	**88,419,498**	87,753,700
Total assets	**130,913,984**	**125,733,813**	**116,110,140**	**113,065,119**	106,780,543
Shareholders' funds	**5,998,946**	**6,393,002**	**6,381,272**	**6,303,804**	5,617,434

NET FEE AND COMMISSION INCOME

A 25% growth was recorded during the year 2016. It reached Rs. 781 million in the year 2016 in comparison to Rs. 626 million in the year 2015.

Net Fee and Commission Income



TAXATION

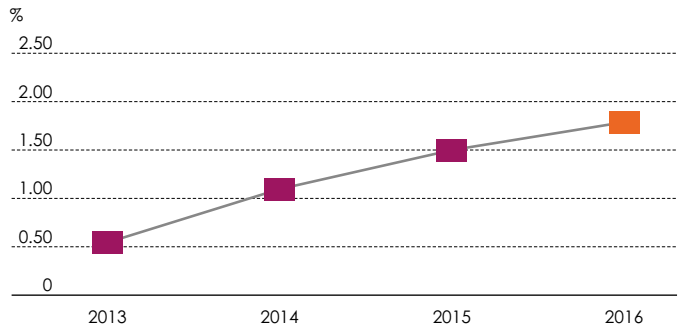
	2016 Rs. '000	2015 Rs. '000	Change %
VAT on financial services	**767,485**	421,200	82
Nation building tax	**107,483**	90,950	18
Income tax	**614,312**	442,763	39
Total tax expense	**1,489,280**	954,913	56

During the year 2016, the Bank has incurred Value Added Tax on financial services and Nation Building Tax, amounting to Rs. 875 million and Income Tax amounting to Rs. 614 million. A total of Rs. 1,489 million has been incurred during the year as taxes.

RETURN ON ASSETS (ROA)

Return on Assets Ratio (ROA) of the Bank improved to 1.8% as at 31 December 2016 that stood at 1.5% as at 31 December 2015.

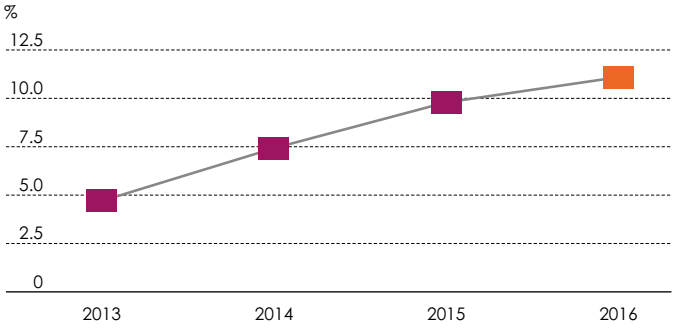
Return on Assets



RETURN ON EQUITY (ROE)

Return of Equity Ratio (ROE) improved to 11.04% in 2016 that stood at 9.8% in 2015.

Return on Equity



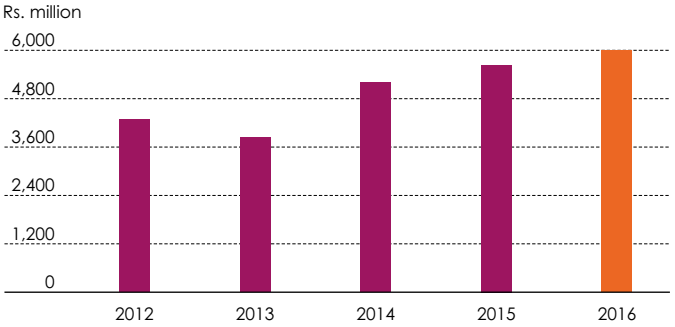
TOTAL ASSETS

The Bank recorded a growth of 23% in total assets as at the end of the year 2016, over the corresponding year. Accordingly, the total assets base crossed the Rs. 125 billion mark to reach Rs. 131 billion.

TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity of the Bank was improved to Rs. 5,999 million at the end of year 2016.

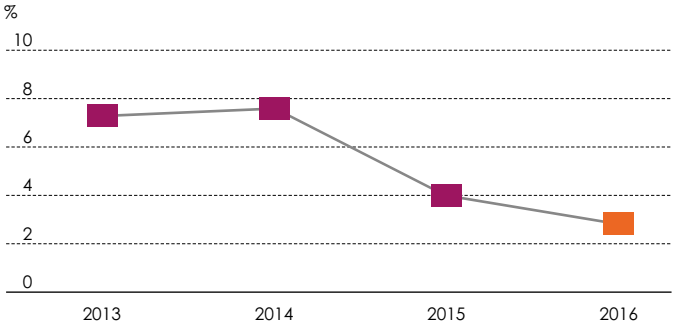
Shareholders' Equity



ASSETS QUALITY

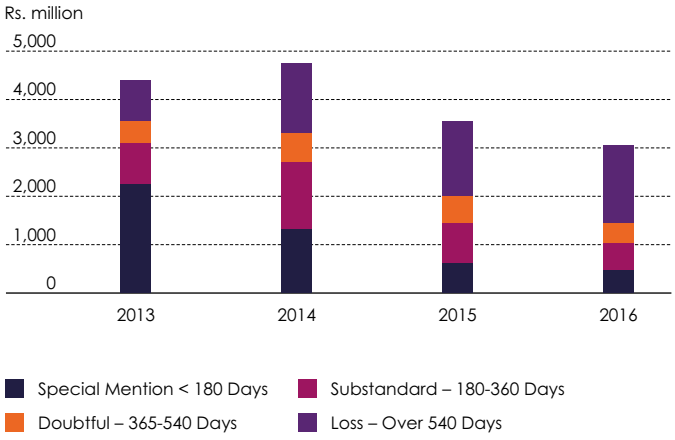
Non-Performing Loans Ratio (NPL) of the Bank was reduced to 2.85% as at 31 December 2016, from 4% recorded as at the previous year end. Strong reviewing, monitoring and recovery processes helped to reduce the NPL ratio.

Non-Performing Loans (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:

Non-Performing Loans and Receivables



LIQUIDITY

	2016 %	2015 %
Statutory liquid assets ratio	**21.25**	21.77

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

IT IMPROVEMENTS

In 2016, information technology continued to support the enhancement of internal efficiencies and customer service.

Consolidation of Core Banking system activities continued after all 267 branches island-wide was networked. Enhancing features and reports continued throughout the year.

Expansion of ATM facilities was a significant activity during 2016. By the year end, Bank had 21 ATMs of its own. This is in addition to the access availability to more than 3,500 ATMs across the island for RDB customers to perform their transactions. This facility was possible due to RDB's initiation of joining the LankaPay network as a member.

During the year, RDB increased the android-based mobile savings collection officers to 270.

Throughout 2016, selection of a Human Resources Management System and its customisation was done. Bank expects to implement this state-of-the-art Human Resource Management System during 2017. A significant improvement in Human Resource Management activities are expected once it is implemented.

As an ongoing process, many more reports were added to the in-house developed Management Information System (MIS). These reports provided critical information on timely basis for better decision-making.

Improvements in Information Technology activities continued to improve productivity and contributed towards enhanced customer service.

NEW ATMs OPENING

With the exception of current accounts, the Bank offers a vast range of products and services to the customers, including savings accounts, children's savings accounts, women accounts and senior citizens accounts, pawning facilities as well as an array of long-term loan facilities. Despite the range of services, until recently, the Bank has not offered card facilities to its customers.

However, with the revolutionary introduction of LankaPay common ATM switch by Lanka clear, the bank is now ready to offer ATM cards to RDB customers. Therefore, since 2015, RDB has taken strategic actions to enable the customers to withdraw money from their accounts using the RDB ATM card through any automated teller machines (ATM) that carriers the LankaPay logo. As the majority of customers at RDB are made up of rural and semi urban entrepreneurs and those who are engaged in professions such as agriculture, fisheries and animal husbandry, this ATM card is expected to offer better convenience as well as security.

At present Bank has installed 21 RDB ATMs in Kelaniya, Wellawaya, Miriswatte, Pannala, Kurunegala, Hedeniya, Ja-Ela, Kegalle, Chilaw, Badulla, Medawachchiya, Wariyapola, Katuwana, Siripura, Samanthurai, Mawaramandiya, Dambulla, Horana, Batticaloa, Mirissa and Vavuniya.

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 Regional Rural Development Banks since 1986.

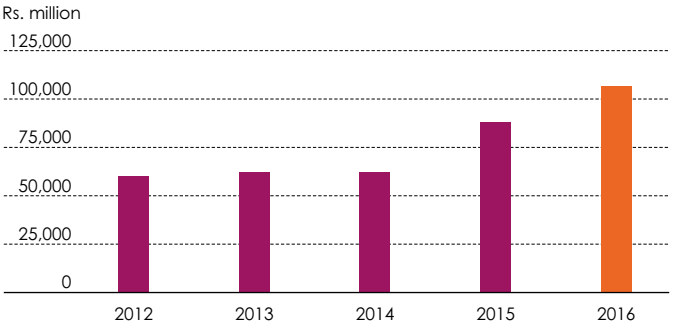
The Bank therefore, has executed a strategy to meet the given objectives in all activities of the Bank, including lending operations. Terms of loan facilities were designed to suit the needy sectors by offering concessionary interest rates, conveniently crafted repayment plans with comfortable grace 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. Funds for operation of most of the development loan programmes are received through refinancing schemes implemented by multilateral organisations such as 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.

During the year under review, the Bank was in a position to go ahead with 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 has already commenced the management of a warehousing project in Upuldeniya in the Anuradhapura 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 stabilised. 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 continued to generate fee income by channelling insurance activities relating to the loans granted by the Bank during 2016. For this purpose, the Bank obtained the services of five insurance companies to obtain insurance policies such as Agriculture insurance, Livestock insurance, Vehicle loan insurance, Housing loan insurance etc. The fee income so earned during 2016, amounted to Rs. 1,600,000/- based on this experience, the Bank is now considering formalising insurance activity by setting up a Bancassurance Unit in the Bank during the ensuing year.

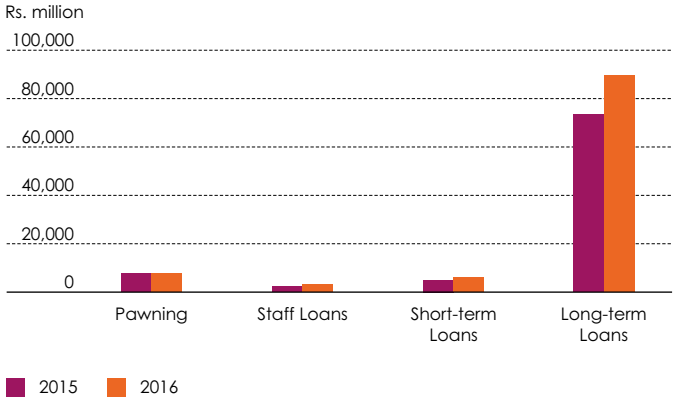
Loans and Advances Growth



ANALYSIS – BY PRODUCT

Category	2016 Rs. million	2015 Rs. million
Pawning	**7,874**	7,653
Staff loans	**3,194**	2,391
Short-term	**6,211**	5,002
Long-term	**89,527**	73,350
Total	**106,806**	88,396

Analysis of Loans and Receivables by Product



RECOVERIES

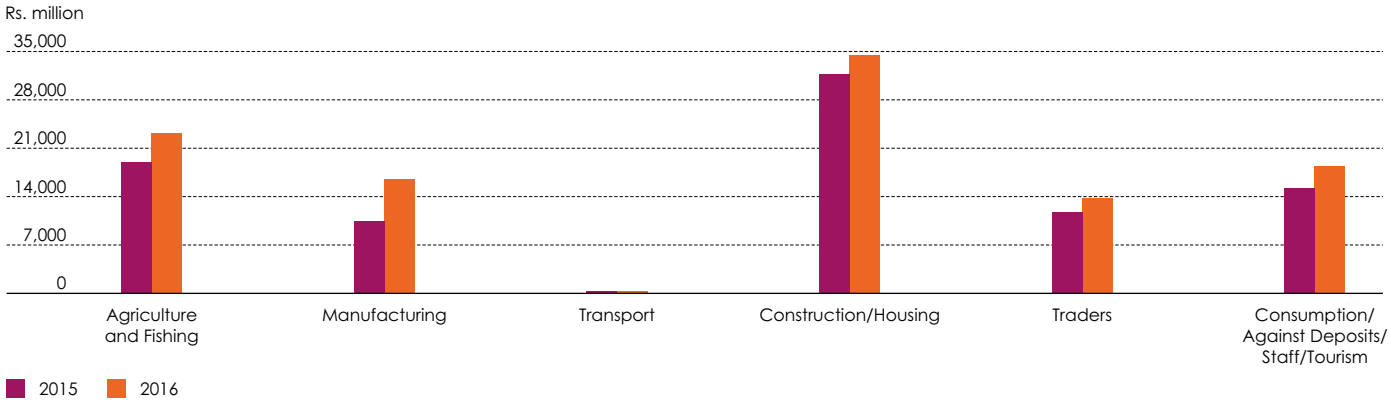
During 2016, special attention was given by the Bank to reduce its non-performing loan (NPL) portfolio, which was around 4% of the total portfolio at the end of 2015. As a result of the special efforts made, this ratio was brought down to 2.85% by end of 2016.

Non-Performing Category	2016 Rs. million	2015 Rs. million
Special mention	**492**	625
Substandard	**544**	840
Doubtful	**404**	543
Loss	**1,610**	1,529
Total Non-Performing	**3,050**	3,538
NPL ratio (%)	**2.85**	4.00

ANALYSIS – BY INDUSTRY

Category	2016 Rs. million	2015 Rs. million
Agriculture and fishing	**23,118**	18,907
Manufacturing	**16,609**	10,450
Transport	**374**	368
Construction/Housing	**34,469**	31,731
Traders	**13,814**	11,744
Consumption/Against deposits/Staff/Tourism	**18,422**	15,197
Total	**106,806**	88,396

Analysis of Loans and Receivables by Industry



DEPOSITS

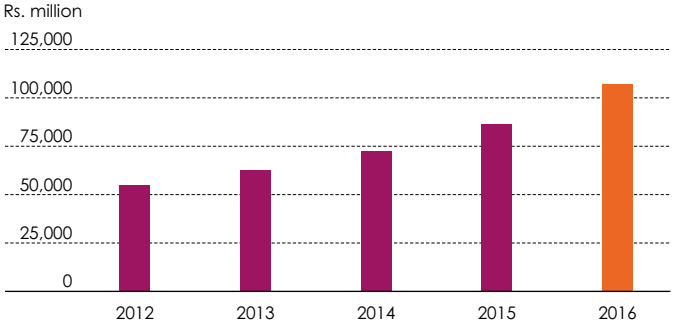
Deposit base of the Bank was increased to Rs. 107 billion and it represents a 22% growth over the previous year. The Bank was able to increase the savings deposit by Rs. 3.9 billion during the year.

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, the 1st day campaign was held at branch level which was found to be very successful. Most of our customers representing all segments started their New Year transaction with the 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 from minor savings accounts every year in parallel to World Children's Day on 1 October. In line with this special day 'RDB *Ape Lamai*' programme was launched with a special savings promotional programme that contributed significantly to current year savings portfolio.

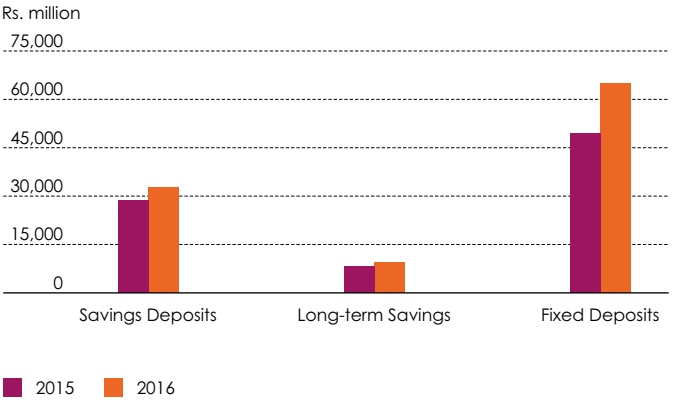
Deposit Growth



DEPOSIT MIX

Type of Deposit	2016 Rs. million	2015 Rs. million
Savings deposits	**32,669**	28,798
Long-term savings	**9,331**	8,115
Fixed deposits	**65,032**	50,841
Total	**107,032**	87,754

Deposit Mix



TREE PLANTING

Bank launched district, provincial and national level tree planting programme on 8 January 2016, under the theme of 'Lets plant trees – enjoy the serenity – step into a greener world' to mark the completion of 1st year of his Excellency the President Maithripala Sirisena in office.

FLOOD RELIEF PROGRAMME

There were several flood relief programmes conducted for the victims in affected areas in Kelaniya, Kolonnawa, Wellampitiya and Kegalle mainly with the involvement of staff members and employees union of the Bank.

Also Bank joined with the '*Manusath Derana*' national flood relief programme announced by TV Derana network by assisting them to deliver collected foods and other essential items by providing Bank's mobile trucks.

SOCIAL BENEVOLENT PROJECT – SRI PADA SEASON – 2016

At the beginning of the annual *Sri Pada* pilgrimage season, the Bank launches a special CSR campaign every year together with the Nallathanni business community union and under this social benevolent project, the Bank donates:

- Main Pandal for the entrance
- Water tanks to provide drinking water for pilgrims
- Name boards for the public places
- Name boards for the Nallathanni business shops

Also delivered credit facilities for small and medium scale businessmen to conduct their seasonal business in parallel with the season.

WOMEN'S DAY

So many banks and financial organisations in the country are operating various programmes targeting women. As a state development bank, the RDB has carried out an unparalleled service for the empowerment of women. That has been made possible by the high ability and the strength RDB has to empower women and direct them towards the country's development.

The Bank has activated several programmes especially to empower rural women, through the *Isuru* programme launched under the small group methodology. Special programmes are operated island-wide to develop women's economic activities by enhancing economic literacy in women through social animation programmes and to increase their business opportunities via modernisations. The small groups organised with 90% women's participation targeting lower income families by RDB under this *isuru* programme are using even these savings as capital under the people's companies established under centre development associations in district levels, carrying out a massive task to empower those lower income women. The active force in all these organisations is women. So the RDB Bank has achieved a high feasibility in empowering women.

The RDB that has carried out such a mission of empowering women for the society has made arrangements to activate special celebratory activities for International Women's Day at branch level as we did in other years, on 8 March. The RDB *Liyasaviya* savings account has been introduced with several value additions for getting women to save as another effort to empower them. Account holders will be presented with valuable gifts based on the balance in the RDB *Liyasaviya* savings account and account holders will be eligible to endowments of upto Rs. 25,000/- in their special occasions and those of their children such as educational/medical or festival expenses.

Furthermore, during the RDB *Liyasaviya* savings month from 8 March to 8 April, the RDB has made arrangements to present a special range of gifts to the Sri Lankan women community.

WORLD CHILDREN'S DAY

RDB as a state bank has launched 'RDB *Kekulu*' and 'RDB *Yovun*', two minor savings accounts to establish the future economic stability of the Sri Lankan sons and daughters and is working on inculcating the savings habit from a tender age.

Bank has worked on various avenues such as useful gifts, scholarships and other encouragements to get them used to thrift and savings.

In parallel with the World Children's Day, this year 'RDB *ape lamai*' programme launched with special savings promotional programme '*Ketayata ketayak* and *mudalata mudalak*' (a till for the till and money for money) and everybody gets the opportunity to obtain special World Children's Day gifts.

Also more colourful events were conducted as a sequel to the Children's Day programme throughout the branch network.

CHILDREN'S SAVINGS CENTRES

To establish the future economic stability of the Sri Lankan sons and daughters through the Bank's minor savings products, we are working with our children on various avenues, such as useful gifts, scholarships and other encouragements to develop their thrift and savings habits. Not forgetting to facilitate the ease of savings, RDB has established savings centres in close proximity to schools.

In general practice, parents usually start savings on behalf of their children from their monthly earnings. However, nowadays the banks intent to convert this pattern and encourage savings habit of children from their pocket money by having savings centres at their schools with easy access.

In parallel with the World Children's Day, the Bank established this concept in international schools by opening savings centres Island-wide, starting from JMC School Network, initially at Kiribathkumbura and Kiribathgoda branches.

Establishing the same concept, RDB Bank has recently opened its school savings centre in Spring Field International School, Kandy, for children to engage in savings activities from their own premises.

Continuing with the same concept, RDB opened another school savings centre at Badalkumbura Nissanka Government School in Monaragala District. Also Bank will establish more school centres in the near future in school network by giving opportunity to do this important practice everywhere.

SWARNA SAMMANA PROGRAMME

The third edition of the annual appreciation ceremony of the RDB Bank 'Golden Awards – 2015', organised for the bankers who completed 25 years of service and 'Excellence Awards' organised to appreciate national, district and provincial level contribution, was held at Ratmalana Stine Studio on 7 August 2016.

79 golden gift winners and 40 employees who had excelled at national, provincial and district levels were awarded for their valuable contribution in various fields for the year 2015.

WAREHOUSE

A massive warehouse with a capacity of 500,000 tons was built at Upuldeniya in the Anuradhapura District providing storage facilities for grains and cereals including paddy, corn, maize, soya bean, green gram and black gram.

The warehouse will be managed and maintained by the RDB Bank on behalf of farmers of the area. Also the Bank gives loan facilities to the farmers against their stored harvest for their consumption needs until products are turned into money.

Prices drastically come down when the market is flooded with farm products during the harvesting time. If the farmers want to get better prices for their farm products without selling their produce very cheap, they have to store them securely at the time market is flooded with products.

In order to store them securely the infrastructure facilities should be increased. World Bank has come forward to help in this regard by granting USD 6.5 million to Sri Lanka without any binding regarding repayment of the loan. The Treasury of the Finance Ministry received this money on behalf of the Government of Sri Lanka.

The first of these warehouses was constructed in Upuldeniya in Anuradhapura District on 20 May 2015 and then the second in Buttala on 31 January 2016 in Monaragala District which are now vested in people.

The third of the warehouses will be put-up in Murunkan in the Mannar District and the final one in the historic Polonnaruwa District.

ALUTH AVURUDU PROGRAMME

In parallel with the Sinhala and Hindu New Year festival, RDB Bank keeps its branch network opened on new year day for new year transactions by its customers. RDB *badumalla* – granting a valuable pack of consumer items every hour throughout the banking time during the New Year Day. This package was very attractive among the crowd who visit for New Year transactions.

BLOOD DONATION EVENT

Bank organised special blood donation programme with the support of Blood Bank of Colombo. The blood donation drive held at Head Office premises with a targeted Collection of 90 pints of blood. Most of the staff members and customers donated and it was indeed a meaningful day for all.

Campaign was organised by the Welfare Society of head office with the assistance of Management.

SHILPA ABHIMANI – 2016 – TRADE FAIR AND EXHIBITION

Understanding the national requirement of nurturing and preserving traditional handicrafts of our country, with the objective of enhancement of economic and social status of craftsmen, RDB has implemented special credit granting scheme for these national craftsmen by providing them accessible and affordable credit facilities that in turn would contribute to strengthen the national economy and our heritage as well.

Bank sponsored the Shilpa Abhimani – 2016 National Handicraft Exhibition held at BMICH on 18-20 November 2016. Trade Fair and Exhibition beyond giving financial assistance, Bank enabled them to find market opportunities for our craftsmen island-wide by participating in this trade fair.

EMPLOYEE REVIEW

OVERVIEW

Initiatives were taken to implement HRD practices at RDB beyond personnel management functions as to create a learning environment by providing various learning opportunities and motivating staff through professional recognition and career advancement.

HRD function has been recognised as an integral part of banking business in the process of Corporate Planning and prioritised implementing critical HRD functions such as competence mapping, performance development, culture building, capacity and succession planning. During the year 2016, the action initiated to implement some of those to create an enabling environment where employees to discover and utilise their potential.

HR UNDER CENTRALISED ENVIRONMENT

Arrangements have been made to adopt uniform HR system under centralised environment to avoid certain impediments caused by the Bank during the past. The automated payroll and attendance recording is a major component which took time to streamline as uniform HR system under centralised environment.

STAFF REARRANGEMENT

The Bank adopted revised organisation structure at all levels and rearranged the existing staff within the approved cadre positions. A new IT structure was developed and implemented placing the existing staff and identified certain vacancies to be filled externally where right calibre/people was not available in the Bank. Separate units/function for legal, engineering, credit administration and information security have been established by placing/recruiting suitable professionals to the positions.

MANPOWER REQUIREMENT AND RECRUITMENT

Manpower requirements were assessed based on scaling up of branch operations and other business development requirements as identified in the Corporate Plan. Action has been taken to fill all the vacancies having considered with total man power requirements of 2,670 and vacancies derived as a result of internal promotions and retirements during next 3 years. Accordingly, Bank took action to fill entry level positions of Management Trainees and Trainee Banking Assistants (Trainee Development Assistants) in 2016. All other vacancies have been advertised to be filled through internal promotions. The existing cadre as at 31 December 2016 was 2,342.

Deposit collection agency system was converted to fixed term employment contract with a cadre of 400. The existing deposit collectors those who have fulfilled the minimum requirement were taken into contractual employment.

MANPOWER STRENGTH

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

Manpower Type	Head Count
Permanent/Contract employees	2,342
Deposit mobilisation field assistants	286
Rural leaders	300
Trainees	839
Total head count	3,767

Bank filled the positions with 2,342 permanent and contract employees who have been attached to the head office and seven Provinces which details are given below:

Province	No. of Branches	Head Count	%
Western	33	272	11.61
Central	33	289	12.34
North Central	35	280	11.96
Southern	54	393	16.78
Uva	43	334	14.26
Sabaragamuwa	34	254	10.85
North Western	32	330	14.09
Head Office	1	190	8.11
Total	265	2,342	100.00

HUMAN CAPITAL DEVELOPMENT

The training plan 2016 was implemented with budgetary provision of Rs. 56 million. The training calendar was drawn to conduct 147 programmes. Of them only 77 programmes were conducted with 1,611 participants. The foreign exposure visits with arrangement of field emersion in Bangalore, India (in 3 batches) were conducted with 90 participants who represented mostly the staff of branches. 21 senior officers have been given opportunities for foreign training to impart knowledge in their functional areas. Emphasis was given to train district staff more particularly District Managers and Assistant District Managers on their roles and functions under new structure. Bank was able to participate a team to a quiz competition conducted by Institute of Bankers of Sri Lanka (IBSL).

No. of programmes planned	147
No. of programmes conducted	77
No. of participants	1,611
Training budget	Rs. 56 million
Training cost	Rs. 35.8 million

PERFORMANCE MANAGEMENT

We were able to uphold and initiate a consistent system of performance improvement through formal process of planning, monitoring and reviewing of employees performance targeted towards overall organisation performance sustainability through the goals/KPI from 2nd quarter onwards.

The quarterly review on the individual performance will be undertaken against the targets which will be impacting to improve the performance and self-efficacy among employees.

STAFF RECOGNITION

Best Performance Awards was conducted to recognise the staff who contributed to the Bank performance during 2015. The system was introduced with clearly defined criteria under each category of awards and selected the best performers under team performance category. The awarding ceremony was held as a national event with Guest of Honour, Minister of Public Enterprise Development, Hon. Kabir Hashim and Deputy Minister of Public Enterprise Development, Hon. Eran Wickramaratne. Kirindiwela Branch won the First place on the overall performance and another 39 awards were given to different categories of performance. The 79 employees who have completed 25 years satisfactory service in the Bank were awarded Gold coins.

HR BOARD SUBCOMMITTEE

BHRRNC comprised with 3 Directors continued in 2016. General Manager/CEO and Head of HRD and Administration attended to BHRRNC as a member to the BHRRNC and on invitation to the matters relating to the Nomination Committee. The Board Secretary functioned as the Secretary to the Committee. The Committee was headed by the Chairman of the Bank. BHRRNC was strengthened during the year in the appointment of another two Board of Directors. Four Committee Meetings were held during the year 2016. Board of Directors at the meeting held on 17 November 2016 granted approval to the minutes of the BHRRNC held on 07 April 2016 (2016/1), 21 June 2016 (2016/2) and 08 August 2016 (2016/3).

PRODUCTS AND SERVICES

INVESTMENT/SAVINGS ACCOUNTS

RDB *KEKULU* AND RDB *YOVUN* – MINOR SAVINGS ACCOUNT

RDB *Kekulu* account is exclusively designed for children under 12 years of age and RDB *Yovun* is for in between 12-17 years. This enables every child in our motherland to save with RDB for a bright future. RDB's offer a new savings till for every new account as an attraction. Further there is a wide range of gift items such as exclusively designed umbrellas, school bags, dictionaries, gift vouchers and children's bicycles on offer for balances in the accounts at different levels.

The Bank has also taken steps to inculcate the savings habit amongst the minor community providing highest returns on savings, while also encouraging school children and minors to save. According, the RDB as a state bank, has launched two specialised Savings accounts named 'RDB *Kekulu*' and 'RDB *Yovun*' to establish the future economic stability of the Sri Lankan sons and daughters and is working on establishing this lesson of economy from the tender age, while working with children on various avenues such as:

Useful gifts, scholarships and other encouragements to get them used to thrift and savings.

With parallel to that RDB establishing schools savings centres to motivate children to practice savings habit and it becomes very significant movement for children to grow up their savings habit.

Also the account is designed to achieve additional objectives i.e., assisting children's education and also helping them to become good citizens. Gifts/prises are offered for account holders who obtain best results at the year five scholarships and O/L examinations. Further educational seminars are arranged for the account holders who sit for the above examinations.

RDB LIYA SAVIYA – WOMEN'S SAVINGS ACCOUNT

This account was introduced targeting courageous women in Sri Lanka. The initial deposit to open a 'RDB *Liya Saviya*' account is Rs. 100. In addition to financial facilities Bank provides consultancy services for women who contribute to the country's economy through self-employment. The special characteristics in the account are higher rate of interest, bonus interest and advances at competitive interest rates etc.

Also special seminars, skill development vocational training programmes and many more zonal and national level workshops conducted every year for women entrepreneurs with parallel to International Women's Day.

RDB SUBHA MANGALAM – SPECIAL INVESTMENT ACCOUNT

This account is a unique savings account for those who wish to invest money either in lump sum or in small amounts in a regular manner for a long period for an important purpose of his or her life like getting married. In such instances the '*Subha Mangalam*' account holders get capital with higher interest plus a special bonus of 7% on the interest earned.

RDB ADULTS/SENIOR CITIZENS' SAVINGS ACCOUNTS

Bank offers competitive interest rates in the market for this senior citizen segment. With an initial deposit of Rs. 500/-, any individual above 18 years of age is eligible to open an adult's savings account. Senior citizens are given higher interest rates for their investment.

RDB INVESTMENT ACCOUNT

This is the general investment account introduced by the bank for the clients who receive credit facilities. The special features of the product contain an attractive interest rate for deposits and a special loan scheme customised for the target segment.

RDB FIXED DEPOSITS

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

'RDB DORIN DORA' – DAILY COLLECTION SYSTEM

This is the flagship product/ service of RDB. This system operates through a dedicated set of service providers, who on daily basis visit the business premises and the residences in the command areas of respective branches. These regular visits provide great relief and convenience to the target group and saves their opportunity cost, as otherwise they would have to sacrifice their valuable time visiting the branch again and again for their banking transactions. The *Dorin Dora* product/service is not only limited to collecting deposits, but has helped the target clientele to obtain loans for development purposes, service the loan account and pay the instalments and interest promptly at their convenience. This unique product/service helped many small scale entrepreneurs and individuals to build up healthy account balances over periods of time without much effort and hassle. Also these transactions are carried out via electronic portable devices (Palm Top) and the transaction is automatically updated to the Bank's system. Thus it has been able to fulfil the vision of the Bank 'Empowering Sri Lankans'.

Also the Bank has plans to extend this service by providing services to settle their utility bills as well.

WESTERN UNION AND LANKA MONEY TRANSFER (LMT)

Money transfers through the Western Union and Lanka Money Transfer are another easier and speedy ways to transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi urban areas.

STEWARDSHIP

BOARD OF DIRECTORS

MR. PRASANNA PREMARATNE

Chairman

Mr. Prasanna Premaratne assumed duties as Chairman of the Bank on 19 February 2015.

He is an Agriculturist and a qualified Banker with nearly 25 years of experience working as a Development Banker specially involved in the Small and Medium Enterprise (SME) sector development.

He 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.

Mr. Prasanna Premaratne was a pioneer member of the Palawatte 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 life Member of the Association of Professional Bankers of Sri Lanka (APB) and a Board member of the South Asia Partnership of Sri Lanka (SAPSRI).

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 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 Pharmaceuticals Corporation of Sri Lanka.

Mr. Marikkar has served as the Consul General for the Republic of Tunisia in Sri Lanka since 2001 to date 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.

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 Jayewardanepura, 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 of Regional Rural Development Bank from 1988 to 1994.

MR. A.R. DESAPRIYA

Director

Mr. A. R. Desapriya has 30 years experience in the public sector. He is a special grade officer of Sri Lanka Administrative Service (SLAS).

During this period, he worked in different areas of the public sector and held various positions in the General Treasury in the capacity of Director and Additional Director General.

Before assuming duties in his current position as Deputy Secretary to the Treasury, he worked as the Director General of National Budget Department. He is also serving as a member on the Board of Insurance Board Sri Lanka and a member of the Welfare Benefits Board.

Mr. A. R. Desapriya has B.Sc. Degree in Public Administration from the University of Sri Jayewardanepura Sri Lanka and MBA Degree from University of Lublijana, Slovenia.

MR. K. B. SENARATH BANDARA

Director

Mr. Bandara is a nominee Director of Bank of Ceylon since February 2014 and chairs the Integrated Risk Management Committee. He is a permanent employee of Bank of Ceylon holding the position of Deputy General Manager. His current business portfolio at BOC includes Sales, Channel Management and Branch Operations.

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

He had been a resource person at the Institute of Bankers of Sri Lanka in the fields of credit and investment management.

Mr. Bandara is a Physical Science Graduate of the University of Kelaniya, Sri Lanka and holds a MBA with Merit Pass from Postgraduate Institute of Management, University of Sri Jayewardanepura, 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.

He is currently in the Governing Board of the Institute of Bankers of Sri Lanka and holds the position of Senior Vice-President of Association of Professional Bankers. He is also in the Council of the National Chamber of Commerce of Sri Lanka and a member of the International Arbitration Centre, Colombo.

MR. JAGATH GAMANAYAKE

Director

Mr. Jagath Gamanayake is the Senior Deputy General Manager of National Savings Bank. He counts over 20 years in the Banking Industry. Prior to joining National Savings Bank. Mr. Gamanayake has served in many industries including Fertilizer, Building Products and Consumer Products etc.

He is a Fellow Member of Sri Lanka Institute of Marketing (SLIM) and 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 the UK and he is a Chartered Marketer.

He is a Council member of the Association of Professional Bankers and Alternative Director of IBSL.

He is a lecturer at IBSL and Aquinas University College.

MR. K. B. RAJAPAKSHE

Director

Mr. K. B. Rajapakshe, is the Deputy General Manager (Enterprise Banking) at People's Bank and counts over 30 years of experience in the field of banking. He is an Attorney-at-Law and holds a Second Class Honours Degree, B.Sc. in Public Administration, University of Sri Jayewardanepura, Sri Lanka.

He also holds a Diploma from the Institute of Credit Management of Sri Lanka and is a Fellow Member of Institute of Bankers of Sri Lanka.

At present Mr. Rajapakshe is serving as a Director of Institute of Bankers of Sri Lanka, Agricultural and Agrarian Insurance Board and also as an Alternate Director of Credit Information Bureau of Sri Lanka.

MS. SHAMARA HERAT

Director

Ms. Shamara Herat 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, 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.

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 Jayewardanepura.

He started his career at Ernst & Young and thereafter joined Ceylinco Securities and Financial Services Limited as a Financial Analyst and was promoted to Senior Manager – Investments within 3 years after which he joined Union Assurance Limited as Head of Investments.

As the Head of Investments at Union Assurance Limited he managed both the General and Life Insurance Funds and was involved in the investment policy preparation and implementation. He was responsible for setting up the investment division, achievement

of projected income for both General and Life Insurance Funds and involved in effective financial and risk management whilst complying with all regulatory requirements.

After a six years stint he joined Entrust Securities Limited, a primary dealer regulated by the Central Bank of Sri Lanka, as the General Manager. He was in charge of the overall management of the Company and was promoted as Group Executive Director/Group CEO during the 10 years service period overlooking the Primary Dealer Company, Licensed Finance Company and The Investment Manager Company together with the holding company.

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 responsible for the overall management of the Company and 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, treasury management and business restructuring.

MR. NIRANJAN ARULPRAGASAM

Director

Mr. Niranjan Arulpragasam assumed duties as a Board Director on 16 November 2015.

Mr. Arulpragasam holds an MBA from the INSEAD School of Business and was awarded a Kofi Annan International Scholarship to pursue his B.A. 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.

CORPORATE MANAGEMENT TEAM

MR. T. A. ARIYAPALA

General Manager/Chief Executive Officer

Mr. T. A. Ariyapala is currently the General Manager/Chief Executive Officer of Regional Development Bank since 2014. He completes 37 years of banking service in various capacities having specialised in Development Banking, Co-operatives and Branch Banking and 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 Co-operatives, Project Lending, Micro Finance, Human Resource Management and Branch Business/Banking and has rejuvenated SME Banking, SME Centre Concept and Development Lending during his tenure at People's Bank.

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 fifteen 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.

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 and 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 a Senior Fellowship Holder of IBSL.

MR. AJITH ALAHAKOON

DGM/Credit and Recovery

Mr. Ajith Alahakoon, graduated from the University of Sri Jayewardanepura 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 L B Finance Limited, and dedicated his service for seven successful years as an Assistant General Manager.

Mr. Alahakoon has over 38 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 Manager/CEO. Before joining Regional Development Bank, he had worked at Housing Development Finance Corporation as Head of Credit.

MR. JAGATH KARUNATHILAKA

Head of HRD and Administration

Mr. Jagath Karunathilaka, a HR specialist with more than 30 years experience, joined RDB in July 2014. He worked as Assistant General Manager/ Head (Human Resources and Logistics) of State Mortgage and Investment Bank (SMIB). He served as Additional Project Director (HRD & Admin.) in *Gamidiriya* (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 B.Sc. Business Administration (Special) Degree from University of Sri Jayewardanepura (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. Mr. Karunathilaka has obtained Certification for conducting HRD Audits from IPM (2017) as 'Certified HR Auditor'.

MR. SUMEDA EDIRISURIYA

Chief Financial Officer

Mr. Sumeda Edirisuriya graduated from the University of Sri Jayewardanepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possesses a Master of Business Administration Degree from the University of Colombo. Mr. Edirisuriya counts over 26 years of experience in the fields of Auditing, Accounting, Taxation, Management Consultancy and Banking & Finance at leading institutions including Ernst & Young – Colombo, National Development Bank and Seylan Bank. He joined RDB in January 2017. Prior to his appointment as Chief Financial Officer at RDB, he has held the positions of Chief Financial Officer, Compliance Officer and Acting General Manager/CEO at Lankaputhra Development Bank.

REGIONAL GENERAL MANAGERS/ SENIOR ASSISTANT GENERAL MANAGERS

01

02

03

01

Province: North-Central Province
Regional General Manager
Name: Mr. U. B. Semasinghe
Qualifications: B.Com. (Special) Degree, University of Colombo

02

Province: Southern Province
Regional General Manager
Name: Mr. C. L. Pihillanda
Qualifications: B.Com. (Special) Degree – University of Kelaniya
Postgraduate-Diploma in Management – University of Peradeniya

03

Province: Central Province
Regional General Manager
Name: Mr. D. M. Senarathna Bandara
Qualifications: B.Com. (Special) University of Sri Jayewardanepura

04

05

06

04

Province: North-Western Province
Regional General Manager
Name: Mr. A. H. M. M. B. Jayasinghe
Qualifications: B.Sc. Business Administration (Special) Degree – University of Sri Jayewardanepura
Postgraduate-Diploma in Management – University of Wayamba
Postgraduate-Diploma in Regional Development – NIBM and RVB Netherland Post
Graduate Executive Diploma in Bank Management – Institute of Bankers of Sri Lanka

05

Province: Uva Province
Regional General Manager
Name: Mr. D. M. T. S. Kumara
Qualifications: B.Sc. Business Administration (Special) Degree – University of Sri Jayewardanepura

06

Province: Western Province
Name: Mr. W. S. Hewawasam
Qualifications: B.A. (Econ. Special) Degree – University of Sri Jayewardanepura

07

08

09

07

Province: Sabaragamuwa Province
Regional General Manager
Name: Mr. A. H. M. G. Abeyrathne
Qualifications: B.Com. (Special) Degree – University of Kelaniya
Diploma in Micro Finance – Open University of Sri Lanka

08

Province: Eastern Province
Regional General Manager
Name: Mr. I. J. Wijesekara
Qualifications: B. Com. (Special) Degree – University of Sri Jayewardanepura

09

Name: Mr. Sanath Senadeera
Senior Assistant General Manager – Special Projects
Qualifications: B.Com. (Special) Degree – University of Kelaniya

10

Name: Mr. W. G. J. Premadasa
Senior Assistant General Manager – Finance and Planning
Qualifications: B.Com. (Special) Degree – University of Sri Jayewardanepura.
Higher National Diploma in Commerce, A.M.P.M.A. (UK)

11

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

12

Name: Mr. K. P. Dahanayake
Senior Assistant General Manager – Credit Administration
Qualifications: B.Com. (Special) Degree – University of Ruhuna
Postgraduate-Diploma in Management – University of Rajarata

13

Name: Mr. W. M. Nimal De Silva
Senior Assistant General Manager – Administration
Qualifications: B.Sc. Business Administration (Special) Degree – University of Sri Jayewardanepura

10

11

12

13

ASSISTANT GENERAL MANAGERS/ HEADS OF DIVISIONS

01

Name: Mr. K. Ariyathilake
Assistant General Manager – Micro Finance and Special Projects
Qualifications: Higher National Diploma in HRD –
National Institute of Business Management

02

Name: Ms. C. S. Weragoda
Assistant General Manager
Province: Southern Province
Qualifications: B.Sc. – Business Administration (Special) Degree –
University of Sri Jayewardanepura, Sri Lanka

03

Name: Mr. W. M. D. S. Wickramasinghe
Assistant General Manager – Compliance
Qualifications: B.Com. (Special) Degree – University of Ruhuna
Postgraduate-Diploma in Business Management –
University of Colombo
Certificate in Risk Management in Banking – Sweden

01 02 03

04 05 06

04

Name: Mr. G. S. D. De Silva
Assistant General Manager – Pawning and Recovery
Qualifications: B.Sc. – Business Administration (Special) Degree –
University of Sri Jayewardanepura, Sri Lanka

05

Name: Mr. W. Kottage
Assistant General Manager – HR Services
Qualifications: B.Com. (Special) Degree – University of Ruhuna

06

Name: Mr. W. V. E. G. Warakagoda
Assistant General Manager
Province: Uva Province
Qualifications: B.Sc. – Business Administration (Special) Degree –
University of Sri Jayewardenepura, Sri Lanka
Intermediate Examination –
The Institute of Chartered Accountants of Sri Lanka

07

Name: Mr. B. H. M. S. Basnayake
Assistant General Manager
Province: Central Province
Qualifications: B.Sc. Business Administration (Special) Degree –
University of Sri Jayewardanepura, Sri Lanka
Diploma in Management – University of Uva

08

Name: Mr. L. B. Upali
Assistant General Manager
Province: Western Province
Qualifications: B.Com. (Special) Degree – University of Kelaniya

09

Name: Mr. B. M. U. S. Basnayake
Assistant General Manager
Province: North-Central Province
Qualifications: Diploma in Agriculture –
College of Agriculture, Palvehera

07 08 09

10

11

12

10
Name: Mr. R. M. R. Randeniya
Assistant General Manager
Province: North-Western Province
Qualifications: Bachelor of Arts – University of Peradeniya

11
Name: Mr. D. S. P. C. Hadunhewa
Assistant General Manager – Marketing and Business Promotion

12
Name: Mr. D. P. Dharmadasa
Assistant General Manager
Province: Uva Province
Qualifications: Bachelor of Arts – University of Peradeniya

13
Name: Ms. B. R. D. Pushpakumari
Assistant General Manager – HR Development
Qualifications: B.Com. (Special) Degree – University of Kelaniya

14
Name: Mr. P. Koralegedara
Chief Internal Auditor
Qualifications: BA, AIB

15
Name: Ms. Kasuni Pinnawele
Chief Legal Officer/Board Secretary
Qualifications: Attorney-at-Law

13

14

15

RISK MANAGEMENT

Banking is a business exposed to various types of risk from its inception. The main and most obvious risks the banks generally face are credit, market and operational risks. However, developments in technology and regulation and financial crises in the recent past have awakened the banks to a multitude of other risk categories like strategic risk, compliance risk, legal risk, reputation risk etc. In the circumstances, today every banking institution tends to give high consideration to their risk culture and risk management practices.

Given the positive relationship between risk and return, and the lower ROA requiring banks to operate at higher levels of gearing to generate an acceptable ROE, banks have to assume higher levels of risk. As a result, banks will have to decide on an optimum trade off between risk and return.

Today, in the competitive banking business, banks consider risk management as a business strength, an indication of profitability, an imperative for good governance and finally, a means of business. 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 81.58% of its total assets. Extending credit is the major business line of the Bank and as a result, credit risk is the most significant type of risk that is being managed.

Our lending portfolio increased to Rs. 106.80 billion during the year, which is a 20.82% increase, compared to last year.

However, the banking industry in general was mindful/ cautious about the Gold prices and its movement in the year 2016 as well.

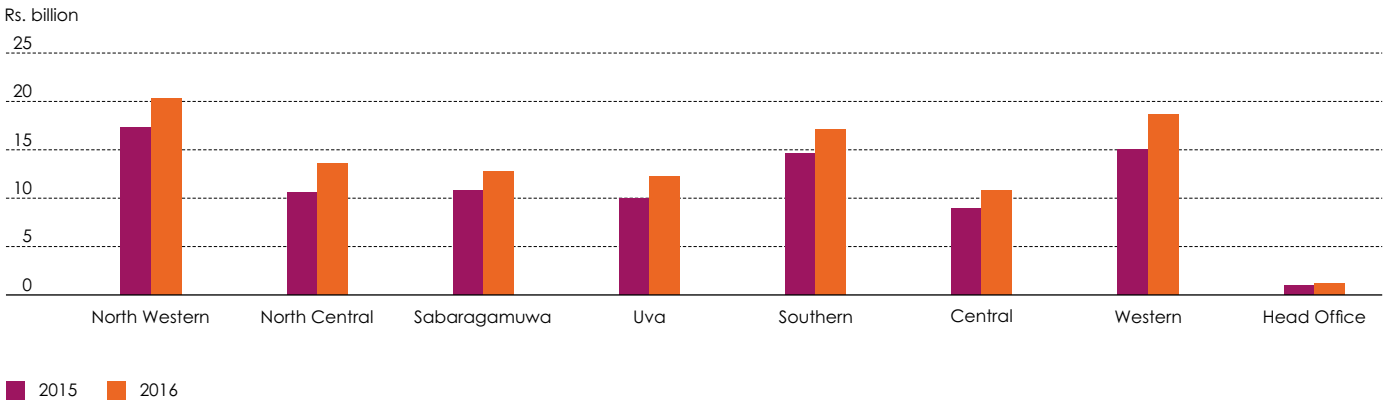
RDB too adopted/continued the following actions to keep the risk in pawning advances at a manageable level:

- Reinforced the recovery process
- Strengthened the auction process frequently
- Diversified the credit portfolio in to several sectors such as SME, Agriculture and Housing

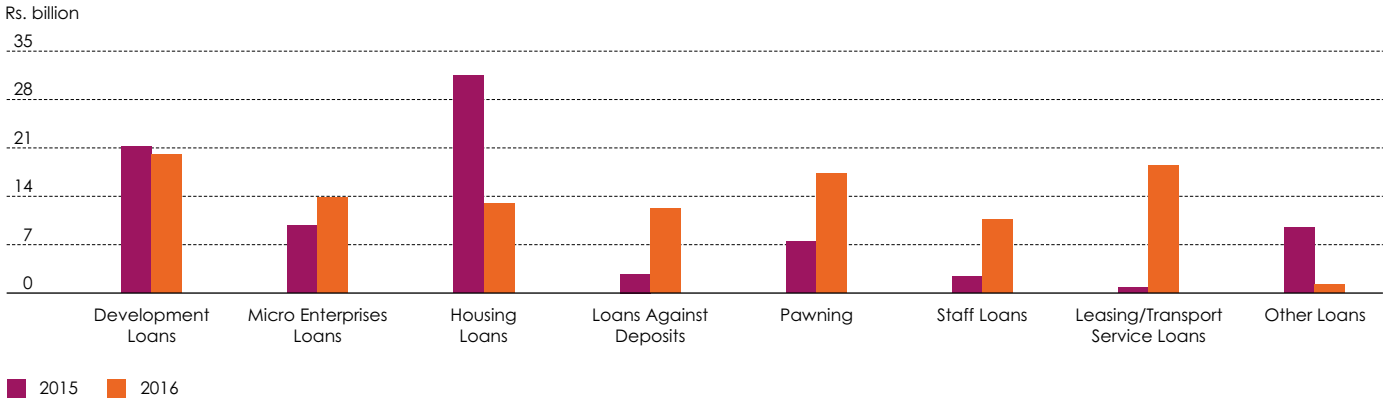
Accordingly, RDB managed to successfully mitigate concentration risk by diversifying its lending portfolio into other sectors as well.

	HHI	
Sector	2016	2015
Agriculture	**0.021**	0.020
Animal husbandry	**0.001**	0.001
Industrial (SME)	**0.080**	0.059
Trading and services	**0.000**	0.000
Housing	**0.104**	0.128
Pawning	**0.003**	0.004
Other priority	**0.019**	0.020
Staff	**0.001**	0.001
Total	**0.229**	0.232

Geographical Concentration



Product Wise Concentration



CREDIT RISK MANAGEMENT PROCESS

RDB being a development bank, credit is the major business line 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 sectoral limits for credit. Risk Management Department, monthly analyses these sectoral limits and reports them to the Board of Directors. The Credit Department and Business Units (265 branches) are advised to adjust their targets according to approved limits. Periodically, the Credit Department updates knowledge of its staff 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 the Board of Directors. At present, loan proposals which exceed authority level of the Deputy General Manager Credit and Recovery, are subject to an independent evaluation by the CRO. The Bank continued with the structured evaluating and approving process introduced in 2014 and it immensely contributed to the Bank's credit portfolio risk management.

LOAN LOSS PROVISIONING

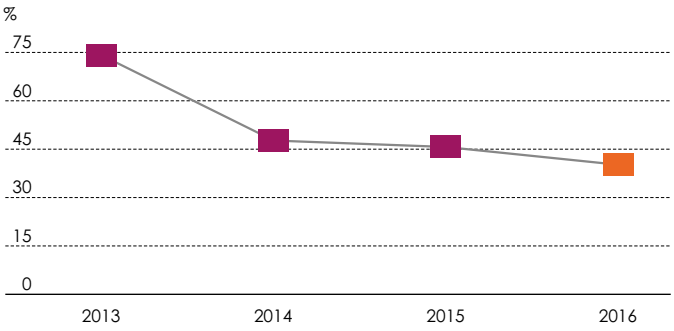
According to the Central Bank (CBSL) Guidelines, the Bank follows two types of provisioning methods. Provisioning categories are:

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

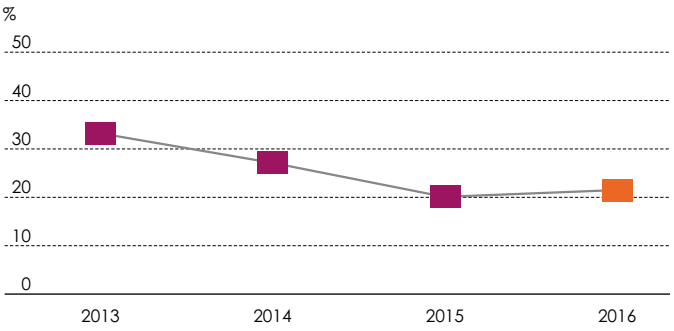
Provision cover ratio and the open credit exposure ratio of the Bank are calculated and analysed by the Risk Management Department periodically. The Risk Management Department submits these ratios together with its observations to the Board of Directors on a monthly basis.

As of end of December 2016, the open credit exposure and the provision cover ratios of the Bank were as follows:

Open Credit Exposure



Provision Cover Ratio

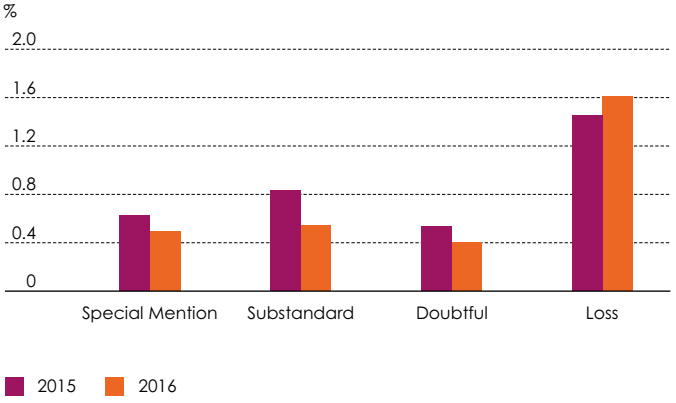


CREDIT RISK MONITORING AND REPORTING

The loan portfolio is closely monitored by branch manager/ loan officers and individual credit facilities at ground level (branch level) through daily customer analysis and recovery processes. However, at Head Office level, Risk Management Department analyses 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. Risk Management Division closely monitors the Bank's top 20 borrowers on a monthly basis as well.

As of end of 2016, the top 20 borrowers and depositors were contributing 1.03% and 8.12% on Credit and Deposit Portfolios respectively.

Non Performing Advances



CREDIT ADMINISTRATION

In view of increasing administration process of the credit portfolio, in March 2016 the Bank decided to establish the credit administration unit under the Risk Management Division as an independent unit. The initial steps were taken on the credit administration function during the year 2016. The Bank is proposing to further strengthen and enhance its effectiveness in the year 2017 onwards.

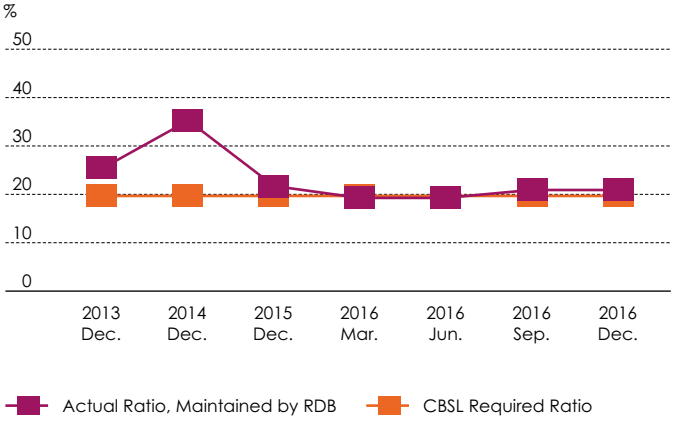
LIQUIDITY RISK MANAGEMENT

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. It is the Bank's policy 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 on an ongoing basis and keeps a high quality liquid assets base through ALCO.

Required vs Actual Liquid Assets Ratio of the Bank



Liquid Assets Ratio

	2016 %	2015 %
1st quarter	**19.52**	34.56
2nd quarter	**19.53**	30.46
3rd quarter	**21.17**	26.32
Year end	**21.25**	21.77

Comparative figure (2015-2016)

The Bank has also adhered to the CBSL direction of monthly reporting of Liquidity Coverage Ratio (LCR) in the year 2016. The Bank has not maintained the minimum LCR ratio of 80% as at end of December 2016, due to the reduction of repo investment and fixed deposits which have matured within the reported period. This has been rectified subsequently in January 2017.

ALCO

The main responsibility of managing the Bank's liquidity lies with the Assets and Liabilities Management Committee (ALCO). ALCO is an Executive Level Committee consisting of the Bank's Corporate and Executive level employees. The Committee meets at least once a month or more frequently on a need basis.

The Bank has adopted the new LCR (Liquidity Coverage Ratio) requirements announced by the regulator since 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 conditions. 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 is informed by the Risk Management Department on appropriate course of action and funding arrangements for such situations through ALCO.

Details	Balance as at 31 December 2016	All Figures in Rs. million		
		Shocks		
		Minor	Moderate	Major
Magnitude of shock		2%	3%	4%
Liquid assets	**21,632**	21,632	21,632	21,632
Total liabilities	**101,799**	101,799	101,799	101,799
Value fall on total liabilities		2,036	3,054	4,072
Revised Total liabilities after shock		99,763	98,745	97,727
Revised liquid assets after shock		19,596	18,578	17,560
Liquid assets ratio	**21.25%**	19.64%	18.81%	17.97%

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

IT INFRASTRUCTURE DEVELOPMENT

Up to the end of 2014, the Bank worked on four different IT platforms. Now RDB is on a new centralised IT solution. After commissioning the new IT solution, the Bank is automatically exposed to IT risk. Approved information security and acceptable usage policies are in force and Information Security Management System (ISMS) function is in operation since the year 2015.

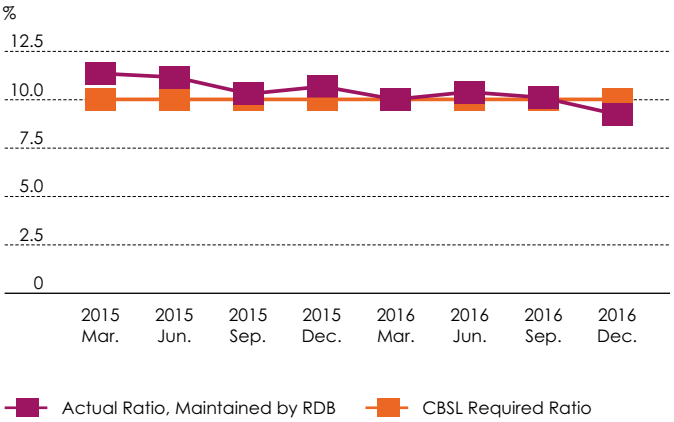
BUSINESS CONTINUITY PLAN (BCP)

The Bank finalised its Business Continuity Plan (BCP) during the year 2015.

CAPITAL ADEQUACY

The Bank's Capital Adequacy during the past two years, is given below:

Capital Adequacy



Since the minimum requirement has not been met as of December and the ratio was only marginally above the required statutory ratio 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 already requested for additional capital infusion of Rs. 349 million from the existing shareholders. The Board has also approved to raise capital through a debenture issue up to Rs. 2.0 billion and the issue of the debenture is to be effected during the first quarter of 2017. Hence the capital adequacy ratio (CAR) is expected to move upward from its present position and surpass the minimum requirement imposed by the regulator from 1st quarter of 2017.

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 Integrated Risk Management Committee (IRMC) on a quarterly basis.

The results on capital adequacy of stress testing deterioration in quality of the lending portfolio for the year 2016 are as follows:

Non-performing Advances Portfolio	Original CAR %	Scenario 1 %	Scenario 2 %	Scenario 3 %
Magnitude of the shock	–	2	3	4
Directly to loss category	9.27	9.23	9.21	9.19
Shift of shock within all categories	9.27	9.26	9.25	9.24

ADHERENCE TO THE BASEL III REQUIREMENTS

In order to facilitate growth and achieve the objectives of the Bank in accordance with corporate plan while complying with the Basel III capital requirement as imposed by the regulator, the Bank is in the process of acquiring additional capital.

Through the line ministry, the following possibilities are presently being studied by the Bank:

- Additional capital from the existing shareholders and/or any other possible amendments to the Act to increase the Tier I capital
- Future augmentation plan to fulfil the Tier II capital requirement

COMPLIANCE RISK

The Board of Directors of the Bank has already taken initiatives to rectify all the concerns highlighted in the latest CBSL statutory examination report and thereby be in compliance with the relevant directions at the earliest.

AUDITOR GENERAL'S REPORT ON CORPORATE GOVERNANCE

විගණකාධිපති දෙපාර්තමේන්තුව
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 10 May 2017

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 Governance Direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive.

I report my findings in the attached Annexes 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 the directives of corporate governance issued by CBSL.

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

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

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

Mr. 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

	The Responsibilities of the Board	Level of Compliance
3 (1)		
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. Whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.	Complied with. Board approved the strategic objectives and corporate values for the period 2016-2020 on 05 September 2016 as determined by Pradeshiya Sanwardhana Bank Act No. 41 of 2008. 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. The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. The overall business strategy contains measurable goals, for at least the next three years.	Complied with. The Board approved corporate plan, which includes the overall business strategy for the period 2016-2020 is 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. Strategic plan with corporate goals for next five years from 2016 onward has been approved.
	(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.	Partially complied with. The communication policy has been approved by the Board in November 2014. However, it has not been reviewed annually. 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 system was 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.

	The Responsibilities of the Board	Level of Compliance
(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. Related Party Transaction Policy has been approved by the Board in 2015. However, it has not been reviewed.
(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. Specific areas of Directors also have been determined by the Board. 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 Subcommittees. Key Management Personnel are also called by the Board at explain matters relating to their respective areas.
(i)	The Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Partially complied with. Appointments of Directors are done by the Minister in consultation with the Secretary to the Treasury. Self-assessment scheme initiated by the Board helps to manage conflicts of interest. 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. Succession plan had been approved by the Board in 2012. Succession policy for the Bank has been approved by BHRRC in 2016 and new succession plan is in draft level.
(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. Matters arisen are reported to Board. 13 Regional General Manager's Meetings have been conducted during the Year
(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 updates on the changes in the regulatory environment and maintain relationships with regulators. The process and the level of compliance is assessed and reviewed by 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 Sanwardana Bank Act Auditor General is the External Auditor of the Bank.

	The Responsibilities of the Board	Level of Compliance
3 (I) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO). The functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied with. The Minister nominates and appoints the Chairman, while the Board appoints the General Manager/Chief Executive Officer. Pradeshiya Sanwardhana Bank Act No. 41 of 2008 states the functions and responsibilities of the CEO and the Chairman. Chairman's functions are in a Non-Executive capacity.
3 (I) (iii)	The Board has met regularly and held Board meetings at least 12 times a year at approximately monthly intervals.	Complied with. During the year, 17 Board meetings have been conducted. Regular meetings are conducted monthly and additional meetings are conducted as and when needed.
3 (I) (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. Regular Board meetings are scheduled monthly and Directors are noticed on scheduled date of the next meeting well in advance, enabling them to include matters and proposals.
3 (I) (v)	That the Board has given notice of at least Seven (7) days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Complied with. Notice of monthly Board meetings are provided to the Directors Seven (7) days prior to the meeting date as a practice.
3 (I) (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.	Partially complied with. Attendance register of Directors is maintained. There were no occasions observed on not attending more than two thirds of Board meetings. However, two Directors have not attended three consecutive meetings.
3 (I) (vii)	The Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988 and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with. The Board has appointed a Secretary to the Board as defined by Section 43 of the Banking Act No. 30 of 1988
3 (I) (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 (I) (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 Board Secretary and open to any Director for inspection.
3 (I) (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 (h) the decisions and Board resolutions.	Complied with. Following will cover with the minutes. (i) Discussed matters in decision 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 Subcommittees. (vi) Other contemporary matters discussed.

	The Responsibilities of the Board	Level of Compliance
3 (I) (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 the Bank's expense by taking decisions at Board meetings.
3 (I) (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. 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. Has he/she been counted in the quorum for the relevant agenda item at the Board meeting.	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.
3 (I) (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 the Board's contribution in the decision-making process to make the ultimate decisions.
3 (I) (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, such a situation has not arisen, the Board is aware of the necessity 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 (I) (xv)	The Board has the Bank capitalised at levels as required by the Monetary Board.	Partially complied with. The Bank has maintained the minimum level of capital adequacy as determined by the monitory board. However, some occasions reported below the r equired level.
3 (I) (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 (I) (xvii)	The Board adopts a scheme of self assessment to be undertaken by each Director annually and maintains records of such assessments.	Complied with. The Bank initiated a self-assessment scheme which is undertaken by each Director biannually.

3 (2) THE BOARD'S COMPOSITION

3 (2) (i)	Board comprises not less than 7 and not more than 13 Directors.	Complied with. Board comprises 9-11 Directors in 2016
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.	Not applicable.

	The Responsibilities of the Board	Level of Compliance
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 9-11 Directors during the year and other than one Executive Director all other Directors were Non-Executive Directors. Non-Executive Directors and the Chairman 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:	Complied with. The Board comprises 9-11 Directors during the year and other than one Executive Director all other Directors were Non-Executive Directors. Six Non-Executive Directors considered as Independent Directors.
	(a) Holds a direct and indirect shareholdings of more than 1% of the Bank;	Not applicable.
	(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) here of, exceeding 10% of the regulatory capital of the Bank.	Not applicable.
	(c) Has been employed by the Bank during the two-year period immediately preceding the appointment as Director.	Not applicable.
	(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).	Not applicable.
	(e) Represents a specific stakeholder of the Bank.	Not applicable.
	(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.	Not applicable.
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 Hon. Minister in consultation with Secretary to the Treasury.
3 (2) (vii)	That 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.

	The Responsibilities of the Board	Level of Compliance
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. The Annual Report carries the details of the Board of Directors by category.
3 (2) (ix)	The procedure for the appointment of new Directors to the Board.	Complied with. All Directors are appointed by Hon. Minister
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.	Not applicable. All appointments and removal of Directors are done by the Ministry of Finance/Public Enterprise 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 Directorship 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 Subcommittees 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.	

	The Responsibilities of the Board	Level of Compliance
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 an Independent 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 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.	Partially 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 annually; assist the Chairman to effectively carry out its responsibilities. However, one Directors' had not submitted self-evaluation forms in 2016.
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 (7)days prior to the meeting. However, in some instances other urgent matters are circulated to the Board without giving Seven (7) 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.	Partially complied with. The self-evaluation process carried out by the members of the Board annually; assist the Chairman to effectively carry out its responsibilities. However, one Directors had not submitted self-evaluation forms in 2016.
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Partially 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. One Director had not submitted self-evaluation forms in 2016.
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.

	The Responsibilities of the Board	Level of Compliance
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.	Complied with. The Bank has established Five (5) 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 represent an amalgamation of the Remuneration Committee and the Nomination Committee.
	Check that each Board Committee Report is addressed directly to the Board.	Complied with.
	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 an Independent Non-Executive Director 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 (5) 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.

	The Responsibilities of the Board	Level of Compliance
(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 Auditors 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.
(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 judgmental 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 Financial Statements as at 31 December 2015. 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 Auditors relating to any issue in the absence of the Executive Management with relation to the Audit.	Complied with
(i)	The committee has reviewed the External Auditor's management letter and the management's response thereto.	Complied with. Committee has discussed the Management letter 2014 and the responses there to.
(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 program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	Complied with
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department	Partially complied with. Annual Performance Appraisal Report of the Chief Internal Auditor for the year has been submitted to the Board Audit Committee on 24 February 2016. However, performance of other senior staff members have not been assessed by the BAC.
	(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 2016

	The Responsibilities of the Board	Level of Compliance
	(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) Whether the Committee has had at least two meetings with the External Auditors without the executive Directors being present.	Complied with.
	(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 'Term of Reference' of the Audit Committee covers 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 2016 and a special meeting has been held without in the presence of executive management.
	(o) The Board has disclosed in the Annual Report,	
	(i) details of the activities of the Audit Committee;	Complied with.
	(ii) the number of Audit Committee meetings held in the year; and	Complied with.
	(iii) details of attendance of each individual Director at such meetings.	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.	Partially complied with. The whistle blower policy covers these areas. The whistle blower policy of the Bank has been approved in Year 2017.
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. Remunerations of the Directors are governed by the PED Circulars and remunerations of other Key Management Persons are determined by the Board. Remuneration of employees Chief Managers and below categories are determined by the collective agreement
	(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.

	The Responsibilities of the Board	Level of Compliance
	(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. Committee has evaluated the performance of CEO. Key Performance Indicators (KPI) for District Managers, Branch Managers and Regional General Managers to measure individual performance have been approved by the Committee. However, evaluation of Key Management Personnel's performance had not been done.
	(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.
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 Hon. 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 post of Chief Executive Officer, Deputy General Manager & 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 on fitness and propriety of the Directors, CEO and Key Management Personnel were obtained and updated annually.
	(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.	Partially complied with. The committee consists of four (4) Independent Non-Executive Directors in 03 meetings and in one instance only two independent Non-Executive Directors and the Executive Director. However, Also CEO and CRO become members of the Committee.

	The Responsibilities of the Board	Level of Compliance
	(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 quarterly 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.	Not complied.
	(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.	Complied with. Committee has met four (4) times for the year 2016.
	(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 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 a established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction: (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.	Partially complied with. There is a policy on Related Party Transactions approved by the Board on May 2015. Those transactions are monitored through CBS system. However, as per the policy, it should be annually reviewed.

	The Responsibilities of the Board	Level of Compliance
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:	Partially complied with. All transactions except transaction (a) do not cover by the Related Party Transactions Policy of the Bank.
	(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.	Complied with.
	(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.	Not complied.
	(c) The provision of any services of a financial or Non-Financial nature provided to the Bank or received from the Bank.	Not complied.
	(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.	Not complied.
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 favorable treatment' than that accorded to other constituents of the bank carrying on the same business.	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.
	(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. 7 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 (5) years or more.	Complied with.
	(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.	Complied with.
	(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:	Complied with.
	(d) Providing services to or receiving services from a related-party without an evaluation procedure:	Complied with.
	(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.

	The Responsibilities of the Board	Level of Compliance
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 arms length transactions.
3 (7) (vii)	There is a process to obtain prior approval from the Monitory 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. 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 arms length transactions.

	The Responsibilities of the Board	Level of Compliance
3 (8) DISCLOSURES		
3 (8) (i)	The Board has disclosed:	Complied with.
	(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.	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.
	(b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	
3 (8) (ii)	Check that 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.
	(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 other than the age of Directors. 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.	Complied with.

	The Responsibilities of the Board	Level of Compliance
(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's were also disclosed in the notes to the financials.
(g)	The Board has obtained the External Auditor's Report on the compliance with Corporate Governance Directions.	Complied with. External Auditor's report on compliance requirements of the Corporate Governance Directions issued by the Central Bank of Sri Lanka was submitted in the Annual Report. Auditor General is the Auditor of the Bank.
(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-compliance.	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 Monitory Board.

ATTENDANCE OF THE BOARD AND THE BOARD COMMITTEES

BOARD OF DIRECTORS/BOARD SUBCOMMITTEES COMPOSITION AND DIRECTORS/COMMITTEE MEMBERS ATTENDANCE AT BOARD AND BOARD SUBCOMMITTEE MEETINGS DURING YEAR 2016

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 Credit Committee			Board IT Steering Committee		
	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A
Mr. Prasanna Premaratne (*Chairman*)	17	15							C	04	04	C	01	00			
Mr. T. A. Ariyapala (*General Manager*)	17	17					04	04		04	04		01	01		04	03
Mr. S. R. Attygalle (*Director*)*	05	03	C	01	01	M	01	01		01	00						
Mr. Mukthar Marikkar (*Director*)	17	12											01	01	C	04	04
Mr. J. K. Gamanayaka (*Director*)	17	15	M	05	03							M	01	01			
Mr. K. B. S. Bandara (*Director*)	17	08				C	04	04							M	04	02
Mrs. G. P. R. Jayasinghe (*Director*)**	02	02				M	01	01									
Ms. Shamara Herat (*Director*)	17	16	M	05	03				M	01	00						
Mr. A. R. Desapriya (*Director*)***	08	05	C	03	03	M	02	00	M	01	00						
Mr. K. B. Rajapakshe (*Director*)****	08	07				M	02	02				M	01	01	M	02	00
Mr. Niranjan Arulpragasam (*Director*)	17	08							M	04	04				M	04	03
Mr. A. H. M. Riyaz (*Director*)	17	14	M	05	05	M	04	04									
Mr. W. A. Priyantha Abeysinghe (*Working Director*)	17	17				M	04	03	M	01	01	M	01	01			
Mr. Sarath Hewage (*Director*)*****	09	05	M	02	00												

E – Eligibility of Attendance *A – Attendance* *S – Status of Director in Respective Committees*
C – Chairman of Committee *M – Member of the Committee* *BI – By Invitation*

** Resigned from May 2016*
*** Resigned from 27 February 2016*
**** Appointed on 14 July 2016*
***** Appointed on 01 July 2016*
****** Resigned from 01 July 2016*

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 sixth (6) year ended 31 December 2016. The Report also confirms to the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and Directions on Corporate Governance. The Bank was originally established in 1997 when seventeen Regional Development Banks were merged into six (6) 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 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 page 1 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 sixth year ended 31 December 2016, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 87 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 the 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 78 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 2016, 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 84 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 91 to 100.

DIRECTORS' REMUNERATION

Details of Directors' emoluments paid during the year are given in Note 12 of the financial statements.

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the Chairman's Statement (pages 6 to 8), the General Manager/ Chief Executive Officer's Review (pages 9 to 11) and the Management Discussion and Analysis (pages 13 to 31).

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2016 is contained in the Chairman's Statement (pages 6 to 8), the General Manager/Chief Executive Officer's Review (pages 9 to 11) and the Management Discussion and Analysis (pages 13 to 31). 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/Chief Executive Officer's Review on pages 9 to 11 and in the Financial Highlights on page 5.

STATED CAPITAL

The total shareholders' funds as at 31 December 2016 is Rs. 6.0 billion. 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.	%
Ministry of Finance	877,446,711	64
Bank of Ceylon	164,484,480	12
People's Bank	164,484,480	12
National Savings Bank	164,521,260	12
Total	1,370,936,931	100

INCOME

The income of the Bank for 2016 was Rs. l5.74 billion. Details of the income are given in page 101.

TAXATION

The Bank contributed Rs. 1,489 million by way of taxes and levies to the Government in 2016. This consisted of Rs. 614 million of Income Tax, Rs. 767 million of Financial Service Value Added Tax and Rs. 107 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 Services VAT at 15% from 2 May 2016, in comparison to previous rate of 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. 402 million (2015 Rs. 358 million), the details of which are given in Notes 23 and 26 of the financial statements on pages 109 and 111 of this Annual Report.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the balance sheet date that require adjustment to or disclosure in the financial statements.

OUTSTANDING LITIGATION

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 36.1 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:

	2016 Rs.	2015 Rs.
Stated Capital	**1,370,936,931**	1,370,936,931
Statutory Reserve Fund	**599,455,675**	567,391,264
Special Reserve Fund	**453,846,004**	421,781,593
General Reserve Fund	**2,586,422,452**	2,458,164,810
Retained Earnings	**988,284,444**	799,159,665
Total	**5,998,945,505**	5,617,434,262

DIVIDENDS

A final dividend as Rs. 1.00 per share amounting to Rs. 137,093,693 out of profits for the year 2015 was paid in September 2016. In view of Capital Requirements under Basel III, the Directors have not approved dividend distribution out of profits for the year 2016.

BOARD OF DIRECTORS

The Board of Directors comprises ten 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 are the names of the members of the Board of Directors whose brief profiles appear on pages 34 to 39 of this Annual Report.

Mr. Prasanna Premaratne – Chairman
Mr. A. R. Desapriya –
Non-Independent/Non-Executive Director
Mr. J. K. Gamanayake –
Non-Independent/Non-Executive Director
Mr. K. B. S. Bandara –
Non-Independent/Non-Executive Director

Mr. K. B. Rajapakshe –
Non-Independent/Non-Executive Director
Mr. M. S. M. Marikkar – Independent/Non-Executive Director
Mr. A. H. M. Riyaz – Independent/Non-Executive Director *
Mr. F. N. Arulpragasam – Independent/Non-Executive Director
Ms. E. S. K. Herat – Independent/Non-Executive Director
Mr. W. A. P. Abeysinghe – Working Director

** The Assessment of Fitness and propriety is in progress*

RESIGNATION OF DIRECTORS

Mr. Sarath Hewage – Resigned from 01 July 2016
Mr. S. R. Attygalle – Resigned from 2016 May
Ms. Renuka Jayasinghe – Resigned from 27 February 2016

NEW APPOINTMENTS OF DIRECTORS

Director	Appointment Date
Mr. A. R. Desapriya	14 July 2016
Mr. K. B. Rajapakshe	01 July 2016

BOARD SUBCOMMITTEES

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

AUDIT COMMITTEE

1. Mr. A. R. Desapriya (Chairman of the Committee w.e.f. 14 July 2016)
2. Mr. S. R. Attygalle, resigned from May 2016
3. Mr. Sarath Hewage, resigned on 01 July 2016
4. Ms. Shamara Herat
5. Mr. J. K. Gamanayaka
6. Mr. A. H. M. Riyaz
7. Mr. P. Koralegedara (Chief Internal Auditor)

Report of the Audit Committee is given on page 73 and forms a part of the Director's Report.

INTEGRATED RISK MANAGEMENT COMMITTEE

1. Mr. K. B. S. Bandara (Chairman of the Committee)
2. Mr. A. R. Desapriya – since 13 October 2016
3. Mr. S. R. Attygalle – resigned from May 2016
4. Mr. K. B. Rajapakshe – since 13 October 2016
5. Mrs. R. Jayasinghe – resigned from 27 February 2016
6. Mr. A. H. M. Riyaz
7. Mr. W. A. P. Abeysinghe
8. Mr. T. A. Ariyapala – GM/CEO
9. Mr. T. Kuhan – Chief Risk Officer
10. Mr. Sumanadasa – Compliance Officer

Report of the Integrated Risk Management Committee is given on page 76 which forms part of the Directors' Report of the Board.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

1. Mr. Prasanna Premaratne – (Chairman of the Committee)
2. Ms. Shamara Herat – 13 October 2016 onwards
3. Mr. A. R. Desapriya – 14 July 2016 onwards
4. Mr. S. R. Attygalle – 01 January 2016 to May 2016
5. Mr. W. A. P. Abeysinghe – 13 October 2016 onwards
6. Mr. F. N. Arulpragasam
7. Mr. T. A. Ariyapala (GM/CEO)
8. Mr. K. M. J. S. Karunathilaka – Head of HRD

BOARD IT STEERING COMMITTEE

1. Mr. M. S. M. Marikkar (Committee Chairman)
2. Mr. K. B. S. Bandara
3. Mr. K. B. Rajapakshe
4. Mr. F. N. Arulpragasam
5. Mr. T. A. Ariyapala (GM/CEO)
6. Mr. Vajira Jayasinghe (Chief Information Officer)

BOARD CREDIT COMMITTEE

1. Mr. Prasanna Premaratne (Committee Chairman)
2. Mr. K. B. Rajapakshe
3. Mr. J. K. Gamanayake
4. Mr. W. A. P. Abeysinghe
5. Mr. T. A. Ariyapala (GM/CEO)
6. Mr. S. A. Alahakoon (DGM) (Credit and Recoveries)
7. Mr. T. Kuhan (Chief Risk Officer)

DIRECTORS' MEETINGS

The number of Directors' meetings which comprise Board meetings, Audit Committee meetings, Credit 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 in the Corporate Governance Report on page 68 of this Annual Report.

DIRECTORS' INTEREST IN CONTRACTS

Director's interest in contract with the Bank both directly and indirectly are referred to in Note 37.2.3 to the financial statements. The Directors do not have any other direct or indirect interest in contracts or proposed contracts with the Bank.

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 37 to the financial statements.

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 the 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 re-designed 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 46 to 50 of this Annual Report.

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 80 and 81. Board has obtained an Assurance Report from the Auditor General's Report on Statement on Internal Control, which is given on page 79 of this Annual Report.

CORPORATE GOVERNANCE

In the management to 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 52 to 67 for which the Board has obtained a Report of Factual Findings 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 2016.

By order of the Board,

Secretary to the Board

AUDIT COMMITTEE REPORT

COMPOSITION OF AUDIT COMMITTEE

The Audit Committee appointed by the Board of Directors of the Bank consists the following Non-Executive Directors:

1. Mr. A. R. Desapriya – Director (Chairman of the Committee)
2. Mr. S. R. Attygalle – Director (Resigned)
3. Mr. S. Hewage – Director (Resigned)
4. Mr. J. K. Gamanayaka – Director
5. Ms. S. Herat – Director
6. Mr. A. H. M. Riyaz – Director

The Audit Committee consists five Non-Executive Directors and Mr. A. R. Desapriya has been nominated as the Chairman of the Committee. The Head of Finance and Planning participates at the meetings of the Committee by invitation while the Superintendent of the Government Audit 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 functions 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 and direct management to take appropriate action.
- 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. Five Audit Committee meetings have been held during the year ended 31 December 2016.

Attendance of Committee members

Name of Committee member	Attendance
Mr. S. R. Attygalle	01 (Resigned from May 2016)
Mr. A. R. Desapriya	03 (Appointed date – 14 July 2016)
Mr. J. K. Gamanayaka	03
Ms. S. Herat	03
Mr. A. H. M. Riyaz	05

During the year 2016, 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.
- Ensured independence of Internal Audit Department
- Reviewed 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.
- Reviewed the Internal Audit Action Plan for the year 2016.
- Reviewed the Internal Audit Reports prepared for 2016.
- Reviewed the Management Letter submitted by the External Auditors.
- Reviewing the External Auditors' observations and made necessary recommendations.
- Follow-up with regard to the implementation of recommendations highlighted in the audit reports and advised relevant divisions accordingly.

According to the internal audit plan, during the reviewing year entire branch network, IT Division and Sabaragamuwa Province Office have been audited and able to conclude three complicated investigations by the Internal Audit Department under the supervision and guidance of the Audit Committee. Information System Audit Unit was also able to conduct 36 online audit examinations during the year 2016 as well. 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. Arrangements have also been made to enhance the knowledge and skills of Audit Staff.

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.

A. R. Desapriya
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 Subcommittees 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 is headed by the Chairman of the Bank. The Committee members were changed during the year.

COMMITTEE MEMBERS (JANUARY 2016 – JULY 2016)

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
5. Mr. K. M. J. S. Karunathilaka – Head of HRD and Admin. of the Bank
6. Mrs K. A. K. Pinnawele – Board Secretary of the Bank/ Secretary to the Committee

COMMITTEE MEMBERS (JULY 2016 – OCTOBER 2016)

1. Mr. Prasanna Premaratne – Chairman of the Bank/ Chairman of the Committee
2. Mr. Niranjan Arulpragasam – Director of the Bank/ Member of the Committee
3. Mr. A. R. Desapriya – Director of the Bank/ Member of the Committee
4. Mr. T. A. Ariyapala – GM/CEO of the Bank
5. Mr. K. M. J. S. Karunathilaka – Head of HRD and Admin. of the Bank
6. Mrs K. A. K. Pinnawele – Board Secretary of the Bank/ Secretary to the Committee

COMMITTEE MEMBERS (OCTOBER 2016 TO DATE)

1. Mr. Prasanna Premaratne – Chairman of the Bank/ Chairman of the Committee
2. Mr. Niranjan Arulpragasam – Director of the Bank/ Member of the Committee
3. Mr. A. R. Desapriya – Director of the Bank/ Member of the Committee
4. Mrs Shamara Herath – Director of the Bank/ Member of the Committee
5. Mr. W. A. P. Abeysinghe – Working Director of the Bank/ Member of the Committee
6. Mr. T. A. Ariyapala – GM/CEO of the Bank
7. Mr. K. M. J. S. Karunathilaka – Head of HRD and Admin. of the Bank
8. Mrs. K. A. K. Pinnawele – Board Secretary of the Bank/ Secretary to the Committee

COMMITTEE MEETINGS

1. Four meetings were held during the year 2016.
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 arrive 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 three members including Chairman.
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 and communication technology and to assist the Bank with the growing demands of IT governance.

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

COMPOSITION OF THE COMMITTEE

The BITSC approved by the Board of Directors of Regional Development Bank (RDB) comprises the following members:

1. Mr. Mukthar Marikkar – Chairman of the Committee/Director
2. Mr. K. B. S. Bandara – Member/Director
3. Mr. Niranjan Arulpragasam – Member/Director
4. Mr. K. B. Rajapaksha – Member/Director

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 officers of the Bank can also attend the meetings on invitation.

The quorum for the meeting of BITSC is two members. BITSC has conducted four meetings during 2016 thus meeting the regulatory requirements.

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 2016 RDB has continued to strengthen and taken steps to improve the risk management framework of the Bank in order to ensure that the functions are within the desired 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 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 from January to May 2016
3. Mr. A. R. Desapriya – Member/Non-Executive Director since October 2016
4. Mrs R. Jayasinghe – Member/Non-Executive Director from January to February 2016
5. Mr. K. B. Rajapakshe – Member/Non-Executive Director since October 2016
6. Mr. A. H. M. Riyaz – Member/Non-Executive Director
7. Mr. W. A. Priyantha Abeysinghe – Member/Working Director
8. Mr. T. A. Ariyapala – Member/GM/CEO of the Bank
9. Mr. T. Kuhan – Member/CRO of the Bank
10. Mr. W. Sumanadasa – Compliance Officer of the Bank – up to October 2016 member thereafter as an invitee

DGM credit, SAGM Operations and Chief Finance Officer were attended the meetings on invitations during 2016.

The brief profiles of the member of the Committee represent in the Director Board and the Corporate Management are given on pages 34 to 41 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 system in place.
2. To assess all risk types, including but not limited to: credit, liquidity, operational and strategic reputational risks to the Bank 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 risk 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 46 to 50) which extensively covers level of adherence against the Terms of Reference, achievements during the year and actions taken to mitigate key risks.

MEETINGS

The Committee has met four times during the year and complied with the minimum requirement specified by CBSL Guidelines.

The discussions and conclusions reached at the meetings are recorded in minutes and a summary of the report for each meeting is circulated to the Board of Directors at the very next Board meeting for their information and advice.

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 2016 are prepared and presented in compliance with the following regulatory requirements:

1. Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by The Institute of Chartered Accountants of Sri Lanka;
2. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
3. Listing Rules of the Colombo Stock Exchange;
4. Banking Act No. 30 of 1988 and amendments thereto;
5. Directions, circulars and guidelines issued to Licensed Specialised Banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 12 of 2007 issued by 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 re-stated 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, Income statement 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.

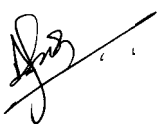
The Internal Auditor of the Bank has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal 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 84 of the Annual 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 SLFRSs/LKASs and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on page 73 to ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee at the Audit Committee meeting to discuss any matter 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 36.1 of the financial statements section of the Annual 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

P. S. Edirisuriya
Chief Financial Officer

9 May 2017

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

This Statement of the Board of Directors, sets out the responsibilities of the Directors relating to the Financial Reporting framework of the Bank. The responsibilities of the Auditors in relation to the financial statements are set out in the Report of the Auditors on page 84 of the Annual Report.

FINANCIAL STATEMENTS

The Directors of the Bank are responsible for ensuring that the Bank keeps proper books of accounts of all the transactions and prepare financial statements in accordance with Generally Accepted Accounting Principles and Sri Lanka Accounting Standards (SLFRSs/LKASs) that give a true and fair view of the state of affairs of the Bank at the end of each financial year and in compliance with the relevant statutory/ regulatory requirements. The financial statements comprise of Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes there to.

The Directors acknowledge that in the preparation of financial statements for the year ended 31 December 2016, presented in the Annual Report, the most appropriate accounting policies have been used, applied consistently and adequately disclosed. Reasonable and prudent judgments have been made where necessary in order to ensure the proper reflection of the form and substance of transaction in the process of preparing financial statements.

The financial statements for the year ended 31 December 2016 are in conformity with the requirements of the Pradeshiya Sanwardana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and amendments thereto, Sri Lanka Accounting Standards and other statutory/regulatory requirements. These financial statements reflects true and fair view of the state of affairs of the Bank as at 31 December 2016.

GOING CONCERN

The Directors are of the view that the Bank has adequate resources to continue in business for the foreseeable future and accordingly, continued to adopt going concern basis in preparing the financial statements.

INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE

The Directors are also responsible for the system of internal financial controls and risk management and paying significant attention on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement. Whilst emphasising inherent risks that cannot be completely eliminated, the Bank has taken possible steps to mitigate them by ensuring various systems and other controls.

A report by the Directors on the Bank's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on page 84 of the Annual Report.

The Directors and Management have put in place risk management policies and guidelines. Board Subcommittees have been established to monitor and manage material risks and arrangements been made to submit reports on risk to the Integrated Risk Management Committee on periodic basis for discussion.

Compliance with applicable laws, regulations, rules, directives and guidelines are monitored by Compliance Division and is reported to the Integrated Risk Management Committee and Board of Directors periodically.

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, play a significant role in strengthening the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on pages 73 and 76 respectively of this Annual Report.

The Auditor General has been made available with all records of the Bank including the financial statements by the Board of Directors and been provided every opportunity to undertake the inspections they considered appropriate.

COMPLIANCE

The Directors, to the best of their knowledge and belief, are satisfied that all taxes payable by the Bank and all other known statutory dues to the Government and to the other relevant regulatory and statutory authorities, which were due and payable by the Bank as at the end of financial year, have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,

Secretary to the Board

AUDITOR GENERAL'S REPORT ON STATEMENT ON INTERNAL CONTROL

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය எனது இல. My No. BAF/F/RDB/IC/2016 ඔබේ අංකය உமது இல. Your No.

දිනය திகதி Date 30 May 2017

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 over financial reporting ('Statement') of Pradeshiya Sanwardhana Bank included in the Annual Report for the year ended 31 December 2016.

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 Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

MY RESPONSIBILITY AND COMPLIANCE WITH SLSAE 3050

My responsibility is to issue a report to the Board of the Directors 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 supported by the documentation prepared by or for Directors and appropriately reflected the process, the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported 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.

CONCLUSION

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my understanding of the process, the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting 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

REQUIREMENT

This Report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b) and prepared, based on the guidelines issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

RESPONSIBILITY

The Board of Directors is responsible for Internal Control in Regional Development Bank and for reviewing its effectiveness and adequacy. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives 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 against financial losses or fraud.

BOARD REVIEW PROCESS

The internal control process is reviewed periodically by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system, taking into account principles for the assessment of internal control system as given in that guidance. The Board is of the view that the Bank has taken steps to improve the system of internal controls to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes.

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

KEY FEATURES OF THE PROCESS

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

- Board Subcommittees of Audit, Credit and Integrated Risk Management have been 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 all its transactions. The procedures laid down in the manual have been communicated to all members of 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 periodic meetings.
- The Audit Committee of the Bank review internal control issues identified by the 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 LKAS and SFLRS in 2012. The process and procedures initially applied to adopt the aforementioned accounting standards, were further strengthened during the year 2016, based on the feedback received from External Auditors, regulators and the Board Audit Committee. The Bank will continue to further strengthen the process on impairment of Loans and Advances, financial statement disclosures and 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 EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31 December 2016 and are supposed to report to the Board whether anything has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board review of the design and effectiveness of the internal control system of the Bank.

A. R. Desapriya
Chairman – Audit Committee

Prasanna Premaratne
Chairman

W. A. Priyantha Abeysinghe
Director

19 May 2017

FINANCIAL REPORTS

AUDITOR GENERAL'S REPORT

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. BAF/F/RDB/1/16/20

ඔබේ අංකය / உமது இல. / Your No.

දිනය / திகதி / Date 09 May 2017

The Chairman,
Pradeshiya Sanwardana Bank.

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PRADESHIYA SANWARDANA BANK FOR THE YEAR ENDED 31 DECEMBER 2016 IN TERMS OF SECTION 14 (2) (C) OF THE FINANCE ACT NO. 38 OF 1971.

The audit of financial statements of the Pradeshiya Sanwardana Bank for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No. 38 of 1971 and Section 33 of the Pradeshiya Sanwardana 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 statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board 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 statements-based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. 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 statements, 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 Board, 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 audit opinion.

OPINION

In my opinion, the financial statements give a true and fair view of the financial position of the Pradeshiya Sanwardana Bank as at 31 December 2016, and of its financial performance and 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 Wijesinghe
Auditor General

අංක 306/72, පොළduව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. . - இல. 306/72, பொலதுவ 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

INCOME STATEMENT

For the Year ended 31 December	Note	Bank 2016 Rs.	Bank 2015 (Restated) Rs.
Gross income	5	**15,744,336,598**	12,510,118,902
Interest income		**14,813,083,474**	11,759,232,735
Interest expenses		**(7,197,198,715)**	(5,168,680,370)
Net interest income	6	**7,615,884,759**	6,590,552,365
Fee and commission income		**905,636,508**	739,950,446
Fee and commission expenses		**(124,649,164)**	(114,174,850)
Net fee and commission income	7	**780,987,344**	625,775,596
Net gain/(loss) from financial instruments at fair value through profit or loss	8	**4,200**	(6,300)
Other operating income (net)	9	**25,616,616**	10,935,721
Total operating income		**8,422,492,919**	7,227,257,382
Net impairment charges on loans and other receivables	10	**29,110,255**	(201,065,522)
Net operating income		**8,451,603,174**	7,026,191,860
Less – Operating Expenses			
Personnel expenses	11	**(4,609,232,586)**	(4,082,141,685)
Amortisation of intangible assets		**(37,168,652)**	(35,364,098)
Other expenses	12	**(1,549,634,014)**	(1,299,268,713)
Levy paid to general treasury		**(125,000,000)**	(125,353,097)
Operating profit before value added tax (VAT)		**2,130,567,922**	1,484,064,267
NBT		**(107,482,813)**	(90,949,795)
Value added tax (VAT) on financial services		**(767,485,246)**	(421,199,552)
Profit before tax		**1,255,599,863**	971,914,920
Tax expenses	13	**(614,311,651)**	(442,763,183)
Profit for the year		**641,288,212**	529,151,737
Earnings per share			
Earnings per share: Basic	14	**4.68**	3.86

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 91 to 140. The Report of the Auditor General is given on page 84.

STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December	Note	Bank 2016 Rs.	2015 Rs.
Profit for the year		**641,288,212**	529,151,737
Other comprehensive income/(expenses)			
Items that will not be reclassified to Profit or Loss			
Actuarial Gain/(Loss) on Defined Benefit Plan		**(170,393,439)**	61,260,084
Deferred tax effect on above	24.1	**47,710,163**	(14,073,511)
Total other comprehensive income for the year, net of taxes		**(122,683,276)**	47,186,573
Total comprehensive income for the year		**518,604,936**	576,338,310

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 91 to 140. The Report of the Auditor General is given on page 84.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Bank 2016 Rs.	2015 (Restated) Rs.	2014 (Restated) Rs.
Assets				
Cash and cash equivalents	16	**428,697,741**	310,591,598	236,997,574
Sri Lanka government securities	17	**–**	607,814,250	1,789,084,271
Balances with banks	18	**18,979,572,034**	2,952,333,673	25,148,246,108
Placements with banks	19	**1,682,030,495**	12,861,621,185	1,017,169,314
Financial assets held for Trading	20	**204,200**	200,000	206,300
Loans and receivables from other customers	21	**105,653,630,944**	87,079,453,950	61,230,266,262
Financial Investments – held-to-maturity	22	**516,741,803**	–	–
Intangible assets	23	**58,025,552**	78,815,975	54,961,763
Deferred tax assets	24	**217,649,611**	171,634,073	188,321,788
Other assets	25	**2,191,034,111**	1,673,473,035	1,616,807,791
Property, plant and equipment	26	**1,186,397,657**	1,044,604,902	825,856,721
Total assets		**130,913,984,148**	106,780,542,641	92,107,917,892
Liabilities				
Due to banks	27	**11,765,493,022**	7,951,290,707	9,814,612,367
Due to other customers	28	**107,031,720,855**	87,753,699,915	73,731,934,843
Debt issued and other borrowed funds	29	**2,708,377,456**	2,693,032,538	–
Other liabilities	30	**2,130,544,286**	1,792,987,865	2,469,978,353
Retirement benefit obligation	31	**1,278,903,024**	972,097,354	913,202,684
Total liabilities		**124,915,038,643**	101,163,108,379	86,929,728,247
Equity				
Stated capital/Assigned capital	32	**1,370,936,931**	1,370,936,931	1,370,936,931
Statutory reserve fund	33	**599,455,675**	567,391,264	523,268,291
Retained earnings	34	**988,284,444**	799,159,665	624,652,888
Other reserves	35	**3,040,268,455**	2,879,946,402	2,659,331,535
Total shareholders' equity		**5,998,945,505**	5,617,434,262	5,178,189,645
Total equity and liabilities		**130,913,984,148**	106,780,542,641	92,107,917,892
Contingent liabilities and commitments	36	**453,555,712**	232,012,133	168,961,738

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 91 to 140. The Report of the Auditor General is given on page 84.

I certify that the financial statements have been prepared in compliance with the requirements of the Banking Act No. 30 of 1988 and the Pradeshiya Sanwardana Banking Act No. 41 of 2008.

Sumeda Edirisuriya
Chief Financial 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

04 May 2017
Colombo.

CASH FLOW STATEMENT

For the Year ended 31 December	Note	Bank 2016 Rs.	2015 Rs.
Cash Flow from Operating Activities			
Profit before tax		**2,130,567,922**	1,484,064,267
Adjustment for:			
Non-cash items included in profit before tax	39	**423,360,531**	581,823,633
Changes in operating assets	40	**(19,002,958,980)**	(24,930,428,062)
Changes in operating liabilities	41	**21,615,023,501**	12,821,989,364
Net gain from investment activities		**–**	–
Share of profits in associates and joint ventures		**–**	–
Dividend income from subsidiaries and associates		**–**	–
Net gain/(loss) from financial instruments at fair value through profit or loss		**–**	–
Others reclassification	42	**(2,247)**	(306,755)
Contribution paid to defined benefit plans		**(22,372,294)**	(19,647,842)
Tax paid		**(1,308,145,965)**	(1,157,331,384)
Net cash generated from/(used in) operating activities		**3,835,472,468**	(11,219,836,779)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	26	**(385,493,382)**	(413,677,439)
Net purchase of intangible assets	23	**(16,378,229)**	(59,218,310)
Proceeds from the sale of property, plant and equipment		**22,705,687**	7,772,518
Net proceeds from sales of investment share market		**–**	–
Net cash (used in)/from investing activities		**(379,165,924)**	(465,123,231)
Cash Flows from Financing Activities			
Net proceeds from the issue of ordinary share capital	32	**–**	–
Net proceeds from the issue of subordinate debt		**–**	2,500,000,000
Interest paid on debentures		**(209,554,246)**	(13,835,008)
Dividend paid		**(137,093,693)**	(137,093,693)
Net cash from financing activities		**(346,647,939)**	2,349,071,299
Net increase/(decrease) in cash & cash equivalents		**3,109,658,605**	(9,335,888,711)
Cash & cash equivalents at the beginning of the year		**15,946,420,596**	25,282,309,307
Cash and cash at the end of the year		**19,056,079,201**	15,946,420,596
Reconciliation of Cash & Cash Equivalents			
Cash and balances with Central Bank	16	**428,697,741**	310,591,598
Favourable balances with banks	18	**20,661,602,529**	15,813,954,858
Unfavourable balances with banks	27	**(2,034,221,069)**	(178,125,860)
		19,056,079,201	15,946,420,596

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 91 to 140. The Report of the Auditor General is given on page 84.

STATEMENT OF CHANGES IN EQUITY

	Bank					
	Stated Capital Rs.	Statutory Reserve Fund Rs.	Special Reserve Fund Rs.	General Reserve Fund Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 January 2015	1,370,936,931	523,268,291	377,658,619	2,281,672,916	872,318,223	5,425,854,980
Less: prior year adjustments (Note A)					(247,665,335)	(247,665,335)
Restated balance as at 01 January 2015	1,370,936,931	523,268,291	377,658,619	2,281,672,916	624,652,888	5,178,189,645
Total comprehensive income for the year						
Profit for the year	–	–	–	–	529,151,737	529,151,737
Other comprehensive Income	–	–	–	–	47,186,573	47,186,573
Total comprehensive Income for the year	–	–	–	–	576,338,310	576,338,310
Transactions with Equity Holders, Recognised Directly in Equity						
Net gain/(loss) from financial instruments at fair value through profit or loss	–	–	–	–	–	–
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)
Transactions with equity holders, recognised directly in equity	–	44,122,973	44,122,973	176,491,894	(401,831,533)	(137,093,693)
Balance as at 31 December 2015 (Restated)	1,370,936,931	567,391,264	421,781,592	2,458,164,810	799,159,665	5,617,434,262
Balance as at 01 January 2016	1,370,936,931	567,391,264	421,781,592	2,458,164,810	799,159,665	5,617,434,262
Total comprehensive income for the year						
Profit for the year					641,288,212	641,288,212
Other comprehensive income					(122,683,276)	(122,683,276)
Total comprehensive income for the year	–	–	–	–	518,604,936	518,604,936
Transactions with Equity Holders, Recognised Directly in Equity						
Transferred to statutory reserve fund		32,064,411			(32,064,411)	–
Transferred to special reserve fund			32,064,411		(32,064,411)	–
Transferred to general reserve fund				128,257,642	(128,257,642)	–
Dividend 2015					(137,093,693)	(137,093,693)
Transactions with equity holders, recognised directly in equity	–	32,064,411	32,064,411	128,257,642	(329,480,157)	(137,093,693)
Balance as at 31 December 2016	1,370,936,931	599,455,675	453,846,003	2,586,422,452	988,284,444	5,998,945,505

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the bank set out on pages 91 to 140. The Report of the Auditor General is given on page 84.

NOTE A

Restatement of Collective Impairment Provision

The data used for estimation of collective impairment of loans and receivables in prior years (2014 and 2015) were only limited to one year historical data. Therefore, during the year, the Bank re-estimated the collective impairment of prior years using three years historical data.

An understatement of previously reported provision for impairment of loans and receivables was identified and accordingly the prior year balances as stated below.

Impact on Equity Previously Reported

	Retained Earnings Rs.
Balance as at 31 December 2014 as previously reported	872,318,223
Adjustment for the effect due to collective impairment	(348,968,472)
Adjustment for the income tax reversal on collective impairment recognised	97,704,643
Adjustments for the NBT and VAT on financial services	3,598,494
Restated balances as at 01 January 2015	624,652,888

Impact on Profit for the Year 2015

Profit for the year ended 31 December 2015 as previously stated	882,459,469
Effect due to the collective impairment charge	(478,730,750)
Effect for the income tax reversal on collective impairment recognised	134,044,610
Effect for the NBT and VAT on financial services	(8,621,592)
Restated profit for the year ended 31 December 2015	529,151,737

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 GENERAL

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

Permanent, training and contract staff strength of the Bank as at 31 December 2016 was 3,396.
(3,052 as at 31 December 2015.)

1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

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 women, mainly by granting financial assistance to Microfinance 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.

1.3 DIRECTORS' RESPONSIBILITY FOR 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 Sanwardana Banking Act No. 41 of 2008 and its amendments, Banking Act No. 30 of 1988 and its amendments thereto and Sri Lanka Accounting Standards.

1.4 APPROVAL OF FINANCIAL STATEMENTS BY BOARD OF DIRECTORS

The financial statements of the Bank for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 4 May 2017.

2. ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except for the following material items:

- The liability for defined benefit obligation are actuarially valued and recognised as the present value of the defined benefit obligation.
- Financial assets held for trading are measured at fair value.

2.1.1 STATEMENT OF COMPLIANCE

The financial statements, as at 31 December 2016 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, the requirements of the Banking Act No. 30 of 1988 and amendments thereto and Pradeshiya Sanwardana Banking Act No. 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardana Banking Act No. 41 of 2008 and amendments thereto.

2.1.2 FUNCTIONAL AND PRESENTATION CURRENCY

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

2.1.3 PRESENTATION OF FINANCIAL STATEMENTS

The items of the Bank presented in their Statement 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 No. 46.

2.1.4 MATERIALITY AND AGGREGATION

In compliance with LKAS 01 – '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.

2.1.5 COMPARATIVE INFORMATION

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

2.1.6 STATEMENT OF CASH FLOW

The cash flow statement has been prepared by using the Indirect Method in accordance with the Sri Lanka Accounting Standard – LKAS 7 – 'Statement of Cash Flows'. Cash and cash equivalents comprise cash in hand and 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 17 and Note 19 to financial statements.

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

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements of the Bank in conformity with Sri Lanka Accounting Standards requires the management to make judgements, 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 judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements of the Bank are as follows:

2.2.1 GOING CONCERN

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

2.2.2 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

The Bank review its individually significant loans and advances more than Rs. 2 million as per the Board decisions, at each Reporting date commencing from 31 December 2016 to assess whether an impairment loss should be recorded in the statement of profit or 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. 2 million have been assessed individually and found not impaired and all individually insignificant loans and advances are then assessed collectively. A collective component of the total allowance is established for groups of homogeneous loans that are not considered individually significant.

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

The Bank uses net flow rate method to establish historical loss experience. This methology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

The impairment loss on loans and advances is disclosed in more detail in Note 21.

2.2.3 TAXATION

The Bank is subject to income tax and judgement 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 13 and Note 24.

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.

2.2.4 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 Lanka 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.

2.2.5 USEFUL LIFE-TIME OF THE PROPERTY AND EQUIPMENT

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

2.2.6 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.

2.2.7 FAIR VALUE OF FINANCIAL INSTRUMENTS

When the fair value of financial assets and financial liabilities, recorded in the statement of financial position cannot be derived from active markets, they are determined using variety of valuation techniques that include the use of mathematical models. The inputs of these models are taken from observable markets where possible, however, if such data are not available, a degree of judgement is exercised in establishing fair values which minimise the effect of use of unobservable inputs.

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 MEASUREMENT

3.1.1 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 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 SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 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.

3.1.3.2 Held-to-Maturity Financial Investments

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

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

3.1.3.3 Loans and Receivables to Customers and Banks

Loans and receivables to customers and Banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and

- Bank does not intend to sell immediately or in the near term.

After initial measurement, amounts 'Loans and receivables to banks' and 'Loans and receivables to 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 (charge)/reversal on loans and receivables'.

3.1.4 NON-DERIVATIVE FINANCIAL LIABILITIES

Other financial liabilities are initially measured at fair value less any directly attributable transaction costs.

3.1.4.1 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.

3.1.6 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

3.1.6.1 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 contractual rights to receive cash flows from the asset expire;
  Or
- It refers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred;
  Or
- The Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial 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.

3.1.6.2 Financial Liabilities

A financial liability is derecognised when the contractual 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.

3.1.7 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.

Objective 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.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impaired losses are recognised in income statement and reflected in an allowance account against loans and receivables and held-to-maturity securities.

3.1.8 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.

3.1.9 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.

3.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PPE) are recognised if it is probable that future economic benefits associated with the assets will flow to the Bank and the cost of the asset can be reliably measured.

Items of PPE are 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 depreciation period or method, as appropriate and treated as changes in accounting estimates.

The depreciation is recognised in the income statement on a 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

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank.

The carrying amount of an item of PPE 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/expense in the income statement in the year the asset is derecognised.

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

3.3 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.

3.3.1 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 3.2.

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

3.4 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. 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

3.5 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.

Am impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in income statement.

Financial Guarantees

'Financial guarantees' are contracts that require the Bank to make specific payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the debt instrument. 'Loan commitments' are firm commitments to provide credit under pre specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.6 PENSION BENEFITS

3.6.1 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 3.6.2 for the definition of defined contribution plan.

Gratuity

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

An actuarial valuation is carried out at every year-end to ascertain the full liability under the Fund. The valuation was carried out as at 31 December 2016 by Messrs Actuarial & Management Consultants (Pvt) Limited, a qualified actuary using the projected unit credit method.

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.

3.6.2 DEFINED CONTRIBUTION PENSION PLAN

'A defined contribution 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 Bank 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%.

3.7 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.

3.8 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.

3.8.1 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.

3.8.2 FEES 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:

3.8.2.1 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.

3.8.2.2 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.

3.8.3 NET TRADING INCOME

Net trading income comprise of gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and dividends.

3.8.4 TAXATION

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.

3.8.4.1 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 13 to the financial statements.

3.8.4.2 Deferred Tax

Deferred tax is recognised 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.

3.8.4.3 VAT on Financial Services

VAT on Financial Services is calculated in accordance with VAT 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.

3.8.4.4 Nation Building Tax (NBT) on Financial Service

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

3.8.4.5 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.

3.8.4.6 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.

3.9 EARNINGS PER SHARE (EPS)

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

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 DECEMBER 2016

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 2016. Accordingly, these accounting standards have not been applied in the preparation of the financial statements for the year ended 31 December 2016.

SLFRS 9 – 'FINANCIAL INSTRUMENTS'

This standard replaces the existing guidance in LKAS 39 – 'Financial Instruments: Recognition and Measurement'. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. SLFRS 9 is effective for annual reporting periods beginning on or after 01 January 2018, with early adoption is permitted.

The Bank is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9.

SLFRS 15 – 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 – 'Revenue', LKAS 11 – 'Construction Contracts' and IFRIC 13 – 'Customer Loyalty Programmes'. SLFRS 15 is effective for annual reporting periods beginning on or after 01 January 2018, with early adoption is permitted.

The Bank is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 15.

5. GROSS INCOME

For the Year ended 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Total interest income (Note 6)	**14,813,083,474**	11,759,232,735
Fee and commission income (Note 7)	**905,636,508**	739,950,446
Other operating income (Note 9)	**25,616,616**	10,935,721
Total gross income	**15,744,336,598**	12,510,118,902

6. NET INTEREST INCOME

For the Year ended 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Interest Income		
Sri Lanka Government Securities	**846,266,432**	1,014,712,067
Financial assets at fair value through profit or loss	**395,508**	328,590
Loans and receivables from banks	**996,505,293**	519,840,169
Loans and receivables from other customers	**12,969,916,241**	10,224,351,909
Total interest income	**14,813,083,474**	11,759,232,735
Interest Expenses		
Due to banks	**(719,654,780)**	(600,145,332)
Due to other customers	**(6,477,543,935)**	(4,568,535,038)
Total interest expenses	**(7,197,198,715)**	(5,168,680,370)
Net interest income	**7,615,884,759**	6,590,552,365

6.1 NOTIONAL TAX CREDIT ON SECONDARY MARKET TRANSACTIONS

In terms of the Section 137 of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, a company which derives 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 2016 and the notional tax credit amounts to Rs. 95,909,155/- (Rs. 76,912,303/-).

7. NET FEE AND COMMISSION INCOME

For the Year ended 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Fee and commission income	**905,636,508**	739,950,446
Fee and commission expenses	**(124,649,164)**	(114,174,850)
Net fee and commission income	**780,987,344**	625,775,596
Comprising		
Loans	**658,094,664**	538,665,994
Trade and remittances	**5,686,501**	5,849,748
Deposits	**(109,864,447)**	(89,617,052)
Others	**227,070,626**	170,876,906
Net fee and commission income	**780,987,344**	625,775,596

8. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

For the Year ended 31 December	Bank 2016 Rs.	2015 Rs.
Change in fair value of financial assets at fair value through profit or loss (Note 20.1)	**4,200**	(6,300)
Total	**4,200**	(6,300)

9. OTHER OPERATING INCOME (NET)

For the Year ended 31 December	Bank 2016 Rs.	2015 Rs.
Gain/(Loss) on sale of property, plant and equipment	**21,870,086**	7,254,660
ATM income	**2,988,096**	294,808
Recoveries of NPL loans	**758,434**	3,386,253
Other operating income (net)	**25,616,616**	10,935,721

10. IMPAIRMENT CHARGES FOR LOANS AND OTHER RECEIVABLES

For the Year ended 31 December	Bank 2016 Rs.	2015 (Restated) Rs.
Other customers collective impairment [Note 21 (B1)]	**(37,740,600)**	(110,030,969)
Other customers Individual impairment [Note 21 (B2)]	**66,850,855**	(91,034,553)
Net impairment (charge)/reversal for loans and other losses	**29,110,255**	(201,065,522)

11. PERSONNEL EXPENSES

For the Year ended 31 December	Bank 2016 Rs.	2015 Rs.
Salary and bonus	**2,704,924,471**	2,500,869,114
Contributions to defined benefit plans	**158,784,525**	139,802,596
Others	**1,745,523,590**	1,441,469,975
Total	**4,609,232,586**	4,082,141,685

12. OTHER EXPENSES

For the Year ended 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Directors' emoluments	**5,216,100**	3,434,646
Auditors' remunerations	**5,439,471**	3,694,456
Professional and legal expenses	**30,780,048**	30,717,109
Depreciation of property, plant and equipment	**233,177,270**	192,887,422
Office administration and establishment expenses	**1,057,342,936**	882,025,845
Computerisation expenses	**108,904,520**	60,737,149
Business tax expenses	**504,638**	468,614
Other commission paid	**946,356**	1,883,233
Savings insurance fund	**93,272,818**	81,443,936
Crop insurance levy	**6,999,504**	2,799,472
Staff security deposits interest	**2,674,101**	1,815,151
Capital loss on pawning advance	**4,376,252**	29,071,253
Liya isuru fair value adjustment provision (Note 12.1)	**–**	8,290,427
Total	**1,549,634,014**	1,299,268,713

12.1 '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 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.

13. TAX EXPENSES

For the Year ended 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Income Taxation		
Taxation based on profits for the year (Note 13.1)	**634,005,130**	428,128,609
(Over)/Under provision in respect of 2015/2016 year [Note 13 (A.i)]	**(21,625,231)**	6,529
(Over)/Under provision in respect of 2012/2013 year [Note 13 (A.ii)]	**237,127**	12,013,835
Origination/(Reversal) of temporary differences (Note 24.1)	**1,694,625**	2,614,211
Total	**614,311,651**	442,763,183

13.1 RECONCILIATION OF TAX EXPENSES

For the Year ended 31 December		Bank 2016 Rs.	2015 Rs.
Profit/(loss) before tax		**1,255,599,863**	971,914,920
Add	: Tax effect of expenses that are not deductible for tax purposes	**1,466,843,261**	1,042,220,011
(Less)	: Tax effect of expenses that are deductible for tax purposes	**(458,139,089)**	(447,317,175)
	: Income and profit exempt from income tax	**–**	(37,787,011)
Taxable profit		**2,264,304,035**	1,529,030,745
Income tax for the period (taxable profit @ applicable tax rate)		**28%**	28%
Tax expense for the period		**634,005,130**	428,128,609

A. (OVER)/UNDER PROVISION IN RESPECT OF PREVIOUS YEAR

A.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 2015/2016.

A.ii During the 2012/2013 period tax payable amount corrected as per the Department of Inland Revenue and finalised the said period income tax liability.

14. EARNINGS PER SHARE

In accordance with the Sri Lanka Accounting Standard – LKAS 33 "Earnings per share", basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

For the Year ended 31 December	Bank 2016 Rs.	2015 Rs.
Net profit attributable to ordinary equity holders of the Bank	**641,288,212**	529,151,737
Net profit attributable to ordinary equity holders	**641,288,212**	529,151,737
	Numbers	Numbers
Weighted average number of ordinary shares in issue	**137,093,693**	137,093,693
Basic earnings per ordinary share	**4.68**	3.86

15. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

A. BANK – CURRENT YEAR (2016)

As at 31 December	FVTPL Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Total Rs.
Assets					
Cash and cash equivalents	**–**	**–**	**428,697,741**	**–**	**428,697,741**
Balances with banks	**–**	**–**	**18,979,572,034**	**–**	**18,979,572,034**
Placements with banks	**–**	**–**	**1,682,030,495**	**–**	**1,682,030,495**
Financial assets held for trading	**204,200**	**–**	**–**	**–**	**204,200**
Loans and receivables from other customers	**–**	**–**	**105,653,630,944**	**–**	**105,653,630,944**
Financial Investments – held-to-maturity	**–**	**516,741,803**	**–**	**–**	**516,741,803**
Other assets	**–**	**–**	**1,036,497,573**	**–**	**1,036,497,573**
Total financial assets	**204,200**	**516,741,803**	**127,780,428,787**	**–**	**128,297,374,790**

B. BANK – CURRENT YEAR (2016)

As at 31 December	Amortised Cost Rs.	Total Rs.
Liabilities		
Due to banks	**11,765,493,022**	**11,765,493,022**
Due to other customers	**107,031,720,855**	**107,031,720,855**
Debt issued and other borrowed funds	**2,708,377,456**	**2,708,377,456**
Other liabilities	**2,111,181,490**	**2,111,181,490**
Total financial liabilities	**123,616,772,823**	**123,616,772,823**

A. BANK – PREVIOUS 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	–	–	2,952,333,673	–	2,952,333,673
Placements with banks	–	–	12,861,621,185	–	12,861,621,185
Financial assets – held for trading	200,000	–	–	–	200,000
Loans and receivables fro other customers	–	–	87,079,453,950	–	87,079,453,950
Other assets	–	–	592,767,990	–	592,767,990
Total financial assets	200,000	607,814,250	103,796,768,396	–	104,404,782,646

B. BANK – PREVIOUS YEAR (2015)

As at 31 December	Amortised Cost Rs.	Total Rs.
Liabilities		
Due to banks	7,951,290,707	7,951,290,707
Due to other customers	87,753,699,915	87,753,699,915
Debt issued and other borrowed funds	2,693,032,538	2,693,032,538
Other liabilities	1,779,031,308	1,779,031,308
Total financial liabilities	100,177,054,468	100,177,054,468

16. CASH AND CASH EQUIVALENTS

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Cash in hand	**428,697,741**	310,591,598
Total	**428,697,741**	310,591,598

17. SRI LANKA GOVERNMENT SECURITIES

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Treasury bills	**–**	607,814,250
Total	**–**	607,814,250

18. BALANCES WITH BANKS

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Fixed deposit	**18,913,418,549**	2,915,651,530
Other bank balances	**66,153,485**	36,682,143
Total	**18,979,572,034**	2,952,333,673

19. PLACEMENTS WITH BANKS

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Money market placements	**1,682,030,495**	12,861,621,185
Total	**1,682,030,495**	12,861,621,185

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equity securities (Note 20.1)	**204,200**	200,000
	204,200	200,000

20.1

Balance as at 01 January 2016	**200,000**	206,300
Change in fair value during the year	**4,200**	–
Balance as at 31 December 2016	**204,200**	200,000

20.2 EQUITY SECURITIES

	2016 No. of Shares	2016 Cost of Investment Rs.	2016 Market Value Rs.	2015 No. of Shares	2015 Cost of Investment Rs.	2015 Market Value Rs.
People's Merchant Bank PLC	**600**	**12,000**	**10,200**	600	12,000	12,000
Ceylinco Seylan Development Limited	**10,000**	**150,000**	**144,000**	10,000	150,000	138,000
CRIB	**50,000**	**50,000**	**50,000**	50,000	50,000	50,000
		212,000	**204,200**		212,000	200,000

21. LOANS AND RECEIVABLES FROM OTHER CUSTOMERS

As at 31 December	Bank 2016 Rs.	Bank 2015 (Restated) Rs.	Bank 2014 (Restated) Rs.
Gross loans and receivables	**108,102,759,708**	89,469,402,355	63,127,939,906
(Less): Zero rate loan fair value adjustment	**(159,863,434)**	(257,836,074)	(407,480,802)
	107,942,896,274	89,211,566,281	62,720,459,104
(Less): Staff loan fair value adjustment	**(760,806,772)**	(508,043,485)	–
	107,182,089,502	88,703,522,796	62,720,459,104
(Less): Collective impairment charges	**(1,504,274,860)**	(1,533,034,292)	(1,490,192,842)
(Less): Individual impairment charges	**(24,183,698)**	(91,034,553)	–
Net loans and receivables from other customers	**105,653,630,944**	87,079,453,950	61,230,266,262

A. ANALYSIS

As at 31 December	Bank 2016 Rs.	2015 (Restated) Rs.	2014 (Restated) Rs.
By Product			
Pawning	**7,873,700,312**	7,653,380,215	10,615,275,145
Staff loans	**3,193,923,358**	2,390,935,056	1,363,939,927
Short-term	**6,211,115,500**	5,002,175,566	4,933,877,757
Long-term	**89,526,857,771**	73,349,945,990	45,092,346,330
Interest receivable on loans & advances	**1,297,162,767**	1,072,965,528	1,122,500,746
Gross total	**108,102,759,708**	89,469,402,355	63,127,939,906
By Currency			
Sri Lankan Rupee	**108,102,759,708**	89,469,402,355	63,127,939,906
Gross total	**108,102,759,708**	89,469,402,355	63,127,939,906
By Industry			
Agriculture and fishing	**23,117,832,251**	18,906,817,764	17,471,567,441
Manufacturing	**16,608,806,781**	10,449,660,782	8,992,240,366
Transport	**374,428,761**	368,156,284	211,615,710
Construction/housing	**34,469,374,843**	31,730,771,783	14,021,697,256
Traders	**13,813,538,095**	11,744,233,768	10,322,142,893
New economy	**–**	–	–
Others (consumptions/against deposit/staff/tourism)	**18,421,616,210**	15,196,796,446	10,986,175,495
Interest receivable on loans & advances	**1,297,162,767**	1,072,965,528	1,122,500,746
Gross total	**108,102,759,708**	89,469,402,355	63,127,939,906
By CBSL			
Performing	**105,052,762,334**	85,931,895,206	58,393,365,874
Special Mention	**491,778,190**	624,868,328	1,343,559,301
Substandard	**543,842,613**	839,900,643	1,368,547,932
Doubtful	**403,879,938**	543,358,691	602,509,068
Loss	**1,610,496,633**	1,529,379,487	1,419,957,731
Gross total	**108,102,759,708**	89,469,402,355	63,127,939,906

B. MOVEMENTS OF INDIVIDUAL AND COLLECTIVE IMPAIRMENT DURING THE YEAR

B.1 COLLECTIVE LOAN IMPAIRMENT

As at 31 December	Bank 2016 Rs.	2015 (Restated) Rs.	2014 (Restated) Rs.
Opening balance as at 01 January	**1,533,034,292**	1,490,192,842	1,696,519,008
Charge/(write-back) to income statement (Note 10)	**37,740,600**	110,030,969	(103,409,030)
Recoveries during the year	**–**	–	(48,649)
Write-offs	**(56,124,907)**	(609,321)	–
Other movements	**(10,375,125)**	(66,580,198)	(102,868,487)
Closing balance as at 31 December	**1,504,274,860**	1,533,034,292	1,490,192,842

Total Collective Impairment

The following impairment provisions were estimated based on three years historical data.

However, the impairment provision is recognised net of the funds available in the Special Reserve fund (created to provide for bad and doubtful debts of the Bank as per the Section 23 of Pradeshiya Sanwardana Bank Act No. 41 of 2008) as disclosed below.

	2016 Rs.	2015 (Restated) Rs.	2014 (Restated) Rs.
Collective impairment recognised on loans & receivables (Note 21.b)	**1,504,274,860**	1,533,034,292	1,490,192,842
Collective impairment not recognised	**453,846,003**	421,781,593	377,658,619
	1,958,120,863	1,954,815,885	1,867,851,461

b.1.1 Restatement of Collective Impairment Provision

As stated in the Note A under statement of changes in equity previously reported collective impairment was understated. Therefore, prior year reported balances were restated by adjusting each of the affected line item in the statement of financial position and the income statement as summarised below:

I. STATEMENT OF FINANCIAL POSITION

01 January 2015	Impact on Correction of Collective Impairment Provision As Previously Reported Rs.	 Adjustments Rs.	 As Restated Rs.
Total Assets			
Loans and receivables from other customers	61,579,234,734	(348,968,472)	61,230,266,262
Tax receivables – NBT, VAT and income tax	–	97,704,643	97,704,643
Total Assets	92,359,181,722	(251,263,829)	92,107,917,892
Equity			
Retained earnings	872,318,223	(247,665,335)	624,652,888
Total Liabilities			
Other liabilities	2,473,576,847	(3,598,494)	2,469,978,353
Total equity and liabilities	92,359,181,722	(251,263,829)	92,107,917,892
31 December 2015			
Total Assets			
Loans and receivables from other customers	87,907,153,173	(827,699,223)	87,079,453,950
Tax receivables – NBT, VAT and income tax	–	231,749,253	231,749,253
Total Assets	107,376,492,611	(595,949,970)	106,780,542,641
Equity			
Retained earnings	1,400,132,731	(600,973,067)	799,159,664
Total Liabilities			
Other liabilities	1,787,964,768	5,023,097	1,792,987,865
Total equity and liabilities	107,376,492,611	(595,949,970)	106,780,542,641

II. INCOME STATEMENT

For the year ended 31 December 2015	Impact on Correction of Collective Impairment Provision		
	As Previously Reported Rs.	Adjustments Rs.	As Restated Rs.
Net impairment charges on loans and other receivables	277,665,228	(478,730,750)	(201,065,522)
Income tax expense	(562,173,219)	134,044,610	(428,128,609)
NBT	(89,623,396)	(1,326,399)	(90,949,795)
Value added tax (VAT) on financial services	(413,904,359)	(7,295,193)	(421,199,552)
Profit for the year	882,459,469	(353,307,732)	529,151,737
Total comprehensive income for the year	929,646,041	(353,307,732)	576,338,310

B.2 INDIVIDUAL LOAN IMPAIRMENT

As at 31 December	Bank	
	2016 Rs.	2015 Rs.
Opening balance as at 01 January	**91,034,553**	–
Charge/(Write back) to income statement (Note 10)	**(66,850,855)**	91,034,553
Closing balance as at 31 December	**24,183,698**	91,034,553

22. FINANCIAL INVESTMENTS – HELD-TO-MATURITY

As at 31 December	Bank	
	2016 Rs.	2015 Rs.
Debt securities – Debentures	**516,741,803**	–
Total	**516,741,803**	–

	2016		
	No. of Debentures	Cost of Investment Rs.	Amortised Cost Rs.
Commercial Bank of Ceylon PLC	**5,000,000**	**500,000,000**	**516,741,803**
Total		**500,000,000**	**516,741,803**

23. INTANGIBLE ASSETS

As at 31 December	Bank	
	2016 Rs.	2015 Rs.
Computer Software		
Opening balance as at 01 January	**140,809,327**	81,591,017
Additions	**16,378,229**	59,218,310
Written off	**–**	–
Reclassification adjustments	**250,000**	–
Closing balance as at 31 December	**157,437,556**	140,809,327
(Less): Amortisation		
Opening balance as at 01 January	**61,993,352**	26,629,254
Charge for the year	**37,168,652**	35,364,098
Written off	**–**	–
Reclassification adjustments	**250,000**	–
Closing balance as at 31 December	**99,412,004**	61,993,352
Net book value	**58,025,552**	78,815,975

24. DEFERRED TAX ASSETS/LIABILITIES

As at 31 December	2016 Rs.	2015 Rs.
Deferred tax asset	**(358,092,847)**	(272,187,265)
Deferred tax liability	**140,443,236**	100,553,192
Net deferred tax (asset)/liability	**(217,649,611)**	(171,634,073)

Recognition of deferred tax assets of Rs. 358,092,847/- (2015 - Rs. 272,187,265/-) is based on the management's profit forecasts (which are based on available evidence including historical levels of profitability), which indicates that it is probable that the Bank will have future taxable profits against which these assets can be used.

24.1 AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2016 Rs.	2015 Rs.
Recognised in profit or loss	**1,694,625**	2,614,204
Recognised in other comprehensive income	**(47,710,163)**	14,073,511

24.2 MOVEMENT IN DEFERRED TAX BALANCES

Bank	Net Balance as at 01 January 2016	Recognised in Profit or Loss	Recognised in OCI	Net Balance at 31 December 2016	Deferred Tax Asset	Deferred Tax Liability
Property, plant and equipment	**100,553,192**	**39,890,044**	**–**	**140,443,236**	**–**	**140,443,236**
Employee benefits	**(272,187,265)**	**(38,195,419)**	**(47,710,163)**	**(358,092,847)**	**(358,092,847)**	**–**
	(171,634,073)	**1,694,625**	**(47,710,163)**	**(217,649,611)**	**(358,092,847)**	**140,443,236**

Bank	Net Balance as at 01 January 2015	Recognised in Profit or Loss	Recognised in OCI	Net Balance at 31 December 2015	Deferred Tax Asset	Deferred Tax Liability
Property, plant and equipment	67,374,963	33,178,229	–	100,553,192	–	100,553,192
Employee benefits	(255,696,751)	(30,564,025)	14,073,511	(272,187,265)	(272,187,265)	–
	(188,321,788)	2,614,204	14,073,511	(171,634,073)	(272,187,265)	100,553,192

25. OTHER ASSETS

As at 31 December	Bank 2016 Rs.	2015 (Restated) Rs.	2014 (Restated) Rs.
Cost			
Receivables	**757,855,201**	305,006,436	121,027,618
Deposits and prepayments	**184,184,695**	327,614,849	446,161,164
Sundry debtors	**46,893,119**	56,012,301	41,840,826
Tax receivables (Note 21 B.1.1)	**231,749,253**	231,749,253	97,704,643
Others	**970,351,843**	753,090,196	290,141,865
Inter bank transaction in transit	**–**	–	619,931,675
Total	**2,191,034,111**	1,673,473,035	1,616,807,791

26. PROPERTY, PLANT AND EQUIPMENT

26.1 PROPERTY AND EQUIPMENT

	Bank 2016						
	Land and Buildings	Computer Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Partition & Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016 (Current Year) Cost/Fair Value							
Opening balance at 01 January 2016	396,046,149	448,601,457	678,424,377	281,921,681	66,085,510	169,467,862	2,040,547,036
Additions	17,168,965	85,692,232	221,249,429	1,536,650	25,359,076	34,487,029	385,493,381
Disposals	(79,333)	(22,437,487)	(16,647,394)	(19,005,362)	–	(125,775)	(58,295,351)
Written off	(9,690,000)	–	(2,900)	–	–	–	(9,692,900)
Transfers during the year	22,291,625	–	–	–	(22,291,625)	–	–
Reclassification adjustments	–	(250,000)	23,142	–	–	452,177	225,319
Closing balance at 31 December 2016	425,737,406	511,606,202	883,046,654	264,452,969	69,152,961	204,281,293	2,358,277,485
Finance Lease							
Opening balance at 01 January 2016	–	–	–	103,924,400	–	–	103,924,400
Additions	–	–	–	–	–	–	–
Closing balance at 31 December 2016	–	–	–	103,924,400	–	–	103,924,400
(Less): Accumulated Depreciation							
Opening balance at 01 January 2016	71,800,073	298,906,903	505,174,630	149,035,169	–	28,641,508	1,053,558,283
Charge for the year	16,208,179	57,730,514	68,857,139	32,879,111	–	36,998,701	212,673,644
Disposals	–	(22,159,186)	(16,239,867)	(19,005,338)	–	(55,359)	(57,459,750)
Written off	–	–	(2,897)	–	–	–	(2,897)
Reclassification adjustments	–	(249,857)	25,163	–	–	447,766	223,072
Closing balance at 31 December 2016	88,008,252	334,228,374	557,814,168	162,908,942	–	66,032,616	1,208,992,352
Finance Lease							
Opening balance at 01 January 2016	–	–	–	46,308,251	–	–	46,308,251
Charge for the year	–	–	–	20,503,625	–	–	20,503,625
Closing balance at 31 December 2016	–	–	–	66,811,876	–	–	66,811,876
(Less): Impairment charges	–	–	–	–	–	–	–
Net book value at 31 December 2016	337,729,154	177,377,828	325,232,486	138,656,551	69,152,961	138,248,677	1,186,397,657

	Bank 2015							
	Land and Buildings	Leasehold Properties	Computer, Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Partition & Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2015 (Previous Year) Cost/Fair Value								
Opening balance at 01 January 2015	359,114,252	–	415,810,019	629,423,076	178,506,009	69,930,682	–	1,652,784,038
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)	(2,057,687)
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	169,467,862	2,040,547,036
Finance Lease								
Opening balance at 01 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 01 January 2015	58,400,212	–	255,028,444	454,988,350	137,382,113	–		905,799,119
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)	(5,067,521)	–	(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	1,053,558,283
Finance Lease								
Opening balance at 01 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	–	–	46,308,251
(Less): Impairment charges	–		–	–	–	–	–	–
Net book value at 31 December 2015	324,246,076	–	149,694,554	173,249,747	190,502,661	66,085,510	140,826,354	1,044,604,902

26.2 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	**2016**	2015
	Rs.	Rs.
Asset Class		
Building	**694,583**	–
Computer, hardware	**181,699,402**	193,467,425
Office equipment, furniture and fittings	**360,701,924**	306,445,902
Motor vehicles	**118,026,665**	106,862,912
Partition & fittings	**1,406,421**	557,243.00
	662,528,995	607,333,482

26.3

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

26.4 TITLE RESTRICTIONS ON PROPERTY, PLANT AND EQUIPMENT

There were no title restrictions on property, plant and equipment of the Bank as at the Reporting date.

26.5 PROPERTY, PLANT AND EQUIPMENT PLEDGED AS SECURITY FOR LIABILITIES

No freehold property, plant and equipment have been pledged as security for any liability.

26.6 COMPENSATION FROM THIRD PARTIES FOR ITEMS OF PROPERTY, PLANT AND EQUIPMENT

There were no compensations received/receivable from third parties for items of property, plant and equipment which were impaired of given up.

26.7 TEMPORALLY IDLE PROPERTY, PLANT AND EQUIPMENT

There were no temporally idle property, plant and equipment as at the Reporting date.

26.8 The details of freehold land and buildings held by the Bank as at 31 December 2016 are as follows:

Name of Premises and Address	Extent (Perches)	Building (Square Feet)
Central Province		
Matale – No. 62, Main Street, Matale	4.8	2,280
Dambulla – No. 734, Anuradhapura Road, Dambulla	8.2	2,210
Galewela – Dambulla Road, Galewela	8.7	2,380
Wilgamuwa – Hettipola, Wilgamuwa	38.0	1,740
Agarapatana – No. 158, Hoolbrook, Agarapatana	10.8	1,598
Naula – No. 26, Dambulla Road, Naula	20.0	1,640
North Central Province		
Mihintale – Trincomalee Road, Mihintale	20.0	6,359
Medawachchiya – Mannar Road, Medawachchiya	34.0	4,371
Galenbindunuwewa – Pola Road, Galenbidunuwewa	70.0	1,687
Medirigiriya – Main Street, Madirigiriya	40.0	–
Siripura – New Town, Siripura	30.0	4,973
Thirappane – Kandy Road, Thirappane	65.4	8,030
North Western Province		
Mawathagama – Kandy Road, Mawathagama	21.5	–
P/O Kurunegala – No. 155, Negombo Road, Kurunegala	14.0	8,484
Polpithigama – Kurunegala Road, Polpithigama	20.0	2,784
Mampuri – Kalpitiya Road, Mampuri	80.0	15,181
Palakuda – Kalpiti Road, Thalawila	20.3	2,244
Nattandiya – Marawila Road, Naththandiya	15.7	1,200
Puttlam – Kurunegala Road, Puttlam	51.0	1,250
Wariyapola – No. 29/4, Adhikari Mawatha, Wariyapola	10.0	6,208
Southern Province		
Kekanadura – Weherahena Road, Kekanadura	12.0	1,704
Akmeemana – Ganegoda, Akmeemana	6.5	1,614
Galle Branch – No. 301, Matara Road, Magalle, Galle	30.0	5,820
Katuwana – Uda Gomadiya Road, Katuwana	39.1	16,480
Tangalle – No. 81, Beliatta Road, Tangalle	16.0	–
Uragasmanhandiya - Kosgoda Road, Uragasmanhandiya	20.0	1,940
Ambalantota – No. 139, Hambantota Road, Ambalantota	25.0	2,568
Agunakolapelessa – Ranna Road, Agunakolapelessa	12.0	2,371
D/O Galle – No. 301, Matara Road, Magalle, Galle	30.0	4,820
Uva Province		
Girandurukotte – Development Centre, Girandurukotte		2,920
Monaragala D/O – Monaragala Road, Buttala		1,613
Head Office – No. 933, Kandy Road, Wedamulla, Kelaniya	24	5,375
Sabaragamuwa Province		
Balangoda – No. 17, Rest House Approach Road, Balangoda	20	–
Total		

Date of Valuation	Cost/Revalued Amount of Land Rs.	Cost/Revalued Amount of Building Rs.	Total Value Rs.	Accumulated Depreciation Rs.	Written Down Value Rs.
26 December 2014	–	11,915,631	11,915,631	1,199,724	10,715,907
18 December 2003	2,851,908		2,851,908	1,629,422	1,222,486
01 March 2008	–	6,540,518	6,540,518	2,888,739	3,651,779
24 August 2009	–	7,581,277	7,581,277	3,385,822	4,195,456
17 August 2012		1,260,000	1,260,000	528,000	732,000
25 February 1998		2,471,252	2,471,252	1,853,439	617,814
30 December 2005	–	8,859,427	8,859,427	4,864,515	3,994,912
19 March 2013	–	16,192,223	16,192,223	3,238,445	12,953,778
14 March 2013	–	3,124,975	3,124,975	1,278,333	1,846,642
31 December 2007	–	9,643,650	9,643,650	4,348,286	5,295,364
24 February 2016	–	22,291,625	22,291,625	950,135	21,341,491
08 December 2016	379,869	6,761,474	7,141,343	397,251	6,744,092
03 March 2016	10,102,311	–	10,102,311	–	10,102,311
29 December 2004		18,200,366	18,200,366	7,322,145	10,878,221
	–	17,504,901	17,504,901	1,823,427	15,681,474
30 December 2014	–	25,188,128	25,188,128	2,558,659	22,629,469
25 March 2003	–	5,792,157	5,792,157	2,134,024	3,658,134
11 February 2003	–	3,110,574	3,110,574	576,366	2,534,207
26 June 2006	–	1,699,940	1,699,940	1,249,618	450,322
12 November 2013	–	35,609,963	35,609,963	1,672,316	33,937,647
10 May 2004	1,418,000	1,194,535	2,612,535	716,448	1,896,087
02 October 1993		600,000	600,000	599,999	1
09 October 1999		4,712,509	4,712,509	2,590,804	2,121,705
22 March 2001	1,320,000	7,406,958	8,726,958	4,442,484	4,284,474
05 May 2005	1,620,667	1,675,534	3,296,201	1,256,268	2,039,933
10 April 2012	–	13,354,618	13,354,618	3,155,714	10,198,903
30 August 2004	2,000,000	3,070,100	5,070,100	1,841,359	3,228,741
27 August 2001	–	2,350,914	2,350,914	1,762,649	588,265
08 October 1999	1,750,000	4,884,716	6,634,716	2,652,429	3,982,287
30 November 2011	–	5,086,556	5,086,556	878,616	4,207,940
22 October 1999	2,286,921		2,286,921	2,127,285	159,636
05 March 2012	54,380,000	95,116,426	149,496,426	22,085,531	127,410,895
18 February 2013	6,285,664	–	6,285,664		6,285,664
	84,395,340	343,200,948	427,596,288	88,008,252	339,588,036

27. DUE TO BANKS

As at 31 December	Bank 2016 Rs.	2015 Rs.
Borrowings	**3,039,128,792**	178,569,251
Leasing (Note 28.1)	**26,658,790**	54,418,780
Refinance	**8,699,705,440**	7,718,302,676
Total	**11,765,493,022**	7,951,290,707

The Bank has obtained a short-term loan of Rs. 1 billion from National Savings Bank during the year at an interest rate equal to six month Treasury Bill rate (Gross) plus 1.5% per annum.

27.1 MATURITY OF THE LEASING

As at 31 December	Bank 2016 Rs.	2015 Rs.
Not later than 01 year	**14,906,797**	32,688,204
Later than 01 year and not later than 5 year	**13,366,488**	28,679,084
Later than 5 years		–
	28,273,285	61,367,288
Less – Interest in suspense	**(1,614,495)**	(6,948,508)
Total	**26,658,790**	54,418,780

28. DUE TO OTHER CUSTOMERS

As at 31 December	Bank 2016 Rs.	2015 Rs.
At Amortised cost	**107,031,720,855**	87,753,699,915
Total	**107,031,720,855**	87,753,699,915

a. Analysis

As at 31 December	Bank 2016 Rs.	2015 Rs.
By Product		
Savings deposits	**32,669,437,915**	28,798,164,315
Long-term savings	**9,330,705,983**	8,114,690,078
Fixed deposits	**65,031,576,957**	50,840,845,522
Total	**107,031,720,855**	87,753,699,915
By Currency		
Sri Lankan Rupee	**107,031,720,855**	87,753,699,915
Total	**107,031,720,855**	87,753,699,915

29. DEBT ISSUED AND OTHER BORROWED FUNDS

As at 31 December	Bank 2016 Rs.	2015 Rs.
Redeemable debentures (Note 29.1)	**2,708,377,456**	2,693,032,538
Total	**2,708,377,456**	2,693,032,538

29.1 REDEEMABLE DEBENTURES

As at 31 December	Bank 2016 Rs.	2015 Rs.
Opening balance as at 01 January	**2,693,032,538**	–
Debenture issued	**–**	2,500,000,000
Debenture redeemed	**–**	–
Interest payable	**224,899,164**	206,867,546
Interest paid	**(209,554,246)**	(13,835,008)
Closing balance as at 31 December	**2,708,377,456**	2,693,032,538

Debenture Issued by the Bank

29.1.1 DEBENTURE ISSUED IN 2015

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

Type	No. of Debentures	Face Value Rs.	Amortised Cost 2016 Rs.	Allotment Date	Maturity Date	Rate of the Interest
A	21,288,500	2,128,850,000	**2,320,971,422**	30 January 2015	30 January 2020	Fixed – 9.00% per annum payable annually
B	3,610,200	361,020,000	**377,053,640**	30 January 2015	30 January 2020	Fixed – 8.81% per annum payable bi-annually
C	101,300	10,130,000	**10,352,394**	30 January 2015	30 January 2020	Fixed – 8.71% per annum payable quarterly
	25,000,000	2,500,000,000	**2,708,377,456**			

30. OTHER LIABILITIES

As at 31 December	Bank 2016 Rs.	2015 (Restated) Rs.	2014 (Restated) Rs.
Sundry creditors	**120,628,488**	129,956,036	1,179,952,660
Other payables	**2,009,865,937**	1,663,196,588	1,289,873,664
Inter bank transaction in transit	**49,861**	(164,759)	152,029
Total	**2,130,544,286**	1,792,987,865	2,469,978,353

31. RETIREMENT BENEFIT OBLIGATION

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Retirement benefit obligation (Note 31.1)	**1,278,903,024**	972,097,354
	1,278,903,024	972,097,354

31.1 NET ASSET/(LIABILITY) RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Opening balance as at 01 January	**972,097,354**	913,202,684
Provision made during the year (Note 31.2)	**158,784,525**	139,802,596
Net actuarial (Gain)/Loss on obligation	**170,393,439**	(61,260,084)
	1,301,275,318	991,745,196
Benefits paid by the plan	**(22,372,294)**	(19,647,842)
	1,278,903,024	972,097,354

31.2 AMOUNT RECOGNISED IN INCOME STATEMENT

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Current service cost	**61,574,790**	48,482,327
Interest cost	**97,209,735**	91,320,269
Total amount recognised in the income statement	**158,784,525**	139,802,596

31.3 AMOUNT RECOGNISED IN STATEMENT OF OTHER COMPREHENSIVE INCOME

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Net actuarial (Gain)/Loss on obligation	**170,393,439**	(61,260,084)
Total amount recognised in other comprehensive income	**170,393,439**	(61,260,084)

31.4 An actuarial valuation of the gratuity fund was carried out as at 31 December 2016 by Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used 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	2016	2015
Discount rate as at 31 December	**11.50%**	10.00%
Future salary increment rate	**8%** **(Every three years with the next increment due on 01 January 2018)**	20% (Every three years with the next increment due on 01 January 2018)
Mortality	**A1967/70 Mortality Table**	A1967/70 Mortality Table
Retirement age	**57 Years**	57 Years

31.5 SENSITIVITY OF ASSUMPTIONS USED IN THE ACTUARIAL VALUATION

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

The sensitivity of the total comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on to total comprehensive income and employment benefit obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	2016 Sensitivity Effect on Income Statement Increase/(Reduction) in results for the year Rs.	2016 Present value of Defined Benefit Obligation Increase/(Decrease) in the Liability Rs.	2015 Sensitivity Effect on Income Statement Increase/(Reduction) in results for the year Rs.	2015 Present value of Defined Benefit Obligation Increase/(Decrease) in the Liability Rs.
1%	–	**67,876,228**	**(67,876,228)**	56,989,406	(56,989,406)
(-1%)	–	**(76,267,477)**	**76,267,477**	(63,930,359)	63,930,359
–	1%	**(71,380,057)**	**71,380,057**	(14,973,213)	14,973,213
–	(-1%)	**64,474,734**	**(64,474,734)**	14,625,300	(14,625,300)

32. STATED CAPITAL

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Ordinary Shares		
Opening balance as at 01 January	**1,370,936,931**	1,370,936,931
Issue of shares	**–**	–
Closing balance as at 31 December	**1,370,936,931**	1,370,936,931

33. STATUTORY RESERVE FUND

As at 31 December	Bank 2016 Rs.	Bank 2015 Rs.
Opening balance as at 01 January	**567,391,264**	523,268,291
Transfer during the period	**32,064,411**	44,122,973
Closing balance as at 31 December	**599,455,675**	567,391,264

34. RETAINED EARNINGS

As at 31 December	Bank 2016 Rs.	Bank 2015 (Restated) Rs.
Opening balance as at 01 January	**799,159,665**	872,318,223
Prior year adjustment	**–**	(247,665,335)
Profit for the year	**641,288,212**	529,151,737
Other comprehensive Income	**(122,683,276)**	47,186,573
Transfers to other reserves	**(192,386,464)**	(264,737,840)
Dividend	**(137,093,693)**	(137,093,693)
Closing balance as at 31 December	**988,284,444**	799,159,665

35. OTHER RESERVES

A. BANK – CURRENT YEAR (2016)

	Opening Balance as at 01 January Rs.	Movement/ Transfers Rs.	Closing Balance as at 31 December Rs.
General reserve	**2,458,164,810**	**128,257,642**	**2,586,422,452**
Special reserve fund	**421,781,593**	**32,064,411**	**453,846,004**
Total	**2,879,946,403**	**160,322,053**	**3,040,268,456**

B. BANK – PREVIOUS YEAR (2015)

	Opening Balance as at 01 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	2,879,946,403

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

36. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Bank undertakes commitments and incurs contingent liabilities with legal recourse to its customers to accommodate the financial and investment needs of clients, to conduct trading activities and to manage its own exposure to risk. These financial instruments generate interest or fees and carries elements of credit risk in excess of those amounts recognised as assets and liabilities in the Statement of Financial Position. However, no material losses are anticipated as a result of these transactions.

These contingencies and commitments are quantified below:

	Bank	
As at 31 December	**2016 Rs.**	2015 Rs.
Guarantees and performance bonds	**101,856,888**	91,600,799
Other contingent items	**351,698,824**	140,411,334
Total	**453,555,712**	232,012,133

36.1 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, four clients have filed cases against the Bank preventing the sale of assets mortgaged to the Bank, twenty two staff members have filed cases with labour tribunal against the Bank, four clients have filed cases against the Bank for claiming damage and the Bank has filed four appeals to the Supreme Court against decisions 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.

37. RELATED PARTY DISCLOSURES

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, 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 staff at concessionary rates.

37.1 PARENT AND THE ULTIMATE CONTROLLING PARTY

Regional Development Bank is a Government owned Bank.

37.2 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, the Chief Executive Officer, Deputy General Managers, Senior Assistant General Managers, Regional General Managers, Compliance Officer, Chief Internal Auditor and Board Secretary.

37.2.1 COMPENSATION TO KEY MANAGEMENT PERSONNEL (KMPs)

	Bank	
	2016 Rs.	2015 Rs.
Short-term employment benefits	**32,120,383**	22,729,590
Post employment benefits	**–**	–
Total	**32,120,383**	22,729,590

37.2.2 TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING KEY MANAGEMENT PERSONNEL (KMP) AND THEIR CLOSE FAMILY MEMBERS (CFM)

Items in the Statement of Financial Position	**2016 Rs.**	2015 Rs.
Assets		
Loans and receivables	**50,358,206**	16,897,100
Total	**50,358,206**	16,897,100
Liabilities		
Deposits	**76,172,589**	12,149,909
Total	**76,172,589**	12,149,909
Items in the Statement of Profit or Loss		
Interest income	**1,970,533**	715,824
Interest expenses	**4,022,156**	483,568
Total	**5,992,689**	1,199,392

37.2.2.1 Terms and Conditions of the Accommodation Granted to KMPs and their CFMs

Type of the Loan	**Balance as at 31 December 2016**	Security Details		Other Terms and Conditions
		Type	Value	
Staff housing loans	**13,664,497**	Land	45,184,783	Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.
Staff vehicle loans	**23,498,726**	Motor vehicle	39,509,662	
Cash backed loans	**5,578,475**	Fixed deposit	7,925,000	
Consumptions and other loans	**7,616,508**			
	50,358,206			

Total exposure to KMPs and their CFMs represents 0.6% of Bank's regulatory capital.

37.2.3 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.

	2016 Rs.	2015 Rs.
Goods and services purchased	**9,048,762**	8,232,570
Total	**9,048,762**	8,232,570

37.3 TRANSACTIONS WITH THE SIGNIFICANT INVESTOR AND RELATED ENTITIES

In accordance in paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures', the Bank has exempted from the disclosure requirements under paragraph 18 on transactions with the Government of Sri Lanka, significant investor and its related entities.

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

The Bank has disclosed individually significant transactions and other transactions collectively, but not individually with significant investor and related entities under LKAS 24. The Bank has entered 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:

	2016 Rs.	2015 Rs.
Levy paid/received to General Treasury	**(125,000,000)**	(125,353,097)
Total	**(125,000,000)**	(125,353,097)

Further Rs. 125,000,000/- (2015 – Rs. 249,646,903/-) presented under the other asset as prepayment to the General Treasury.

	Outstanding Balance	
	2016 Rs.	2015 Rs.
Items in the Statement of Financial Position		
Assets		
Loans and receivables	**383,779,065**	437,014,212
Total	**383,779,065**	437,014,212
Liabilities		
Deposits	**28,019,434,124**	12,822,454,563
Total	**28,019,434,124**	12,822,454,563
Items in the Statement of Profit or Loss		
Interest income	**44,510,386**	32,419,550
Interest expenses	**1,832,961,280**	863,230,637
Total	**1,877,471,666**	895,650,187

37.3.1 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)

37.4 PRICING POLICY WITH RELATED PARTIES

The Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accomodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees.

38. ASSETS PLEDGED AS SECURITY

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2016 and 2015 is shown in the preceding tables:

Type of Facility	Amount of Facility Rs. million	Nature of Security	Value of Security Rs. million	**Balance as at 31 December 2016 Rs. million**
1. Over Draft – BOC	2,451	FD – 70963965	600.00	
		FD – 74353124	170.84	
		FD – 74361333	231.85	
		FD – 74817306	207.63	
		FD – 74588793	192.43	
		FD – 74619066	192.36	
		FD – 74041168	481.62	
		FD – 76767742	650.00	**1,819.09**
2. Over Draft – PB	200	FD – 14-6001-00009136-8	304.76	**–**

Type of Facility	Amount of Facility Rs. million	Nature of Security	Value of Security Rs. million	Balance as at 31 December 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	

39. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

For the Year ended 31 December	Note	Bank 2016 Rs.	Bank 2015 Rs.
Depreciation of property, plant and equipment	12	**233,177,270**	192,887,422
Amortisation of intangible assets	23	**37,168,652**	35,364,098
EIR adjustment		**800,102**	712,143
Impairment losses on loans and advances	10	**29,110,255**	201,065,522
Capital loss on pawning advance	11	**4,376,252**	29,071,253
Property and equipment write-off	26	**9,690,003**	2,052,134
Liya isuru fair value adjustment		**(97,972,640)**	(149,644,728)
Levy paid to general treasury		**125,000,000**	125,353,097
Change in fair value on financial assets held for trading	7	**(4,200)**	6,300
Charge for defined benefit plans	11	**158,784,525**	139,802,596
Movements of other funds		**3,320,908**	12,408,456
(Profit)/loss on sale of fixed assets	9	**(21,870,086)**	(7,254,660)
Total		**423,360,531**	581,823,633

40. CHANGE IN OPERATING ASSETS

Net change in Sri Lankan Government Securities	17	**607,814,250**	1,181,270,021
Net change in loans and receivables from other customers	21	**(18,451,470,351)**	(25,929,679,742)
Change in other assets	25	**(642,561,076)**	(182,018,341)
Net change in financial investments – held-to-maturity		**(516,741,803)**	–
Total		**(19,002,958,980)**	(24,930,428,062)

41. CHANGE IN OPERATING LIABILITIES

Net change in due to banks	27	**1,958,107,106**	(921,565,231)
Net change in due to other customers	28	**19,277,220,838**	14,021,052,929
Net change in other liabilities	30	**379,695,557**	(277,498,334)
Total		**21,615,023,501**	12,821,989,364

42. CHANGE IN RECLASSIFICATION OF INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Property, plant and equipment	26	**(2,247)**	(306,755)
Total		**(2,247)**	(306,755)

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

43.1 FAIR VALUE HIERARCHY

Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments.

Level 3 – inputs that are unobservable: This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument valuation.

43.2 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table shows an analysis of financial instruments recorded at fair value at the Reporting date by level of the fair value hierarchy: into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

As at 31 December	2016 Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial asset held for trading	**204,200**	**–**	**–**	**204,200**
	204,200	**–**	**–**	**204,200**

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

Trading assets measured at fair value are quoted equities and unquoted equities. For quoted equities, the Bank uses quoted market price in active markets as at the Reporting date. Unquoted equities are measured at cost because the fair value cannot be measured reliably.

43.3 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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.

		2016		2015	
	Fair Value Hierarchy	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets					
Cash and cash equivalents	Level 2	**428,697,741**	**428,697,741**	310,591,598	310,591,598
Sri Lanka Government Securities	Level 2	**–**	**–**	607,814,250	607,814,250
Balances with banks	Level 2	**18,979,572,034**	**18,979,572,034**	2,952,333,673	2,952,333,673
Placements with banks	Level 2	**1,682,030,495**	**1,682,030,495**	12,861,621,185	12,861,621,185
Financial investments – held-to-maturity	Level 2	**516,741,803**	**516,741,803**	–	–
Loans and Receivables from Other Customers – Without Impairment					
Pawning	Level 2	**7,873,700,312**	**7,873,700,312**	7,653,380,215	7,653,380,215
Staff loans	Level 2	**3,193,923,358**	**3,193,923,358**	2,390,935,056	2,390,935,056
Short-term	Level 2	**6,211,115,500**	**6,211,115,500**	5,002,175,566	5,002,175,566
Long-term	Level 2	**89,526,857,771**	**89,526,857,771**	73,349,945,990	73,349,945,990
Interest receivable on loans & advances	Level 2	**1,297,162,767**	**1,297,162,767**	1,072,965,528	1,072,965,528
Other assets	Level 2	**1,036,497,573**	**1,036,497,573**	592,767,990	592,767,990
		130,746,299,354	**130,746,299,354**	106,794,531,051	106,794,531,051
Financial Liabilities					
Due to banks	Level 2	**11,765,493,022**	**11,765,493,022**	7,951,290,707	7,951,290,707
Due to other customers	Level 2	**107,031,720,855**	**107,031,720,855**	87,753,699,915	87,753,699,915
Debt issued and other borrowed funds	Level 2	**2,708,377,456**	**2,708,377,456**	2,693,032,538	2,693,032,538
Other liabilities	Level 2	**2,111,181,490**	**2,111,181,490**	1,779,031,308	1,779,031,308
		123,616,772,823	**123,616,772,823**	100,177,054,468	100,177,054,468

43.3.1 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.

Loans and Receivables to Customers

More than 56% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year. Therefore, fair value of loans and advances to customers approximates to their carrying value as at the Reporting date.

Due to Customers

More than 65% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre-mature upliftment. Amounts paid to customers in the event of pre-mature upliftment would not be materially different to its carrying value as at date. Therefore, fair value of customer deposits approximates to their carrying value as at the Reporting date.

44. CURRENT VS. NON-CURRENT ANALYSIS

2016

	Bank		
	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Assets			
Cash and cash equivalents	428,697,741	–	428,697,741
Balances with banks	17,558,555,404	1,421,016,630	18,979,572,034
Placements with banks	1,682,030,495	–	1,682,030,495
Financial assets held for trading	–	204,200	204,200
Loans and receivables from other customers	37,823,894,996	67,829,735,948	105,653,630,944
Financial investments – held-to-maturity	–	516,741,803	516,741,803
Intangible assets	–	58,025,552	58,025,552
Deferred tax assets	–	217,649,611	217,649,611
Other assets	2,191,034,111	–	2,191,034,111
Property and equipment	–	1,186,397,657	1,186,397,657
Total assets	59,684,212,747	71,229,771,401	130,913,984,148
Liabilities			
Due to banks	4,197,116,541	7,568,376,481	11,765,493,022
Due to other customers	69,874,061,259	37,157,659,596	107,031,720,855
Debt issued and other borrowed funds	–	2,708,377,456	2,708,377,456
Other liabilities	1,784,335,546	346,208,740	2,130,544,286
Retirement benefit obligation	–	1,278,903,024	1,278,903,024
Total liabilities	75,855,513,346	49,059,525,297	124,915,038,643
Maturity gap	(16,171,300,599)	22,170,246,104	5,998,945,505
Cumulative gap	(16,171,300,599)	5,998,945,506	–

2015

	Bank		
	Within 12 Months Rs.	After 12 Months 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	2,952,333,673	–	2,952,333,673
Placements with banks	12,861,621,185		12,861,621,185
Financial assets held for trading	–	200,000	200,000
Loans and receivables from other customers	32,041,895,853	55,037,558,097	87,079,453,950
Intangible assets	–	78,815,975	78,815,975
Deferred tax assets	–	171,634,073	171,634,073
Other assets	899,633,687	773,839,348	1,673,473,035
Property and equipment	–	1,044,604,902	1,044,604,902
Total assets	49,673,890,246	57,106,652,395	106,780,542,640
Liabilities			
Due to banks	2,167,706,016	5,783,584,691	7,951,290,707
Due to other customers	54,544,618,333	33,209,081,582	87,753,699,915
Debt issued and other borrowed funds	–	2,693,032,538	2,693,032,538
Other liabilities	861,402,440	931,585,425	1,792,987,865
Retirement benefit obligation	–	972,097,354	972,097,354
Total liabilities	57,573,726,789	43,589,381,590	101,163,108,379
Maturity gap	(7,899,836,543)	13,517,270,805	5,617,434,261
Cumulative gap	(7,899,836,543)	5,617,434,261	–

45. RISK MANAGEMENT

45.1 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

45.1.1 RISK MANAGEMENT FRAMEWORK

The Bank's 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.

45.1.2 ALCO COMMITTEE

ALCO is chaired by the General Manager and has representatives from Finance Department, Credit Departments and the Bank's 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.

45.1.3 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).

45.1.4 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.

45.2 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, that arises principally from the Bank's loans and advances to customers/other banks and investments in debt securities. In addition to the credit risk from direct funding exposure, the Bank would also be exposed to indirect liabilities such as guarantees etc. which would carry credit risk. The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

45.2.1 MAXIMUM EXPOSURE TO CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the Reporting date was as follows:

	Carrying Amount	
	2016	2015
Cash and balances with Central Bank	**428,697,741**	310,591,598
Balances with banks	**18,979,572,034**	2,952,333,673
Placements with banks	**1,682,030,495**	12,861,621,185
Sri Lanka Government Securities	**–**	607,814,250
Financial assets held for trading	**204,200**	200,000
Loans and advances to customers	**105,653,630,944**	87,079,453,950
Financial investments – held-to-maturity	**516,741,803**	–
Other assets	**1,036,497,573**	592,767,990
	128,297,374,790	104,404,782,646

Commitments and Contingencies

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

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

Commitments and Contingent Liabilities

	2016 Rs.	2015 Rs.
Contingent Liabilities		
Bank guarantee	**101,856,888**	91,600,799
Bills send for collection	**351,698,824**	140,411,334
Total contingent liabilities and commitments	**453,555,712**	232,012,133

45.2.2 CREDIT QUALITY ANALYSIS OF FINANCIAL ASSETS

2016

	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Individually Rs.	Individually Impaired Rs.	Total Rs.
Cash and balances with Central Bank	**428,697,741**			**428,697,741**
Balances with banks	**18,979,572,034**			**18,979,572,034**
Placements with banks	**1,682,030,495**			**1,682,030,495**
Financial assets held for trading	**204,200**			**204,200**
Financial investments – held-to-maturity	**516,741,803**			**516,741,803**
Loans and receivables from other customers – without impairment	**97,148,706,540**	**10,772,871,478**	**181,181,690**	**108,102,759,708**
Other assets	**1,036,497,573**			**1,036,497,573**
Total	**119,792,450,386**	**10,772,871,478**	**181,181,690**	**130,746,503,554**

2015

	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Individually Rs.	Individually Impaired Rs.	Total 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	2,952,333,673	–	–	2,952,333,673
Placements with banks	12,861,621,185			12,861,621,185
Financial assets held for trading	200,000	–	–	200,000
Loans and receivables from other customers – without impairment	79,719,298,420	8,795,635,671	954,468,264	89,469,402,355
Other assets	592,767,990	–	–	592,767,990
Total	97,044,627,116	8,795,635,671	954,468,264	106,794,731,051

Reconciliation of changes in the carrying amount of impaired loans and advances to customers are shown in Note 21.b.

45.2.3 AGING ANALYSIS OF PAST DUE BUT NOT IMPAIRED LOANS BY CLASS OF FINANCIAL ASSETS

2016

	31-90 Days Rs.	91-180 Days Rs.	Above 180 Days Rs.	Total Rs.
Loans and receivables from other customers	**8,055,863,461**	**343,818,055**	**2,373,189,962**	**10,772,871,478**
Total	**8,055,863,461**	**343,818,055**	**2,373,189,962**	**10,772,871,478**

2015

Loans and receivables from other customers	5,616,314,006	432,818,309	2,746,503,356	8,795,635,671
Total	5,616,314,006	432,818,309	2,746,503,356	8,795,635,671

45.2.4 CREDIT EXPOSURE ON SECTOR WISE – LOANS AND RECEIVABLES TO CUSTOMERS

	2016 Rs.	2015 Rs.
Agriculture	**23,117,832,251**	18,906,817,764
Industrial	**16,608,806,781**	10,449,660,782
Trade & business	**13,813,538,095**	11,744,233,768
Transport service	**374,428,761**	368,156,284
Housing	**34,469,374,843**	31,730,771,783
Consumption	**11,379,091,745**	10,077,747,067
Loans against deposit	**3,824,400,147**	2,715,264,217
Leasing	**7,417,516**	12,850,106
Staff	**3,210,706,803**	2,390,935,056
Interest receivable on loans & advances	**1,297,162,767**	1,072,965,528
Total	**108,102,759,708**	89,469,402,355

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

Definition of Past Due

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

2016

Products	Maximum Exposure to Credit Risk Rs.	Collateral Value Rs.	Exposure Net of Collateral Rs.
Cash and cash equivalents	**428,697,741**		**428,697,741**
Sri Lanka Government Securities	**–**		**–**
Balances with banks	**18,979,572,034**		**18,979,572,034**
Placements with banks	**1,682,030,495**		**1,682,030,495**
Financial assets held for trading	**204,200**		**204,200**
Loans and receivables from other customers	**108,102,759,708**	**15,702,706,483**	**92,400,053,225**
Financial investments – held-to-maturity	**516,741,803**		**516,741,803**
Other assets	**1,036,497,573**		**1,036,497,573**

2015

Cash and cash equivalents	310,591,598		310,591,598
Sri Lanka Government Securities	607,814,250		607,814,250
Balances with banks	2,952,333,673		2,952,333,673
Placements with banks	12,861,621,185		12,861,621,185
Financial assets held for trading	200,000		200,000
Loans and receivables from other customers	89,469,402,355	32,660,197,363	56,809,204,992
Other assets	592,767,990		592,767,990

45.2.5.1 Type of Credit Exposure

The table below sets out the principal types of collateral held against different types of financial assets.

	Percentage of Exposure that is Subject to Collateral Exposure		Principal Type of Collateral Held
	31 December 2016 Rs.	31December 2015 Rs.	
Loans and Advances to Retails Customers			
Mortgage lending	**15,702,706,483**	32,660,197,363	Residential property
Personal loans	**92,400,053,225**	56,809,204,992	Personal guarantee/ Motor vehicle/Equipment etc.
Investment Debt Securities			
Debenture – Commercial Bank	**500,000,000**	–	None
	108,102,759,708	89,469,402,355	

45.2.5.2 Loan-to-Value Ratio (LTV)

Residential Mortgage Lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the goes amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes adjustment for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	31 December 2016 Rs.	31 December 2015 Rs.
LTV Ratio		
Less than 50%	**–**	–
51-70%	**15,702,706,483**	32,660,197,363
71-90%	**–**	–
91-100%	**–**	–
More than 100%	**–**	–
Total	**15,702,706,483**	32,660,197,363

45.2.6 CONCENTRATION OF CREDIT RISK

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

Concentrations of Credit Risk

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk for loans and advances, lending commitments, financial guarantees and investment securities is shown below.

	Note	Loans and Advances to Customers		Investment Debt Securities		Lending Commitments and Financial Guarantees	
		2016	2015 (Restated)	2016	2015	2016	2015
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Carrying amount	20, 21, 22	**108,102,759,708**	89,469,402,355	**516,741,803**	–	**453,555,712**	232,012,133
Amount committed/guaranteed							
Concentration by sector							
Corporate:							
Other						**453,555,712**	232,012,133
Government							
Banks				**516,741,803**	–		
Retail:							
Personal guarantee		**91,642,985,354**	55,327,399,649				
Mortgages		**15,702,706,483**	32,660,197,363				
Unsecured lending		**757,067,871**	1,481,805,343				
		108,102,759,708	89,469,402,355	**516,741,803**	–	**453,555,712**	232,012,133

45.3 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Hence the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Bank sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Bank's liquidity policies and procedures. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquid ratios, maturity mismatches, behavioral characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

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.

45.3.1 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 2016. 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

2016

	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	428,697,741	–	–	–	–	428,697,741
Balances with banks	604,061,297	16,954,494,106	368,264,403	574,228,488	478,523,740	18,979,572,034
Placements with banks	1,682,030,495	–	–	–	–	1,682,030,495
Financial assets held for trading	–	–	–	–	204,200	204,200
Financial Investments – held-to-maturity	–	–	–	516,741,803	–	516,741,803
Loans and receivables from other customers	10,094,200,545	27,749,885,669	40,568,339,761	21,219,926,596	6,021,278,373	105,653,630,944
Other assets	742,902,438	1,448,131,673	–	–	–	2,191,034,111
Total assets	13,551,892,516	46,152,511,448	40,936,604,164	22,310,896,887	6,500,006,313	129,451,911,328
Liabilities						
Due to banks	2,231,563,812	2,145,835,898	3,597,339,677	3,790,753,635	–	11,765,493,022
Due to other customers	36,075,394,797	33,798,666,462	7,939,669,311	10,365,504,545	18,852,485,740	107,031,720,855
Debt issued and other borrowed funds	–	–	–	2,708,377,456	–	2,708,377,456
Other liabilities	1,410,110,160	374,225,386	26,418,646	261,250,062	58,540,032	2,130,544,286
Total liabilities	39,717,068,769	36,318,727,746	11,563,427,634	17,125,885,698	18,911,025,772	123,636,135,619
Total net asset/(liability)	(26,165,176,253)	9,833,783,702	29,373,176,530	5,185,011,189	(12,411,019,459)	5,815,775,709

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 Lanka Government Securities	607,814,250	–	–	–	–	607,814,250
Balances with banks	–	2,952,333,673	–	–	–	2,952,333,673
Placements with banks	12,861,621,185					12,861,621,185
Financial assets held for trading	–	–	–	–	200,000	200,000
Loans and receivables from other customers	27,306,702,372	27,032,283,564	7,359,266,730	9,593,516,727	15,787,684,557	87,079,453,950
Other assets	340,569,152	1,141,579,520	191,324,363	–	–	1,673,473,035
Total assets	41,427,298,557	31,126,196,757	7,550,591,093	9,593,516,727	15,787,884,557	105,485,487,691
Liabilities						
Due to banks	702,726,539	1,464,979,477	3,862,966,721	1,920,617,970	–	7,951,290,707
Due to other customers	27,306,702,372	27,237,915,961	7,359,266,730	9,593,516,727	16,256,298,125	87,753,699,915
Debt issued and other borrowed funds	–	–	–	2,693,032,538	–	2,693,032,538
Other liabilities	633,098,766	223,280,575	375,423,129	204,120,842	352,041,454	1,792,987,865
Total liabilities	28,642,527,677	28,926,176,013	11,597,656,580	14,411,288,077	16,608,339,579	100,191,011,025
Total net asset/(liability)	12,784,770,880	2,200,020,744	(4,047,065,487)	(4,817,771,350)	(820,455,022)	5,294,476,666

45.3.2 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.

2016

Contingent Liabilities	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Bank guarantee	**2,756,000**	**32,740,502**	**51,798,622**	**14,561,764**	**–**	**101,856,888**
Bills sent for collection	**351,698,824**					**351,698,824**
Total contingent liabilities	**354,454,824**	**32,740,502**	**51,798,622**	**14,561,764**	**–**	**453,555,712**
2015						
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

45.3.3 OFFSETTING OF FINANCIAL INSTRUMENTS

2016

	Gross Amounts Rs.	Gross Amounts Set of on the Statement of Financial Position Rs.	Net Amount Presented on the Statement of Financial Position Rs.	Cash Collateral Rs.	Financial Instrument Collateral Rs.	Net Amount Rs.
Financial Assets						
Lease rentals receivable		**–**	**–**	**–**	**–**	**–**
Financial Liabilities						
Due to customers	**107,031,720,855**	**–**	**107,031,720,855**	**–**	**–**	**107,031,720,855**

The financial instruments & 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.

2015

	Gross Amounts Rs.	Gross Amounts Set of on the Statement of Financial Position Rs.	Net Amount Presented on the Statement of Financial Position Rs.	Cash Collateral Rs.	Financial Instrument Collateral Rs.	Net Amount Rs.
Financial Assets						
Lease rentals receivable	8,036,465	–	8,036,465	–	–	8,036,465
Financial Liabilities						
Due to customers	87,753,699,915	–	87,753,699,915	–	–	87,753,699,915

45.3.4 STATUTORY LIQUID ASSETS RATIO

For the Year ended of December 2016	**21.25%**
For the Year ended of December 2015	21.77%

45.3.5 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 2016	**102.02%**
As at 31 December 2015	102.40%

45.4 MARKET RISK

Market risk' is the risk that changes in market prices - such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to the changes in the obligator's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

2016

		Market Risk Measure	
As at 31 December	Carrying Amount	Trading Portfolios	Non-trading Portfolios
Assets Subject to Market Risk			
Cash and balances with Central Bank	**428,697,741**		**428,697,741**
Sri Lanka Government Securities	**–**		**–**
Balances with banks	**18,979,572,034**		**18,979,572,034**
Placements with banks	**1,682,030,495**		**1,682,030,495**
Financial Investments – held-to-maturity	**516,741,803**		**516,741,803**
Financial assets held for trading	**204,200**	**204,200**	**–**
Loans and receivables from other customers	**105,653,630,944**		**105,653,630,944**
Other assets	**2,191,034,111**		**2,191,034,111**
Liabilities Subject to Market Risk			
Due to banks	**11,765,493,022**		**11,765,493,022**
Due to other customers	**107,031,720,855**		**107,031,720,855**
Debt issued and other borrowed funds	**2,708,377,456**		**2,708,377,456**
Other liabilities	**2,130,544,286**		**2,130,544,286**

2015

As at 31 December	Carrying Amount	Market Risk Measure Trading Portfolios	Non-trading Portfolios
Assets Subject to Market Risk			
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	2,952,333,673		2,952,333,673
Placements with banks	12,861,621,185		12,861,621,185
Financial assets held for trading	200,000	200,000	–
Loans and receivables from other customers	87,079,453,950		87,079,453,950
Other assets	1,673,473,035		1,673,473,035
Liabilities Subject to Market Risk			
Due to banks	7,951,290,707		7,951,290,707
Due to other customers	87,753,699,915		87,753,699,915
Debt issued and other borrowed funds	2,693,032,538		2,693,032,538
Other liabilities	1,792,987,865		1,792,987,865

45.4.1 EXPOSURE TO INTEREST RATE RISK – NON-TRADING PORTFOLIOS

2016

	Carrying Amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Cash and balances with Central Bank	**428,697,741**	**428,697,741**	**–**	**–**	**–**
Balances with banks	**18,979,572,034**	**604,061,297**	**16,954,494,106**	**942,492,891**	**478,523,740**
Placements with banks	**1,682,030,495**	**1,682,030,495**	**–**	**–**	**–**
Financial Investments – held-to-maturity	**516,741,803**	**–**	**–**	**516,741,803**	**–**
Loans and receivables from other customers	**105,653,630,944**	**10,094,200,545**	**27,749,885,669**	**61,788,266,357**	**6,021,278,373**
Other assets	**2,191,034,111**	**742,902,438**	**1,448,131,673**	**–**	**–**
Total undiscounted assets	**129,451,707,128**	**13,551,892,516**	**46,152,511,448**	**63,247,501,051**	**6,499,802,113**
Due to banks	**11,765,493,022**	**2,231,563,813**	**2,145,835,898**	**7,388,093,312**	**–**
Due to other customers	**107,031,720,855**	**36,075,394,797**	**33,798,666,462**	**18,305,173,856**	**18,852,485,740**
Debt issued and other borrowed funds	**2,708,377,456**	**–**	**–**	**2,708,377,456**	**–**
Other liabilities	**2,130,544,286**	**1,410,110,160**	**374,225,386**	**287,668,708**	**58,540,032**
Total undiscounted liabilities	**123,636,135,619**	**39,717,068,770**	**36,318,727,746**	**28,689,313,332**	**18,911,025,772**
Interest rate sensitivity	**5,815,571,509**	**(26,165,176,254)**	**9,833,783,702**	**34,558,187,719**	**(12,411,223,659)**

2015

	Carrying Amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Cash and balances with Central Bank	310,591,598	310,591,598	–	–	–
Sri Lanka Government Securities	607,814,250	607,814,250	–	–	–
Balances with banks	2,952,333,673	–	2,952,333,673	–	–
Placements with banks	12,861,621,185				
Loans and receivables from other customers	87,079,453,950	27,306,702,372	27,032,283,564	16,952,783,457	15,787,684,557
Other assets	1,673,473,035	340,569,152	1,141,579,520	191,324,363	–
Total undiscounted assets	105,485,287,691	28,565,677,372	31,126,196,757	17,144,107,820	15,787,684,557
Due to banks	7,951,290,707	702,726,539	1,464,979,477	5,783,584,691	–
Due to other customers	87,753,699,915	27,306,702,372	27,237,915,961	16,952,783,457	16,256,298,125
Debt issued and other borrowed funds	2,693,032,538	–	–	2,693,032,538	–
Other liabilities	1,792,987,865	633,098,766	223,280,575	579,543,971	352,041,454
Total undiscounted liabilities	100,191,011,025	28,642,527,677	28,926,176,013	26,008,944,657	16,608,339,579
Interest rate sensitivity	5,294,276,666	(76,850,305)	2,200,020,744	(8,864,836,837)	(820,655,022)

45.4.2 EXPOSURE TO CURRENCY RISK

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

45.5 OPERATIONAL RISK

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personal, technology and infrastructure and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to its Bank Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost effective.

46. CAPITAL MANAGEMENT

46.1 REGULATORY CAPITAL

The Bank's lead regulator, the Central Bank of Sri Lanka, sets and monitors capital requirements for the Bank as a whole. The individual banking operations are directly supervised by the lead regulators. The Group's capital management goals are as follows;

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. The Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
d. Ensure maintaining of quality capital.
e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
f. Ensure capital consumption by business actions are adequately priced.
g. Ensure the Bank's average long-term dividend payout ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on the solo basis. The Bank is required to comply with the provisions of the BASEL II and BASEL III in respect of regulatory capital.

2016

Item	**Amount**
Total core capital (tier 1) = 11.2.1.1.0.0 of part II (a)	**5,781,219**
Capital base = 11.2.1.5.0.0. pf part II (a)	**8,244,450**
Total risk-weighted amount	**88,977,850**
Risk-weighted amount for credit risk part III (a)	**78,271,085**
Risk-weighted amount for market risk part IV	**–**
Risk-weighted amount for operational risk part V	**10,706,765**
Core capital (tier I) ratio % = (11.1.1.0.0.0/11.1.3.0.0.0) x 100	**6.50%**
Total capital ratio % = (11.1.2.0.0.0/11.1.3.0.0.0) x 100	**9.27%**

2015

Item	Amount
Total core capital (tier 1) = 11.2.1.1.0.0 of part II (a)	6,046,698
Capital base = 11.2.1.5.0.0. pf part II (a)	8,422,411
Total risk-weighted amount	80,007,040
Risk-weighted amount for credit risk part III (a)	70,755,064
Risk-weighted amount for market risk part IV	–
Risk-weighted amount for operational risk part V	9,251,976
Core capital (tier 1) ratio % = (11.1.1.0.0.0/11.1.3.0.0.0) x 100	7.56%
Total capital ratio % = (11.1.2.0.0.0/11.1.3.0.0.0) x 100	10.53%

46.2 CAPITAL ALLOCATION

The Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity, not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximisation of the return on risk adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account is also taken of synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

47. COMPARATIVE INFORMATION

The following comparative figures have been reclassified in the 2015 financial statements to maintain comparability and fair presentation of the financial statements in order to provide a better presentation.

Company	Note	As Previously Reported	As Reported in 2015	Net Reclassification
Statement of Financial Position				
Balances with banks	a.	15,813,954,858	2,952,333,673	(12,861,621,185)
Placements with banks	a.	–	12,861,621,185	12,861,621,185
Due to banks	b.	7,915,016,520	7,951,290,707	(36,274,187)
Due to other customers	b.	86,324,097,162	87,753,699,915	(1,429,602,753)
Other liabilities	b.	3,253,841,708	1,792,987,867	1,460,853,841

a. Placements with banks previously recognised under balances with banks are reclassified as placements with banks separately.
b. Interest payable previously recognised under other liabilities are reclassified to reflect respective Amortised costs of borrowings and due to other customer balances separately.

THREE YEAR SUMMARY

Description	2016 Rs.	2015 Rs.	2014 Rs.
Profit & Loss			
Total income	**15,744,336,598**	12,510,118,902	11,186,356,204
Interest income	**14,813,083,474**	11,759,232,735	10,593,086,967
Interest expenses	**(7,197,198,715)**	(5,168,680,370)	(5,310,868,124)
Net interest income	**7,615,884,759**	6,590,552,365	5,282,218,843
Net other income	**806,608,160**	636,705,017	503,028,646
Total operating income	**8,422,492,919**	7,227,257,382	5,785,247,489
Impairment loss on financial assets	**29,110,255**	(201,065,522)	103,409,030
Net operating income	**8,451,603,174**	7,026,191,860	5,888,656,519
Personal expenses	**(4,609,232,586)**	(4,082,141,685)	(3,003,545,285)
Amortisation of intangible assets	**(37,168,652)**	(35,364,098)	(13,005,537)
Other expenses	**(1,549,634,014)**	(1,299,268,713)	(1,610,614,900)
Levy paid to general treasury	**(125,000,000)**	(125,353,097)	(210,118,527)
Operating profit	**2,130,567,922**	1,484,064,267	1,051,372,270
NBT	**(107,482,813)**	(90,949,795)	(66,867,741)
VAT on financial services	**(767,485,246)**	(421,199,552)	(401,206,443)
Profit before taxation	**1,255,599,863**	971,914,920	583,298,086
Tax on profit	**(614,311,651)**	(442,763,183)	(488,676,712)
Profit after taxation	**641,288,212**	529,151,737	94,621,374
Assets			
Cash and cash equivalents	**428,697,741**	310,591,598	236,997,574
Sri Lanka government securities	**–**	607,814,250	1,789,084,271
Balances with banks	**18,979,572,034**	2,952,333,673	25,148,246,108
Placements with banks	**1,682,030,495**	12,861,621,185	1,017,169,314
Financial assets – held for Trading	**204,200**	200,000	206,300
Loans and receivables from other customers	**105,653,630,944**	87,079,453,950	61,230,266,262
Financial Investments – held-to-maturity	**516,741,803**	–	–
Intangible assets	**58,025,552**	78,815,975	54,961,763
Deferred tax assets	**217,649,611**	171,634,073	188,321,788
Other assets	**2,191,034,111**	1,673,473,035	1,616,807,791
Property, Plant and Equipment	**1,186,397,657**	1,044,604,902	825,856,721
Total assets	**130,913,984,148**	106,780,542,641	92,107,917,892

Description	2016 Rs.	2015 Rs.	2014 Rs.
Liabilities			
Due to banks	**11,765,493,022**	7,951,290,707	9,814,612,367
Due to other customers	**107,031,720,855**	87,753,699,915	73,731,934,843
Debt issued and other borrowed funds	**2,708,377,456**	2,693,032,538	–
Other liabilities	**2,130,544,286**	1,792,987,865	2,469,978,353
Retirement benefit obligation	**1,278,903,024**	972,097,354	913,202,684
Total liabilities	**124,915,038,643**	101,163,108,379	86,929,728,247
Equity			
Stated capital/Assigned capital	**1,370,936,931**	1,370,936,931	1,370,936,931
Statutory reserve fund	**599,455,675**	567,391,264	523,268,291
Retained earnings	**988,284,444**	799,159,665	624,652,888
Other reserves	**3,040,268,455**	2,879,946,402	2,659,331,535
Total shareholders' equity	**5,998,945,505**	5,617,434,262	5,178,189,645
Total equity and liabilities	**130,913,984,148**	106,780,542,641	92,107,917,892
Liquid Assets Ratio	**21.25%**	21.77%	35.51%
Capital Adequacy Ratio –			
Tier I	**6.50%**	7.56%	8.87%
Tier I & II	**9.27%**	10.53%	9.26%

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
2. Mullaitivu District
3. Mannar District
4. Vavuniya District
5. Trincomalee District
6. Anuradhapura District
7. Puttalam District
8. Polonnaruwa District
9. Kurunegala District
10. Matale District
11. Kandy District
12. Kegalle District
13. Gampaha District
14. Nuwara Eliya District
15. Badulla District
16. Batticaloa District
17. Ampara District
18. Moneragala District
19. Ratnapura District
20. Colombo District
21. Kalutara District
22. Galle District
23. Matara District
24. Hambantota 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
	Mutur
6. Anuradhapura District	Anuradhapura City
	Galnewa
	Kahatagasdigiliya
	Medawachchiya
	Rambawa
	Thambuththegama
	Anuradhapura New Town
	Galenbindunuwewa
	Gonapathirawa
	Kekirawa
	Mihintale
	Thalawa
	Thirappane
	Thambuththegama E/C
7. Puttalam District	Anamaduwa
	Chilaw
	Kirimetiyana
	Mampuri
	Naththandiya
	Nawagaththegama
	Puttalam
	Bowaththa
	Dummalasuriya
	St. Anapura
	Mahawewa
	Mundel
	Palakuda
	Pannala

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

District	Branches
8. Polonnaruwa District	Aralaganvila
	Galamuna
	Kaduruwela
	Medirigiriya
	Pulasthigama
	Siripura
	Bakamoona
	Hingurakgoda
	Manampitiya
	Polonnaruwa
	Sewanapitiya
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

District	Branches
11. Kandy District	Danthure
	Hataraliyadda
	Kandy
	Manikhinna
	Peradeniya
	Marketing Information Centre
	Dawlagala
	Hedeniya
	Katugastota
	Udadumbara
	Teldeniya
	Gampola
	Marassana
	Udawela
	Wattegama
	Morayaya
	Pujapitiya
	Nawalapitiya
12. Kegalle District	Aranayake
	Dehiowita
	Dewalegama
	Kegalle
	Kotiyakumbura
	Nelundeniya
	Rambukkana
	Warakapola
	Bulathkohupitiya
	Deraniyagala
	Hemmathagama
	Kitulgala
	Mawanella
	Pitagaldeniya
	Ruwanwella
	Yatiyanthota

District	Branches
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
	Haputale
	Lunugala
	Maligathanna
	Passara
	Uva Paranagama
16. Batticaloa District	Batticaloa
	Kalavanchikudy
	Kaththankudy
	Valachchenai
	Chenkaladi
	Eravur
	Kokkadicholai

District	Branches
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

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

District	Branches
20. Colombo District	Homagama
	Kolonnawa
	Awissawella
	Piliyandala
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

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. Mukthar Marikkar – Director
Ms. Shamara Herat – Director
Mr. Niranjan Arulpragasam – Director
Mr. A. H. M. Riyaz – Director
Mr. W. A. Priyantha Abeysinghe – Working Director

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. J. K. Gamanayake – Director
Mr. K. B. S. Bandara – Director
Mr. K. B. Rajapakshe – Director
Mr. A. R. Desapriya – 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
Website: www.rdb.lk
Tax Payer Identification Number (TIN): 409272339
VAT Reg. No.: 409272339 - 7000

AUDITORS
Auditor General
Auditor General's Department
No. 306/72, Polduwa Road, 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.

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