The Story behind Our Journey

Annual Report 2012

SANASA Development Bank PLC

The Story behind Our Journey

Every journey begins with a story. Our story is a very humble story with humble beginnings. Nearly 100 years ago the SANASA movement began as a community empowerment and mobilisation unit which was formed as a credit and thrift co-operatives. Since then the SANASA movement has been the guardian of the common man and helped develop Sri Lanka from the grassroots upwards. Today, the SANASA Development Bank is a bank of cooperative microfinance, providing sustainable microfinance solutions to Sri Lankan people from all walks of life. SANASA Development Bank has 81branches across the island utilizing a finely tuned system for the delivery of microfinance needs to sanasa primary societies who in turn lend to their fellow members.

SANASA Development Bank is by far, continuing a journey of great promise. With strong leadership and skillful capability, our journey is long, but sure footed. This year's financial report gives our stakeholders an in depth view of our successes and growth. We hope it will enlighten you as to what our journey is all about and our purpose as a development bank dedicated to enhancing the lives of all Sri Lankans.

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Corporate Philosophy

Our Vision

SDB will be the apex bank of the co-operative sector with commercial banking status and the leading partner of national development with global focus.

Our Mission

SDB will develop and maintain a permanent customer base and delight our customers by providing high quality, innovative and competitive financial products and services to ensure the highest return possible in the market on share holders capital.

Specialized products/services will be provided to our special customers such as SANASA movement, the Co-operative sector as well as CBOs and NGOs.

We will do so by expanding our existing outreach through the available network and use of modern technology in the banking sector.

To our credit, we will develop and maintain a highly competent,motivated team of employees committed to the achievement of excellence in service, leading to the realization of our main goals of ensuring the financial viability of the bank and national development.

Our Values

To foster and maintain the highest ethical standards at all levels of the Bank and its agencies in dealing with customers, stakeholders and competitors.

To be innovative and demand-driven in providing financial services.

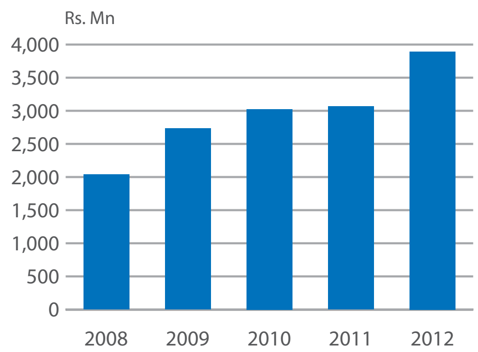
To be courteous and professional in all business dealings. To avoid discrimination on the grounds of religion, sex, ethnicity, social status and language.

To refrain from extending financial services for unethical and illegal pursuits.

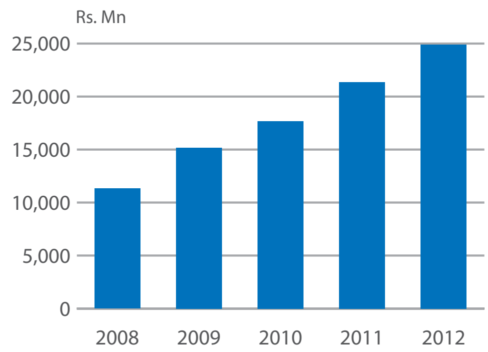
Financial Highlights

	2012 Rs. '000	2011 Rs. '000	Change %
PERFORMANCE			
Gross Income	3,782,126	3,017,607	25%
Net Income	1,902,878	1,817,094	5%
Operational Profit before Provisions & Taxes	674,028	647,904	4%
Profit before Tax	516,497	581,495	-11%
Income Tax Provision	-175,781	-199,453	-12%
Profit after Taxation	340,716	382,042	-10.8%
POSITION			
Deposits	18,947,514	15,756,918	20%
Advances	19,712,033	16,602,735	19%
Shareholders' Funds	3,269,135	3,209,398	2%
Total Assets	24,899,556	21,359,722	17%
No. of Accounts	858,454	697,227	23%
No. of Customer Centres	81	79	3%
No. of Staff	823	884	-7%

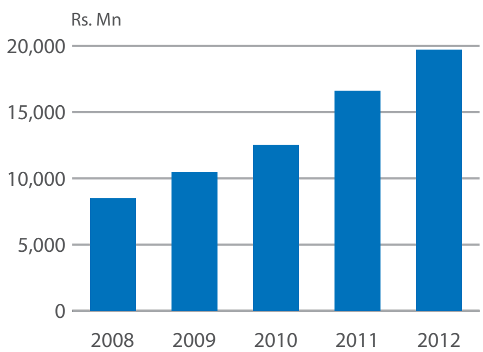
Gross Income



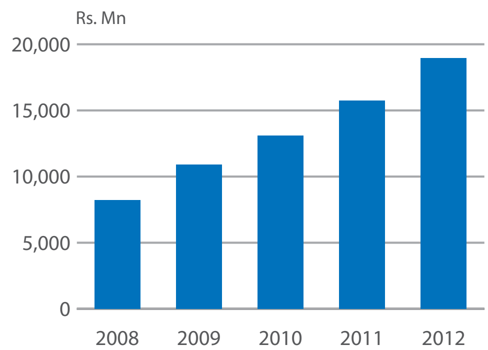
Total Assets



Advances



Deposits



Sanasa Development Bank has stood behind the fisheries industry, keeping a watchful eye on the humble fisher folk who began their livelihood with just a fishing rod to their name. Today, Sanasa Development bank has strengthened these same individuals financially to purchase their own boats, netting and other equipment thus raising their capabilities and livelihood.

Executive Information

Chairperson's statement

"Sanasa banking began its journey long before the inception of SANASA Development bank, with small community based savings and credit organizations. "

Dear shareholders of SANASA Development Bank,

It is with great sense of responsibility and humbleness that I have accepted the mantle of leadership of this unique organization that has over the years become a landmark of success of the co-operative movement of Sri Lanka. Sanasa banking began its journey long before the inception of SANASA Development bank, with small community based savings and credit organizations. Today with 16 years of experience as a development bank, and after completing the first year as a public listed company, I take this opportunity to communicate to our shareholders the challenges we have in the future and the future directions of your bank.

The year 2012 was a particularly significant year for us as it was designated the Year of Co-operatives by the United Nations (UN). International years are declared by the UN to draw attention to, and encourage action, on major issues. The International Year of Co-operatives was declared by the UN to raise public awareness about contributions by co-operative enterprises towards poverty reduction, employment generation and social integration. Another objective was to highlight the strengths of the co-operative business model as an alternative means of doing business. The year 2012 can be described as one where the SANASA Development Bank, built on the strong foundation of the co-operative movement in Sri Lanka, witnessed dramatic changes and moreover a year that marks a decisive turning point in the history of the Bank. It was a year where a new Chairperson as well as a new General Manager was inducted and this during a process of entering a new market environment. As such, 2012 was both challenging for the Bank, a year where the institution as well as the values it was built on were subjected to stern tests.

The founder and undisputed leader of the SANASA Movement, Dr. P.A. Kiriwandeniya who rendered yeoman service to both the co-operative sector and national development initiatives and expended enormous efforts to build a truly people's bank, left the Bank in 2011. His tenure in the Board of Directors lapsed after reaching the age of 70, as per Central Bank stipulation. Thus, 2012 is the first full year after I was appointed Chairperson of the Bank.

Our Bank is a logical outcome of a 35 year long co-operative exercise devoted to balanced community development and thereby the strengthening of household economies and enhancing of the nation's asset base. I believe that the Board of Directors and myself have been conferred an historical responsibility to guide the management of the Bank to charter pathways towards sustained commercial success in a market environment and within a set of regulatory strictures unfamiliar to co-operators without compromising the values and the original vision of the institution.

Although the Bank was first listed in the share market in 2011 it was in 2012 that most related activities were streamlined. I believe that in order to gather positive results in the midst of radical change is dependent on the support of shareholders, their understanding and dedication. We focused our efforts therefore to provide friendly, profitable and meaningful services to our customers while simultaneously ensuring that the interests of our shareholders numbering 60,000 and our staff of more than 800 were not compromised.

We were thereby able to identify and rectify various technical and other problems including issues in implementation that had accumulated over several years. During this period and in this process, the Bank succeeded in affecting a more streamlined and smooth focus-transition from the field of microfinance to that of the small and medium enterprise sector. We negotiated arrangements with mobile phone service providers to develop a closer relationship with our customers and also worked in conjunction with the SANASA Insurance Company to develop value added products to our customers. In addition, we worked closely with various institutions to develop the financial literacy of our customers. The Bank was also very particular in complementing the development initiatives launched by the Government. In order to provide a better quality of service and to enhance productivity of the staff that benefits both customer and shareholder, the Bank facilitated several local and international training programmes for the management and other members of the staff.

New Directions

It was abundantly clear that we had to move fast and effectively in order to remain competitive in a rapidly changing banking sector. Towards this end, it was recognized that we have to be more effective in positioning the SANASA brand in the commercial sector, building on the widely recognized fact that SANASA is not only the premier microfinance institution in Sri Lanka but a name that a broad spectrum of society identifies with. For these reasons we focused special attention on the all-important SME Sector in the year under review. We recruited 34 honours graduates endowed with relevant knowledge and initiative, and provided them with comprehensive training on management of branches, the provision of services to SMEs etc., under the supervision of experienced bankers. Secretary of the Treasury, Dr. P.B. Jayasundera, accepting our invitation, briefed the entire management on the Government's policy with respect to the SME Sector, the overall economic policy and the role of development banks and SME's in this policy environment. It was a golden opportunity for the Bank to understand and appreciate national development goals and strategies.

Having recognized the need to craft new products and refine existing ones in accordance to new and changing markets so that maximum benefits will accrue to shareholders and customers, a Product Development Committee was set up by the bank with fellow members of the SANASA family, especially the SANASA Insurance Corporation and SANASA Media Networks. It is my belief that these initiatives taken in the year under review, 2012, will come to fruition in 2013 and thereafter.

Changing shareholders

One Significant new development faced by the Bank following its listing in the Colombo Stock Exchange, is the Bank's changing ownership structure. Traditionally, SANASA Development Bank was owned by the co-operative sector. However, shares are now being bought by private sector entities and during the year we saw an emerging trend of new ownership.

For our co-operative shareholders, a share of SANASA Development Bank is not only as a financial asset but also a social commitment and a long term relationship. However, market transactions are based on financial gain, with no social commitment involved, it has now become necessary to develop a strategy to retain ownership of the Bank within the co-operative network. Therefore, we initiated a series of educational meetings during the year with co-operative societies to educate them about the stock market and how it operates. This has helped co-operative members better understand the stock market and has also helped reduce information asymmetry between experienced market players and rural cooperative members.

Including young people in the development drive

Facilitating youth to engage with formal financial services and to improve their production has been a high priority of the Bank.

During the year, we continued our flagship youth programme, Jawaya, that we launched in 2009, to encourage young people to become economically stable, socially responsible and to get involved in community development. The programme has been successful in mainstreaming informal youth activities in community development and I am happy to place on record that by 2012 the Bank has been able to mobilize 32,000 youth to bank with us.

Shareholder value creation

Despite all the changes happening within and around us, we did not loose sight of our primary objective of creating value for our shareholders. For the traditional Sanasa shareholder value is created at two different levels. At one level, the Sanasa Board and management ensures creation of real, tangible value on assets by strengthening the balance sheet and improving financial returns. At another level, we ensure value creation by actively investing in missions that strengthen community resilience and assets.

As a part of this dual process of value creation, we have introduced a human touch to banking, through our relationship based services. During the year we also opened three new branches to improve access, including the, we have identified skill and technology gaps and addressed these by recruiting new talent and experienced bankers to strengthen our human resource base, while simultaneously improving our information systems and technologies to enhance our service delivery. We have been exploring mobile banking opportunities for innovative ways to widen our customer base while streamlining our operations to become more cost effective. We have made many investments to train our staff and new recruits, not only in technical skills but also in the core business of the Bank. In addition, we have embarked on developing a new Strategic Plan for next three years spanning the period from 2013 to 2016. In that context, although we have fallen short of our financial targets for the year, we have been highly successful creating value by improving quality of services and building a sustainable foundation for future growth.

Our future

Our new strategic plan for 2013-2016 will be implemented in the new financial year, giving a new focus and impetus to the Bank. The new strategy has been developed taking into account the changes experienced by the Bank and anticipated changes in the future, and has built on our core strengths. We are working with our island wide network of co-operative societies to promote SANASA Development Bank as an SME services provider. Simultaneously we are developing SANASA Development Bank's internal SME strengths and we have started to address gaps in the Bank's internal operations to meet our new strategic direction.

One of the most significant achievements of the new strategic plan is on how the Bank can become more cost effective to ensure better returns to share holders, without compromising our mission. As part of this process we have established strategic alliances within the SANASA group and with external organisations, such as mobile services providers. We are confident our new strategic plan will assist the Bank engage in the real economy in a more productive way and contribute towards national development by leveraging SANASA's unique strengths.

Acknowledgements

I wish to thank the Board of Directors for their valuable advice in guiding SANASA Development Bank through its latest transition. I must also state my appreciations of the staff and cooperative societies, for their steadfast commitment towards the Bank, which has been our greatest source of strength. I also extend my gratitude to Sanasa customers all over the country for their trust and faith in Sanasa, which is what has sustained Sanasa through the years.

Muditha Samadanie Kiriwandeniya
Chairperson

27th March 2013
Colombo

CEO's review of operations

"As a bank with a unique community development legacy, Sanasa Bank's business focus is in the SME and micro finance sectors"

Its my pleasure to present to you the first annual report since the listing of Sanasa Development Bank in the Colombo Stock Exchange, in June 2012. This is also my first review as the CEO/GM of Sanasa Development Bank, after I took over my duties in December 2012. Therefore, I look forward to a strong and productive relationship with all stakeholders of this unique Sri Lankan financial entity, to uplift the living standards of the people of our country, specially in the sub urban and rural areas.

An overview of the year

Last year was a challenging year for the Sri Lankan banking industry in entirety as the phenomenal credit growth of the previous year necessitated some kind of restrain in credit growth which resulted in imposing a credit ceiling by the Central Bank. Credit growth in the previous year also drove interest rates up. The credit ceiling on bank lending also had a restraining effect on the growth of banks. Consequently , smaller banks faced a testing time managing their books and earnings.

As a bank with a unique community development legacy, Sanasa Development Bank's business focus is in the SME and micro finance sectors. Currently, around 93% of our loans are for values of under Rs 2 million. We also carry a large exposure outside the western province, due to our cooperative society based operating model. As a result, a sizeable share of our lending portfolio is on fixed rates. In this backdrop, the rising interest rates created complications in revenue management, as we have a larger proportion of fixed rate assets than fixed rate liabilities. Therefore, one of the main operational challenges we faced during the year was to contain the Bank's interest cost and asset and liability mismatch.

Resulting from the sharp rise in interest rates, our interest expenses increased by 56% to Rs 1.9 billion, against an interest income growth of only 25% to Rs 3.7 billion. However, I am happy to announce that the Bank saw an overall net interest income increase of 5% due to prudent asset management measures. Our total outstanding advances amounted to Rs 19.7 billion, which is a 18.7% growth compared to the previous year. Our bad debts provisioning for the year increased to Rs. 498 Mn by Rs. 53 Mn compared to previous year mainly due to the provisions taken in the North Central Province from the agricultural sectors. This sector suffered severely both from the effects of the drought in the Yala Season and the floods that occurred in the Maha Season in 2012. As a result, our profits after tax declined by 18% to Rs 311 million during the period under reveiw.

Nevertheless, despite the volatile external environment that directly impacted on our bottom-line, we forged ahead with our strategic expansion drive by opening three new Sanasa Development Bank branches. During the year we also added foreign exchange services to our product portfolio to cater to the country's large migrant worker community, by creating a delivery channel almost at their doorstep facilitated by our branch network.

I believe our investment in expansion activities will generate strong benefits not only to Sanasa Development Bank's bottom line but to overall Sri Lankan society in the near future. Currently, our network is spread out across the country with 81 branches. We also have 14 Service Centres in the war recovering North and East, where we have made significant progress in assisting economic recovery and community empowerment. This island wide presence has strengthened the Sanasa brand while also giving us greater access to our core customer groups of SMEs and micro entrepreneurs in emerging markets in the regions. I am confident the SME and micro finance sectors, are poised for growth in post war Sri Lanka and the good news is, Sanasa Development Bank is well positioned to support this growth through our extensive hands-on knowledge of the dynamics of these sectors.

Therefore, throughout the year, we focused on upgrading our internal systems, capacities and skill base, to consolidate our position as the unassailable market leader in SME lending and micro finance, in Sri Lanka. As groundwork towards our objective, we have ensured direct connectivity between the head office and our

Ceo's Review of Operations

branch network by investing in modern IT systems. We have also made significant investments in the last few years, in revamping our internal processes, building up our human resource base and also developing stringent risk management systems. We have also continued our heritage of building community relationships based on mutual cooperation, trust and respect, as we believe strong relationships are key to long term sustainability. We are proud of our relationships with our existing partners that have stood the test of time, and we are looking to safeguard these relationships, not only with Sanasa Societies but also other cooperatives, to enhance our role in their day to day business. We are also developing new relationships as new opportunities emerge in the post war economy of Sri Lanka. We have regular meetings with these societies, now numbering over 9,000, spread across the country including the North and East, through which we gather information about changing patterns consumer behavior and this feedback is used to develop products to cater to their needs.

Over a span of 16 years Sanasa Bank has developed an enduring franchise in Sri Lanka, particularly among the micro finance and SME segments. Because of the wide network of cooperatives, the Sanasa brand is well known and rural communities trust Sanasa Development Bank like no other commercial bank in the country.

I believe our biggest strength is our staff. Because of the long history of dealing with cooperative societies, Sanasa employees have an inherent understanding about communicating and dealing with cooperative society communities. This expertise is part of the Sanasa Development Bank's DNA. Therefore, I believe this depth of specialisation is an unmatched competitive advantage for Sanasa Development Bank, as more and more commercial banks and other financial institutions enter the SME and micro finance sectors.

Our plans for the future

Despite the slower economic growth momentum of 2012, compared to 2011, the Sri Lankan economy is expected to sustain reasonably high growth rates over the next 4 -5 years. His Excellency President Mahinda Rajapaksa in his budget speech envisaged a 100 billion Dollar economy by 2016 for Sri Lanka. Significant contributions for this growth will derive from the services and agriculture sectors, which are driven primarily by the country's SME and microfinance backbone. Sansa Development Bank is well positioned to increase market share within these growth sectors of the economy. We have already developed a 3 year strategy to operationalise our growth plans and our grass root level operations give us a unique ability to sense and respond quickly to the needs of these markets. Currently we have almost 900,000 customers mostly from these sectors which is matched by very few commercial banks in the country and we intend to further capitalize on this, keeping our eyes firmly on the changing needs of our customers.

We will continue our drive to improve efficiency of our services by adopting new technologies and more productive work strategies. We also plan to expand our operations in the foreign exchange market with the provision of RFC and NRFC account facilities.

Acknowledgements

I would like to express my gratitude to the Chairperson and the Board of Directors for their advice, counsel and unwavering support. The continued dedication and commitment of our staff at all levels was a major reason behind the performance delivered by the Bank in a very challenging environment and I look forward to their continued support. My appreciation also goes to the Governor and the officers of Central Bank of Sri Lanka for their guidance and support at all times. I also thank our external auditors Messrs Ernest and Young for their valuable inputs and the professionalism shown during the audit. Sanasa Societies spread across the country remain the back bone of Sanasa Development Bank and a significant part of our business is derived from them and I am sincerely thankful for their unstinted co-operation and spirit of partnership .

It is our firm belief that trust and confidence our customers have placed in us has been the key to our success and I sincerely thank them for this support. I wish to reassure them that we will do everything in our power to meet their expectations in the future as well.

M. T. Galgamuwa
General Manager/CEO

27th March 2013
Colombo

Board of directors

Ms. Samadanie Kiriwandeniya
Chairperson

Mr. D. P. Kumarage

Mr. U. G. Ramawickrama

Mr. T. Karunasena
Deputy Chairman

Mr. A. D. Walisinghe

Dr. R. M. K. Ratnayake

Mr. H. M. G. B. Herath

Mr. Mahinda Vidanapathirana

Board of Directors

Mrs. M. S. Kiriwandeniya (Chairperson)
Mrs.M.S.Kiriwandeniya, appointed as the Chairperson of SDB PLC in 2011, brings to the table extensive senior management experience in the fields of participatory development, gender issues management, microfinance and conflict resolution. She is also Corporate Leader of the Sanasa Group. Mrs.M.S.Kiriwandeniya obtained her basic degree from the University of Peradeniya in Sociology and received a Masters degree in the same filed at University of Sakatchewan, Canada.

Mr. T. Karunasena (Deputy Chairman)
Mr.Karunasena was appointed to the Board of SDB PLC in 2007. He began his Career with People's Bank and has wide exposure in all aspects of banking having headed some of the areas of the People's Bank. He has over 33 Years experience in banking and possess a B.A.(Honours)Degree in Economics.

Mr. A. D. Walisinghe
Mr.Walisinghe was appointed to the Board of SDBL in 2006.He holds Diplomas in Accountancy ,Co-operative Management (USSR) and Marketing Management (SLIDA).

Mr.Walisinghe has held numerous positions ,including those of Manager ,Development Officer and Internal Auditor in the Multi-Purpose Co-operative Society(MPCS) infrastructure ,prior to which he was an Accountant and Finance Manager at Markfed and Subsequently in the Textile Members 'Co-operative Society. Currently .he serves as the President of the Kegalle Sanasa District Union.

Mr. D. P. Kumarage
Mr.Kumarage is the Chief Executive Officer of the People's Leasing Company Ltd .He Was appointed to the Board of SDB PLC In 2007.He has over 32 years experience in banking and Finance. He holds a postgraduate Diploma in Modern Banking and is a passed Finalist of the Chartered Institute of Management Accountants,UK.He brings invaluable expertise and experience to the Board.

Dr. R. M. K. Ratnayake
He was appointed to the board in the year 2009 and serves in the capacity of a Independent Director. He has a Ph.D(London),M.sc(Econ) And BA(Hon).He was the Executive Director Policy Planning. Served as the Secretary to Ministry of Samurdhi Sports and Youth Affairs, Ministry of Land and Export Agriculture, Ministry of Finance and Planning. He Served as director at National Savings Bank and People's Bank. He was the Chairman of SRTCC and currently function as Senior Adviser to the Ministry of Higher Education.

Prof. W. M. A. Bandara
He was appointed to the board in the year 2009 and serves as the independent director. He has obtain Master of Business Administration University of Ottawa in Canada. B.Sc (Business Administration-Special) Second class upper division, Intermediate Examination (Institute Of Chartered Accountancy of Sri Lanka)

He was the Chairman Pan Asia Banking Co-Operation Ltd From April 2001- November 2007.

He was a Consultant / Advisor to the Ministry of Samurdhi ,Rural Development , Youth Affairs and Sports.

Currently he serves as a Senior Lecturer Grade 1 in Finance Department of Financial Management, Faculty of Finance Management Studies and Commerce- University of Sri Jayawardhanapura. Currently Professor in finance at the faculty of Management Studies & Commerce University of Sri Jayawardhanapura. He is appointed as the Director General of the National Institute of Education from 01st of January 2011.

Mr. H. M. G. B. Herath
He has a wide experience in Administration and held the position of Acting Assistant Director Administration in the Agricultural Development Authority and was also Assistant Superintendent at Rideegama Estate .

25 years experience as the Chairman of Sanasa Society of Kandepola and has also served as the Executive Director in Sanasa Federation of Sri Lanka. He is the Vice Chairman of Kurunegala District Co-operative Council and Presently holds the position of Internal Auditor in a Leading Private Firm in Wariyapola.

Mr. U. G. Ramawickrama
Mr.U.G.Ramawickrama was first appointed to the Board of SDB PLC in 2011. He is a director in the Sanasa Federation and Deputy Chairman of the Meepawala Primary Thrift and Credit Society Limited. He is a retired government officer, and has been involved with the Sanasa movement for 23 years.

Mr. Mahinda Vidanapathirana
Mr.Vidanapathirana was appointed as a Director of SDB PLC in 2011. He also serves as a Provincial Director to the National Co-op Council and a Project Director at Amtrad Holdings Limited. He has 33 years of experience in MPCS such as Agri Co-op and District Co-op Council as a member of the Board of Directors and the Chairman. He has a diploma in journalism from the University of Colombo.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Corporate management team


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01. Mr. Mahendra Galgamuwa
General Manager / CEO

02. Mr. K. G. Leelananda
B.Sc. (Mgt.) - Special , Dip. in HRM , FIPED - Harvard (USA) , MIMSL
Senior Deputy General Manager

03. Mr. S. A. Samarakoon
B.Sc. Eng (Comp.Sc. & Eng.) - Moratuwa , MIESL , MIEEE
Deputy General Manager - IT

04. Mr. E. A. A. S. Ediriwickrama
BSc. (Business Administration) , AIB
Deputy General Manager - Credit & Development Finance

05. Mr. A. M.Chandrasagara
ACA,FIB,Dip. in Info.Sys.Cont. & Aud.
Chief Internal Auditor

06. Mr. Hemal C. Lokugeegana
B.B.Mgt. (HR) Sp. , AIB , MAAT , AMIM , MBA
Assistant General Manager - Human Resource Management & Development

07. Mr. H. T. P. Susantha
B.Sc. (Finance) , ACA
Assistant General Manager - Compliance

08. Mr. S. Sivalingam
ACIB(Lond)
Assistant General Manager - Establishment, Branch Operations

09. Ms. T. K. K. Rodrigo
Attorney – at – Law , Notary Public
Assistant General Manager/Company Secretary

10. Mr. G. Weerathunga
B.A., Dip in PM, MIPM
Head of Human Resources
(not in picture)

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Senior management team

01. **Mr. K. K. S.U. Kumara**
B.Sc. (Mgt.)
Senior Manager - Operations

02. **Ms. K. K. Champa. J. Dasanayake**
B.Sc. Agri. , M.Sc (Hons.)
Senior Manager - Battaramulla Branch

03. **Mr. E. A. L. S. Edirisuriya**
Dip. in Finance & Bank Mgt. , Investment Advisor Certified by CSE
Senior Manager - Southern Region

04. **Ms. D. M. S. M. Dassanayaka**
DCSD (NIBM), Dip. PMG (BCS) , Micro Soft ASP Net. ,NCC
Senior Manager - IT -Operations

05. **Mr. W. T. R. Prabath**
B.Sc. Physics (SP) , Dip. In.Business Mgt.
Senior Manager - Inspection & Audit

06. **Mr. G. A. S. Wimalarathna**
B.A. (Hons.) Business Statistics, Post Graduate Dip.- Business Statistics
Senior Manager - North Central Region

07. **Ms. K. V. R. Jeewanthi**
B.Sc - Business Administration Special-USJP, PGD in Community Development (Colombo)
Senior Manager - Research & Development


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08. S. P. Krishani Enoka
[B.Sc. , Dip. in Treasury Mgt. , AIB
Senior Manager - Treasury

09. Ms. S. N. T. Igalagamage
B.Sc. (Agric - Special) Hons. , Dip. in HRM , MIMSL
Senior Manager - Human Resources

10. Ms. M. H. Attanayake
B.Sc. - Agri. M.Sc - Agri.
Senior Manager - Credit

11. Mr. A. M. Nimal Chandra
B.A
Senior Manager - Gampaha Branch

12. Mr. P. W. K. J. R. Chandrasiri
B.Sc. (Mgt. & Administration-Special) - USJP
Senior Manager - Sabaragamuwa Region

13. Ms. M. M. Y. L. Muththunga
B.Sc. Hons.
Senior Manager - ICBS

14. Mr. Bimal Yasantha Rajakaruna
B.A, PGCC (India) , Dip. in Psy, HCGC
Senior Manager - Human Resource Development

15. Mr. H. Y. J. Chandrapala
AIB (SL), Dip. in Modern Banking
Senior Manager - FOREX

16. Mr. B. W. S. Premarathne
B.Com (Special) , MCIM (UK), CMA (Australia) , MSLIM , MAAT , HNDA
Senior Manager - Central Region

17. Mr. W. H. M. U. B. Welikumbura
BMS, MSLIM, PGDM, MBA (Pera)
Senior Manager - Deposit Mobilization

18. Mr. A. A. Emmanuel
B.Sc. (Pera), Dip. in Busi.Admn.
Senior Manager - Northern Region

19. Mr. J. G. W. Dissanayake
[ACMA, CFA - L - III candidate]
Senior Manager - Corperative Development

20. Mr. K. B. Rathnayaka
B.A (General) , M.A
Senior Manager - Uva Region
(Not in picture)

21. Mr. M. J. H. Perera
B.Sc. Business Administration (Sp)
Senior Manager
(Not in picture)

22. Mr. P. G. Sunil
B.Sc. Business Administration (Sp)
Senior Manager - North Western Region
(Not in picture)

Business Review

Operating environment

Our business environment manifested an unexpected level of volatility in the year, due to a number of uncontrollable external factors. At a national policy level, the entire banking sector of the country was subjected to a credit ceiling, to contain the rapid credit growth experienced from the previous year. An 18% credit ceiling was imposed on banks, while smaller banks were limited to credit expansion of up to Rs. 800million, while banks able to raise overseas funds, were allowed a credit limit of 23%. In the face of this credit constraint, interest rates saw a sharp increase across the board.

We also experienced intensified competition in our core markets of micro and SME segments as more commercial banks increased their activities in these sectors. However, we can confidently claim market leadership in these sectors due to our extensive grass-root network and we have taken steps to strengthen our market presence across the country. In addition, we also ventured into the new market of foreign exchange transactions last year and enhanced our product portfolio by introducing foreign currency exchange services. We plan to venture further afield in this new market in the new financial year.

During the year, the Central Bank introduced a number of measures to enhance risk management and good governance in the banking sector. An integrated risk management framework was implemented for all licensed banks and under the Internal Capital Adequacy Assessment Process (ICAAP) banks have been directed to assign capital for additional risks not covered under Pillar1 of Basel II. To ensure good governance, licensed banks are required to obtain prior approval of shareholders for any special benefits offered to bank directors, at their retirement and disclose such benefits in their Annual Reports. We have taken all necessary steps in this regard.

We are happy to announce that Fitch Rating Lanka upgraded our rating from Stable to Positive and affirmed Sanasa Bank's national long term rating at BB+. The revision of the Outlook was due to the Bank's improved credit metrics and also reflects the healthy capitalisation of the Bank relative to peers, high net interest margins (NIMs), improving asset quality, and effective management of its core business of micro finance lending.

Fitch Rating also said Sanasa Bank's rating can be further improved with improvements to the financial profile, including maintaining the capitalisation and asset quality, while continuing to focus on the core expertise of micro finance lending.

Strengthening our market presence

While we remain the leader in SME and micro lending in the country, we do not believe in resting on our laurels. Therefore, we continued to strengthen our market presence during the year by expanding our geographic coverage. We introduced 10 Sanasa Bank ATM's for the first time and operationalised our agreement with Commercial Bank to allow Sanasa customers to access their funds through the extensive Commercial Bank ATM network. As a result, now, Sansa Bank customers can benefit from ease of access to over 500 ATM's located across the country. We also opened two new Sanasa branches, increasing our branch network to 81.

These initiatives have made it easier for consumers to access our services and have increased overall competitiveness of the Bank.

Foreign exchange services

In August 2012 we initiated our foreign exchange services by introducing foreign currency buying and selling facilities at 25 selected Sanasa Branches. We are happy to announce that already 22 branches are now dealing in foreign currency transactions and to record a strong interest in our services. During the period of December to January, we experienced a remarkable 100% increase in transactions and income from foreign exchange dealings and another 25% growth between January 2013 and February 2013.

We have provided training for our staff in this sector and hope to expand our operations further. However, as we are not a commercial bank, we are awaiting formal approval of the Central Bank for further expansion in this field.

Leveraging new technology

We have connected the new Sanasa Bank ATM network with the ATM network of Commercial Bank, and issued ATM cards to our customers providing a seamless system of over 500 access points for SANASA Development bank customers.

To improve operational efficiencies and improve customer convenience, we reinitiated the palmtop collection system which is mainly used to facilitate loan repayments. The process allows customers to conduct their business without having to come to a Sanasa Bank. The system also allows our customers to check their savings check the balance and get a receipt.

We have also leveraged information technology to improve efficiencies of our internal operations by introducing a Human Resource Information System(HRIS) developed by HSenid for centralised human resource administration. The HRIS has facilitated the use of finger print readers to record staff attendance and have already been introduced to 30 branches. The system also facilitates central human resource administration through online leave applications, payroll and attendance management. The system has streamlined human resource management, which will contribute towards better controls and efficiencies as we continue to expand our operations.

We have facilitated foreign exchange transactions by upgrading our core banking system to accommodate the new services and we are in the process of centralising our IT systems for leasing transactions. The centralised leasing module would allow better monitoring of this sector.

To improve internal communications and connectivity, we implemented Phase 1 of the Sanasa Intranet, which facilitates real time sharing of information. As a result our management can now access progress reports immediately enabling better monitoring of all activities. We also increased our internet bandwidth from 2 MB per second, to 4 MB.

In addition, we are in the process of aligning our core banking systems to comply with all Central Bank directives on new reporting and monitoring requirements. In this regard we are in the process of developing a Business Continuity Plan and improving our Disaster Recovery Plan.

We are also in the process of introducing an automated loan approval system. We are currently evaluating vendor proposals. The implementation of the automate loan management process will reduce turn-around time in approving loans, which will reduce time and costs for both the Bank and also the customer. Currently the loan approval process may take as long as 7 days, which will be cut down to a much shorter period with the automation. The new system will introduce stronger risk and monitoring systems, including credit scoring and rating systems, which will improve overall risk management and credit quality of the Bank, while enabling faster deployment of credit.

Human Resources

We believe our biggest resource and greatest competitive advantage is our employees. Their expertise in dealing with rural communities and cooperative societies has given Sanasa Bank an edge over the intensifying competition in the Micro and SME sector in the country as more commercial bank's venture into the sector. Therefore, we select and nurture our employees with care, because we believe satisfied employees result in satisfied customers. During the year we continued to develop the skills of our employees and improve overall productivity by adopting new technology and improving our internal processes.

Our workforce saw a reduction during the year from 884 personnel to 823, despite expansion of our branch network, indicating higher productivity. During the year we also migrated from a manual human resource management systems to a fully automated system that is gradually being introduced to all our branches. The system has now automated administration of attendance, leave, pay roll and training and development, which will contribute towards higher productivity.

We continued our ongoing training and development programmes throughout the year to maintain the high level of our services and also to cater to the Bank's expanding product portfolio such as foreign exchange trading. Employees in all 22 branches offering foreign exchange facilities were given a training of 136 days.

- Total number of training programmes for the year 136
  - internal 80
  - External 56
- Number of employees trained 793
- Training hours per employee 18 Hours

To motivate our employees we introduced a new performance evaluation system which is based on a transparent mechanism of budgeted targets and business volumes of our branches. The reward system has been clearly linked to the performance targets. Our final objective is to build a performance based culture through motivation and recognition of individual and team contributions. We also conducted an award ceremony, based on branch performance, to recognise and motivate high performers, where we awarded cash prices and gifts to outstanding achievers.

A branch grading system, based on business volumes, was introduced, linked with human resource requirements and cadre assessments, to streamline recruitment and ensure the best-fit when appointing personnel to different positions. The system will allow the Bank to select the best talent for different positions. A promotions scheme was also introduced for internal staff.

We continued our internship training facility for university and NAITA students to assist them successfully fulfil their degree requirements by gaining hands on experiences in the banking industry.

As part of our team building and relationship development efforts we conducted a number of staff social events, including regional level get-togethers and a New Year festival.

Financial Review

The steep rise in interest rates was felt across the bank causing the interest rate spread to contract sharply. The situation was aggravated by the fact that our loans are on fixed rates which prevented us from adjusting interest rates to reflect the market situation, while are cost of funds continued to rise. However, we responded to the contingency by expanding both our loan and savings portfolios. The growth of the savings portfolio in particular contributed towards mitigating the full impact of the loss of interest margins. However, our credit expansion was limited due to the credit ceiling and by the end of the year our total loans expanded by 18.7%.

Our interest income increased 25% during the year, with the expansion of our portfolio from Rs 16.6 billion in 2011 to Rs 19.7 billion. Meanwhile, our interest expenses increased by 57% from Rs 1.2 billion in 2011 to Rs 1.9 billion. However net interest income saw an increase of 5% due to our timely action to maintain faster momentum of interest incomes. Our operating overheads increased by a reasonable 19%, on the back of our branch expansion and ongoing internal upgrades.

During the year, we also focused on developing our fee based portfolio as a strategy to dilute our dependence on interest income, which is currently our main source of income. As part of this initiative we ventured into foreign exchange facilities and set up a separate department for foreign exchange services.

Due to our limited foreign exchange transactions and small market portfolio, we were cushioned from both foreign exchange fluctuations and also the down turn in the stock market.

Despite strong selling pressures our share price closed at a market value of Rs 76 and a nominal value is Rs 100. After the listing in the stock market in May 2012, Sanasa share prices came under pressure due to a large number of borrowers who were holding shares, wanting to sell at the point of loan maturity. However, as of now, we do not have individual share ownership of over 5%. Currently our main share holder, Sanasa Insurance, owns 4.5% of shares. Our second largest shareholder is the International Finance Organisation (IFC), which is part of the World Bank Group. The IFC share holding on a strategic partnership with Sanasa Development Bank to develop the micro finance sector of Sri Lanka.

Profitability

Sanasa Development Bank saw total income increase by 25% to Rs 3.7 billion, compared to Rs 3.0 billion in the previous year, mainly due to the growth in the loan portfolio. The Bank recorded an after tax profit of Rs 311 million compared to Rs 382 million in 2011.

The interest margins declined to 7.98% from 9.43% in 2011 due to rising interest rates, while the return on assets reduced to 1.25% as against 1.78% in 2011, due to the 2% increase in borrowing costs. Earning per share was 13.73% as at December 31, 2012 compared to 15.78% in 2011.

Deposits

Total deposits increased by 20% to Rs 18.9 billion, as a result of our focussed efforts to mobilise higher deposits during the latter part of the year.

Savings

We introduced new savings products, coupled with gift schemes, to promote savings and contain the impact on the Bank's interest margins, due to the rising interest rates. We are happy to announce that our efforts have been highly successful with our new savings account Bhagya mobilising Rs 500 million within the short period of two months. Overall savings deposits increased by 6% to Rs 4.3 billion. Meanwhile, fixed deposits increased by a much faster 25% as consumers moved their savings into fixed deposits to benefit from the rising interest rates. Total fixed deposits as at December 31, 2012 stood at Rs 14.5 billion. Currently our savings portfolio accounts for 23% in savings and the balance in fixed deposits.

Advances

The Bank maintained a prudent spread in loans and advances, to mitigate the risk of undue concentration in one sector. During the year we promoted credit growth by setting targets to branch managers backed up by many campaigns with cooperative societies.

Financial Review

Our total disbursements grew by 18.7% to Rs 19.7 billion as at 31st December 2012, from Rs 16.6 billion in 2011. Personal loans accounted for 61% of the loan book, while leasing and hire purchase and pawning accounted for 12% and 13% of the total loan book respectively. Loans to Sanasa Societies and Sanasa Institutes accounted for 8% of total advances, while Solidarity group loans comprised 6% of the loans.

In terms of economic sectors served by the Bank, the main recipients were construction and housing, reflecting the Bank's commitment towards uplifting the quality of life of the people. The construction sector received 26% of total advanced disbursed during the year, followed by housing loans which accounted for 22% of total disbursements. The agriculture and fisheries sector received 14% of the loans in line with the Bank's focus on supporting rural development and rural livelihoods.

Total assets

Total assets expanded by 16.57% to Rs 24.8 billion as against Rs 21.3 billion in 2011.

Capital adequacy and liquidity

Sanasa Development Bank's capital adequacy and liquidity position are well within the statutory requirements.

Our capital adequacy ratios are well above the statutory requirements with Tier 1 capital at 16.08% as against the regulatory requirement of 5%. The Tier 2 capital ratio is 16.35% compared to the 10% minimum requirement.

We are planning to internal capital adequacy assessment process in 2013 in line with the Central Bank's ICAAP requirements. In line with this we are currently testing our portfolios against different scenarios to assess the risk levels. We maintained a statutory liquidity ratio of 20.27% which is above the statutory requirement of 20%.

NPL ratio

Due to our strong focus on recoveries we are happy to report that our NPL ratio was reduced to 4.6% from 4.9% in 2011. This is despite the higher incidents of natural disasters such as droughts and floods experienced by the country, which had a particularly detrimental impact on the farming community.

We continue to monitoring recoveries on a daily basis and take immediate corrective measures to contain the NPLs.

Future outlook

The year under review has been one of consolidation where the Bank has continued its efforts at building a solid foundation for that can sustain not only our plans for future growth but also withstand market uncertainties. In the new financial year we will continue our drive of upgrading and realigning our internal systems through the infusion of new technologies and better processes and procedures. We hope to implement our new automated loan approval system within the year, to support faster credit expansion while improving overall credit quality. We will also invest in internal process re-engineering and the use of technology to increase operational efficiencies across the bank and improve staff productivity.

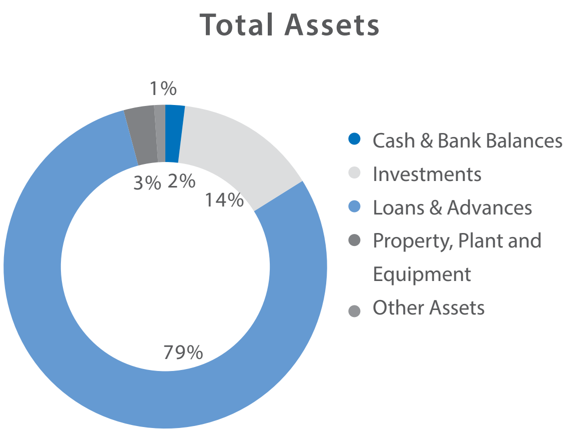
While we do not expect interest rates to reduce significantly in 2013, we will maintain our strategy of growing our interest incomes to maintain the interest rate spread at a healthy level. As our average loan cycle is 2.5 years, a large portion of our fixed interest loans, at low interest rates, will see maturity within the financial year 2013. This would allow us to increase new loans at new rates, which will also contribute towards containing the maturity mismatch.

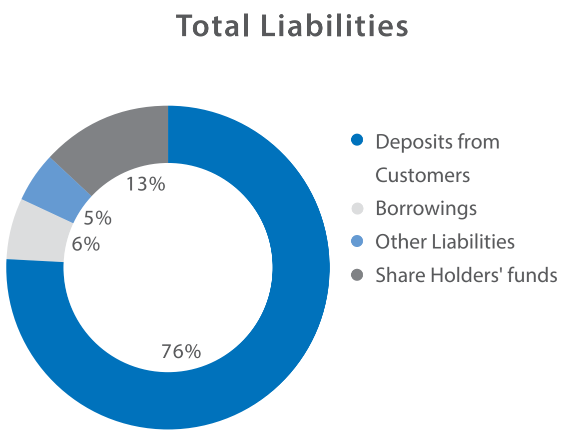
We will continue to expand our foreign exchange services. By mid March 2013 we plan on taking our foreign exchange facilities to another 25 branches, making these facilities available at 50 Sanasa Development Bank branches. We are also confident of obtaining RFC and NRFC account operating licences from the Central Bank in 2013. This would enable us to attract foreign currency accounts of

Sanasa members.

In line with our ongoing human resource management policies we will continue to invest in employee training and development to enhance our competitive advantage and also motivate our staff by providing growth opportunities.

Overall we are confident of consolidating our market position in the new financial year.





It is said that a farmer is fit to be a king once he washes off the mud on his feet. The humble paddy farmer is Sri Lanka's greatest asset and Sanasa Development bank knows this too well. This is why we have helped develop the paddy farmers of our nation by upgrading their capabilities and knowhow with the aim of strengthening a national industry.

Corporate Social Responsibility

Corporate Social Responsibility

Sanasa Development Bank does not view responsibility towards society and the environment as separate from its overall responsibilities. Societal development and community welfare are the very reasons for our existence and is the core of our business. Sanasa Development Bank prides itself on our legacy of rural community development over the years, and our activities are aimed at bettering the life styles and facilities of communities, particularly rural communities, across the country. By working through the cooperative system, we have been actively engaged in this process since our establishment and we continue to stay focused on this ultimate objective.

During the year we continued our work to assist young people in various ways and also empower women. We continued our support for a number of other activities in priority sectors. These included programmes to support small farmers who are the backbone of this country, activities to conserve the environment, and promoting justice and good governance.

Helping young people

We have been highly successful in mobilising low interest foreign funds that we have disbursed as low interest loans through Jawaya our youth specific banking product to assist rural youth. The loan scheme is accompanies by programmes such as financial literacy, training in household financial management and keeping small business accounts to help young people start their own businesses. These programmes have helped young men and women in villages emerge as entrepreneurs. This in turn, has contributed to the overall national economy, reduced unemployment and generated rural incomes.

Youth activities

We work with the Sanasa Federation which is the apex body f the Sanasa societies to support young people and community projects. During the year we joined with the Sanasa Federation in making lotus flower offerings (Nelum Mal Pujawa) in Anuradhapura and conducting a dansala in Anuradhapura. We also supported the Federation recognise and award achievements of group based micro entrepreneurs in Padaviya.

Jawaya Youth Camp

Risk Management

As a bank, dealing with public money and the trust of the people, we take our responsibilities with the utmost seriousness. Therefore, we continue to improve our risk management processes to minimise a range of potential risks. In line with this outlook, in 2012, Sanasa Bank's risk management policy was improved by introducing a stress testing system, as directed by the Central Bank, with regular reporting. A Risk Management Committee, which is a sub committee under the Board has been set up and is tasked with evaluating the risk management report. The committee meets every quarter.

As a further risk containment measure we have negotiated a contingency plan with other banks to access emergency credit lines in the case of sudden, unplanned outflows.

Credit risk

Effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of any banking organisation. Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Therefore, our goal of credit risk management, is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. In this context, we try to manage the credit risk that is inherent in an entire portfolio, as well as the risk in individual transactions. In adopting a holistic approach we also attempt to understand the relationships between credit risk and other risks. While loans are the largest and most obvious source of credit risk to the Bank, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Therefore, we believe in having a keen awareness of the need to identify, measure, monitor and control credit risk, as well as hold adequate capital against these risks.

In this context Sanasa Bank has adopted the following steps to ensure adequate credit risk cover.

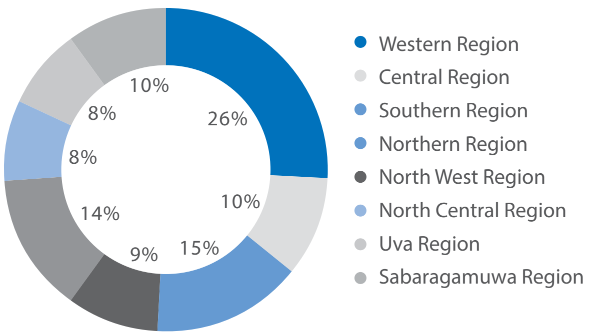
- We have developed and enforced a score card method for credit approvals, implemented at regional level instead of the previous system of credit approvals being given by branch managers. This has allowed stronger controls and improved oversight, which has in turn strengthened credit quality of the Bank.

- We have maintained all Central Bank capital and liquidity ratios liquidity we have maintained as per central bank requirements.

- Proactive credit risk management practices in the form of studies of migration, probability of defaults of borrowers, Portfolio Analysis of retail lending assets, periodic industry review, and Group exposures are only some of the prudent measures, the bank is engaged in mitigating risk exposures.

- The current focus is on augmenting the bank's abilities to quantify risk in a consistent, reliable and valid fashion, which will ensure advanced level of sophistication in the Credit Risk Measurement and Management in the years ahead.

Regional Risk Analysis 2012



Operational risk

Operational risks are incurred by the Bank's internal activities and may arise from the people, systems and processes, through which we, as a Bank operates. As operational risk is inherent to any organisation, we have taken measures to minimise potential risks arising from our internal dynamics. As part of this process, we have strengthened our internal auditing by expanding our internal audit capabilities. We have recruited a new DGM Internal Audit and also supporting officers. This initiate has also resulted in less work being outsourced to external auditors. As a result, last year only 30 of the auditing of Sanasa branches was outsourced.

As another administrative measure we have successfully introduced an automated HR system which facilitates better controls and monitoring of all staff. Shifting from manual processes to the computerised HR administration system has increased overall efficiencies while also providing management with real time information on personnel management.

During the year we also successfully migrated to IFRS standards for our financial reporting.

Market Risk

Bank has well-established framework for Market Risk management with the Asset Liability Management Policy and the Treasury Policy forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the bank's net interest income in the short run and market value of the equity in the long run for enhancing shareholders wealth. The important aspect of the Market Risk includes liquidity management, interest rate risk management and the pricing of assets and liabilities. Further, Bank views the Asset Liability Management exercise as the total balance sheet management with regard to its size, quality and risk.

The ALCO is primarily entrusted with the task of market risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and interest rate risk limits, monitors them, articulates Bank's interest rate view and determines the business strategy of the Bank.

Bank has put in place a structured ALM system with 100% coverage of data on both assets and liabilities. To measure liquidity and interest rate risk, Bank prepares various reports such as Structural Liquidity, Interest Rate Sensitivity, Fortnightly Dynamic Statement etc. Besides Central Bank reporting many meaningful analytical reports such as Gap Analysis, Contingency Funding Plan, Contractual Maturity Report etc. are generated at periodic intervals for ALCO, which meets regularly. Statistical and mathematical models are used to analyze the core and volatile components of assets and liabilities.

Liquidity Risk

The objective of liquidity management is to ensure adequate liquidity without affecting the profitability. In tune with this, Bank ensures adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focusing on more stable funding sources.

A bank measure and forecast its prospective cash flows for assets, liabilities, off-balance sheet commitments and derivatives over a variety of time horizons, under normal conditions and a range of stress scenarios, including scenarios of severe stress.

Preparation for BASEL 11 & ICAAP

Bank caring out a comprehensive Self-Assessment exercise spanning all the risk areas and evolved a road map to move towards implementation of Basel II as per CBSL's directions and best practices. The program in implementation of Risk Management, Organizational Structure, Risk measures, Risk data compilation and reporting etc. is as per this laid down road map.

Bank has started ICAAP process with Aptiva Company incorporated in India which will give us the own internal view of the risk management practices of the bank in terms of the capital adequacy.

Capital Management (Rs. Mn)

	Actual 2012	Required 2012	Actual 2011	Required 2011
Tier 1 Capital	3,077	957	2,980	858
Tier 2 Capital	50	956	69	857
Total Capital	3,127	1,913	3,049	1,715
Risk weighted Assets	19,133		17,155	
Tier 1 Capital Ratio	16.08%		17.37%	
Total Capital Ratio	16.35%		17.77%	

Corporate Governance Compliance

Bank's compliance with the provision of the Banking Act Direction No. 12 of 2007 of The Central Bank of Sri Lanka on Corporate Governance for licensed banks in Sri Lanka.

The following rules of corporate Governance shall be complied by all licensed banks in Sri lanka and such compliance shall be as provided for in Direction 3 hereof. The following table disclose these rules and the degree of compliance by the Bank. The Bank has obtain separate audit report on following matters as per guide line issued by the Institute of Chartered Accountants of Sri Lanka.

Guidlinelin	Function of the board	Bank Response (2012)
3(1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following: a) Ensure that the board approved strategic objectives and corporate values communicated throughout the bank	Complied with Strategic objectives & Corporate Values wich is approved by board of directors communicated during the meetings with Corporate & Senior Managers.
	b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	Preparation of an new strategic plan covering the period 2013 - 2016 is in progress
	c) Identify the principal risk and ensure implementation of appropriate system to manage the risk prudently	Complied with Identify principle risk and management procedure mainly by ALCO & IRMC
	d) A policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied with Documented on 30/04/2013
	e) Reviewed the adequacy and the integrity of the bank's internal control systems and management information system	Complied with Reviewed the adequacy and the integrity of the bank's internal Control systems and management information system via the Board Audit Committee
	f) Identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards.	Complied with
	g) Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy	Complied with
	h) Defined the areas of authority and key responsibilities for the board of directors themselves and for the key management personnel;	Complied with

Guidlinelin	Function of the board	Bank Response (2012)
	l) Periodically assessed the effectiveness of the board directors' own governance policies including (i) the selection, nomination and election of directors and key management personnel. (ii) the management of conflicts of interests (iii)the determination of weaknesses and implementation of changes where necessary.	Complied with
	j) Ensure that the bank has a succession plan for key management personnel.	Complied with Bank has consider succession plan for CEO
	k) Ensure that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives. L) Understand the regulatory environment and that the bank maintains a relationship with regulators. m) Process in place for hiring and oversight of external auditors	Complied with Complied with Complied with Bank has achive this requirement through BAC
3(1) (ii)	The board has appointed the chairman and the Chief Executive Officer (CEO) and define the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5)	Complied with
3(1) (iii)	The board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied with
3(1) (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
3(1) (v)	The board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	Complied with
3(1) (vi)	The board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	No such situation has arisen.

Guidlinelin	Function of the board	Bank Response (2012)
3(1) (vii)	The board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with
3(1) (viii)	All directors to have access to advice and services of the company secretary.	Complied with
3(1) (ix)	The company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied with
3(1) (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	Complied with
	(b) the matters considered by the board	Complied with
	(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;	Complied with
	(d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;	Complied with
	(e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and	Complied with
	(g) the decisions and board resolutions.	Complied with
3(1) (xi)	There are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied with
3(1) (xii)	There is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied with Board approved a procedure in place to avoid the conflict 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 and he/she shall no be in the quorum for the relevant agenda item at the board meeting	No such situation has arisen.

Corporate Governance Compliance

Guidlinelin	Function of the board	Bank Response (2012)
3(1) (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
3(1) (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.	No such situation has arisen.
3(1) (xv)	The board shall ensure that the bank capitalized at levels as required by the Monetary board.	Complied with
3(1) (xvi)	The board shall 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 report serves the above purpose.
3(1) (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 board's Composition	
3(2) (i)	The board comprise of not less than 7 and not more than 13 directors.	Complied with
3(2) (ii)	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
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 Non of directors are executive
3(2) (iv)	The board has at least three independent nonexecutive directors or one third of the total number of directors, whichever is higher	Complied with
3(2) (v)	In the event an alternate director was appointed to represent an independent director, the person so appointed meet the criteria that applies to the independent director.	Complied with No such situation has arisen.
3(2) (vi)	The bank has a process for appointing independent directors.	Complied with Board has a process to appoint Directors
3(2) (vii)	The stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied with All Directors are Non-executive Directors.

Guidlinelin	Function of the board	Bank Response (2012)
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
3(2) (ix)	There shall be procedure for the appointment of new directors to the board.	Complied with
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.	Complied with Appointment of Director are according to the Memorandum of Articles
3(2) (xi)	If a director resigns or is removed from office, the board:	Complied with
	(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.	
3(2) (xii)	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 Non of directors or employees are directors of another bank.
	Criteria to assess the fitness and propriety of directors	
3(3) (i) (ii)	The age of a person who serves as director does not exceed 70 years. No person shall holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	Complied with The board is of the view that each and every Directors is a fit and proper person to serve as a Director of the Bank.
	Management functions delegated by the board	
3(4) (i)	The delegation arrangements have been approved by the board.	Complied with The board is empowered by the Article of Association to delegate to the Chief Executive officer any of the power vested with the board, upon such terms and conditions and with such restricttions as the board may think fit.

Guidlinelin	Function of the board	Bank Response (2012)
		The Chief Executive officer shall have power, within the limitations applicable to delegate such office/power as he may think necessary, for the management/ operations of the Bank. The business of the Bank is managed by the board either by themselves or through the chief Executive officer, with the assistance of the Corporate Management, Senior Management and the other Executive and general staff of the Bank Delegation arrangement reflect by the board approved Organization Structure
3(4) (ii)	The board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied with The delegation powers are reriewed periodically
3(4) (iii)	The board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied with The delegation power are reviewed periodically
	The Chairman and CEO	
3(5) (i)	The roles of chairman and CEO is separate and not performed by the same individual	Complied with
3(5) (ii)	The chairman is a non-executive director. In the case where the chairman is not an independent director, 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 Chairperson is a Non-executive Director but not an Independent Director. Deputy Chairman is an independent director
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, if any, between the chairman & the CEO and board members and the nature of any relationships including among members of the board.	Complied with

Guidlinelin	Function of the board	Bank Response (2012)
3(5) (iv)	The board has a self evaluation process where the chairman: (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner.	Complied with The Chairman provides leadership to the Board by ensuring that the Board functions effectively and facilitate the effective discharge of board functions. The board consistently follows proper procedure to deliberate key issues substantially and in a timely manner and ensures that all Directors make an effective contribution, within their respect--ive capabilities, for the benefit of the Bank
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 finalized by the company secretary under the supervision of the CEO and
3(5) (vi)	The chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Complied with The Chairman ensure that the Directors receive adequate information in timely manner and Directors are properly briefed on issues arising at the board meeting
3(5) (vii)	The board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	Complied with Chairman take all possible action to ensure that the board acts in the best interests of the Bank.
3(5) (viii)	The board has a self evaluation process that assesses the contribution of non-executive directors.	Complied with All Directors bring independent judgment to bear on issues of strategy, conduct of Bank operations and performance. Procedure which is in place, is being documented for record purposes.
3(5) (ix)	The chairman shall not engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with Chairman not involve in day-to-day operation of the bank business.

Corporate Governance Compliance

Guidlinelin	Function of the board	Bank Response (2012)
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 At General meetings, shareholders are given the opportunity to take up matters for which clarification is needed. Further, matters are adequately clarified by the Chairman or CEO or any other officer.
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
	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. The committee report is addressed directly to the board. The board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied with Following Committee directly report to the board 1. Board Audit Committee 2. Board Human Resources and remuneration Committee 3. Board Nomination Committee 4. Board Integrated Risk Manag- -ment Committee. 5. Board Credit Committee
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
	b) All members of the committee are nonexecutive directors. c) The committee has made recommendations on matters in connection with:	Complied with Complied with

Guidlinelin	Function of the board	Bank Response (2012)
	(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv)the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with Auditros have been approved at AGM as per proposed by the Board
	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.	Complied with
	e) The committee has implemented a policy on the engagement of an external auditor to provide nonaudit services in accordance with relevant regulations.	Complied with
	f) The committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Complied with
	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.	Complied with Board Audit Committee review the Annual financial information.
	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

Guidlinelin	Function of the board	Bank Response (2012)
	i) The committee has reviewed the external auditor's management letter and the management's response thereto.	Complied with
	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; 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; III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	 Complied with Complied with Complied with Procedure which is in place being documented for report perposes 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; VI. The internal audit function is independent of the activities it audits.	Committee has not come across any such situation during the period. Complied with
	k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with Committee has reviewed all the findings and advice the internal investigation officers for appropriate action.
	l) Ensure that 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;	Complied with

Guidlinelin	Function of the board	Bank Response (2012)
	(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.	
	n) The committee sall meet regularly, with due notice of issues to be discussed and shall record its conclusions in dischaging its duties. o) The board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	Complied with Complied with
	p) The secretary of the committee is the company secretary or the head of the internal audit function.	Complied with The secretary of the committee is the company secretary.
	q) The committee shall review arrangements by which employees of the bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the external auditor	Complied with
3(6) (iii)	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.	Remuneration of directors, CEO key management persons are determine by the board of directors
	b) The goals and targets for the directors, CEO and the key management personnel are documented. 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.	Financial and operational targets are given to key management personal Financial and operational targets are given to key management personal

Guidlinelin	Function of the board	Bank Response (2012)
	d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Complied With
3(6) (iv)	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. b) The committee has considered and recommended (or not recommended) the re-election of current directors. 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 Complied with No such situation was arisen during the year Complied With
	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. e) The committee has considered a formal succession plan for the retiring directors and key management personnel. 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 Comittee has identified succession plan for CEO Complied With
3(6) (v)	The following rules apply in relation to the Integrated Risk Management Committee (IRMC): a) The committee shall consist of at least three nonexecutive 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. 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 Complied with

Guidlinelin	Function of the board	Bank Response (2012)
	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. d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. e) The committee has met at least quarterly. f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks. 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.	Complied with Committee review the management level committee reports such as Credit & ALCO Complied with 3 meetings have been held No such situation was arisen Complied with Committee submits these reports to next board meeting
	h) The committee has established 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
	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.	Complied with The Board take necessary steps to avoid any conflict of interest that may arise from any transaction of the bank with its related parties Transactions are carried out with related parties in the normal cause of business are disclose in "Related Party Transaction".

Guidlinelin	Function of the board	Bank Response (2012)
3(7) (ii)	There is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction. a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation. b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments. c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank. d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties,	Complied with The Board take necessary steps to avoid any conflict of interest that may arise from any transaction of the bank with its related parties Transactions are carried out with related parties in the normal cause of business are disclose in "Related Party Transaction".
3(7) (iii)	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), 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. a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty. c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; d) Providing services to or receiving services from a related-party without an evaluation procedure; e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	Complied with Board has to approve all the accommodation, terms & condi- -tion to related parties.

Guidlinelin	Function of the board	Bank Response (2012)
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 favor 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 Board has to approve all the accommodation, terms & condi--tion to related parties.
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.	No such situation has been arisen during the last year
	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. 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 d) 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 situation has been arisen during the last year No such situation has been arisen during the last year No such situation has been arisen during the last year
3(7) (vi)	There is a process in place to identify when the bank grants any accommodation or "more favorable 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 No accommodation has been given to employees on a favorable basis other than the general schemes applicable to all employees of the bank, such as staff loans facilities.

Guidlinelin	Function of the board	Bank Response (2012)
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
	Disclosures	
3(8) (i)	The board ensure that the board has disclosed: (a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with Annual Financial statements are prepared & publish in accordance with regulatory requirements and publish in newspapers in Sinhala, Tamil and English Quarterly Financial statements are publish in newspapers in Sinhala, Tamil and English.
3(8) (ii)	The board has made the following minimum disclosures in the Annual Report:	
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with
	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 Refer page no74
	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 Refer page no 76
	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 Refer page no 16

Guidlinelin	Function of the board	Bank Response (2012)
	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 Please refer the "Related party disclosers"
	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 These information are disclose in notes to the accounts
	g) The board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied with
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material noncompliance	Complied with This report serve this purpose
	i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or noncompliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns	Complied with There is no significant supervisory concerns to be disclose in the Annual report.

Corporate Governance Compliance

The code of best practice on Corporate Governance issued joinly by security and exchange commission of Sri Lanka and the Institute of Chartered Accountants of Sri lanka.

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
A. Directors		
A.1. The Board		
The Bank should be headed by a Board, which should direct, lead and control the Bank		
All Directors serves the Bank in a Non Executive capacity. The Board consists of professionals in the fields of Banking, Accounting, Management, Economics, and Business Leaders. All Directors possess the skills and experience and knowledge complemented with a high sense of integrity and independent judgment. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment.		
1. Board Meetings	A.1.1	The Board usually meets in monthly intervals, but meets more frequently whenever it is neccesary. The Board met 12 times during the year. Scheduled Board and Committee meetings were arranged well in advance, and all Directors were expected to attend each meetings. The attendance at Board meetings held in 2012 is set out on page 68
2. Board Responsibilities	A.1.2	The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the management of business
		The Board has provided strategic direction in vission statement, mission statement and the Annual budget. The names and the qualifications of the Corporate Management team are provided on page 16 The Board recognizes it's responsibility for the Bank'system of internal control and for reviewing its effectiveness on a continuous basis. directors' statement on Internal Control in page number 74 also provides evidence for this. These systems manage the risk of the Bank's business and ensure that the financial information on which business decisions are made and published is reliable. It also ensures that the Bank's assets are safeguarded against unauthorised use or disposition
		The Board is satisfied with the integrity of financial information and the robustness of the financial controls and systems of risk management of the Bank. The Bank had complied with all applicable laws and, regulations during the year, while demonstrating a high degree of ethical standards set by the Bank.
3. Compliance with laws and access to independent professional advice	A.1.3	The Board collectively as well the Directors individually, recognize their duty to comply with laws of the country which are applicable to the Bank. A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This will be coordinated through the Board Secretary, as and when it is requested.

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
4. Board Secretary	A.1.4	All Directors have access to the Board Secretary, who is an Attorney-at-Law by profession. Her services were available to all Directors, particularly the Non Executive Directors who needed additional support to ensure they receive timely and accurate information to fulfill their duties. Further, she had provided the Board with support and advice relating to corporate governance matters, Board procedures and applicable rules and regulations.
5. Independent judgment	A.1.5	Non Executive Directors are responsible for bringing independent and objective judgment, and scrutinizing the decisions taken by the Corporate Management led by the GM / CEO, on issues of strategy, performance, resources utilisation and business conduct.
6. Dedication of adequate time and effort by the Board and Board committee	A.1.6	The Chairperson and members of the Board have dedicated adequate time for the fulfillment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended Sub-committee meetings and also have made decisions via circular resolution where necessary. The Board Sub-committees include: - Audit Committee - Board Integrated Risk Management Committee - Human Resources & Remuneration Committee - Nomination Committee - Credit Committee
7. Training for new Directors	A.1.7	The Board of Directors recognize the need for continuous training and expansion of knowledge and undertake such professional development as they consider necessary in assisting them to carry out their duties as Directors.
A. 2 Chairman & CEO		
There should be a clear division of responsibilities between the Chairperson and Chief Executive to ensure a balance of power and authority, in such a way that any individual has no unfettered powers of decisions. The roles of the Chairperson and Chief Executive Officer are functioning separately at SDBL. The Chairperson's main responsibility is to lead, direct and manage the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. GM / CEO is responsible for the day-to-day operations of the Bank.		
1. Division of responsibilities of the Chairperson and MD/CEO	A.2.1	The roles of the Chairperson and Chief Executive are separate. The role of the Chief Executive is to manage the day-to-day running of the Bank. The Board has delegated this responsibility to the Chief Executive and he then leads the Corporate Management team in making and executing operational decisions. The Chief Executive is also responsible for recommending strategy to the Board.

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
A. 3 Chairman's Role		
The Chairperson should lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully and preserves order and facilitates the effective discharge of the Board function		
1. Role of the Chairperson	A.3.1	The Chairperson is responsible for leadership of the Board and ensuring effectiveness in all aspects of its role. The Chairperson of SDBL is a Non Executive Director, elected by the Board. The Chairperson's role encompasses: - Ensuring that the new Board members are given appropriate induction, covering terms of appointment, duties and responsibilities. - Leading the Board and managing the business of the Board while taking full account of the issues and concerns of the Board. - Approving the agenda prepared by the Board Secretary. - Ensuring that the Board members receive accurate, timely and clear information, in particular about the Bank's performance to enable the Board to take sound decisions, monitor efficiently and provide advice to promote success of the Bank. - Ensuring regular meetings, the minutes of which are accurately recorded and where appropriate included the individual and collective views of the Directors. - Facilitates and encourages discussions amongst all Directors where decisions are needed on matters of risk and strategy. - Encouraging effective participation of all Directors in the decision making process to optimise contribution. - Representing the views of the Board to the public. - Initiates the process for self assessment of the Board from its members and uses the meaningful feedback to further improve the effectiveness of the Board.
A.4. Financial Acumen		
The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board is equipped with members having sufficient financial acumen and knowledge.		
1. Availability of sufficient financial acumen and knowledge	A.4.1	The details of their qualifications have been set out on pages 16
A.5 Board Balance		
There should be balance of Executive and Non Executive Directors so that no individual or small group of individuals can dominate the Board's decision-taking.		
1. Presence of Non Executive Directors	A.5.1	All Directors are Non Executive Directors. The requirement as per the direction has been complied throughout 2012.

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
2. Independent Directors	A.5.2	composition of independent and not independent directors are as per disclose in Page no 70.
3. Criteria to evaluate Independence of Non Executive Directors	A.5.3	Independent of directors are decided according to cantent Bank rules which is checked annually.
4. Signed declaration of independence by the Non Executive Directors	A.5.4	There is a decleration of independence signed by Non Executive Directors
5. Determination of independence of the Directors by the Board	A.5.5	The Board has determined that the submission of declaration/s by the Non Executive Directors, as to the independence of them, as fair representation and will continue to evaluate their submission annually.
6. Senior Independent Directors	A.5.6	Although the requirement to appoint a Senior Independent Director does not arise under this Code, the Bank's Deputy chairman is appointed as the Senior Independent Director in 2012, to meet the requirement under Rule 3(5) (ii) of the CBSL Direction on Corporate Governance.
7. Confidential discussion with the Senior Independent Director	A.5.7	Refer above comment
8. Meeting of Non Executive directors	A.5.8	All Directors are Non Executive Directors.
9. Recording of concerns in Board Minutes	A.5.9	Concerns of Directors have been recorded
A.6. Supply of Information		
Management should provide time bound information in a form and of quality appropriate to enable the Board to discharge its duties. Financial and non-financial information are analysed and presented to the Board to make informed and accurate decisions.		
1. Information to the Board by the Management	A.6.1	The Board was provided with timely and appropriate information by the management by way of Board papers and proposals. The Board sought additional information as and when necessary. Members of the Corporate Management made presentations on issues of importance. The Chairperson ensured that all Directors were briefed on issues arising at Board meetings.

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
2. Adequate time for effective Board meetings	A.6.2	The Board papers were sent to the Directors at least a week before the respective Board meetings giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at the meeting.
A.7 Appointments to The Board		
The Nomination Committee assess the suitability of the prospective nominees to the Board and recommends persons found to be "fit and proper" for consideration of the entire Board. Upon completion of this process, names are referred to the Director of the Bank Supervision Department of the Central Bank of Sri Lanka for approval as a "fit and proper" person.		
Nomination Committee	A.7.1	The Nomination Committee made recommendations to the Board on all new appointments. The Terms of Reference of the Committee was formally approved by the Board.
2. Assessment of Board Composition by the Nomination Committee	A.7.2	The Nomination Committee carried out continuous review of the structure, size and composition (including the skills, knowledge, experience and independence required of Directors) of the Board to address and challenge adequately key risks and decisions that confront, or may confront, the Board and makes recommendations to the Board with regard to any changes.
3. Disclosure of details of new Directors to shareholders	A.7.3	No new director is appointed during the year
A.8 Re-election		
All Directors should submit themselves for re-election at regular intervals and at least once in every three years.		
1. Appointment of Non Executive Directors	A.8.1	Articles of Association of the Bank requires, each Director other than the MD / CEO and any nominee Director, to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior review
2. Election of Directors by the shareholders	A.8.2	Refer above comment
A. 9 Appraisal of Board Performance		
The Board should periodically appraise its own performance against the pre set targets in order to ensure that the Board responsibilities are satisfactorily discharged.		
1. Appraisal of Board performances	A.9.1	Board self assessment is done annually

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
2. Annual self evaluation of the Board and its Committees	A.9.2	There is a self performances evaluation procedure
3. Disclosure of the method of Appraisal of Board and Board Sub Committee performances	A.9.3	Refer page Number 68 For Board attendance and sub committee attendance details respectively
A. 10 Appraisal of Chief Executive Officer (CEO)		
Details in respect of each Director should be disclosed in the Annual Report for the benefit of the shareholders.		
1. Details in respect of Directors	A.10.1	Details of the Directors are given on pages 16 Directors attendance at the Board and Board Sub Committees are given on page 68
A.11. Appraisal of the CEO		
The Board of Director should at least annually assess the performance of the Chief Executive Officer		
1. Targets for MD / CEO	A.11.1	GM/ CEO's performance objectives are aligned with business sustainability of the Bank. The performance targets for the GM/ CEO are set at the commencement of every year by the full Board
2. Evaluation of the performance of the MD /CEO	A.11.2	There is an ongoing process to evaluate the performance of MD / CEO against the financial and non financial targets set as described above, which is followed by a formal annual review by the Board at the end of each financial year
B. Directors' Remuneration		
B.1. Remuneration Procedures		
The Bank should have a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration packages of individual Directors. No Director should be involved in deciding his / her remuneration		
1. HR & Remuneration Committee	B.1.1	The HR & Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management, and for making all relevant disclosures. The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the GM/ CEO. The GM/ CEO participates at meetings when deciding the remuneration of the Corporate Management in order to recruit, retain and motivate the Corporate Management team.
2. Composition of the HR & Remuneration Committee	B.1.2 & B.1.3	All Directors are Non Executive Directors. Chairman of the committee is appointed by the Board. Compossition of the Committee is given on Page No 68
3. Remuneration of the Non Executive Directors	B.1.4	All Directors are Non Executive Directors.

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
4. Consultation of the Chairperson and access to professional advice	B.1.5	Input of the Chairman is obtained by his involvement as a member of the said sub committee.
B.2. Level and make up of Remuneration		
The level of remuneration of both Executive and Non Executive Directors should be sufficient to attract and retain the Directors needed to run the Bank successfully. A Proportion of Executive Directors remuneration should be structured to link rewards to the corporate and individual performance.		
1. evel and make up of the remuneration of Executive Directors	B.2.1	All directors are non executive directors. The Board is mindful of the fact that the remuneration of Executive and the Non Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Bank.
2. Comparison of remuneration with other companies	B.2.2	The Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the GM/CEO) takes into consideration the level of remuneration paid by the other comparable companies, performance and risk factors
3. Comparison of remuneration with other companies in the Group	B.2.3	N/A
4. Performance related payment to Executive Directors	B.2.4	All directors are non executive directors
5. Executive share options	B.2.5	N/A
6. Deciding the Executive Directors remuneration	B.2.6	All directors are non executive directors
7. Early termination of directors	B.2.7	Early termination fee will be decided by the Board of Directors
8. Early termination not included in the initial contract	B.2.8	Early termination fee will be decided by the Board of Directors
9. Remuneration of the Non Executive Directors	B.2.9	The level of remuneration of non executive directors reflect the time commitment and responsibility of their role taking into consideration market practices
B.3. Disclosure of Remuneration		
The Bank should disclose the remuneration policy and the details of remuneration of the Board as a whole.		

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
1. **Disclosure of remuneration**	B.3.1	All directors are non executive directors. Refere the page number 69 for remunerationof directors, composition of remuneration Comiitee
C. Relations with Shareholders		
C.1 Constructive use of the Annual General Meeting and Conduct of General Meetings		
Boards should use the AGM to communicate with shareholders and should		
1. **encourage their participation.**	C.1.1	The Bank has a mechanism to record all proxy votes and proxy votes lodged on each resolution.
2. **Separate resolution for all separate issues**	C.1.2	Bank propose a separate resolution at the AGM on each substantially separate issue.
3. **Availability of all Board Sub Committee Chairman at the AGM**	C.1.3	The Board which includes the Chairmen of the Audit, Remuneration, Nomination and Integrated Risk Management Committees are present at the AGM to answer any questions
4. **Adequate notice of the AGM**	C.1.4	Bank give notice of AGM and related papers to the shareholders before 21 days
5. **Procedures of voting at General Meetings**	C.1.5	Voting procedures at General Meetings are circulated to the shareholders along with the Annual Report
C.2. Major transactions		
Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank, if entered into		
1. Major transactions	C.2.1	During 2012 there were no major transactions as defined by Section 185 of the Companies Act No 7 of 2007 which materially affected SDBL's net asset base.
D. Accountanility and Audit		
D.1. Financial Reporting		
The Board should present a balanced and understandable assessment of the company's financial position, performance and prospects.		
1. **Statutory and Regulatory reporting**	D.1.1	SDBL has reported a true and fair view of its position and performance for the year ended 31st December 2012 and at the end of each month of 2012. In the preparation of quarterly and annual financial statements, SDBL had strictly complied with the requirements of the Companies Act No 07 of 2007, the Banking Act No 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. SDBL has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission.
2. **Directors' report in the Annual report**	D.1.2	The Directors' report given on page 67 of the annual report covers all areas of this section

Corporate Governance Compliance

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
3. Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	The statement of Directors' responsibility for financial reporting is given on page 146 of the Annual Report
4. Management Discussions and analysis	D.1.4	The Management Discussion and Analysis is given on pages 22 to 27 of the Annual Report
5. Declaration by the Board that the business as a going Concern	D.1.5	This is given in the Directors' report on page 67 of the Annual Report
6. Summoning an EGM to notify serious loss of capital	D.1.6	N/A
D.2. Internal Control		
The Board should have a sound system of internal controls to safeguard shareholders' investments and the Bank's assets.		
1. Annual evaluation of the internal controls system	D.2.1	The Board is responsible for establishing a sound framework of internal controls and monitoring it's effectiveness on a continuous basis. The system of internal controls is evaluated by the audit committee. In the year 2012, the Board of Directors was satisfied with the effectiveness of the system of internal controls, which is evidenced through the report of the CEO and CFO on internal controls over financial reporting given on page 10 directors statement on internal control) of the Annual Report
2. Need for internal audit function	D.2.2	The bank review the internal control function once the year. Refer page no 74 For directors statement on internal control
D.3. Audit Committee		
The Board should have a formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor.		
1. Composition of the Audit committee	D.3.1	Refer page no 68 for audit committee composition
2. Review of Objectivity of the External Auditor	D.3.2	Audit committee review the independently and objectivity of the external auditors periodically
3. Terms of reference of the Audit Committee	D.3.3	Bank has written Terms of Refference for Audit Committee which adress the requirements of the code

Corporate Governance principle	SEC & ICASL code Reference	SDBL's Extent of Compliance in 2012
4. Disclosures of the Audit committee	D.3.4	The names of the members of the Audit Committee are given on page 67 The Committee ensures the rotation of External Audit Engagement Partner once in every 5 years. The External Auditor has provided an Independence confirmation in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC
D.4. Code of Business Conduct and Ethics		
The Bank should develop a Code of Business Conduct and Ethics for Directors and members of the Senior Management team.		
1. Code of Business Conduct and ethics	D.4.1	The Bank has developed a code of business conduct & ethics for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behavior etc.
2. Affirmation by the Chairperson that there is no violation of the code of conduct and ethics	D.4.2	Please refer the Chairperson's statement on page 6 for details
D.5. Corporate Governance Disclosures		
The Bank should disclose the extent of adoption of best practice in Corporate Governance.		
1. Disclosure of Corporate governance	D.5.1	This requirement is met through the presentation of this report.
E. Institutional Investors		
E.1. Shareholders voting		
Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.		
1. Institutional shareholders	E.1.1	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern to the general membership.
E.2. Evaluation of Corporate Governance initiatives		
Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.		
F. Other Investors		
F.1. Investing / Divesting decision		
1. Individual Shareholders	F.1.1	Information are readily available for individual shareholders investing directly in shares of the company to encourage and carryout adequate analysis
F.2. Shareholder Voting		
2. Individual shareholders voting	F.2.1	Individual shareholders are encouraged to participate at Annual General Meetings and exercise their voting rights.

Events

Nelum Mal Pujawa Anuradhapura

Gampaha Branch Opening

Gampaha Branch Opening

Nelum Mal Pujawa Anuradhapura

Maharagama Branch Opening

VISA Debit Card Launch

Get - together - Gampaha

Appointment of General Manager/CEO
Mr. M. T. Galgamuwa

Jawaya Social Star Launch

If you travel into the rural villages of Sri Lanka, it wouldn't be surprised if you've had a cup of delicious plain tea from a 'Petti Kade'. These little shops are the livelihood of many rural families. Sanasa Development Bank has helped many such shops to grow by providing capital to obtain refrigerators, deep freezers and other utilities which are vital for healthy business.

Financial Statements

Financial Contents

Report of the Directors

The Board of Directors of SANASA Development Bank have pleasure in Presenting to members their report together with the audited financial statements for the financial year ended 31st December 2012.

Review of the year's performance

The Chief Executive Officer's Review which was Considered as an integral part of the directors report, contained a detailed description of the Bank's Performance during the financial year under consideration

Principal Activities

The principal activities of the SANASA Development Bank are general banking activities, mobilization of deposits at competitive rates of interest and the investment of these deposits in community based lending programs, with special focus on sanasa societies, their members and other micro enterprises. The Bank's range of products includes special Deposits, Credit, Pawning , Leasing and Refinance Loan Schemes.

Review of operations

A review of the operations of the bank during the Financial year and result of those operations are contained in the Chief Executive Officer's   Review of this Annual Report. This report forms an integral part of the Director's Report.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of Financial Statements and the impact of the changes in Sri Lanka Accounting Standard during the year .

Going Concern

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

Branch Expansion

As at 31st December 2012 the Bank had 81 branches.

Internal Control

The Board has the overall responsibility of the Bank's systems of internal financial control. The Directors hereby give reasonable assurance that they will safeguard the entire assets of the Company . The Directors also affirm that all transactions executed were well authorized, properly recorded and as well as material errors and irregularities, if any ,either prevented or detected within a reasonable period of time.

The Directors also affirm that they are satisfied with the effectiveness of the system of Financial controls operative for the period up to the date of signing of the accounts.

Company Secretary

The Company Secretary is qualified to act in her capacity according to the provisions of the Companies Act . The Board is assisted by the Company Secretary , who advises ,on proper procedures rules and regulations regarding Board matters.

Corporate Governance

The Directors are directly responsible for the Governance of the Bank establishment and maintenance of the Bank's System of Internal Financial Control.

Board Committees

The Board while assuming the overall responsibility and the accountability in the Management of the Bank , has also appointed Board Committees to ensure oversight ,control over certain affairs of the Bank, confirming the Corporate Governance Standards as per the Directions issued by the Central Bank of Sri Lanka. The Following Committees were established by the Board

BOARD AUDIT COMMITTEE

Prof. W.M.A.Bandara (Chairman)
Dr.R.M.K.Ratnayake
Mr.U.G.Ramawickrama

BOARD CREDIT COMMITTEE

Mr.T.Karunasena   (Chairman)
Mr.D.P.Kumarage
Mr.A.D.Walisinghe
Mr.H.M.G.B.Herath

BOARD HUMAN RESOURCES A DEVELOPMENTA AND REMUNERATION COMMITTEE

Mr.T.Karunasena (Chairman)
Mrs.M.S.Kiriwandeniya
Mr.M.Vidanapathirana
Mr.H.M.G.B.Herath

BOARD SELECTION AND NOMINATION COMMITTEE

Mr.T.Karunasena (Chairman)
Mrs.M.S.Kiriwandeniya
Mr.D.P.Kumarage
Dr.R.M.K.Ratnayake
Mr.A.D.Walisinghe

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Dr.R.M.K.Ratnayake (Chairman)
Mr.D.P.Kumarage
Prof.W.M.A.Bandara
Mr.M.T.Galgamuwa - General Manager / CEO
Mr.K.G.Leelananda - Senior DGM
Mr.E.A.A.S.Ediriwickrama - DGM (Credit, Development and finance)
Mr. H.T.P. Susantha - AGM (Compliance)

Profits and Appropriations

The Following is a summary of the consolidated financial statements of the Bank during the year ended 31st December 2012.

	2012 (Rs Million)	2011 (Rs Million)
Profit Before taxation	516	581
Provision for taxation	175	199
Other comprehensive income	30	-
Profit after taxation	311	382

Dividends

During the year the Company has paid an Interim Dividend Rs. 5/- per share .

The Directors recommend a final dividend of Rs. 5/- per share to the shareholders.

This dividend would be presented for approval at the Annual General Meeting to be held on 31st May 2013. Subject to the Satisfactory Compliance of the solvency test as required by the companies act No.07 of 2007.

Stated Capital

The stated capital of the bank as at 31st December 2012 was Rs . 2,517,532,200.00

Share Holding

There were 60,602 Share holders as at 31st December 2012.

The Analysis of share holders is given in the schedule below:

Attendance & quorum of Board & Board Sub Committees 2012

	Name	Board Meeting	Board Credit Committee Meeting	Board Audit Committee Meeting	Board Human Resource Development & Remuneration Committee	Board Integrated Risk Management Committee
1	Mrs.M.S.Kiriwandeniya (Chairperson)	11\12				
2	Mr.T.Karunasena (Deputy Chairman)	12\12	12\12		9\9	
3	Mr.A.D.Walisinghe	11\12	12\12			
4	Mr.D.P.Kumarage	7\12	7\12			3\3
5	Dr.R.M.K.Ratnayake	11\12		11\12		3\3
6	Prof. W.M.A.Bandara	9\12		10\12		2\3
7	Mr.U.G.Ramawickrama	12\12		12\12		
8	Mr. M. Vidanapathirana	12\12			6\9	
9	Mr.H.M.G.B.Herath	12\12	10\12		7\9	

	As at 31/12/2012 No of Institutions	As at 31/12/2012 Amount (Rs.)	As at 31/12/2011 No of Institutions	As at 31/12/2011 Amount (Rs.)
SANASA Federation	1	34,535,800	1	27,146,700
Sanasa Unions (DTCCSU)	33	47,251,200	38	85,219,500
Sanasa Societies (PTCCS)	3458	480,239,900	4,052	1,017,700,100
MPCCSs	20	12,903,200	20	12,903,200
Other institution & Individuals	56984	1,371,235,000	59,705	1,284,562,700
Trust companies	106	571,367,100	-	-
TOTAL	60602	2,517,532,200	63,816	2,427,532,200

DTCCSU Ltd : District Thrift & Credit Co-operative Society Union Ltd.
PTCCS : Primary Thrift & Credit Co-operative Society.
MPCCS: Multi Purpose Credit & Co-operative Society

Value Bands

Share Range				No. of Shareholders	No. of Shares	Holding %
1.	1	-	1000	59,304	8,821,535	35.040
2.	1001	-	10000	1,097	3,068,378	12.188
3.	10001	-	100000	177	5,767,253	22.908
4.	100001	-	1000000	24	7,518,156	29.864
5.	1000001	-	& Above	0	0	0.000
Total				60,602	25,175,322	100.00

20 Major Share holders as at 31st December 2012.

Details of the 20 largest shareholders of the Bank and the percentages held by them are disclosed below.

	Name	No of Shares	%
1	People s Leasing PLC	1,000,000	3.97
2	International Finance Co-Operation	900,000	3.57
3	J.B.Cocoshell (Pvt) Ltd	611,003	2.42
4	ETIMOS Lanka (Pvt) Limited	590,229	2.34
5	Seemasahitha Sanasa Rakshana Samagama (General)	583,128	2.31
6	Seemasahitha Sanasa Rakshana Samagama (Life)	500,000	1.98
7	Kegalle Sanasa Shareholders Trust Company Ltd	491,423	1.95
8	Sanasa Federation Ltd	345,358	1.37
9	Warakapola Sanasa Shareholders Trust Company Ltd	313,939	1.24
10	Polgahawela Sanasa Shareholders Trust Company Ltd	225,039	0.89
11	Wennappuwa Sanasa Shareholders Trust Company Ltd	223,660	0.88
12	Polpithigama Sanasa Shareholders Trust Company Ltd	172,256	0.68
13	Kamburupitiya Sanasa Shareholders Trust Company Ltd	171,470	0.68
14	Gampaha DTCCS Union Ltd	167,396	0.66
15	Galewela Sanasa Shareholders Trust Company Ltd	146,728	0.58
16	Kesbewa Sanasa Shareholders Trust Company Ltd	135,992	0.54
17	Galle Sanasa Shareholders Trust Company Ltd	127,600	0.50
18	Madampe Thrift and Credit Co-Operative Society Ltd	125,483	0.49
19	Chilaw Sanasa Shareholders Trust Company Ltd	123,516	0.49
20	Biyagama Sanasa Shareholders Trust Company Ltd	122,343	0.48

Report of the Directors

Employment

It is the policy of the Bank to maintain a dedicated and motivated team of employees, committed to achieve the targets set by management according to the strategic plan and under the guidance of the Directors.

The number of persons employed by the bank as at 31st December 2012 was 823.

Directors

The Board of the SANASA Development Bank consists of 09 Directors who posses wide range of skills. Knowledge and experience. Three Directors were nominated to the Board as Independent Directors as per the direction of the Central Bank Regulations.

Board of Directors	Catogary
Ms. M.S. Kiriwandeniya	Chairperson/Non Executive Director
Mr. T.Karunasena	Deputy Chairman Independent Non Executive Director
Mr. A.D. Walisinghe	Non Executive Director
Mr. D.P. Kumarage	Non Executive Director
Dr. R.M.K. Rathnayake	Independent Non Executive Director
Mr. U.G.Ramawickrama	Independent Non Executive Director
Mr. M. Vidanapathirana	Independent Non Executive Director
Mr. H.M.G.B.Herath	Independent Non Executive Director
Mr. L. Abeysekera	Independent Non Executive Director

Retirement of Directors

In Terms of Article No. 6(4) of the Association of the Company Mr.D.P.Kumarage, Mr.U.G.Ramawickrama & Mr.M.Vidanapathirana retires by rotation.

Directors' Interests

Directors interests in contracts with the bank, both direct and indirect are referred to in Notes to the Accounts. These interests have been declared at Board Meetings. The Directors have no direct or indirect interest in any other contract or proposed contract with the company.

Post Balance Sheet Events

No events requiring adjustments to the accounts occurred subsequent to the date of the Balance Sheet and up to the date of signing of the accounts.

Prof. W.M.A. Bandara (Independent Director) resigned from the board with effect from 1st of January 2013. Mr. L. Abeysekera was appointed 30th April 2013 as an independent Director.

Directors Interest in Shares

During the period under review the directors held shares as followers:

	As at 31-12-2012	As at 31-12-2011
Mrs.M.S.Kiriwandeniya	1712	1712
Mr.T.Karunasena	3149	-
Mr.U.G.Ramawickrama	50	50

Interest Register

In terms of Companies Act No.07 of 2007 an Interest Register is maintained by the Company. Directors have made General declarations as provided for in section 192 (2) of the Companies Act No.07 of 2007. Arising from these details of contracts in which they have an Interest are given under Note to the Financial Statement of the Annual Report during with related party disclose.

Directors' Remuneration

Directors' fees and emoluments paid during the year 2012 are provided under notes of the financial statement.

Corporate Governance

The Company's status of compliance with corporate governance principles and practices is set out in the Corporate Governance Report of the Annual Report.

Annual General Meeting

The 16th Annual General Meeting of the Bank will be held at SANASA Siyawasa Hall, Paragammana, Hettimulla, Kegalle at 9.00 a.m on the 31st May 2013.

The Auditors

The retiring Auditors M/s Ernst & Young Chartered Accountants have expressed their willingness to continue in office for the year ending 31st December 2013. A resolution relating to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board

M. S. Kiriwandeniya Chairperson	**T. Karunasena** Deputy Chairman

Tamarika Rodrigo
Company Secretary

27th March 2013

Directors Responsibility for Financial Reporting

The Board of Directors of SDB PLC has responsibility for ensuring that the bank keeps proper books of accounts of all the transactions and prepares financial statements.

The bank's financial statements for the year 2012 are prepared in conformity with the requirements of accepted accounting principles and the accounting standards,the Companies Act No. 07 of 2007 and the banking Act No.30 of 1988. The financial statements presented in this report reflect a true and fair view of the state of affairs of the bank.

The Board of Directors has instituted an effective and comprehensive system of internal control. It consists of internal checks, internal audits and the whole system of financial and other controls required to carry on the business o f the bank in an orderly manner.

In preparing these financial statements,appropriate accounting policies have been adhered to and agreeable judgments and estimates have been made. The Directors oversee the management in the latter's discharge of responsibilities with respect to the preparation and presentation of financial statements at their regular meetings.

The Directors have adapted sensible steps and protective measures to safeguard the assets of the bank. The Bank Supervision Department of the Central Bank of Sri Lanka carries out periodic statutory examinations of the records and affairs of the bank to ensure effective implementation of the bank's internal control systems. The bank's Auditors Messrs Ernst & Young, carry out audits on internal control as and when necessary.

The Directors are responsible for providing the Auditors with every opportunity to carry out their audits to ensure the accuracy and reliability of accounting records and to enable the preparation of financial statements. Every opportunity has also been provided to the Auditors, on a transparent basis, to present any audit opinion that was considered necessary.

The Directors assure shareholders that, to the best of their knowledge, all contributions such as taxes and statutory levies payable on behalf of the bank have been settled.

Tamarika Rodrigo
Company Secretary

27th March 2013

Report of the Audit Committee

The Audit Committee's authority, responsibilities and functions have been defined in the Terms of Reference of Audit Committee approved by the Board of Directors. During the year under review the Audit Committee functioned according to these Terms of Reference. The Audit Committee assists the Board of Directors in preserving the quality and effectiveness of the Bank's Internal Control Systems. In addition, it is empowered to evaluate the annual audit plan and the monthly work programme, as well as to review and monitor the functions of the internal audit department.

The committee consists of Three Directors. The Secretary to the board functions as Committee Secretary.

The Chief Internal Auditor of the Inspection and Audit Department participates in the Committee by invitation. Proceedings During the financial year ended 31st December 2012, 12 Committee Meetings were held. Reports of these meetings were submitted regularly to the board, which discussed them in conjunction with replies sent in by Branch Managers with respect to matters arising from internal audit and inspection reports.

Findings

The Committee is of the view that sufficient Inspection and Audit work has been carried out at our branches in the year under review.

Having inspected the reports of both the external and internal Auditors the committee expresses its satisfaction with the Internal Control Systems of the bank.The Committee is of the view that adequate control and procedures are in place to provide reasonable assurances that the bank's assets are safeguarded.

Recommendations

The Audit Committee has recommended to the Board of Directors that the firm of Ernst & Young be appointed as auditors to the Bank for the financial year ending 31st December 2013, subject to the approval of shareholders at the forthcoming Annual General Meeting.

Dr. R. M. K. Ratnayake
Chairman – Audit Committee
27th March 2013

Directors Statement on Internal Control Over Financial Reporting

RESPONSIBILITY

In line with the Banking Act Direction No. 12 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at SANASA Development Bank PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

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 ADOPTED IN APPLYING IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

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:

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

- The 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 Board Audit Review Committee. Findings of the Internal audit Department are submitted to the Board Audit Review Committee for review at their periodic meetings.

- The Board Audit Review Committee of the Bank reviews internal control issues identified by the Internal Audit Department, 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 Board Audit Review Committee meetings are forwarded to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 73.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis. As the current year was the first year of adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure are being introduced, and as at balance sheet date were not fully completed. The assessment did not include subsidiaries of the Bank.

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 and 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 over financial reporting included in the annual report of the Bank for the year ended 31 December 2012 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank.

By order of the Board

Tamarika Rodrigo
27th March 2013

Independent Report of the Auditors

ERNST & YOUNG

Chartered Accountants
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P.O. Box 101
Colombo 10
Sri Lanka

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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF

SANASA DEVELOPMENT BANK PLC

Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of SANASA Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2012.

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.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our 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

We conducted our engagement 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 company 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 us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our 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.

Ernst & Young

27 March 2013
Colombo

Independent Report of the Auditors

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TO THE SHAREHOLDERS OF SANASA DEVELOPMENT BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of SANASA Development Bank PLC ("Bank"), which comprise the statement of financial position as at 31 December 2012, and statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

Ernst & Young

27th March 2013

Colombo

Statement of Comprehensive Income

Year ended 31 December 2012	Note	2012 Rs.	Bank 2011 Rs.	Group 2011 Rs.
Interest income		3,782,126,471	3,017,607,460	3,017,607,460
Interest expenses		(1,879,248,208)	(1,200,513,830)	(1,200,045,684)
Net interest income	3	1,902,878,263	1,817,093,630	1,817,561,777
Fee and commission income		71,767,253	73,907,875	73,907,875
Fee and commission expenses		(496,160)	(257,795)	(548,380)
Net fee and commission income	4	71,271,093	73,650,080	73,359,495
Net gain/(loss) from financial instruments at fair value				
through profit or loss	5	(10,661,024)	(48,789,973)	(48,789,973)
Other operating income (net)	6	52,011,674	22,145,427	36,291,585
Total operating income		2,015,500,007	1,864,099,163	1,878,422,884
Impairment for loans and other losses	7	(60,866,067)	(27,230,760)	(27,230,760)
Net operating income		1,954,633,940	1,836,868,403	1,851,192,124
Personnel expenses	8	(447,636,612)	(399,026,149)	(404,590,687)
Other expenses	9	(893,835,684)	(746,261,217)	(750,071,056)
Operating profit before value added tax (VAT)		613,161,643	691,581,037	696,530,380
Value added tax (VAT) on financial services		(96,665,123)	(110,086,110)	(110,086,110)
Operating profit after value added tax (VAT)		516,496,520	581,494,927	586,444,270
Profit before tax		516,496,520	581,494,927	586,444,270
Tax expenses	10	(175,781,016)	(199,453,320)	(199,453,320)
Profit for the year		340,715,504	382,041,607	386,990,951
Profit attributable to				
Owners of parent		340,715,504	382,041,607	383,031,477
Non-controlling interests		-	-	3,959,474
Profit for the year		340,715,504	382,041,607	386,990,951
Other Comprehensive Income				
Actuarial losses on defined benefit plans		(2,225,280)	(1,864,608)	(1,864,608)
Gains and losses on re-measuring available-for-sale financial assets		(27,621,440)	-	-
Other Comprehensive Income for the year net of tax		(29,846,720)	(1,864,608)	(1,864,608)
Total Comprehensive Income for the year		310,868,784	380,176,999	385,126,343
Total Comprehensive Income to attributable to				
Owners of parent		310,868,784	380,176,999	381,166,869
Non-controlling interests		-	-	3,959,474
Total Comprehensive Income for the year		310,868,784	380,176,999	385,126,343
Earnings per share on profit				
Basic earnings per share - Basic/Diluted	11	13.73		15.78

The Accountig Policies and Notes on pages 83 through 136 from an integral part of the Financial Statements.

Statement of Financial Position

As at 31 December 2012	Note	Bank 2012 Rs.	Bank 2011 Rs.	Bank 1 January 2011 Rs.	Group 2011 Rs.	Group 1 January 2011 Rs.
Assets						
Cash and cash equivalents	12	503,541,364	419,998,163	262,965,754	419,998,163	262,965,754
Placements with banks	13	2,070,306,725	1,603,883,955	613,753,836	1,603,883,955	613,753,836
Financial assets fair value through profit or loss	14	184,418,666	245,980,855	68,774,700	245,980,855	68,774,700
Other Financial Asset Classified under Loans and receivable	15	470,098,767	349,575,289	1,713,590,400	349,575,289	1,713,590,400
Loans and receivables to other customers	16	19,712,033,278	16,602,735,057	12,513,905,604	16,602,735,057	12,513,905,604
Financial investments - Available-for-sale	17	171,695,504	29,980,144	26,085,194	29,980,144	26,085,194
Financial investments - Held-to-maturity	18	709,364,687	960,263,389	1,558,579,533	960,263,389	1,558,579,533
Investments in subsidiaries	19	-	200,000	250,000	-	-
Property, plant and equipment	20	603,233,111	629,070,235	453,978,408	633,166,352	457,449,868
Investment properties	21	28,670,810	29,726,840	30,782,870	29,726,840	30,782,870
intangible assets	22	127,676,865	151,691,527	156,439,784	151,691,527	156,439,784
Other assets	23	318,516,213	336,616,825	286,445,160	340,377,252	299,526,728
Total assets		24,899,555,990	21,359,722,279	17,685,551,243	21,367,378,823	17,701,854,272
Liabilities						
Due to other Due to other customers	24	18,947,514,278	15,756,917,797	13,083,414,282	15,741,145,694	13,078,268,229
Other borrowings	25	1,557,328,793	1,538,766,930	1,342,040,414	1,538,766,930	1,342,040,414
Current tax liabilities		70,561,307	44,014,161	191,215,132	44,014,161	191,215,132
Deferred tax liabilities	10.1	27,713,312	26,211,953	22,752,261	26,211,953	22,752,261
Other liabilities	26	1,027,303,270	784,413,040	746,876,869	801,482,241	767,122,292
Total liabilities		21,630,420,960	18,150,323,880	15,386,298,958	18,151,620,978	15,401,398,328
Equity						
Stated capital	27	2,526,532,200	2,427,532,200	1,820,268,406	2,427,532,200	1,820,268,406
Statutory reserve fund	28	82,106,242	65,070,467	47,803,484	65,070,467	47,803,484
Retained earnings	29	443,159,830	595,291,857	384,523,422	596,403,748	384,806,998
Other reserves	30	217,336,758	121,503,875	46,656,973	121,503,875	46,656,973
Total equity of the owners of the parent		3,269,135,030	3,209,398,399	2,299,252,285	3,210,510,291	2,299,535,861
Non-controlling interests		-	-	-	5,247,554	920,083
Total equity		3,269,135,030	3,209,398,399	2,299,252,285	3,215,757,845	2,300,455,944
Total equity and liabilities		24,899,555,990	21,359,722,279	17,685,551,243	21,367,378,823	17,701,854,272
Contingent liabilities and commitments	31	143,213,715	141,261,586	100,814,608	141,261,586	100,814,608

Certification

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

H.T.P. Susantha
AGM - Compliance

The Board of Directors are responsible for the preparation and presentation of these Financial Statements.Signed for and on behalf of the Board by;

M.S. Kiriwandeniya	**T. Karunasena**	**M.T. Galgamuwa**	**Tamarika Rodrigo**
Chairperson	Deputy Chairman	General Manager/CEO	Company Secretary

The Accountig Policies and Notes on pages 83 through 136 from an integral part of the Financial Statements.

27th March 2013
Colombo

Statement of Changes In Equity

Year ended 31 December 2012

Bank	Stated capital				Reserves		
	Ordinary voting shares	Funds Awaiting Allotment	Statutory Reserve	Investment Fund	Retained earnings	General reserves	Total equity
Balance as at 01/01/2011	1,773,777,600	46,490,806	47,803,484	-	384,523,422	46,656,973	2,299,252,285
Profit for the year	-	-	-	-	382,041,607		382,041,607
Other comprehensive income (net of tax)					(1,864,608)	-	(1,864,608)
Total comprehensive income for the year	-	-	-	-	380,176,999	-	380,176,999
Transactions with equity holders, recognised directly in equity							
Application Received	-	607,263,794	-	-	-	-	607,263,794
Share issue/increase of assigned capital	653,754,600	(653,754,600)	-	-	-	-	-
Transfer to Statutary Reserve fund	-	-	17,266,982	-	(17,266,982)	-	-
Transfer to Investment Fund	-	-	-	74,846,902	(74,846,902)	-	-
Dividends to equity holders	-	-	-		(77,294,680)	-	(77,294,680)
Total transactions with equity holders	653,754,600	(46,490,806)	17,266,982	74,846,902	(169,408,564)	-	529,969,114
Balance as at 31/12/2011	2,427,532,200	-	65,070,467	74,846,902	595,291,857	46,656,973	3,209,398,399
Profit for the year	-	-	-	-	340,715,504	-	340,715,504
Other comprehensive income (net of tax)	-	-	-	-	(29,846,720)	-	(29,846,720)
Total comprehensive income for the year	-	-	-	-	310,868,784	-	310,868,784
Transactions with equity holders, recognised directly in equity							
Share issue/increase of assigned capital	99,000,000	-	-	-	-	-	99,000,000
Transfer to Statutary Reserve fund	-	-	17,035,775	-	(17,035,775)	-	-
Transfer to Investment Fund	-	-	-	95,832,883	(95,832,883)	-	-
Dividends to equity holders	-	-	-	-	(350,132,154)	-	(350,132,154)
Total transactions with equity holders	99,000,000	-	17,035,775	95,832,883	(463,000,812)	-	(251,132,154)
Balance as at 31/12/2012	2,526,532,200	-	82,106,242	170,679,785	443,159,830	46,656,973	3,269,135,030

Group	Stated capital				Reserves			
	Ordinary voting shares	Funds Awaiting Allotment	Statutory Reserve	Investment Fund	Retained earnings	General reserves	Non-controlling interests	Total Equity
Balance as at 01/01/2011	1,773,777,600	46,490,806	47,803,484	-	384,806,998	46,656,973	920,083	2,300,455,944
Total comprehensive income for the year								
Profit/(loss) for the year	-	-	-	-	383,031,477	-	3,959,474	386,990,951
Other comprehensive income (net of tax)				-	(1,864,608)	-	-	(1,864,608)
Total comprehensive income for the year	-	-	-	-	381,166,869	-	4,879,557	385,126,343
Transactions with equity holders, recognised directly in equity								
Application Received	-	607,263,794	-	-	-	-	-	607,263,794
Share issue/increase of assigned capital	653,754,600	(653,754,600)						-
Transfer to Statutary Reserve fund	-	-	17,266,982	-	(17,266,982)	-	-	-
Transfer to Investment Fund	-	-	-	74,846,902	(74,846,902)			-
Dividends to equity holders	-	-	-	-	(77,294,680)	-	-	(77,294,680)
acquisition of Subsidiary	-	-	-	-		-	50,000	50,000
Consolidated Adjustment	-	-	-	-	(161,554)	-	317,998	156,444
Total transactions with equity holders	653,754,600	(46,490,806)	17,266,982	74,846,902	(169,570,118)	-	367,998	530,175,558
Balance as at 31/12/2011	2,427,532,200	-	65,070,467	74,846,902	596,403,748	46,656,973	5,247,554	3,215,757,845

Statutory Reserve Fund

Every Licensed Specialised Bank has to make a Provision not less than 5% out of profit after tax to the Statutory Reserve Fund. Such provision should be made annually as stipulated by the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995 until the said Reserve Fund is equal to 50% of the Equity Capital of the Bank. Thereafter, the Bank has to make a provision not less than 2% out of profit after tax to the Statutory Reserve Fund until the said Fund is equal to the Equity Capital of the Bank.

General Reserve

The General Reserve is created after provisioning for a Statutory Reserve Fund and Interim Dividend payments for the respective share holders, this reserve will be used by the Bank for the Future Capitalisation purposes of the Bank.

Revenue Reserve

After setting off Statutory Reserve and General Reserve remaining balance transfer to the Revenue Reserve, the Reserve would be utilised to pay the Final Dividend.

Investment Fund

According to Guidelines issued by Central Bank of Sri lanka dated on 29th Apil 2011, 8% of the profit calculated for the payment of VAT on FS on dated as specified in the VAT Act for payment of VAT and 5% of the profit before tax calculated for payment of income tax purposes on dated spscified in Section 113 of the Inland Revenue Act for the self assessment payment of tax transfer to Investment fund.

Statement of Cash Flows

Year ended 31 December 2012	Bank 2012 Rs.	Bank 2011 Rs.	Group 2011 Rs.
Cash Flows From / (Used in) Operating Activities			
Interest Received	3,539,029,867	2,970,222,001	2,970,222,001
Fee and Commission Received	71,767,253	73,907,875	84,769,587
Receipts from other Operating Activities	52,011,674	22,322,580	22,322,580
Interest Payment	(1,651,638,461)	(1,150,823,055)	(1,150,354,908)
Cash Payment to Employees	(434,929,532)	(371,152,452)	(375,137,618)
Payments to Suppliers and Other Operating Activities	(700,304,947)	(661,734,264)	(667,230,228)
Fee and Commission Expenses	(496,160)	(257,795)	(452,458)
Operating Profit before Changes in Operating Assets	875,439,694	882,484,889	884,138,956
(Increase)/Decrease in Operating Assets			
Funds Advanced to Customers	(2,919,468,826)	(4,040,176,401)	(4,040,176,401)
Other Short Term Securities	(452,079,317)	(565,652,488)	(565,652,488)
Increase/(Decrease) in Operating Liabilities			
Deposits from Customers	2,919,629,708	2,619,111,510	2,603,339,407
Net Cash from Operating Activities Before Income Tax	423,521,259	(1,104,232,490)	(1,118,350,526)
Income Tax Paid	(180,948,133)	(315,703,612)	(315,703,612)
Net Cash from Operating Activities	242,573,126	(1,419,936,102)	(1,434,054,138)
Cash Flows from / (Used in) Investing Activities			
Dividend Received	14,061,469	4,755,884	4,755,884
(Increase)/ Decrease in Non Dealing Securities	335,094,139	834,884,361	834,884,361
(Increase)/ Decrease in Dealing Securities	108,784,377	(177,206,155)	(177,206,155)
(Increase)/ Decrease in Treasury Bonds and other Investments	(354,844,402)	655,016,070	655,016,070
Proceeds from sale of Property, Plant and Equipment	3,925,670	1,551,353	1,551,353
Purchase of Property, Plant and Equipment	(148,069,494)	(333,626,601)	(335,025,983)
Net Cash from/ (used in) Investing Activities	(41,048,242)	985,374,912	983,975,530
Cash Flows from (Used in) Financing Activities			
Proceeds from Issuance/Allotment of Shares	99,000,000	607,263,794	607,263,795
Dividend Paid	(225,146,740)	(77,294,680)	(77,294,680)
Net Increase/(Decrease) in Borrowing	17,601,855	201,427,745	201,427,745
Funds Received/(Utilized) During the period	(9,436,800)	(139,803,259)	(124,285,843)
Net Cash Flow from/ (used in) Financing Activities	(117,981,685)	591,593,600	607,111,017
Net Increase/ (Decrease) in Cash and Cash Equivalents	83,543,200	157,032,410	157,032,409
Cash and Cash Equivalent at the beginning of the year	419,998,165	262,965,754	262,965,754
Cash and Cash Equivalents at the end of the year	503,541,364	419,998,165	419,998,163

The Accountig Policies and Notes on pages 83 through 136 from an integral part of the Financial Statements.

Accounting Policies

1. Corporate Information

1.1 General

SANASA Development Bank PLC is a Licensed Specialised Bank established under the Banking Act No. 30 of 1988. It is a Limited Liability Company, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 12, Edmenton Road, Colombo 6. The bank has a primary listing on the Colombo Stock Exchange.

1.2 Principal Activities

SANASA Development Bank PLC provides a comprehensive range of financial services encompassing Development Banking, Corporate Banking, Personal Banking, Corporate and Trade Finance, Leasing and Other Associated Activities

1.3 Parent Entity and Ultimate Parent Entity

The Bank does not have an identifiable parent of its own.

1.4 Date of Authorisation of Issue

The financial statements for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the directors on 31 March 2013.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for available–for–sale investments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss. The financial statements are presented in Sri Lankan Rupees (Rs.) and all values are rounded to the nearest rupee, except when otherwise indicated.

2.1.1 First-time adoption of Sri Lanka Accounting Standards (SLFRSs/LKASs)

For all periods up to and including the year ended 31 December 2011, the Bank has prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLASs). These financial statements, for the year ended 31 December 2012 are the first the Bank has prepared in accordance with SLFRSs and LKASs (hereafter "SLFRSs").

Accordingly, the Bank has prepared financial statements which comply with SLFRSs applicable for periods ending on or after 31 December 2012, together with the comparative period date as at and for the year ended 31 December 2011, as described in accounting policies. In preparing these financial statements, the Bank's opening statement of financial position was prepared as at 1 January 2011, which was the Bank's date of transition from SLASs to SLFRSs.

Note No. 41 explains the principal adjustments made by the Bank in restating its SLFRSs statement of financial position as at 1 January 2011 and its previously published SLAS financial statements for the year ended 31 December 2011.

2.1.2 Statement of Compliance

The Financial Statements of the Bank which comprise of the Statement of financial position, Statement of other comprehensive income, Statement of changes in equity, Statement of cash flow and significant accounting policies and notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007.

2.1.3 Presentation of financial statements

The bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–current) is presented in note 38.

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 expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

2.1.4 Comparative information

Previous period figures and Notes have been restated and reclassified wherever necessary to conform to the current year's presentation as illustrated in note 41. The Company has applied the exception given by the Institute of Chartered Accountants of Sri Lanka in applying comparative figures for SLFRS 7-Financial Instruments Disclosures. Accordingly the comparative disclosure required by paragraph 31-42 (Nature and extent of risk arising from Financial Instruments) will not be disclosed for comparative period due to difficulty of gathering such information.

2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

(a) Going concern

The bank's management has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank 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.

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 36.

(c) Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provide for The impairment loss on loans and advances as disclosed in Note 7 and Note 16. All individually not insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

(d) Impairment of available–for–sale investments

The bank records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(e) Deferred tax assets

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

(f) Taxation

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

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

(g) Defined Benefit plan

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, Salary Increment Rate, Age of Retirement, and Mortality Rates. Due to the long–term nature of these plans, such estimates are subject to significant uncertainty. The assumptions used for valuation is disclosed in more detail in Note 26.1.

(h) 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.

2.3 Summary of significant accounting policies

2.3.1 Foreign currency translation

The financial statements are presented in Sri Lankan Rupees (Rs.).

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non–trading activities are taken to 'Other operating income' in the income statement.

2.3.2 Financial instruments

2.3.2.1 Initial recognition and subsequent measurement

(a) Date of recognition

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

(b) Initial measurement of financial instruments

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

(c) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

(i) Financial assets or financial liabilities held–for–trading

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net operating income'. Interest and 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. Included in this classification are debt securities, equities and short positions.

(ii) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

The assets and liabilities are part of a of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and

liabilities designated at fair value through profit or loss'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

The Bank has not designated any financial assets and liabilities upon initial recognition as at fair value through profit or loss

(iii) '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 ('Day 1' profit or loss) in 'Net operating 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.

(iv) 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. After initial measurement, held–to–maturity financial investments are subsequently measured at amortised cost using the 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 and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment for loans and other losses'. If the bank were 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.

Included in this classification are debt securities and short positions

(iv) Due from banks and loans and advances to customers (Loans and Receivables)

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

- Those that the bank intends to sell immediately or in the near term and those that the bank upon initial recognition designates as at fair value through profit or loss.

- Those that the bank, upon initial recognition, designates as available for sale.

- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances 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 comprehensive income. The losses arising from impairment are recognised in the comprehensive income in 'Impairment for loans and receivables.

Included in this classification are Placement with local banks and Loans and receivable to customers.

(v) Debt issued and other borrowed funds

Financial instruments issued by the bank, that are not designated at fair value through profit or loss, are classified as liabilities under 'Due to customers and other borrowings', where the substance of the contractual arrangement results in the bank having an obligation either to deliver cash or another financial asset to the 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.

(vi) Available–for–sale financial investments

Available–for–sale investments include equity and debt securities. Equity investments classified as available–for – sale are those which are neither classified as held–for–trading nor designated at fair value through profit or loss. The bank has not designated any loans or receivables as available–for–sale. After initial measurement, available–for–sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity in the 'Available–for– sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first–in first–out basis. Dividends earned whilst holding available–for–sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the 'Available–for–sale reserve'.

2.3.2.2 Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 36.

2.3.2.3 Impairment of financial assets

The bank assesses at each statement of financial position 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 has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held–to–maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Income Statment'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's credit risk characteristics such as asset type, industry, geographical location, past–due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Notes 7 for details of impairment losses on financial assets carried at amortised cost, Note 16 for an analysis of the impairment allowance on loans and advances.

(b) Available–for–sale financial investments

For available for sale financial investments, the bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future profit income is based on the reduced carrying amount and is accrued using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

(c) Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(d) Collateral valuation

The bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers and audited financial statements.

(e) Collateral repossessed

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

2.3.2.4 Derecognition of financial assets and financial liabilities

(a) Financial assets

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

- The rights to receive cash flows from the asset have expired.
- The bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- the bank has transferred substantially all the risks and rewards of the asset, or
- the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all 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.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.3.2.5 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 statement of financial position.

2.3.3 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the bank reclassifies those securities in its statement of financial position to 'Financial assets held–for–trading pledged as collateral' or to 'Financial investments available–for–sale pledged as collateral', as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the bank.

The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held–for–trading' and measured at fair value with any gains or losses included in 'Net operating income'

2.3.4 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net operating income'.

2.3.5 Leases

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

2.3.5.1 Operating Leases

Bank as a lessor

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

2.3.5.2 Finance Leases

Bank as a lessor

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Receivables to Customers' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable.The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.3.6 Cash and cash equivalents

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

2.3.7 Property and equipment

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

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

- Buildings	20 years
- Computer hardware	3 years
- Machinery and equipment	5 year
- Motor Vehicle	4 years
- Furniture and fittings	5years

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

2.3.8 Investment Properties

Properties held to earn rental income have been classified as investment properties .Investment properties initially recognized at cost. After initial recognition the Bank uses the cost method to measure all of its investment property in according with requirements in LKAS 16 Property, Plant and Equipment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

2.3.9 Intangible assets

The bank's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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 7 years

2.3.10 Impairment of non–financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash–generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

2.3.11 Financial Guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of bank. Bank guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

2.3.12 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.

2.3.13 Retirement Benefit Obligations

(a) Defined Benefit Plan- Gratuity

Based on the Sri Lanka Accounting Standard LKAS19- Employee Benefits, the Bank has adopted the actuarial valuation method for employee benefit liability an actuarial valuation is carried out every three years to ascertain the full liability. A separate fund is not maintained for this purpose.

The principal assumptions, which have the most significant effects on the valuation, are the rate of discount, rate of increase in salary, rate of turnover at the selected ages, rate of disability, death benefits and expenses.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognised actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of statement of financial position that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related pension liability.

The company recognizes all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognize as personnel expenses in income statement.

(b) Defined Contribution Plan - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective Statutes and Regulations. The Bank contributes a minimum 12% and 3%.

2.3.14 Recognition of income and expenses R e v e n u e 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.

(a) 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, which 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 (for example, prepayment options) 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 'Other operating income'. However, for a reclassified financial asset 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.

(b) Fee and commission income

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

- 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 and asset management, custody and other management and advisory fees.

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.

- Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(c) Dividend income
Dividend income is recognised when the bank's right to receive the payment is established.

(d) Net operating income
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held–for–trading'.

2.3.15 Taxes

(a) 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 statement of financial position date.

(b) Deferred tax
Deferred tax is provided on temporary differences at the statement of financial position 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.

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 utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position 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 statement of financial position 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.

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

2.3.16 Grants
Grants are recognised where there is reasonable assurance that the grant will be received and all

attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

2.3.17 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.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the reporting date.

2.3.18 Equity reserves

The reserves recorded in equity (other comprehensive income) on the bank's statement of financial position include:

'Available–for–sale' reserve which comprises changes in fair value of available–for–sale investments.

'Other capital reserve' which includes the portions of compound financial liabilities that qualify for treatment as equity (Note 29).

2.3.19 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing services (Business Segments) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lankan Accounting Standard SLFRS 8- 'Segmental Reporting', segmental information is presented in respect of the Bank based on Bank management and internal reporting structure.

The Bank's segmental reporting is based on the following operating segments.

- Banking : Individual customers' deposits and consumer financing , equipment financing, home and property financing
- Leasing : lease and Hire Purchase facility customers
- Treasury : Placements of funds with other banks and financial institutions, equity investments
- Pawning : Pawning advances to customers

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss of respective segment.

2.4 Standards issued but not yet effective

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

(i) SLFRS 9 -Financial Instruments: Classification and Measurement

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

(ii) SLFRS 10 -Consolidated Financial Statements

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by SLFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements in LKAS 27.

(iii) SLFRS 11 – Joint Arrangements

SLFRS 11 replaces LKAS 31 and SIC 13. SLFRS 11 uses the principle of control in SLFRS 10 to define control, and accordingly the determination of whether joint control exists may change.

(iv) SLFRS 12 -Disclosure of Interests in Other Entities

SLFRS 12encompasses all disclosures related to consolidated financial statements in LKAS 27, 28 and 31. These disclosures relate to an entity's interest in subsidiaries, joint arrangements, associates and structured entities.

(v) SLFRS 13 -Fair Value Measurement

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

SLFRS 9 will be effective for financial periods beginning on or after 01 January 2015 whilst SLFRS 10, 11, 12 and 13 will be effective for financial periods beginning on or after 01 January 2014.

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements where accounting policies will change and may have an impact are set out below. The Group will adopt these standards when they become effective. Pending a detailed review the financial impact is not reasonably estimable as at the date of publication of these financial statements.

(i) SLFRS 9 -Financial Instruments: Classification and Measurement

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

(ii) SLFRS 13 -Fair Value Measurement

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

SLFRS 9 and SLFRS 13 will be effective for financial periods beginning on or after 01 January 2015 and 2014 respectively.

Notes to the Financial Statements

Year ended 31 December 2012	Bank 2012 Rs.	Bank 2011 Rs.	Group 2011 Rs.
3. NET INTEREST INCOME			
Interest income			
Cash and cash equivalents	30,064,467	14,574,091	141,574,091
Placements with banks	240,010,102	83,269,482	83,269,482
Loans and receivables to other customers	3,377,747,217	2,680,405,380	2,680,405,380
Financial investments - Held-to-maturity	117,927,439	155,021,717	155,021,717
Others	16,377,246	84,336,790	84,336,790
Total interest income	3,782,126,471	3,017,607,460	3,017,607,460
Interest expenses			
Due to other customers	1,726,471,990	1,139,829,201	1,139,361,055
Other borrowings	152,776,218	60,684,629	60,684,629
Total interest expenses	1,879,248,208	1,200,513,830	1,200,045,684
Net interest income	1,902,878,263	1,817,093,630	1,817,561,777
3.1 Net Interest Income from Sri Lanka Government Securities			
Interest income	154,011,770	169,595,808	169,595,808
(Less): Interest expenses	(8,904,596)	(2,187,496)	(2,187,496)
Net interest income	145,107,174	167,408,311	167,408,311
4. NET FEE AMD COMMISSION INCOME			
Fee and commission income	71,767,253	73,907,875	73,907,875
Fee and commission expenses	(496,160)	(257,795)	(548,380)
Net fee and commission income	71,271,093	73,650,080	73,359,495
4.1 Comprising			
Loans	50,809,675	55,607,218	55,607,218
Deposits	1,210,186	1,409,470	1,409,470
Guarantees	2,389,444	2,045,252	2,045,252
Others	16,861,788	14,588,140	14,297,555
Net fee and commission income	71,271,093	73,650,080	73,359,495
5. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Government Debt Securities-Treasury Bills and Bonds	7,346,152	-	-
Quoted Equities	(18,007,176)	(48,789,973)	(48,789,973)
Total	(10,661,024)	(48,789,973)	(48,789,973)

Year ended 31 December 2012		Bank 2012 Rs.	Bank 2011 Rs.	Group 2011 Rs.
6.	**OTHER OPERATING INCOME (Net)**			
	Gain/(Loss) on investment properties	1,100,000	1,000,000	1,000,000
	Gain/(Loss) on sale of property, plant and equipment	3,867,111	274,486	274,486
	Dividend Income	14,061,469	9,272,039	9,272,039
	Grants	23,662,147	6,405,953	6,405,953
	Others Income	9,320,948	5,192,949	19,339,107
	Other **Operating** Income (net)	52,011,674	22,145,427	36,291,585
7.	**IMPAIREMENT FOR LOANS AND OTHER LOSSES**			
	Loans and receivables to Customers			
	Individual Impairment Losses/(Reversals)	(8,814,540)	(854,288)	(854,288)
	Collective Impairment Losses/(Reversals)	69,680,608	28,085,048	28,085,048
	Total	60,866,067	27,230,760	27,230,760
8.	**PERSONNEL EXPENSES**			
	Salary and bonus	330,290,477	298,809,298	302,115,643
	Contributions to defined contribution plan - EPF	40,426,505	37,875,847	38,416,943
	- ETF	8,827,906	8,360,078	8,463,033
	Contributions to defined benefit plans	12,707,080	9,962,100	9,962,100
	Others	55,384,645	44,018,826	45,632,969
	Total	447,636,612	399,026,149	404,590,687
9.	**OTHER EXPENSES**			
	Directors emoluments	4,847,500	6,796,088	6,796,088
	Auditors remunerations	2,220,000	1,550,000	1,604,593
	Professional and legal expenses	688,542	1,238,095	1,247,727
	Depreciation of property, plant and equipment	186,554,500	148,669,853	149,505,334
	Amortisation of leasedhold property	1,056,030	1,056,030	1,056,030
	Amortisation of intangible assets	24,599,926	26,365,464	26,365,464
	Office administration and establishment expenses	673,869,186	560,585,688	563,495,820
	Total	893,835,684	746,261,217	750,071,056

Year ended 31 December 2012		Bank/Group 2012 Rs.	Bank/Group 2011 Rs.
10.	**TAX EXPENSE**		
	Current tax expense		
	Current year	173,367,876	189,931,217
	Prior years provision	911,782	6,062,411
	Deferred tax expense	1,501,359	3,459,692
	Total	175,781,016	199,453,320

Year ended 31 December 2012	Bank/Group 2012 Rs.	2011 Rs.
10.1 Reconciliation of tax expenses		
Profit before tax	516,496,520	581,494,927
Income tax for the period (Accounting profit @ 28%)	144,619,026	162,818,580
Income Exempt from Tax	(3,937,211)	(2,596,171)
Adjustment in respect of current income tax of prior periods	911,782	6,062,411
Add: Tax effect of expenses that are not deductible for tax purposes	110,556,952	103,435,037
Less: Tax effect of expenses that are deductible for tax purposes	(77,870,891)	(73,726,229)
Tax expense for the period	174,279,658	195,993,628
Deferred Taxation Charge	1,501,359	3,459,692
At the effective income tax rate of 36.12 % (2011 : 34.41%)	175,781,016	199,453,320

Deferred Tax Assets, Liabilities and Income Tax relates to the followings

	Statement of Financial Position		Statement of Comprehensive Income	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Deferred Tax Liability				
Capital allowances for PP&E	24,366,588	19,257,190	5,109,398	7,498,903
Capital allowances for Leased Assets	41,622,979	25,032,478	16,590,501	(13,932,770)
	65,989,567	44,289,668	-	-
Deferred Tax Assets				
Defined Benefit Plans	11,128,796	7,706,223	(3,422,573)	(1,647,292)
Loss on Lease Assets	27,147,459	10,371,492	(16,775,967)	11,540,851
	38,276,255	18,077,715	-	-
Deferred Taxation Charge	-	-	1,501,359	3,459,692
Net Deferred Tax Liability	27,713,312	26,211,953	-	-

11. EARNINGS PER SHARE

Basic Earnings Per Share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders (after deducting preference share dividends, if any) by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

Year ended 31 December 2012	Bank 2012 Rs.	Group 2011 Rs.
Net Profit for the period	340,715,504	383,031,477
Profit attributable to Ordinary Shareholders (Rs.)	340,715,504	383,031,477

		2012 Number	2011 Number
	Weighted Average Number of Ordinary Shares in Issue	24,810,390	24,275,322
		24,810,390	24,275,322
	Basic earnings per ordinary share	13.73	15.78

		Bank	Bank/Group	
		2012	2011	1 January 2011
		Rs.	Rs.	Rs.
12.	**CASH AND CASH EQUIVALENTS**			
	Cash in hand	93,953,867	95,222,661	69,109,215
	Balances with banks	409,587,497	324,775,502	193,856,540
	Total	503,541,364	419,998,163	262,965,754
13.	**PLACEMENTS WITH BANKS**			
	Placement with Local Banks	2,070,306,725	1,603,883,955	613,753,836
		2,070,306,725	1,603,883,955	613,753,836
14.	**OTHER FINANCIAL ASSTS AT FAIR VALUE THROUGH PROFIT OR LOSS**			
	Sri Lanka Government Securities- Treasury Bond	140,253,538	-	-
	Quoted Equities (14.1)	44,165,128	245,980,855	68,774,700
	Total	184,418,666	245,980,855	68,774,700

	2012		2011		1 January 2011	
	No of Shares	Market Value Rs.	No of Shares	Market Value Rs.	No of Shares	Market Value Rs.
14.1 Quoted Equities						
John Keels Holding PLC	10,000	2,199,000	5,000	851,000	-	-
Central Finance Company PLC	12,687	2,059,100	2,000	406,000	-	-
DFCC Bank	49,000	5,532,100	49,000	5,532,100	-	-
Nation Trust Bank Plc	50,000	2,800,000	-	-	-	-
Commercial Bank of Ceylon PLC	63,234	6,513,102	62,132	6,213,200	-	-
Sampath Bank PLC	115,051	23,067,726	102,667	20,020,065	-	-
Union Bank of Colombo PLC	144,500	1,994,100	144,500	2,745,500	-	-
Aitken Spence PLC	-	-	136,500	16,434,600	80,000	13,592,000
Lanka Orix Leasing Company PLC	-	-	171,500	14,285,950	100,000	12,780,000
Hayleys PLC	-	-	-	-	30,000	10,350,000
Cargills (Ceylon) PLC	-	-	-	-	25,000	4,885,000
Hotel Services (Ceylon) PLC	-	-	50,000	1,015,000	50,000	1,300,000
Odel PLC	-	-	70,000	2,261,000	5,400	196,560
Environmental Resources Investments PLC	-	-	-	-	100,000	8,590,000
Asian Hotels & Properties PLC	-	-	24,500	1,871,800	10,000	1,940,000
Laugfs Gas Limited	-	-	-	-	584,600	15,141,140
Hemas Holding PLC	-	-	50,000	1,650,000	-	-
Richard Pieris & Company PLC	-	-	711,000	6,399,000	-	-
Seylan Bank PLC	-	-	5,700	385,320	-	-
CIC Holding PLC	-	-	10,000	1,115,000	-	-
Royal Ceramics Lanka PLC	-	-	10,000	1,415,000	-	-
Piramal Glass Ceylon PLC	-	-	100,000	790,000	-	-
Richad Peris Exports PLC	-	-	10,000	275,000	-	-
Browns & Company PLC	-	-	1,000	234,800	-	-
Browns Investments PLC	-	-	315,100	1,323,420	-	-
National Development Bank PLC	-	-	7,000	966,700	-	-
Peoples Leasing Company PLC	-	-	9,986,900	159,790,400	-	-
		44,165,128		245,980,855		68,774,700

	Bank	Bank/Group	
	2012	2011	1 January 2011
	Rs.	Rs.	Rs.
15. OTHER FINANCIAL ASSET CLASSIFIED UNDER LOANS AND RECEIVABLE			
Trust Certificates	-	10,063,593	440,631,733
Debentures	-	10,820,822	10,820,822
Commercial Papers	-	328,690,875	1,197,127,161
Repurchase Agreement	470,098,767	-	65,010,685
Total	470,098,767	349,575,289	1,713,590,400

	Bank	Bank/Group	
	2012	2011	1 January 2011
	Rs.	Rs.	Rs.
16. LOANS AND RECEIVABLES TO OTHER CUSTOMERS			
Gross loans and receivables	20,210,268,052	17,048,094,052	12,933,818,854
Less: Individual impairment	(152,274,728)	(161,089,268)	(161,943,556)
Collective impairment	(345,960,046)	(284,269,727)	(257,969,693)
Net loans and receivables	19,712,033,278	16,602,735,057	12,513,905,604
16.1 By Product			
16.1 Loans and advances			
Pawning	2,681,114,086	2,099,353,736	1,481,895,455
Cash Margin	2,050,129,567	1,370,502,054	1,159,954,338
Staff loans	209,853,629	180,065,033	139,621,891
Lease rentals receivable	2,446,752,338	1,639,761,921	1,346,406,384
Term loans	12,822,418,432	11,758,411,308	8,805,940,786
Gross total	20,210,268,052	17,048,094,052	12,933,818,854
16.2 By currency			
Sri Lankan Rupee	20,210,268,052	17,048,094,052	12,933,818,854
Gross total	20,210,268,052	17,048,094,052	12,933,818,854

		Bank/Group	
	Individual impairment	Collective impairment	Total impairment
	Rs.	Rs.	Rs.
16.3 Movements in Individual and Collective Impairment during the Year			
At 1 January 2011	161,943,556	257,969,693	419,913,250
Charge/(Write back) to income statement	(854,288)	28,085,048	27,230,760
Write-off during the year	-	(1,785,015)	(1,785,015)
At 31 December 2011	161,089,268	284,269,727	445,358,995
At 1 January 2012	161,089,268	284,269,727	445,358,995
Charge/(Write back) to income statement	(8,814,540)	69,680,608	60,866,067
Write-off during the year	-	(7,990,289)	(7,990,289)
At 31 December 2012	152,274,728	345,960,046	498,234,773

	Bank 2012 Rs.	Bank/Group 2011 Rs.	1 January 2011 Rs.
17. FINANCIAL INVESTMENTS -AVAILABLE FOR SALE			
Equities - Unquoted (17.1)	41,480,144	29,980,144	26,085,194
- Quoted (17.2)	130,215,360	-	-
Net Available-for-sale Investments	171,695,504	29,980,144	26,085,194

	Bank 2012 No of Shares	Amount Rs.	Bank/Group 2011 No of Shares	Amount Rs.	1 January 2011 No of Shares	Amount Rs.
17.1 Equities - Unquoted						
SANASA Insurance Company Limited	3,238,785	32,387,850	2,238,785	22,387,850	2,050,000	20,500,000
SANASA Campus Limited	50,000	500,000	50,000	500,000	50,000	500,000
Credit Information Bureau of Sri Lanka	100	10,000	100	10,000	100	10,000
Consorzio Etimos S.C.,	2	75,194	2	75,194	2	75,194
SANASA Engineering and Development Company (Private) Limited	430,000	4,300,000	450,000	4,500,000	450,000	3,000,000
SANASA Printers and Publishers Limited	20,071	2,007,100	20,071	2,007,100	10,000	1,000,000
Sanasa Producer Consumer Alliance Limited	-	-	-	-	100,000	1,000,000
SANASA Travels (Pvt) Limited	4,000	400,000	4,000	400,000	-	-
SANASA Security Services (Pvt) Limited	1,000	100,000	1,000	100,000	-	-
SANASA Asset Management	15,000	1,500,000	-	-	-	-
SDBL North East Construction Company (Pvt) Ltd	2,000	200,000				
		41,480,144		29,980,144		26,085,194

Unquoted equity shares carried at cost since equity instrument that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

17.2 Equities - Quoted	
Peoples Leasing Company PLC	130,215,360
	130,215,360

	Bank 2012 Rs.	Bank/Group 2011 Rs.	1 January 2011 Rs.
18. FINANCIAL INVESTMENT HELD TO MATURITY			
Sri Lanka Government Securities			
Treasury Bill	605,394,359	298,553,246	875,742,241
Treasury Bond	103,970,329	661,710,143	682,837,292
Net Held-to-Maturity Investments	709,364,687	960,263,389	1,558,579,533

	2011			1 January 2011		
	No of Shares	Directors' Valuation Rs.	Cost Rs.	No of Shares	Directors' Valuation Rs.	Cost Rs.
19. INVESTMENTS IN SUBSIDIARIES						
SDBL North East Construction Company (Pvt) Ltd	2,000	200,000	200,000	2,500	250,000	250,000
Net total		200,000	200,000		250,000	250,000

During year the Company has lost control over subsidiary company due to withdrawal of board members from subsidiary board and above investment was reclassified as unquoted equity under financial investment available for sale.

	2012						
	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture & fittings	Vehicle	Total
20. PROPERTY, PLANT AND EQUIPMENT							
BANK							
Cost							
Opening balance at 01.01.2012	252,465,823	590,000	312,900,861	218,898,922	161,655,321	116,653,769	1,063,164,696
Additions	16,639,000	-	22,771,654	83,422,058	13,372,220	11,864,562	148,069,494
Disposals	-	-	-	-	-	(8,096,603)	(8,096,603)
Adjustments	-	-	13,360,345	(6,264,581)	276,561	1,056,970	8,429,295
Closing balance at 31.12.2012	269,104,823	590,000	349,032,860	296,056,399	175,304,102	121,478,699	1,211,566,882
Less: Accumulated depreciation							
Opening balance at 01.01.2012	12,268,130	413,000	203,745,304	99,989,660	94,539,650	60,807,627	471,763,371
Charge for the year	3,714,907	29,500	88,335,083	44,197,824	26,645,811	23,631,374	186,554,500
Disposals	-	-	-	-	-	(8,096,603)	(8,096,603)
Adjustments	-	-	(466,673)	(258,123)	247,256	-	(477,540)
Closing balance at 31.12.2012	15,983,038	442,500	291,613,713	143,929,362	121,432,717	76,342,399	649,743,729

	2011						
	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture & fittings	Vehicle	Total
Cost							
Opening balance at 01.01.2011	148,452,716	590,000	276,712,006	135,891,403	145,089,287	76,003,351	782,738,762
Additions	112,950,632	-	37,054,194	83,345,513	15,793,833	46,813,519	295,957,690
Disposals	(7,804,260)	-	(290,024)	(347,927)	(560,263)	(6,160,000)	(15,162,474)
Adjustments	(1,133,265)	-	(575,314)	9,933	1,332,464	(3,100)	(369,282)
Closing balance at 31.12.2011	252,465,823	590,000	312,900,861	218,898,922	161,655,321	116,653,769	1,063,164,696
Less: Accumulated depreciation							
Opening balance at 01.01.2011	8,591,516	384,000	130,870,821	70,454,105	68,755,311	49,704,601	328,760,354
Charge for the year	3,676,114	29,500	73,010,861	29,642,273	25,978,496	16,332,609	148,669,853
Disposals	-	-	(97,352)	(130,270)	(488,511)	-	(716,133)
Adjustments	-	-	(39,026)	23,552	294,355	(5,229,583)	(4,950,703)
Closing balance at 31.12.2011	12,267,630	413,500	203,745,304	99,989,660	94,539,650	60,807,627	471,763,371

	2012 Rs.	2011 Rs.	1 January 2011 Rs.
20. PROPERTY, PLANT AND EQUIPMENT (Contd.)			
Work in Progress			
Software Development	38,380,234	20,325,230	-
Building	3,029,724	17,343,680	-
	41,409,957	37,668,911	-

2011

	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture & fittings	Vehicle	Work in Progress	Total
Net book value at 01.01.2011	139,861,200	206,000	145,841,185	65,437,298	76,333,976	26,298,749	-	453,978,408
Net book value at 31.12.2011	240,198,192	176,500	109,155,558	118,909,262	67,115,671	55,846,142	37,668,911	629,070,235
Net book value at 31.12.2012	253,121,785	147,500	57,419,147	152,127,037	53,871,384	45,136,300	41,409,957	603,233,111

2011

	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture & fittings	Vehicle	Total
GROUP							
Cost							
Opening balance at 01.01.2011	150,828,231	590,000	277,071,092	136,728,421	145,353,397	76,003,351	786,574,492
Additions	112,950,632	-	37,307,194	83,659,513	16,626,215	46,813,519	297,357,072
Disposals	(7,804,260)	-	(290,024)	(347,927)	(560,263)	(6,160,000)	(15,162,474)
Adjustments	(1,133,734)	-	(575,314)	9,933	1,332,464	(3,100)	(369,751)
Closing balance at 31.12.2011	254,840,869	590,000	313,512,947	220,049,940	162,751,813	116,653,769	1,068,399,339
Less: Accumulated depreciation							
Opening balance at 01.01.2011	8,621,016	354,500	131,005,940	70,643,623	68,794,943	49,704,601	329,124,623
Charge for the year	3,685,455	29,500	73,023,613	29,668,458	26,704,474	16,332,609	149,444,109
Disposals	-	-	(97,352)	(130,270)	(488,511)	(5,229,583)	(5,945,717)
Adjustments	-	-	(39,026)	23,552	294,355	-	278,881
Closing balance at 31.12.2011	12,306,471	384,000	203,893,174	100,205,364	95,305,260	60,807,627	472,901,896

	2012 Rs.	2011 Rs.	1 January 2011 Rs.
Work in Progress			
Software Development	38,380,234	20,325,230	-
Building	3,029,724	17,343,680	-
	41,409,957	37,668,911	-

2011

	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture & fittings	Vehicle	Work in Progress	Total
Net book value at 01.01.2011	142,207,215	235,500	146,065,152	66,084,798	76,558,454	26,298,749	-	457,449,868
Net book value at 31.12.2011	242,534,398	206,000	109,619,773	119,844,576	67,446,553	55,846,142	37,668,911	633,166,352

		Bank	Bank/Group	
		2012	2011	1 January 2011
		Rs.	Rs.	Rs.
21.	**INVESTMENTS PROPERTIES**			
	Cost			
	Balance at the beginning of the year	35,359,000	35,359,000	35,359,000
	Additions	-	-	-
	Balance at the end of the year	35,359,000	35,359,000	35,359,000
	Less: Accumulated depreciation			
	Balance at the beginning of the year	5,632,160	4,576,130	3,520,100
	Charge for the year	1,056,030	1,056,030	1,056,030
	Balance at the end of the year	6,688,190	5,632,160	4,576,130
	Less: Impairment			
	Net book value at the end of the year	28,670,810	29,726,840	30,782,870
22.	**INTANGIBLE ASSETS**			
	Cost			
	Balance at the beginning of the year	202,166,358	180,549,151	-
	Additions	585,264	21,617,207	180,549,151
	Charge for the year	-	-	-
	Balance at the end of the year	202,751,622	202,166,358	180,549,151
	Less: Accumulated depreciation			
	Balance at the beginning of the year	50,474,831	24,109,367	-
	Charge for the year	24,599,926	26,365,464	24,109,367
	Balance at the end of the year	75,074,757	50,474,831	24,109,367
	Net book value at the end of the year	127,676,865	151,691,527	156,439,784

		Bank			Group	
		2012	2011	1 January 2011	2011	1 January 2011
		Rs.	Rs.	Rs.	Rs.	Rs.
23.	**OTHER ASSETS**					
	Other Assets	112,172,636	90,949,425	92,675,923	94,709,852	105,757,491
	Deposits and prepayments	157,891,017	195,894,842	167,457,472	195,894,842	167,457,472
	Inventry	48,452,560	49,772,557	26,311,765	49,772,557	26,311,765
	Total	318,516,213	336,616,825	286,445,160	340,377,252	299,526,728
24.	**DUE TO OTHER CUSTOMERS**					
	Total amount due to other customers	18,947,514,278	15,756,917,797	13,083,414,282	15,741,145,694	13,078,268,229
	Total	18,947,514,278	15,756,917,797	13,083,414,282	15,741,145,694	13,078,268,229
24.1	**Analysis**					
	By product					
	Savings deposits	4,359,460,063	4,125,982,255	3,545,618,123	4,116,710,152	3,540,472,070
	Fixed deposits	14,588,054,215	11,630,935,542	9,537,796,159	11,624,435,542	9,537,796,159
	Total	18,947,514,278	15,756,917,797	13,083,414,282	15,741,145,694	13,078,268,229
	By currency					
	Sri Lanka Rupee	18,947,514,278	15,756,917,797	13,083,414,282	15,741,145,694	13,078,268,229
	Total	18,947,514,278	15,756,917,797	13,083,414,282	15,741,145,694	13,078,268,229

		Bank	Bank/Group	
		2012	2011	1 January 2011
		Rs.	Rs.	Rs.
25.	**OTHER BORROWINGS**			
	Securities sold under repurchase (repo) agreements	-	350,247,276	-
	Moneymarket Borrowings (25.1)	251,944,194	-	508,758,979
	Refinance Borrowing (25.2)	1,305,384,599	1,188,519,654	833,281,435
	Total	1,557,328,793	1,538,766,930	1,342,040,414
25.1	**Moneymarket Borrowings**			
	National Development Bank PLC	251,944,194	-	508,758,979
		251,944,194	-	508,758,979

	Bank 2012 Rs.	Bank/Group 2011 Rs.	1 January 2011 Rs.
25.2 OTHER BORROWINGS (Contd.)			
Refinance Borrowing			
Central Bank of Sri Lanka (Refinance of Sathutudiviya Loans)	-	753,624	5,448,172
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000	54,200,000
National Development Trust Fund (NDTF)	7,831,732	42,828,558	65,775,303
Central Bank of Sri Lanka (Refinance of Matale REAP)	9,874,167	18,120,002	28,825,441
Central Bank of Sri Lanka (RERED)	27,333,919	31,238,765	34,690,424
Central Bank of Sri Lanka (Nipunatha)	2,191,924	3,117,422	4,042,912
Central Bank of Sri Lanka (Susahana)	7,046,796	15,848,916	26,065,393
Asian Development Bank (Dasuna)	5,752,008	10,047,486	17,070,006
Refinance - Consorzio Etimos S.C.,	-	11,684,730	26,716,001
Borrowings Under CBSL-Perennial Crops	14,092,601	17,049,919	20,007,238
Borrowings Under CBSL - Tea Development	7,656,411	8,806,152	9,904,038
Susahana Revolving Fund Loan Scheme	1,400,000	2,100,000	4,900,000
Borrowings Under Refinance of Jayatha	295,217,550	226,384,850	234,226,780
CORDAID Project Loan	36,141,596	67,286,339	91,631,748
Borrowing under Awaiking East	120,452,750	48,295,332	80,145,063
Borrowing under Awaiking North	80,161,363	41,427,338	56,667,916
Borrowing under Saubagya	222,061,525	106,884,500	22,965,000
National Savings Bank	411,275,258	482,445,721	50,000,000
Borrowing under SPENDP	2,695,000	-	-
	1,305,384,599	1,188,519,654	833,281,435
Analysis of Maturity of Refinance Borrowings			
Due within one year	823,889,806	615,236,105	425,730,000
1-5 years	451,477,000	556,610,116	382,102,000
After 5 years	30,017,793	16,673,434	25,449,435
	1,305,384,599	1,188,519,654	833,281,435

	Bank			Group	
	2012 Rs.	2011 Rs.	2010 Rs.	2011 Rs.	1 January 2011 Rs.
26. OTHER LIABILITY					
Defined Benefit Plan - Retiring Gratuity Obligations	39,745,682	27,522,224	17,311,231	27,522,224	17,311,231
Special Purpose Project Funds	459,915,732	468,781,741	507,534,585	468,781,741	507,534,585
Accruals & Other Payables	527,641,857	288,109,075	222,031,053	305,178,276	242,276,476
Total	1,027,303,270	784,413,040	746,876,869	801,482,241	767,122,292

	Bank/Group 2012 Rs.	2011 Rs.	1 January 2011 Rs.
26. OTHER LIABILITY (Contd..)			
26.1 Retirement Benefit Obligations			
26.1.1 Defined Benefit liability			
Defined Benefit liability (26.1.2)	39.745,681	27,522,224	17,311,231
	39.745,681	27,522,224	17,311,231
26.1.2 Changes in defined benefit obligation are as follows			
Defined benefit obligation as of 01 January	27,522,224	17,311,231	13,242,412
Net Benefit expense (26.1.3)	14,932,360	11,826,708	4,305,794
Benefit paid	(2,708,903)	(1,615,715)	(236,975)
Defined benefit liability as of 31 December	39.745,681	27,522,224	17,311,231
26.1.3 Net Benefit expense			
Interest Cost	5,037,976	4,107,116	1,299,867
Current Service Cost	7,669,104	5,854,984	3,005,927
Actuarial Loss on obligations	2,225,280	1,864,608	-
Balance at the End of the Year	14,932,360	11,826,708	4,305,794

26.1.4 The principal financial assumptions used are as follows

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2012. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2012	2011	1 January 2011
Long Term Interest Rate	10%	8%	9%
Future Salary increase Rate	8%	8%	8%
Retirement age	55 Years	55 Years	55 Years

Mortality - GA 1983 Mortality Table issued by the Institute of Actuaries London

	Bank 2012 Rs.	2011 Rs.	1 January 2011 Rs.
27. STATED CAPITAL			
Ordinary Shares - Issued and fully paid	2,526,532,200	2,427,532,200	1,820,268,406
Total	2,526,532,200	2,427,532,200	1,820,268,406

	At the beginning of the year 01.01.2012 Number	Issued for cash during the year	Redemptions/ Transfers	At the end of the year 31.12.2012 Number
Ordinary Shares - Issued and fully paid				
Ordinary Shares - Voting	24,275,322	900,000	-	25,175,322
	24,275,322	900,000	-	25,175,322

	At the beginning of the year 01.01.2012 Rs.	Issued for cash during the year Rs.	Redemptions/ Transfers Rs.	At the end of the year 31.12.2012 Rs.
27. STATED CAPITAL(Contd.)				
Ordinary Shares Value - Voting	2,427,532,200	99,000,000	-	2,526,532,200
	2,427,532,200	99,000,000	-	2,526,532,200

	Bank 2012 Rs.	Bank/Group 2011 Rs.	1 January 2011 Rs.
28. STATUTORY RESERVE FUND			
Opening balance	65,070,467	47,803,485	31,629,467
Transfer during the period	17,035,775	17,266,982	16,174,018
Closing balance	82,106,242	65,070,467	47,803,484

	Bank 2012 Rs.	Bank 2011 Rs.	Bank 1 January 2011 Rs.	Group 2011 Rs.	Group 1 January 2011 Rs.
29. RETAINED EARNINGS					
Opening balance	595,291,857	384,523,422	146,183,483	384,806,998	146,410,367
Profit for the year	310,868,784	380,176,999	442,463,389	381,005,315	442,520,081
Transfers to other reserves	(112,868,658)	(92,113,884)	(16,174,018)	(92,113,884)	(16,174,018)
Dividend	(350,132,154)	(77,294,680)	(187,949,432)	(77,294,680)	(187,949,432)
Closing balance	443,159,829	595,291,857	384,523,422	596,403,748	384,806,998

	Opening balance at 01.01.2012 Rs.	Movement/ transfers Rs.	Closing balance at 31.12.2012 Rs.
30. OTHER RESERVES			
2012-Bank			
General reserve	46,656,973	-	46,656,973
Investment Fund	74,846,902	95,832,883	170,679,785
Total	121,503,875	95,832,883	217,336,758
2011-Bank/Group			
General reserve	46,656,973	-	46,656,973
Investment Fund	-	74,846,902	74,846,902
Total	46,656,973	74,846,902	121,503,875

	Bank 2012 Rs.	Bank/Group 2011 Rs.	1 January 2011 Rs.
31. CONTINGENT LIABILITIS AND COMMITMENTS			
31.1 Guarantees			
	143,213,715	141,261,586	100,814,608
Total	143,213,715	141,261,586	100,814,608

31.2 Litigation Against the Bank

A customer has filed a Case claiming a sum of Rs.550,000/- from the Bank on a cheque purchased by the Bank which has been dishonored afterwards . Further, there were One Thousand Three Hundred & Fifty Three (1,353) recovery case filed by the Bank against their customers.

32. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There are no material events after the statement of financial position date that require adjustments to or disclosure in the Financial Statements.

33. RELATED PARTY DISCLOSURE

Details of significant related party disclosures are as follows:

33.1 Transactions with other Related Parties

Other related parties include entities that are affiliated to the Bank; including Sanasa Engineering & Development Co (Pvt) Ltd, Sanasa Federation, Sanasa Producer & Consumer Alliance Ltd, Sanasa Printers & Publishers Ltd, Sanasa Insurance Co (Pvt) Ltd, Kegalle City Bank, People's Leasing PLC, Sanasa Campus Ltd, Kandepola PTCCS,SANASA Security Services (Pvt) Limited and SANASA Travels (Pvt) Limited.

	Bank/Group 2012 Rs.	2011 Rs.	1 January 2011 Rs.
Investments made by the Company	100,000,000	1,302,219,564	42,900,000
Investment in shares	12,800,000	163,178,250	10,000,000
Purchase of Goods/Services	94,179,489	120,080,213	148,046,396
Receipt of Services	-	-	2,168,000
Reimbursement of Expenses	-	-	75,175
33.1.1 Balance outstanding with other Related Parties			
Investment in shares	162,817,184	188,463,444	26,335,194
Investments made by the Company			86,343,962
Loans & Advances	93,080,000	94,838,622	151,641,320

33.2 Transactions With Key Management Personnel

Key Management Personnel include: the Chairperson, the Board of Directors, and Chief Executive Officer of the Bank. Transactions with close family members of key Management Personnel are also taken into account in the transactions with Key Management Personnel.

	Bank/Group	
	2012	2011
	Rs.	Rs.
33.2.1 Key Management Personnel Compensation		
Short Term Employee Benefits	4,847,500	6,791,452

	2012	2011
	Rs.	Rs.
32.2.2 Other Transactions with Key Management Personnel - Balance outstanding		
Loans and Advances	4,134,000	5,805,796

34. ASSETS PLEDGED

No assets have been pledged as security for liabilities.

	Fair value through Proft or loss	HTM	Bank AFS	Amortised cost	Total
35. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS					
As at 31 December 2012					
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	503,541,364	503,541,364
Placements with banks	-	-	-	2,070,306,725	2,070,306,725
Other financial assets at fair value through profit or loss	184,418,666	-	-	-	184,418,666
Financial investments - Available-for-sale	-	-	171,695,504	-	171,695,504
Financial investments - Held-to-maturity	-	709,364,687	-	-	709,364,687
Loans and receivables to other customers	-	-	-	19,712,033,278	19,712,033,278
Other Financial Asset Classified under Loans and receivable	-	-	-	470,098,767	470,098,767
Total financial assets	184,418,666	709,364,687	171,695,504	22,755,980,134	23,821,458,991
FINANCIAL LIABILITIES					
Due to other customers	-	-	-	18,947,514,278	18,947,514,278
Other borrowings	-	-	-	1,557,328,793	1,557,328,793
Total financial liabilities	-	-	-	20,504,843,071	20,504,843,071

	Fair value through Proft or loss	HTM	Bank/Group AFS	Amortised cost	Total
35. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS					
As at 31 December 2011					
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	419,998,163	419,998,163
Placements with banks		-	-	1,603,883,955	1,603,883,955
Other financial assets at fair value through profit or loss	245,980,855	-	-	-	245,980,855
Financial investments - Available-for-sale	-	-	29,980,144	-	29,980,144
Financial investments - Held-to-maturity	-	960,263,389	-	-	960,263,389
Loans and receivables to other customers	-	-	-	16,602,735,057	16,602,735,057
Other Financial Asset Classified under Loans and receivable	-	-	-	349,575,289	349,575,289
Total financial assets	245,980,855	960,263,389	29,980,144	18,976,192,464	20,212,416,852
FINANCIAL LIABILITIES					
Due to other customers	-	-	-	15,756,917,797	15,756,917,797
Other borrowings	-	-	-	1,538,766,930	1,538,766,930
Total financial liabilities	-	-	-	17,295,684,726	17,295,684,726
As at 1 st January 2011					
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	262,965,754	262,965,754
Placements with banks	-	-	-	613,753,836	613,753,836
Other financial assets at fair value through profit or loss	68,774,700	-	-	-	68,774,700
Financial investments - Available-for-sale	-	-	26,085,194	-	26,085,194
Financial investments - Held-to-maturity	-	1,558,579,533	-	-	1,558,579,533
Loans and receivables to other customers	-	-	-	12,513,905,604	12,513,905,604
Other Financial Asset Classified under Loans and receivable	-	-	-	1,713,590,400	1,713,590,400
Total financial assets	68,774,700	1,558,579,533	26,085,194	15,104,215,595	16,757,655,022
FINANCIAL LIABILITIES					
Due to other customers	-	-	-	13,083,414,282	13,083,414,282
Other borrowings	-	-	-	1,342,040,414	1,342,040,414
Total financial liabilities	-	-	-	14,425,454,696	14,425,454,696

36. FAIR VALYE OF FINANCIAL INSTRUMENTS

36.1 Financial instruments Recorded at Fair Value

The fallowing is a description of how fair values are determined for financial instrument that sre recorde at fair value using valuation techniques.These incorperate the Bank's estimate of assumption that a market participant would make when valuing the instrument.

Financial Investment-Available for sale

Available for sale Financial assets valued using valuation techniques or pricing models primary consist of unquoted.

Financial Investment-Held for trading

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets -Held for Traiding are valued using market price

36.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of fair value hierachy

		Bank/Group		
36.2.1 As at 31 December 2012	**Level 1**	**Level 2**	**Level 2**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Financial Assets				
Financial assets fair value through profit or loss				
Quoted Equites	44,165,128	-	-	44,165,128
Sri Lanka Government Securities- Treasury Bond	140,253,538	-	-	140,253,538
Financial investments - Available-for-sale	130,215,360	-	-	130,215,360
	314,634,026	-	-	314,634,026

36. FAIR VALYE OF FINANCIAL INSTRUMENTS (Contd.)

36.2.2 As at 31 December 2011

	Bank/Group			
	Level 1	**Level 2**	**Level 2**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Financial Assets				
Financial assets fair value through profit or loss				
Quoted Equites	245,980,855	-	-	245,980,855
	245,980,855	-	-	245,980,855

36.2.3 As at 1st January 2011

	Bank/Group			
	Level 1	**Level 2**	**Level 2**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Financial Assets				
Financial assets fair value through profit or loss				
Quoted Equites	68,774,700	-	-	68,774,700
Sri Lanka Government Securities- Treasury Bond -	-	-	-	
Financial investments - Available-for-sale	-	-	-	-
	68,774,700	-	-	68,774,770

The following table shows the total gains and losses recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	Bank		**Group**
	2012	**2011**	**2011**
	Rs.	**Rs.**	**Rs.**
Net Trading Income			
Financial Assets			
Financial Assets at Fair Value through Profit or Loss			
Quoted Equites	(18,007,176)	(48,789,973)	(48,789,973)
Sri Lanka Government Securities- Treasury Bond	7,346,152		
	(10,661,024)	(48,789,973)	(48,789,973)

	Banking	Leasing	Bank-2012 Treasury	Pawning	Total
37. SEGMENT REPORTING					
Interest income	2,484,177,407	481,318,381	404,379,254	412,251,428	3,782,126,471
Interest expenses	(1,190,098,877)	(193,064,558)	(284,527,559)	(211,557,214)	(1,879,248,208)
Net interest income	1,294,078,530	288,253,823	119,851,695	200,694,214	1,902,878,263
Fee and commission income	52,478,339	19,288,914	-	-	71,767,253
Fee and commission expenses	(362,807)	(133,353)	-	-	(496,160)
Net fee and commission income	52,115,532	19,155,561	-	-	71,271,093
Net loss from financial instruments at fair value through profit or loss	-	-	(10,661,024)	-	(10,661,024)
Other operating income (net)	37,662,238	-	14,349,436	-	52,011,674
Total operating income	1,383,856,300	307,409,384	123,540,107	200,694,214	2,015,500,005
Impairment for loans and other losses	(41,009,060)	(19,857,007)	-	-	(60,866,067)
Net operating income - Segment Result	1,342,847,240	287,552,376	123,540,107	200,694,214	1,954,633,938
Un-allocated Expenses					(1,341,472,294)
Value added tax (VAT) on financial services					(96,665,123)
Profit before tax					516,496,521
Tax expenses					(175,781,016)
Profit for the year					340,715,504
Other Comprehensive Income					
Other Comprehensive Income for the year net of tax					(29,846,720)
Total Comprehensive Income for the year					310,868,784
Segment Assets	14,652,637,129	2,378,282,063	3,605,884,349	2,681,114,086	23,317,917,627
Un-allocated Assets	-	-	-	-	1,581,638,363
Total Assets	14,652,637,129	2,378,282,063	3,605,884,349	2,681,114,086	24,899,555,990
Segment Liabilities	13,592,238,995	2,206,167,935	3,344,929,751	2,487,084,278	21,630,420,960
Total Equity	-	-	-	-	3,269,135,030
Total Assets	13,592,238,995	2,206,167,935	3,344,929,751	2,487,084,278	24,899,555,990

	Banking	Leasing	Bank-2011 Treasury	Pawning	Total
37. SEGMENT REPORTING (Contd.)					
Interest income	2,076,660,957	321,730,580	337,202,080	282,013,843	3,017,607,460
Interest expenses	(789,494,424)	(97,271,395)	(189,213,429)	(124,534,583)	(1,200,513,830)
Net interest income	1,287,166,533	224,459,185	147,988,651	157,479,260	1,817,093,630
Fee and commission income	54,870,097	19,037,778	-	-	73,907,875
Fee and commission expenses	(191,390)	(66,405)	-	-	(257,795)
Net fee and commission income	54,678,707	18,971,373	-	-	73,650,080
Net loss from financial instruments at fair value through profit or loss	-	-	(48,789,973)	-	(48,789,973)
Other operating income (net)	12,873,388	-	9,272,039	-	22,145,427
Total operating income	1,364,995,819	230,564,432	107,659,953	160,878,960	1,864,099,164
Impairment for loans and other losses	(27,340,833)	110,072	-	-	(27,230,760)
Net operating income - Segment Result	1,337,654,986	230,674,504	107,659,953	160,878,960	1,836,868,404
Un-allocated Expenses					(1,145,287,364)
Value added tax (VAT) on financial services					(110,086,110)
Profit before tax					581,494,930
Tax expenses					(199,453,320)
Profit for the year					382,041,610
Other Comprehensive Income					
Other Comprehensive Income for the year net of tax					(1,864,608)
Total Comprehensive Income for the year					380,177,002
Segment Assets	12,912,232,667	1,591,148,654	3,189,683,632	2,099,353,736	19,792,418,689
Un-allocated Assets	-	-	-	-	1,567,303,590
Total Assets	12,912,232,667	1,591,148,654	3,189,683,632	2,099,353,736	21,359,722,279
Segment Liabilities	11,840,958,328	1,459,139,656	2,925,048,823	1,925,179,072	18,150,325,880
Total Equity	-	-	-	-	3,209,398,399
Total Liabilities	11,840,958,328	1,459,139,656	2,925,048,823	1,925,179,072	21,359,724,279

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES-BANK

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	31 December 2012			31 December 2011		
	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Assets						
Cash and cash equivalents	503,541,364	-	503,541,364	419,998,163	-	419,998,163
Placements with banks	2,070,306,725	-	2,070,306,725	1,603,883,955	-	1,603,883,955
Financial assets fair value through profit or loss	184,418,666	-	184,418,666	245,980,855	-	245,980,855
Other Financial Asset Classified under Loans and receivable	470,098,767	-	470,098,767	349,575,289	-	349,575,289
Loans and receivables to other customers	8,926,515,424	10,785,517,854	19,712,033,278	6,674,379,057	9,928,356,000	16,602,735,057
Financial investments - Available-for-sale	130,215,360	41,480,144	171,695,504	-	29,980,144	29,980,144
Financial investments - Held-to-maturity	709,364,687	-	709,364,687	960,263,389	-	960,263,389
Investments in subsidiaries	-	-	-	-	200,000	200,000
Property, plant and equipment	-	603,233,111	603,233,111	-	629,070,235	629,070,235
Investment properties	-	28,670,810	28,670,810	-	29,726,840	29,726,840
intangible assets	-	127,676,865	127,676,865	-	151,691,527	151,691,527
Other assets	303,602,212	14,914,000	318,516,213	336,616,825	-	336,616,825
Total assets	13,298,063,206	11,601,492,783	24,899,555,990	10,590,697,533	10,769,024,746	21,359,722,279
Liabilities						
Due to other customers	14,232,143,412	4,715,370,866	18,947,514,278	10,258,246,878	5,498,670,918	15,756,917,797
Other borrowings	1,079,312,226	478,016,567	1,557,328,793	965,758,704	573,008,226	1,538,766,930
Current tax liabilities	70,561,307	-	70,561,307	44,014,161	-	44,014,161
Deferred tax liabilities	-	27,713,312	27,713,312	-	26,211,953	26,211,953
Other liabilities	695,293,562	332,009,708	1,027,303,270	279,626,040	504,787,000	784,413,040
Total liabilities	16,077,310,507	5,553,110,454	21,630,420,960	11,547,645,783	6,602,678,097	18,150,323,880
Net Assets/ (Liability)	(2,779,247,301)	6,048,382,330	3,269,135,029	(956,948,250)	4,166,346,649	3,209,398,399

39. RISK MANAGEMENT

39.1 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 exposed to credit risk, liquidity risk and market risk and operational risk.

The independent risk control process does include business risks such as changes in the environment, technology and industry. The bank's policy is to monitor those business risks through the bank's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed the Board subcommittee which has the responsibility to monitor the overall risk process within the bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a monthly basis.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits across the bank. This unit responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on a periodically, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

Bank Treasury is responsible for managing the bank's assets and liabilities and the overall financial structure.

It is also primarily responsible for the funding and liquidity risks of the bank.

The bank's policy is that risk management processes throughout the bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits 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, with additional emphasis on selected industries. In addition, the bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board subcommittee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the bank.

For all levels throughout the bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up–to–date information. A daily briefing is given to the Managing Directors and all other relevant members of the bank on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. In accordance with the bank's policy, the risk profile of the bank is assessed by the appropriate level of seniority within the bank. The bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

39.2 Credit risk

Credit risk is the risk that the bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk. The credit quality review process aims to allow the bank to assess the potential losses a result of the risks to which it is exposed and take corrective action.

39. **RISK MANAGEMENT (contd.)**

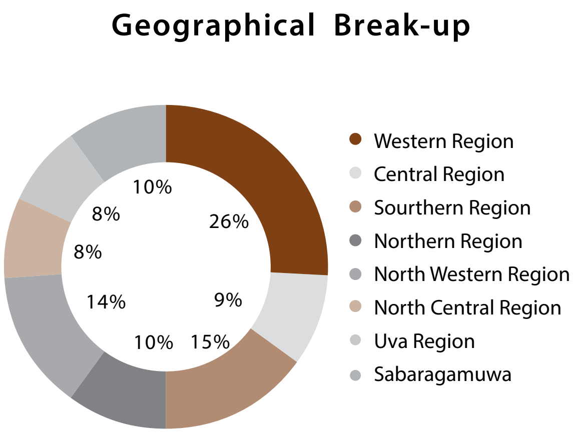
Credit–related commitments risks

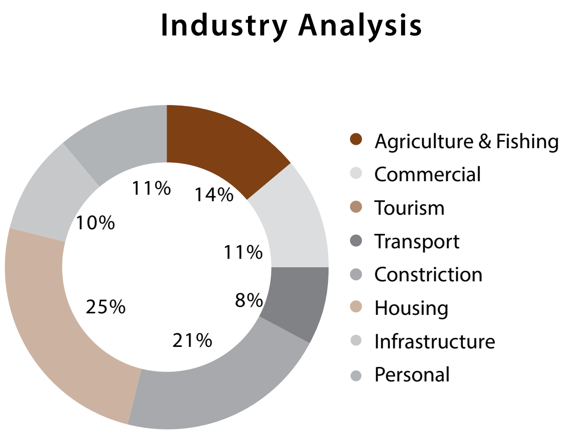
The bank makes available to its customers guarantees which may require that the bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the bank to similar risks to loans and are mitigated by the same control processes and policies.

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

The bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2012 was Rs.250Mn.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.





Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash or securities.
- Real estate properties
- Mortgages over residential properties
- Movable assets – Motor vehicle
- Gold

39. RISK MANAGEMENT (contd.)

The bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral, requests additional collateral in accordance with the Underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

Credit quality by class of financial assets

31st December 2012	Neither past due nor impaired	Pass due but not impaired	Individually impaired	Total
Cash and cash equivalents	503,541,364	-		503,541,364
Placements with banks	2,070,306,725	-		2,070,306,725
Financial assets fair value through profit or loss	184,418,666	-		184,418,666
Other Financial Asset Classified under Loans and receivable	470,098,767	-		470,098,767
Loans and receivables to other customers (without impairment)	14,010,445,495	5,865,304,385	334,518,173	20,210,268,052
Financial investments Î Available-for-sale	171,695,504	-	-	171,695,504
Financial investments Î Held-to-maturity	709,364,687	-	-	709,364,687
Total	18,119,871,208	5,865,304,385	334,518,173	24,319,693,765

	Pass due but not impaired				
31st December 2012	Leass tha 30 day Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	Total Rs.
Loan and Advances to Customers					
Loans and receivables to other customers	2,267,065,594	1,530,463,690	185,313,758	814,680,255	4,797,523,296
Leases	481,193,706	403,638,324	48,294,206	134,654,853	1,067,781,088
	2,748,259,300	1,934,102,014	233,607,964	949,335,107	5,865,304,385

Impairment assessment

For accounting purposes, the bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the bank grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganization.
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

39. **RISK MANAGEMENT (contd.)**

Individually assessed allowances

The bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for held–to–maturity debt investments that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired. The bank generally bases its analyses on historical experience.

The bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the bank's overall policy. Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

Commitments and guarantees

To meet the financial needs of customers, the bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank. Financial statement has separately disclosed the bank's maximum credit risk exposure for commitments and guarantees.

39.3 Liquidity risk and funding management

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

The bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The bank also has committed lines of credit that it can access to meet liquidity needs. In accordance with the bank's policy the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Liquid assets consist of cash, short–term bank deposits and treasury bills available for immediate sale.

The bank stresses the importance of term accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer savings accounts, together with term funding with a remaining term to maturity.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December. The bank expects that many customers will not request repayment on the earliest date the bank could be required to pay and the table does not reflect the expected cash flows indicated by the bank's deposit retention history.

MATURITY ANALYSIS 2012

Assets or Liability	Less than 7 Days	7-30 Days	1-3 Months	3-12 month	1-3 Years	3-5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	503,541,364	-	-	-	-	-	-	503,541,364
Investments	464,841,174	508,957,381	2,383,808,104	239,874,955	-	-	41,480,144	3,638,961,758
Loans and receivables to other customers	487,176,986	1,069,807,393	1,363,977,214	6,980,461,946	7,969,177,431	3,118,740,420	1,675,663,977	22,665,005,367
Total Financial assets	1,455,559,524	1,578,764,774	3,747,785,318	7,220,336,901	7,969,177,431	3,118,740,420	1,717,144,121	26,807,508,489
Financial liabilities								
Due to other customers	729,158,140	2,142,241,492	4,226,965,449	7,463,730,339	4,169,894,831	797,017,096	247,929,300	19,776,936,647
Other borrowings	14,225,629	201,034,925	138,239,972	754,405,266	383,433,135	114,053,244	27,547,145	1,632,939,316
Total Financial liabilities	743,383,769	2,343,276,417	4,365,205,421	8,218,135,605	4,553,327,966	911,070,340	275,476,445	21,409,875,963
Net Financial assets/ (liabilities)	712,175,755	(764,511,643)	(617,420,103)	(997,798,704)	3,415,849,465	2,207,670,080	1,441,667,676	5,397,632,526

39.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. The bank classifies exposures to market risk into either trading or non–trading portfolios and manages each of those portfolios separately. The market risk for the portfolio is managed and monitored using sensitivity analyses.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The table below analyses the bank's interest rate risk exposure on non–trading financial assets and liabilities.

The bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re–pricing or maturity dates.

INTEREST RATE SENSITIVITY ASSET 2012

Asset or Liability	Carring Amount	On demand	1-3 month	3-12 month	over I year
Cash and cash equivalents	503,541,364	503,541,364	-	-	-
Investments	3,605,884,349	971,599,012	2,362,350,091	230,455,102	41,480,144
Loans and receivables to other customers	19,712,033,279	1,051,796,923	1,343,444,898	6,531,273,604	10,785,517,854
Interest Bearing Assets	23,821,458,992	2,526,937,299	3,705,794,989	6,761,728,706	10,826,997,998
Due to other customers	18,947,514,278	2,863,576,428	4,189,980,534	7,178,586,450	4,715,370,866
Other borrowings	1,557,328,793	214,626,829	137,116,095	727,569,302	478,016,567
Interest Bearing Liabilities	20,504,843,071	3,078,203,257	4,327,096,629	7,906,155,752	5,193,387,433
Interest Rate Sensitivity Gap	3,316,615,921	(551,265,958)	(621,301,640)	(1,144,427,046)	5,633,610,565

	If market interest rate go up by 1% effect to interest Income	If market interest rate drop by 1% effect to interest Income
Effect on Rate Sensitive Assets	238,214,590	205,048,431
Effect on Rate Sensitive Liabilities	(205,048,431)	(238,214,590)
Sensitivity of Profit or Loss	33,166,159	(33,166,159)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non–trading equity price risk exposure arises from equity securities classified as available–for–sale.

39.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

40. CAPITAL

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Sri Lanka.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the bank's capital management policy are to ensure that the bank complies with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

41. FIRST-TIME ADOPTION OF SLFRS

These financial statements, for the year ended 31 December 2012, are the first the Company has prepared in accordance with SLFRS. For periods up to and including the year ended 31 December 2011, the Company prepared its financial statements in accordance with old set of standards.

Accordingly, the Company has prepared financial statements which comply with SLFRS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the summary of significant accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2011, the Company's date of transition to SLFRS. This note explains the principal adjustments made by the Company in restating previous financial statements, including the statement of financial position as at 1 January 2011 and the financial statements as at and for the year ended 31 December 2011.

Exemptions Applied

Optional Exemptions

SLFRS 1-'First-Time Adoption of Sri Lanka Accounting Standards (SLFRSs)' allows first-time adopters certain exemptions from the retrospective application of certain SLFRSs.

Employee Benefits

The Bank has elected to disclose the present value of the defined benefit obligation prospectively from the date of transition to SLFRSs. LKAS 19 – Employee Benefits requires the disclosure of the current and previous four years of defined benefit information. The Bank has elected to apply this disclosure prospectively from the date of transition to SLFRSs and provided the disclosures for the current and comparative periods only.

41. FIRST-TIME ADOPTION OF SLFRS (Contd.)

41.1 Reconciliation of Total Comprehensive Income for the Year Ended 31 December 2011-Bank

	Notes	SLASs Rs.	Re-Classification Rs.	Remeasurements Rs.	SLFRs Rs.
Interest income	41.6.1/ 2	2,940,783,685	-	76,823,776	3,017,607,460
Interest expenses	41.6.3	(1,200,433,766)	-	(80,064)	(1,200,513,830)
Net interest income		1,740,349,918	-	76,743,711	1,817,093,630
Fee and commission income		-	73,907,875	-	73,907,875
Fee and commission expenses		(11,974,866)	11,717,071	-	(257,795)
Net fee and commission income		(11,974,866)	85,624,946	-	73,650,080
Net gain from financial instruments at fair value through profit or loss		-	(48,789,973)	-	(48,789,973)
Other operating income (net)		96,230,454	(74,085,028)		22,145,427
Total operating income		1,824,605,507	(37,250,056)	76,743,711	1,864,099,163
Impairment for loans and other losses	41.6.1	(53,954)	-	(27,176,806)	(27,230,760)
Net operating income		1,824,551,553	(37,250,056)	49,566,905	1,836,868,403
Personnel expenses	41.6.2	(393,190,153)	1,864,608	(7,700,604)	(399,026,149)
Other expenses		(783,511,271)	37,250,056	-	(746,261,217)
Operating profit/(loss) before value added tax (VAT)		647,850,129	1,864,608	41,866,302	691,581,037
Value added tax (VAT) on financial services		(110,086,110)	-	-	(110,086,110)
Operating profit/(loss) after value added tax (VAT)		537,764,019	1,864,608	41,866,302	581,494,927
Profit before tax		537,764,019	1,864,608	41,866,302	581,494,927
Tax expenses	41.6.4	(192,424,375)	-	(7,028,945)	(199,453,320)
Profit for the year		345,339,644	1,864,608	34,837,357	382,041,607
Other Comprehensive Income					
Actuarial losses on defined benefit plans		-	(1,864,608)	-	(1,864,608)
Other Comprehensive Income for the year net of tax	-	-	-	-	-
Total Comprehensive Income for the year		345,339,644	-	34,837,357	380,176,999

	Notes	SLASs Rs.	Re-Classification Rs.	Remeasurements Rs.	SLFRs Rs.
41. FIRST-TIME ADOPTION OF SLFRS (Contd.)					
41.2 Reconciliation of Total Comprehensive Income for the Year Ended 31 December 2011-Group					
Interest income	41.6.1/ 2	2,940,783,685	-	76,823,776	3,017,607,460
Interest expenses	41.6.3	(1,199,965,619)	-	(80,064)	(1,200,045,684)
Net interest income		1,740,818,065	-	76,743,711	1,817,561,777
Fee and commission income		-	73,907,875	-	73,907,875
Fee and commission expenses		(12,265,451)	11,717,071	-	(548,380)
Net fee and commission income		(12,265,451)	85,624,946	-	73,359,495
Net gain from financial instruments at fair value through profit or loss		-	(48,789,973)	-	(48,789,973)
Other operating income (net)		110,376,613	(74,085,028)	-	36,291,585
Total operating income		1,838,929,227	(37,250,055)	76,743,711	1,878,422,884
Impairment for loans and other losses	41.6.1	(53,954)	-	(27,176,806)	(27,230,760)
Net operating income		1,838,875,273	(37,250,055)	49,566,905	1,851,192,124
Personnel expenses	41.6.2	(398,754,692)	1,864,608	(7,700,604)	(404,590,687)
Other expenses		(787,321,109)	37,250,055	-	(750,071,055)
Operating profit/(loss) before value added tax (VAT)		652,799,473	1,864,608	41,866,302	696,530,381
Value added tax (VAT) on financial services		(110,086,110)	-	-	(110,086,110)
Operating profit/(loss) after value added tax (VAT)		542,713,363	1,864,608	41,866,302	586,444,271
Profit before tax		542,713,363	1,864,608	41,866,302	586,444,271
Tax expenses	41.6.4	(192,424,375)	-	(7,028,945)	(199,453,320)
Profit for the year		350,288,987	1,864,608	34,837,357	386,990,951
Other Comprehensive Income					
Actuarial losses on defined benefit plans		-	(1,864,608)	-	(1,864,608)
Other Comprehensive Income for the year net of tax		-	(1,864,608)	-	(1,864,608)
Total Comprehensive Income for the year		350,288,987	-	34,837,355	385,126,343
Total Comprehensive Income to attributable to					
Owners of parent		346,329,513	-	-	381,166,869
Non-controlling interests		3,959,474			3,959,474
Total Comprehensive Income for the year		350,288,987	-	-	385,126,343

41. FIRST-TIME ADOPTION OF SLFRS (Contd.)

41.3 Reconciliation of Equity as at 31 December 2011-Bank

	Notes	SLASs Rs.	Re-Classification Rs.	Remeasurements Rs.	SLFRs Rs.
Assets					
Cash and cash equivalents		419,998,163	-	-	419,998,163
Placements with banks		1,581,519,752	22,364,203	-	1,603,883,955
Financial assets fair value through profit or loss		245,980,855	-	-	245,980,855
Other Financial Asset Classified under Loans and receivable		335,094,139	14,481,150	-	349,575,289
Loans and receivables to other customers	41.6.1/2	16,478,148,822	-	124,586,235	16,602,735,057
Financial investments - Available-for-sale		29,980,144	-	-	29,980,144
Financial investments - Held-to-maturity		934,494,600	25,768,790	-	960,263,389
Investments in subsidiaries		200,000	-	-	200,000
Interest Receivables on Investments		62,614,143	(62,614,143)	-	-
Property, plant and equipment		629,070,235	-	-	629,070,235
Investment properties		29,726,840	-	-	29,726,840
intangible assets		151,691,527	-	-	151,691,527
Other assets	41.6.2	273,578,318	-	63,038,506	336,616,825
Total assets		21,172,097,539	-	187,624,741	21,359,722,279
Liabilities					
Due to other customers	41.6.3	15,240,996,255	-	515,921,542	15,756,917,797
Other borrowings		1,534,709,181	-	4,057,749	1,538,766,930
Current tax liabilities		44,014,161	-	-	44,014,161
Deferred tax liabilities		26,211,953	-	-	26,211,953
Other liabilities		1,270,587,981	-	(486,174,942)	784,413,040
Total liabilities		18,116,519,531	-	33,804,349	18,150,323,880
Equity					
Stated capital		2,427,532,200	-	-	2,427,532,200
Statutory reserve fund		65,070,467	-	-	65,070,467
Retained earnings		441,471,466	-	153,820,391	595,291,857
Other reserves		121,503,875	-	-	121,503,875
Total equity of the owners of the parent		3,055,578,008	-	153,820,391	3,209,398,399
Total equity		3,055,578,008	-	153,820,391	3,209,398,399
Total equity and liabilities		21,172,097,539	-	187,624,740	21,359,722,279

41. FIRST-TIME ADOPTION OF SLFRS (Contd.)

41.4 Reconciliation of Equity as at 31 December 2011-Group

	Notes	SLASs Rs.	Re-Classification Rs.	Remeasurements Rs.	SLFRs Rs.
Assets					
Cash and cash equivalents		419,998,163	-	-	419,998,163
Placements with banks		1,581,519,752	22,364,203	-	1,603,883,955
Financial assets fair value through profit or loss		245,980,855	-	-	245,980,855
Other Financial Asset Classified under Loans and receivable		335,094,139	14,481,150	-	349,575,289
Loans and receivables to other customers	41.6.1/2	16,478,148,822	-	124,586,235	16,602,735,057
Financial investments - Available-for-sale		29,980,144	-	-	29,980,144
Financial investments - Held-to-maturity		934,494,600	25,768,790	-	960,263,389
Interest Receivables on Investments		62,614,143	(62,614,143)	-	-
Property, plant and equipment		633,166,352	-	-	633,166,352
Investment properties		29,726,840	-	-	29,726,840
intangible assets		151,691,527	-	-	151,691,527
Other assets	41.6.2	277,338,745	-	63,038,507	340,377,252
Total assets		21,179,754,083	-	187,624,742	21,367,378,823
Liabilities					
Due to other customers	41.6.3	15,225,224,152	-	515,921,542	15,741,145,694
Other borrowings		1,534,709,180	-	4,057,749	1,538,766,930
Current tax liabilities		44,014,161	-	-	44,014,161
Deferred tax liabilities		26,211,953	-	-	26,211,953
Other liabilities		1,287,657,183	-	(486,174,942)	801,482,241
Total liabilities		18,117,816,630	-	33,804,350	18,151,620,978
Equity					
Stated capital		2,427,532,200	-	-	2,427,532,200
Statutory reserve fund		65,070,467	-	-	65,070,467
Retained earnings		442,583,358	-	153,820,391	596,403,749
Other reserves		121,503,875	-	-	121,503,875
Total equity of the owners of the parent		3,056,689,900	-	153,820,391	3,210,510,291
		5,247,554	-		5,247,554
Total equity		3,061,937,454	-	153,820,391	3,215,757,845
Total equity and liabilities		21,179,754,083	-	187,624,741	21,367,378,823

	Notes	SLASs Rs.	Re-Classification Rs.	Remeasurements Rs.	SLFRs Rs.

41. FIRST-TIME ADOPTION OF SLFRS (Contd.)

41.5 Reconciliation of Equity as at 1 January 2011-Bank

	Notes	SLASs Rs.	Re-Classification Rs.	Remeasurements Rs.	SLFRs Rs.
Assets					
Cash and cash equivalents		262,965,754	-	-	262,965,754
Placements with banks		1,015,867,264	(402,113,429)	-	613,753,836
Financial assets fair value through profit or loss		68,774,700	-	-	68,774,700
Other Financial Asset Classified under Loans and receivable	41.6.3	1,173,873,450	541,405,515	(1,688,565)	1,713,590,400
Loans and receivables to other customers	41.6.1/2	12,419,932,868	-	93,972,736	12,513,905,604
Financial investments - Available-for-sale		26,085,194	-	-	26,085,194
Financial investments - Held-to-maturity		1,589,510,670	(30,931,137)	-	1,558,579,533
Investments in subsidiaries		250,000	-	-	250,000
Interest Receivables on Investments		108,360,950	(108,360,950)		
Property, plant and equipment		453,978,408	-	-	453,978,408
Investment properties		30,782,870	-	-	30,782,870
intangible assets		156,439,784	-	-	156,439,784
Other assets	41.6.2	233,050,957	-	53,394,203	286,445,160
Total assets		17,539,872,869	-	145,678,374	17,685,551,243
Liabilities					
Due to other customers	41.6.3	12,621,884,745	-	461,529,537	13,083,414,282
Other borrowings		1,333,281,435	-	8,758,979	1,342,040,414
Current tax liabilities		191,215,132	-	-	191,215,132
Deferred tax liabilities		22,752,261	-	-	22,752,261
Other liabilities		1,190,470,046	-	(443,593,177)	746,876,869
Total liabilities		15,359,603,618	-	26,695,339	15,386,298,958
Equity					
Stated capital/Assigned capital		1,820,268,406	-	-	1,820,268,406
Statutory reserve fund		47,803,484	-	-	47,803,484
Retained earnings		265,540,388	-	118,983,035	384,523,422
Other reserves		46,656,973	-	-	46,656,973
Total equity of the owners of the parent		2,180,269,251	-	118,983,035	2,299,252,285
Total equity		2,180,269,251	-	118,983,035	2,299,252,285
Total equity and liabilities		17,539,872,869	-	145,678,374	17,685,551,243

	Notes	SLASs Rs.	Re-Classification Rs.	Remeasurements Rs.	SLFRs Rs.
41. FIRST-TIME ADOPTION OF SLFRS (Contd.)					
41.5 Reconciliation of Equity as at 1 January 2011-Group					
Assets					
Cash and cash equivalents		262,965,754	-	-	262,965,754
Placements with banks		1,015,867,264	(402,113,429)	-	613,753,836
Financial assets fair value through profit or loss		68,774,700	-	-	68,774,700
Other Financial Asset Classified under Loans and receivable	41.6.3	1,173,873,450	541,405,515	(1,688,565)	1,713,590,400
Loans and receivables to other customers	41.6.1/2	12,419,932,868	-	93,972,736	12,513,905,604
Financial investments - Available-for-sale		26,085,194	-	-	26,085,194
Financial investments - Held-to-maturity		1,589,510,670	(30,931,137)	-	1,558,579,533
Interest Receivables on Investments		108,360,950	(108,360,950)	-	-
Property, plant and equipment		457,449,868	-	-	457,449,868
Investment properties		30,782,870	-	-	30,782,870
intangible assets		156,439,784	-	-	156,439,784
Other assets	41.6.2	246,132,525	-	53,394,203	299,526,729
Total assets		17,556,175,898	-	145,678,374	17,701,854,272
Liabilities					
Due to other customers	41.6.3	12,616,738,692	-	461,529,537	13,078,268,229
Other borrowings		1,333,281,435	-	8,758,979	1,342,040,414
Current tax liabilities		191,215,132	-	-	191,215,132
Deferred tax liabilities		22,752,261	-	-	22,752,261
Other liabilities		1,210,715,468	-	(443,593,177)	767,122,292
Total liabilities		15,374,702,988	-	26,695,339	15,401,398,328
Equity					
Stated capital/Assigned capital		1,820,268,406	-	-	1,820,268,406
Statutory reserve fund		47,803,485	-	-	47,803,484
Retained earnings		265,823,963	-	118,983,035	384,806,998
Other reserves		46,656,973	-	-	46,656,973
Total equity of the owners of the parent		2,180,552,827	-	118,983,035	2,299,535,861
Non-controlling interests		920,083	-	-	920,083
Total equity		2,181,472,910	-	118,983,035	2,300,455,944
Total equity and liabilities		17,556,175,898	-	145,678,374	17,701,854,272

41. FIRST-TIME ADOPTION OF SLFRS (Contd.)

Notes to the Reconciliation of Equity as at 1 January 2011 and 31 December 2011 and Total Comprehensive Income for the Year ended 31 December 2011

41.6.1 Impairment of Loans and Advances to Customers and Interest on Impaired Loans and Advances

SLFRSs require Impairment losses to be recognised where there is evidence of impairment as a result of one or more loss events that have occurred, after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment is measured individually for assets that are individually significant and on a collective basis for portfolios with homogeneous risk characteristics. Interest on impaired loans is recognised using the original effective interest rate, being the rate used to discount the estimated future cash flows for the purpose of calculating impairment.

SLASs on the basis of the regulations issued by Central Bank of Sri Lanka require the Banks to maintain General and Specific Provisions for loan losses for credit risk mitigation purposes. Accordingly, the Bank were to maintain general provision equivalent to 0.5% of on all Balance Sheet Performing Credit Facilities and Special Mention Credit Facilities net of Interest in Suspense except for credit facilities secured by cash deposits, gold or Government Securities with the Bank. Further, the Banks were required to maintain minimum specific provisioning requirement on Non Performing Credit Facilities except for Special Mention Credit Facilities where only suspension of interest is required by the prudential regulator. The minimum specific provisioning requirement was applied on the net exposure i.e. the total outstanding net of 'realisable value of securities' as defined by the regulator and Interest in Suspense. Where necessary provisions are made over and above the minimum percentage on a case by case basis. The Bank has suspended all interest accrued but uncollected from the date a credit facility is classified as 'Non Performing' and credit such accrued interest to the 'Interest in Suspense Account' and recognized interest on an account which has been classified as a Non Peforming Credit Facilitiy as income, as and when the interest is collected by the Bank, if it is collected on a cash basis.

The application of SLFRSs has resulted in reanalysis of SLASs general and specific provisions into SLFRSs impairment allowances and the reallocation of impairment allowances within the businesses.

41.6.2 Fair Value of Staff Loans

SLFRSs require all staff loans to be carried at fair value on the initial recognition. The Fair values are estimated as the present value of the future cash flows discounted at a market rate of a similar loan. After the initial recognition loans are accounted for at the amortised cost with interest income determined using the effective interest method. When the interest rate on the loan is below the market interest rate, fair value of the less than the amount of loan. The difference is recognized as a prepaid employee benefit and amortised over the period as a staff employee benefit in terms of LKAS 19 - 'Employee Benefits'.

SLFRSs require all Financial Guarantees to be measured at fair value on the initial recognition, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the profit or loss.

41.6.2 Effective Interest Rate on Deposits and Debentures

SLFRSs require Effective Interest Method (EIR) as the method of calculating the amortised cost of a deposits and debentures and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the deposit/debenture. The method results interest expense and related transaction costs associated with the deposit being recognised over the life of the deposit. The application of the method has the effect of recognising interest expense and related expense payable on the deposit/ debenture instruments evenly in proportion to the amount outstanding over the period to maturity or repayment.

41.6.3 Taxation of Adoption of SLFRS/LKAS

The effect of SLFRS/LKAS adjustments on Income Tax, Deferred Tax, Value Added Tax on Financial Services are adjusted on judgement

Capital Adequacy

Computation

Capital Base as at 31 st December	2012 (Basel 11) (Rs'000)	2011 (Basel 11) (Rs'000)
TIER I		
Paid-up Ordinary Shares	2,526,532	2,427,532
Statutory Reserve Fund	82,106	65,070
Published Retained Profits	443,160	441,471
General & Other Reserves	46,657	46,657
Debentures	-	(411)
50% invest in the capital of other Bank & Financial Institiution	(20,983)	
Total Tier I Capita	3,077,472	2,980,320
TIER 2		
General Provision	70,868	69,045
Debentures	-	(411)
50% invest in the capital of other Bank & Financial Institiution	(20,983)	
Total Tier 2 Capita	49,885	68,634
Total Tier 1 & Tier 2 Capital	3,127,357	3,048,955
Capital Base	3,127,357	3,048,955
COMPUTATION OF RATIOS		
Core Capital(Tier 1)	3,077,472	2,980,320
Total Capital Base	3,127,357	3,048,955
Risk Weighted Assets		
Total Risk Weighted Assets for Credit Risk	16,657,994	15,168,138
Total Risk Weighted Assets for Market Risk	22,832	39,630
Total Risk Weighted Assets for Operational Risk	2,452,446	1,948,116
Total Risk Weighted Assets	19,133,272	13,656,044
Core Capital Ratio (Minimum Requirement 5%)		
Total Tier - 1 Capital	3,077,472	2,980,320
Total Risk Weighted Assets	19,133,272	17,155,884
	16.08%	17.37%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	3,127,357	3,048,955
Total Risk Weighted Assets	19,133,272	17,155,884
	16.35%	17.77%

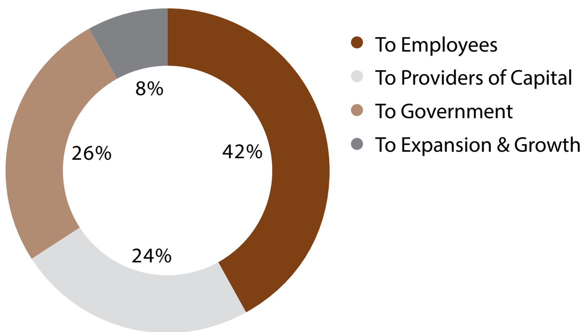
Sources & Utilization of Income

Audited 000'

For the year ended 31st December,	2008	2009	2010	2011	2012
Sources of Income					
Interest	1,694,741	2,185,648	2,481,950	2,680,405	3,377,747
Investments	287,867	474,302	458,742	337,202	404,379
Commision & Other	55,791	73,752	83,069	47,263	113,118
Total	2,038,399	2,733,702	3,023,761	3,064,871	3,895,244
Utilization of Income					
For the year ended 31st December,					
Employees					
Salaries & other payments to staff	148,919	221,429	268,760	399,026	447,637
Suppliers					
Interest Paid	1,209,441	1,466,318	1,222,848	1,200,514	1,879,248
other Expenses	377,005	452,830	683,870	773,750	955,198
	1,586,447	1,919,148	1,906,717	1,974,264	2,834,446
Net income before Govt. Taxes	303,033	593,125	848,283	691,581	613,162
Government					
Income tax, Vat on FS/Defence Levy	205,945	384,753	524,802	309,539	272,446
Share Holders					
Dividends	93,943	51,770	177,378	242,753	251,753
Retained Profit	3,146	156,602	146,103	139,288	88,962
	97,089	208,372	323,480	382,042	340,716
Total	2,038,399	2,733,702	3,023,761	3,064,871	3,895,244

Statement of Value Added

	2012		2011	
	Rs. 000		Rs. 000	
Value Added				
Gross Interest Income	3,782,126		3,017,607	
Other Income	113,118		47,263	
Cost of Borrowing & Other Services	(2,773,580)		(1,947,033)	
Provision for credit losses & Investments	(60,866)		(27,231)	
	1,060,798		1,090,607	
Distribution of Value Added		%		%
To Employees	447,637	42%	399,026	37%
To Providers of Capital				
Dividends to Shareholders	251,753	24%	242,753	22%
To Government				
Income Tax on Profits & VAT on FS	272,446	26%	309,539	28%
To Expansion & Growth				
Retained Income	88,962	8%	139,288	13%
	1,060,798		1,090,607	



Ten-Year Statistical Summary

Audited 000'

Year ended 31st December	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Advances	1,180,565	2,071,576	2,936,606	4,423,439	6,450,111	8,492,496	10,447,342	12,513,906	16,602,735	19,712,033
Investments	797,471	791,400	835,944	1,052,325	1,331,022	1,790,160	3,182,045	3,367,280	3,189,884	3,605,884
Fixed Assets	24,240	31,329	54,149	111,353	173,210	235,272	543,169	641,201	810,489	759,581
Total Assets	2,100,794	3,029,783	4,023,030	5,917,442	8,488,840	11,315,225	15,178,458	17,685,551	21,359,722	24,899,556
Deposits	1,520,144	2,309,506	2,944,682	4,448,493	6,035,960	8,232,264	10,887,012	13,083,414	15,756,918	18,947,514
Borrowings	298,665	353,968	469,161	450,111	962,505	945,355	1,034,853	1,342,040	1,538,767	1,557,329
Share Capital (Allotted)	175,261	216,321	294,658	446,075	566,070	671,022	1,546,665	1,820,268	2,427,532	2,526,532
Reserves	30,492	39,936	138,443	205,529	163,956	162,914	246,219	478,984	781,866	742,603
Share Holders' Fund	205,753	256,257	433,101	651,604	730,026	833,936	1,792,884	2,299,252	3,209,398	3,269,135
Total Income	282,477	358,951	525,805	764,916	1,251,869	2,038,399	2,733,701	3,023,761	3,064,871	3,895,244
Total Expenses	251,519	315,933	467,160	640,261	1,125,833	1,813,321	2,288,190	2,377,157	2,483,376	3,378,748
Profit/Loss before Tax.	30,958	43,018	58,645	124,655	126,036	225,078	445,512	646,603	581,495	516,497
Taxation	(2,502)	(14,317)	(10,656)	(49,043)	(72,272)	(127,989)	(237,140)	(323,123)	(199,453)	(175,781)
Profit/Loss after Tax.	28,456	28,701	47,989	75,612	53,764	97,089	208,372	323,480	382,042	340,716
No. of Accounts	73,524	109,158	141,962	195,835	250,003	412,350	523,275	585,508	697,227	858,454
No. of Customer Centres	13	15	21	25	36	44	52	72	79	81
No. of Employees	207	226	302	398	465	504	615	735	884	823

Branch Network

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60/65, SAHASAPURA SCHEME,
BASELINE MAWATHA, BORELLA
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Branch Network

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2284556

MEDAWACHCHIYA
78A, JAFFNA ROAD, MEDAWACHCHIYA
TEL/FAX: 025-2245221

MATARA
NO - 24 A.E.H.COORAY TOWER,
DHARMAPALA MAWATHA, MATARA
TEL/ FAX: 041-2225450

MAPALAGAMA
ETHUMALE, MAPALAGAMA.
TEL/FAX : 091-2296200

NEGOMBO
No - 150, GREENS ROAD, NEGOMBO.
TEL : 031-2227714 / FAX: 031-2227715
E-MAIL :

PILIMATHALAWA
NO,255, COLOMBO ROAD.
PILIMATHALAWA.
TEL/FAX : 081-2577156

RAMBUKKANA
152, KURUNEGALA ROAD,
RAMBUKKANA
TEL/ FAX: 035-2264388

ALUTHGAMA
No.39,Welipenna Road,
Aluthgama
Tel:034-2270718

TRINCOMALEE
NO.95, POST OFFICE ROAD,
TRINCOMALEE
TEL/FAX – 026-2222076

WARIYAPOLA
NO,54, KURUNEGALA ROAD
WARIYAPOLA.
TEL/FAX : 037-2267646

YAKKALAMULLA
YAKKALAMULLA JUNCTION
GALLE ROAD, YAKKALAMULLA.
TEL/FAX : 091-2286770

DEHIATHTHAKANDIYA
NO 10/2
DEHIATHTHAKANDIYA.
TEL /FAX :027 2250414

HATHTHARALIYEDDA
NO 21/5
KANDY ROAD, HATHTHARALIYEDDA
TEL/FAX : 081 2464250

KAKIRAWA
NO,53, ANURADHAPURA ROAD,
KAKIRAWA.
TEL/FAX : 02522603306

KANTHALE
14 KANDY ROAD, KANTHALE.
TEL /FAX 026 2234380

MAHARAGAMA
134, HIGH LEVEL ROAD,
MAHARAGAMA
TEL / FAX 011 2840242

KADUWELA
88, COLOMBO ROAD, KADUWELA.
Tel:011-2548428
Mobile:0777551583

AMBALANTHOTA
69/1, TANGALLE ROAD,
AMBALANTHOTA.
TEL/ FAX: 047- 2225466

ANGUNAKOLAPLASSA
572, HUNGAMA ROAD,
ANGUNAKOLAPLASSA.
TEL/FAX : 047-2229205

BADULLA
NO:132,LOWERS STREET, BADULLA.
TEL/FAX : 055-2224135

CHILAW
50/52, SKYLINE BUILDING,
COLOMBO ROAD, CHILAW.
TEL/ FAX: 032-2220801

DENIYAYA
61, MAIN STREET, DENIYAYA
TEL/FAX:041-2273100

ELPITIYA
NO - 18/12 NEW ROAD, ELPITIYA.
TEL/FAX:091-2291524

GALENBIDUNUWAWA
NO, 81 SEEPPUKLAMA ROAD,
GALENBIDUNUWAWA,
TEL/FAX : 025-2258038

HORANA
145, RATHNAPURA ROAD, HORANA.
TEL/ FAX: 034-2261177

KALUTARA
398, GALLE ROAD,
KALUTARA NORTH.
TEL : 034 - 2221115 FAX: 034 - 2221116
KEGALLE
342, MAIN STREET, KEGALLE.
TEL:035-2222352 / FAX : 035-2231051

KURUNEGALA
95, NEGOMBO ROAD, KURUNEGALA.
TEL/ FAX: 037- 4921618, 037-2229607

MUTUR
NO,144,MAIN STREET, MUTHUR
TEL/FAX : 026-2238122

MONARAGALA
16, WELLAWAYA ROAD,
MONARAGALA.
TEL/ FAX: 055- 2277192

MATHUGAMA
120/1, ALUTHGAMA ROAD.
MATHUGAMA.
TEL/FAX : 034-2248373

NOCHCHIYAGAMA
NO -94, PUTTALAMA ROAD,
NOCHCHIYAGAMA.
TEL/FAX : 025-2257154

POLONNARUWA
No - 578, MAIN STREET,
KADURUWELA.
TEL : 027-2226622 / FAX: 091-2226623
E-MAIL :

RIKILLAGASKADA
No - 51, KANDY ROAD,
RIKILLAGASKADA.
TEL/ FAX: 081-2365556

KIRULAPONE
NO - 12, EDMONTONE ROAD,
COLOMBO 06.
TEL - 0112 832597

THAMBUTTEGAMA
318, REJINA HANDIYA,
THAMBUTTEGAMA
TEL/ FAX: 025-2275011

WENNAPPUWA
MAIN STREET
WENNAPPUWA.
TEL/FAX : 031-2245532

BUTTALA
14, MAIN STREET, BUTTALA
TEL/FAX : 055 2275387

SAMANTHURAI
NO 1/21 E POLICE ROAD,
SAMANTHURAI
TEL/FAX :067 2261378

UHANA
JAYANTHI BULIDING
KANDY ROAD, UHANA.
TEL/FAX :063 2250102

KILINOCHCHIYA
07, KANDY ROAD, ANANDAPURAM
KILINOCHCHIYA.
TEL/FAX : 021 2285316

AKKERAIPATTU
05, POTHUVIL ROAD,
AKKERAIPATTU
TEL/FAX 067 2279365

HIGURANA
26, MUWANGALA ROAD,
HIGURANA.
TEL/FAX : 063 2240285
MOBIL -0773 440690

GAMPAHA
09, SIRIKURUSA ROAD,
GAMPAHA.
TEL / FAX - 033-2224631

Glossary of Financial Terms

Bonus Issue
The issue of new shares to existing shareholders in proportion to their shareholdings.

Capital Adequacy Ratio
The percentage of risk adjusted assets supported by the capital.

Capital Expenditure
The total of additions to Property, Plant Equipment and the purchase of outside investments.

Capital Reserves
Reserves identified for specific purposes and considered not available for distributions.

Corporate Governance
The process by which corporate entities are governed.

Deferred Tax
Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Dividend per Share
Profit after tax dividend by the number of ordinary shares issued.

Guarantees
Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertaking such as bid and performance bond.

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Loan Losses and Provisions
Amount set aside against possible losses on advances and other credit facilities as a result of their becoming partly or wholly uncollected.

Net Interest Income
The difference between a bank earns on assets and what it pays on liabilities.

Portfolio
The range of products or services offered by a company such as Loans, Leases and Pawning etc.

Post-Balance Sheet Events
Significant events that occur between the Balance Sheet date and the date on which Financial Statements are approved.

Related Parties
Parties who could control or influence the financial and operating policies of the business.

Revenue Reserves
Reserves which may be distributed to shareholders as dividends.

Shareholders' Funds
The sum of share capital, capital reserves and revenue reserves.

Statutory Reserve Fund
A capital reserve created according to the provisions of the Banking Act No. 30 of 1988.

Tier 1 Capital
Core capital representing permanent shareholders equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 11 Capital
Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

Value Addition
It is the wealth created by providing banking services less the cost of providing such service.

Sixteenth Annual General Meeting Agenda

Date	:	31st May 2013
Venue	:	SANASA Siyawasa Hall, Paragammana, Hettimulla, Kegalle.
Time		
9.00 – 10.00 a.m.	:	Registration
10.00 – 10.15 a.m.	:	Sixteenth Annual General Meeting call to order Lighting of the oil lamp Religious Observances Pledge of the Co-operative Movement
10.15 – 10.25 a.m.	:	Observing one-minute silence in memory of departed members of the Sanasa Movement.
10.25 – 10.30 a.m.	:	Notice of Meeting – Company Secretary
10.30 – 10.45 a.m.	:	Confirmation of the minutes of Annual General Meeting held on 24th May 2012
10.45 – 12.15 p.m.	:	To pass General Resolutions
12.15 – 12.30 p. m	:	Chairperson's Address
12.30 – 12.45 p.m.	:	Vote of Thanks – General Manager / CEO

Notice of Meeting

Notice is hereby given that the Sixteenth Annual General Meeting of SANASA Development Bank PLC will be held at the "Siyawasa" Building of Sanasa Campus Ltd, Paragammana,Hettimulla, Kegalle at 9.00 a.m. on Friday 31st May 2013, for the following purposes.

- To receive and consider the Annual Report of the Board of Directors along with the Financial statements of the Company for the year ended 31st December, 2012 with Auditors Report there on.
- To consider and declare a Final Dividend of Rs 5/- per share as recommended by the Directors, to the shareholders.
- To re-elect Mr. D. P. Kumarage who retires by rotation in terms of Article 6(4) of the Articles of Assosiation as director.
- To elect Mr. Thilak Rajapaksha who represents Sanasa Federation Limited as director.
- To elect Mr. Jayantha Rathnayake who represents Kamburupitiya Sanasa Shareholders Trust Company Limited as director.
- To appoint Messrs Ernst Young, Chartered Accountants as Auditors for the year 2013 and to authorize the Board to determine their remuneration.
- To authourise the Directors to determine donations for the year 2013.

By order of the Board,

Tamarika Rodrigo
Company Secretary

Corporate Information

Name of Company
SANASA Development Bank PLC

Legal Form
A Public Quoted Company with limited liability incorporated under the Companies Act 17 of 1982 and Re-Registered under Companies Act No.07 of 2007 and registered as a Licensed specialized Bank by Central Bank of Sri Lanka under the Banking Act No 30 of 1988 (as amended by the Banking Amendment Act of 1995.) and approved Credit Agency under the Mortgage Act No 06 of 1949 as amended by Mortgage (amendment) Act No 53 of 1949 and Trust Receipt Ordinance No.12 of 1947.

Company Registration No
PB 62 PQ

Registered Office
No.12, Edmonton Road, Kirulapone, Colombo 06.

Head Office
No.12, Edmonton Road, Kirulapone, Colombo 06.
Tele : 011-2832500
Fax : 011-2514256
Web : www.sdb.lk

Board of Directors
Mrs. M. S. Kiriwandeniya (Chairperson)
Mr. T.K arunasena (Deputy Chairman)
Mr. A. D.Walisinghe
Mr. D. P. Kumarage
Dr. R.M.K.Ratnayake
Prof. W. M. A. Bandara (resigned)
Mr. U. G. Ramawickrama
Mr. M.Vidanapathirana
Mr. H. M. G. B. Herath
Mr L Abeysekera

General Manager/Chief Executive Officer
Mr. M.T.Galgamuwa

Company Secretary
Ms.Tamarika Rodrigo

Auditors
M/S Ernst & Young Chartered Accontants,
No.201, De Seram Place,
P.O.Box 101, Colombo 10.

Bankers
People's Bank Ltd
NDB Bank PLC
Nations Trust Bank PLC

REDWORKS
Designed & produced by REDWORKS (PVT) LTD
Photography by Studio Times
Digital plates & Printed by Aitken Spence Printing & Packaging (Pvt) Ltd