Achieving heights *in* Challenging times

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SANASA Development Bank PLC

Annual Report 2013

Achieving heights in Challenging times

Achieving heights in Challenging times

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SANASA Development Bank is proud to have represented the people of this country as their collective financial voice for over two decades of change and challenge. Today, we are facing a new era in the Sri Lankan financial landscape, driven by regulatory and socio-economic shifts. As the economic empowerment tool of the people, your Bank must adapt to this transition, or face obsolescence. We must be bigger, better and stronger than ever before, to overcome new challenges and exploit the many new opportunities we will face in this new era of Sri Lanka's post war economy. As the bank that has been, and always will be, the bank of the people, we invite you to join us in this journey.

Contents

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.

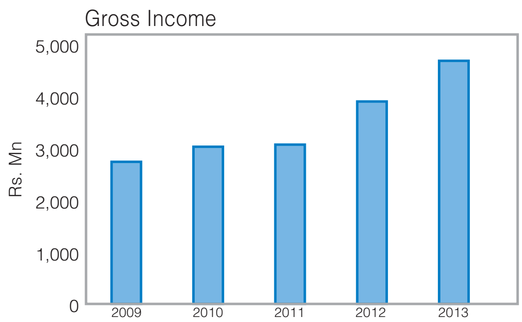
To be innovative and demand-driven in providing financial services.

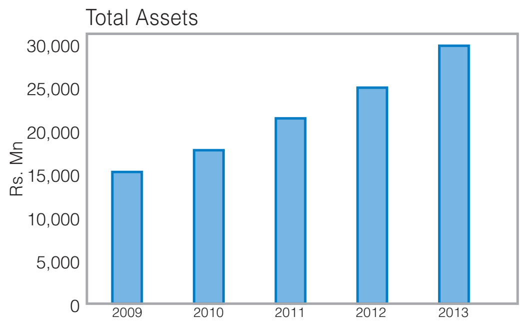
To be courteous and professional in all business dealings. To avoid discrimination on the grounds of religion, sex, ethnicity, social status and language.

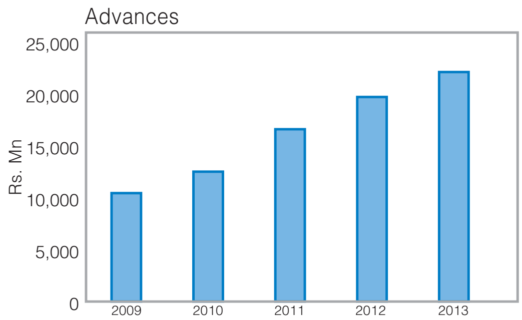
To refrain from extending financial services for unethical and illegal pursuits.

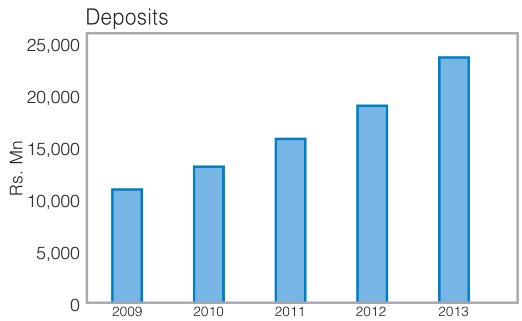
Financial Highlights

	2013 Rs. '000	2012 Rs. '000	Change %
RESULT FORE THE YEAR			
Gross Income	4,389,385	3,782,126	16%
Net Income	1,863,805	1,902,878	-2%
Operational Profit before Provisions & Taxes	740,362	674,028	10%
Profit before Tax	333,359	516,497	-35%
Income Tax Provision	-85,175	-175,781	-52%
Profit after Taxation	248,184	340,716	-27%
POSITION AT YEAR END			
Deposits	23,594,768	18,947,514	25%
Advances	22,116,645	19,712,033	12%
Shareholders' Funds	3,380,247	3,259,901	4%
Total Assets	29,732,605	24,899,556	19%
Financial ratios			
Return On Average Assets	1.22%	2.23%	-1.01%
Return On Average Shareholders'Fund	7.42%	9.97%	-2.55%
Dividend per Share (Rs.)	7*	10	-30%
Dividend payout ratio	70.99%	72.82%	1.83%
Net Asset value per share (Rs.)	134.27	129.49	4%
Non Performing Advances Ratio(gross)	5.08	4.60	48%
*Calculated on final dividend proposed,which is to be approved at the Annual General Meeting.			
Statutory Ratio			
Capital Adcquacy			
Tier I (Minimum Requirement - 5%)	14.01%	16.08%	
Tier I & II (Minimum Requirement - 10%)	14.13%	16.35%	
Liquid Assets (Minimum Requirement - 20%)	20.39	20.27	
Other Information			
No. of Accounts	903,476	858,454	5%
No. of Customer Centers	82	81	1%
No. of Staff	856	823	4%
Market Information			
Market Value per share (Rs.)	77.40	78.20	
Highest price per share for the period (Rs.)	90.00	770.00	
Lowest price per share for the period (Rs.)	64.1	70.1	









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Executive
Information

Chairperson's Statement

My dear shareholders,
Standing on the threshold of a new era, driven by unavoidable changes sweeping across the country, my message to you this year is all about change and resilience. This is the age of opportunity and growth, and also new challenges for the co-operative community in Sri Lanka. I call on the pioneering spirit of SANASA, that is inbuilt in our DNA, to overcome challenges and achieve our dreams of community empowerment and national development.

As an organic, community based organisation, the growth of SANASA Development Bank is interlinked with the growth of the Sri Lankan community. Therefore, it is crucial that in the coming months we support each other through mutual growth. While SANASA Development Bank expands its capital base and internal capacities, it is essential that the co-operatives across the country are prepared to participate in this growth, to ensure that our wealth is reinvested in the country and in our communities.

The year 2013, has been a year with modest performance and structural changes in SANASA Development Bank. It is a year that laid foundation for the bank's graduation from microfinance orientation to SME finance. With banking sector consolidation plans, and associated massive external changes in the horizon, the bank engaged in a pro-active measurement to develop and execute a plan for future growth and sustainability. The business strategy was formulated to face market competition and steps were taken to improve our risk management capacities. The year also saw changes to the composition of the Bank's Board.

In developing our new business model, both the board and management emphasized the importance of retaining the identity of the SANASA brand, and its associated good will, both locally and internationally. We did not forget that our customers and shareholders embrace the Bank with a sense of ownership. Therefore, the Bank decided to improve our products and services to add value to our existing customers and graduate them to new markets. This will be ensured by continuing support to the country's co-operative sector and micro entrepreneurs who have been partners of our growth. During the year 2013, the Bank initiated a focused thrust to SME development in order to upgrade our customers. The Bank has also invested in developing SMEs in the co-operative sector and is examining possibilities of trade within the global co-operative community.

During 2013, one of the challenges faced by the Bank, was the low absorption capacity of the market. Although the Bank was geared for growth, the shallow market demand resulted in lower than anticipated credit growth. Despite the challenge, the Bank's balance sheet expanded by 19% and income increased by 16% to Rs 4.4 billion In the previous years the bank had invested heavily in the Northern and Eastern provinces. Although the bank expected to make returns on this investment, the local economy was not booming at a speed anticipated. The decrease of the gold price affecting the returns on the pawning product, slow growth in new markets and traditional markets, and increasing costs associated with the restructuring that took place within the bank, resulted in the decline of the profit after tax by 27% to Rs. 248 Mn. Although credit growth reduced during the year, the Bank sustained its ratios and there was a commendable improvement in the treasury operations.

Our future

When SANASA Development Bank was formed, one of the primary objectives was to channel money from financial markets into the rural areas through co-operative networks, to help improve individual household incomes and develop collectively owned commercial ventures that can increase community wealth and support sustainable growth. This objective sits very well within the "Mahinda Chinthana" economic agenda. Therefore, the Bank has a vital role in Sri Lanka's new financial landscape, in channelling the benefits of growth, back into the community, and in ensuring equitable distribution of wealth. However, to remain relevant, the Bank must be competitive and Sri Lanka's co-operative bases must be upgraded. The bank expects to engage more with the necessary regulatory bodies to strengthen this area of operation.

Traditionally, the core competency of SANASA Development Bank has been in micro finance. Our contribution towards community development and poverty alleviation has been acknowledged both locally and internationally. However, in the face of current financial sector restructuring plans and emerging trends in the banking sector it was felt imperative that the Bank expands its operations and diversify, to compete with the new financial giants that will emerge over the next few years. The new business model will see our operations expanding into the four new sectors, SME development, treasury transactions, transactional banking, and corporate banking. The Bank has already established a unit to graduate our co-operative customer base towards SME business category. Similarly our treasury operations were strengthened during this year, under the robust treasury management competency of the General Manager.

SANASA Development Bank is now poised for exponential growth, supported by a diversified business platform, a more focused three year business strategy and a stronger resource base, including specialised skills. The Bank's overall human resource base has been strengthened with most vacancies in the Corporate Management having been filled with competent personnel. The Board and Board committees are also being strengthened with new competencies for better oversight and governance. With our support structures now in place, in the new financial year, we will aggressively pursue our diversification strategy and expand our balance sheet. We will also continue to facilitate co-operative sector growth through our new services.

Sri Lanka is heading not only for a different economic scale, but also a very aggressive consumption culture. Thrift being the back bone of our co-operative credit enterprise, we believe that, our customers and affiliated masses must be educated to make correct decision as consumers. We need

Chairperson's Statement

to ensure that community wealth in all forms, be it ecological capital, human capital, social capital or real capital, are not eroded but retained and expanded within our communities. The financial literacy programme that the bank developed in partnership with many different organizations such as SANASA Federation, SANASA Campus, Citi Bank and IFC will be strengthened this year to ensure all our customers especially women, youth and small business holders and farmers do business with us with confidence.

In line with the Central Bank policy directives on consolidating the financial sector, we are in the process of engaging with prospective shareholders who can strengthen our journey. Our choice of partners will be those that complements the SANASA mission and strengthens our competitive advantage to achieve our growth targets.

Appreciations

At the conclusion of a challenging year, I extend my sincere appreciations to the Board of Directors for their steadfast commitment to the company. I like to extend a special appreciation to Mr. T. Karunasena for his tireless efforts as the Deputy Chairman to help me and the General Manager with his banking experience in the process of re-engineering some key operational areas of the bank. I like to recognize my management and staff for their efforts during the year, and I would like to welcome all the new recruits who joined the Bank. I believe the bank is ready for fast and aggressive growth. As direct stakeholders of this growth, I trust that our employees are equipped with the skills, attitudes and mindset to make a conscious decision to deliver to our shareholders and build an institution we all can be proud of, an institution that can withstand new challenges and rise strong in the future.

I acknowledge with immense gratitude the founding leaders of the bank, Dr. P.A Kiriwandeniya, the founding chairman, SANASA Federation and all the SANASA co-operative leaders whose tireless commitment and voluntary investment over three decades, that lay down a foundation to create a bank that is structurally capable and prepared to create and distribute wealth among a wider community in Sri Lanka. I like to acknowledge our global co-operative partners and development partners for their support and recognition of our mission and contribution.

I would like to appreciate Mr. M T Galgamuwa, the outgoing CEO/GM of the Bank, for his valuable contributions to the Bank during his tenure. I also welcome our new CEO/GM Mr. N C Hapuarachchi and wish him good luck in his endeavours.

Finally, I would like to extend my appreciations to our shareholders and customers for their support and for choosing our bank to be your bank.

Thank you

Muditha Samadanie Kiriwandeniya
Chairperson

25th March 2014
Colombo

CEO's Review of Operations

My dear shareholders,

It gives me great pleasure to present the annual report of your Bank for the year 2013, the second annual report since its listing on the Colombo Stock Exchange.

External environment

The year 2013 was in many ways one of the most challenging years for the banking sector in the recent past, with sluggish credit growth coupled with rising NPL s, a volatile interest rate environment and slower economic growth, particularly in the first half of the year. The market witnessed policy rate cuts at regular intervals, in order to spur economic growth, which led to lower interest rates as the year progressed. Lower demand for credit from business sectors resulted in higher levels of liquidity in the financial system, causing banks to invest in low yielding liquid assets. This in turn, resulted in lower net interest margins across the industry by the year end, as investments in low yielding government securities rose to the highest level in the recent past. SANASA Development Bank (SDB) felt these macroeconomic developments more intensely, as their impacts were amplified at the level of rural economies, where our business activities are mostly concentrated. SDB was also impacted by impending industry changes, under financial sector consolidation plans of the regulatory authorities. Faced with the difficult external environment prevalent during the year, and also in anticipation of sweeping industry changes under new regulatory guidelines, your Bank immediately responded by considering alternative market opportunities to sustain future growth.

CEO's Review of Operations

Setting out a new direction

As part of our future sustainability strategy, we increased our efforts to seek new segments to channel our resources and to enhance assets yields. Accordingly, we set up a new Small and Medium Enterprise (SME) unit within the Bank, identifying 10 pilot sites from our branch network. We have invested a high level of resources to tap the growing SME sector and the new SME units have been placed under the leadership of a set of dedicated personnel. The Bank also conducted several workshops for potential new entrants from our own customer base from across the country, to support them through the provision of required financial and technical assistance. We are pleased to state that we have already witnessed encouraging results from these efforts and our medium sized business loans have contributed over Rs. 1.5 billion to our loan portfolio during the year. In addition, to the SME sector, we also initiated diversification into the corporate sector, with transactional and treasury related banking services that have paved the way for new revenue streams, while distributing risk and strengthening the Bank's balance sheet. To support our business expansion we have trained 149 staff at 9 credit workshops, aimed at enhancing credit evaluation skills.

The year was also a period of consolidation for the Bank, where we concentrated on strengthening our position in the sector and enhancing our credit evaluation skills, risk management skills and corporate governance aspects, to face future growth and industry challenges. Therefore, it is with great pleasure that we note that these initiatives have helped us maintain our credit growth, balance sheet growth, and also the deposit growth at levels higher than banking industry averages, while maintaining our NPL ratio below that of the industry, thereby positioning the Bank for the next phase of growth.

As a responsible community based organization and a good corporate citizen, during the year, we increased our green practices such as reusing paper, reducing printing and saving energy and eliminating waste. The Bank also continued to support community welfare and development projects during the year, about which more details are given in the CSR section of this report.

Financial performance

SDB has been built on a unique legacy of ownership by co-operative sector, to serve rural masses. However, as a result, the Bank's business is mostly concentrated outside the Western Province and both the Bank's loan portfolio, as well as its deposit portfolio, consists of small value items, that generate a high cost to income ratio. Nevertheless, cost containment strategies adopted across all sections of the Bank, have contributed towards reducing our cost/income ratio marginally in 2013, compared to 2012. The commitment to drive costs down to industry level remains a key focus of the top management of the Bank, and many initiatives are underway towards this end.

Our push for lower cost of funds was a priority in 2013 with several new initiatives to increase our savings base, which stood at 22.41 % of the total deposits portfolio. We conducted several promotions in our branches and, despite the increased competition from commercial banks for savings with many reward schemes etc., and managed to maintain our growth momentum both in fixed deposits and savings.

Our total outstanding advances rose to Rs. 22.12 Bn, an increase of 14%, compared to the previous year. Our bad debts provisioning rose by Rs. 324 Mn mostly coming from the agricultural sector from the North and North Central Province. We also changed our provisioning standards in order to fall in line with IFRS requirements this year, which resulted in additional provisions of Rs. 64 Mn. These factors resulted in a decline in our profits to Rs. 246 Mn, a decrease of Rs. 76 Mn when compared to 2012.

Our future plans

The regulatory environment remains focused on consolidation in the financial sector, which should eventually result in a stronger banking sector. SDB too, must prepare for a radically different financial landscape, occupied by much larger, more competitive financial entities that will emerge in the near future, through this process of consolidation.

Therefore, my highest priority as the new CEO of SDB, is to ensure the Bank's sustainability into the future. In this regard, the main focus will be on implementing the Bank's three year strategic plan effectively and speedily, while ensuring compliance with the new regulatory requirements. Already, SDB is poised for growth under its new diversified business model, targeting SMEs and corporates, with a new line of financial services. Our efforts at upgrading the Bank's services and resources to effectively to service the SME sector will be felt in the short term. In the new financial year, we will strengthen our SME Business unit, which we plan to make fully functional by end 2014. The SME Banking unit will also be able to fulfill funding needs of next level customers. I am confident that SDB will emerge a stronger financial entity in the medium term, with a range of banking services that would position the Bank on a competitive footing. Our shareholders can be assured of returns over the medium term, as SDB consolidates its new business model. We will also continue to strengthen our internal structures and processes, to comply with the Central Bank's Road Map for the banking industry. We plan to obtain the services of an external expertise for this purpose.

I believe SDB's diversification beyond the traditional micro finance domain will add value to the Bank's micro finance services, and will enhance the Bank's support facilities for the co-operative sector and the middle market / corporate sector under its new business model, thereby enhance the expectations of all stakeholders.

I take this opportunity to express my gratitude to our shareholders who remain committed to our future plan for taking SDB to the next level.

Thank you

Nimal C. Hapuarachchi
General Manager/ CEO

25th March 2014
Colombo

Board of Directors

1. Mrs. M.S. Kiriwandeniya
   Chairperson
2. Mr. T. Karunasena
   Deputy Chairman
3. Mr. A.D. Walisinghe
4. Mr. D.P. Kumarage
5. Dr. R.M.K. Ratnayake

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6. Mr. H.M.G.B. Herath

7. Mr. L. Abeysekera

8. Mr.Thilak Rajapaksha

9. Mr. Jayantha Rathnayake

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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 field at University of Sakatchewan, Canada.

Mr. T. Karunasena

(Deputy Chairman)

Mr. Karunasena was appointed to the Board of SDBL in 2007 as an Independent Director and as Senior Director/ Deputy Chairman in November 2011.

He began his career with Peoples Bank and has gained experience in all aspects of Banking including Branch Banking , Regional Administration and Development Commercial Lending, International and Corporate Banking. He has headed some of the key areas of Peoples' Bank International, Corporate Banking, Human Resource and Productivity Management.

He has followed an advanced Bank Management course in Sweden with a follow up course in Manila.

He has over 40 years of experience in banking and possess a B.A.(Hon.) 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 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.

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 Kandapola 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. Lakshman Abeysekera

Mr. Lakshman Abeysekare, Chartered Accountant, possess over 20 years experience in the Accounting field. He currently function as a Director / CEO of JanRich (Private) Limited, Director of NovEx Pharmaceuticals Limited and Governing Council Member of AAT Sri Lanka. He has held the positions of Chief Financial Officer at Emerchemie NB (Ceylion) Limited, Accountant Hoeshst (Ceylon) Limited, and Senior Accountant at Lankem Ceylon Limited.

Mr. Lakshman Abeysekare is a Fellow member of the Institute of Chartered Accountants of Sri Lanka, a Fellow Member of Association of Accounting Technicians of Sri Lanka and has a MBA from Institute of Postgraduate Management, University of Sri Jayawardhanapura.

Mr. Thilak Rajapaksha

Thilak Rajapaksha is the Chairman of Paradise TCCS Limited and holds a Combine Degree from University of Peradeniya. He has been serving as a Senior Head Quarters Inspector Co-operative Development Department, and currently serve as a Executive Director in Sanasa Federation of Sri Lanka.

Mr. Jayantha Rathnayake

Jayantha Ratnayake is a Statistician employed by the state. He holds a B.Sc. in Management from the University of Sri Jayawardhanapura. He is the Vice Chairman of Kamburupitiya City TCCS Limited. He is actively involved in SANASA movement over 25 years.

Corporate Management Team

1. Mr. Nimal C. Hapuarachchi
   (General Manager/ CEO)
   MBA (Sri J), Dip. in Bank Mgt (IBSL)

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

3. Mr. S. A. Samarakoon
   (Deputy General Manager – IT)
   MBA (Colombo), B. Sc. Eng (Comp. Sc. & Eng)
   (Moratuwa), C Eng., MIEEE

4. Mr. A. M. Chandrasagara
   (Chief Internal Auditor)
   FCA, FIB, Diploma in Info. Sys. Cont. & Audit

5. Mr. E. A. A. S. Ediriwickrama
   (Deputy General Manager – Credit & Development Finance)
   B. Sc. (Business Administration), AIB

6. Mr. Aruna Dayanatha
   (Head of Human Resources)
   MBA (PIM – Sri. J.), MBCS CITP (UK), Assoc. CIPD (UK), AMIPM

7. Mr. H. C. Lokugeegana
   (Chief Risk Officer)
   MBA, B.B. Mgt. (HR) Sp., AIB, Dbirm (IBSL), AMIPM, MAAT

8. Mr. S. Sivalingam
   (Assistant General Manager – Branch Operations & Establishment)
   ACIB (London)

9. Mr. S. S. S. Senanayake
   (Compliance Officer)
   LL.B, Attorney-at-Law, Notary Public, Commissioner of Oaths, AIB, Post Graduate Diploma in Bank Management

10. Ms. Tamarika Rodrigo
    (*Assistant General Manager - Company Secretary)*
    Attorney-at-Law, Notary Public

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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. Mr. M. J. H. Perera
B.Sc. Business Administration (Sp)
Senior Manager

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. P. Krishani Enoka
B.Sc. (Phy. Science) Hons, AIB,
Dip. in Treasury Investment and Risk Mgt.,
Senior Manager - Treasury

08. Mr. P. G. Sunil
B.Sc. Business Administration (Sp)
Senior Manager - North Western Region

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

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

11. Ms. K. V. R. Jeewanthi
B.Sc - Business Administration (USJP), PGD in Community Development (Colombo), Micro Finance Facilitator (CGAP)
Senior Manager - Research & Development

12. Ms. M. H. Attanayake
B.Sc. - Agri.(Hons) M.Sc - Agri.
Senior Manager - Credit

13. Ms. S. N. T. Igalagamage
    B.Sc. (Agric - Special) Hons., Dip. in HRM, MIMSL
    Senior Manager - Credit Monitoring and Supervision

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

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

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

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

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

19. Mr. R. A. C. N. Rathnayake
    B.Sc. Accountancy & Finance (Sp.) Hons
    Registered Trainer & Consultant
    (Ministry of Public Management Reforms)
    Senior Manager - Co-operative

20. Ms. P. R. Perinpanayagam
    FCCA (UK), B.Sc.Hons. Applied Accounting (UK)
    Senior Manager - Finance

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

Business Review

Business Environment

The number of banking outlets increased during the first eight months of the year. A total of 62 new outlets were opened during the first eight months of 2013, with 16 in the Western Province and 46 in other provinces. The total banking outlets operating in the country stood at 6,452 by end August 2013.

The Central Bank continued to implement prudential measures to strengthen risk management of Banks. Regular assessments of the banking system were made to identify potential risks and vulnerabilities as well as the ability of the system to withstand potential shocks. New formats for the preparation of annual audited financial statements and the publication of quarterly financial statements in the press, were issued to Banks.

Policy measures were taken to support lending to major sectors of the economy, with emphasis on the agriculture sector. The list of loan categories that could be included under mandatory lending to the agriculture sector was extended to include loans and advances granted for growing, processing and trading of domestic agriculture products while banks were permitted to categorise their loans granted to other banks and finance companies for on-lending to the agriculture sector under mandatory lending to the agriculture sector.

Ceilings were imposed on penal rates of interest pertaining to advances, in line with the declining interest rate structure of the economy.

Banks were required to classify existing banking outlets into two categories, namely, branches and student savings units. All existing banking outlets, except student savings units, were required to be upgraded as branches with effect from 01 January 2013.

Performance of SANASA Development Bank

In the financial year 2013 SANASA Development Bank celebrated its 16th anniversary. We commemorated our years of service with an island wide brand building campaign to consolidate the Bank's image and raise consumer awareness regarding the Bank's services. We involved our employees in the celebration by sending service appreciation cards to all employees. We believe our employees are valued partners in the Bank's journey and our appreciation of their contributions would result in a stronger commitment towards our common objectives of ensuring the success and sustainability of SANASA Development Bank.

SANASA Development Bank Operational Scope

Currently the SANASA Development Bank network is spread out across the country with 81 branches and 14 service centres. In addition to our branches, in the current year, we introduced a mobile banking system called the 'Daily Collection' system where 43 Sanasa Field Officers visit customers at their doorstep for daily banking transactions using palmtop technology. The Daily Collection system has expanded the Bank's reach and allowed the Bank to penetrate the rural and urban trading communities.

New Product Development

SANASA Development Bank introduced two new products to the market during the year – a savings product and a new loan facility. The new Bhagya savings certificate was introduced for women accompanies with gift items. The certificates accumulated Rs. 130 Mn. within the short span of two months, indicating its effectiveness.

The Uththmachara loan scheme for the country's brave security forces allows security personnel to access up to Rs. 500,000 in credit, at competitive rates, without any guarantees or collateral requirements. The efficient structure of this loan allows fast disbursement where customers can access credit much faster than traditional loans.

SANASA Development Bank also introduced a Visa debit card for its customers. As at end of 2013, SANASA Development Bank had 18,000 card holders. These customers are services through 10 SANASA Development Bank ATMs and over 500 shared ATMs with Commercial Bank.

IT and Technology

SANASA Development Bank has continuously improved its internal systems and processes to enhance value for its stakeholders. Innovative application of technology has been a key method of reducing costs and increasing efficiencies at the Bank.

Our Daily Collection campaign Dinura, has been designed on a technology platform that reduced service delivery costs while enhancing customer convenience. Under the Dinura programme, our 43 field officers take banking directly to the customers doorstep and use palmtops for banking transactions such as collecting deposits issuing receipts and checking account balances.

Our leasing services have been improved through the introduction of a centralised system that interconnects all SANASA Development Bank branches across the country. This have contributed towards a high degree of customer convenience as it is now possible for customers to make premium payments at any branch. The facility has also enhanced our monitoring and control capabilities.

We completed the testing of the Bank's disaster recovery system and we have migrated our core banking system to the new disaster recovery site and all our branches have been connected. Therefore in the case of a disaster, SANASA Development Bank can continue to run its operations uninterrupted, as all branches and systems are connected to the disaster recovery site. In addition, we installed a separate system for software testing and development, instead of sharing our testing facilities within the disaster recovery server.

An online help desk was activated for employees in all branches to report IT problems and request for IT assistance. This method has proved to be an extremely quick process to obtain IT solutions. We have also set up an intranet portal where we have located internal documents for employee reference. This process has improved performance efficiency and reduced procedural time.

Building Our Human Resources

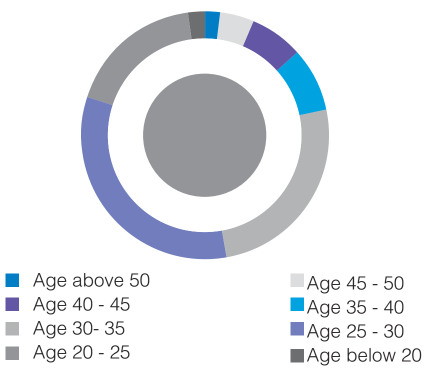
Our workforce is expanding in line with our growth. In 2013, total SANASA Development Bank employees increased to 856 from 823 in 2012.

We recognise human capital as the most salient resource that spearheads the Bank to conquer all challenges and exploit opportunities. Our specialisation and expertise on rural mass and the cooperative setup of the country gives us a competitive advantage among the fierce competition in the micro finance and SME finance sectors. The human capital of the Bank is nurtured mainly by the invaluable experience gained through the SANASA movement in Sri Lanka.

In order to facilitate implementation of our mission, by maintaining service excellence, customer orientation and innovation, and to ensure the efficient transformation and continuous development in a dynamic business environment, we emphasise the development and wellbeing of our employees. As at December 31st of the last year, our staff strength was 856. Since we have our outreach in all parts of the country, our work force has been allocated effectively to cater to business needs of our customers in the country.

Job security is a prime assurance that we have given to the employees and 78% of our employees are permanent employees, provided with facilities that surpass minimum statutory requirements. As an ethical employer, we always encourage diversity in our workforce where all recruitments are based on merit. The gender balance of the workforce is maintained at a satisfactory manner (41% female and 59% male). Our young workforce is another strength. We always welcome young blood to the Bank since we recognise youth, as the force that drives our business. Approximately 76% of our workforce is in the age range between 20-35 years.

Training and Development



The Bank's skill requirements have changed during the year with the Bank's expansion into SME and corporate banking services. Therefore, we placed a strong focus on identifying skill requirements and on developing a structured training calendar.

Business Review

We allocated Rs. 31.3 million in 2013, for training and development, of which Rs. 13.2 million, Rs. 5.7 million and Rs. 13.2 million, were apportioned for internal, external and foreign trainings respectively. Trainings were provided to employees covering all the employment levels in the Bank.

Criteria	Number of programmes	Number of employees
Internal training	46	1020
External training	55	116
Foreign training	03	08

This focus is extended for year 2014 as well, and more resources have been allocated for human capital development in 2014, to facilitate proactive responses to future challenges.

Balanced Score Card

We have identified the importance of a proper performance appraisal mechanism to reward the employees fairly and equitably, and to assist them overcome their developmental gaps. Hence we are working towards applying a Balanced Scorecard to the Bank, where the corporate level objectives are cascaded to individual level. Thereby, we will be able to evaluate each individual's contributions towards the corporate objectives.

Welfare of the Employees

SANASA Development Bank provides a range of employee welfare services for our staff to ensure a healthy and happy work environment. During the current year, we have enhanced employee benefits, such as introducing a comprehensive insurance policy to cover accidents and hospitalisation expenses. Furthermore, as a part of our corporate social responsibility towards assisting young people pursue their tertiary education, we continue to offer training and internship opportunities to the students in education institutes and professional bodies.

Sanasa Sithiyama

A quaterly Sinhala publication titled Sanasa Sithiyama was launched by the HR Department in August 2013, as a communication tool for the growing SANASA Development Bank workforce scattered across the country. The inhouse newspaper will be used to build awareness regarding Bank policies and objectives, as well as providing a room for employee expression and creativity.

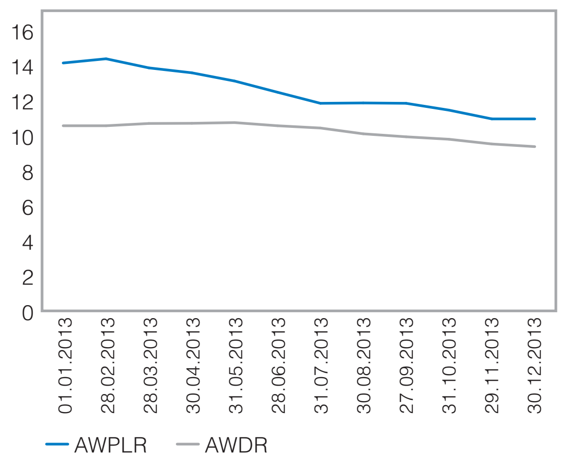
Financial Review

Economic Performance

The economy registered strong growth in 2013, as macro reforms implemented in 2012 started taking effect. The Central Bank projected GDP growth at 7.2% representing an improvement from the previous year's growth of 6.4%. Industry and services sector contributed positively while the Agriculture sector contracted. Inflation was well controlled throughout the year, varying between 4 percent to 6 percent.

Banking Sector Performance

Demand for credit remained subdued throughout the first two quarters of the year but picked up during the latter part of the year, as interest rates declined. However, overall, Sri Lanka's banking industry saw its profit margins contracting in 2013, as interest rates continued to decline and interest spreads narrowed significantly. The Average Weighted Prime Lending Rate declined by of 29% against the previous year. However the corresponding decline in the Average Deposit Rate was only 7%, leading to significantly contracted interest spreads.



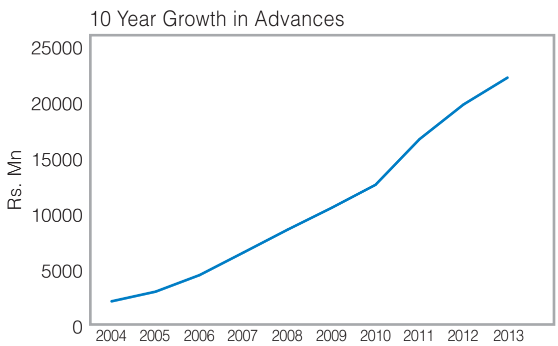
Total assets of the banking sector expanded during the year, albeit at a slower pace when compared with the corresponding period last year as growth in private sector credit moderated. The sharp drop in international gold prices and the decline in external trade too, contributed to the subdued loan growth during this period. Therefore, the funds mobilised were largely utilised in investments.

Overall asset quality deteriorated marginally, largely due to the increase in non-performing loans (NPLs) of pawning portfolios with the significant decline in international gold prices. However, additional measures were introduced by banks to recover outstanding pawning advances, while the imposition of import duty on gold by the government also limited the decline in gold prices in the local market and the NPLs in the pawning portfolios. Asset quality measured by the ratio of NPLs to total loans stood at 5.4% as at December 2013.

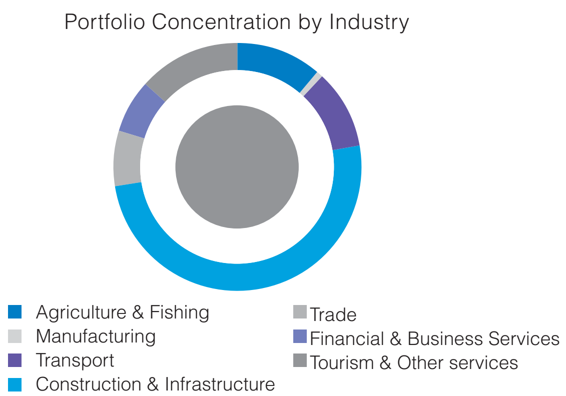
Performance of The Bank

Loans and Advances

The bank continued to expand its lending portfolios despite the lower demand for credit during the year. By end December 2013 outstanding advances had reached Rs. 22.1 Bn from Rs. 19.7 Bn in 2012. Over the past 10 years of operations the Bank's lending portfolio increased from Rs. 2 Bn to Rs. 22.1 Bn representing an impressive compound annual growth rate of 27 percent over the stated period.



Gross loans and receivables grew by 14 percent over the previous year, well above industry growth rates of 8.8 percent. Term Loans represented majority of the loan book representing 68 percent of the total while pawning advances and leasing accounted for 22 percent of the total.



Financial Review

Portfolio Concentration by Industry

During the year the bank increased its exposure to the flourishing construction and infrastructure industry with a 27 percent year on year growth in portfolio concentration.

Loan Category	Dec. 2013	As % of Total	Dec. 2012	As % of Total
Individual Loan	14,635	66	11,791	61
Leasing / HP	3,060	14	2,380	12
Pawning	1,714	8	2,449	13
SANASA Society / other	1,575	7	1,577	8
Solidarity Group Loans	1,134	5	1,178	6
Total advances	22,118	100	19,375	100

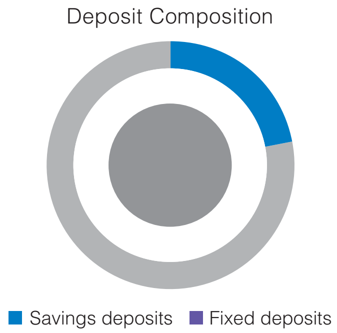
Individual loans increased from 61% of total lending to 66% of total lending in 2013, compared to 2012. Leasing and hire purchase loans expanded to 14% of total lending from 12% in 2012.The share of pawning declined to 8% of the portfolio from 13% of total lending in 2012. Loans to Sanasa Societies and other community based organisations declined to 7% of total portfolio from 8% as did solidarity group loans that reduced to 5% of portfolio from 6% in 2012.

Sanasa SME Credit

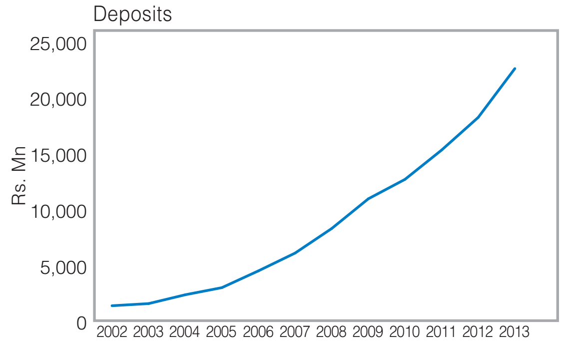
The new SME credit unit disbursed Rs. 392 Mn in SME loans in 2013. SME loans build upon the banks unique micro credit system that was introduced in 2007, when self help groups were formed across the country. Any 5 persons can form a group and register with the Bank. By the end of 2013, 14,311 groups were formed with the participation of 77,637 members. This membership comprised 62,481 women and 15, 156 men, who are all involved in micro businesses. The Bank supports these micro credit groups by linking them with support services such as technology, credit facilities and marketing linkages. The SME loan scheme allows successful micro entrepreneurs to graduate to SME status through the provision of credit facilities for expansion of business activities and a range of support services. During the year the bank disbursed Rs. 165 Mn in agricultural loans, Rs. 23 Mn for tourism, Rs. 160 Mn for manufacturing and Rs. 44 Mn for dairy farming.

Deposits

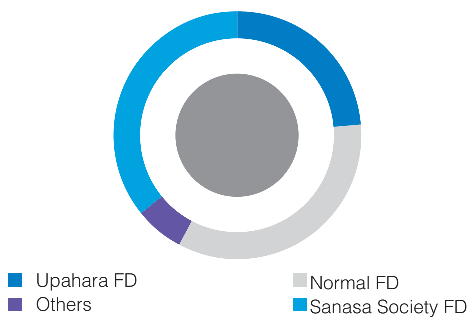
Advances to Deposits ratio was 98 percent against 105 percent recorded in the previous year as the bank was able to mobilize higher deposit volumes. Deposits registered a healthy growth of 25 percent over the corresponding period which was significantly above industry rate of 15 percent indicating the banks status as the preferred choice for rural savers throughout its breadth of operations. Deposit mix as at 31st December consisted of 78 percent Fixed Deposits against 22 percent savings.



Saving base increased by 18% to Rs. 5.1Bn, while fixed deposits recorded a growth of 26% to Rs. 18 Bn.



Sanasa Society fixed deposits accounted for 39% of total fixed deposits at the Bank, with normal fixed deposits accounting for 37% and Upahara fixed deposits accounting for another 16%.



Savings scheme	Value in 2013 Rs."Mn"	Value in 2012 Rs. "Mn"	Change %
Lakdharu Children.s Account	157.87	134.6	17.29
Uthamavi -+ Women,s Account	520.42	489.11	6.40
Jawaya Youth Savings Account	141.21	133.21	6.01
Ayojana Investment Savings	226.99	200.37	13.30
Upahara Senior Citizens Accounts	139.17	120.63	15.37
Standard Savings Accounts	1,146.11	1,019.89	12.37
SANASA Society Savings	734.37	567.09	29.50
DINURA Traders Accounts	6.44	5.84	10.27
Staff Savings	17.90	15.52	15.34
SANASUMA Pension Scheme	138.63	159.26	(12.95)
DHASHAKA Savings for Societies	157.68	168.24	(6.28)

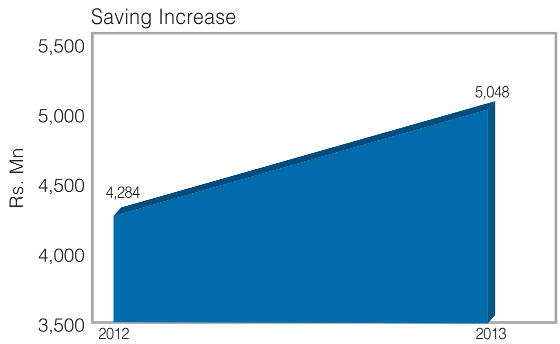
With a highly competitive environment the bank maintains higher growth of savings deposits more than industrial trend. Geographically Western and North Western provinces contributed top deposits during the year.

The bank was the pioneer financial institution of the introduction of Savings mechanism through Groups in villages of small income families where programs are conducted to motivate savings of the low income generation and uplift the living standard of rural communities.

The bank introduced Lakdaru Childrens` Savings Account to target minors which is popular among children since they get a lot of attractive benefits. The bank also introduced a special package for children who have Lakdaru Accounts qualified in their Grade 5 Scholarship Examination. It has become a popular savings plan among school children where they are being well recognized in the banking field more than any other Bank in the Island.

There is a special savings scheme for women named as "Uththamavi" where it consists of Rs. 500 Mn approx. It has been a very popular savings account among the ladies of rural as well as urban areas.

The bank also gives senior citizens priority with the highest value of the rupee.



Profitability

Interest revenue grew by 16 percent over the previous year on the back of healthy portfolio growth. This grow did not filter down to bottom line due to a 34 percent increase in interest expense resulting from an increase in total debt primarily stemming from the growth in deposit base. Deposit mix experienced a slightly unfavorable shift with an increase in fixed deposits compared to savings.

During the year the bank diversified its income sources with an increase in fee based income as well as income from treasury as evidenced by a combined increase of 225 percent in fee and commission income and treasury income against the previous year. The bank was able to sustain a year on year increase of Rs. 71 Mn on income generated through trading of short term government securities.

Net Interest Margins declined to 7.2% compared to 8.8 percent recorded in the previous year due to increasing costs of funds and shrinking margins experienced across the sector.

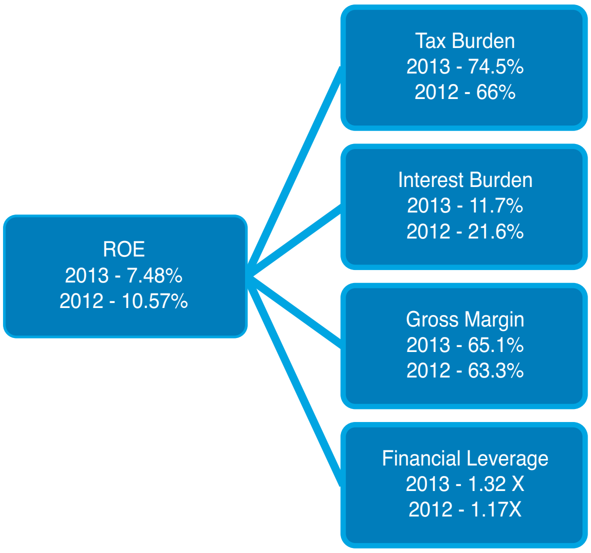
The banks NPL ratio deteriorated marginally from 4.6 percent to 5 percent as industry conditions deteriorated. In order to comply with IFRS the bank recorded an increase in Impairment Loss allowance of Rs. 264 Mn in order to reflect higher collective impairment provisioning arising primarily from business, and pawning loans.

Composition of Return on Equity

The key drivers of ROE growth as depicted below indicates that ROE decline of 300 basis points over the previous year was primarily due to interest burden (profit before tax expressed as a percentage of earnings before interest and tax) which declined from 21.6 percent to 11.7 percent

Financial Review

indicating that increasing costs of borrowings was largely contributory to the decline in ROE. The effect of this decline was somewhat negated by the increase in financial leverage to 132 percent against 117 percent recorded in the previous year which had a multiplier effect on ROE.

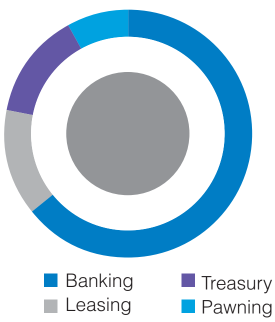


The bank incurred a loss of Rs. 5 Mn on defined benefit plan compared to the gain of Rs. 12 Mn last year primarily due to upward revision to estimated salary increment rates.

The bank ended the year with a profit after tax of Rs. 248Mn.

Segmental Analysis

Contribution to Net Operating Income

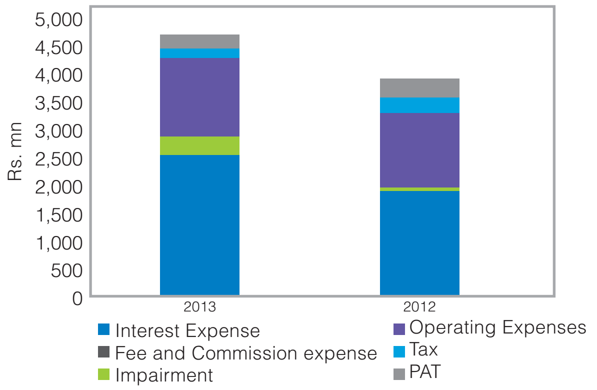


The banking segment recorded a decline of 12 percent in net operating income compared to last year on account of the higher impairment provision coupled with increased cost of borrowings. These factors also impacted the leasing and pawning segments which recorded a combined decline of 21 percent compared to the previous year. The decline was somewhat offset by the gains from Treasury which recorded a year on year gain in net operating income of 112 percent as the bank was able to increase returns from trading of short term government securities during the year by capitalizing on favorable rate movements. Losses from quoted equities were also minimized due to timely management of its investment portfolio.

Operating Expense

The bank was able to contain operating expense growth to 5 percent, which was in line with inflation rate. Despite increasing interest expense and sluggish credit growth, Cost to income ratio increased marginally by 1 percent over the previous year.

Distribution of Total Revenue



Capital Adequacy

Tier 1 capital adequacy ratio and total capital ratio stood at 14.01 and 14.13 percent respectively, comfortably above regulatory requirement of 5 and 10 percent. Core capital base will be further strengthened during the following year with the implementation of the central bank road map strategy to which the bank is committed to achieving.

Share Information

Earnings per share as at the 31st December 2013 stood at 9.86 against 13.73 recorded last year.

Share price closed at Rs. 77 at the year end. Share price movement reflected the volatility of the Colombo bourse trading at a high of 90 and a low price of 64 during the year.

Future Plans

In line with the Central Bank road map strategy the bank is preparing for unprecedented growth. While establishing new business units and diversifying its income sources, the bank will also focus on growing its core micro finance business. The proposed strategic plan calls for a paradigm shift in strategy and a fundamental restructure of the bank's business model whilst strengthening its position as a leading provider of micro finance services which the bank is well positioned to achieve.

Events

Nelum Mal Pooja at Anuradhapura

Lakdaru Programme

Wayamba Youth Camp

Beginning of the New Year 2013

AGM 2013

AGM 2013

Poson Lantern at Head office premises

Annual customer Get together at the Galleface Hotel

Visit from Nepal Co-operative movement

Staff cricket match

Achieving heights *in* Challenging times

Achieving heights *in* Challenging times

Achieving heights *in* Challenging times

Corporate
Social Responsibility

Corporate Social Responsibility

Our Commitment to Society

SANASA Development Bank PLC is a unique financial institution born out of the cooperative movement of Sri Lanka, which has spread its roots across the length and breadth of the island. Therefore, we are proud of our legacy of rural community development, and our activities are aimed at improving the life styles and facilities of communities, particularly rural communities, across the country.

Sanasa Social Performance Index

At SANASA Development Bank, we do not consider social responsibility a superficial element of corporate responsibility. We believe the purpose of our existence is to serve our society in a sustainable manner and we try to improve our service standards to ensure greater positive social impacts. Therefore, in the current financial year, SANASA Development Bank initiated implementation of a Social Performance Measurement(SPM) as a continuous social impact monitoring mechanism.

During Phase 1 of the project, we conducted a detailed study to assess our systems and results, relating to social performance and poverty levels of our customers. Based on the findings of Phase 1, we adopted a poverty assessment tool, called the Progress out of Poverty Index tool. We are happy to report that in terms of social performance practices, SANASA Development Bank scored a high of 73 out of 100, on the Social Audit, using the CERISE SPI tool. SANASA Development Bank also scored relatively high on social responsibility to clients, employees, and community.

SPM will be implemented by integrating SPM tools into regular Bank operations through technical system support and training. We will also introduce mechanisms to use SPM data in decision making, to ensure integration of social requirements with strategic objectives of the Bank. The data collected through the SPM process will be used to improve effectiveness in meeting needs of clients. A customised PPI will be used to understand the growth and development needs of SANASA Development Bank clients, and to structure products and services for maximum impact in meeting these growth needs. Last year, 19 SPM indicators were adopted to track social performance. They were further categorised into different areas, such as client outreach, services offering, SPM outcomes, corporate governance, environment and human resources. These indicators were included in a separate software module and will be used to help the Bank to make decisions in the future, that balances its social performance.

SPM will be implemented by integrating SPM tools into regular Bank operations through technical system support and training. We will also introduce mechanisms to use SPM data in decision making, to ensure integration of social requirements with strategic objectives of the Bank. The data collected through the SPM process will be used to improve effectiveness in meeting needs of clients. The Bank will use the Poverty Progress Index (PPI), which is an indicator developed by the Grameen Foundation, to measure poverty levels. A customised PPI will be used to understand the growth and development needs of SANASA Development Bank clients, and to structure products and services for maximum impact in meeting these growth needs.

The SPM system was unrolled in 2013 and will be tested and operationalised in the new financial year.

CSR Activities

SANASA Development Bank has a close connection with the Sri Lankan people. Therefore, in addition to our services rendered through our business operations, we conduct many social development and community based projects throughout the year. This section of our annual report explains some of these activities. In addition, SANASA Development Bank branches conduct many social welfare events within their locality with the support of the Bank. Annually, SANASA Development Bank allocates about substantial funds for such philanthropic activities.

During the year, we focused mainly on women and youth empowerment across the island by leveraging our connections with the Sanasa Societies across the island and also our wide spread and diverse customer base. Our focus on women is influenced by the fact that over 60% of our one million client base is made up of women, and women are also the majority in Sanasa Societies in the country. Our general focus on youth was continued through awareness 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. Our efforts have paved the way for many young people to benefit meaningfully from microfinance programmes.

Nelum Mal Poojawa

This year too, we continued to support the Sanasa New Year tradition of making a pilgrimage to the holy land of Anuradhapura in January to offer lotus flowers to the

Sri Maha Bodhi and the Ruwanweliseya. This ritual is an annual event in Sanasa tradition with the participation of about 15, 0000 Sanasa members from across the island, and invoking blessings for the New Year.

Empowering Women

SANASA Development Bank's Uththamavi savings scheme is one of the main products developed to support women through savings. Under the aegis of this scheme SANASA Development Bank conducts an annual women's day event that is aimed at supporting Sri lankan women by responding to their needs. This year we conducted our Women's Day programme on March 8th at the Kegalle Campus where we raised awareness on a number of different topics that are of value for Sri Lankan women. These included skills development for entrepreneurial activities, legal awareness, medical matters and womne's health needs associated with aging. The seminars were conducted by a Pennell of specialists including Dr Ariyasena U Gamage, a specialist in community health and police officials. The event was highly successful with the participation of about 400 women members from Sanasa associations across the island and also students from the few schools in the area.

Jawaya Youth Initiatives

At SANASA Development Bank we are convinced that it is important to develop youth skills and confidence to meet new challenges with economical changes in a country and internationally. On this aspects bank conducted few youth development camps with the assist of CCA to empower youth generation fully focus future leadership. About 400 youth people in southern province and North western province were benefited from these programmes.

Our focus on long term social and economic value and bank initiatives programme focus on uplifting society's most vulnerable where the commitment to social responsibility also informs our behavior as an employer.

SANASA Development Bank has a strong youth base through our Jawaya Youth Accounts, which has been developed with the needs of Sri Lankan youth in mind. We have initiated a number of projects to develop youth leadership in rural areas under the Jawaya banner. In 2013 SANASA Development Bank conducted two residential youth camps in October and November in Matara and Wariyapola respectively aimed at youth leadership development that saw a total participation of about 300 young people. and Cooperative Centre in Matara Town with about 100 school leavers participating.

Experts such as Dr. Mrs Chamari Mudalige, Mr. Abeyratne Banda, Mr. Bimal Rajakaruna conducted the programmes in Matara, where young people were exposed to counselling services under various topics such as career development, skills development, stress management and healthy living. In Wariyapola events were conducted by Mr. A M Abeyratne Banda ,a senior lecturer in Wayamba University, Mr. Lal Fonseka, a Management consultant on productivity, Mr. Senerath Lihiniyagolla a popular motivational speaker and Mr. Udena Welikumbura the senior manager of resource mobilization at SANASA Development Bank also made presentations covering a number of topics that motivate young people and support their future development plans.

Entrepreneur Development Programme

As part of our support services for SMEs we conducted a series of 43 lectures for about 10,000 business people, to encourage self employment at district level. The lectures targeted existing entrepreneurs who are with SANASA Development Bank and also SMEs who are Sanasa members. The seminars were held in Matara, Vennappuwa, Badulla and Variyapola and were aimed programmes

Jawaya Youth Leadership Development Camp

Corporate Social Responsibility

were aimed at improving financial literacy and market awareness. Participants were exposed to knowledge such as bookkeeping, marketing and technology through specialised resource persons such as Mr. W D Premachandra, a leading consultant on SME development.

SANASA Development Bank provides many services to develop SMEs in Sri Lanka including low interest refinance loans. Depending on the type of project the Bank can provide up to LKR 25 million in credit under different schemes such as Saubhagya and Jayatha. In addition, the Bank also provides credit facilities for different types of industries such as the tea sector, commercial dairy farming and other types of business activities. we educate the main committee and members give business.

Awareness Programmes for Sanasa Members

We conducted a series of awareness programmes for members of Sanasa societies about financial market trends and industry development. A total of 33 programmes were conducted in the regions of Uva, Central, Sabaragamuwa, Wayamba, Southern, Western and North Central. This process covered 910 Sanasa societies and 2,840 Sansasa members, mainly women. Our programmes educate Sanasa members about the micro finance industry and new developments in financial markets to align the SME sector with the National Roadmap.

Positive Thinking for Youth

The SANASA Development Bank's Kegalle branch conducted a programme with the NISCO cooperative society on positive thinking for young people, with the participation of youth associations in Kegalle. The event was held during the last quarter of 2013.

Medical Camp

We conducted a one month long medical camp for customers of the Kegalle Sanasa branch during the last quarter, that provided a range of free services such as medical checkups, blood sugar tests, blood pressure tests and BMI check ups for about thousand people.

Poson Celebrations

In honour of the Poson Poya, SANASA Development Bank conducted a dansela / alms giving for pilgrims visiting Anuradhapura. The 7 day long dansela provided foods and rest to about 1,500 pilgrims. To celebrate Poson Poya we also built and displayed a lantern made of natural materials for environment friendly manner.

Rewarding Educational Achievements

This year, SANASA Development Bank's Lakdaru children's savings account selected 30 children from among the best performers at the Grade 5 scholarship and rewarded the children by increasing their account balances by three times. This event was held at the National Museum Auditorium in Colombo.

Nenasuwa Project

In May SANASA Development Bank sponsored a serious of seminar for Grade 5 scholarship students, in a number of less privileged schools, in collaboration with the Ministry of Indigenous Medicine. The seminars were conducted by popular teachers who discussed model questions and answers for the scholarship examination, to build confidence in the students. The schools that were selected for the seminars are the Udakaravita Primary School, Kalawana National Schools, Sujatha Balika school, Galagerdera and the Viharamahadevi Balika school of Kribathgoda. The programme was benefited by about 800 students. The Bank also conducted separate counselling programmes for parents at the each centre.

Nelum Mal Pooja at Anuradhapura

Risk Management

Improving Our Risk Management Framework

In 2013, we strengthened our risk management framework to conform to market changes and regulatory requirements. The Bank's risk profile and risk management policies were reviewed and aligned with BASEL II and Central Bank guidelines. A stronger Risk Governance structure and a dedicated Risk Management and Compliance Department were established, with the appointment of a Chief Risk Officer and a Compliance Officer. To ensure independence in risk management, a new reporting structure was introduced where the Chief Risk Officer now reports directly to the Board Integrated Risk Management Committee and the Board.

The Executive Integrated Risk Management Committee, that meets monthly, was established in 2013, which works in tandem with Assets & Liabilities Management Committee. The Chief Risk Officer is a member of both management level committees, and reports directly to the Board Integrated Risk Management Committee.

A separate unit has been established within the Risk Management Department to monitor post sanction credit evaluations for credit over Rs. 1.5 million, to ensure compliance with our internal procedures and Central Bank guideline. In addition, the Bank conducted stress tests in 2013, to test shock survival capacities and in the new financial year, will continue to focus on enhancing risk and governance systems.

SANASA Development Bank's Philosophy towards Risk

The SANASA Development Bank risk management philosophy is to manage risk, to deliver superior shareholder value, through an appropriate trade-off between risk and returns.

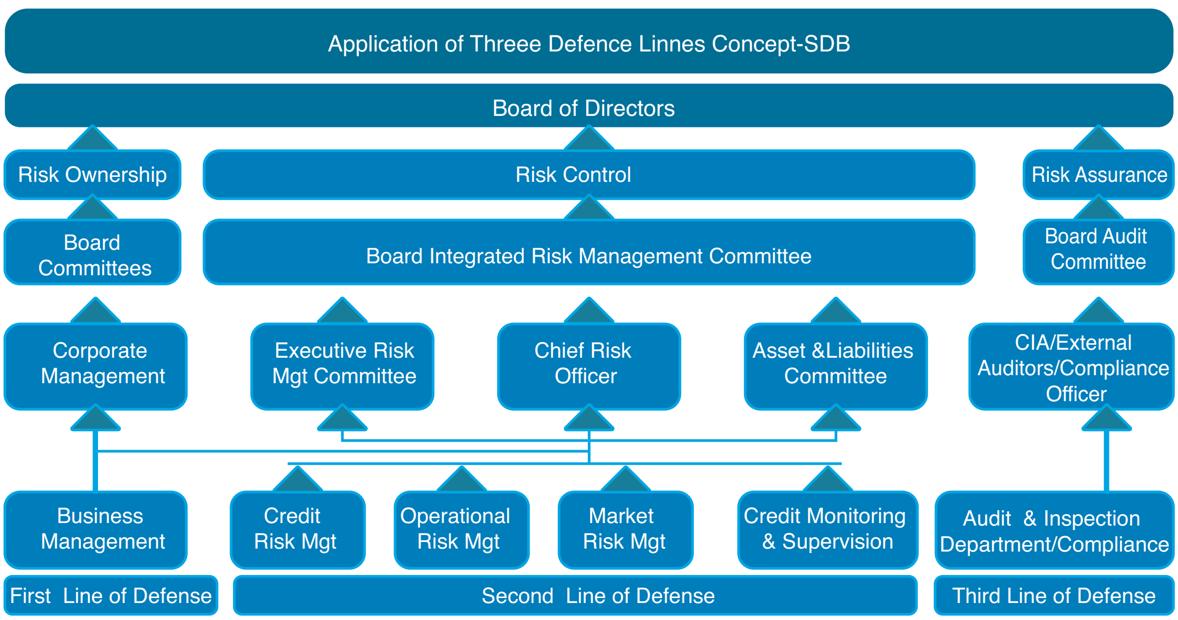
SANASA Development Bank's Risk Management Policy

We have a forward looking, proactive risk management policy, to actively manage our risk profile, by identifying, measuring and monitoring risks. We have integrated our risk management system with overall business operations by aligning our Integrated Risk Management (IRM) strategy with our corporate strategy.

The Bank has adopted an IRM Framework with a set of policies and procedures approved by the Board, which complies with guidelines of the Central Bank and Basel II accords. We have identified our main areas of risk as; credit risk, liquidity risk, market risk, operational risk, strategic risk, reputational risk and concentration risk.

Risk Governance Structure

The governance structure of SANASA Development Bank is based on three lines of defense against risks. These are Risk Ownership, Risk Control and Risk Assurance. The application of the three lines of defense and risk governance structure are depicts in the following figure.



Risk Management

The Board Integrated Risk Management Committee (BIRMC)

The Board of SANASA Development Bank is the highest authority on management of risks such as credit, market and operational risks, by setting strategic goals and objectives. Board Integrated Risk Management Committee (BIRMC) has overall responsibility on behalf of the Board, to ensure the Bank's risk management systems are robust and are embedded in the way the Bank operates. The BIRMC also oversees the implementation of the risk management policy framework and Basel II implementation. BIRMC is assisted by the Executive Risk Management Committee (EIRMC), Assets & Liability Committee (ALCO) and Integrated Risk Management Department (IRMD).

The ALCO reviews all market and liquidity-related exposures, on a monthly basis and decisions are made to facilitate the business requirements and make investment/ policy decisions. These decisions are further reviewed at BIRMC and the Board levels.

Types of Risks

Credit Risk

Credit risk is the potential risk of financial loss to the Bank in the event a customer or counterparty fails to meet its contractual obligation, and arises principally from the Bank's loans and advances to customer and other banks and investment debts. The objective of our credit risk policy is to minimize probable losses and maintaining credit risk exposure within acceptable parameters.

To measure our credit risk we use quantitative measurements such as the NPL ratio, No of NPL Loans, Large Credit Exposure, minimum rating requirement for large loans, related party transaction and single borrowing limits. All loans are categorized according to the status and limits have been set for each category. Some qualitative indicators have also been established, such as Board approved credit policies/ procedures, framework and annual reviews, delegated authority levels, reviewed regulations, segregation of duties between loan originator, administration and risk, closely monitoring and listing EWS, independent pre-credit risk evaluation by Integrated Risk Management Department for over Rs.4 million and post-credit risk evaluation by Credit Monitoring and Supervision unit for over Rs.1.5 million.

Concentration risk

Concentration risk is the risk of loss to the Bank, as a result of excessive build-up of exposure to similar business activities or activities in similar segments and similar economic features, or single counter party or counter party segments, industry, product or geographical locations. This risk is managed by monitoring single borrower limits, group limits, industry sector limits and limits for selected regions.

The Herfindahl-Hirschman Index (HHI) is calculated to evaluate the concentration risk of the portfolio.

Sector Wise HHI - 0.1839	Product wise HHI - 0.3299

The qualitative indicators adopted by the Bank to assess concentration risk include a review process, and identifying and assessing principal risk factors. Board approved limits have been set on maximum exposure guidelines and established Appetite Framework. SANASA Development Bank also adheres strictly to CBSL guidelines.

Although our product wise concentration is high, due to focus on housing loans, most of these loans are mortgage loans, with valuation ratios less than 60%.

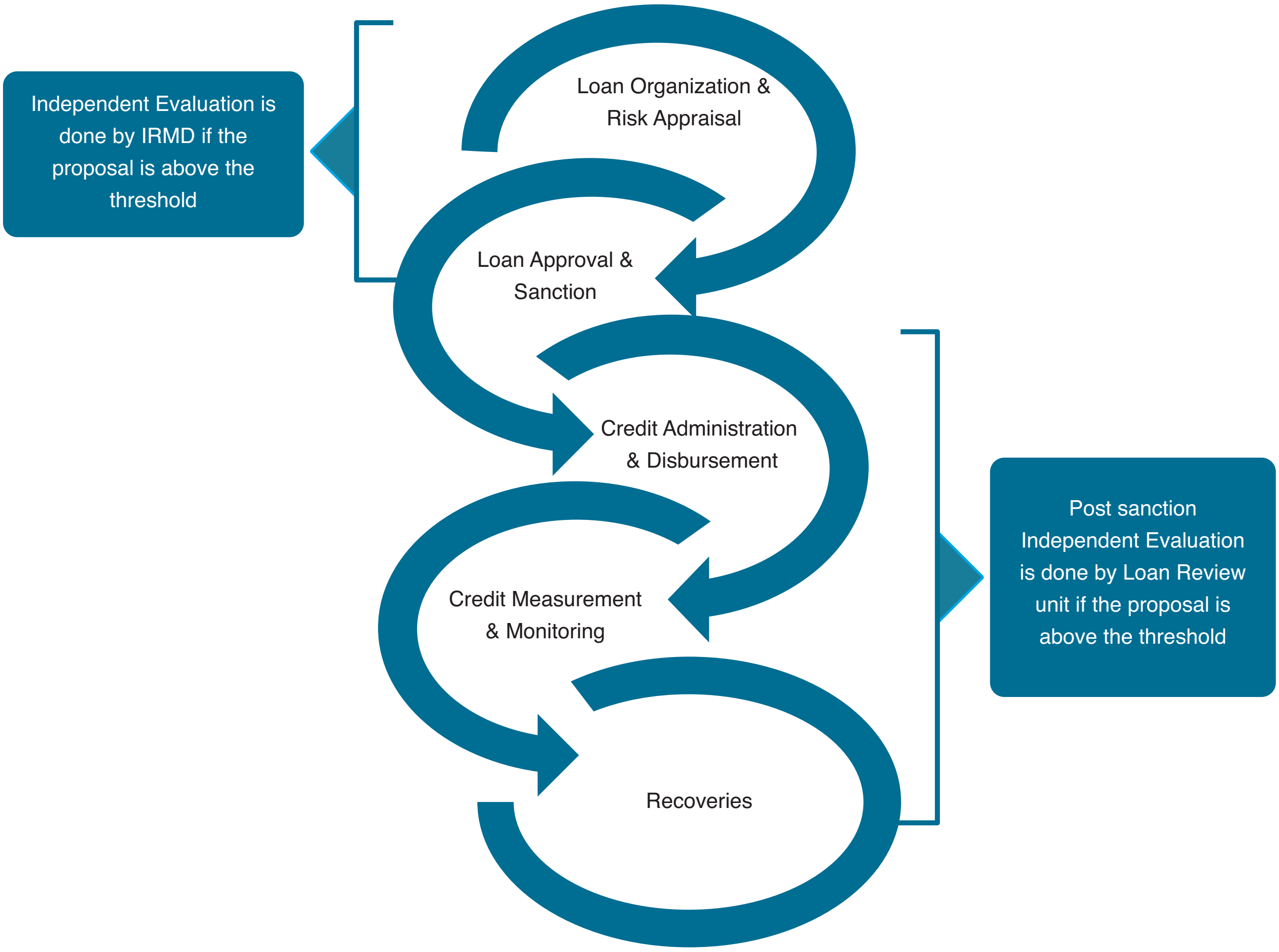
SANASA Development Bank uses an incremental approach towards loan approvals, where loan proposals are initially reviewed at branch level and depending on the value of the loan, it is evaluated at regional management level, Credit Department at head office and Board Credit Committee. In addition, independent credit reviewing and evaluation is done by the IRMD for the loans above Rs. 4 million. A separate unit has been established in the Credit Department for recoveries, to control NPL ratios.

Credit Risk Indicators

Risk Category		Risk Indicators	Statutory Limits/ Internal Limits	Status & Risk Levels
Credit & Credit Concentartion Risk	**1**	**Single borrower limit - Individual & Group** (Amount of accommodation granted or total of outstanding amount to any person, single company , Firm , association of persons or group of company	30 % of capital - CBSL	Complied Low
	2	**Gross Non performing ratio** (GNPL)		5.18% Moderate
	3	**Net Non Performing ratio**		3.09% Moderate
	4	**Non Performing Loan provision coverage ratio** Provision which was made by the bank during the year to cover the non performing loans		49.40% Moderate
	5	**Loan amount in agricultural sector to Total loan portfolio** Measure agricultural sector exposure with total exposure	10% or above	11.10% complied
	6	**Geographical Concentration** Exposure to each province		0.1504 Moderate
	7	**Product Concentration** Exposure to each products Eventhrough the product concerntration are high, it is not risky because the Most of the loans granted under the property mortgage.		0.3299 High
	8	**Sector Concentration** Exposure to each sector		0.1839 Moderate
	9	**Name concentration** Total of top 20 customers exposure is measured as % of Total exposure		4.80% Low
	10	**Coverage of Post sanction evaluation.** Post sanction evaluation of large exposure will be done by loan review unit.		2.57%

Risk Management

Credit Management Process



Credit Monitoring and Supervision

Post sanction reviews are conducted by the Credit Monitoring and Supervision unit of the IRMD, according to the Loan Review Mechanism (LRM) policy approved by the BIRMC. Performing advances above Rs. 1.5 million, within 03 months of sanction/ renewal, are subjected to this review. The following areas are covered during post sanctions reviewing.

- Evaluation of the approval process
- Adherence to Internal policies & procedures
- Compliance with applicable laws/regulations
- Compliance with loan covenants and conditions
- Sufficiency and correctness of security documentation

Lapses and shortcomings of loans disbursed, are evaluated at branch level and reported to the BIRMC. Out of the advances portfolio, 30% is covered annually.

Market Risk

Market risk comprises Interet Rate Risk, Foreign Exchange Risk and Price Risks. Market risk from trading, is managed by the Treasury of the Bank, while risks from non-trading activities are managed through the ALM (Asset and Liability Management) process handled by the ALCO. The ALCO oversees the management of market risk. 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.

SANASA Development Bank does not deal in derivatives and has a very small appetite for trading book exposure. The fixed investments are mostly for liquidity and are restricted to Government securities. Equity investments are done on quality stocks listed in Colombo Security Exchange. The Bank's risk appetite for interest rate is generally low.

The interest rate risk is monitored through regular reviews of net interest yields by product and by revising asset and liability pricing in line with our expectations on the interest yield curve. Gap analysis on RSA and RSL are prepared and are presented to ALCO monthly, to decide on suitable strategies to be adopted, based on future interest rate forecasts.

Stress Testing

Equity Price Shock

The Bank conducted stress tests for equity price shock I the vent of a drop in the stock market index.

Interest Rate Risk

The Bank conducted stress tests on interest rate shocks by through maturity gap and duration gap analysis.

Market Risk Indicators

Risk Indicators		Statutory Limits/Internal Limits	Status & Risk Levels
1	**Aggregate Equity Exposure in Public companies** (Aggregate amount of equity investments in public companies/ capital fund of the Bank)	50% - Statutory	Complied
2	**Aggregate Equity exposure in Private companies** (Aggregate amount of equity investment in private companies/ capital fund of the Bank.)	25% Statutory	Complied
3	**Reprising Gap report** Cumulative risk sensitive 1 year gap should be 10% of total assests	Gap limits are monitored effectively in line with the market conditions to preserve interest margins	Low

Liquidity Risk

SANASA Development Bank has a well-established framework, sound policy and a contingency funding plan for liquidity risk management. The main objectives of the framework are;

- Fulfilling the Bank's contractual financial obligations on a timely basis
- Ensuring an adequate liquidity profile and compliance with regulatory requirements
- Optimising the return within the appropriate risk profile
- Minimising the unprofitable sales of assets at fire sales price, to maintain liquidity profile.

Liquidity Risk Management Governance

Liquidity Risk Management is centrally monitored at the head office level. The Treasury Department maintains and monitors liquidity on a daily basis and the IRMD will monitor the liquidity on a weekly basis. The ALCO executes the liquidity management policy. The Board and the BIRMC periodically monitor the liquidity portfolio to assess the liquidity risk frequently. All the Liquidity Risk Management reports are sent to the ALCO and then to BIRMC for further review.

Liquidity Risk Indicators

Liquidity risk is measured through stock approach and flow approach. Under the stock approach, liquidity is measured in terms of key ratios such as Net Loans to Total Assets,

Risk Management

Liquidity Risk Indicators

Risk Category	Risk Indicators		Statutory Limits/ Internal Limits	Status & Risk Levels
Liquidity Risk	1	**Statutory Liquid Asset Ratio** Average monthly liquid assets /Total monthly deposit liabilities	20% statutory	Complied
	2	**Loan to deposit ratio - commercial banking Business** Total Loan / (Depoait + Borrowing + Refinance Borrowings)		86.82%
	3	**Readily Marketable assets as % of Total deposit** Large Liability - Temporary Investment to earning assets - Temporary investment where large liabilities represent the wholesale deposit which are held in the trading books		18.44%
	4	**Top Twenty largest Deposit as % of Total Deposit** Top 20 Largest Deposits as percentage of Total Deposits		Low
	5	**Short Term Liability & Short Term Assets** Assets & Liability which are matured within 1 year.		80.12%

Loans to customer deposits, Liquid Assets to Short-term Liabilities, Purchased Funds to Total Assets, Commitments to Total Loans, Statutory Liquid Assets, which portray the liquidity stored in the balance sheet.

Under the flow approach the Bank prepares a statement of Maturities of Assets and Liabilities (MAL) placing all cash inflows and outflows in the time bands according to the residual time to maturity. The time bands are distributed as less than 7 days, 7-30 days, 1-3 months, 3-6 month, 6-12 months, 1-3 years, 3-5 years and over 5 years.

Stress Testing for Liquidity

SANASA Development Bank conducted stress tests for liquidity risks by calculating the SLAR before and after the shocks, as a percentage of total deposits, with and without the contingency fund. Further the tolerable deposit run rate and liquidity buffer were also calculated.

Operational Risk

SANASA Development Bank has a comprehensive operational risk policy including identification and assessment of risk of losses, ranging from fraudulent activities, unauthorised trades or account activity, human errors, omissions, inefficiencies in reporting, technology failure or from external events, such as natural disasters, social and political conflicts, implementation of controls for improving the management and monitoring process and mitigation tools for operational risks.

The main objective of the policy is to ensure a uniform understanding of operational risks and to increase knowledge in respect of essential countermeasures. Adequacy and effectiveness of the policy are regularly assessed and updated when required. A comprehensive operational loss database is in place to track losses by incident type and business line, as per Basel 11.

Operational Risk Governance & Management

Staff at all levels are accountable for controlling the operational risks in his/her area of responsibility. In this sense, everyone in the bank is an operational risk manager and is responsible for his/her own operational risk. Loss data is grouped according to business lines and types of operational events to create a matrix, where each cell has the Rupee value of the event and the frequency.

Segregation of duties with authority levels, internal and external audits, insurance policies and back-up facilities for information, are the fundamental tools of operational risk management in our bank. Effective internal control systems, supervision by the Board, senior management and line mangers, form a part of the 1st line of defence for operational risk management. Our bank demands a high level of professionalism and ethical conduct from all staff, which serve as a mitigation tool for several operational risk factors.

As most of the operational risks are pure risk, the Bank uses insurance as the risk mitigation technique to manage such risks. The Bank has the following insurance policies:

Policy Name	Coverage
Banker's Indemnity	Cash and pawning articles
Personal Accident Insurance	For bank employees covering accidental death, permanent total and partial disability and temporary total and partial disability
Surgical & Hospitalisation Cover	Hospitalisation for all employees of the Bank and their close family members (i.e. spouses and children under the age 18)
Workers Compensation	Accident cover for Bank employee during the working hours

Reputational Risk

SANASA Development Bank enjoys a good reputation among the specialised banks in Sri Lanka. The Bank has not faced any major adverse publicity, runs on its deposits or regulatory penalties and has a strong brand name during the year perview.

Strategic Risk

We have developed a strategic plans for three years starting from 2013 to 2016, which gives strategic directions for the Bank in all the areas.

BASEL11 requirements

Internal Capital Adequacy Assessment Process (ICAAP)

We have prepared the ICAAP document for the year ended 2012 which has been approved by the Central Bank, and we are in the process of preparing the document for the year ended 2013.

The application of the ICCAP Framework at SANASA Development Bank is to;

- Describe the process for identification, assessment, measurement and aggregation of the risks inherent in the Bank's business and operations
- Ensure management of internal capital in accordance with Central Bank guidelines
- Ensure that the available capital is commensurate with the Bank's risk profile
- Ensure clear assignment of roles and responsibilities for facilitating the ICAAP.

This process is integrated with the Bank's business planning and is part of the internal governance framework and the internal control system. Together with continuous monitoring, and reporting of the capital adequacy to the Board, this ensures that the relationships between shareholders' equity, economic capital and regulatory requirements, are managed in such a way as not to jeopardise SANASA Development Bank's financial sustainability.

Capital adequacy is calculated according to the guidelines issued by the Central Bank. SANASA Development Bank uses the following methods to calculate risk weighted assets to Pillar 1 Risks;

- Credit Risk : Standardized Approach
- Operational Risk: Basic indicator Approach
- Market Risk : Standardized Approach

Our internal Capital adequacy Assessment process (ICAAP) take into account other risks that are not included under Pillar 1 such as liquidity risk, interest rate risk and pawning.

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 discloses these rules and the degree of compliance by the Bank. The Bank has obtained separate audit report on the following matters as per guideline issued by the Institute of Chartered Accountants of Sri Lanka.

Guideline	Function of the Board	Level of Compliance in 2013
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 is communicated throughout the bank	Strategic objectives & corporate values are approved by board of directors and communicated during meetings with corporate & senior managers.
	b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	Strategic plan for the period from 2014 to 2016 has been approved by the board
	c) Identify the principal risk and ensure implementation of appropriate system to manage the risk prudently.	Different types of risks are identified and policies have been formulated to manage the risk
	d) A policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Communication policy has been formulated to cover this requirement and approved by the Board
	e) Reviewed the adequacy and the integrity of the bank's internal control systems and management information system.	Adequacy and integrity of the Internal control system of the bank is reviewed by Internal Audit department and related findings are reviewed by the board audit committee on monthly basis. Board will initiate action to review the adequacy and the integrity of the bank's Management Information Systems;
	f) Identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards.	Key management personnel identified , as defined in the Sri Lanka Accounting Standards as per new Board paper 7/10/2013

Guideline	Function of the Board	Level of Compliance in 2013
	g) Defined the areas of authority and key responsibilities for the board of directors themselves and for the key management personnel.	Board has defined the areas of authority and key responsibilities for the board of directors themselves and key responsibilities of KMP's are defined in the Job Descriptions.
	h) Ensure that there is appropriate oversight of the affairs of the bank by key management personnel that is consistent with board policy.	Board meets the Key Management Personnel on a regular basis and when need arises they are called by the Board to explain matters relating to their areas
	i) Periodically assessed the effectiveness of the board of directors own governance policies including.	
	a. The selection, nomination and election of directors and key management personnel.	Selection, nomination and election of directors are periodically assessed.
	b. The management of conflicts of interests.	Board approved procedure in place which includes provisions on management of conflicts of interest
	c. The determination of weaknesses and implementation of changes where necessary.	Determinations of weaknesses of BODs are evaluated through self-evaluation process of the Board.
	j) Ensure that the bank has a succession plan for Key Management Personnel.	Bank has a succession plan but need to update due to resignations and new recruitments
	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.	Board meets the Key Management Personnel on a regular basis to review policies and ratified by the board of directors
	l) Understand the regulatory environment and that the bank maintains a relationship with regulators.	Compliance Department and CEO maintain a regular dialog and a cordial relationship with the regulator in order to maintain regulatory environment
	m) Process in place for hiring and oversight of external auditors.	Process in place for hiring of external auditors and their work monitored by the Audit Committee.
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)	Appointment of the Chairman and CEO is done by the board and functions are defined as per direction no 3 (5)

Corporate Governance Compliance

Guideline	Function of the Board	Level of Compliance in 2013
3(1) (iii)	The board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	More than 12 meetings were held during the year
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.	Directors are allowed to include matters and proposals in the agenda for regular meetings
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.	Notices have been given more than 7 days in advance for all board meetings
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 been arisen during the year and refer page No 82 No alternate directors are available.
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.	The Company Secretary is an Attorney-At-Law and possesses with Company Secretary Licence and engages in full time for secretary works of the bank.
3(1) (viii)	All directors to have access to advice and services of the company secretary.	All directors can access for advices and services of the Company Secretary
3(1) (ix)	The company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Minutes of the Board meetings are maintained by Company Secretary and Directors have access to them
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.	Board minutes include a summary of information.
	b) The matters considered by the board.	Board minutes include all the matters discussed
	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;	Board minutes are inclusive of those fact-finding discussions
	d) The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;	Board minutes include the matters which indicate compliance with policies, laws and regulations.
	e) The understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and	Content of minutes include an overview regarding risk exposure of the Bank
	f) The decisions and board resolutions.	Board minutes include all decisions/ resolutions taken

Guideline	Function of the Board	Level of Compliance in 2013
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.	The facility is available and provided upon request.
3(1) (xii)	There is a procedure to determine, report, resolve and to take appropriate action relating to directors avoiding conflicts of interests, or the appearance of conflicts of interest. A director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern, in which a director has substantial interest, is interested and he/she shall not be in the quorum for the relevant agenda item at the board meeting.	Such an event has not been arisen during the year
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.	The board has a formal schedule of matters
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 during the year
3(1) (xv)	The board shall ensure that the bank capitalized at levels as required by the Monetary board.	The Bank has been fully compliant with the Capital Adequacy requirements during the year
3(1) (xvi)	The board shall publish, in the bank's annual report, an annual corporate governance report setting out the compliance with direction 3 of these directions.	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.	Self assessment for Directors have been done for the year 2013
	The Board's Composition	
3 (2) (i)	The board comprise of not less than 7 and not more than 13 directors.	The Board is comprised with nine directors as at 31/12/2013
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.	Service period of all directors does not exceeds nine years
3 (2) (iii)	The number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	All directors are non 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	All directors are non executive and three out of them are independent. Therefor six non indipendent non executive directors
3 (2) (v)	In the event an alternate director was appointed to represent an independent director, the person so appointed meets the criteria that apply to the independent director.	No alternate director was appointed during the year
3 (2) (vi)	The bank has a process for appointing independent directors.	Process is documented

Corporate Governance Compliance

Guideline	Function of the Board	Level of Compliance in 2013
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.	All directors are non-executive Directors
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.	Composition of the board has been disclosed in the Annual Report
3 (2) (ix)	There shall be procedure for the appointment of new directors to the board.	It is done in line with the Companies Act
3 (2) (x)	All directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.	Appointment of directors are according to the Articles of Association of the Bank
3 (2) (xi)	If a director resigns or is removed from office, the board: (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Such an incidence has not occurred during the year 2013
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.	An Interest Register is maintained for this purpose
3 (3) (i)	The age of a person who serves as director does not exceed 70 years.	An Interest Register is maintained for this purpose
3 (3) (ii)	No person shall holds office as a director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the bank.	The board is of the view that each and every director 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.	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 restrictions as the board may think fit. 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 or the Chief Executive Officer with the assistance of the corporate management, senior management ,other executive and general staff of the Bank Delegation arrangements as given by the board approved organizational structure

Guideline	Function of the Board	Level of Compliance in 2013
3 (4) (ii)	The board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	The delegation powers of board is subject to the general law, regulation and directions applicable to the bank, to ensure that the delegation of authority would not in any way reduce the Board ability to discharge its function fully and effectively.
3 (4) (ii)	The board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	The delegation powers of board is subject to the general law, regulation and directions applicable to the bank, to ensure that the delegation of authority would not in any way reduce the Board ability to discharge its function fully and effectively.
3 (4) (iii)	The board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	The delegation power are reviewed periodically
3 (5) (i)	The roles of chairman and CEO is separate and not performed by the same individual	The Chairperson and CEO are two different person in SANASA Bank
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 is disclosed in the bank's Annual Report.	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.	There are no material relationship between the Chairperson/ CEO and/ or other member of Board which will impair their respective roles
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.	The Chairman provides leadership to the Board by ensuring that the Board functions effectively and facilitates 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 respective capabilities, for the benefit of the Bank
3 (5) (v)	A formal agenda is circulated by the company secretary approved by the chairman.	The Agenda for each Board meeting is finalized by the company secretary under the supervision of the Deputy Chairman
3 (5) (vi)	The chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	The Chairperson ensures that the directors receive adequate information in a 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 takes the lead to act in the best interest of the bank.	The Chairperson ensures that the Board acts in the best interests of the Bank.

Corporate Governance Compliance

Guideline	Function of the Board	Level of Compliance in 2013
3 (5) (viii)	The board has a self evaluation process that assesses the contribution of non-executive directors.	All directors bring independent judgment to bear on issues of strategy, conduct of Bank operations and performance. Procedure in place is being documented for record purposes. Evaluation proccess covers the contrybution of non executive directors as well.
3 (5) (ix)	The chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Chairperson is not involved in the day-to-day operations of the bank at present.
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	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.	The CEO is acting as the apex executive-in charge of the day-to-day management of the Bank
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.	Following Committee's directly report to the board 1. Board Human Resources and remuneration Committee 2. Board Nomination Committee 3. Board Integrated Risk Management Committee. 4. Board Credit Committee 5. Board Audit Committee Refer page no 79 & 80

Guideline	Function of the Board	Level of Compliance in 2013
3 (6) (ii)	Audit Committee:	
	(a) The Chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	The Chairman is a independent non executive director who is a qualified Accountant
	(b) All members of the committee are nonexecutive directors.	Members are nonexecutive directors
	(c) The committee has made recommendations on matters in connection with: i the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; ii the implementation of the Central Bank guidelines issued to auditors from time to time; iii the application of the relevant accounting standards; and iv The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee always make recommendations regarding those matters

Corporate Governance Compliance

Guideline	Function of the Board	Level of Compliance in 2013
	(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.	Extenal auditors are indipendent since they report direct to the BAC. Engagement later submitted to the BAC and their report on the financial statement of the bank for the year 2013 indicates that the set audit is carried out in accordance with SLAus.
	(e) The committee has implemented a policy on the engagement of an external auditor to provide non audit services in accordance with relevant regulations.	The Committee has implemented the policy in this regard.
	(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.	The committee has discussed the audit plan and mathadology with external auditors
	(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.	Board Audit Committee reviews the Quarterly & Annual Financial information at present.
	(h) The committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	No such situation has been arisen during the year
	(i) The committee has reviewed the external auditor's Management Letter and the management's response thereto.	Committee has reviewed the Management Letter
	(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;	The Committee reviews the adequacy of the scope, functions and resources of the internal audit department.

Guideline	Function of the Board	Level of Compliance in 2013
	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;	The Committee reviews the internal audit programs
	iii Review any appraisal or assessment of the performance of the Head and Senior staff members of the internal audit department;	Appraisal or assessment of the performance of Chief Internal Auditor will be done by Board Audit Committee
	iv Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Appointment and termination of the staff are recommended by the committee
	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;	Committee has not come across any such situation during the period.
	vi The internal audit function is independent of the activities it audits.	Internal audit department is independent since they report direct to the BAC
	(k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Committee has reviewed all the findings and advised 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.	this is not relevent since there are no executive directors in the bank
	(m) The terms of reference of the committee to ensure that there is; i Explicit authority to investigate into any matter within its terms of reference; ii The resources which it needs to do so; iii Full access to information; and iv Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	The terms of reference of the committee address all these matters
	(n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties.	Committees meet monthly and discuss the matters which are duly recorded.

Corporate Governance Compliance

Guideline	Function of the Board	Level of Compliance in 2013
	(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.	Refer page no 85
	(p) The secretary of the committee is the company secretary or the Head of the internal audit function.	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	The Committee reviews internal control procedures and other arrangements of the Bank and act as the key representative of the Bank with regard to the relations with the external auditors.
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.	Remunerations are determined based on Board approved document. Committee will implement a policy in this regard
	(b) The goals and targets for the directors, CEO and the key management personnel are documented	Goals and targets of CEO and KMPs are documented on Balance Score Card and further improvement is in progress.
	(c) The committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other payments of performance-based incentives.	There is a procedure for evaluating performances of CEO and KPMs through Balance Score Card which is in the process of implementation.
	(d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	CEO presents for all meetings other than when matters relating to CEO is discussed.

Guideline	Function of the Board	Level of Compliance in 2013
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.	Procedure to select/ appoint new directors are followed at the nomination committee and appointing KMPs are made with the approval of Nomination Committee
	(b) The committee has considered and recommended (or not recommended) the re-election of current directors.	Re-elections are done based on recommendation of the committee
	(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.	Appointment or promotion to the post of CEO and the KMPs are recommended by the committee based on criteria such as qualifications and experience.
	(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.	Fit and Proper declarations are taken from CEO and KMPs by the Committee before their appointment.
	(e) The committee has considered a formal succession plan for the retiring directors and key management personnel.	Bank has a succession plan which need to be updated due to resignations and new recruitments
	(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.	The committee is headed by an independent director and constituted with majority of independent directors, The CEO participate only on invitation.
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.	Committee consists with non executive Directors, CEO and responsible KMPs
	(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.	The executive risk management comittee committee assess all risks on monthly basis based on reports submitted by various departmants of the bank and minites of the said committee is rewiew by the board intergrated risk management committee quartaly. This process wil be further stregnth to cover all risks as required by the CBSL direction.

Corporate Governance Compliance

Guideline	Function of the Board	Level of Compliance in 2013
	(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.	The committee has eshtablished number of quantitative and qualitative risk limites. But this proccess will have to be further strengthned.
	(d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	The Committee has reviewed certain risk indicators which have gone over the limit and this proccess will have to be further strengthned.
	(e) The committee has met at least quarterly.	4 meetings have been held during the year
	(f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	The officers responsible for failure to identify specific risks will be dealt with according to the existing disciplinary procedure manual.
	(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.	Committee submits these reports at subsequent board meetings.
	(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.	Compliance Department has been established under a Compliance Officer selected from KMPS and report to the board on monthly basis the progress on compliance status strengthened to cover bank complience with laws regulations and internal control and approved policies on all areas of business operations.
	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;	Transactions with related parties are done strictly according to the board approved Related party policy and which are reported to the board on monthly basis. Details of transactions appearing the system are verified manually to ensure their accuracy.
	(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.	

Guideline	Function of the Board	Level of Compliance in 2013
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,	Please refer the section 3(7) (i)
	The board has 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;	Board has to approve all accommodation, terms & conditions to related parties and no preferential treatment has been given to related parties during the year.
	(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.	
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.	Granting accommodation to directors and KMPs is done with the approval of Board of Directors. These accommodations are secured by securities determined by the monitory Board.

Corporate Governance Compliance

Guideline	Function of the Board	Level of Compliance in 2013
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. (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	Any accommodation is granted by the bank to a party who will subsequently become a director of the bank, the steps have been taken to obtain necessary security as determined by the monitory board within one year from the appointment. No such situation has arisen during the year No such situation has arisen during the year No such situation has arisen during the 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.	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.
3 (7) (vii)	There is a process to obtain prior approval from the Monetary board for any accommodation granted by the 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.	Approval of the monitory board has been obtained for accommodations granted by the bank for directors and KMPs under direction 3(7) (v) and 3(7) (vi).
	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.	Annual Financial statements are prepared & published in accordance with regulatory requirements and published in the Sinhala, Tamil and English newspapers.

Guideline	Function of the Board	Level of Compliance in 2013
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.	Refer page no 84
	(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.	Refer page no 86 & 87
	(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.	Refer page no 88
	(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.	Refer page no 14 & 15
	(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.	Please refer the "Related Party Disclosures" Refer page no 123 & 124
	(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.	This information is disclosed in notes to the accounts Refer page no 123 & 124
	(g) The board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Corporate Governance of the bank is disclosed with the concurrence of the external auditors
	(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	Refer page no 42 to 57
	(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.	There are no significant supervisory concerns to be disclosed in the Annual Report.

Corporate Governance Compliance

The Code of Best Practices on Corporate Governance issued jointly by Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
A. Directors			
A.1. The Board			
The Bank should be headed by a Board, which should direct, lead and control the Bank			
All Directors of the Bank in a Non-Executive capacity. The Board consists of professionals in the fields of Banking, Accounting, Management and Economics. 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 should meet regularly. At least once a quarter	The Board usually meets in monthly intervals, but meets more frequently whenever necessary arisen 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 meeting. The attendance at Board meetings held in 2013 is set out on page 79
2. Board Responsibilities	A.1.2	Board should provide an entrepreneurial leadership within a framework of prudent and effective controls	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 vision statement, mission statement and the Annual budget.
3. Compliance with laws and access to independent professional advice	A.1.3	The Board collectively and directors individually must act in accordance with rules and regulations	The Board collectively as well the Directors individually, recognizes 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	Description of the Requirement	SDB's Extent of Compliance in 2013
4. Board Secretary	A.1.4	All directors should have access to the advice and services of secretary	All Directors have access to the Board Secretary, who is an Attorney-at-Law by profession. Her services were available to all 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	All directors should bring an independent judgment to bear on issues of strategy	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 utilization and business conduct.
6. Dedication of adequate time and effort by the Board and Board committee	A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and Company	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: 1. Audit Committee 2. Board Integrated Risk Management Committee 3. Human Resources & Remuneration Committee 4. Nomination Committee 5. Credit Committee
7. Training for new Directors	A.1.7	Every Director should get an appropriate training	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.

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
A. 2 Chairman & CEO			
There should be a clear division of responsibilities between the Chairperson and Chief Executive Officer 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	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the annual report	The roles of the Chairperson and Chief Executive are done by two different individuals.
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 chairman should conduct board proceedings in a proper manner and ensure an effective discharge of the Board functions	The Chairperson is responsible for leadership of the Board and ensuring effectiveness in all aspects of its role. The Chairperson of SDB 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.
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 board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance	All Directors possess financial acumen and knowledge through the experience gained from leading large private and public enterprises coupled with academic and professional back ground The details of their qualifications and experiences have been listed in page no 14 and 15

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
A.5 Board Balance			
It is preferable for the Board to have balance of executive and Non-Executive directors such that no individual or small group of individuals can dominate the Board's decision-taking.			
1. Presence of Non-Executive Directors	A.5.1	The Board should include at least 2 non-Executive directors or a number equaling to 1/3 of all directors whichever is higher and in the event of CEO and Chairman is same the majority should be consistent with Non-Executives	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2013.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive directors out of all, should be independent directors	Three directors are independent out of nine directors. All directors are Non-Executive and three directors are independent to comply with independency criteria
3. Criteria to evaluate Independence of Non-Executive Directors	A.5.3	For a director to be deemed as 'independent', such director should be independent from management and free of any business or other relationships that could materially interfere	Comply with independency criteria
4. Signed declaration of independence by the Non-Executive Directors	A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/ her independence	There is a declaration of independency signed by all Non-Executive Directors
5. Determination of independence of the Directors by the Board	A.5.5	The Board should make a determination annually as to the independence or non-independence of each Non-Executive Directors	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. Appointment of Alternate Director	A.5.6	If an alternate director is appointed by a Non-Executive director such alternate director should not be an executive of the bank	No alternate Director was appointed during the year
7. Senior Independent Directors	A.5.7	In the event the Chairman and CEO is the same person, the board should appoint one of the independent Non-Executive directors to be the 'Senior Independent Director' and disclose this appointment in Annual Report	Chairman and the CEO are two different individuals.

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
8. Confidential discussion with the Senior Independent Director	A.5.8	The Senior Independent Director should make himself available for confidential discussions with other directors	The Senior Independent Director should make himself available for confidential discussions with other directors
9. Meeting of Non-Executive directors	A.5.9	The Chairman should hold meetings with the non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year	All Directors are Non-Executive Directors and meet every month.
10. Recording of concerns in Board Minutes	A.5.10	Where Directors have concerns about the matters of the company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes	Concerns of Directors have been duly recorded in Board Minutes
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.			
1. Information to the Board by the Management	A.6.1	Management has the responsibility to provide the information appropriately and timely to the Board. But information volunteered by Management is not always enough and directors should make further inquiries where necessary	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 whenever clarification sought by the Board. The Chairperson ensured that all Directors were briefed on issues arising at Board meetings.
2. Adequate time for effective Board meetings	A.6.2	The Minutes, Agenda and Papers required for a board meeting should ordinarily be provided to directors at least 7 days before	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.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
A.7 Appointments to The Board			
There should be a formal and transparent procedure for the appointment of new directors to the Board			
1. Nomination Committee	A.7.1	A nomination committee should be established to make recommendations to the board on selection of New Directors. The chairman and members of the committee should be disclosed in Annual Report	The Nomination Committee made recommendations to the Board on all new Board appointments. The Terms of Reference of the Committee was formally approved by the Board. Chairman and members are disclosed in page no. 79
2. Assessment of Board Composition by the Nomination Committee	A.7.2	The Nomination committee or in the absence of nomination committee, the Board as a whole should annually assess Board composition	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	Upon the appointment of new director, the company should forthwith disclose relevant particulars	New appointments of Directors are disclosed through stock exchange
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	Non-Executive directors should be appointed for specified terms subject to re-election and to the provisions of Companies act relating to the removal of directors and their re-appointment should not be automatic	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	All directors including the chairman of the board should be subject to election by shareholders at the first opportunity after their appointment and reelection thereafter at intervals of no more than three years.	Refer the above comment

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
A. 9 Appraisal of Board Performance			
The Board should periodically appraise its own performance against the preset targets in order to ensure that the Board responsibilities are satisfactorily discharged.			
1. Appraisal of Board performances	A.9.1	The board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2	Self-assessment for Board of Directors is done for the year 2013
2. Annual self-evaluation of the Board and its Committees	A.9.2	The Board also should undertake an annual self-evaluation of its own performance and that of its committees	There is a self-performances evaluation procedure for the Board of Directors of the Bank
3. Disclosure of the method of Appraisal of Board and Board Sub Committee performances	A.9.3	The Board should state how such evaluation was done in the Annual Report	Refer page number 79
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	The Annual Report of the Company should disclose details regarding directors	Details of the Directors are given on page 14 & 15
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	At the commencement of every fiscal year the board in consultation of with the CEO should set objectives for Company	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	The performance of CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets have been achieved	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

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
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	To avoid potential conflicts of interest, the board of directors should set up a remuneration committee to make recommendations to the Board	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	Remuneration committees should consists exclusively of Non-Executive Directors, and should have a chairman who should be appointed by the board and the chairman and members of the committee should be stated in Annual Report	All Directors are Non-Executive Directors. Chairman of the committee is appointed by the Board. Composition of the Committee is given on Page No 79
3. Remuneration of the Non-Executive Directors	B.1.4	The Board as a whole or as required by the Articles of Association the shareholders should determine the remuneration of Non-Executive directors	Remuneration of Non-Executive Directors are determined by the Remuneration Committee

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
4. Consultation of the Chairperson and access to professional advice	B.1.5	The Remuneration Committee should consult the chairman and/ CEO about its proposals relating to the remuneration of other executive directors and have access to other professional advice	Input of the Chairman is obtained by his involvement as a member of the said subcommittee and access is available to obtain professional advices if necessary
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. Level and make-up of the remuneration of Executive Directors	B.2.1	The remuneration committee should provide the packages needed to attract, retain and motivate 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 should judge where to position level of remuneration of the company relative to other companies	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	The remuneration committee should be sensitive to remuneration and employment conditions	No subsidiary Companies under the Bank
4. Performance related payment to Executive Directors	B.2.4	The performance related elements of remuneration of Executive directors should be designed and tailored to align their interests with those of the company and main stakeholders and to give these directors appropriate incentives to perform at the highest levels	All directors are non-executive directors
5. Executive share options	B.2.5	Executive share options should not be offered at a discount	Complied with

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
6. Deciding the Executive Directors remuneration	B.2.6	In designing schemes for performance-related remuneration, Remuneration committee should follow the relevant SEC regulations	Complied with
7. Early termination of directors	B.2.7	Remuneration Committee should consider what compensation commitments, their directors' contracts of service, if any entail in the event of early termination.	Complied with
8. Early termination not included in the initial contract	B.2.8	Where the initial contract does not explicitly provide for compensation commitments, Remuneration committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances	Compensation on early termination will be discussed on case by case basis
9. Remuneration of the Non-Executive Directors	B.2.9	Levels of remuneration for Non - Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	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.			
1. Disclosure of Remuneration	B.3.1	The Annual Report should set out the names of Directors comprising the remuneration Committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Directors	All directors are non-executive directors. Refer the page number 61 for remuneration of directors, composition of remuneration Committee
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	Companies should count all proxy votes and should indicate the level of proxies lodged in each resolution, and the balance for and withheld after is has been dealt with on a show of hands, except where a poll is called	The Bank has a mechanism to record all proxy votes and proxy votes lodged on each resolution.

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
2. Separate resolution for all separate issues	C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular purpose a resolution at the AGM relating to the adoption of the report & accounts	Bank proposes 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 Chairman of the Board should arrange for the chairmen of the Audit, Remuneration and Nomination committees to be available to answer questions at the AGM if so requested by the Chairman	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	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting	Bank give notice of AGM and related papers to the shareholders before 21 days
5. Procedures of voting at General Meetings	C.1.5	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	Voting procedures at General Meetings are circulated to the shareholders along with the Annual Report
C.2 Communication with Shareholders			
The Board should implement effective communication with Shareholders			
1. Dissemination of timely information	C.2.1	There should be a channel to reach all shareholders of the company in order to disseminate timely information	All the financial information of the bank could be reached through newspapers and website by stakeholders
2. Policy and Methodology for communication with Shareholders	C.2.2	The Company should disclose the policy and methodology for communication with shareholders	Communication with shareholders are done through individual letters through inquiries from Company Secretary department and Annual Report and Bank website
3. Implementation of Communication Policy and Methodology	C.2.3	The Company should disclose how they implement the above policy and methodology	Communication policy is implemented through Company Secretary, Bank website and media

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication	Following are the contact numbers of contact persons Company Secretary - 0112832590 Senior Director – 0112832516
5. Awareness of Directors on major issues and concerns of shareholders	C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the company	Share Holders can discuss with Company Secretary/ Senior Director regarding any matter
6. The Contact person in relation to shareholders' matters	C.2. 6	The Company should decide the person to contact relating to shareholders matters. The relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board of Directors	Following are the contact numbers of contact persons Company Secretary - 0112832590 Senior Director – 0112832516
7. The process of responding to shareholder matters	C.2. 7	The process for responding to shareholder matters should be formulated by the Board and disclosed	Answering the shareholders' matters is done by Company Secretary/ Senior Director through the above contact numbers and at the AGM
C.3 Major and Material 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.3.1	Prior to a Company engaging in or committing to a 'Major related party transaction' with a related party, Directors should disclose to shareholders the purpose and all relevant material facts and obtain shareholders' approval by ordinary resolution	During 2013 there were no major transactions as defined by Section 185 of the Companies Act No 7 of 2007 which materially affected SDB's net asset base.

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
D. Accountability 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	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators	SDB has reported a true and fair view of its position and performance for the year ended 31st December 2013 and at the end of each month of 2013. In the preparation of quarterly and annual financial statements, SDB 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 which forms a part of Annual Report, should contain a declaration by the directors stating that Bank operations are in line with statutory requirements	The Directors' report given on page 84 of the annual report covers all areas of this section
3. Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board on preparation and presentation of Financial statements and a statement of Internal Control	The statement of Directors' responsibility for financial reporting is given on page 84 of the Annual Report Statement of Internal Control is given on the page 86 to 87.
4. Management Discussions and analysis	D.1.4	Annual Report should contain a "Financial Review"	The Financial Review is given on page 23 of the Annual Report
5. Declaration by the Board that the business as a going Concern	D.1.5	The Directors should report that the business is going concern, with supporting assumptions or qualifications as necessary	This is given in the Directors' report on page 84 of the Annual Report

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
6. Summoning an EGM to notify serious loss of capital	D.1.6	In the event the net assets of the company fall below 50% of the value of the company's shareholders' funds, the Director shall forthwith summon an EGM of the company to notify shareholders of the position and remedial actions	No such situation has been arisen during the period.
7. Disclosure of Related Party Transactions	D.1.6	The Board should adequately disclose the Related Party Transactions in its Annual Report	Related party transaction details are on the page No 123 and 124
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 Directors should at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal control	The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls is evaluated by the audit committee. In the year 2013, the Board of Directors was satisfied with the effectiveness of the system of internal controls, which is evidenced through the report of the External Auditors on internal controls over financial reporting given on page 84(directors statement on internal control) of the Annual Report
2. Need for internal audit function	D.2.2	Companies should have an internal audit function.	The bank is having a separate Internal audit department. The bank reviews the internal control function once a year. Refer page no 68 and 69 For directors statement on internal control
3. Reviews of the process and effectiveness of Risk Management and internal controls	D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls	Complied with. Refer page no 88 for Directors' certification on effectiveness of Risk management and Internal control.

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
4. Sound system of internal control and its content	D.2.4	Directors should follow the said guidance on responsibilities in maintaining a sound system of internal control	Complied with. Refer page no 68 and 69 for Directors' certification on effectiveness of Risk management and Internal control.
D.3. Audit Committee			
The Board should have a formal and transparent arrangement 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	The Audit committee should be comprised of a minimum of two independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher	Complied with. Please refer the composition of Audit committee on page No 85
2. Review of Objectivity of the External Auditor	D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness , and the independence and objectivity of the auditors	Audit Committee make sure the independency and objectivity of External auditors
3. Terms of reference of the Audit Committee	D.3.3	The Audit Committee should have a written Terms of Reference	Bank has written Terms of Reference for Audit Committee which address the requirements of the code
4. Disclosures of the Audit committee	D.3.4	The Names of the Directors of Audit Committee, determination of the independence of the Auditors and its basis should be disclosed in the Annual Report	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

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
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	Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and Key Management Personnel and if there is such a code, make an affirmative declaration in the Annual Report	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	The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics.	Please refer the Chairperson's statement on page 06 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	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner in which company has complied with the principles and provisions of this code	This requirement is met through the presentation of this report from page no 42 to page no 57
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	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern

Corporate Governance Compliance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
E.2. Evaluation of Governance Disclosures			
1. Evaluation of Governance Disclosures	E.2.1	When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention.	Institutional investors' concern are addressed as and when raised
F. Other Investors			
F.1. Investing / Divesting decision			
1. Individual Shareholders	F.1.1	Individual Shareholders, investing directly in shares of companies should be encouraged to carryout adequate analysis or seek independent advice in investing or divesting decisions.	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 should be encouraged to participate in General Meetings of Companies and exercise their voting rights	Individual shareholders are encouraged to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and newspaper notices
G. Sustainability Reporting			
G.1 Principles of Sustainability Reporting			
1. Principle 1 - Economic Sustainability	G.1.1	Principle of Economic sustainability governance recognizes how organizations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate in their sphere of influence and how this is integrated through the organization	The bank consider sphere of geographical influence and their impact when planning their strategies, activities and decisions on economic performances for economic sustainability governance
2. Principle 2 - The Environment	G.1.2	Environmental Governance of an organization should adopt an integrated approach that takes into consideration economic, social, health and environmental implications of their decisions and activities.	Bank has taken into consideration integrated approach on direct and indirect economic, social, health and environmental implications when they are taking d on pollution prevention, protection of environment and restoration of natural resources.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2013
3. Principle 3 - Labor Practice	G.1.3	Labor practices governance of an organization encompasses all policies and practices relating to work performed by or on behalf of the organization	All practices and policies are formulated to have a peaceful industrial relation and pleasant working environment in the organization
4. Principle 4 - Society	G.1.4	Society Governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community development	Development including responsible public policies encompass support for a building for a relationship with the community by the Bank
5. Principle 5 - Product Responsibility	G.1.5	Product responsibility governance includes manufacturing quality products and distributing them and ensuring that the products safe for the consumers and the environment	Developing Banking products to ensure the safety and fair contractual practices and their data protection and privacy
6. Stakeholder identification, engagement and effective communication	G.1.6	Internal and External stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communication should be proactive and transparent	Communication with the stake holders cordial and include past performance and existing economic, social and environmental issues in proactive and transperant manner
7. Principle 7 - Formalization of Sustainability Report	G.1.7	Sustainability reporting and disclosure should be formalized as part of the Company's reporting process and take place on a regular basis	Sustainability reporting is based on local and global standards providing credible accounts of the bank's economic, social and environmental impact

Achieving heights
in
Challenging
times

Achieving heights
in
Challenging
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Achieving heights
in
Challenging
times

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 2013.

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 Re-finance 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 2013 the Bank had 82 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
Mr. L. Abeysekera (Chairman)
Dr. R.M.K. Ratnayake
Mr. Jayantha Rathnayake
Mr. Thilak Rajapaksha

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

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE
Mr.T. Karunasena (Chairman)
Mrs. M.S. Kiriwandeniya
Mr. A. D. Walisinghe
Mr. H.M.G.B. Herath

BOARD SELECTION AND NOMINATION COMMITTEE
Dr. R.M.K. Ratnayake (Chairman)
Mr. T. Karunasena
Mr. L. Abeysekera

Report of the Directors

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Dr. R.M.K. Ratnayake (Chairman)
Mr. D.P. Kumarage
Mr. L. Abeysekera
Mr. M.T. Galgamuwa - Former General Manager/CEO
Mr. K.G. Leelananda - Senior DGM
Mr. E.A.A.S. Ediriwickrama - DGM (Credit, Development and Finance)
Mr. Hemal C. Lokugeegana - AGM (Chief Risk Officer)
Mr. S.S.S. Senanayake - AGM (Compliance)

Profits and Appropriations

The Following is a summary of the consolidated financial statements of the Bank during the year ended 31st December 2013.

	2013 (Rs. Million)	2012 (Rs. Million)
Profit Before taxation	333	516
Provision for taxation	85	175
Other comprehensive income	(2)	(19)
Profit after taxation	246	322

Dividends

The Directors recommend a first and final dividend of Rs. 7/- per share to the shareholders.

This dividend would be presented for approval at the Annual General Meeting to be held on 30th May 2014. 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 2013 was Rs. 2,517,532,200.

Share Holding

There were 54,385 Shareholders as at 31st December 2013.

The Analysis of shareholders is given in the schedule below:

	As at 31/12/2013		As at 31/12/2012	
	No of Institutions	Amount (Rs.)	No of Institutions	Amount (Rs.)
SANASA Federation	1	37,633,800	1	34,535,800
Sanasa Unions (DTCCSU)	33	49,782,000	33	47,251,200
Sanasa Societies (PTCCS)	3362	419,367,500	3458	480,239,900
MPCCSs	20	12,903,200	20	12,903,200
Other institutions & Individuals	50862	1,366,073,400	56,984	1,371,235,000
Trust companies	107	631,772,300	106	571,367,100
TOTAL	54385	2,517,532,200	60,602	2,517,532,200

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	53,106	7,913,972	31.435
2.	1001	-	10000	1,060	2,951,510	11.724
3.	10001	-	100000	191	6,116,133	24.294
4.	100001	-	1000000	28	8,193,707	32.547
5.	1000001	-	& Above	0	0	0.000
Total				54,385	25,175,322	100.00

20 Major Shareholders as at 31st December 2013.

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 Corporation	900,000	3.57
3	Kegalle Sanasa Shareholders Trust Company Ltd	663,953	2.63
4	ETIMOS Lanka (Pvt) Limited	590,229	2.34
5	Seemasahitha Sanasa Rakshana Samagama (General)	587,828	2.33
6	Seemasahitha Sanasa Rakshana Samagama (Life)	507,397	2.01
7	Sanasa Federation Ltd	376,338	1.49
8	Mr. H.A. Van Starrex	347,954	1.38
9	Warakapola Sanasa Shareholders Trust Company Ltd	330,759	1.31
10	Wennappuwa Sanasa Shareholders Trust Company Ltd	223,660	0.88
11	Polgahawela Sanasa Shareholders Trust Company Ltd	215,039	0.85
12	Life Insurance Corporation (Lanka) Ltd	192,500	0.76
13	David Peiris Motor Company Ltd	188,988	0.75
14	Galewela Sanasa Shareholders Trust Company Ltd	181,030	0.71
15	Polpithigama Sanasa Shareholders Trust Company Ltd	172.256	0.68
16	Kamburupitiya Sanasa Shareholders Trust Company Ltd	171,470	0.68
17	Gampaha DTCCS Union Ltd	167,396	0.66
18	Galle Sanasa Shareholders Trust Company Ltd	138,545	0.55
19	Baddegama Sanasa Shareholders Trust Company Ltd	137,575	0.54
20	Chilaw Sanasa Shareholders Trust Company Ltd	137,426	0.54

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 2013 was 856.

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	Category
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. Ratnayake	Independent Non Executive Director
Mr. H.M.G.B. Herath	Non Executive Director
Mr. L. Abeysekera	Independent Non Executive Director
Mr. J. Rathnayake	Non Executive Director
Mr. T. Rajapaksha	Non Executive Director

Report of the Directors

Attendance & quorum of Board & Board Sub Committees 2013

	Name	Board Meeting	Board Credit Committee Meeting	Board Audit Committee Meeting	Board Human Resource & Remuneration Committee	Board Integrated Risk Management Committee
1	Mrs. M.S. Kiriwandeniya*** (Chairperson)	11\12			6/11	
2	Mr. T. Karunasena (Deputy Chairman)	12\12	12\12		11\11	
3	Mr. A.D. Walisinghe***	12/12	12\12		6\11	
4	Mr. D.P. Kumarage	9\12	5\12			2\4
5	Dr. R.M.K. Ratnayake	12\12		11\12		4\4
6	Mr. H.M.G.B Herath	12/12	12/12		11/11	
7	Mr. L. Abeysekera**	8\12		8\12		2\4
8	Mr. J. Rathnayake*	7\12		6/12		
9	Mr. T. Rajapaksha*	6\12		6\12		

* Appointed to the Board in June 2013

** Appointed to the Board in April 2013

*** Appointed to the BHRRC in June 2013

Retirement of Directors

In Terms of Article No. 6(4) of the Association of the Company Mrs. M.S. Kiriwandeniya, Mr. A.D. Walisinghe, Mr. H.M.G.B. Herath 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.

Directors Interest in Shares

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

	As at 31-12-2013	As at 31-12-2012
Mrs.M.S.Kiriwandeniya	1,712	1712
Mr. T.Karunasena	3,301	3149

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 2013 were 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 17th Annual General Meeting of the Bank will be held at SANASA Siyawasa Hall, Paragammana, Hettimulla, Kegalle at 9.00 a.m on 30th May 2014.

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 2014. 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

25th March 2014

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 2013 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 of 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

25th March 2014

Report of the Board Audit Committee

During the year under review the Board Audit Committee (BAC) functioned according to the terms of reference approved by the Board of Directors.

Composition of the BAC

BAC was constituted in accordance with the terms of reference (T.O.R) of the BAC, which is in line with the directions of the Central Bank of Sri Lanka. The following Directors served in the Committee during the year 2013.

Mr. L. Abeysekera	-	Chairman - BAC - Non Executive, Independent Director
Dr. R.M.K. Ratnayake	-	Non Executive, Independent Director
Mr. Jayantha Rathnayake Mr. Thilak Rajapakshe	}	Non Executive, Non Independent Directors

During the year Mr. Udaya Gamini Ramawickrama served as a Non-Executive, Non Independent Director before the appointment of Mr. Jayantha Rathnayake and Mr. Thilak Rajapakshe to the Committee. We take this opportunity to place on record the committee's appreciation of the service rendered by Mr. Ramawickrama as a member.

Meetings

Twevelve (12) regular Meetings and a special meeting were held during the year as against twelve (12) meetings in the previous year. Further, BAC Chairman had four (04) separate meetings with the Chief Internal Auditor (CIA) and the Audit staff to review and assess the controls of the Bank and progress of the Internal Audit Function (I.A.F.) The Secretary to the Bank functioned as the Secretary to the Committee. CIA, Head of Finance, Chief Risk Officer & Compliance Officer participated in the meetings normally on invitation. Other members of the Senior Management / other grades also participated in the meetings on invitation.

Role of the Committee

- Monitoring the integrity of the Financial Statements and reviewing the significant judgments contained in them to ensure compliance with Sri Lanka Accounting Standards (SLAS), International Financial Reporting Standards (IFRS), CBSL Directions and best practices.
- Reviewing the adequacy, integrity, efficiency and effectiveness of internal controls of the Bank and performance of the Internal Audit.
- Reviewing the effectiveness of the Bank's Risk Management Function.
- Independent appraisal of the Bank's overall performance in terms of profitability, efficiency and productivity.

Activities during the Year

Financial Statements

The committee reviewed the Financial Reporting System in place to ensure that information provided to the stakeholders are reliable and are in strict adherence and compliance to the requirements of the SLAS,IFRS and disclosure requirements with special emphasis to related party transactions. The quarterly and Annual Financial Statements were reviewed and recommended for approval of the Board.

Regulatory Compliance

The Committee reviewed the policies & procedures of the Bank and reports of the internal and external auditors in order to ensure that the Bank had complied with Companies Act, Banking Act, CSE requirements, CBSL Directions and all other applicable legislations.

External Audits

BAC reviewed and monitored the External Auditors' independence, objectivity and the effectiveness of the Audit process in accordance with applicable standards and best practices. They were invited for two (02) BAC meetings and discussed their scope, Audit plan, Management Letter (ML) with Management responses, applications of IFRS etc.

The BAC has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants be appointed as Auditors of the Bank for the financial year ending 31st December 2014 subject to the approval of shareholders at the forthcoming Annual General Meeting.

Internal Audits

The committee reviewed and approved the Audit Manual, Audit Charter, Audit Policy, Branch Audit Programme, Control Risk Assessments, Risk based Audit Plan and Audit Rating methodology for proper functioning of the IAF. I.S. Audit Unit was established and an Audit software package was used for Audits during the year. Internal Audit Reports of 70 Branches and nine (09) Departments were reviewed and observed an improvement of controls and performance of I.A.F.

Reporting

The Committee reported its activities to the Board of Directors through the minutes of meetings.

The committee was of the view that the T.O.R.of the committee was complied with in all material respects and the Controls are in place to provide reasonable assurance that the Informations generated through the system are accurate & reliable and Bank assets are safeguarded.

L. Abeysekera
Chairman, Board Audit Committee

25th March 2014

Directors' Statement on Internal Control Over Financial Reporting

RESPONSIBILITY

In line with the Banking Act Direction No 11 of 2007, section 3(8)(ii)(b), the Board of Directors presents 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 SDB 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 are 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 checks 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 Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.

- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the Management: and evaluates 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 the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a monthly basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report.

- 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.

- The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the year 2013 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee. The Bank is in the process of updating relevant procedure manuals pertaining to these new requirements. The Bank has also recognised the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently.

- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2013, in connection with the internal control system over financial reporting will be dealt with in the future.

CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a 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, Messrs Ernst & Young, 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 2013 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. Their Report on the Statement of Internal Control over Financial Reporting is given in Auditors Report of this Annual Report.

L. Abeysekera
Chairman - Board Audit Committee

T. Karunasena
Deputy Chairman

M. S. Kiriwandeniya
Chairperson

Colombo, Sri Lanka
25th March 2014

Independent Report of the Auditors

Ernst & Young
Chartered Accountants
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BW/RM/KAS

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF

SANASA DEVELOPMENT BANK PLC

Introduction

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 2013.

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

25th March 2014

Colombo

Independent Report of the Auditors

Building a better working world

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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 2013, 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 2013 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2013 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

25th March 2014

Colombo

Statement of Comprehensive Income

Year ended 31 December 2013	Note	2013 Rs.	2012 Rs. Restated
Interest income		4,389,385,317	3,782,126,471
Interest expenses		(2,525,580,243)	(1,879,248,208)
Net interest income	3	1,863,805,074	1,902,878,263
Fee and commission income		122,422,512	71,767,253
Fee and commission expenses		(2,271,948)	(496,160)
Net fee and commission income	4	120,150,564	71,271,093
Net gain/(loss) from financial instruments at fair value through profit or loss	5	76,161,820	(10,661,024)
Other operating income (net)	6	89,571,406	52,011,674
Total operating income		2,149,688,864	2,015,500,007
Impairment for loans and other losses	7	(324,620,912)	(60,866,067)
Net operating income		1,825,067,952	1,954,633,940
Personnel expenses	8	(540,776,607)	(447,636,612)
Other expenses	9	(868,550,481)	(893,835,684)
Operating profit before value added tax (VAT)		415,740,864	613,161,643
Value added tax (VAT) on financial services		(82,382,123)	(96,665,123)
Operating profit after value added tax (VAT)		333,358,741	516,496,520
Profit before tax		333,358,741	516,496,520
Tax expenses	10	(85,175,179)	(175,781,016)
Profit for the year		248,183,562	340,715,504
Other Comprehensive Income			
Actuarial Gain/(losses) on defined benefit plans	25.1.3	(5,464,049)	12,733,008
Gains/(losses) on re-measuring available-for-sale financial assets		1,972,960	(27,621,440)
Income tax relating to other comprehensive income	10.2.1	1,529,934	(4,188,326)
Other Comprehensive Income for the year net of tax		(1,961,155)	(19,076,758)
Total Comprehensive Income for the year		246,222,407	321,638,747
Earnings per share on profit			
Basic earnings per share - (Rs).	11	9.86	13.73

The Accounting Policies and Notes on pages 95 through 140 from an integral part of the Financial Statements.

Statement of Financial Position

Year ended 31 December 2013	Note	2013 Rs.	2012 Rs. Restated	2011 Rs. Restated
Assets				
Cash and cash equivalents	12	399,384,665	503,541,364	419,998,163
Placements with banks	13	2,530,597,930	2,070,306,725	1,603,883,955
Financial assets fair value through profit or loss	14	1,210,673,101	184,418,666	245,980,855
Other financial asset classified under loans and receivable	15	1,701,091,364	470,098,767	349,575,289
Loans and receivables to other customers	16	22,116,644,789	19,712,033,278	16,602,735,057
Financial investments - Available-for-sale	17	165,699,464	171,695,504	29,980,144
Financial investments - Held-to-maturity	18	443,408,074	709,364,687	960,263,389
Investments in subsidiaries		-	-	200,000
Property, plant and equipment	19	506,770,866	603,233,111	629,070,235
Investment properties	20	27,614,780	28,670,810	29,726,840
Intangible assets	21	107,744,105	127,676,865	151,691,527
Current tax assets		40,080,715	-	-
Other assets	22	482,895,121	318,516,213	336,616,825
Total assets		29,732,604,974	24,899,555,990	21,359,722,279
Liabilities				
Due to other customers	23	23,594,767,783	18,947,514,278	15,756,917,797
Other borrowings	24	1,878,642,869	1,557,328,793	1,538,766,930
Current tax liabilities		-	70,561,307	44,014,161
Deferred tax liabilities	10.1	46,004,803	24,122,297	18,432,612
Other liabilities	25	832,942,750	1,040,128,343	812,196,401
Total liabilities		26,352,358,205	21,639,655,018	18,170,327,900
Equity				
Stated capital	26	2,526,532,200	2,526,532,200	2,427,532,200
Statutory reserve fund	27	94,417,362	82,106,242	65,070,467
Retained earnings	28	489,354,652	433,925,772	575,287,837
Other reserves	29	269,942,555	217,336,758	121,503,875
Total equity		3,380,246,769	3,259,900,972	3,189,394,379
Total equity and liabilities		29,732,604,974	24,899,555,990	21,359,722,279
Contingent liabilities and commitments	30	144,378,258	143,213,715	141,261,586

Certification

I certify these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

S.S.S.Senanayake
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**	**Nimal C. Hapuarachchi**	**Tamarika Rodrigo**
Chairperson	Deputy Chairman	General Manager/CEO	Company Secretary

The Accounting Policies and Notes on pages 95 through 140 from an integral part of the Financial Statements.

25 March 2014
Colombo

Statement of Changes In Equity

Bank	Stated Capital		Reserves				
	Ordinary Voting Shares	Funds Awaiting Allotment	Statutory Reserve	Investment Fund	Retained Earnings	General Reserves	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 January 2012	2,427,532,200	-	65,070,467	74,846,902	595,291,857	46,656,973	3,209,398,399
Changes in Accounting Standard (Note 38)					(20,004,020)		(20,004,020)
Restated Balance as at 01 January 2012	2,427,532,200	-	65,070,467	74,846,902	575,287,837	46,656,973	3,189,394,379
Profit for the year	-	-	-	-	340,715,504	-	340,715,504
Other comprehensive income (net of tax)	-	-	-	-	(19,076,758)	-	(19,076,758)
Total comprehensive income for the year	-	-	-	-	321,638,747	-	321,638,747
Transactions with equity holders, recognised directly in equity							
Application Received							
Share issue/increase of assigned capital	99,000,000	-	-	-	-	-	99,000,000
Transfer to Statutory 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 December 2012	2,526,532,200	-	82,106,242	170,679,785	433,925,772	46,656,973	3,259,900,972

	Stated Capital		Reserves				
	Ordinary Voting Shares	Funds Awaiting Allotment	Statutory Reserve	Investment Fund	Retained Earnings	General Reserves	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Profit for the year	-	-	-	-	248,183,562	-	248,183,562
Other comprehensive income (net of tax)	-	-	-	-	(1,961,155)	-	(1,961,155)
Total comprehensive income for the year	-	-	-	-	246,222,407	-	246,222,407
Transactions with equity holders, recognised directly in equity							
Share issue/increase of assigned capital	-	-	-	-	-	-	-
Transfer to Statutory Reserve fund	-	-	12,311,120	-	(12,311,120)	-	-
Transfer to Investment Fund	-	-	-	52,605,797	(52,605,797)	-	-
Dividends to equity holders	-	-	-	-	(125,876,610)	-	(125,876,610)
Total transactions with equity holders	-	-	12,311,120	52,605,797	(190,793,527)	-	(125,876,610)
Balance as at 31 December 2013	2,526,532,200	-	94,417,362	223,285,582	489,354,652	46,656,973	3,380,246,769

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 29 April 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 specified in Section 113 of the Inland Revenue Act for the self assessment payment of tax transfer to Investment fund.

The Accounting Policies and Notes on pages 95 through 140 from an integral part of the Financial Statements.

Statement of Cash Flows

	Note	2013 Rs.	2012 Rs.
Cash Flows From / (Used in) Operating Activities			
Interest Received		4,271,279,540	3,539,029,867
Fee and Commission Received		122,422,512	71,767,253
Receipts from other Operating Activities		96,355,252	52,011,674
Interest Payment		(2,291,568,378)	(1,651,638,461)
Cash Payment to Employees		(464,783,735)	(434,929,532)
Payments to Suppliers and Other Operating Activities		(1,125,634,078)	(700,304,947)
Fee and Commission Expenses		(2,271,948)	(496,160)
Operating Profit before Changes in Operating Assets		605,799,165	875,439,694
(Increase)/Decrease in Operating Assets			
Funds Advanced to Customers		(2,742,753,576)	(2,919,468,826)
Other Short Term Securities		(717,841,622)	(452,079,317)
Increase/(Decrease) in Operating Liabilities			
Deposits from Customers		4,365,212,114	2,919,629,708
Net Cash from Operating Activities Before Income Tax		1,510,416,081	423,521,259
Income Tax Paid		(97,336,392)	(180,948,133)
Net Cash from Operating Activities		1,413,079,689	242,573,126
Cash Flows from / (Used in) Investing Activities			
Dividend Received		9,680,363	14,061,469
(Increase)/ Decrease in Non Dealing Securities		(877,142,278)	335,094,139
(Increase)/ Decrease in Dealing Securities		40,371,099	108,784,377
(Increase)/ Decrease in Treasury Bonds and other Investments		(927,099,773)	(354,844,402)
Proceeds from sale of Property, Plant and Equipment		6,904,605	3,925,670
Purchase of Property, Plant and Equipment		(50,404,569)	(148,069,494)
Net Cash from/ (used in) Investing Activities		(1,797,690,554)	(41,048,242)
Cash Flows from (Used in) Financing Activities			
Proceeds from Issuance/Allotment of Shares		-	99,000,000
Dividend Paid		(41,213,311)	(225,146,740)
Net Increase/(Decrease) in Borrowing		324,546,396	17,601,855
Funds Received/(Utilized) During the period		(2,878,920)	(9,436,800)
Net Cash Flow from/ (used in) Financing Activities		280,454,165	(117,981,685)
Net Increase/ (Decrease) in Cash and Cash Equivalents		(104,156,699)	83,543,200
Cash and Cash Equivalent at the beginning of the year	12	503,541,364	419,998,165
Cash and Cash Equivalents at the end of the year	12	399,384,665	503,541,364

The Accounting Policies and Notes on pages 90 through 140 from an integral part of the Financial Statements.

Accounting Policies

1. CORPORATE INFORMATION

1.1 General

SANASA Development Bank Plc is a Licensed Specialized 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, Edmonton Road, Colombo 6. The bank has a primary listing on the Colombo Stock Exchange.

1.2 Principle Activities

SANASA Development Bank PLC provides a comprehensive range of financial services encompassing Development Banking, Corporate Banking, Personal Banking, 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 Authorization of Issue

The financial statements for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the directors on 25 March 2014.

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 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.

2.1.2 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and 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.

2.1.3 Comparative information

The Financial Statement of the Bank provides comparative information in respect of the previous period. In addition, the Bank present an additional Statement of Financial Position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in Financial Statements. An additional Statement of Financial Position as at 1st January 2012 is presented in these Financial Statements of the Bank due to retrospective application of statement of Bank due to restrospective application of revised LKAS 19 - Employee Benifit.

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 recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Accounting Policies

(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 35.

(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 utilization, 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 recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, 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 25.1.

(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 recognized 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 recognized 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 recognizing 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 recognizes 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 recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

(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 amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognized 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.

(v) 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.

(vi) 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.

(vii) 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 35.

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 Statement’.

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 5 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 Plant 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	5 years

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.

Depreciation is calculated using the straight–line method to write down the cost of investment property to their residual values over their estimated useful lives. The estimated useful lives are as follows:

- Buildings 20 years

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 year to ascertain the 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

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

(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 28).

Accounting Policies

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 financial statements are set out below. The Bank will adopt these standards when they become effective. Pending a detailed review the financial impact is not reasonably 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 t of LKAS 39 and applies to classification and measurement of financial assets and liabilities. This Standard was originally effective for annual periods commencing on or after 1 January 2015. However, effective date has been deferred subsequently.

(ii) SLFRS 13 - Fair Value Measurement

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

This Standard will be effective for the financial period beginning on or after 1 January 2014. However, use of fair value measurement principles contained in this Standard are currently recommended.

In addition to the above, following Standards will also be effective for the annual periods commencing on or after 1 January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

The above parcel of three Standards will impact the recognition, measurement and disclosures aspects currently contained in.

LKAS 27 - Consolidated and Separate Financial Statements,

LKAS 28 - Investments in Associates, LKAS 31 - Interest in Joint Ventures and SIC - 12 and SIC 13 which are on consolidation of Special Purpose Entities (SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of option to proportionate consolidation of jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively

SLFRS 12 - establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as the ones previously captured in earlier versions of LKAS 27, LKAS 28 and LKAS 31.

The bank will adopt these Standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

2.5 Changes in accounting policies and disclosures – new and amended standards and interpretations

LKAS-Employee Benefit (Revised 2013)

The Bank applied LKAS 19 (Revised 2013) in the current period in accordance with the transitional provisions set out in the revised standard. Some of the key changes that impacted the Bank include the following:

The Bank previously recognized only the net cumulative unrecognised actuarial gains and losses of the previous period, which exceeded 10% of the greater of the defined benefit obligation and fair value plan assets in accordance with LKAS 19.93 (previous).

As a consequence, the Bank’s Statement of Position did not reflect significant part of the unrecognised net actuarial gains and losses.

This method is no more allowed under revised LKAS 19 and hence Bank changed its accounting policy to recognized actuarial gains and losses in the period in which they occur in total in Other Comprehensive Income Statements. Please refer note No.38 for further disclosure.

		2013 Rs.	2012 Rs.
3.	**NET INTEREST INCOME**		
	Interest income		
	Cash and cash equivalents	36,674,601	30,064,467
	Placements with banks	374,699,768	240,010,102
	Loans and receivables to other customers	3,798,892,015	3,377,747,217
	Financial investments - Held-to-maturity	60,348,733	117,927,439
	Other financial asset classified under loans and receivable	118,770,200	16,377,246
	Total interest income	4,389,385,317	3,782,126,471
	Interest expenses		
	Due to other customers	2,429,330,860	1,726,471,990
	Other borrowings	96,249,382	152,776,218
	Total interest expenses	2,525,580,243	1,879,248,208
	Net interest income	1,863,805,074	1,902,878,263
3.1	**Net Interest Income from Sri Lanka Government Securities**		
	Interest income	166,485,453	154,011,770
	(Less): Interest expenses	(4,194,450)	(8,904,596)
	Net interest income	162,291,003	145,107,174
4.	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income	122,422,512	71,767,253
	Fee and commission expenses	(2,271,948)	(496,160)
	Net fee and commission income	120,150,564	71,271,093
4.1	**Net fees and commission earned from**		
	Loans	95,302,920	50,809,675
	Deposits	1,468,235	1,210,186
	Guarantees	2,272,897	2,389,444
	Others	21,106,513	16,861,788
	Net fee and commission income	120,150,564	71,271,093
5.	**NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	Government Debt Securities-Treasury Bills and Bonds	78,546,529	7,346,152
	Quoted Equities	(2,384,709)	(18,007,176)
	Total	76,161,820	(10,661,024)

		2013 Rs.	2012 Rs.
6.	**OTHER OPERATING INCOME (Net)**		
	Rent income on investment properties	1,100,000	1,100,000
	Gain on Sale of property, plant and equipment	575,047	3,867,111
	Dividend Income	16,339,103	14,061,469
	Grants	8,154,515	23,662,147
	Profit on sale of investment	26,282,207	-
	Other Income	37,120,534	9,320,948
	Other Operating Income (net)	89,571,406	52,011,674
7.	**IMPAIRMENT FOR LOANS AND OTHER LOSSES**		
	Loans and receivables to Customers		
	Individual Impairment Reversals	(20,890,992)	(8,814,540)
	Collective Impairment Losses	345,511,904	69,680,608
	Total	324,620,912	60,866,067
8.	**PERSONNEL EXPENSES**		
	Salary and bonus	402,024,071	330,290,477
	Contributions to defined contribution plans - EPF	47,865,920	40,426,505
	- ETF	10,771,877	8,827,906
	Contributions to defined benefit plans	12,616,512	12,707,080
	Others	67,498,227	55,384,645
	Total	540,776,607	447,636,612
9.	**OTHER EXPENSES**		
	Directors emoluments	5,885,503	4,847,500
	Auditors remunerations	2,800,618	2,220,000
	Professional and legal expenses	1,098,605	688,542
	Depreciation of property, plant and equipment	134,758,198	186,554,500
	Depreciation of Investment Property	1,056,030	1,056,030
	Amortisation of intangible assets	29,110,842	24,599,926
	Office administration and establishment expenses	693,840,686	673,869,186
	Total	868,550,481	893,835,684

Notes to the Financial Statements

		2013 Rs.	2012 Rs.
10.	**TAX EXPENSE**		
	Current tax expense		
	Current year	87,686,908	173,367,876
	Adjustment on Prior years provision	(25,924,168)	911,781
	Deferred tax expense	23,412,440	1,501,359
	Total	85,175,179	175,781,016
10.1	**Reconciliation of tax expenses**		
	Profit before tax	333,358,741	516,496,520
	Income tax for the period (Accounting profit @ 28%)	93,340,448	144,619,026
	Income Exempt from Tax	(4,574,949)	(3,937,211)
	Adjustment in respect of current income tax of prior periods	(25,924,168)	911,782
	Add: Tax effect of expenses that are not deductible for tax purposes	170,548,396	110,556,952
	Less: Tax effect of expenses that are deductible for tax purposes	(171,626,987)	(77,870,891)
	Tax expense for the period	61,762,740	174,279,657
	Deferred Taxation Charge	23,412,440	1,501,359
	At the effective income tax rate of 32.87 % (2012 : 34.03%)	85,175,179	175,781,016

		Statement of Financial Position		Statement of Comprehensive Income	
		2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
10.2	**Deferred Tax Assets, Tax relates to the followings**				
	Deferred Tax Liability				
	Capital allowances for Property, Plant & Equipment	40,031,083	24,366,588	15,664,495	5,109,398
	Capital allowances for Leased Assets	63,756,650	41,622,979	22,133,671	16,590,501
		103,787,733	65,989,567		
	Deferred Tax Assets				
	Defined Benefit Plans	18,957,607	14,719,811	(4,237,796)	765,753
	Loss on Lease Assets	38,825,323	27,147,459	(11,677,864)	(16,775,967)
		57,782,930	41,867,270		
	Deferred Taxation Charge			21,882,506	5,689,684
	Net Deferred Tax Liability	46,004,803	24,122,297		

		2013 Rs.	2012 Rs.
10.2.1	**Composition of Deferred tax charge**		
	Impact on income tax expense	23,412,440	1,501,359
	Impact on other comprehensive income	(1,529,934)	4,188,326
	Impact on Comprehensive income	21,882,506	5,689,684

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.

	2013 Rs.	2012 RS.
Net Profit for the period	248,183,562	340,715,504
Profit attributable to Ordinary Shareholders (Rs.)	248,183,562	340,715,504

	2013 Number	2012 Number
Weighted Average Number of Ordinary Shares in Issue	25,175,322	24,810,390
	25,175,322	24,810,390
Basic earnings per ordinary share	9.86	13.73

	2013 Rs.	2012 Rs.
12. CASH AND CASH EQUIVALENTS		
Cash in hand	104,558,866	93,953,867
Balances with banks	294,825,799	409,587,497
Total	399,384,665	503,541,364
13. PLACEMENTS WITH BANKS		
Placement with Local Banks	2,530,597,930	2,070,306,725
	2,530,597,930	2,070,306,725
14. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Sri Lanka Government Securities- Treasury Bill	1,210,673,100	140,253,538
Quoted Equities (14.1)	-	44,165,128
Total	1,210,673,100	184,418,666

	2013		2012	
	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
Central Finance Company PLC	-	-	12,687	2,059,100
DFCC Bank	-	-	49,000	5,532,100
Nation Trust Bank PLC	-	-	50,000	2,800,000
Commercial Bank of Ceylon PLC	-	-	63,234	6,513,102
Sampath Bank PLC	-	-	115,051	23,067,726
Union Bank of Colombo PLC	-	-	144,500	1,994,100
		-		44,165,128

Notes to the Financial Statements

		2013 Rs.	2012 Rs.
15.	**OTHER FINANCIAL ASSET CLASSIFIED UNDER LOANS AND RECEIVABLE**		
	Trust Certificates	279,489,791	-
	Debentures	10,202,975	-
	Commercial Papers	895,236,106	-
	Repurchase Agreement	516,162,491	470,098,767
	Total	1,701,091,364	470,098,767
16.	**LOANS AND RECEIVABLES TO OTHER CUSTOMERS**		
	Gross loans and receivables	22,941,438,274	20,210,268,052
	Less: Individual impairment	(131,383,736)	(152,274,728)
	Collective impairment	(693,409,750)	(345,960,046)
	Net loans and receivables	22,116,644,789	19,712,033,278
16.1	**By product**		
	Loans and advances		
	Pawning	1,923,423,812	2,681,114,086
	Cash Margin	1,863,216,746	2,050,129,567
	Staff loans	475,023,916	209,853,629
	Lease rentals receivable	3,143,743,200	2,446,752,338
	Term loans	15,536,030,600	12,822,418,432
	Gross total	22,941,438,274	20,210,268,052
16.2	**By currency**		
	Sri Lankan Rupee	22,941,438,274	20,210,268,052
	Gross total	22,941,438,274	20,210,268,052

		Individual impairment Rs.	Collective impairment Rs.	Total impairment Rs.
16.3	**Movements in Individual and Collective Impairment during the Year**			
	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
	Recovery/(Write-off) during the year	-	(7,990,289)	(7,990,289)
	At 31 December 2012	152,274,728	345,960,046	498,234,773
	At 1 January 2013	152,274,728	345,960,046	498,234,773
	Charge/(Write back) to income statement	(20,890,992)	345,511,904	324,620,912
	Recovery/(Write-off) during the year	-	1,937,800	1,937,800
	At 31 December 2013	131,383,736	693,409,750	824,793,486

	2013 Rs.	2012 Rs.
17. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE		
Equities - Unquoted (17.1)	33,511,144	41,480,144
- Quoted (17.2)	132,188,320	130,215,360
Net Available-for-sale Investments	165,699,464	171,695,504

	2013		2012	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
17.1 Equities - Unquoted				
SANASA Insurance Company Limited	2,488,785	24,887,850	3,238,785	32,387,850
SANASA Campus Limited	50,000	-	50,000	500,000
Credit Information Bureau of Sri Lanka	100	10,000	100	10,000
Consorzio Etimos S.C.,	2	75,194	2	75,194
SANASA Engineering and Development Company (Pvt) Limited	430,000	4,300,000	430,000	4,300,000
SANASA Printers and Publishers Limited	20,381	2,038,100	20,071	2,007,100
Sanasa Producer Consumer Alliance Limited	-	-	-	-
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	15,000	1,500,000
SDBL North East Construction Company (Pvt) Limited	2,000	200,000	2,000	200,000
		33,511,144		41,480,144

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.

	2013		2012	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
17.2 Equities - Quoted				
Peoples Leasing Company PLC	9,864,800	132,188,320	9,864,800	130,215,360
		132,188,320		130,215,360

	2013 Rs.	2012 Rs.
18. FINANCIAL INVESTMENT HELD TO MATURITY		
Sri Lanka Government Securities		
Treasury Bill	443,408,074	605,394,359
Treasury Bond	-	103,970,329
Held-to-Maturity Investments	443,408,074	709,364,687

Notes to the Financial Statements

2013	Land and Buildings Rs.	Leasehold properties Rs.	Computer Hardware Rs.	Machinery & Equipment Rs.	Furniture and fittings Rs.	Vehicle Rs.	Total Rs.
19. PROPERTY, PLANT AND EQUIPMENT							
Cost							
Opening balance at 01.01.2013	269,104,823	590,000	349,032,860	296,056,399	175,304,102	121,478,699	1,211,566,882
Additions	-	-	16,874,754	17,052,578	6,884,354	414,802	41,226,488
Disposals	-	-	(4,575,149)	(1,395,933)	(615,453)	(318,070)	(6,904,605)
Closing balance at 31.12.2013	269,104,823	590,000	361,332,465	311,713,044	181,573,002	121,575,431	1,245,888,765
Less: Accumulated depreciation							
Opening balance at 01.01.2013	15,983,038	442,500	291,613,713	143,929,362	121,432,717	76,342,399	649,743,729
Charge for the year	3,944,730	29,500	41,839,202	47,359,848	22,082,231	19,502,686	134,758,198
Disposals	-	-	(4,575,149)	(1,395,933)	(542,141)	(318,070)	(6,831,294)
Closing balance at 31.12.2013	19,927,768	472,000	328,877,766	189,893,277	142,972,807	95,527,015	777,670,633
2012							
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

	2013 Rs.	2012 Rs.
Work in Progress		
Software	38,552,734	38,380,234
Building	-	3,029,724
	38,552,734	41,409,957

	Land and Buildings Rs.	Leasehold properties Rs.	Computer Hardware Rs.	Machinery & Equipment Rs.	Furniture & fittings Rs.	Vehicle Rs.	Work in Progress Rs.	Total Rs.
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
Net book value at 31.12.2013	249,177,055	118,000	32,454,699	121,819,767	38,600,195	26,048,416	38,552,734	506,770,866

19.1 Freehold Land & Building

The details of the Land & Building owned by the Bank are as follows

Location/Address

	Extent		31 December 2013 Cost/Valuation		31 December 2012 Cost/Valuation	
	Land (Purchase)	Building (Square feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No. 14, Edmonton Road, Kirulapona	17.85	-	38,999,000	-	38,999,000	-
No. 12/01, Edmonton Road, Kirulapona	18.05	-	46,799,000	-	46,799,000	-
A1, SANASA Housing Project, Toppass, Nuwara Eliya	14	1,200	400,000	2,100,000	400,000	2,100,000
No. 145, Rathnapura Road, Horana	13	5,956	20,539,000	6,500,000	20,539,000	6,500,000
No. 63A, Matara Road, Akuressa	14	3,728	14,423,820	8,975,180	14,423,820	8,975,180
No. 255, Sunnysaid Garden, Karapitiya	18.5	5,992	9,250,000	20,833,360	9,250,000	20,833,360
No. 342, Main Street, Kegalle	13.25	5,580	34,760,400	14,118,600	34,760,400	14,118,600
No.6 /176, Walauwatta, Kegalle	20	-	16,639,000	-	16,639,000	-
No.5 /176, Walauwatta, Kegalle	12	1,334	8,400,000	1,250,000	8,400,000	1,250,000
No. 149, Abdul Wahab Mw, Galle	25	13,024	4,775,000	12,350,609	4,775,000	12,350,609
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	160	2,600	-	5,571,736	-	5,571,736
60/65,Sahasapura Scheme, Baseline Mw. Borella	-	1,006	-	2,420,118	-	2,420,118
			194,985,220	74,119,603	194,985,220	74,119,603

	2013 Rs.	2012 Rs.
20. INVESTMENTS PROPERTIES		
Cost		
Balance at the beginning of the year	35,359,000	35,359,000
Additions	-	-
Balance at the end of the year	35,359,000	35,359,000
Less: Accumulated depreciation		
Balance at the beginning of the year	6,688,190	5,632,160
Charge for the year	1,056,030	1,056,030
Balance at the end of the year	7,744,220	6,688,190
Net book value at the end of the year	27,614,780	28,670,810

20.1 The details of the Investment property owned by the Bank are as fallows

	Extent		31 December 2013		31 December 2012	
	Land	Building	Land	Building	Land	Building
Location/Address	(Purchase)	(Square feet)	Rs.	Rs.	Rs.	Rs.
No.6 A /176, Walauwatta, Kegalle	28	8,233.5	14,238,400	21,120,600	14,238,400	14,238,400
			14,238,400	21,120,600	14,238,400	14,238,400

	2013	2012
	Rs.	Rs.
21. INTANGIBLE ASSETS		
Cost		
Balance at the beginning of the year	202,751,622	202,166,358
Additions	9,178,082	585,264
Balance at the end of the year	211,929,704	202,751,622
Less: Accumulated Amortization		
Balance at the beginning of the year	75,074,757	50,474,831
Charge for the year	29,110,842	24,599,926
Balance at the end of the year	104,185,599	75,074,757
Net book value at the end of the year	107,744,105	127,676,865
22. OTHER ASSETS		
Other Assets	261,530,867	112,172,636
Deposits and prepayments	183,689,022	157,891,017
Inventory	37,675,232	48,452,560
Total	482,895,121	318,516,213
23. DUE TO OTHER CUSTOMERS		
Total amount due to other customers	23,594,767,783	18,947,514,278
Total	23,594,767,783	18,947,514,278
23.1 Analysis		
By product		
Savings deposits	5,147,258,681	4,359,460,063
Fixed deposits	18,447,509,102	14,588,054,215
Total	23,594,767,783	18,947,514,278
By currency		
Sri Lanka Rupee	23,594,767,783	18,947,514,278
Total	23,594,767,783	18,947,514,278

	2013 Rs.	2012 Rs.
24. OTHER BORROWINGS		
Securities sold under repurchase (repo) agreements	-	-
Money market Borrowings (24.1)	501,548,493	251,944,194
Refinance Borrowing (24.2)	1,377,094,376	1,305,384,599
Total	1,878,642,869	1,557,328,793

24.1 Money market Borrowings

	2013 Rs.	2012 Rs.
National Development Bank PLC	501,548,493	251,944,194
	501,548,493	251,944,194

24.2 Refinance Borrowing

	2013 Rs.	2012 Rs.
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000
National Development Trust Fund (NDTF)	460,619	7,831,732
Central Bank of Sri Lanka (Refinance of Matale REAP)	4,319,991	9,874,167
Central Bank of Sri Lanka (RERED)	23,429,073	27,333,919
Central Bank of Sri Lanka (Nipunatha)	1,288,308	2,191,924
Central Bank of Sri Lanka (Susahana)	2,822,327	7,046,796
Asian Development Bank (Dasuna)	3,385,074	5,752,008
Borrowings Under CBSL-Perennial Crops	11,135,282	14,092,601
Borrowings Under CBSL - Tea Development	6,333,756	7,656,411
Susahana Revolving Fund Loan Scheme	82,213	1,400,000
Borrowings Under Refinance of Jayatha	497,322,750	295,217,550
CORDAID Project Loan	19,935,745	36,141,596
Borrowing under Awaking East	345,656,017	120,452,750
Borrowing under Awaking North	81,074,738	80,161,363
Borrowing under Saubagya	321,039,483	222,061,525
National Savings Bank	-	411,275,258
Borrowing under SPENDP	4,609,000	2,695,000
	1,377,094,376	1,305,384,599

24.3 Analysis of Maturity of Refinance Borrowings

	2013 Rs.	2012 Rs.
Due within one year	576,845,557	823,889,806
1-5 years	800,248,819	451,477,000
After 5 years	-	30,017,793
	1,377,094,376	1,305,384,599

24.4 Securities and terms

No securities were pledged for loan obtained and interest rate ranging from 3% to 17.5% per annum.

Notes to the Financial Statements

		2013 Rs.	2012 Rs.
25.	**OTHER LIABILITY**		
	Defined Benefit Plan - Retiring Gratuity Obligations (25.1)	67,705,741	52,570,754
	Special Purpose Project Funds	446,014,770	459,915,732
	Accruals & Other Payables	319,222,239	527,641,857
	Total	832,942,750	1,040,128,343

25.1 Retirement Benefit Obligations

		2013 Rs.	2012 Rs.
25.1.1	**Defined Benefit Liability**		
	Defined benefit liability (25.1.2)	67,705,740	52,570,754
		67,705,740	52,570,754

		2013 Rs.	2012 Rs.
25.1.2	**Changes in the Defined benefit obligation are as follows**		
	Defined benefit obligation as of 01 January	52,570,754	55,305,585
	Net Benefit expense (25.1.3)	18,080,561	(25,928)
	Benefit paid	(2,945,575)	(2,708,903)
	Defined benefit liability as of 31 December	67,705,740	52,570,754

		2013 Rs.	2012 Rs.
25.1.3	**Net Benefit expense**		
	Interest Cost	5,257,077	5,037,976
	Current Service Cost	7,359,435	7,669,104
	Actuarial (Gain)/Loss on obligations	5,464,049	(12,733,008)
	Balance at the End of the Year	18,080,561	(25,928)

25.1.4 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 2013. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2013	2012
Long Term Interest Rate	10%	10%
Future Salary increase Rate	9%	8%
Retirement age	55 Years	55 Years

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

The average duration of the defined benefit plan obligation at the end of the reporting period is 10.8 years

25.2 Sensitivity analysis on discounting rate and salary increment rate to Statement of Financial Position and Comprehensive Income

Assumption	Rate change	Impact to Financial Position- Increment/ (Reduction) of Liability	Impact to Comprehensive Income- Charged/ (Reversal)
Discount rate	1+	(7,293,713)	(7,293,713)
Discount rate	1-	8,538,406	8,538,406
Salary increment rate	1+	9,421,906	9,421,906
Salary increment rate	1-	(8,095,812)	(8,095,812)

	2013 Rs.	2012 Rs.
26. STATED CAPITAL		
Ordinary Shares - Issued and fully paid	2,526,532,200	2,526,532,200
Total	2,526,532,200	2,526,532,200

Ordinary Shares - Issued and fully paid

	At the beginning of the year 01.01.2013 Number	Issued for cash during the year Number	Redemptions/ Transfers Number	At the end of the year 31.12.2013 Number
Ordinary Shares - Voting	25,175,322	-	-	25,175,322
	25,175,322	-	-	25,175,322

	At the beginning of the year 01.01.2013 Rs.	Issued for cash during the year Rs.	Redemptions/ Transfers the year Rs.	At the end of 31.12.2013 Rs.
Ordinary Shares Value - Voting	2,526,532,200	-	-	2,526,532,200
	2,526,532,200	-	-	2,526,532,200

	2013 Rs.	2012 Rs.
27. STATUTORY RESERVE FUND		
Opening balance	82,106,242	65,070,467
Transfer during the period	12,311,120	17,035,775
Closing balance	94,417,362	82,106,242

Notes to the Financial Statements

		2013 Rs.	2012 Rs.
28.	**RETAINED EARNINGS**		
	Opening balance	433,925,772	575,287,837
	Total Comprehensive income for the year	246,222,407	321,638,747
	Transfers to other reserves	(64,916,917)	(112,868,658)
	Dividend	(125,876,610)	(350,132,154)
	Closing balance	489,354,652	433,925,772

		Opening balance at 01.01.2013 Rs.	Movement/ transfers Rs.	Closing balance at 31.12.2013 Rs.
29.	**OTHER RESERVES**			
	2013			
	General reserve	46,656,973	-	46,656,973
	Investment Fund	170,679,785	52,605,797	223,285,582
	Total	217,336,758	52,605,797	269,942,555

	Opening balance at 01.01.2012 Rs.	Movement/ transfers Rs.	Closing balance at 31.12.2012 Rs.
2012			
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

		2013 Rs.	2012 Rs.
30.	**CONTINGENT LIABILITIES AND COMMITMENTS**		
30.1	**Guarantees**	144,378,258	143,213,715
	Total	144,378,258	143,213,715

30.2 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. Three Customers have filed a case claming the title of a property mortgaged to the bank. A customer has filed case against Bank's Recovery steps in the Non Performing Loan of deceased Default Customer. Further, there were One Thousand Three Hundred & Twenty Three (1,323) recovery case filed by the Bank against their customers.

31. EVENTS OCCURRING AFTER THE REPORTING DATE

There are no material events after the reporting date that require adjustments to or disclosure in the Financial Statements.

32. RELATED PARTY DISCLOSURE

Details of significant related party disclosures are as follows:

32.1 Transactions with other Related Parties

Other related parties include entities that are affiliated to the Bank; including, Sanasa Federation, Sanasa Producer & Consumer Alliance Ltd, Sanasa Printers & Publishers Ltd, Sanasa Insurance Co (Pvt) Ltd, People's Leasing PLC, People's Micro Finance, Kandepola Ptccs, Kamburupitiya City Bank, Kamburupitiya Sanasa Share Holders Trust Company ltd.Redigama Sanasa Share Holders Trust Company ltd, Sanasa Campus Ltd, Kegalle City Bank,Kegalle Sanasa Share Holders Trust Company ltd, Thoranagapitiya Ptccs, Galigamuwa Sanasa Share Holders Trust Company ltd, SANASA Security Services (Pvt) Limited, SANASA Travels (Pvt) Limited. The Same term, including interest/ commission rates & security, where applicable, with the other customers. The transaction did not involve more than the normal risk of repayment or present other unfavorable features.

	2013 Rs.	2012 Rs.
Investments made by the Company	402,880,000	100,000,000
Investment/(withdraw) in shares	(7,469,000)	12,800,000
Purchase of Goods/Services	126,190,827	94,179,489
Reimbursement of Expenses	955,105	-

32.1.1 Balance outstanding with other Related Parties

	2013 Rs.	2012 Rs.
Investment in shares	159,614,270	162,817,184
Investments made by the Company	153,500,000	-
Loans & Advances	43,500,000	93,080,000

32.2 Transactions With Key Management Personnel

Key Management Personnel include: the Chairman, the Board of Directors, and Chief Executive Officer, Chief Operating officer, Senior Deputy General Manager, Deputy General Managers & Assistant General Managers of the Bank. Transactions with close family members of key Management Personnel are also taken into account in the transactions with Key Management Personnel. The Same term, including interest/commission rates & security, as for comparable transaction with person of a similar standing or, where applicable, with the employees. The transaction did not involve more than the normal risk of repayment or present other unfavorable features.

	2013 Rs.	2012 Rs.
32.2.1 Key Management Personnel Compensation		
Short Term Employee Benefits	30,740,515	4,847,500

Notes to the Financial Statements

	2013 Rs.	2012 Rs.
32.2.2 Other Transactions with Key Management Personnel - Balance outstanding		
Loans and Advances	13,248,089	4,134,000

33. ASSETS PLEDGED

No assets have been pledged as security for liabilities.

34. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2013	Fair value through Profit or loss Rs.	HTM Rs.	AFS Rs.	Amortised cost Rs.	Total Rs.
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	399,384,665	399,384,665
Placements with banks	-	-	-	2,530,597,930	2,530,597,930
Financial assets at fair value through profit or loss	1,210,673,101	-	-	-	1,210,673,101
Financial investments - Available-for-sale	-	-	165,699,464	-	165,699,464
Financial investments - Held-to-maturity	-	443,408,074	-	-	443,408,074
Loans and receivables to other customers	-	-	-	22,116,644,789	22,116,644,789
Other financial asset classified under loans and receivable	-	-	-	1,701,091,364	1,701,091,364
Total financial assets	1,210,673,101	443,408,074	165,699,464	26,747,718,748	28,567,499,387
FINANCIAL LIABILITIES					
Due to other customers	-	-	-	23,594,767,783	23,594,767,783
Other borrowings	-	-	-	1,878,642,869	1,878,642,869
Total financial liabilities	-	-	-	25,473,410,652	25,473,410,652

34. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

As at 31 December 2012	Fair value through Profit or loss Rs.	HTM Rs.	AFS Rs.	Amortised cost Rs.	Total Rs.
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	503,541,364	503,541,364
Placements with banks	-	-	-	2,070,306,725	2,070,306,725
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

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

35.1 Financial instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instrument that are record at fair value using valuation techniques. These incorporate 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 Trading are valued using market price.

Notes to the Financial Statements

35.2 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 hierarchy.

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
35.2.1 As at 31 December 2013				
Financial Assets				
Financial assets fair value through profit or loss				
Quoted Equities	-	-	-	-
Sri Lanka Government Securities- Treasury Bond	1,210,673,100	-	-	1,210,673,100
Financial investments - Available-for-sale				
Quoted Equities	132,188,320	-	-	132,188,320
	1,342,861,420	-	-	1,342,861,420

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
35.2.2 As at 31 December 2012				
Financial Assets				
Financial assets fair value through profit or loss				
Quoted Equities	44,165,128	-	-	44,165,128
Sri Lanka Government Securities- Treasury Bond	140,253,538	-	-	140,253,538
Financial investments - Available-for-sale				
Quoted Equities	130,215,360	-	-	130,215,360
	314,634,026	-	-	314,634,026

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.

	2013 Rs.	2012 Rs.
Net Trading Income		
Financial Assets		
Financial Assets at Fair Value through Profit or Loss		
Quoted Equities	(2,384,709)	(18,007,176)
Sri Lanka Government Securities- Treasury Bond	78,546,529	7,346,152
	76,161,820	(10,661,024)

35. **FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd.)**

35.3 Fair value of financial assets and liabilities not carried at fair value

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

As at 31 December 2013	Carrying Value Rs.	Fair Value Rs.
Financial Assets		
Cash and cash equivalents	399,384,665	399,384,665
Placements with banks	2,530,597,930	2,530,597,930
Financial investments - Held-to-maturity	443,408,074	445,059,055
Loans and receivables to other customers	22,116,644,789	23,875,184,237
Other financial asset classified under loans and receivable	1,701,091,364	1,701,091,364
Total financial assets	27,191,126,823	28,951,317,251
Financial Liabilities		
Due to other customers	23,594,767,783	24,657,260,137
Other borrowings	1,878,642,869	1,878,642,869
Total financial liabilities	25,473,410,652	26,535,903,006

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity. Loans and advances to customers with a variable rate are also considered to be carried at fair value.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing interest rates of the Bank.

Notes to the Financial Statements

31 December 2013	Banking Rs.	Leasing Rs.	Treasury Rs.	Pawning Rs.	Total Rs.
36. SEGMENT REPORTING					
Interest income	2,784,597,598	545,532,715	711,661,141	347,593,864	4,389,385,317
Interest expenses	(1,536,276,816)	(275,326,162)	(542,580,611)	(171,396,654)	(2,525,580,243)
Net interest income	1,248,320,781	270,206,553	169,080,530	176,197,210	1,863,805,074
Fee and commission income	98,434,700	23,987,812	-	-	122,422,512
Fee and commission expenses	(1,278,015)	(993,933)	-	-	(2,271,948)
Net fee and commission income	97,156,685	22,993,879	-	-	120,150,564
Net loss from financial instruments at fair value through profit or loss	-	-	76,161,820	-	76,161,820
Other operating income (net)	73,232,302	-	16,339,103	-	89,571,406
Total operating income	1,418,709,769	293,200,432	261,581,453	176,197,210	2,149,688,864
Impairment for loans and other losses	(240,559,222)	(46,239,632)	-	(37,822,059)	(324,620,912)
Net operating income - Segment Result	1,178,150,548	246,960,800	261,581,453	138,375,152	1,825,067,952
Un-allocated Expenses					(1,409,327,088)
Value added tax (VAT) on financial services					(82,382,123)
Profit before tax					333,358,741
Tax expenses					(85,175,179)
Profit for the year					248,183,562
Other Comprehensive Income					
Other Comprehensive Income for the year net of tax					(1,961,155)
Total Comprehensive Income for the year					246,222,407
Segment Assets	17,134,288,935	3,070,747,378	6,051,469,933	1,911,608,476	28,168,114,722
Un-allocated Assets					1,564,490,252
Total Assets	17,134,288,935	3,070,747,378	6,051,469,933	1,911,608,476	29,732,604,974
Segment Liabilities	16,029,788,435	2,872,802,659	5,661,383,621	1,788,383,490	26,352,358,205
Total Equity	-	-	-	-	3,380,246,769
Total Liabilities	16,029,788,435	2,872,802,659	5,661,383,621	1,788,383,490	29,732,604,974

31 December 2012	Banking Rs.	Leasing Rs.	Treasury Rs.	Pawning Rs.	Total Rs.
36. SEGMENT REPORTING (Contd.)					
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)	(1,879,248,207)
Net interest income	1,294,078,530	288,253,823	119,851,695	200,694,214	1,902,878,264
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	2,015,500,006
Impairment for loans and other losses	(41,009,060)	(19,857,007)	-	-	(60,866,066)
Net operating income - Segment Result	1,342,847,240	287,552,376	123,540,107	200,694,214	1,954,633,940
Un-allocated Expenses					(1,341,472,294)
Value added tax (VAT) on financial services					(96,665,123)
Profit before tax					516,496,523
Tax expenses					(175,781,016)
Profit for the year					340,715,504
Other Comprehensive Income					
Other Comprehensive Income for the year net of tax					(19,076,758)
Total Comprehensive Income for the year					321,638,746
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	13,598,041,542	2,207,109,751	3,346,357,707	2,488,146,018	21,639,655,018
Total Equity	-	-	-	-	3,259,900,972
Total Liabilities	13,598,041,542	2,207,109,751	3,346,357,707	2,488,146,018	24,899,555,990

37. 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 2013			31 December 2012		
	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	399,384,665	-	399,384,665	503,541,364	-	503,541,364
Placements with banks	2,213,491,766	317,106,165	2,530,597,931	2,070,306,725	-	2,070,306,725
Financial assets fair value through profit or loss	1,210,673,101	-	1,210,673,101	184,418,666	-	184,418,666
Other Financial Asset Classified under Loans and receivable	1,691,141,364	9,950,000	1,701,091,364	470,098,767	-	470,098,767
Loans and receivables to other customers	8,871,667,521	13,244,977,267	22,116,644,789	8,926,515,424	10,785,517,854	19,712,033,278
Financial investments - Available-for-sale	131,688,320	34,011,144	165,699,464	130,215,360	41,480,144	171,695,504
Financial investments - Held-to-maturity	443,408,072	-	443,408,072	709,364,687	-	709,364,687
Investments in subsidiaries	-	-	-	-	-	-
Property, plant and equipment	-	506,770,866	506,770,866	-	603,233,111	603,233,111
Investment properties	-	27,614,780	27,614,780	-	28,670,810	28,670,810
intangible assets	-	107,744,105	107,744,105	-	127,676,865	127,676,865
Current tax assets	40,080,715	-	40,080,715	-	-	-
Other assets	482,895,121	-	482,895,121	303,602,212	14,914,000	318,516,212
Total assets	15,484,430,645	14,248,174,327	29,732,604,973	13,298,063,206	11,601,492,784	24,899,555,990
Liabilities						
Due to other customers	17,625,079,139	5,969,688,645	23,594,767,784	14,232,143,412	4,715,370,866	18,947,514,278
Other borrowings	1,078,394,050	800,248,819	1,878,642,869	1,079,312,226	478,016,567	1,557,328,793
Current tax liabilities	-	-		70,561,307	-	70,561,307
Deferred tax liabilities	46,004,803	-	46,004,803	-	24,122,297	24,122,297
Other liabilities	515,435,625	317,507,124	832,942,749	708,118,635	332,009,708	1,040,128,343
Total liabilities	19,264,913,616	7,087,444,588	26,352,358,204	16,090,135,580	5,549,519,438	21,639,655,018
Net Assets/ (Liability)	(3,780,482,970)	7,160,729,739	3,380,246,769	(2,792,072,374)	6,051,973,346	3,259,900,972

38. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES-NEW AND AMENDED STANDARDS AND INTERPRETATION

	31 December 2013	31 December 2012	01 January 2012
Impact on Statement of Financial Position			
As of			
Increase in Retirement Benefit Obligation include in other liabilities	*	12,825,073	27,783,361
Decrease in Deferred Tax Liability	*	3,591,015	7,779,341
Decrease in Equity	*	9,234,058	20,004,020

Impact on Statement of Other Comprehensive Income

For the year ended		31 December 2012	
Decrease in actuarial losses on defined benefit plans	*	14,958,288	-
Increase in deferred tax expense	*	4,188,326	-

The transition did not have impact on statement of cash flows. There is no significant impact on basic EPS.

* Impact on application of new accounting standard to income statement and OCI cannot be separately identifiable as acturial valuation perform base on corridor method is not available due to practical difficulties as actuarial valuations are carried out only under new accounting standards.

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 quarterly basis.

39. RISK MANAGEMENT (Contd...)

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 management 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 GM/CEO and all other relevant members of the bank on the utilization of market limits, proprietary investments and liquidity and plus any other risk developments.

Risk mitigation

As part of its overall risk management, the bank uses several strategies 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 evaluation 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.

Credit–related commitments risks

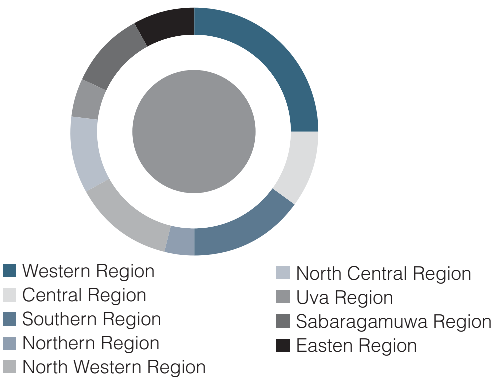
The bank makes available to its customers guarantees which may require that the bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the bank to similar risks to loans and are mitigated by the same control processes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

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

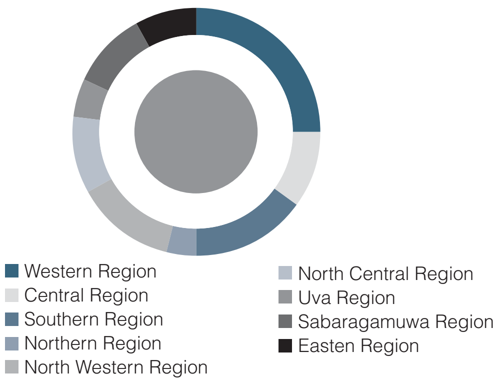
The bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2013 was Rs. 250 Mn.

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.

Geographical Analysis 2013

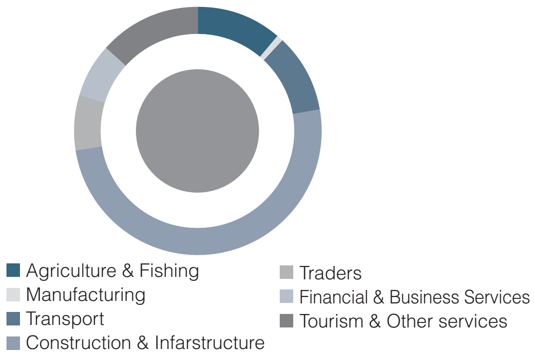


Geographical Analysis 2012

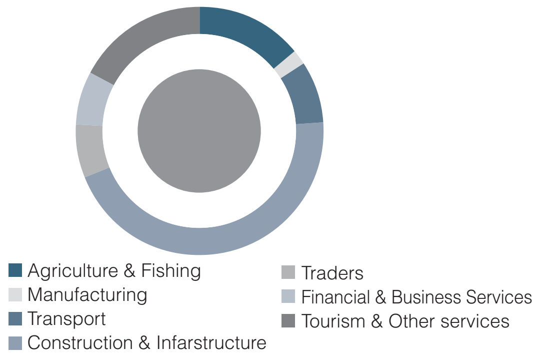


Notes to the Financial Statements

Industry Analysis 2013



Industry Analysis 2012



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

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.

31 December 2013	Neither past due nor impaired Rs.	Pass due but not impaired Rs.	Individually impaired Rs.	Total Rs.

39. RISK MANAGEMENT (Contd.)

Credit quality by class of financial assets

Cash and cash equivalents	399,384,665	-	-	399,384,665
Placements with banks	2,530,597,930	-	-	2,530,597,930
Financial assets fair value through profit or loss	1,210,673,101	-	-	1,210,673,101
Other financial asset classified under loans and receivable	1,701,091,364	-	-	1,701,091,364
Loans and receivables to other customers (without impairment)	16,321,969,848	6,048,801,766	570,666,659	22,941,438,274
Financial investments Available-for-sale	165,699,464	-	-	165,699,464
Financial investments Held-to-maturity	443,408,074	-	-	443,408,074
Total	22,772,824,447	6,048,801,766	570,666,659	29,392,292,872

31 December 2012	Neither past due nor impaired Rs.	Pass due but not impaired Rs.	Individually impaired Rs.	Total Rs.
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 Available-for-sale	171,695,504	-	-	171,695,504
Financial investments 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

31 December 2013	Pass due but not impaired				
	Less the 30 day Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	Total Rs.
Loans and receivables to other customers (without impairment)	2,776,217,473	1,942,145,554	90,507,803	1,239,930,936	6,048,801,766

31 December 2012	Pass due but not impaired				
	Less the 30 day Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	Total Rs.
Loans and receivables to other customers (without impairment)	2,748,259,300	1,934,102,014	233,607,964	949,335,107	5,865,304,385

39. RISK MANAGEMENT (Contd.)

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.

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.

Notes to the Financial Statements

39. RISK MANAGEMENT (Contd.)

	Less than 7 Days Rs.	7-30 Days Rs.	1-3 Months Rs.	3-12 month Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Total Rs.
MATURITY ANALYSIS 2013								
Financial assets								
Cash and cash equivalents	399,384,665							399,384,665
Investments	143,698,383	457,904,765	2,989,614,519	2,156,088,983	320,277,226	10,049,500	34,011,144	6,111,644,520
Loans and receivables								
to other customers	686,582,563	895,116,901	1,848,097,117	6,771,713,947	9,218,533,013	3,640,235,585	2,373,862,381	25,434,141,508
Total Financial assets	1,229,665,612	1,353,021,666	4,837,711,636	8,927,802,930	9,538,810,239	3,650,285,085	2,407,873,525	31,945,170,692
Financial liabilities								
Due to other customers	952,454,836	2,249,958,354	4,523,030,649	10,675,138,780	4,998,230,651	970,538,014	263,586,281	24,632,937,565
Other borrowings		524,172,920	11,066,567	594,917,477	761,734,080	76,926,683		1,968,817,726
Total Financial liabilities	952,454,836	2,774,131,275	4,534,097,216	11,270,056,257	5,759,964,730	1,047,464,697	263,586,281	26,601,755,291
Net Financial assets/(liabilities)	277,210,775	(1,421,109,609)	303,614,420	(2,342,253,327)	3,778,845,509	2,602,820,388	2,144,287,244	5,343,415,401

	Less than 7 Days Rs.	7-30 Days Rs.	1-3 Months Rs.	3-12 month Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Total Rs.
MATURITY ANALYSIS 2012								
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

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 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.

	Carrying Amount Rs.	On demand Rs.	1-3 month Rs.	3-12 month Rs.	over 1 year Rs.
INTEREST RATE SENSITIVITY ASSET 2013					
Asset or Liability					
Cash and cash equivalents	399,384,665	399,384,665	-	-	-
Investments	6,051,469,932	597,619,642	2,960,014,375	2,132,768,607	361,067,308
Loans and receivables to other customers	22,116,644,789	1,375,390,839	1,607,040,971	5,888,446,910	13,245,766,069
Interest Bearing Assets	28,567,499,386	2,372,395,146	4,567,055,346	8,021,215,517	13,606,833,377
Due to other customers	23,594,767,783	3,067,445,586	4,332,404,836	10,225,228,717	5,969,688,645
Other borrowings	1,878,642,869	500,165,000	10,559,701	567,669,348	800,248,819
Interest Bearing Liabilities	25,473,410,652	3,567,610,586	4,342,964,537	10,792,898,065	6,769,937,464
Interest Rate Sensitivity Gap	3,094,088,734	(1,195,215,440)	224,090,809	(2,771,682,548)	6,836,895,913

	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	285,674,994	254,734,107
Effect on Rate Sensitive Liabilities	(254,734,107)	(285,674,994)
Sensitivity of Profit or Loss	30,940,887	(30,940,887)

	Carrying Amount Rs.	On demand Rs.	1-3 month Rs.	3-12 month Rs.	over 1 year Rs.
39. RISK MANAGEMENT (Contd.)					
INTEREST RATE SENSITIVITY ASSET 2012					
Asset or Liability					
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	19,712,033,278	1,051,796,923	1,343,444,898	6,531,273,604	10,785,517,854
Interest Bearing Assets	23,821,458,991	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	3,316,615,920	(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.

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.

Capital Adequacy

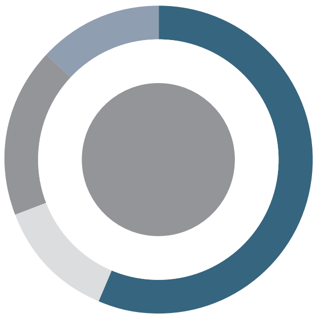
	2013 (Basel 11) (Rs'000)	2012 (Basel 11) (Rs'000)
TIER I		
Paid-up Ordinary Shares	2,526,532	2,526,532
Statutory Reserve Fund	94,417	82,106
Published Retained Profits	489,355	443,160
General & Other Reserves	269,943	46,657
Debentures	-	-
Other intangible Assets	(107,744)	
50% invest in the capital of other Bank & Financial Institutions	(60,669)	(20,983)
Total Tier I Capital	3,211,834	3,077,472
TIER 2		
General Provision	88,179	70,868
Debentures	-	-
50% invest in the capital of other Bank & Financial Institutions	(60,669)	(20,983)
Total Tier 2 Capital	27,510	49,885
Total Tier 1 & Tier 2 Capital	3,239,344	3,127,357
Capital Base	3,239,344	3,127,357
COMPUTATION OF RATIOS		
Core Capital(Tier 1)	3,211,834	3,077,472
Total Capital Base	3,239,344	3,127,357
Risk Weighted Assets		
Total Risk Weighted Assets for Credit Risk	19,773,771	16,657,994
Total Risk Weighted Assets for Market Risk	198,171	22,832
Total Risk Weighted Assets for Operational Risk	2,956,233	2,452,446
Total Risk Weighted Assets	22,928,175	13,656,044
Core Capital Ratio (Minimum Requirement 5%)		
Total Tier - 1 Capital	3,211,834	3,077,472
Total Risk Weighted Assets	22,928,175	19,133,272
	14.01%	16.08%
Total Capital Ratio (Minimum Requrement 10%)		
Total Capital Base	3,239,344	3,127,357
Total Risk Weighted Assets	22,928,175	19,133,272
	14.13%	16.35%

Sources & Utilization of Income

For the year ended 31st December,	2009	2010	2011	2012	Audited Rs.'000 2013
Sources of Income					
Interest	2,185,648	2,481,950	2,680,405	3,377,747	3,798,892
Investments	474,302	458,742	337,202	404,379	590,493
Commision & Other	73,752	83,069	47,263	113,118	288,156
Total	2,733,702	3,023,761	3,064,871	3,895,244	4,677,541
Utilization of Income					
For the year ended 31st December,					
Employees					
Salaries & other payments to staff	221,429	268,760	399,026	447,637	540,777
Suppliers					
Interest Paid	1,466,318	1,222,848	1,200,514	1,879,248	2,525,580
other Expenses	452,830	683,870	773,750	955,198	1,195,443
	1,919,148	1,906,717	1,974,264	2,834,446	3,721,024
Net income before Govt. Taxes	593,125	848,283	691,581	613,162	415,741
Government					
Income tax, Vat on FS/Defence Levy	384,753	524,802	309,539	272,446	167,557
Share Holders					
Dividends	51,770	177,378	251,753	251,753	176,227
Retained Profit	156,602	146,103	130,288	88,962	71,957
	208,372	323,480	382,042	340,716	248,184
Total	2,733,702	3,023,761	3,064,871	3,895,244	4,677,541

Statement of Value Added

	2013 Rs. 000		2012 Rs. 000	
Value Added				
Gross Interest Income	4,389,385		3,782,126	
Other Income	288,156		113,118	
Cost of Borrowing & Other Services	(3,396,403)		(2,773,580)	
Provision for credit losses & Investments	(324,621)		(60,866)	
	956,517		1,060,798	
Distribution of Value Added	%	%		
To Employees	540,777	57%	447,637	42%
To Providers of Capital				
Dividends to Shareholders	176,227	18%	251,753	24%
To Government				
Income Tax on Profits & VAT on FS	167,557	18%	272,446	26%
To Expansion & Growth				
Retained Income	71,957	8%	88,962	8%
	956,517		1,060,798	



To Employees
To Providers of Capital
To Government
To Expansion & Growth

Ten-Year Statistical Summary

Year ended 31st December	2004	2005	2006	2007	2008	2009	2010	2011	2012	Audited Rs.'000 2013
Advances	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	22,116,645
Investments	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	6,051,470
Fixed Assets	31,329	54,149	111,353	173,210	235,272	543,169	641,201	810,489	759,581	642,130
Total Assets	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	29,732,605
Deposits	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	23,594,768
Borrowings	353,968	469,161	450,111	962,505	945,355	1,034,853	1,342,040	1,538,767	1,557,329	1,878,643
Share Capital (Allotted)	216,321	294,658	446,075	566,070	671,022	1,546,665	1,820,268	2,427,532	2,526,532	2,526,532
Reserves	39,936	138,443	205,529	163,956	162,914	246,219	478,984	781,866	733,369	853,715
Share Holders' Fund	256,257	433,101	651,604	730,026	833,936	1,792,884	2,299,252	3,209,398	3,259,901	3,380,247
Total Income	358,951	525,805	764,916	1,251,869	2,038,399	2,733,701	3,023,761	3,064,871	3,895,244	4,677,541
Total Expenses	315,933	467,160	640,261	1,125,833	1,813,321	2,288,190	2,377,157	2,483,376	3,378,748	4,344,182
Profit/Loss before Tax.	43,018	58,645	124,655	126,036	225,078	445,512	646,603	581,495	516,497	333,359
Taxation	(14,317)	(10,656)	(49,043)	(72,272)	(127,989)	(237,140)	(323,123)	(199,453)	(175,781)	(85,175)
Profit/Loss after Tax.	28,701	47,989	75,612	53,764	97,089	208,372	323,480	382,042	340,716	248,184
No. of Accounts	109,158	141,962	195,835	250,003	412,350	523,275	585,508	697,227	858,454	903,476
No. of Customer Centres	15	21	25	36	44	52	72	79	81	82
No. of Employees	226	302	398	465	504	615	735	884	823	856

Branch Network

S.N	Branch	Telephone/ Fax	Address	Email
01	1st Colombo City	Tel. 011-2326265 Fax. 011-2337687	55, Kumaran Rathnam Mawatha, Colombo 02	colombo@sdb.lk
02	Akkeripattu	Tel./ Fax. 067-2279365	05, Pothuvil Road, Akkareipattu	akkaraipattu@sdb.lk
03	Akuressa	Tel./Fax. 041-2283173 041-2283596	63A, Matara Road, Akuressa	akuressa@sdb.lk
04	Aluthgama	Tel./Fax. 034-2270718	39,Welipenna Road, Aluthgama	aluthgama@sdb.lk
05	Ambalangoda	Tel.Fax. 091-2255779	63, New Road, Ambalangoda	ambalangoda@sdb.lk
06	Ambalanthota	Tel./Fax. 047-2225466	69/1, Tangalle Road, Ambalanthota	ambalanthota@sdb.lk
07	Ampara	Tel./Fax. 063-2222661	05, D.S.Senanayaka Street, Ampara	ampara@sdb.lk
08	Anamaduwa	Tel./Fax. 032-2263026	16/11, Chilaw Road, Anamaduwa	anamaduwa@sdb.lk
09	Angunukolapalessa	Tel./Fax. 047-2229205	Ranna Road, Angunakolapelessa	angunukola@sdb.lk
10	Anuradhapura	Tel./Fax.025-2234110	135,Maithreepala Senanayaka Mawatha, Anuradhapura	anuradap@sdb.lk
11	Aralaganwila	Tel./Fax. 027-2257200	Kolongas Juction, New Town, Aralaganwila	aralaganwila@sdb.lk
12	Badulla	Tel./Fax. 055-2224135	132, Lowers Street,Badulla	badulla@sdb.lk
13	Battaramulla	Tel./Fax. 011-2883513	210/01, Kaduwela Road, Battaramulla	battaram@sdb.lk
14	Batticaloa	Tel. /Fax. 065-2226611	197, Trincomalee Road, Batticaloa	batticaloa@sdb.lk
15	Buttala	Tel./ Fax. 055-2273387	14, Main Street, Buttala	buttala@sdb.lk
16	Chilaw	Tel./ Fax: 032-2220801	50/52, Skyline Building, Colombo Road, Chilaw	chilaw@sdb.lk
17	Dambulla	Tel./Fax.066-2283244	360/D, Anuradhapura Road, Dambulla	dambulla@sdb.lk
18	Dehiattakandiya	Tel./Fax. 027-2250414	10/2, Dehiattakandiya	dehiattakandiya@sdb.lk
19	Deniyaya	Tel./Fax. 041-2273100	61, Main Street, Deniyaya	deniyaya@sdb.lk
20	Deraniyagala	Tel./Fax. 036-2249801	17, Main Street, Deraniyagala	deraniyagala@sdb.lk
21	Elpitiya	Tel./Fax. 091-2291524	18/12 New Road, Elpitiya	elpitiya@sdb.lk
22	Embilipitiya	Tel./Fax. 047-2261891	15, H.K.T.Building, Embilipitiya	embilipi@sdb.lk
23	Galenbindunuwewa	Tel./Fax. 025-2258038	81, Seeppuklama Road, Galenbindunuwewa	gdwewa@sdb.lk
24	Galle	Tel./Fax. 091-2226811	03, Ward Street, Galle	galle@sdb.lk
25	Gampaha	Tel./ Fax. 033-2224631	09, Sirikurusa Road, Gampaha	gampaha@sdb.lk
26	Gampola	Tel./Fax.081-2352172	10A, Ganasiri Road, Gampola	gampola@sdb.lk
27	Giriulla	Tel./Fax. 037-2289524	02, Main Street, Giriulla	giriulla@sdb.lk
28	Hatharaliyadda	Tel./Fax. 081-2464250	21/5, Kandy Road, Hatharaliyadda	hatharaliyadda@sdb.lk
29	Hingurana	Tel.063-2240245 Fax.063-2240285	26,Muwangala Road, Hingurana	hingurana@sdb.lk
30	Horana	Tel./Fax. 034-2261177	145, Rathnapura Road, Horana	horana@sdb.lk
31	Jaffna	Tel./Fax. 021-2221280	212, Maha Lakshmi Buliding, Stanly Road, Jaffna	jaffna@sdb.lk
32	Kaduwela	Tel./Fax. 011-2548428	500/A, Colombo Road, Kaduwela	kaduwela@sdb.lk
33	Kalawanchchikudy	Tel./Fax. 065-2251409	Rajash Building, Main Street, Kalawanchikudy	kalawanchikudy@sdb.lk
34	Kalmunai	Tel./ Fax. 067-2222467	299, Main Sreet, New Bazar, Kalmunai	kalmunai@sdb.lk
35	Kalutara	Tel. 034-2221115 Fax. 034-2221116	398,Galle Road, Kalutara North.	kaluthara@sdb.lk
36	Kandy	Tel. 081-2204385 Fax.081-2202940	86,Colombo Street, Kandy	kandy@sdb.lk

Branch Network

S.N	Branch	Telephone/ Fax	Address	Email
37	Kanthale	Tel./Fax. 026-2234380	14, Kandy Road, Kanthale	kantale@sdb.lk
38	Karapitiya	Tel. 091-2245252	255, Sunny Side Gardens, Karapitiya	karapiti@sdb.lk
39	Katuwana	Tel./Fax. 047-3623900	AAG Building, Middeniya Road, Katuwana	katuwana@sdb.lk
40	Kegalle	Tel. 035-2222352 Fax. 035-2231051	342, Main Street, Kegalle	kegalle@sdb.lk
41	Kekirawa	Tel./Fax. 025-22603306	53, Anuradhapura Road, Kekirawa	kekirawa@sdb.lk
42	Kilinochchiya	Tel./Fax. 021-2285316	07, Kandy Road, Annadapuram, Kilinochchiya	kilinochchi@sdb.lk
43	Kiribathgoda	Tel. 011-2917137 Fax. 011-2917872	141, Kandy road, Kiribathgoda	kiribath@sdb.lk
44	Kirulapona	Tel. 011-2832597	12, Edmonton Road, Colombo 06	kirulapone@sdb.lk
45	Kuliyapitiya	Tel. 037-2284555 Fax. 037-2284556	437, Madampe Road, Kuliyapitiya	kuliyapitiya@sdb.lk
46	Kurunegala	Tel./Fax. 037-4921618 037-2229607	95, Negombo Road, Kurunegala	kurunegala@sdb.lk
47	Maharagama	Tel./ Fax. 011-2840242	134, High level Road, Maharagama	maharagama@sdb.lk
48	Maho	Tel./Fax. 037-2275045	19A, Main Street, Maho	maho@sdb.lk
49	Mapalagama	Tel./Fax. 091-2296200	"Samantha",Ethumale, Mapalagama	mapalagama@sdb.lk
50	Matale	Tel.066-2230388 Fax.066-2232439	271,Main Street, Matale	matale@sdb.lk
51	Matara	Tel./Fax. 041-2229944	24, E.H.Cooray Tower, Dharmapala Mawatha, Matara	matara@sdb.lk
52	Mathugama	Tel./Fax. 034-2248373	120/1 Aluthgama Road, Mathugama	mathugama@sdb.lk
53	Mawanella	Tel./Fax. 035-2246662	129, Main Street, Mawanella	mawanella@sdb.lk
54	Medawachchiya	Tel./Fax. 025-2245221	78A, Jaffna Road, Medawachchiya	medawach@sdb.lk
55	Monaragla	Tel./Fax. 055-2277192	139, Wellawaya Road, Monaragala	monaraga@sdb.lk
56	Moratuwa	Tel.011-2636627 Fax. 011-2624322	310, Wijaya Mahal, Katubedda, Moratuwa	moratuwa@sdb.lk
57	Mutur	Tel./Fax. 026-2238122	Main Street, Batticalo Road, Mutur	mutur@sdb.lk
58	Nanattan	Tel./Fax. 023-3238200	Olimadu, Nanattan	nanattan@sdb.lk
59	Narammala	Tel. 037-2248278	60, Kuliyapitiya Road, Narammala	narammala@sdb.lk
60	Negombo	Tel. 031-2227714 Fax. 031-2227715	150, Greens Road, Negombo	negombo@sdb.lk
61	Nochchiyagama	Tel./Fax. 025-2257154	94, Puttalama Road, Nochchhiyagama	nochchi@sdb.lk
62	Padavi Parakramapura	Tel./Fax. 025-2254311	Kodithuwakku Building, Padaviparakkrampura	padaviya@sdb.lk
63	Pilimathalawa	Tel./Fax.081-2577156	255, Colombo Road, Pilimathalawa	pilimathalawa@sdb.lk
64	Polonnaruwa	Tel.027-2226622 Fax.091-2226623	Jayasewana, Kaduruwela	polonnaruwa@sdb.lk
65	Pottuvil	Tel./Fax. 063-5670615	Ibrahim Building, Main Street, Pottuvil	pothuvil@sdb.lk
66	Rambukkana	Tel./Fax. 035-2264388	152, Kurunegala Road, Rambukkana	rambukkana@sdb.lk

S.N	Branch	Telephone/ Fax	Address	Email
67	Rathnapura	Tel./Fax. 045-2226015	93, Inner Circule Road, Rathnapura	rathnapu@sdb.lk
68	Rikillagaskada	Tel./Fax. 081-2365556	51, Kandy Road, Rikillagaskada	rikillagaskada@sdb.lk
69	Ruwanwella	Tel./Fax. 036-2267426	93A, Main Street, Ruwanwella	ruwanwel@sdb.lk
70	Sahasapura	Tel./Fax. 011-2686118	60/65 Sahasapura Scheme, Baseline Mawatha, Borella	sahasapu@sdb.lk
71	Samanthurai	Tel./Fax.067-2261378	1/21 E Police Road, Samanthurai	samanthurai@sdb.lk
72	Siyabalanduwa	Tel./Fax. 055-2279141	Monaragala Road, Siyabalanduwa	siyabalanduwa@sdb.lk
73	Thalawa	Tel./Fax.025-2050871	Kurunegala Road, Thalawa	thalawa@sdb.lk
74	Thambuttegama	Tel./Fax. 025-2275011	318,Rejina Handiya, Thambuttegama	thambuth@sdb.lk
75	Trincomalee	Tel/Fax – 026-2222076	95, Post Office Road, Trincomalee	trinco@sdb.lk
76	Uhana	Tel./Fax. 063-2250102	Jayanthi Building, Kandy Road, Uhana	uhana@sdb.lk
77	Valachchenai	Tel./Fax.065-2258044	Main Street, Valachchenai	valachchenai@sdb.lk
78	Vavuniya	Tel./Fax. 024-2224312	234, Kandy Road, Vavuniya	vavuniya@sdb.lk
79	Warakapola	Tel./Fax. 035-2267741	198, Main Street, Warakapola	warakapo@sdb.lk
80	Wariyapola	Tel./Fax. 037-2267646	54, Kurunegala Road, Wariyapola	wariyapola@sdb.lk
81	Wennappuwa	Tel./Fax. 031-2245532	Main Street, Wennappuwa	wennappuwa@sdb.lk
82	Yakkalamulla	Tel./Fax. 091-2286770	Yakkalamulla Junction, Galle Road, Yakkalamulla	yakkalamulla@sdb.lk

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.

Return on Equity
Profit after tax divided by average equity.

Net Interest Margin
Net Interest Income divided by average earnings assets.

Cost to Income Ratio
Operating costs (inclusive of VAT on financial services) divided by Gross Income.

Advances to Deposit Ratio
Average Net Advances divided by Average Deposits.

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.

Seventeenth Annual General Meeting Agenda

Date	:	30th May 2014
Venue	:	SANASA Siyawasa Hall, Sanasa Campus Ltd, Paragammana, Hettimulla, Kegalle.
Time		
9.00 – 10.00 a.m.	:	Registration
10.00 – 10.15 a.m.	:	Seventeenth Annual General Meeting call to order Lighting of the oil lamp Religious Observances Pledge of the Co-operative Movement
10.15 – 10.20 a.m.	:	Observing one-minute silence in memory of departed members of the Sanasa Movement.
10.20 – 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 31st May 2013
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 Seventeenth 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 30th May 2014, for the following purposes.

- To receive and consider the Annual Report of the Board of Directors and the Financial Statements of the Company for the year ended 31st December, 2013 together with Auditors Report there on.
- To consider and declare a First and Final Dividend of Rs. 7/- per share as recommended by the Directors, to the shareholders.
- To re-elect as a Director, Mrs. M.S. Kiriwandeniya who retires by rotation in terms of Article 6(4) of the Articles of Association.
- To re-elect as a Director, Mr. A.D. Walisinghe who retires by rotation in terms of Article 6(4) of the Articles of Association.
- To re-elect as a Director, Mr. H.M.G.B. Herath who retires by rotation in terms of Article 6(4) of the Articles of Association.
- To appoint Messrs Ernst & Young, Chartered Accountants as Auditors for the year 2014 and to authorize the Board to determine their remuneration.
- To authorize the Directors to determine donations for the year 2014.

By order of the Board,

Tamarika Rodrigo
Company Secretary

Form of Proxy

1. **Full Name of Shareholder** ______________________________

2. **Company/Society Registration No/**
   National Identity Card Number of the Shareholder ____________________

3. **Address of the Share Holder** ______________________________

   Being a member of the SANASA Development Bank PLC hereby appoint____________________

4. **Name of Proxy Holder** ______________________________

5. **National Identity Card Number of Proxy Holder** ____________________

6. **Address of Proxy Holder** ______________________________

"Failing him / her, Mrs. M.S. Kiriwandeniya (Chairperson) of SANASA Development Bank PLC or Failing her Mr. T. Karunasena, or failing him Mr. A.D. Walisinghe, or failing him Mr. D.P. Kumarage, or failing him Dr. R.M.K. Ratnayake, or failing him Mr. H.M.G.B. Herath, or failing him Mr. L. Abeysekera, or failing him Mr. J. Rathnayake, or failing him Mr. T. Rajapaksha as my/ our proxy to speak/vote for me/ us on me/our behalf at the 17th Annual General Meeting of the Company to be held on the 30th May 2014 at 9.00 a.m. at Sanasa Campus Ltd. And at any adjournment thereof and at every poll which may be taken in connection with such meeting and to vote as indicated below. "

		FOR	AGAINST
1.	To receive and consider the Annual Report of the Board of Directors and the Financial Statements of the Company for the year ended 31st December, 2013 together with auditors report thereon.	☐	☐
2.	To consider and declare a First and Final Dividend of Rs. 7/= per share as recommended by the Directors, to the shareholders.	☐	☐
3.	To re-elect as a Director, Mrs. M.S. Kiriwandeniya who retires by rotation in terms of Article 6 (4) of the Articles of Association.	☐	☐
4.	To re-elect as a Director, Mr. A.D. Walisinghe who retires by rotation in terms of Article 6 (4) of the Articles of Association.	☐	☐
5.	To re-elect as a Director, Mr. H.M.G.B. Herath who retires by rotation in terms of Article 6 (4) of the Articles of Association.	☐	☐
6.	To appoint Messrs Ernst & Young, Chartered Accountants as Auditors for the Year 2014 and to authorize the Board to determine their remuneration.	☐	☐
7.	To authorize the Directors to determine donations for the year 2014.	☐	☐

For Societies / Union / Companies

………………….		…………………………
Chairman	Seal	Vice Chairman / Secretary
………………….		…………………………
Date		Proxy Holder's Signature

For Individuals

…………………….	…………………	……………………..
Date	Signature	Proxy Holder's Signature

INSTRUCTIONS

1) In perfecting Form of Proxy please ensure that all details are legible
2) The completed Form of Proxy should be received at the address given below, not less than 24 hours before the time fixed for the meeting.*
3) Please fold this form properly and post to the following address.
4) The instrument appointing a proxy may be by writing under the hand of the appointer or of his / her attorney duly authorised in writing or if such appointer is a corporation under its common seal or the hand of its attorney or duly authorised person. The instrument appointing a proxy should be deposited together with the proxy at the registered office of the company.

The Company Secretary
SANASA Development Bank PLC
No12, Edmonton Road
Kirulapone,
Colombo 06.

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. Karunasena (Deputy Chairman)
Mr. A. D.Walisinghe
Mr. D. P. Kumarage
Dr. R.M.K.Ratnayake
Mr. H. M. G. B. Herath
Mr. L. Abeysekera
Mr. J. Rathnayake
Mr. T. Rajapaksha

General Manager/Chief Executive Officer
Mr. Nimal C. Hapuarachchi

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
NDB Bank PLC
Nations Trust Bank PLC

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