



Geared to help you rise because
To us, true relationships matter...



Our journey of 19 years has been one of resilience and steady growth, during which we have backed our customers to charter the course of growth from **Micro Finance to SME** (Small to Medium Entrepreneurs). Our strength arises from our comprehensive insights into the financial requirements of our customer base and a visionary outlook with regard to our collective growth.

19
YEARS

As we prepare to enter the milestone of our 20th year, we take a perceptive look back at our achievements and the challenges we have surpassed over the years and take pride in our 19 years of resilience.

In this Annual Report, we invite you not only to look at our eventful year and numbers but also the vision that has led us to become a vital force in our customers' economic progress. Our journey continues on a robust foundation of integrity, professionalism and genuine passion to empower Sri Lanka's SME sector to achieve lasting prosperity.

OF
RESILIENCE

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Our Vision

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

Our Mission

By providing high quality innovative and competitive financial products and services, offered through the best customer friendly channels, assisted by cutting edge technologies, with a team of diverse talents working in synergy to provide a total solution to our stakeholders and operating in a culture of learning and continuous value creation, we strive to become the most responsible financial institution in Sri Lanka.

Our Goals

- ▶ Improve the asset base to stay competitive and resilient in the market.
- ▶ Transition from a largely micro finance focus to a broader SME corporate focus.
- ▶ Establish SDB as the bank of the choice for the co-operative sector.
- ▶ Introduce a comprehensive digital platform to future proof the Bank.
- ▶ Provide a delightful experience to customers through value added service.
- ▶ Maintain a highly motivated and competent team aligned with the mission of the Bank.
- ▶ Role model bank for responsible finance in Sri Lanka.

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.



2016 ▶

- ▶ This Annual Report is SDB's third integrated Annual Report.
- ▶ It 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 2016 to 31st December 2016.
- ▶ This report includes SDB's Value Creating Business Model which depicts the Bank's Six Capitals, Value Added Activities and Created Value by the Bank for Stakeholders.
- ▶ This Report includes a Sustainability Report covering the following areas of SDB:
 - ▶ Economic Contributions
 - ▶ Engaging Stakeholders
 - ▶ Contribution to Social Capital
 - ▶ Building Human Capital
 - ▶ Responsible Services
- ▶ This Report contains 100 - Graphs, 55 - Tables, 15 - Illustrations and 288 Pages.

2015 ▶

- ▶ This Annual Report is SDB's second integrated Annual Report.
- ▶ It 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 2015 to 31st December 2015.
- ▶ It Includes a Sustainability Report covering the following areas of SDB:
 - ▶ Economic Contributions
 - ▶ Engaging Stakeholders
 - ▶ Contributing to Social Capital
 - ▶ Building Human Capital
 - ▶ Responsible Services
- ▶ This Report contains 53 - Graphs, 59 - Tables, 12 - Illustrations and 276 Pages.



2014 ▶

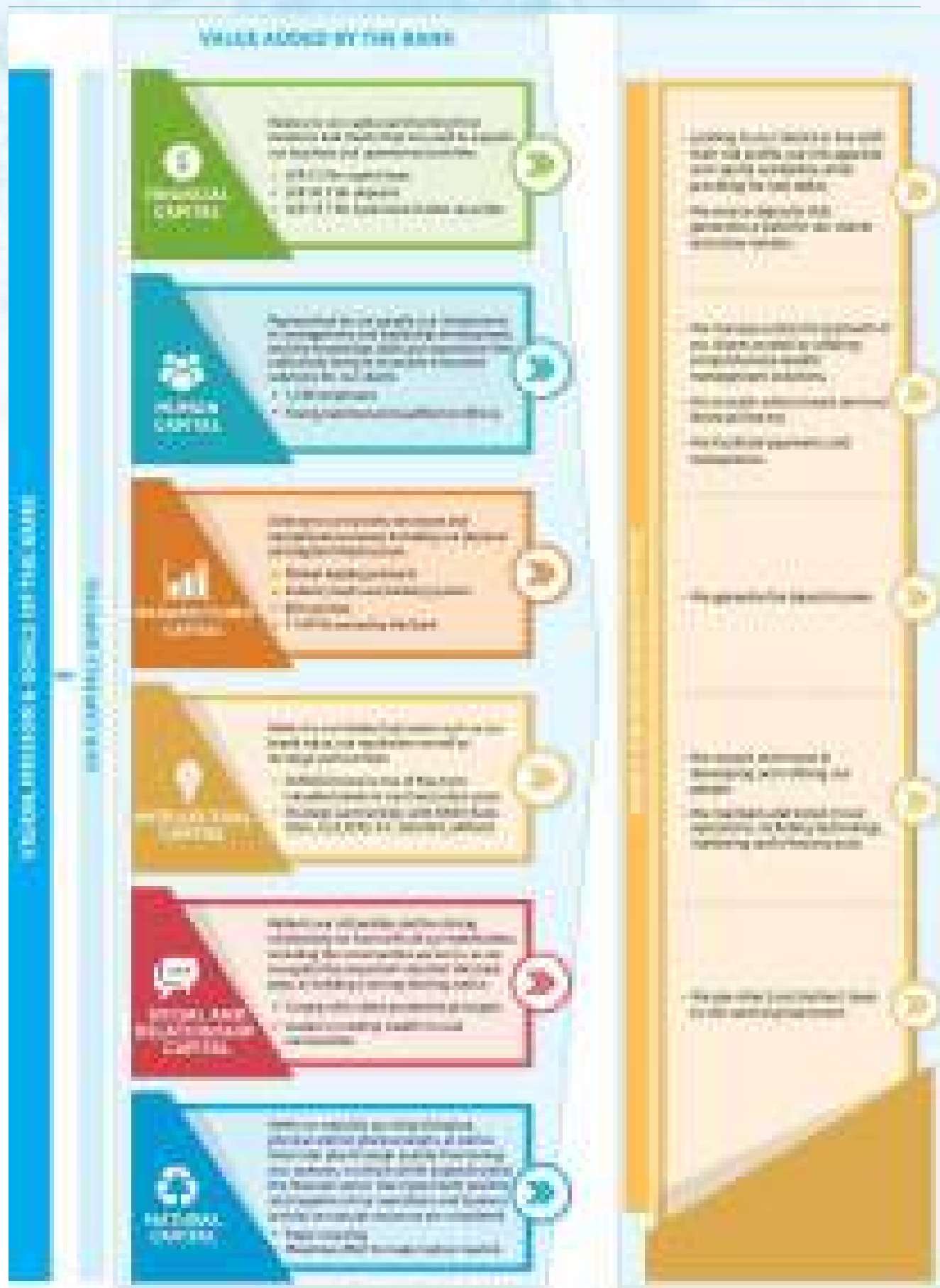
- ▶ This Annual Report is SDB's first ever integrated Annual Report.
- ▶ It has been compiled 'In Accordance' with the Global Reporting Index (GRI) G4, 'Comprehensive' reporting standards.
- ▶ This Annual Report is limited to the period of 1st January 2014 to 31st December 2014.
- ▶ No external assurance on sustainability reporting has been obtained for this report.
- ▶ Number of pages - 188.

2013 ▶

- ▶ Standalone Annual Report.
- ▶ This Annual Report is limited to the period of 1st January 2013 to 31st December 2013.
- ▶ Number of pages - 150.

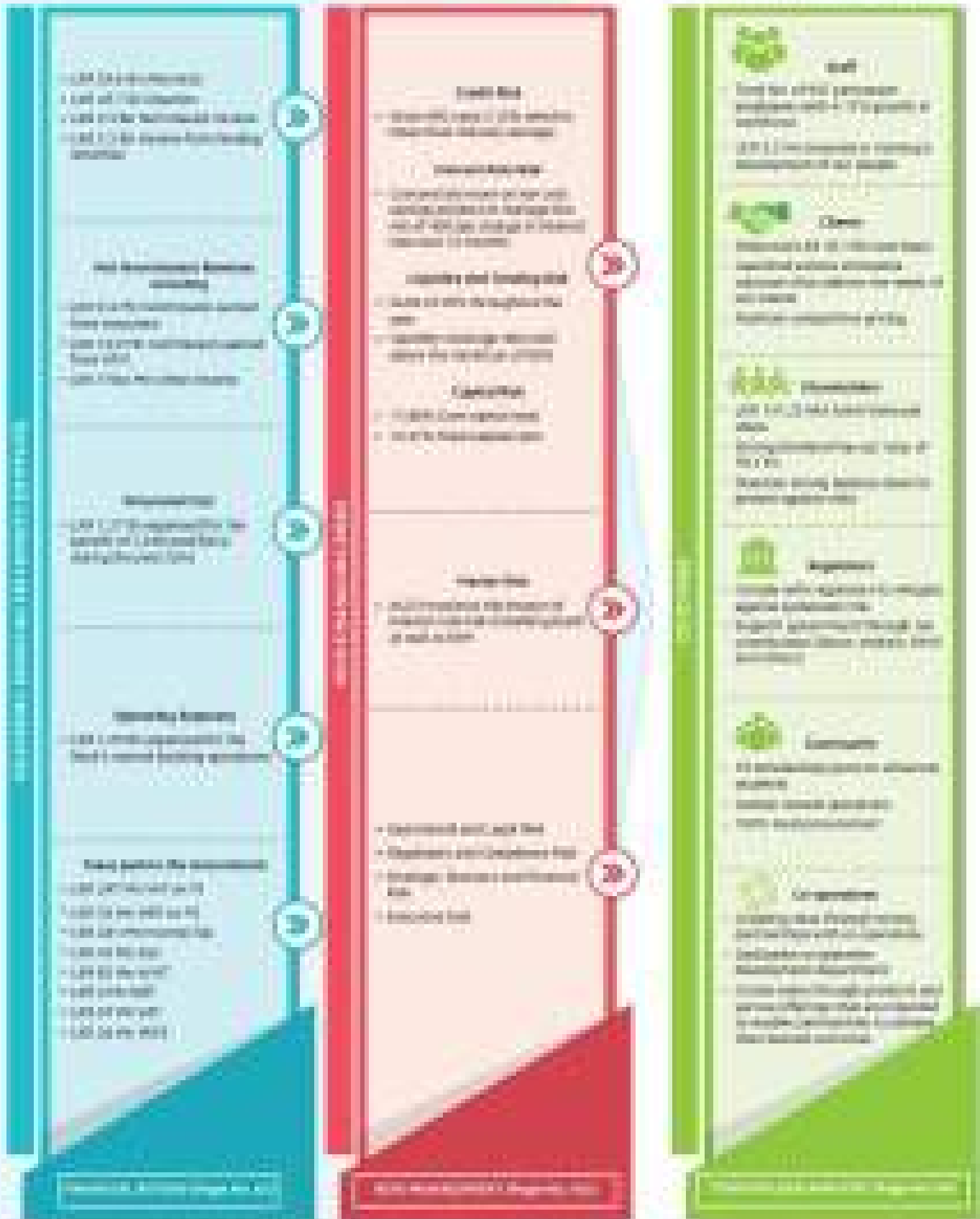


Value Creating Business Model



VALUE TO ALL SHAREHOLDERS

THE CHARTER HAS BEEN APPROVED BY THE BOARD OF DIRECTORS

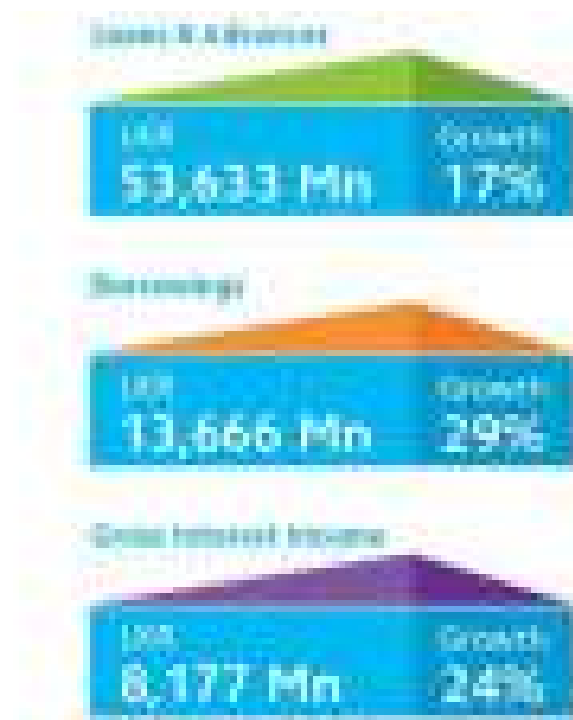
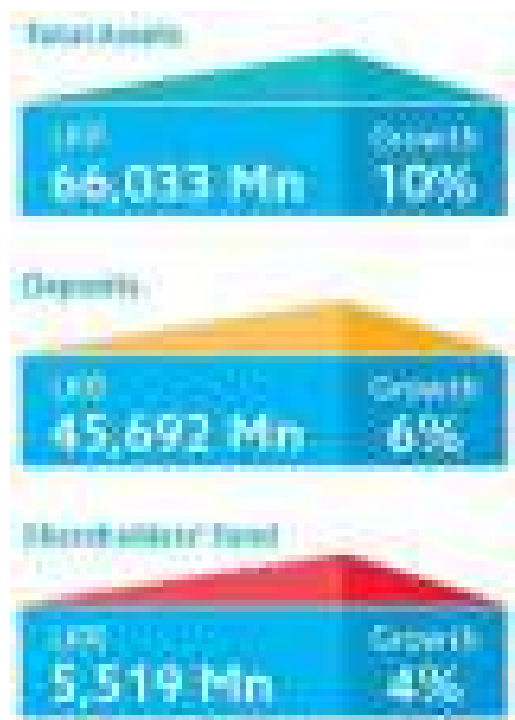




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Financial Highlights





	2016	2015	Change
Profitability			
Gross Interest Income (LKR Mn)	8,177	6,609	24%
Net Interest Income (LKR Mn)	3,330	3,368	(1%)
Operating Profit Before VAT on FS and NBT (LKR Mn)	910	1,384	(34%)
Profit Before Tax (LKR Mn)	617	1,111	(44%)
Income Tax Expenses (LKR Mn)	214	390	(45%)
Profit After Tax (LKR Mn)	404	721	(44%)
Position at Year End			
Deposits (LKR Mn)	45,692	43,023	6%
Loans & Advances (LKR Mn)	53,633	45,830	17%
Shareholders' Fund (LKR Mn)	5,519	5,297	4%
Total Assets (LKR Mn)	66,033	60,290	10%
Borrowings (LKR Mn)	13,666	10,579	29%
Investor Ratios			
Net Asset Value Per Share (LKR)	131.22	131.62	(0.31%)
Market Value Per Share at the year end (LKR)	103.70	157.10	-
Highest Price Per Share for the period (LKR)	158.80	176.00	-
Lowest Price Per Share for the period (LKR)	95.20	91.00	-
Earnings Per Share-Basic (LKR)	9.60	17.90	(46%)
*Dividend Per Share (LKR)	7.50	10.00	(25%)
Dividend Payout Ratio (%)	78.13	55.85	40%
Quick Assets Ratio (%)	64.92	55.16	18%
Statutory Ratios			
Tier I (Minimum Requirement -5%) (%)	11.80	12.07	(2%)
Tier I & II (Minimum Requirement -10%) (%)	12.27	12.51	(2%)
Statutory Liquid Asset Ratio (Minimum 20%) (%)	22.13	22.16	(0.14%)
Other Key Indicators			
Return on Average Assets (%)	0.98	2.20	(55%)
Return on Average Shareholders Fund (%)	7.46	14.42	(48%)
Non-performing Advances Ratio (Gross) (%)	2.10	2.37	(11%)

*1st and final dividend of LKR 7.50 per share to be paid, LKR 2.50 in the form of cash dividend and balance LKR 5.00 in the form of scrip dividend, which is to be approved at the Annual General Meeting.

Non-Financial Highlights

INNOVATING FOR OUR CLIENTS



▶ Total No. of Customers	1,131,355
▶ Growth in No. of Customers (%)	6
▶ Total No. of Branches	88
▶ New Branch Openings	01
▶ Total No. of ATMs	11
▶ Customer Complaints Solved	43
▶ SDB e-banking Registrations	2,854
▶ Credit Ratings - Fitch Ratings Lanka	BB+(lka)/Stable
ICRA Lanka Limited	[SL] BBB-/Positive

INVESTING IN OUR PEOPLE



▶ Total No. of Employees	1,248
▶ No. of Employees Promoted	154
▶ No. of New Recruits	89
▶ Growth in Workforce (%)	4.17
▶ Male to Female Ratio (%)	49.7 : 50.3
▶ Investment in Training of our People (LKR Mn)	9.2
▶ Employee Retention Ratio (%)	97.1
▶ Average Training Hour per Employee per Annum	20

PARTNERING WITH GOVERNMENT AND REGULATORS



▶ Tax Paid to Government (LKR Mn)	738
▶ Taxes Collected on behalf of the Government (LKR Mn)	150
▶ Investment in Government Securities (LKR Mn)	1,332

LEADING IN THE COMMUNITIES WE SERVE



▶ No. of SME Loans Given	2,840
▶ No. of Retail Loans Given	71,656
▶ No. of Co-operative Loans Given	435
▶ No. of Scholarships Given to University Students	19
▶ No. of University Students/Others trained	66
▶ Urban Vs. Rural Distribution Network	36 : 52



PRESERVING THE ENVIRONMENT



▶ Electricity Consumption (H/O) per employee per annum - kWh	1,424
▶ Water Consumption (H/O) per employee per annum - m3	9.7
▶ Fuel Consumption (H/O) per employee per annum - Liters	207
▶ Waste Paper Recycled - kg	3,049
▶ Reduction of Electricity Consumption (%)	22
▶ Reduction of Water Consumption (%)	49
▶ Reduction of Fuel Consumption (%)	45

	2016	2015	Change
INNOVATING FOR OUR CLIENTS			
▶ Total No. of Customers	1,131,355	1,068,345	6%
▶ Growth in No. of Customers (%)	6	8	(25%)
▶ Total No. of Branches	88	87	-
▶ New Branch Openings	01	05	-
▶ Total No. of ATMs	11	11	-
▶ Customer Complaints Solved	43	45	(4%)
▶ SDB e-banking Registrations	2,854	806	254%
▶ Credit Ratings - Fitch Ratings Lanka	BB+ (lka)/Stable	BB+ (lka)/Stable	-
ICRA Lanka Limited	[SL] BBB-/Positive	[SL] BBB-/Positive	-
INVESTING IN OUR PEOPLE			
▶ Total No. of Employees	1,248	1,198	-
▶ No. of Employees Promoted	154	200	-
▶ No. of New Recruits	89	264	-
▶ Growth in Workforce (%)	4.17	19	-
▶ Male to Female Ratio (%)	49.7 : 50.3	55 : 45	-
▶ Investment in Training of our People (LKR Mn)	9.2	11.6	-
▶ Employee Retention Ratio (%)	97.1	94.6	-
▶ Average Training Hour per employee per annum	20	27	-
PARTNERING WITH GOVERNMENT AND REGULATORS			
▶ Tax Paid to Government (LKR Mn)	738	755	(2%)
▶ Taxes Collected on behalf of the Government (LKR Mn)	150	115	30%
▶ Investment in Government Securities (LKR Mn)	1,332	3,069	(57%)
LEADING IN THE COMMUNITIES WE SERVE			
▶ No. of SME Loans Given	2,840	852	233%
▶ No. of Retail Loans Given	71,656	90,523	(21%)
▶ No. of Co-operative Loans Given	435	250	74%
▶ No. of Scholarships Given to University Students	19	-	100%
▶ No. of University Students/Others trained	66	57	16%
▶ Urban Vs. Rural Distribution Network	36 : 52	36 : 51	00 : 01
PRESERVING THE ENVIRONMENT			
▶ Electricity Consumption (H/O) per employee per annum - kWh	1,424	1,819	(22%)
▶ Water Consumption (H/O) per employee per annum - m3	9.7	18.9	(49%)
▶ Fuel Consumption (H/O) per employee per annum - Liters	207	376	(45%)
▶ Waste Paper Recycled - kg	3,049	931	227%
▶ Reduction of Electricity Consumption (%)	22	7	214%
▶ Reduction of Water Consumption (%)	49	(5)	1,080%
▶ Reduction of Fuel Consumption (%)	45	18	150%

Bank Overview

Name of Organisation **G4-3**

SANASA Development Bank PLC (SDB)

Company Registration Number

PB 62 PQ

Location of Head Office **G4-5**

No.12, Edmonton Road,
Kirulapone,
Colombo 06,
SRI LANKA.
Tele : +94-11-2832500
Fax : +94-11-2514256
Web : www.sdb.lk

Nature of Ownership and Legal Form **G4-7**

A public quoted company with limited liability, incorporated under the Companies Act No. 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 2016

1. Seylan Bank PLC/Thirugnanasambandar Senthilvel - 12.82%
2. Global Rubber Industries Private Limited - 10.61%
3. Peoples Leasing & Finance PLC - 4.64%
4. Seemasahitha Sanasa Rakshana Samagama (General) - 2.58%
5. CB NY S/A International Finance Corporation - 2.39%

Markets Served

SDB has island-wide coverage through a network of 88 branches and mobile banking services with 65 field officers.

Our market segments include : **G4-8**

- ▶ SMEs Segment
- ▶ Retail Segment
- ▶ Co-operative Segment

Please refer "Branch Network" on page 54 for map of SDB branches.

Scale of the Organisation **G4-6, 9, 11**

Measure (Year)	- 2016
Total number of employees	- 1,248
Total number of operations	- SDB is a single operation based in Sri Lanka
Net revenue	- LKR 3,591 Mn
Total capitalisation equity	- LKR 5,519 Mn
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

G4-10

Male	- 620
Female	- 628
Number of permanent employees	- 947
Corporate Management	- 12
Senior Management	- 36
Executive officers	- 865

Significant Changes during Reporting Period

G4-13

All significant changes to the organisation have been discussed by the Chairperson and the GM/CEO in their respective reviews.

Precautionary Approach **G4-14**

As a Bank SDB has minimum environmental impacts and the commitments to the SANASA philosophy of coexistence 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 non-existent environmental impact caused by our activities. However, we are mindful of potential environmental impacts due to human activities and climate change.

Membership in External Initiatives **G4-15**

We are part of Sri Lanka's SANASA Movement.



Membership in Associations **G4-16**

SDB is a member of following associations.

- ▶ Institute of Bankers of Sri Lanka
- ▶ Leasing Association of Sri Lanka
- ▶ Association of Professional Bankers of Sri Lanka
- ▶ Ceylon Chamber of Commerce
- ▶ Employees Federation of Ceylon
- ▶ The Association of Banking Sector Risk Professionals SL
- ▶ Association of Compliance Officers of Banks Sri Lanka
- ▶ Sri Lanka Bank's Association (Guarantee) Ltd.
- ▶ The Financial Ombudsman Sri Lanka (Guarantee) Ltd - (Participating)

The Bank also works with a number of external agencies for technical assistance and financial assistance. 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. They are a leading bank in the field of food & agriculture worldwide.

The International Finance Corporation (IFC)

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 programmes in developing countries, and operated in partnership with other Canadian organisations in the public and private sectors as well as other international organisations.

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.(FMO)

FMO is a Dutch Development Bank incorporated under the Dutch Law in the Netherlands on July 8, 1970. FMO is 51.0% owned by the Dutch State (managed by the Ministry of Finance). FMO is primarily engaged in funding finance businesses, projects and financial institutions in developing and emerging markets with the aim of supporting sustainable private sector development. The investments are predominantly focused in the sectors where the contribution can have the largest long-term impact, namely, financial institutions, energy, and agribusiness. FMO has invested in over 85 countries where 78.0% investments are in Low Income Countries and Middle Income Countries. FMO has invested USD 104 Mn in Sri Lanka with over 75% of the investments in Financial Institutions. FMO offers a range of products including but not limited to long term project financing, private equity, loans, guarantees, mezzanine financing, tailor made financing, syndicated loans and management of funds.

SBI FMO Emerging Asia Financial Sector Fund PTE. Limited ("SBI-FMO")

The SBI Group, which is a leading internet-based financial services conglomerate in Japan, and FMO, Netherland's Development Bank, have anchored a USD 125-150 Mn Fund focused on investing in financial sector and FinTech companies in emerging Asia. SBI-FMO is incorporated in Singapore under the Companies Act (Cap 50) on May 22, 2013. SBI-FMO mainly focuses on investing in financial services institutions, including banks, insurance companies, asset managers, micro finance, consumer finance, and electronic payment institutions in Emerging Asian Countries.

Asia-Pacific Rural and Agricultural Credit Association

The Asia-Pacific Rural and Agricultural Credit Association (APRACA) is a Regional Association that promotes co-operation and facilitates mutual exchange of information and expertise in the field of rural finance was first proposed at the Regional Seminar on Agricultural Credit for Small Farmers, sponsored by the Food and Agriculture Organization (FAO) of the Pacific in October 1974. As of March 2016, a total of 78 institutions in 21 countries in the Region are affiliated with the APRACA as its members.

Our Journey

1985
to
1990

- ▶ Five year Planning project of SANASA Group
- ▶ Alternative Bank for SANASA Group

1990 to **1997**

- ▶ Appointing a committee for banking operations of SANASA Federation
- ▶ Discussion between Dr. P.A. Kiriwandeniya and former President Her Excellency Chandrika Bandaranayake, who was then the Minister of Finance
- ▶ Granted banking license
- ▶ Established the bank with an initial capital of LKR 123 Mn, mainly contributed by primary SANASA Societies
- ▶ Opened the 1st City branch in the Red Cross building

1998

- ▶ 10th branch opened in Kandy

1999

- ▶ Record total assets of over LKR 100 Mn

2004

- ▶ T-sunami relief and recovery activities
- ▶ Built houses in the Northern and Western provinces

2006

- ▶ Proceeded with the 10 years development plan

2007

- ▶ Celebrated 10 years of Excellence
- ▶ Expanded the branch network to 25

2015

- ▶ LKR 60 Bn Asset base
- ▶ LKR 4 Bn Debenture & LKR 5 Bn Capital base

2016

- ▶ LKR 66 Bn Asset Base
- ▶ LKR 5.5 Bn Capital Base
- ▶ Opened Tele Collection Unit in Malabe
- ▶ Unveiled New Logo of Sanasa Development Bank as "SDBbank"

2014

- ▶ Increased staff to 1000
- ▶ Oversubscribed 1st Right Issue of SANASA Development Bank
- ▶ Issued share capital exceeds LKR 3 Bn

2013

- ▶ Increased total assets to LKR 25 Bn

2010

- ▶ Relocated the Head Office to a new building
- ▶ Ranked the 2nd best microfinance institution in the World, by Mix Market Global – USA
- ▶ Expanded branch network to 75

2012

- ▶ Introduced debit cards and ATM Facilities
- ▶ Listed on the main board of Colombo Stock Exchange

2009

- ▶ Introduced the SANASA Group loan scheme
- ▶ Increased share capital to LKR 1 Bn, from LKR 123 Mn
- ▶ Expanded branch network to 50

2008

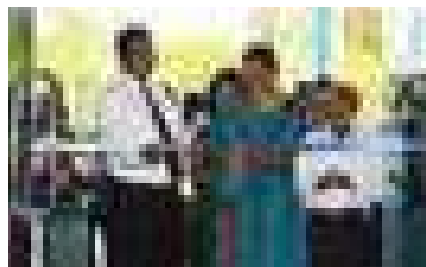
- ▶ Winner of the National Excellence Award
- ▶ Increased total assets to LKR 10 Bn
- ▶ Increased staff to 500

Events Calendar

January

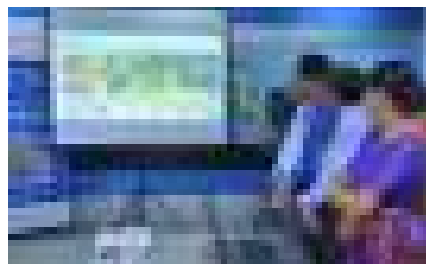
Akuressa SDB was refurbished

Akuressa Branch of the SANASA Development Bank (SDB) was refurbished and re-opened at the same location on 18th of January, 2016 with the objective of providing more efficient and friendly service to customers with more sophisticated facilities.



SDB Re-launched its Official Website

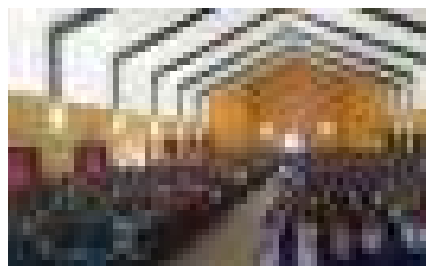
The new SDB website provides social media integration with a direct link to SDB's Facebook page where bank and product updates appear on a regular basis.



February

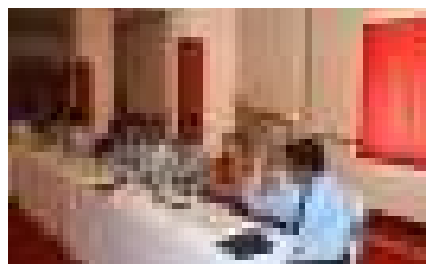
SDB Lakdaru Scholarship Seminar Series - 2016

First Seminar of the SDB Lakdaru Scholarship Seminar Series was held on 27th February 2016 at the D A Rajapaksha Memorial Hall in Embilipitiya.



The Public and Private Sector Partnership Forum

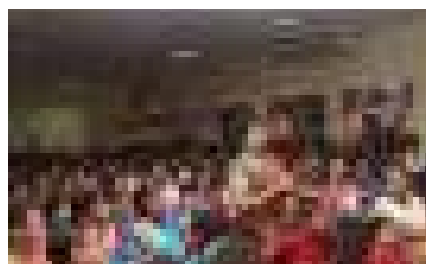
SDB initiated a special forum towards SME development in Sri Lanka with the participation of public and private sector officials on 1st February 2016 at hotel Galadari.



March

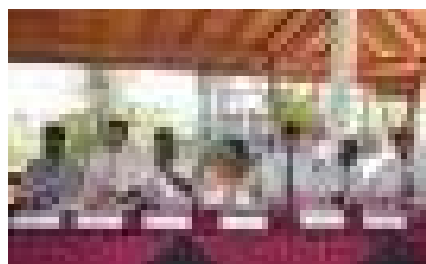
Programme for Uththamavi Women's Day

SDB organised another successful programme on 26th March, 2016 at Ex-Army Service Association Auditorium, Colombo 01 in order to celebrate Uththamavi Women's Day. The programme participants comprised of spouses of War Heroes.



Another Public and Private Sector Partnership Forum

SDB organised a programme on 15th March 2016 at the Pearl Cliff Hotel, Matara with the collaboration of Honourable Prime Minister's Office and the Ministry of Law & Order and Southern Development.

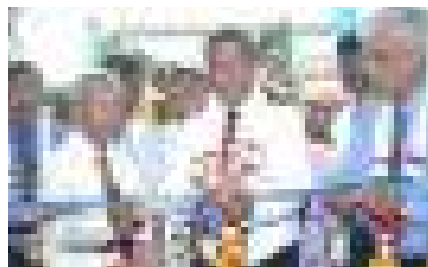




April

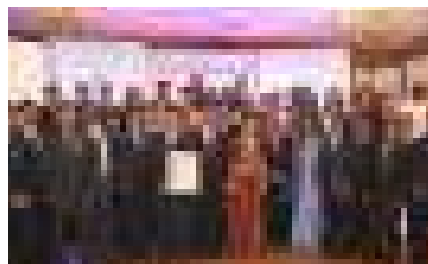
SDB opened its 88th new branch at Chunnakam

SDB opened its new branch in Chunnakam on 11th of April 2016.



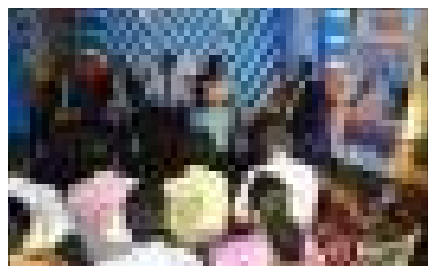
SDB awarded with ISO27001:2013

SANASA Development Bank PLC successfully attained the International Organization for Standardization Certification for Information Security (ISO27001:2013).



SDB sponsored Vyawasaya 2016 as the Official Banking Partner

SDB sponsored Vyawasaya 2016 as the official Banking partner (Exhibition & Trade Fair 2016) held on 01st, 02nd and 3rd of April, 2016 at the BMICH. The event was organised by the SED Division of Ministry of National Policies and Economic Affairs.



May

World Bank Delegates met with SDB officials

World Bank delegation met with SDB officials on 23rd May 2016.



June

SDB Lakdaru Scholarship Seminar Series 2016 - Galle

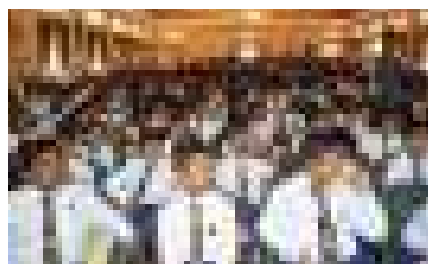
Seventeenth seminar of the series was held on 25th June 2016 at Town Hall, Galle.



July

SDB Lakdaru Scholarship Seminar Series 2016 – Jaffna

Second Tamil medium SDB Lakdaru Scholarship seminar was held on 2nd July 2016 at Mahajana College Tellippalai, Jaffna.

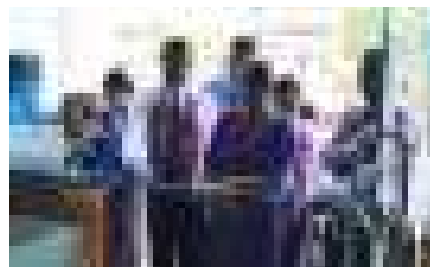


Events Calendar Contd.

August

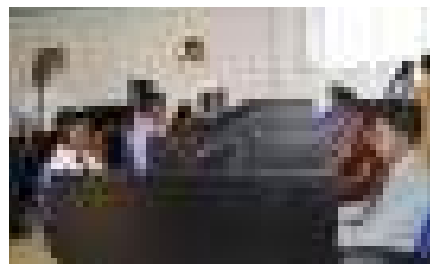
Kuliyapitiya SDB shifted to a new location

Kuliyapitiya Branch relocated to its new premises on 29th of August, 2016.



SDB opened Tele Collection Unit in Malabe

SDB opened a new Tele Collection Unit in Malabe on 23rd August 2016 to provide an effective and efficient service to customers.



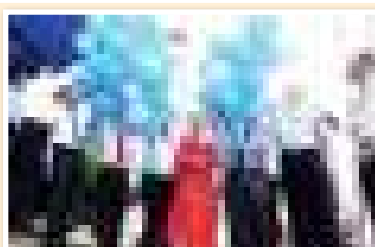
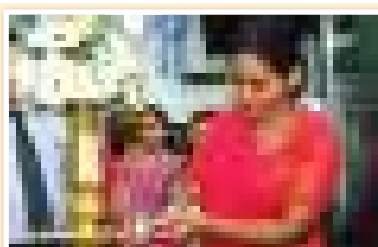
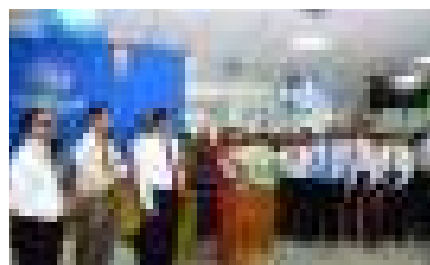
Kurunagala SDB shifted to a new location

Kurunagala Branch relocated to its new premises on 22nd of August, 2016.



SANASA Development Bank Unveiled New Logo

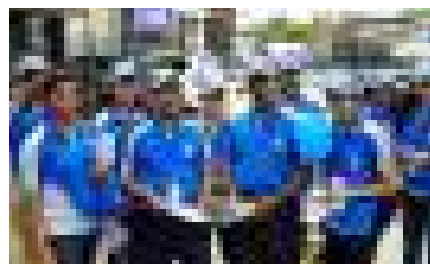
Official Ceremony for launch of the new logo was held on 22nd September 2016, at the SDB Head Office.



September

Town Storming Session - 2016

SDB organised a town storming session on the 23rd September 2016 to educate the general public about the recent logo change and its products and services.





CRIB Governance Trophy - Runners up

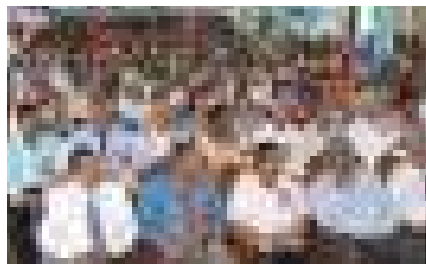
On 4th September 2016 SDB won the runners up title in the CRIB Governance Trophy.



October

World Thrift Day Programme

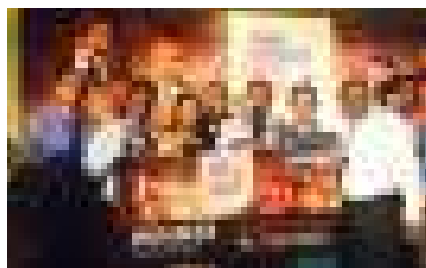
SDB always shows the public the importance of saving by offering a host of unique savings solutions. The Bank stepped forward to take this valuable message to the public by sponsoring on this year's World Thrift Day which is organised by SANASA Movement.



November

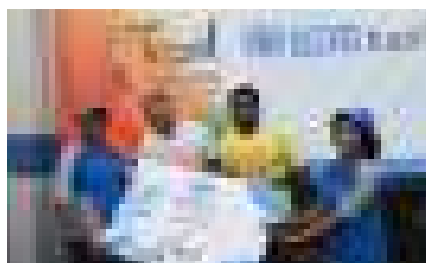
SDB Quiz team won the Great HR Quiz 2016

SDB team emerged as the winner in the Banking sector and overall champions at the "Great HR Quiz 2016" organised by the Institute of Personnel Management (IPM) Sri Lanka.



Team SDB joined the final leg of Trail 2016

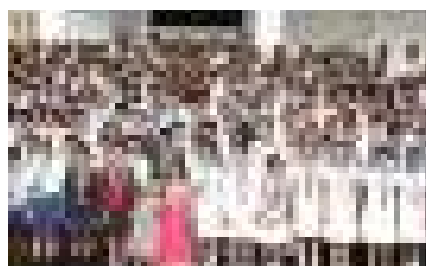
A team from SDB joined the Trail Walk from their Matara SDB branch, after officially handing over the pass book collection donation to Mahela Jayawardene.



December

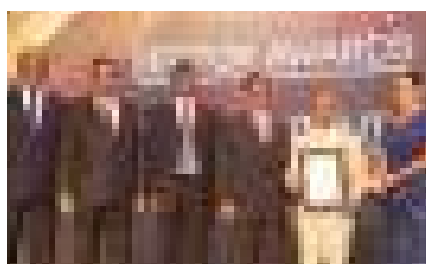
SDB felicitated Grade Five Scholarship Achievers in 2016

SDB organised a special awards ceremony for Lakdaru account holders who successfully passed the grade five scholarship examination in 2016 and the grand felicitation was held at the Kularathne Hall, Ananda College, Colombo 10 on 29th December 2016.



Another victory for SDB's performance excellence

SDB received the Silver Award in the Financial Institutions Category of the 52nd Annual Report Awards Competition organised by the Annual Report Awards Committee of Chartered Accountants of Sri Lanka.



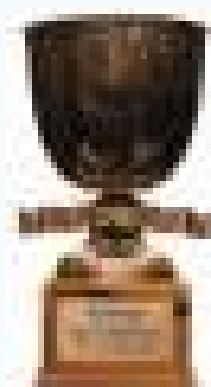
Awards

SDB's commitment to excellence and its spirit of resilience are portrayed through the numerous awards and recognition that the Bank has gained over the years.

Year 2016 ►



SANASA Development Bank PLC successfully attained the **International Organization for Standardization Certification (ISO27001:2013)** and became the 2nd Bank in Sri Lanka to achieve the latest ISO standard for information security.

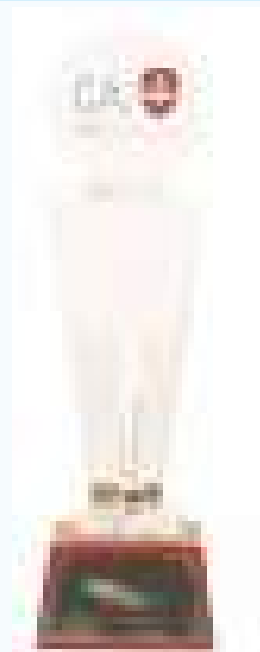


SDB won the **Runners up title** in the **CRIB Governance Trophy** competition on 4th September 2016.



SDB team emerged as the **winner in the Banking sector and overall champions at the "Great HR Quiz 2016"** organised by the Institute of Personnel Management (IPM) Sri Lanka.

Annual Report Awards 2016 ►



SDB received the **Silver Award in the Financial Institutions Category** of the 52nd Annual Report Awards competition organised by the Annual Report Award Committee of Chartered Accountants of Sri Lanka. (For the Annual Report of 2015)

Year 2014 ►

Annual Report Awards 2014

The Bank was presented the "Financial Institutions Certificate of Compliance" award by the Institute of Chartered Accountants of Sri Lanka at the 50th Annual Report Awards 2014.

Year 2013 ►

Annual Report Awards 2013

The Bank was presented the "Financial Institutions Compliance Award" by the Institute of Chartered Accountants of Sri Lanka at the Chartered Accountants Annual Report Awards - 2013.



Year 2011 ▶



Annual Report Awards 2011

The Bank was presented the Bronze Award in the “Financial Institutions Sector” category by the Institute of Chartered Accountants of Sri Lanka at the Chartered Accountants Annual Report Awards - 2011.

Year 2010 ▶



SDB Bank was ranked as the 2nd Best Microfinance Institution in the World by Mix Market Global – USA.

Year 2009 ▶

SDB became the runner-up in the “Specialised Banking and Financial Business Sector” category at the National Business Excellence Awards - 2009 organised by the National Chamber of Commerce of Sri Lanka.

The Bank was awarded the Certificate of Compliance in the “Sector Financial Institutions” category at the Chartered Accountants Annual Report Awards 2009 organised by the Institute of Chartered Accountants of Sri Lanka.

Year 2008 ▶

SDB was the winner in the “Specialised Banking and Financial Service Sector” category at the National Business Excellence Awards 2008 organised by the National Chamber of Commerce.

The Bank was awarded the Certificate in the “Financial Institutions” category at the Chartered Accountants Annual Report Awards 2008 organised by the Institute of Chartered Accountants of Sri Lanka.

Year 2006 ▶

The Bank won the Merit Certificate in the “Financial Institutions” category at the Chartered Accountants Annual Report Awards 2006 organised by the Institute of Chartered Accountants of Sri Lanka.

Year 2005 ▶

The Bank was awarded the Certificate of Recognition for “Excellence in Annual Reports” presented by the Institute of Chartered Accountants of Sri Lanka.

Year 2004 ▶

The Bank was awarded a Certificate of Recognition for “Excellence in Annual Reports” presented by the Institute of Chartered Accountants of Sri Lanka.



About This Report

- 28 Aspects Material to us
- 29 GRI G4 Index Table
- 34 Materiality Assessment

About This Report

Aspects Material to us **G4-17, 18, 19, 28, 29, 30, 31, 32**

This is the third integrated Annual Report of SANASA Development Bank (SDB) and has been compiled "In Accordance" with the Global Reporting Index (GRI) G4 "Comprehensive" reporting standards.

Report Boundary & Scope

SDB comprehends that sustainable growth depends on transparency, stakeholder engagement as well as input from internal and external parties. This approach is the foundation for the integrated thinking and reporting of the Bank. This report discloses the financial and non-financial performance of SDB for the financial year ended 31st December 2016 and strives to give a holistic perspective of the Bank's performance during the said period.

The financial statements of the Bank for the year ended 31st December 2016 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 Specialized Banks issued by the Central Bank of Sri Lanka (CBSL). The financial statements of the Bank have been duly signed by the Assistant General Manager-Finance, General Manager/Chief Executive Officer, two of the Directors of the Bank and the Company Secretary.

The Annual Report this year comprises various reports covering the Bank's operations spanning the Head Office and the network of 88 branches for the financial year ended 31st December 2016. Wherever relevant, the previous year's performance and indicators have been taken into consideration for comparative analysis.

Materiality

As outlined in the GRI guidelines, the Bank recognises and accepts the importance of materiality. This Report includes the Bank's Value Creating Business Model outlining Six Capitals, Value Added Activities, Financial Outputs, Risk & Value Created for Stakeholders. This Report covers topics and indicators that reflect SDB's significant economic contribution, stakeholder engagement, contribution to social capital, efforts to enhance human capital and the Bank's responsible services. The full disclosure of these aspects is expected to fundamentally influence stakeholder assessment and decisions to enable long-term growth through constructive engagement of stakeholders.

Methodology & Data Measurement Techniques

This Report has been prepared by a cross-functional team comprising of financial, risk and governance, marketing and sustainability stewards, appointed and reporting to the Board under the direction of the Chairperson and Chief Executive Officer of SDB. The information and data herein are sourced from the relevant representatives of each division as well as subcommittee representatives. This information is collated and analyzed at senior management level.

External Assurance

The Financial Statements together with related notes are audited by M/s. Ernst & Young Chartered Accountants, Sri Lanka and their assurance is given in the "Independent Auditors Report" in page 204 of this Annual Report. Additionally, the external assurance given by M/s. Ernst & Young for sustainability initiatives and measures included in the Annual Report is given in the "Independent Assurance Report" in page 199.

Presentation of the Annual Report

In order to keep in line with the Bank's commitment to reduce its carbon footprint, printed copies of this Annual Report will be posted to only those who request copies in writing. The complete Annual Report will be made available in the form of a CD and will be posted to all shareholders. The Annual Report will also be made available in PDF format on the corporate website of the Bank - www.sdb.lk.

Stakeholder Feedback

SDB understands the importance of obtaining stakeholder feedback as part of its approach to continuously improve the Annual Report. In order to obtain a formal feedback, a feedback form is provided in the Annual Report.

Contact Person

All queries about this Integrated Annual Report and information presented therein should be directed to:

Assistant General Manager - Finance

SANASA Development Bank PLC

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

Tele : +94-11-2832515

Fax : +94-11-2514245

Email : terrance.k@sdb.lk

Web : www.sdb.lk



GRI G4 Index Table

General Standard Disclosures	Description	Annual Report Section	Page Number	Reason(s) for Omission(s)
Strategy and Analysis				
G4-1	Statement from the most senior decision-maker of the organisation.	Chairperson's Review	38	
G4-2	Description of key impacts, risk and opportunities.	Chairperson's Review GM/CEO's Review Risk Management System	38 42 165 - 170	
Organisational Profile				
G4-3	Name of the organisation.	Bank Overview	16	
G4-4	Primary brands, products, and services.	Product Profile & Marketing Review	72	
G4-5	Location of the organisation's headquarters.	Bank Overview	16	
G4-6	Number of countries where the organisation operates.	Bank Overview	16	
G4-7	Nature of ownership and legal form.	Bank Overview	16	
G4-8	Markets served.	Bank Overview Branch Network	16 264	
G4-9	Scale of the organisation.	Bank Overview	16	
G4-10	Employee profile.	Bank Overview	16	
G4-11	Percentage of employees covered by collective bargaining agreements.	Bank Overview	16	
G4-12	Organisation's supply chain.	-	-	Not applicable
G4-13	Significant changes during the year.	Chairperson's Review GM/CEO's Review Bank Overview	38 42 16	
G4-14	Precautionary approach or principle.	Bank Overview	16	
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	Bank Overview	16	
G4-16	Memberships of associations.	Bank Overview	16	
Identified Material Aspects and Boundaries				
G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents.	About this report: Aspects material to us	28	
G4-18	Define the report content and the aspect boundaries.	About this report: Aspects material to us	28	
G4-19	Material aspects identified.	About this report: Aspects material to us	34	
G4-20	Aspect boundary with the organisation.	About this report: Aspects material to us	34	
G4-21	Aspect boundary outside the organisation.	About this report: Aspects material to us	34	
G4-22	Effect of any restatements of information provided in previous reports.	-	-	Not applicable
G4-23	Significant changes from previous reporting periods.	-	-	Not applicable

About This Report Contd.

General Standard Disclosures	Description	Annual Report Section	Page Number	Reason(s) for Omission(s)
Stakeholder Engagement				
G4-24	Stakeholder groups engaged by the organisation.	Engaging our stakeholders	84 - 88	
G4-25	Basis for identification and selection of stakeholders.	Engaging our stakeholders	84 - 88	
G4-26	Organisation's approach to stakeholder engagement.	Engaging our stakeholders	84 - 88	
G4-27	Key topics and concerns raised through stakeholder engagement.	Engaging our stakeholders	84 - 88	
Report Profile				
G4-28	Reporting period for information provided.	About this report	28	
G4-29	Date of most recent previous post.	About this report	28	
G4-30	Reporting cycle.	About this report	28	
G4-31	Contact point for questions regarding the report or its contents.	About this report	28	
G4-32	The "in accordance" option the organisation has chosen.	About this report	28	
G4-33	External assurance.	-	-	Not applicable
Governance				
G4-34	Governance structure of the organisation.	Governance System	120 - 122	
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	Governance System	120 - 122	
G4-36	Appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	Governance System	120	
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics.	Engaging Our Stakeholders	84 - 88	
G4-38	Composition of the highest governance body and its committees.	Governance System	122	
G4-39	Whether the Chair of the highest governance body is also an executive officer.	Governance System	120	
G4-40	The nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members.	Governance System	120	
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed.	Governance System	121	
G4-42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	Governance System	120	



General Standard Disclosures	Description	Annual Report Section	Page Number	Reason(s) for Omission(s)
Governance Contd.				
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	Governance System	120 - 121	
G4-44	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment.	Governance System	120 - 121	
G4-45	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes. Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities.	Chairperson's Review	38	
		Chairperson's Statement on Corporate Governance	124	
G4-46	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.	Chairperson's Statement on Corporate Governance	124	
		Risk Management System	165	
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Risk Management System	165	
G4-48	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered.	Governance System	120	
G4-49	Process for communicating critical concerns to the highest governance body.	Compliance with the Code of Best Practices on Corporate Governance	152 - 164	
G4-50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	Governance System	121	
G4-51	Remuneration policies for the highest governance body and senior executives.	Governance System	121	
G4-52	Process for determining remuneration.	Governance System	121	
G4-53	How stakeholders' views are sought and taken into account regarding remuneration.	-	-	Not applicable
G4-54	Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees in the same country.	-	-	Not applicable
G4-55	Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees in the same country.	-	-	Not applicable

About This Report Contd.

General Standard Disclosures	Description	Annual Report Section	Page Number	Reason(s) for Omission(s)
Ethics and Integrity				
G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Governance System	120	
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines.	Governance System	120	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	Governance System	120	

Specific Standard Disclosures

Category : Economic

Material Aspect: Economic Performance

G4-EC1	Direct economic value generated and distributed.	Economic Contributions	82	
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Financial Review, Risks and Opportunities Posed by Climate Change	-	Not applicable
G4-EC3	Coverage of the organisation's defined benefit plan obligations.	Economic Contributions, Contribution to Employees Provident Fund and Employees Trust Fund	83	
G4-EC8	Significant indirect economic impacts, including extent of impacts.	Contributing to Social Capital	89	

Material Aspect: Indirect Economic Impacts

G4-DMA		Indirect Economic Impacts	-	Not applicable
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Category : Environmental

Material Aspect: Materials

G4-DMA		Responsible Services: Environmental Accountability	105	
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.	Responsible Services	105 - 106	

Category : Social

Material Aspect: Employment

G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region.	Building Human Capital	99 - 100	
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General Standard Disclosures	Description	Annual Report Section	Page Number	Reason(s) for Omission(s)
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	Building Human Capital	97	
G4-LA3	Return to work and retention rates after parental leave, by gender.	Building Human Capital.	-	Not applicable
Material Aspect: Labour/Management Relations				
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	Building Human Capital	97 - 98	
Material Aspect: Training and Education				
G4-LA9	Average hours of training per year per employee by gender, and by employee category.	Building Human Capital: Training and Development	97 - 98	
G4-LA10	Programmes for skills management and life-long learning that support the continued employability of employees and assist them in managing career endings.	Building Human Capital: Training and Development	97 - 98	
Material Aspect: Diversity and Equal Opportunity				
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Building Human Capital: Equal Employment Opportunities	99 - 100	
Material Aspect: Labour Practices Grievance Mechanisms				
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms.	Building Human Capital: Employment Related Attributes	98	
Sub-Category: Society				
Material Aspect: Diversity and Equal Opportunity				
G4-DMA		Contributing to Social Capital	89	
G4-S01	Percentage of operations with implemented local community engagement, impact assessments, and development programmes.	Contributing to Social Capital	90	
Sub-Category: Product Responsibility				
Material Aspect: Customer Privacy				
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Responsible Services	101 - 103	
Material Aspect: Compliance				
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Responsible Services	101 - 103	

About This Report Contd.

Materiality Assessment G4-20, 21

Defining Materiality

This report discloses indicators and areas that demonstrate SDB's economic and social impact and stakeholder inclusiveness.

Identifying Materiality

Content and aspect boundaries of the report were identified by the Senior Management, including the CEO/GM of SDB. The senior management identified aspects based on their relevance and influence on the Bank's performance and impact each has on stakeholders. The aspects that would be deemed material for each entity were listed together with the reasons for materiality (Refer table below).

Material Aspects covered by this report and aspects and boundaries

The aspects that would be deemed material for each entity were categorized and identified based on their relevance and influence each aspect has on our stakeholders. The aspects were selected from the GRI G4 list of topics and aspects.

Indicator	Material Aspect	Aspect Boundary	Reasons for Materiality
EC1, EC2, EC3	Economic Performance	Material to all entities	Financial and economic value generated and risks entailed impacts both internal and external entities.
EC8	Significant indirect economic impacts	Material to government and international agencies	Indirect economic impact include assisting business growth in rural economies, enhancing the quality of life and promoting savings habits.
EN27	Environment	Material to all internal entities, government, customers and international agencies	High energy costs impact profitability, impacting all internal entities. High energy consumption increases national energy costs impacting the government. International agencies are concerned about minimizing environmental impacts.
LA1, LA2, LA3, LA4	Fair labour practices	Material to all entities	Fair labour practices prevent labour unrest, work stoppage and ensures efficient delivery of services which has an impact on all entities.
LA9, LA10	Training and Education	Material to internal entities and customers	Structured training results in better performance and higher customer satisfaction as well as employee development.
LA11, LA12, LA13	Diversity and Equal opportunity	Material to employees, government and international agencies	Non-discrimination leads to harmonious work situations and increases efficiency. Government and International agencies require that human rights are safeguarded.
LA16	Labour practices Grievances mechanism	Material to employees, government	Fair work place practices lead to conflict free work environment for employees. Government require safeguarding of labour rights.
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 endeavours.
PR8	Customer privacy	Material to customers and regulators	Maintaining customer confidentiality prevents regulatory breach and protects the customers' interest.
PR9	Customer compliance	Material to employees, customers and regulators	Employees and regulators are impacted legally. Customer privacy ensures confidentiality and protects customer interest.




Extent of aspect materiality to internal and external entities

Materiality				
External entities	L	{Indirect economic impacts} EC8	{Local community} SO1	{Economic performance} {Customer privacy & compliance} EC1, EC2, EC3, PR8, PR9
	M	{Environment protection} EN 27	{Non discrimination} LA11, LA12, LA13	{Labour practices/relations, grievance handling} LA1, LA2, LA3, LA4
	H			{Training} LA9, LA10
		L	M	H
		Internal entities		
		Materiality		

CHAIRPERSON'S REVIEW





We are well-gearred both strategically and operationally to undertake the next phase of our journey. We have become a more focused business, striving for long-term, responsible growth that will amalgamate profitability with the nation's development.

Chairperson's Review Contd.

G4-1, 2, 13, 45

Dear Shareholders,

In 2016, despite the slow growth in comparison to the performance in previous years, SDB was able to address some fundamental issues that restricted our growth in the market.

To begin with, the Bank successfully completed the re-engineering of its business model under the Quantum Leap Project. The change will enable the Bank to position itself competently to cater to the growing needs of its customers and shareholders.

SANASA Development Bank which is a product of the pioneering micro finance movement in Sri Lanka has been branded in the market over 18 years as a leader in the micro finance industry. However, recent market studies and our own engagement with the customers led us to realize that our customers are ready to expand their frontiers and enter into real wealth creation.

In response to this, the Board Members of the Bank and the Corporate Management designed a strategy to strengthen the Bank's expertise and systems to cater to the SME sector that had as yet been untapped by the mainstream banking process, a sector that needs a better curated product portfolio. Given our experience in the micro finance sector and our strong affiliation with one of the strongest co-operative networks in the country, SANASA Development Bank is now well positioned to provide a comprehensive service package to this segment.

Reaching customers swiftly and providing the service required in an efficient and adequate manner is one of the critical elements that guarantees business sustainability in today's market. The re-engineering process therefore focused on creating a lean and centralized operation structure, supported by adaptive digital platforms.

The 'People Factor' which is always in the heart of our success story as a leader in micro finance was another area on which the Bank placed greater attention in 2016.

Improving the skills and competencies of the Human Resources and preparing them to be ready to serve their customers was recognized as a primary focus.

The Bank received consultancy from some of the best local and international service providers to conduct year round staff grooming sessions and to prepare the Human Resource to take the Bank to the next level. To steer this process better the Bank strengthened the Corporate Management further by recruiting a Senior Development Banker as the DGM for SME and Business Development.

The SANASA brand is known for its commitment to uplift the poor and micro businesses. We are known as a bank that supports business at the startup level but scarcely known as a bank that provides a wide range of financial service to small and medium businesses. While the Bank will continue to provide micro finance and startup assistance to people who need access to finance, with the new focus on SMEs the Bank recognized the importance of differentiating itself from the Co-operative Movement.

After careful research and analysis the logo of the Bank was changed in 2016. With the new logo, the Bank has been able to position itself in the market with the promise of change while staying closer to the identity of SANASA group.

Challenges

Balancing standard business growth while going through an immense re-engineering process was a challenge that had to be managed in 2016. Diverting business focus from the highly profitable retail sphere to a more modest but sustainable growth platform needed much effort to obtain attitudinal change.

Managing the damage due to the collapse of a few Primary Thrift and Credit Co-operatives was also a challenge we had to face this year. I like to thank the CEO and the Corporate Management, the members of all the subcommittees of the Board, the consultants of the Quantum Leap Project and shareholders for the understanding and support rendered to the Bank in these challenging circumstances.

Although the Bank was in an accelerated growth path the available capital was inadequate to maintain prudential ratios to support a stable growth.



Finding capital was a challenge since the Board was keen to ensure that the shareholder composition of the Bank stays more favourable towards partners whose mandates suit the mission and the original purpose of the Bank. The Bank therefore negotiated with several International Investment Organizations which had a long term relationship with SANASA and whose interests complement SANASA's development mission.

We are happy to inform **our shareholders that the negotiations were successfully completed** and the Bank was able to partner with **two international development agencies** that understood the vision of the Bank, which we've treasured from inception.

Corporate Governance and Risk Management

Being a unique institution which strives to operate on co-operative principles and values with a mandate to support the national development corporate governance and effective risk management practices are recognized as crucial elements for SDB.

While we adhere to the market standards that enable us to be resilient and sustainable as a stable financial institution, we have also realized that our risk parameters need to be further strengthened in order to ensure that we are responsible towards our development commitment. The sustainability frameworks and Corporate Social Responsibility has been paid special focus along this line of thinking and the Bank is currently developing procedures and policies to ensure that we walk the talk in CSR. Integrated reporting is only one step along this path.

Future Prospects

We are well-gearred both strategically and operationally to undertake the next phase of our journey. We have become a more focused business, striving for long-term, responsible growth that will amalgamate profitability with the nation's development. We have already laid a solid foundation built on upgraded products, cutting edge technology, an efficient delivery base and a good capital base to move forward on an upward trajectory. I am confident that the framework we have put into action will herald growth opportunities for us, our customers and our shareholders. .

Appreciations

I would like to convey my heartfelt gratitude to the SANASA Movement, the founding leader of the SANASA brand and all volunteer leaders, our dear shareholders, both old and new, who always work responsibly towards the betterment of the SANASA brand and our loyal customers who continue to patronize us. On behalf of the Board of Directors, I would like to convey my appreciation to the Auditors and Regulators for their invaluable advice and guidance at all times.

As the Bank matures further, our willingness to build on growth opportunities and employ new market strategies will most likely be the lynchpin of SDB's journey in the years to come.

Muditha Samadanie Kiriwandeniya

Chairperson

16th March 2017
Colombo, Sri Lanka

GM/CEO's REVIEW



In 2016, we steadfastly continued on our envisioned path of transformation towards further growth in a digitalized environment with strong capabilities across three main business segments i.e: SME, Retail and Co-operative.

We are confident that this realignment will enable us to consolidate on gains of our past performances and proactively respond to future market requirements in-order to deliver our strategic objectives over the coming years.

GM/CEO's Review Contd.

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The year 2016 was a year that defined our upward traction as we measured ourselves against some key short-term objectives in order to create sustainable longer term shareholder value. We succeeded in facing numerous challenges in the macro environment and market conditions to reinforce our track record of maintaining the right balance between the varied interests of our stakeholders, including shareholders, customers, employees and the community in which we live and work.

As is the force of nature, businesses face cyclical challenges where strategic change in business process and vision must be implemented to overcome obsolescence of technologies, business models and over reliance on the past. As stated in our 2015 Annual Report, SDB identified the areas we need to transform to continue on an upward trajectory as early as 2014 and initiated effective measures to implement a comprehensive long term strategy to warrant growth of the Bank as well as our stakeholders. In 2016, we steadfastly continued on our envisioned path of transformation towards further growth in a digitalized environment with strong capabilities across three main business segments i.e: SME, Retail and Co-operative.

We are confident that this realignment will enable us to consolidate on gains of our past performances and proactively respond to future market requirements in-order to deliver our strategic objectives over the coming years.

We work from a point of awareness about market realities such as emerging technologies, shifting customer preferences, tough economic variables as well as stern regulations which will play a critical role in the future of survival and growth of traditional Banks.

We foresee amplified competition in the years ahead particularly from the technology driven non-banking sector. Notwithstanding the tough operating environment and the high cost of doing business, we strongly believe in fueling economic growth across segments where we operate in, by facilitating growth.

Performance

As a result of exceptional performance in 2014 and 2015 the Bank's assets base recorded a 100% growth creating severe pressure on the Capital base causing an urgent need to infuse

new Capital in-order to support further assets growth. As a Development Bank, formed by the Co-operative Movement with a unique model, SDB sought to execute the responsibility of identifying investors who support the Bank's business model in order to safeguard the interest of existing shareholders.

Thereafter, the Bank deliberately slowed down assets growth until such time the right investors are identified, to ensure that the Bank Statutory Capital Ratios are maintained to sustain stability. This deliberate slowing down of the asset growth has resulted in the inevitable negative impact on the financial performance in 2016.

Moreover, rising interest rates on deposits in a highly illiquid market in which all financial institutions were competing, had an impact on the cost of borrowings. The inevitable outcome was a drop in the income in a scenario where asset growth has been deliberately slowed down.

The Bank capitalizations programme to raise capital requirement for the next 3 years of growth has now been finalized and announced. This will result in a rapid growth in 2017 and beyond.

Assets Base

Total assets of the Bank grew to LKR 66 Bn as at 31st December 2016 recording a growth of 10% from LKR 60 Bn a year before mainly as a result of higher placements with banks and moderate loan portfolio growth, partly offset by cash and cash equivalents position of the Bank.

Total assets of the Bank comprise Loans and Receivables, Financial Investments and Other Assets. Loans and advances to customers provided **81.22% contribution to the Banks' assets** portfolio while financial investment **contribution stood at 14.73%.** Financial Investments consist of investments **made on Financial Instruments by the Bank.** Other Assets comprise Cash and Cash Equivalents, Property, Plant and Equipment, Investment Properties, Intangible Assets and Supplementary Assets which recorded **a contribution of 4.05% towards the Total Asset Portfolio of the Bank.**



Credit Growth & Quality

In the year 2016, loans and receivables from customers increased by LKR 7.8 Bn and the growth was primarily the result of growth in Retail, SME and Co-operative loans and advances volume. The Retail loans and advances portfolio increased by LKR 7 Bn to LKR 36.7 Bn as at 31 December 2016, driven by fierce competition especially towards the year-end on longer interest rate periods and redemptions. SME loans and advances stood at LKR 14 Bn and the lending to Co-operatives grew by 60% to reach LKR 4 Bn.

The Bank's cautious recovery efforts, prudent credit evaluation policies and process strengthened the asset quality of the Bank and enabled the Bank to maintain the Gross Non-Performing Loan (NPL) ratio at 2.10%, a lower ratio to that recorded during the preceding year at 2.37%. Net Non-Performing Loan Ratio stood at 0.04% in 2016 compared to the rate of 0.07%, recorded in 2015. The Bank has consistently maintained its gross NPL ratio well below the industry average of 2.6%.

Deposit Growth

Customer deposits increased by LKR 2.67 Bn, a 6.2% growth during 2016 based on the LKR 45.7 Bn recorded as at 31 December 2016, with 42.9% growth was recorded in all customer segments and largely in fixed deposits. In spite of the highly competitive operating environment the Bank maintained a contribution of 50% of the total deposit base from the Retail segment and another 32% from the Co-operative sector and the balance from the SME segment. During 2016, the Bank continued to focus on strengthening the deposit base, with strong emphasis on SME and retail deposits while reducing reliance on wholesale funding.

Profitability

The net interest margin contracted from 7.13% in 2015 to 5.83% in 2016. This was mitigated to some extent by the fee-based income, which again shows a contraction of 5% during the year. Overall total operating income narrowed by 1%. In contrast, operating expenses grew by 16%. Impairment charges for loans and advances increased by 152% due to the movement in the risk profile on non-performing loans and advances portfolio. Consequently, the profit after tax for the year reduced by 44% to LKR 404 Mn for the financial year 2016.

Creating Long-term Shareholder Values

The ongoing transformation process will drive long-term value creation for our shareholders. The process will enable us to reinforce our capability to deliver excellent customer services while augmenting productivity and reducing cost.

The transformation process involves a centralized operations structure, introduction of cutting edge technology along with a comprehensive digital platform and customer focused business centers staffed with employees skilled in relationship management. The cumulative impact of the process will drive the volumes, enhance reviews and reduce costs. The impact of the transformation process is expected to fuel robust growth in 2017.

Substantial investments have already been made **to shape envisioned changes** and the process has been **fully supported by way of the consultancy assignment given to IFC (International Finance Corporation), our long term strategic partner.**

Looking Ahead

We celebrate our 20th milestone year in 2017. Our Founder Dr. P. A. Kiriwandeniya and others who pioneered the formation of the Bank laid out a pathway to establish the Bank as the Premier Bank for the Co-operative Sector and envisioned its future as a Commercial Bank. SDB's Strategic Plan for 2017-2020 lays out the road map and action plan to fulfill this vision through a set of 7 strategic goals and objectives.

Goals & Objectives

1. Improve the asset base to stay competitive and resilient in the market.
2. Transition from a largely micro finance focus to a broader SME Corporate focus.
3. Establish SDB as the Bank of the choice for the Co-operative Sector.
4. Introduce a comprehensive digital platform to future proof the Bank.
5. Provide a delightful experience to customers through value added service.
6. Maintain a highly motivated and competent team aligned with the Mission of the Bank.
7. Become a role model bank for responsible finance in Sri Lanka.

GM/CEO's Review Contd.

On this milestone of the 20th year, we plan to work tirelessly towards establishing a lean structure capable of delivering robust profits in challenging market conditions. Our focus already centers on investing in a comprehensive IT system to infuse efficiency in to our processes and intensify competencies in areas in which we can surpass by optimal allocation of financial resources across the business.

The expected growth and performance will enable the Bank to extend greater results and returns towards shareholders, thus enabling us to implement the timely success envisioned by our founders and founder investors. In this scenario, we will also be able to extend further support to develop the Co-operative Sector.

Continuing to build on a Strong Foundation

SDB will continue to build on the strong foundation of shared pride of noteworthy past performance, resilient brand image, culture of success and the unique footprint. The Bank's employees too place great value in unity and share a genuine desire to serve our customers well.

In this back drop, **we are confident that our well-placed strategies and well-defined goals** will enable us to move forward towards meaningful progress fuelled by our ability to execute our plan of action. We will be in a position to not only achieve our targets but also surpass those and **create long-term value for our shareholders to ensure a sustainable future.**

Acknowledgments

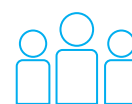
In closing I would like to thank our Customers for the trust they placed in us throughout the past 19 years. My sincere gratitude goes to our valuable Shareholders, Chairperson and the Board of Directors for their confidence and continued support and to my Management Team and Staff for their commitment and dedication during the year.



Nimal C. Hapuarachchi

General Manager/CEO

16th March 2017
Colombo, Sri Lanka.



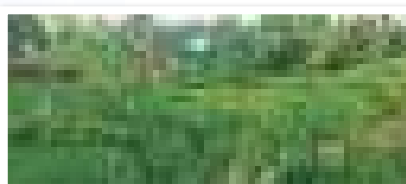
Success Story 1

Fruit and organic green leaf farming – Chilaw

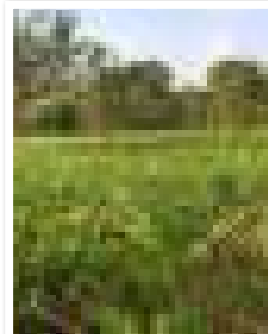
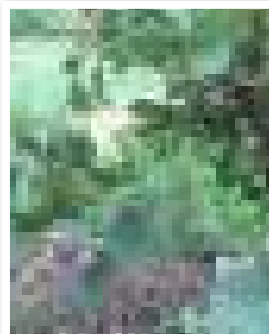
Father and Son duo **Mr Abeyasinghe Arachchige Amarasena** and **Mr. A.A. Sumeda Abeyasinghe** approached **SDB** to obtain a loan to invest in developing fruit and organic green leaf cultivation in the remaining 3 acre land area of their 10 acre property as well as their 3 rood and 30 perch residential property. They planned to infuse the capital obtained to grow the followings and develop their business. **1 acre of Delum fruit trees, 2 acres of Mukunuwanna green leaves, 1 acre of Gotukola green leaves and 5 acres of Kathurumurunga trees.** Following fruitful discussions with the Bank, they received a loan amount of **LKR 6,700,000** which they utilized to develop their fruit and organic leaf cultivation and farming enterprise.



With the capital received from SDB, the Abeyasinghe family succeeded in developing their enterprise further and continues to earn higher profits from their family business. The family's future plans include cultivating alternative crops such as black pepper and fruit trees within the same land area to take the business to the next level.



“It was the assistance that we received from **SDB** that helped us to earn significantly more profits and gave us the confidence to plan expanding in to other areas of cultivation.”



Management Discussion & Analysis

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Economic Indicators

Global Economy

In the year 2016, the world economy posted a reasonable performance with an estimated growth of 3.1%. As a result of reduced drag from inventories and some recovery in manufacturing output, advanced economies recorded a stronger than expected pickup. However, emerging market economies recorded an unexpected slow down. In the aftermath of Brexit referendum results, a number of European economies slowed down with the exception of economies such as the UK and Spain. Experiencing a boost from policy stimulus, China recorded satisfactory growth while higher oil prices resulted in boosting performance of the Russian economy. Japan's growth rate in 2016 and in preceding years was stronger than previously estimated while Latin American countries currently in recession recorded a lackluster performance.

An agreement by key producers caused a hike in oil prices by end of 2016 and the beginning of 2017. In advanced economies, headline inflation rates recovered by the latter half of the financial year due to the downward trend in commodity prices. Core inflation rates however remained unchanged and below targets. In emerging market and developing economies inflation developments were varied due to the differences in exchange rate movements and various market characteristics.

Economic activity in both advanced economies and emerging market and developing economies is projected to fast-track in 2017-18, with global growth estimated to be 3.4 % and 3.6 %, respectively.

Overview of the World Economic Outlook Projections

	Estimates (%)		Projections (%)	
	2015	2016	2017	2018
World Output	3.2	3.1	3.4	3.6
Advances Economies	2.1	1.6	1.9	2.0
United States	2.6	1.6	2.3	2.5
Euro Area	2.0	1.7	1.6	1.6
Japan	1.2	0.9	0.8	0.5
United Kingdom	2.2	2.0	1.5	1.4
Emerging Market and Developing Economies	4.1	4.1	4.5	4.8
Emerging and Developing Asia	6.7	6.3	6.4	6.3
China	6.9	6.7	6.5	6.0
India	7.6	6.6	7.2	7.7
ASEAN	4.8	4.8	4.9	5.2

Sri Lankan Economy

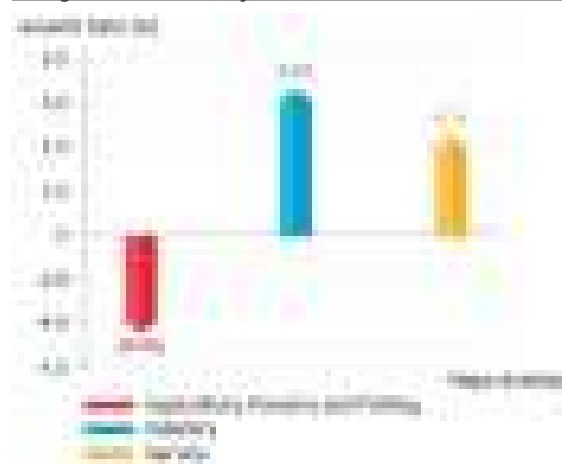
Gross Domestic Product

During the year 2016, Sri Lanka experienced an intemperate weather condition. Particularly, the severe drought experienced in first, third and fourth quarters and heavy rains with floods in second quarter adversely affected many agricultural activities. Economic activity growth continued at a moderate rate with 4.4% (2010 Base) during 2016 following the annual growth of 4.8 % registered in 2015. When considering the GDP growth rates in each activity group, "Agriculture" has reported a contraction of 4.2 % while "Industry" and "Service" have reported an expansion of 6.7 % and 4.2 % respectively during the year of 2016.

Percentage share of main economic activities to the GDP – 2016



GDP growth rates of major three economic activities – 2016





Inflation

Headline inflation measured by the year on year change in the Colombo Consumers' Price Index (CCPI) was at 4.1 % by end of the year in comparison to the 2.8 % in December 2015. Inflation was mainly compelled by adverse weather and Government tax policy. According to CCPI measurements core inflation rose to 6.3 % year on year at the end of 2016 in comparison to 4.5% at the end of 2015. Nevertheless, tax adjustments introduced by the Government enabled consumer price inflation to remain in single digits at 4% - 6%.

Fiscal Sector

The country's fiscal sector recorded enhanced performance with a total fiscal revenue rise up to 10.8% of estimated GDP during the first ten months of 2016, from 9.7% during the same period in 2015. Total expenditure and net lending during the first ten months of 2016 increased to 15.3% of estimated GDP from 15.1% in the previous year. Overall budget deficit declined to 4.4% of estimated GDP during the first ten months of 2016 in comparison to 5.4% of GDP during the same period of 2015.

External Sector

Lackluster global economic activity prompted the Sri Lankan external sector to experience mixed performance. Decreased global demand had a negative impact on exports. Sri Lanka recorded a modest growth in external trade during the year fuelled by improved performance during the final quarter. Earnings from exports declined by 2.7 % in the first eleven months of the financial year, while import expenses rose by 1.7 %. The cumulative trade deficit was at USD 922 Mn by November 2016.

Future Outlook

The forecasted economic growth for 2017 under medium term macroeconomic structure is 6.3 % in real terms. The projected growth is expected to result from enhanced performance by the three main economic activities. The Agricultural sector is expected to recover in 2017 on the condition of improved weather conditions while the Services and Industry sectors are projected to continue to improve. Progress in the trade of merchandise goods and services; especially in the areas of tourism, transport, telecommunication, ports and financial services are expected to be major contributors towards enhanced growth.

Sri Lankan Banking Industry

The Banking sector augmented asset growth while sustaining capital and liquidity above the regulatory requirements. The conducive market environment that prevailed during the period enabled licensed Banks to manage foreign currency exposures within the prudential limits. The Bank branch network was

expanded further with new branches being added to the system thereby increasing financial inclusion in the country. High domestic demand for credit mainly from construction, financial and business service and consumption has led to the expansion in loans and advances, and the profitability of the banking system. For the year 2016, Sri Lankan Banking sector comprised with 32 licensed banks with 3,614 branch network.

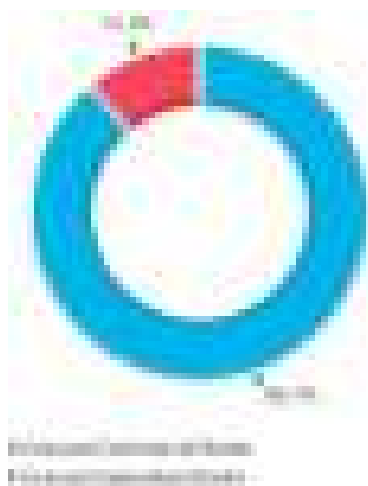
Banking Sector Indicators

	2016	2015
Return on Assets Before Tax (%)	1.9	1.9
Return on Assets After Tax (%)	1.4	1.3
Return on Equity (%)	17.3	16.2
Liquid Assets Ratio (%)	30.0	33.9
Credit to Deposit Ratio (%)	88.0	87.3
Gross Non-performing Advances Ratio (%)	2.6	3.2
Net Non-performing Advances Ratio (%)	1.3	1.7
Core Capital (Tier 1 Capital) Adequacy Ratio (%)	11.4	13.0
Total Capital Adequacy Ratio (%)	14.3	15.4

Licensed Commercial Banks and Licensed Specialised Banks Contribution within the Banking Sector

Sri Lankan Banking Sector comprised with 25 Licensed Commercial Banks and 7 Licensed Specialised Banks. Contribution to the Assets, Gross Loans and Advances, Deposits and Borrowings from those two segments for the overall banking sector at the end of the year 2016 is depicted in following graphs.

Assets



Economic Indicators Contd.

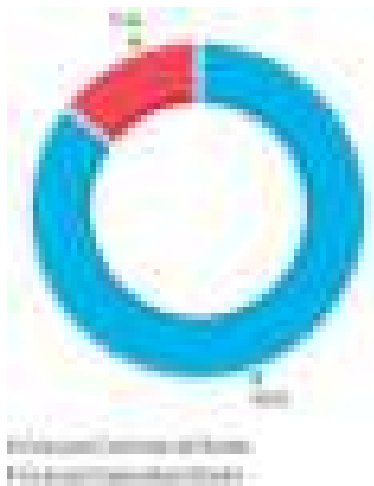
Gross Loans and Advances



Deposits



Borrowings



Banking Sector Performance

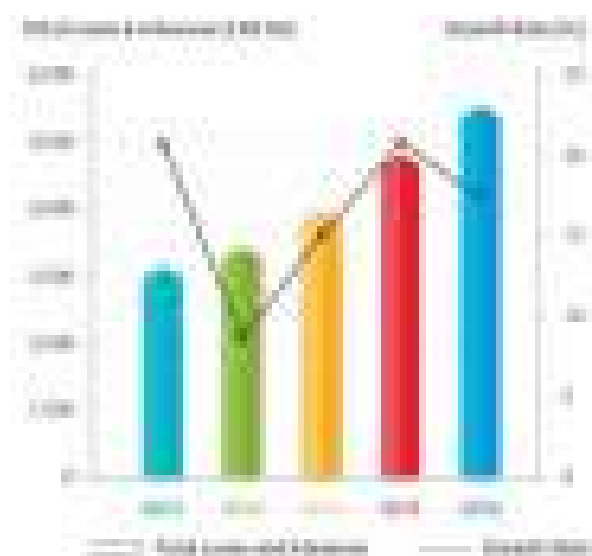
Total Assets

The total assets base of the banking sector recorded an increase of 12% upon reaching LKR 9,047 Bn by end of 2016.



Loans and Advances

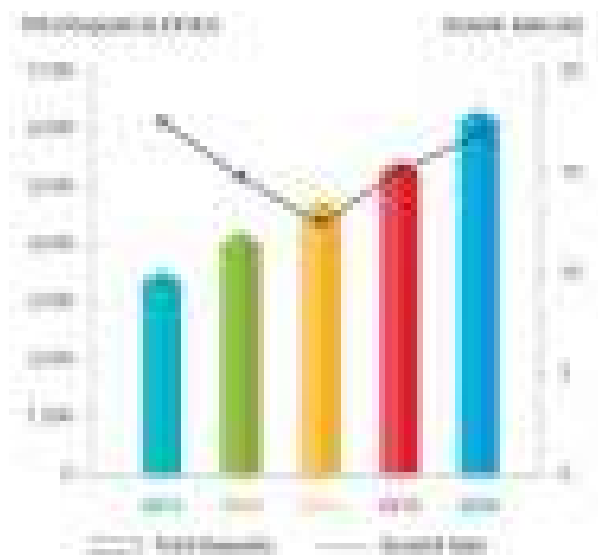
Total gross loans and advances of the banking sector reached to LKR 5,541 Bn as at the year end of 2016 which represents 18% growth than in year 2015.





Deposits and Deposits Growth

The deposit base of the banking sector recorded a growth of 16.5% recording an amount of LKR 6,296 Bn.



Composition of the Deposit Base

Deposit base is comprised of time deposits, savings deposits, demand deposits and other deposits. Contribution from each deposit type is 60%, 30%, 8% and 2% respectively.



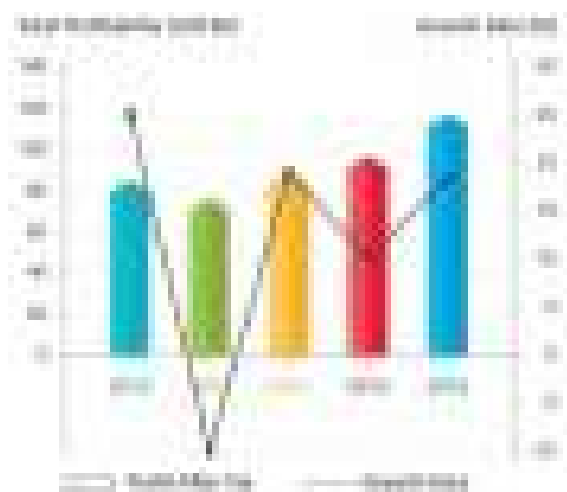
Borrowings

Banking sector borrowings, stood at LKR 1,696 Bn as at end 2016 representing 3.5% reduction over the prior year of 2015.



Profitability

During the year 2016, banking sector profit after tax augmented by 19% in comparison to the corresponding period in 2015. Profit after tax was at LKR 116 Bn for the year 2016, indicating a higher performance compared to the annual profit after tax of LKR 97 Bn for the year 2015. The increase in profit was fueled by a higher interest income of LKR 757 Bn.



Economic Indicators Contd.

Capital Adequacy

The Banking Sector sustained an adequate capital base to absorb any unexpected negative outcomes. By 2016, the core capital adequacy ratio was 11.4% while the total capital adequacy ratio was 14.3%. However, a declining trend has emerged as a result of increased lending.

Future Outlook for Banking Sector

The Central Bank of Sri Lanka has proposed a mechanism to achieve stability and efficiency of the financial system. The core pillars for this end are regulation and supervision of all key financial institutions, enabling a stable payment and settlement system as well as solid risk management system. Central Bank of Sri Lanka intends to inculcate good corporate governance practices in the financial sector and promote financial inclusion. The Central Bank of Sri Lanka also intends to increase mandatory disclosure and transparency through the new regulatory agenda for annual and quarterly financial publications.

The Central Bank monitors the preparedness of the banking sector to adopt the Basel III Minimum Capital Standards and Leverage Ratio in line with the international time line. Existing limits on share ownership of banks and assessment criteria of fitness and propriety of Board of Directors are being reviewed to further strengthen the resilience of the Banking Sector. The Banking Sector is expected to improve performance in 2017 fueled by the enhanced regulatory and supervisory framework and beneficial macroeconomic factors.

Impact on SDB Bank

During the latter part of the financial year ended 2016, SDB put in place strategies to raise fresh capital up to LKR 3.3 Bn through a combination of private placement of shares, convertible loan facilities and a senior term loan involving a couple of foreign parties mainly to meet the minimum capital requirements set out by the Central Bank and also to fund its loan book. Since 2015, the Bank has been obtaining the advisory services from IFC to assist in technical processes and internal restructuring in the Bank's shift towards SME Banking.

Operational Review



Overview

Our repositioning of the SANASA Development Bank PLC (SDB) as a leading financial services organisation in and across Sri Lanka is gradually taking place with the ongoing transformation programme, The Project Quantum Leap. We have realigned the allocation of our resources to three main segments, Small and Medium Scale Enterprises (SME), Retail and our founder base of Co-operatives to ensure that we stay relevant to our clients across the country. This deliberate strategic response to the regulatory and market forces reshaping our industry requires significant investment in our systems, processes, people and culture, to create an organisation that stands to benefit from the long-term structural opportunities that Sri Lankan financial services sector offers, while also remaining competitive in the face of more immediate cyclical challenges.

Our balance sheet is stronger and our operating structure has been simplified. With the island wide roll out of Project Quantum Leap in 2017 our strategies will be aligned more towards the three main market segments mentioned above. We will redeploy our resources in carefully selected geographic markets, economic sectors, client segments and revenue streams that serve our strategic focus.

Supporting the repositioning of SDB is the front to back replacement of our Information technology platforms and operating models. These systems are transforming our relationships with clients by improving our services to them with more agile, flexible and cost-effective digital channels and mobile banking technology. Performance of each segment is summarized below.

Retail and SME Banking

Retail banking is not a new phenomenon in the Sri Lankan banking sector. It has always been prevalent in Sri Lanka in various forms. For the last few years it has become synonymous with mainstream banking for many banks. Similarly, SDB is experiencing renewed interest in the retail banking segment. These activities broadly defined as the range of products and services provided to consumers have grown in importance over the past several years. Retail-related positions now account for larger shares of SDB's balance sheet, and it helps the bank to grow its asset base at a rate well above industry averages. At the bank level, the principal attraction of retail banking seems to be the belief that its revenues are stable and thus can offset volatility in the non-retail businesses. Further, retail banking offers high returns along with low risk. Accordingly, refocused on retail banking typify the view that retail has become a key area of strategic emphasis in the SDB's growth strategy.

Small and Medium Scale Enterprises (SMEs) make up a large part of Sri Lanka's economy, accounting for 80% of all businesses. These are found in all sectors of the economy, primary, secondary and tertiary and provide employment for persons of

different skills and are estimated to contribute about 35% of employment. The key policy documents of the Government and the budget proposals made for 2017 clearly recognize the role of SMEs. Proposed measures for their promotion include subject areas like skills development, tax concessions, entrepreneurship development and access to finance. Focus on SMEs is usually guided by their usefulness for raising employment numbers as the capital investment needed in this sector to provide an additional work place on average is normally substantially less than in large enterprises. Accordingly, it can be seen that SMEs play an important role in promoting inclusive growth.

Bank's retail and SME banking division is responsible for delivering a complete range of services to individuals ranging from private sector employees to government sector employees, pensioners and the niche market members of the co-operative societies as well as small and medium size enterprises (SMEs). The division ensures timely and accessible support they require to meet their financial goals.

The cornerstone of the Bank's national delivery network remains the physical branch; we continue to make substantial investment in expanding and maintaining our retail presence. At the same time, with the implanting the Project Quantum Leap we continue to invest in the future. For example, the convenience of internet banking and mobile banking.

Branch Network

We added one new branch to the Bank's national network in 2016, while two branches were relocated and one branch was refurbished and reopened to deliver more services to a larger number of customers. With the implementation of the Project Quantum Leap, all branches will be rearranged in a suitable manner to provide convenient services for customers. Further, steps have been taken to increase our presence in strategically important place in 2017. As at 31 December 2016, the total branch network across Sri Lanka was 88.

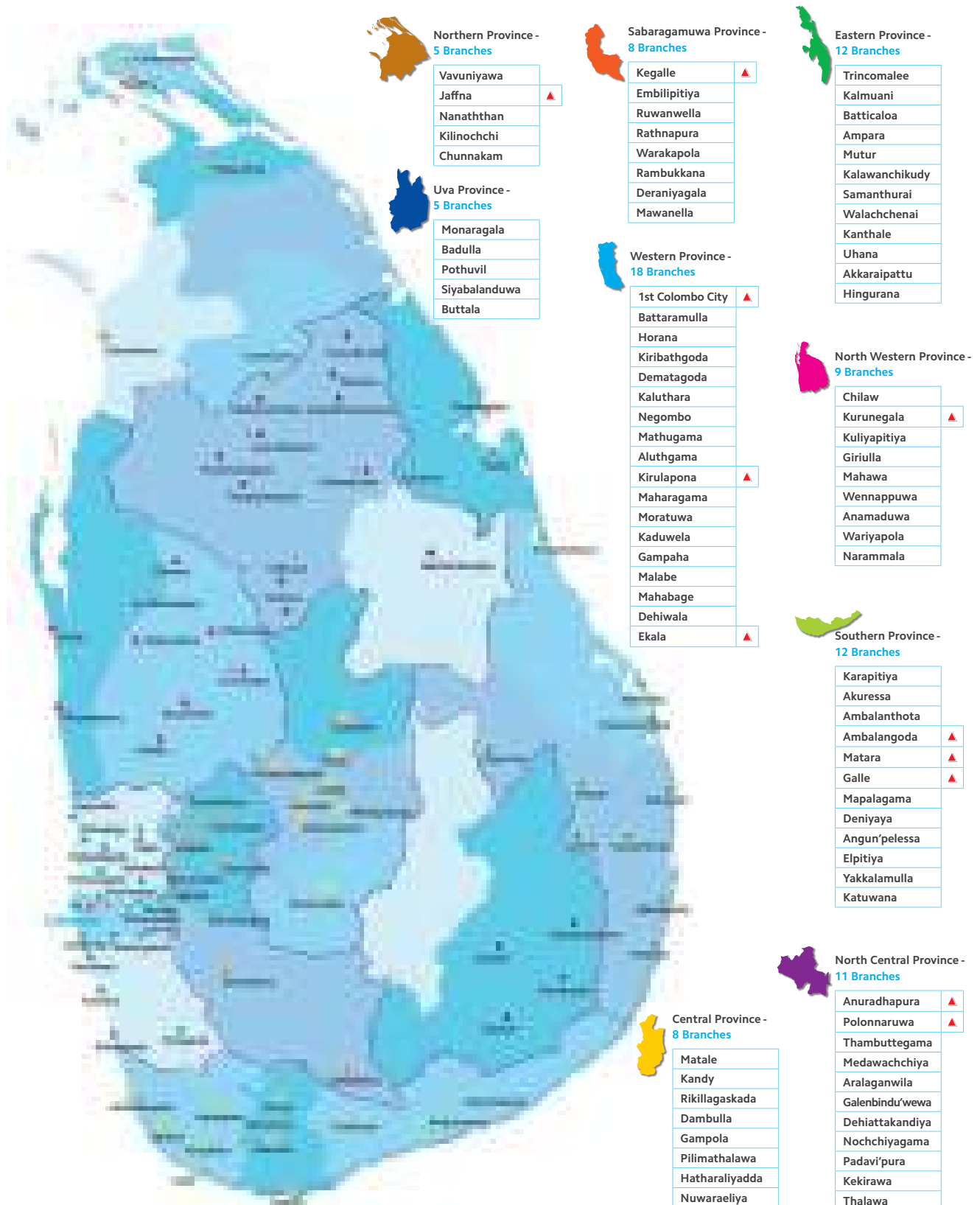
In the present context, expansion of service delivery also extends beyond physical branches, as a solution to this, with the conclusion of Project Quantum Leap, the Bank will expand its customer reach through mobile banking, on-line banking and other services supported by the rapid growth of telecommunication and internet infrastructure in Sri Lanka.

The Bank's branch network organised into 9 administrative regions and supports decentralized decision making on credit transactions, as well as day-to-day branch operations. To give access to services even more conveniently within a shorter period of time the entire credit operating function will be centralized in 2017.

Operational Review Contd.

▲	ATMs
○	Branches

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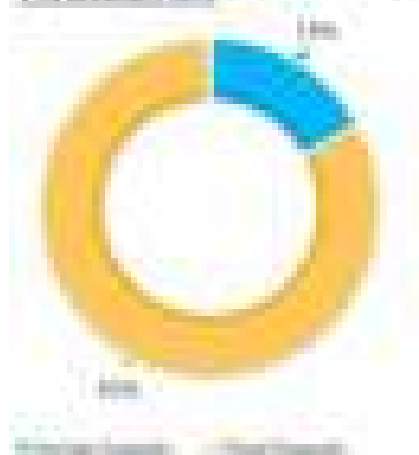


Deposit Mobilization

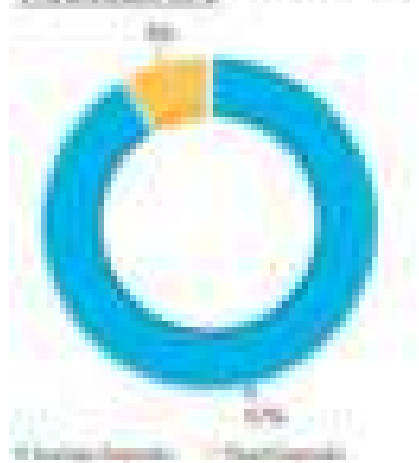
SDB Bank's strong link with its retail customer base and the co-operative sector have contributed in building a solid deposit base despite the unfavourable environment for mobilization of deposits due to highly volatile interest rate scenario that prevailed in the market. The Bank was able to maintain its savings base intact throughout 2016 and its fixed deposit base grew by 8%, which deteriorates its savings to deposit ratio by further 1.81%.

While deposit rates across the Sri Lankan banking sector have shown an upward trend in 2016, the Bank has identified new avenues of opportunity to strengthen its deposit base. In order to retain SDB's existing deposit clientele, over the past year we launched continuous awareness and promotional campaigns for special deposit schemes, especially on minor savings and women savings, showcasing our ability to offer better value than our competitors.

Total Deposit Volume by Product Group as at 31st December 2016



Total No. of Deposits Accounts by Product Group as at 31st December 2016



Total Interest Deposits Volume by Product Group as at 31st December 2016



Total No. of Interest Deposits Accounts by Product Group as at 31st December 2016



Total Interest Volume by Segment as at 31st December 2016



Operational Review Contd.

Total Size of Deposits (LKR Bn) as at 31st December 2016



Total Size of Loans by Sector as at 31st December 2016



Total Loans Disbursed by Sector as at 31st December 2016



Total Size of Loans by Sector as at 31st December 2016



ATM Network

In a highly competitive retail banking environment, Automated Teller Machines (ATM) allow customers to quickly and conveniently access his/her bank account for cash withdrawals. As at 31 December 2016, SDB's own ATM network consists of Eleven ATM machines. The Bank expects to grow its ATM network to 50 by the end of 2017. Providing reliable and readily accessible service to our client base, we tied up with Commercial Bank's ATM network - the single largest in Sri Lanka to allow our customers enjoy secure, island wide access at an affordable rate. Further, the Bank is planning to join Lanka Pay Network in 2017 - the largest common ATM network in the country; connecting more than 2,500 ATM machines operated by nine member banks.

Loans and Advances

During the year 2016, the Bank had granted 74,931 new loans totaling LKR 30.1 Bn. The overall loans and advances portfolio surpassed the LKR 50 Bn mark at the end of the year 2016.

Despite this above average growth in the loan portfolio, the non-performing loans (NPL) pertaining to loans increased only marginally by LKR 42 Mn, reducing the overall Gross NPL ratio from 2.37% to 2.10% as at the end of December 2016.

Sector dispersion and geographic dispersion of the loans portfolio as at 31st December 2016 are illustrated below.



Total Loans Portfolios by Disbursement at 31st December 2016



Retail Loans

The steady growth of Sri Lanka's middle income level population in recent years has provided many opportunities for banks to expand their service offerings. SDB benefited from this demographic shift, tailoring products and services to the needs of an increasingly well-to-do consumer base. In particular we have focused on promoting personal loans to Government pensioners, Government sector employees, Ex-service personnel and Executives of leading companies, maintaining the high quality of our portfolio while achieving expected growth. In line with the mission of the Bank, with the success we had in extending personal loans to a larger potential market, we plan to focus more on moderate earners in the coming years.

Total Loans Portfolios by Disbursement at 31st December 2016



Leasing

During the year 2016 special attention was placed on leasing and special marketing campaigns were launched to promote SDB's leasing products, boosting consumer reminiscence and attracting new customers. However, leasing business was affected by increased import duties on motor vehicles and reduced overall demand for commercial vehicles.

Despite granting 2,923 new leasing facilities during the year, the overall leasing portfolio narrowed by 2% as at 31st December 2016. With the restriction imposed on LTV from the recent budget, the growth in leasing portfolio will further narrow down in the years to come. The non-performing loan ratio of the leasing portfolio recorded an increase in comparison to the previous year.

Total Loans Portfolios by Disbursement at 31st December 2016



Total Loans Portfolios by Disbursement at 31st December 2016



Operational Review Contd.

Figure 1: Housing Loans as a Percentage of Total Loans (2014-2016)



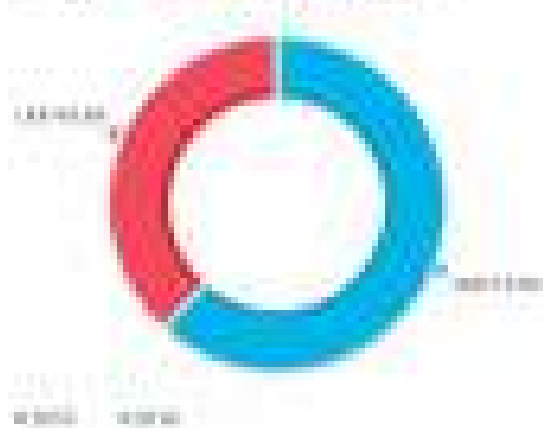
Housing Loans

The growth of housing loan portfolio was affected in different ways. The funding profile of the Bank and the prevailing interest rate volatility in the market are among the main factors, whilst the short tenure of housing loan product offered by SDB was another major deterrent factor for housing portfolio growth. However, to counter attack this the Bank introduced a unique concept of home improvement loans for salaried employees, approved within four working days.

Figure 2: Agriculture and Pawning Loans as a Percentage of Total Loans (2014-2016)



Figure 3: Agriculture and Pawning Loans as a Percentage of Total Loans (2014-2016)



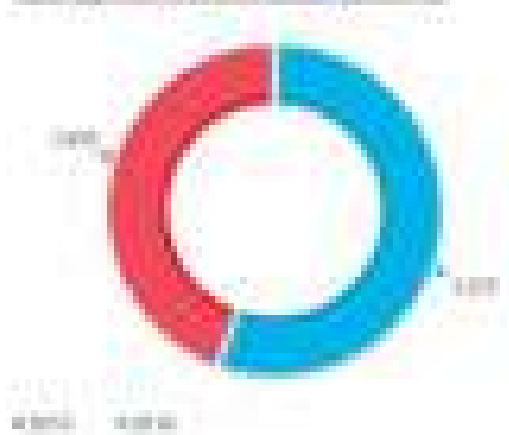
Agriculture and Pawning Loans

Agricultural loans which provides financing to small scale agriculture and livestock producers, has proven to be one of the most effective credit delivery mechanism; it is especially popular in poultry and dairy industries. Moreover, a wide array of credit and refinance schemes funded by the Bank helped in increasing lending to small and medium sized agricultural businesses. The Bank continued to participate in several refinance credit schemes designed to support the agriculture and livestock sectors. All our loan programmes are designed to provide those vulnerable groups means of financing their livelihood.

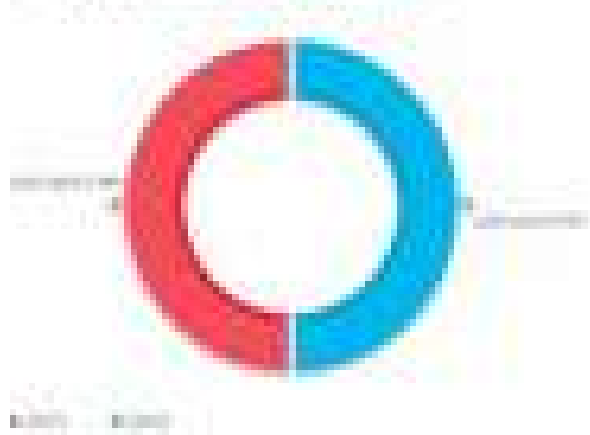
Pawning is a popular loan product among the rural community. This is due to the ease of obtaining funds, by surrendering gold articles. However, the pawning industry was affected by the sharp drop in global gold prices during 2013. This drop negatively affected profitability levels of the entire financial services sector. As gold prices continued to fluctuate widely in the market, Loan to Value (LTV) ratio reduced as a precaution, which led to the decline in pawning advances to a mere 1% of the total loan portfolio. Due to the importance of pawning - which mainly serves the rural economy - Central Bank of Sri Lanka introduced the credit guarantee scheme of pawning advances in a bid to increase disbursements. However, as a strategic move SDB did not participate in the new credit guarantee scheme.



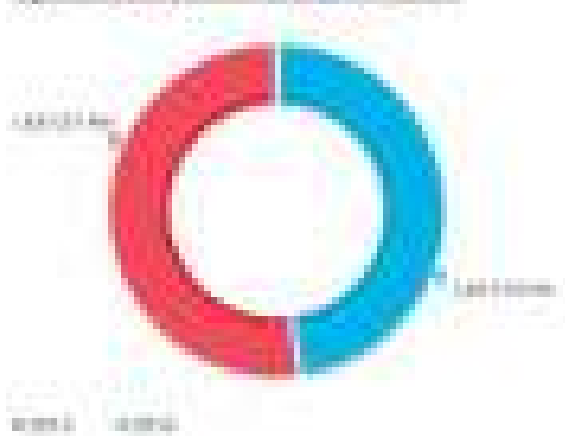
Total Agricultural Loans as at 31st December



Financing Small Medium and Large Enterprises



Agricultural Loans/Advances as at 31st December



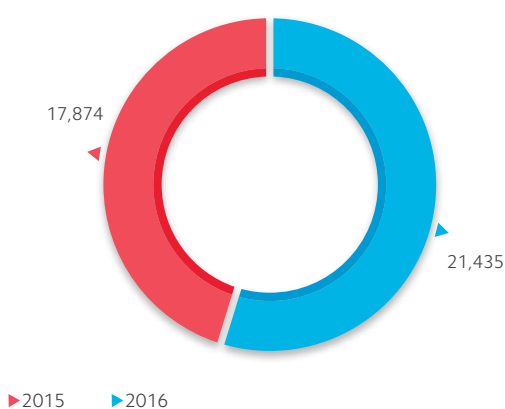
When analyzing the performance of the agricultural sector, we have seen a growing demand for advances from entrepreneurs who are engaged in small to medium scale agricultural projects. Due to this it has been observed that a tremendous opportunity to promote more agricultural loan facilities, which in turn will drive national agricultural production in the country.

SME Loans

In 2016, SDB operated several refinance credit lines, as well as our own Small and Medium sized Enterprises (SME) lending product, SME+ loan scheme. SME+ is aimed at SMEs and offers flexible terms to facilitate loan repayment.

The strategic shift that the Bank is currently undergoing was initiated with the additional aim of changing the mindset about SME banking. The recent three segment approach that the Bank is about to launch will provide more space for wider delivery/ distribution of SME products with centralized processing to reap the economies of scale which are fundamentals to building a successful and sustainable SME business proposition in the Bank.

No. of Pawning Loans as at 31st December

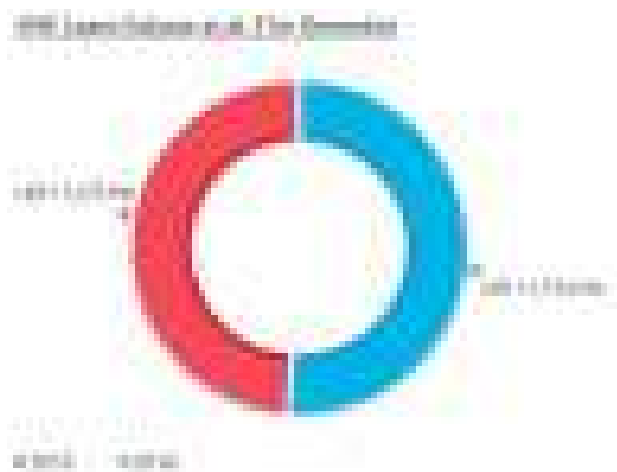


Aligned with national priorities, in the year under review the Bank has extended financial assistance to SMEs in the key growth sub sectors covering tourism, construction, agriculture, manufacturing and the service sector. A large number of SME projects in all regions of the country, including in the Northern and the Eastern provinces, have received assistance Financing included both capital expenditure and working capital needs. As of December 2016 the value of bank's SME loan portfolio was LKR 11,275 Mn with 38,010 loans.

Operational Review Contd.

Moving forward, planned SME lending activities include;

- ▶ Setting up three dedicated SME centers to handle SME businesses of all nine regions.
- ▶ Setting up dedicated SME branches in areas where SME has the highest potential.
- ▶ Conducting capacity building programmes for existing clients who have been dealing with us for the past 19 years and are ready to graduate as SME clients.



We have also launched a series of awareness programmes in collaboration with Small Enterprises Development Division (SED) and National Enterprise Development Authority (NEDA) to improve the financial literacy and entrepreneurship among SMEs. These programmes are designed to raise general awareness of development lending opportunities provided by the bank.

Co-operative Banking

Over the past 18 years SDB has become an integral part of the pioneering micro finance industry in the country. SDB has been able to partner effectively with the vast network of 3,000 + the SANASA primary societies as well as fraternal members of SANASA Group to reach those that remained excluded from mainstream development, improve incomes, develop sustainable livelihoods and sustainable communities. Co-operative society network has been the main funding source of SDB over the past years and it accounts approximately 30% of its total deposit base. When SDB was established in 1997 as the main credit institution for the SANASA movement, SANASA society network partially provided the initial seed capital required. Over the past 19 years SDB has been acting as a breeding point for many MSMEs in Sri Lanka. Therefore, SDB's co-operative model can be seen as a unique financial model when compared to other financial institutions in Sri Lanka due to its heritage linked to the co-operative movement with the aim of fostering sustainable economic development through the provision of credit to the rural poor. Therefore, the co-operative segment has been identified as strategically important for SDB for its future growth.

During the year co-operative banking continued its momentum with emphasis on credit quality and risk mitigation. Through the businesses generated by co-operative sector we empower women and youth, foster environment friendly businesses and otherwise contribute to the country's development goals. We also strengthened the marginalized section of the economy through non-financial services such as improving financial literacy, management and technical skills training and market linkages. Funding caters to numerous needs ranging from business start-ups, expansions, assets building, and capital requirements.



As at the end of December 2016, the co-operative portfolio stood at LKR 4,068 Mn covering 1,638 numbers of clients. Females continued to account for 85% of the co-operative portfolio. With the passion, commitment and hard work of the staff a YoY growth of 60% in the total outstanding co-operative loan book has been achieved.

Conclusion

Our vision is to be the apex bank of the co-operative sector and a leading partner of national development with a global focus In Sri Lanka, delivering exceptional client experiences and superior value. This sets the primary goals and standard of excellence we intend to achieve in the medium term, within the context of vision which recognizes that Sri Lanka is our home and we drive its growth. Our long-term success depends on this growth. As an integrated financial services organization that serves the full spectrum of the financial needs of individuals, small and medium enterprises (SMEs) and co-operatives, it is in our belief that Sri Lanka's growth in coming years will be strong and inclusive.

The intentions of our strategy place our clients at the centre of everything we do, which improves each client's experience and enables us to extend our advisory and financial products and services in a purposeful and responsible manner.

Our partnerships with International Finance Corporation (IFC), Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and SBI FMO Emerging Asia Financial Sector Fund Pte., Ltd combines their financial and global reach with our deep expertise in Sri Lanka for the benefit of our clients. Our long term collaboration with IFC has been strengthened further by the project service agreement entered into between IFC and SDB in 2015, and remains an important element in our transformation road map strategy and in the future of SDB, to position then as the leading SME bank in the Sri Lankan market .

Financial Review

Overview of 2016

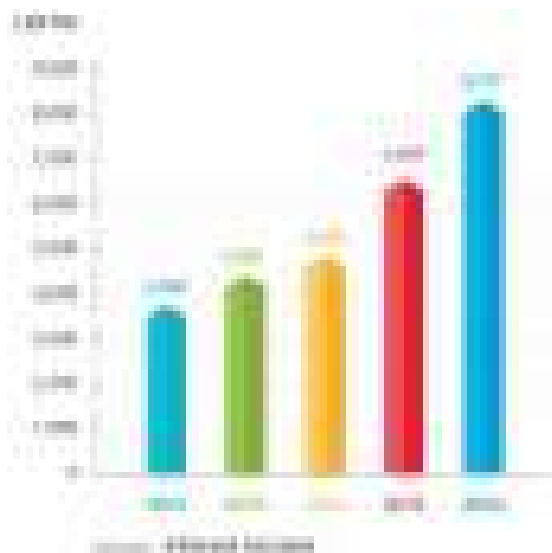
Banks are highly correlated to the economic environment in which they operate. In 2016 Gross Domestic Product (GDP) is predicted to grow around 4.5% - 5.00% for Sri Lanka which is considerably lower than the five years average of 6.14% recorded during the five years ending December 2015.

With less demand and slower transactional volume growth, the 50 bps increase in interest rates in 2016 has placed further pressure on consumer disposable income and higher commodity prices have increased industry stress. Accordingly, 2016 has been regarded as another exigent year for the SDB Bank and in spite of the challenges, the Bank has established its capability to grow by focusing on enhanced customer experiences through improved service quality, effectively combined with marketing improvements.

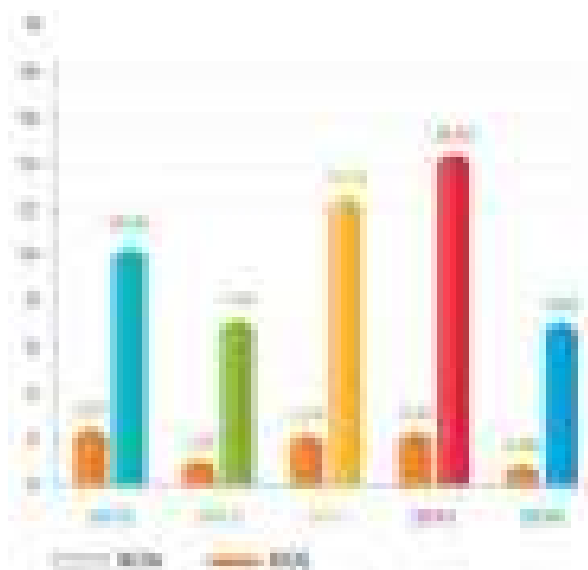
Against this context the Bank continued to create value through our unique value creating business model which focuses on the stakeholder interest which is the key brace behind the success story of the Bank's financial performance which demonstrated mixed results as depicted below;

- ▶ Solid revenue performance in difficult environment with Interest earnings growth of 23.72% to LKR. 8,177 Mn largely supported by lending and investment activities.
- ▶ Return on Average Ordinary Shareholders' Equity (ROE) of 7.46% abrogated by Return On Assets (ROA) of 0.98%;
- ▶ Net Asset Value per share (NAV) continued to increase, up to LKR.131.22 per share; and.
- ▶ Earnings Per Share reduced by 46.37% to LKR 9.60 due to low profitability and dilution occurred through scrip dividend payments

Five Years Interest Income Analysis



Five Years ROA and ROE Analysis



Five Years Net Asset Per Share Analysis



Our performance is strongly influenced by the macroeconomic, competitive and regulatory environments and other material matters identified on pages 48 to 52. However, our outcomes are also shaped by how we respond through our strategic actions, our people and our ability to deliver. Together with our six capitals, these factors contributed substantively to the bank's results. To mitigate the potential risks emanating from the material matters and unlock opportunities, our strategic focus areas, as described on pages 53 to 61, support delivery of our medium-to-long-term targets.

Detailed analysis of the financial performance along with the key indicators is set out below and this analysis is based on the financial statements prepared in accordance with the Sri Lanka Financial Reporting Standards.



Income Statement Analysis

The income statement reflects the revenue generated by the bank and the costs incurred in generating that revenue. The analysis that follows discusses the financial performance of the bank and the principal earnings drivers for growth in our ROE and ROA. We have also explained other material income statement items such as fee and commission income and investment related income sources, credit impairment charges, personnel, operating expenses and taxation below.

	2016 LKR	2015 LKR	Change
Interest income	8,177,186,889	6,609,248,423	23.72%
Interest expenses	(4,846,840,351)	(3,240,874,613)	49.55%
Net interest income	3,330,346,538	3,368,373,810	(1.13%)
Fee and commission income	212,540,050	217,475,178	(2.27%)
Fee and commission expenses	(9,596,114)	(2,965,660)	223.57%
Net fee and commission income	202,943,936	214,509,518	(5.39%)
Net gain/(loss) from financial instruments at fair value through profit or loss	17,351,017	5,094,794	240.56%
Other operating income (net)	40,045,507	52,026,524	(23.03%)
Total operating income	3,590,686,997	3,640,004,646	(1.35%)
Impairment for loans and other losses	(125,043,863)	(49,594,295)	152.13%
Net operating income	3,465,643,134	3,590,410,351	(3.48%)
Personnel expenses	(1,266,115,183)	(1,114,753,852)	13.58%
Other expenses	(1,289,848,347)	(1,091,457,100)	18.18%
Operating profit before value added tax (VAT)	909,679,605	1,384,199,399	(34.28%)
Value added tax (VAT) on financial services & NBT	(292,254,188)	(273,640,749)	6.80%
Operating profit after value added tax (VAT)	617,425,417	1,110,558,650	(44.40%)
Profit before tax	617,425,417	1,110,558,650	(44.40%)
Tax expenses	(213,703,773)	(389,984,089)	(45.20%)
Profit for the year	403,721,644	720,574,561	(43.97%)

Net Interest Income

Net Interest Income (NII) narrowed by 1.13% to LKR 3,330 Mn during the year. The narrowed growth was primarily attributable to balance sheet growth of 17% in loans and advances, which is much lower than the loan growth recorded in 2015. The NII earned from this growth was partly offset due to the effect of liability margin compression resulted from the higher cost of funding. The Net Interest Margin (NIM) too narrowed to 5.83% as interest income and reprising benefits were offset by asset and liability margin compression. Further, the portfolio mix between fixed and floating rate loans was another deterring factor for the bank in maintaining healthy NII and NIM.

Five Years Interest Income, Interest Expenses & NII Analysis



Financial Review Contd.

Five Years NII & NIM Analysis



Five Years Non-interest Revenue Analysis



Non-Interest Revenue

Non-Interest Revenue comprises net fee and commission income, Net gain / (loss) from financial instruments at fair value through profit or loss and other revenue sources. The net fee and commission income is closely linked to transactional banking volumes, which are a function of economic activity and competition for banking services. Net gain / (loss) from financial instruments is a function of trading volumes and market volatility which affects trading spreads.

Other revenue consists of other banking activity-related revenue, including gains from sale of property, plant and equipment, dividend income and income derived from bank assurance agreements.

Non-Interest Revenue narrowed by 2%, with net fee and commission revenue narrowed by 5%, gains from financial instruments at fair value through profit or loss up 241% and other operating income narrowed by 23%. However, revenue increase in card-based commissions grew marginally due to moderate growth in transaction volumes. Fee and commission income recognized as an emerging source which ended with 2.5% contribution making more indication for future expansions.

Credit Impairment Charges

Credit impairments represent the losses incurred as a result of the inability of our customers and clients to repay their debt obligations to the Bank. The credit loss ratio expresses these impairments charges as a percentage of average loans and advances and indicates how much on average, of each rupee lent by the Bank is incurred in credit impairments.

The Bank continued the adoption of the Sri Lanka Accounting Standards LKAS 32 - Financial Instruments and LKAS 39 - Financial Instruments: Recognition and Measurement. The computation of the impairment provision of the Bank is governed by a Board-approved impairment policy. The Risk Management Framework in place ensures an effective risk assessment process for individually significant loans and loans that are considered on a collective basis. This assessment takes into account past due status, loss of data and the economic factors relevant to the portfolio.

Impairment charge for Loans and Receivables of the Bank was LKR 125 Mn and compares with a charge of LKR 49.6 Mn in 2015, while the loan loss ratio reduced to 2.10% from 2.37% in the previous year. The Bank continuously makes improvements 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, no additional impairment charges have been made for loans and advances granted to staff members, which are recovered through the payroll.



Five Years Impairment & Gross NPL Ratio Analysis



Operating Expenses

Bank's total operating expenses is complied with personal expenses, depreciation and amortization and other expenses inclusive of office administration and establishment expenses. Total operating expenses demonstrated with 16% increment over the last year and posted LKR 2.6 Bn level. This increment was well below the precedent year increment which stood at 31%. Enormous part of the total operating expenses was allocated for the wellbeing of the workforce and posted 49.54% component. Staff cost growth of 14% was relatively high in 2016 due to the conversion of staff from temporary staff to permanent staff, the effect of salary revision made in latter half of 2015, as well as new recruits made in 2016 to support ongoing business transformation programme while 43.58% and 6.88% component bear respectively for the other expenses and depreciation including amortisation.

Five Years Operating Expenses Analysis



Taxation

As per the requirements of the regulatory bodies the Bank makes its contribution to the government by making tax payments in direct and indirect ways. As direct taxes the Bank is liable to pay Income Tax, Value Added Tax on Financial Services (VAT on FS), Nation Building Tax on Financial Services (NBT on FS), and Economic Service Charge (ESC). In addition the Bank is liable to pay indirect taxes such as Value Added Tax (VAT), Nation Building Tax (NBT) and With-Holding Tax to the government.

Income tax including deferred tax expense of LKR 213.7 Mn for the twelve months ended 31 December 2016, reflected 45.2% decrease over the previous year's corporate income tax expense. Thus, this accounted for a 34.61% effective tax rate, a rate above the corporate tax rate of 28%. This mainly resulted from the disallowed expenses such as VAT on FS. Due to the change in law applicable on VAT and on FS, total VAT and on FS charge for the year amounted to LKR 252.2 Mn revealing 10% increment over the previous year's charge. Following the aforesaid change, leases became liable for VAT on FS and exempted from normal VAT with the removal of the exemption applied on banking and finance business. NBT on FS expenses for the year accounted to LKR 40 Mn as against the LKR 43.7 Mn recorded in the previous year.

Other than VAT and Income tax, the Bank provides contribution to the government by paying Economic Service Charge (ESC) as well. The Bank is liable to pay ESC as per the Economic Service Charge Act, No. 13 of 2006 and amendments thereto. In the case of our Bank, ESC payment was made on the receipts of the Bank derived from the normal course of bank's business. It includes; interest income on customer loans and receivables, leasing, staff loans, financial investments, placements with banks and cash and cash equivalents; net gain from financial instruments at Fair Value Through Profit & Loss; other income sources such as sales of fixed assets, dividend, ATM transactions and sundries; fee and commission income from various sources. As per the 2016 Budget of the country, the Bank is liable to pay ESC at a rate 0.5% with effect from 1st of April 2016. In relation to the year 2016 the Bank has paid LKR. 35 Mn as ESC to the government as we think our contribution to the country is so vital.

Further, the Bank is liable to pay VAT and NBT on commission income received from lease, hire purchase or loans including stationary charges, postage charges, legal charges, bank guarantee commission, recovery commission and insurance commission. The Bank complied with the regulations stipulated by tax authorities by paying WHT at a rate of 2.5% on interest income on bank deposits held by individuals and 10% on interest income on bank deposits held by companies.

Financial Review Contd.



Balance Sheet Analysis

The balance sheet or statement of financial position shows the position of the bank's assets, liabilities and equity at 31 December 2016, and reflects what the Bank owns, owes and the equity attributable to shareholders.

	2016 LKR	2015 LKR	Change
Assets			
Cash and cash equivalents	1,044,725,493	5,057,791,122	(79.34%)
Placements with banks	6,919,027,281	4,757,400,770	45.44%
Financial assets fair value through profit or loss	244,911,140	-	100%
Other financial asset classified under loans and receivable	1,503,539,374	1,926,055,413	(21.94%)
Loans and receivables to other customers	53,632,538,822	45,830,498,891	17.02%
Financial investments - Available-for-sale	566,935,476	79,678,638	611.53%
Financial investments - Held-to-maturity	492,267,661	1,192,440,373	(58.72%)
Asset classified as Held for sale	37,175,411	37,175,411	-
Property, plant and equipment	637,263,173	549,171,557	16.04%
Investment properties	24,446,690	25,502,720	(4.14%)
Intangible assets	16,938,244	47,141,277	(64.07%)
Other assets	913,030,314	787,137,810	15.99%
Total assets	66,032,799,079	60,289,993,982	9.53%
Liabilities			
Due to other customers	45,691,758,092	43,023,392,820	6.20%
Other borrowings	9,482,950,010	6,600,338,605	43.67%
Debt securities issued	4,182,653,234	3,979,110,559	5.12%
Current tax liabilities	23,110,292	260,733,158	(91.14%)
Deferred tax liabilities	49,629,257	66,410,666	(29.79%)
Other liabilities	1,086,418,546	1,062,657,301	2.24%
Total liabilities	60,513,519,431	54,992,643,109	10.04%
Equity			
Stated capital	4,062,961,714	3,794,094,725	7.09%
Statutory reserve fund	172,372,786	154,596,404	11.50%
Retained earnings	1,249,742,154	1,302,002,771	(4.01%)
Other reserves	34,202,994	46,656,973	(26.69%)
Total equity	5,519,279,648	5,297,350,873	4.19%
Total equity and liabilities	66,032,799,079	60,289,993,982	9.53%



Main Developments in Total Assets

Total assets of the Bank comprises Loans and Receivables, Financial Investments and Other assets. Loans and advances to the customers provided 81.22% contribution to the banks' assets portfolio while financial investment contribution is 14.73%. Financial investments consists of investments made on financial instruments by the bank. Other assets comprise of cash and cash equivalents, Property, Plant and Equipment, Investment properties, Intangible assets and supplementary assets which made 4.05% contribution towards the total asset portfolio of the Bank

Total assets increased by LKR. 5.7 Bn to LKR 66 Bn at 31 December 2016 from LKR 60.3 Bn at 31 December 2015, due mainly to higher placements with bank and moderate loan portfolio growth, partly offset by cash and cash equivalents position of the Bank.

Five Years Assets Categorization



Loans and Advances

Loans and advances represent the largest asset class on the bank's balance sheet. It provides the Bank's biggest source of revenue in the form of interest income, and creates cross-selling opportunities to earn transactional fees and insurance-related revenues. Growing loans and advances within the Bank's accepted risk levels is therefore essential to growing revenue.

Loans and receivables to customers increased by LKR 7.8 Bn. As shown in the following table, this increase was primarily the result of growth in Retail, SME and Co-operative loans and

advances volumes. The Retail loans and advances portfolio increased by LKR 7 Bn to LKR 36.7 Bn as at 31st December 2016, driven by fierce competition especially towards year-end on longer interest rate periods and redemptions. SME loans and advances reached to LKR 14 Bn and the lending to co-operatives grew by 60% to reach LKR 4 Bn as at 31st December 2016.

	2016 LKR Mn	2015 LKR Mn	Change
Retail Loans	36,739	29,696	24%
SME Loans	13,958	14,621	(5%)
Co-operative Loans	4,068	2,543	60%
Total	54,765	46,860	17%
Less: Impairment	(1,132)	(1,030)	10%
Net Loans And Advances	53,632	45,830	17%

Placements with Banks and Financial Assets at Fair Value through Profit or Loss

Placement with banks increased by LKR 2.1 Bn to LKR 6.9 Bn and financial assets at fair value through profit and loss increased by LKR 244.9 Mn at 31 December 2016 as part of the liquidity buffer maintained to fulfill regulatory requirements.

Financial assets Available for Sale and held to Maturity

Financial assets available for sale increased by LKR 487 Mn to LKR 567 Mn driven mainly by the strategic investments made in unit trusts. Financial assets held to maturity decreased sharply by LKR 700 Mn to LKR 492 Mn at 31 December 2016 driven mainly by the wind-down of activities resulting from the strategic review of Capital Markets Solutions and a decrease in government bonds and bills.

Main Developments in Total Liabilities

Total liabilities increased by LKR. 5.52 Bn to LKR 60.5 Bn at 31 December 2016 compared with LKR 55 Bn at 31 December 2015. Total Liabilities of the Bank is encompassed with the a range of liabilities including Deposits due to customers, debt security issued, borrowings, tax liabilities and other liabilities. Deposits due to customers provided 75.51% contribution to the banks' liability portfolio while debt securities and other borrowings contribution is 22.58%. Other liabilities made 1.91% contribution towards the total liability portfolio of the Bank. The growth in total liabilities was largely supported by growth in customer deposits and other borrowings.

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Five Years Liability Categorization



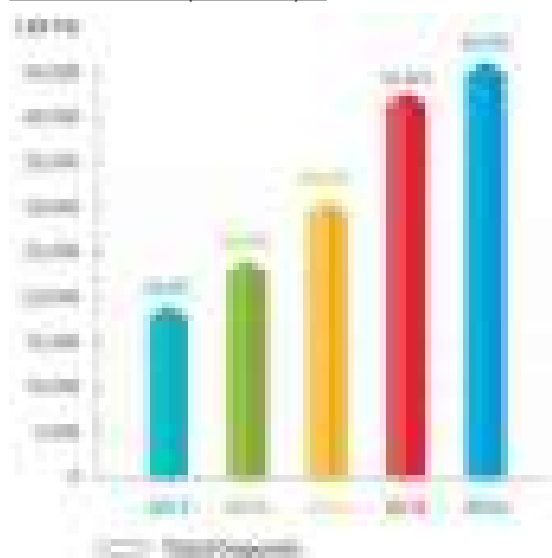
Deposit Categorization by Product as at 31st December 2016



Customer Deposits

Customer deposits Increased by LKR 2.67 Bn, a 6.2% growth during 2016 to LKR 45.7 Bn at 31 December 2016, with 42.9% growth was recorded in all customer segments and largely in fixed deposits. Despite the highly competitive operating environment, the Bank was able to maintain the contribution from retail segment around 50% from the total deposit base and another 32% from cooperative sector and balance from the SME segment. The Bank continued to focus on growing its deposit base, emphasizing more on SME and retail deposits and reducing reliance on wholesale funding.

Five Years Total Deposits Analysis



Deposit Volume Composition by Product Type as at 31st December 2016



Other Borrowings and Debt securities issued

Debt securities issued represents the Debenture issue made in the precedent year as a restorative feat to reduce the maturity mismatch in assets and liabilities. From the total outstanding amount of debt securities Rs.4 Bn represents the principal and the balance being the interest due at 31st December 2016.

Other borrowings of the Bank stood at LKR 9.5 Bn incorporated with term loan, securitized borrowings and refinance borrowings.



Shareholders' Funds

Total shareholder funds rose by LKR 222 Mn to LKR 5.5 Bn at 31st December 2016, due mainly to the reported profit for the financial year 2016. The existing capital base of LKR 5.5 Bn fulfills the minimum capital requirement of the Central Bank of Sri Lanka as at 31st December 2016. However, according to the monetary and financial sector policies for 2017 and beyond, presented by the Central Bank of Sri Lanka, Licensed Specialized Banks (LSB) are required to strengthen capital positions in line with Basel III capital standards. Accordingly, all LSB's are required to increase its capital base to LKR 7.5 Bn. In order to comply with this, bank has entered into strategic investment agreements with International Finance Corporation (IFC), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO") and SBI-FMO Emerging Asia Financial Services Fund to mobilize a total sum of LKR. 2.41 Bn as equity and Tier II capital which fulfills the LKR 7.5 Bn capital requirement.

Capital Adequacy

The Bank's capital adequacy ratio was figured based on Basel II requirements. The composition of capital and risk weights assigned to the on and off balance sheet assets are considered as per guidelines issued by the Central Bank of Sri Lanka. The Tier 1 capital of the Bank consists with paid-up ordinary shares, statutory reserve funds, published retained profits, general and other reserves after deducting other intangible assets and 50% investments in the capital of other banks and financial institutions. The Bank's Core Capital (Tier 1) stood at LKR 5.5 Bn as at 31 December 2016. The Capital Base (Tier II) of the Bank includes Tier I capital, general provisions after deducting 50% of the investments in the capital of other banks and financial institutions. The Bank's Capital Base (Tier II) was stood at LKR 5.7 Bn. when calculating Risk Weighted Assets (RWA) of the Bank. The prescribed approach by the Central Bank of Sri Lanka has been used and arrived at following rates at the end of respective years

	As at December 31st		Statutory Minimum
	2016	2015	
Tier - I	11.80 %	12.07%	5%
Tier I & II	12.27%	12.51%	10%

The capital adequacy ratio (CAR) dropped marginally in 2016, mainly due to the increase recorded in the loans and advances portfolio of the bank. Nevertheless this drop has been offset due to the amount of funds being transferred to Government Securities portfolio maintained to fulfil liquidity requirements.

The bank prepares the Internal Capital Adequacy Assessment Process (ICAAP), a requirement under pillar 2, the supervisory review process of with Tier Basel - II framework, based on figures as of 31 December 2015. The results indicates that the bank is well within the minimum ratios as stipulated under the guidelines of ICAAP document.

The Bank has long benefited from a strong bedrock of capital which has provided much stimulus in achieving solid business growth and resilience. With the proposed fresh capital infusion, the bank is fully geared to fulfill the minimum capital requirement of Basel III standards.

Liquidity

The bank maintained its liquidity position within the approved risk appetite and tolerance limits. Appropriate liquidity buffers were held in line with regulatory, prudential and internal stress testing requirements, taking into account the market conditions.

Throughout the year the Bank maintained its statutory Liquid Asset Ratio well above the minimum threshold of 20% prescribed by CBSL. Further, the bank maintained an average Liquidity Coverage Ratio (LCR) of 270.86% which was comfortably in excess of the regulatory minimum requirement of 70%.

To further strengthen the capital base the Bank successfully accessed international Development Financial Institutions (DFI) to meet term funding and capital requirement and entered into agreements to raise LKR 3.3 Bn in the form of senior and subordinated debt and equity in 2017.

Asset Quality

The bank's cautious recovery efforts, the prudent credit evaluation policies and process strengthened the asset quality of the Bank and enabled it to maintain a Gross Non-Performing Loan (NPL) ratio at 2.10% which was comparably lower than the preceding year at 2.37%. Net Non-Performing Loan ratio was stood at 0.04% in 2016 compared to the rate of 0.07% in 2015. The Bank has consistently maintained its NPL ratio well below the industry average. In 2016, the industry gross NPL ratio was 2.6% and the movement of the gross and net NPL ratios of the Bank and Industry for the last five years are depicted below.

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Fig. 20: Comparison of SLFRS 9

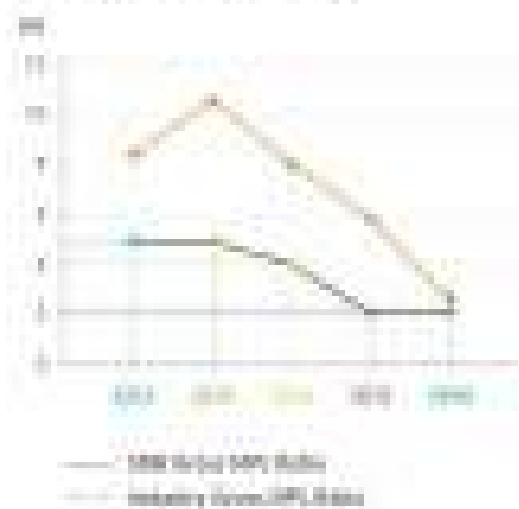
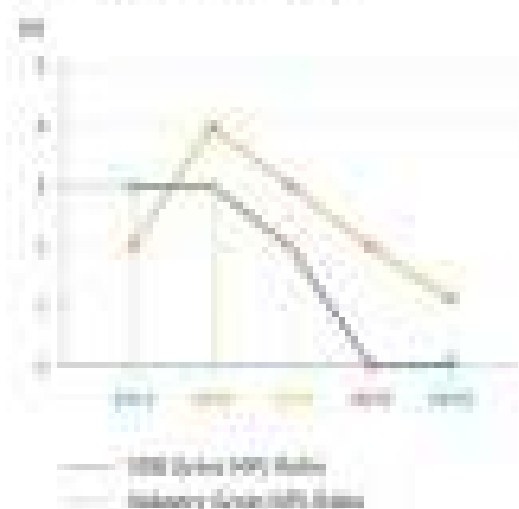


Fig. 21: Comparison of SLFRS 9



Key Accounting Concepts under SLFRS – 9 Financial Instruments

Sri Lanka Financial Reporting Standards (SLFRS) is the rule book that the bank is required to comply with in preparing and presenting its financial statements.

SLFRS currently requires that credit impairment charges (losses on debt assets) are recognized only when an event happens that could lead to future loss. Regulators suggested that the accounting standards contributed to the 2008 global financial crisis and that banks generally had insufficient impairment allowances. SLFRS 9 was developed by the Institute of Chartered Accountants of Sri Lanka and is in line with the IFRS 9 developed by the International Accounting Standards Board (IASB) over a period of six years following the wake of the financial crisis. It will replace the existing accounting standard for financial instruments (LKAS 39) with effect from 1st January 2018 and contains new accounting rules which will impact the following areas.

- ▶ Classification and measurement of financial assets
- ▶ Accounting for changes in credit risk for certain financial liabilities
- ▶ Hedge accounting for financial risks
- ▶ Impairment of debt financial assets

SLFRS 9's biggest change is the new impairment calculation method. LKAS 39 currently requires impairments to be calculated on an incurred loss basis, whereas SLFRS 9 will require impairments to be calculated on an expected loss basis which incorporates forward-looking judgmental assumptions. This will result in impairments being recognized earlier in a debt asset's life. The incorporation of forward-looking information, which seeks to incorporate into loan loss provisioning events that are expected to happen in the future, differs from existing accounting rules which are 'rear-view mirror' based and rely solely on events that have already happened up to and including the reporting date.

Importantly the impairment requirements apply, as is currently the case, to those debt assets that are subsequently measured on an amortized cost basis. These rules also apply to off-balance sheet facilities such as overdrafts, credit card and mortgage loans' unused facility limits. The requirements are best explained in terms of the following three stages.

Stage 1: Performing Loan book

This stage includes exposures for which there has been no default event and for which the credit risk has not significantly increased since origination. A 12-month expected loss will be required to be recognized, being the lifetime loss associated with defaults that are expected to arise in the next 12 months.



Stage 2: Significant increase in Credit Risk

This stage includes exposures for which there has been a significant increase in Credit Risk since the date of origination. A life time expected loss will be required to be recognized, being the lifetime loss associated with defaults that are expected to arise over the lifetime of the exposure.

Stage 3: Default

This stage includes debt assets that have met the default criteria, or for which there is imminent default. A lifetime loss will also be required to be recognized for these debt assets.

From 1st January 2018, the bank is required to be SLFRS 9 compliant. Compared to existing accounting requirements, SLFRS 9 is expected to require higher impairments earlier in a debt asset's life and the recognition of losses on off-balance sheet facilities. Together this will result in a higher overall balance sheet impairment requirement. This difference is expected, on transition to SLFRS 9, to be recognized as a debit to the Bank's retained earnings.

It is anticipated that the impact will be significant to the Bank. Third-party market research in this regard suggests a potential increase in total balance sheet impairment provisions of 33% for the banking sector. The Bank's SLFRS 9 models are currently being developed and accurate predictions at this stage are therefore not possible, but a potential impact in this range is plausible.

Ultimately the total lifetime loss of a non-recoverable loan remains the same under both current accounting standards and SLFRS 9. In the long run it is all about the timing of the recognition of impairments with SLFRS 9 requiring the losses to be recognized earlier than under existing accounting standards.

The bank's SLFRS 9 project has achieved the following notable milestones :

- ▶ A consultant has been appointed to handle the entire SLFRS 9 convergence process with a formal project plan
- ▶ A gap analysis has been performed to identify the required measures to be taken. Policies that provide guidance on key SLFRS 9 requirements, have been developed
- ▶ Development of prototype SLFRS 9 impairment models is currently in progress
- ▶ Work has commenced on the Bank's proposed IFRS 9 disclosures
- ▶ The Bank has presented to the Board of Directors on the SLFRS 9 implications for the Bank
- ▶ Training on the new requirements to both business and executive levels is in progress

Product Profile & Marketing Review

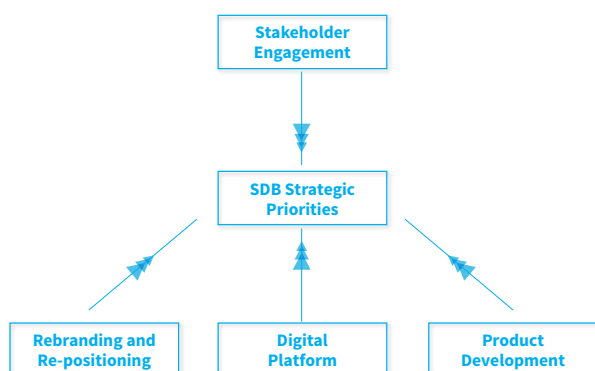
Throughout SDB's 19 year journey marked by social and economic challenges that tested the Bank's resilience and innovative spirit, the Marketing function led the initiatives to build strong relations with stakeholders and communicate SDB's strategic vision to those with vested interest in the same journey towards prosperity and growth.

During the financial year being reported the Marketing Department collaborated with other departments to spearhead the transformation campaign of SDB as the Bank extended focus from micro finance to SME sector.

SDB has island-wide coverage through a strong network of 88 branches and 65 field officers including 18 Co-operative officers.

The Bank's market segment includes:

- ▶ Co-operative
- ▶ Women & Youth
- ▶ Senior Citizen & Children
- ▶ Retail & SME



External Stakeholders	Engagement	Internal Stakeholders
Investors	Web	Employees
SANASA Societies	Print Media	Directors
Regulators	Social Media	Management
Auditors	Dialogue	
International Agencies		
Suppliers		
Customers		

SDB Product Profile G4-4

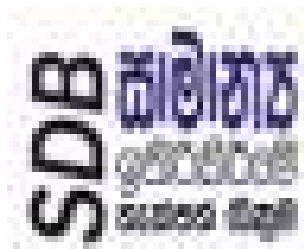
- ▶ Savings products and fixed deposits
- ▶ Loans
- ▶ Leasing
- ▶ Pawning
- ▶ Foreign currency services
- ▶ Refinance schemes / subsidized
- ▶ Credit schemes and grants
- ▶ e - Channelling
- ▶ SMS Banking
- ▶ ATM Services

PRODUCT PORTFOLIO ▶▶▶

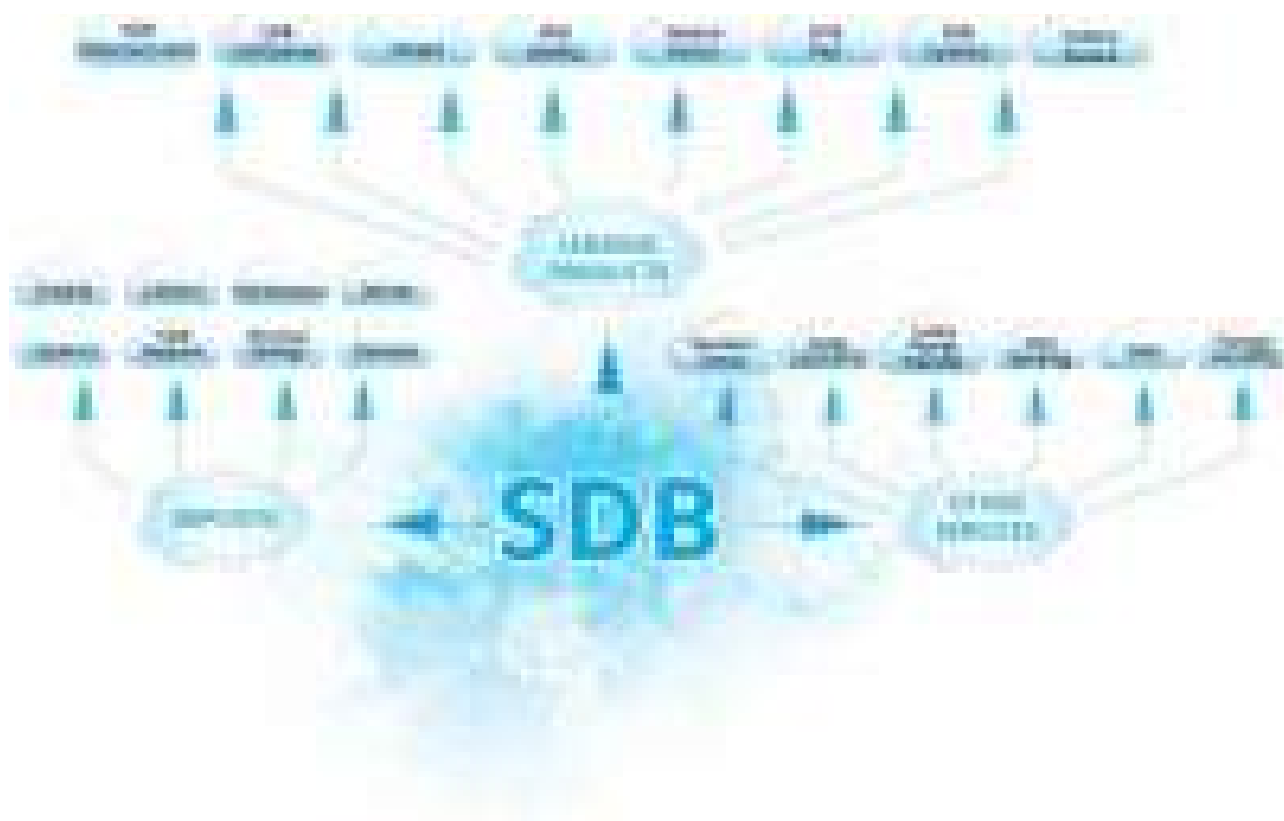
SAVINGS PRODUCTS ▶▶▶

SDB provides a comprehensive range of savings products from standard saving products, high interest rate fixed deposits to special savings accounts for specific groups. SDB's country-wide palm-top banking officers take banking to customers' doorsteps to address their banking requirements on the spot.

SDB Standard Savings Scheme ▶▶▶



The SDB Standard Savings Scheme offers attractive rates of interest while retaining the facility of withdrawing the money wherever and whenever the customer wants. Its sole purpose is to foster the habit of thrift in the customer. The personalized SDB VISA Debit card can be used at any SDB ATM or any other ATM with the VISA logo around the country.



[Lakdaru ▶▶▶](#)



Lakdaru is a children's savings account offering attractive gifts, insurance scheme and scholarships, with a higher rate of interest.

[Dayada ▶▶▶](#)



SDB Dayada is a children's investment scheme offering a guaranteed return certificate range from Rs 5000/= to Rs 1 Million for children less than 13 years of age. The beneficiaries can encash the certificates upon reaching the age of 18 years.

[Jawaya ▶▶▶](#)



"SDB Jawaya" is a financial package tailor - made for young entrepreneurs and professionals with a higher interest rates for savings and low interest rates for loans which can be used to start a business, expand a business, for working capital needs and / or build up assets.

[Uththamavi ▶▶▶](#)



"SDB Uththamavi is a financial package exclusively designed for women with higher interest rates and loan facilities with low interest rates for women entrepreneurs and professionals.

Product Profile & Marketing Review Contd.

Dashaka ▶▶▶



Dashaka is a savings account with a higher rate of interest.

Upahara ▶▶▶



Upahara is a savings deposit scheme, especially designed for senior citizens to provide financial care and convenience.

SDB Ayojana ▶▶▶



SDB Ayojana account is a debt-free, stress free solution that helps to realize dreams, which provides,

- ▶ Highest rate of interest during the period of investment.
- ▶ Customized plans according to the capacity to invest.
- ▶ Freedom to choose the amount and period of investment.

LOAN FACILITIES ▶▶▶

Designed to empower economic and business growth of various economic segments of the country through Micro Credit, SME loan facilities and special credit facilities to the armed forces and senior citizens. SDB loans cater to a comprehensive range of customers.

SANASA Micro Credit for Micro Entrepreneurs ▶▶▶

This credit facility caters mainly to the rural sector who have limited access to institutional credit facilities across the country, to start and develop cottage industries and micro enterprises.

SANASA Co-operative Society Loans ▶▶▶

This loan facility is aimed at Co-operatives registered with the Co-operative Department. These include other Co-operatives as well as SANASA societies.

SME Plus ▶▶▶



SDB SME loan scheme funds 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

SDB Upahara ▶▶▶



This is a tailor-made loan scheme especially designed for retired government sector employees, CEB and Central Bank pensioners. The ultimate objective is to re-establish these segments back to the workforce and to get their contribution towards the country's economic development.



[SDB Personal Loan ▶▶▶](#)



SDB personal loan facilities cater to permanent employees of the Government sector, Semi – Government institutions and private sector institutions.

[Sonduru Sevana ▶▶▶](#)



Sonduru Sevana is a housing loan that facilitates home construction or purchase, purchase of a block of land and constructing a residence, as well as extension addition to completed or partially constructed houses and alterations or repairs of an existing residential house.

[Uththamachara ▶▶▶](#)



Uththamachara is a loan facility specially designed for families of retired war heroes to support income generating activities. Categories that are eligible for this loan scheme include, disabled forces personnel, widows / spouses of demised forces personnel, fathers / mothers of demised unmarried forces personnel, unmarried / unemployed siblings of demised, unmarried forces personnel

[Swarna Kirana ▶▶▶](#)



Swarna Kirana is a pawning facility which can be obtained as a loan to meet urgent cash requirement by pawning gold or gold jewellery.

[SDB Leasing ▶▶▶](#)



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

[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 re-finance schemes and one grant programme in operation.

Product Profile & Marketing Review Contd.

FOREIGN CURRENCY SERVICES ▶▶▶

SDB offers money remittance facilities for Sri Lankan migrants and is authorized to deal in foreign currency notes.

Foreign Currency Transactions ▶▶▶



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:

- ▶ US Dollars
- ▶ Sterling Pounds
- ▶ Australian Dollars
- ▶ Euros
- ▶ Singapore Dollars
- ▶ Japanese Yen

Western Union ▶▶▶



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.

Lanka Money Transfer ▶▶▶



Customers of SANASA Development Bank could get their foreign remittances directly to the account instantly through Lanka Money Transfer. This service can be used to remit money from UAE, Qatar, Oman and Kuwait through their agencies directly to customers' accounts. Having the remittance in their account they could withdraw according to their need and earn an interest for the balance.

mCash ▶▶▶



Through this mCash service customers of SDB can pay utility bills, insurance premiums and leasing installments and deposit money in their mCash account.



Marketing Review ►►►

In the financial year ended December 2016, the marketing campaigns conducted to communicate and strengthen SDB's strategic overtone in SME-focused business approach included SDB new logo unveiling as well as strategic print, electronic and digital media and stakeholder engagement campaigns conducted throughout the year between well placed time slots.

In line with the Bank's fresh strategic direction, the Marketing efforts of the year 2016, focused on repositioning SDB's image in the public eye and building the industry perception and external shareholders' view of the Bank. The strategic shift of the Bank's marketing efforts initiated and utilized a well-thought-out plan of action involving stakeholder engagement (government, key players in the local and global SME sector), intensifying presence in the print and electronic media universe as well as leveraging on the advantageous of the ever-evolving digital media platforms. The overall corporate positioning drive also leveraged on the Bank's industry partnerships, community development activities designed to empower and educate women, youth, children, senior citizens and the co-operative sector.

New Logo Unveiling ►►►

SDB launched the new logo as part of the Bank's restructuring programme to enhance the scope of services provided with special focus on SME empowerment. The new logo symbolizes SDB's new corporate identity. However the trade mark change does not affect the Bank's company registration which remains unchanged as SANASA Development Bank PLC.



The logo change sought to address a number of concerns that emerged as part of the Bank's new direction. The logo change will enable SDB to appeal to a new customer base, strengthen risk management strategies, appease regulator concerns and reposition the Bank's image in line with new strategic goals.

Reasons for selecting Blue and Grey Colours

Blue is the colour of sky and the sea. It is often associated with depth and stability. It symbolizes trust, loyalty, wisdom, confidence, intelligence, faith, generosity and truth. This represents developing and maintaining highly competent and motivated team of employees committed to the achievement of excellence in service.

Darker shades of Grey can be softer than plain Black. The Grey colour indicates the equanimity, fair and justice and Grey is the symbol of security and maturity. It connects responsibility. This represents providing high quality, innovative and competitive financial products and services to customers while combining co-operative values and principles. As the Bank's genes are from the Co-operative movement, this is in line with original values.



Product Profile & Marketing Review Contd.

Maintaining the Core Identity ▶▶▶

Although the Bank is headed in a new direction, the key values adopted at the Bank's inception remains unchanged. The marketing strategies of the year 2016 remained faithful and reinforced the fundamental focus of SDB which focused on economic and business growth of our customer base as the choice of the bank in the co-operative sector. The Bank's principles, formulations, co-objectives and fundamental focus remains unchanged while preparing the Bank to face the novel system where we can successfully tackle the competitive environment.

Branding Guidelines ▶▶▶

The Marketing department of SDB developed a branding guideline manual to further establish the Bank's distinct corporate identity and instill the brand message in the public eye. SDB adheres to the brand guidelines in all situations in which the Bank operates and communicates with all its stakeholders. SDB's brand guidelines set down methods of maintaining visual continuity and brand recognition across all physical manifestations of the brand including colour palettes, typefaces, page layouts, spatial arrangements, sizes and proportions.

In order to maintain uniformity and consistency, SDB adheres to the brand guidelines in all communication platforms and occasions such as Lakdaru seminars, gift items, stationary, website, social media platforms as well as in the branch network of 88 branches islandwide.

Corporate Positioning ▶▶▶

In the year 2016, the Bank's corporate positioning trajectory changed in accordance with the Bank's re-engineering efforts that targets the country's Small and Medium Entrepreneur (SME) sector. SDB's corporate positioning requirements, evolved with the Bank's progress towards realizing the end objectives of the founders' vision which began from a co-operative movement and envisioned becoming a part of the country's economic and social progress. The Marketing efforts in the year 2016 focused on communicating and strengthening the Bank's capability to leverage on 19 years of experience in the Micro finance sector to unveil a powerful range of products and services to support the SME sector.

To well-establish this market position, the Bank took a multipronged strategy and reached out to the country's SME eco system through entrepreneurship partnership forums, the Vaywasaya exhibition as well as specific activities targeting women, youth, children, senior citizens and the co-operative sector.

Brand Visibility ▶▶▶

A systematic, well-thought-out plan was put into action during the year to enhance SDB's brand visibility across the country. Among these activities numerous CSR projects (some in the hour of need) were carried out. Some of them include :

- ▶ SDB Lakdaru Mehewara Grade 5 Scholarship Seminar Series held in district wise across the country
- ▶ Relief donation campaigns in flood-affected areas during the national flood crisis
- ▶ Participation and contribution to the Trail - Walk to assist the fight against cancer
- ▶ Vesak Dansal organised at regional level in different cities across the country

Entrepreneur Engagement ▶▶▶

SDB launched a series of entrepreneurship related campaigns and engaged in creating awareness on its SME - focused new business approach throughout the financial year ended December 2016. The Bank conducted marketing campaigns to produce a holistic impact on Sri Lanka's SME eco-system.

Entrepreneurship Forum ▶▶▶

SDB initiated forums to discuss Credit facilities aimed at young entrepreneurs in partnership with Small Enterprises Development Division (SED). The event focused on educating potential young entrepreneurs on the facilities available to fund start-up businesses with particular focus on the SME sector. The ultimate goal of the forum was to establish a common platform for SME development in Sri Lanka.

Vyawasaya 2016 ▶▶▶

SDB Bank was the official banking partner of the Vyawasaya 2016 exhibition which provided a platform for entrepreneurs and home-based business owners to showcase their products. SDB played a key role in the Vyawasaya (entrepreneurship) 2016 Exhibition and Trade Fair 2016 as the official banking partner. Organized by the Small Enterprise Development Division of the Ministry of National Policies and Economic Affairs, the event was held from 1st to 3rd April at the BMICH and offered a valuable platform for SME sector to network and share concepts.

A range of SME products including textile, handicrafts, leather, food, renewable energy products and ayurvedic products took to the stage during the exhibition. The event proceedings included an awards ceremony to appreciate the achievements of Small and Medium Entrepreneurs.



Women Entrepreneur Engagement ▶▶▶

SDB re-launched the Uththamavi account with added features to empower women entrepreneurs. The re-introduced facility provides a special interest rate of 6 percent per annum as well as low interest loan facilities tailor-made to suit the nature of each business. The self-employment for which low interest rates apply include:

- ▶ Coir production
- ▶ Food preparation
- ▶ Products associated with soft drinks
- ▶ Leather and leather related products
- ▶ Garment production
- ▶ Wood and wooden products
- ▶ Agriculture
- ▶ Animal husbandry
- ▶ Handicraft production
- ▶ Industrial products
- ▶ Fruit and flower cultivation
- ▶ Packaging industries
- ▶ Ceramic Products
- ▶ Spice related industries
- ▶ Garage and other service stations
- ▶ Beauty parlours
- ▶ Small scale communication units

On Women's Day 2016, SDB conducted a special programme at the Ex-Army Service Association Auditorium to inspire interest in entrepreneurship amongst spouses of war heroes killed in action. The event was an opportunity for participants to gather valuable knowledge about initial steps to commence a SME business, available SDB loan facilities as well as methods of obtaining training facilities. The event line up also included a cookery demonstration. In the year 2017, the Bank plans to conduct forums of this nature island wide to empower women.

Senior Citizen Engagement ▶▶▶

In line with the Senior Citizen's day objectives, SDB provides a special loan scheme for senior citizens through the Upahara loan scheme to re-integrate senior citizens to the workforce through tailor-made loan schemes to assist economic and business growth.

SDB participated in the Pensioners Day programme 2016 at the Pensioners Holiday Resort, Wedamulla, Kelaniya with the collaboration of Pensions Department to educate senior citizens of credit opportunities.

In Sri Lanka, the number of retired government professionals is 575,000 while statistics indicate that by 2050, the country's senior citizens will make up 25% of the overall population.

(Source: World Bank Report)

To help the aging population and retired professional to rejoin the workforce, SDB provides tailor made banking packages that include a savings scheme as well as a loan facility for income generating activities.

Engaging Children ▶▶▶

The Bank launched a special Lakdaru promotion targeting the World Children's Day and Savings Month. For every new Lakdaru account that was opened during this period, SDB Bank provided a sum equivalent to the sum deposited by the account holder subject to a limit of Rs.1,000 and a sum of up to Rs.5,000 in respect of standing orders.

SDB conducted a series of Lakdaru seminars to assist children sitting for grade 5 scholarship programmes as well as 'Bodhi Pooja' (blessing ceremonies) to encourage children island-wide. Parallel to Lakdaru seminar series, parents too were given the chance to participate in interactive seminars that discussed philosophies of raising responsible children.

SDB conducts a reward scheme for children who qualify through the grade 5 scholarship programme, GCE Ordinary Levels as well as Advanced Levels with rewards worth Rs 50,000/=.

To encourage children's' savings habits, SDB offers timely gifts such as informative world maps to children who have SDB savings accounts.

On world children's day, SDB conducted an art competition for children themed 'My dream' through the Bank's official Facebook page.

Product Profile & Marketing Review Contd.

Media Campaigns ▶▶▶

Several media campaigns were successfully carried out during the year supported by a media buying strategy and media monitoring.

In order to ensure SDB's presence throughout the year on print, radio and TV, the Marketing Department implemented a Public Relations and Media Buying strategy through a reputed media scheduling agency.

Main Objectives of the Media Buying Strategy ▶▶▶

1. To promote and reinforce SDB's presence throughout the year
2. Efforts to book prominent media space in advance to maintain an advantage over competitors
3. Obtain cost advantage with bulk booking
4. Select most effective channels and vehicles by analyzing available opportunities and buy those effectively
5. Reach target groups effectively by obtaining maximum reach and frequency through continuous presence
6. Credit period for the investment
7. Obtain assistance of professionals in media industry to manage adverse publicity against SDB

Key Marketing Objectives of Media Buying Strategy ▶▶▶

1. Gain higher share against the competition by reaching out to new customers
2. Approach customers who are with competitors
3. Enhance the corporate image of the Bank through consistent presence on media channels throughout the year
4. Increase value from existing customers by optimizing the existing products

Digital Engagement ▶▶▶

SDB carried out customer and general public engagement campaigns via the Bank's digital platform to communicate the Bank's brand message and enhance market presence through direct engagement. The social media campaigns and competitions in particular engaged the younger generation.

Corporate Website Relunched ▶▶▶

SDB relaunched the corporate website with added features and a more user friendly interface to reflect the Bank's reengineering efforts and new corporate positioning. A joint effort by the Marketing Department as well as the IT department, the new website is closely aligned with the Bank's strategic vision for growth and expansion over the next decade and beyond.

The website was redesigned to improve functionality through an easy to navigate functionality as well as a content rich experience to reflect the SDB brand and the products and services offered in a clear and a concise manner. In order to cater to the Bank's growing customer base, the website is also optimized for Smartphone display.

The website provides online application forms in all three languages, a feature designed to approach a wider customer base.

Official Facebook Page ▶▶▶

In the year 2016, SDB launched its official Facebook page to fulfill the strategic goals of providing a delightful experience to customers through value added service" and "Introducing a comprehensive digital platform to future proof the Bank". Throughout the year 2016, SDB reached these objectives by maintaining an updated and an interactive social media presence via the official Facebook page which involved interactive competitions and informative and engaging videos.

Digital Advertising ▶▶▶

In order to reach out to the ever-evolving audience, the Bank launched a comprehensive digital advertising campaign that utilized well-placed advertisements on digital platforms on and offline including super markets and railway stations.

SMS and Email Campaign ▶▶▶

To further strengthen the Bank's brand image and market position, SDB utilized an SMS and Email campaign to deliver specific messages to a target audience.

Call Centre ▶▶▶

In accordance with the Bank's strategic plan, SDB successfully launched the call centre, in order to fulfill the strategic goal of "Providing a delightful experience to customers through value added service". The call centre is open daily from 7 00am to 11 00pm and manned by a team of professionals capable of conversing in Sinhala, Tamil and English languages to assist customers. In order to maintain efficiency and value, the Bank conducts progress review meetings monthly and document meeting discussion points for future reference. The Marketing department constantly updates the call centre and conducts TOT (Train of Trainers) training programmes.



Sustainability Report

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- 101 Responsible Services



Small and Medium Entrepreneurship (SME) Development

During the financial year ended December 2016, SDB adopted a SME focused strategy designed to enrich the SME ecosystem in Sri Lankan communities while retaining the Bank's cooperative model. To communicate the enhanced strategy, SDB unveiled a new logo that represents the Bank's focus on entrepreneurial development and contribution to economic growth. SDB has formulated a strategic approach to enhance the Bank's capacity to provide knowledge and capital for young entrepreneurs in rural and welcome them to the development of the national economy by introducing them to government and private sectors.

Contribution to Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) G4-EC3

SDB contributes to the statutory Employees' Provident Fund (EPF) 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. While individual employees contribute 8% of their salary to the EPF they do not contribute to the ETF.

Contribution	2016 (LKR)	2015 (LKR)
Bank EPF contribution	119,599,194	91,715,439
Bank ETF contribution	25,563,050	19,654,168

Indirect Economic Impact

SDB's close links to community development and economic empowerment of rural and marginalized communities contribute to the Bank's extensive and impactful indirect economic impact.

- ▶ Contributing to SME development through capital and knowledge provision.
- ▶ Contributions to rural poverty alleviation through micro credit.
- ▶ Supporting the development and formalization of informal sector enterprises that are traditionally not catered to by banks.
- ▶ Empowering rural women through micro credit.
- ▶ Re-integrating senior citizens into the formal economy through the provision of credit to start income generating activities.
- ▶ Presenting individuals who retire from the armed forces after serving their mandatory period as well as their families, the opportunity to contribute to the country's economy.
- ▶ Acting as a conduit to channel international development aid into rural societies.
- ▶ Enhancing community economic capacities through training for co-operatives.

Engaging Our Stakeholders

G4-24, 25, 26, 27, 37

Stakeholder Relationship

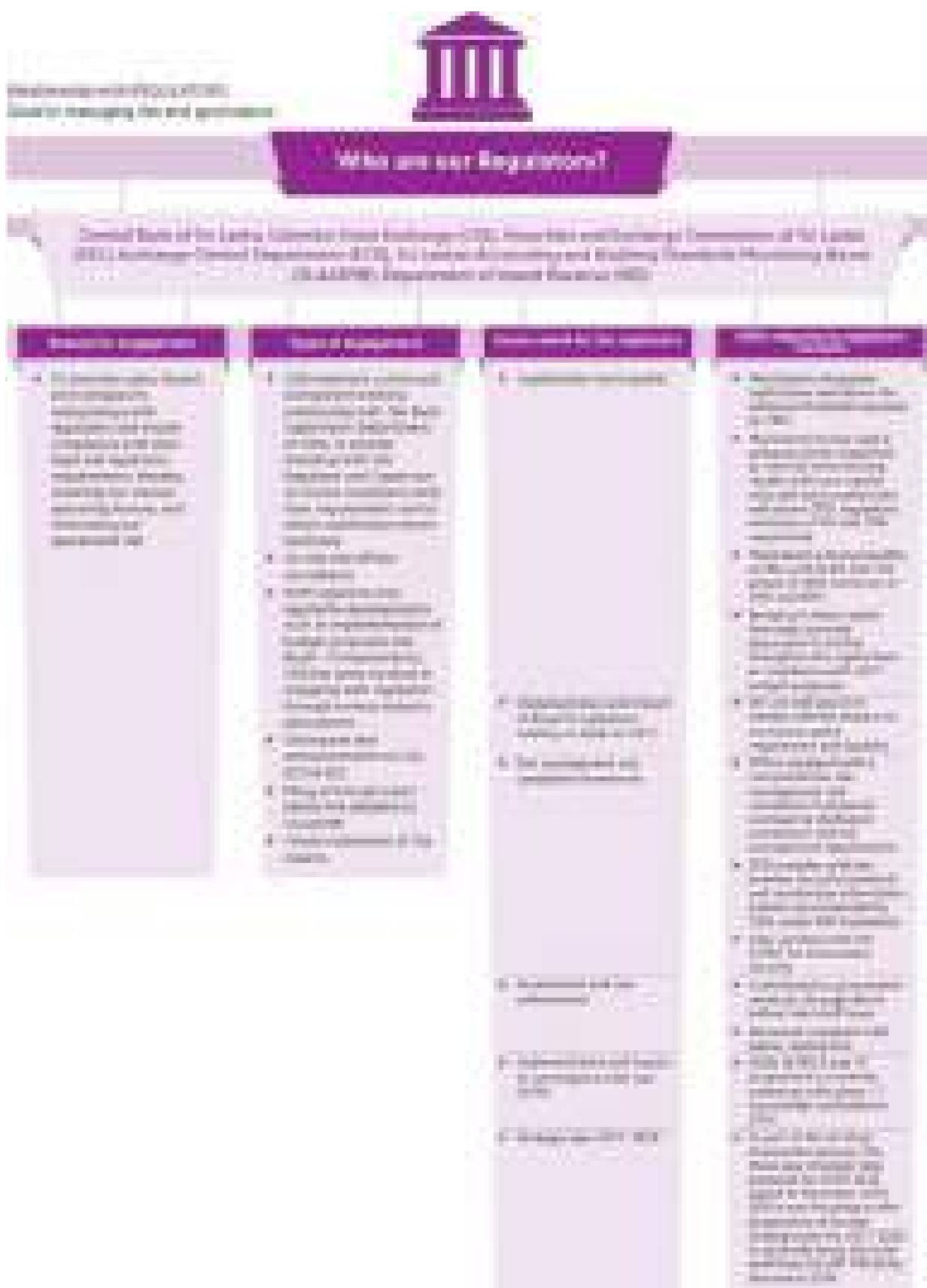
SDB employs a team of diverse talents working in synergy to provide comprehensive solutions to our stake holders to make SDB bank, the Bank of choice in the co-operative sector.





Engaging Our Stakeholders Contd.





Engaging Our Stakeholders Contd.



Contributing to Social Capital



G4-EC8

SDB has held a long-term and a well-established reputation as a responsible business entity with a deeply ingrained socioeconomic conscience and a business process that contributes to economic progress of grassroots communities. A significant share of SDB's banking services is provided to grassroots communities, channelled through Co-operative societies, including SANASA Societies, a process which not only supports formal enterprises but also supports the many grassroots informal enterprises that are not served by the formal financial sector. Such invaluable support for informal economic activities directly contributes to social capital through value creation and wealth creation, at grass root level.

Within the last two years, the Bank extended focus from microfinance sector to SME sector and implemented strategic efforts to strengthen the SME eco-system in Sri Lanka in terms of financial assistance as well as knowledge amelioration.

SME Plus

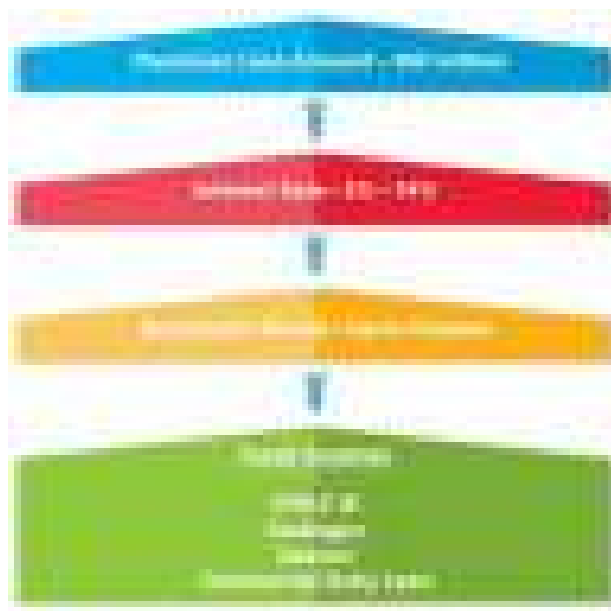
SDB facilitates SME Plus, a loan scheme designed to enable micro-entrepreneurs to take their businesses to the next level as Small and Medium Entrepreneurs. The Bank provides credit facilities towards business expansion as well as support services intended to enhance the skill set and knowledge base of entrepreneurs to achieve viable success in their business ventures.

As a development bank, SDB is entitled to all development finance facilities and refinance schemes conducted by the Central Bank of Sri Lanka and Re-Finance Institutions.

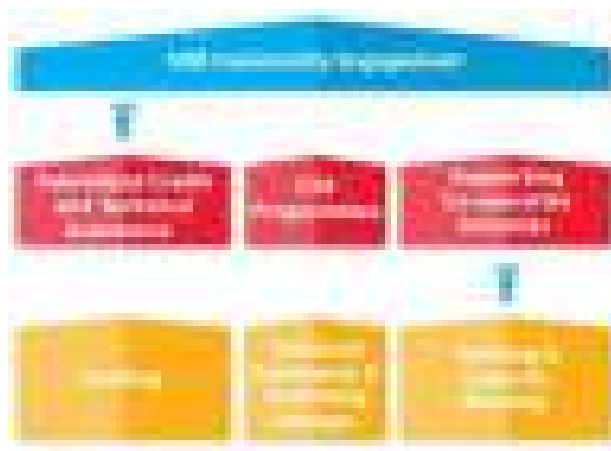
SDB provides this service for anyone who is involved in a commercial activity and for those who seek to generate more jobs as entrepreneurs.

The SME Plus market segment is focused on skilled and experienced government sector employees as well as private sector employees. Moreover, students who have successfully completed vocational and training programmes are also given equal opportunity under this loan scheme.

SME Plus



Community Engagement



SDB engages with communities across Sri Lanka via its extensive branch network of 88 branches while the Bank's mobile banking officers engage in direct two-way communication with grass root communities and Co-operative members to address challenges in business development and to actively prompt socioeconomic progress through constant technical and knowledge enhancement.

Contributing to Social Capital Contd.

Further SDB has two unique loans schemes, "Upahara", which is for the government retirees, who can use their vast experience, knowledge and networks to start up small enterprises and another "Uththamachara", for ex-armed forces personnel which helps link them to the mainstream of economic growth and enhance their standards of living while contributing to social wealth creation.

Feedback from these direct interactions is taken into account by channeling through to branch managers and regional managers at regular management meetings. This feedback is then taken into consideration when developing new products and services and fine-tuning existing ones, in credit disbursements and also in designing community support programmes.

SDB continues to be actively engaged in encouraging Co-operative societies to venture beyond their traditional micro credit domain, into large-scale public projects. 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, National Enterprise Development Authority and others.

The Public and Private Sector Partnership Forum

SDB initiated a series of special forums towards SME development in Sri Lanka with the participation of public and private sector officials. The forums focused on promoting a knowledge-driven SME culture in Sri Lanka through discussions and technical skill development. In line with the Bank's sustainable development goals, event participants were introduced to solar energy generation techniques as well as solar power products such as solar net metre system.

Empowerment of Women

In line with the strategic vision for SME sector development, SDB heightened focus on developing entrepreneurship amongst Sri Lanka's female population. The Bank re-launched the signature women's empowerment product 'Uththamavi' with value addition in terms of assisting women's entrepreneurial ventures. The re-introduced facility provides a special interest rate of 6 percent per annum as well as low interest loan facilities tailor-made to suit the nature of each business. The self-employment for which low interest rates apply include:

- ▶ Coir production
- ▶ Food preparation
- ▶ Products associated with soft drinks

- ▶ Leather and leather related products
- ▶ Garment production
- ▶ Wood and wooden products
- ▶ Agriculture
- ▶ Animal husbandry
- ▶ Handicraft production
- ▶ Industrial products
- ▶ Fruit and flower cultivation
- ▶ Packaging industries
- ▶ Ceramic Products
- ▶ Spice related industries
- ▶ Beauty parlours

Women's Day 2016

On March 26th 2016, SDB conducted a special programme at the Ex-Army Service Association Auditorium to inspire interest in entrepreneurship amongst spouses of war heroes killed in action. Held with the participation of representatives of the Ministry of National Policy and Economic Affairs, Ranaviru Family Counselling & Support Services, Ex-Army Service Association and Sewawanitha Unit - Air Force, the programme focused on a holistic approach to women's entrepreneurship development. The event content informed participants about initial steps to commence a SME business, available loan facilities as well as methods of obtaining training facilities.

Minimizing Negative Impacts

SDB's strategic involvement in socioeconomic progress stems from the desire to promote positive growth, therefore SDB does not engage in business activities that can result in a harmful impact on society. Guided by the principles of SANASA movement, SDB does not engage in transactions that are considered socially and environmentally harmful such as manufacture of alcohol, enterprises that destroy forest cover and businesses that engage in socially destructive activities such as betting centres.

Engaging with Co-operative Societies

SDB conducts training programmes for Co-operative societies to promote business growth and knowledge enhancement. In 2016, SDB conducted 05 national level and 169 regional level programmes to engage SANASA societies and other Co-operative societies.



Training programmes for societies covered areas of:

- ▶ Financial management
- ▶ National budget
- ▶ SME projects
- ▶ Leadership training
- ▶ Financial literacy programmes
- ▶ Product development for Co-operatives

SME Loans for Co-operatives

In 2016, the Bank disbursed LKR 556 Mn to Co-operative societies, as SME loans, which is about 28% of total SME disbursements. These funds were used for construction activities and services mainly in public projects. Some of these projects are described below:

- ▶ Gampaha DTCCS - LKR 150 Mn
- ▶ Galle Co-operative Hospital Ltd (Purchasing HP Laparoscopy System) - LKR 18 Mn
- ▶ Ukuwela TCCS - LKR 25 Mn
- ▶ Pallekale TCCS (Special Cashew Processing Project) - LKR 10 Mn
- ▶ Kotikawatta TCCS - LKR 100 Mn

Interest Subsidized 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 2016, SDB channelled funds for subsidised credit through the credit schemes listed below.

Loan Scheme	Funding Agency	Total Disbursement During 2016 (LKR)	Project Period	Purpose/ Target Segment
Awakening North	CBSL	1,150,000.00	05 Years	Income generating projects
Loan Pool	CCA	171,627,000.00	05 Years	Agriculture related projects only
Saubagya	CBSL	1,111,465,990.00	05 Years	Income generating projects
SMILE 111	MIC	280,102,410.00	10 Years	SME Projects
PAMP 11 RF / PAMP RF	CBSL	242,280,000.00	03 Years	Income generating projects
Small Plantation Entrepreneurs Development Project	CBSL	300,000.00	05 Years	Income generating projects
National Agribusiness Development Programme	IFAD	111,050,000.00	03 Years	Agriculture & Agribusiness
Self - Employment Promotion Initiative Loan Scheme PHASE 11	CBSL	500,000.00	05 Years	Technology areas for NVQ Level 1-4, 5& 6

Contributing to Social Capital Contd.

CSR Engagement

Our philosophy of enabling social advancement drives us to conduct individual community service programmes that contribute to this goal. We focus on encouraging our employees to play an active role in these programmes. Our focus centres on solutions that promote unity and address grassroots community requirements.

Following are a few of the CSR programmes conducted by SDB during the financial year ended December 2016:

Nelum Mal Pooja

Every year on the first weekend of January, SDB starts off the new year with the annual Lotus Flower Offering and Kiri Ahara Pooja at the sacred sites of Sri Maha Bodhi and Ruwanweli Stupa. This event, organised by the SANASA Federation, brings together a large number of people including SDB employees from all branches, members of SANASA societies and the general public.



Blood Donation Campaign

The head office staff of SANASA Development Bank (SDB) successfully organised a blood donation campaign for the third consecutive year for the patients at National Cancer Institution recently on 14 January at SDB Head Office located at No. 12, Edmonton Road, Kirulapone, Colombo 6. The Bank's management, employees, customers, officers of other private and government institutions as well as residents of the area participated in the campaign.



SDB Lakdaru Grade 5 Scholarship Seminar Series

A series of seminars for students who were to sit for the grade 5 scholarship examinations in 2016 was organised with the sponsorship of Lakdaru Account of SDB. The seminars were held in Dehiwala, Embilipitiya, Kegalle, Matara, Tangalle, Kandy, Anuradhapura, Ampara, Chilaw, Kurunegala, Maharagama in Sinhala medium and the Tamil medium seminars were held in Jaffna, Trincomalee and Batticaloa.

Model exam papers, which were designed by a panel of expert lecturers targeting the grade 5 scholarship exam, were discussed with the students who attended these seminars. In parallel to the seminar, an awareness programme for the parents was also organised at the same location, focussing on attitudes and child philosophy.



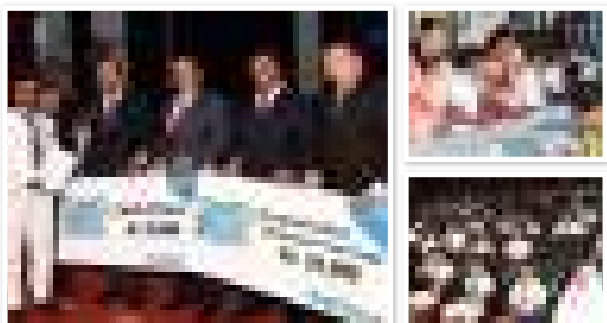
SDB Scholarship Achievers 2016

SDB bank organized a special award ceremony for Lakdaru account holders who have qualified grade five scholarship examinations in 2016 and the grand felicitation was held at the Kularathne Hall, Ananda College, Colombo 10 on Thursday, the 29th December 2016.

"Lakdaru" account holders who have qualified for grade five scholarships in 2016 with flying colours were rewarded with medals, certificates and other valuable gifts. "Lakdaru" account holders who are within the island top 5, were eligible to receive a Rs. 50,000/= worth of Dayada Investment Certificate, while the "Lakdaru" account holders who are within the island top 25 were eligible to receive Rs. 20,000/= worth of Dayada Investment Certificate.

Further to the above, awards were presented to the winners of the SDB official Facebook page art competition which was held in line with the World's Children's Day.

Over 300 grade 5 scholarship winners have taken part in the ceremony along with their parents.



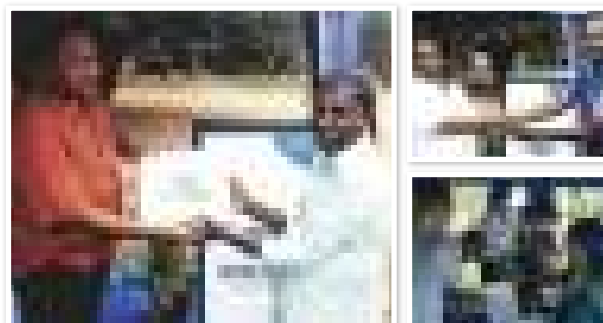
SDB participation in Trail 2016

On the final day of the islandwide Trail walk which covered 670 kilometers around the island in 28 days, SDB employees took part in the Trail Sri Lanka trek (Walk to unite and heal) from the Matara SDB branch. Trail Sri Lanka engages corporate entities to take part in an islandwide walk to raise funds to build a new cancer unit for the Karapitiya Teaching Hospital in Galle. SDB participants handed over their generous donations as well as the money collected during the walk to chief organizer Mahela Jayawardena. Trail Sri Lanka mirrors SDB values of community growth through unity. Trail 2016 traversed the country in the spirit of unity from October 6th to November 2nd.



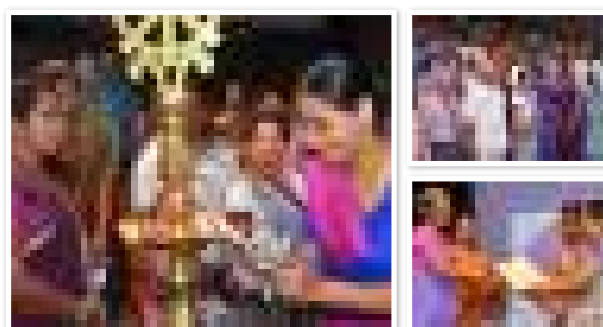
Pensioners Day Programme 2016

SDB held a pensioners day programme in collaboration with the Pensions Department of Sri Lanka at the Pensioners Holiday Resort, Wedamulla, Kelaniya on Saturday, 08th October 2016. The event lineup included activities that introduced SDB's investment and loan facilities and how those could assist senior citizens of Sri Lanka to empower their own economic standing and become valuable participants of the country's economic progress. The Bank organized a raffle draw during the event and presented valuable gifts to the participants.



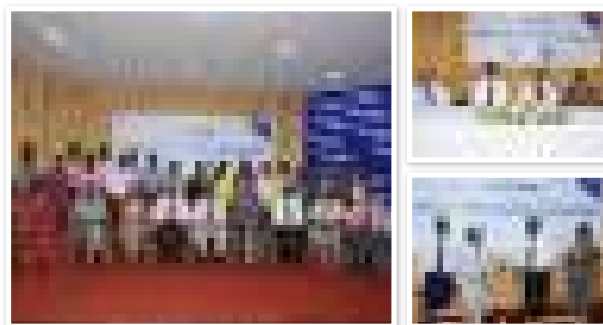
International Women's Day

Celebrating World's Women Day 2016, SDB organized a special event themed "Samabara Kathak - Suwabara Hetak" on March 3rd 2016 at the Sri Sambuddhathva Jayanthi Mandiraya Colombo."



Scholarship for the Co-operative Sector

SDB scholarship scheme provided full scholarships to 25 students to complete a degree course within 4 years in collaboration with UGC approved SANASA campus. Developed for the members, employees or children related to Co-operative sector, the SDB scholarship programme provides higher education opportunities to students who miss out on entry to National Universities to pursue higher education.



Contributing to Social Capital Contd.

Uththamavi Women's Day activities for Ranaviru Families

SDB held a successful Uththamavi programme to celebrate Women's Day with family members of ex-armed forces including spouses and parents of War Heroes as well as differently able ex-armed forces and retired professionals of armed forces. Organized at the at Ex-Army Service Association Auditorium, Colombo 01, the programme was a solid platform to educate women about SME prospects available to women as well as small scale self-employment opportunities. Throughout the event, participants were able to obtain information about training opportunities available for women Small and Medium Entrepreneurs (SME) by the SED division and the Ministry of Industry and Commerce. Participants also gathered an in depth understanding of saving habits and loan schemes available for aspiring business women. The event which also featured a culinary demonstration by Mrs. Shantha Mayadunne and a magic show mainly targeted at the children present concluded with a raffle draw.



SDB bank sponsors Vyawasaya 2016 Exhibition and Trade Fair as the Official Banking Partner

SDB played a key role in the Vyawasaya (entrepreneurship) 2016 Exhibition and Trade Fair 2016 as the official banking partner. Organized by the Small Enterprise Development Division of the Ministry of National Policies and Economic Affairs, the event was held from 1st to 3rd April at the BMICH and offered a valuable platform for SME sector to network and share concepts. Ms Samadani Kiriwandeniya, Chairperson - SDB bank officially opened the second day of the exhibition proceedings. Visitors to the three day event had the opportunity to obtain information about SDB's products and services designed to assist SME sector including a number of loan schemes developed in collaboration with the Ministry of Industry and Commerce as well as the Central Bank of Sri Lanka. In its capacity as the official banking partner, SDB initiated a marketing linkage to SME sector participants with key industry players.

A plethora of SME products including textile, handicrafts, leather, food, renewable energy products and ayurvedic products took to the stage during the exhibition. Participants also benefited from the forum discussion with leading organizations such as IFC, Central Bank, Industrial Technological Institute, Sri Lanka Standards Institution, World Bank, SED Division, SDB bank SME officials and German International Corporation (GIZ about SME development in Sri Lanka). The event proceedings included an awards ceremony to appreciate the achievements of Small and Medium Entrepreneurs.



Lakdaru Bohdi Pooja

In addition to the student seminars held islandwide to assist children sitting for Grade 5 Scholarship programme, SDB organized a 'Bhodi Pooja' ceremony, offering of lighted lamps to invoke blessings on the children before they faced the milestone examination. The ceremony was held at the Raja Maha Viharaya, Kotte on August 19th 2016.



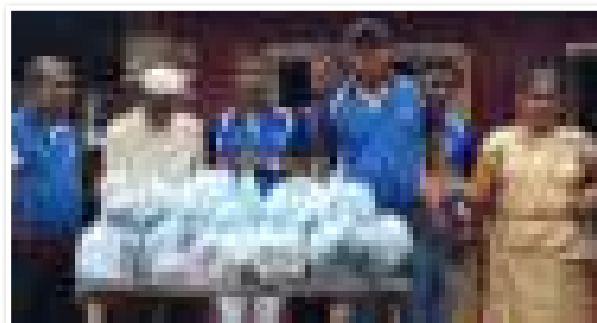
SDB Flood Relief Programme

SDB rose to the occasion when a national crisis situation emerged due to the unexpected heavy floods and landslides that occurred in May 2016.



First Step towards SDB Flood Relief

SDB provided initial support to victims of the floods by donating clothing items as well as food to those in dire need of these essential items with the support of Sri Lanka Air Force. In solidarity with the fellow Sri Lankans' that fell victim to the floods, SDB employees brought extra lunch packets to work in the immediate aftermath of the disaster.



Second Step towards SDB Flood Relief

As part of the second stage relief efforts, SDB collected dry rations, bottled drinking water and clothing items and distributed the supplies to flood victims in a temporary shelter at the Galvan Raja Maha Viharaya, Himbutana.



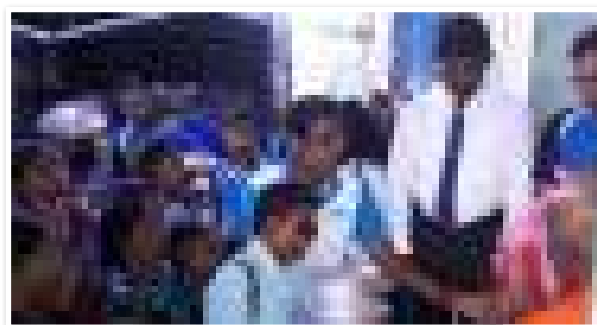
SDB Flood Relief Campaign Gampaha

SDB regional branch in Gampaha organized a flood relief campaign on 19th May 2016 to assist flood victims in Pahalagama, Gampaha District. The victims received mineral water bottles and dry rations. The donors utilized money allocated for Vesak 'Dansal' (alms stalls) which were scheduled to be held to celebrate Vesak Poya Day.



SDB Flood Relief Campaign Kelaniya

Staff and Manager of the Kiribathgoda branch of SDB organized a flood relief campaign on 27th May 2016 to assist flood victims in Kelaniya and suburbs. SDB Western region 2 and Southern region made hefty contributions to the relief campaign. Victims received bedding, pillows, dry rations as well as stationary for school and pre-school children.



SDB Flood Relief Campaign in Sabaragamuwa Region

SDB regional office in Sabaragamuwa organized a flood relief campaign on 19th May 2016 for victims of floods and landslides in Ruwanwella, Dehiowita, Bulathkohupitiya areas in Kegalle District with the guidance of Sabaragamuwa Regional Office and the co-ordination & advice of district secretariats, 'Grama Sewaka' officers in the region. SDB branches in Ruwanwella, Deraniyagala, Rathnapura, Warakapola collected and distributed dry rations and immediate necessities. The donors utilized money allocated for Vesak 'Dansal' (alms stalls) which were scheduled to be held to celebrate Vesak Poya Day.

Contributing to Social Capital Contd.

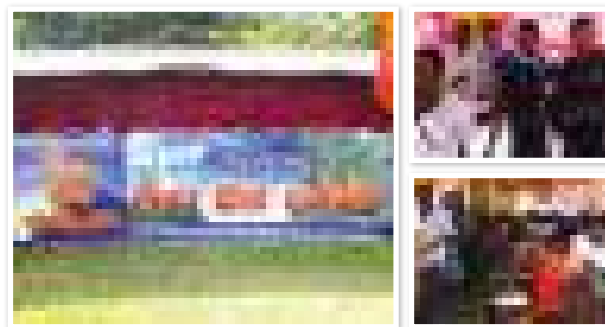
Extended Campaign Activities

SDB stepped up to assist the Mulleriyawa Police station and Sri Lanka Samodaya Welfare Association to conduct a one day mobile National Identity Card renewal service for victims of the floods in Kolonnawa. The mobile NIC camp was held at the Sri Lanka Samodaya Welfare Association premises on June 21st from 9 00am to 3 00pm. Parallel to the event, participants received information regarding SME and personal loan facilities offered by the Bank.



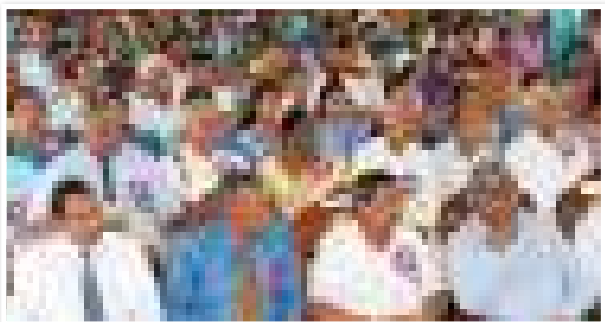
SDB Rice 'Dansala' to Celebrate 'Poson' Poya Day

SDB joined hands with SANASA movement to organise a rice 'dansala' (Free food stall) in partnership with the SANASA movement in June 2016 for the 10th consecutive time to celebrate the Poson Poya Day which honours the arrival of Buddhism in Sri Lanka. SDB Poson Dansala attracted a large crowd of devotees in the area.



The 92nd World Thrift Day

SDB partnered with the SANASA movement to celebrate the 92nd World Thrift Day on 31st October 2016 in Kalmunai with the participation of over 600 individuals from around the country. The event lineup focused on enhancing public awareness on saving tips for the modern world. The key topic of the day was the turn that the global economy has taken and how each and every depositor contribute to development.



Building Human Capital



SANASA Development Bank recognizes its human resource as a pillar for strategic sustainability in the Bank's mission towards realizing corporate objectives. The Bank identifies its human resource as a major stakeholder and we are committed towards driving a culture where our people feel valued, have a clear sense of belongingness, know what is expected from them and are recognized and rewarded for their contribution towards achieving our ambition to place our clients at the center of everything we do. Current and future trends, ranging from digitalization to working with a dynamic workforce, are influencing how we shape our broader strategies relating to people, leadership and engagement. Given the distinct social development obligations of the Bank, the team should be a one that is committed and service-oriented together with the development mind-set that supports social capital development, as well as balance sheet growth.

The Bank possesses a workforce of 1,248 people as at the end of year 2016. During the year, 241 probationary employees were absorbed into the permanent cadre in line with our commercial requirements, mainly in branches as well as the bank's shared services. We strive to make the bank a place that our people feel proud to work for. How our people think and feel about work directly correlates with client satisfaction levels. We firmly believe that our people want more than just going about their daily work routine and receiving a salary; they have a deeper expectation of serving for a higher purpose. Our regional and branch level teams invest time and effort to ensure that all our people feel deeply connected with our purpose and our clients.

How We Create Value and Deliver it to Our Customers

Empowering our people with the right skills, tools, processes and technology to deliver on our commitment to place our clients at the centre of everything we do, is at the heart of our people strategy.

We are testing new ways of working that will empower our people to respond to clients' needs with agility and speed. In order to achieve this, the transformation programme with new work design structure was planned under the name Quantum Leap. The Project Quantum Leap was envisaged encompassing a large revenue generating pillar. This new work design structure will embrace digitalization and find the appropriate balance between providing exceptional customer experience and meeting our risk and regulatory responsibilities.

A core element of our risk management strategy is the investment we make in our people to enable us to remain relevant to our clients and acquiescent with regulation in all aspects. In 2016, we trained our people to ensure that our conduct as a bank and as individual employees is sound and that we mitigate our clients' exposure to risk.

Fair Work Practices **G4-LA2, LA8**

We respect the individual and collective rights of our people in the workplace and adhere to all local regulations and legislation. We actively engage with recognized trade unions in Sri Lanka and have developed an open and robust relationship with Ceylon Bank Employees Union (CBEU) and SDB Bank Executive Officers' Association (SDBEOA), whom we view as crucial stakeholders and partners in our long-term success and sustainability. As at December 2016, 81.57% (2015: 76.37%) of our workforce were members of both these trade unions.

Our investment in health and wellness initiatives provides our employees with a wide array of services, empowering them to effectively manage any personal, workplace and health-related challenges they might encounter. We offer a comprehensive staff medical insurance scheme covering all levels of our employees to financially assist them in unexpected health related matters. Furthermore, training on building personal resilience, stress management, managing change and financial fitness is available to all employees. In addition, training is provided to managers specifically to assist them in managing ongoing change management process originating from the implementation of the Quantum Leap Project.

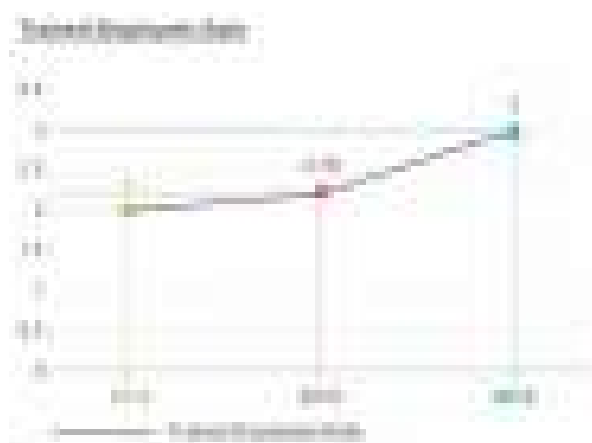
Developing and Managing Talent **G4-LA9, LA10**

Training and development function plays a pivotal role in instilling knowledge, skills, attitudes and behaviors in employees where they can be empowered to perform up to the expected standards in their current jobs and develop for future positions of the bank. As the Bank is operating in the highly-competitive and dynamic changing financial services industry, training in various disciplines ranging from elementary banking to strategic planning is provided for staff members as and when required.

The training plan for each year is prepared after thoroughly analyzing the training needs based on the industry dynamics and identified competency gaps of employees. HR Department identifies the skill requirements to be fulfilled by training programmes in relation to areas of importance. The introduction of e-learning module was initiated to make organization-wide learning available 24/7 in a cost-effective manner. We aim to do this by creating a culture of continuous professional development and adaptability.

The number of training hours per employee has been maintained at a commendable level during the past four years. This is due to the Bank's unrelenting emphasis placed on developing knowledge, skills, attitudes and behaviour of employees. Figure 2 depicts the trend of this measurement. We invested more than LKR 9.2 million, which is 0.73% of the total staff cost, in developing our people during 2016 which includes internal, external and foreign trainings. This is a result of the Bank's unrelenting emphasis placed developing knowledge, skills, attitudes and behavior of employees.

Building Human Capital Contd.



Our preference is to promote from within the group, which creates career advancement opportunities for our people. Significant portion of appointments made during 2016 were internal sources and promotions. Our internal communication platform provides our people with access to information on potential career opportunities in the Bank, promoting both lateral and upward mobility.

Talent management philosophy and approach of the bank enable succession planning across key levels of leadership, supported by focused development propositions and engagement strategies for identified talent. Greater effort is being made to drive succession planning across our various business lines. We have achieved a good depth in our talent pools to strengthen succession pipelines for key management positions, as evidenced by the number of internal moves and promotions into key leadership positions across the Bank during the year.

Maintaining the Attrition Ratio at a Healthy Level

G4-LA11, LA16

The HR Department has been able to maintain the attrition ratio at a healthy level on par with the generally accepted HR benchmarks and industry standards. Such achievement can be mainly attributed to initiatives such as offering competitive remuneration packages, attractive fringe benefits, reliable grievance handling mechanism, deployment within the residential regions and attractive career advancement avenues.

KPI Accomplishment

KPI	Accomplishment
Headcount fulfillment ratio (branches)	98%
Attrition ratio	2.9%
Average recruitment lead time	87 days
Grievance trend	0.14%
Training calendar coverage	96%
Trained employees rate	3
No. of training hours per employee	20
Average complaint to inquiry cycle time	15 days
Grievance redress cycle	81 days
Policy execution lead time	18 days

Performance and Reward

Our people are reviewed annually against their performance which are linked to corporate objectives. The performance management process emphasizes growth through constructive dialogue, focuses on 'what' is achieved, but importantly also 'how' it is achieved and addresses learning and career development needs. We have made good progress towards introducing a performance management system across all our businesses which will be concluded in 2017.

Inspirational Leadership

The execution of Project Quantum Leap challenges our leaders to create meaning and direction, and to inspire and influence others. To this end, we invest in our top leaders, supporting their development in becoming true catalysts of change and serving as inspirational role models, moving the bank towards its desired future.

Bespoke development initiatives aimed at our executive leaders support their personal development priorities and range from participating in world-class training programmes, international exposure visits and specific business initiatives that broaden exposure to different parts of the business, to customized leadership development programmes within specific business areas. To accelerate a supportive environment for inspirational leadership, we will work to identify the competencies of our leaders that are required to support our future strategic intent.



We continue to focus on equipping team leaders and managers with the right skills to be great people managers. During the year 2016 more than 308 (2015: 97) leaders from across the bank benefited from participating in a wide range of leadership development programmes.

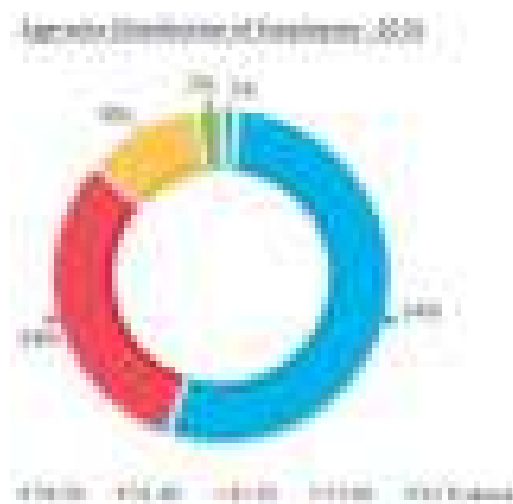
Our Plans for the Future

Our purpose and principles add a layer of richness to our strategy, driving a deeper connection between our people and the brand. They also underline the importance of the role of every single employee enabling us to consistently deliver an excellent client experience. With the best people working for the Bank, we will continue to make a difference for our clients in 2017 and will concentrate even more on placing our clients' interests at center stage. In future we aim to;

- ▶ Reinforce our culture and people practices in line with our bank's vision, mission and values. We will introduce an individual employee performance tracking system to track the individual level engagement of our people, and continue our efforts to enhance the employee experience to ensure that our people feel deeply connected to our purpose in service of our clients
- ▶ With the island wide rolling out of Project Quantum Leap, we are planning to revise our performance management and remuneration practices to support new ways of working that are focused on delivering to our clients
- ▶ Review our policies and procedures to further drive and support our transformation agenda and to firmly entrench a culture of inclusion
- ▶ Continue to invest in the development of talented people to ensure that they are ready to take up more senior and critical roles when the time is right
- ▶ Strengthen a diverse leadership base that is able to lead in times of uncertainty, inspiring others, and are passionate about helping our people reach their full potential
- ▶ Enhance our speed and agility to adapt to an ever-changing world of work through continued focus on learning and development

Graphical Representation of Important HR Related Information

Employee by Age 2015 & 2016 G4-LA1, LA12



Building Human Capital Contd.

Employee by Gender 2015 & 2016



Training Spend in Rupee Terms



Length of Service as a Percentage of Total Staff



Employee Turnover for Past Three Years



* Employee turnover for year 2015 excluding trainee executives is 2.5%

** Employee turnover for year 2016 covers all employment types (including trainee executives)

Responsible Services



G4-PR8, PR9

Our belief is to be responsible in every endeavour we take on as a respectable Banker. Without confining ourselves to prime services, our attention penetrating deeper to numerous areas such as Customer Protection, Customer Confidentiality, Compliance with Laws and Regulation, Information Technology Infrastructure, Bank Operations and Branch Establishment, Foreign Remittances, Procurement and Preservation of Environment.

Customer Protection

The Bank has obligations towards various groups and customer is one of the important groups. It is the responsibility of our Bank to provide quality banking experience to our customers. With regard to customer protection, the Bank has performed a gap analysis assessment on international accepted seven Client Protection principles in November 2016 with the help of an external rating agency, Micro-Credit Ratings International (M-CRIL), a licensed Certifier of the Smart Campaign Client Protection Certification program. This assessment is mainly based on seven Client Protection Principles (CPP) including Appropriate Product Design and Delivery, Prevention of Over-indebtedness, Transparency, Responsible Pricing, Fair and respectful Treatment of Clients, Privacy of Client Data and Mechanisms for Complaint Resolution. Findings of this report are discussed below.



Elaborations of above mentioned Client Protection Principles (CPP) and their compliance indicators set out below :

Client Protection Principle	Elaborations	Compliance Indicators
CPP1 - Appropriate Product Design and Delivery	<ul style="list-style-type: none"> ▶ The provider offers products and services that are suited to clients' needs ▶ The provider monitors the suitability of products, services and delivery channels ▶ A policy and documented process are in place to prevent aggressive sales techniques and forced signing of contracts 	<ul style="list-style-type: none"> ▶ Meets the indicator – 81% ▶ Partially meets the indicator – 14% ▶ Does not meet the indicator – 5%

Responsible Services Contd.

Client Protection Principle	Elaborations	Compliance Indicators
CPP2 - Prevention of Over-indebtedness	<ul style="list-style-type: none"> ▶ The provider has a sound policy and well-documented process for loan approvals and makes decisions using appropriate information and criteria ▶ The provider uses credit reporting information, when feasible in the local context ▶ The provider's senior management and board monitor the market and respond to heightened over-indebtedness risk ▶ The provider maintains sound portfolio quality ▶ The provider incentivizes staff to approve quality loans 	<ul style="list-style-type: none"> ▶ Meets the indicator - 71% ▶ Partially meets the indicator - 17% ▶ Does not meet the indicator - 12%
CPP3 - Transparency	<ul style="list-style-type: none"> ▶ Policy and documented process are in place to require transparency on product terms, conditions and pricing ▶ The provider communicates with clients at an appropriate time and through appropriate channels ▶ The provider takes adequate steps to ensure client understanding and support client decision making 	<ul style="list-style-type: none"> ▶ Meets the indicator - 63% ▶ Partially meets the indicator - 30% ▶ Does not meet the indicator - 7%
CPP4 - Responsible Pricing	<ul style="list-style-type: none"> ▶ The provider is managed sustainably to provide services in the long term ▶ The provider's pricing policy is aligned with the interest of clients ▶ The provider's financial ratios do not signal pricing issues. (If outside the ranges, provider must be asked to explain and justify) 	<ul style="list-style-type: none"> ▶ Meets the indicator - 86% ▶ Partially meets the indicator - 9% ▶ Does not meet the indicator - 5%
CPP5 - Fair and respectful Treatment of Clients	<ul style="list-style-type: none"> ▶ The provider promotes and enforces fair and respectful treatment of clients in line with a code of conduct ▶ The provider has policy and documented processes to avoid discriminating against Protected Categories in selecting clients and setting terms and conditions ▶ Loans are collected by staff and collection agents in an appropriate manner ▶ The provider has effective systems to prevent and detect fraud ▶ Insurance claims are processed in a fair and timely manner ▶ The provider management and oversight support fair and respectful treatment of clients 	<ul style="list-style-type: none"> ▶ Meets the indicator - 44% ▶ Partially meets the indicator - 35% ▶ Does not meet the indicator - 21%
CPP6 - Privacy of Client Data	<ul style="list-style-type: none"> ▶ Client data is kept secure and confidential ▶ Clients are informed about data privacy and consent to the use of their data 	<ul style="list-style-type: none"> ▶ Meets the indicator - 71% ▶ Partially meets the indicator - 11% ▶ Does not meet the indicator - 18%
CPP7 - Mechanism for Complaint Resolution	<ul style="list-style-type: none"> ▶ The provider has an effective system in place to receive and resolve client complaints ▶ The provider informs clients about their right to complain and how to submit a complaint ▶ The provider uses information from complaints to manage operations and improve product and service quality 	<ul style="list-style-type: none"> ▶ Meets the indicator - 43% ▶ Partially meets the indicator - 36% ▶ Does not meet the indicator - 21%

In 2017, the Bank is expected to proceed with the full Smart certification which provides an independent, objective seal of confidence that a financial institution is doing everything it can to treat its clients well and protect them from harm.



Customer Confidentiality

Customer confidentiality is an area Bank pays more attention as personal information is more sensitive. Bank care for customer confidentiality both from a legal and ethical standard point as it helps to build and develop customer trust with the Bank. Bank processes potentially allow for the free flow of information between the customers acknowledges that a customer's personal life and all the issues and problems that they have belong to them. Bank protects customer privacy as it is important to keep customers' business as just that - their business. Respect for customers' confidentiality, policies and procedures and appropriate employee behaviors incorporated in code of conduct of the Bank that provide guidelines are in place within the Bank. Moreover, all the employees of the bank are provided with adequate regular training to meet this vital confidentiality requirement through awareness on the Secrecy provisions of the Banking Act.

Centralized Processing Department

The Customer Mandate is the primary agreement the customer maintains with the Bank and as part of our procedures to protect the privacy of our customers, our employees have restricted access to such customer information. Once the Customer Mandate is duly completed it is handed over to a professional, independent third party for due processing, thereby ensuring confidentiality.

Bank's Data Protection System and Disaster Recovery System

Bank's data protection system and disaster recovery system also entrusted with the objective of customer confidentiality protection. The Bank's data protection procedures include the application of the Know Your Client system which provides a clear picture of how funds are derived and utilized across all levels of the Bank. During the year under review, there have been no reports of breaches of customer privacy, data loss, theft or leakages.

Compliance with Laws and Regulations

One of the bank's objectives is to being a responsible financial service provider and augurs well for the future outlook of the Bank. In line with this, SDB bank is pleasure to pronounce that there have been zero cases of non-compliance with laws and regulations concerning the provision and services during the year under review. With the dedicated team of compliance and internal audit, compliance status of the Bank is protected and improved.

Compliance Team and Internal Audit Team

With the support of well established Compliance Team and Internal Audit team, compliance position of the bank was accomplished. Amid the support of compliance and auditing processes, always satisfy that effective compliance policies and procedures are followed by the branches including all the departments and management takes appropriate corrective actions prior to the compliance concerns.

Compliance is a part of the SDB bank culture. Bank's effective in-house corporate culture emphasises standards of honesty and integrity which prop up the compliance front of the bank. It sustains up bank itself to high standards when carrying on all bank operations. In-house rules and standards of the SDB bank generally cover matters such as observing proper standards of market conduct, managing conflicts of interest, and treating customers fairly, and ensuring the customer satisfaction without any non-compliance. All these endeavors end up with the complied banking atmosphere where all the customers' requirements are protected and satisfied with.

Information Technology (IT) Infrastructure and Support

Information technology plays cornerstone role of the Bank aimed at increasing speed and reliability financial operations and of initiatives to strengthen the banking performance. In order to deal with the economic challenges and smooth bank operations, Information Technology provides the good platform. The Bank's dedicated IT department played an imperative role ensuring all aspects of the Bank's operations throughout the year. All data is backed up on daily basis through high capacity island-wide branch network. The Bank maintains a separate and secured Disaster Recovery (DR) site at another location ensuring reduction of risk dynamics. The IT system is designed to support customer privacy in order to ensure data protection at every level within the Bank while maintaining stringent security system. Moreover, IT department has been providing better solutions to the Bank to take care of accounting and back office necessities. With the implementation of Bank's new MIS system, decision making process was strengthening.

The IT revolution has lay down the arena for exceptional increase in banking sector development across the globe. Identically SDB bank well equipped Information Technology support has opened up new markets, new products, new services and efficient delivery channels for bank.

Responsible Services Contd.

The implementation of mobile banking services allowing customers to enjoy 24 hours accessibility to their accounts in a cost effective manner enables the Bank to meet high expectations of customers who are more demanding and more tech savvy. This mobile banking service has minimized the possibility of fraudulent transactions and save time and money for all customers. Key features of this facility include balance inquiry of savings accounts, mini statements, transaction alerts, transaction decline alerts and details of SDB bank product and bank promotions. Moreover, this endows solutions to customer demands for a transparent, economic, user friendly banking facilities in an instant, anytime and anywhere manner.

Re-launch of the SDB Website

During the year, the IT department was able to re-launched the Bank's website as a combined project with the Marketing Department closely aligned with the bank's strategic vision for growth and expansion over the next decade, and beyond. The new SDB website offers a clean, easy-to-navigate functionality, and a content-rich site experience. It is designed in a way to reflect SDB and its products and services. Informative and relevant contents have been used in a way that the audience can make a decision by referring to the site content.

Product pages offer clear, concise and convincing information about products and its services which grab visitor attention. SDB website uses the contact form as a method for gather general feedback and to request services. Many consumers can go straight to the 'site search' before navigating for an answer. It satisfies the "I want it now" attitude for today's searchers.

About Us, History, Media Centre sections provide a glimpse into SDB which were not previously available. News and CSR sections furnished with latest events taken place along with colourful images to ensure the new website continues to provide a fresh, versatile site experience.

SDB has a vast network of branches around the country, representing 88 branches. These channels will continue to grow and provide quality custom solutions in their respective regions. The Branches page of the new website offers a detailed Google map to locate specific branches and direct contact information. Users also can locate the closet branch from the Home page, by choosing the district, they belong to.

The online application form is easy and provides convenience to candidates when submitting applications to SDB. The website's multilingual feature provides content in more than one language - Sinhala, Tamil and English. Impact of this is to expand the client base and secure greater sales volumes. In order to provide an ideal experience for a rapidly growing base of mobile web users, SDB ensures that their website is optimized for smart phone display.

The new SDB website will also provide social media integration and direct link to SDB's Facebook page where company and product updates will appear on a regular basis.

Operations and Branch Establishment

Improvements in bank operations and the branch network expansion are essential as a strategy of customer retention and satisfaction. In line with the Quantum Leap initiation numerous changes were introduced to the Bank and branch operations during the year under review.

Developments in Bank Operations

Most of the bank operations were mended during the year outstanding to provide better-quality financial service. Along the lines of bank operations, developments initiative proceedings were executed in the area of Centralization of Recovery and Credit functions.

Tele-collection Unit

As part of the strategy in upgrading the quality and enabling faster recovery systems, a separate unit was established in different location within the year. With implementation of this unit, recovery function of the Bank became more effective and efficient. Branch employees were equipped with more opportunities and time with this new endeavour. More cost and time benefits can be expected in future periods along with smoother recovery functions of the Bank.

Credit Centralization Department

As a low cost and effective strategy, credit functioning initiations were implemented during the year to centralize all the credit related functions of the Bank. Consistency, effective decision making and accountability relating to credit function are expected to upgrade with this new execution. More to the point, letting branch staff to be more engaged in building customer relationship is another important objective of this implementation.



Expansion of Branch Network

The Bank's desire to reach out to the ever-expanding customer base meant that the branch network underwent numerous changes during the year. One new branch - Chunnakam was opened during the year, taking the Bank's branch network up to 88 branches. More to the point two branches including Kuliyaipitiya and Kurunegala were relocated and Akuressa branch was refurbished during the year allowing superior banking experience to customers by providing greater convenience to the customers.

Foreign Remittances

Migrant workers play a pivotal role in the economy of the country and therefore, during the year, the Bank made positive strides towards providing them with broadened services and added convenience when transferring their hard-earned income to their loved ones in Sri Lanka. The Bank put into action several procedures that have streamlined the process and ensured that the cash is transferred to the relevant recipient in minimum time.

Procurement

The Bank's procurement process has been further refined with an emphasis on transparency and value for money rather than the lowest price. A detailed manual has been developed outlining the procedures to be followed for transparent, fair procuring without any disruptions to the Bank's operational efficiencies. Suppliers are one of the Bank's key stakeholders and therefore get fairly treated at all times, irrespective of the scope of the project they are bidding for.

Preservation of the Environment G4-DMA, EN27

Our Environmental Approach

Our Bank's method to conserving the environment is the 4Rs approach - 'Reduce, Reuse, Recycle and Refuse'. This strategy helps the Bank to decrease the amount of waste on the planet and preserve natural resources.



Responsible Services Contd.

Energy Consumption

Across all SDB branches, every effort has been made to educate employees about the importance of energy conservation. LED lighting has been deployed at all branches and displays while plans are in the pipeline to introduce solar panels in some branches. The Bank is also drawing up plans to introduce a green SDB branch, run by solar power, in the near future. Greater emphasis will be placed in promoting environmental-friendly technologies amongst existing and new customers. For instance, one such technology has been the use of solar water pumps for agriculture-based customers of the Bank.

Paper Conservation

As a bank that provides a wide range of services to a growing customer base, it is unavoidable that we consume large amounts of paper. However, over the years, positive steps have been taken to increase awareness levels and reduce paper consumption by encouraging employees to reuse paper, print on both sides, print only when absolutely necessary and communicate via email whenever possible.

While these approaches have portrayed positive results in the urban and suburban branches, when it comes to rural areas the progress has been inhibited. This is primarily due to the fact that rural populations have no access to computers and email and thereby rely heavily on printed letters and other documents. Therefore, it has not been possible to migrate most of the Bank's external communications to a paperless environment. However, the branches in these areas are aware of this situation and are working towards gradually reducing paper consumption when communicating with the customer base in a reasonable manner, whenever possible.

Environmental Accountability

SDB considers ecological capital to be part of social capital and therefore conducts business in harmony with nature and avoids actions that have a negative impact on the natural environment. Being a financial services provider, the Bank's direct environmental impacts are not significant as the core business does not involve activities that deplete natural resources or harm the environment in a significant manner. The Bank's direct environment impacts are mainly limited to consumption of natural resources and energy while the indirect environmental impacts, primarily through customers, is also greatly restricted as the Bank provides services to Micro and SME enterprises that have lower environmental impacts than large-scale manufacturing operations.

During the year, the Bank did not have to face any fines or sanctions for non-compliance with environmental regulations in the country.



NEPTUNE RECYCLERS

ENVIRONMENTAL AND SOCIAL REPORT

March 8, 2017

Chief Executive Officer,
Kredit Development Bank Plc.
No. 11, Riverside Road, Singapore,
Singapore

Dear Sir,

Thank You for Donating Your Waste Paper/Confidential Documents to Neptune Recyclers

We hereby confirm the collection and shredding of 3,499 kg's of Waste Paper/Confidential documents from EPF of Year 2016 to EPF of Year 2016 from Kredit Development Bank PLC.

We thank you for using our shredding service to dispose off your waste papers in an environmentally friendly manner which not only saves precious Forest Resources, but also enables your organization to securely disposing your confidential documents at no charge to you. If every company in SG thinks thought as you do, our country would definitely be a better place to live for you and us.

The environmental score on your document translates to the saving of:

- 10 Fold-over Time
- 1,185 Liters of Ink
- 1,488 Kwh of Electricity
- 1,881 Liters of Water
- 10 Fold-over of Land Fill
- 4 Million Green Trees One Billion by Saving 1 of Carbon Equivalent

While thanking you for your generous contribution to saving the environment we assure you of quality service at all times. Should you require further information or clarification, please feel free to contact us on 6771-8888 or 6771-8887 at any given time.

Thanking you,
Yours Sincerely,

NEPTUNE RECYCLERS PVT. LTD.

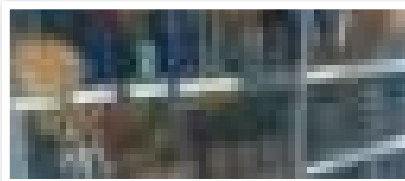
NEPTUNE RECYCLERS PVT. LTD.
1111, Riverside Road, Singapore, Singapore
Kredit Development Bank Plc. (Kredit Development Bank PLC)
www.neptunerecyclers.com

Success Story 2

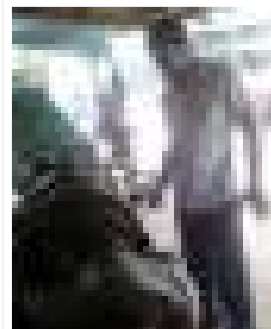
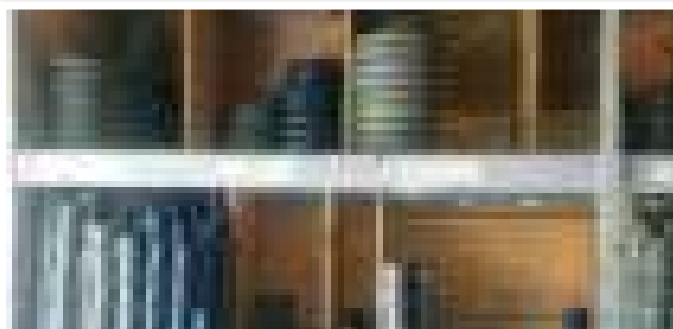
Ashan Enterprises - Cast and Lathe Related Production - Kaduwela

Business owner **Arangala Withanage Ajith Shantha** from Nawagamuwa south, Ranala sought capital to invest in **buying new machinery** to expand his medium scale cast and lathe related production business such as Pulleys, Wheels, Garden Chairs, etc. Following comprehensive business development discussions, Ashan Enterprises received a business development loan of **LKR 4,100,000 from SDB**. The capital infusion resulted in the purchase of a large scale lathe machine, a sharper and the installation of a new crane system which increased production output and prevented unnecessary production collapse.

Today, **Ashan Enterprises** is able to manufacture any type of cast to meet clients' requirements and hence, become one of the leading suppliers of the cast and lathe manufacturing. In addition to the core business, now he is growing with recycling and building material transport business.



“The Bank loan from SDB was a timely investment for my business growth. I hope to further develop my business and aspire to become a large scale business owner that contributes to the country's industrial growth”



Corporate Stewardship

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BOARD OF DIRECTORS

04

02

03

01

01. Mrs. M. S. Kiriwandeniya

Chairperson / Non Independent,
Non-Executive Director

02. Mr. Lakshman Abeysekera

Senior Director / Independent,
Non-Executive Director

03. Mr. H. M. G. B. Herath

Non-Independent, Non-Executive Director

04. Mr. B. R. A. Bandara

Non-Independent, Non-Executive Director

05. Mr. J. A. Lalith G. Jayasinghe

Non-Independent, Non-Executive Director

06. Mr. D. J. K. Newunhella

Independent, Non-Executive Director

07. Prof. S. Amaratunge

Independent, Non-Executive Director

08. Mr. M. K. L. Fernando

Independent, Non-Executive Director



Board of Directors Contd.



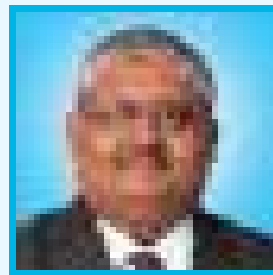
Mrs. M.S. Kiriwandeniya

*Chairperson / Non-Independent,
Non-Executive Director*

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, Micro finance and Conflict Resolution. She is also the Corporate Leader of 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 from University of Saskatchewan, Canada.

Hoeshst (Ceylon) Limited, and Senior Accountant at Lankem Ceylon Limited. He has served the governing council of AAT Sri Lanka for a period of 10 years.

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



Mr. B.R. Abewickrama Bandara

*Non-Independent, Non-Executive
Director*

Mr. B.R. Abewickrama Bandara holds a Diploma in Banking, Finance Diploma in Business Management, Diploma in Co-operative Professional Management and he holds the position of General Manager Polgahawela SANASA District Union Limited, Director of SANASA Printers & Publishers Limited and SANASA Shareholders Trust Company Limited.

He has been actively involved in the SANASA Movement for over 28 years.



Mr. H.M.G.B. Herath

*Non-Independent, Non-Executive
Director*

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 the Assistant Superintendent at Rideegama Estate.

He has 26 years of experience as the Chairman of SANASA Society of Kandapola, 33 years of experience as the Chairman of Ridegama SANASA Shareholders Trust Company Ltd. and has also served as Executive Director in SANASA Federation of Sri Lanka. He was the Vice Chairman of Kurunegala District Co-operative Council and also has 5 years of experience as an Internal Auditor in a leading private firm in Wariyapola.

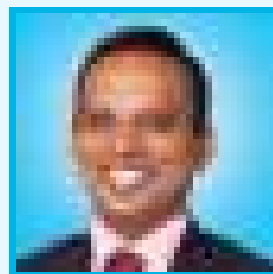
He possesses 4 years of experience as a Director of Ridegama MPCS Ltd. He serves as a Registrar of the Registrars General Department of Sri Lanka from 2014 to up to date.



Mr. Lakshman Abeysekera

*Senior Director / Independent,
Non-Executive Director*

Mr. Lakshman Abeysekera, Chartered Accountant, possess over 25 years of experience in the Accounting and Management field. He currently functions as a Director of Janrich (Private) Limited, Janrich Foods Ltd. and NovEx Pharmaceuticals Limited and Independent Non-Executive Director of People's Insurance PLC. He has held the positions of Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Accountant

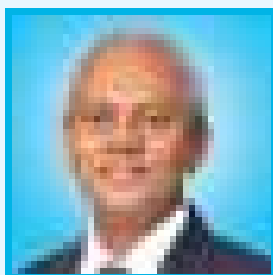


Mr. J.A. Lalith G. Jayasinghe

*Non-Independent, Non-Executive
Director*

Mr. J.A. Lalith G. Jayasinghe is a Vice Chairman in the Kegalle District SANASA Societies Union Limited, and the Chairman of SANASA Printers & Publishers. He has been the Secretary to the Government Service Labour Officers Union since the year 2012.

He has over 16 years of experience as a Director in SANASA Societies and holds a B.A.(Hons) Special Second Class Upper Division from the University of Peradeniya and a Diploma in Co-operative Education & Development from the National Co-operative Union of India. (NCUI)



Mr. D. Jayantha Kumara Newunhella

Independent, Non-Executive Director

Mr. D. Jayantha Kumara Newunhella possess over 39 years of experience in the field of Banking. He joined Peoples' Bank as a staff assistant and rose up to the position of DGM – International Banking at Peoples' Bank.

During his career he was entrusted upon many challenges such as implementing the pilot project of "Core Banking and introducing Team Briefing process". He was also instrumental in opening up more Regional Training Centers island wide and thereafter initiating the concept of E-learning.

He was the Management Representative (MR) of the ISO Project which brought ISO 9001: 2008 Certification to the People's Bank for the first time in its history.

He was also a member of committee appointed by the Government Treasury to draft Special Import License No 01 of 2011 which is now in force from 2nd January 2012 regularizing "Open Account" in Sri Lanka. He also became the President of Trade Finance Association of Bankers (TFAB) being the first from Peoples' Bank. He had obtained professional Training on Commercial & Branch Banking in - Pakistan, International Business - in London and Germany, Trade Finance in Tokyo Japan.

He holds a B.Sc (Mgt) and an MBA from the University of Sri Jayawardenepura. He is a Fellow Member of Institute of Bankers of Sri Lanka (FIB) and a Corporate Member of the Institute of Supply and Material Management (MISMM) and currently engages as a Management Consultant at Postgraduate Institute of Management.



Professor Sampath Amaratunge

Independent, Non-Executive Director

Prof. Sampath Amaratunge, presently the Vice-Chancellor of the University of Sri Jayawardenepura, obtained his B.A. (Hons.) in Economics from the same university and his M.A. in Economics from the University of Colombo.

As the former Dean of the Faculty of Management Studies and Commerce (FMSC), during his tenure from 2009 to 2014, he strategically spearheaded the FMSC towards great developments in academic quality as well as in several important infrastructure projects that include establishment of new building complexes for the FMSC and PhD unit. Being a leader with a vision, he maintained a strong relationship with the students as well as the academic members and was able to take the FMSC to great heights of success.

With a M.Sc. in Economics of Rural Development from the Saga National University and a Ph.D. from Kogoshima National University in Japan, Prof. Amaratunge counts over 26 years of service as an academic at the University of Sri Jayawardenepura. He has published more than 65 articles in international and national refereed journals and proceedings.

Prof. Amaratunge was also a recipient of the prestigious Research Excellence Award in 2002, awarded by Kyushu Society of Rural Economics, Japan, which is in addition to several other local and international awards. He is considered as an expert in the field of Economics with special reference to Rural Development.

From 2012 to 2014, Prof. Amaratunge rendered his service as a member of the University Grants Commission (UGC) of Sri Lanka and several other commissions and takes pride in being the youngest professor ever appointed to the UGC. He was the Chairman of the Federation of University Teachers Associations (FUTA) of Sri Lanka from 2009 to 2012 and it was his leadership and the strength of the team that led for the establishment of several sister unions of FUTA and the introducing of the research allowance for academics and grade one school entrance concept for their children.



Mr. M.K.L. Fernando

Independent, Non-Executive Director

Mr. M.K.L. Fernando received his education from Royal College, Colombo and is a Senior Banker with a total of 46 years experience in Banking of which 16 years were in Operations, 18 years in Commercial/ Corporate/ Wholesale Banking and 10 years in Risk Management with an overall period of 19 years as a member of Corporate Management in 4 Banks operating in Sri Lanka.

He began his career with Grindlays Bank - later ANZ Grindlays - now named as Standard Chartered Bank where he worked for 31 years holding several top positions including Head of Corporate Banking and Chief Operating Officer.

During his 4 year stint at People's Bank as a member of a new team of professionals he held the positions of Head of Personal Banking, of Corporate and later as Head of Branch Credit Commercial Banking Development.

He moved into Risk Management with Nations Trust Bank where he was Head of Credit Risk Management for 4 years

In 2009 he joined Pan Asia Bank as the Chief Risk Officer, the position he held until his retirement in January 2016.

Corporate Management Team



1. Mr. Nimal C. Hapuarachchi
General Manager/CEO

MBA (Sri J.), Dip. in Bank Mgt (IBSL)

2. Mr. Kumar Mayadunne
Chief Operating Officer

Dip. in Bank Mgt (IBSL)

3. Mr. S.A. Samarakoon
Deputy General Manager - IT

MBA (Colombo), B. Sc. Eng (Comp. Sc. & Eng) (Moratuwa), C Eng., MIEEE

4. Mr. A.M. Chandrasagara
Chief Internal Auditor

FCA, FIB, Dip. in Info. Sys. Cont. & Audit

5. Mr. Hemal C. Lokugeegana
Chief Risk Officer

MBA, B.B. Mgt. (HR) Sp., AIB, Dbirm (IBSL), AMIPM, MAAT, ACC Dir. SL

6. Mr. K.L.G. Pradeep
Head of Credit

AIB, PG Dip. in Business & Financial Administration, PG Dip. in Modern Commercial Banking (PIM)



7. Mr. W.D.K. Ravindra Ranjith
Head of SME & Retail Banking

AIB, Diploma in Import & Export Trade,
Diploma in Programming in Dbase III,
Diploma in Lotus 124

10. Mr. Terrance Kumara
Head of Finance

MBA (USQ), FCA, ACMA (SL), MAAT

8. Mrs. Tamarika Rodrigo
Assistant General Manager/Company Secretary

Attorney-at-Law, Notary Public, ACC Dir.SL

11. Mr. Sameera D. Liyanage
Head of Marketing & Co-operative Development

MCIM (UK), MSLIM, PG Dip. in Marketing
(CIM), Chartered Marketer

9. Mr. S.S.S. Senanayake
Compliance Officer

LL.B, Attorney-at-Law, Notary Public,
Commissioner of Oaths, AIB, FIB, PG Dip.
in Bank Mgt

12. Ms. W.N. Ranmalie Fernando
Head of Human Resources

MBA (Colombo), National Dip. in T&D
(SLITAD), ACMA, AITD (SL)

Senior Management Team



Mrs. P.C. Liyanage

Head of Legal

LLB, Attorney-at-Law, Notary Public,
Commissioner of Oaths, Company Secretary



Mr. K.A.I.D. Dayananda

Chief Manager - Internal Audit

ACCA (UK), FABE (UK), MBA Banking Mgt
(Sikkim Manipal India)



Mr. K.K.S.U. Kumara

Chief Manager - Administration

B.Sc. (Mgt)



Miss. K.K.C.J. Dassanayake

Chief Manager – Southern Region

B.Sc. Agri., MSc (Hons), AIB



Mr. E.A.L.S. Edirisuriya

Chief Manager – Western Region I

Dip.in Finance & Bank Mgt., Investment
Advisor Certified by CSE.



Mr. W.T.R. Prabath

Chief Manager -Human Resources

B.Sc. (Physics - Special)Hons, Higher
Dip. In Advanced Financial Mgt,Dip. In.
Business Mgt., Dip in Financial Mgt,
AUKAP(UK)



Mr. G. A. S. Wimalaratne

Chief Manager- North Central Regional

B.A. (Hons) Business Statistics,
Post Graduate Dip. - Business Statistics



Mrs. P. Krishani Enoka

Head of Treasury

B.Sc. (Phy.Science) Hons, AIB, Dip.in Treasury
Investment and Risk Mgt.



Mr. P. G. Sunil

Chief Manager – North Western Region

B.Sc. Business Administration (Sp).



Mr. B. W. S. Premarathne

Chief Manager - Central Region

MBA (UK), B.Com (Special), MCIM (UK), CMA (Australia) MSLIM, MAAT, HNDA, Chartered Marketer.



Mrs. M. H. Attanayake

Chief Manager - Corporate & SME Banking

B.Sc. Agri. (Hons) M.Sc. Agri



Mr. P. W. K. J. R. Chandrasiri

Chief Manager – Sabaragamuwa Region

B.Sc. (Mgt. & Administration - Special) (USJP)



Mrs. M.M.Y.L. Muththunga

Chief Manager - Systems & Operations

B.Sc. Hons.



Mr. J.P. Dinil Perera

Chief Manager - Information Technology

Project Management Professional (PMI), Certified Information Systems Auditor (ISACA), Intermediate Banking Diploma (IBSL)



Mrs. K. V. R. Jeewanthi

Senior Manager - Research & Development

B.Sc. Business Administration (USJP), PGD in Community Development (Colombo), Micro Finance Facilitator (CGAP)



Mrs. S.N.T. Igalagamage

Senior Manager - Compliance

B.Sc. (Agri - Special) Hons., Dip.in HRM, MIMSL



Mr. A.M. Nimal Chandra

Senior Manager - Western Region II

B.A.



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

Senior Manager - Human Resource Development

B.A., PGCC (India) , Dip. In Psy, ACGC, National Dip in T&D (SLITAD).

Senior Management Team Contd.



Mr. W. H. M. U. B. Welikumbura
Senior Manager - Business Development

MBA (Pera), PGDM, MSLIM, BMS



Mr. R.A.C.N. Rathnayake
Senior Manager - Regional Business Development - Central Region

B.Sc. Accountancy & Finance (Sp.) Hons,
Registered Trainer & Consultant (Ministry of
Public Management Reforms)



Ms. P. R. Perinpanayagam
Senior Manager - Integrated Risk Management

FCCA (UK), B.Sc.Hons, Applied
Accounting (UK)



Mr. V.K.L. Sugumar
Senior Manager - Northern Region

B.Com, AIB (SL)



Mr. M. J. H. Perera
Senior Manager - Rikillagaskada Branch

B.Sc. Business Administration (Sp).



Mr. K.B. Rathnayake
Senior Manager - Uva Region

B.A. (General), M.A



Mr. N. S. Ambagahawattage
Senior Manager - Marketing

B.Com (Special), Bachelor of Mgt Studies
(OUSL), Dip in Marketing (CIM)



Mrs. N.N. Edirisinghe
Senior Manager - Credit

B Sc (Colombo), Intermediate Banking
Diploma (IBSL), Certificate in Hire Purchase
and Lease Financing (IBSL), ACS



Mr. P. Senadeera
Senior Manager - Kiribathgoda Branch

AIB, DBF (IBSL), Diploma in Finance & Bank
Management (IBSL), Intermediate Banking
Diploma (IBSL), Diploma in SME Finance
(IBSL), MAAT



Mr. D.H. Gamage

Senior Manager - Matara Branch

Intermediate Banking Diploma (IBSL),
Advanced National Diploma in HRM



Mr. A.S. Perera

Senior Manager - Uva Regional Office

Intermediate Banking Diploma (IBSL),
National Certificate in Technology (Civil
Engineering)



Mr. K.B.S. Kumara

Senior Manager - Credit

BA (Special), Diploma in Micro-finance
(IBSL), CBF (IBSL)



Mr. B.A.I. Wickramaratne

Senior Manager - Inspection & Audit

AIB, B Sc Applied Accounting (Oxford
Brookes), DBF (IBSL)



Mr. W.V.P.A. Samantha

Senior Manager - Leasing

AIB, B Com (Ruhuna), DBF (IBSL)



Mr. K.H.P.P.K. Gnanasiri

Senior Manager - Ampara Branch

BA (Special)



Mr. W.D.S.D. Mahathanthila

Senior Manager - Finance

PG Dip in Business & Financial Administration
(ICASL), B Sc Applied Sciences (Rajarata),



Mr. P.K.A.D.S. Perera

*Senior Manager - Cooperative
Development*

AIB, B Com (USJP), DBF (IBSL)



Mr. U.K.B. Aravinda

*Senior Manager - Project
Management Office*

B Sc Business Administration (USJP),
CBA (ICASL)

Governance System

Ethical Foundation **G4-56, 57, 58**

SDB Bank's ethic is expressed by the SANASA Movement's oath, which is based on Co-operative principles of community empowerment. This is a non-discriminatory philosophy that promotes equal opportunities and participation in decision making.

At SDB, ethical integrity is maintained by strictly adhering to the followings:

The SDB Code of Conduct

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

SDB's Code of Conduct for staff is in line with the Monetary Board's Customer Charter and the Secrecy Provision in the Banking Act.

This is followed in order to protect customer confidentiality at all levels.

Whistleblowing

SDB has a Board-approved whistleblower policy that allows any person, including a member of staff, to report unlawful or unethical behaviour to a pre-appointed group of key individuals who look into all such matters promptly and surreptitiously.

Regulatory Compliance

SDB complies with the provisions of the Banking Act Direction No. 12 of 2007, of the Central Bank of Sri Lanka (CBSL) 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 (SEC) and Institute of Chartered Accountants of Sri Lanka (ICASL) code of best practices.

External Methods of Seeking Advice on Ethical and Lawful Behaviour

SDB follows the Wages Boards Ordinance and labour regulations, as guidance on employee ethical behaviour.

Governance Structure **G4-34, 35, 36, 38, 39**

SDB's highest governing body, the Board of Directors, meets every month and is supported by the following sub committees in the planning, decision making and monitoring.

- ▶ Board Audit Committee
- ▶ Board Integrated Risk Management Committee
- ▶ Board Credit Committee
- ▶ Board Selection and Nomination Committee
- ▶ Board Human Resources and Remuneration Committee
- ▶ Board Related Party Transactions Review Committee

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 audit, compliance and the Bank's risk management process. The Executive Integrated Risk Management Committee meets every month and the Board sub committee meets once in three months, the minutes of which are directly sent to the Board for ratification. The Compliance Officer, an independent official reporting directly to the Board, reports due diligence matters to the Board. For further information on the composition and operation of SDB's governance structure, please refer "Report of the Board Audit Committee", "Board Human Resources and Remuneration Committee Report", "Report of the Board Selection and Nomination Committee (BS & NC) and "Integrated Risk Management Committee Report".

Ensuring Good Governance

G4-40, 41, 42, 43, 44, 48, 50, 51

Nomination and Selection to the Board

Nominations are made through the Board Nominations Sub Committee. An affidavit of authenticity is required from the nominated person and the details are sent to the Central Bank of Sri Lanka for final approval. SDB has no discriminatory criteria for disqualification of nominees.

The nominees are required to be a fit & Proper person according to stipulations criteria' of the Central Bank of Sri Lanka.

Selection and Appointment to Board Sub Committees

This is based on the Terms of Reference where the nominee must be suitable for the post in terms of qualification and experience and must have no business dealings with the Bank.



Avoiding Conflict of Interest

Declarations are obtained from the directors at the 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 are taken to enhance the Board's collective knowledge of economic, environmental and social topics.

Board members regularly participate in training programmes in corporate governance conducted by the Central Bank of Sri Lanka while several internally-organised awareness programmes are also conducted for the benefit of the Board members.

Evaluation of Board Performance

Self-assessments, prepared based on corporate governance requirements issued jointly by Securities and Exchange Commission (SEC) and the Chartered Accountants of Sri Lanka (ICASL), are conducted annually.

As the Board does not have executive Directors and Directors are not full-time personnel, there are no set criteria for evaluating Board of Directors performance.

Review of Sustainability Report

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

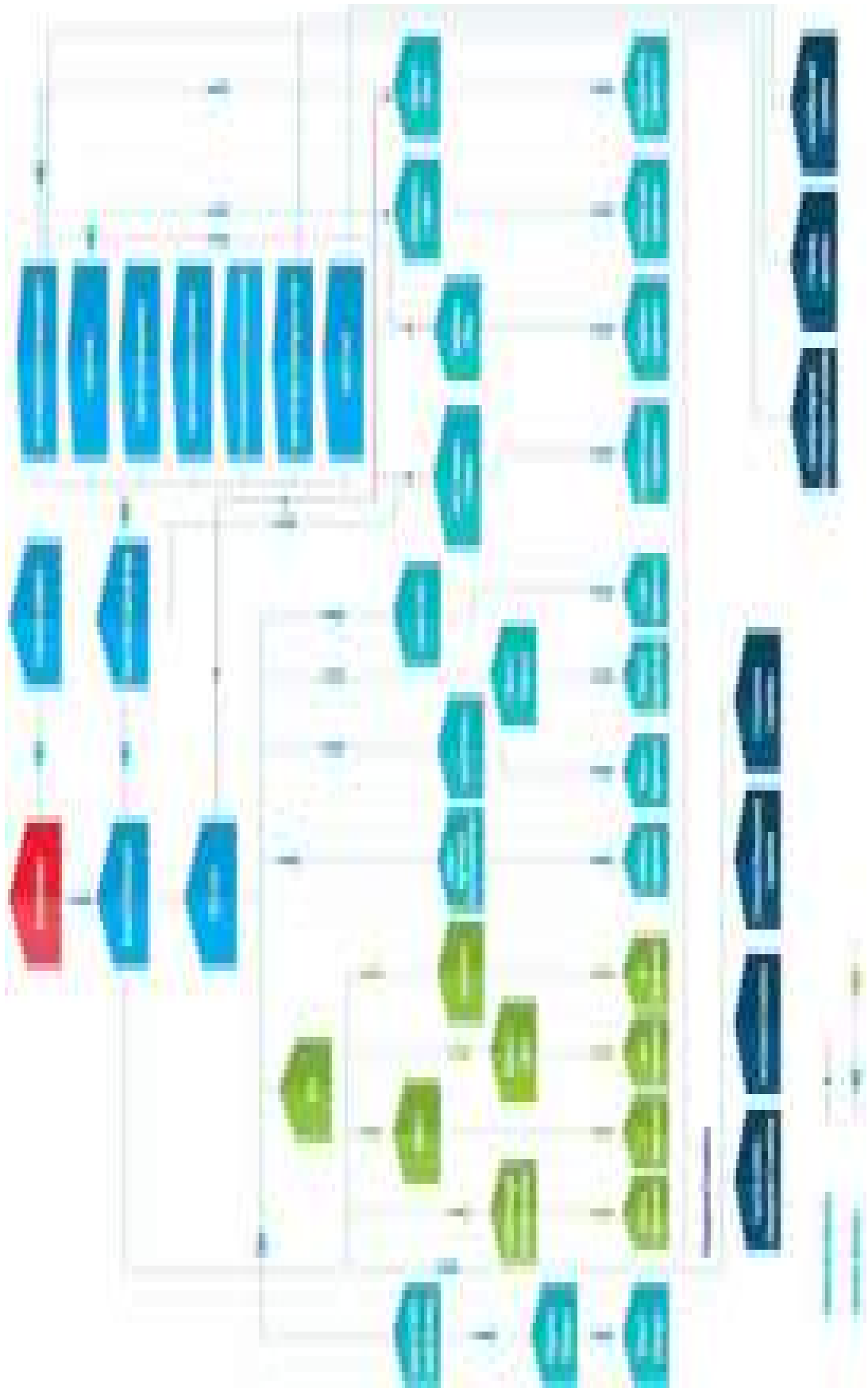
Process for Communicating Critical Concerns to the Board

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 Members, Senior Executives and KMPs

SDB has a formal remuneration policy for Directors, senior executives and KMPs.

Governance System Contd.





Major External Steering Instruments on Governance

- ▶ Companies Act No. 07 of 2007
- ▶ Banking Act No. 30 of 1988 and amendments thereto
- ▶ Banking Act Direction No.12 of 2007 of the Central Bank of Sri Lanka on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and amendments thereto
- ▶ Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (a voluntary Code)
- ▶ Listing Rules of the Colombo Stock Exchange
- ▶ Securities and Exchange Commission of Sri Lanka Act No.36 of 1987 and amendments thereto
- ▶ Financial Transaction Reporting Act No. 06 of 2006
- ▶ Inland Revenue Act, No. 10 of 2006
- ▶ Prevention of Money Laundering Act No. 05 of 2006
- ▶ Convention on the Suppression of Terrorist Financing Act No. 25 of 2005

Major Internal Steering Instruments of Governance

- ▶ Articles of Association of the Bank
- ▶ Board-approved policies on all major operational aspects
- ▶ Policy for secrecy of information, credit and other internal manuals
- ▶ Integrated risk management procedures
- ▶ Procedure manual for anti-money laundering and prevention of terrorist finance
- ▶ Processes for internal controls
- ▶ Bank's code of ethics / Conduct
- ▶ Bank's whistleblower policy
- ▶ Internal circulars on ethical / operational practices
- ▶ Communication policy of the Bank
- ▶ Customer charter
- ▶ Disciplinary procedure code
- ▶ Grievance handling policy

Chairperson's Statement on Corporate Governance

G4-45, 46

Dear Stakeholders

Our belief is that a good corporate governance framework is essential for the creation of long term shareholder value, and must be pursued rigorously.

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 the governance framework established in the Bank is designed not only to ensure transparency and accountability to the regulators, but also to our other stakeholders and the general public. These are attributes which provide credibility to the Bank's well established reputation amongst all its stakeholders as a secure and a robust Bank.

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. They set the tone at the top by promoting professional standards and corporate values that penetrate to senior management and other employees of the Bank. The Bank continues to maintain a vigorous learning culture within the Board with regular briefings by Management, participation at Director Forums and through guest presentations on key topics which provide an outsider perspective to the Bank's Corporate Governance framework. We believe that the current Board is equipped not only with diverse skills 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 Sub Committees tasked with overlooking this function. The Board and the Sub Committees hold quarterly meetings to ensure that sufficient attention is given to this vital area.

The Board continuously focuses on succession planning for Key Management Personnel. The Board Selection and Nomination Committee as well as the Board Human Resources & 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 high standards relevant to the industry are upheld by the **SANASA Development Bank PLC** in line with our stated values.

The report below demonstrates how the Bank has embraced and complied with the Corporate Governance Regulations issued under the Banking Act Direction No 12 of 2007 and subsequent amendments thereto for Licensed Specialised Banks in Sri Lanka by the Central Bank of Sri Lanka, and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2013 (The Code).

I wish to confirm that all the findings of the "Factual Findings Report" of the External Auditors in relation to compliance with the code have been incorporated to this Report and, 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 those are identified.

As required by the Code, I further 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.



M.S.Kiriwandeniya

Chairperson

SANASA Development Bank PLC

16th March 2017
Colombo, Sri Lanka

Investor Relations



How we create value to our investors at SDB

Investor relations are vital to SDB as they help to grow our business and provide financial resources for the Bank's survival. Through investor relations, we ensure the accountability and strengthen the bond between investors. At our bank we have separate system for making relationship with investors as its important infrastructure component of our way of quantum leap. SDB endows more values to our investors without merely confining to typical reporting requirements. In order to continue the relationship with investors, our attention is devised from a formal system.



Investor Relations Contd.

SDB Securities

Types

- ▶ Quoted ordinary shares
- ▶ Debentures

Listing Details

Ordinary Shares

- ▶ Listed Exchange : Colombo Stock Exchange (CSE) - Main Board
- ▶ Sector : Banks Finance & Insurance
- ▶ Quoted Date : 31st May 2012
- ▶ Code-ISIN : LK0412N00003
- ▶ Stock Symbol : SDB.N000

Debentures

Type	Code	ISIN	Par Value	Coupon Rate	Credit Rating
A	SDB-BD-31/12/18-C2338-9.6	LK0412D23386	100	9.60	A+(SO)
B	SDB-BD-31/12/20-C2339-10.3	LK0412D23394	100	10.00	A+(SO)
C	SDB-BD-31/12/18-C2340-9.9	LK0412D23402	100	9.90	A-(SO)
D	SDB-BD-31/12/20-C2337-10	LK0412D23378	100	10.30	A-(SO)

Rating Details

SDB connects with the services of Fitch Ratings Lanka Ltd. and ICRA Lanka Limited for local bank credit ratings. Assigned ratings for the Bank indicate the healthiness of the business operations.

Rating Entity	Rating
Fitch Ratings Lanka Ltd.	BB + (Stable)
ICRA Lanka Limited	SL BBB-Positive outlook

Useful links for investors

Information	Link (Web Site)
SANASA Development Bank PLC	www.sdb.lk
Colombo Stock Exchange	www.cse.lk
Fitch Ratings Lanka Ltd	www.fitchratings.lk
Central Bank of Sri Lanka	www.cbsl.gov.lk



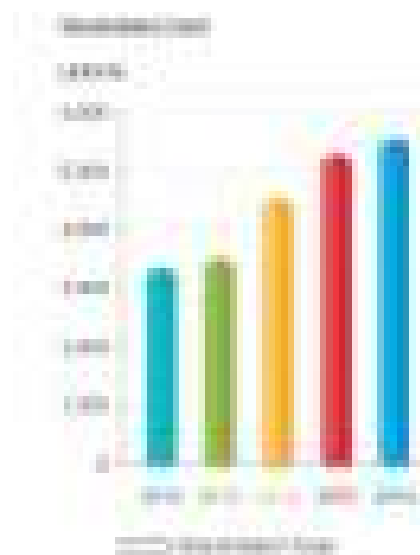
Value Creation for Ordinary Shareholders

CSE Market and Banking Sector Benchmark

	2016	2015	2014	2013	2012
CSE Market					
Market Price Earning Ratio (PER) (Times)	12.4	17.98	19.66	15.92	15.93
Market Price to Book Value (PBV) (Times)	1.4	1.99	2.20	1.97	2.08
Market Dividend Yield (DY) (%)	2.8	2.18	2.09	2.90	2.36
Banking Sector					
Market Price Earning Ratio (PER) (Times)	7.7	11.00	13.50	8.50	10.70
Market Price to Book Value (PBV) (Times)	1.1	1.40	1.80	1.40	1.70
Market Dividend Yield (DY) (%)	3.1	3.00	2.60	3.60	3.20

SDB Performance

	2016	2015	2014	2013	2012
SDB					
Net Asset Value Per Share (LKR)	131.22	131.62	124.35	134.27	129.49
Basic Earnings Per Share (LKR)	9.60	17.90	13.36	9.39	13.73
Dividend Per Share (LKR)	7.50	10.00	10.00	7.00	10.00
Market Price Per Share as at 31st December (LKR)	103.70	157.10	90.90	77.40	78.20
Price-Earnings Ratio (PER) (Times)	10.80	8.78	6.80	8.24	5.70
Price to Book Value (PBV) (Times)	0.79	1.19	0.73	0.58	0.60
Dividend Yield (DY) (%)	7.23	6.37	11.00	9.04	12.79
Dividend Payout (%)	78.13	55.85	74.86	70.99	72.82
No. of Shares (Mn)	42.06	40.25	37.76	25.18	25.18
No. of Shareholder	39,374	40,283	45,446	54,385	60,602
Total Equity (LKR Mn)	5,519.28	5,297.35	4,695.97	3,380.25	3,259.90
Stated Capital (LKR Mn)	4,062.96	3,794.09	3,533.55	2,526.53	2,526.53
Debt to Equity (Times)	10.75	10.12	7.42	7.54	6.29
Interest Cover (Times)	1.13	1.34	1.31	1.13	1.27
Return on Equity (%)	7.46	14.42	12.49	7.42	9.97
Earnings Growth (%)	(43.97)	42.84	103.26	(27.16)	(10.82)
Quick Asset Ratio (%)	64.92	55.16	67.27	80.38	82.11



Investor Relations Contd.

Dividend Payment Information

Year	Profit for the Year (LKR Mn)	Total Dividend Paid (LKR Mn)	Dividend Per Share (LKR)	Dividend Payout Ratio (%)	Dividend Yield (%)
2012	340.72	125.88	10.00	72.82	12.79
2013	248.18	176.23	7.00	70.99	9.04
2014	504.45	94.58	10.00	74.86	11.00
2015	720.57	109.16	10.00	55.85	6.37
2016 (To be paid)	403.72	105.15	7.50	78.13	7.23



Record of Scrip Issue

Year	New Proportion	Old Proportion	No. of Shares Listed	Date Listed
1-Jun-2015	1	15.0800	2,483,642	12-Jun-2015
1-Jun-2016	1	21.9467	1,814,952	10-Jun-2016

Right Issue (2014)

Basic Details of Right Issue

Code	Close Price (LKR)	Highest Price (LKR)	Lowest Price (LKR)	Turnover (LKR)	No. of Shares	Trades
SDB.R0000	15.00	24.00	10.70	31,153,089	2,191,458	1,717

Date of Allotment	No of Shares Provisionally Allotted	Consideration Per Share (LKR)	Final Allotment of Shares (No.)	Amount Raised (LKR)	Proportion	Date Listed
18-Nov-2014	12,587,661	80.00	12,587,661	1,007,012,880	1:2	30-Dec-2014

Utilization of funds raised through Right Issue

Objective No.	Objective as per Circular	Amount Allocated as per Circular (LKR)	Proposed Date of Utilization as per Circular	Amount Allocated from Proceeds (LKR)	% of Total Proceeds (%)	Amounts Utilized (LKR)	% of Utilization against Allocation (%)
1	To increase the Bank's capital base and to finance portfolio growth whilst strengthening the Balance Sheet.	1,007,012,880	Nine months from the date of allotment	1,007,012,880	100	1,007,012,880	100



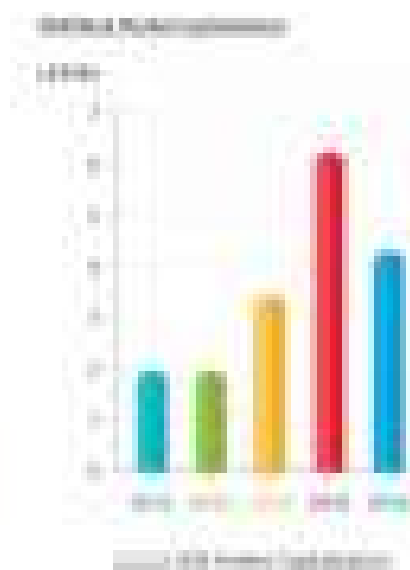
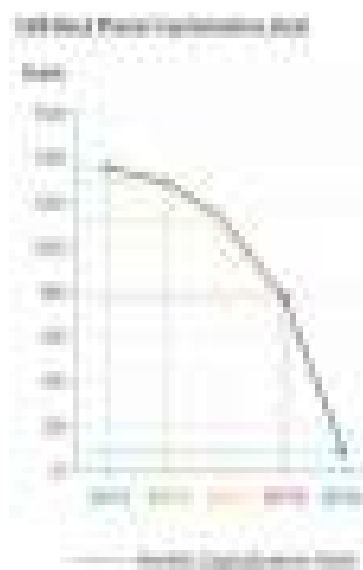
Market Capitalization

CSE Market and Banking Industry Benchmarks

	2016	2015	2014	2013	2012
CSE Market Capitalization (LKR Bn)	2,745.00	2,938.00	3,104.90	2,459.90	2,167.60
S & P SL20 (31/12)	3,496.44	3,625.69	4,089.14	3,263.87	3,085.33
All Share Price Index (31/12)	6,228.26	6,894.50	7,298.95	5,912.78	5,643.00
Banking, Finance and Insurance Sector Market Capitalization (LKR Bn)	653.86	699.84	753.69	512.79	490.56

SDB Performance

	2016	2015	2014	2013	2012
SDB Market Capitalization (LKR Bn)	4.36	6.32	3.43	1.94	1.96
Increase / Decrease in Market Capitalization of SDB (%)	(31)	84	77	(1)	Listed on 31.05.2012
CSE Market Capitalization (LKR Bn)	2,745.00	2,938.00	3,104.90	2,459.90	2,167.60
SDB Market capitalization as a % of CSE Market Capitalization (%)	0.16	0.22	0.11	0.08	0.09
Market Capitalization Rank of SDB bank	10	78	114	130	136



Investor Relations Contd.

Shareholder Analysis

Resident / Non-Resident

	31st December 2016				31st December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Resident Shareholders	39,373	99.997	41,058,169	97.61	40,282	99.998	39,286,944	97.62
Non-Resident Shareholders	1	0.003	1,003,408	2.39	1	0.002	959,681	2.38
	39,374	100	42,061,577	100	40,283	100	40,246,625	100

Individual / Institutional

	31st December 2016				31st December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Individual Shareholders	35,835	91.01	16,008,716	38.06	36,763	91.262	16,740,267	41.58
Institutional Shareholders	3,539	8.99	26,052,861	61.94	3,520	8.738	23,506,358	58.42
	39,374	100	42,061,577	100	40,283	100	40,246,625	100

Institutional Sub Analysis

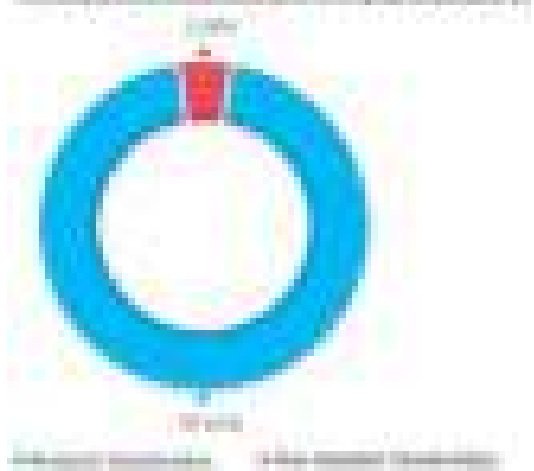
	31st December 2016				31st December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Foreign	1	0.003	1,003,408	2.39	1	0.002	959,681	2.38
Local & Other Institutions	47	0.12	9,806,387	23.31	42	0.104	8,031,577	19.96
SANASA Federation	1	0.003	633,763	1.51	1	0.002	573,626	1.43
SANASA Societies	3,329	8.455	5,031,168	11.96	3,314	8.227	4,541,844	11.29
SANASA Unions	31	0.079	1,040,936	2.47	33	0.082	1,037,404	2.58
MPCCS	21	0.053	145,928	0.35	20	0.050	137,580	0.34
Trust Companies	109	0.277	8,391,271	19.95	109	0.271	8,224,646	20.44
	3,539	8.99	26,052,861	61.94	3,520	8.738	23,506,358	58.42

Share Ownership Composition

	31st December 2016				31st December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 - 1000	37,773	95.94	4,594,425	10.92	38,735	96.16	5,077,201	12.61
1001 - 10000	1,289	3.27	3,522,161	8.37	1,245	3.10	3,410,928	8.48
10001 - 100000	260	0.66	8,270,894	19.67	243	0.60	7,365,558	18.30
100001 - 1000000	47	0.12	11,782,079	28.01	54	0.13	11,996,132	29.81
1000001 - & Above	5	0.01	13,892,018	33.03	6	0.01	12,396,806	30.80
	39,374	100	42,061,577	100	40,283	100	40,246,625	100



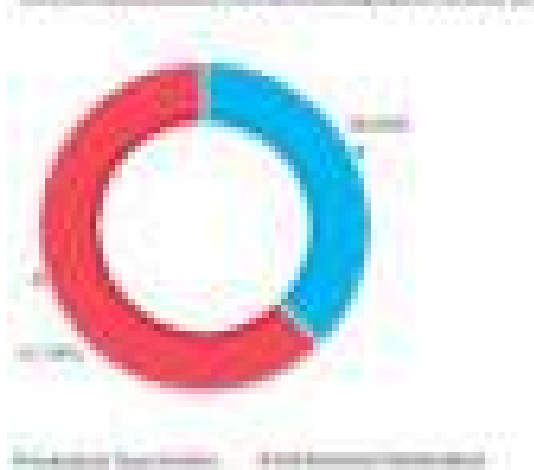
Subject 1: Shareholder Distribution by the All Share



Subject 2: Shareholder Distribution by the All Share



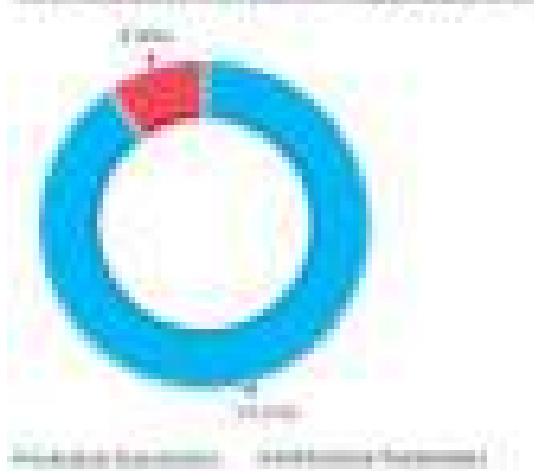
Subject 3: Shareholder Distribution by the All Share



Share Distribution by the All Share



Subject 4: Shareholder Distribution by the All Share



Share Distribution by the All Share



Investor Relations Contd.

Top 20 Shareholders

No.	Shareholder Name	31st Dec 2016		31st Dec 2015	
		No. of Shares (Voting)	%	No. of Shares (Voting)	%
1	Seylan Bank PLC/Thirugnanasambandar Senthilvel	5,392,720	12.82	4,201,346	10.44
2	Global Rubber Industries Private Limited	4,461,548	10.61	2,792,071	6.94
3	People's Leasing & Finance PLC	1,951,073	4.64	1,866,047	4.64
4	Seemasahitha Sanasa Rakshana Samagama (General)	1,083,269	2.58	1,036,061	2.57
5	CB NY S/A International Finance Corporation	1,003,408	2.39	959,681	2.38
6	Kegalle Sanasa Share Holders Trust Company Limited	968,385	2.30	718,641	1.78
7	Dr. S. Yaddehige	884,782	2.10	1,027,836	2.55
8	Seemasahitha Sanasa Rakshana Samagama (Life)	848,543	2.02	811,565	2.01
9	Sanasa Federation Limited	633,763	1.51	573,626	1.42
10	Sampath Bank PLC / Dr. T. Senthilvel	600,000	1.43	1,473,445	3.66
11	Etimos Lanka Private Limited	580,000	1.38	585,229	1.45
12	Warakapola Sanasa Share Holders Trust Company Limited	489,824	1.16	468,478	1.16
13	Waldock Mackenzie Ltd/ Mr.S.N.P. Paliheena And Mrs. A.S. Paliheena	410,000	0.97	300,000	0.74
14	Hambanthota DTCCS Union Ltd	358,028	0.85	342,426	0.85
15	Polgahawela Sanasa Societies Union Ltd	331,000	0.79	209,538	0.52
16	Mr. D.P. Pieris	328,723	0.78	314,398	0.78
17	Polpithigama Sanasa Share Holders Trust Company Limited	268,758	0.64	257,046	0.64
18	Kamburupitiya Sanasa Share Holders Trust Company Limited	255,277	0.61	244,153	0.61
19	Kolonnawa Sanasa Shareholders Trust Company Limited	239,802	0.57	229,352	0.57
20	Polgahawela Sanasa Share Holders Trust Company Limited	225,629	0.54	225,699	0.56
Total		21,314,532	50.67	18,636,638	46.27
Total No of Shares Registered		34,262,502	81.45	31,773,123	78.95
Total No of Shares Unregistered		7,799,075	18.55	8,473,502	21.05
Total No. of Shares Issued		42,061,577	100	40,246,625	100
Shares held by Directors		6,176	0.03	5,658	0.01
Shares held by Institutions		26,052,861	61.94	23,506,358	58.41
Balance held by Public		16,002,540	38.03	16,734,609	41.58
Total No. of Shares Issued		42,061,577	100	40,246,625	100
Shares held by Public		40,308,570	95.84	40,239,834	99.98
Shares held by Directors and Related Parties		1,753,007	4.16	6,791	0.02
Total		42,061,577	100	40,246,625	100

*Shareholding as at 31st December 2015 out of the top twenty shareholders as of 31st December 2016.

Directors' and CEO's Shareholding

No	Shareholder Name	31st Dec 2016		31st Dec 2015	
		No. of Shares	%	No. of Shares	%
1	Ms. M.S. Kiriwadeniya (Chairperson)	5,392	0.012	5,158	0.013
2	Mr. B.R.A. Bandara (Director)	784	0.002	500	0.001
3	Mr. Nimal C. Hapuarachchi (GM / CEO)	-	-	-	-
Total		6,176	0.014	5,658	0.014



Share Trading Scrutiny

Market Share Trading

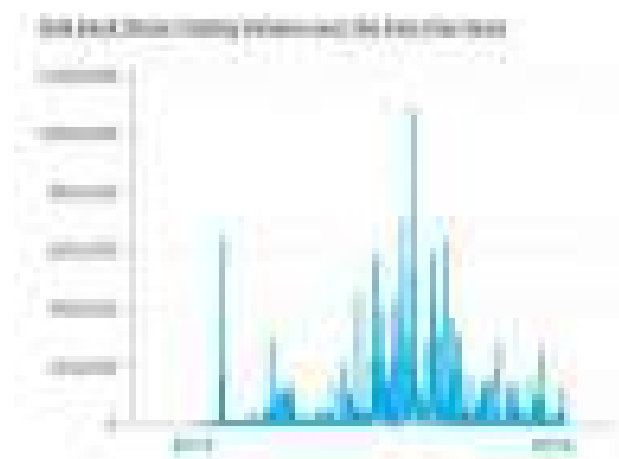
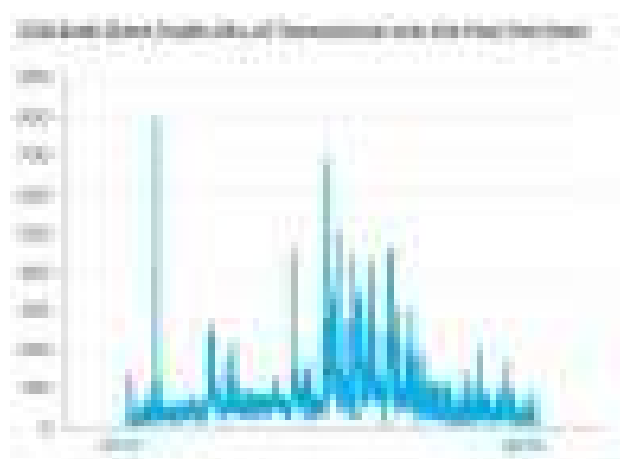
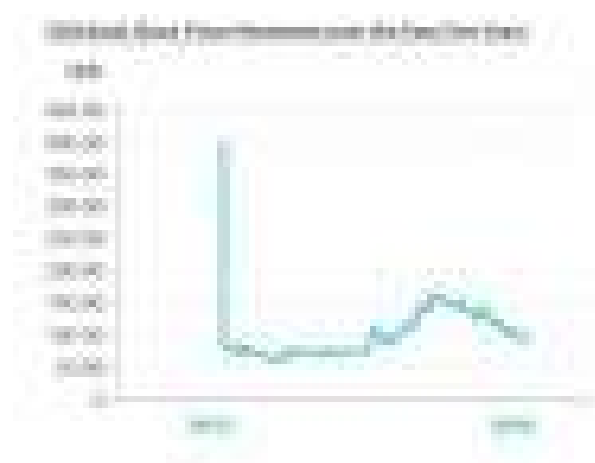
	2016	2015	2014	2013	2012
No. of Transactions	1,056,850	1,506,790	1,983,323	103,329,641	1,007,518,188
No. of Shares Traded	7,209,003,750	9,414,661,048	16,767,844,219	10,237,851,078	22,478,557,891
Value of Shares Traded (LKR Mn)	178,255.28	253,251.01	341,023.14	200,467.80	213,827.19
Average Daily Turnover (LKR Mn)	742.73	1,059.63	1,415.03	828.38	883.58

SDB Share Trading

	2016	2015	2014	2013	2012
No. of Transactions	10,940	26,889	24,450	15,164	6,527
No. of Shares Traded	5,649,252	19,891,297	11,631,552	3,690,889	1,524,615
Value of Shares Traded (LKR Mn)	725.61	2,667.29	1,095.13	289.23	127.93
Average Daily Turnover (LKR Mn)	3.02	11.16	4.54	1.20	0.90

SDB Share Price Movement

	2016	2015	2014	2013	2012
Highest Price (LKR)	158.80	176.00	124.00	90.00	770.00
Lowest Price (LKR)	95.20	91.00	73.50	64.10	70.10
Price as at 31st December (LKR)	103.70	157.10	90.90	77.40	78.20



Investor Relations Contd.

Value Creation for Debenture Holders

Basic Information of the Debentures

	Type A	Type B	Type C	Type D
Tenure	3 Years	5 Years	3 Years	5 Years
Issue Date	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Maturity Date	31.12.2018	31.12.2020	31.12.2018	31.12.2020
Frequency of Interest Payable	Semi Annual	Semi Annual	Semi Annual	Semi Annual
Market Value	Not traded	Not traded	Not traded	Not traded

Other Information of the Debentures for 2015 and 2016

	31st December 2016				31st December 2015			
	Balance as at 31 Dec (LKR 000)	Coupon Rate (%)	Annual Effective Rate (%)	Interest Rate Comparable Government Securities (%)	Balance as at 31 Dec (LKR 000)	Coupon Rate (%)	Annual Effective Rate (%)	Interest Rate Comparable Government Securities (%)
Type A	1,668,353	9.60	9.83	11.85	1,589,020	9.60	9.83	8.65
Type B	421,305	10.00	10.25	12.15	400,512	10.00	10.25	9.30
Type C	1,504,103	9.90	10.15	11.85	1,430,552	9.90	10.15	8.65
Type D	588,892	10.30	10.57	12.15	559,026	10.30	10.57	9.30

Utilization of funds raised through Debenture Issue

Objective No.	Objective as per Prospectus	Amount Allocated as per Prospectus (LKR)	Proposed Date of Utilization as per Prospectus	Amount Allocated from Proceeds (LKR)	% of Total Proceeds (%)	Amounts Utilized (LKR)	% of Utilization against Allocation (%)
1	To raise medium term funds to manage assets and liability mismatch and to minimize the interest rate risk.	-	-	-	-	-	-
2	To finance the budgeted lending portfolio (approximately 90% as loans and the balance as leasing) and to minimize the mismatch in funding exposure.	4,000,000,000	In the ordinary course business within the next 12 months from the date of allotment.	3,600,000,000 for loans and 400,000,000 for leasing	100	4,000,000,000	100



Compliance Status

- 136** Compliance with the Provision of the Banking Act
Direction No. 12 of 2007 of the Central Bank of Sri Lanka
- 152** Compliance with the Code of Best Practices on
Corporate Governance

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka

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

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

Guideline	Function of the Board	Level of Compliance	Complied/Not
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 2017-2020 and communicated during meetings with corporate & senior managers.	Complied with
	b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	The Bank's current Strategic Plan includes measurable goals and there is a Board approved overall risk management policy and a risk management procedures.	Complied with
	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 review.	Complied with
		Further, the risks arising out of new strategies are managed by the Board IFC Steering Committee on Transformation and Project Management Office (PMO).	Complied with
	d) A policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers.	Board approved Communication Policy is in place.	Complied with
	e) Reviewed the adequacy and the integrity of the Bank's internal control systems and management information system.	The 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.	Complied with
		Board Audit Committee (BAC) and the Board have reviewed the adequacy and the integrity of the Bank's Management Information Systems which is checked by the external auditors too.	Complied with
	f) Identified and designated key management personnel, as defined in the Central Bank Guidelines.	Based on Corporate Governance issued by the 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.	Complied with
	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.	Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not
	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 exercised 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.	Complied with
	i) Periodically assess the effectiveness of the Board of Directors own governance policies including.		Complied with
	a. The selection, nomination and election of Directors and Key Management Personnel.	A procedure for selecting and appointing new directors with the recommendation of the Board Selection and Nominations Committee and a Policy of selection, appointment and remuneration of the KMPs are in place.	Complied with
	b. The management of conflicts of interests.	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 for the quorum.	Complied with
	c. The determination of weaknesses and implementation of changes where necessary.	Determination of weaknesses of BODs has been evaluated through self-evaluation process for 2016.	Complied with
	j) Ensure that the Bank has a succession plan for Key Management Personnel.	Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank. One to one succession plan for KMPs is available with the Board.	Complied with
	k) Ensure that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Board meets the KMPs at Board committees to review policies and monitor progress towards corporate objectives at quarterly performance review meetings and when need arises they are called by Board to explain matters relating to their area.	Complied with
	l) Understand the regulatory environment and that the Bank maintains a relationship with regulators.	All the new regulations and directions issued by regulators and non-compliances are reported to the BODs by the Compliance Officer monthly for their understanding the regulatory environment. Awareness programmes are conducted on regular intervals.	Complied with
	m) Process in place for hiring and oversight of external auditors.	The Board through the BAC select external auditors and oversight their activities.	Complied with
3 (1) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and define the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5).	Appointment of the Chairperson and CEO is done by the Board and functions are defined as per direction no 3(5).	Complied with
3 (1) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	19 meetings were held during the year.	Complied with
3 (1) (iv)	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	A Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.	Complied with

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka Contd.

Guideline	Function of the Board	Level of Compliance	Complied/Not
3(1)(v)	The Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Notices have been given more than 7 days in advance for all Board meetings.	Complied with
3(1)(vi)	The Board has taken required action on Directors who have not attended at least two-third 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, is acceptable as attendance.	No such situation was happened during the year.	Complied with
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 who satisfies the provisions of Section 43 of the Banking Act No.30 of 1988.	Complied with
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.	Complied with
3(1)(ix)	The Company Secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	Minutes of Board meetings are maintained by the Company Secretary and during each Board meeting the Board of Directors have approved the minutes of the previous Board meeting.	Complied with
3(1)(x)	The minutes of a Board meeting contain or refer to the following: a) A summary of data and information used by the Board in its deliberations. 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.	Complied with
3(1)(xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Board approved procedure in place to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not
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 to avoid conflicts of interests, or the appearance of conflicts of interest.	Complied with
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.	Complied with
3 (1) (xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	No such situation has arisen during the year.	Complied with
3 (1) (xv)	The Board shall ensure that the Bank capitalized at levels as required by the Monetary Board.	The Bank has been fully complied with the Capital Adequacy Requirements during the year.	Complied with
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 this purpose.	Complied with
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 Company Secretary maintains records of such evaluations.	Complied with
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 Eight Directors as at 31/12/2016.	Complied with
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	None of the Directors who has completed 9 years of service in the Board.	Complied with
3 (2) (iii)	The number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	All Directors are Non-Executive and the CEO is not a member of the Board.	Complied with
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 Four Independent, Non-Executive Directors.	Complied with
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 2016.	Complied with

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka Contd.

Guideline	Function of the Board	Level of Compliance	Complied/Not
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.	Complied with
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.	Every meeting during the year was consistent with the required quorum and composition.	Complied with
3 (2) (viii)	The Bank discloses the composition of the Board, by category of Directors, including the names of the chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance report.	Composition of the Board has been disclosed under "Board of Directors" of this Annual Report.	Complied with
3 (2) (ix)	There shall be procedure for the appointment of new Directors to the Board.	A procedure for appointing new Directors with the recommendation of the Board Selection and Nomination Committee is in place.	Complied with
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.	Complied with
3 (2) (xi)	If a Director resigns or is removed from office, the Board: a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Directors' resignation/removal and the reason for such resignation are duly informed to the CBSL and Securities and Exchange Commission as well.	Complied with
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 obtained from Directors indicates their Directorship in other Banks and none of the present Directors of the Bank acts as Director of another Bank. Letter of appointment and code of conduct issued to the employees have been prevented from accepting any Directorship of other Banks without the prior permission from the Bank.	Complied with
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 that the date of birth and age of the Directors are monitored accordingly.	Complied with
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.	Complied with
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.	Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not
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 KMPs through CEO subject to final responsibility being retained with them.	Complied with
3 (4) (iii)	The Board reviews 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.	Complied with
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 that carry 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 the Bank has appointed a Non-Executive independent senior Director as the Deputy Chairman. This is disclosed under the "Annual Report of the Board of Directors on the Affairs of the Company" and "Board of Directors".	Complied with
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 the Corporate Governance Report in Annual Report.	Complied with
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.	Complied with
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 the Company Secretary, which is approved by the Chairperson.	Complied with
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.	Complied with
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 BODs is in place which covers the requirement.	Complied with
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. All the Directors are Non-Executive.	Complied with

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka Contd.

Guideline	Function of the Board	Level of Compliance	Complied/Not
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 KMPs or any other executive duties during the financial year 2016.	Complied with
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	AGM of the Bank is the main forum where the Board maintains effective communication with shareholders and further the communication policy evidence there is a process in this regard.	Complied with
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.	Complied with
3 (6)	Board Appointed Committees		
3 (6) (i)	The Bank has established at least four Board committees as set out in Directions 3(6) (ii), 3(6) (iii), 3(6) (iv) and 3(6) (v) of these Directions. The committee report is addressed directly to the Board. The Board presents in its Annual Report, a report on each committee on its duties, roles and performance.	Following Committees established and directly report to the Board and minutes of the same are discussed and ratified at the main Board Meeting. 1) Board Audit Committee (BAC) 2) Board Human Resources and Remuneration Committee (BHRRCC) 3) Board Selection and Nomination Committee (BSNC) 4) Board Integrated Risk Management Committee (BIRMC) 5) Board Credit Committee (BCC) This is disclosed under the "Report of the Directors".	Complied with
3 (6) (ii)	Audit Committee:		
	a) The Chairman of the committee is an Independent Non-Executive Director and possesses qualifications and related experience.	The Chairman is an independent Non-Executive Director who is a qualified Chartered Accountant.	Complied with
	b) All members of the committee are Non-Executive Directors.	All members are Non-Executive Directors.	Complied with
	c) The committee has made recommendations on matters in connection with: i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; ii) The implementation of the Central Bank guidelines issued to auditors from time to time; iii) The application of the relevant accounting standards; and iv) The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee always make recommendations regarding those matters.	Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not
	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 directly to the BAC. The Report on the Financial Statements of the Bank for the year 2016 indicates that the audit is carried out in accordance with SLAuS.	Complied with
	e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	Committee has implemented the policy in this regard.	Complied with
	f) The committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Committee has discussed and finalized the Audit Plan 2016, nature and scope of the audit and deliverables, with the external auditors in accordance with SLAuS before the audit commences.	Complied with
	g) The committee has a process to review the Financial Information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; i) Major judgmental areas; ii) Any changes in accounting policies and practices; iii) The going concern assumption; and iv) The compliance with relevant accounting standards and other legal requirements, and; v) In respect of the Annual Financial Statements the significant adjustments arising from the audit.	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 Assistant General Manager - Finance.	Complied with
	h) The committee has met the External Auditors relating to any issue in the absence of the executive management with relation to the audit.	Committee has met the External Auditors in the absence of the executive management during the year.	Complied with
	i) The committee has reviewed the External Auditor's Management Letter and the management's response thereto.	BAC reviews the External Auditors' Management Letter and management response at the meeting.	Complied with
	j) The committee shall take the following steps with regard to the internal audit function of the Bank:		Complied with
	i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;	The Committee reviews the adequacy of the scope, functions and resources of the internal audit department.	Complied with
	ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	The Committee reviews the internal audit programmes and Progress of Internal Audit Function for the year 2016 was discussed at BAC.	Complied with

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka Contd.

Guideline	Function of the Board	Level of Compliance	Complied/Not
	iii) Review any appraisal or assessment of the performance of the Head and Senior staff members of the internal audit department;	BAC has evaluated the performance of the Head of Internal Auditor for the year 2016.	Complied with
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Appointment, termination or transfers of the Head, Senior Staff and outsource service providers of the internal audit function are approved by the BAC.	Complied with
	v) The committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	There were no resignation or termination of senior staff or outsourced service providers of the internal audit department during the period.	Complied with
	vi) The internal audit function is independent of the activities it audits.	Internal Audit Department is independent since they report directly to the BAC and they do not involve with operational activities of the Bank. If functions are performed with impartially proficiency and due professional care.	Complied with
	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.	Complied with
	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 are in the Board and they have met on more than two occasions with the External Auditors.	Complied with
	m) The terms of reference of the committee to ensure that there is; i) Explicit authority to investigate into any matter within its terms of reference; ii) The resources which it needs to do so; iii) Full access to information; and iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	The Board approved Terms of Reference (TOR) of the committee addresses all those matters.	Complied with
	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 2016, BAC has held more than 12 regular meetings and its minutes are maintained by the Company Secretary.	Complied with
	o) The Board has disclosed in the Annual Report, i) Details of the activities of the Audit Committee; ii) The number of Audit Committee meetings held in the year; and iii) Details of attendance of each Individual Director at such meetings.	These information are disclosed in the Annual Report under following headings i) "Report of the Board Audit Committee". ii) & iii) "Annual Report of the Board of Directors on the Affairs of the Company"	Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not
	p) The secretary of the committee is the Company Secretary or the Head of the internal audit function.	The secretary of the committee is held by the Chief Internal Auditor.	Complied with
	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.	Complied with
3 (6) (iii)	The following rules apply in relation to the Human Resources and Remuneration Committee:		
	a) The committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the "Terms of Reference" and minutes.	BHRRC has implemented a policy to determine the remuneration of Directors. Committee has implemented a policy to determine the remuneration relating to CEO & KMPs of the Bank.	Complied with
	b) The goals and targets for the Directors, CEO and the Key Management Personnel are documented.	Goals and targets for the KMPs are in place and approved by the Board. No Executive Directors are available in the Board. Goals and targets of CEO and KMPs are reviewed by the BHRRC.	Complied with
	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.	The Bank has a process to review and evaluate the performance of CEO and KMPs by the BHRRC / BAC or BIRMC.	Complied with
	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.	Complied with
3 (6) (iv)	The following rules apply in relation to the Nomination Committee:		
	a) The committee has implemented a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Board has a Policy and Procedure for the selection, appointment and remuneration of the Directors, CEO and KMPs.	Complied with
	b) The committee has considered and recommended (or not recommended) the re-election of current Directors.	Duly Recommended.	Complied with

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka Contd.

Guideline	Function of the Board	Level of Compliance	Complied/Not
	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 such as qualifications, experience and key attributes required for eligibility for appointment or promotion to the post of CEO are submitted at the Selection and Nomination Committee. Criteria for KMPs are included in their JDs approved by the HRRC committee. These JDs are submitted at the Nomination Committee for their review.	Complied with
	d) The committee has obtained from the Directors, CEO and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Signed Declarations are obtained from Directors, CEO and KMP that they are fit and proper persons to hold the office.	Complied with
	e) The committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank. The Bank has developed a one to one succession plan for KMPs.	Complied with
	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 majority of Independent Directors. The CEO participates only on invitation.	Complied with
3 (6) (v)	The following rules apply in relation to the Integrated Risk Management Committee:		Complied with
	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 three Non-Executive Directors. Committee will include CEO and KMPs supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks as members of the committee.	Complied with
	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 of credit, market, operational and strategic are evaluated on monthly basis by Executive Integrated Risk Management Committee and minutes are submitted to BIRMC on quarterly basis. At present the Bank has no any subsidiary or associate companies.	Complied with
	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 reviewed the effectiveness of management level committees such as the credit committee and the asset-liability committees.	Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not
	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 the risk limits.	Complied with
	e) The committee has met at least quarterly.	Committee has met 5 times during 2016.	Complied with
	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.	Complied with
	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.	Complied with
	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.	<p>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.</p> <p>The Compliance Officer submits a quarterly compliance report to the BIRMC and Related Party Transaction Report on a monthly basis to the main Board.</p> <p>This process includes the compliance with internal controls and approved policies on all areas of business operations.</p>	Complied with
	Related Party Transaction		
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; b) Any of the Bank's associate companies; c) Any of the Directors of the Bank; d) Any of the Bank's Key Management Personnel; e) A close relation of any of the Bank's Directors or Key Management Personnel; f) A shareholder owning a material interest in the Bank; g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.</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 interests with said parties that may arise from such transactions 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 (RPTRC) which is responsible to make decisions over related party transactions other than day to day business activities.</p>	Complied with

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka Contd.

Guideline	Function of the Board	Level of Compliance	Complied/Not
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> <ul style="list-style-type: none"> a) The grant of any type of accommodation, as defined in the monetary Board's directions on maximum amount of accommodation. b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments. c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank. d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties, 	<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 to avoid any conflicts of interests 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>	Complied with
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> <ul style="list-style-type: none"> a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty. c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; d) Providing services to or receiving services from a related-party without an evaluation procedure; e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. 	<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 has modified 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 same business.</p>	Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not
3 (7) (iv)	The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	This requirement is documented in the Board approved Related Party Transaction Policy.	Complied with
3 (7) (v)	The Bank has a process, where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	No such matter were pending as at end of 31/12/2016	Complied with
	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 matters are outstanding as at 31/12/2016	Complied with
	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 2016.	Complied with
	Process in place to ensure clause 3 (7) (v) (c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	No such situation occurred during the year 2016.	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 were given to the employees under any category other than staff benefit schemes approved by the Board of Directors.	Complied with

Compliance with the Provision of the Banking Act Direction N0.12 of 2007 of the Central Bank of Sri Lanka Contd.

Guideline	Function of the Board	Level of Compliance	Complied/Not
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.	Complied with
Disclosures			
3 (8) (i)	The Board ensure that the Board has disclosed: a) Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Annual Audited Financial Statements including basis of preparation and presentation, statement of compliance is disclosed in the Annual Report 2016 and such Audited Financial Statements and quarterly Financial Statements have been published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
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. 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. c) 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" referred to in Direction 3(8)(ii)(b) above. 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.	Specific disclosures are available in Page 202 of this Annual Report under "Statement of Directors' responsibility for Financial Reporting". Specific disclosures are available in page 197 of this Annual Report under "Directors' Statement on Internal Control over Financial Reporting". 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 page 199 of this Annual Report. Details on the same are disclosed under heading "Board of Directors". Fees and transactions with the Bank has been disclosed in this report under 3(8) (ii) f).	Complied with Complied with Complied with Complied with



Guideline	Function of the Board	Level of Compliance	Complied/Not														
	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.	<div>Disclosures of accommodation outstanding as of balance sheet date to related parties are made under Notes to the Financial Statements in the Annual Report. Net accommodations granted to each category of related parties and its percentage as a Bank capital is as follow.</div> <table><tr><th>Category of Related Party</th><th>Balance LKR Mn</th><th>%</th></tr><tr><td>Board of Directors</td><td>20.3</td><td>0.4</td></tr><tr><td>Corporate Management</td><td>57.26</td><td>1.04</td></tr><tr><td>Related Companies</td><td>116.77</td><td>2.11</td></tr></table> <div>Spouses and other family members of Related Parties - NIL</div>	Category of Related Party	Balance LKR Mn	%	Board of Directors	20.3	0.4	Corporate Management	57.26	1.04	Related Companies	116.77	2.11	Complied with		
Category of Related Party	Balance LKR Mn	%															
Board of Directors	20.3	0.4															
Corporate Management	57.26	1.04															
Related Companies	116.77	2.11															
	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.	<div>Disclosure of remuneration paid by the Bank to its KMP and other transactions with KMPs are disclosed below.</div> <table><tr><th rowspan="2">Category of KMP</th><th colspan="2">Balance as at 31/12/2016 (LKR Mn)</th><th rowspan="2">Remuneration/ Fees paid during the year (LKR Mn)</th></tr><tr><th>Deposit</th><th>Loan outstanding</th></tr><tr><td>Directors</td><td>2.98</td><td>2.62</td><td>17.7</td></tr><tr><td>Corporate Management (AGM grade and above)</td><td>27.53</td><td>21.65</td><td>13.8</td></tr></table>	Category of KMP	Balance as at 31/12/2016 (LKR Mn)		Remuneration/ Fees paid during the year (LKR Mn)	Deposit	Loan outstanding	Directors	2.98	2.62	17.7	Corporate Management (AGM grade and above)	27.53	21.65	13.8	Complied with
Category of KMP	Balance as at 31/12/2016 (LKR Mn)			Remuneration/ Fees paid during the year (LKR Mn)													
	Deposit	Loan outstanding															
Directors	2.98	2.62	17.7														
Corporate Management (AGM grade and above)	27.53	21.65	13.8														
	g) Board has confirmed in its Annual Corporate Governance Report that all the findings of the "Factual Findings Report" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the Annual Corporate Governance Report.	<div>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 Annual Corporate Governance Report.</div> <div>Refer " Chairperson's Statement on Corporate Governance" in page 124 of this Annual Report.</div>	Complied with														
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	<div>This aspect is covered by the "Chairperson's Statement on Corporate Governance" in page 124 of this Annual Report.</div>	Complied with														
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	<div>No such direction is issued by the Monetary Board during the Year.</div>	Complied with														

Compliance with the Code of Best Practices on Corporate Governance

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Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
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 meets 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, recognize 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.
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 scrutinizing the decisions taken by the Corporate Management led by the GM / CEO, on issues of strategy, performance, resources utilisation and business conduct.
6. Dedication of adequate time and effort by the Board and Board committees	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 recognize the need for continuous training and expansion of knowledge and undertake such professional development as they consider necessary in assisting them to carry out their duties as Directors.



Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
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 SDB. 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.
A. 3 Chairman's Role			
The Chairperson should lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully and preserves order and facilitates the effective discharge of the Board function.			
1. Role of the Chairperson	A.3.1	The chairman should conduct board proceedings in a proper manner and ensure an effective discharge of the Board functions.	The Chairperson is responsible for leadership of the Board and ensuring effectiveness in all aspects of its role. The Chairperson of SDB is a Non-Executive Director, elected by the Board. The Chairperson's role encompasses: - Ensuring that the new Board members are given appropriate induction, covering terms of appointment, duties and responsibilities.
A.4. Financial Acumen			
The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board is equipped with members having sufficient financial acumen and knowledge.			
1. Availability of sufficient financial acumen and knowledge	A.4.1	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	All Directors possess financial acumen and knowledge through the experience gained from leading large private and public enterprises coupled with academic and professional back ground. The details of their qualifications and experiences have been listed in the Annual Report under "Board of Directors".
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 2016.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive Directors out of all, should be Independent Directors.	Board comprises of Four Independent, Non-Executive Directors.

Compliance with the Code of Best Practices on Corporate Governance Contd.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
3. Criteria to evaluate Independence of Non-Executive Directors	A.5.3	For a Director to be deemed as 'Independent', such Director should be independent from management and free of any business or other relationships that could materially interfere.	Comply with independency criteria.
4. Signed declaration of independence by the Non-Executive Directors	A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/ her independence.	There is a declaration of independency signed by all Non-Executive Directors.
5. Determination of independence of the Directors by the Board	A.5.5	The Board should make a determination annually as to the independence or Non-Independence of each Non-Executive Directors.	The Board has determined that the submission of declaration/s by the Non-Executive Directors, as to the independence of them, as fair representation and will continue to evaluate their submission annually.
6. Appointment of Alternate Director	A.5.6	If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an executive of the Bank.	No Alternate Director was appointed during the year 2016.
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 once in 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.



Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
A. 6 Supply of Information			
Management should provide time bound information in a form and of quality appropriate to enable the Board to discharge its duties.			
1. Information to the Board by the Management	A.6.1	Management has the responsibility to provide the information appropriately and timely to the Board. But information volunteered by Management is not always enough and Directors should make further inquiries where necessary.	The Board was provided with timely and appropriate information by the management by way of Board papers and proposals. The Board sought additional information as and when necessary. Members of the Corporate Management made presentations on issues of importance whenever clarification sought by the Board. The Chairperson ensured that all Directors were briefed on issues arising at Board meetings.
2. Adequate time for effective Board meetings	A.6.2	The Minutes, Agenda and Papers required for a board meeting should ordinarily be provided to Directors at least 7 days before.	The Board papers were sent to the Directors at least a week before the respective Board meetings by giving an adequate time for Directors to study the 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 the 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 Chairman and members are disclosed in the Annual Report under "Report of the Board Selection and Nomination Committee (BS & NC)".
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 a new Director, the company should forthwith disclose relevant particulars to shareholders.	New appointments of Directors are disclosed through stock exchange as well as the AGM.

Compliance with the Code of Best Practices on Corporate Governance Contd.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
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.
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 set out in A.1.2	Self assessments for Board of Directors were done for the year 2016.
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 the "Board of Directors" in the Annual Report.
A.10 Disclosure of Information in respect of Directors			
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 In the Annual Report under "Board of Directors" and "Annual Report of the Board of Directors on the Affairs of the Company".
A.11. Appraisal of the CEO			
The Board of Directors 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 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.



Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
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 of the Directors and Corporate Management, and for making all relevant disclosures.
2. Composition of the HR & Remuneration Committee	B.1.2 & B.1.3	Remuneration committees should consist 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 the Annual Report.	All committee members are Non-Executive Directors and the Chairman is appointed by the Board. Composition of the Committee is given in the Annual Report under "Report of the Board Human Resources and Remuneration Committee".
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 her 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 under B.2.2

Compliance with the Code of Best Practices on Corporate Governance Contd.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
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.	No Executive Directors available in the Bank.
5. Executive share options	B.2.5	Executive share options should not be offered at a discount.	Not in practice such a share option scheme 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 available in the Bank.
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 considering the relevant facts.
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 by 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 Board Human Resources and Remuneration Committee" For composition of the Remuneration Committee with names.



Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
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 Chairman at the AGM	C.1.3	The Chairman of the Board should arrange for the Chairman 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 Chairman of the Audit, Remuneration, Nomination and Integrated Risk Management Committees are present at the AGM to answer any questions.
4. Adequate notice of the AGM	C.1.4	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Bank gives notice of the AGM and related papers to the shareholders 15 working days prior to 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 to 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, Bank Face Book page 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.

Compliance with the Code of Best Practices on Corporate Governance Contd.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication.	Following are the contact numbers of persons to be contacted in the Company Secretary - 0112832590
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.	Shareholders can discuss with Company Secretary/ Senior Director regarding any matter via above given contact numbers.
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 persons to be contacted relating to shareholders matters. Company Secretary - 0112832590
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/through the above contact numbers and at the AGM.

C.3 Major and Material Transactions

Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank, if entered into.

1. Major Transactions	C.3.1	Prior to a Company engaging in or committing to a 'Major related party transaction' with a related party, Directors should disclose to shareholders the purpose and all relevant material facts and obtain shareholders' approval by ordinary resolution.	During 2016 there were no major transactions were taken place as defined by Section 185 of the Companies Act No 7 of 2007 which materially affects Bank's net asset base.
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D. Accountability and Audit

D.1. Financial Reporting

The Board should present a balanced and understandable assessment of the Company's Financial Position, Performance and Prospects.

1. Statutory and Regulatory Reporting	D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators.	SDB has reported a true and fair view of its position and performance for the year ended 31st December 2016 and at the end of each month of 2016. In the preparation of quarterly and annual financial statements, SDB had strictly complied with the requirements of the Companies Act No 07 of 2007, the Banking Act No 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. SDB 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.
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Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
2. Directors' Report in the Annual Report	D.1.2	The Directors' Report which forms a part of the Annual Report, should contain a declaration by the directors stating that Bank operations are in line with statutory requirements.	The "Annual Report of the Board of Directors on the Affairs of the Company" given in the Annual Report covers all areas of this section.
3. Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board on preparation and presentation of Financial Statements and a statement of Internal Control.	This requirement is satisfied by the "Statement of Directors' responsibility for financial reporting" and "Directors' Statement on Internal Control over Financial Reporting" given in the Annual Report. Statement of Internal Control is also given in the Annual Report.
4. Management Discussions and analysis	D.1.4	Annual Report should contain a "Management Discussion and Analysis".	The Annual Report contains "Management Discussion and Analysis".
5. Declaration by the Board that the business as a going Concern	D.1.5	The Directors should report that the business is going concern, with supporting assumptions or qualifications as necessary.	This is given in the "Annual Report of the Board of Directors on the affairs of the Company" in the Annual Report.
6. Summoning an EGM to notify serious loss of capital	D.1.6	In the event the net assets of the company fall below 50% of the value of the company's shareholders' funds, the Director shall forthwith summon an EGM of the company to notify shareholders of the position and remedial actions.	No such situation has been arisen during the period.
7. Disclosure of Related Party Transactions	D.1.6	The Board should adequately disclose the Related Party Transactions in its Annual Report.	Related party transaction details are given 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 its effectiveness on a continuous basis. The system of internal controls is evaluated by the audit committee in the year 2016. 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 "Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC" given in the Annual Report under "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 Board of Directors reviews the internal control function once a year.

Compliance with the Code of Best Practices on Corporate Governance Contd.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
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. Directors' certification on effectiveness of Risk management and Internal control given in the Annual Report.
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. Directors' certification on effectiveness of Risk Management and Internal Control given in the Annual Report.
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. (Please refer the composition of Audit committee in the Annual Report.)
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 makes 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 addresses 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 in the Annual Report. The Committee ensures the rotation of External Audit Engagement Partner once in every 5 years. The External Auditor has provided an Independent 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.



Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
2. Affirmation by the Chairperson that there is no violation of the code of conduct and ethics	D.4.2	The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics.	Please refer the "Chairperson's Statement on Corporate Governance" for details.
D.5. Corporate Governance Disclosures			
The Bank should disclose the extent of adoption of best practice in Corporate Governance.			
1. Disclosure of Corporate Governance	D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner in which company has complied with the principles and provisions of this code.	This requirement is met through the presentation of this report.
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.

Compliance with the Code of Best Practices on Corporate Governance Contd.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2016
G. Sustainability Reporting			
G.1 Principles of Sustainability Reporting			
1. Principle 1 - Economic Sustainability	G.1.1	Principle of Economic sustainability governance recognizes 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 present 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 its 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 - Formalization of Sustainability Report	G.1.7	Sustainability reporting and disclosure should be formalized as part of the Company's reporting process and take place on a regular basis.	Sustainability reporting is based on local and global standards providing credible accounts of the Bank's economic, social and environmental impact.

Risk Management System



Risk Management Framework

The risk management framework of SDB is established in order to identify current and emerging risks, set thresholds according to the risk tolerance of the bank, establish a framework for monitoring and reporting of key risks and to foster a risk awareness culture throughout the bank.

During the year the Bank strengthened its risk management practices by benchmarking its processes and controls for risk measurement and reporting against industry best practices. Training and development initiatives were carried out throughout the bank in order to further enhance and develop risk awareness among staff. A more comprehensive stress testing framework was established in the areas of market risk enabling the bank to be better equipped to face the challenges brought about by greater market volatility. Credit risk reporting were further enhanced through the development of more comprehensive reporting and the post sanction review process was able to achieve a wider coverage of the branch network across the Island.

The bank carries out quarterly internal capital adequacy assessments and continuously strives to improve risk performance metrics.

Risk Governance at SDB G4-2, 46, 47

The Board Integrated risk committee (BIRMC) has been established as a subcommittee in order to assist the Board on the formulation of policies and controls, provide guidance on the risk strategy of the bank and the establishment of the Risk appetite threshold of the Bank. The BIRMC consists entirely of Non Executive Directors from diverse disciplines ranging from Economics, Finance and Credit risk management. The BIRMC meets quarterly.

The Executive risk committee (EIRMC) consisting of key management personnel is tasked with the implementation of risk policies and controls and assist the BIRMC in developing risk initiatives. The Committee meets monthly. The committee is responsible for the review of credit, market, liquidity, operational risk indicators as well as the bank's internal capital adequacy assessment.

The Operational Risk Committee is a subcommittee of the EIRMC and meets quarterly and is tasked with the establishment of operational risk control mechanisms, ensuring that controls are in place to mitigate the occurrence of loss events and the development of key risk indicators across the bank.

Risk Management Hierarchy



Risk Management System Contd.

Implementation of Basel II & III



Liquidity Coverage Ratio

Following the consultative paper issued by the Central Bank of Sri Lanka in 2014 on the implementation of the Basel III Liquidity Coverage Ratio (LCR), the Bank complied with the requirements of the Basel III and continues to operate well above the minimum requirement.



Capital Adequacy

	As at 31.12. 2016	As at 31.12. 2015
Core Capital (Tier I) (LKR Mn)	5,475	5,226
Total Capital Base (LKR Mn)	5,692	5,414
Risk Weighted Assets (LKR Mn)	46,404	42,283
Core Capital Adequacy Ratio (%)	11.80	12.07
Total Capital Adequacy Ratio (%)	12.27	12.51

Risk weighted assets increased by 9% due to the growth in the Bank's retail portfolio by 25% over the previous year. Tier I and Total Capital adequacy ratio's continued to be above the regulatory threshold of 5% and 10%.

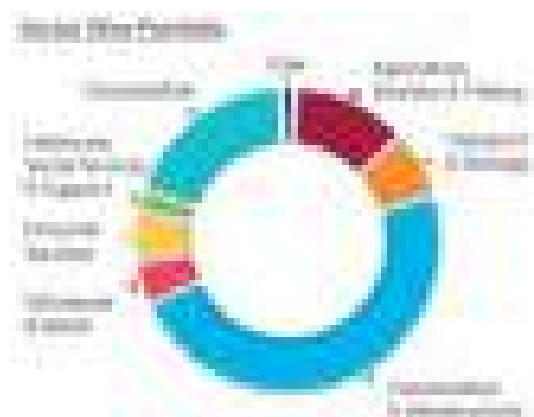
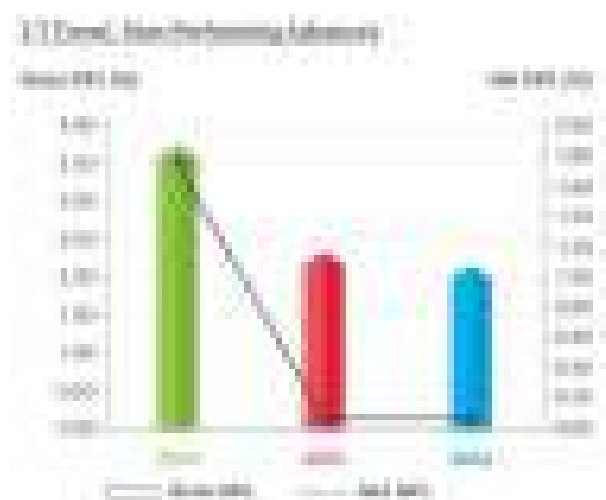
Principal Risks at SDB

The Bank has identified Credit Risk, Market Risk, Liquidity, Operational, Legal and Compliance Risk as its principal risks and is committed to managing this through several measures.

Credit Risk

The core business of the bank is concentrated in lending. Therefore one of the primary risks originating from its banking book is credit risk which arises due to the loss of principal resulting from a counterparty's failure to repay a loan or otherwise meet a contractual obligation. The bank has taken measures for early identification and mitigation of problem credit through rigorous monitoring and control mechanisms. During the year the bank maintained its credit quality with a Gross non performing loan ratio of 2.10% compared to 2.37% in the previous year. Throughout the year the bank was able to maintain NPL ratio's well within its tolerance limits. The bank also follows a prudent provisioning policy with coverage ratios comfortably above internal tolerance limits. Non Performing ratio's net of interest in suspense and provisions improved by 3 basis points compared to last year.

The Bank monitors geography and sector wide exposures and has established limits in order to ensure a well diversified portfolio. The Bank also monitors top twenty counterpart exposures on a monthly basis. Region wise portfolio was well diversified with the western region accounting for the highest share of 27% of total portfolio.



Risk Management System Contd.

Pre-sanction review and Post sanction Loan Review Mechanism (LRM) process

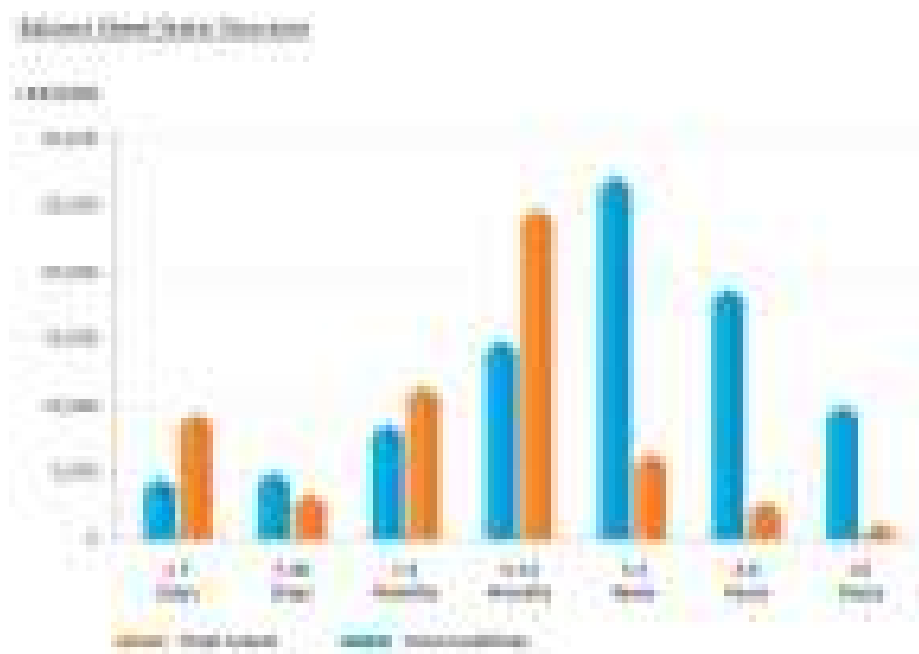
The Bank has in place a pre and post sanction loan review mechanism. Loans above a cumulative threshold of Rs. 4 Mn are reviewed by risk dept. Facilities disbursed above the value of Rs.0.75Mn are covered under the post sanction review process. During the year the bank widened its coverage of loan reviews within the branch network and further improved its feedback & control mechanism in order to improve the quality of loan reviews.

Concentration Risk

Concentration Risk is the probability of loss arising from heavily concentrated exposure to a particular group of counter parties. The Bank measures Concentration Risk by means of the Herfindahl-Hirschman Index (HHI) for geographical, sector and client wise exposure. Stress tests on client and sector concentration with the resulting impact on the Bank's capital adequacy and profitability are carried out during the Bank's internal capital adequacy assessment process. The bank's portfolio is well diversified with HHI scores for sector & geography concentration exposures well within internal tolerance limits.

Market Risk

Market Risk is defined as the possibility for the bank to experience losses due to factors that affect the overall performance of the financial markets such as interest rates, equity and commodity prices. The primary risk that the bank faces is interest rate risk. The bank measures the impact of interest rate risk in the banking book and trading portfolio. Interest Rate Risk in the Banking Book (IRRBB) is the risk to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. The Asset & Liability Committee (ALCO) monitors the impact of Interest Rate Risk in the banking book as well as net interest margin, & cumulative rate sensitive gap. Further the bank carries out stress tests on Net Interest Margin & Equity under different interest rate scenarios. Further the ALCO monitors the trading and investment book and has established limits accordingly. The Bank investment book consisted of largely Investment grade and government securities. The Bank has established stop loss limits for the trading book and implemented the value at risk model to measure risk arising on the trading book during the year.



The Bank continuously monitors funding mismatches & has established limits through the ALCO. The Bank has mismatches in the long term maturity buckets' of 1-3, 3-5 months > 5 Year buckets due to the longer duration of its loan book. The Bank endeavors to mitigate mismatch risk through the introduction of short term products and strengthening of its long term deposit & borrowing base.



Liquidity Risk

Liquidity Risk arises when the Bank cannot generate sufficient funds to meet its payment obligations as they fall due or can only do so at a material loss. This can arise when counter parties who provide funding to the Bank withdraw or do not roll over a line of funding or as a result of a general disruption in financial markets which lead to normal liquid assets becoming illiquid. Liquidity Risk is primarily managed by the Asset and Liability Committee. The Bank's main source of funding lines stems from capital, institutional and retail deposits and inter bank and money market borrowings. The Bank also invests in readily marketable securities. The ALCO is responsible for monitoring of Board approved liquidity thresholds on a day to day basis. A contingent fund consisting of emergency funding lines is in place for additional comfort.

The Bank employs the stock and flow approach to measure Liquidity. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet. Under the Flow approach the Liquidity cash flow gaps measure the net cash flow in each major currency over specified time periods. The gaps are aggregated into a total liquidity gap position in LKR. The Bank further monitors the trend of allocations of liquidity between the Treasury & Non Treasury book in order to identify liquidity gaps on a timely basis. Further the Bank has established limits for Loan to deposit ratio and Liquidity coverage ratios which is monitored by the ALCO. The bank also monitors static & dynamic cash flow with projected disbursements/savings and the resulting impact on funding mismatch.

The Bank reported Liquidity coverage ratio which was comfortably above the requirement as at 31st December.

Liquidity Coverage Ratios (LCR)	Limits	Reported as at 31st Dec 2016
Requirements	Min 70%	181.06%

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events. The Bank currently collects and reports operational loss event data on a quarterly basis according to Basel guidelines as follows:

1. External fraud
2. Internal Fraud
3. Employment Practices and work place safety
4. Client, Products and Business practices
5. Damage to physical assets & Replacement
6. Business Disruption and system failure
7. Execution, Delivery and Process management

Risk Mitigation

The Bank has adopted the approach of risk transfer in the event of low probability high impact events through comprehensive insurance coverage. Further the risk mitigation activities through training and development initiatives, monitoring of key risk indicators, and review of all new products and processes before roll out.

Legal Risk

Legal Risk, an integral part of Operational Risk, arises out of the legal implications of failed systems, people, processes or external events. All legal documents executed on behalf of the Bank are initially vetted by the Legal Department which consists of experienced and competent in house Legal Officers. Whenever required, services of the external lawyers are obtained. Legal actions filed against the Bank are handled by the internal Legal Officers or by the external lawyers under the close scrutiny of the Legal Department. External lawyers are selected carefully by studying their track records and capabilities on relevant subjects.

Agreements are referred to the Legal Department to check the legal conformity before entering into such agreements.

Compliance Risk

Compliance Risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of failure to comply with laws, regulations, rules and codes of conduct applicable to the banking activities.

Risk Management System Contd.

Compliance Risk & Regulatory Risk arises from legal and regulatory requirements. If the Bank fails to comply with applicable laws and regulations, it may be subject to fines, penalties or restrictions on its ability to carry out banking business. Any such costs and restrictions could adversely affect the Bank's business, reputation, prospects, financial performance or financial condition. In addition, the Bank could face increased supervision and regulation, particularly in the areas of funding, liquidity, capital adequacy and prudential regulations when compared to competitors. Other areas of potential change that could impact the Bank include changes to accounting and reporting requirements, tax legislations, consumer protection & competition legislations, bribery, anti-money laundering and terrorist financing laws. The Bank has a dedicated Compliance Officer who reports to the Board Integrated Risk Management Committee and has a well-developed regulatory monitoring mechanism to monitor reporting and compliance with all Mandatory Banking and other Statutory Requirements.

Stress Testing

A detailed framework for performing various stress tests in the areas of Credit portfolio related risks, Credit Concentration Risk, Forex Risk, Liquidity Risk, Interest Rate Risk in the Banking Book, Equity Risk, has been developed by the Bank.

Stress Testing Framework

The purpose of Stress testing is to gauge the impact of adverse scenarios on the Profits and Capital Adequacy Ratio (CAR).

The Bank currently applies three stress interest rate scenarios of low medium and major impact to ascertain the impact on key indicators. The Bank currently utilizes the Earnings at risk and Economic value of equity approach to gauge the impact of stress scenarios on Net interest margin and equity on a monthly basis. Additional stress tests for Credit Risk, Concentration Risk, Market Risk & Liquidity Risk is carried out during the Banks internal capital adequacy assessment process.

Future Plans

As the Bank evolves into an entity serving previously untapped growth sectors of the economy, effective risk management is viewed as a vital function in order to facilitate growth. As such, risk management policies and procedure will be frequently reviewed & updated in order to keep pace with changing industry conditions & best practices and ensure that the Bank is capable of delivering value to all its stakeholders.

The Bank will be strengthening its credit rating capabilities with the implementation of a Loan origination & credit rating system which will add value to its credit risk management process. Going forward the Bank has plans of further strengthening its Operating Risk Division with the addition of personnel and the development of measurement & reporting techniques. For further information on risk management please refer page 249 of the Annual Report.



Reports of the Board Committees



172 Board Integrated Risk Management Committee



173 Board Audit Committee



177 Board Human Resources and Remuneration Committee



179 Board Selection and Nomination Committee (BS & NC)



181 Board Related Party Transactions Review Committee



182 Board Strategic Planning, ICT & Business Development Committee



183 Board Credit Committee

Report of the Board Integrated Risk Management Committee

Any Bank is exposed to various risks when it operates in a volatile environment. The responsibility of managing risk is vested with the Board of Directors. In discharging its risk management responsibilities, the Board of Directors appointed a Board Sub Committee 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

- ▶ **Prof. S. Amaratunge** - (Chairman) Independent, Non-Executive Director (Appointed to the BIRMC w.e.f 23.02.2016 and appointed as chairman w.e.f 27.06.2016)
- ▶ **Ms. M.S. Kiriwadeniya** - Non-Independent, Non-Executive Director
- ▶ **Mr. Lakshman Abeysekera** - Independent, Non-Executive Director / Senior Director

Mr. T. Karunasena who is an Independent, Non-Executive Director served as the Chairman of the Committee until he retired in 20.02.2016 and Mr. D.P. Kumara who is a Non-Independent, Non-Executive Director that served in the Committee and retired w.e.f. 20.03.2016. Mr. M.K.L. Fernando who is an Independent, Non-Executive Director that served in the Committee and resigned in December 2016.

Terms 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 work of the Committee are in conformity with the above directions. The Board of Directors has approved the ToR as per above directions.

The major function of the BIRMC is to manage and review the overall risk profile of the Bank. The 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 risks when such risks are beyond the prudential levels decided by the Committee.

4. The Committee shall establish a compliance function to assess whether the Bank is in 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 procedures were introduced by the Committee to further strengthen the risk management of the Bank. An Internal Capital Adequacy Assessment Process (ICAAP) was carried out by the Integrated Risk Department. The ICAAP document was reviewed comprehensively by the Internal Audit Department. The Committee was satisfied with the overall outcome and capital adequacy levels.

Board Integrated Risk Management Committee Report

The Bank's overall risk management framework and risk assessment have been discussed and reviewed by the Committee and details are given under Risk Management System at SANASA Development Bank on pages 165 to 170.

Meetings

The BIRMC held five meetings during the year under review. The attendance of the members at the meeting of the Committee is tabled on page 194. The minutes of meetings are regularly forwarded to the Board together with a detailed report of key risks and mitigating strategies. All key risk management indicators and potential risks were discussed and reviewed at each meeting and appropriate actions were taken when necessary.

During the year 2016, the BIRMC supported the execution of 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.

For and on behalf of the Board Integrated Risk Management Committee



Prof. S. Amaratunge
Chairman

Board Integrated Risk Management Committee

16th March 2017
Colombo, Sri Lanka

Report of the Board Audit Committee



Composition of the Board Audit Committee (BAC)

The Board appointed Audit Committee, comprises of three (03) Non-Executive Directors as set - out below:

- ▶ **Mr. Lakshman Abeysekera** - (Chairman) Independent, Non-Executive Director
- ▶ **Mr. D.J.K. Newunhella** - Independent, Non-Executive Director (Appointed to the BAC w.e.f 23.02.2016)
- ▶ **Mr. H.M.G.B. Herath** - Non-Independent, Non-Executive Director (Appointed to the BAC w.e.f 28.06.2016)

Mr. T. Karunasena, Independent, Non-Executive Director who was also the Senior Director/Deputy Chairman that served in the Committee until he retired from the Board in February 2016, after completing Nine (09) years of service and Mr. T. Rajapaksha served in the committee until he retired in May 2016, after completing his term. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by both Mr. T. Karunasena and Mr. T. Rajapaksha as members of the Committee.

The Chairman of the BAC Mr. Lakshman 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 Jayawardenepura and counts over 25 years of experience in the field of Accounting, Finance and Management. Brief profiles of the members of the BAC are given on pages 112 & 113 of the Annual Report.

The Chief Internal Auditor functions as the Secretary to the BAC.

Terms of Reference

The Board Audit Committee functioned as per the Terms of Reference approved by the Board of Directors. The Board periodically reviews the Terms of Reference as and when required. This process ensures that new developments and concerns are adequately addressed. The committee is responsible to the Board of Directors and reports on its activities regularly. BAC also 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, the mandatory Code of Corporate Governance for Licensed Specialized Banks 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 (CA Sri Lanka).

Meetings

The Audit Committee met 13 times during the year. Attendance of the committee members of each of these meetings is given in the table in page 194 of the Annual Report. The Minutes of the meetings have been regularly reported to the Board of Directors. Chief Internal Auditor and Head of Finance have 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, Messrs. Ernst & Young attended for two (02) committee meetings during the year. The committee continued guiding the management with the selection of the new Accounting policies which are required under the new Accounting Standards. In four (04) out of thirteen (13) meetings, it has been discussed and approved the Quarterly and Annual Financial Statements. The committee met Chief Internal Auditor and other senior internal audit staff in several meetings without presence of the management. The BAC met the External Auditors in twice during the year and in one occasion the BAC met External Auditors without the presence of General Manager / CEO and the corporate management to ensure that there were 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 of 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 ;

Report of the Board Audit Committee Contd.

- ▶ 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 minimize control weaknesses, procedure violations, frauds, and errors;
- ▶ Assessing the independence and monitoring the performance and function of the Internal Audit, including overseeing the appointment of the Chief Internal Auditor.
- ▶ 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 the applicable accounting standards and the regulatory requirements; and
- ▶ Engaging independent advisors on specialized functions where it is deemed necessary.

Financial Reporting

The Committee, as part of its responsibility to overseeing the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors with regard to the quarterly and the annual Financial Statements prior to their release for publication. 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 Specialized Banks issued by the Central Bank of Sri Lanka and assessed the adequacy and effectiveness of internal control over financial reporting as of 31st December 2016.

The Bank assessed the adequacy and effectiveness of its internal control over financial reporting as of 31st December 2016 based on the criteria set out in the Guidance for Directors of Banks on "The Directors' Statement on Internal Control", issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) 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). Based on Internal Auditors' and External Auditors' assessments, the Board has concluded that, as of 31st December 2016, the Bank's internal control over financial reporting is effective. Directors' Report on the Bank's Internal Control over Financial Reporting is provided on pages 197 & 198 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 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. External Auditor's Report on the Bank's Internal Control over Financial Reporting is provided on page 199.

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 Specialized Banks issued by the Central Bank of Sri Lanka, the Annual Corporate Governance Report for 2016 is provided on pages 136 to 164 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 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 136 to 164.



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 Chief Internal Auditor throughout the year.

During the year, BAC reviewed the internal audit plan and monitored the implementation of same on a regular basis. The Branches, Departments / Divisions covered and the Priority and frequency of audits depended on the risk levels of each of them, with higher risk Branches, Departments / Divisions were audited more frequently.

The Internal Audit Department comprises of four (04) broad areas namely;

- ▶ Branch Audits
- ▶ Departments / Divisions Audits, including Treasury and Risk Management
- ▶ Information System Audits and
- ▶ Investigations

Audit findings presented in the reports are prioritized based on the level of risks. The Committee followed up on Internal Audit recommendations with the Corporate Management regularly. Internal Audit reports are made available to examiners of the Central Bank of Sri Lanka and External Auditors.

Sixty Three (63) Branches planned out of Eighty Five (85) existed at the beginning of the year and all Fourteen (14) Departments / Divisions / Units, including Information Technology were audited during 2016 under the Risk Based Audit Plan (RBAP) approved by the BAC and this is a remarkable achievement. Also the investigations were conducted by the Internal Audit Department where necessary.

Along with the significant findings, the Internal Audit Department has engaged in sharing and providing knowledge through Audit exit meetings, conducting training sessions for Second Officers / Compliance officers of Branches, Regional Manager's meetings etc. to the Bank's staff for better control

awareness and identifying early warning signals. In keeping with BAC recommendations the Internal Audit has also provided inputs to the Corporate Management for effective control and prevention of frauds.

Internal Audit Charter and Internal Audit Manual

The internal Audit function is governed by the Internal Audit Charter which defines the vision, mission, scope, authority & accountability, responsibility, independence, reporting, commitment and unrestricted access that assist the internal Audit Department to discharge its function effectively. The internal audit charter, and the Internal Audit Manual, were revised and approved by the Board & BAC respectively.

External Audit

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

- ▶ Conducting the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.
- ▶ Met 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.
- ▶ BAC met External Auditors 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 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:
 - ▶ 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.
 - ▶ The Guideline for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

Report of the Board Audit Committee Contd.

- ▶ Reviewed the Letter of Representation issued to the External Auditors by the Board.
- ▶ Reviewed the Independent 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 2017 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 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 concerns 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. A process has been established to track such whistle blowing and take necessary actions. 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 consultations were done with various parties.

Board Audit Committee Evaluation

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

For and on behalf of the Board Audit Committee



Mr. Lakshman Abeysekera

Chairman

Board Audit Committee

16th March 2017
Colombo, Sri Lanka

Report of the Board Human Resources and Remuneration Committee



Establishment

Board Human Resources and Remuneration Committee of SANASA Development Bank PLC was established under the Terms of Reference approved by the Board of Directors of the Bank. Its primary responsibility is to establish the conceptual framework on establishing remuneration policy and other key policies related to human resource management and development.

Composition

The Board Human Resources and Remuneration Committee consists of five Non-Executive Directors appended below:

- ▶ **Mr. Lakshman Abeysekera** - (Chairman / Senior Director)
Independent, Non-Executive Director
- ▶ **Ms. M.S. Kiriwandeniya** - Non - Independent, Non-Executive Director
- ▶ **Mr. J.A. Lalith G. Jayasinghe** - Non - Independent, Non-Executive Director
- ▶ **Mr. D.J.K. Newunhella** - Independent, Non-Executive Director
(Appointed to the BHRC w.e.f 23.02.2016)
- ▶ **Mr. M.K.L. Fernando** - Independent, Non-Executive Director
(Appointed to the BHRC w.e.f 30.08.2016)

Mr. T. Karunasena who is an Independent, Non-Executive Director served as the chairman of the committee until he retired in 20.02.2016.

Company Secretary of the Bank serves as the Secretary to the Committee based on the approved terms of reference for the Committee. Attendance of the Committee meetings is mandatory for the General Manager / CEO and the Head of Human Resources, except when matters relating to those two positions are discussed.

Meetings

16 meetings of the Board Human Resources and Remuneration Committee have been conducted during the year 2016 and the Committee has deliberated 144 papers associated with a wide array of aspects relating to the human resources function of the Bank. The Committee has been able to continuously direct the HRM function of the Bank to align with its strategic direction whilst complying with the regulatory and statutory framework of the Bank.

Scope and Responsibilities

The Board Human Resources and Remuneration Committee is vested with the objective of assisting the Board to discharge its responsibilities in the following areas :

- ▶ Guide the implementation of human resource management and human resource development functions of the Bank
- ▶ Provide guidance to ensure that HR policies and strategies are aligned with the strategic direction of the Bank
- ▶ Provide the necessary direction for fostering performance culture within the Bank
- ▶ Ensure conformity of Bank's HR policies and practices with labour laws, Central Bank regulations and other applicable standards

Key HR Initiatives during the Year

During the financial year, the Committee has considered many aspects related to HR function of the Bank. Some of those aspects, which are highly significant for the Bank's business objectives as well as for the quality of work life of employees, are appended below:

Redesigning the Organization Structure

Redesigning the Organization Structure of the Bank was an indispensable prerequisite for the implementation of new strategic direction in line with the Quantum Leap Project. Accordingly some departments / business units have been newly established while some have been re-aligned and / or reporting structures have been changed. The objective of this feat was to ensure the existence of a solid corporate platform to execute the new strategies of the Bank.

Human Resource Policy

Human Resource Policy is a comprehensive policy which provides the fundamental framework for the management and development of human resource of the Bank. It serves as the foundation for the formulation of other policies relating to human resource management and human resource development. The main objective of establishing this policy is to align all HRM and HRD policies and practices into Bank's philosophy on human resources. The committee upon thorough deliberation approved the policy.

Report of the Board Human Resources and Remuneration Committee Contd.

Revising the Disciplinary Code

Rapid changes in the business and socio-economic environment have compelled to revise the disciplinary code of the Bank to accommodate such changes. Yet this was a huge challenge as the Bank required to uplift the disciplinary management whilst safeguarding the employer-employee relationships. The Bank sought the valuable advice and inputs of of Employers' Federation of Ceylon and some of the industry erudite veterans for this task. Finally, after rigorous scrutinization the Committee approved the code and it is now effective in the Bank.

Operationalizing the Performance Management Framework

The Committee closely monitors the performance of the business units and corporate / regional figureheads which are of paramount importance for the accomplishment of corporate objectives. The Committee currently deliberating the possible alignment of the existing performance management mechanisms to the initiatives proposed by the Quantum Leap Project. The Committee therefore can monitor the progress and the lapses of the business performance against the set objectives and performance standards.

For and on behalf of the Board Human Resources and Remuneration Committee



Mr. Lakshman Abeysekera

Chairman

Board Human Resources and Remuneration Committee

16th March 2017
Colombo, Sri Lanka

Report of the Board Selection and Nomination Committee



The Board Selection and Nomination Committee, having reviewed its performance during the year 2016, presented the following report.

The BS & NC carried out its activities during the year within the scope of its Terms of Reference in conformity with the directions of Banking Act Direction No.12 of 2007 on Corporate Governance for Licensed Specialized Banks in Sri Lanka (as amended) and the Code of Best Practices on Corporate Governance (2013) jointly issued by Securities and Exchange Commission of Sri Lanka (SEC) and the Institute 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 2016, the following Directors served on the BS & NC.

- ▶ **Mr. Lakshman Abeysekera** - (Chairman/Senior Director)
Independent, Non Executive Director
- ▶ **Ms. M.S. Kiriwandeniya** - Non - Independent, Non-Executive Director
- ▶ **Mr. D.J.K. Newunhella** - Independent, Non-Executive Director
(Appointed to the BS & NC w.e.f 23.02.2016)

Mr. T. Karunasena who is an Independent, Non-Executive Director served as the chairman of the committee until he retired in 20.02.2016.

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 the 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 recommendations regarding such appointments.
- ▶ To recommend the 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 the 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 uninterrupted and smooth functioning of all aspects of the Bank's operations and decision making process in the long run and business continuing 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 2016.

Report of the Board Selection and Nomination Committee Contd.

Meetings of the BS & NC and its effectiveness

The Committee met Five 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.
- ▶ Sub Committee - 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 re-election, by the shareholders at the AGM. BS & NC also recommended suitable Directors to fill the vacancies in place of retiring Directors.
- ▶ Filling the skills gaps in the key management team, the BS & NC continuously re-viewed the required skills and experience at the top management level and made recommendations to the Board with regard to the appointment of Key Management Personnel.
- ▶ Succession Plan - The BS & NC along with the GM/CEO of the Bank reviewed and analyzed 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 a succession plan and a contingency plan for KMPs and during the year under review BS & NC interviewed and evaluated candidates and elected to fill the post of Head of Business.

For and on behalf of the Board Selection and Nomination Committee



Mr. Lakshman Abeysekera

Chairman

Board Selection and Nomination Committee

16th March 2017
Colombo, Sri Lanka

Report of the Board Related Party Transactions Review Committee



The Bank has established a Board Related Party Transactions Review Committee on 21.07.2014.

Composition

The Committee consists of three Independent Non- Executive Directors as appended below:

- ▶ **Mr. D.J.K. Newunhella** - (Chairman) Independent, Non- Executive Director (Appointed to the BRPTRC w.e.f 23.02.2016)
- ▶ **Prof. S. Amaratunge** - Independent, Non-Executive Director (Appointed to the BRPTRC w.e.f 23.02.2016)
- ▶ **Mr. M.K.L. Fernando** - Independent, Non-Executive Director (Appointed to the BRPTRC w.e.f 25.10.2016)

Ms. M.S. Kiriwadeniya who is Non-Independent, Non-Executive Director served as a member of the committee up to August 2016.

Terms of Reference of the Committee

The BRPTRC was formed by the Board to assist the Board in reviewing all the related party transactions carried out by the Bank by adopting the code of best practice on related party transactions as stipulated by the Securities and Exchange Commission of Sri Lanka (SEC).

The Company Secretary is functioning as the Secretary to the Committee as per the approved Terms and Reference of the Committee.

Committee Meetings

BRPTRC Reviewed related party transactions quarterly during the year under review. Attendance of committee meetings is compulsory for GM / CEO, DGM - Credit, AGM - Compliance and CRO except when matters related to those positions are discussed.

Objective of the Committee

- ▶ To avoid favourable treatments to related parties in granting facilities and providing and obtaining services and purchases / sale of assets
- ▶ Implement in regulations related to Related Parties issued by CBSL and SEC.

For and on behalf of the Board Related Party Transactions Review Committee

D.J.K. Newunhella

Chairman

Board Related Party Transactions Review Committee

16th March 2017
Colombo, Sri Lanka

Report of the Board Strategic Planning, ICT and Business Development Committee

In the year 2015, the Board established the Board Strategic Planning, ICT and Business Development Committee. The main objective of this Committee is to assist the Board to effectively undertake its responsibility in setting and modifying the strategic business direction of the Bank and to increase profits and brand equity in a sustainable, appropriate and a responsible manner.

The ICT Strategy, Marketing Strategy and Operational Strategy of the Bank were identified as three main sections that fall under the scrutiny of the Committee.

Composition of BSP, ICT & BDC

BSP, ICT & BDC comprises of three Non-Executive Directors (of which the majority are independent), appointed by the Board of Directors. During the year 2016, the following Directors served on BSP, ICT & BDC ;

- ▶ **Mrs. M.S. Kiriwandeniya** - (Chairperson) Non-Independent, Non-Executive Director
- ▶ **Mr. Lakshman Abeysekera** - Independent, Non-Executive Director / Senior Director
- ▶ **Prof. S. Amaratunge** - Independent, Non-Executive Director (Appointed to BSP, ICT & BDC w.e.f 23.02.2016)
- ▶ **Mr. M.K.L. Fernando** - Independent, Non-Executive Director (Appointed to BSP, ICT & BDC w.e.f 10.06.2016)

The Board Secretary functioned as the Secretary to the BSP, ICT & BDC.

Meetings of BSP, ICT & BDC

The Committee met quarterly during the year under review and focused mainly on the following;

- ▶ Review IT Strategic Plan.
- ▶ Review Marketing Strategies and Marketing Manual.
- ▶ Review CSR Policy.
- ▶ Review of Public Relation and Communication Policy.

- ▶ Review the Quantum Leap Project.
- ▶ Review Operational Plan regarding Corporate Communication.
- ▶ Outline Review Plan for 2017.

The Scope of TOR

- ▶ In depth revision of the performance of the Bank on the strategic goals laid down in the Corporate Plan of the Bank, reviewing strategic and technical plans developed by the Management to achieve business development goals of the Bank, identify areas to be improved, taking into account the new market opportunities and threats, strategic goals of the Bank and the Bank's internal strengths and limitations.
- ▶ Examine the overall marketing strategy of the Bank and recommend the business development plans presented by the Corporate Management for the approval of the Board. In depth analysis of the strategic issues related to business expansion, identified by the Board and the Bank's business promotion plans, vis-a-vis benefits, risks, and strategic and financial implications on the organisation and the brand.
- ▶ Guide the Corporate Management and the Board on potential business expansion opportunities, especially in new markets and new technological platforms.
- ▶ Provide a position paper to the Board quarterly.

For and on behalf of the Board Strategic Planning, ICT and Business Development Committee



M.S.Kiriwandeniya

Chairperson

Board Strategic Planning, ICT and Business Development Committee

16th March 2017
Colombo, Sri Lanka

Report of the Board Credit Committee



The main income generation activity of the Bank is its lending operation. It has employed capital funds of its shareholders as well as deposits mobilized from its depositors to engage in this exercise. Therefore, it has cast a considerable responsibility on the Board of Directors of the Bank to employ these funds with the highest degree of prudence to ensure the safety of the funds and maximum profitability to the Bank.

The Board Credit Committee is established to formulate the policies, strategies and directions in the Bank's credit operation and be the forerunner to the Board of Directors for it to take the necessary strategic decisions.

The membership of the Board Credit Committee is comprised of three Non-Executive Board Directors who meet at least once a month to deliberate on issues under its purview.

Composition of the Board Credit Committee Members :

- ▶ **Mr. M.K.L. Fernando** - (Chairman) Independent, Non-Executive Director
- ▶ **Mr. M.S.Kiriwandeniya** - Non-Independent, Non-Executive Director
- ▶ **Mr. B.R.A. Bandara** - Non-Independent, Non-Executive Director

Mr. D.P. Kumara who is an Non-Independent, Non-Executive Director served as the chairman of the committee until he retired in 20.03.2016, Mr. H.M.G.B. Herath who is a Non-Independent, Non-Executive Director served as a member of the committee up to June 2016 and Mr. S.A.S.G. Senanayake was appointed to the BCC w.e.f 31.05.2016 and ceased to be a director from 27.07.2016.

Company Secretary is functioning as the Secretary to the Committee. GM / CEO, COO, Head of Credit, Head of SME & Retail Banking, Chief Risk Officer, Chief Manager-Credit, Head of Legal, Senior Manager-Leasing, Senior Manager-Co-operative Development and Manager Recoveries are invited to the Committee Meetings to assist them and to provide expert knowledge on different areas of issues.

The main areas falling under the purview of the Board Credit Committee are as follows and it is empowered to:

- ▶ Formulate the Credit Policy and Recovery Policy of the Bank and review and recommend timely changes for the approval of the Board of Directors.

- ▶ Monitor the credit growth / performance of the Bank vis-à-vis the annual budget forecasts and previous year's performance
- ▶ Analytically appraise credit proposals and recommend to the Board of Directors for approval
- ▶ Evaluate the market potential in the prevailing economic environment together with inherent risks attached and provide appropriate guidelines.
- ▶ Monitor the interest rate behaviour in the market and the internal and external factors affecting such fluctuations
- ▶ Monitor the portfolio mix to ensure sectoral exposure, collateral diversification, term diversification and lending to priority sectors
- ▶ Provide relevant directions to ensure adherence to statutory and regulatory compliance requirements
- ▶ Ascertain the quality of the credit portfolio by monitoring credit collections and delinquent loan recoveries
- ▶ Evaluate and afford Interest concessions where appropriate, for full and final settlements of hardcore loans and write-offs of loan capitals whenever it deems necessary and recommend to the Board of Directors.

Apart from the aforesaid, the Board Credit Committee has the prerogative to call for any other information or special report relating to the credit operation of the Bank, if it deems necessary for its scrutiny.

The Committee has met on 13 occasions during 2016. Attendance of Committee members is given on page 194. All deliberations of the committee meetings are minuted and circulated amongst committee members and reported to the Board of Directors for their information and concurrence.

For and on behalf of the Board Credit Committee

M.K.L. Fernando

Chairman

Board Credit Committee

16th March 2017
Colombo, Sri Lanka

Success Story 3

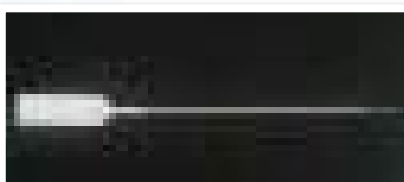
Randiya Engineering - Plastic security seal manufacture and exporter - Kirama, Katuwana

Mr. Aruna Ranmuthu Jayawickrama aspired to take his **plastic security seal manufacturing** and export company, Randiya Engineering to the next level by investing in a high peak value laser printing machine and an injection moulding machine to increase production. Following successful discussions with **SDB** he received a loan of **LKR 3,500,000** to purchase the machines.

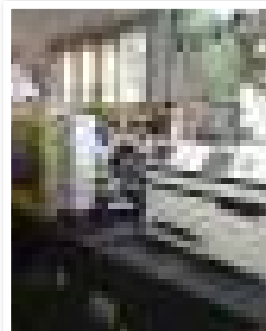
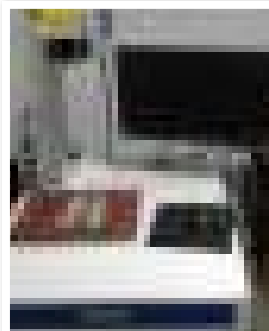
The technological advantage and product efficiency that followed the purchase of new machinery enabled Randiya Engineering to increase output of security seals. Currently, Dubai is the key importer of Randiya plastic security seals while the overseas demand for these products remain high.



International banks, food manufacturers and traveling bag manufacturers utilize Randiya plastic security seals to help detect accidental or deliberate theft or contamination.



"The new machinery obtained from the capital received from SDB helped us to increase production and meet customer demand with enhanced efficiency and allowed us to maintain strict delivery deadlines."



Financial Reports

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Financial Calendar



Annual General Meeting	Date
20th Annual General Meeting	30th May 2017
19th Annual General Meeting	31st May 2016

Dividend Payments *	Amount (LKR)	Date of Dividend Announced	Date of Dividend Paid
Cash dividend for 2015	2.50	22/04/2016	08/06/2016
Scrip dividend for 2015	7.50	22/04/2016	08/06/2016

Financial Statements **	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
<i>Interim Financial Statements</i>		
4th quarter of 2015	26/02/2016	29/03/2016
1st quarter of 2016	12/05/2016	26/05/2016
2nd quarter of 2016	12/08/2016	25/08/2016
3rd quarter of 2016	07/11/2016	28/11/2016
4th quarter of 2016	28/02/2017	28/03/2017
<i>Annual Financial Statements</i>		
Annual Financial Statements of 2016	Signed on 16/03/2017	
Annual Financial Statements of 2015	Signed on 03/03/2016	

Proposed Financial Calendar 2017

21st Annual General Meeting to be held on or before 31st May 2018.

Dividend for 2016 to be payable on or before end of June subject to confirmation by Shareholders and Directors.

Financial Statements **	Date to be released to the CSE	Date to be published to the newspapers (In Sinhala, English, Tamil)
<i>Interim Financial Statements</i>		
1st quarter of 2017	15/05/2017	31/05/2017
2nd quarter of 2017	15/08/2017	31/08/2017
3rd quarter of 2017	15/11/2017	31/11/2017
4th quarter of 2017	28/02/2018	30/03/2018
<i>Annual Financial Statements</i>		
Annual Financial Statements of 2017	May 2018	March 2018

* Subject to confirmation by Shareholders and Directors.

** As per Listing Rule 7.4 a(i) of the CSE, interim financial statements should be prepared on a quarterly basis and as soon as the figures have been approved by the BOD of the Entity and in any event not later than forty five (45) days from the end of the first, second and third quarters and two (2) months from the end of the fourth quarter.

According to the Rule 7.5 of the Listing Rules of the CSE, the Audited Financial Statements should be published in accordance with Sri Lanka Accounting Standards and the Annual Report should be sent to the shareholders and the CSE within five months from the close of the year.

As per the Banking Act Direction No. 12 of 2007, under section 3(8)(i) - Corporate Governance for Licensed Specialized Banks in Sri Lanka, The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.

Annual Report of the Board of Directors on the Affairs of the Company

1. General

The Board of Directors of SANASA Development Bank PLC takes pleasure in presenting its Annual Report to the shareholders for the Financial Year Ended 31st December 2016, 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 16th March 2017.

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 and 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 ("The Bank") 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 6th August 1997 Under the Companies Act No. 17 of 1982. The Bank was re-registered as per the requirements of the Companies Act No. 07 of 2007 ("Companies Act") 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 the SL (BBB-) with positive outlook by ICRA Lanka Limited which has reaffirmed the Bank's long-term and short-term financial institutional rating at BBB and P3 respectively. Accordingly, 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.

2. Vision, Mission, Goals, Values and Corporate Conduct

The Bank's Vision, Mission, Goals and Value statements are given in page 06 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.

3. 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 programmes, with special focus on Co-operative 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.

4. Review of Operations

A review of the operations of the Bank during the financial year 2016 and results of its operations are contained in the Chairperson's Message on pages 36 to 39, the GM / CEO's Review on pages 40 to 44 and the Management Discussion & Analysis on pages 48 to 107. These reports form an integral part of the Annual Report of the Board of Directors.

5. Future Developments

An overview of the future developments of the Bank is given in the Chairperson's Message on pages 36 to 39, the GM / CEO's Review on pages 40 to 44 and the Management Discussion & Analysis on pages 48 to 107.

6. Financial Statements

The Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS's / LKAS'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 2016 duly signed by the Assistant General Manager-Finance, General Manager / Chief Executive Officer, two Directors of the Bank and the Company Secretary are given in pages 205 to 258, which form an integral part of the Annual Report of the Board of Directors.

7. 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 a fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 205 to 258 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 pages 202 and 203 and forms an integral part of the Annual Report of the Board of Directors.



8. 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 2016 and their report on those Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given in page 204.

9. Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of the financial statements are given in pages 209 to 224 and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

10. Going Concern

The Board is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, Bank continues to adopt the "going concern" basis in preparing these financial statements.

11. Financial Results and Appropriations

11.1. Income

The income of the Bank for 2016 was LKR 8,447,123,462/- (2015: LKR 6,883,844,920). An analysis of the income is given in Note 03 and 04 to the Financial Statements.

11.2. Profits and Appropriations

The Bank's profit before tax and profit after tax recorded a decrease of 44% and 44% respectively over 2015. The Total Comprehensive income (net of Tax) for the year is LKR 355,527,626/- (2015: 718,639,431). A detailed breakup of profits and appropriations of the Bank is given below.

Description	2016 LKR	2015 LKR
Profit for the year		
Profit for the year ended 31st December after payment of all operating expenses and provision for depreciation and contingencies	617,425,417	1,110,558,650
Less: Taxation	(213,703,773)	(389,984,089)
Net Profit after Tax	403,721,644	720,574,561
Other Comprehensive Income (OCI)		
Actuarial Gain/(losses) on defined benefit plans	(49,638,943)	(2,687,681)
Differed tax relating to other comprehensive income	13,898,904	752,551
Gains/(losses) on re-measuring available-for-sale financial assets	(12,453,979)	-
Total Comprehensive Income for the year	355,527,626	718,639,431
Unappropriated profit brought forward from previous year	1,302,002,771	619,295,312
Balance available before appropriation / adjustments	1,657,530,397	1,337,934,743
Appropriations		
Transfer to Statutory Reserve fund	(17,776,381)	(35,931,972)
Dividend		
Final cash dividend (2015) (LKR 2.50 per share)	(293,303,439)	-
Final scrip dividend (2015) (LKR 7.50 per share)	(109,162,402)	-
Unappropriated balance carried forward	1,237,288,175	1,302,002,771
Proposed Dividend		
Final cash dividend - 2016 (LKR 2.50 per share)	(105,153,943)	-
Final scrip dividend - 2016 (LKR 5.00 per share)	(210,307,885)	-
Balance carried forward as at 31st December	921,826,347	-

Annual Report of the Board of Directors on the Affairs of the Company Contd.

12. Taxation

The Income Tax Rate applicable on the Bank's domestic operation is 28% (2015: 28%)

The Bank was also liable for VAT on financial value addition at 11% up to the month November 2016 and 15% afterward (2015: 11%) and NBT on financial value addition at 2% (2015: 2%).

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.

13. 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.

14. Dividend on Ordinary Shares

The Directors recommended that a final dividend of LKR 7.50 per share (2015: LKR 10.00 per share) be paid for the financial year ended 31st December 2016. This will be paid by LKR 2.50 in the form of cash dividend and balance LKR 5.00 in the form of scrip dividend (2015: LKR 2.50 in the form of cash dividend and balance LKR 7.50 in the form of scrip dividend)

The dividend is subject to Shareholders 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 2017 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 fulfils the deemed dividend requirement according to the provisions of Inland Revenue Act.

15. Reserves

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

Description	2016 LKR	2015 LKR
Statutory reserve	172,372,786	154,596,404
General reserve	34,202,994	46,656,973
Retained earnings	1,249,742,154	1,302,002,771

The movement in these reserves are shown in the Statement of Change in Equity on page 207 of the Annual report.

16. Capital Expenditure

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to LKR 236,556,367/- (2015: LKR 198,184,369/-). Details are given in Note 20 to the Financial Statements.

17. Property, Plant and Equipment

Details of Property, Plant and Equipment are given in Note 20 to the Financial Statements.

18. Net Book Value of Freehold Properties

The net book values of Freehold Properties owned by the Bank as at 31st December 2016 are included in the accounts at LKR 226,202,233/- (2015 : LKR 230,146,963/-). The details of freehold properties owned by the Bank are given in Note 20.1 to the Financial Statements.

19. Outstanding Litigation

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 32.2 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

20. 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 33 to the Financial Statements.



21. Stated Capital

The Stated Capital of the Bank as at 31st December 2016 amounted to LKR 4,062,961,714/- consisting of 42,061,577 ordinary shares (2015: LKR 3,794,094,725/- consisting of 40,246,625 ordinary shares).

The number of shares in issue of the Bank increased from 40,246,625 ordinary shares to 42,061,577 ordinary shares as a result of the Scrip Dividend of one new ordinary share for every 21.9467 ordinary shares held by shareholders.

The details of the shares issued are given in Note 28 to the Financial Statements.

22. Share Information

Information relating to earnings, dividend, net assets and market price per share is given in page 127 of the Annual Report.

23. Shareholding

There were 39,374 registered ordinary shareholders as at 31st December 2016 (2015: 40,283).

23.1 Shareholder Distribution

The information on the distribution of shareholding is given below

Shareholder	As at 31st December 2016		As at 31st December 2015	
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares
Individual	35,835	16,008,716	36,763	16,740,267
Institution				
Foreign	1	1,003,408	1	959,681
Local & Other Institutions	47	9,806,387	42	8,031,577
Sanasa Federation	1	633,763	1	573,626
Sanasa Societies	3,329	5,031,168	3,314	4,541,844
Sanasa Unions	31	1,040,936	33	1,037,404
MPCCS	21	145,928	20	137,580
Trust Companies	109	8,391,271	109	8,224,646
Total	39,374	42,061,577	40,283	40,246,625

MPCCS: Multi-Purpose Credit & Co-operative Society

23.2 Composition of Share Ownership

Share Range	As at 31st December 2016				As at 31st December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 - 1,000	37,773	95.94	4,594,425	10.92	38,735	96.16	5,077,201	12.61
1,001 - 10,000	1,289	3.27	3,522,161	8.37	1,245	3.10	3,410,928	8.48
10,001 - 100,000	260	0.66	8,270,894	19.67	243	0.60	7,365,558	18.30
100,001 - 1,000,000	47	0.12	11,782,079	28.01	54	0.13	11,996,132	29.81
Above 1,000,001	5	0.01	13,892,018	33.03	6	0.01	12,396,806	30.80
TOTAL	39,374	100.00	42,061,577	100.00	40,283	100.00	40,246,625	100.00

Annual Report of the Board of Directors on the Affairs of the Company Contd.

23.3 Top 20 Shareholders as at 31st December 2016

The details of Top 20 Shareholders are given below

No.	Shareholder Name	31st Dec 2016		31st Dec 2015	
		No.of Shares	%	No.of Shares	%
1	Seylan Bank PLC / Thirugnanasambandar Senthilverl	5,392,720	12.82	4,201,346	10.44
2	Global Rubber Industries Private Limited	4,461,548	10.61	2,792,071	6.94
3	Peoples Leasing & Finance PLC	1,951,073	4.64	1,866,047	4.64
4	Seemasahitha Sanasa Rakshana Samagama (General)	1,083,269	2.58	1,036,061	2.57
5	CB NY S/A International Finance Corporation	1,003,408	2.39	959,681	2.38
6	Kegalle Sanasa Share Holders Trust Company Limited	968,385	2.30	718,641	1.78
7	Dr. S. Yaddehige	884,782	2.10	1,027,836	2.55
8	Seemasahitha Sanasa Rakshana Samagama (Life)	848,543	2.02	811,565	2.01
9	Sanasa Federation Limited	633,763	1.51	573,626	1.42
10	Sampath Bank PLC /Dr. T. Senthilverl	600,000	1.43	1,473,445	3.66
11	Etimos Lanka Private Limited	580,000	1.38	585,229	1.45
12	Warakapola Sanasa Share Holders Trust Company Limited	489,824	1.16	468,478	1.16
13	Waldock Mackenzie Ltd / Mr.S.N.P Paliyana and Mrs. A.S. Paliyana	410,000	0.97	300,000	0.74
14	Hambanthota DTCCS Union Ltd	358,028	0.85	342,426	0.85
15	Polgahawela Sanasa Societies Union Ltd	331,000	0.79	209,538	0.52
16	Mr. D.P. Pieris	328,723	0.78	314,398	0.78
17	Polpithigama Sanasa Share Holders Trust Company Limited	268,758	0.64	257,046	0.64
18	Kamburupitiya Sanasa Share Holders Trust Company Limited	255,277	0.61	244,153	0.61
19	Kolonnawa Sanasa Share Holders Trust Company Limited	239,802	0.57	229,352	0.57
20	Polgahawela Sanasa Share Holders Trust Company Limited	225,629	0.54	225,699	0.56

24. Equitable Treatment to Shareholders

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

25. The Board of Directors

The Board of Directors of the Bank consists of eight (2015: Nine) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31st December 2016 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles of the Board of the Directors appear on pages 112 to 113 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	
	Independent / Non-Independent	Executive Director / Non-Executive Director
Mrs. M.S. Kiriwandniya - Chairperson	Non-Independent	Non-Executive Director
Mr. Lakshman Abeysekera - Senior Director	Independent	Non-Executive Director
Mr. H.M.G.B. Herath	Non-Independent	Non-Executive Director
Mr. B.R.A. Bandara	Non-Independent	Non-Executive Director
Mr. J.A. Lalith G. Jayasinghe	Non-Independent	Non-Executive Director
Mr. D.J.K. Newunhella	Independent	Non-Executive Director
Prof. S. Amaratunge	Independent	Non-Executive Director
Mr. M.K.L. Fernando	Independent	Non-Executive Director

25.1 New Appointments and Resignation of Directors

New Appointments During the Year 2016

The new appointments to the Board of Directors of the Bank during the year 2016 were as follows.

1. Mr. D.J.K. Newunhella (appointed w.e.f. 01st February 2016)
2. Prof. S. Amaratunge (appointed w.e.f. 15th February 2016)
3. Mr. M.K.L. Fernando (appointed w.e.f. 26th April 2016)
4. Mr. S.A.S.G. Senanayake (appointed w.e.f. 31st May 2016 and seized to be a Director w.e.f. 27th July 2016)

Resignations During the Year 2016

1. Mr. T. Karunasena (retired w.e.f. 20th February 2016)
2. Mr. D.P. Kumarage (retired w.e.f. 20th March 2016)
3. Mr. T. Rajapaksha (retired w.e.f. 31st May 2016)

25.2 Retirement by Rotation and Re-election/Re-appointment of Directors

Interms of Article No. 6 (4) of the Article of Association of the Bank following Directors will retire by rotation at the 20th Annual General Meeting and are eligible to be re-appointed at the 20th Annual General Meeting.

1. Mr. B.R.A. Bandara
2. Mr. J.A.L.G. Jayasinghe

26. 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:

26.1 Board Integrated Risk Management Committee

The Report of the Board Integrated Risk Management Committee is given on page 172 and forms an integral part of the Annual Report of the Board of Directors.

Annual Report of the Board of Directors on the Affairs of the Company Contd.

26.2 Board Audit Committee

The report of the Board Audit Committee is given on pages 173 to 176 and forms an integral part of the Annual Report of the Board of Directors.

26.3 Board Human Resources and Remuneration Committee

The Report of the Board Human Resources and Remuneration Committee is given on pages 177 to 178 and forms an integral part of the Annual Report of the Board of Directors.

26.4 Board Selection and Nomination Committee

The Report of the Board Selection and Nomination Committee is given on pages 179 to 180 and forms an integral part of the Annual Report of the Board of Directors.

26.5 Board Related Party Transactions Review Committee

The Report of Board RPTR committee is given on page 181 and forms an integral part of the Annual Report of the Board of Directors.

26.6 Board Strategic Planning, ICT & Business Development Committee

The Report of Board Strategic Planning, ICT & Business Development Committee is given on page 182 and forms an integral part of the Annual Report of the Board of Directors.

26.7 Board Credit Committee

The report of the Board Credit Committee is given on page 183 and forms an integral part of the Annual Report of the Board of Directors.

27. Directors' Meetings

The details of the Directors' meetings comprise Board Meetings, Board Audit Committee Meetings, Board Selection and Nomination Committee Meetings, Board Human Resources & Remuneration Committee Meetings, Board Credit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board Strategic Planning, ICT & Business Development Committee Meetings and Board RPT Review Committee. The attendance of Directors at these meetings is given below.

	Name	Board Meeting	Board Credit Committee Meeting	Board Audit Committee	Board Human Resource & Remuneration Committee	Board Integrated Risk Management Committee	Board Selection and Nomination Committee	Board Strategic Planning, ICT & Business Development	Related Party Transaction
1	Mrs. M.S. Kiriwandeniya	17/18	3/13	-	15/16	5/5	4/5	3/3	1/3
2	Mr. T. Karunasena*	2/18	-	2/13	4/16	1/5	2/5	-	-
3	Mr. D.P. Kumarage**	1/18	3/13	-	-	-	-	-	-
4	Mr. Lakshman Abeysekera	18/18	-	13/13	15/16	4/5	5/5	3/3	-
5	Mr. H.M.G.B. Herath	18/18	7/13	6/13	-	-	-	-	-
6	Mr. T. Rajapaksha***	5/18	-	6/13	-	-	-	-	-
7	Mr. B.R.A. Bandara	16/18	13/13	-	-	-	-	-	-
8	Mr. J.A.L.G. Jayasinghe	15/18	-	-	16/16	-	-	-	-
9	Mr. D.J.K. Newunhella****	17/18	-	11/13	12/16	-	3/5	-	3/3
10	Prof. S. Amaratunge*****	12/18	-	-	-	4/5	-	2/3	3/3
11	Mr. M.K.L. Fernando*****	14/18	8/13	-	5/16	4/5	-	2/3	2/3
12	Mr. S.A.S.G. Senanayake*****	3/18	1/13	-	-	-	-	-	-

1. Mr. T. Karunasena* - Retired on 20/02/2016

2. Mr. D.P. Kumarage** - Retired on 20/03/2016

3. Mr. T. Rajapaksha*** - Retired on 31/05/2016

4. Mr. D.J.K. Newunhella**** - Appointed to the board on 01/02/2016

5. Prof. S. Amaratunge***** - Appointed to the board on 15/02/2016

6. Mr. M.K.L. Fernando***** - Appointed to the board on 26/04/2016

7. Mr. S.A.S.G. Senanayake***** Appointed to the board on 31/05/2016 and seized to be a Director from 27/07/2016



28. Directors' Interests Register

The Bank maintains Directors' Interests Register as required under the provisions of Section 168 (1) (e) of the Companies Act No 7 of 2007. 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.

29. Directors' Interest in Ordinary Shares

The shareholding of Directors is as follows

29.1 No. of Shares

Name	As at 31st December 2016	As at 31st December 2015
Mrs. M.S. Kiriwandeniya	5,392	5,158
Mr. B.R.A. Bandara	784	500

29.2 Shareholding Percentage

Name	As at 31st December 2016	As at 31st December 2015
Directors	0.01%	0.02%
Public	99.99%	99.98%

30. 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 9 to the financial statements.

31. 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 34 to the financial statements, forming part of the Annual Report of the Board of Directors.

31.1 ESOP / Employee Share Option Plan

The Bank does not have any Employee Share Ownership / Option Plans during the year.

32. Environmental Protection

To the best of knowledge of the Board, the Bank has complied with relevant Environmental Laws and Regulations. The Bank has not engaged in any activity that is harmful or hazardous to the Environment.

33. Risk Management and Internal Control

33.1 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 165 to 170. The Directors on regular basis review the above mentioned process through the Board Integrated Risk Management Committee. The Bank has no material industrial disputes during the year.

33.2. Internal Control

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 risks faced by the Bank throughout the year and it has been 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 fraud and other irregularities and secure as far as feasible the accuracy and reliability of the records.

34. 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 197 to 198.

The Board has obtained an assurance report from the external auditors on Directors' Statement on Internal Control which is given on page 199 of the Annual Report.

Annual Report of the Board of Directors on the Affairs of the Company Contd.

35. Corporate Governance

The Board of Directors is committed towards maintaining an effective Corporate Governance framework and implementing processes required to ensure that the Bank is complying 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 136 to 164 of this Annual Report.

36. 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 1,950,520/- (2015: LKR 1,771,560/-). Further LKR 752,800/- (2015: LKR. 770,340/-) were paid by the Bank for audit related and non-audit services including reimbursement of expenses. Details of the Audit Fees paid are given in 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.

37. Notice of Meeting

The 20th Annual General Meeting of the Bank will be held at SANASA Uththamavi Hall, Paragammana, Hettimulla, Kegalle at 9.00 a.m on the 30th May 2017. The Agenda of the Meeting is given on page 283 of the Annual Report.

38. 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.

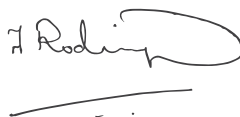
For and on behalf of the Board of Directors



M.S. Kiriwadeniya
Chairperson



Lakshman Abeysekera
Senior Director



Tamarika Rodrigo
Company Secretary

16th March 2017
Colombo, Sri Lanka

Directors' Statement on Internal Control Over Financial Reporting



Responsibility

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at SANASA Development Bank PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board 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 highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or frauds.

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 the principles for the assessment of internal control system as given in that guidance.

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

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

Key Features Of The Process Adopted In Applying In Reviewing The Design And Effectiveness Of The Internal Control System Over Financial Reporting

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

- ▶ Various appointed 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 Department of the bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis applying top - down Risk Base Audit Procedures (RBAP) and using adequate samples and rotational procedures and highlighting significant findings in respect of any non-compliance. Audits are carried out on all Departments / Divisions / functions and Branches in accordance with the annual Risk Base Audit Plan approved by the Board Audit Committee (BAC), the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. Findings of the Internal Audit Department highlighting the high Risk findings are submitted to the Board Audit Committee for review at their periodic meetings. The committee also reviews & updates on audit activities and the scope and the adequacy of coverage of the approved audit plan and any improvements there to, and has detailed discussion on any unsatisfactory audit ratings / Functions, reviewing the action plans to address those areas and the implementation status.
- ▶ 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, quality & effectiveness 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 Board Audit Committee Report.

Directors' Statement on Internal Control Over Financial Reporting Contd.

- ▶ In assessing the internal control system over financial reporting, process owners 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 reviewed by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis, throughout the year.
- ▶ 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 years, based on the feedback received from the external auditors, Internal Audit Department, Regulators and the Board Audit Committee. The Bank has updated relevant procedure manuals pertaining to these new requirements and further strengthening of processes will take place pertaining to control environment over manage change, impairment of loans and receivables and financial statement disclosures. 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 in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors during the year, 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 2016 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.

By order of the Board



Lakshman Abeysekera

Chairman - Board Audit Committee



D.J.K. Newunhella

Non-Executive, Independent Director



M.S. Kiriwandeniya

Chairperson

16th March 2017
Colombo, Sri Lanka

Independent Assurance Report



Ernst & Young
Chartered Accountants
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AdeS/DLH

Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC

Introduction

We were engaged by the Board of Directors of SANASA Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the Annual Report for the year ended 31 December 2016.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with Section 3(8) (ii) (b) of the Banking Act Direction No.12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

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 the Sri Lanka Standard on Assurance Engagements SLSAE 3050 Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

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

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

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

Ernst & Young
Chartered Accountants

16th March 2017
Colombo

Partners: W R H Fernando 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 K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA 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 Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

CEO's and CFO's Responsibility Statement

The Financial Statements of SANASA Development Bank PLC (Bank) as at 31st December 2016 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;
- ▶ Listing Rules of the Colombo Stock Exchange;
- ▶ 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 made 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 has 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 recognized 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 26th December 2007 and that the Bank's Internal Controls over Financial Reporting is adequate and effective. The Annual Report of the Directors on pages 188 to 196 has briefly covered the Bank's Internal Control over Financial Reporting. In addition, Directors' Statement on Internal Control over Financial Reporting is provided on pages 197 & 198. 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 199 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 pages 173 to 176 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 173 to 176.

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 No. 32 to the Financial Statements in the Annual Report.

Nimal C. Hapuarachchi

General Manager/Chief Executive Officer

Terrance Kumara

Assistant General Manager – Finance

16th March 2017
Colombo, Sri Lanka

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 are 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 in page 204 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. 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 2016; and
2. The financial performance of the Bank for the financial year ended 31st December 2016.

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 maintained 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 2016 are given in pages 197 to 198 of the Annual Report, "Directors Statement on Internal Control". External Auditors' Assurance Report on the "Directors Statement on Internal Control" is given on page 199 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 7.50 per share for this year to be paid in June 2017.

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

16th March 2017
Colombo, Sri Lanka

Independent Auditors' Report



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Chartered Accountants
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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 "Bank"), which comprise the statement of financial position as at 31st December 2016, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 the 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 Bank as at 31st December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- a) The basis of opinion, 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 Bank and
 - The financial statements of the Bank, comply with the requirements of Section 151 of the Companies Act No.07 of 2007.

16th March 2017
Colombo

Partners: W R H Fernando 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 K B S P Fernando FCA FCMA
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Principal T P M Ruberu FCMA FCCA

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Statement of Comprehensive Income

Year Ended 31st December 2016



	Note	2016 LKR	2015 LKR
Interest income		8,177,186,889	6,609,248,423
Interest expenses		(4,846,840,351)	(3,240,874,613)
Net interest income	3	3,330,346,538	3,368,373,810
Fee and commission income		212,540,050	217,475,178
Fee and commission expenses		(9,596,114)	(2,965,660)
Net fee and commission income	4	202,943,936	214,509,518
Net gain/(loss) from financial instruments at fair value through profit or loss	5	17,351,017	5,094,794
Other operating income (net)	6	40,045,507	52,026,524
Total operating income		3,590,686,997	3,640,004,646
Impairment for loans and other losses	7	(125,043,863)	(49,594,295)
Net operating income		3,465,643,134	3,590,410,351
Personnel expenses	8	(1,266,115,183)	(1,114,753,852)
Other expenses	9	(1,289,848,347)	(1,091,457,100)
Operating profit before value added tax (VAT)		909,679,605	1,384,199,399
Value added tax (VAT) on financial services & NBT		(292,254,188)	(273,640,749)
Operating profit after value added tax (VAT)		617,425,417	1,110,558,650
Profit before tax		617,425,417	1,110,558,650
Tax expenses	10	(213,703,773)	(389,984,089)
Profit for the year		403,721,644	720,574,561
Other Comprehensive Income			
Other Comprehensive Income/(Expenses) not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans	27.1.3	(49,638,943)	(2,687,681)
Deferred tax relating to above	10.2.1	13,898,904	752,551
Other Comprehensive Income to be reclassified to profit or loss			
Loss arising on re-measuring available for sale financial assets		(12,453,979)	-
Other Comprehensive Income for the year net of tax		(48,194,018)	(1,935,130)
Total Comprehensive Income for the year		355,527,626	718,639,431
Earnings per share on profit			
Basic earnings per share - (Rs).	11	9.60	17.90

The Accounting Policies and Notes on pages 209 through 258 from an integral part of the Financial Statements.

Statement of Financial Position

As at 31st December 2016

	Note	2016 LKR	2015 LKR
Assets			
Cash and cash equivalents	12	1,044,725,493	5,057,791,122
Placements with banks	13	6,919,027,281	4,757,400,770
Financial investments - Fair value through profit or loss	14	244,911,140	-
Other financial asset classified under loans and receivable	15	1,503,539,374	1,926,055,413
Loans and receivables to other customers	16	53,632,538,822	45,830,498,891
Financial investments - Available-for-sale	17	566,935,476	79,678,638
Financial investments - Held-to-maturity	18	492,267,661	1,192,440,373
Asset classified as Held for sale	19	37,175,411	37,175,411
Property, plant and equipment	20	637,263,173	549,171,557
Investment properties	21	24,446,690	25,502,720
Intangible assets	22	16,938,244	47,141,277
Other assets	23	913,030,314	787,137,810
Total assets		66,032,799,079	60,289,993,982
Liabilities			
Due to other customers	24	45,691,758,092	43,023,392,820
Other borrowings	25	9,482,950,010	6,600,338,605
Debt securities issued	26	4,182,653,234	3,979,110,559
Current tax liabilities		23,110,292	260,733,158
Deferred tax liabilities	10.2	46,629,257	66,410,666
Other liabilities	27	1,086,418,546	1,062,657,301
Total liabilities		60,513,519,431	54,992,643,109
Equity			
Stated capital	28	4,062,961,714	3,794,094,725
Statutory reserve fund	29	172,372,786	154,596,404
Retained earnings	30	1,249,742,154	1,302,002,771
Other reserves	31	34,202,994	46,656,973
Total equity		5,519,279,648	5,297,350,873
Total equity and liabilities		66,032,799,079	60,289,993,982
Contingent liabilities and commitments	32	148,030,175	136,574,133

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;



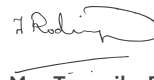
Mrs. M.S. Kiriwadeniya
Chairperson



Lakshman Abeysekera
Senior Director



Nimal C Hapuarachchi
General Manager / CEO



Mrs. Tamarika Rodrigo
Company Secretary

The Accounting Policies and Notes on pages 209 through 258 form an integral part of the Financial Statements.

16th March 2017
Colombo, Sri Lanka.

Statement of Changes in Equity

Year Ended 31st December 2016



	Note	Stated Capital LKR	Statutory Reserve LKR	Retained Earnings LKR	Other Reserve		Total Equity LKR
					Available For Sale Reserve	General Reserves LKR	
Balance as at 01 January 2015		3,533,545,080	118,664,432	997,107,291	-	46,656,973	4,695,973,776
Profit for the year		-	-	720,574,561	-	-	720,574,561
Other comprehensive income (net of tax)		-	-	(1,935,130)	-	-	(1,935,130)
Total comprehensive income for the year		-	-	718,639,431	-	-	718,639,431
Transactions with equity holders, recognised directly in equity							
Scrip Dividend	28	260,549,645	-	(283,222,372)	-	-	(22,672,727)
Transfer to Statutory Reserve fund	29	-	35,931,972	(35,931,972)	-	-	-
Dividends to equity holders		-	-	(94,589,608)	-	-	(94,589,608)
Total transactions with equity holders		260,549,645	35,931,972	(413,743,952)	-	-	(117,262,335)
Balance as at 31 December 2015		3,794,094,725	154,596,405	1,302,002,771	-	46,656,973	5,297,350,873
Balance as at 1 January 2016		3,794,094,725	154,596,405	1,302,002,771	-	46,656,973	5,297,350,873
Profit for the year		-	-	403,721,644	-	-	403,721,644
Other comprehensive income (net of tax)		-	-	(35,740,039)	(12,453,979)	-	(48,194,018)
Total comprehensive income for the year		-	-	367,981,605	(12,453,979)	-	355,527,626
Transactions with equity holders, recognised directly in equity							
Scrip Dividend	28	268,866,989	-	(293,303,439)	-	-	(24,436,450)
Transfer to Statutory Reserve fund	29	-	17,776,381	(17,776,381)	-	-	-
Dividends to equity holders		-	-	(109,162,402)	-	-	(109,162,402)
Total transactions with equity holders		268,866,989	17,776,381	(420,242,222)	-	-	(133,598,852)
Balance as at 31 December 2016		4,062,961,714	172,372,786	1,249,742,154	(12,453,979)	46,656,973	5,519,279,648

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.

The Accounting Policies and Notes on pages 209 through 258 from an integral part of the Financial Statements.

Statement of Cash Flows

Year Ended 31st December 2016

	Note	2016 LKR	2015 LKR
Cash Flows From / (Used in) Operating Activities			
Interest Received		8,177,186,889	6,517,746,886
Fee and Commission Received		212,540,050	222,058,055
Receipts from other Operating Activities		101,752,074	98,716,060
Interest Payment		(4,846,840,351)	(2,509,000,814)
Cash Payment to Employees		(1,386,214,260)	(1,040,024,048)
Payments to Suppliers and Other Operating Activities		(1,527,963,140)	(1,286,755,267)
Fee and Commission Expenses		(9,596,114)	(30,498,511)
Operating Profit before Changes in Operating Assets		696,428,698	1,972,242,362
(Increase)/Decrease in Operating Assets			
Funds Advanced to Customers		(7,927,083,794)	(13,886,943,403)
Other Short Term Securities		516,458,126	(2,894,471,273)
Increase/(Decrease) in Operating Liabilities			
Deposits from Customers		2,668,365,273	12,090,119,295
Net Cash Used in Operating Activities Before Income Tax		(4,045,831,697)	(2,719,053,019)
Income Tax Paid		(437,427,735)	(182,600,243)
Net Cash Used in Operating Activities		(4,483,259,431)	(2,901,653,262)
Cash Flows from/(Used in) Investing Activities			
Dividend Received		1,759,173	1,511,087
(Increase)/Decrease in Non Dealing Securities		(499,710,818)	260,694,404
(Increase)/Decrease in Dealing Securities		(227,560,123)	(48,700,000)
(Increase)/Decrease in Treasury Bonds and other Investments		700,172,712	698,387,562
Proceeds from sale of Property, Plant and Equipment		10,311,927	9,090,000
Purchase of Property, Plant and Equipment	20	(236,556,367)	(198,184,369)
Net Cash from/(used in) Investing Activities		(251,583,496)	722,798,683
Cash Flows from (Used in) Financing Activities			
Dividend Paid		(109,162,402)	(86,320,027)
Net Increase in Borrowing		3,086,154,080	5,914,306,579
Funds Received/(Utilized) During the period		354,219	(15,103,437)
Net Cash Flow from Financing Activities		2,977,345,897	5,812,883,116
Net Increase/(Decrease) in Cash and Cash Equivalents		(1,757,497,030)	3,634,028,537
Cash and Cash Equivalent at the beginning of the year	12.1	10,323,171,406	6,689,142,869
Cash and Cash Equivalents at the end of the year	12.1	8,565,674,376	10,323,171,406

The Accounting Policies and Notes on pages 209 through 258 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 Specialized Bank established under the Banking Act No. 30 of 1988. It is a Limited Liability Company, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 12, 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 Authorization of Issue ►

The financial statements for the year ended 31st December 2016 were authorized for issue in accordance with a resolution of the directors on 16th March 2017.

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 (Rs.) and all values are rounded to the nearest rupee, except when otherwise indicated.

2.1.1 Statement of Compliance ►

The Financial Statements of the Bank which comprise of the Statement of financial position, Statement of 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 39.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

2.1.3 Comparative information ►

Comparative information is re-classified wherever necessary to comply with the current presentation.

2.2 Significant accounting judgments, estimates and assumptions ►

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

(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 37.

Notes to the Financial Statements Contd.

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

(d) Deferred tax assets ►

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

(e) Taxation ►

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

The Bank recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final

tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income,

(f) 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 27.1.

(g) Useful life-time of the Property and equipment ►

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

2.3 Summary of significant accounting policies ►

2.3.1 Foreign currency translation ►

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

Transactions and balances

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

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

2.3.2 Financial instruments ►

2.3.2.1 Initial recognition and subsequent measurement ►

(a) Date of recognition ►

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



(b) Initial measurement of financial instruments ►

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

(c) Subsequent measurement ►

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

(i) Financial assets or financial liabilities held-for-trading ►

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

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

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

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

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

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

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

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

(iii) 'Day 1' profit or loss ►

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

(iv) Held-to-maturity financial investments ►

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

Included in this classification are debt securities and short positions

Notes to the Financial Statements Contd.

(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 amortized cost using the EIR, less allowance for impairment. Amortized 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 amortization is included in 'Interest income' in the comprehensive income. The losses arising from impairment are recognized 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.

Unrealized gains and losses are recognized directly in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized 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 recognized

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 recognized 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 recognized 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 recognized 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 'due to customers and other borrowings' 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 recognized 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.

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 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 37.

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.

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 reorganization, default or delinquency in interest or principal payments

Notes to the Financial Statements Contd.

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 amortized cost ►

For financial assets carried at amortized cost (such as placement with 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, recognized 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 recognized 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 realized 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 recognized, the previously recognized 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 collateralized 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 amortized 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 amortized cost.



However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized 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 recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized 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 values 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 De-recognition 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 derecognized 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 recognized to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognizes 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.

Notes to the Financial Statements Contd.

(b) Financial liabilities ►

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 derecognized from the statement of financial position as the bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized 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 replace 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 recognized 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 collateralized 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 recognized 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized 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 recognized as a receivable. The difference



between the total payments receivable under the lease and the present value of the receivable is recognized 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 capitalized borrowing costs. Purchase of software that is integral to the functionality of the related equipment is capitalized 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 LKAS 23 on 'Borrowing Costs', the bank capitalizes 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.

Notes to the Financial Statements Contd.

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 years
- Motor Vehicle	4 years
- Furniture and fittings	5 years

2.3.8 Investment Properties ►

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

Investment properties are derecognized 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 recognized in the income statement in the year of retirement or disposal.

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

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

- Buildings	20 years
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2.3.9 Asset classified as Held for sale

Non-current assets are classified as Investments - 'held-for-sale' when their carrying amounts will be recovered principally through sale, they are available-for-sale in their present condition and their sale is highly probable. Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of SLFRS 5 - 'Non-current Assets Held-for-Sale and Discontinued Operations' such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from employee benefits.

2.3.10 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 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 capitalized 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, Amortization 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.

Amortization ►

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

The Class of Intangible Assets	Useful Life	Amortisation Methods
Computer Software	7 Years	Straight line method

The unamortized 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.

2.3.11 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 recognized impairment losses may no longer exist or may have decreased. If such indication exists,

the bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the income statement.

2.3.12 Financial Guarantees ►

In the ordinary course of business, the bank gives financial guarantees, consisting of bank guarantees. Bank guarantees are initially recognized 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 recognized less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required settling 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 recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

2.3.13 Provisions ►

Provisions are recognized 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.

2.3.14 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.

Notes to the Financial Statements Contd.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognized 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 recognizes all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognized 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%.

2.3.15 Recognition of income and expenses ►

Revenue is recognized 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 recognized.

(a) Interest and similar income and expense ►

For all financial instruments measured at amortized 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 recognized 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 recognized 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 recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized 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 recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(c) Dividend income ►

Dividend income is recognized 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'.

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.

2.3.16 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 recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized 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 realized 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 recognized directly in equity are also recognized in equity and not in the income statement.

(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 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 recognized. At present, the rate of 10% is deducted at source.

(e) Economic Service Charge (ESC) ►

As per the provisions of Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, the ESC is calculated on liable turnover. Currently, the ESC is payable at 0.5% and is deductible from the income tax payable. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the two subsequent years.

(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 ►

According to the Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto, Nation Building Tax should be paid on the liable turnover. The business of Banking or Finance is exempted from Nation Building Tax up to 31st December 2013 and the exemption was removed with effect from 01.01.2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

Notes to the Financial Statements Contd.

2.3.17 Grants ►

Grants are recognized 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 recognized 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 recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

2.3.18 Dividends on ordinary shares ►

Dividends on ordinary shares are recognized 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.

2.3.19 Equity reserves ►

The reserves recorded in equity on the bank's statement of financial position include:

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

2.3.20 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 SLFRS 8 - 'Segmental Reporting', segmental information is presented in respect of the Bank based on Bank management and internal reporting structure.

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

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

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

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 DECEMBER 2016 ►

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2016. Accordingly these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 December 2016.

SLFRS – 9 Financial Instruments

Sri Lanka Financial Reporting Standards (SLFRS) is the rule book that the bank is required to comply with in preparing and presenting its financial statements.

SLFRS currently requires that credit impairment charges (losses on debt assets) are recognized only when an event happens that could lead to a future loss. Regulators suggested that the accounting standards contributed to the 2008 global financial crisis and that banks generally had insufficient impairment allowances. SLFRS 9 was developed by Institute of Chartered Accountants of Sri Lanka in line with the IFRS 9 developed by International Accounting Standards Board (IASB) over a period of six years following the wake of the financial crisis. It will replace the existing accounting standard for financial instruments (LKAS 39) with effect from 1 January 2018 and contains new accounting rules which will impact the following areas:

- Classification and measurement of financial assets.
- Accounting for changes in credit risk for certain financial liabilities.
- Hedge accounting for financial risks.
- Impairment of debt financial assets

SLFRS 9's biggest change is the new impairment calculation method. LKAS 39 currently requires impairments to be calculated on an incurred loss basis, whereas SLFRS 9 require impairments to be calculated on an expected loss basis which incorporates forward-looking judgmental assumptions. This will result in impairments being recognized earlier in a debt asset's life. The incorporation of forward-looking information, which seeks to incorporate into loan loss provisioning events that are expected to happen in the future, differs



from existing accounting rules which are 'rear-view mirror' based and rely solely on events that have already happened up to and including the reporting date.

Importantly the impairment requirements apply, as is currently the case, to those debt assets that are subsequently measured on an amortized cost basis. These rules also apply to off-balance sheet facilities such as overdrafts, credit card and mortgage loans' unutilized facility limits. The requirements are best explained in terms of the following three stages:

Stage 1: Performing loan book

This stage includes exposures for which there has been no default event and for which the credit risk has not significantly increased since origination. A 12-month expected loss will be required to recognize, being the lifetime loss associated with defaults that are expected to arise in the next 12 months.

Stage 2: Significant increase in credit risk

This stage includes exposures for which there has been a significant increase in credit risk since the date of origination. A life time expected loss will be required to be recognized, being the lifetime loss associated with defaults that are expected to arise over the lifetime of the exposure.

Stage 3: Default

This stage includes debt assets that have met the default criteria, or for which there is imminent default. A lifetime loss will also be required to be recognized for these debt assets.

From 1 January 2018, the bank is required to be SLFRS 9 compliant. Compared to existing accounting requirements, SLFRS 9 is expected to require higher impairments earlier in a debt asset's life and the recognition of losses on off-balance sheet facilities. Together this will result in a higher overall balance sheet impairment requirement. This difference is expected, on transition to SLFRS 9, to be recognized as a debit to the bank's retained earnings.

It is anticipated that the impact will be significant to the bank. Third-party market research in this regard suggests a potential increase in total balance sheet impairment provisions of 33% for the banking sector. The bank's SLFRS 9 models are currently being developed and accurate predictions at this stage are therefore not possible, but a potential impact in this range is plausible.

Ultimately the total lifetime loss of a non-recoverable loan remains the same under both current accounting standards and SLFRS 9. In the long run it is all about the timing of the recognition of impairments with SLFRS 9 requiring the losses to be recognized earlier than under existing accounting standards.

The bank's SLFRS 9 project has achieved the following notable milestones:

- ▶ A consultant has been appointed to handle the entire SLFRS 9 convergence process with a formal project plan
- ▶ A gap analysis has been performed to identify the policies that provide guidance on key SLFRS 9 requirements, have been developed.
- ▶ Development of prototype SLFRS 9 impairment models is currently in progress.
- ▶ Work has commenced on the bank's proposed IFRS 9 disclosures.
- ▶ The bank has presented to the Board of Directors on the SLFRS 9 implications for the bank
- ▶ Training on the new requirements to both business and executive levels is in progress.

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 and timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 1 January 2018. A preliminary evaluation of the existing contracts which falls mainly under fee and commission income of the bank has been performed in relation to the adoption of SLFRS 15. The bank's current assessment has not revealed a significant change to the revenue recognition pattern. However, the bank is currently in the process of evaluating and quantifying the accounting impact and the current systems and processes will be modified where necessary.

SLFRS 16- Lease

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors

Notes to the Financial Statements Contd.

provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of Financial Statements to assess the effect that lease have on the financial position, financial performance and cash flows of an entity.

An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above Standard has not been quantified yet.

Amendments to Sri Lanka Accounting Standard - LKAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than the carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. This amendment is not expected to have a material impact on the bank.

Amendments to Sri Lanka Accounting Standard - LKAS 7 Disclosure Initiative "Statement of Cash Flows"

The amendments to LKAS 7 "Statement of Cash Flows" are part of the Institute of Chartered Accountants of Sri Lanka's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the bank.

Amendments to Sri Lanka Accounting Standard - SLFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The Institute of Chartered Accountants of Sri Lanka issued amendments to SLFRS 2 "Share based Payment" that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The impact on the implementation of the above standard has not been quantified yet by the bank.



	2016 LKR	2015 LKR
3. NET INTEREST INCOME		
Interest income on,		
Cash and cash equivalents	183,778,751	202,954,251
Placements with banks	628,514,832	155,218,856
Loans and receivables to other customers	7,229,388,036	6,123,437,502
Financial investments - Held-to-maturity	35,191,853	116,825,347
Other financial assets classified under loans and receivables - Debenture	33,200,864	8,920,482
Commercial paper	60,877,849	1,469,300
Trust certificates	6,234,704	422,685
Total interest income	8,177,186,889	6,609,248,423
Interest expenses on,		
Due to other customers	3,695,176,665	2,806,787,760
Other borrowings	1,151,663,686	434,086,853
Total interest expenses	4,846,840,351	3,240,874,613
Net interest income	3,330,346,538	3,368,373,810
3.1 Net Interest Income from Sri Lanka Government Securities		
Interest income	214,660,107	311,414,920
(Less): Interest expenses	(2,121,294)	(838,516)
Net interest income	212,538,813	310,576,404
4. NET FEE AND COMMISSION INCOME		
Fee and commission income	212,540,050	217,475,178
Fee and commission expenses	(9,596,114)	(2,965,660)
Net fee and commission income	202,943,936	214,509,518
4.1 Net fees and commission earned from		
Loans	136,490,322	177,577,255
Deposits	1,443,082	1,452,352
Guarantees	1,970,514	2,083,558
Commission earned from insurance	9,407,634	7,405,993
Commission earned from ATM	14,902,409	20,235,964
Late fees charged from overdue rentals	10,923,244	4,705,109
Others	27,806,731	1,049,287
Net fee and commission income	202,943,936	214,509,518
5. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Government Debt Securities-Treasury Bills and Bonds	17,351,017	5,094,794
Total	17,351,017	5,094,794

Notes to the Financial Statements Contd.

	2016 LKR	2015 LKR
6. OTHER OPERATING INCOME (Net)		
Gain on Sale of property, plant and equipment	6,640,176	8,837,390
Dividend Income	1,759,173	2,755,480
Grants	-	4,424,619
Account Maintenance fees	27,174,335	34,131,983
Other Income	4,471,823	1,877,052
Other Operating Income (net)	40,045,507	52,026,524
7. IMPAIRMENT FOR LOANS AND OTHER LOSSES		
Loans and receivables to Customers		
Individual Impairment	48,350,215	13,788,949
Collective Impairment	76,693,648	35,805,346
Total	125,043,863	49,594,295
8. PERSONNEL EXPENSES		
Salaries and bonus	927,279,473	827,259,008
Contributions to defined contribution plans - EPF	119,599,194	91,715,439
- ETF	25,563,050	19,654,168
Contributions to defined benefit plans	39,540,901	22,217,314
Overtime	4,322,495	3,494,373
Staff Welfare	18,480,006	15,995,232
Staff Allowances	72,563,816	64,920,267
Others	58,766,248	69,498,050
Total	1,266,115,183	1,114,753,852
9. OTHER EXPENSES		
Directors' emoluments (9.1)	17,628,000	19,151,000
Auditors' remunerations	3,305,510	3,000,000
Professional and legal expenses	4,607,337	4,058,479
Depreciation of property, plant and equipment	144,793,000	117,570,128
Depreciation of investment property	1,056,030	1,056,030
Amortisation of intangible assets	30,203,034	30,203,034
Office administration and establishment expenses	1,088,255,435	916,418,429
Total	1,289,848,347	1,091,457,100
9.1 Total Directors' Emoluments include fees paid to Non Executive Directors.		
10. TAX EXPENSE		
Current income tax		
Income tax for the year	261,142,023	380,850,685
Adjustment in respect of current income tax of prior periods	(41,555,746)	(4,516,391)
Deferred taxation charge / (reversal)	(5,882,505)	13,649,795
Total	213,703,773	389,984,089



	2016 LKR	2015 LKR
10.1 Reconciliation of tax expense		
Profit before tax	617,425,417	1,110,558,650
Income tax for the period (Accounting profit @ 28%)	172,879,117	310,956,422
Income Exempt from Tax	(12,011,793)	(3,246,003)
Adjustment in respect of current income tax of prior periods	(41,555,745)	(4,516,391)
Add: Tax effect of expenses that are not deductible for tax purposes	471,517,089	412,233,277
Less: Tax effect of expenses that are deductible for tax purposes	(388,818,850)	(343,094,957)
Add: Tax impact on leasing loss	17,576,459	4,001,945
Tax expense for the period	219,586,278	376,334,293
Deferred Taxation Charge	(5,882,505)	13,649,795
At the effective income tax rate of 34.61 % (2015 : 35.12%)	213,703,773	389,984,089

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

	Statement of Financial Position		Statement of Comprehensive Income	
	2016 LKR	2015 LKR	2016 LKR	2015 LKR
Deferred Tax Liability				
Capital allowances for Property, Plant & Equipment	24,502,700	29,919,088	(5,416,388)	(13,245,025)
Capital allowances for Leased Assets	149,073,650	118,017,390	31,056,260	40,497,725
	173,576,349	147,936,479	25,639,872	27,252,700
Deferred Tax Assets				
Defined Benefit Plans	59,498,394	35,645,955	(23,852,438)	(5,390,198)
Loss on Lease Assets	67,448,698	45,879,856	(21,568,842)	(8,965,258)
	126,947,092	81,525,812	-	-
Deferred Taxation Charge			(19,781,409)	12,897,244
Net Deferred Tax Liability	46,629,257	66,410,666		

10.2.1 Composition of Deferred tax charge

Impact on income statement	(5,882,505)	13,649,795
Impact on other comprehensive income	(13,898,904)	(752,551)
Total Deferred Taxation Charge	(19,781,409)	12,897,244

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 scrip dividend.

	2016 LKR	2015 LKR
Net Profit for the year	403,721,644	720,574,562
Profit attributable to Ordinary Shareholders (Rs.)	403,721,644	720,574,562

	2016 Number	2015 Number
Weighted Average Number of Ordinary Shares in Issue	42,061,577	40,251,597
	42,061,577	40,251,597
Basic earnings per ordinary share	9.60	17.90

	2016 LKR	2015 LKR
12. CASH AND CASH EQUIVALENTS		
Cash in hand	277,405,374	277,956,231
Balances with banks	767,320,119	4,779,834,891
Total	1,044,725,493	5,057,791,122

12.1 Cash and Cash Equivalents for Cash Flow Statement

Repurchase Agreement	604,458,325	1,876,594,422
Fixed Deposits less than 3 months	6,916,490,558	3,388,785,862
	8,565,674,376	10,323,171,406

13. PLACEMENTS WITH BANKS

Placement with Local Banks	6,919,027,281	4,757,400,770
	6,919,027,281	4,757,400,770

14. FINANCIAL INVESTMENTS - FAIR VALUE THROUGH PROFIT OR LOSS

Sri Lanka Government Securities- Treasury Bill	234,806,750	-
Quoted Equities (14.1)	10,104,390	-
Total	244,911,140	-

14.1 Quoted Equities

	2016	
	No. of Shares	Market Value LKR
John Keells Holding PLC	14,057	2,038,265
Hatton National Bank PLC	162	36,450
Aitken Spence PLC	45,600	2,964,000
DFCC Bank	17,345	2,124,763
National Development Bank PLC	18,852	2,940,912
		10,104,390



	2016 LKR	2015 LKR
15. OTHER FINANCIAL ASSET CLASSIFIED UNDER LOANS AND RECEIVABLE		
Trust Certificates	-	-
Debentures	588,687,440	49,460,991
Commercial Papers	310,393,609	-
Reverse Repurchase Agreements	604,458,325	1,876,594,422
Total	1,503,539,374	1,926,055,413
16. LOANS AND RECEIVABLES TO OTHER CUSTOMERS		
Gross loans and receivables	54,764,576,170	46,860,086,768
Less: Individual impairment	(217,231,764)	(168,881,548)
Collective impairment	(914,805,585)	(860,706,329)
Net loans and receivables	53,632,538,822	45,830,498,891
16.1 By product		
Loans and advances		
Pawning	703,732,139	714,209,946
Cash Margin	3,864,764,521	2,520,678,919
Staff loans	797,426,073	636,959,293
Lease rentals receivable	4,204,215,443	4,285,876,331
Term loans	45,194,437,994	38,702,362,279
Gross total	54,764,576,170	46,860,086,768
16.2 By currency		
Sri Lankan Rupee	54,764,576,170	46,860,086,768
Gross total	54,764,576,170	46,860,086,768

16.3 Movements in Individual and Collective Impairment during the Year

	Individual impairment LKR	Collective impairment LKR	Total impairment LKR
At 1 January 2015	155,092,599	864,650,939	1,019,743,537
Charge to income statement	13,788,949	35,805,346	49,594,295
Write-off during the year	-	(39,749,956)	(39,749,956)
At 31 December 2015	168,881,548	860,706,329	1,029,587,877
At 1 January 2016	168,881,548	860,706,329	1,029,587,877
Charge to income statement	48,350,215	76,693,648	125,043,862
Write-off during the year	-	(22,594,392)	(22,594,392)
At 31 December 2016	217,231,764	914,805,585	1,132,037,346

Notes to the Financial Statements Contd.

	2016 LKR	2015 LKR
17. FINANCIAL INVESTMENTS -AVAILABLE FOR SALE		
Equities - Unquoted (17.1)	63,686,559	79,678,638
Unit Trust	503,248,918	-
Net Available-for-sale Investments	566,935,476	79,678,638

	2016		2015	
	No. of Shares	Amount LKR	No. of Shares	Amount LKR
17.1 Equities - Unquoted				
SANASA Insurance Company Limited	7,590,494	75,904,944	7,590,494	75,904,944
Credit Information Bureau of Sri Lanka	100	10,000	100	10,000
Consorzio Etimos S.C.,	2	75,194	2	75,194
SANASA Printers and Publishers Limited	10,885	50,400	208,550	2,088,500
SANASA Travels (Pvt) Limited	4,000	-	4,000	-
SANASA Security Services (Pvt) Limited	1,000	100,000	1,000	100,000
SANASA Asset Management	-	-	15,000	1,500,000
Loss from mark to market valuation as at 31st December Market value	-	(12,453,979)	-	-
	-	63,686,559	-	79,678,638

	2016 LKR	2015 LKR
17.1.1 Unquoted Equity Securities accounted as Financial Investments - Available-for-Sale		
Opening Balance 01 January	79,678,638	29,734,245
Investments made during the year	-	51,244,393
Disposal during the year	(3,538,100)	(1,300,000)
Loss from mark to market valuation	(12,453,979)	-
Balance as at 31 December	63,686,559	79,678,638

Type	Level	Method of Valuation	Significant unobservable inputs	Sensitivity of fair value to unobservable inputs
Unquoted Share Investment	Level 3	Market approach - Price to Book Value of comparable peer companies	Median price to book value liquidity discount regulatory non compliance adjustment	Positively correlated sensitivity Positively correlated sensitivity



	2016 LKR	2015 LKR
18. FINANCIAL INVESTMENT HELD TO MATURITY		
Sri Lanka Government Securities		
Treasury Bill	294,943,110	1,192,440,373
Treasury Bond	197,324,551	-
Held-to-Maturity Investments	492,267,661	1,192,440,373
19. ASSET CLASSIFIED AS HELD FOR SALE		
Asset classified as Held for sale	37,175,411	37,175,411
	37,175,411	37,175,411

Assets classified as held for sale include land and building located in Galle. Market Value of the above asset is Rs.38,000,000. Valuation was carried out by H.N.S.J.A. Samaranayaka Independent Professional Valuer.

Type	Level	Method of Valuation	Significant unobservable inputs	Sensitivity of fair value to unobservable input
Land	Level 3	Open Market value method	Estimated price per perch Rs.380,000	Positively correlated sensitivity
Building	Level 3	Open Market value method	Estimated price per sq.ft Rs. 2,500 - Rs. 3,150	Positively correlated sensitivity

20. PROPERTY, PLANT AND EQUIPMENT

2016	Land and Buildings LKR	Leasehold Properties LKR	Computer Hardware LKR	Machinery & Equipment LKR	Furniture and Fittings LKR	Vehicle LKR	Total LKR
Cost							
Opening balance at 01.01.2016	251,979,214	590,000	414,329,903	403,620,884	231,928,836	148,308,142	1,450,756,979
Additions	-	-	141,350,837	35,257,374	58,659,166	1,288,990	236,556,367
Disposals	-	-	(106,950)	(1,405,997)	(26,108,873)	(14,687,813)	(42,309,633)
Closing balance at 31.12.2016	251,979,214	590,000	555,573,790	437,472,261	264,479,129	134,909,319	1,645,003,714
Less: Accumulated depreciation							
Opening balance at 01.01.2016	21,832,252	531,000	355,458,242	275,348,506	167,820,924	98,381,549	919,372,472
Charge for the year	3,944,730	29,500	48,942,678	52,387,238	22,936,746	16,552,108	144,793,000
Disposals	-	-	(106,950)	(1,405,997)	(22,447,332)	(14,677,604)	(38,637,883)
Closing balance at 31.12.2016	25,776,982	560,500	404,293,970	326,329,747	168,310,339	100,256,053	1,025,527,590

Notes to the Financial Statements Contd.

2015	Land and Buildings LKR	Leasehold Properties LKR	Computer Hardware LKR	Machinery & Equipment LKR	Furniture and Fittings LKR	Vehicle LKR	Total LKR
Cost							
Opening balance at 01.01.2015	269,104,823	590,000	372,712,587	349,568,993	196,692,558	129,603,074	1,318,272,036
Additions	-	-	46,781,535	61,909,652	43,273,583	46,219,600	198,184,369
Disposals	-	-	(5,164,219)	(7,857,760)	(8,037,305)	(27,514,532)	(48,573,816)
Transferred to assets classified as held for sale	(17,125,609)	-	-	-	-	-	(17,125,609)
Closing balance at 31.12.2015	251,979,214	590,000	414,329,903	403,620,884	231,928,836	148,308,142	1,450,756,980
Less: Accumulated depreciation							
Opening balance at 01.01.2015	23,872,498	501,500	336,103,390	229,807,871	156,762,879	101,453,294	848,501,431
Additions	3,944,730	29,500	24,519,071	53,117,141	18,915,182	17,044,503	117,570,127
Disposals	-	-	(5,164,219)	(7,576,507)	(7,857,137)	(20,116,248)	(40,714,111)
Transferred to assets classified as held for sale	(5,984,976)	-	-	-	-	-	(5,984,976)
Closing balance at 31.12.2015	21,832,252	531,000	355,458,242	275,348,506	167,820,924	98,381,549	919,372,472

	2016 LKR	2015 LKR
Work in Progress		
Building	17,787,049	43,821,827
Reclassification to assets held for sale	-	(26,034,778)
	17,787,049	17,787,049

	Land and Buildings LKR	Leasehold Properties LKR	Computer Hardware LKR	Machinery & Equipment LKR	Furniture and Fittings LKR	Vehicle LKR	Work in Progress LKR	Total LKR
Net book value at 31.12.2016	226,202,233	29,500	151,279,820	111,142,514	96,168,791	34,653,266	17,787,049	637,263,173
Net book value at 31.12.2015	230,146,963	59,000	58,871,661	128,272,379	64,107,912	49,926,593	17,787,049	549,171,557

20.1 Freehold Land & Building

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

Location/Address	Extent		31 December 2016 Cost / Valuation		31 December 2015 Cost / Valuation	
	Land (Purchase)	Building (Square feet)	Land (Purchase) LKR	Building (Square feet) LKR	Land (Purchase) LKR	Building (Square feet) 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



20.2 During the financial year, the Bank acquired Property, Plant & Equipment to the aggregate value of Rs.236,556,367/- (2015 Rs. 198,184,369/-). Cash payments amounting to Rs.236,556,367/- (2015 Rs. 198,184,369/-) were made during the year for purchase of Property, Plant & Equipment.

20.3 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amounts of Rs.739,555,847/- (2015 Rs.667,559,731/-).

20.4 There were no restrictions on the title of the property, plant and equipment as at 31 December 2016.

	2016 LKR	2015 LKR
21. INVESTMENTS PROPERTIES		
Cost		
Balance at the beginning of the year	35,359,000	35,359,000
Additions	-	-
Balance at the end of the year	35,359,000	35,359,000
Less: Accumulated depreciation		
Balance at the beginning of the year	9,856,280	8,800,250
Charge for the year	1,056,030	1,056,030
Balance at the end of the year	10,912,310	9,856,280
Net book value at the end of the year	24,446,690	25,502,720

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

Location/Address	Extent		31 December 2016 Cost / Valuation		31 December 2015 Cost / Valuation	
	Land (Purchase) LKR	Building (Square feet) LKR	Land (Purchase) LKR	Building (Square feet) LKR	Land (Purchase) LKR	Building (Square feet) 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

21.2 Management is of the view that fair value of the investment property is not materially deviating from its carrying value. There were no direct operating expenses arising from investment property that generated rental income and that did not generate material rental income.

21.3 Assets classified as Investment Properties include land and building located in kegalle. Market Value (Level 3) of the above asset is Rs.56,500,000. Valuation was carried out by H.A.V.S. Indrajith Independent Professional Valuer.

Notes to the Financial Statements Contd.

	2016 LKR	2015 LKR
22. INTANGIBLE ASSETS		
Cost		
Balance at the beginning of the year	211,929,704	211,929,704
Additions	-	-
Balance at the end of the year	211,929,704	211,929,704
Less: Accumulated Amortization		
Balance at the beginning of the year	164,788,427	134,585,393
Charge for the year	30,203,034	30,203,034
Balance at the end of the year	194,991,460	164,788,427
Net book value at the end of the year	16,938,244	47,141,277
23. OTHER ASSETS		
Postage legal and other charges receivable	62,136,575	34,619,325
VAT Receivable	(643,184)	20,048,093
Pre paid staff cost	522,843,479	452,383,345
Deposits and prepayments	264,060,102	229,237,310
Inventory	64,633,342	50,849,738
Total	913,030,314	787,137,810
24. DUE TO OTHER CUSTOMERS		
Total amount due to other customers	45,691,758,092	43,023,392,820
Total	45,691,758,092	43,023,392,820
24.1 Analysis		
By product		
Savings deposits	8,040,718,022	8,093,329,258
Fixed deposits	37,651,040,070	34,930,063,562
Total	45,691,758,092	43,023,392,820
By currency		
Sri Lanka Rupee	45,691,758,092	43,023,392,820
Total	45,691,758,092	43,023,392,820
25. OTHER BORROWINGS		
Money market Borrowings (25.1)	-	195,983,871
Term loan (25.2)	5,324,827,304	3,908,052,964
Securitized Borrowings (25.3)	1,938,699,760	1,014,206,454
Refinance Borrowing (25.4)	2,219,422,945	1,482,095,316
Total	9,482,950,010	6,600,338,605
25.1 Money market Borrowings		
National Development Bank PLC	-	126,518,265
Central Finance Co PLC	-	69,465,606
	-	195,983,871



25.2 Term Loan - Details

Institution	Date of Borrowed	Fixed / Floating	Rate	Tenture	2016 LKR	2015 LKR
National Savings Bank	7-May-15	Fixed	10.5%	24 Months	209,435,771	713,192,500
National Savings Bank	5-Nov-15	Fixed	8.75%	06 Months	-	506,786,910
Sampath Bank PLC	7-Aug-15	Floating	(AWPLR+1.5% Repriced monthly)	60 Months	359,094,797	459,001,296
Sampath Bank PLC	19-Aug-15	Floating	(AWPLR+1.5% Repriced monthly)	60 Months	359,094,797	459,001,296
Sampath Bank PLC	29-Dec-16	Floating	(AWPLR+1.5% Monthly reviewed)	60 Months	500,559,726	-
Seylan Bank PLC	18-Sep-15	Floating	(AWPLR+1.5% Repriced monthly)	24 Months	334,267,163	834,747,192
Pan Asia Banking Corporation PLC	29-Jun-15	Floating	10.5% (First 24 months 10.5% & AWPLR + 2.5% thereafter)	60 Months	349,162,507	449,987,053
Peoples Bank, Corporate Branch	15-Oct-15	Floating	(AWPLR+1.75% Quarterly reviewed)	60 Months	1,644,807,874	485,336,715
Central Finance PLC	7-Jun-16	Fixed	13.5%	12 Months	104,292,590	-
NDB Bank	17-Jun-16	Fixed	12.75%	12 Months	259,868,151	-
MCB Bank	21-Oct-16	Floating	(AWPLR+1.5% Monthly reviewed)	60 Months	241,828,490	-
National Savings Bank	21-Nov-16	Floating	(Weekly AWPLR+2% Monthly reviewed)	48 Months	962,415,439	-
					5,324,827,304	3,908,052,964

Term Loan - Movement

	Opening Balance 01.01.2016	Obtained during year LKR	Interest Expense LKR	Repayment LKR	Closing Balance 31.12.2016 LKR
National Savings Bank	1,219,979,410	1,000,000,000	59,256,525	(1,048,128,200)	1,171,851,210
Sampath Bank PLC	918,002,593	500,000,000	135,534,582	(199,253,272)	1,218,749,321
Seylan Bank PLC	834,747,192	-	64,186,170	(500,480,029)	334,267,163
Pan Asia Banking Corporation PLC	449,987,053	-	68,924,590	(100,824,547)	349,162,507
Peoples Bank, Corporate Branch	485,336,715	1,500,000,000	287,779,068	(340,528,842)	1,644,807,874
Central Finance PLC	-	200,000,000	8,061,682	(95,707,410)	104,292,590
NDB Bank	-	500,000,000	17,867,466	(240,131,849)	259,868,151
MCB Bank	-	250,000,000	6,639,827	(8,171,510)	241,828,490
	3,908,052,964				5,324,827,304

	2016 LKR	2015 LKR
25.3 Securitised Borrowings		
Trust 1	377,730,492	1,014,206,454
Trust 2	1,560,969,268	-
	1,938,699,760	1,014,206,454

Notes to the Financial Statements Contd.

	2016 LKR	2015 LKR
25.4 Refinance Borrowing		
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000
Central Bank of Sri Lanka (RERED)	11,714,534	15,619,380
Central Bank of Sri Lanka (Nipunatha)	-	37,500
Central Bank of Sri Lanka (Susahana)	80,827	130,827
Asian Development Bank (Dasuna)	10,695,176	17,429,230
Borrowings Under CBSL-Perennial Crops	2,263,327	5,220,645
Borrowings Under CBSL - Tea Development	2,081,300	3,725,855
Borrowings Under Refinance of Jayatha	362,144,650	467,156,172
Borrowing under Awaiking East	244,231,150	367,666,833
Borrowing under Awaiking North	24,260,400	47,068,925
Borrowing under Saubagya	1,116,272,482	410,655,149
Borrowing under SPENDP	2,196,000	3,574,000
Borrowing-Refinance Smile iii	288,783,100	89,610,800
Borrowing - Refinance Nadep	100,000,000	-
Borrowing - Refinance Sepi	500,000	-
	2,219,422,945	1,482,095,316
25.5 Analysis of Maturity of Refinance Borrowings		
Due within one year	784,927,327	649,228,211
1-5 years	1,386,416,019	810,204,305
After 5 years	48,079,600	22,662,800
	2,219,422,945	1,482,095,316

25.6 Securities and terms

Interest rate ranging for above borrowings 3% to 13.5% per annum.

Bank has pledged from the lease portfolio sum of Rs.2,527,569,253/- for the Securitised Borrowings. (2015- Rs.1,313,200,000/-)

	2016 LKR	2015 LKR
26. DEBT SECURITY ISSUED		
Debentures	4,182,653,234	3,979,110,559
Total	4,182,653,234	3,979,110,559



26.1 Types of debentures (Fixed)

i) Rated Guaranteed Redeemable Debentures of Rs.100 each - Guaranteed by Sampath Bank PLC. The debentures are quoted on the Colombo Stock Exchange. (Rated (SL)A+ (SO) with a Stable Outlook by ICRA Lanka Limited)

Type	Interest Payable Frequency	Issue Date	Maturity Date	Annual Effective Rate (AER) %	Face Value	Interest Payable	Balance
A	Semi Annually	31-Dec-15	31-Dec-18	9.83	1,597,390,000	77,093,708	1,668,352,924
B	Semi Annually	31-Dec-15	31-Dec-20	10.25	402,610,000	20,240,503	421,305,285
							2,089,658,210

ii) Rated Guaranteed Redeemable Debentures of Rs.100 each - Guaranteed by Seylan Bank PLC. The debentures are quoted on the Colombo Stock Exchange. (Rated (SL)A- (SO) with a Stable Outlook by ICRA Lanka Limited)

Type	Interest Payable Frequency	Issue Date	Maturity Date	Annual Effective Rate (AER) %	Face Value	Interest Payable	Balance
C	Semi Annually	31-Dec-15	31-Dec-18	10.15	1,438,050,000	71,572,456	1,504,103,219
D	Semi Annually	31-Dec-15	31-Dec-20	10.57	561,950,000	29,098,569	588,891,805
							2,092,995,024
					4,000,000,000	198,005,235	4,182,653,234

	2016 LKR	2015 LKR
27. OTHER LIABILITY		
Defined Benefit Plan - Retiring Gratuity Obligations (27.1)	212,494,263	127,306,983
Special Purpose Project Funds	459,787,818	413,467,989
Accruals & Other Payables	414,136,465	521,882,329
Total	1,086,418,546	1,062,657,301
27.1 Retirement Benefit Obligations		
27.1.1 Defined Benefit Liability		
Defined benefit liability (27.1.2)	212,494,263	127,306,983
	212,494,263	127,306,983
27.1.2 Changes in the Defined benefit obligation are as follows		
Defined benefit obligation as of 01 January	127,306,983	108,038,276
Net Benefit expense	89,179,844	24,904,995
Benefit paid	(3,992,564)	(5,636,288)
Defined benefit liability as of 31 December	212,494,263	127,306,983

Notes to the Financial Statements Contd.

	2016 LKR	2015 LKR
27.1.3 Amounts recognised in the Comprehensive Income		
Interest Cost on the net defined benefit liability for the year	18,153,068	8,691,829
Current Service Cost	21,387,833	13,525,485
	39,540,901	22,217,314
Amounts recognised in the Other Comprehensive Income		
Actuarial Loss on obligations	49,638,943	2,687,681
Net benefit expense	89,179,844	24,904,995

27.1.4 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 2016. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

Long Term Interest Rate	12.50%	10.15%
Future Salary increase Rate	11.50%	9.15%
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

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

Assumption	Rate change	2016		2015	
		Impact to Financial Position - Increment (Reduction) of Liability	Impact to Comprehensive Income - Charged/ (Reversal)	Impact to Financial Position - Increment (Reduction) of Liability	Impact to Comprehensive Income - Charged/ (Reversal)
Discount rate	1+	(19,751,581)	(19,751,581)	(12,807,920)	(12,807,920)
Discount rate	1-	22,943,103	22,943,103	14,951,599	14,951,599
Salary increment rate	1+	22,269,391	22,269,391	15,481,432	15,481,432
Salary increment rate	1-	(19,543,456)	(19,543,456)	(13,439,449)	(13,439,449)



27.3 The expected Benefit Payout in the future years for Retirement Gratuity

	2016 LKR
Within next 12 months	17,732,946
Between 2 and 5 years	128,613,406
Beyond 5 years	325,374,144

	2016 LKR	2015 LKR
28. STATED CAPITAL		
Ordinary Shares - Issued and fully paid	4,062,961,714	3,794,094,725
Total	4,062,961,714	3,794,094,725

Ordinary Shares - Issued and fully paid	At the beginning of the year 01.01.2016 Number	Issued for non cash during the year Number	Redemptions/ Transfers Number	At the end of the year 01.01.2016 Number
Ordinary Shares - Voting	40,246,625	1,814,952	-	42,061,577
	40,246,625	1,814,952	-	42,061,577

Ordinary Shares - Issued and fully paid	At the beginning of the year 01.01.2016 LKR	Issued for non cash during the year LKR	Redemptions/ Transfers LKR	At the end of the year 01.01.2016 LKR
Ordinary Shares Value - Voting	3,794,094,725	268,866,989	-	4,062,961,714
	3,794,094,725	268,866,989	-	4,062,961,714

	2016 LKR	2015 LKR
29. STATUTORY RESERVE FUND		
Opening balance	154,596,404	118,664,431
Transfer during the period	17,776,381	35,931,974
Closing balance	172,372,786	154,596,404

30. RETAINED EARNINGS		
Opening balance	1,302,002,770	997,107,291
Profit for the year	367,981,605	718,639,431
Transfers to other reserves	(17,776,381)	(35,931,972)
Scrip Dividend	(293,303,439)	(283,222,372)
Cash Dividend	(109,162,402)	(94,589,608)
Closing balance	1,249,742,154	1,302,002,770

Notes to the Financial Statements Contd.

2016	Opening balance at 01.01.2016 LKR	Movement / Transfers LKR	Closing balance at 31.12.2016 LKR
31. OTHER RESERVES			
General reserve	46,656,973	-	46,656,973
Available for Sale Reserve	-	(12,453,979)	(12,453,979)
Total	46,656,973	(12,453,979)	34,202,994

2015	Opening balance at 01.01.2015 LKR	Movement / Transfers LKR	Closing balance at 31.12.2015 LKR
General reserve	46,656,973	-	46,656,973
Total	46,656,973	-	46,656,973

	2016 LKR	2015 LKR
32. CONTINGENT LIABILITIES AND COMMITMENTS		
32.1 Guarantees	148,030,175	136,574,133
Total	148,030,175	136,574,133

32.2 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 the Second Defendant 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 Mr. 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) transaction and the case is on trial stage. Registered attorney is M.A.T. Marasinghe.

3. 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. The case is on trial stage. Registered attorney is Mr. N. Halpandeniya.



4. 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 1,295,119 and presently the case is fixed for judgment. Registered attorney is Mrs. M.S. Dahanayake.

5. 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. Writ has been executed against the property. Registered attorney is Mr. I.H. Wipulasena.

6. DSP 178/09 - DC Kandy

Above case filed against the Bank challenging the legality of repossession of leased vehicle and plaint value is sum of LKR 3.5 Mn. Presently the case is on trial stage. Registered attorney is Mr. A. M. Ganganatha and Counsel is Mr. Samantha Ratwatta.

7. SP/HCCA/GA/0159/2010

The Bank has appealed against the order of District Court Galle. Plaint value is sum of LKR 95,000/- Written submissions filed and case is fixed for order. Registered attorney is Ms. N. Arumapperuma.

8. 3413M – DC Ambalangoda

The Bank has appealed 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.

9. DMR 496/15- DC Colombo

The case has been filed against the Bank challenging the legality of a writ execution and claiming that the Bank has unduly enriched. The Plaint value is LKR 6,000,000/-. Presently the case has been fixed for trial. Registered Attorney is Ms. Augustus Jayarathne.

10. MB 1935 – DC Matale

The case has been filed by a group of people who occupy the Mortgaged Property claiming the possession of the same. Outstanding value of the Mortgage Bond is LKR 1,331,471/60. Case is fixed for order on the Objections filed by the Bank. Registered Attorney is Mr. S. M. M. Koswatta.

11. 6495/SPL - DC Colombo

This is a special case filed against the Bank and its Board of Directors and the case has been dismissed by the Civil Appeal High Court of Western Province. Said Order to be pronounced at the District Court. The registered attorney is Samararatne Associate.

12. 207/CL DC Kuliapitiya

Assets of the guarantors in case No: 1827/M have been seized by the Fiscal as per the judgment of that case. The Petitioner has filed this claim case claiming rights for the seized assets. Presently the case has been fixed for Inquiry. Registered Attorney is Ms. Supun Adikari.

13. 6940/P DC Kurunegala

A partition action has been filed where a portion of the subject land has been mortgaged to the Bank. The Survey Commission report is pending. Registered Attorney is Ms. G. B Senanayaka.

14. 01/42/2016 (LT-Colombo)

The Case has been filed challenging the termination of A. P. Vithanage (Former Assistant General Manager) and claiming reinstatement with full back wages or Compensation. Presently the case has been fixed for Trial or Settlement. Registered Attorney is Ms. Roland Munasinghe.

Notes to the Financial Statements Contd.

33. 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.

34. RELATED PARTY DISCLOSURE

The Bank carries out transaction in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standard -LKAS 24 (Related Party Disclosures), the details of which are reported below:

34.1 Transactions With Key Management Personnel

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

	2016 LKR	2015 LKR
34.1.1 Key Management Personnel Compensation		
Short Term Employee Benefits	31,535,000	32,804,763
34.1.2 Other Transactions with Key Management Personnel - Balance outstanding		
Balance as at 01 January	5,260,040	3,093,743
Grantings	-	2,500,000
Repayments	(2,639,269)	(333,703)
Balance as at 31 December	2,620,770	5,260,040
Interest Income	1,070,727	989,345
34.1.3 Deposits & Investment from Key Management Personnel - Balance outstanding		
Deposits accepted and renewed during the period	10,604,443	6,337,811
Balance as at 31 December	2,870,201	1,269,673
Interest Expenses	45,090	27,990
34.1.4 Dividend Payment to Key Management Personnel		
Cash dividend	9,757	12,521
34.1.5 Share purchase		
Shares	6,176	5,658
Number		

34.1.6 Terms and conditions of transaction with related parties.

All related party transactions are carried out in the normal course of business and transacted at normal business terms. Transaction from related parties are made on terms equivalent to those that prevail in arm's length transactions and comparable with those that would have been charged from unrelated companies. All related party outstanding balances at the year-end are secured and are to be settled in cash.



35. ASSETS PLEDGED

Bank has pledged from the lease portfolio sum of Rs.2,527,569,253/- (2015- Rs.1,313,200,000/-) for the Securitised Borrowings.

36. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2016	Fair value through Profit or loss LKR	HTM LKR	AFS LKR	Amortised cost LKR	Total LKR
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	1,044,725,493	1,044,725,493
Placements with banks	-	-	-	6,919,027,281	6,919,027,281
Financial assets at fair value through profit or loss	244,911,140	-	-	-	244,911,140
Financial investments - Available-for-sale	-	-	566,935,476	-	566,935,476
Financial investments - Held-to-maturity	-	492,267,661	-	-	492,267,661
Loans and receivables to other customers	-	-	-	53,632,538,822	53,632,538,822
Other financial asset classified under loans and receivable	-	-	-	1,503,539,374	1,503,539,374
Total financial assets	244,911,140	492,267,661	566,935,476	63,099,830,970	64,403,945,247
FINANCIAL LIABILITIES					
Due to other customers	-	-	-	45,691,758,092	45,691,758,092
Other borrowings	-	-	-	9,482,950,010	9,482,950,010
Debt securities issued	-	-	-	4,182,653,234	4,182,653,234
Total financial liabilities	-	-	-	59,357,361,336	59,357,361,336

As at 31 December 2015	Fair value through Profit or loss LKR	HTM LKR	AFS LKR	Amortised cost LKR	Total LKR
FINANCIAL ASSETS					
Cash and cash equivalents	-	-	-	5,057,791,122	5,057,791,122
Placements with banks	-	-	-	4,757,400,770	4,757,400,770
Financial investments - Available-for-sale	-	-	79,678,638	-	79,678,638
Financial investments - Held-to-maturity	-	1,192,440,373	-	-	1,192,440,373
Loans and receivables to other customers	-	-	-	45,830,498,891	45,830,498,891
Other financial asset classified under loans and receivable	-	-	-	1,926,055,413	1,926,055,413
Total financial assets	-	1,192,440,373	79,678,638	57,571,746,195	58,843,865,207
FINANCIAL LIABILITIES					
Due to other customers	-	-	-	43,023,392,820	43,023,392,820
Other borrowings	-	-	-	6,600,338,605	6,600,338,605
Debt securities issued	-	-	-	3,979,110,559	3,979,110,559
Total financial liabilities	-	-	-	53,602,841,983	53,602,841,983

Notes to the Financial Statements Contd.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

37.1 Financial instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instrument that are recorded 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 shares and short term unit trust investments.

Financial Investment-Held for trading

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

37.2 Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

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

Financial Assets	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
37.2.1 As at 31 December 2016				
Financial assets fair value through profit or loss				
Quoted Equities	10,104,390	-	-	10,104,390
Sri Lanka Government Securities- Treasury Bills	-	234,806,750	-	234,806,750
Financial Investments - Available for Sale				
Unquoted Equities	-	-	63,686,559	63,686,559
	10,104,390	234,806,750	63,686,559	308,597,699



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

Financial Assets	2016 LKR	2015 LKR
Financial Assets at Fair Value through Profit or Loss		
Sri Lanka Government Securities - Treasury Bills	17,351,017	5,094,794
	17,351,017	5,094,794

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

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

As at 31 December 2016	31-Dec-16		
	Level	Carrying Value LKR	Fair Value LKR
Financial Assets			
Cash and cash equivalents	Note*	1,044,725,493	1,044,725,493
Placements with banks	Note*	6,919,027,281	6,919,027,281
Financial investments - Held-to-maturity	1,2	492,267,661	492,267,661
Loans and receivables to other customers	2	53,632,538,822	54,572,308,461
Other financial asset classified under loans and receivable	Note*	1,503,539,374	1,503,539,374
Total financial assets		63,592,098,631	64,531,868,271
Financial Liabilities			
Due to other customers	2	45,691,758,092	45,019,532,694
Other borrowings	2	9,482,950,010	9,786,173,847
Debt securities issued	2	4,182,653,234	4,182,653,234
Total financial liabilities		55,174,708,102	54,805,706,541

Notes to the Financial Statements Contd.

As at 31 December 2015	31-Dec-15		
	Level	Carrying Value LKR	Fair Value LKR
Financial Assets			
Cash and cash equivalents	Note*	5,057,791,122	5,057,791,122
Placements with banks	Note*	4,757,400,770	4,757,400,770
Financial investments - Held-to-maturity	2	1,192,440,373	1,192,183,666
Loans and receivables to other customers	2	45,830,498,891	45,164,923,666
Other financial asset classified under loans and receivable	Note*	1,926,055,413	1,926,055,413
Total financial assets		58,764,186,569	58,098,354,637
Financial Liabilities			
Due to other customers	2	43,023,392,820	42,550,325,108
Other borrowings	2	6,600,338,605	6,598,795,779
Debt securities issued	2	3,979,110,559	3,979,110,559
Total financial liabilities		49,623,731,425	49,149,120,886

* 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.



38. SEGMENT REPORTING

As at 31 December 2016	2016				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	6,440,823,233	687,492,067	947,798,853	101,072,736	8,177,186,889
Interest expenses	(3,741,707,997)	(308,460,535)	(744,069,605)	(52,602,214)	(4,846,840,351)
Net interest income	2,699,115,236	379,031,533	203,729,247	48,470,522	3,330,346,538
Fee and commission income	205,809,121	6,730,928	-	-	212,540,050
Fee and commission expenses	(8,865,275)	(730,839)	-	-	(9,596,114)
Net fee and commission income	196,943,847	6,000,089	-	-	202,943,936
Net loss from financial instruments at fair value through profit or loss	-	-	17,351,017	-	17,351,017
Other operating income (net)	37,777,301	-	2,268,206	-	40,045,507
Total operating income	2,933,836,383	385,031,622	223,348,470	48,470,522	3,590,686,997
Impairment for loans and other losses	(126,626,309)	12,574,453	-	(10,992,007)	(125,043,863)
Net operating income - Segment Result	2,807,210,074	397,606,075	223,348,470	37,478,515	3,465,643,134
Un-allocated Expenses					(2,555,963,530)
Value added tax (VAT) on financial services					(292,254,188)
Profit before tax					617,425,417
Tax expenses					(213,703,773)
Profit for the year					403,721,644
Other Comprehensive Income					
Other Comprehensive Income for the year net of tax					(48,194,018)
Total Comprehensive Income for the year					355,527,626
Segment Assets	48,912,628,042	4,032,280,286	9,726,680,932	687,630,494	63,359,219,754
Un-allocated Assets					2,673,579,325
Total Assets	48,912,628,042	4,032,280,286	9,726,680,932	687,630,494	66,032,799,079
Segment Liabilities	46,715,778,365	3,851,175,447	9,289,819,191	656,746,428	60,513,519,431
Total Equity					5,519,279,648
Total Liabilities	46,715,778,365	3,851,175,447	9,289,819,191	656,746,428	66,032,799,079

Notes to the Financial Statements Contd.

As at 31 December 2015	2015				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	5,291,407,154	717,695,709	485,810,921	114,334,640	6,609,248,423
Interest expenses	(2,466,925,129)	(252,019,150)	(479,362,402)	(42,567,931)	(3,240,874,613)
Net interest income	2,824,482,025	465,676,559	6,448,519	71,766,708	3,368,373,811
Fee and commission income	210,631,228	6,843,950	-	-	217,475,178
Fee and commission expenses	(2,735,042)	(230,618)	-	-	(2,965,660)
Net fee and commission income	207,896,186	6,613,332	-	-	214,509,519
Net loss from financial instruments at fair value through profit or loss	-	-	5,094,794	-	5,094,794
Other operating income (net)	49,271,044	-	2,755,480	-	52,026,524
Total operating income	3,081,649,255	472,289,891	14,298,793	71,766,708	3,640,004,647
Impairment for loans and other losses	(92,591,146)	24,019,918	-	18,976,933	(49,594,295)
Net operating income - Segment Result	2,989,058,109	496,309,809	14,298,793	90,743,641	3,590,410,352
Un-allocated Expenses					(2,206,210,952)
Value added tax (VAT) on financial services					(273,640,749)
Profit before tax					1,110,558,650
Tax expenses					(389,984,089)
Profit for the year					720,574,561
Other Comprehensive Income					
Other Comprehensive Income for the year net of tax					(1,935,130)
Total Comprehensive Income for the year					718,639,431
Segment Assets	40,941,484,511	4,182,550,175	7,955,575,194	706,464,205	53,786,074,084
Un-allocated Assets					6,503,919,897
Total Assets	40,941,484,511	4,182,550,175	7,955,575,194	706,464,205	60,289,993,982
Segment Liabilities	41,859,914,195	4,276,376,236	8,134,040,545	722,312,133	54,992,643,109
Total Equity	-	-	-	-	5,297,350,873
Total Liabilities	41,859,914,195	4,276,376,236	8,134,040,545	722,312,133	60,289,993,982



39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	31 December 2016			31 December 2015		
	Within 12 Months LKR	After 12 Months LKR	Total LKR	Within 12 Months LKR	After 12 Months LKR	Total LKR
Assets						
Cash and cash equivalents	1,044,725,493	-	1,044,725,493	5,057,791,122	-	5,057,791,122
Placements with banks	6,919,027,281	-	6,919,027,281	4,757,400,770	-	4,757,400,770
Financial assets fair value through profit or loss	244,911,140	-	244,911,140	-	-	-
Other Financial Asset Classified under Loans and receivable	1,339,859,374	163,680,000	1,503,539,374	1,887,375,413	38,680,000	1,926,055,413
Loans and receivables to other customers	12,144,356,518	41,488,182,304	53,632,538,822	10,566,469,022	35,264,029,870	45,830,498,891
Financial investments - Available-for-sale	503,248,918	63,686,559	566,935,476	-	79,678,638	79,678,638
Financial investments - Held-to-maturity	297,743,611	194,524,050	492,267,661	1,192,440,373	-	1,192,440,373
Asset classified as Held for sale	37,175,411	-	37,175,411	37,175,411	-	37,175,411
Property, plant and equipment	-	637,263,173	637,263,173	-	549,171,557	549,171,557
Investment properties	-	24,446,690	24,446,690	-	25,502,720	25,502,720
Intangible assets	16,938,244	-	16,938,244	-	47,141,277	47,141,277
Other assets	913,030,314	-	913,030,314	787,137,810	-	787,137,810
Total assets	23,461,016,303	42,571,782,776	66,032,799,079	24,285,789,921	36,004,204,061	60,289,993,982
Liabilities						
Due to other customers	33,776,010,160	11,915,747,932	45,691,758,092	40,109,805,086	2,913,587,734	43,023,392,820
Other borrowings	3,684,788,276	5,798,161,734	9,482,950,010	3,433,139,409	3,167,199,196	6,600,338,605
Debt securities issued	198,005,235	3,984,647,999	4,182,653,234	1,079,064	3,978,031,495	3,979,110,559
Current tax liabilities	23,110,292	-	23,110,292	260,733,158	-	260,733,158
Deferred tax liabilities	-	46,629,257	46,629,257	-	66,410,666	66,410,666
Other liabilities	873,924,283	212,494,263	1,086,418,546	935,350,318	127,306,983	1,062,657,301
Total liabilities	38,555,838,247	21,957,681,184	60,513,519,431	44,740,107,035	10,252,536,075	54,992,643,109
Net Assets/ (Liability)	(15,094,821,945)	20,614,101,591	5,519,279,649	(20,454,317,115)	25,751,667,986	5,297,350,873

40. RISK MANAGEMENT

40.1 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.

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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 utilization of market limits, proprietary investments and liquidity and plus any other risk developments.



Risk mitigation

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

Excessive risk concentration

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

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

40.2 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

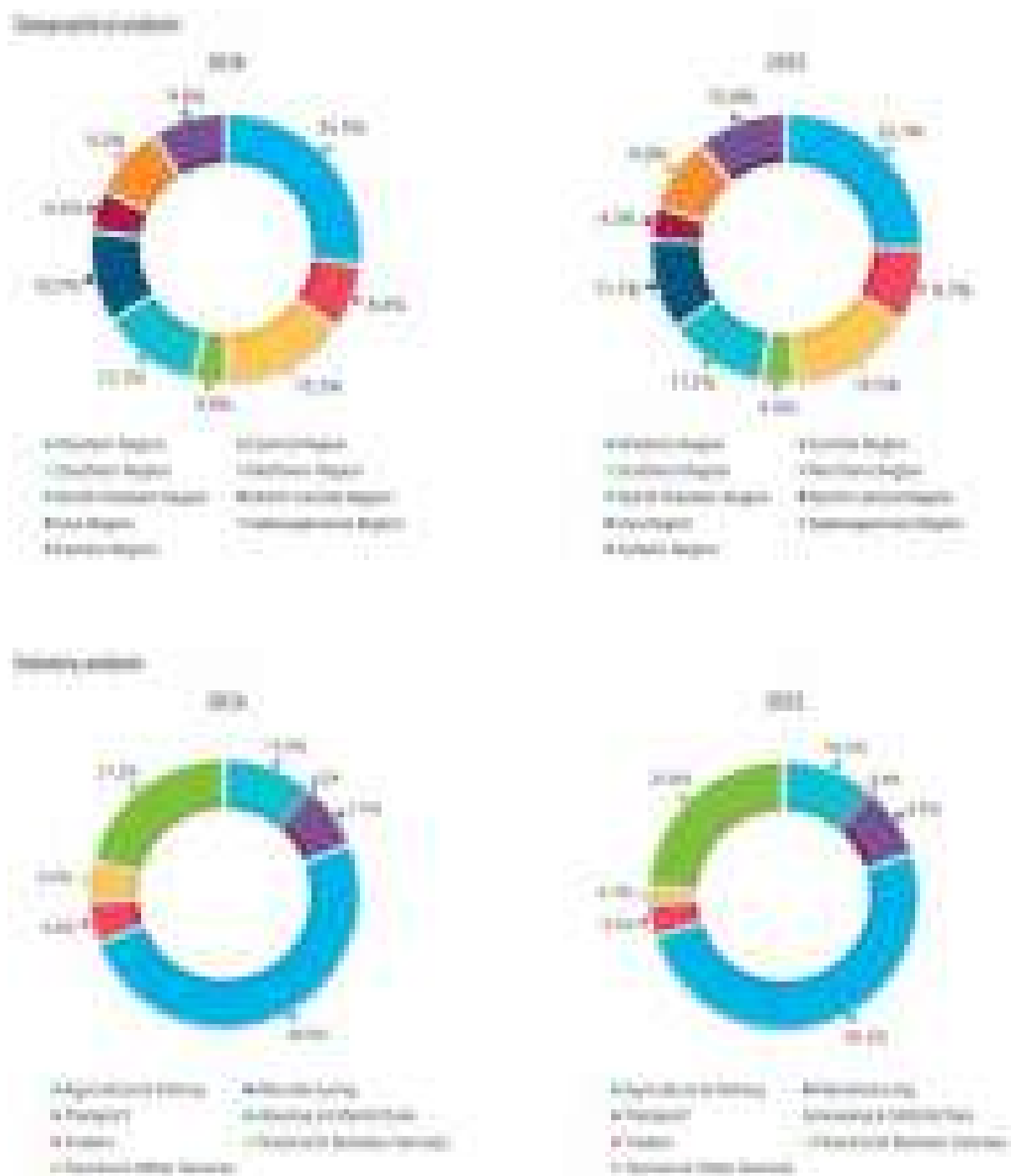
The bank makes available to its customers guarantees which may require that the bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the bank to similar risks to loans and are mitigated by the same control processes 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 2016 was Rs.535 Mn.

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

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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.

Maximum exposure Credit risk by class of financial assets

	31 December 2016		31 December 2015	
	Maximum Exposure to credit risk LKR	Net Exposure LKR	Maximum Exposure to credit risk LKR	Net Exposure LKR
Cash and cash equivalents	1,044,725,493	1,044,725,493	5,057,791,122	5,057,791,122
Placements with banks	6,919,027,281	6,919,027,281	4,757,400,770	4,757,400,770
Financial assets fair value through profit or loss	244,911,140	244,911,140	-	-
Other financial asset classified under loans and receivable	1,503,539,374	1,503,539,374	1,926,055,413	1,926,055,413
Loans and receivables to other customers (without impairment)	54,764,576,170	40,030,614,335	46,860,086,768	33,050,208,002
Financial investments Available-for-sale	566,935,476	566,935,476	79,678,638	79,678,638
Financial investments Held-to-maturity	492,267,661	492,267,661	1,192,440,373	1,192,440,373
Total	65,535,982,595	50,802,020,760	59,873,453,084	46,063,574,318

Credit quality by class of financial assets

31 December 2016	Neither past due nor impaired LKR	Pass due but not impaired LKR	Individually impaired LKR	Total LKR
Cash and cash equivalents	1,044,725,493	-	-	1,044,725,493
Placements with banks	6,919,027,281	-	-	6,919,027,281
Financial assets fair value through profit or loss	244,911,140	-	-	244,911,140
Other financial asset classified under loans and receivable	1,503,539,374	-	-	1,503,539,374
Loans and receivables to other customers (without impairment)	40,010,140,571	14,150,031,022	604,404,576	54,764,576,170
Financial investments Available-for-sale	566,935,476	-	-	566,935,476
Financial investments Held-to-maturity	492,267,661	-	-	492,267,661
Total	50,781,546,996	14,150,031,022	604,404,576	65,535,982,595

Notes to the Financial Statements Contd.

31 December 2015	Neither past due nor impaired LKR	Pass due but not impaired LKR	Individually impaired LKR	Total LKR
Cash and cash equivalents	5,057,791,122	-	-	5,057,791,122
Placements with banks	4,757,400,770	-	-	4,757,400,770
Other financial asset classified under loans and receivable	1,926,055,413	-	-	1,926,055,413
Loans and receivables to other customers (without impairment)	36,528,271,017	9,832,255,431	499,560,319	46,860,086,768
Financial investments Available-for-sale	79,678,638	-	-	79,678,638
Financial investments Held-to-maturity	1,192,440,373	-	-	1,192,440,373
Total	49,541,637,333	9,832,255,431	499,560,319	59,873,453,084

31 December 2016	Pass due but not impaired				Total LKR
	Less than 30 day LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	
Loans and receivables to other customers (without impairment)	9,697,373,005	3,203,953,036	124,153,589	1,124,551,393	14,150,031,022

31 December 2015	Pass due but not impaired				Total LKR
	Less than 30 day LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	
Loans and receivables to other customers (without impairment)	5,933,863,676	2,329,160,307	87,055,597	1,482,175,851	9,832,255,431

Impairment assessment

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

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

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



Individually assessed allowances

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

Collectively assessed allowances

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

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

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

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

Commitments and guarantees

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

40.3 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.

Notes to the Financial Statements Contd.

Analysis of financial assets and liabilities by remaining contractual maturities

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

MATURITY ANALYSIS 2016	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
Financial assets								
Cash and cash equivalents	1,044,725,493							1,044,725,493
Investments	828,872,789	3,522,488,420	5,002,649,458	2,775,000	342,885,611	213,594,538	-	9,913,265,815
Loans and receivables to other customers	2,861,219,128	1,612,210,399	3,477,153,141	15,026,098,332	26,234,355,052	18,688,099,505	9,826,143,381	77,725,278,939
Total Financial assets	4,734,817,410	5,134,698,819	8,479,802,599	15,028,873,332	26,577,240,663	18,901,694,043	9,826,143,381	88,683,270,247
Financial liabilities								
Due to other customers	9,207,764,524	3,252,303,719	10,044,468,659	22,420,411,009	1,857,895,106	598,685,811	2,318,831	47,383,847,658
Other borrowings	58,574,995	137,086,012	531,545,633	2,153,517,201	4,026,468,048	2,266,410,006	60,484,137	9,234,086,032
Debt securities issued	-	-	-	198,005,235	3,345,054,880	1,062,945,120	-	4,606,005,235
Total Financial liabilities	9,266,339,519	3,389,389,731	10,576,014,292	24,771,933,446	5,884,363,154	2,865,095,817	62,802,968	61,223,938,925
Net Financial assets/(liabilities)	(4,531,522,109)	1,745,309,088	(2,096,211,693)	(9,743,060,114)	20,692,877,509	16,036,598,227	9,763,340,414	27,459,331,322

MATURITY ANALYSIS 2015	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
Financial assets								
Cash and cash equivalents	5,057,791,122							5,057,791,122
Investments	869,830,892	2,351,165,618	3,384,592,843	1,605,071,899	-	40,523,109	83,475,338	8,334,659,699
Loans and receivables to other customers	829,584,228	1,252,420,519	2,139,568,990	9,930,658,637	16,882,505,927	13,526,278,718	8,290,723,862	52,851,740,882
Total Financial assets	6,757,206,243	3,603,586,138	5,524,161,833	11,535,730,536	16,882,505,928	13,566,801,827	8,374,199,201	66,244,191,703
Financial liabilities								
Due to other customers	8,696,894,289	2,920,908,993	6,597,261,694	24,967,631,250	1,325,690,206	1,652,228,286	158,884,935	46,319,499,654
Other borrowings	63,258,901	151,999,801	562,023,268	2,921,917,894	2,520,059,696	868,171,080	24,419,115	7,111,849,754
Debt securities issued	-	-	-	1,079,064	3,345,054,880	1,062,945,120	-	4,409,079,064
Total Financial liabilities	8,760,153,189	3,072,908,794	7,159,284,961	27,890,628,206	3,845,749,902	2,520,399,366	183,304,050	57,840,428,472
Net Financial assets/(liabilities)	(2,002,946,946)	530,677,343	(1,635,123,128)	(16,354,897,671)	13,036,756,027	11,046,402,461	8,190,895,150	8,403,763,231

40.4 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 analysis.

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 2016

Asset or Liability	Carrying Amount LKR	On demand LKR	1-3 month LKR	3-12 month LKR	over 1 year LKR	Non Interest LKR	Total LKR
Cash and cash equivalents	1,044,725,492	1,256,415	-	-	-	1,043,469,078	1,044,725,493
Placements with banks	6,919,017,281	100,154,542	6,816,362,740	2,500,000	-	-	6,919,027,281
Other financial asset classified under loans and receivable	1,503,539,374	13,790,109	1,326,069,265	-	163,680,000	-	1,503,539,374
Financial investments - Held-to-maturity	492,267,661	11,925,111	285,818,500	-	194,524,050	-	492,267,661
Loans and receivables to other customers	54,764,576,170	2,681,144,378	2,106,075,275	8,489,174,213	41,488,182,304	-	54,764,576,170
Interest Bearing Assets	64,724,125,979	2,808,270,554	10,534,325,779	8,491,674,213	41,846,386,354	1,043,469,078	64,724,135,979
Due to other customers	45,691,758,092	6,118,256,140	17,640,562,388	20,229,190,343	1,703,749,221	-	45,691,758,092
Other borrowings	9,482,950,010	161,697,673	262,577,581	2,142,816,490	6,925,584,362	-	9,482,950,010
Debt securities issued	4,182,653,234	198,005,235	-	-	3,984,647,999	-	4,182,653,234
Interest Bearing Liabilities	59,357,361,336	6,477,959,049	17,903,139,969	22,372,006,832	12,613,981,582	-	59,357,361,336
Interest Rate Sensitivity Gap	5,366,764,643	(3,669,688,494)	(7,368,814,190)	(13,880,332,619)	29,232,404,772	1,043,469,078	5,366,774,643

Asset or Liability	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	647,241,260	593,573,613
Effect on Rate Sensitive Liabilities	(593,573,613)	(647,241,260)
Sensitivity of Profit or Loss	53,667,646	(53,667,646)

INTEREST RATE SENSITIVITY ASSET 2015

Asset or Liability	Carrying Amount LKR	On demand LKR	1-3 month LKR	3-12 month LKR	over 1 year LKR	Non Interest LKR	Total LKR
Cash and cash equivalents	5,057,791,122	2,174,250,787	-	-	-	2,883,540,335	5,057,791,122
Placements with banks	4,757,400,770	38,538,031	3,359,372,329	1,359,490,411	-	-	4,757,400,770
Other financial asset classified under loans and receivable	1,926,055,413	1,887,375,413	-	-	38,680,000	-	1,926,055,413
Financial investments - Held-to-maturity	1,192,440,373	23,582,994	1,072,285,679	96,571,700	-	-	1,192,440,373
Loans and receivables to other customers	46,860,086,768	1,614,306,337	3,299,614,889	7,935,421,544	34,010,743,999	-	46,860,086,768
Interest Bearing Assets	59,793,774,447	5,738,053,562	7,731,272,897	9,391,483,655	34,049,423,999	2,883,540,335	59,793,774,446
Due to other customers	43,023,392,820	14,270,562,939	5,826,839,220	21,808,460,966	1,117,529,695	-	43,023,392,820
Other borrowings	6,600,338,605	2,329,222,756	538,812,566	2,024,936,178	1,707,367,105	-	6,600,338,605
Debt securities issued	3,979,110,559	1,079,064	-	-	3,978,031,495	-	3,979,110,559
Interest Bearing Liabilities	53,602,841,983	16,600,864,758	6,365,651,786	23,833,397,144	6,802,928,295	-	53,602,841,983
Interest Rate Sensitivity Gap	6,190,932,463	(10,862,811,196)	1,365,621,111	(14,441,913,490)	27,246,495,704	2,883,540,335	6,190,932,463

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Asset or Liability	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	569,102,341	536,028,420
Effect on Rate Sensitive Liabilities	(536,028,420)	(569,102,341)
Sensitivity of Profit or Loss	33,073,921	(33,073,921)

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.

41. 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



	2016 (Basel II) LKR' 000	2015 (Basel II) LKR' 000
TIER I		
Paid-up Ordinary Shares	4,062,962	3,794,095
Statutory Reserve Fund	172,373	154,596
Published Retained Profits	1,249,742	1,302,003
General & Other Reserves	34,203	46,657
Debentures	-	-
Other intangible Assets	(16,938)	(47,141)
50% invest in the capital of other Bank & Financial Institution	(27,581)	(24,315)
Total Tier I Capital	5,474,760	5,225,895
TIER II		
General Provision	245,061	212,428
Debentures	-	-
50% invest in the capital of other Bank & Financial Institution	(27,581)	(24,315)
Total Tier II Capital	217,480	188,113
Total Tier I & Tier II Capital	5,692,241	5,414,008
Capital Base	5,692,241	5,414,008
COMPUTATION OF RATIOS		
Core Capital(Tier I)	5,474,760	5,225,895
Total Capital Base	5,692,241	5,414,008
Risk Weighted Assets		
Total Risk Weighted Assets for Credit Risk	41,784,706	39,110,034
Total Risk Weighted Assets for Market Risk	35,554	-
Total Risk Weighted Assets for Operational Risk	4,584,142	4,172,907
Total Risk Weighted Assets	46,404,401	43,282,941
Core Capital Ratio (Minimum Requirement 5%)		
Total Tier - I Capital	5,474,760	5,225,895
Total Risk Weighted Assets	46,404,401	43,282,941
	11.80%	12.07%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	5,692,241	5,414,008
Total Risk Weighted Assets	46,404,401	43,282,941
	12.27%	12.51%

Sources and Utilisation of Income

Sources of Income

For the year ended 31st December	2016	2015	2014	2013	2012
Interest	7,229,388	6,123,438	4,290,669	3,798,892	3,377,747
Investments	947,799	485,811	559,501	590,493	404,379
Commission & Other	260,340	271,631	386,996	288,156	113,118
Total	8,437,527	6,880,879	5,237,165	4,677,541	3,895,244

Utilization of Income

For the year ended 31st December	2016	2015	2014	2013	2012
Employees					
Salaries & other payments to staff	1,266,115	1,114,754	767,848	540,777	447,637
Suppliers					
Interest Paid	4,846,840	3,240,875	2,400,763	2,525,580	1,879,248
other Expenses	1,414,892	1,141,051	1,127,100	1,195,443	955,198
	6,261,733	4,381,926	3,527,863	3,721,024	2,834,446
Net income before Govt. Taxes	909,680	1,384,199	941,454	415,741	613,162
Government					
Income tax, Vat on FS,NBT	505,958	663,625	437,007	167,557	272,446
Share Holders					
Dividends	131,249	100,617	94,407	176,227	251,753
Retained Profit	272,473	619,958	410,040	71,957	88,962
	403,722	720,575	504,447	248,184	340,716
Total	8,437,527	6,880,879	5,237,165	4,677,541	3,895,244

Last Decade at a Glance



Year ended 31st December	LKR '000						LKR '000			
	SLFRS						SLAS			
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Advances	53,632,539	45,830,499	32,060,498	22,116,645	19,712,033	16,602,735	12,513,906	10,447,342	8,492,496	6,450,111
Investments	9,652,013	7,955,575	6,715,715	6,051,470	3,605,884	3,189,884	3,367,280	3,182,045	1,790,160	1,331,022
Fixed Assets	715,824	658,991	617,495	642,130	759,581	810,489	641,201	543,169	235,272	173,210
Total Assets	66,032,799	60,289,994	40,572,547	29,732,605	24,899,556	21,359,722	17,685,551	15,178,458	11,315,225	8,488,840
Deposits	45,691,758	43,023,393	30,249,434	23,594,768	18,947,514	15,756,918	13,083,414	10,887,012	8,232,264	6,035,960
Borrowings	13,665,603	10,579,449	4,602,233	1,878,643	1,557,329	1,538,767	1,342,040	1,034,853	945,355	962,505
Share Capital (Allotted)	4,062,962	3,794,095	3,533,545	2,526,532	2,526,532	2,427,532	1,820,268	1,546,665	671,022	566,070
Reserves	1,456,318	1,503,256	1,162,429	853,715	733,369	781,866	478,984	246,219	162,914	163,956
Share Holders' Fund	5,519,280	5,297,351	4,695,974	3,380,247	3,259,901	3,209,398	2,299,252	1,792,884	833,936	730,026
Total Income	8,437,527	6,880,879	5,237,165	4,677,541	3,895,244	3,064,871	3,023,761	2,733,701	2,038,399	1,251,869
Total Expenses	7,820,102	5,770,321	4,485,986	4,344,182	3,378,748	2,483,376	2,377,157	2,288,190	1,813,321	1,125,833
Profit/Loss before Tax.	617,425	1,110,559	751,179	333,359	516,497	581,495	646,603	445,512	225,078	126,036
Taxation	(213,704)	(389,984)	(246,732)	(85,175)	(175,781)	(199,453)	(323,123)	(237,140)	(127,989)	(72,272)
Profit/Loss after Tax.	403,722	720,575	504,447	248,184	340,716	382,042	323,480	208,372	97,089	53,764
No. of Accounts	1,131,355	1,068,345	992,782	903,476	858,454	697,227	585,508	523,275	412,350	250,003
No. of Customer Centres	88	87	82	82	81	79	72	52	44	36
No. of Employees	1,248	1,198	1,004	856	823	884	735	615	504	465



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Branch Network

G4-8

Western Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
1	1st Colombo City	1	colombo@sdb.lk	Tel. 011-2326265 Fax. 011-2337687	55, Kumaran Rathnam Mawatha, Colombo 02
2	Battaramulla	3	battaram@sdb.lk	Tel. 011-2866990 Fax. 011-5523291	210/01, Kaduwela Road, Battaramulla
3	Horana	5	horana@sdb.lk	Tel. 034-2261177 Fax. 034-2262534	145, Rathnapura Road, Horana
4	Kiribathgoda	6	kiribath@sdb.lk	Tel. 011-2917137 Fax. 011-2917872	141, Kandy Road, Kiribathgoda
5	Dematagoda	18	dematagoda@sdb.lk	Tel./Fax. 011-2686118	33, Kolonnawa Road, Dematagoda, Colombo 09
6	Kaluthara	25	kaluthara@sdb.lk	Tel. 034-2221115 Fax. 034-2221116	9, Gnanodaya Mawatha, Kaluthara South
7	Negombo	27	negombo@sdb.lk	Tel. 031-2227714 Fax. 031-2227715	150, Greens Road, Negambo
8	Mathugama	47	mathugama@sdb.lk	Tel./Fax. 034-2248373	120/1 Aluthgama Road, Mathugama
9	Aluthgama	80	aluthgama@sdb.lk	Tel.Fax. 034-2270718	39, Welipenna Road, Aluthgama
10	Kirulapone	56	kirulapone@sdb.lk	Tel. 011-2832548 Fax. 011-2514252	12, Edmonton Road, Kirulapone, Colombo 06
11	Maharagama	81	maharagama@sdb.lk	Tel. 011-2840242 Fax. 011-2089340	134, High level Road, Maharagama
12	Moratuwa	75	moratuwa@sdb.lk	Tel.011-2636627 Fax. 011-2624322	310, "Wijaya Mahal", Katubedda, Moratuwa
13	Kaduwela	78	kaduwela@sdb.lk	Tel. Fax. 011-2548428	500A, Colombo Road, Kaduwela
14	Gampaha	82	gampaha@sdb.lk	Tel. 033-2224631 Fax. 033-2224422	09, Sirikurusa Road, Gampaha
15	Malabe	84	malabe@sdb.lk	Tel. 011-2078653 Fax. 011-2078681	410/1 Athurugiriya Road, Malabe
16	Mahabage	85	mahabage@sdb.lk	Tel. 011-2960514 Fax. 011-2960547	511, Negambo Road, Mahabage
17	Dehiwala	86	dehiwala@sdb.lk	Tel. 011-2718670 Fax. 011-2718680	107/A, Galle Road, Dehiwala
18	Ekala	87	ekala@sdb.lk	Tel. 011-2228861 Fax. 011-2228871	46, Orex City Shopping Complex, Ekala

Sabaragamuwa Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
19	Kegalle	2	kegalle@sdb.lk	Tel. 035-2222352 Fax. 035-2231051	342, Main Street, Kegalle
20	Embilipitiya	4	embilipi@sdb.lk	Tel. 047-2261891	15, H.K.T.Building, Pallegama, Embilipitiya
21	Ruwanwella	14	ruwanwel@sdb.lk	Tel./Fax. 036-2267426	93A, Main Street, Ruwanwella
22	Rathnapura	15	rathnapu@sdb.lk	Tel./Fax. 045-2226015	93, Inner Circule Road, Rathnapura
23	Warakapola	16	warakapo@sdb.lk	Tel./Fax. 035-2267741	198, Main Street, Warakapola
24	Rambukkana	34	rambukkana@sdb.lk	Tel. 035-2264388 Fax. 035-2265170	152, Kurunegala Road, Rambukkana
25	Deraniyagala	57	deraniyagala@sdb.lk	Tel./Fax. 036-2249801	17, Main Street, Deraniyagala
26	Mawanella	68	mawanella@sdb.lk	Tel./Fax. 035-2246662	121, Kandy Road, Mawanella



Eastern Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
27	Trincomalee	21	trinco@sdb.lk	Tel./Fax. 026-2222076	95, Post Office Road, Trincomalee
28	Kalmunai	22	kalmunai@sdb.lk	Tel./Fax. 067-2222467	202, Baticaloa Road, Main Street, Kalmunai
29	Batticaloa	29	batticaloa@sdb.lk	Tel./Fax. 065-2226611	197, Trincomalee Road, Batticaloa
30	Ampara	39	ampara@sdb.lk	Tel . 063 - 2222661 Fax . 063 - 2222633	05, Amarathunga Building, D.S. Senanayaka Street, Ampara.
31	Mutur	41	mutur@sdb.lk	Tel./Fax. 026-2238122	Main Street, Batticalo Road, Mutur
32	Kalawanchikudy	59	kalawanchikudy@sdb.lk	Tel./Fax. 065-2251409	Rajashe Buliding, Main Street, Kalawanchikudy
33	Samanthurai	60	samanthurai@sdb.lk	Tel./Fax.067-2261378	1/21 E Police Road, Samanthurai
34	Valachchenai	63	valachchenai@sdb.lk	Tel./Fax.065-2258044	Main Street, Valachchenai
35	Kanthale	73	kantale@sdb.lk	Tel./Fax. 026-2234380	14, Kandy Road, Kanthale
36	Uhana	72	uhana@sdb.lk	Tel./Fax. 063-2250102	164/1, Kandy Road, Uhana
37	Akkaraipattu	74	akkaraipattu@sdb.lk	Tel./Fax. 067-2279365	73, Main Street, Town Division 02, Akkareipattu
38	Hingurana	77	hingurana@sdb.lk	Tel. 063-2240245 Fax. 063-2240285	26, Muwangala Road, Hingurana

Central Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
39	Matale	9	matale@sdb.lk	Tel.066-2230388 Fax.066-2232439	271, Main Street, Matale
40	Kandy	10	kandy@sdb.lk	Tel.081-2204385 Fax.081-2202940	171, D.S. Senanayake Mawatha, Kandy
41	Rikillagaskada	19	rikillagaskada@sdb.lk	Tel. 081-2365556 Fax. 081-2365775	51, Kandy Road, Rikillagaskada
42	Dambulla	35	dambulla@sdb.lk	Tel./Fax.066-2283244	360/D, Anuradhapura Road, Dambulla
43	Gampola	48	gampola@sdb.lk	Tel. 081-2352185 Fax. 081-2352172	10A, Gnasiri Road, Gampola
44	Pilimathalawa	55	pilimathalawa@sdb.lk	Tel. 081-2069716 Fax.081-2577156	255, Colombo Road, Pilimathalawa
45	Hatharaliyadda	76	hatharaliyadda@sdb.lk	Tel./Fax. 081-2464250	21/5, Kandy Road, Hatharaliyadda
46	Nuwaraeliya	88	nuwaraeliya@sdb.lk	Tel. 052-2223526 Fax. 052 - 2223521	116, Kandy Road, Nuwaraeliya

Branch Network Contd.

Southern Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
47	Karapitiya	7	karapiti@sdb.lk	Tel. 091-2245252 Fax. 091-2224638	255, Sunny Side Gardens, Karapitiya
48	Akuressa	8	akuressa@sdb.lk	Tel. 041-2283596 Fax. 041-2283173	63A, Matara Road, Akuressa
49	Ambalanthota	23	ambalanthota@sdb.lk	Tel./Fax. 047-2225466	69/1, Tangalle Road, Ambalanthota
50	Ambalangoda	30	ambalangoda@sdb.lk	Tel.Fax. 091-2255779	321, New Road, Ambalangoda
51	Matara	31	matara@sdb.lk	Tel. 041-2229944 Fax. 041-2234284	24/A, E.H.Coaray Tower, Dharmapala Mawatha, Matara
52	Galle	32	galle@sdb.lk	Tel./Fax. 091-2226811	03, Ward Street, Galle
53	Mapalagama	46	mapalagama@sdb.lk	Tel./Fax. 091-2296200	Samantha, Ethumale, Mapalagama
54	Deniyaya	49	deniyaya@sdb.lk	Tel./Fax. 041-2273100	61, Main Street, Deniyaya
55	Angunukolapelessa	51	angunukola@sdb.lk	Tel./Fax. 047-2229205	Ranna Road, Angunakolapelessa
56	Elpitiya	64	elpitiya@sdb.lk	Tel./Fax. 091-2291524	18/12 New Road, Elpitiya
57	Yakkalamulla	66	yakkalamulla@sdb.lk	Tel./Fax. 091-2286770	Yakkalamulla Junction, Galle Road, Yakkalamulla
58	Katuwana	67	katuwana@sdb.lk	Tel. 047-3623900 Fax. 047-2248213	AAG Building, Middeniya Road, Katuwana

North Western Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
59	Chilaw	11	chilaw@sdb.lk	Tel./ Fax: 032-2220801	50/52, Skyline Building, Colombo Road, Chilaw
60	Kurunegala	20	kurunegala@sdb.lk	Tel. 037-2223510 Fax. 037-2229607	105, Colombo Road, Kurunegala
61	Kuliyaipitiya	26	kuliyaipitiya@sdb.lk	Tel. 037-2284555 Fax. 037-2284556	173, Madampe Road, Kuliyaipitiya
62	Giriulla	33	giriulla@sdb.lk	Tel./Fax. 037-2289524	02, Main Street, Giriulla
63	Maho	37	maho@sdb.lk	Tel./Fax. 037-2275045	19A, Main Street, Maho
64	Wennappuwa	38	wennappuwa@sdb.lk	Tel. 031-2245531 Fax. 031-2245532	Main Street, Wennappuwa
65	Anamaduwa	50	anamaduwa@sdb.lk	Tel./Fax. 032-2263026	16/11, Chilaw Road, Anamaduwa
66	Wariyapola	54	wariyapola@sdb.lk	Tel. 037-2267086 Fax. 037-2267646	54, Kurunegala Road, Wariyapola
67	Narammala	79	narammala@sdb.lk	Tel. 037-2248278	60, Kuliyaipitiya Road, Narammala

Uva Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
68	Monaragala	13	monaraga@sdb.lk	Tel./Fax. 055-2277192	139, Wellawaya Road, Monaragala
69	Badulla	44	badulla@sdb.lk	Tel./Fax. 055-2224135	132, Lovers Street, Badulla
70	Pothuvil	45	pothuvil@sdb.lk	Tel./ Fax.063-2248026	Ibrahim Building, Main Street, Pothuvil
71	Siyabalanduwa	61	siyabalanduwa@sdb.lk	Tel./Fax. 055-2279141	Rathnayake Building, Near the filling Station, Main Street, Siyabalanduwa
72	Buttala	62	buttala@sdb.lk	Tel./ Fax. 055-2273387	46, Katharagama Road, Buttala



North Central Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
73	Anuradhapura	17	anuradap@sdb.lk	Tel. 025-2234110 Fax. 025-4580377	12, Maithreepala Senanayaka Mawatha, Anuradhapura
74	Polonnaruwa	28	polonnaruwa@sdb.lk	Tel. 027-2226622 Fax. 027-2226623	894/A, Sawmill Junction, Kaduruwela
75	Thambuttegama	36	thambuth@sdb.lk	Tel. 025-2275011 Fax. 025-2275008	Rejina Junction, Anuradhapura Road, Thambuttegama
76	Medawachchiya	40	medawach@sdb.lk	Tel./Fax. 025-2245221	78A, Jaffna Road, Medawachchiya
77	Aralaganwila	52	aralaganwila@sdb.lk	Tel./Fax. 027-2257200	Kolongas Junction, New Town, Aralaganwila
78	Galenbindunuwewa	53	gdwewa@sdb.lk	Tel./Fax. 025-2258038	55, Anuradhapura Road, Galenbindunuwewa
79	Dehiattakandiya	58	dehiattakandiya@sdb.lk	Tel./Fax. 027-2250414	10/4, New Town, Dehiattakandiya
80	Nochchiyagama	65	nochchi@sdb.lk	Tel./Fax. 025-2257154	94, Puttalama Road, Nochchiyagama
81	Padavi Parakramapura	70	padaviya@sdb.lk	Tel./Fax. 025-2254311	Kodithuwakku Building, Padaviparakramapura
82	Kekirawa	71	kekirawa@sdb.lk	Tel./Fax. 025-2263306	29 B, Thalawa Road, Kekirawa
83	Thalawa	83	thalawa@sdb.lk	Tel./Fax. 025-2050871	Kurunegala Road, Thalawa

Northern Province

Serial No.	Branch	SLIPS Code	Email	Telephone/ Fax	Address
84	Vavuniya	12	vavuniya@sdb.lk	Tel. 024-2260984 Fax. 024-2224312	234, Kandy Road, Vavuniya
85	Jaffna	42	jaffna@sdb.lk	Tel./Fax. 021-2221280	212, Maha Lakshmi Building, Stanley Road, Jaffna
86	Nanattan	43	nanattan@sdb.lk	Tel./Fax. 023-3238200	Olimadu, Nanattan
87	Kilinochchi	69	kilinochchi@sdb.lk	Tel. 021-2285097 Fax. 021-2285316	A9 Road, Karadippoku, Kilinochchi
88	Chunnakam	89	chunnakam@sdb.lk	Tel./Fax. 021-2241582	126, K.K.S Road, Chunnakam

ATM Locations

DISTRICT	LOCATION / BRANCH
Colombo	1st Colombo City Branch - No. 55, Kumaran Rathnam Mw, Colombo 02
	Kirulapone Branch - No. 12, Edmonton Road, Kirulapone, Colombo 06
Gampaha	Ekala Branch - No. 46, Orex City Shopping Complex, Ekala
Matara	Matara Branch - No. 24/A, E H Cooray Tower, Dharmapala Mw, Matara
Galle	Karapitiya Branch - No. 255, Sunny Side Gardens, Karapitiya
	Ambalangoda Branch - No. 321, New Road, Ambalangoda
Kegalle	Kegalle Branch - No. 342, Main Street, Kegalle
Kurunegala	Kurunegala Branch - No. 105, Colombo Road, Kurunegala
Polonnaruwa	Polonnaruwa Branch - No. 894/A, Sawmill Junction, Kaduruwela
Anuradhapura	Anuradhapura Branch - No. 12, Maithreepala Senanayaka Mw, Anuradhapura
Jaffna	Jaffna Branch - No. 212, Maha Lakshmi Building, Stanley Road, Jaffna

Last Five Years Financial Summary

STATEMENT OF COMPREHENSIVE INCOME

	2016 LKR	2015 LKR	2014 LKR	2013 LKR	2012 LKR
Interest Income	8,177,186,889	6,609,248,423	4,850,169,802	4,389,385,317	3,782,126,471
Interest Expenses	(4,846,840,351)	(3,240,874,613)	(2,400,763,438)	(2,525,580,243)	(1,879,248,208)
Net Interest Income	3,330,346,538	3,368,373,811	2,449,406,364	1,863,805,074	1,902,878,263
Fee and Commission Income	212,540,050	217,475,178	164,626,078	122,422,512	71,767,253
Fee and Commission Expenses	(9,596,114)	(2,965,660)	(2,282,774)	(2,271,948)	(496,160)
Net Fee and Commission Income	202,943,936	214,509,519	162,343,304	120,150,564	71,271,093
Net gain/(loss) from Financial Instruments at Fair Value through profit or loss	17,351,017	5,094,794	53,941,819	102,444,027	(10,661,024)
Other Operating Income (Net)	40,045,507	52,026,524	168,427,740	63,289,199	52,011,674
Total Operating Income	3,590,686,997	3,640,004,646	2,834,119,227	2,149,688,864	2,015,500,007
Impairment for loans and other losses	(125,043,863)	(49,594,295)	(204,389,615)	(324,620,912)	(60,866,067)
Net Operating Income	3,465,643,134	3,590,410,351	2,629,729,612	1,825,067,952	1,954,633,940
Personal Expenses	(1,266,115,183)	(1,114,753,851)	(767,848,095)	(540,776,607)	(447,636,612)
Other Expenses	(1,289,848,347)	(1,091,457,100)	(920,427,546)	(868,550,481)	(893,835,684)
Operating Profit before Value Added Tax (VAT)	909,679,605	1,384,199,399	941,453,972	415,740,864	613,161,643
Value added tax (VAT) on financial services	(292,254,188)	(273,640,749)	(190,274,968)	(82,382,123)	(96,665,123)
Operating Profit after Value Added Tax (VAT)	617,425,417	1,110,558,650	751,179,003	333,358,741	516,496,520
Profit before Tax	617,425,417	1,110,558,650	751,179,003	333,358,741	516,496,520
Tax Expenses	(213,703,773)	(389,984,089)	(246,732,027)	(85,175,179)	(175,781,016)
Profit for the Year	403,721,644	720,574,561	504,446,976	248,183,562	340,715,504
Other Comprehensive Income					
Actuarial losses on Defined Benefit Plans	(49,638,943)	(2,687,681)	(27,091,104)	(5,464,049)	12,733,008
Gains and losses on re-measuring Available-For-Sale Financial Assets	13,898,904	-	-	1,972,960	(27,621,440)
Income Tax relating to other Comprehensive Income	(12,453,979)	752,551	7,585,510	1,529,934	(4,188,326)
Other Comprehensive Income for the Year Net of Tax	(48,194,018)	(1,935,130)	(19,505,594)	(1,961,155)	(19,076,758)
Total Comprehensive Income for the Year	355,527,626	718,639,431	484,941,382	246,222,407	321,638,747
Basic Earning Per Share (LKR)	9.60	18	13	9	14



STATEMENT OF FINANCIAL POSITION

	2016 LKR	2015 LKR	2014 LKR	2013 LKR	2012 LKR
Assets					
Cash and cash equivalents	1,044,725,493	5,057,791,122	661,651,213	399,384,665	503,541,364
Placements with banks	6,919,027,281	4,757,400,770	2,223,162,226	2,530,597,930	2,070,306,725
Financial assets fair value through profit or loss	244,911,140	-	-	1,210,673,101	184,418,666
Other Financial Asset Classified under Loans and receivable	1,503,539,374	1,926,055,413	4,164,273,491	1,701,091,364	470,098,767
Loans and receivables to other customers	53,632,538,822	45,830,498,891	32,060,498,194	22,116,644,789	19,712,033,278
Financial investments - Available-for-sale	566,935,476	79,678,638	29,734,245	165,699,464	171,695,504
Financial investments - Held-to-maturity	492,267,661	1,192,440,373	298,544,685	443,408,074	709,364,687
Asset Held for Sale	37,175,411	37,175,411	-	-	-
Property, plant and equipment	637,263,173	549,171,557	513,592,432	506,770,866	603,233,111
Investment properties	24,446,690	25,502,720	26,558,750	27,614,780	28,670,810
Intangible assets	16,938,244	47,141,277	77,344,311	107,744,105	127,676,865
Current tax assets	-	-	-	40,080,715	-
Other assets	913,030,314	787,137,810	517,187,167	482,895,121	318,516,213
Total assets	66,032,799,079	60,289,993,982	40,572,546,714	29,732,604,974	24,899,555,990
Liabilities					
Due to other customers	45,691,758,092	43,023,392,820	30,249,433,851	23,594,767,783	18,947,514,278
Other borrowings	9,482,950,010	6,600,338,605	4,602,233,293	1,878,642,869	1,557,328,793
Debt securities issued	4,182,653,234	3,979,110,559	-	-	-
Current tax liabilities	23,110,292	260,733,158	113,192,235	-	70,561,307
Deferred tax liabilities	46,629,257	66,410,666	53,513,422	46,004,803	24,122,297
Other liabilities	1,086,418,546	1,062,657,301	858,200,137	832,942,750	1,040,128,343
Total liabilities	60,513,519,431	54,992,643,109	35,876,572,938	26,352,358,205	21,639,655,018
Equity					
Stated capital	4,062,961,714	3,794,094,725	3,533,545,080	2,526,532,200	2,526,532,200
Statutory reserve fund	172,372,786	154,596,404	118,664,432	94,417,362	82,106,242
Retained earnings	1,249,742,154	1,302,002,771	997,107,291	489,354,652	433,925,772
Other reserves	34,202,994	46,656,973	46,656,973	269,942,555	217,336,758
Total Equity	5,519,279,648	5,297,350,872	4,695,973,776	3,380,246,769	3,259,900,972
Total equity and liabilities	66,032,799,079	60,289,993,982	40,572,546,714	29,732,604,974	24,899,555,990
Contingent liabilities and commitments	148,030,175	136,574,133	129,506,905	144,378,258	143,213,715

Quarterly Summary

Statement of Comprehensive Income

	For the quarter ended			For the quarter ended			For the quarter ended			For the quarter ended			For the quarter ended		
	31.12.2016	31.12.2015	Change	30.09.2016	30.09.2015	Change	30.06.2016	30.06.2015	Change	31.03.2016	31.03.2015	Change	31.03.2016	31.03.2015	Change
	LKR' 000	LKR' 000		LKR' 000	LKR' 000		LKR' 000	LKR' 000		LKR' 000	LKR' 000		LKR' 000	LKR' 000	
Interest Income	2,242,914	1,782,082	26%	2,090,627	1,717,323	22%	1,947,870	1,634,476	19%	1,895,776	1,475,367	28%			
Interest Expenses	(1,298,939)	(903,628)	44%	(1,309,589)	(876,292)	49%	(1,162,288)	(800,130)	45%	(1,076,024)	(660,825)	63%			
Net Interest Income	943,975	878,455	7%	781,038	841,031	(7%)	785,583	834,346	(6%)	819,752	814,541	1%			
Fee and Commission Income	(7,525)	27,053	(128%)	83,792	61,804	36%	72,083	61,540	17%	64,190	67,078	(4%)			
Fee and Commission Expenses	(1,064)	(1,257)	(15%)	(662)	(562)	18%	(1,087)	(408)	166%	(6,783)	(739)	818%			
Net Fee and Commission Income	(8,589)	25,797	(133%)	83,130	61,242	36%	70,996	61,133	16%	57,408	66,339	(13%)			
Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss	7,227	3,121	132%	6,432	1,300	395%	3,854	634	508%	(162)	40	(505%)			
Other Operating Income (Net)	420	10,369	(96%)	8,490	15,152	(44%)	9,554	3,329	187%	21,581	23,177	(7%)			
Total Operating Income	943,033	917,741	3%	879,090	918,725	(4%)	869,987	899,442	(3%)	898,578	904,097	(1%)			
Impairment For Loans and Other Losses	(18,451)	(59,602)	(69%)	38,851	(4,193)	(1,027%)	24,574	33,954	(28%)	80,071	79,435	1%			
Significant Impairment	9,068	(38,472)	(124%)	(7,394)	(2,564)	188%	21,590	30,435	(29%)	25,087	24,390	3%			
Collective Impairment	(27,519)	(21,130)	30%	46,245	(1,629)	(2,939%)	2,983	3,519	(15%)	54,984	55,045	0%			
Net Operating Income	961,484	977,342	(2%)	840,239	922,918	(9%)	845,413	865,488	(2%)	818,507	824,661	(1%)			
Personnel expenses	285,165	359,485	(21%)	342,054	301,106	14%	328,738	236,756	39%	310,158	217,407	43%			
Depreciation	49,111	38,907	26%	47,805	36,855	30%	39,316	35,931	9%	39,820	37,136	7%			
Other expenses	354,721	311,966	14%	267,745	242,122	11%	266,142	209,450	27%	225,188	179,090	26%			
Operating profit/(loss) before value added tax (VAT)	272,487	266,984	2%	182,634	342,835	(47%)	211,218	383,350	(45%)	243,341	391,029	(38%)			
Value Added Tax (VAT) on Financial Services & NBT	(109,859)	(75,168)	46%	(60,711)	(55,897)	9%	(61,136)	(67,319)	(9%)	(60,548)	(75,257)	(20%)			
Operating Profit/(Loss) After Value Added Tax (VAT)	162,628	191,817	(15%)	121,923	286,938	(58%)	150,082	316,033	(53%)	182,794	315,772	(42%)			
Profit/(Loss) before Tax	162,629	191,816	(15%)	121,923	286,938	(58%)	150,082	316,033	(53%)	182,794	315,772	(42%)			
Tax Expenses	(4,781)	(51,223)	(91%)	(72,679)	(120,759)	(40%)	(72,266)	(107,682)	(33%)	(63,978)	(110,320)	(42%)			
Profit/(Loss) for The Period	157,848	140,593	12%	49,245	166,179	(70%)	77,816	208,351	(63%)	118,816	205,451	(42%)			
Other Comprehensive Income															
Actuarial Gains/(Losses) on Defined Benefit Plans	(34,339)	14,971	(329%)	(5,100)	(6,159)	(17%)	(5,100)	(6,000)	(15%)	(5,100)	(5,500)	(7%)			
Gains And Losses on Re-Measuring Available-for-Sale Financial Assets	(12,454)	-	-	-	-	-	-	-	-	-	-	-			
Income Tax Relating to Other Comprehensive Income	13,899	753	1,746%	-	-	-	-	-	-	-	-	-			
Other Comprehensive Income for The Period	(32,894)	15,724	(309%)	44,145	160,020	(72%)	72,716	202,351	(64%)	113,716	199,951	(43%)			
Total Comprehensive Income for The Period	124,954	156,316	(20%)	44,145	160,020	(72%)	72,716	202,351	(64%)	113,716	199,951	(43%)			



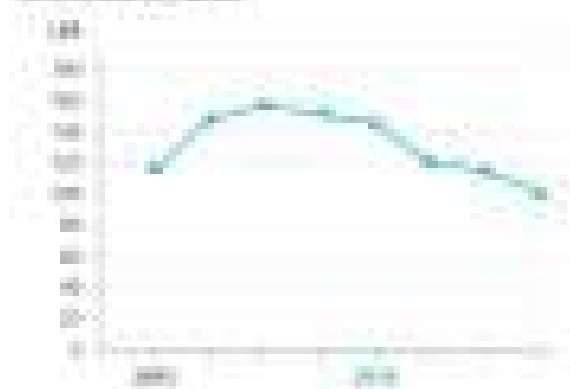
Statement of Financial Position

	For the quarter ended			For the quarter ended			For the quarter ended			For the quarter ended		
	31.12.2016 LKR' 000	31.12.2015 LKR' 000	Change	30.09.2016 LKR' 000	30.09.2015 LKR' 000	Change	30.06.2016 LKR' 000	30.06.2015 LKR' 000	Change	31.03.2016 LKR' 000	31.03.2015 LKR' 000	Change
Assets												
Cash and cash equivalents	1,044,725	5,057,791	(79%)	1,164,193	823,667	41%	1,013,004	1,148,911	(12%)	1,080,222	1,013,085	7%
Placements with banks	6,919,027	4,757,401	45%	6,396,432	1,877,248	241%	6,006,128	2,281,968	163%	5,911,641	1,375,515	330%
Financial assets fair value through profit or loss	244,911	-	100%	501,092	-	100%	157,054	-	100%	7,782	-	100%
Other Financial Asset Classified under Loans and receivable	1,503,539	1,926,055	(22%)	2,390,796	2,832,052	(16%)	1,806,531	4,081,466	(56%)	3,284,985	2,670,849	23%
Loans and receivables to other customers	53,632,539	45,830,499	17%	52,436,107	43,163,243	21%	50,902,175	40,819,533	25%	48,245,275	37,690,560	28%
Financial investments Available-for-sale	566,935	79,679	612%	78,570	19,679	299%	75,852	19,679	285%	78,679	30,979	154%
Financial investments Held-to-maturity	492,268	1,192,440	(59%)	287,439	2,510,060	(89%)	295,593	1,193,957	(75%)	691,109	2,265,361	(69%)
Asset Held for Sale	37,175	37,175	0%	37,175	-	100%	37,175	-	100%	37,175	-	100%
Property, plant and equipment	637,263	549,172	16%	612,887	508,354	21%	517,130	486,992	6%	524,018	473,932	11%
Investment properties	24,447	25,503	(4%)	24,711	25,767	(4%)	24,975	26,031	(4%)	25,239	26,295	(4%)
Intangible assets	16,938	47,141	(64%)	24,489	54,692	(55%)	32,040	62,243	(49%)	39,969	69,794	(43%)
Other assets	913,030	787,138	16%	1,035,137	875,581	18%	1,070,057	865,579	24%	1,163,384	751,187	55%
Total assets	66,032,799	60,289,994	10%	64,989,028	52,690,343	23%	61,937,712	50,986,359	21%	61,089,479	46,367,556	32%
Liabilities												
Due to other customers	45,691,758	43,023,393	6%	45,491,585	39,404,158	15%	43,178,584	38,099,056	13%	42,433,521	35,167,412	21%
Other borrowings	9,482,950	6,600,339	44%	8,731,955	6,830,119	28%	7,787,266	6,351,688	23%	7,634,878	5,144,346	48%
Debt securities issued (annual rep+ int exp)	4,182,653	3,979,111	5%	4,093,510	-	100%	4,178,738	-	100%	4,080,543	-	100%
Current tax liabilities	23,110	260,733	(91%)	220,562	376,675	(41%)	353,818	360,719	(2%)	333,307	266,107	25%
Deferred tax liabilities	46,629	66,411	(30%)	71,814	91,392	(21%)	83,179	58,902	41%	91,392	54,522	68%
Other liabilities	1,086,419	1,062,657	2%	985,275	922,883	7%	1,005,944	1,174,402	(14%)	1,104,811	871,818	27%
Total liabilities	60,513,519	54,992,643	10%	59,594,702	47,625,227	25%	56,587,529	46,044,767	23%	55,678,452	41,504,205	34%
Equity												
Stated capital/Assigned capital	4,062,962	3,794,095	7%	4,062,962	3,786,355	7%	4,062,962	3,786,355	7%	3,794,095	3,533,545	7%
Statutory reserve fund	172,373	154,596	11%	154,596	118,664	30%	154,596	118,664	30%	154,596	118,664	30%
Retained earnings	1,249,742	1,302,003	(4%)	1,130,112	1,113,440	1%	1,085,968	989,915	10%	1,415,679	1,164,485	22%
Other reserves	34,203	46,657	(27%)	46,657	46,657	0%	46,657	46,657	0%	46,657	46,657	0%
Total equity	5,519,280	5,297,351	4%	5,394,327	5,065,116	6%	5,350,183	4,941,592	8%	5,411,027	4,863,351	11%
Total equity and liabilities	66,032,799	60,289,994	10%	64,989,028	52,690,343	23%	61,937,712	50,986,359	21%	61,089,479	46,367,556	32%
Contingent liabilities and commitments	148,030	136,574	8%	147,562	129,241	14%	144,780	133,504	8%	136,545	135,635	1%
Net Asset Per Share	131	136	(4%)	128	126	2%	127	123	3%	134	129	4%
Memorandum Information												
Number of Employees	1,248	1,212	3%	1,251	1,210	3%	1,217	1,204	1%	1,219	1,022	19%
Number of Branches	88	87	1%	88	85	4%	88	83	6%	87	82	6%

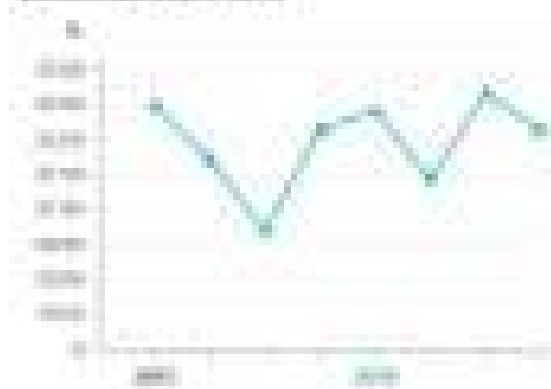
Quarterly Ratios Analysis

	2016				2015			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Core Capital Adequacy Ratio	11.75%	11.27%	11.24%	12.27%	13.46%	12.57%	11.89%	12.07%
Gross Non-performing Advances Ratio, (Net of Interest in Suspense)	2.52%	2.34%	2.42%	2.10%	3.48%	3.20%	2.95%	2.37%
Net Non-performing Advances Ratio, (Net of Interest in Suspense & Provisions)	0.27%	0.19%	0.25%	0.04%	1.61%	0.46%	0.37%	0.07%
Interest Margin	6.00%	5.83%	5.65%	5.83%	7.50%	7.73%	7.28%	7.13%
Statutory Liquid Asset Ratio (Minimum Requirement, 20%)	22.34%	21.48%	22.69%	22.13%	22.49%	21.29%	20.68%	22.16%
Market value per share (LKR)	136.7	119.9	113.8	103.7	117.5	145.00	157.6	157.1
Highest price per share for the period (LKR)	158.8	154.0	128.9	116.5	124.8	158.1	176	160
Lowest price per share for the period (LKR)	116.0	116.2	106.1	95.2	91.0	124	140.1	145.2

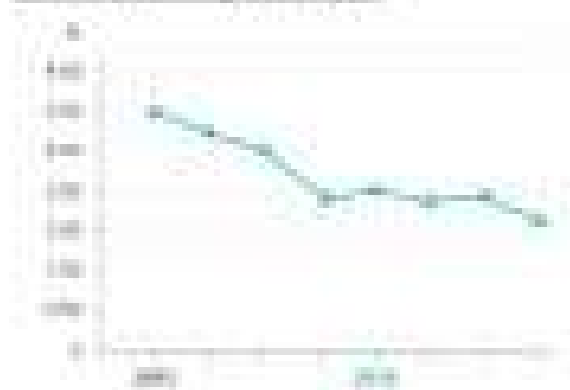
Market Value Per Share



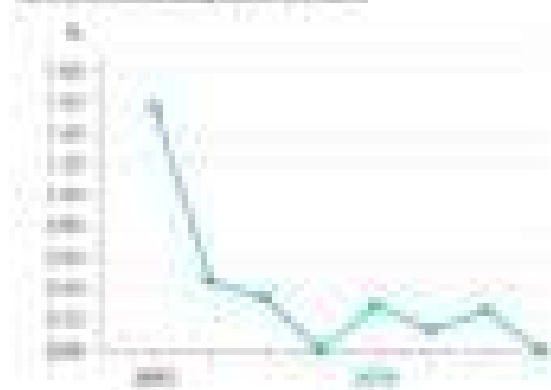
Gross Non-Performing Advances Ratio



Net Non-Performing Advances Ratio



Statutory Liquid Asset Ratio



Glossary of Terms



A ►

ACCOUNTING POLICIES ►

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCRUAL BASIS ►

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

AMORTISATION ►

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

AMORTISED COST ►

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

ASSET AND LIABILITY COMMITTEE (ALCO) ►

A risk-management committee in a bank that generally comprises of the senior- management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the bank's forecast and strategic balance-sheet allocations.

AVAILABLE FOR SALE FINANCIAL ASSETS ►

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR) ►

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates.

AVERAGE WEIGHTED PRIME LENDING RATE (AWPLR) ►

AWPLR is calculated by the Central Bank weekly based on commercial bank's lending rates offered to their prime customers during the week.

B ►

BASEL II ►

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

BASEL III ►

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

C ►

CAPITAL ADEQUACY RATIO ►

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

CASH EQUIVALENTS ►

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS ►

Cash flows are inflows and outflows of cash and cash equivalents.

CASH GENERATING UNIT (CGU) ►

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS ►

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

COMMITMENT TO EXTEND CREDIT ►

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees.

Glossary of Terms Contd.

COMMITMENTS ►

Credit facilities approved but not yet utilised by the clients as at the reporting date.

CONTINGENCIES ►

A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

CONTROL ►

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

CORPORATE GOVERNANCE ►

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

E ►

EARNINGS PER SHARE (EPS) ►

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

ECONOMIC VALUE ADDED (EVA) ►

A measure of productivity which takes into consideration cost of total invested equity.

EFFECTIVE INTEREST RATE ►

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EFFECTIVE TAX RATE (ETR) ►

Provision for taxation excluding deferred tax divided by the profit before taxation.

EQUITY INSTRUMENT ►

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

EQUITY METHOD ►

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

EVENTS AFTER THE REPORTING PERIOD ►

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

EXPECTED LOSS (EL) ►

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

EXPOSURE ►

A claim, contingent claim or position which carries a risk of financial loss.

F ►

FAIR VALUE ►

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

FINANCE LEASE ►

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

FINANCIAL GUARANTEE CONTRACT ►

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.



FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS ►

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

FINANCIAL INSTRUMENT ►

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FIRM COMMITMENT ►

A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date of dates.

FINANCIAL RISK ►

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable provided in the case of a non financial variable that the variable is not specific to the party to the contract.

FOREIGN EXCHANGE INCOME ►

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

G ►

Global Reporting Initiative (GRI) ►

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

GOING CONCERN ►

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

GROSS DIVIDENDS ►

The portion of profit inclusive of tax withheld distributed to shareholders.

GROUP ►

A group is a parent and all its subsidiaries.

GUARANTEES ►

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

H ►

HELD TO MATURITY INVESTMENTS ►

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

HIGH QUALITY LIQUID ASSETS (HQLA) ►

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e., without legal, regulatory or operational impediments.

IMPAIRED LOANS ►

Loans where the Bank does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT ►

This occurs when recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT PROVISIONS ►

Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

IMPAIRMENT ALLOWANCES ►

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

Glossary of Terms Contd.

INDIVIDUALLY SIGNIFICANT LOANS ►

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS ►

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the corporate banking business of the Group are assessed individually.

INTANGIBLE ASSET ►

An identifiable non-monetary asset without physical substance held for use in the production / supply of goods / services or for rental to others or for administrative purposes.

INTEREST COVER ►

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST MARGIN ►

Net interest income as a percentage of average interest earning assets.

INTEREST RATE RISK ►

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST SPREAD ►

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INVESTMENT PROPERTIES ►

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

K ►

KEY MANAGEMENT PERSONNEL ►

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L ►

LIQUIDITY COVERAGE RATIO (LCR) ►

Banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash to meet their liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. LCR is computed by dividing the stock of HQLA by the total net cash outflows over the next 30 calendar days.

LIQUID ASSETS ►

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other Banks, Bills of Exchange and Treasury Bills.

LIQUIDITY RISK ►

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

LOANS AND RECEIVABLES ►

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

LOSS GIVEN DEFAULT (LGD) ►

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M ►

MARKET CAPITALISATION ►

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

MARKET RISK ►

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

MATERIALITY ►

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.



N ▶

NET ASSET VALUE PER SHARE ▶

Shareholders' funds divided by the number of ordinary shares in issue.

NET-INTEREST INCOME ▶

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NON-CONTROLLING INTEREST ▶

Non controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

O ▶

OPERATIONAL RISK ▶

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P ▶

POWER

The Power is the existing rights that give the current ability to direct the relevant activities.

PRICE EARNINGS RATIO (P/E RATIO) ▶

The current market price of the share is divided by the earnings per share of the Bank.

PROBABILITY OF DEFAULT (PD) ▶

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

PRUDENCE ▶

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R ▶

RELEVANT ACTIVITIES ▶

Relevant activities are activities of the investee that significantly affect the investee's returns.

REPURCHASE AGREEMENT ▶

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RETURN ON AVERAGE ASSETS (ROAA) ▶

Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

RETURN ON AVERAGE EQUITY (ROAE) ▶

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

REVENUE RESERVE ▶

Reserves set aside for future distribution and investment.

REVERSE REPURCHASE AGREEMENT ▶

Transaction involving the purchase of government securities by a Bank or dealer and resale back to the seller at a given price on a specific future date.

RIGHTS ISSUE ▶

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

RISK-WEIGHTED ASSETS ▶

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

S ▶

SEGMENTAL ANALYSIS ▶

Analysis of financial information by segments of an enterprise specifically-the different industries and the different geographical areas in which it operates.

SEGMENT REPORTING ▶

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

SHAREHOLDERS' FUNDS ▶

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

Glossary of Terms Contd.

SINGLE BORROWER LIMIT ►

30% of Tier II Capital.

SPECIFIC IMPAIRMENT PROVISIONS ►

Impairment is measured individually for loans that are individually significant to the Bank.

STATUTORY RESERVE FUND ►

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSTANCE OVER FORM ►

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T ►

TRANSACTION COSTS ►

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

TIER I CAPITAL ►

Consists of the sum total of paid up ordinary shares, non cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

TIER II CAPITAL ►

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

TOTAL CAPITAL ►

Total capital is the sum of Tier I capital and Tier II capital.

U ►

USEFUL LIFE ►

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V ►

VALUE ADDED ►

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y ►

YIELD TO MATURITY ►

Discount rate which the present value of future cash flows would equal the security's current price.

Abbreviations



A ▶	
AC	Air Conditioner
ACA	Associate Chartered Accountant
ADB	Asian Development Bank
AFS	Available for Sale
AGM	Assistant General Manager/Annual General Meeting (as appropriate)
ALCO	Assets and Liability Management Committee
AML	Anti Money Laundering
ATI	Additional Tier I
ATM	Automated Teller Machine
AWPLR	Average Weighted Prime Lending Rate
B ▶	
BAC	Board Audit Committee
BCP	Business Continuity Plan
BIA	Business Impact Analysis
BIRMC	Board Integrated Risk Management Committee
BIS	Bank for International Settlements
Bn	Billions
BNO	Bank Notes Operation
BOD	Board of Directors
BRPTRC	Board Related Party Transaction Review Committee
BSS	Baseline Standard
C ▶	
CAR	Capital Adequacy Ratio
CASL	Chartered Accountants of Sri Lanka (ICASL)
CBSL	Central Bank of Sri Lanka
CCB	Capital Conservation Buffer
CEO	Chief Executive Officer
CET I	Common Equity Tier I
CFO	Chief Financial Officer
CO2e	Carbon Dioxide Equivalent, is a standard unit for measuring carbon footprints
CRIB	Credit Information Bureau of Sri Lanka
CRMU	Credit Risk Management Unit
CRRF	Credit Risk Review Function
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
D ▶	
DGM	Deputy General Manager
DMS	Document Management System/ Delinquency Monitoring System
DPS	Dividend per Share
DRP	Disaster Recovery Plan

E ▶	
EAR	Earnings at Risk
EIR	Effective Interest Rate
EPF	Employees Provident Fund
EPS	Earnings per Share
ESC	Economic Service Charges
ESOP	Employee Share Option Plan
ETF	Employee Trust Fund
EUR	Euro
ERM	Enterprise Risk Management
ETF	Employees Trust Fund
EVA	Economic Value Addition
EWS	Early Warning Signals
F ▶	
FSVAT	Financial Services Value Added Tax
G ▶	
GDP	Gross Domestic Product
GHG	Green House Gas
GL	General Ledger
GRI	Global Reporting Initiative
GRO	Group Risk Officer
H ▶	
HO	Head Office
HQLA	High Quality Liquid Assets
HR	Human Resources
HRD	Human Resources Development
HTM	Held to Maturity
I ▶	
IBSL	Institute of Bankers of Sri Lanka
ICAAP	Internal Capital Adequacy Assessment Process
ICASL	Institute of Chartered Accountants of Sri Lanka
ICC	International Chamber of Commerce
ICOFR	Internal Control Over Financial Reporting
ICT	Information and Communications Technology
IFA	Investment Fund Account
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IND	Independent Director
IRMC	Integrated Risk Management Committee
IRMU	Integrated Risk Management Unit
ISMS	Information Security Management System
ISO	International Organisation for Standardisation
IT	Information Technology

Abbreviations Contd.

K ►	
kg	Kilograms
km	Kilometre
KMP	Key Management Personnel
KPI	Key Performance Indicator
KRI	Key Risk Indicators
kWh	Kilowatt-hour
KYC	Know Your Customer
L ►	
LCB	Local Commercial Bank
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LKAS	Sri Lanka Accounting Standard
LTV Ratio	Loan to Value Ratio
M ►	
m ³	Cubic meter
MIS	Management Information Systems
MoM	Month on Month
Mn	Millions
MSME	Micro, Small and Medium Scale Entrepreneur
MW	Megawatt
N ►	
NBT	Nations Building Tax
NED	Non Executive Director
NID	Non Independent Director
NII	Net Interest Income
NIM	Net Interest Margin
NPA	Non Performing Assets
NPL	Non Performing Loans
O ►	
OBS	Off - Balance Sheet
OCI	Other Comprehensive Income
ORMU	Operational Risk Management Unit
OTC	Over-the-Counter
P ►	
p.a.	Per Annum
P/E Ratio	Price Earnings Ratio
PAT	Profit After Tax
PBT	Profit Before Tax
PD	Probability of Default
PoS	Point of Sale
Q ►	
Q&A	Question and Answer

R ►	
RCSA	Risk and Control Self Assessments
RMU	Risk Management Unit
ROA	Return On Assets
ROCE	Return On Capital Employed
ROE	Return On Equity
RPT	Related Party Transaction
RPTRC	Related Party Transactions Review Committee
RSA	Rate Sensitive Assets
RSL	Rate Sensitive Liabilities
RWA	Risk Weighted Assets
S ►	
SAFA	South Asian Federation of Accountants
SBU	Strategic Business Unit
SDF	Standing Deposit Facility
SEC	Securities and Exchange Commission of Sri Lanka
SLA	Statutory Liquid Assets
SLAR	Statutory Liquid Asset Ratio
SLAS	Sri Lanka Accounting Standard
SLDB	Sri Lanka Development Bonds
SLF	Standing Lending Facility
SLFRS	Sri Lanka Financial Reporting Standards
SLIBOR	Sri Lanka Inter Bank Offered Rate
SLIPS	Sri Lanka Interbank Payments System
SME	Small And Medium Enterprises
SMS	Short Message Service
SREP	Supervisory Review Process
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T ►	
Tn	Trillion
TOR	Terms of Reference
TRWCR	Total Risk Weighted Capital Ratio
TT	Telegraphic Transfer
V ►	
VAR	Value at Risk
VAT	Value Added Tax
W ►	
WHT	Withholding Tax
Y ►	
YOY	Year on Year

Ratio Formula



RATIO	DEFINITION
Advances to deposits (Times)	$\frac{\text{Total Advances}}{\text{Total deposits}}$
Collective impairment to total loans & advances (%)	$\frac{\text{Collective impairment} \times 100}{\text{Gross portfolio}}$
Cost to income ratio (%)	$\frac{\text{Total operating cost without VAT on financial services} \times 100}{\text{Total operating income}}$
Current ratio (Times)	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Debt equity (Times)	$\frac{\text{Borrowings}}{\text{Equity}}$
Debt equity with contingencies (Times)	$\frac{(\text{Borrowings} + \text{contingencies})}{\text{Equity}}$
Debt to total assets (Times)	$\frac{\text{Borrowings}}{\text{Total assets}}$
Dividend cover (Times)	$\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Total dividends}}$
Dividend payout (%)	$\frac{\text{Total dividends} \times 100}{\text{Profit/loss attributable to ordinary shareholders}}$
Dividend yield (%)	$\frac{\text{Dividend per ordinary share} \times 100}{\text{Market price per share}}$
Earnings per share (EPS) LKR	$\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Number of shares}}$
Earnings yield (%)	$\frac{\text{Earnings per share} \times 100}{\text{Market price per share}}$
Gross non-performing advances ratio (%)	$\frac{\text{Non-performing portfolio (net of interest in suspense and unearned income)} \times 100}{\text{Gross portfolio (net of interest in suspense and unearned income)}}$
Individual impairment to total loans & advances (%)	$\frac{\text{Individual impairment} \times 100}{\text{Gross portfolio} \times 100}$
Interest cover (Times)	$\frac{\text{Profit before interest and tax}}{\text{Interest cost}}$

Ratio Formula Contd.

RATIO	DEFINITION
Lending to loans & advances ratio (%)	$\frac{\text{Current year granting*100}}{\text{Gross loans \& advances}}$
Market capitalization LKR	Market price per share*Number of shares
Net assets per share (NAPS) LKR	$\frac{\text{Total shareholders' equity}}{\text{Number of shares}}$
Net interest margin (%)	$\frac{\text{Net interest income*100}}{\text{Average interest earning assets}}$
Non-performing ratio (%)	$\frac{\text{Gross non performing portfolio*100}}{\text{Gross portfolio}}$
Operating profit margin (%)	$\frac{\text{Operating profit before VAT on financial services*100}}{\text{Gross income}}$
Price earnings (PE) (Times)	$\frac{\text{Market price per share}}{\text{Earnings per share}}$
Price to book value (PBV) (Times)	$\frac{\text{Market price}}{\text{Net assets per share}}$
Provision cover (Times)	$\frac{\text{Provisions (CBSL)}}{\text{Non-performing assets}}$
Quick asset ratio (%)	$\frac{\text{Current asset - Inventory}}{\text{Current Liabilities}}$
Return on asset (ROA) (%)	$\frac{\text{Profit before tax*100}}{\text{Total average assets}}$
Return on capital employed (ROCE) (%)	$\frac{\text{Profit before interest and tax*100}}{(\text{Borrowings+Deposits+Equity})}$
Return on equity (ROE) (%)	$\frac{\text{Profit after tax*100}}{\text{Average equity}}$
Total impairment provision to gross portfolio (%)	$\frac{\text{Total impairment provision*100}}{\text{Gross portfolio}}$
Total return of share %	$\frac{(\text{Closing market price}-\text{Opening market price})+\text{DPS}*100}{\text{Opening market price}}$



20th Annual General Meeting - Agenda

Date

30th May 2017

Venue

Uththamavi Hall, Sanasa Campus Limited, Paragammana, Hettimulla, Kegalle.

Time

9.00 a.m. - 10.00 a.m. : Registration

10.00 a.m. - 10.25 a.m. : Twentieth Annual General Meeting call to order

- ▶ Lighting of the oil lamp
- ▶ Religious observances
- ▶ Pledge of the Co-operative Movement
- ▶ 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 31st May 2016
Confirmation of the minutes of EGM held on 21st March 2017

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

Notes

Feedback Form



Dear Stakeholder,

We welcome your valuable comments, query and feedback on our commitment, performance and Annual Report - 2016. Please complete the following and return to:

Company Secretary,

SANASA Development Bank PLC,
No.12, Edmonton Road, Kirulapone,
Colombo -12

Tel : 011 2 832500

Fax : 0112 514256

1. Which stakeholder group(s) do you belong to?

Shareholder	<input type="checkbox"/>	Employee	<input type="checkbox"/>
Investor	<input type="checkbox"/>	Supplier	<input type="checkbox"/>
Customers	<input type="checkbox"/>	Service Provider	<input type="checkbox"/>
Regulator	<input type="checkbox"/>	SANASA Society	<input type="checkbox"/>
Public Authority	<input type="checkbox"/>	Co-operative Society	<input type="checkbox"/>
Finance Analyst	<input type="checkbox"/>	NGO	<input type="checkbox"/>
Other	<input type="checkbox"/>	Community	<input type="checkbox"/>
Student	<input type="checkbox"/>	Journalist	<input type="checkbox"/>

2. Rate our Annual Report in terms of :

	Excellent	Very Good	Good	Average	Poor
Informative					
Transparent					
Design & Lay Out					
Overall Impression					
Comprehensive					

3. Which section do you find most useful?

4. Which section do you find least useful?

5. What is the area that needs more improvement?

6. Any other comments/queries

Your details ►

Name :

Address :

Contact No. :

Email :

Mobile :



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 6th 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 (amendment) Act No 53 of 1949 and Trust Receipt Ordinance No 12 of 1947.

Date of Incorporation

6 Aug 1997

Company Registration Number

PB 62 PQ.

Central Bank Registration Number

Central Bank License No. 6 (Under Banking Act No 30 of 1998 on 21st August 1997)

Accounting Year – End

31st December

Registered Office and Principal Place of Business

Head Office : No. 12, Edmonton Road, Kirulapone, Colombo 06.

Telephone : +94 112 832 500

Fax : +94 112 514 245

E – mail : comsec@sdb.lk

Web Page : www.sdb.lk

Colombo Stock Exchange- Listing

The Ordinary Voting Shares of the company were quoted on the Main Board of the Colombo Stock Exchange (CSE) on 31st May 2012

Tax Payer Identity No.(TIN)

134007125

VAT Registration Number

134007125 -7000

SLIPS Code

7728

General Manager/Chief Executive Officer

Mr. Nimal C. Hapuarachchi

Compliance Officer

Mr. S.S.S. Senanayaka

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

Branch Network

Please refer the Page No. 54

Board of Directors and Board Sub Committees

Board of Directors

- ▶ Ms. M.S. Kiriwandeniya (Chairperson)
- ▶ Mr. Lakshman Abeysekera (Senior Director)
- ▶ Mr. H.M.G.B. Herath (Director)
- ▶ Mr. B.R.A. Bandara (Director)
- ▶ Mr. J.A.L.G. Jayasinghe (Director)
- ▶ Mr. D.J.K. Newunhella (Director)
- ▶ Prof. S. Amaratunge (Director)
- ▶ Mr. M.K.L. Fernando (Director)

Board Sub Committees

Board Audit Committee

- ▶ Mr. Lakshman Abeysekera (Chairman/Senior Director)
- ▶ Mr. D.J.K. Newunhella
- ▶ Mr. H.M.G.B. Herath

Board Human Resources & Remuneration Committee

- ▶ Mr. Lakshman Abeysekera (Chairman/Senior Director)
- ▶ Ms. M.S. Kiriwandeniya
- ▶ Mr. J.A.L.G. Jayasinghe
- ▶ Mr. D.J.K. Newunhella
- ▶ Mr. M.K.L. Fernando

Board Credit Committee

- ▶ Mr. M.K.L. Fernando (Chairman)
- ▶ Ms. M.S. Kiriwandeniya
- ▶ Mr. B.R.A. Bandara

Board Selection & Nomination Committee

- ▶ Mr. Lakshman Abeysekera (Chairman/Senior Director)
- ▶ Ms. M.S. Kiriwandeniya
- ▶ Mr. D.J.K. Newunhella

Board Integrated Risk Management Committee

- ▶ Prof. S. Amaratunge (Chairman)
- ▶ Ms. M.S. Kiriwandeniya
- ▶ Mr. Lakshman Abeysekera

Board Related Party Transactions Review Committee

- ▶ Mr. D.J.K. Newunhella (Chairman)
- ▶ Prof. S. Amaratunge
- ▶ Mr. M.K.L. Fernando

Board Strategic Planning, ICT & Business Development Committee

- ▶ Ms. M.S. Kiriwandeniya (Chairperson)
- ▶ Mr. Lakshman Abeysekera (Senior Director)
- ▶ Prof. S. Amaratunge
- ▶ Mr. M.K.L. Fernando

Membership in Associations

Leasing Association of Sri Lanka
Association of Professional Bankers' of Sri Lanka
The Ceylon Chamber of Commerce
Employers' Federation of Ceylon
The Association of Banking Sector Risk Professionals SL
Association of Compliance Officers of Banks Sri Lanka
Sri Lanka Bank's Association (Guarantee) Ltd.
The Financial Ombudsman Sri Lanka (Guarantee)Ltd - (Participating)

Credit Rating

BB+ Stable by Fitch Lanka Limited
SL [BBB-] with a Positive Outlook by ICRA Lanka Limited

For any clarification on this Report Please contact

Assistant General Manager – Finance

SANASA Development Bank PLC
No. 12, Edmonton Road, Kirulapone, Colombo 06.
Tel : 011-2832515
Fax : 011-2514247

