

A series of horizontal blue arrows of varying lengths, all pointing to the right, are layered behind the main title. They are positioned at different vertical levels, creating a sense of movement and progression.

Journey Onwards

SANASA Development Bank PLC | Annual Report 2014

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Journey Onwards

"I would like to thank the shareholders for their support, and I am happy to deliver to you the benefits of our hard work as a team. I invite all stakeholders who have helped us in this journey to stay close with us, while we create value on the capital invested, both social and financial."

Muditha Samadanie Kiriwadeniya
Chairperson

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Journey Onwards

Growth is natural, inevitable and unending.
It is also necessary, liberating and the fuel for change.

This year, as we end a challenging period through which we displayed an excellent performance, ***we look to grow beyond our role as a specialised development bank to encapsulate a range of products and services that cater to a wider range of requirements. And our development will in turn power the development of our stakeholders enabling them to further enhance their livelihoods.*** So join us, as we begin the next phase of our journey and discover how we journey onward to the next level.



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 a 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.

Specialised products/services will be provided to our special customers such as the 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 realisation 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

	2014 LKR '000	2013 LKR '000	Change %
RESULTS FOR THE YEAR			
Gross Income	4,850,170	4,389,385	10%
Net Income	2,449,406	1,863,805	31%
Operational Profit Before Provisions & Taxes	1,145,844	740,362	55%
Profit Before Tax	751,179	333,359	125%
Income Tax Provision	(246,732)	(85,175)	190%
Profit After Taxation	504,447	248,184	103%
Position at Year End			
Deposits	30,249,434	23,594,768	28%
Advances	32,060,498	22,116,645	45%
Shareholders' Funds	4,695,974	3,380,247	39%
Total Assets	40,572,547	29,732,605	36%
Financial Ratios			
Return on Average Assets	2.14%	1.22%	0.92%
Return on Average Shareholders' Fund	12.49%	7.42%	5.07%
Dividend per Share (LKR)	10*	7	43%
Dividend Payout Ratio	74.86%	70.99%	3.87%
Net Asset Value per Share (LKR)	124.35	134.27	-7%
Non Performing Advances Ratio(gross)	3.76	5.08	-132%
*1st & final dividend of LKR 10/-per share to be paid ,LKR 2.50 in the form of a cash dividend & balance LKR 7.50 in the form of scrip dividend, which is to be approved at the Annual General Meeting.			
Statutory Ratio			
Capital Adequacy			
Tier I (Minimum Requirement - 5%)	14.89%	14.01%	
Tier I & II (Minimum Requirement - 10%)	15.33%	14.13%	
Liquid Assets (Minimum Requirement - 20%)	21.61	20.39	
Other Information			
No. of Accounts	992,782	903,476	9.89%
No. of Customer Centres	82	82	0%
No. of Staff	1,004	856	17.29%
Market Information			
Market Value per Share (LKR)	90.90	77.40	
Highest Price per Share for the Period (LKR)	124	90.00	
Lowest Price per Share for the Period (LKR)	73.50	64.10	

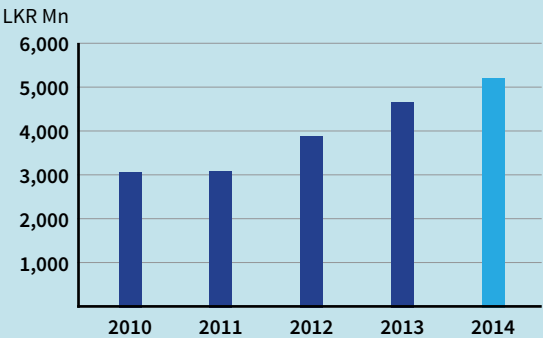
Total Assets
Crossed
40bn
(LKR)

Loans and Advances
Grew by
45%

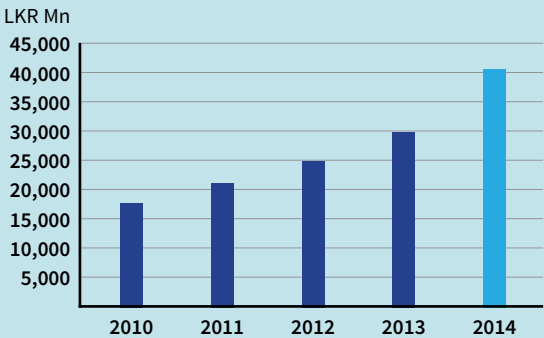
Customer Deposits
Grew by
28%

Capitalised with a
Tier I CAR of
14.89% and
Tier I & II CAR of
15.33%

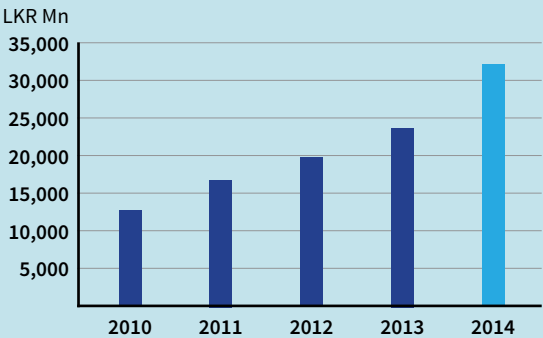
Gross Income



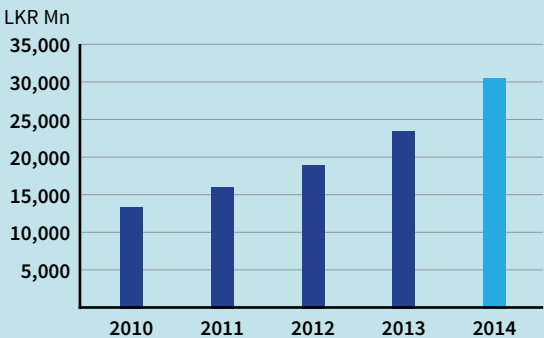
Total Assets



Advances



Deposits



Our Journey

1985-1990

Five year planning project of SANASA Group. Alternative bank for SANASA Group.

1990-1995

Appoint a committee for banking operations of SANASA Federation.

1995-1997

Discussion between Dr. P. A. Kiriwandeniya and President Chandrika Bandaranaike, then Minister of Finance

1997 August

Granted banking license

1997 August 25

Establish the bank with an **initial capital of LKR 123 mn.**, mainly contributed by primary SANASA societies

1997 August

Open the 1st city branch in the Red Cross building.

1998 November

10th branch opened in Kandy

1999

Record total assets of **over LKR 100 mn.**

2004

Tsunami relief and recovery activities.
Build houses in the Northern and Western provinces.

2006

Proceed with the 10-year development plan.

2007

Celebrate **10 years** of existence.

2007 April

Expand **branch network to 25.**

2008

Winner of *the National Excellence Award.*

Increase total assets to **LKR 10 bn.**

Increase staff to **500.**

2009

Introduce the **SANASA Group loan scheme.**

Increase share capital to **LKR 1,000 mn, from LKR 123 mn.**

2009 August

Expand **branch network to 50.**

2010

Relocate the head office to a new building

Ranked the **2nd best microfinance institution in the world**, by Mix Market Global, USA.

2010 November

Expand **branch network to 75.**

2011

Centralise banking operations through the core banking system.

2012

Introduce debit cards and ATM facilities

Listed on the Main Board of Colombo Stock Exchange

2013

Increase total assets to **LKR 25 bn.**

2014

Increase **staff to 1000.**

Over Subscribed **1st Rights Issue of SANASA Development Bank**

Issued share capital exceeds **LKR 03 bn**

About this Report

G4 20-30, 32,33

This report is our first attempt at sustainability reporting and has been compiled 'In Accordance' with the Global Reporting Index (GRI) G4,'Comprehensive' reporting standards. This annual report is limited to the period of 1st January 2014 to 31st December 2014. Our most recent previous report was the SDB Annual Report for the financial year 2013. No external assurance on sustainability reporting has been obtained for this report. However, each section of the report has been reviewed by the relevant department head, CEO, or Chairperson, to ensure accuracy of information.

Contact point for questions on this report G4 31

AGM Finance
Finance Division
SANASA Development Bank PLC
No.12, Edmonton Road, Kirulapone, Colombo 06.
Tele : 011-2832500
Fax : 011-2514256
Email: terrance.k@sdb.lk
Web : www.sdb.lk

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Aspects material to us G4 17-21

Entities listed in the financial statements can be viewed in the consolidated financial statements of this report. All these entities have been covered by this report.

Process of defining content and aspect boundaries : Content and aspect boundaries of the report were identified by the senior management, including the CEO/GM of SDB. This process involved:

- 1. As required by the G4 guidelines, the entities listed in the financial statements were identified
- 2. These entities were grouped as ‘external entities’ and ‘internal entities.’

Internal entities	External entities
Board of Directors	Shareholders
Employees (includes management)	Government
	Regulatory bodies
	Customers
	Auditors
	Janitorial services provider
	International agencies

About this Report *Contd.*

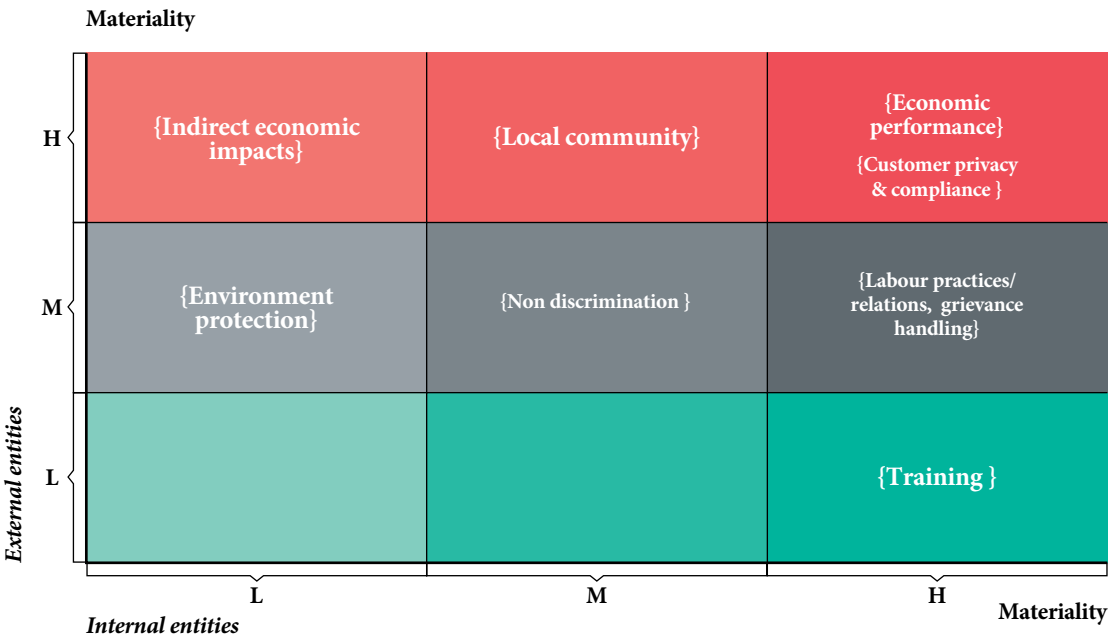
3. The aspects that would be deemed material for each entity, were listed, together with the reasons for materiality (Refer table below). The aspects were selected from the GRI G4 list of topics and aspects.

Material aspects covered by this report and aspect boundaries

Indicator	Material Aspect	Aspect boundary	Reasons for materiality
EC1, EC2, EC3 ■	Economic performance	Material to all entities	Any financial and economic instability would have direct negative impacts on both external and internal entities
EC8 ■	Indirect economic impacts	Material to government and international agencies	Indirect impacts include developing rural economies, encouraging savings, supporting business growth, enhancing household quality of life
EN29 ■	Environment	Material to all internal entities, government, customers and international agencies	High energy costs impacts profitability impacting all internal entities. High energy consumption increases national energy costs impacting the Government. International agencies are concerned about minimising environmental impacts.
LA1, LA2, LA3 ■	Labour practices and decent work	Material to all entities	Poor labour practices result in labour unrest, work stoppage, instability, and poor quality of services, which impacts all entities.
LA4 ■	Labour management/relations	Material to all entities	Same as above
LA9, LA10 ■	Training and education	Material to all internal entities and customers	Training leads to employee development, better services and supports profitability
LA12 ■	Diversity and equal opportunity	Material to employees, government and international agencies	Discrimination de-motivates employees. Government and international agencies require that human rights are safeguarded
DMA ■	Equal remuneration for women and men	Material to employees, government	Government is impacted due to human and labour rights requirements. employees are motivated through fair pay
LA16 ■	Labour practices grievance mechanisms	Material to employees, government	Relevant to government due to ensuring labour rights. Relevant to employees for happy/conflict free work environment
SO1 ■	Local communities	Material to shareholders, government and international agencies	Our shareholders represent the local community through SANASA Societies. Government ministries and international agencies are interested in supporting community development.
PR8 ■	Customer privacy	Material to customers and regulators	Lack of customer confidentiality is a regulatory breach and also impacts customer privacy
PR9 ■	Compliance(in ensuring customer privacy)	Material to employees, customers and regulators	Relevant to employees and regulators due to legal impacts. Customers are harmed by breach of privacy.

4. Finally, these aspects were located on a chart, indicating each aspect’s relative level of materiality (low, medium or high),for internal and external entities. As this process was a purely qualitative exercise, the level of materiality is an estimation.

Extent of aspect materiality to internal and external entities



16

Our Vital Statistics

Name of organisation: G4 03
SANASA Development Bank PLC (SDB)

Primary products: G4 04

- ◀ Savings products and fixed deposits
- ◀ Loans
- ◀ Leasing
- ◀ Pawning
- ◀ Foreign currency services
- ◀ Refinance schemes /subsidised credit schemes and grants

Savings products

SDB provides a full range of savings products from standard savings accounts to special savings accounts for specific groups. SDB also provides an island wide palmtop banking service. Our 45 palmtop bankers go to customer door steps to transfer money into savings accounts.

- ◀ The SDB VISA debit card can be used at any local ATM that accepts VISA cards
- ◀ SDB savings accounts for cooperatives. These savings offer higher interest rates for cooperative savings.


Other savings products under our deposits portfolio are listed below

	The SDB Standard Savings Scheme offers attractive rates of interest while retaining the facility of withdrawing the money wherever and whenever you want. It's sole purpose is to foster the habit of thrift in the customer. The personalised SDB VISA Debit card can be used at any SDB ATM or any other ATM with the VISA logo around the country.
	Lakdaru is a children's savings account offering attractive gifts and scholarships, with a higher rate of interest.
	Jawaya is a savings account for young professionals and entrepreneurs. The Jawaya account also conducts youth development programmes to empower young people.
	Dashaka is a savings scheme to celebrate SDBL's first decade of success in the Sri Lankan banking arena.
	Uththamavi Plus is a savings scheme exclusively designed for women, with higher interest rates and loan facilities against the savings.
	Upahara is a savings deposit scheme especially designed for senior citizens over 55 years of age, to provide financial care and convenience. This account comes with attractive interest rates.

Fixed deposits

SDB offers standard fixed deposits and specialised fixed deposits.

- ◀ Standard fixed deposits
- ◀ Fixed deposits for cooperatives. These offer special rates for SANASA societies and other cooperatives

	SDB Ayojana account is a unique savings scheme to deposit a monthly amount, at a high interest rate, for a specific period of time. This account allows depositors to plan their long term investments.
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Loans

Our loan facilities cater to different economic segments of the country ranging from micro credit to special credit facilities for soldiers and the elderly.

- ◀

SANASA micro credit for micro entrepreneurs, mainly in the informal sector across the country, to start and develop cottage industries and micro enterprises.
- ◀


SANASA cooperative society loans for cooperatives registered with the National Cooperatives Department. These include other cooperatives as well as SANASA societies.
- ◀

Uththamavi loans are designed for women to start a business, expand a business, for working capital needs and/or build up assets.


Other products under our credit portfolio are listed below

	Our SME loan scheme is used to fund small and medium-sized enterprises, and represents the future goals of SDB's general business finance market – in which capital for different types of firms are supplied.
	This is a tailor-made loan scheme especially designs for pensioners. The ultimate objective is to re-join these segments back to the workforce and to get their contribution towards the country's economic development. Loan facility for government pensioners, CEB & Central Bank pensioners
	Personal loans can be obtained by permanent employees of Government / semi Government Institutions and private sector institutions.
	Ranmini is a loan facility to purchase gold jewellery from SDB authorised jewellery shops.
	Sonduru Sevana is a housing loan to construct or purchase a home, to purchase a block of land and construct a residential house, to complete a partly constructed house and for extensions, alterations, repairs of an existing residential house
	Uththamachara is a loan facility specially designed for families of pensioned soldiers, to support income generating activities. Categories that are eligible are: disabled forces personnel, widow/spouse of demised forces personnel, father/mother of demised unmarried forces personnel, unmarried/unemployed siblings of demised, unmarried forces personnel
	The Jawaya Loan Scheme is designed to support economic activities of youth over the age of 18 years. The loan can be used to start a business, expand a business, for working capital needs and/or build up assets.

Swarna Kirana pawning

	Swarna Kirana is a pawning facility which can be taken as a loan to meet urgent cash requirements by pawning gold or gold jewellery
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Leasing

	SDB Leasing is a leasing facility for vehicles, equipment and machinery for the agricultural sector, businesses, passenger transport, commercial sector and construction sector.
---	--

Our Vital Statistics Contd.

Foreign currency services

SDB offers money remittance facilities for Sri Lankan migrant workers and is authorised to deal in foreign currency notes.

	<p>SDB is permitted to make current account payments relating to foreign exchange and has got approval from the Central Bank of Sri Lanka to buy and sell the following foreign currency notes:</p> <ul style="list-style-type: none">U S DollarsAustralian DollarsSingapore DollarsGreat Britain PoundsJapanese YenEuros
	<p>SDB is a sub agent of MMBL. Sri Lankans working abroad remit their earnings through Western Union. The receiver of funds can go to any SDB branch and obtain the funds by producing an identity and the MTC number given by the sender.</p>

Refinance schemes /subsidised credit schemes and grants

SDB operates re-finance schemes (subsidised credit schemes) and grants, to channel development support and enterprise capacity building into rural parts of the country. Currently the Bank has eight refinance schemes and one grant programme in operation.

Location of headquarters : G4 05, 06

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

Tele : 011-2832500
Fax : 011-2514256
Web :www.sdb.lk

Nature of ownership and legal form: G4 07

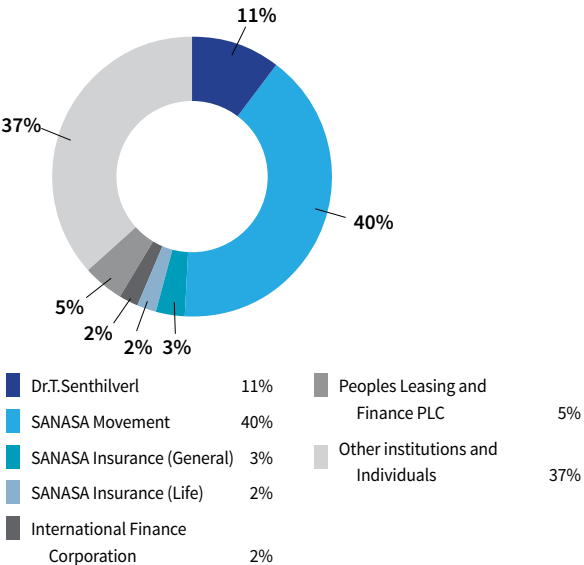
A public quoted company with limited liability, incorporated under the Companies Act 17 of 1982 and re-registered under Companies Act No.07 of 2007 and registered as a Licensed Specialised Bank by the Central Bank of Sri Lanka, under the Banking Act No 30 of 1988 (as amended by the Banking Amendment Act of 1995.) and an approved Credit Agency under the Mortgage Act No 06 of 1949 as amended by the Mortgage (amendment) Act No 53 of 1949 and Trust Receipt Ordinance No.12 of 1947.

Top 5 shareholders as at 31st December 2014:

1. Dr T Senthilverl : 10.52%
2. People’s Leasing and Finance PLC: 4.6%
3. SANASA Insurance (General) : 3.36 %
4. Kegalle SANASA Shareholder’s Trust Company : 2.46%
5. International Finance Corporation : 2.38%

In total, the SANASA Movement, through members of SANASA societies across the country, hold about 45% of SDB (Fig. 01)

Fig. 01 - Top Seven Shareholders



Markets served G4 08

SDB has island wide coverage through a network of 82 branches, and mobile banking services with 43 field officers. Our market segments include:

- ◀ Informal sector
- ◀ Micro entrepreneurs
- ◀ SMEs
- ◀ Businesses
- ◀ The general public

Please refer map of SDB branches in page 181.

Scale of the Organisation G4 09-11

Measure	2014
Total number of employees	1,004
Total number of operations	SDB is a single operation based in Sri Lanka
Net revenues	LKR 5,235 mn
Total capitalisation LKR equity	LKR 4.6 bn
Quantity of products or services provided	Development banking, personal banking, loans, remittance services leasing and other associated activities such as fixed deposits and savings.
Total number of employees by employment contract	
Male	590
Female	414
Number of permanent employees	775
Corporate	12
Senior management	21
Executive officers	742
Male	470
Female	305
Employees covered by collective bargaining agreements.	None at present.

Significant changes during reporting period

G4 13

All significant changes to the organisation have been discussed by the Chairperson , the CEO and in the section titled ‘Responding to our stakeholders.’

Precautionary approach G4 14

As a small bank SDB has minimum environmental impacts and the commitments to the SANASA philosophy of co-existence with the environment supports environmental mindfulness. At present the natural environment does not constitute an aspect of SDB’s overall risk management system due to the almost nonexistent environmental impacts caused by our activities. However, we are mindful of potential environmental impacts due to climate change.

Membership in external initiatives G4 15

We are part of Sri Lanka’s SANASA Movement

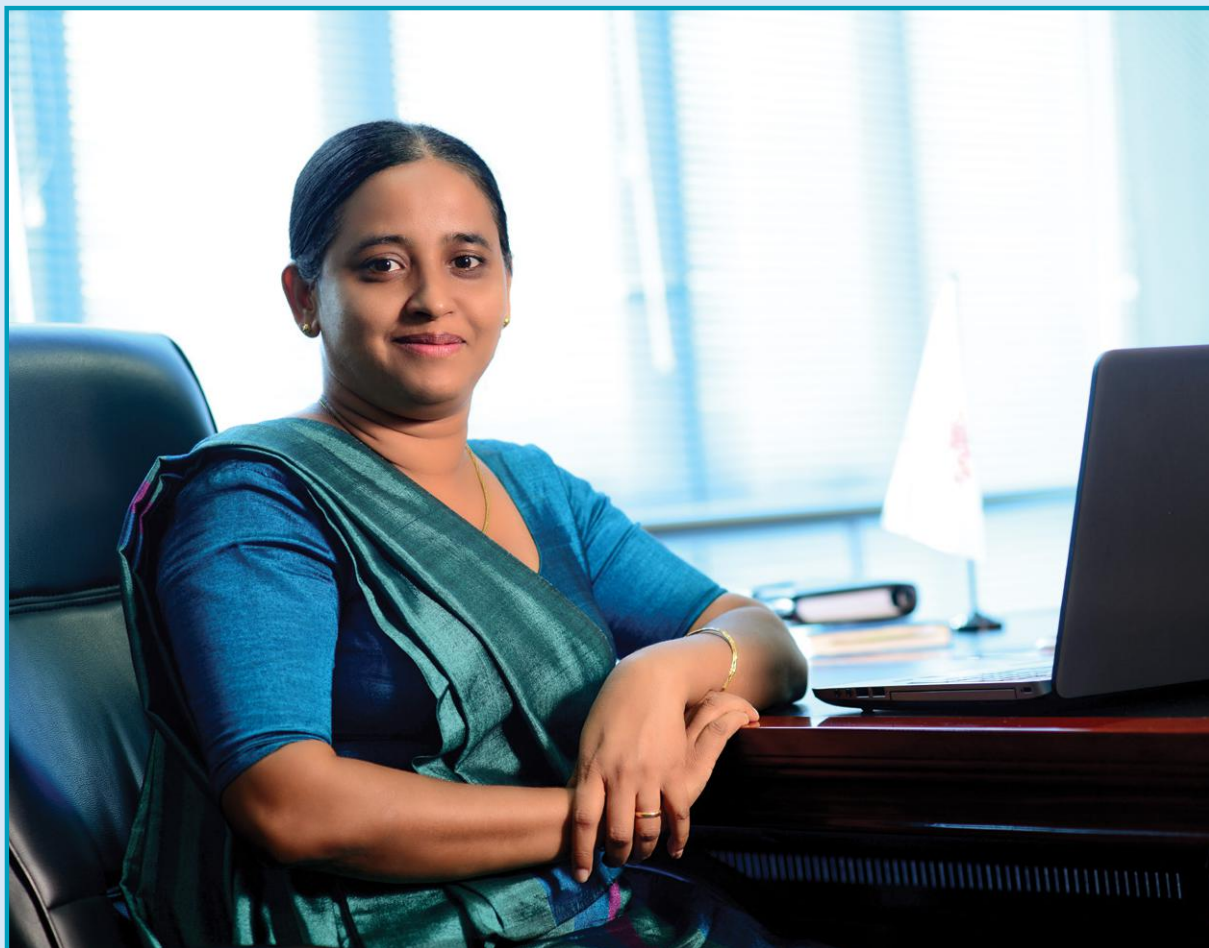
Membership in associations G4 16

- ◀ Leasing Association of Sri Lanka
- ◀ Association of Professional Bankers of Sri Lanka
- ◀ Ceylon Chamber of Commerce
- ◀ Employers Federation of Ceylon

The Bank also works with a number of external agencies for technical assistance and grants. These include:

- ◀ **Rabobank :** Netherlands’ Rabobank is a bank by and for customers. Today, Rabobank is an international financial services provider with activities in banking, asset management, leasing, insurance and real estate. The local member Rabobanks and their members and customers form the Rabobank Group’s cooperative core business. The local member Rabobanks are in turn members and shareholders of the umbrella cooperative: Rabobank Nederland.
- ◀ **The International Finance Corporation:** The International Finance Corporation is an international financial institution that offers investment, advisory, and asset management services to encourage private sector development in developing countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C., United States.
- ◀ **Canadian International Development Agency (CIDA):** The Canadian International Development Agency was an organisation that administered foreign aid programs in developing countries, and operated in partnership with other Canadian organisations in the public and private sectors as well as other international organisations.

Chairperson's Review



“

The destination of our journey is sustainable development. Our most important shareholders are the men and women who sustain the smallest units of our society. Our work is dedicated to the children of tomorrow. Our success is rated by those who believe that social economic and environmental progress requires synergy and balancing.

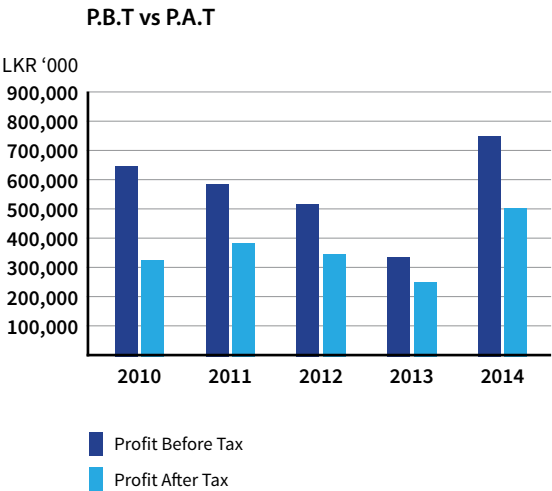
”

A handwritten signature in black ink, appearing to be 'S. Kumar', is written below the closing quote. The signature is stylized with a long horizontal stroke.

Dear shareholders,
The formation of SANASA Development Bank in 1997, under the leadership of Dr. P. A. Kiriwandeniya, the founding leader of the SANASA brand, was an organic development stage of the SANASA Movement. Created to facilitate equitable and sustainable development of the Sri Lankan community, sustainability is not an add-on aspect but a core principle that governs the way we operate. The balancing of, and being accountable to, the triple bottom line of the economy, the social and the ecology, is an important element of our strategic planning.

The year 2014 was a year that pressed all of us to examine in depth, the strategic priorities of our Bank, with a view to long term sustainable growth. Being a brand with high social equity, the challenge placed before the Board of SDB and top management, was to prove that the Bank was capable of improving its number pillars, especially financial equity and ratio quality, without damaging its social orientation.

Under the directions of the Central Bank of Sri Lanka’s (CBSL) Road Map, to create a 100 billion dollar economy, the Bank was required to improve its capital base and enlarge its book within a comparatively short time frame. After several consultations with the regulators and having clarity on the expectation and space given to the Bank to meet this requirement, the Board of Directors decided to consult the shareholders. SDB was created with the hard earned capital of more than one million low income co-operators, under the tireless leadership of 56,000 volunteers. Therefore, the SDB Board decided that it is our responsibility to educate the 40,000 shareholders, most of whom are not savvy about operations of the financial markets, on this new development trajectory of the Bank. The Bank’s Directors had an initial discussion with the Board of Directors of the Federation of Thrift and Credit Co-operative Societies of Sri Lanka, to explain the regulatory position and to hear their initial interest and appetite in meeting this need. After more consultations with some key strategic shareholders of the Bank, the Board called for an ‘open shareholder forum,’ to hear opinions and views of shareholders. Subsequently, with



professional legal advice on capital restructuring, the Board of Directors decided on a rights issue. The Board directed the management to organise regional awareness sessions to educate shareholders of the decision and explain the benefits and legal aspects related to the rights issue. This intense engagement was opted, to ensure accountability of the current leadership to the co-operative principles on which the Bank was created.

I am happy to announce that we were able to meet our capital requirement, and I humbly thank the shareholders once again for supporting us, to ensure the stability of the foundation of this Bank.

Strategic priorities

In 2013 the Bank developed a three year strategic plan to enable the Bank’s graduation from microfinance to SME finance. This shift was required to allow the Bank to compete successfully in the market with business of scale, and also to better support the needs of customers, staff and shareholders, while continuing to meet the mandate of local economy development and inclusive financing. The Bank studied several business models with particular attention to the most successful and competitive co-operative banking models in North America and Europe, when developing the strategic plan. This plan had to be further modified to comply with the Banking Sector Consolidation Plan of the CBSL in early 2014.

Chairperson’s Review *Contd.*

As strategic priorities, the Bank focused on three main areas in 2014.

- ◀ Remaining resilient and profitable in the changing market.
- ◀ Continuous commitment to the ‘inclusive finance’ mandate and sustainable development agenda of the SANASA Movement.
- ◀ Improving quality and value addition in all stakeholder relationships (shareholders, regulators, development partners, customers and staff)

Quality, consistency and team work

In order to implement the strategic plan smoothly the Board of Directors recognised the utmost importance of strengthening the core team of the top management of the Bank. The Board was keen to promote a spirit of professionalism and team work. With the changes to the management, more focus was given to streamlining operational systems with properly delegated authority, to establish clear accountability and responsibility, modifying systems and procedures to suit the emerging needs of the new business plan, streamlining human resource management processes in line with the policies, and rebranding the Bank to suit the new growth path. With these new changes the Bank was able to exceed all the number pillars, deposits, credit, and profits, while controlling operational aspects.

Corporate governance

Any financial institution aiming at sustainable and smooth growth, needs to ensure the legitimacy and recognition of the institution by all stakeholders. This is a critical requirement. Corporate governance thus becomes an important element. We understood three important areas when it came to governance.

- ◀ Meeting regulatory requirements and complying with statutes, ethics and values
- ◀ Controlling the key areas of operations with clear policy directives
- ◀ Transparent and constructively engaged teamwork between Board and management

In developing the strategic plan, for each key strategic area, a member of the Board was delegated to monitor the respective area, in addition to a corporate manager. While it is the responsibility of the key management personnel (KMP) to ensure operational implementation to meet the

stated strategic goals, the designated Board member was required to assist the Board to update the policy framework to support this process, while managing risks. The Chair of the Credit Committee, the Chair of the Audit Committee, the Chair of the Board Risk management Committee and the Chair of the Human Resource Committee thus agreed to monitor each area with the respective KMP. The Board Chair and the Chief Executive Officer organised a strategic plan review bi-annually, to modify the plan according to the market changes. After the review, the Board recognised the need to ensure that the ICT strategy, marketing strategy and operations strategy of the Bank are synergised strategically and operationally, to maintain brand equilibrium and smooth risk management, especially when the Bank moved from a mostly manual, to a technological platform. The Board decided to establish a separate committee to support the CEO and the Board to properly monitor strategic planning, ICT and business development processes. To effectively implement this, the Board was further strengthened with relevant competencies.

With these steps taken, the Bank was able to meet all the regulatory and shareholder requirements successfully, specifically in relation to maintaining capital adequacy and liquidity, a steady business growth with a clean portfolio and a positive working framework. Transparent and constructively engaged teamwork between Board and management, can be stated as the main reason behind this success and I would like to thank all Board members and the corporate management, for the support extended to drive this growth.

Risk management

SDB is on a fast tracked growth drive and is shifting from its familiar platforms to new business areas. Therefore, the Board has clearly identified risk management as an area that needs significant attention. The Bank has already established a risk management system and framework. However, since the subject is still relatively new to the Sri Lankan industry, the management has been encouraged to gain further exposure to industry best practices and the board has supported the relevant KMPs to gain necessary knowledge, both from Sri Lanka and overseas. With a Compliance Department established, with an experienced officer to head the division, the Bank has been able to improve the compliance culture of the Bank to support smooth business operations.

Following the listing of the Bank, as directed by the CBSL, the capital structure of the Bank has changed, diluting the

ownership of the co-operatives and increasing private sector ownership. While welcoming the new shareholders who helped improve the market image of the SANASA brand, as the Chairperson of the Bank created by the SANASA Movement, I would like to reiterate the importance of strengthening the growth of the co-operative sector in Sri Lanka. The social enterprise model promoted for many decades by the cooperative sector globally, has proven its resilience and is being recognised as an emerging business model that can deliver equitable growth on a sustainable platform. SANASA Development Bank is the only Bank in Sri Lanka where the co-operative sector has a controlling stake. The regular feedback, and profitable business partnerships with the co-operatives, which represents the needs and aspirations of nearly one million members, enables the Bank to be continuously adjust to the needs of the customers, especially those who are from the peripheral regions. We have made a conscious effort to partner with the CBSL to ensure access to finance for the real economy, for youth, small entrepreneurs, and farmers. The SANASA model has been recognised in international development platforms as a successful case study. In fact, in 2014, the chairperson of SDB was invited by the International Summit of the Co-operatives, held in Quebec, Canada, to share the Sri Lankan experience on co-operative enterprise and governance. Both the Board and the corporate management are keen to continue to promote this model and in the accelerated growth drive of 2015, we are keen to see the co-operatives keep pace with us.

As closing remarks, I would like to express my sincere gratitude to all the Board members, the Chief Executive Officer, the corporate management and the staff of our Bank for making it possible for me to conclude 2014 with a sense of fulfilment. I would like to thank the shareholders for their support, and I am happy to deliver to you the benefits of our hard work as a team. I invite all stakeholders who have helped us in this journey to stay close with us, while we create value on the capital invested, both social and financial.



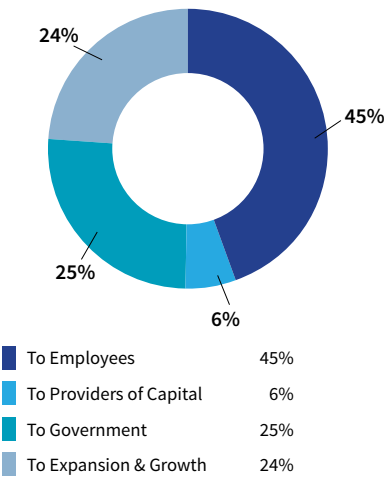
Muditha Samadanie Kiriwandeniya
Chairperson

13th February 2015
Colombo

Achieved a PBT of
750
(LKR mn)

Raised
1
(LKR bn)
via a rights issue

Economic Value Added - 2014



GM/ CEO's Review



“

We hope to add another nine branches to our existing 82 branch network in 2015. In addition, we will also look into the possibility of entering the South Asian region, by exporting our micro-finance and cooperative sector expertise.

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The year 2014 was a landmark year for SDB for a number of reasons. Among other things, it was the best financial year in the history of the Bank, with our revenues reaching a record LKR.4.8 bn and profits before tax hitting LKR 751 mn. More significantly however, 2014 was a year of transformation that saw SANASA Development Bank roll out its strategic plan from 2014-2016. Our new three-year plan will fast forward SDB’s plans to scale-up into a national level development bank, catering to all economic sectors, from its traditional cooperative sector micro-credit focus. The changes operationalised in 2014, have now set SANASA Development Bank on a new direction of growth. In this review I will discuss in brief some of these key developments and our performance during the year.

Challenges

A key challenge during the year was low demand for credit. While credit expansion is key to enhancing our asset base, the sluggish demand for credit in 2014, made achieving our targets for the year a challenge. The lowering market rates meanwhile, had caused our interest margins to shrink and widened the mismatch between deposits and advances. However, we were able to surpass targeted lending growth by entering new segments of the market.

We also dealt with many internal challenges in the process of implementing the structural changes that were crucial for SDB’s transformation. These changes included complying with Central Bank regulations to significantly expand our capital and asset bases for a stronger balance sheet, strengthening governance mechanisms and introducing risk assessment systems to support a wider spectrum of financial services and market segments. New internal processes had to be introduced, supported by IT systems and information security systems. A key change was the development of a suitably equipped professional human resource base to drive the Bank. This included the recruitment of senior management and training of staff to equip them with the required skills and knowledge. Our performance in meeting key financial and non-financial targets, is set out below together with our targets for the new financial year.

Financial performance

Target	Actual performance 2014	Target for 2015
Increase capital to LKR 5 bn from LKR 3.3 bn by 2017, to meet regulatory requirement	Capital base increased to LKR 4.6 bn through a LKR 1 bn rights issue by end 2014	Increase capital base to LKR.5 bn through second phase of the rights issue.
Increase asset base from LKR 29 bn to LKR 38 bn by end 2014, to meet regulatory requirement of LKR 100 bn asset base by 2017	Asset base increased to LKR 40 bn by end 2014	Increase asset base to LKR 53bn
Expand credit disbursement to LKR 22 bn by end 2014	Achieved credit disbursement of LKR 25 bn by end 2014	Grow credit disbursement to LKR 30bn
Reduce NPL ratio to 5.25%	NPL ratio reduced to 3.79% from 5.14% in 2013	Sustain NPL ratio at less than the industry average, which is around 4.2%
Mobilise LKR 8 bn in deposits by end 2014	Achieved LKR 8 bn in deposits by end 2014	Grow deposit base to LKR 42 bn
Achieve a revenue of LKR 4.5 bn by end 2014	Revenue of LKR 5.1 bn achieved by end 2014	Increase revenues to LKR 7.5 bn
Profit of LKR 325 mn by end 2014	Achieved profit of LKR 504 mn by end 2014	Increase profit to LKR 750 mn
Increase non-fund income to LKR 150 mn by end 2014	Achieved LKR 165 mn in non-fund income by end 2014	Increase non-fund income by 25%

GM/ CEO’s Review *Contd.*

Rights issue

National financial sector consolidation plans required that SDB increase its capital base to LKR 5 bn from its then levels of LKR 3.3 bn. This required a fresh capital injection either by allowing SDB to be acquired by another company, or by SDB acquiring another company, or through a merger. However, these options would have meant a loss, or at the very least, a significant dilution of the SANASA identity, and a possible alienation from the cooperative roots of the Bank. Therefore, SDB decided to return to its historic roots for a solution. In October 2014, the Bank opened a rights issue for the existing shareholders, to raise LKR 1 bn in new capital. Reaffirming their commitment towards SANASA Development Bank, nearly 50% of the capital need was met by the shareholder SANASA Societies. This has expanded the capital base to LKR 4.6 bn, by end 2014, while allowing the Bank to remain an independent entity with its SANASA identity intact. We plan on meeting the balance capital requirement within the new financial year, well ahead of the Central Bank deadline of 2016.

Asset growth

SANASA Development Bank was also required to grow its asset base to at least LKR 100 bn by 2017. Within 2014, our target was to expand our balance sheet to LKR 38 bn, from LKR 29 bn as at end 2013. We have by now overshot our target by growing our assets to LKR 40 bn, by end 2014. This was achieved through an aggressive credit drive that was exceptionally successful despite the slower demand for credit seen throughout 2014. Our target for end-2015 is a balance sheet of LKR 53 bn.

Credit growth

SDB’s credit disbursements reached LKR 32 bn by end 2014, against our target of LKR 29 bn for the year. This is a growth of 45% compared to 2013. A major share of credit growth was in the area of securitised lending. In addition, to push credit disbursements in a stagnant market, SDB launched two new products targeting underserved segments of Sri Lankan society. The Upahara credit facility is designed to support Sri Lanka’s growing pensioned population to initiate income generating activities. Many retired, pensioned citizens have the skills and experience to conduct a business, but are unsupported by the traditional banking system. During the year, SDB disbursed up to LKR 2.4 bn in credit to under the Upahara facility. The second new product, Uththamachara supports disabled and retired soldiers with pensions, to initiate income generating activities. These two new products will help these sectors of the population to actively contribute to the growth of the economy.

Credit quality

I am pleased to say that SDB is able to report one of the lowest delinquency rates in the financial sector during 2014. Our NPL ratio as at 31st December 2014 stood at 3.78% as against the national average of 4.2%

Deposit growth

Our deposit base increased by 28% to reach LKR 30 bn by end 2014, driven by an aggressive drive to attract new deposits and a marketing campaign that highlighted the Bank’s services. Also, as the bank for the cooperative sector, a majority of the cooperative sector deposits, are routed through SDB.

Revenue, cost and profitability

We saw strong revenue growth of 10% during the year of 2014, while we also managed to contain cost increases through efficiency improvement methods. As a result, profit after tax increased by 103% against 2013, to reach LKR 504 mn.

Non financial performance

It was necessary to implement widespread structural changes within SDB, to accommodate the scaling up of operations with a wider market scope and customer base, and a wider portfolio of financial services.

Our non financial performance during the year under review is described below.

Targets	Actual performance in 2014
Strengthen governance system	◀ Ensured compliance with Central Bank regulatory requirements, in line with the Bank’s scaling up of operations
Strengthen risk management system	◀ Introduced in house risk management department
Strengthen the management team	◀ All key management positions have been filled. ◀ Skills of our middle management are in the process of being upgraded.
Enhance brand visibility	◀ Conducted a brand building campaign to re-position SANASA as a national financial services provider, instead of cooperative micro credit provider
Increase productivity	◀ Introduced performance based reward system ◀ Conducted 15 training programmes for 450 employees

Targets	Actual performance in 2014
Develop new products	<div><div>◀</div>Developed two credit products</div> <div><div>◀</div>Developed new environmentally friendly product line</div> <div><div>◀</div>Some existing products were re-launched with value additions</div>
Leverage IT systems	<div><div>◀</div>Take steps to commission a Management Information System to support decision making</div>
Improve customer accessibility to SDB services	<div><div>◀</div>Relocated 3 branches to provide better services</div>

Improving compliance and risk management

A high priority was to strengthen the governance system to comply with Central Bank regulatory requirements. Therefore, the functions under the Compliance Officer, who independently reports directly to the SDB Board, were strengthened. The risk management process was improved, under the purview of the Integrated Risk Management Committee, which is a Board sub-committee reporting directly to the SDB Board. In addition, an Executive Risk Management Committee meets and reviews the overall risk management process.

Closer monitoring

Monitoring and reporting mechanisms were realigned for greater controls, while maintaining flexibility of branch level decision making. Currently SDB has an island wide network of 82 branches, monitored under a regional and branch management structure, where branches are monitored on a daily basis by the regional management. IT systems were upgraded to support planning, decision making and to gain cost and productivities efficiencies.

Marketing drive

It was also necessary to conduct an island wide promotional campaign to reposition SDB, as the Bank has been traditionally perceived as a rural, micro credit supplier catering mainly to the SANASA cooperative societies. A Marketing Division was established with marketing strategy to support our market development drive. The success of our marketing process can be seen in the growth of deposits and credit disbursements to non-cooperative sectors.

Building our human capital

A key outcome of the changes was a need to enhance our human resource base. The Bank required experienced experts to drive its new strategies at ground level. Therefore,

the management cadre was strengthened, while targeting all staff with training, to upgrade their skills and support service base expansion. Streamlined, transparent human resource management policies were implemented including a performance based management system. I am happy to report that despite initial employee concerns regarding the changes within SDB, staff turnover has dropped by 38% during the year against 2013, while productivity per employee has improved by 40%. This indicates that our change management process has been effective.

Growing green

As an organisation that has traditionally worked with rural communities, SDB has always been considerate of its social and environmental impacts. Moving forward, we intend to continue this tradition. Currently, we are evaluating an environmentally friendly credit line, that will finance environmentally friendly investments for all customer segments. These include financial support for hybrid vehicles, solar energy, bio gas, solar water pumps etc.. We plan on implementing this eco friendly credit line in 2015.

Expanding our reach

We hope to add another nine branches to our existing 82 branch network in 2015. In addition, we will also look into the possibility of entering the South Asian region, by exporting our micro-finance and cooperative sector expertise.

Appreciations

I would like to place on record that our process of transformation, which is still a work in progress, would not have been possible without the support of all our stakeholders, particularly our employees, Board of Directors, shareholders, especially the SANASA Movement, and the SANASA Federation, and of course the regulators. Therefore, my warmest appreciations go out to them and I hope we will continue to enjoy their support and confidence as we embark on this journey of growth. I would also like to express my appreciations to our international business partners such as the International Finance Corporation, Rabobank and the Canadian International Development Agency (CIDA), for their valuable support and understanding during the year under review.

Sincerely



Nimal C. Hapuarachchi
General Manager/ CEO

13th February 2015
Colombo

Board of Directors



1. Mrs. M.S. Kiriwandiya <i>Chairperson</i>	2. Mr. T. Karunasena <i>Deputy Chairman</i>	3. Mr. A.D. Walisinghe
4. Mr. D.P. Kumarage	5. Mr. L. Abeysekera	



Board of Directors *contd.*



6. Mr. J. Rathnayake	7. Mr. W.M.M.D. Ratnayake	8. Mr. Thilak Rajapaksha
9. Mr. H.M.G.B. Herath		



Board of Directors *contd.*

1. 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 Saskatchewan, Canada.

2. Mr. T. Karunasena

(Senior Director/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 in- charging, 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.

3. 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 this, he was an Accountant and Finance Manager at Markfed and Subsequently in the Textile Members 'Co-operative Society. Currently he serves as the President of the Kegalle SANASA District Union.

4. Mr. D.P. Kumarage

Mr. Kumarage is the Chief Executive Officer of the People's Leasing and Finance PLC. 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 member of the Chartered Institute of Management Accountants, UK. He brings invaluable expertise and experience to the Board.

5. Mr. Lakshman Abeysekera

Mr. Lakshman Abeysekare, Chartered Accountant, possess over 20 years experience in the Accounting field. He currently functions as a Director / CEO of Janrich (Private) Limited, Director NovEx Pharmaceuticals Limited and Governing Council Member of AAT Sri Lanka. He has held the positions of Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Accountant Hoechst (Ceylon) Limited and was the 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 the Association of Accounting Technicians of Sri Lanka and has an MBA from Institute of Postgraduate Management, University of Sri Jayawardenapura.

6. Mr. Jayantha Rathnayake

Mr. Jayantha Rathnayake is a statistician employed by the state. He holds a B.Sc. in Management from the University of Sri Jayawardenapura. He is the Vice Chairman of Kamburupitiya City TCCS Limited. He has been actively involved in the SANASA movement for over 25 years.

7. Mr. Madura Duminda Ratnayake

Mr. W.M. Madura Duminda Ratnayake a Chartered Engineer by profession, possess over 20 years of experience in the fields of IT industry, delivery management, project management, solution architecture, customer support, consultancy and general management in UK, USA, Australia, India and Sri Lanka. He has delivered multi-million dollar projects to Fortune 1000 companies with geographically spread software teams. He is experienced in document management, content management, shareholder information management, health care and Internet billing.

Mr. Rathnayake is the Senior Vice President and Head of Digital, at Virtusa (Pvt) Ltd.

He is the founder Director and Chairman emeritus of the Sri Lanka Association for Software and Services Companies (SLASSCOM) which represents the Sri Lankan IT / BPM industry. He is also Chairman of Sarvodaya Fusion, Co-Chairman of the National Council on ICT and Space Technology, for the coordinating secretariat for Science Technology and Innovation (COSTI), a member of the advisory board for ICT at the Export Development Board (EDB) and represents the IT Industry on Boards of several leading universities. He has sound experience in leading large multi-stakeholder groups from Government, industry and academia, to develop national strategies on IT and is actively involved in directing execution.

He holds an MBA from the Postgraduate Institute of Management, Sri Lanka, and a First Class Honours degree in Software Engineering, from City University, London.

8. Mr. Thilak Rajapaksha

Mr. Thilak Rajapaksha is the Chairman of Paradise TCCS Limited and holds a Combined Degree from the University of Peradeniya. He has been serving as a Senior Head Quarters Inspector at the Co-operative Development Department, and currently serves as an Executive Director in the Federation of Thrift & Credit Co-operative Societies Limited in Sri Lanka.

9. Mr. H.M.G.B. Herath

Mr. H.M.G.B. Herath has 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.

He has 25 years experience as the Chairman of the SANASA Society of Kandapola and has also served as the Executive Director of the SANASA Federation of Sri Lanka. He is the Vice Chairman of the Kurunegala District Co-operative Council and is the Internal Auditor of a leading private firm in Wariyapola.

Corporate Management Team



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

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

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

2. Mr. Kumar Mayadunne
Chief Operating Officer
Dip. in Bank Mgt (IBSL)

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

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



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

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

09. Ms. Tamarika Rodrigo
Company Secretary
Attorney-at-Law, Notary Public

10. Mr. S. S. S. Senanayake
Compliance Officer
LLB, Attorney-at-Law, Notary Public, Commissioner of Oaths, FIB, PG Dip. in Bank Mgt.

11. Mr. Terrance Kumara
Head of Finance
MBA (USQ), ACA, ASCMA (SL), MAAT

12. Mr. Sameera D. Liyanage
Head of Marketing
MCIM (UK), MSLIM, PG Dip. in Marketing (CIM)

Senior Management Team



1. Mrs. P.C. Liyanage
LLB, Attorney-at-Law, Notary Public, Commissioner of Oaths, Company Secretary
Head of Legal

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

3. Miss K.K.C.J. Dassanayake
B.Sc. Agri., MSc (Hons), AIB
Regional Manager - Southern

4. Mr. E.A.L.S. Edirisuriya
Dip.in Finance & Bank Mgt., Investment Advisor Certified by CSE.
Regional Manager - Western

5. Mr. W.T.R. Prabath
B.Sc. (Physics -Special)Hons, Dip. In. Business Mgt., Dip in Financial Mgt, AUKAP(UK)
Senior Manager - Human Resource Management

6. Mr. G.A.S. Wimalaratne
B.A. (Hons) Business Statistics, Post Graduate Dip. - Business Statistics
Regional Manager - North Central

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



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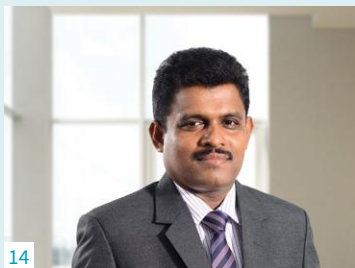
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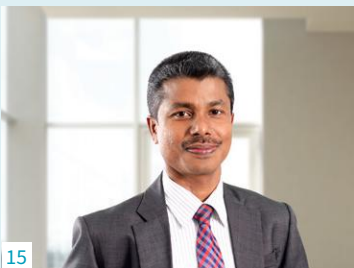
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8. Mr. P.G. Sunil
B.Sc. Business Administration (Sp)
Regional Manager - North Western

9. Mr. B.W.S. Premaratne
B.Com (Special), MCIM (UK), CMA (Australia) MSLIM, MAAT, HNDA,
Chartered Marketer, MBA (General - UK)
Regional Manager - Central

10. Mr. H.Y.J. Chandrapala
FIB (SL), Dip. In Modern Banking
Senior Manager - Centralized Operations

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

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

13. Mrs. S.N.T. Igalagamage
B.Sc. (Agri - Special) Hons., Dip.in HRM, MIMSL
Senior Manager - Inspection & Audit

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)
Regional Manager - Sabaragamuwa

Senior Management Team *Contd.*



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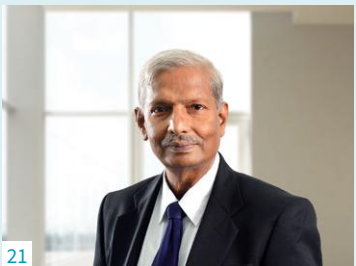
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16. Mrs. M.M.Y.L. Muththunga

*B.Sc. Hons.
Senior Manager ICBS*

17. Mr. R.S.A.M.B.Y. Rajakaruna

*B.A., PGCC (India), Dip. In Psy, ACGC, National Dip in T&D (SLITAD)
Senior Manager - Human Resource Development*

18. Mr. W.H.M.U.B. Welikumbura

*MBA (Pera), PGDM, MSLIM, BMS
Senior Manager - Strategic Planning*

19. Mr. R.A.C.N. Rathnayake

*B.Sc. Accountancy & Finance (SP) Hons, Registered Trainer & Consultant
(Ministry of Public Management Reforms)
Senior Manager - Cooperative Development*

20. Ms. P. R. Perinpanayagam

*FCCA (UK), B.Sc.Hons, Applied Accounting (UK)
Senior Manager - Integrated Risk Management*

21. Mr. V.K.L. Sugumar

*B.Com, AIB (SL)
Regional Manager - Nothern*

22. Mr. M.J.H. Perera

*B.Sc. Business Administration (Sp)
Senior Manager - Ampara Branch
(Not pictured)*

23. Mr. K.B. Rathnayake

*B.A. (General), M.A
Regional Manager - Uva
(Not pictured)*

Governance System

Ethical foundation G4 56-58

Our organisation ethic is expressed by the SANASA Movement’s oath, which is based on cooperative principles of community empowerment. This is a non-discriminatory philosophy that espouses equal opportunities and participation in decision making.

Ethical integrity is maintained through:

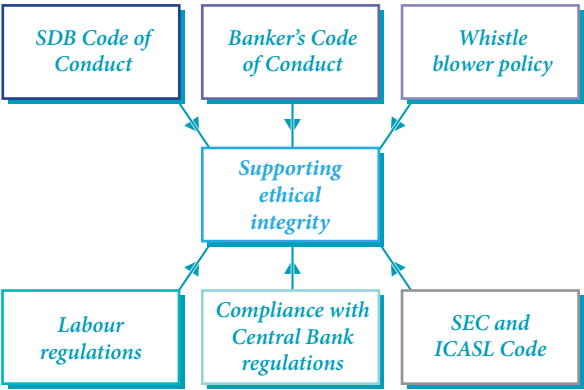
The SDB Code of Conduct: All employees are provided with a copy of the SDB Code of Conduct and are required to sign in agreement. The code sets out the ethical behaviour of employees, administrative procedures and grievance procedures.

Code of Conduct for Bankers in line with the Monetary Board’s Customer Charter and the Secrecy Provision in the Banking Act: To protect customer confidentiality

Whistle blowing: SDB has a Board approved whistleblower policy that allows any person, including a member of staff, to report unlawful or unethical behaviour to the top management.

Regulatory compliance: SDB complies with the provisions of the Banking Act, Direction No 12 of 2007, of the Central Bank on corporate governance for licensed banks in Sri Lanka. Please refer section titled ‘Compliance Status’ for full details.

SEC and ICASL Code: SDB complies with the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka code of best practices.



External methods of seeking advice on ethical and lawful behaviour: SDB consults the Wages Ordinance and labour regulations, as guidance on employee ethical behaviour

Governance structure G4 34, 35, 36, 38, 39, 42

SDB’s highest governing body, the Board of Directors, meet every month and is supported by sub committees such as Audit, Integrated Risk Management, Credit, Selection and Nomination and Human Resources and Remuneration, in the decision making and planning process. The Chairperson, who heads the Board, is a non-executive post. All corporate strategies and plans are developed

by the corporate management and the Board is also directly involved in the Bank’s risk management process. The Executive Integrated Risk Management Committee meets every month and Board sub committee meets once in three months the minutes of which are directly send to the Board for ratification. Due diligence matters are reported to the Board by the Compliance Officer, who is an independent official reporting directly to the Board. Please refer Board subcommittee reports, for further information on the composition and operation of SDB’s governance structure.

Ensuring good governance

G4 40, 41, 43, 44, 48, 50, 51, 52

Nomination and selection to the Board: Nominations are made through the Nominations Board Sub Committee. An affidavit of authenticity is required from the nominated person and the details are sent to the Central Bank for final approval. SDB has no discriminatory criteria for disqualification of nominees. The nominees are required to be ‘Fit and proper’ within Central Bank guidelines.

Selection and appointment to Board Sub Committees: Based on Terms of Reference. Nominee must be suitable for the post in terms of qualification and experience. Must have no business dealings with the Bank.

Avoiding conflict of interest: A declaration is obtained at appointment to the Board on any material interests in the Bank. In cases of Directors representing shareholders, they must abstain from voting on topics of conflict of interest. Such instances are disclosed in the Board minutes.

Measures taken to enhance the Board’s collective knowledge of economic, environmental and social topics: Board members participate in Central Bank training programmes in corporate governance and internally organised awareness programmes target the Board members.

Evaluation of Board performance: Self assessments, prepared based on Corporate Governance requirements issued jointly by Securities and Exchange Commission and Chartered Accountants Sri Lanka, are conducted annually. As the Board is not a permanent body and Directors are not full time personnel, there is no set criteria for performance.

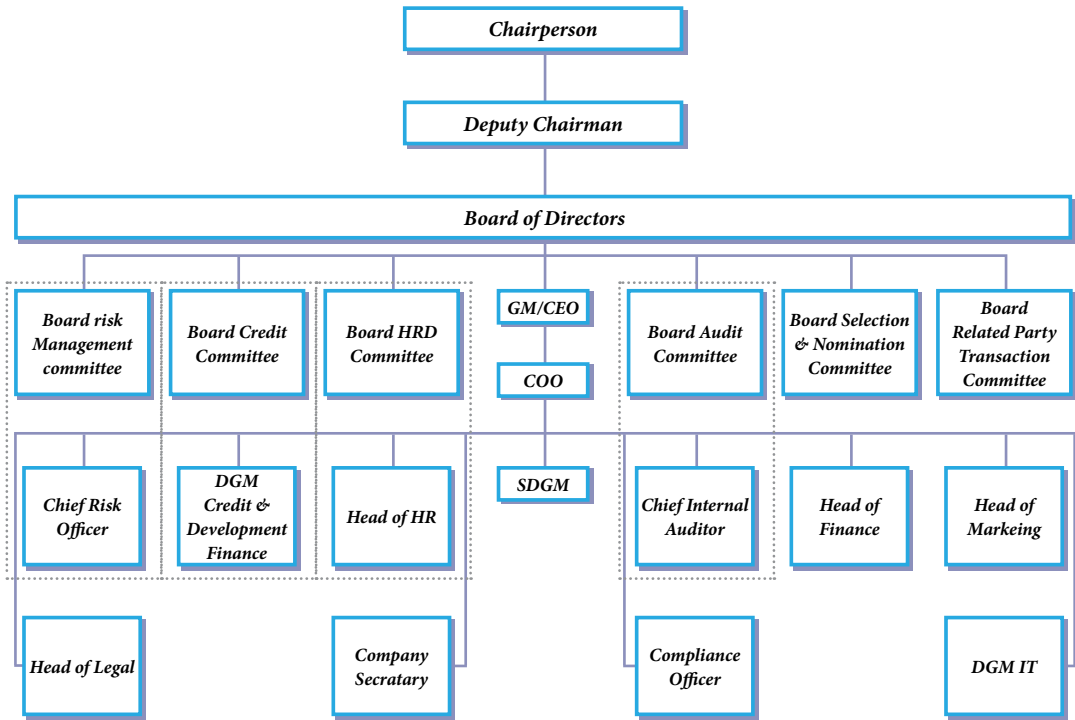
Review of sustainability report: Different sections of the report are reviewed by the relevant senior management to ensure accuracy of reported data.

Process for communicating critical concerns to the Board: The Chief Internal Auditor, the Compliance Officer and Chief Risk Officer are mandated to report directly to the Board on any critical issues.

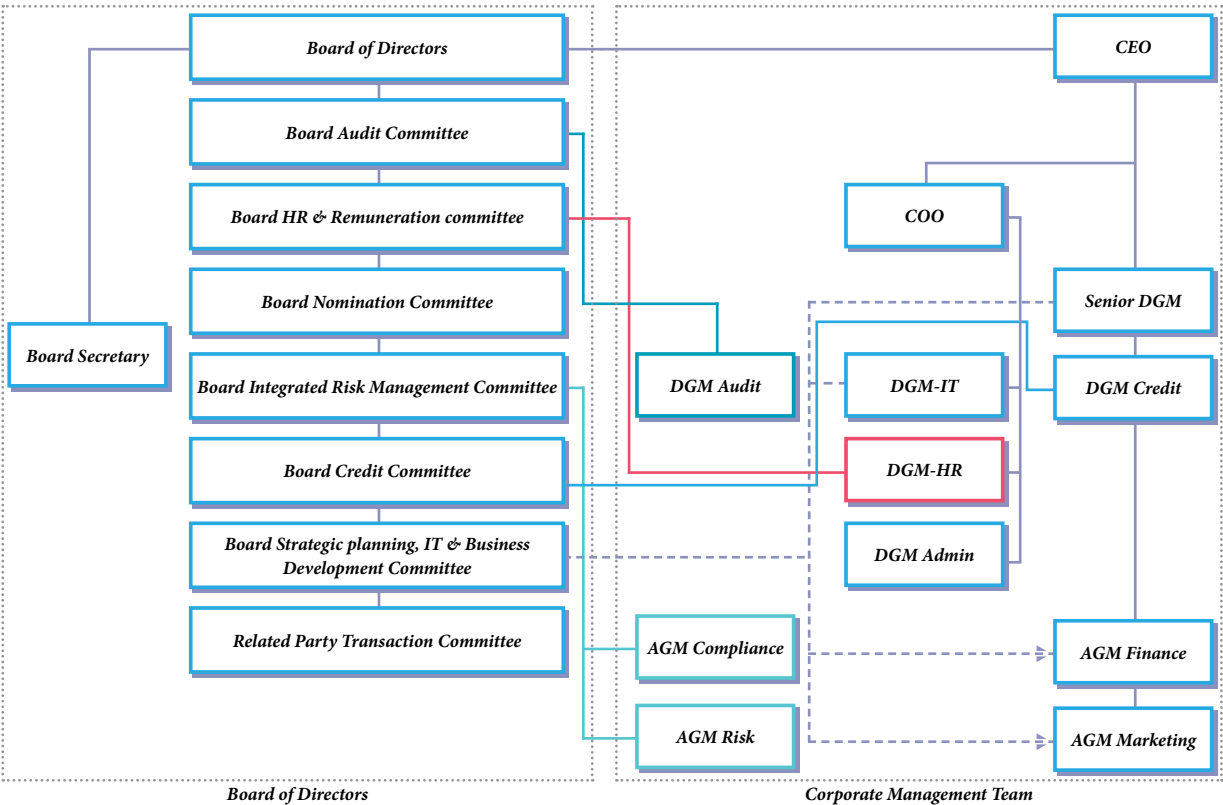
Remuneration policies for Board and senior executives: SDB has a formal remuneration policy for Directors and senior executives.

Governance System Contd.

Governance structure G4 34



Reporting structure

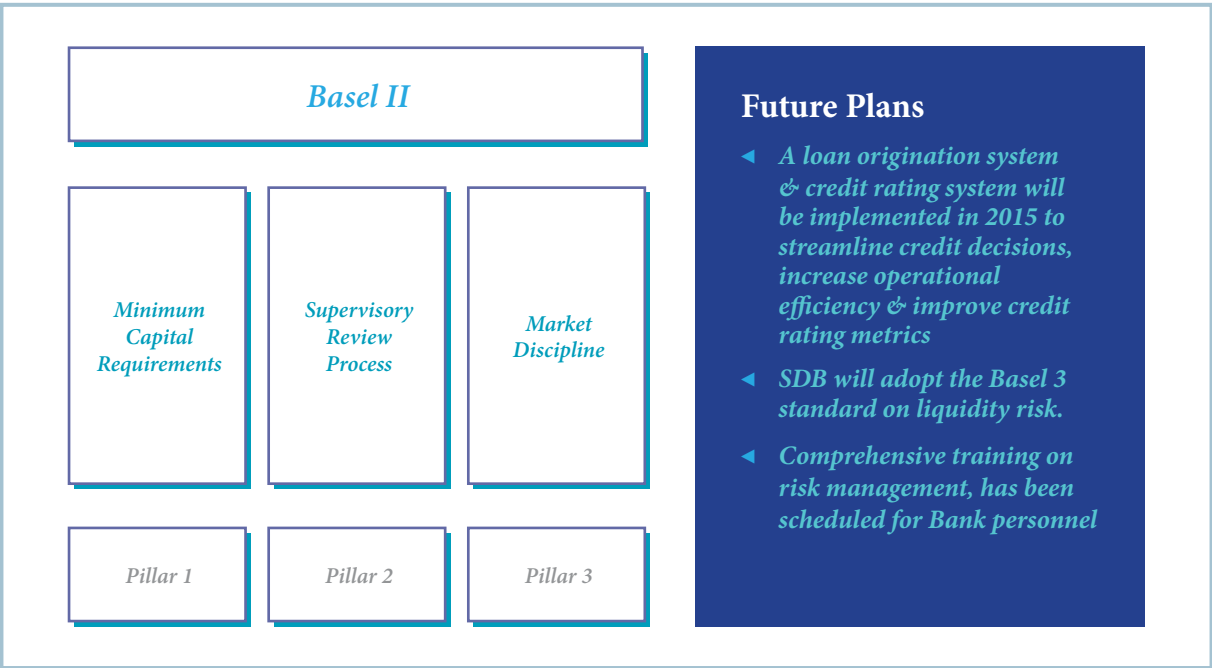


Risk Management System

SDB risk management policy

SDB has adopted an Integrated Risk Management (IRM) Framework, approved by the Board, which complies with guidelines of the Central Bank and Basel II accords. The main areas of risk applicable to the Bank are; credit, liquidity, market, operational, strategic, reputational and concentration risk.

Basel II framework



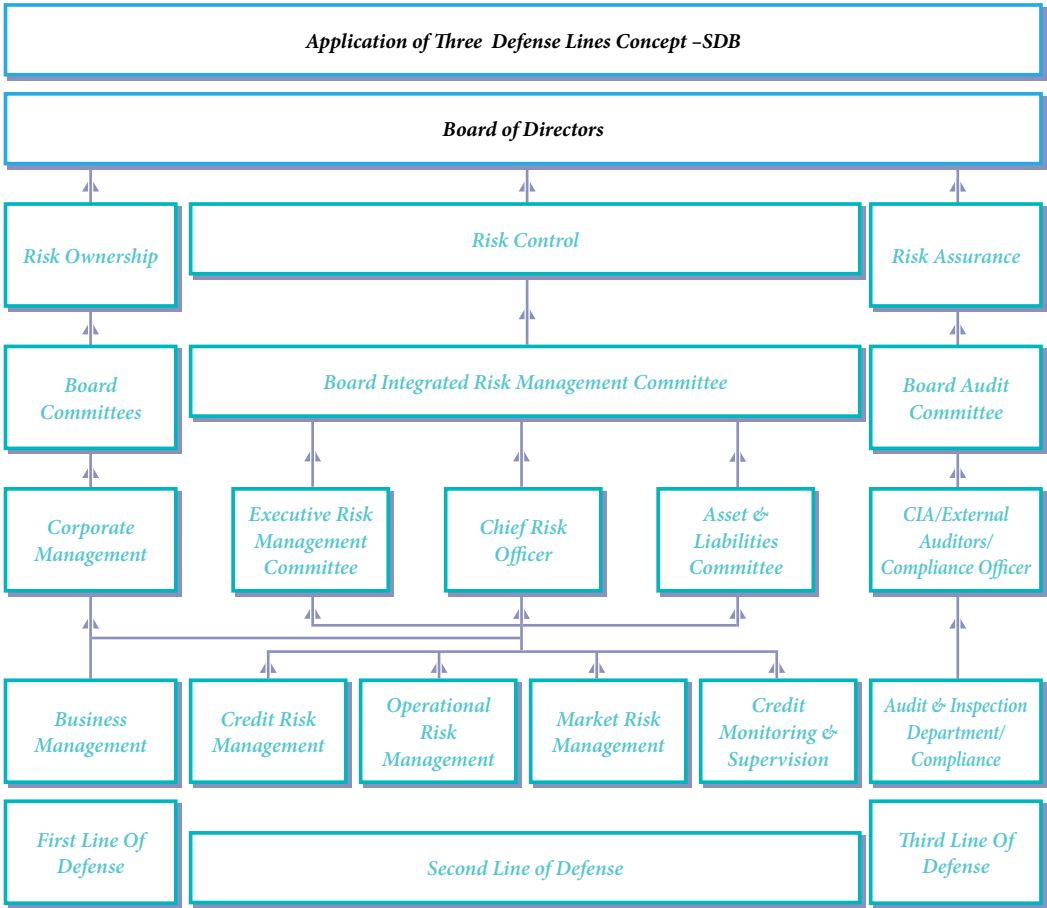
The Basel II is built on three pillars and the progress made by the Bank in achieving these standards are discussed below

	Pillar 1	Pillar 2	Pillar 3
Concept	Maintenance of minimum regulatory capital for credit, operational and market risk	Internal capital adequacy assessment process to evaluate the activities & risk profile to determine whether the bank should hold higher level of capital than the minimum requirement in tier 1.	Develop a set of disclosure requirements in order to facilitate market participants to assess the risk exposure of banks and the way in which they are managed.
Progress made	Capital adequacy has been computed, as per regulatory requirements	A comprehensive ICAAP framework has been developed with the help of a consultant.	The Bank is currently reviewing disclosure requirements and progressing towards fulfilment of Pillar3

Risk Management System *Contd.*

Risk governance structure

The risk governance structure of SDB is based on three lines of defence. These are risk ownership , risk control, and risk assurance. The application of the three lines of defence and risk governance structure are depicted as follows.



The Board Integrated Risk Management Committee (BIRMC)

The Board of SDB is the highest authority on management of risks. The Board Integrated Risk Management Committee (BIRMC) has overall responsibility, on behalf of the Board, to ensure that risk management systems are robust and are embedded in the way the Bank operates. The BIRMC is assisted by the Executive Integrated Risk Management Committee (EIRMC), Asset and Liability Committee (ALCO) and Integrated Risk Management Department.

The Executive Integrated Risk Management Committee consisting of key management personnel of the Bank, meets monthly to monitor key risk indicators and new developments. The Executive Integrated Risk Management Committee works in tandem with the Asset & Liability Committee. The Chief Risk Officer is a member of both management level committees' & reports directly to the Board Integrated Risk Management Committee which meets quarterly.

Process of managing risk

The risk appetite and prudential levels are periodically reviewed to capture factors such as evolving business and strategic objectives of the Bank, changing local and global political and economic conditions, changes in regulatory requirements, dynamic competitive business environment. Clearly defined risk appetite indicators in different categories of risk support consistency in risk based decision making taken by officers across the organisation. The well formulated risk appetite of the Bank ensures that the business plans are executed within the identified risk parameters to optimise risk return trade off. Responsibility of managing the risks across the Bank resides with all levels in the hierarchy from the Board of Directors, to business unit heads. This structure enables the bank to take informed decisions after evaluating and challenging them from risk perspective at various levels.

SDB currently has well articulated policies in the following areas

1. Credit Risk –The Bank's credit risk policy is comprehensive covering the following areas. Credit Risk governance structure, risk owners, stages of assessment of credit risk, a description of key risk indicators, methods of reducing credit risk & prudential limits.
2. Market Risk - This encompasses the scope of market risk, risk owners, methods of calculating market risk & prudential limits.
3. Liquidity risk - This documents how liquidity is measured by the bank, Liquidity risk management governance structure, risk owners & prudential limits.
4. Integrated risk management – This documents the risk governance structure & the roles of the integrated risk management department.
5. Stress Testing – The stress testing policy of the bank documents the purpose & frequency of stress testing, procedures & reporting process & scope & methodology of stress tests.
6. Risk appetite tolerance levels – The risk appetite tolerance level document covers the risk appetite statement, risk appetite architecture & prudential limits of the bank

Improvements to SDB's Risk Management System in 2014

- ◀ *A separate unit called the Treasury Middle Office (TMO) was established for Middle Office treasury reviews.*
- ◀ *The functions of treasury trading transactions are reviewed independently by the Risk Department.*
- ◀ *Gains and losses on trades, and stress testing of trading portfolio were carried out by the TMO.*
- ◀ *Assessment of risks faced by business units of the Bank.*
- ◀ *Support development of a strong risk awareness culture through training and knowledge sharing.*
- ◀ *Post sanction credit evaluation was strengthened by evaluating a larger share of loan files.*

Risk Management System *Contd.*

Credit risk management

Credit risk is the potential 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 customers and other banks and investment debts. The objective of the Bank’s credit risk policy is to minimise the probable losses and maintain credit risk exposure within acceptable parameters.

To measure credit risk the Bank uses quantitative measures such as NPL ratio, number of NPL loans, large credit exposures, related party transaction and single borrower limits. All loans are categorised according to the status and limits have been set for each category. Some qualitative indicators have also been established such as Board approved policies, frameworks and annual reviews, delegated authority levels , reviewed regulations, segregations of duties between loan originator administration and risk , independent pre-credit risk evaluation by Integrated Risk Management Unit for over LKR 4Mn and post credit risk evaluation by credit monitoring and supervision unit for loans exceeding LKR 1.5Mn

Credit Risk Indicators – Compliance with Statutory/ Prudential Limits		
	Key Risk Indicators	Comments
1.1	Single borrower limit - individual & group	Complied
1.2	Loan amount in agricultural sector to total loan portfolio	Complied
1.3	Aggregate limit for related party transactions	Complied
1.4	Number of NPL cases	Complied
1.5	Large credit exposure - above 10 Million	Complied
1.6	Non performing ratio of the lending portfolio	Complied
1.7	Net non performing loan portfolio	Complied
1.8	Non-Performing loan provision coverage ratio	Complied
1.9	Geographical concentration	Complied
1.10	Product concentration	Complied
1.11	Sector concentration	Complied
1.12	Name concentration	Complied
1.13	Coverage of post sanctions evaluation.	13%

Market risk

Market risk is the risk of losses in positions arising from movements in market prices. Market risk comprises of interest rate, foreign exchange risk and price risk. Market risk from trading is monitored by the Treasury Dept. while

risks from non trading activities are managed through the Asset and Liability Committee. The ALCO oversees the management of market risk. The committee decides on product pricing, mix of assets and liabilities, stipulates interest rate risk and monitors it, articulates the Bank’s interest rate view and determines the business strategy of the bank. The 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. There were no equity investments as at 31st December. The Bank’s risk appetite for interest rate is generally low.

The interest risk is monitored through regular reviews of net interest yields by product and by revising asset and liability pricing in line with expectation on the interest yield curve. Gap analysis on rate sensitive assets and rate sensitive liabilities are prepared and presented to ALCO monthly to decide on suitable strategies to be adopted based on future interest rate forecasts. Treasury middle office independently reports on gain/losses on trading portfolio on a weekly basis.

Market Risk Indicators – Compliance with Statutory/ Prudential Limits		
	Key Risk Indicators	Comments
2.1	Aggregate Equity Exposure in Public companies	Complied
2.2	Aggregate Equity exposure in Private companies	Complied
2.3	Reprising Gap report	18.85%
2.4	Investment Rating	Complied
2.5	Forex Currency Risk	Complied

Liquidity risk

Liquidity risk is the probability of loss arising from a situation where (1) there will not be enough cash and/or cash equivalents to meet the needs of depositors and borrowers, (2) sale of illiquid assets will yield less than their fair value, or (3) illiquid assets will not be sold at the desired time due to lack of buyers.

The bank has a well established framework and sound policy and a contingency funding plan for liquidity risk management. The framework is designed to:

- ◀ Fulfil the Bank’s contractual financial obligations on a timely basis.
- ◀ Ensure adequate liquidity profile and compliance with regulatory requirements.
- ◀ Optimise the return within the appropriate risk profile
- ◀ Minimise 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. The treasury maintains and monitors liquidity on a daily basis. The ALCO executes the liquidity management policy. The Board and BIRMC periodically monitor the liquidity portfolio to assess liquidity risk frequently. All liquidity reports are sent to ALCO and then to BIRMC for further review.

Liquidity risk indicators

Liquidity risk is measured through stock approach and flow approach. The stock approach compares financial metrics of the Bank based on its ability to meet short term obligations based on available liquidity. The flow based method is based on the maturity ladder of the Bank used to compare future inflows and outflows.

Liquidity Risk Indicators – Compliance with Statutory/ Prudential Limits		
	Key Risk Indicators	Comments
3.1	Liquidity gap report	Complied
3.2	Bank guarantee as a % of liquidity assets	Complied
3.3	Statutory liquid asset ratio	Complied
3.4	Loan to deposit ratio	105%
3.5	Readily marketable assets as % of total deposits	Complied
3.6	Top twenty largest deposit as % of total deposit	Complied
3.7	Short term liability & short term assets	Complied
3.8	Availability of contingent fund of total deposit	Complied

Stress testing for liquidity

The Bank conducted stress tests for liquidity risks by calculating the Statutory Liquid Asset Ratio 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

Operational risk is arising upon failure of internal procedures, people and systems. The Bank has a comprehensive operational risk policy including identification and assessment of risk of losses ranging from internal/external fraud, employment practices and work places safety, clients products and business practices, damage to physical assets, business disruption and system failure, execution delivery and process management. Operational loss register is maintained at branch level. Losses are reported according to frequency and value on a monthly to the Executive Risk Management Committee and quarterly to the Board integrated Risk Management Committee. Additionally the

Bank has in place authority levels, internal and external Audits, insurance policies and back up facilities for information.

Further, the Bank has the following insurance policies in place

- Bankers Indemnity
- Personal Accident Insurance
- Surgical and Hospitalisation cover
- Workers’ Compensation

Operating Environment

Performance against the industry

As explained by the Chairperson and the CEO, 2014 was a year of significant change and consolidation. These changes were also affected by the macro operating environment. For instance, SDB experienced many internal changes driven by external regulatory requirements under the financial sector consolidation plans of the Central Bank. Despite these extensive internal adjustments, we are happy to report a strong performance by SDB compared to the overall banking industry performance.

Credit growth

The high level of excess liquidity, which was observed since end August 2013, continued into 2014, with overall liquidity increasing to LKR. 336.53 bn by end September 2014, from around LKR. 71.67 bn by end 2013, as seen from Central Bank data. Interest rates continued to decline during the first nine months of 2014. Credit growth remained sluggish, mainly due to the decline in the pawning sector, during the beginning of the year, but picked up towards the year end resulting marginal drop in excess liquidity.

According to the Central Bank, year-on-year growth of loans and advances was 13.7% in December 2014 compared to 8.8 % in December 2013. At SDB however, we are happy to record a significantly higher rate of credit portfolio growth. Our total portfolio experienced a 44.96% rate of growth during the year against a 12.20% rate of growth in 2013. SDB's sharp credit growth in 2014, against the much slower industry growth can be seen in the chart below.

Together with our standard credit lines, we also continued to expand our economic contributions as a Participating Financial Institution (PFIs) in refinance schemes, interest subsidy schemes and credit supplementation schemes, operated by the Central Bank and international agencies. These funding schemes are aimed at improving quality of life and promoting regional development, and SDB has been extremely successful in channelling these funds into agriculture, livestock, micro and small and medium enterprise (SMEs) in the regional grass roots. More information on these funds can be found in the 'Contributing to Social Capital' chapter of this annual report. (Fig. 01)

Asset growth

According to the Central Bank, overall, banking asset growth slowed down to 13.1% year-on-year, to LKR. 6.4 trillion against a growth of 15.7% in 2013. As in the case of credit growth SDB saw a reversal of the norm with a significantly higher asset growth of 36.46% in 2014 against an asset growth of 19.41% in 2013. Banking sector asset quality, as measured by the ratio of non-performing loans to total loans, remained steady at 4.2% in December 2014. Comparatively SDB's asset quality remained at 3.79%, which is much lower than the industry average. This is indicative of our stringent credit evaluation and credit monitoring systems, and our strong credit recovery process. (Fig. 02,03)

Fig. 01 - Credit Growth

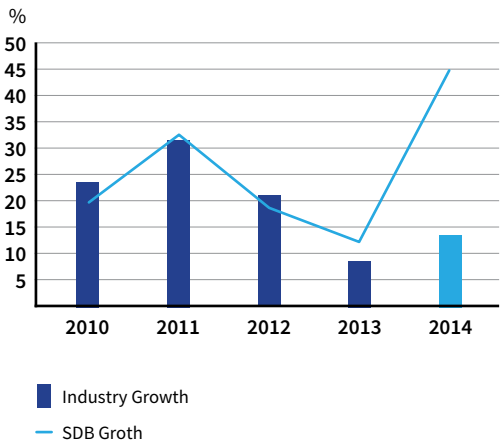


Fig. 02 - Industry Asset Growth vs. SDB Asset Growth

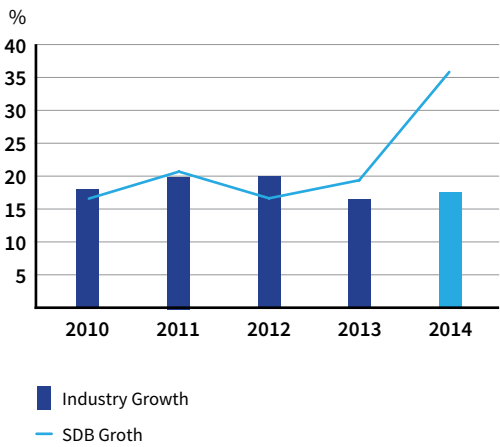
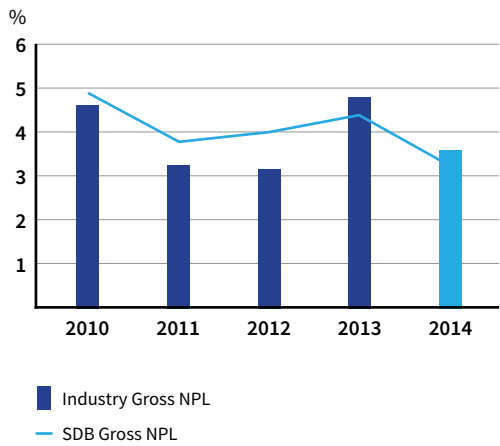


Fig. 03 - Asset Quality



Profitability

Central Bank statistics show that banking sector profitability increased marginally in 2014, with the banking sector recording a profit after tax of LKR. 88 bn in 2014, compared to LKR. 74.6 bn in 2013.

Return on Assets (ROA) (before tax) increased to 1.4% in 2014, as against 1.3% in 2013. Comparatively SDB's asset profitability remained well above the industry averages with SDB's ROA increasing from 1.22% in 2013 to 2.19% in 2014. This was mainly due to lower losses in the loan portfolio due to our stringent credit controls and credit management systems. (Fig. 04)

Banking industry Return on Equity (ROE) increased marginally to 16.5% in 2014 from 16.0% in 2013. SDB's return on equity improved from 10.04% in 2013 to 11.43% in 2014, following the implementation of improved credit management systems. (Fig. 05)

Sri Lanka's banking sector cost to income ratio, measured as total operating expenses to total operating income, decreased from 79.3% in December 2013, to 75.8% in December 2014. SDB's cost to income ratio continued to decline from 69.39% in 2013 to 62.65% in 2014. This was achieved through to increased staff efficiencies. (Fig. 06)

Fig. 04 - ROA Movement

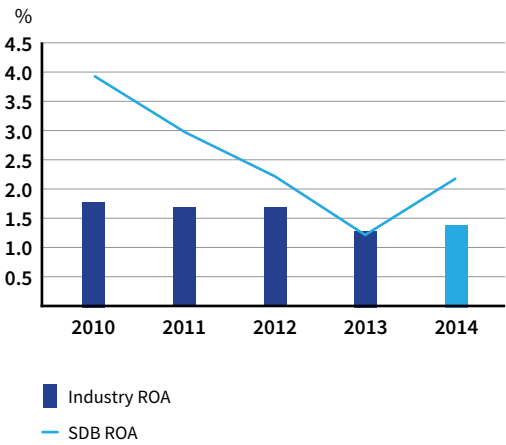


Fig. 05 - ROE Movement

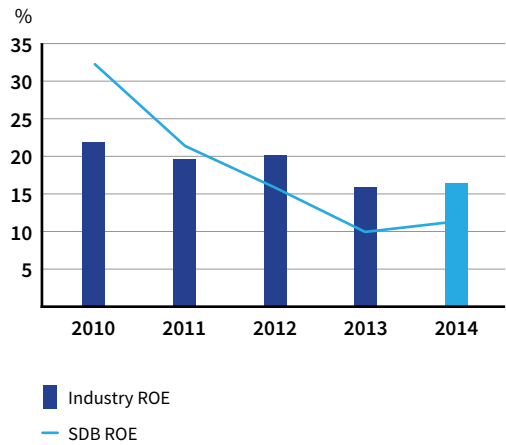
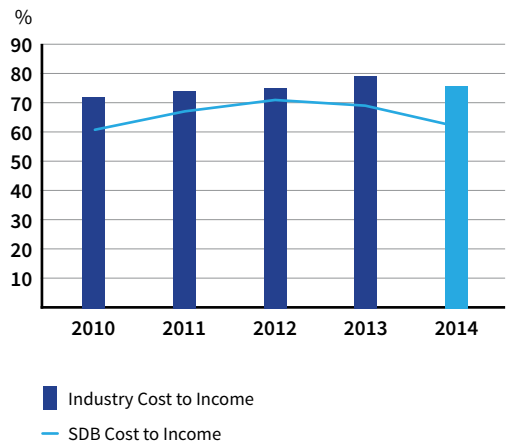


Fig. 06 - Cost To Income



Operating Environment *Contd.*

Industry Net Interest Margins remained unchanged at 3.5%. SDB's Net Interest Margins increased slightly from 7.12% in the previous year to 7.48%, due to healthy margins maintained in our loan portfolios. *(Fig. 07)*

The banking industry's core capital ratio, declined marginally from 14.9% to 14.1% by end 2014, while SDB's core capital improved from 14.01% to 14.89%.

Industry total capital declined from 17.6% to 16.7%. while SDB's total capital improved from 14.13% in 2013 to 15.3% by end 2014.

In both cases SDB capital adequacy ratios are well above the minimum statutory requirement of 5% for core capital and 10% for total capital. *(Fig. 08)*

Fig. 07 - Net Interest Margin

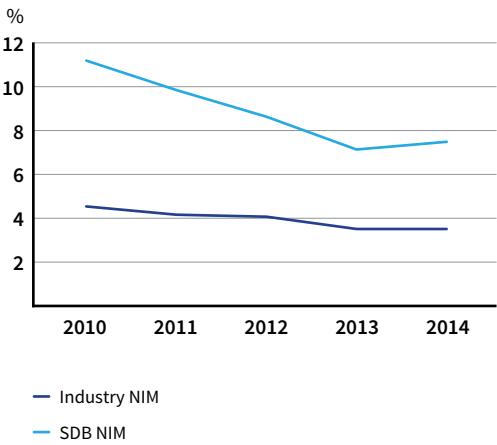
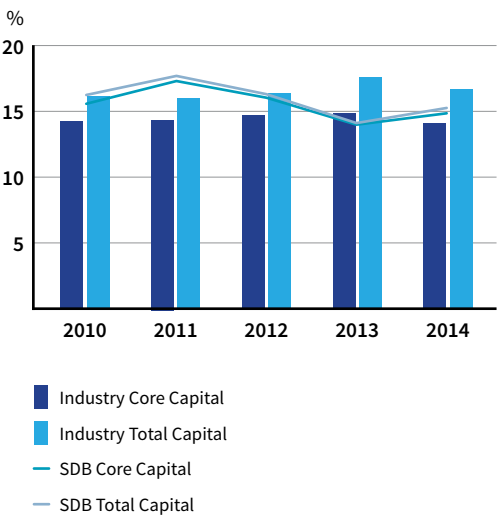


Fig. 08 - Capital Adequacy



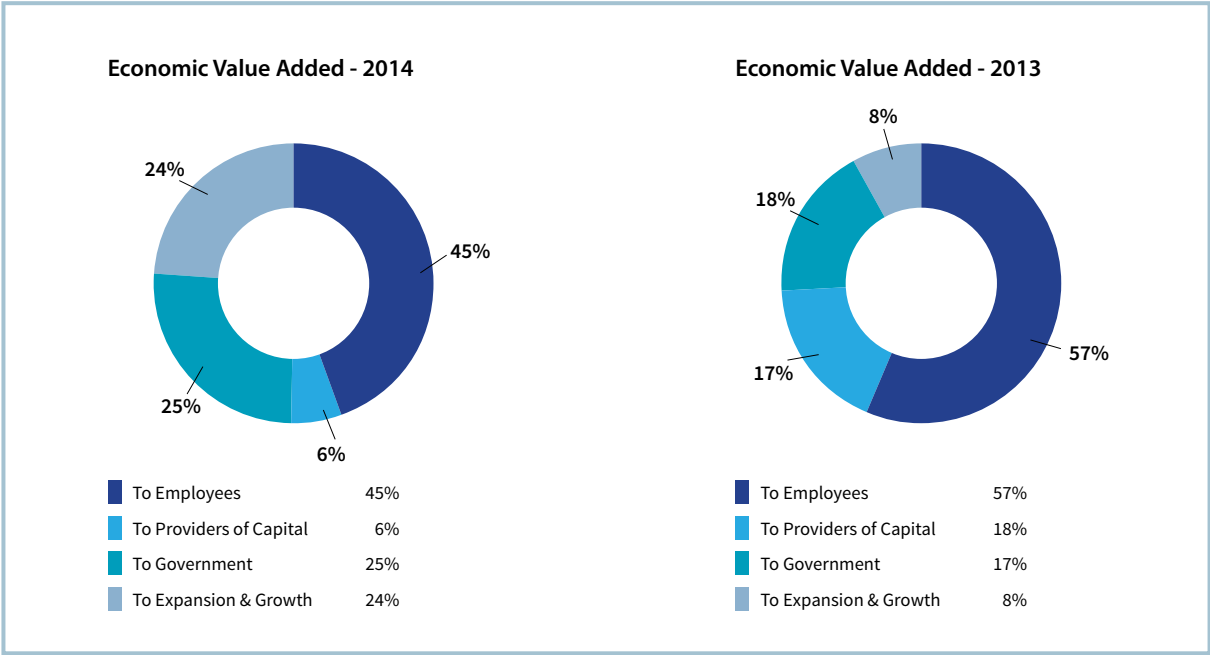
Economic Contributions

Economic value creation G4 EC 01

Economic Value Added (EVA) is an estimate of the Bank’s economic profit, as distinct from financial profit. It is value created in excess of the required return to the Bank’s investors, who comprises shareholders and debt holders. Given the importance the Bank places on creating superior shareholder value, the Bank’s EVA computation is given below for the past two years.

Economic Value Added Statement		
	2014	2013
Value Added	LKR. 000	LKR. 000
Gross Interest Income	4,850,170	4,389,385
Other Income	386,996	288,156
Cost of Borrowing & Other Services	(3,323,474)	(3,396,403)
Provision for credit losses & Investments	(204,390)	(324,621)
	1,709,302	956,517

Economic Value Added Statement				
	2014		2013	
Distribution of Value Added	LKR. 000	%	LKR. 000	%
To Employees	767,848	45%	540,777	57%
To Providers of Capital				
Dividends to Shareholders	94,407	6%	176,227	18%
To Government				
Income Tax on Profits & VAT on FS	437,007	25%	167,557	17%
To Expansion & Growth				
Retained Income	410,040	24%	71,956	8%
	1,709,302		956,517	



Economic Contributions *Contd.*

Contribution to Employee Provident and Trust Fund

G4 EC 03

SDB contributes to the statutory Employees’ Provident Fund (ETF) and Employees Trust Fund (ETF). The Bank contributes 14% of the employee’s basic salary as EPF payments, which is above the statutory requirement of 12%. The Bank also contributes 3% of the employee’s basic salary as ETF payments. Individual employees contributes 8% of their salary to the EPF. Employees do not contribute to the ETF.

Contribution	2014 (LKR)	2013 (LKR)
Bank EPF contribution	66,704,179	10,771,877
Bank ETF contribution	14,262,661	12,616,512

Indirect economic impacts

G4 EC 08

SDB has widespread indirect economic impacts through its operations due to linkages with the community development principle. Primary indirect economic impacts are:

- 1. Contributions to rural poverty alleviation through micro credit
- 2. Supporting the development and formalisation of informal sector enterprises that are traditionally not catered to by banks
- 3. Empowering rural women through micro credit
- 4. Reintegrating senior citizens with the formal economy through the provision of credit to start income generating activities
- 5. Engaging economically inactive segments of society such as families of soldiers
- 6. Acting as a conduit to channel international development aid into rural societies
- 7. Enhancing community economic capacities through training for cooperatives

Details on the above activities can be found in the ‘Contributing to Social Capital’ section of this report.

Financial Review

Overview

2014 has been another challenging year faced by the banking industry. Despite lackluster demand for credit amidst relatively low interest rate regime prevailed across the banking industry, SANASA Development Bank PLC has demonstrated its ability to grow by focusing on enhanced customer experiences through improved service quality effectively combining with marketing innovations. A carefully articulated strategy, timely and effective execution and monitoring were the key determinants behind sound financial indicators demonstrated in 2014.

This financial review is based on the financial statements prepared in accordance to Sri Lanka Financial Reporting Standards and Lanka Accounting Standards which is aligned to the International Financial Reporting Standards.

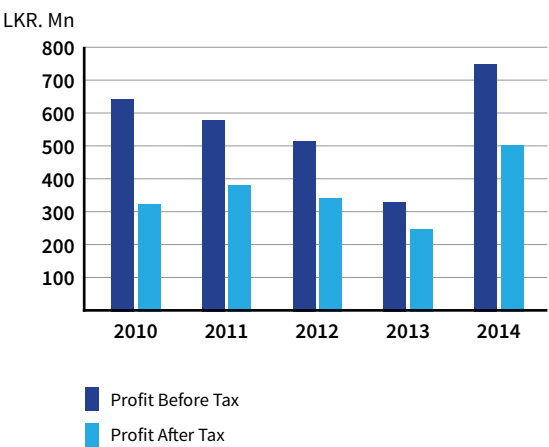
Profitability

The Bank recorded commendable pre-tax and post-tax profits of LKR 751 mn and LKR 504 mn respectively, for the financial year ended 31st December 2014. This is a 125% and 103% increase respectively, against the previous year. This growth was led by interest income coupled with the responsible interest expenses management. (Fig. 01)

Gross income

Gross income, comprising of interest income, net fee and commission income, net gains/(losses) from financial assets held through fair value through profit and loss and other operating income, recorded a 12% increase to reach LKR 5.237 bn for the year, which includes the one-off equity capital gain earned in 2014.

Fig. 01 - Profitability



Our Performance in the Micro and SME Markets

The Small and Medium Enterprise (SME) and micro customer base remains critical to SDB from a strategic perspective. We have pioneered the introduction of financial services to persons considered otherwise as 'non-bankable'. The micro finance programme emphasises harnessing the skills of rural entrepreneurs towards achievement of self-sufficiency. Our financial literacy and knowledge sharing programmes for SMEs and micro customer base have fostered commercial viability over the years, and helped graduate these micro industries and enterprises to more complex and sophisticated SME commercial entities that continue to remain loyal customers of the Bank.

- ◀ During the year the SME portfolio, which consists of agricultural, fishing, manufacturing and tourism businesses, achieved a growth rate of 42%.
- ◀ The total value of the SME portfolio was around LKR 7.9 bn as at year end. This was achieved despite the main SME sub sector of agriculture being impacted by adverse weather conditions.
- ◀ Our leasing portfolio grew by 22% YOY, supported by leasing facilities to micro entrepreneurs and SMEs engaged in agriculture, manufacturing and tourism.
- ◀ We negotiated a credit line from a leading global institution to start lending for environmentally friendly product categories. This will support our expansion in the SME sector in 2015.
- ◀ Notwithstanding stiff competition from rural microfinance institutions, our micro loan portfolio on housing experienced a YOY growth of 66% in 2014.
- ◀ Given the continuing instability of gold prices, our exposure to pawning was consciously reduced over the years, and remained at 6% of the total advances portfolio. Moreover, in deciding the quantum of advances, we exercised a cautious approach by maintaining an average LTV ratio below 70%

Financial Review *Contd.*

Net interest income

The Bank's net interest income grew by 31% to a healthy LKR 2.449 bn as compared with the LKR 1.863 bn in 2013. The year under review saw policy rates being reduced in stages, resulting in an overall downward trend in interest rates in the industry. However, the sharp management policies enabled the bank to uphold a good balance between the lending and borrowing rates which helps the bank to achieve such record growth levels. Accordingly, bank was able to maintain high net interest income and recorded a Net Interest Margin (NIM) of 7.64% percent. (Fig. 02)

Total operating income

The Bank's total operating income includes net interest income, net fee and commission income, net gains from financial instruments at FVTPL and other operating income. The composition of the Bank's total operating income for 2014 and 2013, which includes the one-off equity capital gain earned in 2014 is shown in the chart. Total operating income increased by 32% to LKR 2.83 bn in 2014, mainly driven by a significant increase in Net Interest Income which accounted for 86% of total operating income. Net fee and commission income accounting for 6% of total operating income due to growth of card and other related services. (Fig. 03)

Fee and commission income

Apart from net interest income, the Bank also earns fees and commission income from lending, card services and other support services provided to its clientele. Bank's net fee and commission income grew by 35% from LKR 120 mn in 2013 to LKR 162 mn in 2014. This growth was primarily due to the increase in the overall asset base of the bank. Particularly exploiting opportunities for cross selling products and services.

Other operating income

Other operating income comprises rent income from investment properties, gain on sale of property, plant and equipment, dividend income

Fig. 02 - Net Interest Margin

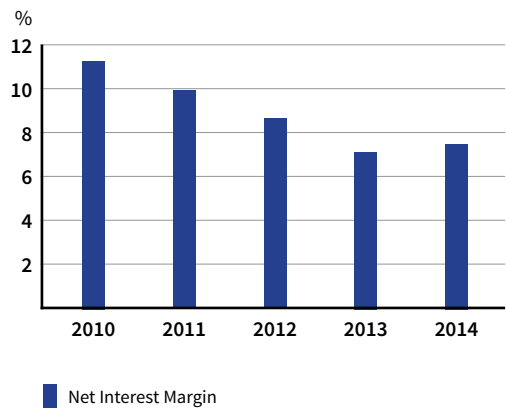
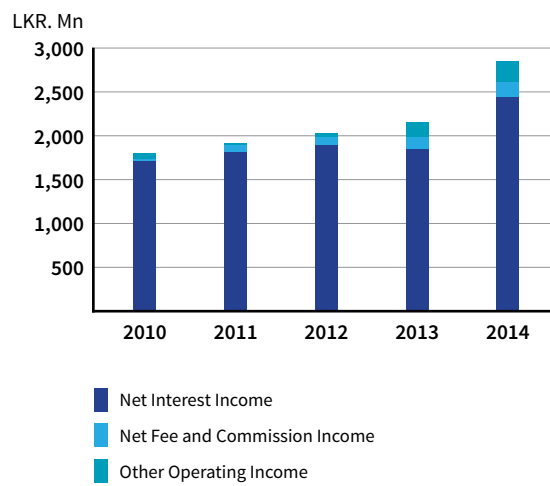


Fig. 03 - Operating Income



Impairment for loans and other losses

	2014 LKR Mn	2013 LKR Mn
Impairment allowance for loans and receivables	1,020	825
Total loans and receivables from customers	33,080	22,941
Percentage of impairment allowance	3.08%	3.60%

Impairment for loans and other losses (excluding disposal losses) for the year ended 31 December 2014 was LKR 204.389 mn and compares with a charge of LKR 324.620 mn in 2013. The significant decline in the impairment charge over the comparative period was primarily due to one-off provision made against pawning advances made during 2013. This impairment charge represents the Bank’s sound judgment in assessing the fair value of the impaired loans, based on objective evidence of future recoveries and is in accordance with bank’s stringent risk management policies.

The Bank applies its risk management framework for its risk assessment of individual loans and for collective provisions, which considers past due status and loss data and the economic factors relevant to each portfolio segment. The Bank continuously makes improvement to the methodology adopted for the impairment computation process and there were no significant adjustments to the provisions as a result of such changes or improvements during the year.

Further, there are no additional impairment charges have been made for loans and advances granted to staff members, which are recovered through the payroll.

Risks and Opportunities Posed by Climate Change G4 EC 02

SDB faces a risk from climate change, through impacts on overall credit quality, from credit extended to the agriculture and fisheries sectors. Loans to agriculture and fisheries sectors are mainly micro credit, extended to cooperative society members. These loans have a higher risk of default, due to extreme weather phenomenon that destroy crops and reduce fisheries outputs. Currently agricultural and fisheries loans account for 11% of SDB’s total lending portfolio. As at 31 December 2014, the default rate of this sector was 0.8%, compared to the default rate of 1.23 % in 2013. The higher default rate in 2013 was mainly due to severe drought in the North Central region, which negatively affected loan repayment capabilities of farmers.

Having recognised climate change as a risk, SDB has introduced a mechanism to manage this risk.

- 1. Rationalised overall lending portfolio to balance the heightened risk
- 2. Strengthened loan granting criteria, with stronger screening process, which includes repayment and savings patterns.
- 3. Introduced a ‘seasonal payment’ loan system which takes into account the seasonal income fluctuations of farmers. These seasonal loans have been structured to enable loan payments during harvest times.

Financial Review *Contd.*

Total operating expenses

Total operating expenses which comprise personnel cost, depreciation and amortisation and other operating expenses increased by 20% from LKR 1,409 mn in 2013 to LKR 1,688 mn during the year. Personnel costs were up by 42%, driven largely by the increased head count for future expansion, as well as the salary revision made in January 2014. The cost to income ratio for 2014 was 61.38% compared to 67.30% in 2013, is a result of emerging cost optimisation plans implemented, which is a strategic priority of the Bank. (Fig. 04)

Operating profit before VAT on financial services

The Banks operating profit before VAT on financial services recorded a 126% increase to LKR 941 mn, compared to LKR 415 mn for the year 2013.

Taxation

According to the applicable tax rule, the bank's profit is taxes at 28%. The bank's contribution to the government of Sri Lanka via income Tax and Taxes on Financial services increased 161% to LKR 437 mn in 2014, from LKR 167 mn in 2013.

Total assets

Total assets of the Bank grew by a commendable 36% in 2014 to reach LKR 40,572 mn, from LKR 29,732 mn in 2013. This growth level is well above the average industry growth rate. The Bank's financial investments, which are primarily in government securities, also contributed towards the increase in the asset base by recording a 95% growth. (Fig. 05)

Statement of financial position

	2014 LKR Mn	2013 LKR Mn	Change in LKR Mn	% Change
Total Assets	40,573	29,733	10,840	36%
Gross Loans and Receivables	33,080.24	22,941.44	10,138.80	44%
Other Financial Assets	4,164	1,701	2,463	145%
Total Liabilities	35,877	26,352	9,524	36%
Customer Deposits	30,249	23,595	6,655	28%
Borrowings	4,602	1,879	2,724	145%
Shareholders' funds	4,695	3,380	1,315	39%

Fig. 04 - Operating Expenses

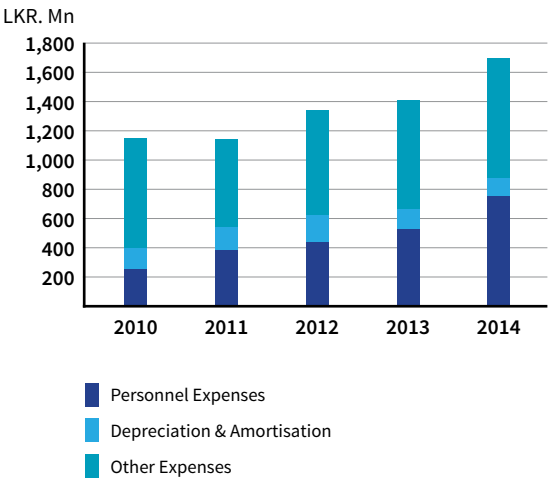
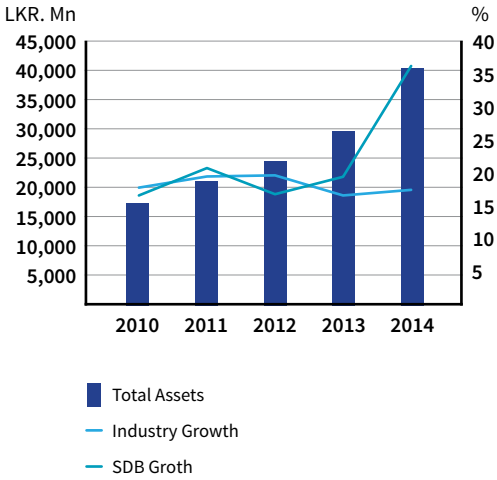


Fig. 05 - Total Assets Over 5 Years



Loans and receivables

The loan book of the Bank grew by 45% during the year under review to reach LKR 32,060 mn from LKR 22,116 mn as at December 2013. This growth rate also well above industry average, which is a strong affirmation of the Bank's commitment in nourishing and nurturing the country's growing and demanding economy. (Fig. 06)

Two new loan products were launched for government pensioners and ex-service personnel, in the second half of 2014. By end of the year, total disbursements under these two products totaled LKR 4.1 bn, supporting loan book growth.

Asset quality

The Bank is outstanding in its efforts to maintain a quality portfolio and gives due precedence for timely collection. Apart from the Bank's rigorous recovery efforts, the prudent credit policies adopted and the continuous and consistent credit evaluation process have helped to Bank to maintain its Non-Performing Loan ratio (NPL) around 3.79% as at December 2014, which was lower than the ratio of 5.14% recorded in the previous year. The NPL ratio of the Bank has remained well below the industry average. (Fig. 07)

Customer deposits

Customer deposits grew by 28% during the year to LKR 30,249 mn (2013: LKR 23,594 mn). Customer deposits contributed 87% of the total funding base as at December 31, 2014, Further, this accounted for 75% of total balance sheet value. (Fig. 08)

Issued capital

The issued capital of LKR 3,533 mn as at 31st December 2014 comprises 37,762,983 number of ordinary shares. The Bank did carried out a rights issue for one ordinary share for every two ordinary shares held by shareholders. With this issue bank raised LKR 1,007,012,880 to its capital base.

Capital adequacy

The Bank has long benefitted from strong bedrock of capital which has provided much stimulus in achieving solid business growth and resilience. The Tier 1 capital base of the Bank was LKR 4,128 mn (2013: 3,212 mn), while the Tier 1 capital ratio was 13.5% (2013: 14.01%). The total (Tier 1 & Tier 2) capital base of the Bank was LKR 4,266 mn as at 31 December 2014 (2013: 3,239 mn). The total capital adequacy ratio of the Bank as at 31st December 2014 was 13.96% (2013: 14.13%)

Liquidity

The Banks statutory Liquid Asset Ratio as at 31st December 2014 was at 21.16%, which is well above the statutory minimum ratio of 20%

Fig. 06 - Loans and Receivables

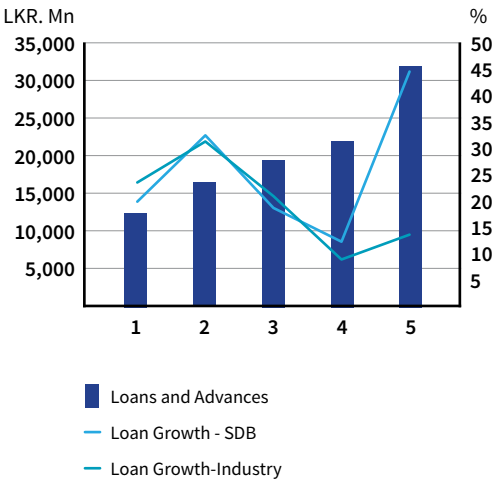


Fig. 07 - Asset Quality

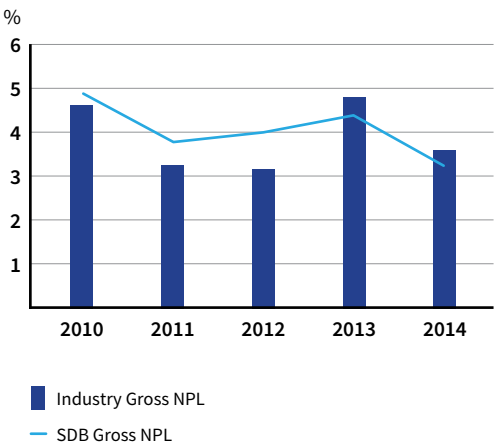
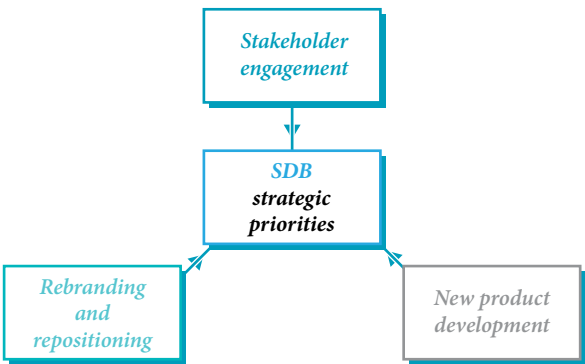


Fig. 08 - Customer Deposits



Marketing

Marketing operations played a key role in the Bank’s transition in 2014. The new Marketing Department supported the strategic priorities of the Bank by contributing to economic value creation and building brand equity.



Marketing priorities for 2015

- ◀ Corporate image building campaign to be conducted.
- ◀ Establish branding guidelines for consistent communications across the Bank and its branches.
- ◀ Introduce new logo as part of the rebranding process. As a public quoted entity SDB needs to redesign its existing logo.
- ◀ Enhance SDB’s brand visibility
- ◀ Continue to develop deposits and advances by strengthening the new product development process.
- ◀ Reposition SDB as the apex bank of the corporative sector
- ◀ Increase market share in the SME sector
- ◀ Improve consistency and maintain branch ambience. The interior and exterior appearance of all SDB branches should be designed to provide a dynamic and consistent ambience to customers, Frontline staff too, should be trained and guided to maintain a dynamic atmosphere.
- ◀ Set up a 24-hour Customer Call Centre as a one-stop-shop information point regarding SDB products and services.
- ◀ Increase product knowledge among all employees

Key Focus Areas of 2014

Stakeholder engagement: *The Marketing Department has played a vital role in communicating with key external stakeholders. During the year, many events were organised to engage with SANASA societies and cooperatives regarding the changes within the Bank.*

Rebranding: *While SDB’s brand image was previously tightly linked with micro credit, we are now in the process of rebranding SDB and repositioning SDB for a wider market, including SMEs and corporates.*

Media campaign: *As part of the process of rebranding, SDB has developed and begun implementing, a media campaign supported by a media buying strategy and media monitoring.*

New product development: *We introduced two new products during 2014 - Uththamachara for families of war heroes and Upahara for pensioners. These two products have been designed to cater to segments that are underserved by the banking industry, and have high social returns.*

Market penetration: *We continued to expand our share of the SME market.*

Engaging Our Stakeholders

It is a platitude that value is not created by or within the Bank alone, but created through relationships with many stakeholders. Accordingly, the Bank places great emphasis in the identification and timely engagement of key stakeholders who significantly contributes towards the value creation process of the Bank. Our stakeholders have been impacted in different ways by the changes within the Bank and by the changes in SDB’s business model. We define stakeholders as being entities or individuals that can reasonably be expected to be significantly affected by the Bank’s activities, products and services; and whose actions can reasonably be expected to affect the ability of the Bank to successfully implement strategies to achieve its objectives. The table below lists our stakeholders and our reasons for engagement with each stakeholder group. The table also lists concerns raised by each stakeholder group, if any, during the financial year, and our response to these issues.

Shareholders of SDB

- SANASA societies who are shareholders*
- Investors.*

This differentiation is due to the two groups having different expectations, requiring different engagement processes. Prior to public listing of SDB in 2012 as a regulatory requirement, SANASA societies were the sole shareholders of SANASA Development Bank. However, currently, the Bank's shareholders include SANASA societies as well as other investors.

Creating value

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By responding to what is ‘value’ for our stakeholders, we have been able to add value to our value chain. This involved expanding our assets, brand building to increase brand value/equity, increasing customer value and enhancing employee value. These activities have all contributed towards creating value for our shareholders.

Stakeholder	Reason for Engagement with the Stakeholder Group	Issues Raised by the Stakeholder Group	SDB Response to Stakeholder Concerns/Expectations
Regulators	<div>The Bank engages closely with regulators as they<ul style="list-style-type: none">Influence the Bank’s operations and continuityCan influence market credibility of the Bank</div>	<div>The financial sector regulator, the Central Bank, required that SDB:<ul style="list-style-type: none">Increase its capital to LKR 5 bn, by December 2015Increase asset base to LKR 100 bn, by 2017.Strengthen governance structureAdherence and compliance to all applicable regulations of Colombo Stock Exchange, Central Bank of Sri Lanka, Department of Inland Revenue and other regulatory bodies.</div>	<div>We responded to regulatory requirements as below.<ul style="list-style-type: none">Increase capital base of the Bank to LKR 4.6 bn by way of a LKR 1 bn Rights Issue.Formulate a three year strategic plan to gradually bring the total asset base to stipulated LKR 100 bn mark by 2,017. (2014: LKR 40 bn)Put in place a comprehensive core banking system which facilitates and ensures accurate and timely regulatory reportingFunctions with a comprehensive compliance and Risk management framework, overlooked by dedicated compliance and risk management departments.In addition, SDB engaged with regulators through:<ul style="list-style-type: none">Industry forums/meetings with Central Bank.Interaction with regulatory bodies to ensure complianceSubmission of returns/informationDirections/circulars and guidelinesOnsite surveillance visitsAnnouncements to Colombo Stock Exchange</div>

Engaging Our Stakeholders *Contd.*

Stakeholder	Reason for Engagement with the Stakeholder Group	Issues Raised by the Stakeholder Group	SDB Response to Stakeholder Concerns/Expectations
SANASA societies	<p>SDB engages closely with SANASA societies as they represent a majority of the shareholders, collectively accounting for app. 41% of SDB shares.</p> <p>They also mobilise working capital through special deposit programmes</p>	<p>SANASA societies raised concerns over:</p> <ul style="list-style-type: none">◀ Share price and dividends◀ Return on investment◀ SDB moving away from the SANASA movement and the cooperative sector, due to public listing.◀ Dilution of cooperative holdings of SDB, due to other investors buying SANASA shares.	<p>We responded with:</p> <ul style="list-style-type: none">◀ dividend of LKR 377.6 mn declared for 2014◀ Dedicated Cooperative Development Department to cater to SANASA society needs◀ Provided technical awareness on share trading◀ Developed special seasonal product and gift schemes to mobilise cash from primary membership. <p>We also engaged through:</p> <ul style="list-style-type: none">◀ Annual Report◀ Annual General Meetings◀ Extra Ordinary General Meetings◀ Quarterly one to one financial presentation meetings◀ Participation of SANASA society consultation meetings
Investors	<p>They influence Bank strategy.</p>	<ul style="list-style-type: none">◀ Share price and Dividends◀ Business growth targets and sources of growth◀ Return on Investments◀ Asset quality of the Bank	<ul style="list-style-type: none">◀ Dividend of LKR 377.6 mn declared for 2014◀ Development of shareholder communication channels◀ Maintain high level of accessibility to the senior management of the Bank.◀ Annual General Meetings◀ Extra ordinary General Meetings◀ Annual Reports◀ Interim Financial Statements◀ Announcements made to Colombo Stock Exchange

Stakeholder	Reason for Engagement with the Stakeholder Group	Issues Raised by the Stakeholder Group	SDB Response to Stakeholder Concerns/Expectations
Employees	We engage with our employees to create two-way relationships that inculcate team spirit, to share information about the Bank's vision and strategies, to understand the needs and aspirations of staff, and to enhance employees' skills and competencies through training and inspired leadership	Topics raised by employees are: <ul style="list-style-type: none">◀ Career path and development opportunities◀ Job rotation opportunities◀ Rewards and recognitions for significant achievements	<p>We responded to employee needs through</p> <ul style="list-style-type: none">◀ e-learning content delivery to employees' computers at branches and homes◀ High level of accessibility via an open-door policy where the employees may talk to the senior management, on any area of importance.◀ Employees can write directly to the Grievance Committee that conducts transparent inquiries.◀ Introduction of performance based incentive scheme to recognise special achievements <p>We also engage with our employees through:</p> <ul style="list-style-type: none">◀ Employee surveys◀ Employee induction and training programmes◀ Periodical staff meetings◀ The Annual Awards Night and Branch Managers Conference and monthly regional meetings◀ The staff SANSA society◀ Monthly corporate management meetings, and quarterly strategic plan review meetings◀ Circulars and daily email communication◀ Exit interviews upon resignation

Engaging Our Stakeholders *Contd.*

Stakeholder	Reason for Engagement with the Stakeholder Group	Issues Raised by the Stakeholder Group	SDB Response to Stakeholder Concerns/Expectations
Customers	<p>Vital for the Bank's sustainability</p> <ul style="list-style-type: none"> ◀ We engage with our customers to understand customer needs and expectations, to obtain feedback on the Bank's products, service quality, reach and brand perception, to obtain information for Know Your Customer requirements 	<p>Customer expectations are:</p> <ul style="list-style-type: none"> ◀ Access to branches and ATM network ◀ Products and services offered ◀ Efficiency of relationship staff ◀ Product pricing ◀ Grievance handling 	<ul style="list-style-type: none"> ◀ We relocated three SDB branches during the year, to increase customer accessibility and improve services. ◀ New products were added to cater to customer needs ◀ New expertise was added through new recruits ◀ Participation in exhibitions to raise awareness about SDB products and services ◀ Employees were given rigorous training to meet customer needs better. ◀ We provide inclusive banking, including even under served segments, such as the informal businesses and retired persons. ◀ A Compliance Officer is available to conduct independent inquiries on customer complaints <p>In addition we establish contact through:</p> <ul style="list-style-type: none"> ◀ Customer surveys and site visits ◀ Branch and ATM network ◀ Customer get-togethers ◀ Formal complaint management process and a centralised dedicated unit to manage and resolve customer complaints ◀ Suggestion boxes at every branch ◀ Print and electronic media
Auditors	They monitor compliance with regulations. Their opinion can influence the market and regulators	Timely, accurate reporting	<ul style="list-style-type: none"> ◀ IT system improvements have made reporting more efficient
International agencies	These agencies are important to SDB for reasons of funding and technical assistance	Transparency and good governance	<ul style="list-style-type: none"> ◀ The Bank cooperates with periodic surveillance visits and annual reviews ◀ The Bank engages with these agencies for consultancy services and technical assistance
Suppliers	To focus on mutually beneficial, long-lasting relationships and to foster mutual trust, transparency and accountability	Support and guidance to become sustainable businesses	<ul style="list-style-type: none"> ◀ Procurement policies and tender committees are in place to ensure that the Bank sources from the most preferred suppliers. ◀ Annual registration of suppliers ◀ Supplier feedback evaluations ◀ Procurement meetings
Society	To create sustainable, self-sufficient communities through education, micro financing and entrepreneurial assistance.	Financial awareness and access to funds	<ul style="list-style-type: none"> ◀ Uththamavi and Jawaya schemes are designed to encourage the savings habit among youth ◀ We conducts CSR activities and sponsorships ◀ Our employees get involved in local community projects of the SANSA Movement ◀ We conduct relief programmes in crisis situations

Consultations with shareholders

Our AGM is a key mode of communicating with our shareholder and this year our AGM was held on 18th November 2014, at the SANASA Education Campus. The event was attended by the Chairperson of SDB, the Board of Directors of SDB, management and staff of SDB and shareholders.

Branch relocations

We relocated our branches in Anuradhapura, Thambuththegama and Uhana for greater accessibility.

The SDB branch in Uhana was moved closer to Ampara town to a new location that gives easier access to the branch.

The SDB branch in Anuradhapura was relocated to No 12, Mithreepala Senanayake Mawatha, Anuradhapura.

The SDB branch in Thambuththegama, also in the Anuradhapura District, was moved closer towards Anuradhapura.

New product launches

The Upahara Loan scheme, that is specially designed to return pensioners to economically active occupations, was launched on 29th September 2014, at the Hotel Kingsbury.

Participation in trade fair

SDB participated in a trade fair organised by the Matara Chamber of Commerce. The three day event held at the Sanath Jayasuriya Stadium in Matara, targeted thousands of people to raise awareness on SDB products and services.



Consultations with shareholders



Branch relocations - Uhana



Branch relocations - Anuradhapura



Branch relocations - Thambuththegama

Engaging Our Stakeholders *Contd.*



New product launches



New product launches



Participation in trade fair



Participation in trade fair



Financial literacy for youth - Kaduwela



Financial literacy for youth - Rikillagaskada



Upahara promotion



SANASA Thift & Credit Co-operative Society programme - Mathugama branch

Contributing to Social Capital

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SDB conducts many social engagement programmes to meet these obligations. In addition, a significant share of our banking services are provided to grassroots communities, channelled through cooperative societies, including SANASA Societies. Through this process we not only support formal enterprises but also the many grassroots informal enterprises that are not served by the formal financial sector. Support for informal economic activities directly contributes to social capital through value creation and wealth creation, at grassroots level.

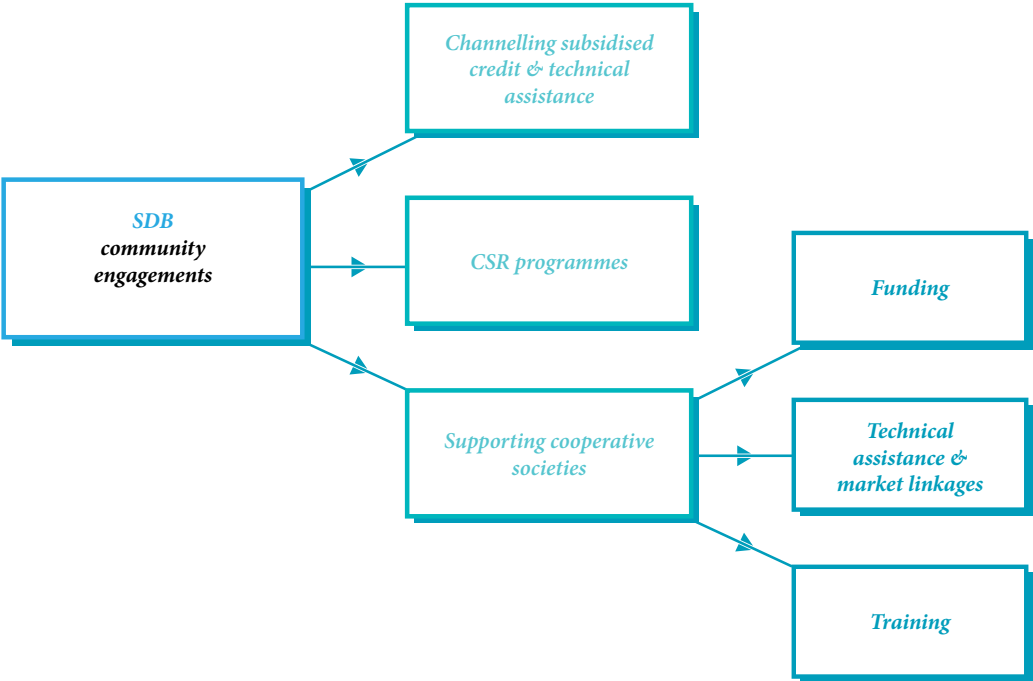
Local community consultations process

We have a wide spread network of contact points to engage with local communities. The 82 SDB branches across the island and our mobile banking officers deal with grassroots communities and cooperative members, on a daily basis. Feedback from these direct communications is taken into account by channeling through to branch managers and regional managers at regular management meetings. This feedback is then considered when developing our products and services, in credit disbursements and also in designing community support programmes.

Minimising Negative Impacts

SDB's activities are guided by the principles of the SANASA Movement. Therefore, the Bank does not engage in transactions that could result in damage to the environment, or society. For instance SDB's credit policy guidelines stipulate that the Bank does not finance activities that are considered socially harmful, such as alcohol manufacture, enterprises that destroy forest cover, businesses that kills animals etc..

SDB's local community engagement channels



Contributing to Social Capital *Contd.*

We engage with society through three main routes:

- 1. By supporting cooperative societies, including SANASA Societies
- 2. By channelling subsidised credit for poverty reduction and rural development
- 3. By conducting CSR programmes

Percentage of operations implemented with local community engagement *(as at 31st December 2014):*

Cooperative shareholding of SDB	40%
No. of cooperatives transacting with SDB	4,000
No. of SANASA Societies transacting with SDB	3,600
Cooperative share of SDB's deposit portfolio	38%
SANASA Societies' share of SDB's deposit portfolio	30%
Cooperative share of SDB's credit portfolio	7.7%
SANASA Societies' share of SDB's credit portfolio	7.05%

Investing in community capacity building

Training programmes for SANASA Societies	2013	2014
No. of beneficiary SANASA Societies	910	500
No. of cooperative members trained	2,840	4,438
Total investment in training for cooperatives (LKR)	4 mn	7.3 mn

Supporting cooperative growth

SDB supports cooperative society growth and capacity building as a means of community development. This support includes helping cooperatives to expand their deposit portfolios, as these deposits are seed capital for micro enterprise ventures.

Training programmes for cooperatives

In 2014 we conducted seven motivational workshops for staff of cooperatives. The programmes covered the aspects of:

- Team building
- Time management
- Trust building
- Leadership development
- Positive attitude

Resource personnel for these programmes were sourced internally from the Bank and also externally from the SANASA Campus and other universities. These personnel included Mr H M Abeyratne, a senior lecturer from the Management faculty of the Waymaba University and Mr L.A. Abeysingha Programme Manager, SANASA Campus and bank officers.

We also raise awareness about SDB's specialised services for cooperatives by making presentations at Board meetings of cooperative societies.

Engaging with SANASA Societies

SDB ensures regular engagement with SANASA societies through annual Events Calendar starting with a 'lotus flower ceremony' in January every year. In 2014 we conducted 12 events with SANASA societies with approximately one event targeted for every month of the year.

Our training programmes for SANASA societies covered the elements of financial management, national budget, SME projects, leadership training, product development for cooperatives, and training to computerise SANASA societies. About 56 SANASA societies have been computerised to date. The Bank helps them increase their membership, deposits, and advances.

Growing with the community

Currently, SDB is actively engaged in encouraging cooperative societies to venture beyond their traditional micro credit domain, into large scale public projects. We are proud to report that cooperatives have already begun this process of growth. The Bank supports this transition by providing not only financial assistance but also technical assistance by establishing linkages with specialised national institutions such as the Industrial Development Board the Export development Board and others.

SME loans for cooperatives

In 2014, we disbursed nearly LKR 350 mn to cooperative societies, as SME loans, which is about 20% of total SME disbursements. These funds were used for construction activities and services mainly in public projects. Some of these projects are described below.

A cooperative hospital for the people of Galle

SDB provided a credit facility of LKR 100 mn to the Galle Cooperative Society, to construct a six story, modern hospital in Galle. Out of the total project cost of LKR 150 mn, SDB financed 75%, while the local community financed the balance 25% through the cooperative society.

Grand Arena cooperative leisure centre

SDB financed 92% of the Kotikawatta, cooperative leisure centre, the Grand Arena, with a LKR 150 mn loan.

Ecological cooperative farm

SDB financed the full value of a 15 acre, model, ecological farm in Matale, that will be operated by the Ukuwela SANASA society. The total loan is LKR 15 mn. The farm will have modern agricultural systems, a dairy farm and bio gas energy generation.

Educating SANASA Members on Capital Markets

A majority of SANASA members are rural individuals, mainly women, with little or no exposure to formal capital markets. However, it is now imperative that SANASA members understand the concepts of capital markets, the opportunities and risks associated with capital markets, and the formal process of share trading, as SANASA Development Bank is now a listed entity, with its shares being publicly traded. It was also necessary to raise awareness about new regulations that required capital and asset expansion of the Bank together with internal structural changes.

Therefore, in 2014, a significant share of our engagements with SANASA Societies across the country, was dedicated to educating rural SANASA members about capital markets, SDB's new situation as a publicly quoted entity, new regulatory requirements from SDB and the new responsibilities of SANASA members as shareholders of SDB. To ensure communication clarity and maximum impact, we dedicated time and resources for physical meetings with thousands of SANASA members scattered across the country. Today, we are happy to note that our intense direct-engagement strategy has been highly effective. SANASA members understood the new requirements and responded by financing a Rights Issue that raised LKR 1 bn in new equity for SDB.



A cooperative hospital for the people of Galle



Grand Arena cooperative leisure centre



Ecological cooperative farm - Ukuwela



Ecological cooperative farm - Kekillamandiya

Contributing to Social Capital *Contd.*

Building rural capital

Interest subsidised loan schemes

SDB is a Participatory Financial Institution to disburse interest subsidised credit for rural development and poverty alleviation. These credit programmes support micro enterprises and SMEs mainly located outside the Western Province. During 2014, SDB channelled funds for subsidised credit through the eight credit schemes listed below.

Name of refinance scheme	Funding agency	Total Disbursements by Dec 31, 2014 (LKR)	Project period	Purpose and target segment
Saubhagya	Central Bank of Sri Lanka	547 mn	2010 – until funds are exhausted	Loans for SMEs other than Construction & Working Capital
SMILE III RF General Loan Scheme SMILE : Small & Micro Industries Leader & Entrepreneur Promotion Project	Ministry of Industry & Commerce	4 mn	2014 - until funds are exhausted	To generate additional productive capacity or allow enterprises to increase level of operation, or improve the quality of a product, or improve the price comprehensiveness of a product.
PAMP II/Probodhini RF PAMP: Poverty Alleviation Microfinance Project	Central Bank of Sri Lanka	464 mn	2007- until funds are exhausted	Any legally accepted income generating activity under Agriculture Fishery Animal Husbandry Small scale industry & Cottage Industry Businesses & Services
Jayatatha R/F Original project name was PAMP	Central Bank of Sri Lanka	1,195 mn	2007 - until funds are exhausted	Any legally accepted income generating activity coming under Agriculture Fishery Animal Husbandry Small scale industry & Cottage Industry Businesses & Services
Tea development	Central Bank of Sri Lanka	14 mn	2006 - until funds are exhausted	Any tea development activity coming under Re-Planting and Infilling Nursery Operation intercropping Use of new technology/Society Mobilisation
Small plantation entrepreneur development project	Central Bank of Sri Lanka	7 mn	2009 - until funds are exhausted	Any legally accepted income generating activity coming under Agriculture (Excluding short term crops) and allied activities including Tea and Rubber based industries All industries operated by farmer organisations Self employment activities Other Income Generating Activities (IGAs), Livestock, Garments, Small trading & Handicrafts
Awakening North R/F	Central Bank of Sri Lanka	226 mn	2009 - until funds are exhausted	For permanent residents living in the Northern Province for any legally accepted income generating activity under Agriculture and related activities Livestock development Fisheries and related activities Micro and small enterprises Trade and other self-employment projects
Dasuna RF Phase II	Central Bank of Sri Lanka	27 mn	2013 - until funds are exhausted	For the purpose of all manufacturing industries & selected service sub sectors are eligible. Agriculture, Farm Machinery, Irrigation, Commercial Crops, Agro Industries, Food Processing & Beverage, Fisheries, Forestry, Animal Husbandry, Construction & Construction Materials, Transport, manufacturing, metal Products, Services, Food Crops, Fruits, Development of Plant Nurseries & Livestock Development

Geographic disbursement of subsidised credit

A total of LKR 2.087 bn was disbursed through the above schemes up to December 31st, 2014. A majority 70%, of this subsidised credit has reached enterprises located outside the Western Province, including the war recovering Northern and Eastern Provinces. The Southern Province absorbed the largest share of 30% of the funds. (Fig. 01)

Sectoral distribution of subsidised credit

It is significant to note that over half the funds (52%) have been used for infrastructure, financial and other services, and another 2% has been used for housing development, indicating investments in quality of life improvements. Agriculture and fisheries ventures have absorbed 44% of the funds. Another 2% of the funds have been utilised for commercial ventures. Although funds were available for transport and tourism ventures to date, no funds have been utilised for such activities. (Fig. 02)

Awareness meeting of Solidarity Group and Group Animators, in Anuradhapura, under the PAMP project, subsidised credit line. Subsidised credit is disbursed to individuals by first forming Solidarity Groups. This group formation eliminates the need for collateral through inter-se guarantees.

Dairy farm in Anuradhapura.

This venture was originally funded by micro loans under the PAMP project but has now been upgraded to SME status.

Dry fish processing venture in Negombo.

This enterprise was initiated as a micro venture under the Saubhagya credit line of the Central Bank of Sri Lanka. The project has now grown to SME status.

Fig. 01 - Geographic Disbursement of Subsidised Credit up to December 31st, 2014

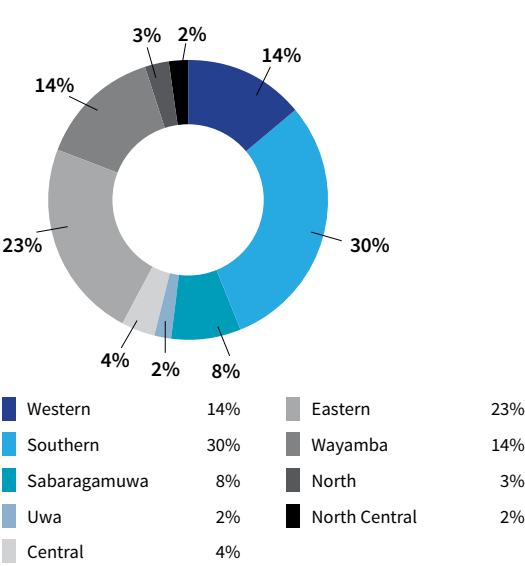
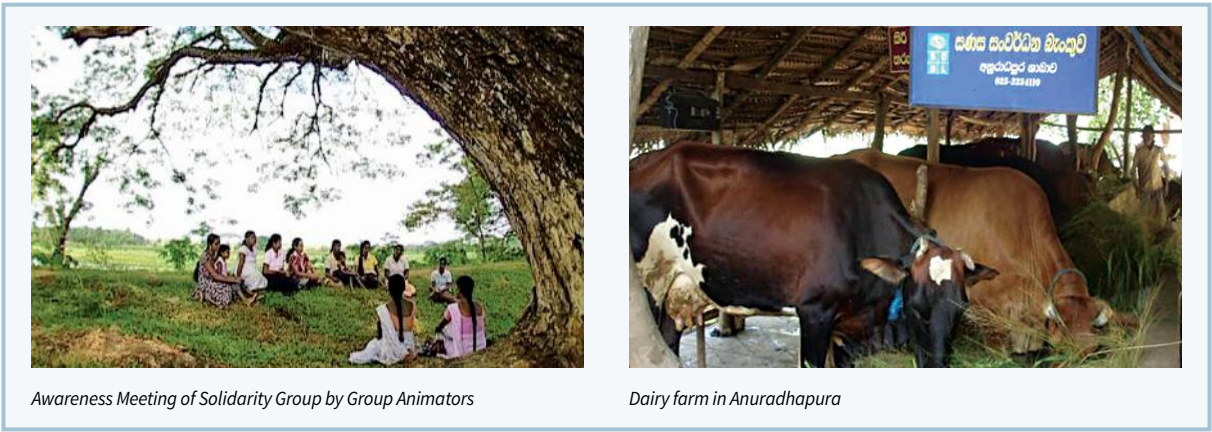
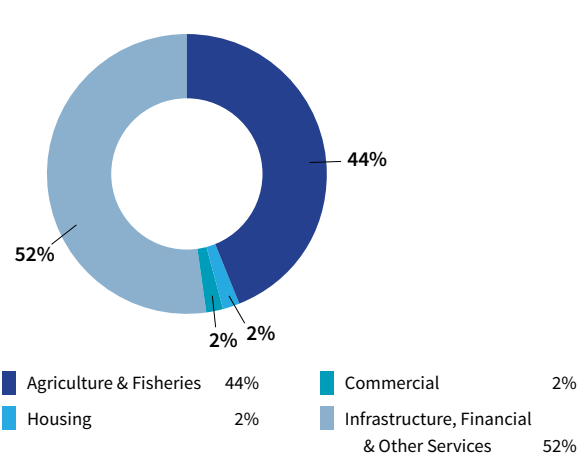


Fig. 02 - Sectoral Distribution of Subsidised Credit as at December 31st, 2014



Contributing to Social Capital *Contd.*



Dry fish processing venture in Negombo



Ratnapura beetle cultivation under PAMP project



Channelling international assistance



Closing event -rebuilding and strengthening livelihoods National Forum at 2014, Colombo

Channelling international assistance

SDB maintains relationships with cooperative movements and development agencies across the world. In 2014, SDB signed a three-year grant agreement, from 2014- 2016, with the IFC, to the value of LKR 30 mn, to support poverty alleviation in the four conflict affected districts of Vavuniya, Batticaloa, Ampara and Mannar. SDB channels financial assistance to these communities in the form of micro credit, savings, fixed deposits and leasing, and also non financial assistance, such as financial education, training and technical assistance.

Rebuilding livelihoods after the tsunami tragedy in Sri Lanka

The Canadian Red Cross launched a relief, recovery and rehabilitation programme in Sri Lanka, to address the priority needs of the 2004 tsunami affected populations. Housing reconstruction was a critical need that was identified. Additionally, livelihood recovery was found to be a prime concern to regain social and economic stability of communities. The areas in the North and East were doubly affected due to conflict as well as the tsunami. Given this context, the Canadian Red Cross embarked on an innovative partnership with the Canadian Cooperative Association, to rebuild people's homes and support their livelihoods through a community driven process. The Canadian Cooperative Association's long history spanning two decades working with SANASA, was considered a key factor to successfully implement the project and SDB was also one of the first organisations that responding to the recovery needs of tsunami victims.

This project was initiated in 2007 and implemented through a partnership between the Canadian Co-operative Association (CCA) the Canadian Red Cross (CRC), and SDB. The eight year project, with funding of more than LKR 1 bn, was concluded in March 2014. The programme was rolled out in three stages, focusing on the delivery of emergency relief assistance, followed by rehabilitation of the economic and social infrastructure, and finally on fostering long term sustainable development. The funds were made available for agriculture and livestock development related activities, fisheries and related activities, micro and small enterprises, trade and other self employment projects.

The Canadian Co-operative Association [CCA], SANASA Development Bank PLC [SDBL], and the Canadian Red Cross [CRC] organised a national forum to discuss micro, small and medium enterprise development at the conclusion of their Rebuilding and Strengthening Livelihoods Programme, on 28th February 2014 at the Cinnamon Grand Hotel, in Colombo. The overall event shared lessons from eight years of rebuilding livelihoods and economies in affected communities. Sri Lanka has gone through a rapid transformation in the past decade and developments at the international, national and district levels have created new opportunities for small scale entrepreneurs.

Supporting social welfare

Returning senior citizens to the economy

Although banks traditionally do not lend to persons over the age of 55 years, SDB provides credit for retired, senior citizens, to return to economically active status. This reduces social dependency, contributes towards reducing abuse of elders, and enhances the national economy.

Supporting families of war heroes

Sri Lanka's long drawn out conflict has left 55,000 families of war heroes without adequate financial support. These families fall into the three categories where the main bread winners (the war heroes) are killed in action, missing in action or disabled in action. While these families benefit from an average LKR 60,000 per month in government payments, this income will reduce sharply when the recipients of the payments reach the age of 55 years. SDB's Uththamachara loans are aimed at creating sustainable sources of income for these families.

Empowering women

As nearly 52% of SANASA society members are women, SDB conducts many programmes specially developed for women's growth and economic empowerment. In 2014 SDB celebrated International Women's Day by conducting a series of programmes in partnership with the women's arm of the SANASA Movement - Uththamavi Guarantee Ltd. These programmes include seminars and workshops to support self employments and a trade fair to showcase products of women entrepreneurs. We also sponsored a lecture by a senior police official, on women's rights. These events were held at the Uththamavi Hall at the SANASA Campus.

CSR activities

Our CSR activities differ from our community capacity building projects by being outright charitable grants, with no financial returns expected. These activities comprise many public welfare initiatives, as well as involvement in cultural and religious events that help build communal bonds.

Lotus flower ceremony

This year too, we began the year with the annual lotus flower offering at the sacred sites of the Sri Maha Bodhi and Ruwanwelisaya Stupa. This annual event is organised by the SANASA Federation. Many members of the public participate in this event in addition to SANASA employees from all branches and members from SANASA societies.

Katina pinkama in Seruwawila

In November 2014, SDB was the main sponsor for the Katina offerings, at the historic Seruwawila Mangala Rajamaha Viharaya. This event was organised by SDB and the SANASA Group, to celebrate the birthday of Dr Kiriawandeniya the leader of the SANASA Movement.

Supporting religious education

SDB donated LKR 400,000 to the Seruwawila Sunday School in the Trincomalee District, to construct a building for the use of students.

Lakdaru scholarships

SDB donated LKR 1.2 mn as scholarships, to 86 children who had passed the Year 5 scholarship exam in 2014.

Financial literacy for youth

SDB conducted a financial literacy programme for youth in Kandy, Matara, Rikillagaskada, Wariyapola, Jaffna, and Kaduwela. About 550 young people between 18 – 35 years benefited.

Commemorating World Thrift Day

The SANASA Federation, SDB and the SANASA Campus conducted an art, drama and speech competition for school children, to commemorate World Thrift Day, with the participation of Dr and Mrs. Kiriwandeniya.

SDB Vesak commemorations

Head office staff celebrated Vesak Poya in May with a bakthi gee (Buddhist hymns) presentation in front of the Head Office. SDB staff also conducted a osu-pan dansala (alms giving of medicinal beverages), in front of the SDB head office.

Regional seminar on micro-insurance

In 2014 SDB was the official banking partner of the regional seminar, organised by the Asia and Oceania Association (AOA). The AOA of the International Cooperative and Mutual Insurance Federation (ICMIF) was established in 1984, to provide opportunities for members of Asia and Oceania countries to express opinions on the ICMIF, to promote friendship among members, and offer opportunities for discussion to serve common interest. It operates in order to promote the insurance movement in the Asia and Oceania. As of 31st December 2014, AOA is composed of 44 member organisations from 13 countries, comprising 28 Full and nine associate members and seven observers.

Dr. P. A. Kiriwandeniya, Chairman of SICL, who served as a member of the Board of Directors of AOA since 2005, has been appointed as the Vice Chairman of AOA with effect from 7th November 2013. SICL was invited as a hosting company to conduct the AOA seminar for its 30th Anniversary in Colombo.

The seminar was held at Cinnamon Lakeside Hotel in Colombo, on 26th and 27th August 2014, with the participation of the Hon. Sarath Amunugama, the Senior Minister of International Monetary Cooperation and Deputy Minister of Finance and Planning, as the chief guest. The seminar was attended by 25 delegates representing organisations concerned with microfinance and micro insurance activities in nine countries in Asia and Oceania, and worldwide. Therefore this seminar served as a forum for guiding future micro insurance and micro finance activities in relevant countries. Total members represented by the micro insurance and micro finance institutions in Sri Lanka to this seminar, was 58.

Contributing to Social Capital *Contd.*



Empowering women



Lakdaru scholarships



Lotus flower ceremony



SDB Vesak commemorations



Katina Pinkama in Seruwawila



Commemorating World Thrift Day



Supporting religious education - Seruwawila Sunday School



Supporting religious education - Seruwawila Sunday School

Building Human Capital

Human resources are considered a strategic sustainability pillar of SANASA Development Bank. This is primarily due to the social development obligations of the Bank, which requires ethical, service oriented teams with development mind-sets that support social capital development, together with balance sheet growth. In 2014, we rationalised our human resource base to facilitate each employee's personal development, together with the growth of the Bank.

- ▶ All SDB branches were graded according to business volumes. (Premium Grade, Super Grade, A Grade, B Grade, C Grade and D Grade). This provided a business rationale for resource provisions, benefits, and budgetary purposes.
- ▶ Role clarity for many levels was established, with participation from Board of Directors to the employee level. This included the management profiles and a conceptualised branch resourcing model, which determines the staffing of a branch in different grades.
- ▶ Specific roles were identified for the smooth operation of a branch, and human resource requirements were mapped according to the branch roles. Available human resources were rationalised according to these roles, and skill gaps were filled according to requirements while aligning with business volumes.
- ▶ All jobs were classified into four streams as; Core Banking, Non-Banking Professional Services, Contract Employees, and Cooperative Liaison and Societal Development, in order to facilitate a smooth career progression for all types of employees. Career streams were graded based on the contribution expected from each grade of role, establishing a transparent career growth path.
- ▶ Business volume forecasting was done to establish branch growth and to forecast human resource needs to facilitate uninterrupted growth.
- ▶ Human Resources were aligned with the financial forecasting, and human resource requirements were forecast to facilitate an early recruitment process.
- ▶ A performance based bonus package was introduced, starting from 2014, to the employees of the Bank, enabling them to drive toward superior performance.
- ▶ Human Resource performance is measured with 15 human resource KPIs, developed internally and operationalised in 2014.

Fig. 03 - Attrition Ratio

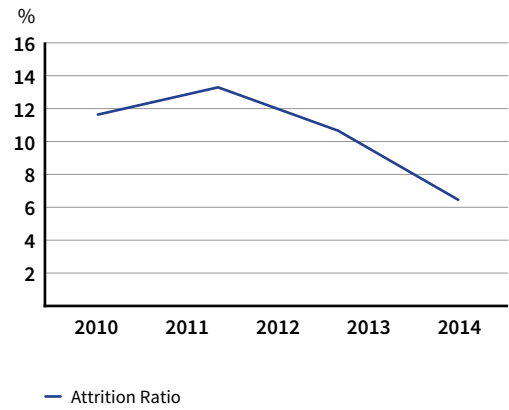


Fig. 04 - Trained Employees Rate

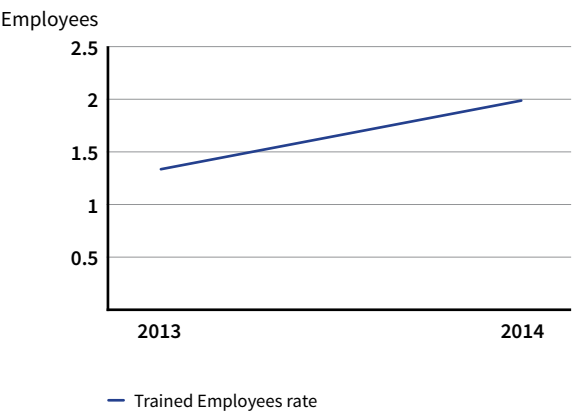
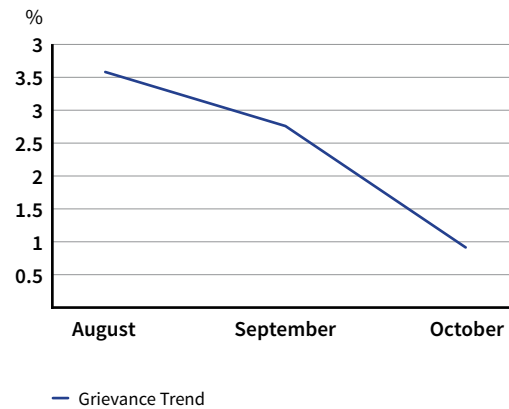


Fig. 05 - Grievance Trend after Introducing the New Procedure



Building Human Capital *Contd.*

Our human resource KPIs

Business Goals	% Achieved
Headcount fulfillment ratio (Branch)	94%
Attrition ratio	6.2%
Grievance trend	5.08%
Training calendar coverage	72%
Trained employees rate	2
No. of training hours per employees	24
HR Policy Improvement Quotient	3.77 of 5

Team Goals	% Achieved
Average complaint to inquiry cycle time	78 days
Grievance redress cycle	60 days
Policy execution lead time	47 days
Year on year procedure violations identified at audits	down to 9 from 25

Employment G4 LA 01 - LA 03

Criteria	2013	2014
Total number of new recruits	105	187
Employee turnover	10.01%	6.2%
Employee benefits	<p>All statutory benefits are provided to full time and temporary employees</p> <ul style="list-style-type: none">◀ SDB contributes 14% on EPF payments, which is 2% above the statutory requirement of 12%◀ Medical insurance◀ Gratuity payment◀ Workman's Compensation coverage is provided for partial or total disability, arising from work.◀ Maternity leave (but not paternity and adoption leave)◀ Share ownership is not provided. However, there are employee who own shares through the SANASA Movement◀ Annual performance based bonuses◀ Subsistence Allowances and Distance Allowances, for outstation work◀ Relocation allowance, which is a lump sum payment for residential facilities for outstation work.◀ In-Charge allowance for branch managers◀ Education incentives to obtain qualifications <p>Temporary/part time employees</p> <ul style="list-style-type: none">◀ Contract employees do not benefit from specific corporate management allowances, but benefit from all statutory benefits	
Total number of employees entitled to maternity leave (2014)		443
Total number of employees that took maternity leave (2014)		24
Total number of employees who returned to work after maternity leave ended (2014)		19
Total number of employees who returned to work after maternity leave and are still employed 12 later (2013/14)		19
Retention rate of employees who took maternity leave (2013/14)		79.16%

Labour relations and grievance mechanisms

G4 LA 04, LA 16

SDB maintains a cordial and regular dialogue with the union as well as with non-unionised members of the staff, to ensure employee concerns are heard. We believe good relations are a key aspect of proper management of human resources and are essential for business stability and growth. A procedure for grievance handling was introduced and the progress of grievances was tracked as a KPI. Maintaining transparency is treated as greatly important and the human resource system is characterised by;

- Obtaining Board approval for any changes in human resource policies before execution
- Communicating employee events via a circular, prior to execution
- Maintaining a predictable human resource environment within SDB, by eliminating policy and procedural violations.
- An independent committee is available to hear appeals, including transfers.
- An independent grievance committee is operational, headed by the Bank's Compliance Officer. The grievance procedure was introduced in 2014 and has attended 49 cases to date. The monthly grievance rate was reduced to 0.9% in December 2014.

Many employee events are conducted to build and maintain human relations at SDB, throughout the year. These activities bring our employees together and builds goodwill among all grades of employees.

Starting the year with blessings

We began 2014 with a small religious ceremony to bless the Bank and all staff, for a prosperous and successful new year, and to encourage staff to achieve assigned objectives for the year ahead.

Blood donation campaign

On January 10, 2014, SDB employees from the head office conducted a blood donation campaign and donated essential drugs to the Cancer Hospital. Customers and army and police personnel participated in this event.

Training and education G4 LA 09 - 10

Training and development is a core component of strengthening the strategic human resource pillar of the Bank and training is considered essential for operational improvements. Management of human resources is now improved by processes to forecast required skills/expertise to support growth. Our evaluation processes have also been improved through transparent annual evaluations and the implementation of KPIs.

Total hours of training	2014
Corporate	615.30
Senior managers	2,855.15
Executive officers	20,498.00
Other staff	305

Training provided by SDB can be categorised as follows;

- Training for new skills
- Refresher courses are provided to upgrade existing skills and to raise awareness about the latest systems and methodologies
- Training on managerial, legal, and auditing aspects for all products: To date, two training programmes have been developed to enhance knowledge on pawning and lending.

SDB pays special attention to adding value to the Bank's operations through training and development. The Bank positions trainings as an opportunity to reconcile the



Starting the year with blessings



Starting the year with blessings

Building Human Capital *Contd.*

existing operational aspects with the ideal situation - that can be attained through training. Identified drawbacks are reconciled with process owners of the Bank's operation, and followed up for business contribution. Shifting away from the traditional practice of obtaining the trainee's evaluation, SDB has opted to obtain multi-faceted feedback, including feedback from the trainer, on the areas for improvement in existing systems, for greater returns on training investment.

Diversity and equal opportunities G4 LA 12

SDB is a non-discriminatory employer and recruitments and promotions are merit based and transparent.

Employees by gender

Gender	Count
Male	552
Female	451

(Fig. 06)

Employees by age

Age Analysis	Count
25 (Below)	269
25<Age<=30	284
30<Age<=35	237
35<Age<=40	92
40<Age<=45	61
45<Age<=50	40
Above 50	21
Total	1004

(Fig. 07)

Fig. 06 - Employees by Gender

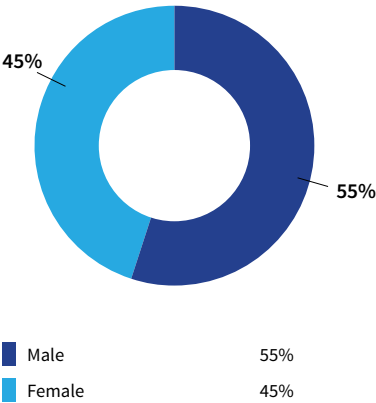
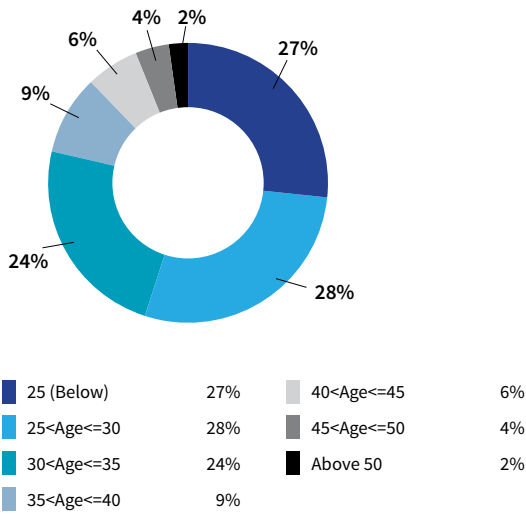


Fig. 07 - Employees by Age



Blood donation campaign



Blood donation campaign

Responsible Services

G4 PR 09

We are happy to report zero cases of non compliance with laws and regulations concerning the provision and use of products and services, during the year. This is in line with our objective of being a responsible financial services provider.

IT support

The Bank has a dedicated IT Department. All our branches are networked and all data are backed up daily, island wide, and we maintain a secure disaster recovery site at a separate location. Stringent security systems are maintained and monitored daily, to ensure data protection. The IT system is also designed to support customer privacy. Our new MIS system, to support our decision making, will be operational within the new financial year.

Customer confidentiality **G4 PR 08**

As a bank, maintaining customer confidentiality is both a legal and ethical requirement. SDB's employees are trained on this need through awareness on the Secrecy Provisions of the Banking Act.

During the year under review, SDB continued to improve its data protection systems and disaster recovery systems. To date, there have been no reports of breaches of customer privacy, data loss, theft or leakages. Our security procedures include the application of the Know Your Client system which provides a clear picture of how funds are derived and utilised. As part of our procedures to protect the privacy of our customers, our employees have restricted access to customer information.

Environmental accountability

G4 DMA Environment

Environmental accountability is material to SDB because we consider ecological capital to be part of overall social capital. Therefore, our operating principle is to conduct business in harmony with nature, while avoiding actions that have harmful effects on the natural environment. As a financial services provider our direct environmental impacts are not significant, as we are not involved in activities that deplete natural resources in a large scale and we also do not contribute to pollution in any significant fashion. Our environment impacts are mainly limited to consumption of natural resources and energy. Our indirect environmental impacts are also limited, as we provide services to micro and SME enterprises that have lower environmental impacts than large scale manufacturing operations.

We are happy to report that to date there are no fines or sanctions against the Bank for non compliance with environmental regulations in the country.

Our energy consumption

In an attempt to reduce our electricity consumption we now use LED lighting inside our office buildings and for displays. We are also considering the use of solar panels to generate electricity at our head office.

Promoting solar power

To promote energy conservation we are planning a conference with the 50 largest SANASA Societies, in 2015, where we hope to introduce the Solar Net Metering system. This solar power generation system will allow SANASA Societies to substitute solar power, for electricity from the national grid, and will also allow SANASA Societies to sell excess solar electricity to the national grid.

Paper conservation

As a service provider we consume large quantities of paper. Over the years we have taken steps to reduce this consumption by reusing paper, by printing on both sides, and by using emails to communicate whenever possible. However, rural populations that have no access to computers and emails, are a major market demographic for SDB. Therefore, it has not been possible to migrate most of our external communications to a paperless environment. Our customers still require paper based communications, due to limited penetration and usage of email and internet facilities. However, we continue to use our website as a communication and marketing tool.

Chairperson's Statement on Corporate Governance

Dear stakeholders

Good corporate governance remains integral to the way the SANASA Development Bank PLC (SDB) operates. We are committed in our commitment to operating in an ethical and transparent manner and staying accountable to our stakeholders.

The Bank has in place a well-structured corporate governance framework which plays a pivotal role in maintaining and enhancing sustainable shareholder value. The Board of Directors strongly believes that an organisations long term success depends on both intuitive strategy as well as high quality governance structure. Due to this, the Bank adheres to both regulatory requirement as well as best practices.

Diversity is key to good Corporate Governance and our commitment to maintaining diverse views is evident in the mix of skills and experience within the Board which includes entrepreneurs, professionals and academics. We also continue to maintain the learning culture within the Board with regular briefings by management, participation at Director Forums and through guest presentations on key topics which provide an outside perspective. We believe that the current Board equipped not only with diverse skill and experiences but also the personal qualities required to provide effective stewardship in leading the Bank to its strategic long term objectives.

Risk management continues to be a key area of focus for the Board and the subcommittee tasked with oversight of the risk management function meets quarterly to ensure that sufficient attention is given to this vital area.

The Board has focussed on succession planning for Key Management Personnel and the Board Nomination Committee and Board HR & Remuneration Committee have been tasked with addressing the concerns of the Board. Accordingly, a framework for managing talent and a succession plan has been drawn up.

We will continue to revise, review and update our policies and governance structures that facilitate good governance with the objective of ensuring that high standards relevant to the industry are upheld by the SANASA Development Bank in line with our stated values.

I wish to confirm that all the findings of the "Factual Findings Report" of the External Auditors in relation to compliance with Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL) have been incorporated to this Report.

I further confirm that all prudential requirements, regulations, Laws and internal controls are complied with and measures have been taken to rectify all material non compliances as and when it is identified.

As required by the Code of Best Practice on Corporate Governance issued jointly by the Securities Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka in 2013, I hereby confirm that, I am not aware of any material misstatement of any of the provisions of the internal Code of Business Conduct and Ethics by any Director or Key Management Personnel of the Bank.

This report will highlight the governance framework and the activities carried out during the year to ensure the maintenance of the highest standards of corporate governance and compliance within SANASA Development Bank PLC.



M.S. Kiriwandeniya
Chairperson
SANASA Development Bank PLC

13th February 2015
Colombo

Compliance Status

Compliance with the provision of the Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka

SANASA Development 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 a separate audit report on the following matters as per guidelines issued by the Institute of Chartered Accountants of Sri Lanka.

Guideline	Function of the Board	Level of Compliance in 2014
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 for 2014-2016 and communicated during meetings with corporate & senior managers. Bank is in the process of developing a new strategic plan for the period 2015 to 2017.
	b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	Bank’s current Strategic Plan includes measurable goals and there is a Board approved overall risk policy and a risk management procedures.
	c) Identify the principal risk and ensure implementation of appropriate system to manage the risk prudently.	Board has delegated the function to manage risks identified by the Board to a subcommittee namely Board Integrated Risk Management Committee (BIRMC) and its findings are submitted on a quarterly basis to the main Board for their purview.
	d) A policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Board approved Communication Policy is in place.
	e) Reviewed the adequacy and the integrity of the bank’s internal control systems and management information system.	Board reviews the adequacy and the integrity of the Bank’s internal control system by way of internal audit reports submitted to the Board through the Audit Committee on a monthly basis. Board Audit Committee (BAC) has reviewed the adequacy and the integrity of the Bank’s Management Information Systems which will be submitted to the Board for their review
	f) Identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards.	Based on Corporate Governance issued by Central Bank of Sri Lanka (CBSL) and as, defined in the Sri Lanka Accounting Standards the Board has designated Key Management Personnel (KMP) of the Bank as the Board Members, all Corporate Management members at the grade of Assistant General Manager (AGM) and above and the Head of Legal
	g) Defined the areas of authority and key responsibilities for the Board of directors themselves and for the key management personnel.	Areas of authority and key responsibilities of the KMPs are included in their Job Description (JD). Areas of authority and key responsibilities of Board of Directors (BoD) are included in the Articles of Association
	h) Ensure that there is appropriate oversight of the affairs of the bank by key management personnel that is consistent with Board policy.	Board has exercise appropriate oversight of the affairs of the Bank by KMP through Chief Executive Officer (CEO) and when need arises they are called by the Board to explain matters relating to their areas

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
	<div><div>i) Periodically assessed the effectiveness of the Board of directors own governance policies including.</div><div><div>◀ The selection, nomination and election of directors and key management personnel.</div><div>◀ The management of conflicts of interests.</div><div>◀ The determination of weaknesses and implementation of changes where necessary.</div></div></div>	<div>A procedure for selecting and appointing new directors with the recommendation of the Board Selection and Nominations Committee is in place.</div> <div>Director's interests are disclosed to the Board and directors who have a particular interest abstained from voting in such a situation and he/she is not counted in the quorum.</div> <div>Determination of weaknesses of BoDs has been evaluated through self-evaluation process of the Board for 2014</div>
	<div>j) Ensure that the bank has a succession plan for Key Management Personnel.</div>	<div>Committee has developed a succession plan policy and procedure for appointing independent non-executive directors in place of retiring directors of the Bank.</div> <div>CEO/ GM has identified names and positions for further development for long term leadership needs and also to ensure an unforeseen situation Bank will initiate action to establish a board approved one to one succession plan for KMP's at the Bank.</div>
	<div>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.</div>	<div>Board meets the KMP at Board committees to review policies and monitor progress towards corporate objectives at quarterly performance review meetings</div>
	<div>l) Understand the regulatory environment and that the bank maintains a relationship with regulators.</div>	<div>All the new regulations and directions issued by regulators have been submitted to the BoDs by the Compliance Officer for their understanding the regulatory environment</div>
	<div>m) Process in place for hiring and oversight of external auditors.</div>	<div>The Board through the BAC select external auditors and oversight their activities</div>
3(1) (ii)	<div>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)</div>	<div>Appointment of the Chairperson and CEO is done by the Board and functions are defined as per direction no 3 (5).</div>
3(1) (iii)	<div>The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.</div>	<div>More than 12 meetings were held during the year.</div>
3(1) (iv)	<div>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.</div>	<div>A Board approved procedure is in place to enable all directors to include matters and proposals in the agenda for regular Board meetings.</div>
3(1) (v)	<div>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.</div>	<div>Notices have been given more than seven days in advance for all Board meetings</div>

Guideline	Function of the Board	Level of Compliance in 2014
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 "Report of the Directors" of this Annul Report
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 a Chartered Secretary who satisfies the provisions of Section 43 of the Banking Act No.30 of 1988.
3(1) (viii)	All directors to have access to advice and services of the company secretary.	All the directors are free to access the Company Secretary for her advices and services
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 available for directors to inspect at any movement.
3(1) (x)	The minutes of a Board meeting contain or refer to the following: <ul style="list-style-type: none"> a) A summary of data and information used by the Board in its deliberations. b) The matters considered by the Board. c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; d) The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; e) The understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and f) The decisions and Board resolutions. 	Minutes of the Board meetings contains all the necessary information required under the direction
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.	Board approved procedure is in place to seek independent professional advice in appropriate circumstances, at the Bank's expense.
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.	There is a provision in the Related Party Transaction Policy to determine, report, resolve and to take appropriate actions relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
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.	A formal schedule of matters specifically reserved for the Board is in place.
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 capitalised at levels as required by the Monetary Board.	The Bank has been fully complied 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.	Board has a scheme of self-assessment of Directors and the AGM- Compliance maintains records of such evaluations
3 (2)	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 31/12/2014
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.	None of the Director has completed nine years of service during the year 2014.
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 and CEO is not a member of the Board.
3 (2) (iv)	The Board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher	Board comprises of three independent, 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 such situation has arisen during the financial year 2014.
3 (2) (vi)	The bank has a process for appointing independent directors.	A procedure for appointing independent directors by the Board with the recommendation of the Board Selection and Nominations Committee is in place.
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 under "Report of the Directors" of this Annual Report.
3 (2) (ix)	There shall be procedure for the appointment of new directors to the Board.	A procedure for appointing directors with the recommendation of the Nominations Committee is in place

Guideline	Function of the Board	Level of Compliance in 2014
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 done according to the Articles of Association of the Bank
3 (2) (xi)	If a director resigns or is removed from office, the Board: <ul style="list-style-type: none"> a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. 	Directors' resignation and the reason for such resignation are duly informed to the CBSL and Securities and Exchange Commission as well.
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.	Annual declaration obtains from directors indicates their directorship in other banks. Letter of appointment issued to the employees have been prevented from accepting any directorship of another banks without the prior permission from the Bank.
3 (3)	Criteria to assess the fitness and propriety of directors	
3 (3) (i)	The age of a person who serves as director does not exceed 70 years.	Declarations given by directors at the time of appointing have indicated the date of birth and age of the directors are monitored accordingly.
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.	As per the declaration made by directors, none of the Directors are holding directorship of more than 20 companies
3 (4)	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 its powers to the General Manager/ CEO upon such terms and conditions and with such restrictions as the Board may think fit.
3 (4) (ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	The Board has delegated its authority to KMP through CEO subject to final responsibility is retained with them.
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 delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.
3 (5)	The chairman and CEO	
3 (5) (i)	The roles of chairman and CEO is separate and not performed by the same individual	Roles of Chairman and CEO are held by two different individuals and carried out different functions.
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.	The Chairperson is non-executive and non-independent director and Bank has appointed a non-executive independent senior director as the Deputy chairman This is disclosed under the "Report of the Directors"

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
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 is a process to get a declaration from each director about relationships, if any, between the chairman & the CEO and Board members and its nature annually. If there is any relationship, it is disclosed in Corporate Governance Report in Annual Report
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.	A scheme of self -assessment process for the BoDs is in place.
3 (5) (v)	A formal agenda is circulated by the company secretary approved by the chairman.	The Agenda for each Board Meeting is prepared by Company Secretary which will be approved by the Chairperson
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. Always minutes of previous month's Board meeting are distributed to the Board members and tabled at the next Board meeting for approval.
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.	A scheme of self -assessment process for the Board is in place which covers the requirement
3 (5) (viii)	The Board has a self evaluation process that assesses the contribution of non-executive directors.	Assessment process covers the contribution 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 a non-executive director and had not engaged in activities involving direct supervision of key management personnel or any other executive duties during the financial year 2014.
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Annual General Meeting of the Bank is the main forum where the Board maintains effective communication and further the communication policy evidence there is a process in this regard.
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's operations and business.

Guideline	Function of the Board	Level of Compliance in 2014
3 (6)	Board approved committees	
3 (6) (i)	The bank has established at least four Board committees as set out in Directions 3(6) (ii), 3(6) (iii), 3(6) (iv) and 3(6) (v) of these Directions. The committee report is addressed directly to the Board. The Board presents in its Annual report, a report on each committee on its duties, roles and performance.	<p>Following Committees directly report to the Board and minutes of the same are discussed and ratified at the main Board Meeting.</p> <ol style="list-style-type: none">1) Board Human Resources and Remuneration Committee (BHRRC)2) Board Selection and Nomination Committee (BSNC)3) Board Integrated Risk Management Committee (BIRMC)4) Board Credit Committee (BCC)5) Board Audit Committee (BAC) <p>This is disclosed under the “Report of the Directors”</p>
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 an independent non-executive director who is a qualified Chartered Accountant.
	b) All members of the committee are non-executive directors.	All members are non-executive directors
	c) The committee has made recommendations on matters in connection with:	
	▶ the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	
	▶ the implementation of the Central Bank guidelines issued to auditors from time to time;	The Committee always make recommendations regarding those matters
	▶ the application of the relevant accounting standards; and	
	▶ The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	
	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.	External Auditors are independent since they report direct to the BAC. Engagement Letter submitted to the BAC and their Report on the financial statements of the Bank for the year 2014 indicates that the 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.	Committee has implemented the policy in this regard.
	f) The committee has discussed and finalised the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Committee has discussed and finalised the Audit Plan 2014, nature and scope of the audit and deliverables, with the external auditors in accordance with SLAuS before the audit commences.

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
	<p>g) The committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <ul style="list-style-type: none">Major judgmental areas;Any changes in accounting policies and practices;The going concern assumption; andThe compliance with relevant accounting standards and other legal requirements, and;In respect of the annual financial statements the significant adjustments arising from the audit.	<p>BAC reviews the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, when the Annual Financial Statements and other accounts are submitted to the BAC by the Chief Financial Officer (CFO).</p>
	<p>h) The committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.</p>	<p>Committee has met the External Auditors in the absence of the executive management.</p>
	<p>i) The committee has reviewed the external auditor's Management Letter and the management's response thereto.</p>	<p>BAC reviews the external auditors' Management Letter upon receipt</p>
	<p>j) The committee shall take the following steps with regard to the internal audit function of the bank:</p> <ul style="list-style-type: none">Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;Review any appraisal or assessment of the performance of the Head and Senior staff members of the internal audit department;Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;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;The internal audit function is independent of the activities it audits.	<p>The Committee reviews the adequacy of the scope, functions and resources of the internal audit department.</p> <p>The Committee reviews the internal audit programs</p> <p>BAC has appraised the performance of the Head of Internal Audit for the year 2013.</p> <p>Appointment, termination or transfers of the Head, Senior Staff and outsource service providers of the internal audit function are approved by the BAC</p> <p>There were no resignation or termination of senior staff or outsourced service providers of the internal audit department during the period</p> <p>Internal audit department is independent since they report directly to the BAC and its functions are performed with impartiality, proficiency and due professional care.</p>

Guideline	Function of the Board	Level of Compliance in 2014
	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 actions.
	l) Ensure that whether the committee has had at least two meetings with the external auditors without the executive directors being present.	No executive directors of the Board and meet more than two occasions with the external auditors.
	m) The terms of reference of the committee to ensure that there is; ◀ Explicit authority to investigate into any matter within its terms of reference; ◀ The resources which it needs to do so; ◀ Full access to information; and ◀ Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	The Board approved Terms of Reference (TOR) of the committee addresses all those matters
	n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties.	During the year 2014, BAC has held more than 12 regular meetings and its minutes are maintained by the company secretary
	o) The Board has disclosed in the Annual report, ◀ Details of the activities of the Audit committee; ◀ The number of Audit committee meetings held in the year; and ◀ Details of attendance of each individual director at such meetings.	These information are disclosed in the Annual Report under “Report of the Directors” and “Report of the Board Audit Committee”
	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 auditors	This requirement has been documented in the “Whistle Blower” policy and approved by the Board
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.	BHRRC “Terms of Reference” speaks about remuneration relating to directors and CEO and KMP. Committee will implement a policy to determine the remuneration relating to directors, CEO and KMPs of the Bank.

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
	b) The goals and targets for the directors, CEO and the key management personnel are documented	Goals and targets for the Directors are in place approved by the Board. Goals and targets of CEO and KMPs are in their JD.
	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.	Bank has a process to review and evaluate the performance of CEO and KMPs approved by the Board with the recommendation of BHRRC.
	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.
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.	Board has a Policy and Procedure for the selection, appointment and remuneration of the directors, CEO and KMPs.
	b) The committee has considered and recommended (or not recommended) the re-election of current directors.	Duly recommended
	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.	Criteria for appointment or promotion to the post of CEO and the key management personnel are set by the Nomination Committee. Criteria for KMP's are included in their JDs approved by the BHRRC. These JDs will be submitted at the nomination committee for their review
	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.	Signed Declarations are obtained from Directors, CEO and Key Management Personnel that they are fit and proper persons to hold the office.
	e) The committee has considered a formal succession plan for the retiring directors and key management personnel.	Committee has developed a succession plan policy and procedure for appointing independent non-executive directors in place of retiring directors of the Bank. CEO/ GM has identified names and positions for further development for long term leadership needs and also to ensure business continuity in an unforeseen situation Bank will initiate action to establish a Board approved one to one succession plan for KMP's at the Bank
	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 chaired by an Independent Director and consists with two independent directors. The CEO participates only on invitation.

Guideline	Function of the Board	Level of Compliance in 2014
3 (6) (v)	The following rules apply in relation to the Integrated Risk Management Committee :	
	a) The committee shall consist of at least three Non-executive directors, CEO and Key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	At present BIRMC consists of 3 non-executive Directors; CEO, AGM- Compliance, Chief Risk Officer, Chief Internal Auditor, DGM- Credit and Development and AGM - Finance participates at their meetings to assist the committee. Committee will include CEO and KMPs supervising broad risk categories i.e., credit, market, liquidity, operational and strategic risks as members of the committee.
	b) The committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Risks on credit, market, operational and strategic are evaluated at the monthly Executive Risk Management Committee assesses risks on monthly basis and submitted same to the BIRMC on quarterly basis. At present Bank has no any subsidiary or associate.
	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.	Committee has set specific quantitative and qualitative risk limits for management level committees such as credit committee and the asset-liability committees. Risk indicators have to be reviewed periodically.
	d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	BIRMC reviews risk indicators which are gone beyond certain risk limits.
	e) The committee has met at least quarterly.	Committee has met at least once in a quarter
	f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Disciplinary actions to be taken against officers responsible for failure to identify specific risk is discussed at the committee and it is incorporated in to the 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.	All the risk assessment reports reviewed by the committee and committee will take actions to submit a risk assessment report for the next Board meeting.
	h) The committee has established a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Compliance function is in place to assess the Bank's compliance. A dedicated senior officer has been appointed by the Bank in this regard who has designated as a KMP. The compliance officer submits a quarterly compliance report to the BIRMC and Related Party Transaction Report on a monthly basis to the main Board. this Process will be strengthened to cover the compliance with internal controls and approved policies on all areas of business operations.

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
	Related Party Transactions	
3 (7) (i)	<p>There is a established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <p>a) Any of the bank’s subsidiary companies;</p> <p>b) Any of the bank’s associate companies;</p> <p>c) Any of the directors of the bank;</p> <p>d) Any of the bank’s key management personnel;</p> <p>e) A close relation of any of the bank’s directors or key management personnel;</p> <p>f) A shareholder owning a material interest in the bank;</p> <p>g) A concern in which any of the bank’s directors or a close relation of any of the bank’s directors or any of its material shareholders has a substantial interest.</p>	<p>There is a Board approved “Related Party Transaction Policy” which speaks on related parties as mentioned and that for the bank to avoid any conflicts of interest with said parties that may arise from such transaction of the bank.</p> <p>Transactions with related parties are done strictly according to the Board approved Related Party Transaction Policy and which are reported to the Board on monthly basis.</p> <p>Further there is a Board sub-committee naming Related Party Transactions Review Committee which is responsible to make decisions over related party transactions</p>
3 (7) (ii)	<p>There is a process to identify and report the following types of transactions been identified as transactions with related parties that are covered by this direction.</p> <p>a) The grant of any type of accommodation, as defined in the monetary Board’s directions on maximum amount of accommodation.</p> <p>b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.</p> <p>c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank.</p> <p>d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties,</p>	<p>There is a Board approved “Related Party Transaction Policy” which speaks on related parties as mentioned and that for the bank to avoid any conflicts of interest with said parties that may arise from such transaction of the bank.</p> <p>Bank has started the reporting of related party transactions with regard to related party entities to the Board of Directors on a monthly basis.</p>

Guideline	Function of the Board	Level of Compliance in 2014
3 (7) (iii)	<p>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.</p> <p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the Board.</p> <p>b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>There is a Board approved “Related Party Transaction Policy” in place which speaks on related parties and types of related party transactions and for the Bank not to engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties “more favorable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p> <p>Bank will modify the system to enable to identify the related party transactions and to ensure that there are no favorable treatments offered to such related parties than that accorded to other constituents of the bank carrying on the some business.</p>
3 (7) (iv)	<p>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.</p>	<p>This requirement is documented in the Board approved Related Party Transaction Policy.</p>
3 (7) (v)	<p>a) The Bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.</p>	<p>No such situation has arisen during the year 2014</p>

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
	b) Where such security is not provided by the period as provided in Direction 3(7) (v) (a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	No such situation has arisen during the year 2014
	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	Did not occurred such a situation during 2014
	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	Complied with
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 favorable treatments are given to the employees under any category other than staff benefit schemes approved by the Board of Directors.
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.	Not applicable due to the reasons mentioned in 3(7)(v) and 3(7)(vi) above.
	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 audited financial statements including basis of preparation and presentation, statement of compliance is disclosed in the Annual Report 2014 and such audited financial statements and quarterly financial statements have been published in the newspapers in an abridged form, in Sinhala, Tamil and English.

Guideline	Function of the Board	Level of Compliance in 2014
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.	Specific disclosures are available in the Annual Report under “Directors’ responsibility for Financial Reporting”
	b) The report by the Board on the bank’s internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Specific disclosures are available in the Annual Report under “Directors’ Statement on Internal Control over Financial Reporting”
	c) The Board has obtained the Assurance Report issued by the auditors under “ Sri Lanka Standard on Assurance Engagement SLSAE 3050 - Assurance Reports for Banks on Directors’ Statement on Internal Control” referred to in Direction 3(8)(ii)(b) above.	Board has obtained the Assurance Report issued by the auditors under “Sri Lanka Standard on Assurance Engagements SLSAE 3050 –Assurance Reports for Banks on Directors’ Statements on Internal Control” and included in the Annual Report. Details on the same are disclosed under heading “Board of directors”
	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.	Disclosures of accommodation outstanding as of Statement of Financial Position date to related parties are made under Notes to the Financial Statements relating to Related party transaction in the Annual Report.
	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.	Disclosure of remuneration paid by the Bank to its KMP is made under notes 32.2.1 to the financial statements relating to Related party Transactions included in the Annual Report.
	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.	Details of accommodation outstanding as of Statement of Financial Position date in relation to KMP are disclosed under notes 32.2.2 to the financial statements relating to party transactions included in the Annual Report.
	g) The Board has obtained the external auditor’s report on the compliance with Corporate Governance Directions.	Board has confirmed in the annual corporate governance report that all the findings of the ‘Factual Findings Reports’ of auditors issued under “Sri Lanka Related Services Practice Statement 4750” have been incorporated in the Annual Corporate Governance Report.
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material noncompliance	This aspect is covered by the “Chairperson’s Statement”

Compliance Status *Contd.*

Guideline	Function of the Board	Level of Compliance in 2014
	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.	No such direction is issued by the Monetary Board during the year

Compliance with the Code of Best Practices on Corporate Governance

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 2014
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 meet regularly on monthly basis
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, recognise their duties 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 2014
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. Her service is available to all directors. Further, she provides 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 scrutinising the decisions taken by the GM / CEO, on issues of strategy, performance, resources utilisation and business conduct.
6. Dedication of adequate time and effort by the Board and Board committee	A.1.6	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 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. papers relating to the board meetings are sent well in advance for them to study same and come prepared for the meeting
7. Training for new Directors	A.1.7	Every Director should get an appropriate training	The Board of Directors recognise 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. Some of the directors were sent on training for this purpose

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 Officer are done by two different individuals.
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Compliance Status *Contd.*

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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	<p>The Chairperson is responsible for leadership of the Board and ensuring effectiveness in all aspects of its role. The Chairperson of SDBL is a Non Executive Director, elected by the Board. The Chairperson's role encompasses: - Ensuring that the new Board members are given appropriate induction, covering terms of appointment, duties and responsibilities.</p> <p>- Leading the Board and managing the business of the Board while taking full account of the issues and concerns of the Board.</p>
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 under "Board of Directors" heading
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 which ever 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 2014.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive directors out of all, should be independent directors	Board comprises of three independent, non-executive directors.
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

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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 2014
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. However an independent director has been appointed as the Senior director
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	Senior Independent Director is available for discussion of confidential issues by the other Directors at any movement
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.

Compliance Status *Contd.*

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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 for giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at the meeting.
A.7 Appointments to The Board			
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 and Chairperson and members are disclosed under "Report of the Directors" heading
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 for 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 to shareholders	New appointments of Directors are disclosed through stock exchange as well as at the AGM
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 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 re election thereafter at intervals of no more than three years.	Complied with

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
A. 9 Appraisal of Board Performance			
The Board should periodically appraise its own performance against the pre set targets in order to ensure that the Board responsibilities are satisfactorily discharged.			
1. Appraisal of Board performances	A.9.1	The board should annually appraise it self on its performance in the discharge of its key responsibilities as setout in A.1.2	Self assessments for Board of Directors were done for the year 2014
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 "Report of the Directors" section
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 under "Board of Directors" heading
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 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	Bank has a process to review and evaluate the performance of CEO at the Board Human Resources and Remuneration Committee
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.
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 under "Report of the Directors"

Compliance Status *Contd.*

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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 Board Human Resources and Remuneration Committee
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 sub committee 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 the 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	Please refer the above comment
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	Not in practice such a thing in the Bank
6. Deciding the Executive Directors remuneration	B.2.6	In designing schemes for performance-related remuneration, Remuneration committee should follow the relevant SEC regulations	No executive directors are available in the bank

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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.	Compensation on early termination will be discussed on case by case basis
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 at the Remuneration Committee
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 the 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	Refer the note to the financial statements relating to Related party transaction included in the Annual Report for remuneration of directors, and "Report of the Directors" heading For 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			
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 it 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.
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 propose a resolution at the AGM relating to the adoption of the report & accounts	Bank propose a separate resolution at the AGM on each substantially separate issue.
3. Availability of all Board Sub Committee Chairmen 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

Compliance Status *Contd.*

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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 from the meeting date
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 news papers 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, 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	A Board approved communication policy is in place
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 of the company 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

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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 2014 there were no major transactions as defined by Section 185 of the Companies Act No 7 of 2007 which materially affected SDBL's net asset base.
D. 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	SDBL has reported a true and fair view of its position and performance for the year ended 31st December 2014 and at the end of each month of 2014. In the preparation of quarterly and annual financial statements, SDBL had strictly complied with the requirements of the Companies Act No 07 of 2007, the Banking Act No 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. SDBL has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission.
2. Directors' report in the Annual report	D.1.2	The Directors' report 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 section "Directors' Responsibility of Financial Reporting" covers this requirement
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	Refer section "Directors' Responsibility for Financial Reporting" and "Directors' Statement on Internal Control over Financial Reporting"
4. Management Discussions and analysis	D.1.4	Annual Report should contain a "Management Discussion and Analysis"	The "Financial Review" section of the Annual Report cover this area

Compliance Status *Contd.*

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB’s Extent of Compliance in 2014
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	The section "Directors’ Responsibility of Financial Reporting" covers this requirement
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.1.7	The Board should adequately disclose the Related Party Transactions in its Annual Report	Related party transaction details are given in notes to the Financial Statements included in the Annual Report
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	<p>The Board is responsible for establishing a sound framework of internal controls and monitoring it’s effectiveness on a continuous basis. The system of internal controls is evaluated by the audit committee In the year 2014. Risk has been reviewed by BIRMC quarterly.</p> <p>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 under the heading "Directors' Statement on Internal Control over Financial Reporting"</p>
2. Need for internal audit function	D.2.2	Companies should have an internal audit function.	The bank has a separate Internal audit department. The bank review the internal control function once a year. Refer the section "Directors' Statement on Internal Control over Financial Reporting"
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 the section "Directors' Statement on Internal Control over Financial Reporting" and "Risk Management"

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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 the section "Directors' Statement on Internal Control over Financial Reporting"
D.3. Audit Committee			
The Board should have a formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor.			
1. Composition of the Audit committee	D.3.1	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.
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 under the section "Report of the Board Audit Committee" The Committee ensures the rotation of External Audit Engagement Partner once in every 5 years. The External Auditor has provided an Independence confirmation in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC
D.4. Code of Business Conduct and Ethics			
The Bank should develop a Code of Business Conduct and Ethics for Directors and members of the Senior Management team.			
1. Code of Business Conduct and ethics	D.4.1	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.

Compliance Status *Contd.*

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
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.	Refer the section "Chairperson's Statement"
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
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
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' concerns 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	All individual shareholders are given opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and news paper notices

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2014
G. Sustainability Reporting			
G.1 Principles of Sustainability Reporting			
1. Principle 1 - Economic Sustainability	G.1.1	Principle of Economic sustainability governance recognises how organisations 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 organisation	The bank consider sphere of geographical influence and their impact when planning their strategies, activities and decisions on economic performances for economic sustainability government
2. Principle 2 - The Environment	G.1.2	Environmental Governance of an organisation 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 decisions on pollution prevention, protection of environment and restoration of natural resources.
3. Principle 3 - Labour Practice	G.1.3	Labour practices governance of an organisation encompasses all policies and practices relating to work performed by or on behalf of the organisation	All practices and policies are formulated to have a pleasant working environment in the organisation
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
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	Bank Develops 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 is cordial and include past performance and existing economic, social and environmental issues
7. Principle 7 - Formalisation of Sustainability Report	G.1.7	Sustainability reporting and disclosure should be formalised 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

Report of the Board Audit Committee

Composition of the Board Audit Committee (BAC)

The BAC appointed by the Board of Directors comprises of four Non Executive Directors, who conduct Committee proceedings in accordance with the Terms of Reference approved by the Board.

The following members serve in the BAC :

Mr. L. Abeysekera	-	<i>Chairman-BAC- Non Executive, Independent Director</i>
Mr. Jayantha Rathnayake	}	<i>Non Executive, Non Independent Directors</i>
Mr. Thilak Rajapaksha		
Mr. H.M.G.B. Herath		

Dr. R.M.K.Rathnayake stepped down from the committee, with his resignation from the Board with effect from 25th September 2014 and we take this opportunity to place on record the committee’s appreciation of the service rendered by Dr.R.M.K.Rathnayake as a member.

The Chairman of the BAC Mr. L. Abeysekera who is a Non Executive Independent Director, 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 holds a MBA from Institute of Postgraduate Management, University of Sri Jayawardhanapura and counts over 20 years of experience in the field of Accounting. Brief profiles of the members of the BAC are given on pages 28 to 33 of the Annual Report.

The Board secretary functions as the secretary to the Board Audit Committee.

Terms of Reference

The charter of the BAC clearly defines the Terms of Reference of the Committee. The Board periodically reviews the BAC charter as and when required. The Committee is responsible to the Board of Directors and reports on its activities regularly. BAC also the assists the Board in its general oversight of financial reporting, internal controls and functions relating to internal & external audits.

Regulatory compliance

The roles and functions of the BAC are regulated by the Banking Act direction no 12 of 2007, on the mandatory Code of Corporate Governance for License Specialised Bank in Sri Lanka, issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per section 7.10 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchanges Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

Meetings

The Audit Committee met 14 times during the year. Attendance of the committee members of each of these meetings is given in the table on page 121 of the Annual report. Chief Internal Auditor and Head of Finance are normally attended meetings on invitation and General Manager/Chief Executive Officer, Chief Operating Officer and the relevant Senior Management/officers in other grades also participated in the meetings on invitation. On the invitation of the Committee, the Engagement Partner and the senior officers of the Banks External Auditors, messes. Ernst & Young attended 03 committee meetings during the year. The committee continued guiding the management with the selection of the new Accounting policies which is required under the aforesaid new Accounting Standards and implementing same. Four of these meetings were held to consider and recommended to the Board of Directors of the Bank’s Quarterly and Annual Financial Statements. The committee met the External Auditors and the Internal Auditors twice during the year without the presence of General Manager/ CEO and the corporate management to ensure that there was no limitation of scope in relation to the Audit and to allow for full disclosure of any incident which could have had a negative impact on the effectiveness on the External/Internal Audits and concluded that there was no cause for concern.

Duties and role of the Board Audit Committee

The BAC is responsible for:

- ◀ Reviewing 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;
- ◀ Reporting to the Board on the quality and acceptability of the Bank’s accounting policies and practices;
- ◀ Reviewing accounting and financial reporting, risk management processes and regulatory compliance;
- ◀ Reviewing of the Financial Statements (including quarterly interim statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies which are consistently applied;
- ◀ Reviewing internal audit reports and liaising with Corporate Management in taking precautionary measures to minimise control weaknesses, procedure violations, frauds, and errors;
- ◀ Assessing the independence and monitoring the performance and function of the Internal Audit, including overseeing appointment of the Head of Internal Audit.
- ◀ Overseeing the appointment, compensation, resignation, dismissal of the External Auditor, including review of

the external audit, its scope, cost and effectiveness and monitoring of the External Auditor's independence;

- ◀ Reviewing adequacy and effectiveness of the Bank's systems of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements; and
- ◀ Engaging independent advisors on specialised functions where it is deemed necessary.

During the year ended 31st December 2014 the principal activities of the BAC were as follows:

Financial reporting

The Committee, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors the quarterly and the annual Financial Statements prior to their release. The review included the quality and acceptability of accounting policies and practices, the clarity of the disclosures and the extent of compliance with Sri Lanka Accounting Standards (SLFRS & LKAS), the Companies Act No 07 of 2007, the Banking Act No 30 of 1988 and amendments thereto and other relevant financial and governance reporting requirements. To facilitate their review, the BAC considered reports from the Head of Finance and also reports from the External Auditors on the outcome of their review and annual audit.

Internal Control over Financial Reporting (ICOFR)

The Bank is required to comply with Section 3(8)(ii)(b) of the Banking Act Direction No 12 of 2007 on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka and assess the adequacy and effectiveness of internal control over financial reporting as of 31st December 2014.

The Bank assessed the adequacy and effectiveness of its internal control over financial reporting as of 31st December 2014 based on the criteria set out in the Guidance for Directors of Banks on 'The Directors' Statement of Internal Control', issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) in 2010.

The Bank's assessment was based on processes documented by the respective process owners with the guidance of the Bank's Internal Audit and External Auditor (Ernst & Young). The Internal Audit Department carried out walk through tests on the documented processes to establish their adequacy and commented where necessary.

Based on Internal Auditors' and External Auditors' assessments, the Board has concluded that, as of 31st December 2014, the Bank's internal control over financial reporting is effective. Directors' Report on the Bank's Internal Control over Financial Reporting is provided pages 124 to 125 in the Annual Report. The Bank's External Auditors have reviewed the effectiveness of the Bank's internal control over financial reporting and have reported to the Board that nothing has come to their attention that causes them to believe that the financial reporting is inconsistent with their understanding of the processes adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank. External Auditor's Report on the Bank's Internal Control over Financial Reporting is provided on page 126.

Annual corporate governance report

As required by Section 3(8)(ii)(g) of the Banking Act Direction No 12 of 2007, on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka, the Annual Corporate Governance Report for 2014 is provided on pages 76 to 105 in the Annual Report. The External Auditors of the Bank have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLRSPS 4750), to meet the compliance requirement of the Corporate Governance directive. Their findings presented in their report dated 13th February 2015 addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported by the Board on pages 93 to 105.

Internal audit

The BAC monitored and reviewed the scope, extent and effectiveness of the activities of the Bank's Internal Audit Department. This included reviewing of updates on audit activities and achievements against the Bank's audit plan, advising corporate management to take precautionary measures on significant audit findings and assessment of resource requirements of the Internal Audit Department. The BAC had necessary interactions with the Head of Internal Audit throughout the year.

During the year, BAC reviewed the internal audit plan and monitored the implementation of it on a regular basis. The sections covered and the regularity of audits depends on the risk level of each section, with higher risk sections being audited more frequently.

The Internal Audit Department comprises three broad areas namely;

- ◀ Branches and Departments Audits, including Treasury and Forex

Report of the Board Audit Committee *Contd.*

- ◀ Information System Audits and
- ◀ Investigations

Audit findings presented in the reports are prioritised based on the level of risk. The Committee followed up on Internal Audit recommendations with the Corporate Management. Internal Audit reports are made available to external auditors as well.

Along with the significant findings the Internal Audit Department has been engaged in sharing and providing knowledge through audit exit meetings, Regional Manager's meetings etc... to the Bank's staff for better control awareness. In keeping with BAC recommendations the internal audit has also provided inputs to the Corporate Management for effective control and prevention of frauds.

External auditors

With regard to the external audit function of the Bank, the role played by the Committee is as follows:

- ◀ Undertook the annual evaluation of the independence and objectivity of the external auditor and the effectiveness of the audit process.
- ◀ Met with the external auditors to discuss their audit approach and procedure, including matters relating to the scope of the audit and Auditor's independence.
- ◀ Reviewed the audited Financial Statements with the external auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.
- ◀ Reviewed the Management Letters issued by the External Auditor together with management responses thereto.
- ◀ Met the external auditor during the year without other Directors, General Manager/CEO and the Corporate Management to ensure that there was no limitation of scope in relation to the Audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. It was concluded that there was no cause for concern.
- ◀ Reviewed the Non-Audit Services provided by the external auditor and was of the view that such services were not within the category of services identified as prohibited under:
 1. the guidelines issued by the Central Bank of Sri Lanka, for external auditors, relating to their statutory duties in terms of Section 39 of the Banking Act No 30 of 1988 and amendments thereto.
 2. the Guideline for Listed Companies on audit and audit committees issued by the Securities and Exchange Commission of Sri Lanka.
- ◀ Reviewed the Letter of Representation issued to the external auditors by the Board.
- ◀ Reviewed the Letter of Independence Confirmation issued by the external auditor as required by the Companies Act No 7 of 2007, confirming that they do not have any relationship or interest in the company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of the Institute of Chartered Accountants of Sri Lanka.

The BAC has recommended to the Board of Directors that Messrs Ernst and Young, Chartered Accountants, be reappointed for the financial year ending 31st December 2015 subject to the approval of shareholders at the next Annual General Meeting.

Whistle blowing

SANASA Development Bank's Whistle Blowing Policy is intended to serve as a channel of corporate fraud risk management. The policy allows any team member who has a legitimate concern on an existing or potential "wrong doing", done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, as even anonymous complaints are looked at. This procedure is being monitored by the BAC.

Professional advice

The BAC has the authority to seek external professional advice on matters within its purview; and from time to time during the year consultations were done with various parties.

Board Audit Committee evaluation

The annual evaluation of the BAC was conducted by the Board Audit Committee during the year and concluded that its performance was effective.

On behalf of the Board Audit Committee



Mr. L. Abeysekera
Chairman Board Audit Committee

13th February 2015
Colombo

Board Human Resources and Remuneration Committee Report

Establishment

Board Human Resource and Remuneration Committee of SANASA Development Bank PLC, was established based on the Terms of Reference approved by the Board of Directors.

Composition

The Board Human Resource and Remuneration committee comprised of four non-executive Directors as follows;

- ◀ Mr. T. Karunasena – *Chairman*
- ◀ Ms. S. Kiriwandeniya
- ◀ Mr. A. D. Walisinghe
- ◀ Mr. L. Abeysekara

Company secretary/AGM functions as the Secretary to the committee as per the approved Terms of Reference for the committee, and GM/CEO and the DGM/Head of HR were compulsory members to attend to the committee meeting, except when matters relating to them are being discussed.

Meetings

During the financial year ended 31st December 2014, BHRRC has met in 20 occasions and considered over 180 committee papers concerning the areas pertaining to HR environment of the Bank. TOR of BHRRC require the committee to meet minimum six times per year, yet BHRRC has exceeded the requirement stated in the TOR in excess of over 200%. Committee has successfully directed the HR function of the Bank to address the concerns raised by the Central Bank and to maintain a compliant HR environment and an operation, while providing direction to the Bank.

Scope and responsibilities

The Board Human Resources and Remuneration Committee (BHRRC) is entrusted with following responsibilities through the Terms of Reference approved by the Board of Directors.

- ◀ Providing necessary guidance for implementation of Human Resource Management and Human Resource Development functions of the Bank.
- ◀ Providing necessary guidance for formulating HR objectives, policies and strategies in line with business requirements of the Bank.
- ◀ Giving the direction for nurturing performance culture at the Bank.
- ◀ Ensuring that the Bank meets the requirements of the Labour Laws, Central Bank Regulations and other relevant Compliances relevant to managing the staff.

Performance during the year/key HR initiatives

During the year under review, the committee has provided the HR related directions to the Bank and provided following key directions and initiatives.

Standard for resource utilisation

A standard was developed under the direction of BHRRC, in order to rationalise the resource utilisation in branches and service departments. Business volume based grading system and role based headcount utilisation were characteristics of the standard. Human Resource allocation was based on the Branch grading determined on the Business. This was used as the basis for determining the basis for benefits of branch management as well.

Further the committee approved a project based resource allocation policy, where a branch could request resources for projects in order to facilitate business growth and resource utilisation.

Job grading and salary structure

A comprehensive job grading structure to facilitate the career growth within the bank was approved by the committee. This structure facilitate a smooth career growth for employees in the Bank in four streams namely Core Banking, Professional, Contract employment, and Cooperative liaison stream. Specifically the Cooperative liaison scheme was designed for staff who maintain the link with Cooperative sector, which is a major component of the vision of the Bank.

Communication policy

Committee provided the Direction for a communication policy with listening to employees as a feature within the policy. Approved policy provided direction for the things to be communicated, the channels used for communication, and parties who are responsible for communication. Further, the policy clarified the distortion of communication and anonymous communication within the Bank.

Establishing role clarity

In order to establish the role clarity, the committee deliberated in detail and approved the profiles of Corporate Management and the branch manager. These definitions were cascaded down to relevant levels of employees in order to provide clear insight of the expectation of the Bank. Committee will continue to deliberate on other key roles within the Bank to establish role clarity.

Board Human Resources and Remuneration Committee Report *Contd.*

Policy on training provision

Under the direction of the committee, a policy of training provision was approved for the Bank. This policy provides direction of what types of trainings are provided to the employees of the Bank and benefits expected from providing Trainings.

Sourcing policy

Providing the direction on how the Human Resource was sourced, the committee directed and approved the sourcing policy for the Bank. This policy provide directions on approved ways of sourcing Human Resources to the Bank.



T. Karunasena

Chairman

Board Human Resources and Remuneration Committee

13th February 2015

Colombo

Report of the Board Selection and Nomination Committee (BS & NC)

The BS & NC, having reviewed its performance during the year 2014, and presents the following report.

The BS & NC carried out its activities during the year within the scope of its Terms of Reference and in conformity with the directions of Banking Act Direction No.12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka (as amended) and the code of best practice on Corporate Governance (2013) jointly issued by Securities and Exchange Commission of Sri Lanka (SEC) and Institution of Chartered Accountants of Sri Lanka (ICASL).

Composition of the BS & NC

The BS & NC comprises of three (03) Non – Executive Directors (of which a majority are Independent) appointed by the board of Directors of the Bank. During the year 2014, the following Directors served on the BS & NC .

- ◀ Mr.T.Karunasena – Independent / Non Executive Director (Chairman)

Served as a member of the Committee with effect from 24.03.2010 and was appointed as Chairman with effect from 03.10.2014

- ◀ Dr.R.M.K.Rathnayake - Independent / Non Executive Director

Served as the Chairman of the BS & NC with effect from 24.03.2010 to 24.09.2014 the date on which he resigned from the Board.

- ◀ Ms.M.S.Kiriwandeniya – Non Independent / Non Executive Director
- ◀ The Chairperson of the Bank. She was appointed to the BS & NC with effect from 03.10.2014
- ◀ Mr.L.Abeysekera – Independent / Non Executive Director

Appointed to the BS & NC with effect from 03.07.2013

The Board Secretary functioned as the Secretary to the BS & NC.

Primary Objectives of the BS & NC

The BS & NC was established to assist the Board of Directors in fulfilling its role and responsibilities with regard to the selection and appointment of Independent Directors, election and re-election of Non – Executive Directors , and appointment of GM / CEO and other key management personnel of the bank.

Responsibilities of the BS & NC

The BS & NC is responsible for reviewing composition of the Board and Board Sub Committees with a view to ensure that they are properly constituted and well balanced in terms of experience, expertise skills and diversity. Further the BS & NC is mandated:

- ◀ To ensure the implementation of the Board approved policy and procedure in selection and nominations of new Directors and Key Management Personnel of the bank and to make recommendation regarding such appointments
- ◀ To recommend re-appointment / re- election of current Directors considering the performance and contribution made by such Directors towards the overall discharge of responsibilities of the Board.
- ◀ To review and determine the criteria such as qualifications , experience and key attributes , required for eligibility for appointment of GM / CEO and appointment / promotion for other key management positions
- ◀ To ensure that the Directors, GM / CEO and other Key Management Personnel are fit and proper persons to hold such positions as required by the Banking Act and applicable statutes.
- ◀ To consider from time to time the requirement of additional / new skills and expertise at the board level and make suitable recommendation to the board, to mobilize such skills and expertise.
- ◀ To put in place a proper succession plan for Retiring Directors and Key Management Personnel with a view to ensure the un-interrupted and smooth functioning of all aspects bank's operations and decision making process in the long run and business continuously in unforeseen situations.

The Terms of Reference of the BS & NC was adopted by the Board in 2012 and it was further reviewed and refined in 2014.

Meetings of the BS & NC and its effectiveness

The Committee met 11 times during the year under review and it focused mainly on the following.

- ◀ Board Composition - Identified the skills required and recommended the appointment of a new Director with expertise in information technology.

Report of the Board Selection and Nomination Committee (BS & NC) *Contd.*

- ◀ Sub committees - Made its recommendations to the Board to re-constitute the Board sub committees based on the guidelines / principles on the constitution of such committees
- ◀ Re- election of Directors – The BS & NC assessed the contribution made by the Directors who were retiring by rotation and made its recommendation to the board to be submitted for election, by the shareholders at the AGM.
- ◀ Filling the skills gaps in the Key Management Team -The BS & NC continuously re-viewed the required skills and experienced at top management level and made recommendation to the board with regard to the appointment of GM / CEO and four (04) Key Management Personnel.
- ◀ Succession plan - The BS & NC along with the GM / CEO of the Bank re-viewed and analysed the expertise required and available at corporate and senior management level and specially discussed the succession plan for KMP's with a view to identify and develop potential candidates for such posts. Reviewed and discussed the process and overall methodology for succession plan and contingency plan for senior management level in unforeseen situations.



T. Karunasena

Chairman

Board Selection and Nomination Committee

13th February 2015
Colombo

Board Integrated Risk Management Committee Report

Any bank is exposed to various risks when it operates in a volatile environment. The responsibility of managing risk is vested with Board of Directors. In discharging its risk management responsibilities, the Board of Directors appointed a Board Subcommittee i.e. the Board Integrated Risk Management Committee (BIRMC). The Board of Directors has approved the risk management policy and defined the risk appetite of the bank.

Composition of the committee

The BIRMC comprised of the following directors and members.

Directors

- ◀ Mr. T. Karunasena (Chairman)
- ◀ Ms. M.S. Kiriwandeniya
- ◀ Mr. D.P. Kumarage
- ◀ Mr. H.M.G. B. Herath

Other Members

- ◀ Mr. Nimal C. Hapuarachchi (GM/CEO)
- ◀ Mr. K.G Leelananda (Senior DGM)
- ◀ Mr. E.A.A.S.Ediriwickrama (DGM - CDF)
- ◀ Mr. A.M Chandrasagara (CIA)
- ◀ Mr. H.C. Lokugeegana (Chief Risk Officer)
- ◀ Mr. Terrance Kumara (Head of Finance)
- ◀ Mr. S.S.S. Senanayake (AGM - Compliance)

The company secretary acts as the secretary of the meeting.

Term of Reference (ToR) of the committee

The BIRMC was established by the Board of Directors in compliance with the direction issued by the Central Bank of Sri Lanka on Corporate Governance for Licensed Specialised Banks.

The composition and the scope of the work of the Committee are in conformity with the above directions. The Board of Directors has approved the ToR as per the above directions. The major function of the BIRMC is to manage and review the overall risk profile of the bank. ToR includes the following responsibilities.

1. The Committee shall assess all risks i.e. credit, market, liquidity, operational risks of the bank on a monthly basis through appropriate risk indicators.
2. The Committee shall review the adequacy and effectiveness of all management level committees.
3. The Committee shall take prompt and corrective action to mitigate the effects of specific risk when such risk are beyond the prudential levels decided by the Committee

4. The Committee shall establish a compliance function to assess the bank compliance with laws, regulations, regulatory authorities, internal controls and approved policies in all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.

During the year under review several value additions and policies were introduced by the committee to further strengthen the risk management of the Bank. An Internal Capital Adequacy Assessment Process (ICAAP) was established with the assistance of an external consultant and the following new policies were introduced

- ◀ Credit Risk Management Policy
- ◀ Integrated Risk Management Policy
- ◀ Liquidity Risk Management Policy
- ◀ Market Risk Management Policy
- ◀ Operational Risk Management Policy
- ◀ Stress Testing Policy
- ◀ Risk Appetite Framework

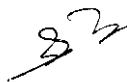
The Bank's overall risk management framework and risk assessment have been discussed and reviewed by the committee and details are given under managing risk at SANASA Development Bank on pages 41 to 45.

Meetings

The BIRMC held four meetings during the year under review. The attendance of the Committee members at the meeting of the Committee is tabled on page 121 The minutes of meetings are regularly forwarded to the board. All key risk management indicators and potential risks were discussed and reviewed at each meeting and appropriate actions were taken where necessary.

During the year 2014 the BIRMC supported the execution of the overall business activities within a set of prudential risk parameters and ensured the implementation of an effective risk management framework.

The BIRMC is satisfied that the risk exposure of the bank is being appropriately managed.



T. Karunasena
Chairman –
Board Integrated Risk Management Committee

13th February 2015
Colombo



Financial Statements

Financial Statements

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Report of the Directors

General

The Board of Directors of SANASA Development Bank PLC has pleasure in presenting its Annual Report to the shareholders for the financial year ended 31st December 2014, together with the audited financial statements of the Bank for that year and the auditor's report on those financial statements, conforming to the requirements of the Companies Act No 7 of 2007 and the Banking Act No 30 of 1988. The financial statements were reviewed and approved by the Board of Directors on 13th February 2015.

This Report includes the information as required by the Companies Act No 7 of 2007, Banking Act Direction No 12 of 2007 on Corporate Governance for Licensed Specialised Banks and subsequent amendments thereto, Listing Rules of the Colombo Stock Exchange (CSE). The Report is also guided by the recommended best practices on Corporate Governance.

SANASA Development Bank PLC is a licensed specialised bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability company in Sri Lanka on 06th August 1997 Under the Companies Act no 17 of 1982. The Bank was reregistered as per the requirements of the Companies Act No.07 of 2007 on 30th October 2007 the re-registration number of the Bank is PB62PQ.

The ordinary shares of the Bank are listed on the Main Board of the Colombo Stock Exchange of Sri Lanka.

The Bank has been assigned a National Long Term Rating of BB+(lka) with a Stable Outlook by Fitch Ratings Lanka Ltd and Lanka Rating Agency has reaffirmed Bank's long-term and short-term financial institutional rating at BBB and P3 respectively; the long-term rating carries a stable outlook.

The registered office as well as the Head Office of the Bank is at No 12, Edmonton Road, Colombo 6, Sri Lanka.

1 Vision, mission and values

The Bank's vision, mission and value statements are given in pages 04 to 05 of the Annual Report. The business activities of the Bank are conducted in keeping with the highest level of ethical standards in achieving its vision and mission.

2 Principal business activities

The principal activities of the Bank include accepting 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, issuing of local and international debit cards. The Bank's range of products includes special deposits, credit, pawning, leasing and refinance loan schemes.

3 Review of operations

A review of the operations of the Bank during the financial year 2014 and results of its operations are contained in the Chairperson's Review (pages 20 to 23) the GM/ CEO's Review (pages 24 to 27) and the Management Discussion & Analysis (pages 41 to 75). These reports form an integral part of the Annual Report of the Board of Directors.

4 Future developments

An overview of the future developments of the Bank is given in the Chairperson's Review (pages 20 to 23), the GM/ CEO's Review (pages 24 to 27) and the Management Discussion & Analysis (pages 41 to 75).

5 Financial statements

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS's) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No 7 of 2007 and Banking Act No 30 of 1988. The financial statements of the Bank for the year ended 31st December 2014 duly signed by the Assistant General Manager-Finance, General Manager/Chief Executive Officer, two of the Directors of the Bank and the company secretary are given in pages 130 to 176, which form an integral part of the Annual Report of the Board of Directors.

6 Director's responsibility for financial reporting

The Directors are responsible for the preparation of the financial statements of the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these financial statements appearing on pages 120 to 176 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, Banking Act No 30 of 1988 and amendments thereto, the Listing Rules of the CSE and the Corporate Governance Code for Licensed Specialised Banks issued by the Central Bank of Sri Lanka (CBSL). The Statement of Directors' Responsibility for Financial Reporting is given on page 128 and forms an integral part of the Annual Report of the Board of Directors.

7 Auditor's report

The Auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Messrs Ernst & Young carried out the Audit on the financial statements of the Bank for the year ended 31st December 2014 and their report on those financial statements, as required by the Section 168 (1) (c) of the Companies Act is given on Page 129.

8 Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are given on pages 134 to 176 and comply with section 168 (1) (d) of the Companies Act No 07 of 2007.

9 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 these financial statements.

10 Financial results and appropriations

10.1 Income

The income of the Bank for 2014 was LKR 5,405,130,405/- (2013: LKR 4,798,443,847). An analysis of the income is given in Note 03 & 04 to the financial statements.

10.2 Profits and appropriations

The Bank’s profit before tax and profit after tax recorded a growth of 125% and 103% respectively over 2013. The total comprehensive income (net of tax) for the year is LKR 484,941,383 (2013: 246,222,407). A detailed breakup of profits and appropriations of the Bank is given below.

Description	2014 LKR	2013 LKR
Profit for the year ended 31st December after payment of all operating expenses and provision for depreciation and contingencies	751,179,004	333,358,741
Less: Taxation	(246,732,027)	(85,175,179)
Net profit after tax	504,446,977	248,183,562
Other Comprehensive Income (OCI)		
Actuarial gain/(losses) on defined benefit plans	(27,091,104)	(5,464,049)
Gains/(losses) on re-measuring available-for-sale financial assets	0	1,972,960
Income tax relating to other comprehensive income	7,585,510	1,529,934
Total comprehensive income for the year	484,941,382	246,222,407
Unappropriated profit brought forward from previous year	489,354,652	433,925,772
Balance available before appropriation / adjustments	974,296,034	680,148,179
Appropriations		
Transfer to Statutory Reserve Fund	(24,247,069)	(12,311,120)
Transfer from /(to) Investment Fund	223,285,580	(52,605,797)
Dividend		
Final cash dividend (2012)		(125,876,610)
Final cash dividend (2013)	(176,227,254)	
Unappropriated balance carried forward	997,107,291	489,354,652
Proposed dividend		
Final cash dividend – 2014 (LKR 2.50 per share)	(94,407,457)	
Final scrip dividend – 2014 (LKR 7.50 per share)	(283,222,373)	
Balance carried forward as at 31st December	619,477,461	

Report of the Directors *Contd.*

11 Taxation

The income tax rate applicable on the Bank's domestic operation is 28% (2013: 28%)

The Bank is also liable for VAT and NBT on financial value addition at 12% (2013: 12%) and 2% (2013: Nil) respectively.

The Bank has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard – LKAS 12 (Income Taxes).

With effect from 1st April 2013, the Bank is liable to pay Crop Insurance Levy on quarterly basis at 1% on after tax profit to the Insurance Trust Fund Board.

12 Statutory payments

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

13 Dividend on ordinary shares

The Directors recommend that a final dividend of LKR 10.00 per share (2013: LKR 7.00 per share) be paid for the financial year ended 31st December 2014. This will be paid by LKR 2.50 in the form of cash dividend and balance LKR 7.50 in the form of scrip dividend (2013: 100% in the form of cash dividend)

The dividend is subject to Shareholder approval at the Annual General Meeting.

The Board of Directors was satisfied that the Bank would meet the solvency test immediately after the final dividend proposed which will be paid in June 2015 in terms of the Section 31(3) of the Companies Act. The Board provided the Statement of Solvency to the auditors and obtained Certificate of Solvency from the auditors in respect of the dividend payment conforming to the statutory provision. With this payment, the Bank also fulfilling the deemed dividend requirement according to the provisions of Inland Revenue Act.

14 Reserves

A summary of the Bank's reserve position is given below

	2014 LKR	2013 LKR
Statutory Reserve	118,664,432	94,417,363
Investment Fund	0	223,285,582
General Reserve	46,656,973	46,656,973
Retained earnings	997,107,292	489,354,651

The movement in these reserves shown in the Statement of Change in Equity on page 132 of the Annual Report.

15 Capital expenditure

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to LKR 120,338,691/- (2013: LKR 41,226,488/-). Details are given in Notes 19 to the financial statements.

16 Property, plant and equipment

Details of property, plant and equipment are given in note 19 to the financial statements.

17 Net book value of freehold properties

The net book values of freehold properties owned by the Bank as at 31st December 2014 are included in the accounts at LKR 245,232,325 (2013 : LKR 249,177,055 /-).The details of freehold properties owned by the Bank are given in Note 19.1 to the financial statements.

18 Outstanding litigation

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 30.2 of the financial statements will not have a material impact on the financial position of the Bank or its future operations.

19 Events after the reporting date

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in, the accounts, except those disclosed in Note 31 to the financial statements.

20 Stated capital

The stated Capital of the Bank as at 31st December 2014 amounted to LKR 3,533,545,080/- consisting of 37,762,983 ordinary shares (2013: LKR 2,526,532,200/- consisting of 25,175,322 ordinary shares)

The number of shares in issue of the Bank increased from 25,175,322 ordinary shares to 37,762,983 ordinary shares as a result of the Rights Issue of One new ordinary share for every two ordinary shares held by shareholders.

The details of the shares issued are given in note 26 to the financial statements.

21 Share information

Information relating to earnings, dividend, net assets and market price per share is given on page 06 of the Annual Report.

22 Shareholding

There were 45,446 registered ordinary shareholders as at 31st December 2014 (2013: 54,385).

22.1 Shareholder distribution

The information on the distribution of shareholding is given below

Institution	As at 31st December 2014		As at 31st December 2013	
	No. of Institutions	No. of Shares	No. of Institutions	No. of Shares
SANASA Federation	1	537,953	1	376,338
SANASA Unions (DTCCSU)	33	1,376,012	33	497,820
SANASA Societies (PTCCS)	3,321	4,854,111	3,362	4,193,675
MPCCS's	20	129,032	20	129,032
Other institutions and Individuals	41,962	22,473,630	50,862	13,660,734
Trust Companies	109	8,392,245	107	6,317,723
TOTAL	45,446	37,762,983	54,385	25,175,322

DTCCSU Ltd: District Thrift & Credit Co-operative Society Union Ltd.

PTCCS: Primary Thrift & Credit Co-operative Society.

MPCCS: Multi-Purpose Credit & Co-operative Society

22.2 Composition of share ownership

Share Range	As at 31st December 2014				As at 31st December 2013			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 – 1,000	43,787	96.35	6,407,781	16.97	53,106	97.65	7,913,972	31.44
1,001 – 10,000	1,315	2.89	3,877,031	10.27	1,060	1.95	2,951,510	11.72
10,001 – 100,000	285	0.63	7,826,378	20.72	191	0.35	6,116,133	24.29
100,001 – 1,000,000	56	0.12	13,426,034	35.55	28	0.05	8,193,707	32.55
1,000,001 & above	3	0.01	6,225,759	16.49	0	0.00	0	0.00
TOTAL	45,446	100.00	37,762,983	100.00	54,385	100.00	25,175,322	100.00

22.3 Top 20 shareholders as at 31st December 2014

The details of Top 20 Shareholders are given below.

Sr. No.	Name	No. of Shares	%
1	Seylan Bank PLC / Thirugnanasambandar Senthilvel	3,204,129	8.49
2	Peoples Leasing & Finance PLC	1,750,000	4.63
3	Seemasahitha SANASA Rakshana Samagama (General)	1,271,630	3.37
4	Kegalle SANASA Shareholders Trust Company Ltd	931,647	2.47
5	CB NY S/A International Finance Corporation	900,000	2.38
6	Dr. T. Senthilvel	772,179	2.04
7	Seemasahitha SANASA Rakshana Samagama (Life)	761,095	2.01
8	British American Technologies (Pvt) Ltd	700,000	1.85
9	Etimos Lanka (Pvt) Limited	590,229	1.56
10	SANASA Federation Limited	537,953	1.42
11	Warakapola SANASA Shareholders Trust Company Limited	439,344	1.16
12	Gampaha District Thrift & Credit Co-operative Societies Union Ltd	417,396	1.10
13	Polgahawela SANASA Shareholders Trust Company Limited	324,264	0.86
14	Hambanthota DTCCS Union Ltd	321,131	0.85
15	Polgahawela SANASA Societies Union Ltd	297,469	0.79
16	Mr. C .K. Sangakkara	254,742	0.67
17	Kolonnawa SANASA Shareholders Trust Company Limited	241,450	0.64
18	Polpithigama SANASA Shareholders Trust Company Limited	241,061	0.64
19	Kamburupitiya SANASA Shareholders Trust Company Limited	228,970	0.61
20	Wennappuwa SANASA Shareholders Trust Company Limited	223,660	0.59

Report of the Directors *Contd.*

23 Equitable treatment to shareholders

The Bank has at all times ensured that all shareholders are treated equitably.

24 The Board of Directors

The Board of Directors of the Bank consists of nine (2013: nine) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31st December 2014 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 28 to 33 of the Annual Report. The classification of Directors into Executive Director (ED), Non-Executive Director (NED) and Independent Non-Executive Director (INED) is given against the names as per Listing Rules and Corporate Governance Rules of Colombo Stock Exchange and Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

Name of the Director	Status
Mrs. M.S. Kiriwandeniya - Chairperson	Non-Executive Director
Mr. T. Karunasena – Deputy Chairman	Independent Non-Executive Director
Mr. D.P. Kumarage	Non-Executive Director
Mr. A.D. Walisinghe	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
Mr. W.M.M.D. Ratnayake	Independent Non-Executive Director

25 New appointments and resignations of Directors

Two Directors resigned during the year 2014. Mrs. P. W. K. Athukorale who has been appointed as an Independent Director on 11th June 2014 resigned from the Board with effect from 26th August 2014. Dr. R. M. K. Ratnayake resigned from the Board with effect from 25th September 2014. Mr. W. M. M. D. Ratnayake was appointed to the Board on 01 December 2014, as an Independent Non Executive Director.

26 Retirement by rotation and re-election/re-appointment of Directors

Mr. D. P. Kumarage will retire at the 18th Annual General Meeting in terms of Article No. 6 (4) of the Articles of Association of the Bank and will offer himself for re-election under the said Article. Mr. J. Rathnayake and Mr. A. D walisinghe retired due to the completion of nine years as per the directors of CBSL.

27 Board sub-committees

The Board while assuming the overall responsibility and accountability for the management oversight of the Bank has also appointed Board sub-committees to ensure oversight and control over certain affairs of the Bank, conforming to the Banking Act Direction No 12 of 2007 issued by the Monetary Board of the Central Bank of Sri Lanka, on “Corporate Governance for Licensed Specialised Banks of Sri Lanka”. Accordingly, the following mandatory sub-committees have been constituted by the Board:

27.1 Board Audit Committee

The report of the Board Audit Committee is given on pages 106 to 108 and forms and integral part of the Annual Report of the Board of Directors.

27.2 Board Human Resources and Remuneration Committee

The report of the Board Human Resources and Remuneration Committee is given on pages 109 to 110 and forms and integral part of the Annual Report of the Board of Directors.

27.3 Board Selection and Nomination Committee

The report of the Board Selection and Nomination Committee is given on pages 111 to 112 and forms and integral part of the Annual Report of the Board of Directors.

27.4 Board Integrated Risk Management Committee

The report of the Board Integrated Risk Management Committee is given on page 113 and forms and integral part of the Annual Report of the Board of Directors.

27.5 Board Credit Committee

- ◀ Mr. D.P. Kumarage (Chairman)
- ◀ Mr. T. Karunasena
- ◀ Mr. A.D. Walisinghe

28 Directors’ meetings

The details of the Directors’ meetings which comprise Board meetings, Board Credit Committee meetings, Board Audit Committee meetings, Board Human Resource and Remuneration Committee meetings, Board Integrated Risk Management Committee meetings and Board Selection and Nomination Committee meetings. The attendance of Directors at these meetings are given below.

No.	Name	Board Meeting	Board Credit Committee Meeting	Board Audit Committee Meeting	Board Human Resource & Remuneration Committee	Board Integrated Risk Management Committee	Board Selection and Nomination Committee meetings
1	Mrs.M.S.Kiriwandeniya (Chairperson)	19/25			18/22		2/11
2	Mr.T.Karunasena (Deputy Chairman)	25/25	14/14		22/22	1/5	10/11
3	Mr.A.D.Walisinghe	20/25	13/14		19/22		
4	Mr.D.P.Kumarage	16/25	10/14			3/5	
5	Dr.R.M.K.Ratnayake**	16/25		6/14		3/5	6/11
6	Mr.H.M.G.B.Herath	20/25	10/14	3/14	15/22	1/5	
7	Mr.L.Abeysekera	23/25		14/14	10/22	4/5	9/11
8	Mr.J.Rathnayake	25/25		14/14			
9	Mr.T.Rajapaksha	25/25		13/14			
10	Mrs.P.W.K.Athukorale***	3/25	1/14		2/22		
11	Mr.W.M.M.D.Ratnayake*	1/25					

* Appointed to the Board in December 2014
** Resigned on 25.09.2014
*** Resigned on 26.08.2014

29 Directors’ interests register

The Bank maintains a Directors’ interests register as required under the provisions of Section 168 (1) (e) of the Companies Act No 7 of 2007. The Directors of the Bank have disclosed their interests in contracts or proposed contracts, in terms of Section 192 (1) and 192 (2) of the Companies Act. These interests have been recorded in the interests’ register which is available for inspection in terms of the provisions of the Companies Act.

Report of the Directors *Contd.*

30 Directors’ interests in ordinary shares

The shareholding of Directors are as follows

Name	As at 31st December 2014	As at 31st December 2013
Mrs. M.S. Kiriwadeniya	4,838	1,712
Mr. T. Karunasena	-	3,301
Mr. J. Rathnayake	1,550	-

31 Directors’ remuneration

As required under the Section 168 (1) (f), details of Directors’ emoluments and other benefits paid in respect of the Bank during the financial year under review are given in Note 32.2.1 to the financial statements

32 Related party transactions

The Directors have also disclosed transactions if any, that could be classified as related party transactions in terms of LKAS 24 “Related Party Disclosures” which is adopted in the preparation of the financial statements. Those transactions disclosed by the Directors are given in note 32 to the financial statements forming part of the Annual Report of the Board of Directors.

33 Environmental protection

To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment. Specific measures taken to protect the environment are given on page 75.

34 Risk management and internal control

34.1 Risk management

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. This process is detailed in Risk management report on pages 41 to 45. The Directors on regular basis review the above mentioned process through the Board Integrated Risk Management Committee.

34.2 Internal controls

The Directors have taken reasonable steps open to them to safeguard the assets of the bank and to prevent and detect frauds and any other irregularities. For this purpose the Directors have instituted effective and comprehensive systems of Internal controls for identifying, recording, evaluating and managing the significant risk s faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises Internal reviews, Internal Audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect the frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

35 Directors statement of internal control

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of Banking Act Direction No 12 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on pages 124 to 125.

The Board has obtained an assurance report from the external auditors on Directors’ Statement on Internal Control which is given on page 126 of the Annual Report.

36 Corporate governance

The Board of Directors are committed towards maintaining an effective corporate governance framework and implementing processes required to ensure that the Bank is compliant with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission of Sri Lanka and the Direction on Corporate Governance Issued by the Central Bank of Sri Lanka. Details are given on Corporate governance report on pages 76 to 105 of this Annual Report.

37 Auditors

The Bank’s auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Audit fees and reimbursement of expenses paid to Ernst & Young during the year under review by the Bank amounted to LKR 1,036,000/- (2013: LKR 1,678,000/-). Further LKR 530,000 (2013: LKR 592,000/-) were paid by the Bank for audit related and non-audit services including reimbursement of expenses. Details of the Audit Fees paid are given on note 9 to the financial statements.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the auditors do not have any relationship or interest with the Bank that in our judgment, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. Hence they may come up for re-election at the Annual General Meeting, with the recommendation of Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the reappointment of Messrs Ernst & Young, Chartered Accountants, as auditors is being proposed at the Annual General Meeting.

38 First sustainability report

The Bank has taken the initiative to present its first GRI sustainability report, for the year ended 31 December 2014. The report presents material information about the Bank’s strategy, governance, performance and prospects, to reflect the commercial, social and environmental context within which it operates.

In complying with the good governance practices, the Annual Report of the Bank is dispatched as soon as possible after the end of the financial year and completion of the audit.

In compliance with the Colombo Stock Exchange Listing Rules, the Annual Reports have been distributed in the form of a CDROM (a soft copy) as well as in the form of a printed report.

39 Notice of meeting

The 18th Annual General Meeting of the Bank will be held at SANASA Uththamavi Hall, Paragammana, Hettimulla, Kegalle at 9.00a.m on the 29 May 2015.

40 Acknowledgment of the contents of the report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

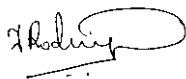
For and on behalf of the Board of Directors.



M.S.Kiriwandeniya
Chairperson



T.Karunasena
Deputy Chairman



Tamarika Rodrigo
Company Secretary

13th February 2015
Colombo

Directors’ Statement on Internal Control over Financial Reporting

Responsibility

In line with the Banking Act Direction No 12 of 2007, section 3(8)(ii)(b), the Board of Directors 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 SANASA Development Bank PLC, (“the Bank”). In considering such adequacy and effectiveness, the Board recognizes 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 highlight any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

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

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

The managements 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. The committee also reviews 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 periodic 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 & 2014 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 will continue to further strengthen the processes such as impairment of Loans & Advances and Financial Statement Disclosures related to Risk Management. The bank has also recognized 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.
- ◀ In the light of the comments made by the External Auditors, the 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 2014, 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

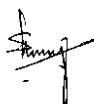
The External Auditors, Messrs Ernst & Young, have reviewed the above Directors Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2014 and reported to the Board that nothing has come to their attention that causes them to believe 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

13th February 2015
Colombo

Independent Assurance Report



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ey.com

BW/DLH/DM

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 form the year ended 31 December 2014

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 Director’s 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 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 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 of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedure 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 the Bank

13 February 2015
Colombo

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements of SANASA Development Bank PLC ("Bank") as at 31st December 2014 are prepared in compliance with the requirements of the following:

- ◀ Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka;
- ◀ Companies Act No 7 of 2007 (Companies Act);
- ◀ Sri Lanka Accounting and Auditing Standards Act No 15 of 1995;
- ◀ Banking Act No 30 of 1988 and amendments thereto;
- ◀ The Listing Rules of the Colombo Stock Exchange;
- ◀ The Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka; and
- ◀ Section 3(8)(ii) of the Banking Act Direction No 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka.

The formats used in the preparation of the financial statements and disclosures comply with the formats prescribed by the Central Bank of Sri Lanka, which is also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard (LKAS 1) "Presentation of Financial Statements".

The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied by the Bank. The significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and external auditors. Comparative information has been restated wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained in the notes to the financial statements.

The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis; in order that the financial statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank and all of its subsidiaries have taken proper and sufficient care in installing a system of internal controls and procedures for safeguarding assets, preventing and detecting frauds and / or errors as well as other irregularities which are reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

We confirm compliance with section 3(8)(ii) of the Banking Act Direction No 12 of 2007 on Corporate Governance (Internal Control Over Financial Reporting - ICOFR) issued by the Central Bank of Sri Lanka as of 26 December 2007 and that the Bank's Internal Controls over Financial Reporting is adequate and effective. The Report of the Directors on pages 116 to 123 has briefly covered the Bank's internal controls over financial reporting. In addition, the Directors' statement on internal control over financial reporting is provided on pages 124 to 125. The Bank's external auditors, Messrs. Ernst & Young, have audited the effectiveness of the Bank's internal controls over financial reporting and have given an unqualified opinion on page 129 of this Annual Report.

The financial statements of the Bank were audited by Messrs. Ernst & Young, Chartered Accountants, the independent external auditors. Their report is given on page 129 of this Annual Report.

The Audit Committee of the Bank meets periodically with the internal auditors and the independent external auditors to review the manner in which these auditors are performing their responsibilities and to discuss issues relating to auditing, internal controls and financial reporting issues. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee report is given on pages 106 to 108.

The Audit Committee approves the audit and non-audit services provided by Messrs. Ernst & Young, in order to ensure that the provision of such services does not impair Messrs. Ernst & Young's independence.

We confirm that to the best of our knowledge:

- ◀ The Bank has complied with all applicable laws, regulations and prudential requirements;
- ◀ There are no material non compliances; and
- ◀ There are no material litigations that are pending against the Bank other than those disclosed in note 30 to the financial statements in the Annual Report.



Nimal C. Hpuarachchi
General Manager
/Chief Executive Officer

13th February 2015
Colombo



Terrance Kumara
Assistant General Manager
– Finance

Statement of Directors' Responsibility for Financial Reporting

The responsibilities of the Directors, in relation to the financial statements of the Bank, prepared in accordance with the provisions of the Companies Act No 7 of 2007, is set out in the following statement. The responsibilities of the external auditor, in relation to the financial statements are set out in the Report of the Auditors given on page 129 of the Annual Report.

As per the provisions of the sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No 7 of 2007 the Directors are required to prepare Financial Statements that give a true and fair view of the financial position of the Bank for each financial year and place them before the Annual General Meeting. The financial statements comprise the Statement of Financial Position as at end of the financial year, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The financial statements are prepared by Assistant General Manager – Finance, under the supervision of General Manager/ Chief Executive officer and the Directors confirm that the financial statements of the Bank give a true and fair view of:

1. The state of affairs of the Bank as at 31st December 2014; and
2. The financial performance of the Bank for the financial year ended 31st December 2014.

The Board of Directors accepts the responsibility of the integrity and objectivity of the financial statements presented in this Annual Report. The Directors confirm that in preparing these financial statements;

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgments and estimates have been made which are reasonable and prudent; and
3. All applicable accounting standards, as relevant, have been complied with.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Bank has maintain sufficient accounting records to disclose, with reasonable accuracy the financial position of the Bank.

The financial statements prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS), Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No 15 of 1995, Banking

Act No 30 of 1988 and amendments thereto, the continuing Listing Rules of Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities Exchange Commission of Sri Lanka (SEC).

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2014 are given on pages 116 to 123 of the Annual Report, "Directors statement on internal control". External Auditors' Assurance Report on the "Directors statement on internal control" is given on pages 124 to 125 of the Annual Report.

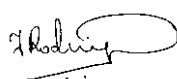
Directors are required to prepare the financial statements and to provide the Bank's external auditor, Messrs Ernst & Young, Chartered Accountants, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the financial statements.

Further, as required by Section 56 (2) of the Companies Act No 7 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with section 57 of the Companies Act No 7 of 2007, and has obtained a certificate from the Auditors, prior to declaring a final dividend of LKR 10.00 per share for this year to be paid in May 2014.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

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

By order of the Board



Tamarika Rodrigo
Company Secretary

13th February 2015
Colombo

Independent Auditors Report



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

BW/RM/JJ

INDEPENDENT AUDITORS' REPORT 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, ("the Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of profit and loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 134 to 176.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain about amount evidence and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- a) The basis of opinion and Scope and Limitations of the audit are as stated above.
- b) In our opinion :
 - ◀ We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
 - ◀ The financial statements of the Company, comply with the requirements of Section 151 of the Companies Act No. 7 of 2007.

16 February 2015
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Suleiman ACA ACMA B E Wijesuriya ACA ACMA

A member firm of Ernst & Young Global Limited

Statement of Comprehensive Income

Year ended 31 December 2014		2014	2013
	Note	LKR	LKR
Interest income		4,850,169,802	4,389,385,317
Interest expenses		(2,400,763,438)	(2,525,580,243)
Net interest income	3	2,449,406,364	1,863,805,074
Fee and commission income		164,626,078	122,422,512
Fee and commission expenses		(2,282,774)	(2,271,948)
Net fee and commission income	4	162,343,304	120,150,564
Net gain/(loss) from financial instruments at fair value through profit or loss	5	53,941,819	102,444,027
Other operating income (net)	6	168,427,740	63,289,199
Total operating income		2,834,119,227	2,149,688,864
Impairment for loans and other losses	7	(204,389,615)	(324,620,912)
Net operating income		2,629,729,612	1,825,067,952
Personnel expenses	8	(767,848,094)	(540,776,607)
Other expenses	9	(920,427,546)	(868,550,481)
Operating profit before value added tax (VAT)		941,453,972	415,740,864
Value added tax (VAT) on financial services & NBT		(190,274,968)	(82,382,123)
Operating profit after value added tax (VAT)		751,179,003	333,358,741
Profit before tax		751,179,003	333,358,741
Tax expenses	10	(246,732,027)	(85,175,179)
Profit for the year		504,446,976	248,183,562
Other Comprehensive Income			
Other Comprehensive income to be classified to Income Statement			
Gain on re-measuring available-for-sale financial assets		-	1,972,960
Other Comprehensive income not to be classified to Income Statement			
Actuarial losses on defined benefit plans	25.1.3	(27,091,104)	(5,464,049)
Income tax relating to other comprehensive income	10.2.1	7,585,510	1,529,934
Other Comprehensive Income for the year net of tax		(19,505,594)	(1,961,155)
Total Comprehensive Income for the year		484,941,382	246,222,407
Earnings per share on profit			
Basic earnings per share - (LKR).	11	13.49	9.39

The accounting policies and notes on pages 134 through 176 from an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2014

	Note	2014 LKR	2013 LKR
Assets			
Cash and cash equivalents	12	661,651,213	399,384,665
Placements with banks	13	2,223,162,226	2,530,597,930
Financial assets fair value through profit or loss	14	-	1,210,673,101
Other financial asset classified under loans and receivable	15	4,164,273,491	1,701,091,364
Loans and receivables to other customers	16	32,060,498,194	22,116,644,789
Financial investments - Available-for-sale	17	29,734,245	165,699,464
Financial investments - Held-to-maturity	18	298,544,685	443,408,074
Property, plant and equipment	19	513,592,432	506,770,866
Investment properties	20	26,558,750	27,614,780
Intangible assets	21	77,344,311	107,744,105
Current tax assets		-	40,080,715
Other assets	22	517,187,167	482,895,121
Total assets		40,572,546,714	29,732,604,974
Liabilities			
Due to other customers	23	30,249,433,851	23,594,767,783
Other borrowings	24	4,602,233,293	1,878,642,869
Current tax liabilities		113,192,235	-
Deferred tax liabilities	10.2	53,513,422	46,004,803
Other liabilities	25	858,200,137	832,942,750
Total liabilities		35,876,572,938	26,352,358,205
Equity			
Stated capital	26	3,533,545,080	2,526,532,200
Statutory reserve fund	27	118,664,432	94,417,362
Retained earnings	28	997,107,291	489,354,652
Other reserves	29	46,656,973	269,942,555
Total equity		4,695,973,776	3,380,246,769
Total equity and liabilities		40,572,546,714	29,732,604,974
Contingent liabilities and commitments	30	129,506,905	144,378,258

Certification

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



Terrance Kumara
AGM - Finance

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



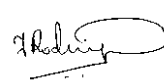
M.S. Kiriwandeniya
Chairperson



L. Abeysekera
Director



Nimal C Hapuarachchi
General Manager/CEO



Tamarika Rodrigo
Company Secretary

The accounting policies and notes on pages 134 through 176 from an integral part of the financial statements.

13 February 2015
Colombo

Statement of Changes In Equity

As at 31 December 2014	Stated Capital		Reserves			
	Ordinary Voting Shares LKR	Statutory Reserve LKR	Investment Fund LKR	Retained Earnings LKR	General Reserves LKR	Total Equity LKR
Bank						
Balance as at 01 January 2013	2,526,532,200	82,106,242	170,679,785	433,925,772	46,656,973	3,259,900,972
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						
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	489,354,651	46,656,973	3,380,246,769
Profit for the year	-	-	-	504,446,976	-	504,446,976
Other comprehensive income (net of tax)	-	-	-	(19,505,594)	-	(19,505,594)
Total comprehensive income for the year	-	-	-	484,941,382	-	484,941,382
Transactions with equity holders, recognised directly in equity						
Rights issue	1,007,012,880	-	-	-	-	1,007,012,880
Transfer to Statutory Reserve fund	-	24,247,069	-	(24,247,069)	-	-
Transfer to Investment Fund	-	-	9,992,588	(9,992,588)	-	-
Dividends to equity holders	-	-	-	(176,227,254)	-	(176,227,254)
Transfer to Retain Earning	-	-	(233,278,170)	233,278,170	-	-
Total transactions with equity holders	1,007,012,880	24,247,069	(223,285,582)	22,811,259	-	830,785,626
Balance as at 31 December 2014	3,533,545,080	118,664,432	-	997,107,291	46,656,973	4,695,973,776

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 operation of the investment fund account was ceased with effect from 01st October 2014. Accordingly the Bank transferred the balance remaining in the investment fund account as at 30th September 2014 to retained profit.

The accounting policies and notes on pages 134 through 176 from an integral part of the financial statements.

Statement of Cash Flows

Year ended 31 December 2014		2014	2013
	Note	LKR	LKR
Cash Flows From / (Used in) Operating Activities			
Interest Received		5,039,377,560	4,271,279,540
Fee and Commission Received		168,242,952	122,422,512
Receipts from other Operating Activities		82,544,770	96,355,252
Interest Payment		(2,460,973,522)	(2,291,568,378)
Cash Payment to Employees		(719,454,208)	(464,783,735)
Payments to Suppliers and Other Operating Activities		(889,154,165)	(1,125,634,078)
Fee and Commission Expenses		(21,384,295)	(2,271,948)
Operating Profit before Changes in Operating Assets		1,199,199,092	605,799,165
(Increase)/Decrease in Operating Assets			
Funds Advanced to Customers		(10,307,138,081)	(2,742,753,576)
Other Short Term Securities		508,940,691	(717,841,622)
Increase/(Decrease) in Operating Liabilities			
Deposits from Customers		6,692,563,318	4,365,212,114
Net Cash from Operating Activities Before Income Tax		(1,906,434,981)	1,510,416,081
Income Tax Paid		(180,995,649)	(97,336,392)
Net Cash from Operating Activities		(2,087,430,630)	1,413,079,689
Cash Flows from / (Used in) Investing Activities			
Dividend Received		14,313,922	9,680,363
(Increase)/ Decrease in Non Dealing Securities		567,817,874	(877,142,278)
(Increase)/ Decrease in Dealing Securities		245,602,692	40,371,099
(Increase)/ Decrease in Treasury Bonds and other Investments		(1,968,298,981)	(927,099,773)
Proceeds from sale of Property, Plant and Equipment		10,125,180	6,904,605
Purchase of Property, Plant and Equipment		(120,338,691)	(50,404,570)
Net Cash from/ (used in) Investing Activities		(1,250,778,003)	(1,797,690,554)
Cash Flows from (Used in) Financing Activities			
Proceeds from Issuance/Allotment of Shares		1,007,012,880	-
Dividend Paid		(111,001,531)	(41,213,311)
Net Increase/(Decrease) in Borrowing		2,716,777,608	324,546,396
Funds Received/(Utilised) During the period		(12,313,776)	(2,878,920)
Net Cash Flow from/ (used in) Financing Activities		3,600,475,182	280,454,165
Net Increase/ (Decrease) in Cash and Cash Equivalents		262,266,548	(104,156,699)
Cash and Cash Equivalent at the Beginning of the Year	12	399,384,665	503,541,364
Cash and Cash Equivalents at the End of the Year	12	661,651,213	399,384,665

The accounting policies and notes on pages 134 through 176 from an integral part of the financial statements.

Notes to the Financial Statements

1. Corporate information

1.1 General

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

1.2 Principal activities

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

1.3 Parent entity and ultimate parent entity

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

1.4 Date of authorisation of issue

The financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 13 February 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. The financial statements are presented in Sri Lankan Rupees (LKR) 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 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 37.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the

income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

2.1.3 Comparative information

Comparative information is reclassified wherever necessary to comply with the current presentation which is given in Note 38 of the Financial Statements.

2.2 Significant accounting judgments, estimates and assumptions

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

(a) Going concern

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

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 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 utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

(d) Impairment of available-for-sale investments

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

(e) Deferred tax assets

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

(f) Taxation

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

The Bank recognised 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 (LKR).

Transactions and balances

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

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

2.3.2 Financial instruments

2.3.2.1 Initial recognition and subsequent measurement

(a) Date of recognition

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

(b) Initial measurement of financial instruments

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

(c) Subsequent measurement

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

(i) *Financial assets or financial liabilities held-for-trading*
Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net operating income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and short positions.

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

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

Notes to the Financial Statements *Contd.*

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

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

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

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

(iii) 'Day 1' profit or loss

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

(iv) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment for loans and other losses'. If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from

classifying any financial asset as held to maturity during the following two years.

Included in this classification are debt securities and short positions

(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, other financial asset classified under loans and receivable and Loans and receivable to customers.

(vi) Available-for-sale financial investments

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

Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are

recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

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

At the inception the bank determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as ;

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)

- ◀ Financial liabilities held for trading
- ◀ Financial liabilities designated at fair value through profit or loss

(ii) Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognised in profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of the portfolio that is managed together for short term profit or position taking. This category includes derivative financial instruments entered in to by the bank which are not designated as hedging instruments in the hedge relationships as defined by the Sri Lanka Accounting Standards – LKAs 39 on Financial Instruments: Recognition and Measurements. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the Income Statement.

The Bank does not have any financial liabilities under this category.

(ii) Financial liabilities at amortised cost

Financial Instruments issued by the bank that are not designated at fair value through profit or loss, are classified as liabilities at amortised cost under 'debt issued and other borrowed funds' as appropriate, 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 assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

This Category consists of Due to other customers, other borrowings.

2.3.2.2 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ◀ In the principal market for the asset or liability, or
- ◀ In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based

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on the lowest level input that is significant to the fair value measurement as a whole:

- ◀ Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ◀ Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ◀ Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note no 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 7 for details of impairment losses on financial assets carried at amortised cost, Note 16 for an analysis of the impairment allowance on loans and advances.

(b) Available-for-sale financial investments

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

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

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

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

(c) Renegotiated loans

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

(d) Collateral valuation

The bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees,

real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers and audited financial statements.

(e) Collateral repossessed

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

2.3.2.4 Derecognition of financial assets and financial liabilities

(a) Financial assets

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

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

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an

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

2.3.2.5 Offsetting financial instruments

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

2.3.3 Repurchase and reverse repurchase agreements

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

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

2.3.4 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are

also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net operating income'.

2.3.5 Leases

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

2.3.5.1 Operating leases

Bank as a lessor

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

2.3.5.2 Finance leases

Bank as a lessor

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

2.3.6 Cash and cash equivalents

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

2.3.7 Property and equipment

Property, Plant & Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property & Equipment are recognised if it is probable that future economic benefits associated with the asset will

flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, Plant & Equipment. Initially property and equipment are measured at cost.

(i) Basis of recognition and measurement

Cost Model

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalised borrowing costs. Purchase of software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of Property, Plant & Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant & Equipment.

The Bank applies the cost model to Property, Plant & Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

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.

(ii) Subsequent cost

These are costs that are recognised in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the Bank and it can be reliably measured.

(iii) Repairs and maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Bank and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

(iv) Capital work-in-progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary

for it to be capable of operating in the manner intended by management. Capital work in progress is stated at cost less any accumulated impairment losses.

(v) Borrowing costs

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the bank capitalises the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

(vi) De-recognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition 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.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(vii) Depreciation

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

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

2.3.8 Investment properties

Properties held to earn rental income have been classified as investment properties. Investment properties initially recognised 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.

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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 intangible assets include the value of computer software.

(i) Basis of recognition

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 in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible Assets.

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 accumulated impairment losses if any.

(ii) Subsequent expenditure

Subsequent expenditure on Intangible Asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Useful economic life, amortisation and impairment

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Amortisation

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

The Class of Intangible Assets	Useful Life	Amortisation Method
Computer software	7 Years	Straight line method

The unamortised balances of Intangible Assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

(iv) Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their 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 the profit or loss in the year the asset is derecognised.

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 recognised 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 bank recognises 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 recognise 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

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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 utilised.

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) Value Added Tax on Financial Services (VAT)

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

(d) Withholding tax on dividends

Withholding tax on dividends distributed by the Bank withholding tax that arise from the distribution of dividends of the bank is recognised at the time of liability to pay the related dividend is recognised. At present, the rate of 10% is deducted at source.

(e) Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

ESC is not payable on turnover on which income tax is payable.

(f) Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the national Insurance trust fund. Currently, the CIL is payable at 1% of the profit after tax.

(g) Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

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).

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

The following Sri Lanka Accounting Standards were issued by the Institute of Chartered Accountants of Sri Lanka and is effective for the periods commencing on or after of 1st January 2014.

SLFRS 10 - Consolidated financial statements

SLFRS 10 replaces the portion of LKAS 27 (Consolidated and Separate Financial Statements) that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12 (Consolidation of Special Purpose Entities).

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

The new standard did not have any effect on the Bank as at the reporting date.

SLFRS 11 - Joint arrangements

SLFRS 11 replaces LKAS 31 (Interests in Joint Ventures) and SIC 13 (Jointly Controlled Entities).

SLFRS 11 removed the option to account for jointly controlled entities (JCEs) using proportionate consolidation method. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The new standard did not have any effect on the Bank as at the reporting date.

SLFRS 12 - Disclosure of interests in other entities

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 (Consolidated and Separate Financial Statements) related to consolidated financial statements, as well as all of the disclosures that were previously included in LKAS 31 (Interests in Joint Ventures) and LKAS 28 (Investments in Associates). These disclosures relate to an entity's interest in subsidiaries, joint arrangements, associates and structured entities.

The new standard did not have any effect on the Bank as at the reporting date.

Notes to the Financial Statements *Contd.*

SLFRS 13 - Fair value measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted.

The Bank did not have any material impact from the implementation of SLFRS 13. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

2.5 Standards issued but not yet effective

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2014.

SLFRS 14 – Regulatory deferral accounts

The objective of this Standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

SLFRS 14 will become effective on 01 January 2016. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 15 – Revenue from contracts with customers

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

SLFRS 15 will become effective on 01 January 2017. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 09 – Financial instruments

(i) SLFRS 9 - Financial instruments: classification and measurement

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

This standard was originally effective for annual periods commencing on or after 01 January 2015. However the effective date has been deferred subsequently.

3. Net Interest Income

	2014 LKR	2013 LKR
<i>Interest income on,</i>		
Cash and cash equivalents	154,609,617	36,674,601
Placements with banks	259,822,651	374,699,768
Loans and receivables to other customers	4,335,335,665	3,798,892,015
Financial investments - Held-to-maturity	36,176,397	60,348,733
Other financial asset classified under loans and receivable	64,225,472	118,770,200
Total interest income	4,850,169,802	4,389,385,317
<i>Interest expenses on,</i>		
Due to other customers	2,305,170,797	2,429,330,861
Other borrowings	95,592,641	96,249,382
Total interest expenses	2,400,763,438	2,525,580,243
Net interest income	2,449,406,364	1,863,805,074

3.1 Net Interest Income from Sri Lanka government securities

Interest income	227,991,220	166,485,453
(Less): Interest expenses	(62,481)	(4,194,450)
Net interest income	227,928,739	162,291,003

4. Net fee and commission income

	2014 LKR	2013 LKR
Fee and commission income	164,626,078	122,422,512
Fee and commission expenses	(2,282,774)	(2,271,948)
Net fee and commission income	162,343,304	120,150,564

4.1 Net fees and commission earned from

Loans	134,991,713	95,302,920
Deposits	1,385,819	1,468,235
Guarantees	2,239,790	2,272,897
Others	23,725,982	21,106,512
Net fee and commission income	162,343,304	120,150,564

5. Net gain/(loss) from financial instruments at fair value through profit or loss

	2014 LKR	2013 LKR
Government Debt Securities-Treasury Bills and Bonds	53,941,819	104,828,736
Quoted Equities	-	(2,384,709)
Total	53,941,819	102,444,027

Notes to the Financial Statements *Contd.*

6. Other operating income (net)

	2014 LKR	2013 LKR
Rent income on investment properties	400,000	1,100,000
Gain on sale of property, plant and equipment	8,374,350	575,047
Dividend Income	7,655,182	16,339,103
Grants	9,396,025	8,154,515
Gain on sale of AFS instruments	113,021,132	-
Other Income	29,581,050	37,120,534
Other operating income (net)	168,427,740	63,289,199

7. Impairment for loans and other losses

	2014 LKR	2013 LKR
Loans and receivables to customers		
Individual impairment losses	23,708,863	(20,890,992)
Collective impairment losses	180,680,752	345,511,904
Total	204,389,615	324,620,912

8. Personnel expenses

	2014 LKR	2013 LKR
Salary and bonus	584,764,130	402,024,071
Contributions to defined contribution plans - EPF	66,704,179	47,865,920
- ETF	14,262,661	10,771,877
Contributions to defined benefit plans	15,179,191	12,616,512
Others	86,937,933	67,498,227
Total	767,848,094	540,776,607

9. Other expenses

	2014 LKR	2013 LKR
Directors' emoluments	10,252,364	5,885,503
Auditors' remunerations	2,600,000	2,800,618
Professional and legal expenses	4,056,121	1,098,605
Depreciation of property, plant and equipment	116,462,095	134,758,198
Depreciation of investment property	1,056,030	1,056,030
Amortisation of intangible assets	30,399,794	29,110,842
Office administration and establishment expenses	755,601,143	693,840,686
Total	920,427,546	868,550,481

10. Tax expense

	2014 LKR	2013 LKR
Current tax expense		
Current year	198,742,972	87,686,908
Adjustment on prior years provision	32,894,925	(25,924,169)
Deferred tax expense (10.2.1)	15,094,130	23,412,440
Total	246,732,027	85,175,179
10.1 Reconciliation of tax expenses		
Profit before tax	751,179,003	333,358,741
Income tax for the period (Accounting profit @ 28%)	210,330,121	93,340,448
Income Exempt from Tax	(36,501,995)	(4,574,949)
Adjustment in respect of current income tax of prior periods	32,894,925	(25,924,168)
Add: Tax effect of expenses that are not deductible for tax purposes	353,398,865	170,548,396
Less: Tax effect of expenses that are deductible for tax purposes	(328,484,019)	(171,626,987)
Tax expense for the period	231,637,897	61,762,739
Deferred Taxation Charge (10.2.1)	15,094,130	23,412,440
At the effective income tax rate of 32.85 % (2013 : 25.55%)	246,732,027	85,175,179

10.2 Deferred tax assets, liabilities and income tax relates to the followings

	“Statement of Financial Position”		Statement of Comprehensive Income	
	2014 LKR	2013 LKR	2014 LKR	2013 LKR
Deferred tax liability				
Capital allowances for Property, Plant & Equipment	43,164,113	40,031,083	3,133,030	15,664,495
Capital allowances for Leased Assets	77,519,665	63,756,650	13,763,015	22,133,671
	120,683,778	103,787,733		
Deferred tax assets				
Defined Benefit Plans	30,255,757	18,957,607	(11,298,150)	(4,237,796)
Loss on Lease Assets	36,914,598	38,825,323	1,910,725	(11,677,864)
	67,170,356	57,782,930		
Deferred taxation charge			7,508,620	59,680,672
Net deferred tax liability	53,513,422	46,004,803		
10.2.1 Composition of deferred tax charge				
Impact on income tax expense			15,094,130	23,412,440
Impact on other comprehensive income			(7,585,510)	(1,529,934)
Impact on comprehensive income			7,508,620	21,882,506

Notes to the Financial Statements *Contd.*

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.

	2014 LKR	Restated 2013 LKR
Net profit for the period	504,446,976	248,183,562
Profit attributable to ordinary shareholders (LKR)	504,446,976	248,183,562
	2014 Number	2013 Number
Weighted average number of ordinary shares in issue	37,762,983	25,175,322
	37,762,983	25,175,322
Basic earnings per ordinary share	13.49	9.39

12. Cash and cash equivalents

	2014 LKR	2013 LKR
Cash in hand	218,324,917	104,558,866
Balances with banks	443,326,296	294,825,799
Total	661,651,213	399,384,665

13. Placements with banks

	2014 LKR	2013 LKR
Placement with local banks	2,223,162,226	2,530,597,930
	2,223,162,226	2,530,597,930

14. Other financial assets at fair value through profit or loss

	2014 LKR	2013 LKR
Sri Lanka Government Securities- Treasury Bill	-	1,210,673,101
Total	-	1,210,673,101

15. Other financial asset classified under loans and receivable

	2014 LKR	2013 LKR
Trust certificates	41,503,288	279,489,791
Debentures	10,313,652	10,202,976
Commercial papers	305,562,155	895,236,106
Repurchase agreement	3,806,894,396	516,162,491
Total	4,164,273,491	1,701,091,364

16. Loans and receivables to other customers

	2014 LKR	2013 LKR
Gross loans and receivables	33,080,241,732	22,941,438,274
Less: Individual impairment	(155,092,599)	(131,383,735)
Collective impairment	(864,650,939)	(693,409,750)
Net loans and receivables	32,060,498,194	22,116,644,789

16.1 By product

Loans and advances

Pawning	1,094,548,437	1,923,423,812
Cash margin	1,821,967,317	1,863,216,746
Staff loans	387,617,921	263,473,381
Lease rentals receivable	3,822,628,198	3,143,743,200
Term loans	25,953,479,858	15,747,581,135
Gross total	33,080,241,732	22,941,438,274

16.2 By currency

Sri Lankan Rupee	33,080,241,732	22,941,438,274
Gross total	33,080,241,732	22,941,438,274

16.3 Movements in individual and collective impairment during the year

	Individual impairment LKR	Collective impairment LKR	Total Impairment LKR
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
Write-off during the year	-	1,937,800	1,937,800
At 31 December 2013	131,383,736	693,409,750	824,793,486
At 1 January 2014	131,383,736	693,409,750	824,793,486
Charge/(Write back) to income statement	23,708,863	180,680,752	204,389,615
Recovery/(Write-off) during the year	-	(9,439,563)	(9,439,563)
At 31 December 2014	155,092,599	864,650,939	1,019,743,537

Notes to the Financial Statements *Contd.*

17. Financial investments -available for sale

	2014 LKR	2013 LKR
Equities - Unquoted (17.1)	29,734,245	33,511,144
- Quoted (17.2)	-	132,188,320
Net available-for-sale Investments	29,734,245	165,699,464

17.1 Equities - unquoted

	2014		2013	
	No. of Shares	Amount LKR	No. of Shares	Amount LKR
SANASA Insurance Company Limited	2,466,055	24,660,551	2,488,785	24,887,850
SANASA Campus Limited	50,000	-	50,000	-
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	130,000	1,300,000	430,000	4,300,000
SANASA Printers and Publishers Limited	208,550	2,088,500	20,381	2,038,100
SANASA Travels (Pvt) Limited	4,000	-	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
		29,734,245		33,511,144

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.

17.2 Equities - quoted

	2014		2013	
	No. of Shares	Amount LKR	No. of Shares	Amount LKR
Peoples Leasing Company PLC	-	-	9,864,800	132,188,320
	-	-		132,188,320

18. Financial investment held to maturity

	2014 LKR	2013 LKR
Sri Lanka Government Securities		
Treasury bill	298,544,685	443,408,074
Held-to-maturity investments	298,544,685	443,408,074

19. Property, plant and equipment

	Land and Buildings LKR	Leasehold properties LKR	Computer Hardware LKR	Machinery & Equipment LKR	Furniture & fittings LKR	Vehicle LKR	Total LKR	
2014								
Cost								
Opening balance at 01.01.2014	269,104,823	590,000	361,332,465	311,713,044	181,573,002	121,575,431	1,245,888,766	
Additions			27,901,555	45,502,184	22,503,926	24,431,025	120,338,691	
Disposals			(16,521,433)	(7,646,234)	(7,384,370)	(16,403,382)	(47,955,420)	
Closing balance at 31.12.2014	269,104,823	590,000	372,712,587	349,568,994	196,692,558	129,603,074	1,318,272,037	
Less: Accumulated depreciation								
Opening balance at 01.01.2014	19,927,768	472,000	328,877,765	189,893,277	142,972,808	95,527,016	777,670,633	
Charge for the year	3,944,730	29,500	23,747,666	47,425,969	21,144,614	20,169,615	116,462,093	
Disposals			(16,522,042)	(7,511,375)	(7,354,543)	(14,243,337)	(45,631,296)	
Closing balance at 31.12.2014	23,872,498	501,500	336,103,390	229,807,871	156,762,879	101,453,294	848,501,432	
2013								
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	
Work in Progress						2014	2013	
						LKR	LKR	
Building						43,821,827	38,552,734	
						43,821,827	38,552,734	
	Land and Buildings LKR	Leasehold properties LKR	Computer Hardware LKR	Machinery & Equipment LKR	Furniture & fittings LKR	Vehicle LKR	Work in Progress LKR	Total LKR
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
Net book value at 31.12.2014	245,232,325	88,500	36,609,197	119,761,124	39,929,680	28,149,780	43,821,827	513,592,432

Notes to the Financial Statements *Contd.*

19.1 Freehold land & building

The details of the land & building owned by the Bank are as follows

Location/Address	Extent		31 December 2014		31 December 2013	
	Land (Perches)	Building (Square feet)	Cost/Valuation		Cost/Valuation	
			Land LKR	Building LKR	Land LKR	Building LKR
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

19.2 During the financial year, the Company acquired property, plant & equipment to the aggregate value of LKR 120,338,691/- (2013 LKR 41,226,488). Cash payments amounting to LKR 120,338,691(2013 LKR 41,226,488) were made during the year for purchase of Property, Plant & Equipment.

19.3 Property, plant and equipment includes fully depreciated assets having a gross carrying amounts of LKR 549,413,942.56 (2013 LKR 480,052,271.19)

19.4 There were no restrictions on the title of the property, plant and equipment as at 31 December 2014

20. Investments properties

	2014 LKR	2013 LKR
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	7,744,220	6,688,190
Charge for the year	1,056,030	1,056,030
Balance at the end of the year	8,800,250	7,744,220
Net book value at the end of the year	26,558,750	27,614,780

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

Location/Address	Extent		31 December 2014 Cost/Valuation		31 December 2013 Cost/Valuation	
	Land	Building	Land	Building	Land	Building
	(Purchase)	(Square feet)	LKR	LKR	LKR	LKR
No.6 A /176, Walauwatta, Kegalle	28	8,233.5	14,238,400	21,120,600	14,238,400	21,120,600
			14,238,400	21,120,600	14,238,400	21,120,600

Management is of the view that fair value of the investment property is not materially deviating from its carrying Value

21. Intangible assets

	2014 LKR	2013 LKR
Cost		
Balance at the beginning of the year	211,929,704	202,751,622
Additions	-	9,178,082
Balance at the end of the year	211,929,704	211,929,704
Less: Accumulated amortisation		
Balance at the beginning of the year	104,185,599	75,074,757
Charge for the year	30,399,794	29,110,842
Balance at the end of the year	134,585,393	104,185,599
Net book value at the end of the year	77,344,311	107,744,105

22. Other assets

	2014 LKR	2013 LKR
Other assets	331,564,437	261,530,867
Deposits and prepayments	149,614,181	183,689,022
Inventory	36,008,549	37,675,232
Total	517,187,167	482,895,121

23. Due to other customers

	2014 LKR	2013 LKR
Total amount due to other customers	30,249,433,851	23,594,767,783
Total	30,249,433,851	23,594,767,783

Notes to the Financial Statements *Contd.*

23.1 Analysis

	2014 LKR	2013 LKR
By product		
Savings deposits	7,326,909,847	5,147,258,681
Fixed deposits	22,922,524,004	18,447,509,102
Total	30,249,433,851	23,594,767,783
By currency		
Sri Lanka Rupee	30,249,433,851	23,594,767,783
Total	30,249,433,851	23,594,767,783

24. Other borrowings

	2014 LKR	2013 LKR
Securities sold under repurchase (repo) agreements	150,047,260	-
Money market borrowings (24.1)	2,957,424,831	501,548,493
Refinance borrowing (24.2)	1,494,761,202	1,377,094,376
Total	4,602,233,293	1,878,642,869

24.1 Money market borrowings

National Development Bank PLC	2,957,424,831	501,548,493
	2,957,424,831	501,548,493

24.2 Refinance borrowing

SANASA Federation (Refinance of Athwela Loans)	54,568,263	54,200,000
National Development Trust Fund (NDTF)	-	460,619
Central Bank of Sri Lanka (Refinance of Matale REAP)	-	4,319,991
Central Bank of Sri Lanka (RERED)	19,574,581	23,429,073
Central Bank of Sri Lanka (Nipunatha)	397,168	1,288,308
Central Bank of Sri Lanka (Susahana)	618,327	2,822,327
Asian Development Bank (Dasuna)	17,939,575	3,385,074
Borrowings Under CBSL-Perennial Crops	8,177,964	11,135,282
Borrowings Under CBSL - Tea Development	5,226,861	6,333,756
Susahana Revolving Fund Loan Scheme	-	82,213
Borrowings Under Refinance of Jayatha	502,597,786	497,322,750
CORDAID Project Loan	3,993,877	19,935,745
Borrowing under Awaiking East	494,611,850	345,656,017
Borrowing under Awaiking North	69,546,175	81,074,738
Borrowing under Saubagya	313,302,775	321,039,483
Borrowing under SPENDP	4,206,000	4,609,000
	1,494,761,202	1,377,094,376

24.3 Analysis of maturity of refinance borrowings

Due within one year	615,893,365	576,845,557
1-5 years	878,867,837	800,248,819
After 5 years	-	-
	1,494,761,202	1,377,094,376

24.4 Securities and terms

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

25. Other liability

	2014 LKR	2013 LKR
Defined benefit plan - Retiring gratuity obligations (25.1)	108,056,276	67,705,741
Special purpose project funds	431,287,758	446,014,770
Accruals & other payables	318,856,103	319,222,239
Total	858,200,137	832,942,750

25.1 Retirement benefit obligations

25.1.1 Defined benefit liability

Defined benefit liability (25.1.2)	108,038,276	67,705,741
	108,038,276	67,705,741

25.1.2 Changes in the defined benefit obligation are as follows

Defined benefit obligation as of 01 January	67,705,740	52,570,754
Net benefit expense (25.1.3)	42,270,295	18,080,561
Benefit paid	(1,937,759)	(2,945,575)
Defined benefit liability as of 31 December	108,038,276	67,705,740

25.1.3 Net benefit expense

Interest cost	7,109,102	5,257,077
Current service cost	8,070,089	7,359,435
Actuarial (gain)/loss on obligations	27,091,104	5,464,049
Balance at the End of the Year	42,270,295	18,080,561

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 2014. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

Long term interest rate	8.15%	10%
Future salary increase rate	7.15%	9%
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

Notes to the Financial Statements *Contd.*

25.2 Sensitivity analysis on discounting rate and salary increment rate to statement of financial position and comprehensive income

Assumption	Rate Change	2014		2013	
		Impact to	Impact to	Impact to	Impact to
		Financial Position	Comprehensive	Financial Position	Comprehensive
		-Increment /(Reduction of Liability	Income-Charged /(Reversal)	-Increment /(Reduction of Liability	Income-Charged /(Reversal)
Discount rate	1+	(10,951,649)	(10,951,649)	(7,293,713)	(7,293,713)
Discount rate	1-	12,620,905	12,620,905	8,538,406	8,538,406
Salary increment rate	1+	12,248,735	12,248,735	9,421,906	9,421,906
Salary increment rate	1-	(10,846,362)	(10,846,362)	(8,095,812)	(8,095,812)

26. Stated capital

	2014		2013
	LKR		LKR
Ordinary Shares - Issued and fully paid	3,533,545,080		2,526,532,200
Total	3,533,545,080		2,526,532,200

	At the beginning of the year 01.01.2014 Number	Issued for cash during the year Number	Redemptions/ Transfers Number	At the end of the year 31.12.2014 Number
Ordinary Shares - Issued and fully paid				
Ordinary shares - voting	25,175,322	12,587,661	-	37,762,983
	25,175,322	12,587,661	-	37,762,983

	LKR	LKR	LKR	LKR
Ordinary shares value - voting	2,526,532,200	1,007,012,880	-	3,533,545,080
	2,526,532,200	1,007,012,880	-	3,533,545,080

27. Statutory Reserve Fund

	2014	2013
	LKR	LKR
Opening balance	94,417,362	82,106,242
Transfer during the period	24,247,069	12,311,120
Closing balance	118,664,431	94,417,362

28. Retained earnings

	2014 LKR	2013 LKR
Opening balance	489,354,651	433,925,772
Profit for the year	484,941,381	246,222,407
Transfers to other reserves	(34,239,657)	(64,916,917)
Transfers from other reserves	233,278,170	-
Dividend	(176,227,254)	(125,876,610)
Closing balance	997,107,291	489,354,651

29. Other reserves

	Opening balance at 01.01.2014 LKR	Movement / transfers LKR	Closing balance at 31.12.2014 LKR
2014			
General reserve	46,656,973	-	46,656,973
Investment fund	223,285,582	(223,285,582)	-
Total	269,942,555	(223,285,582)	46,656,973

	Opening balance at 01.01.2013 LKR	Movement / transfers LKR	Closing balance at 31.12.2013 LKR
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

30. Contingent liabilities and commitments

To meet the financial needs of customers in the ordinary course of business, the Bank enters into various irrevocable commitments and incurs certain contingent liabilities. These consist of financial guarantees & litigation against the bank.

No material losses are anticipated as a result of these commitments and contingencies.

	2014 LKR	2013 LKR
30.1 Guarantees	129,506,905	144,378,258
Total	129,506,905	144,378,258

Notes to the Financial Statements *Contd.*

30.2 Litigation against the bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year end, the Bank had several unresolved legal claims.

Following cases are filed against the bank

1. L 17/11 DC Kesbewa

In the above case the bank has been made a party to a land case claiming a sum of LKR 7, 000,000/- against a property mortgage. The case is on trial stage. Registered attorney is Augusts Jayarathne.

2. 2440/M-DC Chilaw

This case has been filed against the bank claiming sum of LKR 550,000/- on a fixed deposit certificate created through a cheque (Money), present status is order for the objection filed by parties. Registered attorney is M.A.T. Marasinghe.

3. HC Civil 27/14/CO

This case has been filed against AGM of the appointment of chairperson and directors to the Board. Current status is objections. Case was fixed for inquiry. Counsel Dr. Harsha Kabral.

4. SPL 252/11-DC Elpitiya

The plaintiff of this case is Diyakithulkanda Society and defendants are Kotmale Milk Food (Pvt) Ltd. & SANASA Development Bank PLC. Claiming amount is sum of LKR 1,000,000/- case is filed against a bank guarantee. First date for trial. Registered attorney is Mr. N. Halpandeniya

5. HCCA/55/2008 Court of Appeal

This case is appealed by the bank against the order of Galle District Court and claiming Mortgage Bond value amount of LKR 1,295,118.71 and present case is fixed for argument. Registered attorney is Mrs.M.S. Dahanayake.

6. HCCA/MA/35/20 12 Court of Appeal

Above case is appealed by the bank against the order of District Court Matara & claiming mortgage Bond value of LKR 2,110,785.88 present status is order to be pronounced in District Court. Registered attorney is Mr. I.H. Wipulasena

7. DSP 178/09-DC Kandy

Above case filed against the bank challenging the legality of repossession and plaint value is sum of LKR 3.5 Mn. Presently the case is under trial stage. Registered attorney is A.M. Ganganatha and counsel is Mr. Samantha Ratwatta.

8. SP/HCCA/GA/0159/2010

The bank appealed against the order of District Court Galle. Plaint value is sum of LKR 95,000/- pending Completion of appeal briefs. Registered attorney is Mr. N. Arumapperuma

9. 3413M-DC

The bank appeal against the order of District Court and the plaint value is sum of LKR 50, 000 and registered attorney is Mr. S.M.P.Silva. Presently waiting for completion of appeal briefs.

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 Insurance Co. Ltd, People's Leasing PLC, People's Micro Finance Co.Ltd., Kamburupitiya City TCCS Ltd.,Redigama SANASA Share Holders Trust Company Ltd, SANASA Campus Ltd, Kegalle DTCCS,Kegalle SANASA Share Holders Trust Company Ltd, SANASA Uththamavi Company Ltd.,Kandepola Ptccs,SANASA staff PTCCS,Paradise TCCS. 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.

	2014 LKR	2013 LKR
Investments /(withdraw) by the Company	(167,228,080)	402,880,000
Investment/(withdraw) in shares	(132,188,320)	(7,469,000)
Purchase of goods/services	66,646,944	126,190,827
Receipt of services	-	-
Reimbursement of expenses	-	955,105

32.1.1 Balance outstanding with other related parties

Investment in shares	30,134,245	159,614,270
Investments made by the Company	-	153,500,000
Loans & advances	360,912,880	43,500,000

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.

	2014 LKR	2013 LKR
Short term employee benefits	37,265,819	30,740,515

32.2.1 Key management personnel compensation

32.2.2 Other transactions with key management personnel - balance outstanding

Loans and advances

Balance as at 1 January 2014	13,248,089	11,916,339
Grantings	14,900,117	2,410,000
Repayments	1,707,876	1,078,250
Balance as at 31 December 2014	26,440,330	13,248,089
Interest Income	69,434,685	44,798,851

32.2.3 Deposits & investment from key management personnel - balance outstanding

Deposits accepted and reviewed during the period	19,529,967	18,005,176
Balance as at 31 December	8,871,280	12,438,026
Interest expense	26,376,112	18,581,136

Notes to the Financial Statements *Contd.*

	2014 LKR	2013 LKR
32.2.4 Share base payment to key management personnel		
Cash dividend	50,184	64,305

32.2.5 Share purchase		
Shares	Nos. 10,668	20,613

** Total transaction values disclosed in notes 32.2.1, 32.2.2, 32.2.3, 32.2.4 includes Transactions with Chief Operating officer, Senior Deputy General Manager, Deputy General Managers & Assistant General Managers of the Bank as disclosed below.

	2014 LKR	2013 LKR
Shares	Nos. 4,280	15,600
Deposits	10,379,291	24,278,832
Loan	23,301,587	13,248,089
Short Term Employee Benefits	21,192,032	21,348,015

33. Assets pledged

No assets have been pledged as security for liabilities.

34. Analysis of financial instruments by measurement basis

	Fair value through Profit or loss LKR	HTM LKR	AFS LKR	Amortised cost LKR	Total LKR
As at 31 December 2014					
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	661,651,213	661,651,213
Placements with banks	-	-	-	2,223,162,226	2,223,162,226
Financial assets at fair value through profit or loss	-	-	-	-	-
Financial investments - Available-for-sale	-	-	29,734,245	-	29,734,245
Financial investments - Held-to-maturity	-	298,544,685	-	-	298,544,685
Loans and receivables to other customers	-	-	-	32,060,498,194	32,060,498,194
Other financial asset classified under loans and receivable	-	-	-	4,164,273,491	4,164,273,491
Total financial assets	-	298,544,685	29,734,245	39,109,585,124	39,437,864,054
FINANCIAL LIABILITIES					
Due to other customers	-	-	-	30,249,433,851	30,249,433,851
Other borrowings	-	-	-	4,602,233,293	4,602,233,293
Total financial liabilities	-	-	-	34,851,667,144	34,851,667,144

As at 31 December 2013	Fair value through Profit or loss LKR	HTM LKR	AFS LKR	Amortised cost LKR	Total LKR
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

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.

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.

Notes to the Financial Statements *Contd.*

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

	Level 1	Level 2	Level 3	Total
Financial assets	LKR	LKR	LKR	LKR
35.2.1 As at 31 December 2014				
Financial assets fair value through profit or loss				
Quoted equities	-	-	-	-
Sri Lanka Government securities- treasury bond	-	-	-	-
Financial investments - Available-for-sale				
Quoted equities	-	-	-	-
	-	-	-	-

35.2.2 As at 31 December 2013				
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

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.

Net trading income

	2014	2013
Financial Assets	LKR	LKR
Financial assets at fair value through profit or loss		
Quoted equities	-	(2,384,709)
Sri Lanka Government securities- treasury bond	53,941,819	78,546,529
	53,941,819	76,161,820
Financial investments - Available-for-sale		
Quoted equities	113,021,132	-
	113,021,132	-

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.

	Level	Carrying Value LKR	Fair Value LKR
As at 31 December 2014			
Financial assets			
Cash and cash equivalents	Note *	661,651,213	661,651,213
Placements with banks	Note *	2,223,162,226	2,223,162,226
Financial investments - Held-to-maturity	1	298,544,685	310,373,960
Loans and receivables to other customers	2	32,060,498,194	34,350,338,920
Other financial asset classified under loans and receivable	Note *	4,164,273,491	4,164,273,491
Total financial assets		39,408,129,809	41,709,799,810

Financial liabilities			
Due to other customers	2	30,249,433,851	31,247,636,985
Other borrowings	Note *	4,602,233,293	4,602,233,293
Total financial liabilities		34,851,667,144	35,849,870,278

31 December 2013

Financial assets			
Cash and cash equivalents	Note *	399,384,665	399,384,665
Placements with banks	Note *	2,530,597,930	2,530,597,930
Financial investments - Held-to-maturity	1	443,408,074	445,059,055
Loans and receivables to other customers	2	22,116,644,789	23,875,184,237
Other financial asset classified under loans and receivable	Note *	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	2	23,594,767,783	24,657,260,137
Other borrowings	Note *	1,878,642,869	1,878,642,869
Total financial liabilities		25,473,410,652	26,535,903,006

* Note

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 *Contd.*

36. Segment reporting

	31 December 2014				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	3,448,043,114	687,425,556	576,431,137	138,269,995	4,850,169,802
Interest expenses	(1,687,991,162)	(229,773,145)	(415,792,080)	(67,207,052)	(2,400,763,438)
Net interest income	1,760,051,952	457,652,411	160,639,057	71,062,943	2,449,406,364
Fee and commission income	143,157,389	21,468,688	-	-	164,626,078
Fee and commission expenses	(1,288,841)	(993,933)	-	-	(2,282,774)
Net fee and commission income	141,868,548	20,474,756	-	-	162,343,304
Net loss from financial instruments at fair value through profit or loss	-	-	53,941,819	-	53,941,819
Other operating income (net)	160,772,558	-	7,655,182	-	168,427,740
Total operating income	2,062,693,058	478,127,167	222,236,058	71,062,943	2,834,119,226
Impairment for loans and other losses	(143,057,615)	(53,083,474)	-	(8,248,526)	(204,389,615)
Net operating income - Segment result	1,919,635,444	425,043,693	222,236,058	62,814,417	2,629,729,611
Un-allocated expenses					(1,688,275,640)
Value added tax (VAT) on financial services					(190,274,968)
Profit before tax					751,179,003
Tax expenses					(246,732,027)
Profit for the year					504,446,976
Other comprehensive income					
Other comprehensive income for the year net of tax					(19,505,594)
Total comprehensive income for the year					484,941,382
Segment assets	27,263,787,644	3,711,207,953	6,715,714,647	1,085,502,597	38,776,212,841
Un-allocated assets	-	-	-	-	1,796,333,873
Total assets	27,263,787,644	3,711,207,953	6,715,714,647	1,085,502,597	40,572,546,714
Segment liabilities	25,225,033,451	3,433,688,157	6,213,521,350	1,004,329,981	35,876,572,938
Total equity	-	-	-	-	4,695,973,776
Total liabilities	25,225,033,451	3,433,688,157	6,213,521,350	1,004,329,981	40,572,546,714

	31 December 2013				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
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)	73,232,303	-	16,339,103	-	89,571,406
Total operating income	1,418,709,769	293,200,432	261,581,453	176,197,210	2,149,688,865
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	1,825,067,953
Un-allocated expenses					(1,409,327,088)
Value added tax (VAT) on financial services					(82,382,123)
Profit before tax					333,358,742
Tax expenses					(85,175,179)
Profit for the year					248,183,560
Other comprehensive income					
Other comprehensive income for the year net of tax					(1,961,155)
Total comprehensive income for the year					246,222,405
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

Notes to the Financial Statements *Contd.*

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 2014			31 December 2013		
	Within	After	Total	Within	After	Total
	12 Months	12 Months		12 Months	12 Months	
	LKR	LKR	LKR	LKR	LKR	LKR
Assets						
Cash and cash equivalents	661,651,213	-	661,651,213	399,384,665	-	399,384,665
Placements with banks	2,223,162,226	-	2,223,162,226	2,213,491,766	317,106,165	2,530,597,931
Financial assets fair value through profit or loss	-	-	-	1,210,673,101	-	1,210,673,101
Other Financial Asset Classified under Loans and receivable	4,154,323,491	9,950,000	4,164,273,491	1,691,141,364	9,950,000	1,701,091,364
Loans and receivables to other customers	9,034,135,024	23,026,363,170	32,060,498,194	8,871,667,521	13,244,977,267	22,116,644,789
Financial investments - Available-for-sale	-	29,734,245	29,734,245	131,688,320	34,011,144	165,699,464
Financial investments - Held-to-maturity	298,544,685	-	298,544,685	443,408,072	-	443,408,072
Property, plant and equipment	-	513,592,432	513,592,432	-	506,770,866	506,770,866
Investment properties	-	26,558,750	26,558,750	-	27,614,780	27,614,780
Intangible assets	-	77,344,311	77,344,311	-	107,744,105	107,744,105
Current tax assets	-	-	-	40,080,715	-	40,080,715
Other assets	517,187,167	-	517,187,167	482,895,121	-	482,895,121
Total assets	16,889,003,806	23,683,542,908	40,572,546,714	15,484,430,645	14,248,174,328	29,732,604,973
Liabilities						
Due to other customers	20,467,258,880	9,782,174,971	30,249,433,851	17,625,079,139	5,969,688,645	23,594,767,783
Other borrowings	3,723,365,456	878,867,837	4,602,233,293	1,078,394,050	800,248,819	1,878,642,869
Current tax liabilities	113,192,235	-	113,192,235	-	-	-
Deferred tax liabilities	53,513,422	-	53,513,422	46,004,801	-	46,004,803
Other liabilities	750,143,861	108,056,276	858,200,137	515,435,625	317,507,124	832,942,750
Total liabilities	25,107,473,854	10,769,099,084	35,876,572,938	19,264,913,614	7,087,444,587	26,352,358,205
Net Assets/ (Liability)	(8,218,470,048)	12,914,443,824	4,695,973,776	(3,780,482,969)	7,160,729,740	3,380,246,767

38. Comparative information

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year.

Statement of Comprehensive Income	2013	
	Current Presentation	As reported previously
Net gain/(loss) from financial instruments at fair value through profit or loss	102,444,027	76,161,820
Other operating income (net)	63,289,199	89,571,406
	165,733,226	165,733,226

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.

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 utilisation of market limits, proprietary investments and liquidity and plus any other risk developments.

Notes to the Financial Statements *Contd.*

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.

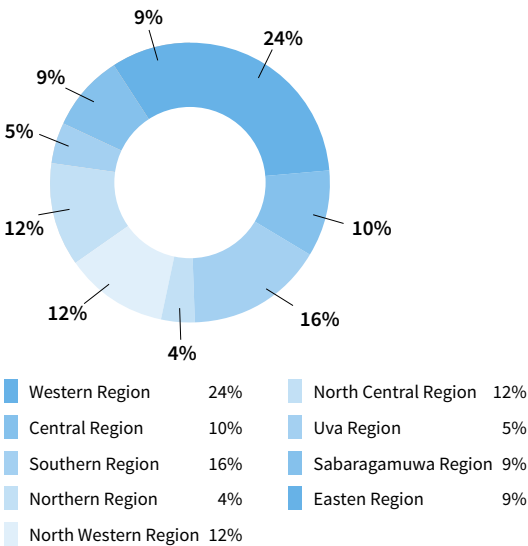
Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

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 2014 was LKR 250Mn.

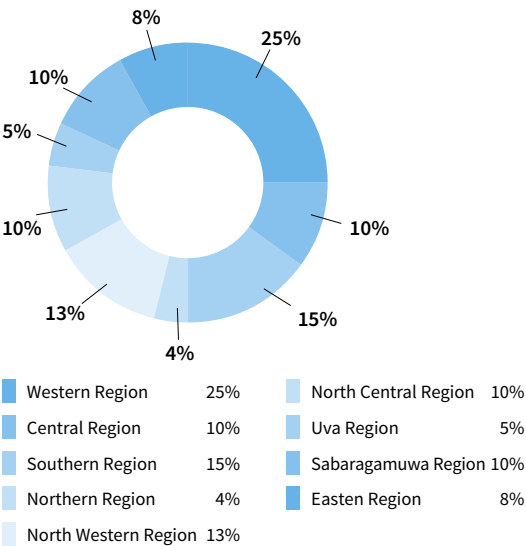
The following table shows the maximum exposure to credit risk for the components of the statement of financial position, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at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

Geographical analysis

Geographical Analysis 2014

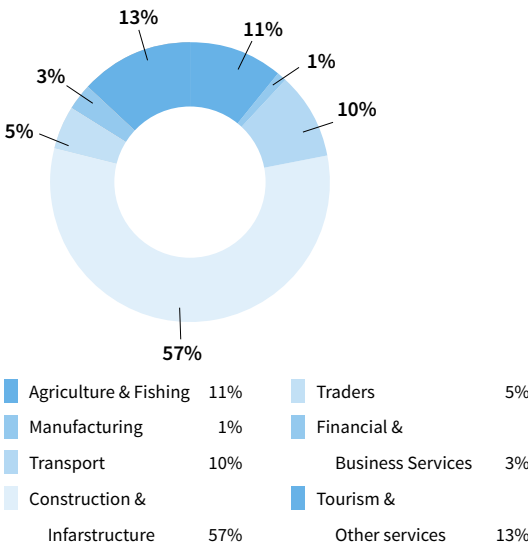


Geographical Analysis 2013

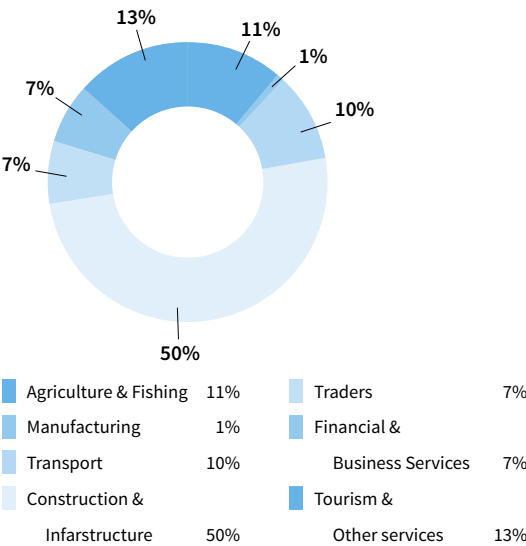


Industry analysis

Industry Analysis 2014



Industry Analysis 2013



Notes to the Financial Statements *Contd.*

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.

Credit quality by class of financial assets

	Neither past due nor Impaired LKR	Pass due but not impaired LKR	Individually impaired LKR	Total LKR
31 December 2014				
Cash and cash equivalents	661,651,213	-	-	661,651,213
Placements with banks	2,223,162,226	-	-	2,223,162,226
Financial assets fair value through profit or loss	-	-	-	-
Other financial asset classified under loans and receivable	4,164,273,491	-	-	4,164,273,491
Loans and receivables to other customers (without impairment)	24,885,952,150	7,652,939,013	541,350,568	33,080,241,732
Financial investments Available-for-sale	29,734,245	-	-	29,734,245
Financial investments Held-to-maturity	298,544,685	-	-	298,544,685
Total	32,263,318,010	7,652,939,013	541,350,568	40,457,607,592
31 December 2013				
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

	Pass due but not impaired				
	Less than 30 day LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	Total LKR
31 December 2014					
Loans and receivables to other customers (without impairment)	3,840,368,344	2,177,518,401	101,176,826	1,533,875,442	7,652,939,013
31 December 2013					
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

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 recognised 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 reorganisation.
- ◀ 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.

Notes to the Financial Statements *Contd.*

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 recognised 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 summarises 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.

	Less than 7 Days	7-30 Days	1-3 Months	3-12 month	1-3 Years	3-5 Years	Over 5 Years	Total
Maturity Analysis 2014	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Financial assets								
Cash and cash equivalents	661,651,213	-	-	-	-	-	-	661,651,213
Investments	767,510,780	1,599,710,769	4,395,636,908	2,704,769	12,246,763	-	29,734,245	6,807,544,236
Loans and receivables								
to other customers	1,706,185,548	639,710,412	1,463,355,673	7,436,839,674	17,392,498,298	11,527,471,861	10,160,531,541	50,326,593,007
Total Financial assets	3,135,347,541	2,239,421,182	5,858,992,581	7,439,544,444	17,404,745,062	11,527,471,861	10,190,265,786	57,795,788,456
Financial liabilities								
Due to other customers	1,134,762,896	2,517,431,538	5,231,646,460	12,310,956,971	10,221,800,195	2,103,559,083	594,411,055	34,114,568,198
Other borrowings	1,304,839,515	576,667,008	1,297,437,458	570,577,041	908,005,523	51,647,440	-	4,709,173,983
Total Financial liabilities	2,439,602,410	3,094,098,546	6,529,083,917	12,881,534,011	11,129,805,718	2,155,206,523	594,411,055	38,823,742,181
Net Financial assets/(liabilities)	695,745,131	(854,677,365)	(670,091,336)	(5,441,989,568)	6,274,939,344	9,372,265,338	9,595,854,731	18,972,046,275

	Less than 7 Days LKR	7-30 Days LKR	1-3 Months LKR	3-12 month LKR	1-3 Years LKR	3-5 Years LKR	Over 5 Years LKR	Total LKR
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

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.

Interest rate sensitivity asset 2014

Asset or Liability	Carrying Amount LKR	On demand LKR	1-3 month LKR	3-12 month LKR	over 1 year LKR
Cash and cash equivalents	175,000,000	175,000,000	-	-	-
Investments	6,715,714,647	2,339,058,327	4,285,053,832	51,918,242	39,684,245
Loans and receivables to other customers	32,079,890,176	1,314,644,309	1,402,093,778	6,336,788,919	23,026,363,170
Interest Bearing Assets	38,970,604,823	3,828,702,636	5,687,147,610	6,388,707,161	23,066,047,415
Due to other customers	30,249,433,851	3,509,394,564	4,951,438,594	12,006,425,722	9,782,174,971
Other borrowings	4,602,233,293	1,875,866,667	1,285,678,989	561,819,800	878,867,837
Interest Bearing Liabilities	34,851,667,144	5,385,261,231	6,237,117,583	12,568,245,522	10,661,042,807
Interest Rate Sensitivity Gap	4,118,937,679	(1,556,558,595)	(549,969,973)	(6,179,538,361)	12,405,004,608

Notes to the Financial Statements *Contd.*

	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	389,706,048	(389,706,048)
Effect on rate sensitive liabilities	(348,516,671)	348,516,671
Sensitivity of profit or loss	41,189,377	(41,189,377)

Interest rate sensitivity asset 2013

Asset or liability	Carrying Amount LKR	On demand LKR	1-3 month LKR	3-12 month LKR	over 1 year LKR
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	23,594,767,784	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)

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

	2014 (Basel 11) (LKR '000)	2013 (Basel 11) (LKR '000)
Capital Base as at 31 st December		
<i>TIER I</i>		
Paid-up ordinary shares	3,533,545	2,526,532
Statutory reserve fund	118,664	94,417
Published retained profits	997,107	489,355
General & other reserves	46,657	269,943
Debentures	-	-
Other intangible assets	(77,344)	(107,744)
50% invest in the capital of other bank & financial institution	(4,975)	(60,669)
Total Tier I capital	4,613,654	3,211,834
<i>TIER 2</i>		
General provision	143,257	88,179
Debentures	-	-
50% invest in the capital of other bank & financial institution	(4,975)	(60,669)
Total Tier 2 capital	138,282	27,510
Total Tier 1 & Tier 2 capital	4,751,936	3,239,344
Capital base	4,751,936	3,239,344
<i>Computation of ratios</i>		
Core capital (Tier 1)	4,613,654	3,211,834
Total capital base	4,751,936	3,239,344
<i>Risk weighted assets</i>		
Total risk weighted assets for credit risk	27,620,028	19,773,771
Total risk weighted assets for market risk	-	198,171
Total risk weighted assets for operational risk	3,368,025	2,956,233
Total risk weighted assets	30,988,053	22,928,175
<i>Core capital ratio (minimum requirement 5%)</i>		
Total Tier - 1 capital	4,613,654	3,211,834
Total risk weighted assets	30,988,053	22,928,175
	14.89%	14.01%
<i>Total capital ratio (minimum requirement 10%)</i>		
Total capital base	4,751,936	3,239,344
Total risk weighted assets	30,988,053	22,928,175
	15.33%	14.13%

Sources & Utilisation of Income

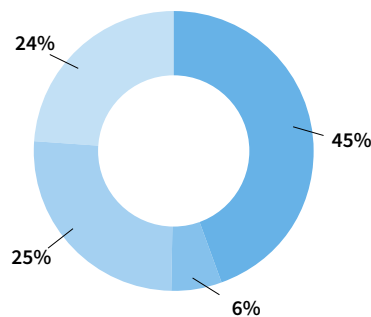
For the year ended 31st December

LKR '000	2010	2011	2012	2013	2014
Sources of income					
Interest	2,481,950	2,680,405	3,377,747	3,798,892	4,290,669
Investments	458,742	337,202	404,379	590,493	559,501
Commission & other	83,069	47,263	113,118	288,156	386,996
Total	3,023,761	3,064,871	3,895,244	4,677,541	5,237,165
Utilisation of income					
Employees					
Salaries & other payments to staff	268,760	399,026	447,637	540,777	767,848
Suppliers					
Interest paid	1,222,848	1,200,514	1,879,248	2,525,580	2,400,763
other expenses	683,870	773,750	955,198	1,195,443	1,127,100
	1,906,717	1,974,264	2,834,446	3,721,024	3,527,863
Net income before Govt. taxes	848,283	691,581	613,162	415,741	941,454
Government					
Income tax, Vat on FS,NBT	524,802	309,539	272,446	167,557	437,007
Share Holders					
Dividends	177,378	176,227	251,753	176,227	94,407
Retained profit	146,103	205,815	88,962	71,957	410,040
	323,480	382,042	340,716	248,184	504,447
Total	3,023,761	3,064,871	3,895,244	4,677,541	5,237,165

Statement of Value Added

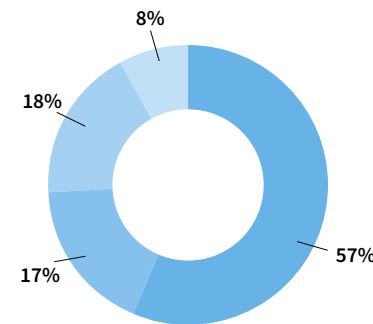
	2014		2013	
	LKR '000	%	LKR '000	%
Value added				
Gross interest income	4,850,170		4,389,385	
Other income	386,996		288,156	
Cost of borrowing & other services	(3,323,474)		(3,396,403)	
Provision for credit losses & investments	(204,390)		(324,621)	
	1,709,302		956,517	
Distribution of value added				
To employees	767,848	45%	540,777	57%
To providers of capital				
Dividends to shareholders	94,407	6%	176,227	18%
To Government				
Income tax on profits & VAT on FS	437,007	25%	167,557	17%
To expansion & growth				
Retained income	410,040	24%	71,956	8%
	1,709,302		956,517	

Distribution of Value Added - 2014



To Employees	45%
To Providers of Capital	6%
To Government	25%
To Expansion & Growth	24%

Distribution of Value Added - 2013



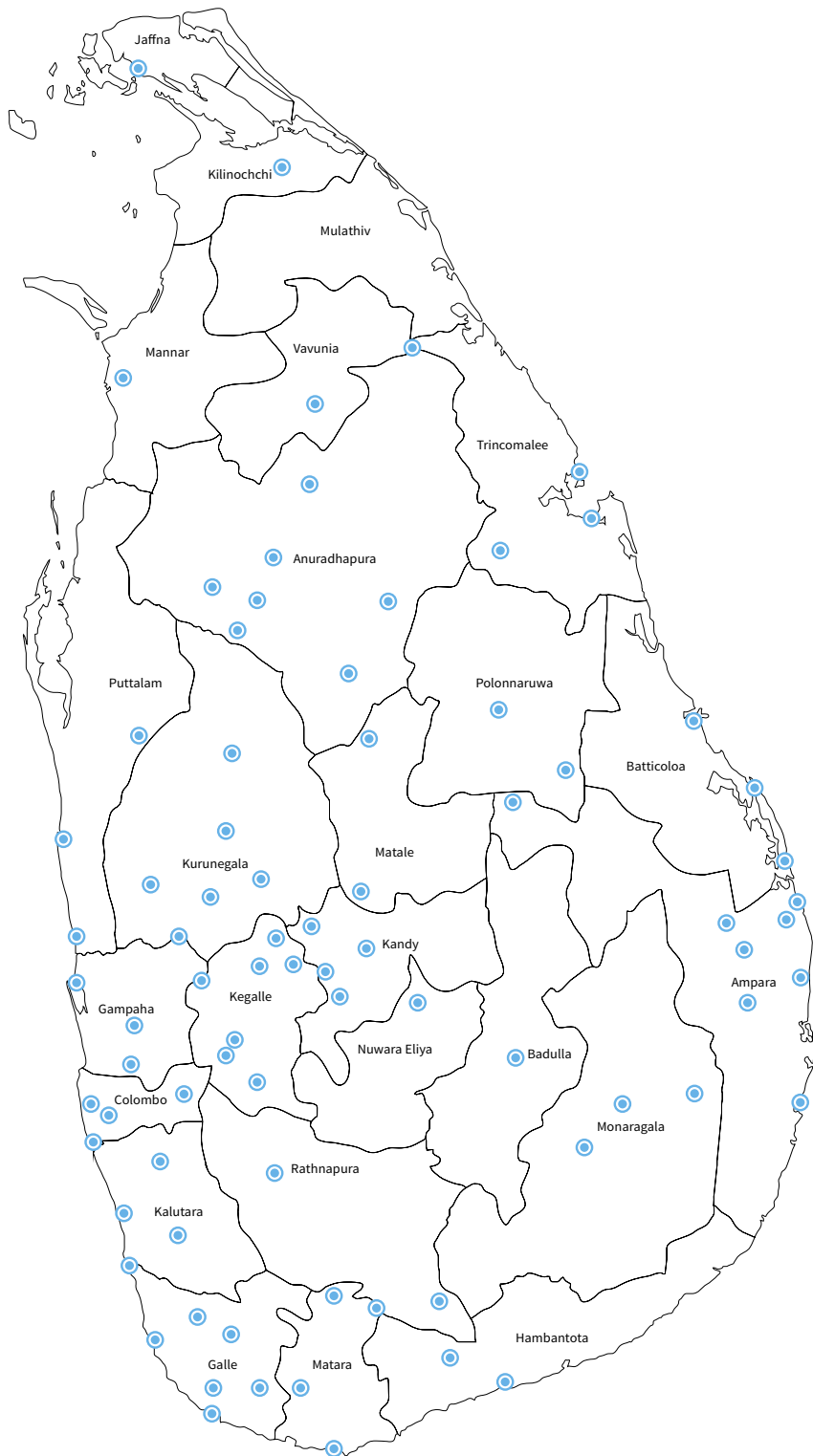
To Employees	57%
To Providers of Capital	18%
To Government	17%
To Expansion & Growth	8%

Ten Year Statistical Summary

Year ended 31st December										
LKR '000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Advances	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	32,060,498
Investments	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	6,715,715
Fixed assets	54,149	111,353	173,210	235,272	543,169	641,201	810,489	759,581	642,130	617,495
Total assets	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	40,572,547
Deposits	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	30,249,434
Borrowings	469,161	450,111	962,505	945,355	1,034,853	1,342,040	1,538,767	1,557,329	1,878,643	4,602,233
Share capital (allotted)	294,658	446,075	566,070	671,022	1,546,665	1,820,268	2,427,532	2,526,532	2,526,532	3,533,545
Reserves	138,443	205,529	163,956	162,914	246,219	478,984	781,866	733,369	853,715	1,162,429
Share holders' fund	433,101	651,604	730,026	833,936	1,792,884	2,299,252	3,209,398	3,259,901	3,380,247	4,695,974
Total income	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	5,237,165
Total expenses	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	4,485,986
Profit/loss before tax.	58,645	124,655	126,036	225,078	445,512	646,603	581,495	516,497	333,359	751,179
Taxation	(10,656)	(49,043)	(72,272)	(127,989)	(237,140)	(323,123)	(199,453)	(175,781)	(85,175)	(246,732)
Profit/loss after tax.	47,989	75,612	53,764	97,089	208,372	323,480	382,042	340,716	248,184	504,447
No. of accounts	141,962	195,835	250,003	412,350	523,275	585,508	697,227	858,454	903,476	992,782
No. of customer centres	21	25	36	44	52	72	79	81	82	82
No. of employees	302	398	465	504	615	735	884	823	856	1,004

Branch Network

G4 08



Branch Network *Contd.*

S.N	Branch	Position	Name	Email	
1	1st Colombo City	Manager	Mr. T. M. M. R. Thennakoon	colombo@sdb.lk	
2	Akkeripattu	Manager	Mr. S. Thines	akkaraipattu@sdb.lk	
3	Akurassa	Manager	Ms. S. K. Paranahewa	akuressa@sdb.lk	
4	Aluthgama	Manager	Mr. L. H. C. Roshan	aluthgama@sdb.lk	
5	Ambalangoda	Manager	Mr. S. Hewavithana	ambalangoda@sdb.lk	
6	Ambalanthota	Manager	Mr. D. H. Gamage	ambalanthota@sdb.lk	
7	Ampara	Senior Manager	Mr. M. J. H. Perera	ampara@sdb.lk	
8	Anamaduwa	Manager	Mr. D. M. J. Suraweera	anamaduwa@sdb.lk	
9	Angunukolapalessa	Manager	Mr. K. G. P. Deshapriya	angunukola@sdb.lk	
10	Anuradhapura	Manager	Mr. D. M. M. D. B. Dissanayake	anuradap@sdb.lk	
11	Aralaganwila	Manager	Mr. K. A. D. M. P. Kumara	aralaganwila@sdb.lk	
12	Badulla	Manager	Mr. R. M. A. Rathnayake	badulla@sdb.lk	
13	Battaramulla	Senior Manager	Ms. K. K. C. J. Dasanayake	champa@sdb.lk	
		Manager	Mr. D. M. S. D. Dissanayaka	battaram@sdb.lk	
14	Batticaloa	Manager	Mrs. V. Jegan	batticaloa@sdb.lk	
15	Buttala	Manager	Mr. W. M. S. Kumarasiri	buttala@sdb.lk	
16	Chilaw	Manager	Mr. R. A. P. R. Karunarathne	chilaw@sdb.lk	
17	Dambulla	Manager	Mr. H. M. K. N. Bandara	dambulla@sdb.lk	
18	Dehiattakandiya	Manager	Mr. L. K. D. Kumarage	dehiattakandiya@sdb.lk	
19	Deniyaya	Manager	Mr. S. Pandippera	deniyaya@sdb.lk	
20	Deraniyagala	Manager	Mr. R. A. S. S. Rupasinghe	deraniyagala@sdb.lk	
21	Elpitiya	Manager	Mr. C. C. Dissanayake	elpitiya@sdb.lk	
22	Embilipitiya	Manager	Mr. K. Lakshman	embilipi@sdb.lk	
23	Galenbindunuwewa	Manager	M. G. H. Samarasekara	gdwewa@sdb.lk	
24	Galle	Manager	Mr. M. K. L. Gnanathilaka	galle@sdb.lk	
25	Gampaha	Senior Manager	Mr. A. M. Nimal Chandra	gampaha@sdb.lk	
26	Gampola	Manager	Ms. S. M. K. T. Senanayake	gampola@sdb.lk	
27	Giriulla	Manager	Mr. I. C. S. Hemal	giriulla@sdb.lk	
28	Hatharaliyadda	Manager	Mr. K. G. A. K. Katukurunda	hatharaliyadda@sdb.lk	
29	Hingurna	Manager	Mr. A. M. Jayathilaka	hingurana@sdb.lk	
30	Horana	Manager	Ms. N. N. Edirisinghe	horana@sdb.lk	
31	Jaffna	Manager	Mr. S. Sabesh	jaffna@sdb.lk	
32	Kaduwela	Manager	Mr. N. C. Pallegama	kaduwela@sdb.lk	
33	Kalawanchchikudy	Manager	Mr. V. Sriranjani	kalawanchchikudy@sdb.lk	
34	Kalmuani	Manager	Mr. K. H. P. P. Gnanasiri	kalmunai@sdb.lk	
35	Kalutara	Manager	Mr. A. S. Perera	kaluthara@sdb.lk	
36	Kandy	Manager	Mr. W. S. Pushpakumara	kandy@sdb.lk	
37	Kanthale	Manager	Mr. A. W. S. L. Kumara	kantale@sdb.lk	
38	Karapitiya	Manager	Mr. U. K. B. Aravinda	karapiti@sdb.lk	
39	Katuwana	Manager	Mr. S. A. S. Rukshan	katuwana@sdb.lk	
40	Kegalle	Manager	Mr. T. M. S. K. Gunathilaka Banda	kegalle@sdb.lk	
41	Kekirawa	Manager	Ms. K. H. Swarnalatha	kekirawa@sdb.lk	

Telephone/ Fax	Address
Tel. 011-2326265 Fax. 011-2337687	55, Kumaran Rathnam Mawatha, Colombo 02
Tel./ Fax. 067-2279365	05, Pothuvil Road, Akkareipattu
Tel./Fax.041-2283173 041-2283596	63A, Matara Road, Akuressa
Tel.Fax. 034-2270718	39,Welipenna Road, Aluthgama
Tel.Fax. 091-2255779	321, New Road, Ambalangoda
Tel./Fax. 047-2225466	69/1, Tangalle Road, Ambalanthota
Tel . 063 - 2222633 Fax . 063 - 2222661	No.05, Amarathunga Building, D.S.Senayaka Street, Ampara.
Tel./Fax. 032-2263026	16/11, Chilaw Road, Anamaduwa
Tel./Fax. 047-2229205	Ranna Road, Angunakolapelessa
Tel. 025-2234110 Fax. 025-4580377	No 12,Maithreepala Senanayaka Mawatha, Anuradhapura
Tel./Fax. 027-2257200	Kolongas Juction, New Town, Aralaganwila
Tel./Fax. 055-2224135	132, Lowers Street,Badulla
Tel. 011-2866990 Fax. 011-5523291	210/01, Kaduwela Road, Battaramulla
Tel. 011-2883513 Fax. 011-5523291	
Tel. /Fax. 065-2226611	197, Trincomalee Road, Batticaloa
Tel./ Fax. 055-2273387	14, Main Street, Buttala
Tel./ Fax: 032-2220801	50/52, Skyline Building, Colombo Road, Chilaw
Tel./Fax.066-2283244	360/D, Anuradhapura Road, Dambulla
Tel./Fax. 027-2250414	10/2, Dehiattakandiya
Tel./Fax. 041-2273100	61, Main Street, Deniyaya
Tel./Fax. 036-2249801	17, Main Street, Deraniyagala
Tel./Fax. 091-2291524	18/12 New Road, Elpitiya
Tel. 047-2261891	15, H.K.T.Building, Embilipitiya
Tel./Fax. 025-2258038	No. 55, Anuradhapura Road, Galenbindunuwewa
Tel./Fax. 091-2226811	03, Ward Street, Galle
Tel./ Fax. 033-2224631	09, Sirikurusa Road, Gampaha
Tel. 081-2352185 Fax. 081-2352172	10A, Ganasiri Road, Gampola
Tel./Fax. 037-2289524	02, Main Street, Giriulla
Tel./Fax. 081-2464250	21/5, Kandy Road, Hatharaliyadda
Tel. 063-2240245 Fax. 063-2240285	26,Muwangala Road, Hingurana
Tel./Fax. 034-2261177	145, Rathnapura Road, Horana
Tel./Fax. 021-2221280	212, Maha Lakshmi Buliding, Stanly Road, Jaffna
Tel. Fax. 011-2548428	500A, Colombo Road, Kaduwela
Tel./Fax. 065-2251409	Rajashe Buliding, Main Street, Kalawanchikudy
Tel./ Fax. 067-2222476	299, Main Sreet, New Bazar , Kalmunai
Tel. 034-2221115 Fax. 034-2221116	398,Galle Road, Kalutara North.
Tel.081-2204385 Fax.081-2202940	86,Colombo Street, Kandy
Tel./Fax. 026-2234380	14, Kandy Road, Kanthale
Tel./Fax. 091-2245252	255, Sunny Side Gardens, Karapitiya
Tel./Fax. 047-3623900	AAG Building, Middeniya Road, Katuwana
Tel. 035-2222352 Fax. 035-2231051	342, Main Street, Kegalle
Tel./Fax. 025-2263306	53, Anuradhapura Road, Kakirawa

Branch Network *Contd.*

S.N	Branch	Position	Name	Email	
42	Kilinochchi	Manager	Mr. C. Sathiskandaraja	kilinochchi@sdb.lk	
43	Kiribathgoda	Manager	Mr. R. A. N. K. D. Wijesinghe	kiribath@sdb.lk	
44	Kirulapona	Manager	Mr. H. J. C. R. Jayasooriya	kirulapone@sdb.lk	
45	Kuliyapitiya	Manager	Mr. J. A. R. Lakshantha	kuliyapitiya@sdb.lk	
46	Kurunagala	Manager	Mr. J. A. C. K. Jayakody	kurunegala@sdb.lk	
47	Maharagama	Manager	Mr. P. M. K. R. Perera	maharagama@sdb.lk	
48	Maho	Manager	Mr. K. D. R. K. Randeniya	maho@sdb.lk	
49	Mapalagama	Manager	Ms. K. K. Ranganie	mapalagama@sdb.lk	
50	Matale	Manager	Mr. H. M. A. P. K. Herath	matale@sdb.lk	
51	Matara	Manager	Mr. P. S. A. A. C. Lakruwan	matara@sdb.lk	
52	Mathugama	Manager	Mr. A. N. Wanigasiri	mathugama@sdb.lk	
53	Mawanella	Manager	Ms. H. R. R. Damayanthi	mawanella@sdb.lk	
54	Medawachchiya	Manager	Mr. P. P. K. D. Pathirana	medawach@sdb.lk	
55	Monaragla	Manager	Mr. D. H. T. S. Gunawardana	monaraga@sdb.lk	
56	Moratuwa	Manager	Ms. N. P. Denuka M. Priyanganie	moratuwa@sdb.lk	
57	Mutur	Manager	Mr. M. M. M. Nilam	mutur@sdb.lk	
58	Nanattan	Manager	Mr. K. Ragulan	nanattan@sdb.lk	
59	Narammala	Manager	Ms. H. M. P. Herath	narammala@sdb.lk	
60	Negombo	Manager	Mr. P. Senadeera	negombo@sdb.lk	
61	Nochchiyagama	Manager	Mr. H. S. Maithreepala	nochchi@sdb.lk	
62	Padavi Parakramapura	Manager	Mr. E. A. G. M. Chandradasa	padaviya@sdb.lk	
63	Pilimathalawa	Manager	Mr. J. A. S. Dahampath	pilimathalawa@sdb.lk	
64	Polonnaruwa	Manager	Mr. R. M. A. L. Bandara	polonnaruwa@sdb.lk	
65	Pottuvil	Manager	Mr. W. T. R. J. Wijewardane	pothuvil@sdb.lk	
66	Rambukkana	Manager	Mr. M. P. Dayapala	rambukkana@sdb.lk	
67	Rathnapura	Manager	Mr. K. A. Charithalanka	rathnapu@sdb.lk	
68	Rikillagaskada	Manager	Mr. J. H. M. S. C. Jayaweera	rikillagaskada@sdb.lk	
69	Ruwanwella	Manager	Ms. E. K. M. Sriyalatha	ruwanwel@sdb.lk	
70	Sahasapura	Manager	Mr. R. L. Samarasinghe	sahasapu@sdb.lk	
71	Samanthurai	Manager	Mr. R. D. L. P. Nandasena	samanthurai@sdb.lk	
72	Siyabalanduwa	Manager	Mr. T. A. I. Lakmal	siyabalanduwa@sdb.lk	
73	Thalawa	Manager	Mr. U. R. Kulathunga	thalawa@sdb.lk	
74	Thambuttegama	Manager	Mr. D. P. K. Francis	thambuth@sdb.lk	
75	Trincomalee	Manager	Ms. S. Janarthani	trinco@sdb.lk	
76	Uhana	Manager	Mr. R. N. P. Kumara	uhana@sdb.lk	
77	Valachchenai	Manager	Ms. S. Sinnathurei	valachchenai@sdb.lk	
78	Vavuniya	Manager	Mr. A. Nagenthiran	vavuniya@sdb.lk	
79	Warakapola	Manager	Mr. G. P. Gajanayake	warakapo@sdb.lk	
80	Wariyapola	Manager	Mr. P. A. A. Upashantha	wariyapola@sdb.lk	
81	Wennappuwa	Manager	Mr. W. A. I. R. Wanasinghe	wennappuwa@sdb.lk	
82	Yakkalamulla	Manager	Mr. K. G. Saman	yakkalamulla@sdb.lk	

Telephone/ Fax	Address
Tel./Fax. 021-2285316	07, Kandy Road, Annadapuram, Kilinochchiya
Tel. 011-2917137 Fax. 011-2917872	141, Kandy road, Kiribathgoda
Tel. 011-2832597	12, Edmonton Road, Colombo 06
Tel. 037-2284555 Fax. 037-2284556	437, Madampe Road, Kuliyaipitiya
Tel./Fax. 037-4921618 037-2229607	95, Negambo Road, Kurunegala
Tel./ Fax. 011-2840242	134, High level Road, Maharagama
Tel./Fax. 037-2275045	19A, Main Street, Maho
Tel./Fax. 091-2296200	"Samantha",Ethumale, Mapalagama
Tel.066-2230388 Fax.066-2232439	271,Main Street, Matale
Tel. 041-2229944 Fax. 041-2234284	24, A.E.H.Cooray Tower, Dharmapala Mawatha, Matara
Tel./Fax. 034-2248373	120/1 Aluthgama Road, Mathugama
Tel./Fax. 035-2246662	129, Main Street, Mawanella
Tel./Fax. 025-2245221	78A, Jaffna Road, Medawachchiya
Tel./Fax. 055-2277192	139, Wellawaya Road, Monaragala
Tel.011-2636627 Fax. 011-2624322	310, "Wijaya Mahal", Katubedda, Moratuwa
Tel./Fax. 026-2238122	Main Street, Batticalo Road, Mutur
Tel./Fax. 023-3238200	Olimadu, Nanattan
Tel. 037-2248278	60, Kuliyaipitiya Road, Narammala
Tel. 031-2227714 Fax. 031-2227715	150, Greens Road, Negambo
Tel./Fax. 025-2257154	94, Puttalama Road, Nochchhiyagama
Tel./Fax. 025-2254311	Kodithuwakku Building, Padaviparakkrapura
Tel./Fax.081-2577156	255, Colombo Road, Pilimathalawa
Tel.027-2226622 Fax.027-2226623	No. 894/A, Sawmill Junction, Kaduruwela
Tel./ Fax.063-2248026	Ibrahim Building, Main Street, Pottuvil
Tel./Fax. 035-2264388	152, Kurunegala Road, Rambukkana
Tel./Fax. 045-2226015	93, Inner Circule Road, Rathnapura
Tel./Fax. 081-2365556	51, Kandy Road, Rikillagaskada
Tel./Fax. 036-2267426	93A, Main Street, Ruwanwella
Tel./Fax. 011-2686118	No. 33, Kolonnawa Road, Dematagoda, Colombo 09.
Tel./Fax.067-2261378	1/21 E Police Road, Samanthurai
Tel./Fax. 055-2279141	Monaragala Road, Siyabalanduwa
Tel./Fax.025-2050871	Kurunegala Road, Thalawa
Tel./Fax. 025-2275011	Rejina Junction, Anuradhapura Road,Thambuttegama
Tel/Fax. 026-2222076	95, Post Office Road, Trincomalee
Tel./Fax. 063-2250102	No. 164/1, Kandy Road, Uhana
Tel./Fax.065-2258044	Main Street, Valachchenai
Tel./Fax. 024-2224312	234, Kandy Road, Vavuniya
Tel./Fax. 035-2267741	198, Main Street, Warakapola
Tel. 037-2267086 Fax. 037-2267646	54, Kurunegala Road, Wariyapola
Tel. 031-2245531 Fax. 031-2245532	Main Street, Wennappuwa
Tel./Fax. 091-2286770	Yakkalamulla Junction, Galle Road, Yakkalamulla

Glossary of Terms

AGM

Annual General Meeting

ALCO

Asset and Liability Management Committee

AOA

Asian and Oceania Association

BAC

Board Audit Committee

BIRMC

Board Integrated Risk Management Committee

BOD

Board of Directors

BSNC

Board Selection and Nomination Committee

CBSL

Central Bank of Sri Lanka

CCA

Canadian Cooperative Agency

CEB

Ceylon Electricity Board

CEO

Chief Executive Officer

CFO

Chief Financial Officer

CIDA

Canadian International Development Agency

CRC

Canadian Red Cross

CSE

Colombo Stock Exchange

DTCCSU

District Thrift and Credit Cooperative Society Union

EIRMC

Executive Integrated Risk Management Committee

EPF

Employees Provident Fund

ESC

Economic Service Charge

ETF

Employees Trust Fund

EVA

Economic Value Added

GM

General Manager

GRI

Global Reporting Index

HRRC

Human Resources and Remuneration Committee

ICAAP

Internal Capital Adequacy Assessment Process

ICASL

Institute of Chartered Accountants of Sri Lanka

ICMIF	ROE
International Cooperation and Mutual Insurance Federation	Return on Equity
ICOFR	SDB/SDBL
Internal Control over Financial Reporting	SANASA Development Bank PLC
IFC	SEC
International Finance Corporation	Securities Exchange Commission of Sri Lanka
IRM	SICL
Integrated Risk Management	SANASA Insurance Company Limited
KMP	SLAUS
Key Management Personnel	Sri Lanka Auditing Standards
MPCS	SME
Multipurpose Cooperative Societies	Small and Medium Scale Enterprises
NIM	SMILE
Net Interest Margin	Small and Micro Industries Leader and Entrepreneurs Project
NPL	VAT
Nonperforming Loans	Value Added Tax
PAMP	
Poverty Alleviation Microfinance Project	
PAT	
Profit After Tax	
PBT	
Profit Before Tax	
PTCCS	
Primary Thrift And Credit Cooperative Society	
ROA	
Return on Assets	

Eighteenth Annual General Meeting – Agenda

Date

29th May 2015

Venue

Uththamavi Hall
Sanasa Campus Limited
Paragammana
Hettimulla
Kegalle.

Time

- 9.00 a.m. – 10.00 a.m. : Registration
- 10.00 a.m. – 10.15 a.m. : Eighteenth Annual General Meeting call to order
Lighting of the oil lamp
Religious observances
Pledge of the co-operative movement
- 10.15 a.m. – 10.25 a.m. : Observing one-minute silence in memory of departed members of the SANASA movement.
- 10.25 a.m. – 10.30 a.m. : Notice of Meeting – Company Secretary
- 10.30 a.m. – 10.45 a.m. : Confirmation of the minutes of Annual General Meeting held on 30th May 2014 & minutes of Extra Ordinary General Meetings
- 10.45 a.m. – 12.15 p.m. : To pass general resolutions
- 12.15 p.m. – 12.30 p. m : Chairperson’s address
- 12.30 p.m. – 12.45 p.m. : Vote of thanks – General Manager / CEO

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 on 06th August 1997 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 1998 (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
Mr. H.M.G.B.Herath
Mr. L.Abeysekera
Mr. J.Rathnayake
Mr. T.Rajapaksha
Mr. W.M.M.D.Ratnayake

Chief Executive Officer / General Manager

Mr. Nimal C Hapuarachchi

Company Secretary

Ms. Tamarika Rodrigo

Auditors

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

Bankers

People's Bank
NDB Bank PLC
Nations Trust Bank PLC

