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## 20 ஆண்டுகால ஒற்றுமையை கொண்டாடுகின்றோம்

கடந்த 20 ஆண்டுகளாக எமது வாடிக்கையாளர்களின் உள்ளங்களிலும், எண்ணங்களிலும் அவர்களது தனித்துவமான தேவைகளையும் அவாக்களையும் நன்கறிந்த நிதிசார் வழங்குனராக தனித்துவமான இடத்தினை நாம் வகித்து வருகின்றோம். அவர்களது நம்பிக்கைக்குரிய நிதிசார் வழங்குனராக கைகோர்த்து பயணிக்கும் நாம், எமது வாடிக்கையாளர்கள் முன்னேற்றம் காணவும், நிதிசார் சுதந்திரத்தை பெற துணைநிற்கின்றோம். உமது வெற்றிப்பயணத்திற்கு ஆணித்தரமான சராசரி பெறுமதிகளுடன் நம்பிக்கையும் நம்பகத்தன்மையும் வலுவூட்டின.

எமது வாடிக்கையாளர்களுடனான நிரந்தர வலிமையான ஒற்றுமை எதிர்காலத்தில் வங்கித்துறையில் நாம் சாதிக்க எட்டும் உயரங்களுக்கு மிகவும் பலமான தூணாக எமக்கிருக்கும்.

## 20 Years of *Solidarity*

We have over the last 20 years, etched a unique position in the hearts and minds of our customers as a financial solutions provider who recognized their unique needs and aspirations. Walking hand in hand as their trusted financial services partner, we were able to empower our customers to achieve progress and financial independence. Anchored by common values our journey of success has been powered by trust and credibility.

This perpetual bond of solidarity with our customers' acts as a strong pillar of strength in the years ahead as we poise to conquer new vistas in the sphere of banking.

### SANASA Development Bank PLC Annual Report 2017



[www.sdb.lk/annual-reports](http://www.sdb.lk/annual-reports)



Scan the QR Code  
with your smart  
device to view this  
report online.

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## Chairperson's Message

*"Ensuring that all employees shared our vision and were on board with defined strategy was a critical element of our transformation and we are encouraged by their response to the same"*

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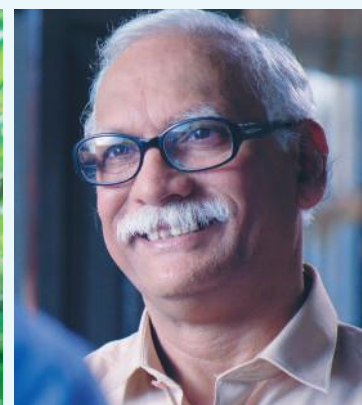
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# General Manager/ CEO Review

*"We pursued our vision of becoming a bank for the co-operative sector which thrives in both urban and rural areas, tapping in to over 3000 active Sanasa societies which gives us direct access to over 1 Mn households."*



## P 24

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## Our Vision

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**SANASA Development Bank 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.



*About*  
**OUR REPORT**

# About Our Report



## About this Report

This year, we present our 4th Integrated Annual Report, through which we hope to provide our stakeholders with the information needed to make an informed assessment of SANASA Development Bank PLC's ("SDB" or "the Bank") ability to create value over the short, medium and long-term. The Report presents comprehensive yet concise information relating to our strategy, business model, material risks, governance, performance and prospects.

## Scope and Boundary

The Integrated Report covers the operations of SDB for the period from 1st January 2017 to 31st December 2017. We adopt an annual reporting cycle for financial and sustainability reporting; the most recent previous Annual Report, covering the financial year ending 31st December 2016 is available on our website [www.sdb.lk](http://www.sdb.lk). There have been significant changes to the size, structure, ownership and services of the organisation compared to the year before. There are also no restatements of information provided in previous reports.

## Standards and Principles of Preparation

The financial statements presented on pages 166 to 219 of this Report have been prepared in accordance with the Sri Lanka Financial Reporting Standards, the Banking Act No.30 of 1988 and the requirements of the Companies Act No.7 of 2007. For sustainability reporting we have opted for the early adoption of the Global Reporting Initiative (GRI) Standards and have reported under the 'In Accordance-Core' option. Our sustainability reporting is also guided by the objectives and targets set out in the Sustainable Development Goals, several of which are directly relevant to our industry and business. The narrative on Corporate Governance (pages 95 to 126) complies with 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 and the Banking Act Direction No.12 of 2007.

## Target audience

This Report is prepared primarily for current and potential investors; however it also contains information that is relevant to other stakeholders including employees, customers, regulators and communities. The Report focuses on aspects that are considered material to our value creation and the process we have adopted for determining such material topics is given on page 47 of the Report.

## Reporting enhancements

Every year we attempt to improve the readability, meaningfulness and relevance of our Report. In doing so, this year we have,

- ▷ Extended our materiality analysis beyond the factors prescribed by GRI to include other factors that could affect our ability to create value
- ▷ Demonstrated inter-connectedness between capitals
- ▷ Demonstrated relevance to the Sustainable Development Goals wherever possible
- ▷ Use of navigation icons across the Report to show connectivity of information

## External Assurance

External assurance on the financial statements and related notes has been provided by Messrs. Ernst and Young Chartered Accountants and their assurance is available on page 166 of this Annual Report.

### Navigating our Report



Financial Capital



Manufactured Capital



Human Capital



Social and Relationship Capital



Intellectual Capital



Natural Capital

### Sustainable Development Goals



1- No Poverty



5- Gender Equality



10- Reduced Inequalities



17- Partnership for the goals



#### Feedback

We understand that Integrated Reporting is a journey and welcome your comments and suggestions on our Annual Report. Please address your feedback to,

Assistant General Manager - Finance

**SANASA Development Bank PLC**  
No.12, Edmonton Road, Kirulapone,  
Colombo 06.

+94-11-2832515

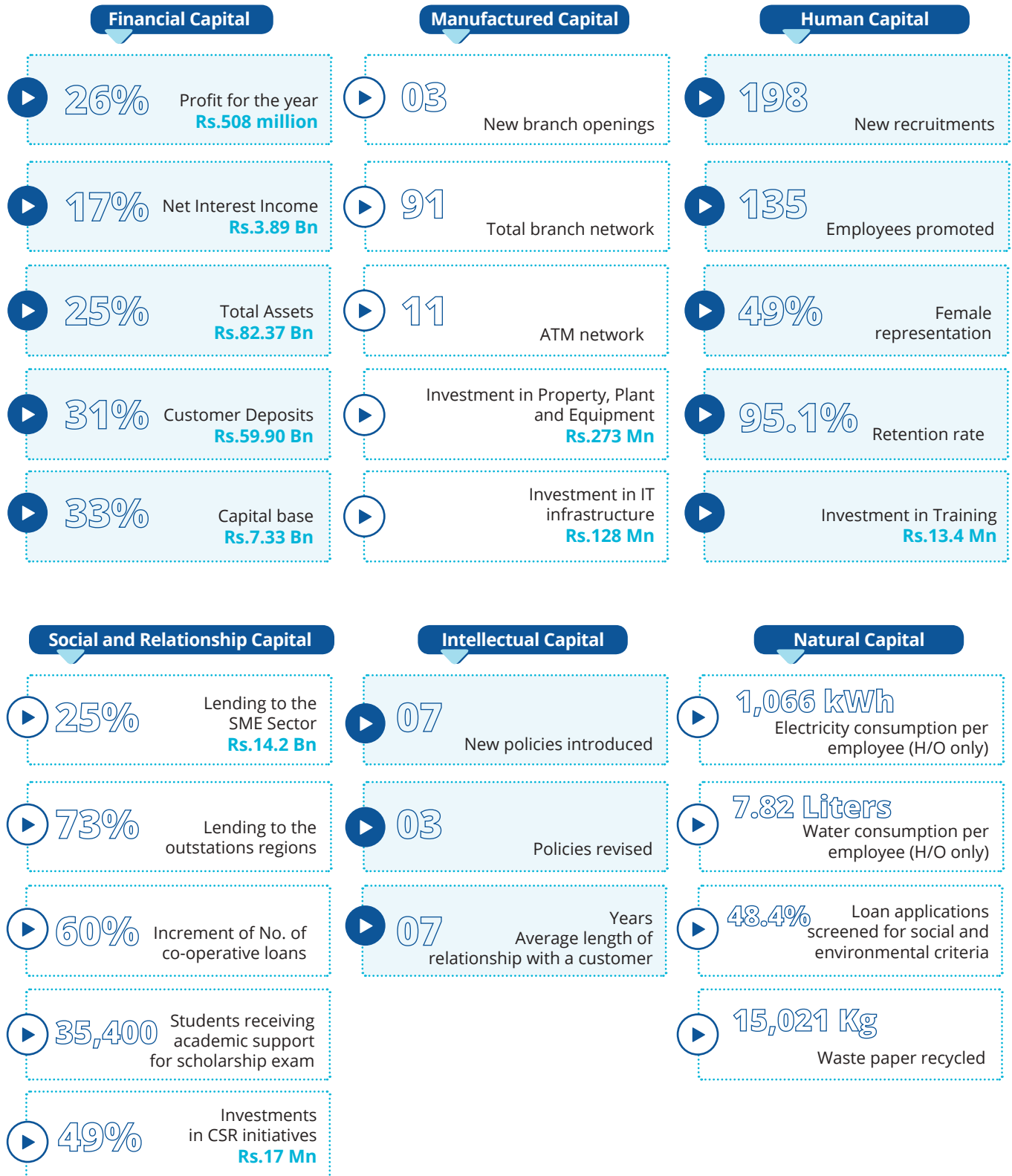
+94-11-2514245

[terrance.k@sdb.lk](mailto:terrance.k@sdb.lk)

[www.sdb.lk](http://www.sdb.lk)



## Financial and Non-Financial Highlights of 2017



## 2017 in Numbers

## FINANCIAL CAPITAL

		2017	2016	Y-o-Y change (%)
<b>Profitability</b>				
Gross interest income	Rs.Mn	10,829	8,177	32%
Net interest income	Rs.Mn	3,887	3,330	17%
Operating profit before VAT and NBT	Rs.Mn	1,102	910	21%
Pre-tax profit	Rs.Mn	753	617	22%
Income tax expenses	Rs.Mn	245	214	15%
Profit after tax	Rs.Mn	508	404	26%
<b>Financial position</b>				
Deposits	Rs.Mn	59,905	45,692	31%
Loans and advances	Rs.Mn	66,687	53,633	24%
Shareholders' funds	Rs.Mn	7,331	5,519	33%
Total assets	Rs.Mn	82,375	66,033	25%
Borrowings	Rs.Mn	14,022	13,666	3%
<b>Investor ratios</b>				
Net asset value per share	Rs.	133.83	131.22	2%
Market value per share	Rs.	101.90	103.70	(2%)
Highest price per share in the period	Rs.	122.50	116.50	5%
Lowest price per share in the period	Rs.	93.80	95.20	(1%)
Earnings per share (Basic)	Rs.	10.18	9.60	6%
Dividend per share	Rs.	6.00	7.50	(20%)
Dividend payout	%	58.94	78.13	(25%)
P/E ratio	Times	10.01	10.80	(7%)
<b>Statutory ratios</b>				
<b>Regulatory capital - Basel III</b>				
Common equity tier 1 capital ratio (Minimum requirement- 5.75%)	%	12.42	N/A	-
Tier 1 capital ratio (Minimum requirement - 7.25%)	%	12.42	N/A	-
Total capital ratio (Minimum requirement - 11.25%)	%	14.59	N/A	-
<b>Regulatory capital - Basel II</b>				
Core capital adequacy ratio (Minimum requirement - 5% )	%	N/A	11.80	-
Total capital adequacy ratio (Minimum requirement - 10% )	%	N/A	12.27	-
Statutory liquid asset ratio	%	21.34	22.13	(4%)
<b>Other ratios</b>				
Return on average assets	%	1.01	0.98	3%
Return on average equity	%	7.90	7.46	6%
Gross NPL ratio	%	2.07	2.10	(1%)
Net NPL ratio	%	1.02	1.22	(16%)

			2017	2016	Y-o-Y change (%)
<b>MANUFACTURED CAPITAL</b>	Property, plant and equipment	Rs.Mn	1,883	1,645	14%
	Branches added in period	No.	3	1	200%
	Total branch network	No.	91	88	3%
	Capital expenditure	Rs.Mn	273	237	15%
	ATM network	No.	11	11	-
	Investment in IT infrastructure	Rs.Mn	128	141	(9%)
<b>HUMAN CAPITAL</b>	Total employees	No.	1,363	1,248	9%
	Payments to employees	Rs.Mn	1,474	1,266	16%
	Retention rate	%	95.10	97.10	(2%)
	Productivity (Net profit per employee)	Rs.Mn	0.37	0.32	15%
	New recruits	No.	198	89	123%
	Female representation rate (overall)	%	49	50.30	(3%)
	Female representation at management level	%	26	25	4%
	Average training hours per employee	hours	18	20	(10%)
<b>SOCIAL AND RELATIONSHIP CAPITAL</b>	No. of accounts	No.	1,230,406	1,131,355	9%
	Loans to SME sector	Rs.Bn	14.24	11.35	25%
	No. of co-operative loans	No.	2,621	1,638	60%
	Loans to female borrowers	Rs.Mn	20,489	17,247	19%
	Female borrowers	%	30	32	(6%)
	Investment in community projects	Rs.Mn	17	11.4	49%
	Beneficiaries of CSR projects	No.	36,172	19,637	84%
<b>INTELLECTUAL CAPITAL</b>	New policies introduced	No.	3	4	-
	Policies revised	No.	7	-	-
	Average length of relationship with a customer	Years	7	7	-
<b>NATURAL CAPITAL</b>	Electricity consumption (H/O only)	kWh	302,741	326,165	(7%)
	Electricity consumption per employee (H/O only)	kWh	1,066	1,424	(25%)
	Water consumption (H/O only)	m3	2,222	2,223	-
	Water consumption per employee (H/O only)	m3	7.82	9.70	(20%)
	Fuel consumption (H/O only)	Liters	55,591	47,305	18%
	Fuel consumption per employee (H/O only)	Liters	196	207	(5%)
	Waste paper recycled	Kg	15,021	3,049	393%
	Loans screened for environmental criteria	%	48.4	31.46	54%



# *Overview of* **SDB**

## Who we are

SANASA Development Bank PLC (“SDB” or “the Bank”) is a licensed specialised bank and the apex financial institution of the SANASA Federation, the umbrella organisation of over 8000 island-wide primary co-operative societies.

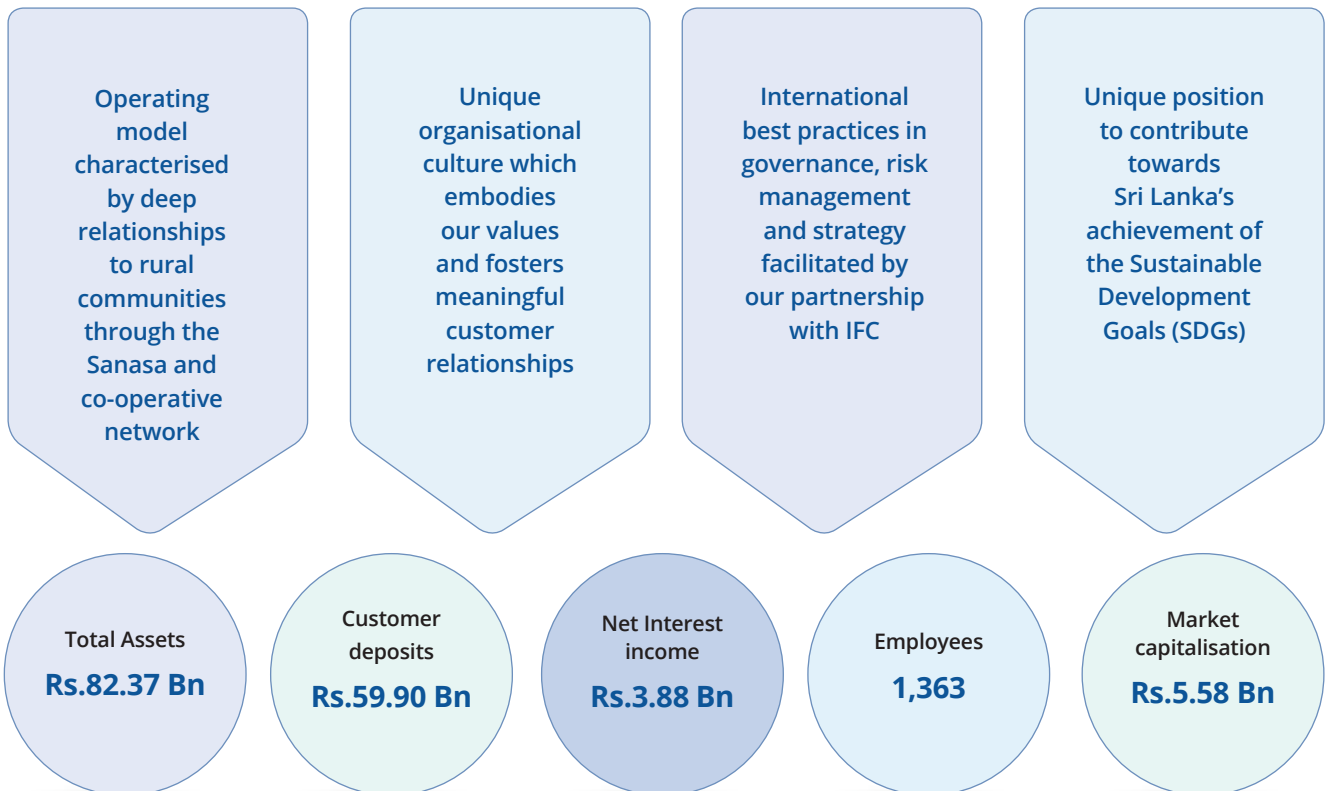
Headquartered in Colombo, Sri Lanka the Bank is a public quoted company with limited liability, incorporated under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No.7 of 2007. It is also registered as a Licensed Specialised Bank by the Central Bank of Sri Lanka, under the 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.

Since its inception two decades ago, the Bank has played a vital role in driving financial inclusion and socio-economic progress among Sri Lanka’s grassroots level communities. It’s unparalleled rural linkages, facilitated through an extensive network of co-operative societies and government organisations afford the Bank a unique position in delivering its products to a segment that is often overlooked by the formal financial system. The Bank serves an island-wide customer base primarily in the micro, SME, retail and co-operative society sectors offering

numerous solutions in development banking, personal banking and leasing while also encouraging investment/savings through deposit products. It operates a network of 91 branches, powered by a team of 1,363 committed and loyal employees.

In 2017, the Bank entered a new era of transformation and growth, securing an investment of USD 22 Mn from SBI/ FMO and IFC; resultantly these strategic partners now hold a 21.8% equity stake in the Bank. In addition to the substantial capital infusion, the partnership has also positioned SDB on a new growth trajectory, with substantial investments in organisational realignment, strengthening of internal processes and enhancing digital capabilities.





# Our Journey

## 1985 - 1990

- ★ Five year planning project of SANASA Group
- ★ Alternative Bank for SANASA Group

## 1990 - 1997

- ★ Appointing a committee for banking operations of SANASA Federation
- ★ Discussion between Dr. P. A. Kiriwadeniya 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 Rs. 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 Rs. 100 Mn

## 2006

- ★ Proceeded with the 10 years development plan

## 2007

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



## 2016

- ★ Rs. 66 Bn Asset base
- ★ Rs. 5.5 Bn Capital base
- ★ Opened Tele Collection Unit in Malabe
- ★ Unveiled New Logo of SANASA Development Bank as "SDB bank"

## 2015

- ★ Rs. 60 Bn Asset base
- ★ Rs. 4 Bn Debenture and Rs. 5 Bn Capital base

## 2014

- ★ Increased staff to 1,000
- ★ Oversubscribed 1st Right Issue of the Bank
- ★ Issued share capital exceeds Rs. 3 Bn

## 2013

- ★ Increased total assets to Rs. 25 Bn

## 2017

- ★ Rs. 82 Bn Asset base
- ★ Rs. 7.3 Bn Capital base
- ★ Celebrated 20 years of excellence
- ★ USD 22 Mn investment from SBI/FMO and IFC

## 2012

- ★ Introduced debit cards and ATM facilities
- ★ Listed on the main board of Colombo Stock Exchange

## 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

## 2009

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

## 2008

- ★ Winner of the National Excellence Award
- ★ Increased total assets to Rs. 10 Bn
- ★ Increased staff to 500



**Year 2016**

SANASA Development Bank PLC successfully obtained 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.

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 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 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.

**Evolution and Excellence in Corporate Reporting**

As an organisation, we are committed to providing relevant, transparent and timely information to our stakeholders through our Annual Report. In aligning ourselves with international best practice, we have also embraced several new reporting frameworks such as Integrated Reporting and GRI for Sustainability Reporting in recent years.







***With Best  
Compliments  
From***

**SDB** bank

*Our dedicated team of employees are deeply  
connected with our mission and values.  
They form the bedrock our success.*



## Events Calendar

### January



The Bank opened its 89th branch in Mannar.

The Samanthurai branch was relocated to a new location.



The Buttala branch was relocated to a new location.

### February

The 7th seminar of Lakdaru seminar series was held in Tangalle.



The Bank signed an MOU with NEDA.

The Kalmunai branch was relocated to a new location.



### March



The Bank partnered with Uththamavi Guarantee Company and celebrated the International Women's Day.

The Kandy branch was relocated to a new location.



The Bank opened its 90th branch in Tissamaharama.



April



The Bank participated in the Vyawasaya 2017 Exhibition and Trade Fair.



The Kekirawa branch was relocated to a new location.



The Bank opened its 91st branch in Bandarawela.



May



The Bank sponsored the National Vesak Festival held at the ancient Wattarama Temple in Kegalle.



The Bank entered a new chapter of growth, securing investments from SBI/FMO and IFC.



June



The Bank organized Poshon Bathi Gee Saraniya at Head Office premises.

July



The 34th seminar of Lakdaru seminar series was held in Anuradhapura.



August



The Bank held its SDB Champions' Night Awards Ceremony 2017.



The Bank's Head office staff organized a blood donation campaign for patients at Apeksha Hospital, Maharagama.





## Events Calendar

### August



The Bank celebrated its 20th Anniversary by organizing religious activities.



### September



The Bank was proud to be the official banking partner for the Asian Credit Union (ACCU) forum 2017.

### October



The Bank organized a Town Storming Session to promote its products and services among the general public.



The Bank organized SDB Champions' Trophy - Eight a side Cricket Tournament.

### November



The Bank organized SME workshop at Buttala Divisional Secretariat.



### December



The Bank organized SME workshop at Ehetuwewa.



The Bank implemented CEFT facility in association with Lanka Pay to our valued customers.





*Our*  
**LEADERSHIP**



# *Chairperson's* **Message**

*"Ensuring that all employees shared our vision and were on board with defined strategy was a critical element of our transformation and we are encouraged by their response to the same"*



## Chairperson's Message

Dear Shareholders,

In 2017, despite the challenging macro economic realities of Sri Lanka, I am happy to state that we have managed to steer your bank through a robust transformation process to deliver a profitable growth. The re-engineering process of the operational systems in the SDB which began in 2016 enabled the bank to engage with its vision in a strategic manner in 2017. The customer centric goals and goal related initiatives implemented under strategic corporate governance processes facilitated the bank to bring a meaningful change to the operation culture of SDB and to establish strategic relationships with its shareholders. These changes enabled us to deliver of Rs. 508 Mn profit for the year and annual dividend of Rs. 6.00 per share to shareholders comprising scrip dividends, cash dividends and increase in share price. Importantly, we have also strengthened the balance sheet and improved the brand recognition to deliver sustainable value to shareholders in the future.

### Challenging Times

Sri Lanka's GDP growth moderated to 3.1% in 2017 as climate change impact on agriculture and agriculture based industries dampened agriculture sector growth. Knock on effects on the Food, Beverages and Tobacco industry dampened growth of the Industry sector despite an uptick in construction and manufacturing sector activities. Macroeconomic stability improved with tightening monetary and fiscal policy. However, this contributed in some part to a decline in private and public sector spending which further moderated economic growth.

*"The customer centric goals and goal related initiatives implemented under strategic corporate governance processes facilitated the bank to bring a meaningful change to the operation culture of SDB and to establish strategic relationships with its shareholders."*

### Realising Our Goals

SANASA Development Bank's performance against this challenging backdrop is commendable with profit growth of 26% and asset growth of 25%, well above the banking sector profit and asset growth rates of 19.2% and 13.8%. We commenced the year with a strategy of focusing on Retail, SME and Co-operative segments, extending our relevance to customers throughout their lifecycle. The capital infusion of Rs. 2.45 Bn in the form of Tier I and II share capital and Rs.1 Bn in long term funding approved by you at the previous Annual General Meeting strengthened the balance sheet, capital adequacy and liquidity providing a solid foundation for growth. The participating multilateral funding agencies are experienced investors in the field and have also provided access to technical expertise which has further strengthened relationships and performance.

The Board also allocated significant resources to strengthening internal processes which are detailed in the Chief Executive's Review and I wish to commend the CEO and his leadership team for managing change with diligence and understanding to deliver organization wide transformation. Ensuring that all employees shared our vision and were on board with

defined strategy was a critical element of our transformation and we are encouraged by their response to the same.

These changes supported growth of the credit portfolio and customer deposits by 24% and 31% respectively which were also above industry benchmarks of 16% and 17%, reflecting the renewed energy within the Bank and the efficient operation of streamlined systems. Growth in these key areas compensated for declining margins in line with the Banking Sector. Asset quality measured by Non-Performing Loans was maintained at 2% which compares favourably with the Banking Sector, testimony to the rigour of our credit processes.

### Local Economy Development through Co-operatives

Being a bank formulated by the co-operative sector with the objective of supporting the mission sphereheaded by the Sanasa movement to reduce poverty condition and improve capabilities of local people, particularly those who reside in rural communities to participate in the national wealth creation processes, the Board recognized the importance of paying a meticulous attention to engage the co-operative sector more strategically in the business plan of the bank.



## Chairperson's Message

*"SDB's strategy, transformations and unique positioning will prove a strength enabling us to accelerate our growth trajectory in the coming year through our links in to urban and rural communities."*

SANASA Development Bank, since its inception, has always regarded co-operatives as one of its main sources of funds. In 2017, against the macro economic realities of the country, the Board emphasized the responsibility of the bank to support local wealth creation process by harnessing the unique model of the bank. To support the corporate management in this process to appropriate policy guidance and monitoring, a sub-committee was formulated at the Board level. The Chairperson and the CEO engaged with the leaders and the regulators of the sector to understand the opportunities and challenges the sector faces with the objective of obtaining proactive engagement of the sector in the SME expansion drive of SDB. As the Chairperson I am happy to inform you that despite shareholder diversity represented in the board, the SANASA mission was implicitly and explicitly affirmed by all.

### Sound Governance

Three new directors were appointed at the 2017 AGM and we welcomed Mr. Prabhash Subasinghe, Mr. Navindra Liyanarachchi and Mr. S. Lionel Thilakarathne as Non-Independent, Non-Executive Directors. Mr. Subasinghe brings entrepreneurial perspective to the Board while Mr. Liyanarachchi brings significant knowledge of the co-operative movement in the country as the CEO/General Manager of the Sanasa Federation, the apex body of the Sanasa societies in Sri Lanka enhancing our insights in to these key customer segments. Mr. Thilakarathne's experience in rural development and project management supports our vision.

The Board welcomed Mr. Arnoldus de Vette who was appointed as a Non-Independent Non-Executive Director during the year, bringing considerable experience in International Banking having specialized in responsible banking and Fin-Tech, training and knowledge transfer. He works for SBI

Ven Capital, the fund manager of SBI-FMO Emerging Asia Financial Sector Fund and Senior Investment Officer of FMO and his profile is set out in elsewhere in this report.

The governance structures remained in place and proved effective in monitoring performance and oversight of defined functions while driving change. Policies were reviewed and updated to reflect regulatory changes and enhance the effectiveness of risk management processes and internal controls.

### Looking Ahead

We expect competition to further intensify during the year as political stability, inflation and large debt repayments remain key concerns for policy makers. On a positive note, increased demand from key export markets and increasing inventory in tourism are likely to be an upside that will support economic growth. SDB's strategy, transformations and unique positioning will prove a strength enabling us to accelerate our growth trajectory in the coming year through our links in to urban and rural communities. International and Government focus on responsible finance and the United Nations Sustainable Development Goals will provide further impetus to our growth as our strategy is fully aligned with these agenda and opportunities to act as a conduit for development are expected to increase.

### Appreciations

I wish to thank all the shareholders of our Bank, particularly the Leaders and members of Sanasa movement and other co-operative groups, for the trust you have placed in our bank. I like to thank Dr. P. A. Kiriwandeniya the visionary leader of SANASA brand, whose long term vision has enabled us to be unique and positively different in the banking industry, and provide a more sustainable and comprehensive solution to the customer.

I am happy to commend our CEO Mr. Nimal Hapuarachchi for his prudent leadership and careful balancing of the priorities to deliver the results set out in this annual report. I extend my sincere appreciation of the SDB operational team, headed by the Chief Operating Officer Mr. Kumar Mayadunne, for leading an aggressive change management process to facilitate the business operations of the Bank. I like to thank all the staff of SDB for their expressed readiness to embrace the new culture which will position our Bank in a more competitive position in the industry. To our business partners, I extend my appreciation of their continued confidence in our purpose and active participation along our journey.

I take this opportunity to record my appreciation of the contributions made by the Board who have deliberated and debated matters set before them, widening perspectives in the process. The heads of all the Sub-Committees of the Board who support the corporate management to monitor the strategic goals of the bank with necessary policy guidelines ensure that the trust that has been placed by the shareholders and the customers on our bank is carefully monitored and continuous value creation is recognized. I like to extend a special thank to our Senior Director Mr. Lakshman Abeysekera for the tireless support he provides to the Board.

SDB has always remained true to our purpose and values through good times and bad. Having charted a course that fully integrates these two pillars, we are confident that we are well positioned to deliver sustainable value to all stakeholders.



**Samadanie Kiriwadeniya**  
Chairperson

26th February 2018  
Colombo, Sri Lanka

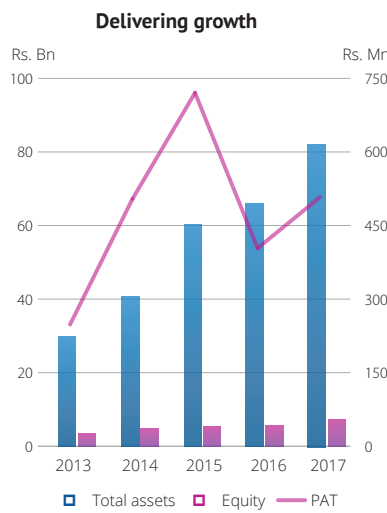
## General Manager/CEO Review

SANASA Development Bank PLC delivered a holistic performance recording profit growth of 26% to Rs.508 Mn, total asset growth of 25%, improved asset quality and a strengthened balance sheet. Profit and asset growth rates were above banking sector benchmarks of 19.2% and 13.8% respectively, reflecting progress on a number of initiatives to enhance our performance and market positioning. Consequently, it is my pleasure to present the review of our performance in 2017.

### A Customer Centric Strategy

Priorities for 2017 were to enhance brand equity and strengthen investor confidence in order to position SDB to compete effectively in an intensely competitive market. Our approach was to address this through a customer centric strategy, drawing on our roots in the Sanasa movement but differentiating the Bank from both other banks and Sanasa societies by focusing on the strengths of our unique operating model. We pursued our vision of becoming a bank for the co-operative sector which thrives in both urban and rural areas, tapping in to over 3000 active Sanasa societies which gives us direct access to over 1 Mn households. Increased brand awareness of SDB was supported by our presence in electronic and print media which has supported growth of our domestic franchise, which underpinned our performance in 2017.

SDB focused on 3 business segments, Retail, SME and Co-operative, to drive deeper understanding of client needs in order to deliver customized solutions within these segments. While Retail accounts for 73% of the portfolio, it is expected to reduce in proportion as SME and Co-operative business segments grow at an accelerated pace with a target of having equal exposure across all three business segments by 2020. We also reviewed our offering within these broad



business segments to ensure that our product portfolios were aligned to needs of customer served and have bridged identified gaps.

### Efficient Systems & Effective Controls

Supporting the customer centric strategy with efficient systems and strong internal controls was a key priority to deliver growth. Several initiatives were implemented according to a synchronized schedule to drive a paradigm shift in how we do business. Automation of the loan approval system and centralizing of loan approval processes were key initiatives that facilitated faster response times and improved employee productivity and morale. Centralisation of post disbursement management of loans with a fully automated recoveries centre supported maintaining a low NPA ratio of 2%. All back office functions were centralized and branches were transformed in to Business Development Centres with a focus on delivering portfolio and deposit growth. A centralized documentation centre enabled high levels of specialization with regards to pre-disbursement processes enhancing

*"SANASA Development Bank PLC delivered a holistic performance recording profit growth of 26% to Rs.508 Mn, total asset growth of 25%, improved asset quality and a strengthened balance sheet."*

the completeness and accuracy of documentation. Additionally, these initiatives also supported our cost leadership initiatives through reduced paper costs as the process became paperless. A centralized Management Information System enhanced our analytical capability supporting more informed and objective decision making, underpinning performance. These initiatives are expected to greatly enhance our earning capacity and improve operating margins.

### Strengthening Employee Relations

Driving change across 91 branches and 1,363 employees must necessarily be a carefully orchestrated effort and we are optimistic that the positive changes made will be sustained in to the future. All staff were trained in change management and champions were selected to drive change in the branches and business verticals which enhanced awareness of initiatives and the rationale for change. A robust performance management system linked to incentive schemes for individuals which was key to winning employee support and retention of high performers. Internal



## *General Manager / CEO* **Review**

*"We pursued our vision of becoming a bank for the co-operative sector which thrives in both urban and rural areas, tapping in to over 3000 active Sanasa societies which gives us direct access to over 1 Mn households."*

## General Manager/CEO Review

*"A clear vision and strategy supported by efficient systems and an inspired team provides a strong foundation for growth in the future."*

disputes with the employee trade union were sorted out with the signing of a collective agreement paving the way for mutually beneficial employee relations. We also commenced a job review which will be completed in the first quarter of 2018 further streamlining operations, strengthening a sales culture and enhancing scalability and productivity.

### A Holistic Performance

Strong growth of 24% in Loans and Advances which closed the year at Rs.66.7 Bn accounted for 81% of total asset growth reflecting the sales focused culture resulting from the changes enumerated above. Deposits increased by 31% to Rs.59.9 Bn accounting for 73% of funding of the Bank's operations as focused marketing to the identified segments yielded results.

Tier I capital was strengthened with the issue of a scrip dividend amounting to Rs.234 Mn and a private placement of Rs.1.46 Bn to International Finance Corporation (IFC), SBI-FMO Emerging Asia Financial Sector Fund PTE Ltd., and Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden. These parties have been associated with SDB providing technical expertise and consultancy services and we welcome the strengthening of these mutually beneficial relationships.

Profit growth of 26% to Rs.508 Mn was strongly supported by increased Net Interest Income and Fee & Commission income which grew by 17% and 36% to Rs.3.8 Bn and Rs.0.28 Bn respectively underpinned by broad based growth. Impairment losses increased to Rs.294 Mn in 2017 compared to Rs.125 Mn in 2016 as a result of collective impairment increment. Substantial loan growth recorded during the year and the review of thresholds identifying loans subject to impairment contributed to the increase in this collective impairment. Personnel and Other expenses increased by 16% and 21% respectively reflecting the costs of initiatives implemented during the year.

Accordingly, capital adequacy ratios improved for both Tier I capital ratio and total capital ratio to 12.42% and 14.59% reflecting strengthening of the Bank's funding base and positioning SDB for growth.

### A Positive Outlook

A clear vision and strategy supported by efficient systems and an inspired team provides a strong foundation for growth in the future. Plans to step in to a digital banking era which will support tablet banking are scheduled for completion towards the middle of 2018 supporting agency banking with selected Sanasa Societies. Digitisation will exponentially increase our access to markets enabling efficient delivery of a host of financial services supporting scalability in operations. We have also retained consultancy services to strengthen risk management, treasury management and post credit management as we move towards an Enterprise Risk Management framework. An Environmental and Social assessments for SME facilities is being implemented as we seek to mitigate the impacts of climate change and uphold human right through responsible banking.

We also have a solid capital management plan in place, factoring gradual increases to ensure that regulatory requirements are maintained, carefully balancing dividend policy and capital adequacy. Impacts of transitioning to Basle III and IFRS 9 have been assessed and we are comfortable due to prudent levels of provisioning in the past. We believe that the transition will be smooth although provisioning levels may increase in subsequent years as the product mix changes and impact of past provisioning wanes.

Upgrading of the country's rating outlook from negative to stable by S&P is welcome and highlights the efforts made to stabilize the fiscal and monetary policy. Strengthening of trade flows in 2018 also augurs well for economic growth. SDB is



well aligned to support the government agenda for supporting the growth of SMEs extending the customer lifecycle as many start out with us. Competition has intensified within the banking sector with most players competing in the same market. However, we believe we have a strong competitive edge in our chosen market segments with connections developed over decades as we look back to our roots in the Sanasa movement.

### Acknowledgements

Our performance is underpinned by strategic guidance and a commitment to execution. I wish to thank my team and the staff for their support in embracing change and delivering the results set out in this annual report. Our course was charted by the Board and I am extremely appreciative of their guidance and support in navigating a year of transformation for the Bank. I also extend my appreciation of the guidance provided by officials of the Central Bank of Sri Lanka on regulatory matters. The Sanasa Societies have supported the Bank since inception and we thank them for their continued patronage.

SDB has been a bank that has supported the socio economic growth of communities with deep insights in to their issues and concerns. We look forward to a future leveraging our strengths to compete effectively and grow – together.



**Nimal C. Hapuarachchi**  
General Manager/CEO

26th February 2018  
Colombo, Sri Lanka

## Board of Directors



- 01. Ms. Samadanie 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. Jayantha Kumara Newunhella - *Independent, Non-Executive Director*

### Ms. Samadanie Kiriwandeniya

Chairperson- Non-Independent, Non-Executive Director  
Appointed as Chairperson in 2011.

#### Skills and experience

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. She holds a Bachelors Degree in Sociology from the University of Peradeniya and Masters Degree in Sociology from University of Saskatchewan, Canada.

#### Current appointments

She holds Directorship of SANASA Campus Ltd., Uththamavi Guarantee Limited, SANASA Travels (Pvt) Ltd. and SANASA International Company Limited.

#### Previous appointments

Senior Manager, Deputy General Manager (International Relations SDB PLC) and National Coordinator - Post - Tsunami Programme.

### Mr. Lakshman Abeysekera

Senior Director- Independent, Non-Executive Director  
Appointed to the Board in 2013.

#### Skills and experience

A professional with over 26 years of experience in fields of Accounting, Finance and Management. He 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 the Institute of Postgraduate Management, University of Sri Jayewardenepura.

#### Current appointments

Director of Janrich (Pvt) Ltd., Janrich Foods Ltd. and NovEx Pharmaceuticals Limited and Independent, Non-Executive Director of People's Insurance PLC.

#### Previous appointments

Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Member of the Governing Council of AAT Sri Lanka, Accountant at Hoechst (Ceylon) Limited and Senior Accountant at Lankem Ceylon Limited.



05. Prof. Sampath Amaratunge - Independent, Non-Executive Director  
06. Mr. M. K. Lalith Fernando - Independent, Non-Executive Director  
07. Mr. Prabhash Subasinghe - Non-Independent, Non-Executive Director

08. Mr. Navindra Liyanaarachchi - Non-Independent, Non-Executive Director  
09. Mr. S. Lionel Thilakarathne - Non-Independent, Non-Executive Director  
10. Mr. Arnoldus de Vette - Non-Independent, Non-Executive Director

### Mr. H.M.G.B. Herath

Non-Independent, Non-Executive Director  
Appointed to the Board in 2009.

#### Skills and experience

He has wide range of experience in the fields of Auditing and Administration and has served in many senior positions in the SANASA Group.

#### Current appointments

Serves as a Registrar of the Registrar General's Department of Sri Lanka from 2014 up to date. He possess four years of experience as a Director of Rideegama MPCs Ltd. He is the Chairman of Sanasa Society of Kandapola for 35 years and Chairman of Rideegama SANASA Shareholders Trust Company Ltd for 08 years.

#### Previous appointments

Acting Assistant Director Administration in the Agricultural Development Authority, Executive Director of the Sanasa Federation of Sri Lanka and Vice Chairman of Kurunegala District Co-operative Council. He has five years of experience as an Internal Auditor in a leading Private firm.

### Mr. Jayantha Kumara Newunhella

Independent, Non-Executive Director  
Appointed to the Board in 2016.

#### Skills and experience

Possess over 39 years of experience in the field of Banking. During his career he has been involved in 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 has obtained professional Training on Commercial & Branch Banking in Pakistan, International Business in HSBC London and Germany, Trade Finance in Tokyo Japan. He holds a B.Sc (Mgt) and a MBA from the University of Sri Jayewardenepura. 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). He was the Management Representative (MR) of the ISO project which brought ISO 9001: 2008 certification to People's Bank for the first time in its history. He implemented the E-Desk for trade finance system development and for regularization of SWIFT system.

#### Current appointments

Management Consultant at Postgraduate Institute of Management.

#### Previous appointments

President of Trade Finance Association of Bankers (TFAB)

## Board of Directors

### Professor Sampath Amaratunge

Independent, Non-Executive Director  
Appointed to the Board in 2016.

#### Skills and experience

He counts over 27 years of service as a leading academic at the University of Sri Jayewardenepura. He has published more than 75 Articles in international and national refereed journals and proceedings. He holds a B.A. (Hons.) in Economics from the University of Sri Jayewardenepura and M.A. in Economics from the University of Colombo. He also holds a MSc. in Economics of Rural Development from the Saga National University and a Ph.D. from Kogoshima National University in Japan. 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.

#### Current appointments

Vice-Chancellor of the University of Sri Jayewardenepura

#### Previous appointments

Member of University Grants Commission and Chairman of the Federation of University Teachers Association (FUTA).

### Mr. M.K. Lalith Fernando

Independent, Non-Executive Director  
Appointed to the Board in 2016.

#### Skills and experience

Senior Banker with over 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 four Banks operating in Sri Lanka.

#### Previous appointments

Head of Corporate Banking and COO of Standard Chartered Bank, Head of Personal Banking, Head of Corporate and Head of Commercial Banking Development at People's Bank, Head of Credit Risk Management at Nations Trust Bank, Chief Risk Officer at Pan Asia Bank.

### Mr. Prabhash Subasinghe

Non-Independent, Non-Executive Director  
Appointed to the Board in 2017.

#### Skills and experience

A leading entrepreneur and an established leadership record in diverse industries including rubber, seafood, insurance and banking. He holds a BSc. in Applied Economics and Business Management from Ivy League Cornell University with further studies in Harvard, INSEAD and the Centre of Creative Leadership-Colorado USA.

#### Current appointments

Managing Director of Global Rubber Industries (Pvt) Ltd which sells its products in over 50 countries, Managing Director of Global Seafoods (Pvt) Ltd- a supplier of high quality sea food, Chairman of Sri Lanka Association of Manufacturers and Exporters of Rubber Products, Board Member of Sri Lanka Society of Rubber Industry and a key advisor for the National Export Strategy.

#### Previous appointments

President of the seafood Exporters Association.

### Mr. Navindra Liyanaarachchi

Non-Independent, Non-Executive Director  
Appointed to the Board in 2017.

#### Skills and experience

He has extensive experience in grass root level community development particularly in microfinance and poverty alleviation. He has been actively involved in steering donor funded projects and partnership with international organizations. He is a Graduate in Agricultural Economics from University of Ruhuna and has obtained the Commonwealth Youth Programme Diploma in Youth Development Work from the Open University of Sri Lanka. He also holds a Diploma in Environment Conservation and Natural Resources Management from the Centre for Environment and Nature Studies. He has extensive exposure to credit union based co-operative banking activities in Vietnam, Singapore, India, Indonesia, Malaysia, Thailand, South Korea, China, Nepal and Taiwan. He is a Member of the Institute of Certified Professional Managers of Sri Lanka.

#### Current appointments

CEO/General Manager of the Sanasa Federation, Deputy Chairman of SANASA Printers and Publishers Ltd., Director of SANASA Campus Ltd. and Member of Environmental Professionals Association.

#### Previous appointments

Consultant at Lanka Micro Finance Practitioners Association.

## Mr. S. Lionel Thilakarathne

Non-Independent, Non-Executive Director

*Appointed to the Board in 2017.*

### Skills and experience

He has extensive experience in Project Management and Participatory Project Planning and Implementation in rural areas. He has been actively engaged in implementing many community development programmes in Agriculture and Fisheries. He is also an experienced trainer, having developed a training curriculum for TOT training on establishing Community Governance and has conducted numerous training programmes. He has published 3 books on Participatory Governance. Mr. Lionel Thilakarathne holds a Diploma in Management from the Open University of Sri Lanka.

### Current appointments

Chairman of Nikaweratiya Sanasa Union Ltd, Executive Director of Rural Centre for Development, Treasurer of Green Movement of Sri Lanka and Director of Governance Forums of Sri Lanka.

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## Mr. Arnoldus de Vette

Non-Independent, Non-Executive Director

*Appointed to the Board in 2017.*

### Skills and experience

He holds over 25 years' experience in Banking and Finance including international experience in responsible financing, with expertise in training and knowledge transfer. Mr. Arnoldus de Vette holds a Masters Degree in Economics from Erasmus University Rotterdam. He holds two Doctorates from Erasmus University Rotterdam, Netherlands and has followed courses including all NIBE Dutch Banking Courses, Asset Liability Management, Compliance and Corporate Governance among others. At FMO, his responsibilities include structuring debts and equity transactions in the South East Asian/Central Asian region and monitoring and guiding these transactions.

### Current appointments

Executive Vice President SBI-FMO Financial Sector Fund in Singapore.

### Previous appointments

Senior Investment Officer at Triodos Investment Management, Trainer and VP of ABN Amro Bank Academy.



## Corporate Management Team



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- 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*





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- 5 **Mr. H.C. Lokugeegana** - Chief Risk Officer  
*MBA, B.B. Mgt. (HR) Sp., AIB, Dbirm (IBSL), AMIPM, MAAT, ACC Dir. SL*
- 6 **Ms. Y.A.D.A.D.P. Seneviratne** - Head of Business  
*Master of Public Administration (Colombo), Diploma in International Commercial Arbitration (University of London), Solicitors Final Examination (Law Society, UK), Attorney-at-Law*
- 7 **Mrs. Tamarika Rodrigo** - Assistant General Manager/Company Secretary  
*Attorney-at-Law, Notary Public, ACC Dir.SL*
- 8 **Mr. Terrance Kumara** - Head of Finance  
*MBA (USQ), FCA, ACMA (SL), MAAT*
- 9 **Mr. Sameera D. Liyanage** - Head of Marketing & Co-operative Development  
*MCIM (UK), MSLIM, PG Dip. in Marketing (CIM), Chartered Marketer*
- 10 **Ms. W.N. Ranmalie Fernando** - Head of Human Resources  
*MBA (Colombo), National Dip. in T&D (SLITAD), ACMA, AITD (SL)*

## Senior Management Team



1. Mrs. P.C. Liyanage - Head of Legal	LLB, Attorney-at-Law, Notary Public, Commissioner of Oaths, Company Secretary
2. Mr. K.A.I.D. Dayananda - Chief Manager - Internal Audit	ACCA(UK),FABE (UK),MBA-Banking Mgt (Sikkim Manipal India)
3. Mr. K.K.S.U. Kumara - Chief Manager - Administration	B.Sc. (Mgt)
4. Ms. K.K.C.J. Dassanayake - Chief Manager -Southern Region	B.Sc. Agri., MSc (Hons), AIB
5. Mr. E.A.L.S. Edirisuriya - Chief Manager -Western Region 1	Dip.in Finance & Bank Mgt., Investment Advisor Certified by CSE.
6. Mr. W.T.R. Prabath - Chief Manager - Human Resources Management	MBA (Honolulu), B.Sc. (Physics -Special)Hons, Higher Dip. in Advanced Finacial Mgt, Dip. in Business Mgt., Dip in Financial Mgt, AUKAP(UK)



1. Mr. G.A.S. Wimalarathne - Chief Manager - North Central Region	B.A (Hons) Business Statistics, Post Graduate Dip. - Business Statistics
2. Mrs. P. Krishani Enoka - Head of Treasury	B.Sc. (Phy.Science) Hons, AIB, Dip.in Treasury Investment and Risk Mgt.
3. Mr. P.G. Sunil - Chief Manager - North Western Region	B.Sc. Business Administration (Sp)
4. Mr. B.W.S. Premarathne - Chief Manager – Central Region	MBA (UK),B.Com (Special), MCIM (UK), MSLIM, MAAT, HNDA, Chartered Marketer.
5. Mrs. M.H. Attanayake - Head of Credit	B.Sc. Agri. (Hons), M.Sc. Agri
6. Mr. P.W.K.J.R. Chandrasiri - Chief Manager - Sabaragamuwa Region	B.Sc. (Mgt. & Administration - Special) (USJP)



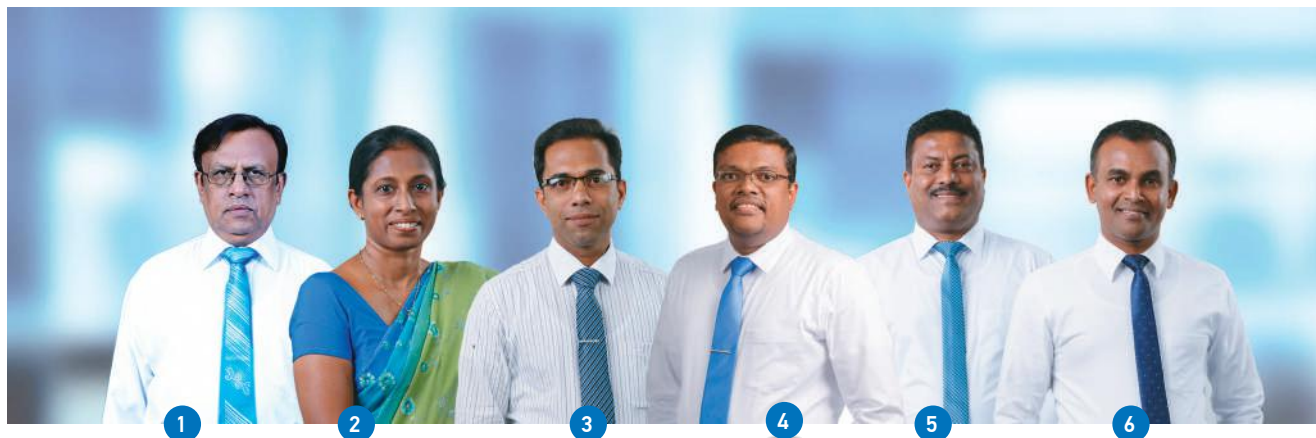
1. Mrs. M.M.Y.L. Muththunga - Chief Manager – Systems & Operations	B.Sc. Hons.
2. Mr. J.P. Dinil Perera - Chief Manager - Information Technology	Project Management Professional (PMI), Certified Information Systems Auditor (ISACA), Intermediate Banking Diploma (IBSL)
3. Mr. P.D. Dhammika - Chief Manager - Co-operative Development	B.Sc. Management (Public) (Special), DABF (IBSL), Dip. in Micro Finance (IBSL), Dip. in SME (IBSL), MCPM
4. Mrs. K.V.R. Jeewanthi - Senior Manager - Research & Refinance	B.Sc. Business Administration (Special) (SJP), PGD in Community Development (Colombo), Intermediate Banking Diploma (IBSL), Micro Finance Facilitator (CGAP)
5. Mrs. S.N.T. Igalagamage - Compliance Officer	B.Sc. (Agri - Special) Hons., Dip.in HRM, MIMSL
6. Mr. A.M. Nimal Chandra - Senior Manager - Western Region II	B.A



1. 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)
2. Mr. W.H.M.U.B. Welikumbura - Senior Manager - Retail Liabilities & Fee Based Services	MBA (Pera), PGDM, MSLIM, BMS, Associate APB
3. Mr. R.A.C.N. Rathnayake - Senior Manager - Matale Branch	B.Sc. Accountancy & Finance (SP.) Hons, Registered Trainer & Consultant (Ministry of Public Management Reforms)
4. Ms. P. R. Perinpanayagam - Senior Manager - Integrated Risk Management	FCCA (UK), B.Sc.Hons Applied Accounting (UK), CFA Level 3 Completed
5. Mr. V.K.L. Sugumar - Senior Manager - Northern Region	B.Com, AIB (SL)
6. Mr. M.J.H. Perera - Senior Manager - Rikillagaskada Branch	B.Sc. Business Administration (Sp)



## Senior Management Team



1. Mr. K.B. Rathnayake - Senior Manager - Uva Region	B.A. (General), M.A
2. Mrs. N.N. Edirisinghe - Head of Credit Administration	B Sc (Colombo), Intermediate Banking Diploma (IBSL), Certificate in Hire Purchase and Lease Financing (IBSL), ACS
3. Mr. P. Senadeera - Senior Manager - Kiribathgoda Branch	PG. Dip. in Economic Development (Colombo), AIB, DBF (IBSL), Diploma in Finance & Bank Management (IBSL), Intermediate Banking Diploma (IBSL), Diploma in SME Finance (IBSL), MAAT, ATII (SL)
4. Mr. D.H. Gamage - Senior Manager - Matara Branch	Intermediate Banking Diploma (IBSL), Advanced National Diploma in HRM
5. Mr. A.S. Perera - Senior Manager - Uva Regional Office	B.A., Intermediate Banking Diploma (IBSL), National Certificate in Technology (Civil Engineering),
6. Mr. K.B.S. Kumara - Senior Manager - Credit Assessment	BA (Special), Diploma in Micro-finance (IBSL), CBF (IBSL)



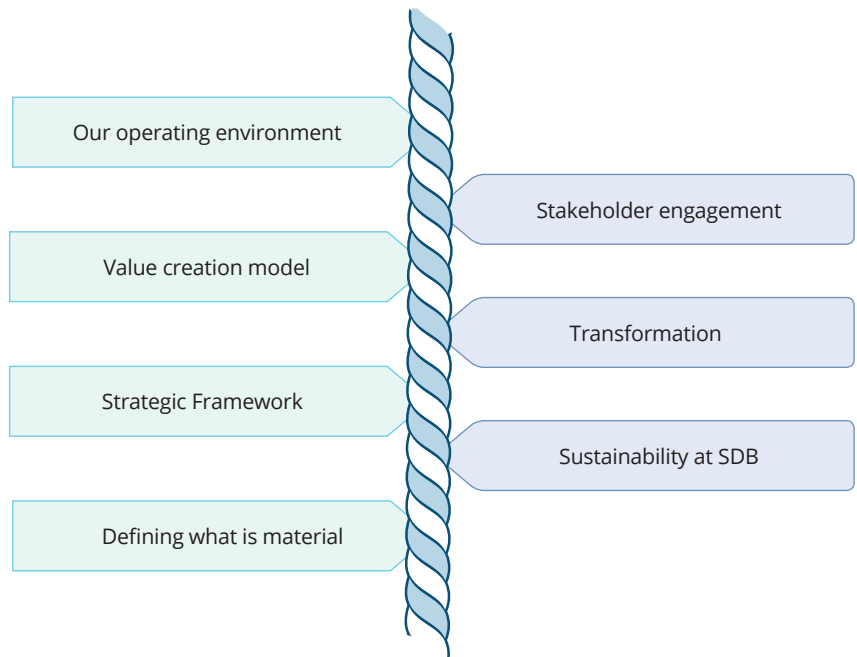
1. Mr. B.A.I. Wickramarathne - Senior Manager - Inspection & Audit	AIB, B Sc Applied Accounting (Oxford Brookes), DBF (IBSL)
2. Mr. W.V.P.A. Samantha - Divisional Head - Leasing Assessment	B Com (Special), AIB, DBF (IBSL)
3. Mr. K.H.P.P.K. Gnanasiri - Senior Manager - Ampara Branch	BA (Special)
4. Mr. W.D.S.D. Mahathanthila - Senior Manager - Finance	PG. Dip. in Business & Financial Administration (ICASL), B Sc Applied Sciences (Rajarata),
5. Mr. P.K.A.D.S. Perera - Senior Manager - Co-operative Credit Assessment	AIB, B Com (USJP), DBF (IBSL)
6. Mr. U.K.B. Aravinda - Senior Manager - Business Planning & MIS	B Sc Business Administration (USJP), CBA (ICASL)
7. Mr. H.M.M. Herath - Senior Manager - Information Technology Infrastructure	M Sc. Computer Systems & Networking, B Sc. Computing & Information Systems, Microsoft Certified Professional, CIW Security Analyst, CISCO Certified Network Associate (CCNA), Microsoft Certified Systems Engineer on Microsoft Windows 2000, Microsoft Certified Systems Administrator, Microsoft Certified Database Administrator on Microsoft SQL Server



*Our Strategy and*  
**TRANSFORMATION**

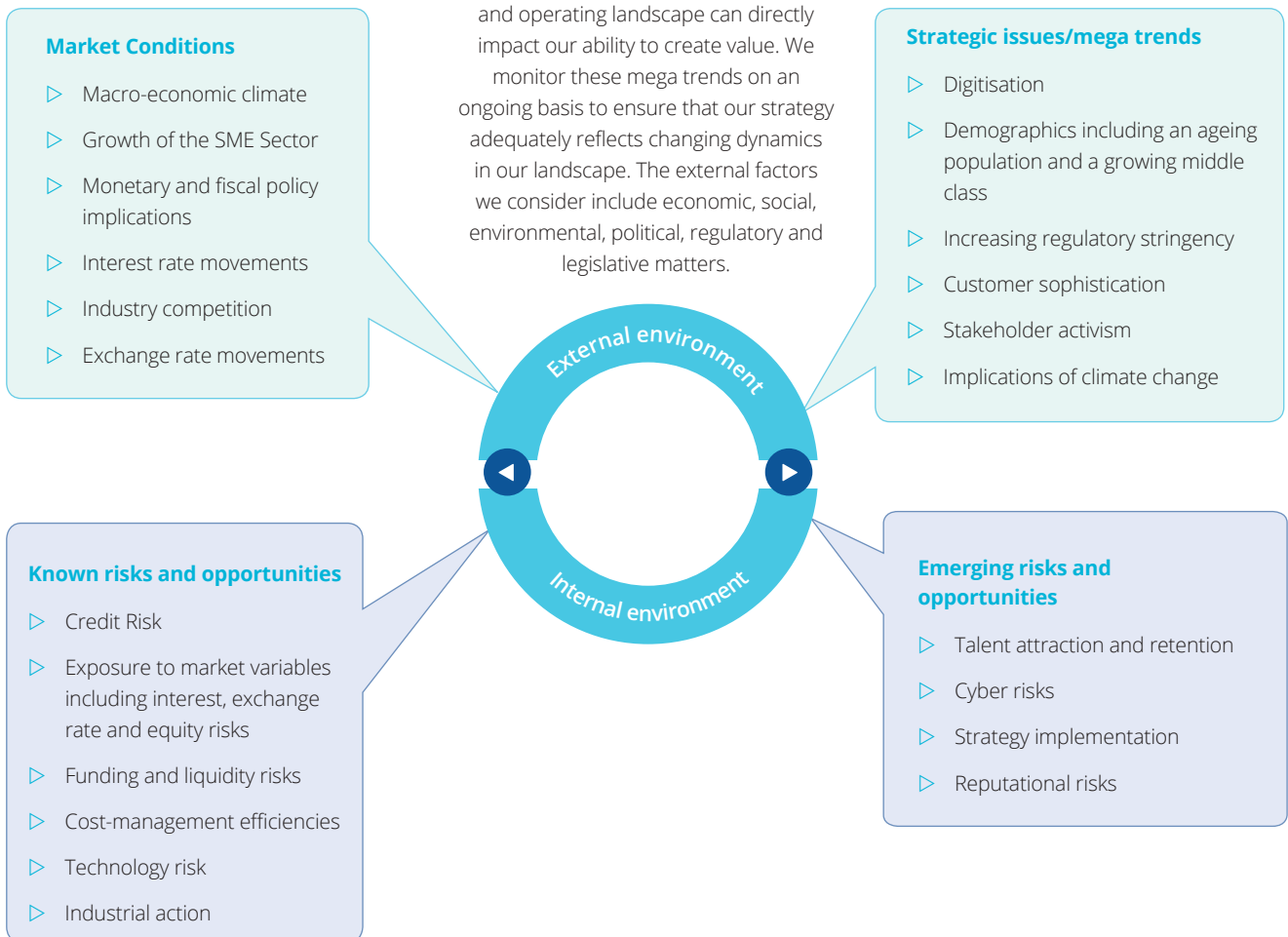
# Strategy and Transformation

This Chapter aims to provide readers with an understanding of developments in the operating context which shaped our performance during the year, and how strategy was formulated to ensure the creation of shared value. The section also provides insight on the Bank's current transformational agenda.



## Our Operating Environment

Dynamics in our external environment and operating landscape can directly impact our ability to create value. We monitor these mega trends on an ongoing basis to ensure that our strategy adequately reflects changing dynamics in our landscape. The external factors we consider include economic, social, environmental, political, regulatory and legislative matters.





## Stakeholder Engagement

Understanding and effectively responding to the concerns of our various stakeholders is critical in delivering on our core purpose. Stakeholder considerations are therefore a key input in our strategy formulation and we engage with our stakeholders through numerous formal and informal platforms. In selecting stakeholders to engage with, we consider entities and individuals that can reasonably be expected to be significantly affected by the Bank's activities, products and services; and whose actions can reasonably be expected to affect the ability of the Bank to successfully implement strategies to achieve its objectives. The mechanisms we use for engaging with our stakeholders is given below;

### Investors

- ▷ Annual General Meeting
- ▷ Publication of Annual Report
- ▷ Quarterly earnings updates
- ▷ Press releases and announcements to the CSE as and when required
- ▷ Investor relations tab on the Corporate website *(ongoing)*
- ▷ Face to face engagement when required

### Sanasa Societies

- ▷ Annual General Meeting
- ▷ Direct Engagement with the dedicated department *(ongoing)*
- ▷ Sanasa Society Consultation meetings *(ongoing)*
- ▷ Quarterly one-to-one financial presentation meetings

### Employees

- ▷ Annual performance appraisals
- ▷ Induction and training programmes *(ongoing)*
- ▷ Multi-level staff meetings *(ongoing)*
- ▷ Monthly regional meetings
- ▷ Work-life balance initiatives *(ongoing)*
- ▷ Discussions with union representatives *(ongoing)*

### Customers

- ▷ Customer surveys and site visits *(ongoing)*
- ▷ Engagement through branches *(ongoing)*
- ▷ Formal grievance mechanism *(ongoing)*
- ▷ Suggestion boxes *(ongoing)*
- ▷ Press releases *(ongoing)*

### Regulators

- ▷ Industry forums and meetings with the CBSL *(ongoing)*
- ▷ Ongoing reporting to the CBSL
- ▷ Surveillance audits *(ongoing)*
- ▷ Announcements to the Stock Exchange *(ongoing)*

### International Agencies

- ▷ Periodic fact finding visits
- ▷ Annual reviews
- ▷ Direct engagement with consultants *(ongoing)*

### Communities

- ▷ Engagement through branches *(ongoing)*
- ▷ Community initiatives *(ongoing)*
- ▷ Community visits *(periodic)*

## Stakeholder Engagement

Key stakeholder concerns raised in 2017 and how we responded to these considerations are given below;

Stakeholder	Concerns and topics of interest	Strategic Response	Connectivity to material topic
Investors	<ul style="list-style-type: none"> <li>▷ Adequate return commensurate with risk undertaken</li> <li>▷ Growth prospects</li> <li>▷ Strong corporate governance risk management practices</li> <li>▷ Maintaining reputation</li> </ul>	Pursuing growth prospects, particularly in the MSME segment and enhancing profitability is a key pillar of our strategic agenda. We continue to maintain robust governance and risk management practices which extend beyond regulatory requirements to embrace industry best practice.	<ul style="list-style-type: none"> <li>▶ Earnings growth and profitability</li> </ul>
SANASA Societies	<ul style="list-style-type: none"> <li>▷ Adequate return commensurate with risk undertaken</li> <li>▷ Dilution of shareholding following public listing</li> <li>▷ Return on investment</li> </ul>	Our strategic ambitions and growth prospects are expected to provide SANASA Societies with an adequate return on investment. We also provide technical guidance on share trading and other aspects related to the functioning of the CSE.	
Employees	<ul style="list-style-type: none"> <li>▷ Job Security</li> <li>▷ Attractive remuneration</li> <li>▷ Opportunities for career progression</li> <li>▷ Opportunities for skill development</li> <li>▷ Work-life balance</li> <li>▷ Conducive work environment</li> </ul>	We provide a unique employee value proposition centred on an open-door communication policy, numerous opportunities for training and career progression and fair remuneration benefits.	<ul style="list-style-type: none"> <li>▶ Employee skill development</li> <li>▶ Employee value proposition</li> </ul>
Customers	<ul style="list-style-type: none"> <li>▷ Affordable financial solutions</li> <li>▷ Accessibility</li> <li>▷ Good customer service</li> <li>▷ Professionalism of employees</li> <li>▷ Efficient delivery channel</li> <li>▷ Inclusive banking</li> <li>▷ Mechanism for presenting grievances</li> </ul>	We have nurtured long-term and intimate relationships with our customers by maintaining a close engagement and personalised customer service. We consistently strive to optimise the branch network to ensure enhanced accessibility to customers.	<ul style="list-style-type: none"> <li>▶ Customer service</li> <li>▶ Inclusive lending</li> <li>▶ Responsible lending</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>▷ Compliance to relevant regulations</li> <li>▷ Regular reporting to the CBSL</li> <li>▷ Strong governance and risk management practices</li> <li>▷ Ethical and transparent business practices</li> <li>▷ Promoting financial inclusion and regional development</li> </ul>	As an inclusive bank with a strong presence in the country's rural segment, the Bank's strategy is directly aligned to the country's growth strategy. During the year, we maintained full compliance to all relevant regulations and guidelines.	
International agencies	<ul style="list-style-type: none"> <li>▷ Transparency and strong governance practices</li> <li>▷ Effective implementation of strategy</li> <li>▷ Promoting financial inclusion and regional development</li> </ul>	We obtain technical support and consultancy services from these agencies and adopt a proactive and systematic approach towards implementing the Bank's strategic agenda.	<ul style="list-style-type: none"> <li>▶ Inclusive lending</li> </ul>
Communities	<ul style="list-style-type: none"> <li>▷ Responsible business practices</li> <li>▷ Employment generation</li> <li>▷ CSR activities</li> <li>▷ Minimising adverse social and environmental impacts of business</li> <li>▷ Promoting financial inclusion within communities</li> </ul>	Ongoing strategic CSR activities have enabled us to develop meaningful relationships with the communities we operate in. Our linkages with the rural co-operative society network has also supported our community relationships.	<ul style="list-style-type: none"> <li>▶ Preserving the environment</li> <li>▶ Corporate Social Responsibility</li> </ul>

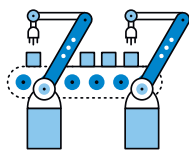


***With Best  
Compliments  
From***

**SDB** bank

*Our unique financial solutions were developed taking into account the unique needs and aspirations of our customers.*

## Value Creation Model



### CAPITAL INPUTS- RESOURCES AND RELATIONSHIPS



#### Financial Capital

Shareholders' funds: **Rs. 7,331 Mn**  
 Customer Deposits: **Rs. 59,905 Mn**  
 Borrowings: **Rs. 14,022 Mn**



#### Manufactured Capital

Property, plant and equipment: **Rs. 1,883 Mn**  
 No. of branches: **91**  
 Investment in IT infrastructure : **Rs.128 Mn**



#### Human Capital

Skills, values and attitudes of our **1,363** strong workforce



#### Social and Relationship Capital

Relationships we have nurtured with our customers, business partners, co-operative societies and other stakeholders; these relationships provide our social license to operate



#### Intellectual Capital

The Bank's unique organisational culture as well as systems, processes and procedures in place  
 The SANASA brand



#### Natural Capital

Electricity consumption: **302,741 kWh**  
 Water consumption: **2,222 m3**  
 Fuel consumption: **55,591 Liters**  
 Healthy functioning of the eco-system in which we operate

### OPERATING CONTEXT

Macro-economic fundamentals  
 Fiscal and monetary policy implications  
 Demographic changes  
 Technology  
 Implications of climate change  
*(Page 38)*

### LOANS AND ADVANCES

### DEPOSIT MOBILISATION

### OTHER SERVICES

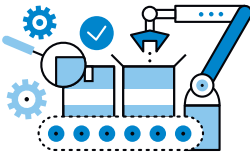
### SUPPORT SERVICES

### PROFIT FORMULA

Revenue generated through,  
 Net interest income: **Rs. 3,887 Mn**  
 Net fee and commission income: **Rs. 275 Mn**  
 Other income: **Rs. 263 Mn**  
**Costs and payments**  
 Loan impairments: **Rs. 294 Mn**  
 Personnel costs: **Rs. 1,474 Mn**  
 Operating expenses: **Rs. 1,556 Mn**  
 Taxes paid to the government: **Rs. 594 Mn**  
*(Page 167)*







**OUTPUTS AND OUTCOMES**

**STRATEGIC PRIORITIES**

- SME penetration
- Performance driven culture
- Digitisation
- Process efficiencies
- Sustainability  
*(Pages 44-46)*

**Shareholders**

- Dividend per share: **Rs. 6.00**
- Net Asset value per share: **Rs. 133.83**
- Share price : **Rs. 101.90**
- Strong governance and risk management practices

**Employees**

- Total payments to employees: **Rs. 1,474 Mn**
- Investment in training: **Rs. 13.4 Mn**
- Promotions in 2017: **135**

**Customers**

- Total loans disbursed: **Rs. 41,464 Mn**
- Interest paid to customers: **Rs. 6,942 Mn**
- Responsible lending practices

**Government/Regulators**

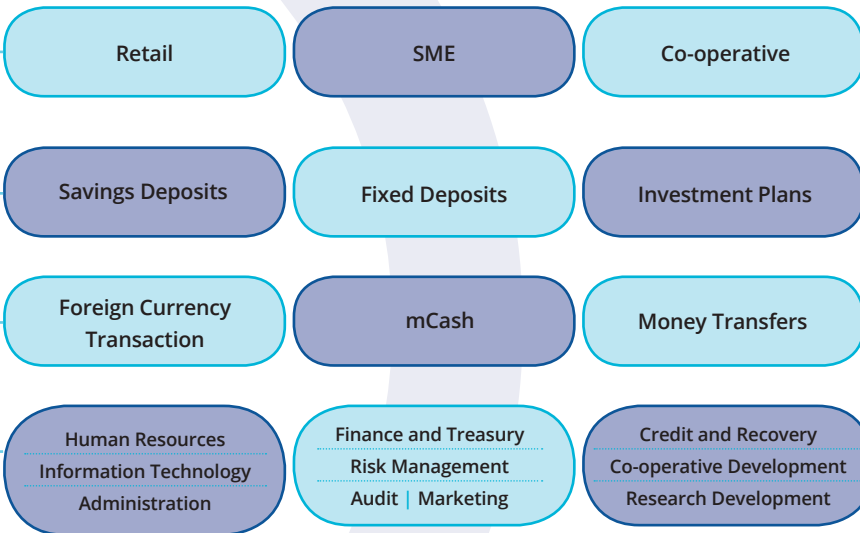
- Tax payments: **Rs. 594 Mn**
- Disbursements through government funding lines: **Rs. 830 Mn**
- Fully compliant with all relevant regulations and guidelines in 2017

**Communities**

- Investment in CSR initiatives: **Rs.17 Mn**
- Total beneficiaries: **36,172**

**Natural Impacts**

- Reduction of electricity consumption: **7%**
- Waste paper recycled: **15,021 Kg**



**VALUE PROPOSITIONS**

**Customer proposition**

Promoting financial inclusion and enterprise expansion through affordable solutions, customer education and excellent customer service.

**Employee proposition**

Providing competitive remuneration, opportunities for skill and talent development in a conducive work environment.

**Shareholders**

Superior returns resulting from well-managed operations and seizing growth opportunities.

**Community**

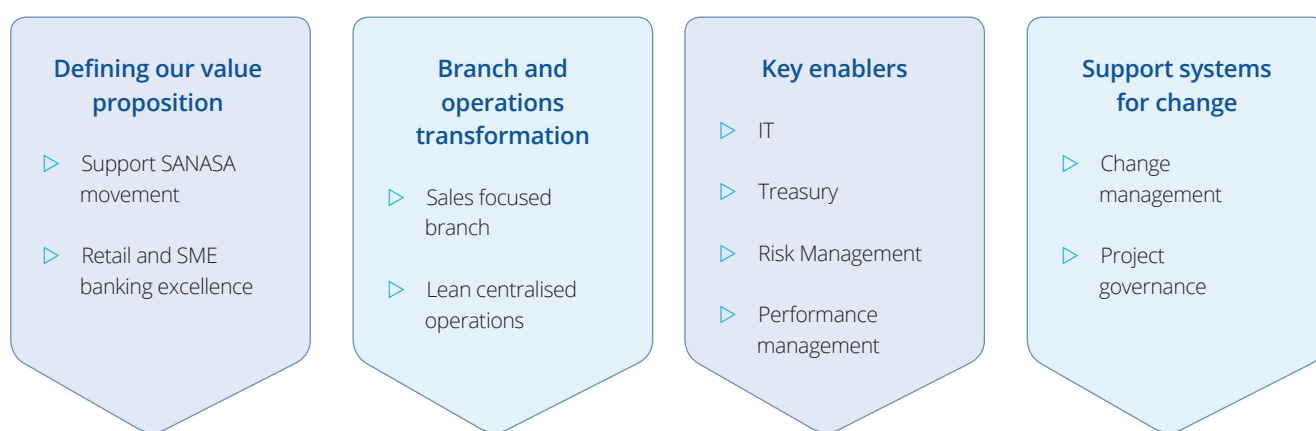
Strategic approach towards building meaningful relationships through ongoing CSR initiatives.





## Our Transformation

SDB entered an era of transformation and growth in 2017, supported by a comprehensive strategic plan developed in collaboration with its new strategic partners. With this transformation, the Bank aspires to be the apex co-operative bank in Sri Lanka and achieve commercial banking status over the medium term. The Transformation encompasses organisational realignment, employee proposition, market differentiation and branch and operations transformation among others. Operations have been classified into several workstreams, namely Strategy development, Branch optimisation, Credit re-engineering, Risk management and treasury, organisational alignment and alternate delivery channels. Objectives, timelines and performance indicators have been defined for each workstream to ensure effective and cohesive implementation of the strategy.



Workstream	Objective
Strategy and CVP Development	Position SDB as the apex bank in the co-operative movement, Improve preparedness to transition to a commercial bank.
Branch optimisation	Increase sales roles and productivity, branch design to improve customer interaction.
Credit re-engineering	Re-engineer processes such as credit assessment, approval, documentation, drawdown and post approval monitoring.
Risk management & Treasury	Review and enhance ALM and investment policies, redefine treasury processes, improve data and systems.
Organisation alignment	Enhance organisational productivity, regroup and realign functions.
Alternative delivery channels	Develop alternative delivery channels such as internet/mobile banking, ATM etc.

## Strategic Framework


In its first year of implementation, the transformation agenda outlined several strategic activities to be launched in 2017. Key among these was the rebalancing of the Bank's advances portfolio to achieve increased contributions from the SME and co-operative segment while gradually reducing exposure to the retail segment. This move is anticipated to strengthen the Bank's positioning in development financing while re-committing the Bank to its founding purpose. During the year, we also laid the foundation to nurture a performance-driven culture within the organisation through launching Quantum Leap- a comprehensive training initiative aimed at equipping our employees with the skills required to drive the Bank's transformation. We also sought to drive process efficiencies through centralising all credit approvals during the year. This initiative was complemented by the implementation of a loan origination system which resulted in significant improvements in the loan turnaround time and consistent application of the Bank's credit policy. In 2017, we also laid the foundation for strengthening the Bank's digital proposition by initiating the development of a mobile banking app, which is expected to be launched in 2018. Embedding sustainability considerations into our lending proposition was also a key priority during the year, and we focused on developing a non-financial-service strategy comprising women's empowerment, financial literacy and customer education. Activities and progress under these initiatives are discussed in detail in subsequent sections of this Report.





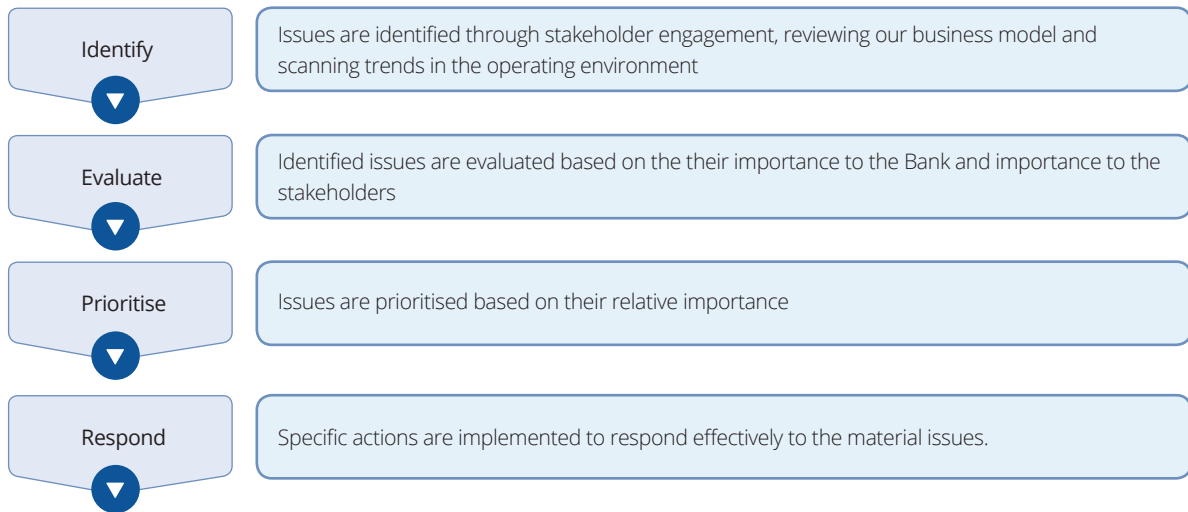
## Sustainability at SDB

As a development-oriented Bank with a strong rural presence, the Bank's core operations are intrinsically linked to the socio-economic progress of the communities we operate in. At SDB, sustainability is a way of life and it is deeply embedded in all our aspects of operations including lending, customer engagement, community initiatives and people management among others. The Bank's unique positioning has also enabled it to contribute towards Sri Lanka's achievement of the UN Sustainable Development Goals which were signed into effect by global leaders in September 2015. The SDGs represent 17 goals and specific targets to be achieved over the next 15 years, with the ultimate objective of ending poverty, ensuring prosperity and protecting the planet.

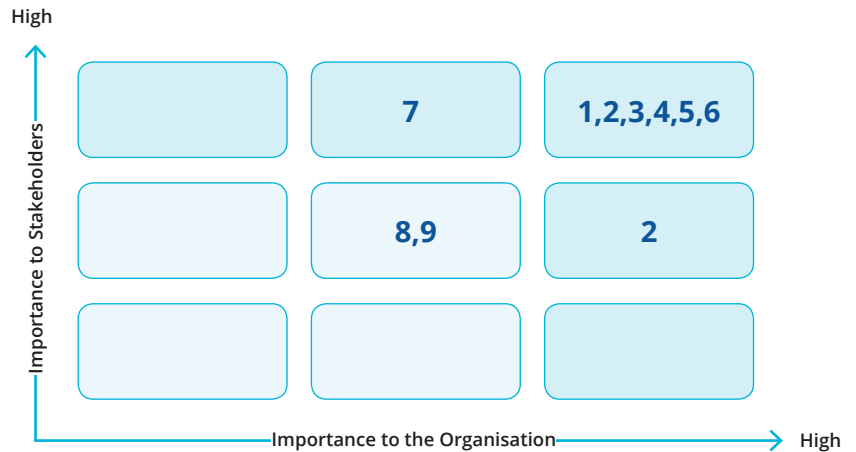
SDG	SDB's contribution
	<p>Our lending products (particularly the micro-financing segment) is targeted towards grassroots level communities, who typically lack access to the formal financial system. Such lending has contributed towards supporting livelihoods, generating employment, socio-economic progress and ultimately poverty alleviation. In 2017, the Bank disbursed Rs. 14,242 Mn to SME including micro-enterprises across the island</p>
	<p>The Bank's strategic CSR initiative, SDB Lakdaru Scholarship Seminars is conducted as an ongoing project and aims to provide access to high quality scholarship examination academic support to children across the island. In 2017, 57 such programmes were carried out in Sinhala and Tamil medium, benefitting more than 35,000 students.</p>
	<p>Empowering women is a key aspect of our sustainability strategy and we disbursed Rs. 20,489 Mn to support entrepreneurial activities of female borrowers. Our dedicated product offering for women, SDB Uththamavi seeks to provide lending and investment opportunities for women at attractive rates. The Bank is also an equal opportunity employer with an overall female representation rate of 49%.</p>
	<p>The Bank provides a conducive work environment for its 1,363 strong team, who are treated with dignity and respect. In 2017 we recruited 198 new employees while 135 were promoted.</p>
	<p>A substantial portion of our lending is channelled towards co-operative societies and directed towards the country's grassroots communities. We are also a participatory institution for channelling government funds for rural development and poverty alleviation at concessionary rates. In 2017, we disbursed Rs. 830 Mn through such credit schemes.</p>
	<p>We ensure that the resources we consume are utilised optimally through a 4R approach to managing natural resources-comprising Reduce, Recycle, Reuse and Refuse, this approach enables the Bank to enhance its energy efficiency, reduce paper and electronic-waste and reduce fuel consumption.</p>
	<p>The Bank has partnered with numerous government institutions to access the most underserved communities in the country and promote socio-economic progress through financial inclusion. These institutions include, the divisional secretariats, Southern Development Authority, Small Enterprises Development Bureau and National Enterprise Development Authority among others.</p>

## Determining Materiality

The content that is included in this Report has been identified and prioritised through a comprehensive materiality analysis process. The material topics represent the issues and considerations that could have the most impact on our ability create value and those that are most critical to the Bank and its stakeholders. These topics are identified by the Bank's senior management and ratified by the GM/CEO. The topics thus identified are reviewed on an ongoing basis to ensure relevance and completeness. The Bank's process for determining material content is given below;



This year, we have widened the scope of our materiality analysis beyond the topics proposed by the GRI guidelines to include topics that are relevant to our industry, value creation model and operating landscape. We have clearly demonstrated how these topics correspond to those recommended by the GRI Standards; the topic material and why we consider the topic material is given in the table below while the management approach for each topic is discussed in the respective sections of the Report.





## Determining Materiality

	Material topic	Corresponding GRI topic	Why it is material and topic boundary	Page reference for further information
1	Earnings growth and profitability	Economic performance	Achieving sustainable growth in earnings is vital in driving shareholder value. The topic boundary is primarily internal; however, the Bank's growth and profitability have a direct impact on its other external stakeholders.	▶ 54
2	Efficient processes	-	Improving the efficiency of processes plays a key role in enhancing profitability and facilitating a better customer experience. The impacts of this topic are primarily internal.	▶ 58
3	Customer service	-	Enhances the customer experience and contributes towards nurturing a loyal customer base. The topic boundary extends beyond our own operations to our customers.	▶ 68
4	Inclusive lending	Indirect economic impacts	Contributing towards poverty alleviation through inclusive lending is one of the Bank's founding objectives. The impacts of this topic would arise externally- among our customers and communities we operate in.	▶ 68
5	Employee value proposition	Employment, diversity and equal opportunity	Employees are vital in driving our strategic ambitions and retaining employees through a holistic value proposition is crucial to long-term value creation. The topic boundary is internal.	▶ 60
6	Employee skill development	Training and education	Quantum Leap encompasses the development of skills that are required to drive the Bank's transformation. Changing attitudes and nurturing a performance driven culture through skill development is an important short-term priority for the Bank. Topic boundary is internal.	
7	Responsible lending	Customer privacy, marketing and labelling	As a responsible corporate citizen, we are committed to ensuring that our lending practices are fair and responsible. This is vital to ensuring the sustainable creation of shared value. The boundary of the topic extends to our customers.	▶ 50
8	Preserving the environment	Raw materials, Energy, Water, Effluents and Waste, Emissions	As a financial services provider our adverse environmental impact is limited; however, as a responsible corporate citizen we strive to ensure that we use natural resources efficiently and minimise our environmental footprint. The topic boundary is primarily internal.	▶ 75
9	Corporate Social Responsibility	Local communities	Contributing to the well-being and socio-economic progress of our communities is an important aspect of our value creation. The topic boundary is external.	▶ 75



*Performance &*  
**VALUE CREATION**

# Performance & Value Creation

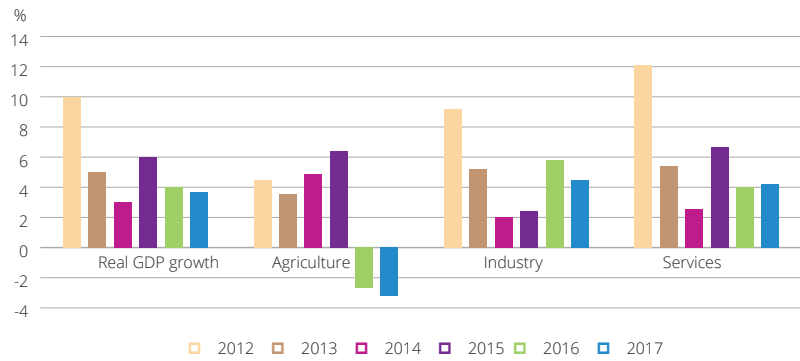
## Economic and Industry Overview

### Economic Performance

#### Material trend: Economic Growth drives demand for loans.

Sri Lanka's economic growth slowed during the nine months ending September 2017, with GDP expanding by 3.1%. The subdued performance reflects adverse weather conditions that severely impacted the Agricultural sector. The Industry Sector grew by 3.9% led by the continued expansion in construction, manufacturing, mining and quarry activities. The Services Sector grew by 4.2%, upheld by financial services, wholesale and retail trade activities real estate and transportation.

Trends in economic growth

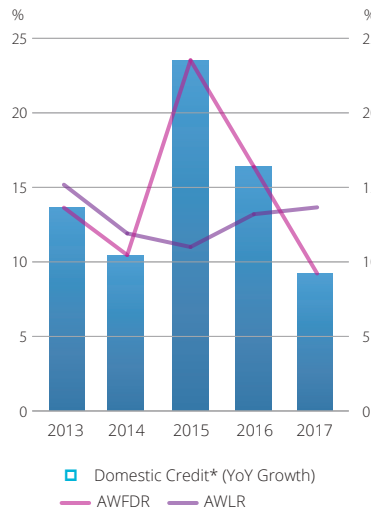


### Fiscal and Monetary policy implications

#### Interest Rates

A relatively tight monetary policy stance was maintained during most part of the year, with a view to addressing inflationary pressures. The policy rate was raised by 25 bps in March 2017, resulting in the Standing Deposit Facility Rate (SDFR) and the Standard Lending Facility Rate (SLFR) increasing to 7.25% and 8.75% respectively. Resultantly, market interest rates moved up during the first half of the year, with financial institutions' deposit and lending rates also escalating. However, rates tapered off towards the second half of the year due to liquidity improvements in the domestic money market.

Growth in domestic credit slowed with increasing market interest rates



Inflationary pressures ease towards the end of the year



**Inflation:** Inflationary pressures increased in 2017 resulting from tax revisions, rising international commodity prices as well as supply constraints of agricultural produce given the adverse weather conditions. The Central Bank's initiative to shift to a Flexible inflation targeting (FIT) model would help in moderating inflation at 5%-6% levels over the medium to long-term.

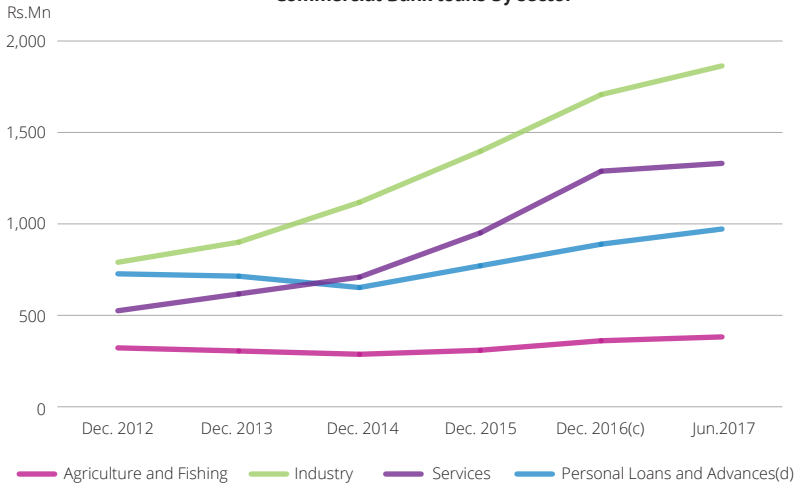
**Money supply** increased by 17% YoY by August 2017 driven by growth in domestic credit and build-up of foreign reserves by the banking sector. Credit to private sector accounted for 77% of the growth in domestic credit.

#### Credit to private sector

Credit to service sector increased by 13% YoY with increasing loans to tourism, wholesale and retail industries. Significant growth in loans to industries were driven by construction primarily housing construction that increased by 23% YoY in 2017.

Credit to private sector Jan - Sept 2017	% of total	YoY Growth
Construction	7.9%	10%
Manufacturing	15%	1.4%
Real Estate	6%	2%
Financial Services	7%	17%
Wholesale and retail	11%	4%
Key Export industries		
Textile manufacturing		4%
Tourism		

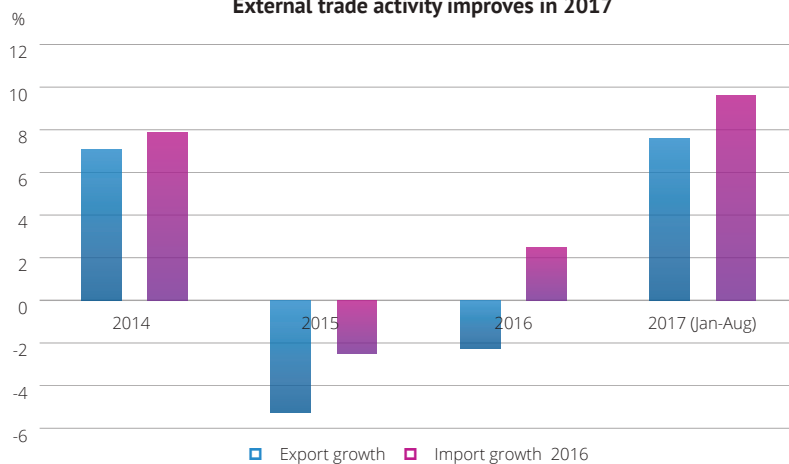
**Commercial Bank loans by sector**



**Other salient Trends**

- Foreign direct investments increased during the year with a rebound in investor confidence post the receipt of the IMF funding in 2017.
- External trade activity improved with the recovery of growth in key export markets and government vision to stabilize GDP growth by improving external trade. The signing of FTAs and re-negotiation of the GSP plus facility enabled a rebound in activity in addition to moderated currency depreciation in line with Government flexible rate policy.
- Progress was made on the policy front with economic reforms targeted towards fiscal consolidation, stabilising macro-economic fundamentals and increasing foreign investment inflows expected to bear fruition over the medium-to-long term.

**External trade activity improves in 2017**



**Economic outlook**

The government's policy reforms and improving international relations are expected to lay a firm foundation for long-term economic development although implications of the recently concluded local council elections could affect political stability. Broad-based reforms targeted towards fiscal consolidation, development of a cohesive export strategy and a renewed drive to attract foreign investments has positioned the country for strong growth, although political will and commitment will be crucial in implementing reforms and achieving the country's growth potential.

**Demographics and customer behaviour**

- Per capita incomes increased by 6.89% YoY in 2016.
- Increasing urbanization with 18% of the population in urban areas compared to 14% in 2001.
- Changing customer needs with the advent of globalization and social networking with customers preferences towards online banking and digital banking.
- Ageing Population with an increasing proportion of the population being 55 and above (13% in 2010) compared 17% by 2016.
- Population growth of 1.1% in 2016 compared to 0.9% in 2015.
- Working population (15 to 59 years) account for 62% of population.

**Digital revolution in financial services**

Digitisation has created a myriad of new opportunities for financial institutions, requiring organisations to continuously innovate and transform to adapt to fast changing customer needs. The digital transformation has also resulted in increased customer sophistication and banks who are unable to deliver customer expectations are likely to see an erosion in competitive edge.

**Sustainability considerations**

The financial services sector is increasingly expected to play a role in facilitating national economic development and supporting the transition to a low-carbon economy. By integrating environmental and social considerations into business strategy, Banks can play a vital role in promoting sustainable development. Meanwhile, failure to effectively manage environmental and social effects may give rise to reputational and/or financial risks in the banking sector.

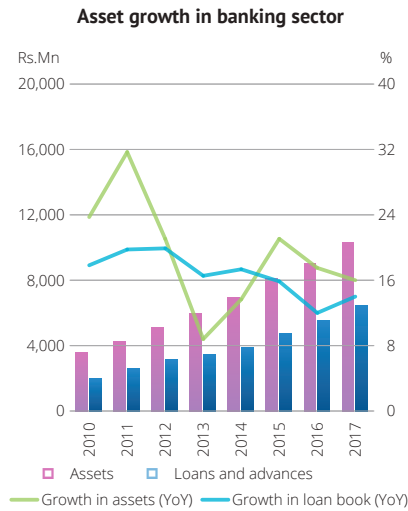




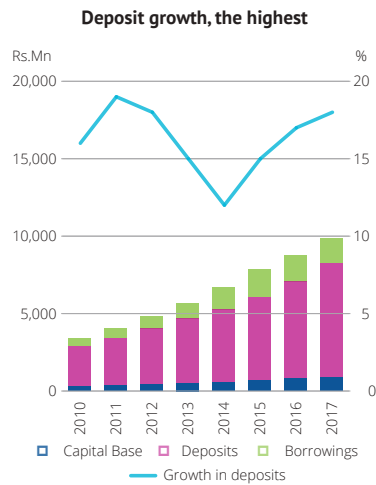
## Industry and Sector Performance

### Banking Industry Performance 2017

Assets increased by 14% YoY driven by loan demand in Construction, trading, manufacturing and consumption sectors. Banks continued to maintain strict credit control despite the loan demand which supported an improvement in asset quality. Gross NPLs declined to 2.5% compared to 2.6% in 2016.

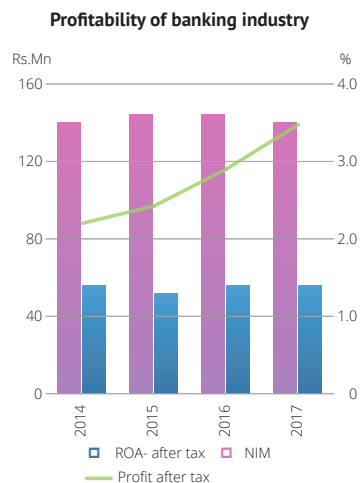


Deposits continue to be the main source of asset funding and increased by 17% YoY driven by significant growth in fixed deposits in line with rising interest rates. Thus, exposure to borrowings declined by (5%) in 2017.



Liquidity improved with tighter capital adequacy requirements.

Tier 1 capital improved by 20% YoY and regulatory capital base increased by 22% YoY.



### Performance of Licensed specialized Banks 2017

#### Assets

#### Account for 13% of banking assets.

During the years assets increased by 13% supported by higher than industry loan growth of 19%

Asset quality improved with NPLs declining to 4.3% in 2017 ( 4.5% in 2016) although it remains above industry levels of 2.5% as LSBs cater to high-risk customer segments.

#### Funding

#### LSBs account for 13% of Banking deposits.

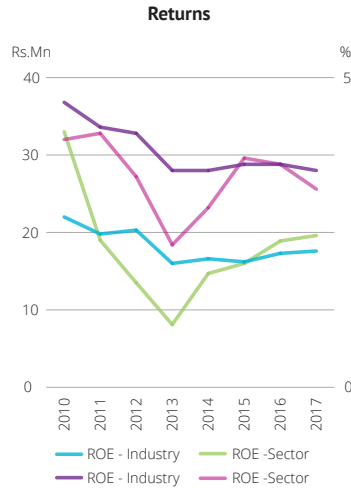
In 2017 deposits increased by 15% albeit intense competition and continued to fund a predominant 71% share of assets. Borrowings increased by 5%.

#### Capital adequacy

Tier 1 capital improved by 9% and total capital base increased by 10% YoY.

**Banking Industry  
Performance 2017**

Profit after tax improved by 19% in 2017 driven by absolute growth in interest incomes though net interest margins narrowed to 3.5% (3.6% in 2016) as cost of funding increased with rising market interest rates.



**Performance of Licensed  
specialized Banks 2017**

Sector profits increased by 11% to Rs. 12 Bn driven by non-interest income. Growth in interest income of 22% was negated by the higher cost of borrowings resulting in a decline in Gross NIMs to 4.3% in 2017 compared to 4.5% in 2016. The key challenge to LSFs are the higher than industry cost to income ratios and declining NIMs that continued to impact average returns. Return on assets (ROA) declined by 1.5% in 2017 (1.6% in 2016).

**Key performance indicators of Industry Vs Sector**

2017	Overall banking industry	Licensed specialized banks
<b>Asset composition</b>		
Loans (% of assets)	62%	46%
Investments (% of assets)	24%	41%
<b>Returns</b>		
ROE	17.6%	19.1%
NIM	3.5%	3.4%
Cost to Income	76%	83%
<b>Asset Funding</b>		
Deposit	71%	71%
Borrowings	16%	19%
Equity	8%	4.7%
<b>Liquidity</b>		
CASA	34.4%	26%
<b>Asset Quality</b>		
Gross NPL	2.5%	4.3%
Capital adequacy ratio	15.2%	15%

## Financial Capital



Capital inputs

Rs. Mn	2017
Shareholders' funds	<b>7,331</b>
Customer deposits	<b>59,905</b>
Borrowings	<b>14,022</b>

**Value creating activities in 2017**

- ▷ Portfolio growth of 24%, enabling top line expansion of 32%
- ▷ Effective cost management
- ▷ Stronger capital base

**Outputs/outcomes**

	2017
Profit after tax (Rs.Mn)	<b>508</b>
Profit growth (%)	<b>26</b>
Earnings per share -Basic (Rs.)	<b>10.18</b>
Dividends per share (Rs.)	<b>6.00</b>

**Strategic priorities for 2018**

- ▷ Increased exposure to the SME sector
- ▷ Centralising credit approvals
- ▷ Operational efficiency

**Challenges**

- ▷ Maintaining strong bottom-line with high operational efficiency

The Bank's Financial Capital comprises the pool of funds that is available for its daily activities and strategic growth plans. During the year the Bank turned in a year of strong performance, achieving revenue and profit growth of 32% and 26% YoY outperforming both sector and five- year average growth of the bank.

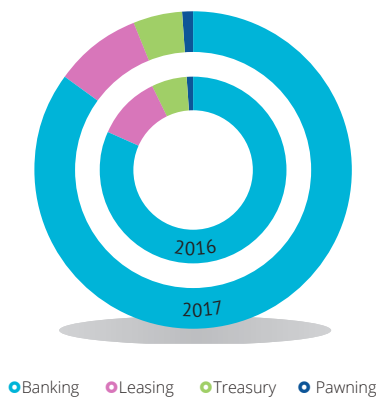
### Key Performance Indicators

	2017 YoY Growth	Five-year average growth	Sector growth 2017
Interest income	<b>32%</b>	24%	28%
Net interest income	<b>17%</b>	16%	12%
Operating Profit	<b>22%</b>	23%	18%
Profit after tax	<b>26%</b>	20%	19%
Gross Lending Portfolio	<b>24%</b>	28%	16%
Deposit	<b>31%</b>	26%	18%

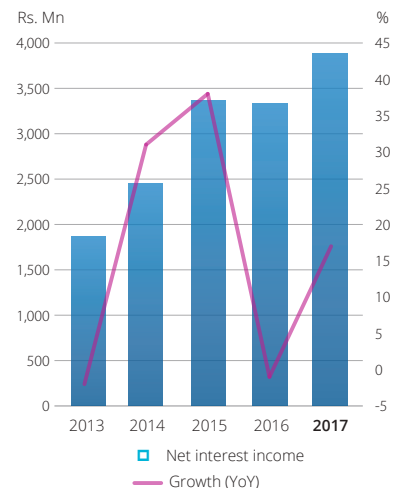
### Net interest income

Interest income increased by 32% YoY to Rs.10,829 Mn, underpinned by commendable expansion in core banking activities and the increasing interest rate scenario. The Bank pursued deeper penetration into the country's MSME segment, as strategic emphasis was placed on rebalancing the portfolio in line with the Transformation agenda. Accordingly, the loan book expanded by 24%, as we adopted a sales-centric approach to pursue customer acquisition as well as deeper relationships with existing customers. This enabled the Bank to achieve above-average portfolio growth despite the moderation in overall economic conditions and inclement weather conditions which affected business growth.

Net interest income composition



Net interest income growth



**Interest expenses**

Interest expenses increased by 43% YoY to Rs 6,942 Mn, reflecting higher interest rates as well as an expansion in deposits and borrowings. Interest on deposits accounted for 78% of interest expenses and increased by 46% YoY, led by 31% growth in the deposit base as depositors preferred high yielding term deposits to savings as the interest difference between the two products widened. Meanwhile, borrowings also increased by 3% during the year, led by the issue of Rs.1.02 Bn subordinated debt resulting in interest expenses on borrowings increasing by 34% YoY.

**Net interest income**

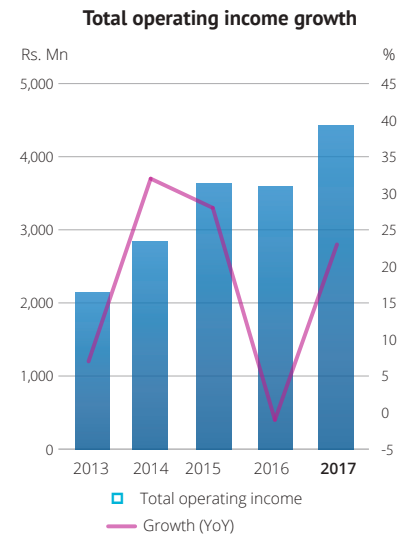
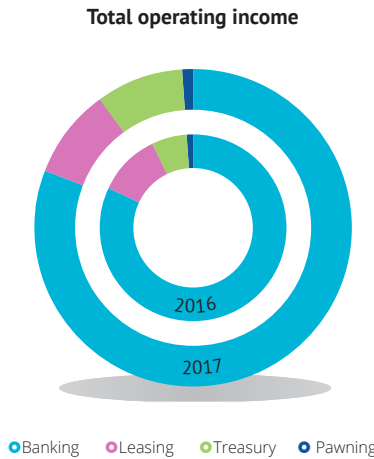
Net interest income driven by absolute growth in interest income was Rs 3,887 Mn in 2017 representing a 17% YoY growth. Absolute growth in interest incomes of Rs. 2,652Mn was driven by the core banking sector that account for 85% of total net interest incomes and marginal growth in the pawning segment. However, leasing and treasury related net interest income declined respectively by 8% YoY and 9% YoY although this was countered by the stronger performance of the core banking activities.

**Net fee and commission income**

Net fee and commission income increased by 36% YoY to Rs 275Mn as fee- based income from loans and other support services such as ATMS and debit cards improved during the year in addition to significant growth in commissions earned from insurance. Growth in lending activity continued to be the core driver of fee-based income and accounted for 62% of net fee and commission income. During the year, we formulated an Alternative Delivery Channel (ADC) strategy which is expected to widen avenues for net fees and commission income over the long-term.

**Total operating income**

The growth in total operating income was less pronounced at 23.3%. Despite the strong interest income growth, total operating income was impacted by higher funding costs resulting from the rising interest rate scenario as well as an expansion in total liabilities.



**Net interest margins**

The net interest margin narrowed from 5.83% in 2016 to 5.57% in 2017, reflecting the faster repricing of short-term deposit liabilities in a rising interest rate scenario. The deposit base tilted more towards high-yielding term deposits, as the interest rate difference between savings and term deposits widened further.

**Impairments**

Impairment charges increased from Rs. 125 Mn in 2016 to Rs.293 Mn in 2017, reflecting an increase in collective impairments. Individual impairments declined to Rs. 3.7 Mn in 2017 compared to Rs.76 Mn in last year. The computation of individual impairments was based on predetermined threshold levels for loans with loans exceeding threshold limits being subject to individual impairments. During the year 0.94% of our loan portfolio was within the predetermined threshold level of the bank enabling the bank to reduce its individual impairments. However, collective impairments charges which considers the Probability of Default (PD) and the Loss Given Default (LGD) of each product portfolio, increased significantly in 2017 reflective of substantial growth in loan book and review of thresholds identifying loans subject to impairment. The Bank took measures to centralise its loan approvals through an integrated information system during the year; this is expected to result in a long-term improvement in credit quality going forward.

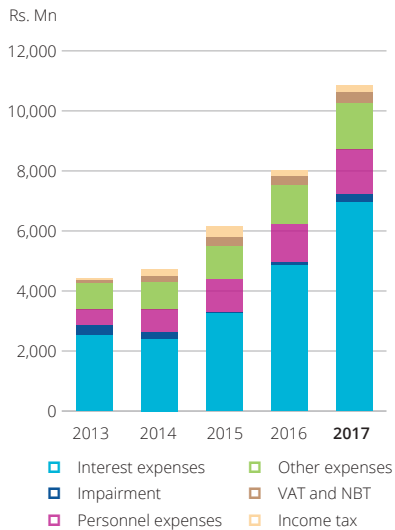
**Operating expenses**

Total operating costs increased by 19% to Rs. 3,030Mn, primarily due to an increase in headcount and staff development as the Bank pursued its strategic transformation objectives. Accordingly, personnel expenses accounted for 49% of operating costs and increased by 16% YoY. Other expenses also increased by 21% YoY to Rs. 1,556 Mn. However, the bank continued its initiatives on improving cost efficiencies and automating processes which enabled an improvement of the cost-to-income ratio to 68%, from 71% the year before.



## Financial Capital

**Total expenses composition**



**Profitability, NIM and ROA**



### Taxes

Contribution to the government in the form of taxes widened during the year with VAT and NBT increasing by 20% YoY and corporate taxes increasing by 15%. The change in income tax was mainly due to an increase in taxable income with VAT and NBT on Financial Services being disallowed for tax purposes. The Bank's effective tax rate is 33%.

### Profitability

Overall the bank turned in a year of strong financial performance with profit before tax increasing by 22% YoY to Rs.753 Mn, outperforming both sector and five-year average growth of the bank, supported by strong volume expansion. Profit after tax increased by 26% YoY to Rs. 508 Mn enabling an improvement in average return on assets (ROA) to 1.01% compared to 0.98% in last year. The increase in the equity base by 33% resulted in the Return on Equity clocking in at 7.90%, compared to 7.46% the year before.

### Total assets

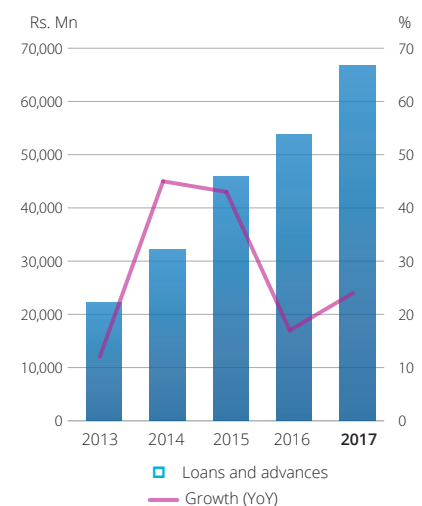
Assets increased by 25% YoY to Rs. 82,375 Mn driven by growth in loans and advances and increased investments in financial assets. The asset composition remained relatively unchanged with loans and advances accounting for 81% of total assets. Financial assets account for 5% of total assets and increased to Rs. 4,474 Mn in 2017 compared to Rs. 245 Mn last year as unit trusts and investment in government securities such as Treasury bonds increased during the year. Cash and cash equivalents amounted to Rs.1,190 Mn in 2017 increasing by 14% YoY and fixed deposits amounted to Rs.4,681 Mn cumulatively representing 7% of total assets.

### Loans and advances

The Bank's credit portfolio expanded by 24% despite the challenging operating environment and weaker agricultural sector. Term loans accounted for 84% of the Bank's advances and grew by 27% supported by the Bank's increased focus on the SME and co-operative sectors. Pawning growth was also strong at 19%, although it accounts for just 1% of the total portfolio. Retail loans increased by 24% driven by our focus on promoting personal loans to untapped territories such as war widows

and pensioners. Co-operative movement (SANASA movement) continued to drive our growth in co-operative loans by providing a unique and strong market linkage to co-operative societies whose reach extends to 20% of the population. Other product categories such as staff loans and lease rentals reported a setback during the year and account for an insignificant portion of the loan portfolio.

**Loans and advances growth**



### Asset quality

A tighter monetary and fiscal policy coupled with adverse weather conditions resulted in a moderation of economic growth, which led to an increase in the potential delinquencies as customers faced pressure in meeting debt obligations. Increasing NPL ratios was an industry wide challenge that adversely impacted asset quality. At SDB, we continued to focus on strengthening the credit process and expanding our loan portfolio that enabled the bank to maintain a lower NPL ratio than industry. Both gross and net NPL ratios improved in 2017 to 2.07% (2.10% in 2016) and 1.02% (1.22% in 2016) and compared to the industry average of 2.5% and 1.3%. Absolute NPLs increased marginally by 18% YoY in 2017 following the relatively strong loan growth.

Cumulative impairment provisions for loans and other losses as at the end of the year amounted to Rs.1,417 Mn compared to Rs.1,132 in 2016. Provision cover improved to 2.08% in 2017 as against 2.07% in 2016.

**Liabilities**

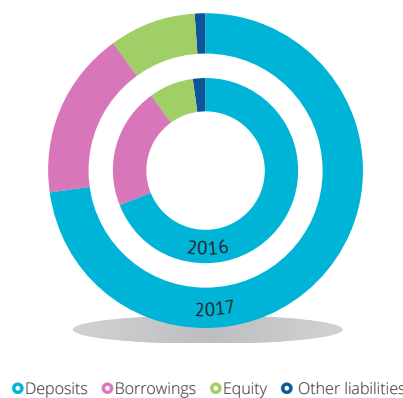
Interest bearing liabilities increased by 25% YoY to Rs.73.9 Bn driven by deposits and borrowings that fuelled asset growth. Deposits continue to dominate the funding profile, accounting for 80% of the funding base. SDB has a strong deposit proposition and is able to leverage on the captive deposit base in the co-operative sector. Deposit growth of 31%YoY during the year was underpinned by the introduction of new deposit products such as ‘Top Saver’ providing a higher return, mobilization of fixed deposits through our extensive branch network outside the Western province and focus on driving a customer centric approach through sales-oriented teams. Total borrowings increased marginally by 3% YoY in 2017 to Rs.14.02 Bn.

**Capital and liquidity**

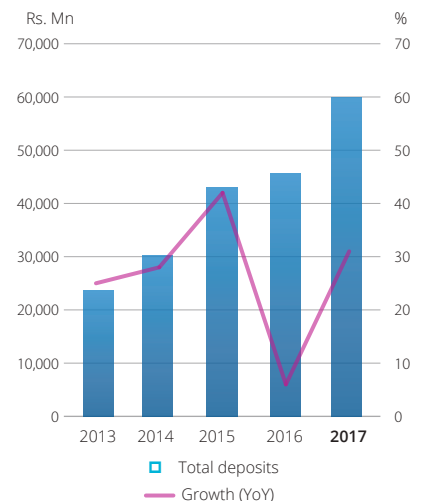
The Bank’s capitalization was strong during the year with shareholders’ funds increasing by 33% following a capital infusion of Rs.1.7 Bn and strong profit retention. Accordingly, equity funded 9% of the Bank’s total assets, compared to 8% the year before. Following the equity infusion, the Bank is on track to comfortably meet the minimum capital requirements applicable with the implementation of the Basel III guidelines. Capital adequacy ratios of 12.42% for CET 1 and 14.59% in Total capital ratio remain well above the regulatory requirements of 5.75% for CET 1 and 11.25% for Total Capital. Meanwhile, total borrowings increased by 3% YoY, following the addition of Rs. 1 Bn subordinated debt, thereby strengthening Tier II capital.

The liquidity position remained healthy across the banking industry throughout the year. We are conscious of the critical importance of balancing liquidity and profitability considerations and are taking proactive measures to address the increase in liquidity during the year. Liquid asset ratio was 21.34% as at December 31, 2017.

**Funding profile**



**Deposit growth**



**Value creation to shareholders**

The bank continues to improve shareholder wealth in the form of strong profitability and dividends. The dividend policy of the Bank is designed to maintain a consistent stream of dividends to shareholders whilst ensuring sufficient capital retention for business expansion. Additionally, we strive to enhance the market value of our organization as determined by the market capitalization of Rs. 5,582 Mn as of December 2017. Among the several factors that influence the share prices of the bank, financial performance plays a pivotal role.

The Board of Directors of the Bank proposed a final dividend of Rs. 6.00 per share in 2017 which will be distributed in the form of cash and scrip dividend.

The analysis of banks value addition and distribution is given below.

	2017	2016
Earnings per share (Rs)	10.18	9.60
Dividend pay-out ratio (%)	58	78
Dividend per share (Rs)	6.00	7.50
Dividend yield (%)	5.89	7.23
Market capitalization (Rs. Bn)	5.58	4.36
Return on equity (%)	7.90	7.46
Growth in market capitalization (%)	28	(31)

## Manufactured Capital



Capital inputs

	<b>2017</b>
Branch network	<b>91</b>
PPE (Rs. Mn)	<b>1,883</b>

**Value creating activities in 2017**

- ▷ Capex investments of Rs. 273 Mn
- ▷ Addition of 03 branches

**Outputs/outcomes**

- ▷ Total income generated from branches: Rs.11,365 Mn
- ▷ Customer growth: 8%
- ▷ Improvement in loan processing time

**Strategic priorities for 2018**

- ▷ Driving volume growth through branches
- ▷ Implementation of a loan origination system to facilitate the centralisation of approvals

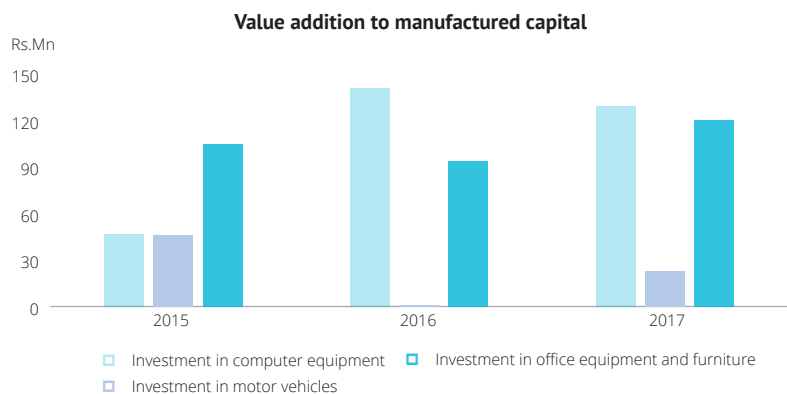
**Challenges**

- ▷ Increment of business growth

The Bank’s Manufactured Capital comprises of its physical and digital infrastructure which is vital in delivering the customer promise. Physical infrastructure includes the brick and mortar customer contact points, vehicles, fixed and fittings while digital infrastructure consists of the Bank’s information systems and digital propositions.

### Value addition


We recognise the vital role played by manufactured capital in increasing accessibility to customers, delivering the customer experience and enhancing process efficiencies. The branch reach is also important in driving the Bank’s financial inclusion agenda and serving the under-served regions and communities across the island. During the year, we invested Rs. 273 Mn in capital addition, comprising capital expenditure on Motor vehicles, Machinery and equipment, Furniture & Fittings and computer equipment. Investments in digital infrastructure amounted to Rs.128 Mn.




### Physical infrastructure

SDB’s network consists of 91 branches, with 80% positioned outside the Western Province and nearly 54 in economically underprivileged areas. All our branches feature access for disabled customers and on average, are powered by minimum of 7 employees per branch. In 2017, we added 3 new branches in Mannar, Thissamaharama and Bandarawela. Customers can also perform basic transactions through 685 ATMs across the island, for which we have partnered with Commercial Bank.

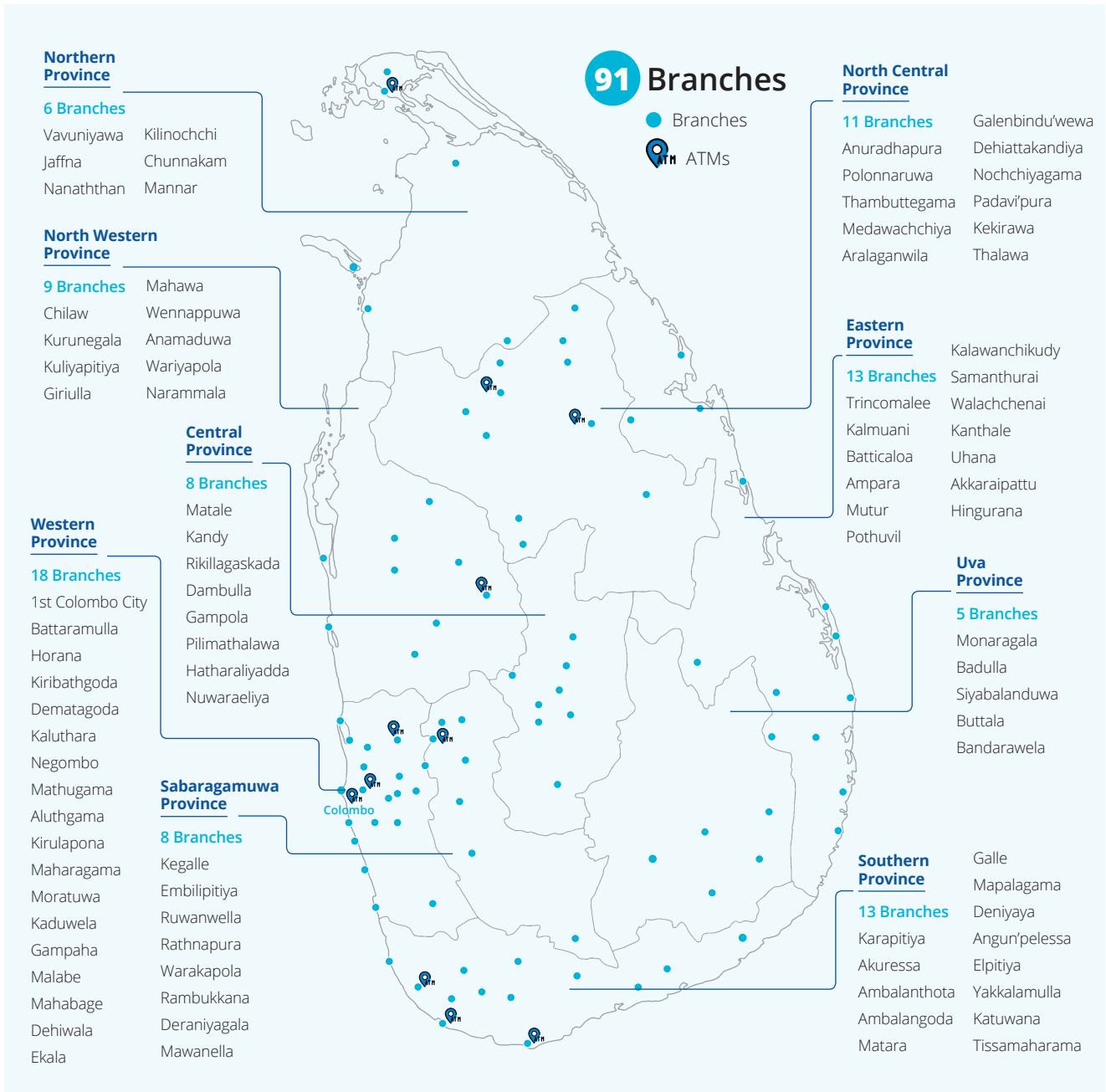
In line with the Bank’s transformation agenda, branches will be converted to sales focused customer points. Focus will be placed on optimising our distribution channels and enhancing the branch design and ambience to foster better customer interaction and servicing.

**10**  
REDUCED  
INEQUALITIES  


Our branch network facilitates inclusive lending in economically under-served areas.

**1**  
NO  
POVERTY  


Access to our services have enabled customers to lift themselves out of poverty through accessing affordable financial solutions.



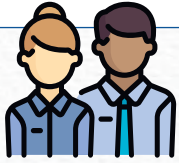
**Digital infrastructure**

The Bank's digital infrastructure is utilised primarily for internal processes while the digital proposition to customers is still in nascent stages. This is partly due to the Bank's customer profile, who typically prefer to interact with the Bank through traditional modes. However, with the Bank's increasing focus towards the SME segment, we hope to strengthen our digital proposition with the introduction

of mobile and internet banking systems and electronic transactions. In 2017, we laid the foundation to our digital transformation through implementing a loan origination system which enabled the centralising of credit approvals. In addition to launching internet and mobile banking platforms, future digital plans include the implementation of a documents management system and introduction of a collection system for recoveries.



## Human Capital



Capital inputs

2017

New recruits	<b>198</b>
Training hours/employee	<b>18</b>
Training cost/employee (Rs.)	<b>9,831</b>

### Value creating activities in 2017

- ▷ Launch of Quantum Leap- a comprehensive talent develop programme
- ▷ Nurturing a performance-driven culture
- ▷ Cordial relationships with trade union

### Outputs/outcomes

2017

Revenue/employee (Rs.Mn)	<b>8.34</b>
Cost/employee (Rs.Mn)	<b>7.53</b>

### Strategic priorities for 2018

- ▷ Developing a team that is geared to face the ongoing strategic transformations by adopting the Quantum leap project

### Challenges

- ▷ The key challenge was in shifting the mindsets and attitudes of employees towards being sales centric and customer focused

Our success is underpinned by a strong workforce deeply connected with our mission and values and driven by a culture that develops a sense of belonging. This skilled and diverse team drives our strategic ambitions, facilitates our customer experience and is an integral element of our value creation process.

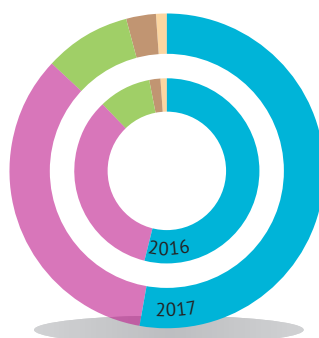
### Human capital priorities during 2017 were,

- Shifting employee mindset towards a client-centric, sales-oriented approach
- Leadership development to facilitate the launch of Quantum Leap project
- Enhancing performance management systems to embrace diverse business perspectives.

### Team profile

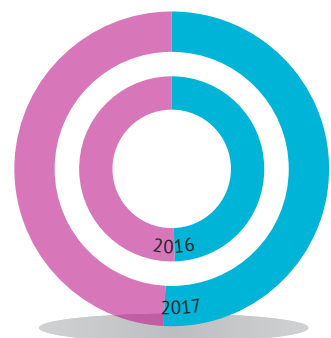
Management approach: Diversity and equal opportunity are material concerns to us given the dynamic operating landscape and expansion of operations to varied segments. Diversity in competencies, attitudes, perspectives and ideas enable us to create and deliver values that deepen our customer relationships whilst contributing towards greater economic and social equality. The Bank's overall female representation is relatively high at 49% and represents 26% at senior management level.

Age-wise distribution of employees



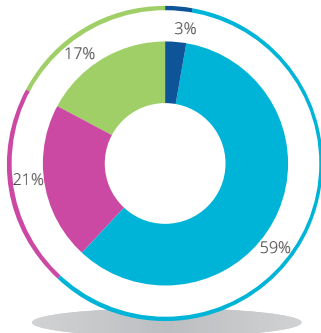
● 18-30 ● 31-40 ● 41-50  
● 51 to 60 ● 61 and above

Gender wise distribution

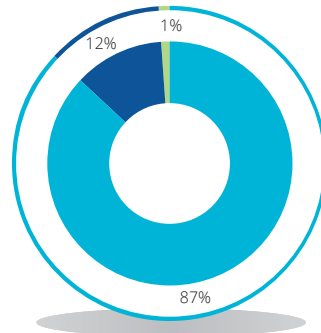


● Male ● Female

**Total employee categorization**

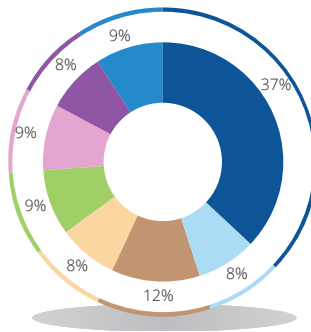


- Senior management and above
- Executive staff
- Non-executive staff
- Managers and Assistant manager staff



- Permanent staff
- Contract/temporary staff
- Trainee Staff

**Employees by region**



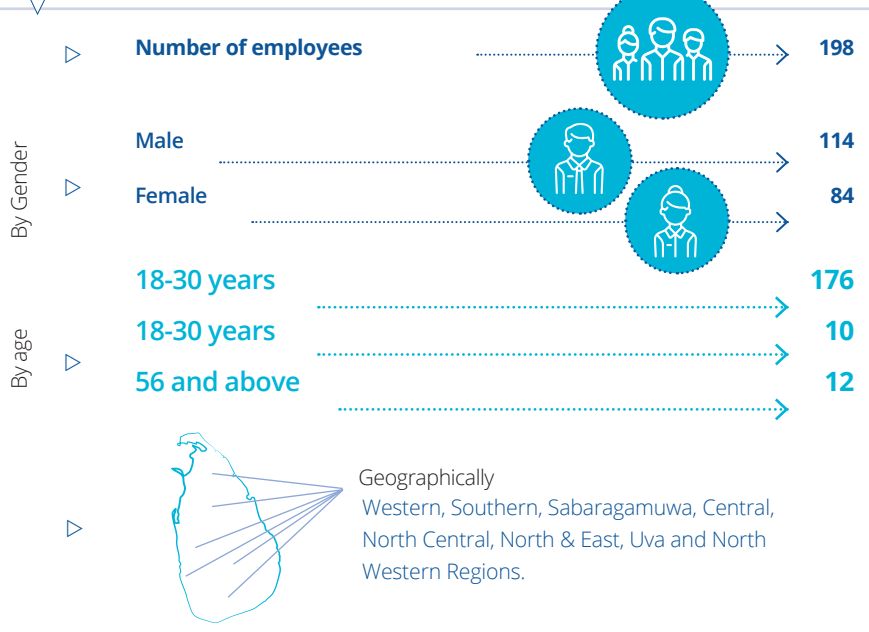
- Western province
- Central province
- Southern province
- Northern and Eastern province
- North Central province
- North Western province
- Sabaragamuwa province
- Uva province

In line with our business growth and operational requirements especially at branches and shared services, we increased our workforce by 9% YoY to 1,363. The permanent cadre includes 1,183 employees while the rest comprises contract employees.

**Talent attraction**

We are an equal opportunity employer. During the year, 198 new comers joined our team, primarily in the executive categories. The profile of our new recruits are presented below:

**New Recruits**



**8 DECENT WORK AND ECONOMIC GROWTH**

We provide attractive remuneration and opportunities for development in a conducive work environment.

**5 GENDER EQUALITY**

The Bank has a relatively high level of female representation across the organisation

**Compensation and benefits**

The Bank offers a host of attractive rewards and benefits to its employees including the following:

- Basic Salary and allowances such as branch manager allowances, vehicle maintenance, etc.
- Other fringe benefits such as housing loans, vehicle loans and personal loans at concessionary rates
- Retirement benefits: Bank contributes 14% of Basic salary as EPF which is above the statutory requirement of 12% and ETF consisting of 3% of basic salary. Individual employees contribute 8% of salary to EPF.
- Health care: comprehensive staff medical insurance scheme.
- Provide financial assistance during unexpected health related matters.
- Education support: Honorarium payments for the completion of banking exams and reimbursement of professional memberships subscriptions.
- Female officers with infants are allowed to avail feeding hours until their infants reach the age of six months.

## Human Capital

### Training and development

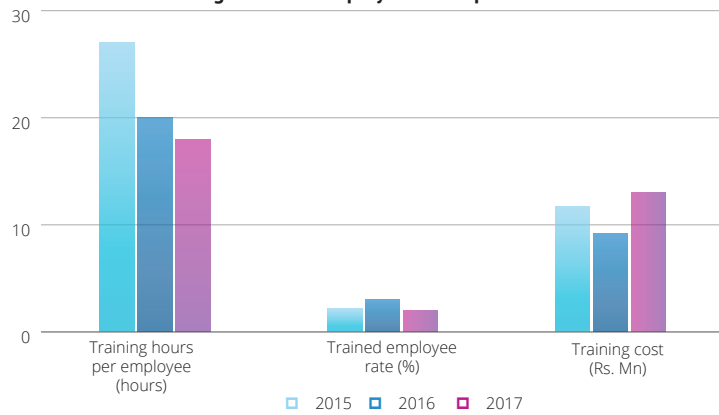
Providing employees with continuous opportunities for learning and development is a vital pillar of our value proposition. In line with the Bank's transformation agenda, we launched Project Quantum Leap in 2017, with the objective of upskilling staff to equip them with the skills required to achieve the Bank's strategic aspirations. Designed in consultation with IFC, Quantum Leap features intense training on credit administration, sales skills and IT capabilities.

Preparing our team for the strategic transformation was also a key focus during the year, and we engaged employees in numerous change management initiatives. Tailor-made programmes were designed based on the organisational hierarchy which featured Change leader (corporate management and selected officials), Change coaches (regional managers), Change navigators (branch managers) and Change Champions. During the year, change management programs covered 100% of the workforce.

The Bank's total investment in training amounted to Rs.13.4 Mn during the year, translating to 24,206 hours of training, an 46% increase in investment compared to last year.

Type of training programs in 2017	Cost of training (Rs. Mn)
Internal	5.5
External	3.7
Foreign	4.2
Total training expenditure	13.4

Progression in employee development



### Employee engagement

The Bank maintains a high level of engagement with its employees, facilitated through numerous formal and informal platforms. During the year, we strengthened employee engagement by conducting branch visits-providing an opportunity for employees to air their views and concerns one to one. We also conducted focus group discussions and carried out a people perception questionnaire covering over 700 respondents. Findings from this survey was used to strengthen our employee value proposition during the year. In addition to the engagement platforms, we also conducted numerous work-life balance initiatives to build team spirit and foster a camaraderie.





**Employee retention**

The Bank's retention levels are relatively strong, with 46% of our workforce representing employees who have been with the organisation for at least 6 years. Retention levels are supported by the Bank's attractive remuneration package, strong employee engagement practices and opportunities for career advancement and training development programs offered. During the year, 67 employees left the organization translating to an employee turnover rate of 4.9%.

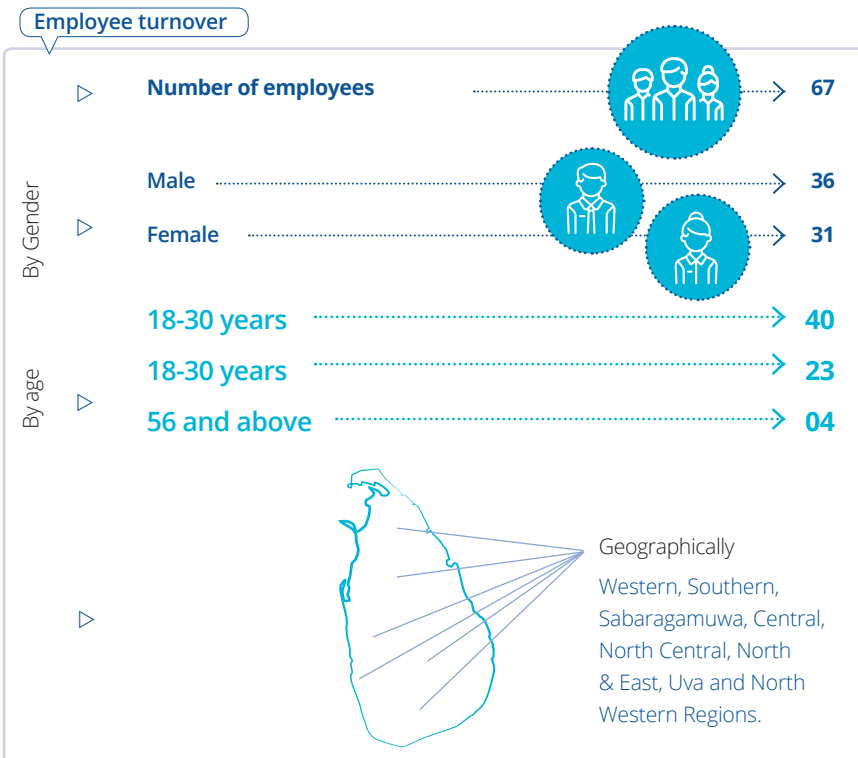
**Performance management**

Employee performance is currently evaluated on an annual basis against three dimensions namely business targets/KPIs, behavioural attributes and value prepositions. Going forward, a new performance management system will be implemented in 2018 facilitating a bi-annual review of performance. The system will be directly linked to incentives, trainings and career advancements.

We strive to nurture a talent pipeline through providing opportunities for career progression. Our succession plan covers all business lines and divisions of the organization with time bound promotions for executive level staff. We also support continuous learning and during the year 135 employees were reimbursed for fee payments for banking exams, subscriptions for professional memberships and course fee for MBA.

**Industrial relations**

We recognise our employees' right to freedom of association, and 75% of our workforce is unionised. The Bank maintained harmonious relationships with its unions during the year, with no major disruptions to work. This is a significant achievement given that stressed industrial relations had been a key area of concern to the Bank in previous years.



**Outlook for 2018**

The Bank's transformation agenda for 2017-2020, necessitates a transformation across multiple areas of our operations including our human capital. The continuation of Quantum Leap is expected to be an important driver in this transformation with core focus being revenue generation through customer value propositions (CVP) development and branch optimization programs. In 2018, we hope to focus on improving performance assessments of employees with the implementation of a robust performance tracking system, which will be based on sales-oriented targets entailing a change in the attitudes, culture and employee practices.





## Social and Relationship Capital



Capital inputs

2017

Deep-rooted relationships that we have nurtured with our stakeholders, including customers, funding partners, co-operative societies and communities

### Value creating activities in 2017

- ▷ Total lending through co-operative societies amounting to Rs.5,173 Mn
- ▷ New partnerships with NEDA and EDA
- ▷ Ongoing customer education initiatives
- ▷ Investment in CSR amounting to Rs. 17.4 Mn

### Outputs/outcomes

2017

Conduct 15 financial literacy programs during the year

Conduct 57 grade 5 scholarship seminars across all 25 districts across the country

Numerous CSR initiatives in Education and Health

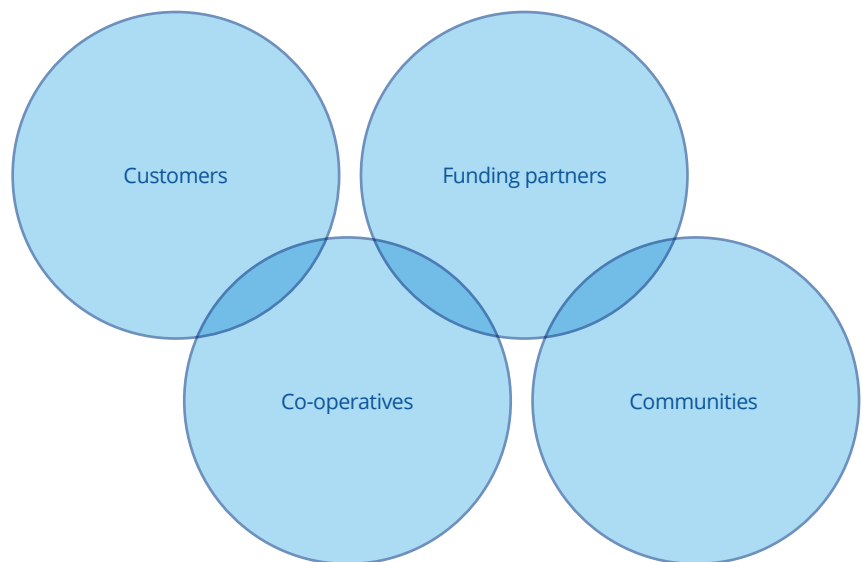
### Strategic priorities for 2018

- ▷ Driving the growth of Digital platform to serve customers better

### Challenges

- ▷ Customer retention and changes in their needs

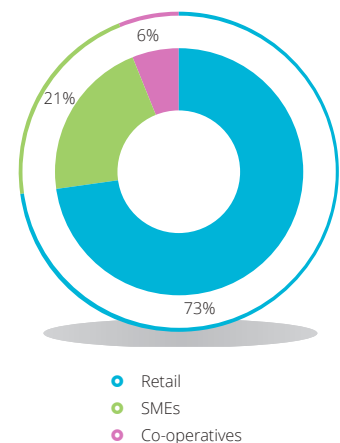
As an organisation that is deeply rooted in Sri Lankan communities, the Bank has nurtured long-standing, mutually beneficial relationships with a variety of stakeholders. These relationships provide us the social license to operate while allowing us to fulfil our social sustainability objectives. The ensuing report discusses our value creation and impacts on the following stakeholder groups.



### Customer capital

The Bank caters to approximately 854,342 diverse customers including individuals (including women, minors and senior citizens), micro enterprises, SMEs and co-operatives. Currently, individual customers dominate our base- although this is expected to gradually change in line with the Bank's focus on the SME sector. We have a widespread customer reach, in 9 provinces and 25 districts across the country.

### Customer profile





# Success Stories



*Travel, Advertising and Digital Marketing is my passion and I sought to establish Inspire Holdings ten years ago, starting with one employee in a 9X10 office. When establishing Inspire, I sought financial assistance from many local banks; however, it was only SANASA Development Bank which came forward to provide the required funding without collateral or guarantees. I was extremely happy to note that they gave due consideration to my commitment, ambition and confidence which is the factors I believe were overlooked by other banks. Sanasa is a truly unconventional bank with a deep commitment towards empowering young entrepreneurs and strengthening the SME sector - the country's growth engine. The Bank's service has always been exceptional, and they are able to provide tailor made solutions to suit the requirements of their diverse customer base. With the Bank's continued support, I have now expanded Inspire Holdings to a diversified entity, employing a team of 47 in a two-storied building in the heart of Colombo 7. Our newest venture is NiwaduDeals.lk, a holiday deals website which has now emerged as one of the country's leading holiday deal sites.*

***"I am extremely grateful to the Bank for its continued support in making my dreams a reality and strongly believe that Sanasa can play a crucial role in supporting the country's young entrepreneurs and SMEs"***

Mr. N. Dinesh Kumara



# Success Stories



*The village of Pallekale in the Kurunegala district is an extremely impoverished area and in recent years its residents were faced with crop failures arising from erratic weather conditions and threats from wild animals. The villagers looked forward to commencing the cultivation of cashew, however they lacked the financial backing and technical support to do so. At this point, the Pallekale Co-operative Society, together with SDB came to the assistance of the villagers. The Society had a membership of close to 600, but lacked the capital funds required to commence the project and therefore approach the Bank for support. Starting from a loan of Rs.6 Mn the Society has increased its exposure to nearly Rs.20 Mn, maintaining a strong repayment track record. Continued support by the Bank in cultivating seasons, has been a source of strength for the farmers who are now able to obtain a secure source of income through this project. The Bank has directly contributed to the empowerment and socio-economic progress of these individuals.*

***"Continued support by the Bank in cultivating seasons, has been a source of strength for the farmers who are now able to obtain a secure source of income through this project. The Bank has directly contributed to the empowerment and socio-economic progress of these individuals."***

Pallekale SANASA Society



**Product portfolio**

The Bank's product and service offering includes numerous innovative lending and investment solutions targeting the diverse needs of our customer base. The following table lists some of our key products;

Savings Products		<p>◁ The SDB Standard Savings Scheme offers attractive rates of interest while increasing customer convenience through SDB ATM or any other ATM with the VISA logo.</p>	Loan Facilities		<p>◁ Funding scheme providing convenient access to finance for small and medium-sized enterprises</p>
		<p>◁ Minor savings product offering attractive gifts and scholarships with a higher rate of interest.</p>			<p>◁ Tailor made scheme designed for government sector employees, CEB and Central Bank pensioners with the goal of attracting these segments back to the country's productive workforce.</p>
		<p>◁ SDB Dayada is a children's investment scheme offering a guaranteed return certificate which can be encashed upon reaching 18 years.</p>			<p>◁ Personal loan scheme for permanent employees of the government, semi government and private sectors</p>
		<p>◁ Financial package tailor - made for young entrepreneurs and professionals offering attractive rates for business start-ups, working capital management and capital expansions.</p>			<p>◁ Housing loan for construction or purchase, purchase of a land, constructing a residence, as well as extension addition to completed or partially constructed houses and alterations or repairs of an existing residential house.</p>
		<p>◁ Exclusively designed for professional women and female entrepreneurs.</p>			<p>◁ Uththamachara is a loan facility specially designed for families of retired war heroes to support income generating activities.</p>
		<p>◁ Savings account offering a relatively higher rate of interest</p>			<p>◁ Pawning facility to bridge urgent cash requirements</p>
		<p>◁ Senior citizens investment product offering attractive rewards and convenience.</p>			<p>◁ We provide facilities for vehicles, equipment and machinery for the agricultural sector, businesses, passenger transport, commercial sector and construction sector.</p>
		<p>◁ Savings product which offers customised plans and investment periods</p>			<p>◁ Foreign currency transactions in buying and selling several currencies including US Dollar, Sterling Pound, Australian Dollar, Euro, Japanese Yen among others.</p>
Loan Facilities		<p>◁ A unique saving account which offers highest interest rate up to 10% per annum with unlimited withdrawals.</p>	Transactional banking		<p>◁ As a sub-agent of MMBL, Sri Lankans working abroad are able to remit their earnings through Western Union.</p>
	<p><b>Micro-credit facilities</b></p>	<p>◁ This credit facility caters mainly to the rural sector which has limited access to institutional credit facilities across the country with the objective of fostering entrepreneurship.</p>			<p>◁ Customers have access to their foreign remittances directly and instantaneously 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.</p>
	<p><b>SANASA co-operative society loans</b></p>	<p>◁ Aimed at co-operatives registered with the Co-operative Department</p>			<p>◁ Through this mCash service customers of SDB can pay utility bills, insurance premiums and leasing instalments and Re-load money in their mCash account.</p>



## Social and Relationship Capital

### Customer engagement

SDB maintains a high level of engagement with its customers facilitated through multiple platforms. Please refer to page 39 on Stakeholder Engagement for a complete list of the Bank’s engagement platforms. In recent years, we have focused on enhancing engagement through digital and social media platforms. The Bank engages in digital advertising, email and SMS campaigns and maintains an active Facebook page with over 90,000 followers.

### Responsible lending

As a Bank with substantial presence in the micro-financing segment, we are cognisant of our responsibility in ensuring that our products are formulated, priced and delivered in a manner that is equitable and sustainable. The Bank’s Customer Charter has been formulated in line with CBSL requirements to ensure that the terms and conditions applicable to our products and services are clearly understood by all customers.

### Customer protection

In 2016, the Bank engaged the services of an external rating agency, Micro-Credit Ratings International (M-CRIL), a licensed certifier of the Smart Campaign Client Protection Certification program to conduct an assessment based on globally accepted Client Protection Principles (CPP). The findings were as follows;

Principle 1	<b>Appropriate product design and delivery</b> Ensuring that the provider offers products and services that are suited to clients’ needs and the provider monitors the suitability of products, services and delivery channels. A documented policy and procedure should be in place to prevent aggressive sales techniques and forced signing of contracts.	81%
Principle 2	<b>Preventing over-indebtedness</b> Credit approvals and decisions are made using appropriate information and criteria and the provider’s senior management and board monitor the market conditions to respond to heightened over-indebtedness. The provider also maintains sound portfolio quality and incentivises staff to approve good-quality loans.	71%
Principle 3	<b>Transparency</b> Documented processes are in place to ensure the transparency of products terms, conditions and pricing and adequate steps are taken to ensure client understanding and support client decision making.	63%
Principle 4	<b>Responsible pricing</b> The provider’s pricing policy should be aligned with the interests of the customers and the provider should be managed sustainability to deliver long-term value.	86%
Principle 5	<b>Fair and respectful treatment of clients</b> The provider conducts its affairs in a manner which is fair and respectful to clients in line with a code of conduct. The provider has policy and documented processes to avoid discrimination in selecting clients and setting terms and conditions. Effective systems should be in place to prevent and detect fraud while insurance claims should be processed in a fair and timely manner.	44%
Principle 6	<b>Privacy of client data</b> Client data is maintained in a secure and confidential manner and clients are duly informed of about data privacy and consent to the use of their data.	71%
Principle 7	<b>Mechanism of complaint resolution</b> The provider has an effective system in place to receive and resolve client complaints and the provide uses information from complaints to manage operations and improve product and service quality.	43%

**Customer privacy**

As a financial institution, we understand the obligation we have towards protecting the confidentiality of the financial and personal information of our customers. The importance of maintaining the confidentiality of our customers' information is instilled in our customers through the Employee Code of Conduct and regularly reinforced through ongoing training initiatives. Protection of confidential information is also facilitated by our robust information security frameworks and IT systems. There were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data in 2017.

**Marketing and labelling**

As a regulated entity, we are required to disclose specific information relevant to our products and services such as interest rates on deposits, rates on loans and advances and exchanges rates among others. These are clearly disclosed in all related documentation, which are usually available in bi-lingual form. The Bank also operates a tri-lingual call center through which customers are able to obtain any product related information. During the year under review, there were no instances of non-compliance to any relevant product and service related regulation or other guidelines.

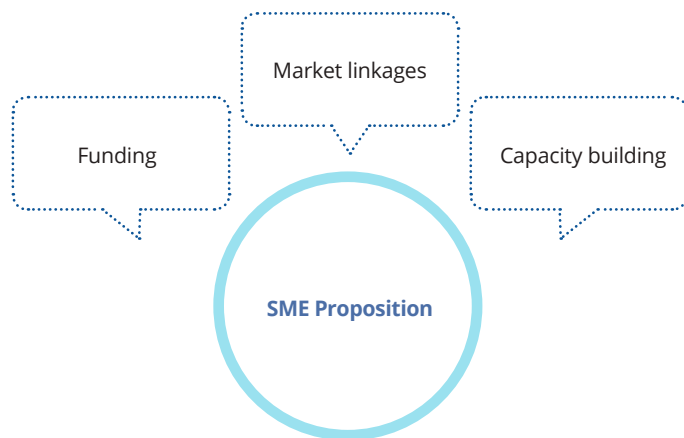
**Customer education**

Our value proposition to customers is a holistic one, extending beyond mere financial support to equip borrowers with the skills and expertise required to ensure the sustainability of their business ventures. The Bank's SME plus scheme is designed to elevate micro-finance entrepreneurs to small and medium enterprise owners through skill development and technical guidance. In 2017, the Bank conducted 15 such workshops with a participant base of over 2,000.

In addition to the above, the Bank has also conducts a series of special forums targeting SME development in partnership with several state institutions including the National Enterprise Development Authority,

Small Enterprises Development Division and Southern Development Authority. The forums are aimed toward fostering a knowledge-driven SME culture through providing access to technical guidance and business skill development. During the year, 11 such programmes were carried out through public-private partnership. The Bank also creates market linkages for its clientele by facilitating buy-back agreements between the SME businesses and large-scale buyers.

The 'Divi Saviya' workshops were also carried out in 11 districts island-wide in partnership with the National Enterprise Development Authority. These workshops are aimed towards empowering pensioners and retired war heroes to engage in economically productive activities through directing them towards income generating businesses. The workshops provide support on a range of topics including business processes, technology and knowledge development.



**Co-operative Network**

As the apex financial institution of the country's co-operative sector, the Bank is uniquely positioned within rural Sri Lanka with an unmatched competitive edge. The co-operative movement is estimated to have a member base of around 8 Mn, while the SANASA movement itself has a base of close to 2 Mn. The Bank's value proposition to co-operative societies extends beyond mere financial support to encompass skill development and capacity building.

Accordingly, the Bank conducts ongoing training programmes for co-operative societies to drive entrepreneurial growth in Sri Lanka's rural communities. These programmes typically cover areas such as Financial Management, National Budget, SME Projects, Leadership Training, Financial literacy and Product Development. In 2017, we conducted 60 such programmes for a total participant base of over 1,500.

In terms of financial support, the Bank disbursed Rs. 5,173 Mn to co-operative societies during the year, primarily for use in public service projects. These projects included, Financial Literacy programs, SME awareness sessions etc.

**Funding partners**

The Bank's market linkages and unique market position makes in an attractive vehicle in channelling funds to the country's rural sector. Accordingly, SDB is works with a number of external agencies and has access to their funding lines, technical support and consultancy services. These institutions include, Rabobank, IFC, FMO, SBI FMO Emerging Asia Financial Sector Fund PTE. Limited, Canadian Development Agency and Asia Pacific Rural and Agricultural Credit Association among others.

## Social and Relationship Capital

In Sri Lanka, the Bank has partnered numerous government and local authorities to channel funds and build capacity in under-served areas. In 2017 the Bank entered an MoU with the National Enterprise Development Authority (NEDA) to extend its support to the micro and SME entrepreneurs of Sri Lanka. These partners include National Enterprise Development Authority, Small Enterprises Development Bureau and Southern Development Authority. The Bank's ability to access and partner with these institutions is testament to its recognition and brand strength within the public sector.

As a participatory financial institution, the Bank disbursed interest subsidised credit for rural development and poverty alleviation, primarily for enterprises outside the Western Province. The Bank channelled funds through the credit schemes listed below;

Loan Scheme	Funding agency	Total disbursements in 2017 (Rs.)	Purpose/target segment
Loan Pool	CCA	139,960,000	Agriculture related products
Saubhagya	CBSL	198,761,000	Income generating projects
SMILE – III	MIC	49,850,000	SME Projects
PAMP 11 RF/PAMP RF	CBSL	423,600,000	Income generating projects
Self - Employment Promotion Initiative Loan Scheme PHASE 11	CBSL	1,000,000	Technology areas for NVQ Level 1-4, 5&6
"Athwela" Loan Scheme For Resumption of Economic Activities Affected by Disasters (Read)	CBSL	11,300,000	Resume any economic activity affected by a disaster
Swashakthi	CBSL	4,080,000	Income generating projects
CSDDLs	CBSL	1,200,000	to commercialized activities on medium to large scale dairy developments

The Bank holds membership in the following association.

- 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

### Community engagement

As a Bank with deep-rooted connections to the communities, we are aware of the socio-economic progress we can drive among economically under-served and vulnerable groups. We adopt a strategic and proactive approach towards community engagement, with several ongoing, long-term projects in place to drive meaningful change. Key highlights of these projects are detailed below;

#### SDB Lakdaru Grade 5 Scholarship Seminar Series

Conducted as an ongoing program since 2015, this initiative involves supporting the educational requirements of students intending to sit for the Grade 5 Scholarship exam. The Bank conducts an island-wide series of bi-lingual seminars, completely free of charge which include the discussion of model exam papers prepared by an expert panel. It also features an awareness program for parents which includes guidance on children's attitudes and development.

Since its launch, these programmes have gained immense popularity. In 2017, we conducted 26 such national level seminars in Sinhala medium, 10 in tamil medium, in addition to 21 seminars that were organised by branches. Seminars were conducted across the island including the Northern Province. The program attracted nearly 35,400 students along with 24,000 parents.



**Religious and cultural events**

The Bank sponsored numerous religious and cultural events during the year under review, with the participation of employees, customers and communities. A brief overview of these events is presented below;



**Nelum Mal Pooja**

Carried out as another ongoing project, the Bank sponsors the Lotus Flower offering at the sacred Sri Maha Bodhi and Ruwanweli Stupa held annually in Anuradhapura. The event is organised by SANASA Federation and brings together the engagement of SDB employees, members of SANASA societies and the general public.



**Somawathi Kapruk Pooja**

The Bank sponsored the Gilanpasa Pooja and Kapruka Pooja of the sacred Somawathi temple for the 5th consecutive year. This event is organised annually by the SANASA Movement and was held on the 30th of April and 1st May 2017.



**Vesak Festival**

The Bank sponsored the National Vesak festival held at the ancient Wattarama Temple in Kegalle with the patronage and participation of Sri Lankan President His Excellency Maithripala Sirisena. In parallel to this festival, an exhibition was organized to showcase Sri Lankan culture and Buddhist heritage.



**Lakdaru Bodhi Pooja**

The Bank conducted a Bhodi Pooja in line with its 20th Anniversary, at the premises of the Kelaniya Raja Maha Viharaya, to invoke blessing on the Grade 5 student prior to the Scholarship exam. Students who were sitting for the Grade 5 examination were invited to take part in this event.

**Empowering communities**

The Bank also conducted year-round community engagement initiatives targeted towards empowering vulnerable and disadvantaged communities across the island. A brief overview of these programs is given below;



**Mihindu Sethpura**

The Bank partnered the Ranaviru Family Counselling and Support Services (RFCSS) for the commemoration month of soldiers on 5th May 2017. The celebration was organised for differently-abled war heroes who were residents at "Mihindu Seth Medura" Attidiya, a healing home for war heroes, spouses and their families.



**Blind musical orchestra**

The Bank sponsored a musical show organised by the blind musical orchestra. This show was organised for the 8th time and was held on 28th August 2017 at S. De A. Jayasinghe Hall, Dehiwela.



## Social and Relationship Capital

### Other community initiatives



#### Blood Donation Campaign

In line with 20th Anniversary, SDB bank Head Office staff organized a blood donation campaign, for the patients at Apeksha Hospital, Maharagama. SDB Chairperson, senior management, customers, officers of other private and government institutions and residents of the area were present at the event.



#### International Women's Day Celebration

Celebrating International Women's Day, SDB organized a special event themed "Wenasakata Perata Yamu" on 2nd March 2017 at the 'Tharangani Hall' in National Film Corporation.



#### Children's Day Celebration

SDB organized a Children's Market at Kilinochchi Central Primary in line with World Children's Day celebration. This event encouraged children to emulate a real market by retailing groceries and snacks to the visitors.



#### Pensioners Trust Fund

SDB sponsored the Annual General Meeting of Pensioners Trust Fund in July 2017 at Pensioners Holiday Resort, Wedamulla, Kelaniya. The event lineup included activities that introduced SDB's investment and loan facilities to the senior citizens and how they could rejoin the workforce and contribute to the Sri Lankan economy. The Bank organized a raffle draw during the event and presented valuable gifts to the participants.



#### Vyawasaya 2017

The Bank participated at the Vyawasaya 2017 Exhibition and Trade Fair held on 31st March, 1st and 2nd of April 2017 at BMICH, Colombo. The event was organized by the SED Division of Ministry of National Policies and Economic Affairs.

## Intellectual Capital



Capital inputs

Organisational capital including tacit knowledge, organisational values and our brand

### Value creating activities in 2017

- ▷ Ongoing investment in brand development
- ▷ Training initiatives to strengthen the sharing of tacit knowledge and build intellectual capital

### Outputs/outcomes

High level of customer retention

### Strategic priorities for 2018

- ▷ Launch new products to cater the changing needs of customers
- ▷ Commence the brand value assessment exercise
- ▷ Centralisation of operating processes to provide speedier service to stakeholder groups

### Challenges

- ▷ Sustain in highly volatile business environment

SDB's intellectual capital consists of its knowledge-based organisational capital, such as tacit knowledge, systems, procedures and protocols. The Bank's intellectual capital defines its organisational conduct and how it interacts with stakeholders in generating long-term value.

### Organisational values

The Bank's unique culture is shaped by its organisational values, which are the operating philosophies and principles that guide our internal and external conduct. Our identity is based on these factors and is a reflection of what the bank 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 activities or materials deemed illegal under country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as Forced Labour or Child Labour, Ozone depleting substances and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals, Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora and Unsustainable fishing methods etc.

### Tacit knowledge

The Bank's stakeholder value creation is underpinned by the structures, systems and processes in place within the Organisation. This organisational-knowledge has allowed us to nurture mutually beneficial, meaningful relationships with our customer base and other stakeholders. Knowledge is shared among employees through an induction programme, ongoing training initiatives and other platforms in place to encourage engagement. The corporate governance practices in place are also vital in nurturing intellectual capital as they safeguard the Bank's reputation and provide guidance on business and employee conduct

## Intellectual Capital

### Our brand

The SANASA brand identity centres on its commitment to support the economically under-served masses of the country. Over the years, the Bank's business focus as a lender for start-up micro businesses has enabled it to nurture a corresponding brand identity. However, in line with the Bank's Transformation Plan and its focus on expanding exposure to the SME and co-operative businesses, we relaunched the logo in 2016 to position the Bank appropriately in the minds of potential customers while remaining true to its founding principles and that of the SANASA Group. The change in the logo is anticipated to appeal to a wider customer base, appease potential regulator concerns and reposition the Bank's image as an enterprise focused Bank.



### During the year we invested in our brand through,

- Ongoing CSR activities
- Engagement through social media platforms
- Entrepreneur engagement including Uththamavi
- Marketing and promotional activities
- Partnerships with government organisations and multi-lateral lending agencies.

## Natural Capital



2017

Electricity (kWh)	<b>302,741</b>
Water (m3)	<b>2,222</b>
Fuel (Litres)	<b>55,591</b>

### Value creating activities in 2017

- ▷ Initiated the implementation of a comprehensive EMS system which will allow for environmental and social screening
- ▷ Continued focus on conserving energy through employee participation

### Outputs/outcomes

2017

Electricity saved (%)	<b>7</b>
Waste papers recycled (Kg)	<b>15,021</b>

### Strategic priorities for 2018

- ▷ Setting up ES&MS
- ▷ Educating staff on ES&MS principles

### Challenges

- ▷ Threats coming from climate changes to agricultural sector lending

### Management approach

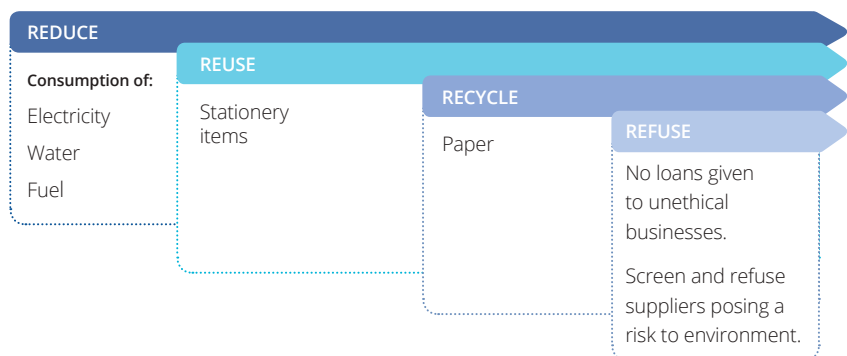
Environmental capital plays a significant role in every sphere of activity across the globe and primarily includes non-renewable materials, energy and water. Over the recent years, there has been a fast-paced depletion of scarce natural resources and increasing environmental risks such as climate action, posing a significant threat to many economies and industries. Resultantly, companies have started to evaluate and reduce consumption with a broader vision of preserving natural resources for future generations and reducing the likelihood of climate action. Though our direct impact to the environment is insignificant, our integral role in the economy as a financial intermediary enables us to spread sustainability initiatives across communities, customers and industries through our loan approval processes, eco-friendly procurement practices and encouraging customers to shift towards eco-friendly processors and suppliers.

### Impact of Climate Change on SDB

During the year, adverse weather conditions including prolonged droughts, floods and higher temperature levels severely impacted the agricultural sector with cascading effects to other industries. Given 10% of our loan portfolio being provided to the Agri sector, the impact of climate action had a noticeable impact on our operations. During the year, there was a decline in demand for loans from the Agri sector declined and obtaining loan repayments was difficult as customers were severely impacted by adverse weather conditions. We are yet to quantify the potential impact of climate change on our operations.

### Our initiatives

Being a bank missioned towards national development we continue to focus on several sustainability initiatives. Over the years, we have followed a 4Rs approach of Reduce, Recycle, Reuse and Refuse.



During the year we also continued with initiatives to reduce energy consumption as of our requirements are sourced from the National Grid. Awareness programs across all branches were conducted to educate employees on our material environmental concerns such as energy and paper consumption. All branches have installed LED lighting solutions that reduced electricity consumption. In addition, we continued to progress towards smoothly migrating to a paperless environment by communicating via electronic platforms such as email. Both Urban and Suburban branches showed promising results though the rural areas were relatively slower in the transformation due to the limitation in skills and availability of technological platforms.



## Natural Capital

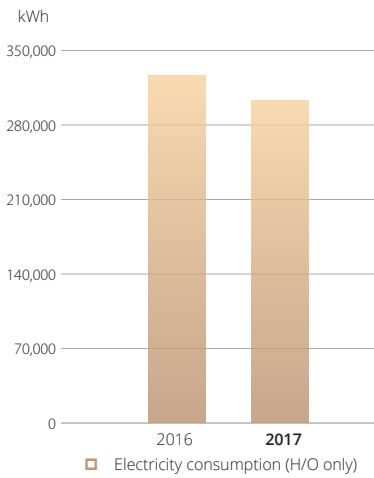
### Results

In line with our policies in 2017, no loans were given to unethical businesses and 100% of suppliers were screened for potential environmental risks. In addition, our indirect impact through our customers is also restricted as the bank is focused on SME development that poses comparatively lower environmental impacts than larger organizations.

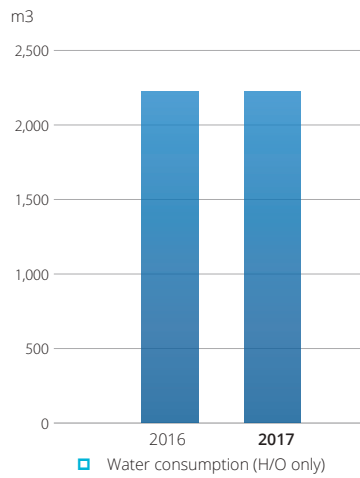
### Our plans for 2018

Going forward, a significant milestone in our sustainability initiative will be the launch of an environmental and social management system (ESMS) by 2018. The system would provide a holistic approach to sustainability connecting all aspects of our business such as branches, suppliers, customers towards the goals and aspirations of the bank. In addition, a client information policy will be implemented covering both environmental and social factors.

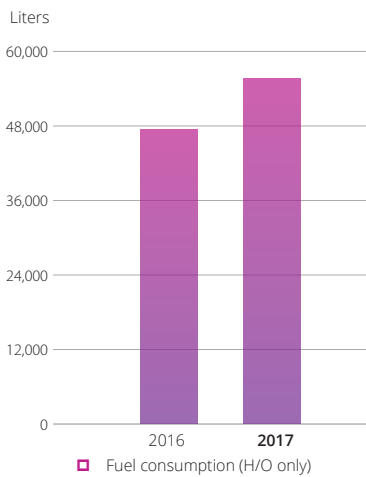
**Electricity consumption**



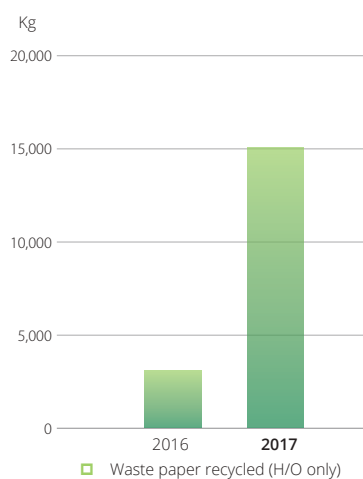
**Water consumption**



**Fuel consumption**



**Waste paper recycled**





*Sustainable*  
**STEWARDSHIP**

# Sustainable Stewardship

## Corporate Governance

### Message from the Chairperson on Corporate Governance

Sound corporate governance practices form the bedrock of sustainable value creation and the Board of Directors of SDB is committed to maintaining the highest standards of transparency, integrity and accountability. This commitment has enhanced credibility and stakeholder confidence in the organisation, enabling us to attract new investors and remain resilient in the face of industry vulnerabilities and economic stress.

The Bank's corporate governance framework embodies clearly defined governance structures, comprehensive policy frameworks and strong business ethics, setting the tone for employee conduct. The framework has been designed to comply with all regulatory and statutory requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission. In addition, the Bank has also embraced several voluntary frameworks and industry best practices in setting up its governance, risk management and corporate reporting frameworks.

During the year under review, we welcomed four new additions to the Board; Mr. Prabhash Subasinghe, Mr. Navindra Liyanaarachchi, Mr. S. Lionel Thilakarathne and Mr. Arnoldus de Vette (representing SBI-FMO) joined the Board as Non-Executive Directors. The collective industry acumen, depth of skills and diversity of experience brought in by the new directors have enriched Board discussions and will be a key driver of the Bank's strategic transformation over the next few years. The Bank's ability to attract international investors such as SBI-FMO Emerging Asia Financial Sector Fund has also renewed vigour and enthusiasm to our team. In 2017 the Board met 18 times and key areas of focus included implementation of the Transformation Strategy (discussed on page 44 of this Report), employee upskilling through the Quantum Leap project and organisational re-alignment.

The reports in pages 95 to 126 describe the Bank's corporate governance practices and compliance to 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.

As required by the Code, I hereby confirm that I am not aware of any material violations of any of the provisions of the Company's Code of Conduct or Code of Ethics.



**Samadanie Kiriwandeniya**  
Chairperson

26th February 2018  
Colombo, Sri Lanka

### Bank’s Approach to Corporate Governance

SDB’s Board of Directors hold apex responsibility for implementing sound governance structures and formulating policy frameworks, thereby effectively setting the tone at the top. Governance Practices are reviewed and updated regularly to reflect regulatory changes, emerging risks and opportunities and internal changes. The Bank’s ethical conduct is embodied in the oath of the SANASA Movement, which is based on the co-operative principles of empowerment, equal opportunity and collective participation in decision making. The Bank’s governance framework has been developed to comply with several external and internal steering instruments, as listed below.

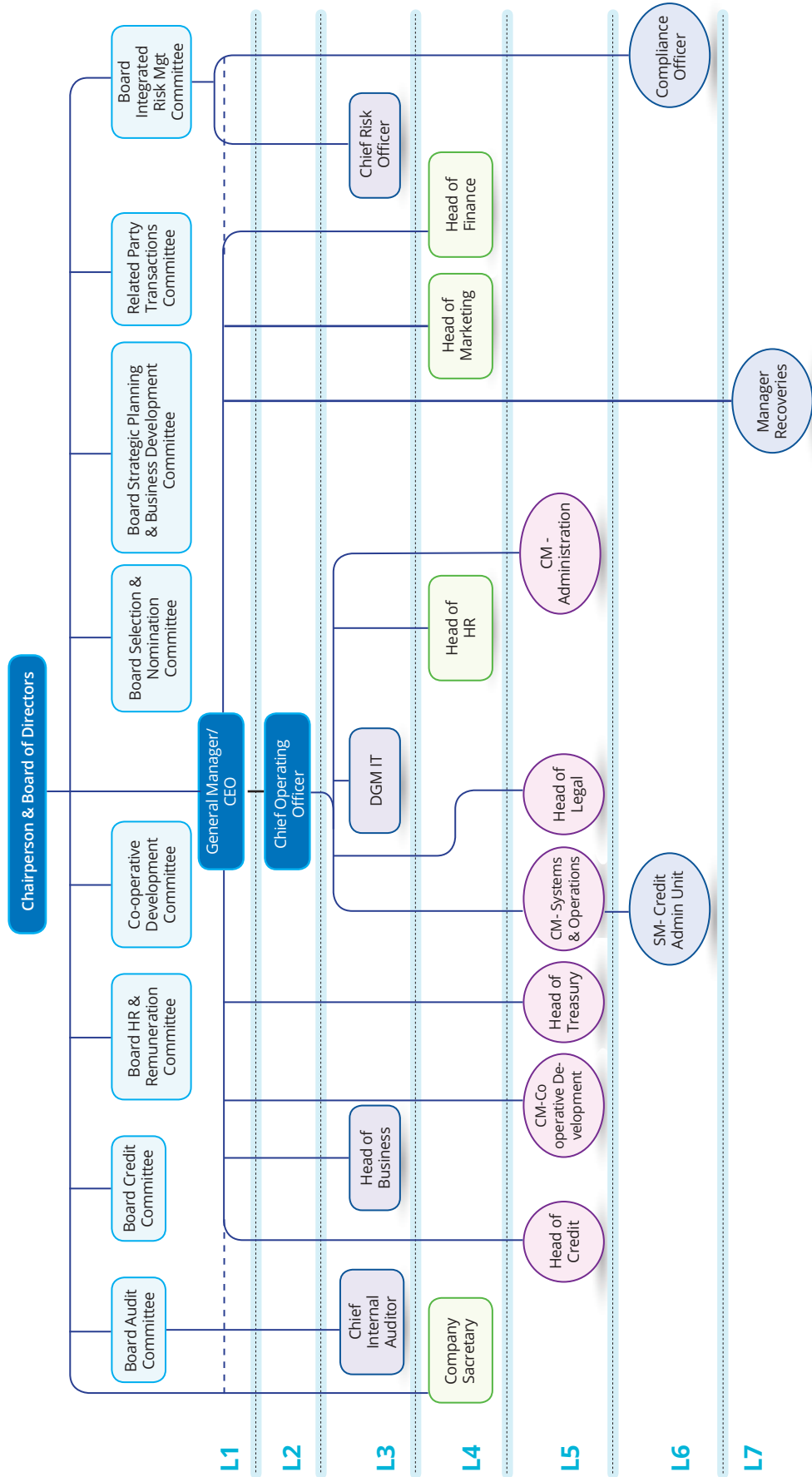
External instruments	Internal instruments
<ul style="list-style-type: none"> <li>▷ Companies Act No. 07 of 2007</li> <li>▷ Banking Act No. 30 of 1988 and amendments thereto</li> <li>▷ Banking Act Direction No.12 of 2007 of the Central Bank of Sri Lanka on “Corporate Governance for Licensed Specialised Banks in Sri Lanka” and amendments thereto</li> <li>▷ 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)</li> <li>▷ Listing Rules of the Colombo Stock Exchange</li> <li>▷ Securities and Exchange Commission of Sri Lanka Act No.36 of 1987 and amendments thereto</li> <li>▷ Financial Transaction Reporting Act No. 06 of 2006</li> <li>▷ Inland Revenue Act No. 10 of 2006</li> <li>▷ Prevention of Money Laundering Act No. 05 of 2006</li> <li>▷ Convention on the Suppression of Terrorist Financing Act No. 25 of 2005</li> </ul>	<ul style="list-style-type: none"> <li>▷ Articles of Association of the Bank</li> <li>▷ Board-approved policies on all major operational aspects</li> <li>▷ Policy for secrecy of information, credit and other internal manuals</li> <li>▷ Integrated risk management procedures</li> <li>▷ Code of Conduct and Ethics for Directors</li> <li>▷ Procedure manual for anti-money laundering and prevention of terrorist finance</li> <li>▷ Processes for internal controls</li> <li>▷ Bank’s code of ethics / Conduct</li> <li>▷ Bank’s Whistle-blowing Policy</li> <li>▷ Internal circulars on ethical / operational practices</li> <li>▷ Communication Policy of the Bank</li> <li>▷ Customer Charter</li> <li>▷ Disciplinary Procedure Code</li> <li>▷ Grievance Handling Policy</li> </ul>



## Corporate Governance

### Governance Structure

The Board of Directors hold ultimate accountability and responsibility for the affairs of the Bank. The Board is led by a Non-Independent, Non-Executive Chairperson. The Board has designate and Independent Director as the Senior Director. The Board is supported by eight sub-committees, which provide oversight and in-depth focus on specific areas, enabling the Board to dedicate sufficient time and focus to broader issues within its scope. The Bank's governance structure is graphically illustrated below;



## Board Effectiveness

### Board Composition

The Board comprises 10 directors, all of whom operate in a Non-Executive Capacity while 4 are Independent. These Directors submit annual declarations of independence to this effect. Directors are luminaries in the fields of academics, rural development, administration, entrepreneurship and co-operatives enhancing the overall effectiveness of decision-making. Please refer pages 28 to 31 for detailed profiles of Board members. During the year, the following four directors were appointed to the Board;

Mr. Prabhash Subasinghe  
 Mr. Navindra Liyanaarachchi  
 Mr. S. Lionel Thilakarathne  
 Mr. Arnoldus de Vette

### Diversity of Skills

The Board combines diverse industry insights, skills and experience is therefore able to assess matters from varying perspectives, enhancing the depth and effectiveness of discussions. Directors bring together academic, entrepreneurial, rural development and corporate perspectives and represent major shareholders, individuals from the Sanasa Movement and professionals from the banking industry. There is also sufficient financial acumen on the Board, with one Director holding membership in professional accountancy bodies and several Directors holding MBAs from reputed universities.

### Chairperson and CEO

The role of Chairperson CEO has been separated ensuring balance of power and authority. The Chairman is a Non-Executive Director and is responsible for setting the Board's annual work plan and agenda, ensuring meetings are conducted effectively, with participation from all members and monitoring the overall effectiveness of the Board. The CEO's responsibilities include, implementing strategy, monitoring and reporting the Company's performance to the Board among others.

### Appointment to the Board

A transparent procedure is in place for the appointment of new directors to the Board. In the event of a vacancy, nominations are made through the Board Selection and Nominations Sub Committee. An affidavit of authenticity is required from the nominated person and the details communicated to the Central Bank of Sri Lanka for final approval. Appointments are thereafter communicated to the CSE and shareholders through press releases. These communications include a brief resume of the director disclosing relevant expertise, key appointments, shareholding and whether he is independent. SDB has no discriminatory criteria for disqualification of nominees.

### Board Human Resources Remuneration Committee

The Bank's remuneration for the Board of Directors and KMP is determined based on a formal Remuneration Policy and is designed to attract and motivate professionals and high-performers. The Board Human Resources Remuneration

Committee is responsible for providing guidance to the Board on the remuneration of executive directors and senior management within agreed terms of reference and in accordance with the remuneration policies of the Bank.

### Board Access to Information

Directors have unfettered access to the Bank's management team, who are invited for Board meetings depending on the agenda. The management make regular presentations to the Board to ensure that Directors are kept abreast of emerging changes in the operating landscape. Access to independent professional advice is also made available and coordinated through the Company Secretary. Directors attend seminars conducted by the Sri Lanka Institute of Directors and forums organized by the CBSL.

### Board Meetings

The Board convenes regularly and met 18 times in 2017; details of meeting attendance is given in Annual Report of the Board of Directors on the Affairs of the Company on page 157. Notices of all Board meetings are given at least seven days prior to the holding of the meeting, thereby ensuring adequate time for Members to prepare. Meeting agendas and Board papers are circulated to all Board Members prior to the meeting. Directors are supplied with comprehensive and timely information that is required to discharge their duties effectively.

## Corporate Governance

### Self-appraisal

The Board and individual directors are assessed annually for their performance and effectiveness. Each Director carries out a self-assessment of his/her individual performance as well as the collectiveness effectiveness of the Board based on the requirements of the Securities and Exchange Commission (SEC) and CA Sri Lanka. Factors considered include Board composition, access to information, team dynamics and training opportunities among others.

### Board Subcommittees

The Board of Directors of the Bank formed mandatory Board Subcommittees and voluntary Board Subcommittees to assist the Board. The composition of both mandatory and voluntary Board Subcommittees, as at December 31, 2017 is given in Annual Report of the Board of Directors on the Affairs of the Company on page 157.

### Accountability and Audit

The Board is responsible for presenting a balanced and accurate assessment of the its financial performance and position. The Bank's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. Furthermore, the Company's Annual Report conforms to the GRI Standards on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Director's responsibility with regards to financial statements is given on page 165 of this Annual Report.

### Risk Management

The Board is responsible for formulating the measures, tools, processes and policies to ensure that the Bank's risk exposures are managed within defined parameters. The Board Integrated Risk Management Committee assists the Board in the discharge of its duties related to risk management. The Bank's risk management framework has been formulated to comply with the requirements of the Banking Act and guidelines of the CBSL. Detailed disclosures on the Company's key risk exposures and how they were managed during the year is given on pages 127 to 137 of this Report.

### External Audit

The Audit Committee makes recommendations to the Board regarding the appointment, service period, audit fee and engagement period of external auditors. The Board has adopted a policy of rotating external auditors every five years. Auditors submit an annual statement confirm independence as required by the Companies Act No. 7 of 2007. Non-audit services are not provided by the external auditors.

### Ethics

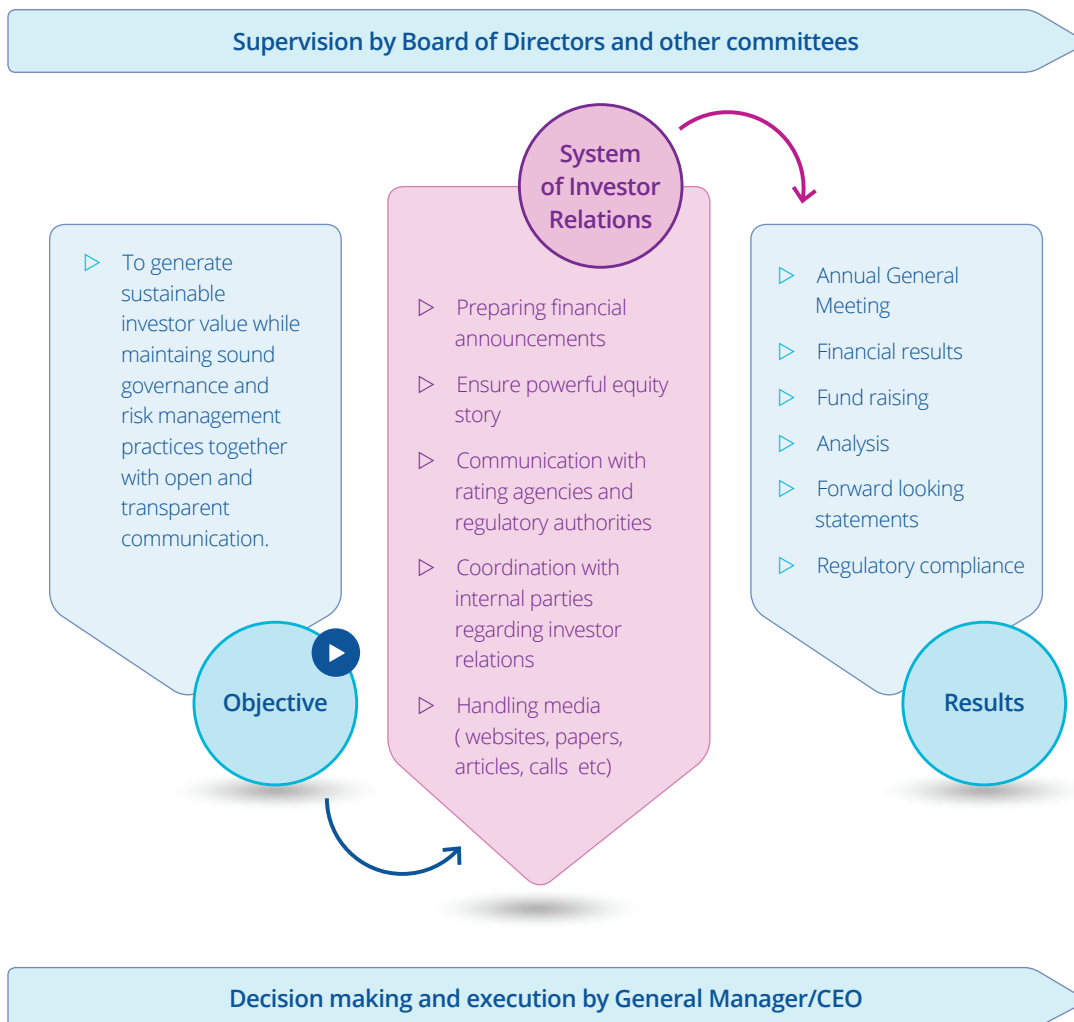
The ethical conduct of the Bank's employees is underpinned on the following;

- The SDB Code of Conduct: The Code sets out the ethical behaviour expected of employees in dealing with other stakeholders and in their day to day operations, as well as administrative and grievance procedures. The Code of Conduct has been formulated in line with the Monetary Board's Customer Charter and the Secrecy Provision in the Banking Act. All employees are provided with a copy of the SDB Code of Conduct upon recruitment.
- Whistleblowing Policy: The Bank has a Board-approved whistleblowing policy that enables any person, including a member of staff to report unlawful or unethical behaviour while ensuring that their anonymity is preserved.

## Investor Relations

[About Our Report](#) | [Performance & Value Creation](#)  
[Overview of SDB](#) | [Sustainable Stewardship](#)   
[Our Leadership](#) | [Financial Reports](#)  
[Strategy & Transformation](#) | [Supplementary Information](#)

The Bank is cognizant of the importance of maintaining open and ongoing engagement with its investors and has implemented a formalized system for ensuring that investor relationships are managed in an effective and transparent manner. The AGM is used as the primary platform for engagement, in addition to frequent communications on the Bank’s performance, one-to-one engagement with significant investors and other publications through the Colombo Stock Exchange.





## Investor Relations

### 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 (Rs.)	Coupon Rate (Per annum)	Credit Rating
A	SDB-BD-31/12/18-C2338-9.6	LK0412D23386	100	9.60%	A+(SO)
B	SDB-BD-31/12/20-C2337-10	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-C2339-10.30	LK0412D23378	100	10.30%	A-(SO)

#### Rating Details

The Bank has obtained credit ratings from Fitch Ratings Lanka Ltd. and ICRA Lanka Limited.

The ratings take into consideration the Bank's performance, asset quality, capitalization, liquidity and market position among others.

Fitch Ratings Lanka Ltd.

**BB+(Stable)**

ICRA Lanka Limited

**SL BBB-  
Positive  
outlook**

#### Useful links for investors



SDB Bank  
Colombo Stock Exchange  
Fitch Ratings Lanka Ltd.  
Central Bank of Sri Lanka

[www.sdb.lk](http://www.sdb.lk)  
[www.cse.lk](http://www.cse.lk)  
[www.fitchratings.lk](http://www.fitchratings.lk)  
[www.cbsl.gov.lk](http://www.cbsl.gov.lk)

## CSE Market and Banking Sector Benchmark Information

### Value creation

CSE Market	2017	2016	2015	2014	2013
Market Price-Earnings Ratio (PER) (Times)	10.60	12.4	17.98	19.66	15.92
Market Price to Book Value (PBV) (Times)	1.31	1.4	1.99	2.20	1.97
Market Dividend Yield (DY) (%)	3.19	2.8	2.18	2.09	2.90

Banking Industry	2017	2016	2015	2014	2013
Market Price-Earnings Ratio (PER) (Times)	6.6	7.0	11.00	13.50	8.50
Market Price to Book Value (PBV) (Times)	1.1	1.2	1.40	1.80	1.40
Market Dividend Yield (DY) (%)	2.5	3.3	3.00	2.60	3.60

### Market Capitalization

CSE Market and Banking Industry	2017	2016	2015	2014	2013
CSE Market Capitalization (Rs. Bn)	2,899.29	2,745.00	2,938.00	3,104.90	2,459.90
S&P SL 20 (31/12)	3,671.72	3,496.44	3,625.69	4,089.14	3,263.87
All Share Price Index (31/12)	6,369.26	6,228.26	6,894.50	7,298.95	5,912.78
Banking, and Finance and Insurance Sector Market Capitalization (Rs. Bn)	769.97	653.86	699.84	753.69	512.79

### Market Share Trading

Market Share Trading	2017	2016	2015	2014	2013
No. of Transactions (No.)	981,977	1,056,849	1,506,790	1,982,709	1,421,303
No. of Shares Traded (No. Mn)	8,468	7,196	9,415	16,722	9,054
Value of Shares Traded (Rs. Mn)	220,591.24	176,935.45	253,251.01	340,917.12	200,467.80
Average Daily Turnover (Rs.Mn)	915.32	737.23	1,059.63	1,414.59	828.38

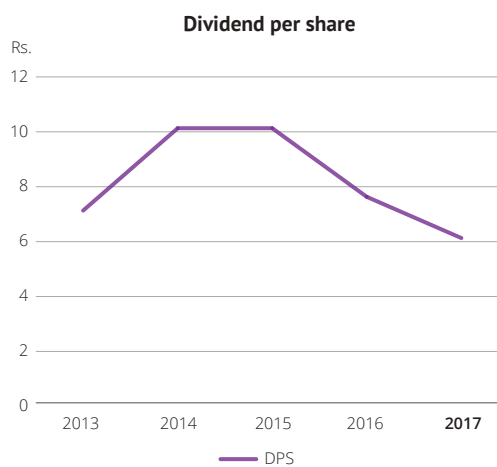
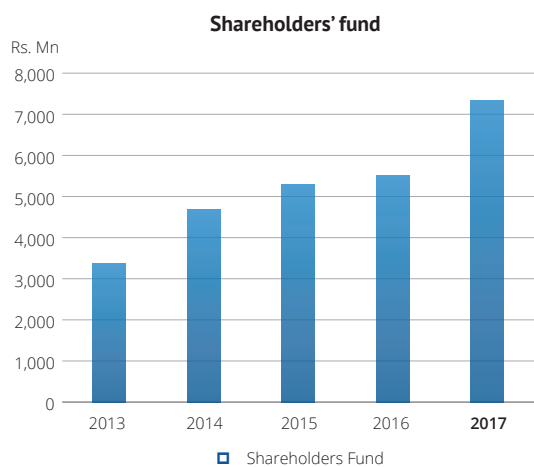
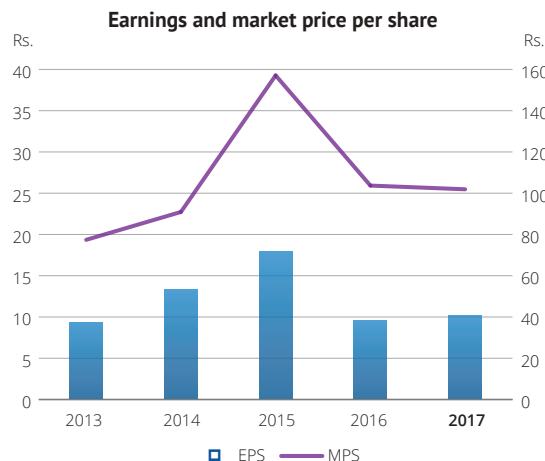
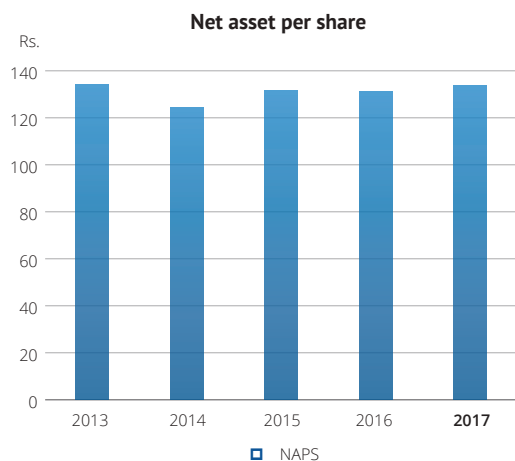
## SDB Bank Value Creation for Ordinary Shareholders

SDB Bank	2017	2016	2015	2014	2013
Net Asset Value Per Share (Rs.)	133.83	131.22	131.62	124.35	134.27
Basic Earnings Per Share (Rs.)	10.18	9.60	17.90	13.36	9.39
Dividend Per Share (Rs.)	6.00	7.50	10.00	10.00	7.00
Market Price Per Share as at 31st December (Rs.)	101.90	103.70	157.10	90.90	77.40
Price-Earnings Ratio (PER) (Times)	10.01	10.80	8.78	6.80	8.24
Price to Book Value (PBV) (Times)	0.76	0.79	1.19	0.73	0.58
Dividend Yield (DY) (%)	5.89	7.23	6.37	11.00	9.04
Dividend Payout (%)	58.94	78.13	55.85	74.86	70.99
No. of Shares (No. Mn)	54.78	42.06	40.25	37.76	25.18
No. of Shareholder	38,283	39,374	40,283	45,446	54,385
Total Equity (Rs. Mn)	7,331.16	5,519.28	5,297.35	4,695.97	3,380.25
Stated Capital (Rs. Mn)	5,758.69	4,062.96	3,794.09	3,533.55	2,526.53
Debt to Equity (Times)	10.09	10.75	10.12	7.42	7.54
Interest Cover (Times)	1.11	1.13	1.34	1.31	1.13
Return on Equity (%)	7.90	7.46	14.42	12.49	7.42
Earnings Growth (%)	22	(43.97)	42.84	103.26	(27.16)
Quick Assets Ratio (%)	0.63	0.65	0.55	0.67	0.80

## Investor Relations

### Dividend Payment Details

Year	Profit for the Year (Rs. Mn)	Total Cash Dividend Paid (Rs. Mn)	Dividend Per Share (Rs.)	Dividend Payout Ratio (%)	Dividend Yield (%)
2013	248.18	176.22	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	403.72	131.24	7.50	78.13	7.23
2017 (To be paid)	507.82	136.94	6.00	58.94	5.89



## Analysis of Shareholders

### Resident/Non Resident

	31st December 2017				31st December 2016			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No of Shares	%
Resident Shareholders	38,269	99.963	42,545,930	77.67	39,373	99.997	41,058,169	97.61
Non-resident Shareholders	14	0.037	12,232,937	22.33	1	0.003	1,003,408	2.39
	38,283	100	54,778,867	100	39,374	100	42,061,577	100

### Individual / Institutional

	31st December 2017				31st December 2016			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No of Shares	%
Individual Shareholders	34,710	90.67	16,242,578	29.65	35,835	91.01	16,008,716	38.06
Institutional Shareholders	3,573	9.33	38,536,289	70.35	3,539	8.99	26,052,861	61.94
	38,283	100	54,778,867	100	39,374	100	42,061,577	100

### Institutional Sub Analysis

	31st December 2017				31st December 2016			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No of Shares	%
Foreign	3	0.01	11,942,201	21.80	1	0.003	1,003,408	2.39
Local & Other Institutions	47	0.12	10,927,204	19.95	47	0.12	9,806,387	23.31
Sanasa Federation	1	0.01	764,730	1.40	1	0.003	633,763	1.51
			27,658	0.05				
Sanasa Societies	3,360	8.77	6,365,985	11.62	3,329	8.455	5,031,168	11.96
Sanasa Unions	34	0.09	1,147,359	2.09	31	0.079	1,040,936	2.47
MPCCS	21	0.05	152,301	0.28	21	0.053	145,928	0.35
Trust Companies	107	0.28	7,208,851	13.16	109	0.277	8,391,271	19.95
	3,573	9.33	38,536,289	70.35	3,539	8.99	26,052,861	61.94

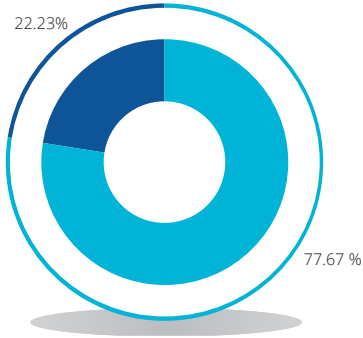
### Share Ownership Composition

	31st December 2017				31st December 2016			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No of Shares	%
1 - 1000	36,659	95.76	4,472,661	8.17	37,773	95.94	4,594,425	10.92
1001 - 10000	1,282	3.35	3,530,007	6.44	1,289	3.27	3,522,161	8.37
10001 - 100000	294	0.77	9,237,897	16.86	260	0.66	8,270,894	19.67
100001 - 1000000	40	0.10	9,277,569	16.94	47	0.12	11,782,079	28.01
1000001 - & Above	8	0.02	28,260,733	51.59	5	0.01	13,892,018	33.03
	38,283	100	54,778,867	100	39,374	100	42,061,577	100



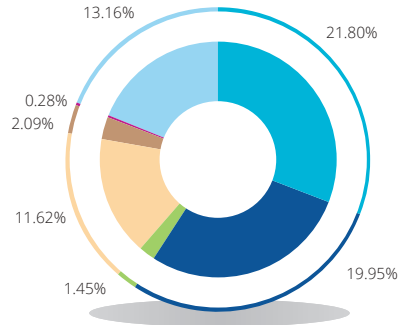
## Investor Relations

**Resident/Non-resident shareholding by no. of shares**



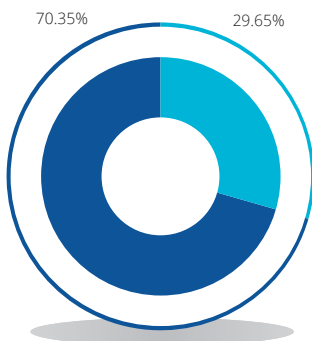
- Resident
- Non-resident

**Institutional shareholding by no. of shares**



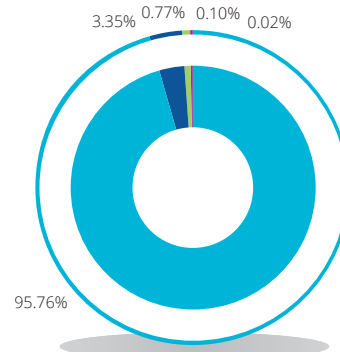
- Foreign
- Local & other institutions
- Sanasa federation
- Sanasa societies
- Sanasa unions
- MPCSS
- Trust companies

**Individual/Institutional shareholding by no. of shares**



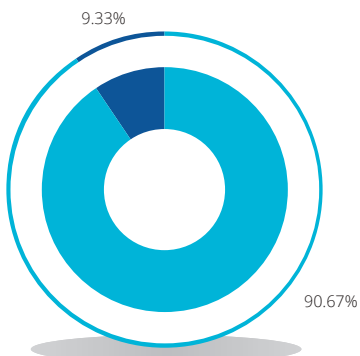
- Individual
- Institutional

**Share ownership by no. of shareholders**



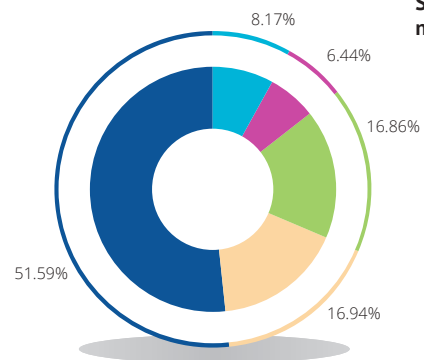
- 1 - 1000
- 1001 - 10000
- 10001 - 100000
- 100001 - 1000000
- 1000001 - & Above

**Individual/Institutional shareholding by no. of shareholders**



- Individual
- Institutional

**Share ownership by no. of shares**



- 1 - 1000
- 1001 - 10000
- 10001 - 100000
- 100001 - 1000000
- 1000001 - & Above

## Top Twenty Shareholders

No	Shareholder Name	31st Dec 2017		31st Dec 2016	
		No. of Shares	%	No. of Shares	%
1	Seylan Bank PLC /Dr. Thirugnanasambandar Senthilverl	6,203,204	11.32	5,392,720	12.82
2	Global Rubber Industries (Pvt) Ltd	5,937,455	10.84	4,461,548	10.61
3	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD	4,906,926	8.96	-	-
4	CB NY S/A International Finance Corporation	4,854,419	8.86	1,003,408	2.39
5	Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V	2,180,856	3.98	-	-
6	People's Leasing & Finance PLC	2,036,446	3.72	1,951,073	4.64
7	Seemasahitha Sanasa Rakshana Samagama (General)	1,130,669	2.06	1,083,269	2.58
8	Kegalle Sanasa Share Holders Trust Company Limited	1,010,758	1.85	968,385	2.30
9	Seemasahitha Sanasa Rakshana Samagama (Life)	885,672	1.62	848,543	2.02
10	Sampath Bank PLC/Dr. T. Senthilverl	835,005	1.52	600,000	1.43
11	Sanasa Federation Limited	764,730	1.40	633,763	1.51
12	Warakapola Sanasa Share Holders Trust Company Limited	511,257	0.93	489,824	1.16
13	Mrs. A.S. Palihena	450,000	0.82	410,000	0.97
14	Hambanthota DTCCS Union Ltd	373,694	0.68	358,028	0.85
15	Polgahawela Sanasa Societies Union Ltd	351,804	0.64	331,000	0.79
16	Mr. D.P. Pieris	343,107	0.63	328,723	0.78
17	Polpithigama Sanasa Share Holders Trust Company Limited	280,518	0.51	268,758	0.64
18	Dr. S.Yaddehige	265,466	0.48	884,782	2.10
19	Kollonnawa Sanasa Share Holders Trust Company Limited	250,295	0.46	239,802	0.57
20	Polgahawela Sanasa Share Holders Trust Company Limited	234,256	0.43	225,629	0.54
	<b>Total</b>	<b>33,806,537</b>	<b>61.71</b>	<b>20,479,255</b>	<b>48.69</b>
	Total No. of Shares Registered	46,999,562	85.80	34,262,502	81.45
	Total No. of Shares Unregistered	7,779,305	14.20	7,799,075	18.55
	<b>Total No. of Shares Issued</b>	<b>54,778,867</b>	<b>100</b>	<b>42,061,577</b>	<b>100</b>
	Shares held by Directors	73,062	0.13	6,176	0.03
	Shares held by Institutions	38,536,289	70.35	26,052,861	61.94
	Balance held by Public	16,169,516	29.52	16,002,540	38.03
	<b>Total No. of Shares issued</b>	<b>54,778,867</b>	<b>100</b>	<b>42,061,577</b>	<b>100</b>
	Shares held by Public	54,704,570	99.86	40,308,570	95.84
	Shares held by Directors and Related Parties	74,297	0.14	1,753,007	4.16
	<b>Total</b>	<b>54,778,867</b>	<b>100</b>	<b>42,061,577</b>	<b>100</b>

\*Shareholding as at 31st December 2016 out of the top twenty shareholders as of 31st December 2017.

## Investor Relations

### Directors' and CEO's Shareholding

Name	31st Dec 2017		31st Dec 2016	
	No. of Shares	%	No. of Shares	%
Ms. Samadanie Kiriwandeniya (Chairperson)	5,627	0.010	5,392	0.012
Mr. B. R. A. Bandara (Director)	-	-	784	0.002
Mr. Prabhash Subasinghe (Director)	67,435	0.123	-	-
<b>Total</b>	<b>73,062</b>	<b>0.133</b>	<b>6,176</b>	<b>0.014</b>

### Other Information for Ordinary Shareholders

#### Record of Scrip Issue

Year	New Proportion	Old Proportion	No. of Shares Listed	Date Listed
2016	1	21.9467	1,814,952	10-Jun-2016
2017	1	22.8533	2,279,147	12-Jun-2017

#### Record of Right Issue (2014)

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

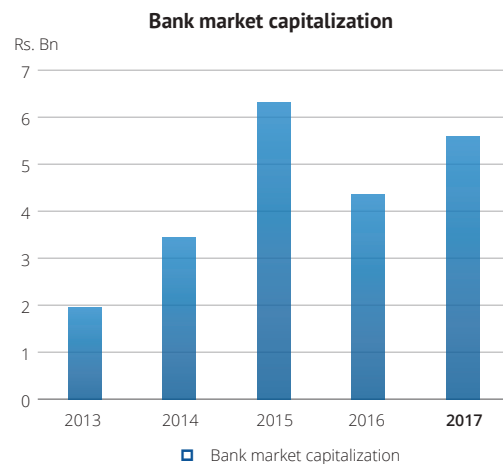
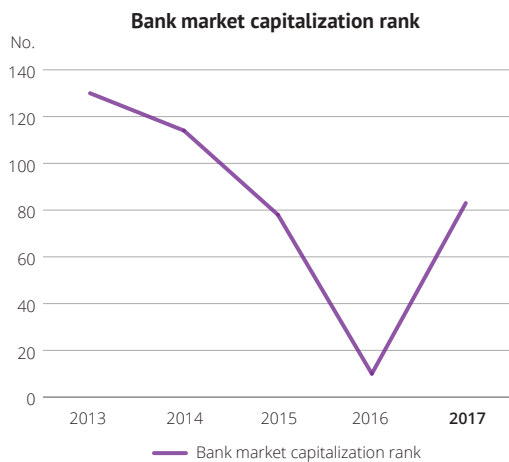
Date of Allotment	No. of Shares Provisionally Allotted	Consideration Per Share (Rs.)	Final Allotment No. of Shares	Amount Raised (Rs.)	Proportion	Date Issued
18-Nov-14	12,587,661	80.00	12,587,661	1,007,012,880	1:2	30-Dec-14

#### Utilization of Funds Raised through Right issue

Objective No.	Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilization as per Circular	Amount allocated from proceeds in Rs.	% of total proceeds	Amounts utilized in Rs.	% 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

## Bank Market Capitalization and Share Trading Details

Bank Market Capitalization	2017	2016	2015	2014	2013
SDB Market Capitalization (Rs. Bn)	5.58	4.36	6.32	3.43	1.94
Increase/Decrease in Market Capitalization of SDB (%)	28	(31)	84	77	(1)
CSE Market Capitalization (Rs. Bn)	2,899.29	2,745.00	2,938.00	3,104.90	2,459.90
SDB Market capitalization as a % of CSE Market Capitalization (%)	0.19	0.16	0.22	0.11	0.08
Market Capitalization Rank of SDB Bank	83	10	78	114	130



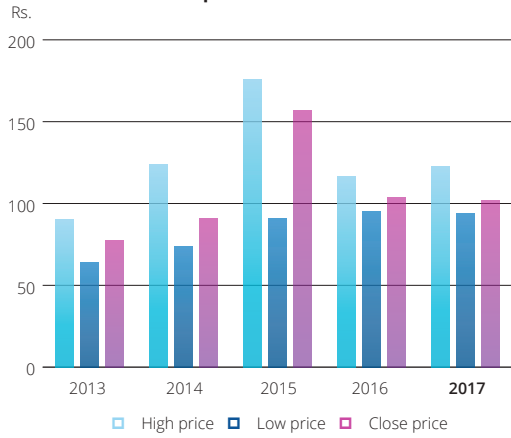
Bank Share Trading	2017	2016	2015	2014	2013
No. of Transactions (No.)	5,981	10,940	26,889	24,450	15,164
No. of Shares Traded (No.)	4,830,202	5,649,252	19,891,297	11,631,552	3,690,889
Value of Shares Traded (Rs. Mn)	500.47	725.61	2,667.29	1,095.13	289.23
Average Daily Turnover (Rs.Mn)	2.08	3.02	11.16	4.54	1.20

Bank Share Price Movement	2017	2016	2015	2014	2013
Highest Price (Rs.)	122.50	158.80	176.00	124.00	90.00
Lowest Price (Rs.)	93.80	95.20	91.00	73.50	64.10
Price as at year end (Rs.)	101.90	103.70	157.10	90.90	77.40



## Investor Relations

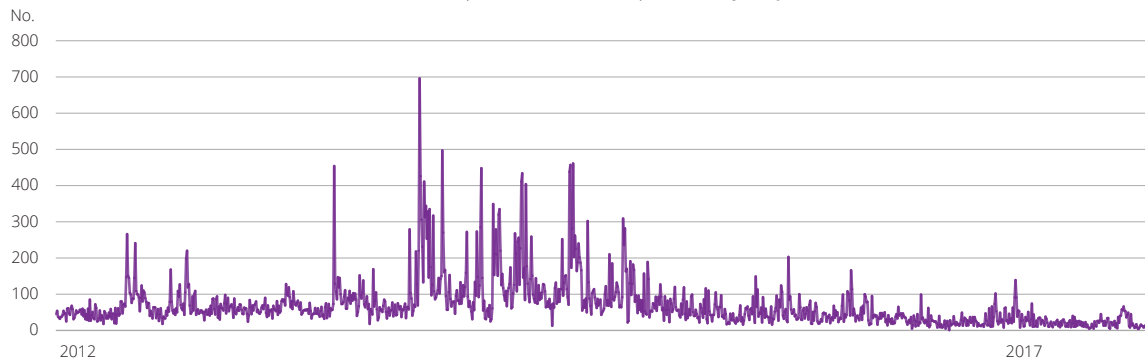
Share price movement trend



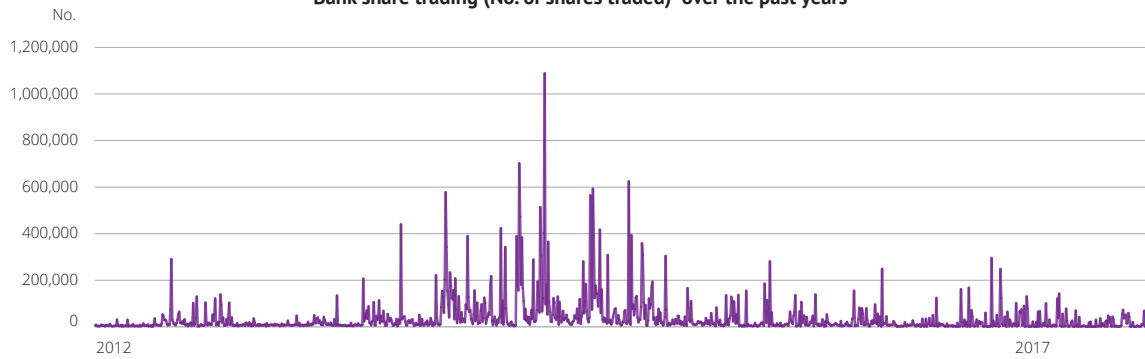
Bank share price movement over the past five years



Bank share trades (No. of transactions) over the past years



Bank share trading (No. of shares traded) over the past years



## 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

	2017				2016			
	Balance as at 31 Dec (Rs. 000')	Coupon Rate (%)	Annual Effective Rate (%)	Interest Rate comparable Government Securities (%)	Balance as at 31 Dec (Rs. 000')	Coupon Rate (%)	Annual Effective Rate (%)	Interest Rate comparable Government Securities (%)
Type A	1,672,156	9.60	9.83	9.93	1,668,353	9.60	9.83	11.85
Type B	422,266	10.00	10.25	10.25	421,305	10.00	10.25	12.15
Type C	1,505,823	9.90	10.15	9.93	1,504,103	9.90	10.15	11.85
Type D	589,567	10.30	10.57	10.25	588,892	10.30	10.57	12.15

### Utilization of Funds Raised through Debenture Issue

Objective No.	Objective as per Prospectus	Amount allocated as per Prospectus in Rs.	Proposed date of utilization as per Prospectus	Amount allocated from proceeds in Rs.	% of total proceeds	Amounts utilized in Rs.	% 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



***With Best  
Compliments  
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**SDB** bank

*We strive to forge ahead with much vigour and vitality, as we remain closely aligned to the aspirations of our customers.*

## Compliance Status

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### Compliance with the Provisions of the Banking Act Direction N0.12 of 2007 of the Central Bank 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 are communicated throughout the Bank.	Strategic objectives & corporate values were approved by Board of Directors for 2017-2020 and communicated to all employees through frequent meetings with the 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 risk management policy which defines risk related procedures and tools for identification, measurement and management of risk exposures.	Complied with
	c) Identify the principal risks and ensure implementation of appropriate system to manage the risk prudently.	The Board has delegated its risk-related functions to a dedicated committee, namely the Board Integrated Risk Management Committee (BIRMC) and its findings are submitted on a quarterly basis to the main Board for review.	Complied with
		Further, the risks arising from the new strategic agenda 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, which is also assured by the external auditor.	Complied with
		Board Audit Committee (BAC) and the Board have reviewed the adequacy and the integrity of the Bank's Management Information System.	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), 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).	Complied with
		Areas of authority and key responsibilities of Board of Directors (BOD) are defined in the Articles of Association.	



## Compliance Status

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 the 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.		
	a. The selection, nomination and election of Directors and Key Management Personnel.	A transparent procedure for selecting and appointing new directors upon 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 identified through the self-evaluation process for 2017.	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. when the 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 of the regulatory environment. Awareness programmes are conducted on an ongoing basis.	Complied with
	m) Process in place for hiring and oversight of external auditors.	The Board selects external auditors through the BAC , which holds responsibility for overseeing 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



Guideline	Function of the Board	Level of Compliance	Complied/Not
3 (1) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	18 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 allowing all Directors to include matters and proposals in the agenda for regular Board meetings.	Complied with
3 (1) (v)	The Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Directors are notified of Board meetings more than 7 days in advance.	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.	Such a situation did not arise 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.	The Minutes of Board meetings are maintained by the Company Secretary; and during each Board meeting the Board of Directors approve the minutes of the previous Board meeting.	Complied with

## Compliance Status

Guideline	Function of the Board	Level of Compliance	Complied/Not
3 (1) (x)	<p>The minutes of a Board meeting contain or refer to the following:</p> <ul style="list-style-type: none"> <li>a) A summary of data and information used by the Board in its deliberations.</li> <li>b) The matters considered by the Board.</li> <li>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;</li> <li>d) The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</li> <li>e) The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and</li> <li>f) The decisions and Board resolutions.</li> </ul>	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.	A Board approved procedure is in place to seek independent professional advice when necessary, with the cost borne by the Bank.	Complied with
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.	This situation did not arise during the year.	Complied with

Guideline	Function of the Board	Level of Compliance	Complied/Not
3 (1) (xv)	The Board shall ensure that the Bank capitalized at levels as required by the Monetary Board.	The Bank was fully compliant 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
<b>3 (2)</b>	<b>The Board's Composition</b>		
3 (2) (i)	The Board comprise of not less than 7 and not more than 13 Directors.	The Board comprised Ten Directors as at 31/12/2017.	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 have 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.	The Board comprises solely of Non-Executive Directors; the CEO is not a Board member.	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 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.	This situation did not arise during the financial year 2017.	Complied with
3 (2) (vi)	The Bank has a process for appointing Independent Directors.	A procedure is in place for appointing Independent Directors by the Board upon the recommendation of the Board Selection and Nominations Committee.	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.	The composition of the Board has been disclosed under "Board of Directors" on page 156 of this Annual Report.	Complied with

## Compliance Status

Guideline	Function of the Board	Level of Compliance	Complied/Not
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 Bank's Articles of Association.	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.	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.	Directors provide annual declarations regarding their employment or Directorships in other banks; None of the present Directors of the Bank acts as Director of another Bank.  The Letter of appointment and code of conduct issued to the employees explicitly prevents employees from accepting any Directorship of other Banks without the prior permission from the Bank.	Complied with
<b>3 (3)</b>	<b>Criteria to assess the fitness and propriety of Directors</b>		
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 appointment indicate the date of birth. The age is monitored accordingly.	Complied with
3 (3) (ii)	No person shall hold 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 in more than 20 companies.	Complied with
<b>3 (4)</b>	<b>Management Functions delegated by the Board</b>		
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
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

Guideline	Function of the Board	Level of Compliance	Complied/Not
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
<b>3 (5)</b>	<b>The Chairman and CEO</b>		
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.	Complied with
3 (5) (ii)	The Chairman is a Non-Executive Director. In the case where the Chairman is not an Independent Director, the Board designate an Independent Director as the Senior Director with suitably documented terms of reference. The designation of the Senior Director 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 Director as the Senior Director.  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 obtain an annual declaration from each Director about relationships, if any, between the Chairman & the CEO and Board members and its nature.  If there is any relationship, it is disclosed in the Corporate Governance Report in the 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.  The minutes of the previous month's meetings are distributed to the Board members in advance 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



## Compliance Status

Guideline	Function of the Board	Level of Compliance	Complied/Not
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
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	The Chairperson is a Non-Executive Director and has not engaged in any activities involving direct supervision of KMPs or any other executive duties during the financial year 2017.	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 platform through which the Board maintains effective communication with shareholders and further the communication policy of the Bank is 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 functions as the apex executive-in charge of the day-to-day management of the Bank's operations and business.	Complied with
<b>3 (6)</b>	<b>Board Appointed Committees</b>		
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 (BHRRC) 3) Board Selection and Nomination Committee (BSNC) 4) Board Integrated Risk Management Committee (BIRMC) 5) Board Credit Committee (BCC) 6) Board Related Party Transaction Review Committee (BRPTRC) This is disclosed under the "Report of the Directors".	Complied with
3 (6) (ii)	Board 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

Guideline	Function of the Board	Level of Compliance	Complied/Not
	<p>c) The committee has made recommendations on matters in connection with:</p> <p>i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>ii) The implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>iii) The application of the relevant accounting standards; and</p> <p>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.</p>	The Committee make recommendations regarding those matters.	Complied with
	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 2017 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 2017, nature and scope of the audit and deliverables, with the external auditors in accordance with SLAuS before the audit commences.	Complied with
	<p>g) The committee has a process to review the Financial Information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following:</p> <p>i) Major judgmental areas;</p> <p>ii) Any changes in accounting policies and practices;</p> <p>iii) The going concern assumption; and iv) The compliance with relevant accounting standards and other legal requirements, and;</p> <p>v) In respect of the Annual Financial Statements the significant adjustments arising from the audit.</p>	BAC reviews the Financial Information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, when the Annual Financial Statements and other accounts are submitted to the BAC by the Assistant General Manager - Finance.	Complied with

## Compliance Status

Guideline	Function of the Board	Level of Compliance	Complied/Not
	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:		
	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 2017 was discussed at BAC.	Complied with
	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 Audit for the year 2017.	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 is not involved in any operational activities of the Bank. It's functions are performed with impartially proficiency and due professional care.	Complied with

Guideline	Function of the Board	Level of Compliance	Complied/Not
	k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	The 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.	There are no Executive Directors 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 2017, 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 the 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
	p) The secretary of the committee is the Company Secretary or the Head of the internal audit function.	The secretary of the committee is the 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

## Compliance Status

Guideline	Function of the Board	Level of Compliance	Complied/Not
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 is presents at all meetings other than when matters relating to the CEO are 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
	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



Guideline	Function of the Board	Level of Compliance	Complied/Not
	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.	<p>The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank.</p> <p>The Bank has developed a one to one succession plan for KMPs.</p>	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.	<p>The committee is chaired by an Independent Director, and the majority of the members are also Independent Directors.</p> <p>The CEO participates only on invitation.</p>	Complied with
3 (6) (v)	The following rules apply in relation to the Integrated Risk Management Committee:		
	a) The committee shall consist of at least three Non-Executive Directors, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	<p>At present BIRMC consists of three Non-Executive Directors.</p> <p>The Committee will include CEO and KMPs supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks as members of the committee.</p>	Complied with
	<p>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.</p> <p>In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.</p>	<p>Credit, market, operational and strategic risks are evaluated on a monthly basis by the Executive Integrated Risk Management Committee and minutes are submitted to BIRMC on quarterly basis.</p> <p>At present the Bank has no subsidiary or associate companies.</p>	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.	The Committee has reviewed the effectiveness of management level committees such as the credit committee and the asset-liability committees.	Complied with

## Compliance Status

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.	The BIRMC reviews risk indicators which have exceeded the defined limits.	Complied with
	e) The committee has met at least quarterly.	Committee has met 5 times during 2017.	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 are 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 ensure that the Bank complies with all relevant regulations, rules and guidelines. 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 monthly compliance report to the Board 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

Guideline	Function of the Board	Level of Compliance	Complied/Not
3 (7)	<b>Related Party Transaction</b>		
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> <ul style="list-style-type: none"> <li>a) Any of the Bank's subsidiary companies;</li> <li>b) Any of the Bank's associate companies;</li> <li>c) Any of the Directors of the Bank;</li> <li>d) Any of the Bank's Key Management Personnel;</li> <li>e) A close relation of any of the Bank's Directors or Key Management Personnel;</li> <li>f) A shareholder owning a material interest in the Bank;</li> <li>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.</li> </ul>	<p>There is a Board approved "Related Party Transaction Policy" which defines guidelines on related parties and avoiding 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 are reported to the Board on monthly basis.</p> <p>Further, the Related Related Party Transactions Review Committee (RPTRC) is a sub-committee of the Board and is responsible for making decisions over related party transactions other than day to day business activities.</p>	Complied with
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"> <li>a) The grant of any type of accommodation, as defined in the monetary Board's directions on maximum amount of accommodation.</li> <li>b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.</li> <li>c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.</li> <li>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,</li> </ul>	<p>There is a Board approved "Related Party Transaction Policy" which defines guidelines on related parties and avoiding any conflicts of interests with said parties that may arise from such transactions of the Bank.</p> <p>Bank has started the reporting of related party transactions with regard to related entities to the Board of Directors on a monthly basis.</p>	Complied with

## Compliance Status

Guideline	Function of the Board	Level of Compliance	Complied/Not
3 (7) (iii)	<p>The Board has a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7) (i), in a manner that would grant such parties “more favorable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p> <p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board.</p> <p>b) Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>The Board approved “Related Party Transaction Policy” in place which defines 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>The Bank modified the system to enable the effective identification of 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> <p>The Bank will initiate action to strengthen the process to identify the favourable treatment offered to related parties going forward.</p>	Not Complied with
3 (7) (iv)	<p>The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>This requirement is documented in the Board approved Related Party Transaction Policy.</p>	Complied with

Guideline	Function of the Board	Level of Compliance	Complied/Not
3 (7) (v)	a) The Bank has a process, where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	No such matters were pending as at end of 31/12/2017	Complied with
	b) Where such security is not provided by the period as provided in Direction 3(7) (v) (a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	No such matters are outstanding as at 31/12/2017	Complied with
	c) There is a process to identify any Director who fails to comply with the above sub-directions be deemed to have vacated the office of Director and has the Bank disclose such fact to the public.	Such a situation did not occur during 2017.	Complied with
	d) Process in place to ensure clause 3 (7) (v) (c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Such a situation did not occur during 2017.	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 Status

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
<b>3 (8)</b>	<b>Disclosures</b>		
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 2017 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.	Specific disclosures are available in page 165 of this Annual Report under "Statement of Directors responsibility for Financial Reporting".  Specific disclosures are available in page 161 of this Annual Report under "Directors' Statement on Internal Control over Financial Reporting".	Complied with  Complied with

Guideline	Function of the Board	Level of Compliance	Complied/Not														
	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.	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 163 of this Annual Report.	Complied with														
	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.	<p>Details on the same are disclosed under heading "Board of Directors".</p> <p>Fees and transactions with the Bank has been disclosed in this report under 3(8) (ii) f).</p>	Complied with														
	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.	<p>Disclosures of accommodations 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.</p> <table border="1"> <thead> <tr> <th>Category of Related Party</th> <th>Balance Rs. Mn</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>21.67</td> <td>0.30</td> </tr> <tr> <td>Corporate Management</td> <td>78.05</td> <td>1.06</td> </tr> <tr> <td>Related Companies</td> <td>73.98</td> <td>1.01</td> </tr> </tbody> </table> <p><i>Spouses and other family members of Related Parties - NIL</i></p>	Category of Related Party	Balance Rs. Mn	%	Board of Directors	21.67	0.30	Corporate Management	78.05	1.06	Related Companies	73.98	1.01	Complied with		
Category of Related Party	Balance Rs. Mn	%															
Board of Directors	21.67	0.30															
Corporate Management	78.05	1.06															
Related Companies	73.98	1.01															
	f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and Directors and the aggregate values of the transactions of the Bank with its Key Management Personnel and Directors, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	<p>Disclosure of remuneration paid by the Bank to its KMP and Directors and other transactions with KMPs and Directors are disclosed below.</p> <table border="1"> <thead> <tr> <th rowspan="2">Category of KMP</th> <th colspan="2">Balance as at 31/12/2017 (Rs. Mn)</th> <th rowspan="2">Remuneration/ Fees paid during the year (Rs. Mn)</th> </tr> <tr> <th>Deposit</th> <th>Loan outstanding</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>1.19</td> <td>2.35</td> <td>19.32</td> </tr> <tr> <td>Corporate Management (AGM grade and above)</td> <td>14.11</td> <td>17.52</td> <td>60.46</td> </tr> </tbody> </table>	Category of KMP	Balance as at 31/12/2017 (Rs. Mn)		Remuneration/ Fees paid during the year (Rs. Mn)	Deposit	Loan outstanding	Directors	1.19	2.35	19.32	Corporate Management (AGM grade and above)	14.11	17.52	60.46	Complied with
Category of KMP	Balance as at 31/12/2017 (Rs. Mn)			Remuneration/ Fees paid during the year (Rs. Mn)													
	Deposit	Loan outstanding															
Directors	1.19	2.35	19.32														
Corporate Management (AGM grade and above)	14.11	17.52	60.46														

## Compliance Status

Guideline	Function of the Board	Level of Compliance	Complied/Not
	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.	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.	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.	This aspect is covered by the " Board of Directors on the affairs of the Company" in page 159 of this Annual Report.	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.	No such direction is issued by the Monetary Board during the Year.	Complied with

## Compliance with the Code of Best Practices on Corporate Governance

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>A. Directors</b>			
<b>A.1. The Board</b>			
The Bank should be headed by a Board, which should direct, lead and control the Bank			
All Directors of the Bank function in a Non-Executive capacity. The Board consists of professionals in the fields of Banking, Accounting, Rural Development, Management and Economics. All Directors possess the skills, experience and knowledge combined 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 a 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. During the year the Board met 18 times.
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. 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 allowing sufficient time for preparation.
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.

## Compliance Status

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>A. 2 Chairman &amp; CEO</b>			
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 segregated, ensuring an appropriate balance of power.
<b>A. 3 Chairman's Role</b>			
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 leads the Board 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.
<b>A.4. Financial Acumen</b>			
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.	There is sufficient financial acumen on the Board, gained from leading large private and public enterprises coupled with academic and professional back grounds. The details of their qualifications and experiences have been listed in the Annual Report under "Board of Directors".
<b>A.5 Board Balance</b>			
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 2017.
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.
3. Criteria to evaluate Independence of Non-Executive Directors	A.5.3	For a Director to be deemed as 'Independent', such Director should be independent from management and free of any business or other relationships that could materially interfere.	Comply with independency criteria.



Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
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 Independence 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 2017.
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.	The roles of the Chairman and the CEO are segregated. 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.	The Senior Independent Director is available for discussion of confidential issues by the other Directors if and when required.
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 on a monthly basis.
10. Recording of concerns in Board Minutes	A.5.10	Where Directors have concerns about the matters of the company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes.	Concerns of Directors have been duly recorded in Board Minutes.

#### A. 6 Supply of Information

Management should provide time bound information in a form and of quality appropriate to enable the Board to discharge its duties.

1. Information to the Board by the Management	A.6.1	Management has the responsibility to provide the information appropriately and timely to the Board. But information volunteered by Management is not always enough and Directors should make further inquiries where necessary.	The Board was provided with timely and appropriate information by the management by way of Board papers and proposals. The Board sought additional information as and when necessary. Members of the Corporate Management made presentations on issues of importance whenever clarification was 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 circulated 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.

## Compliance Status

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>A. 7 Appointments to The Board</b>			
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 the CSE as well as at the AGM.
<b>A.8 Re-election</b>			
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
<b>A. 9 Appraisal of Board Performance</b>			
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 itself 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 2017.
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 performance evaluation procedure for the Board of Directors of the Bank.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
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.
<b>A. 10 Disclosure of Information in respect of Directors</b>			
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".
<b>A.11. Appraisal of the CEO</b>			
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 objectives of the Bank. The performance targets for the GM / CEO are set at the commencement of every year by the Board.
2. Evaluation of the performance of the MD / CEO	A.11.2	The performance of CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets have been achieved	Bank has a process to review and evaluate the performance of CEO at the Board Human Resources and Remuneration Committee.
<b>B. Directors' Remuneration</b>			
<b>B.1. Remuneration Procedures</b>			
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 consists exclusively of Non-Executive Directors, and should have a Chairman who should be appointed by the Board and the Chairman and members of the committee should be stated in 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.

## Compliance Status

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>B.2. Level and make up of Remuneration</b>			
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
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.	The Bank does not have Executive Directors.
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.	The Bank does not have Executive Directors.
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.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
9. Remuneration of the Non-Executive Directors	B.2.9	Levels of remuneration for Non -Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	The level of remuneration of Non-Executive Directors reflect the time commitment and responsibility of their role taking into consideration market practices.

**B. 3 Disclosure of Remuneration**

The Bank should disclose the Remuneration Policy and the details of remuneration of the Board as a whole.

1. Disclosure of Remuneration	B.3.1	The Annual Report should set out the names of Directors comprising the remuneration Committee, contain a statement of Remuneration Policy and set out the aggregate remuneration paid to Directors.	Refer the Note 35 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.
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**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 Chairmans 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.



## Compliance Status

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>C.2 Communication with Shareholders</b>			
The Board should implement effective communication with Shareholders.			
1. Dissemination of timely information	C.2.1	There should be a channel to reach all shareholders of the Company in order to disseminate timely information.	All the Financial Information of the Bank could be reached through newspapers and website 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.
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication.	Following is the contact number of person 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 is the contact number of person 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.
<b>C.3 Major and Material Transactions</b>			
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 2017 there were no major transactions that took place as defined by Section 185 of the Companies Act No 7 of 2007 which materially affects Bank's net asset base.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>D. Accountability and Audit</b>			
<b>D.1. Financial Reporting</b>			
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 2017 and at the end of each month of 2017. 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.
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 is 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.	Such a situation has not 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.

## Compliance Status

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>D.2. Internal Control</b>			
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 2017. 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.
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 is 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 is given in the Annual Report.
<b>D.3. Audit Committee</b>			
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.	The Audit Committee ensures the independence 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.

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
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.	<p>The names of the members of the Audit Committee are given in the Annual Report.</p> <p>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.</p>

**D.4. Code of Business Conduct and Ethics**

The Bank should develop a Code of Business Conduct and Ethics for Directors and Members of the Senior Management Team.

1. Code of Business Conduct and ethics	D.4.1	Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and Key Management Personnel and if there is such a code, make an affirmative declaration in the Annual Report.	The Bank has developed a code of business conduct & ethics for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behavior etc.
2. Affirmation by the Chairperson that there is no violation of the code of conduct and ethics	D.4.2	The Chairperson must affirm in the Company's Annual Report that she 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.
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**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.
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**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.
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## Compliance Status

Corporate Governance Principle	SEC & ICASL code Reference	Description of the Requirement	SDB's Extent of Compliance in 2017
<b>F. Other Investors</b>			
<b>F.1. Investing / Divesting decision</b>			
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.
<b>F.2. Shareholder Voting</b>			
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.
<b>G. Sustainability Reporting</b>			
<b>G.1 Principles of Sustainability Reporting</b>			
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 considers its regional influence and its 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 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 stakeholders 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

SDB takes a proactive and strategic approach towards managing its risks and ensures that its value creation activities are backed by strong risk management practices. The Bank's risk management framework comprises board-approved policy frameworks, judicious governance structures and tool and techniques to identify, measure, mitigate and manage all risk exposures.

### Risk Highlights in 2017



Healthy capital position allowing a strong platform for growth

Tier 1 RWCAR: **12.42%**

Overall RWCAR: **14.59%**

Despite a moderation in economic conditions the **Bank's gross NPL ratio amounted to 2.07%** during the year.

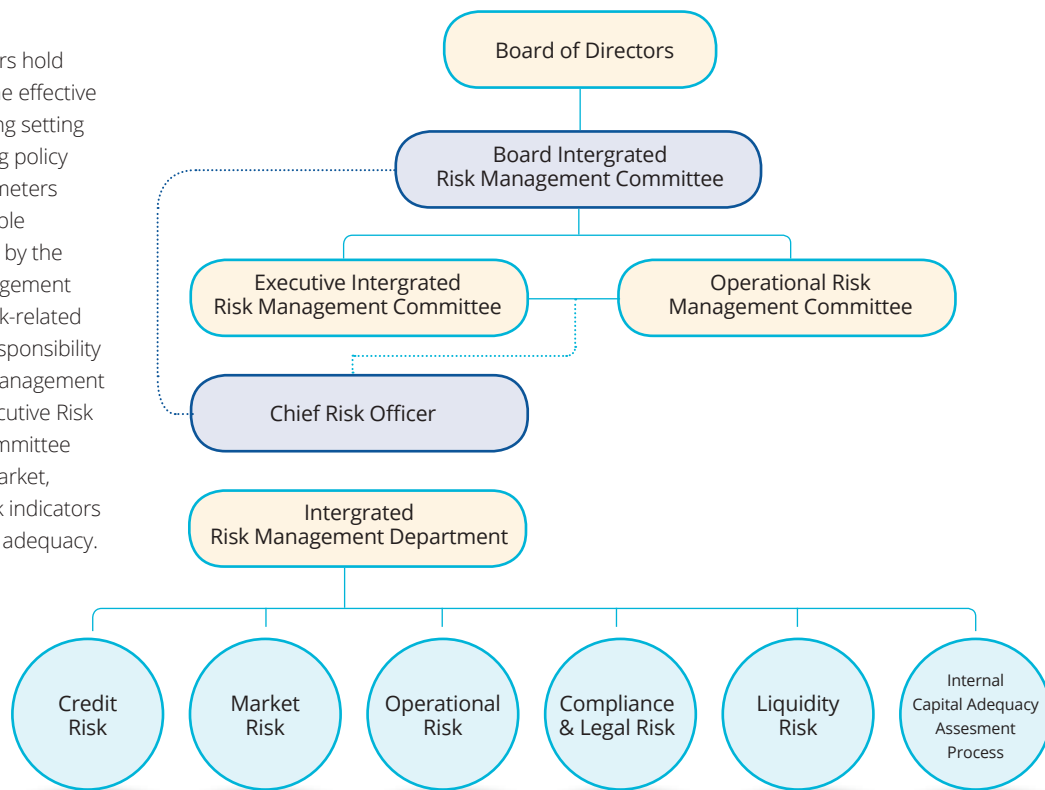
**Top 20 loans** accounted for just **3%** of the total portfolio

Relatively diverse funding profile and access to emergency contingency lines

## Risk Management

### Risk Governance

The Bank's Board of Directors hold ultimate responsibility for the effective management of risk including setting the risk appetite, formulating policy and ensuring that risk parameters are maintained at manageable levels. The Board is assisted by the Board Integrated Risk Management Committee (BIRMC) in its risk-related duties. At executive level, responsibility for implementing the risk management framework lies with the Executive Risk Management Committee (EIRMC); the Committee reviews the Bank's credit, market, liquidity and operational risk indicators as well as its internal capital adequacy.



The composition, objectives and key activities of each Committee is provided in the table below;

Risk related Board sub-committee/EXCO committee	Composition	Primary roles and responsibilities	Key activities during the year
<b>Board Integrated Risk Management Committee</b>	4 Non-Executive Directors  Management GM/CRO/CO/  By Invitation COO /CIA/AGM Finance	<ol style="list-style-type: none"> <li>To ensure that the bank has sufficient systems in place to monitor &amp; manage all material risks of the bank.</li> <li>Review all risk related policies and procedures in line with market developments/best practices/regulatory guidelines</li> <li>Take necessary action to mitigate risk exposures across the bank</li> </ol>	<ol style="list-style-type: none"> <li>Review and approve all new risk related policies proposed by the management.</li> <li>Review and recommend the ICAAP document of the bank.</li> <li>Review all key risk exposures and emerging risks in the operating environment.</li> <li>Propose mitigating strategies in order to minimise potential loss outcome.</li> <li>Appraise performance of CRO.</li> </ol>

Risk related Board sub-committee/EXCO committee	Composition	Primary roles and responsibilities	Key activities during the year
<b>The Executive Risk Management Committee (EIRMC)</b>	CEO, COO, CRO, Chief Internal Auditor, Head of Credit, Head of Business, Head of Compliance, Head of IT, Head of Finance and Head of Treasury	<ol style="list-style-type: none"> <li>To monitor and review all risk exposures and risk-related policies/procedures</li> <li>To take necessary action to mitigate the risk exposure of the Bank</li> <li>To assist the BIRMC</li> </ol>	<ol style="list-style-type: none"> <li>Implemented all new policy changes</li> <li>Implemented all new processes recommended in line with Industry best practice.</li> <li>Update management and BoD on the current risk exposures of the bank and recommend mitigating strategies.</li> </ol>
<b>Asset Liability Management committee (ALCO)</b>	CEO/GM, Chief Operating Officer, Head of Credit, Head of Business, Head of Risk, Head of Finance, Head of Marketing, Head of Treasury	<ol style="list-style-type: none"> <li>Monitoring of the basic performance of indicator ROE, ROA, and Cost of funds, net interest margin, yields, maturity profiles, capital adequacy, and statutory liquidity ratio.</li> <li>Take appropriate strategies for Maturity mismatch and Interest rate gap (Fixed and variable).</li> <li>Set transfer pricing</li> <li>Formation of an optimal structure of the bank's balance sheet</li> <li>Monitor the environmental, political and economic factors that influence the performance of the bank</li> </ol>	All key activities were monitored and reviewed by responsible ALCO members.
<b>Operational Risk Management Committee (ORMC)</b>	CRO, CIA (observer), CO, Manager IT, Chief Manager HR, Chief Manager Operations, Senior Manager Integrated Risk	<ol style="list-style-type: none"> <li>Determine the strategy and general policy &amp; procedures regarding operational risk management</li> <li>Carry out quarterly review of operational risk losses of the bank and implementation of policy and procedure.</li> <li>To assist the EIRMC &amp; BIRMC</li> </ol>	<ol style="list-style-type: none"> <li>Ensuring that BCP and DRP process is strengthened by facilitating staff training on fire/ emergency drills and ensuring that the DRP site is properly equipped.</li> <li>Establishment of Key risk indicators for Depts</li> <li>Establishment of Operational risk champions at key business units in order to assist the ORM reporting process</li> </ol>

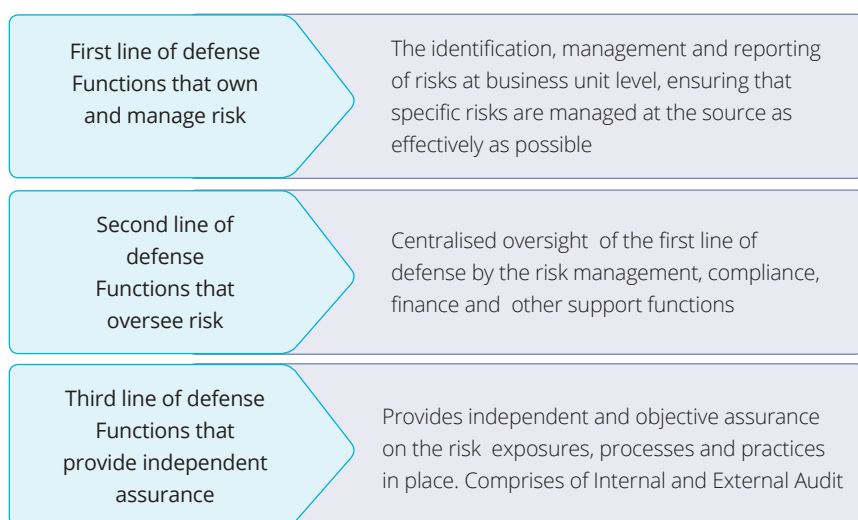
## Risk Management

### Approach to risk management

The Bank's Integrated Risk Management (IRM) Framework clearly defines the tools, techniques and activities in place to ensure that all material risks are identified, measured, managed and reported. Roles and responsibilities are clearly defined at both Board and Executive Committee level to ensure independence of judgement. Meanwhile, a comprehensive framework of policies and procedures ensure consistency in the identification, measurement and management of key risks.

### Three lines of defense model

The Bank adopts the internationally recognised three lines of defence governance model which ensures transparency and accountability in risk management through clear segregation of duties as illustrated below.



### Risk Culture

The values, attitudes and risk awareness of our team is crucial in ensuring the success of our risk management framework. We persistently strive to inculcate a culture of risk awareness across the organisation through ongoing training programmes, communications and various engagement mechanisms. During the year 4 to 8 training programmes were conducted. Risk also forms a vital part of the Bank's induction programme, comprising several mandatory training modules for all employees. The risk reporting process which includes reporting at multiple levels, to executive committees and the Board has also helped instil a culture of risk awareness.

### Risk appetite

The risk appetite clearly sets out the types and level of risk the Bank is willing to take in the normal course of business. It is

approved by the Board of Directors and articulated in the form of limits and triggers across a range of indicators which reflect the key risks the Bank is exposed to. The Risk appetite is reviewed and updated

regularly by the Board of Directors in line with the Bank's strategic objectives and corporate plan for the year. The table below lists the Bank's key risk appetite indicators, together with its performance during the year.

Risk exposure	Limit/range for 2017	Actual as at end-2017
<b>Credit Risk</b>		
Gross NPL ratio	3%	2.07%
Net NPL ratio	2%	1.02%
<b>Market Risk</b>		
Public Equity Exposure	25% (% capital)	0.36%
Private Equity Exposure	5% (% of capital)	1.32%
% of BB rated Investment Portfolio (Fixed Income)	10% (% of Total Investment Portfolio)	0%
<b>Liquidity Risk</b>		
SLAR	20%	21.34%
<b>Capital adequacy</b>		
Tier 1	7.25%	12.42%
Total capital ratio	11.25%	14.59%

## Risk reporting

An array of multi-level risk reporting mechanisms ensure that key risk exposures are identified and escalated to the relevant individual, Committee and ultimately the Board of Directors in a timely and relevant manner. The key risk reporting mechanisms applicable to each key risk exposure is given below;

Risk exposure	Risk reporting mechanisms
Credit Risk	Sector, product & geography concentration, Number and amount of NPL accounts, Provision coverage to Corporate Management and BOD
Market Risk	Impact of rate shifts on the banks Economic value of Equity and earnings at risk. Analysis of lending book return and concentration limits, Trading book value and return against limits to Corporate Management on a monthly basis.
Liquidity Risk	Liquidity allocation, cash flow forecasts, regulatory and internal cashflow maturity analysis, stressed cash flow analysis
Operational Risk	Summary of Operational loss events by business unit to Corporate Management & BOD Quarterly.
Strategic and Reputational Risk	Achievement of key budgetary ratio's to Corporate and BOD on a monthly/quarterly basis Scorecard based questionnaires to assess reputation risk across the Bank to Corporate management and BOD.

## Stress testing

The Bank conducts stress testing on an ongoing basis to identify the potential impacts that fluctuations in market variables and other risk factors could have on the Bank's risk profile. Stresses in the Bank's credit, market, liquidity, interest rate and equity risk are evaluated in reference to capital and earnings positions. The BIRMC conducts regular reviews of the stress testing outcomes including the major assumptions that underpin them.

	Credit Risk	Concentration Risk	Interest rate risk	Liquidity risk
Stress scenario	Increase in NPL ratio Shifts in NPL categories	Increase in HHI values across lending counterparties and sector	Movement in interest rates	Liquidity stress scenario



Impact on CAR, NIM, Profits

## Regulatory developments

The implementation of the BASEL III guidelines requires Banks to enhance their capital requirements with the objective of improving the quality, quantity, consistency and transparency of the capital base. Following the Rs.1.4 capital injection and an addition Rs.1.0 Bn tier 2 capital, the Bank has comfortably strengthened its capital base. Meanwhile the Liquidity Coverage Ratio (LCR) is one of the Basel Committee's key recommendations to strengthen global liquidity regulations to nurture a more resilient banking sector and the Bank commenced parallel reporting as per the regulator's requirements. The LCR comes into effect in January 2019.

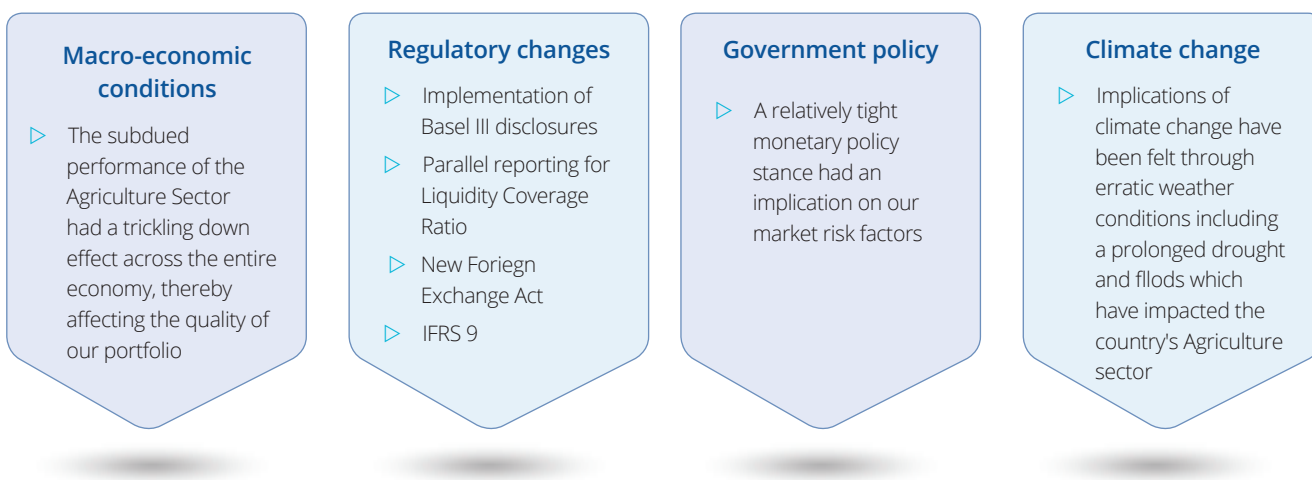


## Risk Management

### Risk Performance in 2017

The Bank's business model gives rise to several risk exposures; lending to the retail, SME, micro and co-operative sectors expose the Bank to credit risk-comprising default and concentration risk. Lending and trading in government securities and equity results in market risk exposure while day-to-day operations lead to Operational risks such as people, IT and legal risk. The Bank is also exposed to strategic and reputational risks while operating in a regulated industry gives rise to Compliance risk. The tools we use to manage these risk exposures and the performance of these risk factors in 2017 are discussed in a comprehensive manner in the subsequent section of this Report.

During the year under review, the following external drivers had an impact on the Bank's overall risk profile;

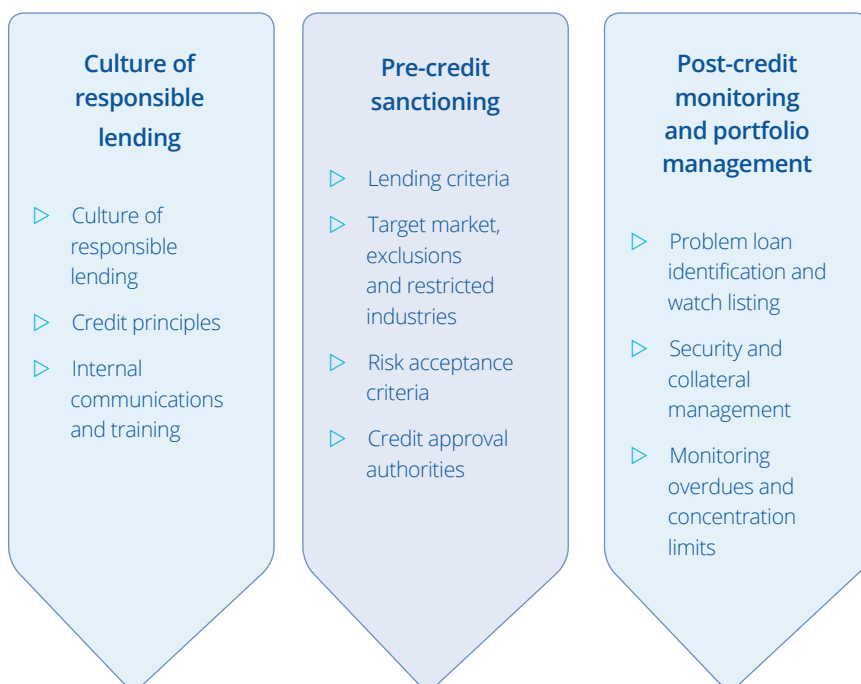


### Credit Risk

Credit Risk is the potential losses to earnings arising as a result of customers and/or counterparties failing to discharge their contractual obligations. Credit Risk can arise from default risk, concentration of counterparties, industry sectors and geographical regions.

#### How we manage Credit Risk

The Board Credit Committee is the steering committee which holds responsibility for implementing the Bank's credit risk management framework. A Board-approved Credit Risk Management policy outlines the responsibilities, tools and techniques for credit risk identification, measurement, mitigation and management. Key aspects of the Bank's credit policy include pre-credit sanctioning criteria, delegated approval authority, due diligence, collateral management and post-credit monitoring among others. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.



**Credit Risk Performance in 2017**

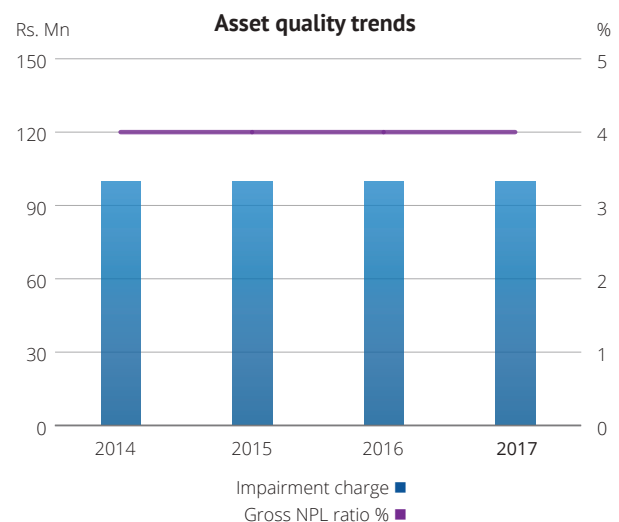
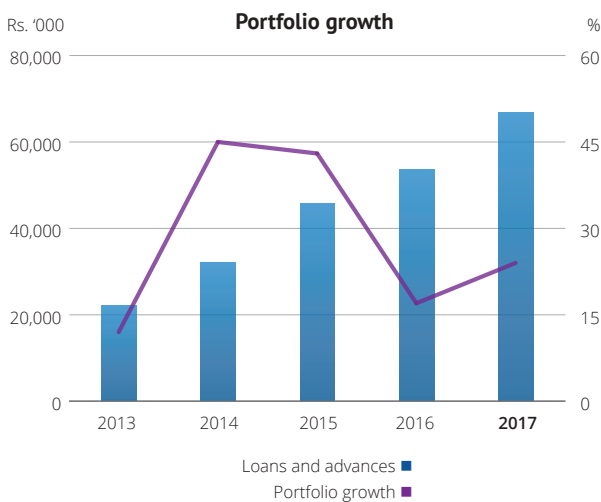
In line with its strategic plan for the year, the Bank sought to centralise its credit approval process in 2017. Accordingly, the branch is responsible for administering the documentation while credit appraisal and approval is granted centrally. This has enabled consistency in the application of the credit policy and is expected to result in a long-term improvement of the Bank's credit quality.

The Bank's credit portfolio grew by 24% during the year, supported by broad-based expansion in key lending products including term loans and pawning while leasing contracted during the year. SDB's portfolio is concentrated in the salaried employee segment, which accounted for 46.32% of its portfolio as at year end-December 2017. Total impairments on loans and advances nearly doubled to Rs.293.54 Mn mainly due to an increase in collective impairments. Substantial loan growth recorded during the year and the review of threshold indentifying loans subject to impairment contributed to the increase in collective impairment. Following the increase in delinquencies, we discontinued lending to this segment. Although, the gross NPL ratio decreased to 2.07%, from 2.10% the year before remaining well below industry peers. The Bank also maintains a prudent provisioning policy during the year. Conscious efforts to rebalance the portfolio towards the SME segment is expected to result in an improvement in credit quality over the medium to long term.

**Developments in 2017** 

- ▶ Centralised the credit approval system
- ▶ Established a tele-collection centre

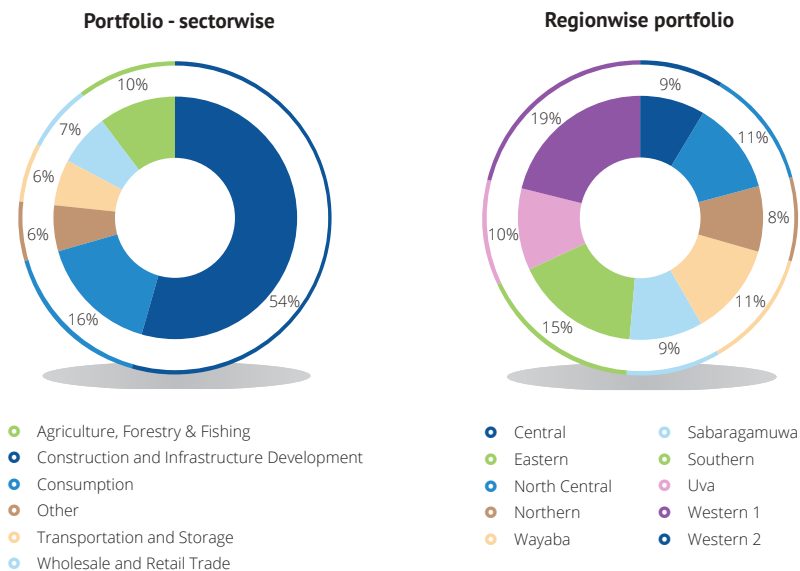
	2017		2016	
	% of portfolio	Delinquency (NPL) ratio	% of portfolio	Delinquency (NPL) ratio
Loans	81.9	1.6%	81.3	1.3%
SME and other business	7.1	5.2%	5.4	8.0%
Leasing and HP	6.3	5.2%	7.6	5.9%
Pawning	1.2	1.7%	1.2	1.6%
SANASA society	3.4	0.9%	4.4	1.0%
Solidarity Group Loans	0.1%	83.1%	0.1	80.7%



## Risk Management

### Concentration Risk

Concentration risk is monitored through geographical breakdown, sector-wide exposures and large exposures. The Bank's lending portfolio is granular with the top 20 loans accounting for just 3% of the total portfolio thereby mitigating name concentration. In terms of geographical exposure, SDB's portfolio is well-balanced with more than 73% originating outside the Western Province. In terms of sector-wide exposure, the Construction and infrastructure sector dominates the composition with a share of 54%, followed by consumption and agriculture.



NPL Increase	Minor	Moderate	Severe
Increase in NPL across Lending Portfolio	1.5%	3.8%	10.8%
Impact on CAR	(0.36%)	(0.91%)	(2.69%)

Shift in asset class	Minor		Moderate		Severe	
	Normal to Special Mention (2%)	Special Mention to Substandard - 5%	Normal to Special Mention (5%)	Special Mention to Substandard - 10%	Normal to Special Mention (10%)	Special Mention to Substandard - 15%
Downgrade in asset class			Substandard to Doubtful (10%)	Substandard to Doubtful (15%)		
Impact on CAR	(0.66%)		Doubtful to Loss - 10%	Doubtful to Loss - 15%		
			(1.22%)	(2.16%)		

### Market Risk

Market Risk is the potential loss arising from changes in the fair value or future cash flows of financial instruments due to fluctuations in market variables. The key market risks the Bank is exposed to are interest rate risk, foreign exchange risk, and equity risk.

#### How we manage Market Risk

SDB's main market risk exposure is interest rate risk which arises from the possibility that fluctuations in interest rates will affect the future cash flows or fair values of financial instruments. Exposure to interest rate risks arise from its lending, trading securities and deposit liabilities

The ALCO holds executive responsibility for overseeing the Bank's market risk exposures. A comprehensive framework of policies is in place to govern all aspects of market risk management and these policies are reviewed and updated regularly in view of emerging market risks. ALCO monitors the impact of interest rate risk in the banking book as well as net interest margin and the cumulative rate sensitive gap. The Bank also carried out stress tests on NIM and equity under different interest rate scenarios. Interest rate risk is also monitored through continuously reviewing the Bank's funding mismatches.

	Less than 6 months	6-12 months	1-3 years	3-5 years	Over 5 years
Interest earning assets	59,556,870	2,507,862	4,894,615	6,403,845	6,377,547
Interest bearing liabilities	33,239,214	9,091,638	19,217,288	7,910,028	5,792,271
Gap	26,317,657	(6,583,776)	(14,322,673)	(1,506,183)	585,276
Cumulative gap	26,317,657	19,733,881	5,411,208	3,905,024	4,490,300
Cumulative gap as a % of cumulative liabilities	79%	217%	28%	49%	78%

Note: All figures are Pre IFRS. Internal roll rate assumptions are applied to FD and savings balances.

Although inherently exposed to interest rate risk due to the short-term nature of its deposit liabilities, SDB's interest rate risk profile is relatively stronger than industry counterparts due to its exposure to SME and consumption-driven loans which fall in short-term maturity buckets. The Bank's relationships with multi-lateral agencies and its ability to source mid-to-long-term equity and debt financing has also provided relief against interest rate risks in the 3-5 year and over 5 year maturity bucket.

Equity risk is the potential losses to earnings that arise from fluctuations in share prices of the Bank's investment portfolio. SDB's exposure to equity risk is minimal, as investment in shares amounted to Rs. 20.5 Mn (or less than 1%) of the Bank's total assets and comprise primarily of investment grade equities listed on the CSE.

Interest rate risk – Impact on Net Interest Income (NII)	Minor	Moderate	Severe
Stress Scenario	1.5% parallel increase	2% parallel increase	4% parallel increase
Decline in NII	-0.2%	-0.3%	-0.6%

Interest rate risk – Impact on Economic Value of Equity (EVE)	Minor	Moderate	Severe
Stress Scenario	Short-term rate shift		
Impact on EvE	3.4%	6.2%	10.1%
Stress Scenario	Twist in the Yield Curve		
Impact on EvE	1%	0.6%	3.5%

## Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

### How we manage Liquidity Risk

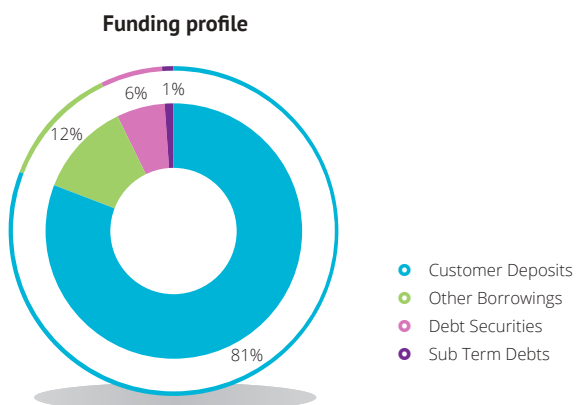
The ALCO holds oversight responsibility for managing the Bank's liquidity risks and ensures that a comfortable buffer is maintained to meet the Bank's financial obligations. The Committee regularly reviews the Bank's cash flow positions, projections, funding capabilities, and pricing decisions to ensure compliance to internal targets and regulatory liquidity requirements.

Liquidity is measured through the dual approaches of stock and flow; under the stock approach, liquidity is measured in terms of key ratios demonstrating the liquidity position. The flow approach measures liquidity in terms of cash flow gaps that measure the net cash flow. The Bank also monitors static and dynamic cash flow with projected disbursements/savings and the resulting impact on funding mismatch.

## Risk Management

### Liquidity Risk Performance in 2017

SDB maintains a diverse funding profile comprising customer deposits, money market borrowings and debentures; deposits dominate the funding base, however with a share of 83%. The Bank's deposit base is relatively granular with the top 20 deposits accounting for just 11.64% of the total base, thereby limiting the liquidity risk exposure. During the year, the Bank maintained its liquidity ratios well within the internal limits and regulatory minimums specified by the CBSL.



	End-March 17	End-June 17	End-Sept. 17	End-Dec 17
Statutory liquid asset ratio	21.3%	21.5%	21.2%	21.3%
Net loans to deposit ratio	118.9%	119.3%	112.7%	111.3%

The Bank also has in place a Contingency Plan to bridge unexpected liquidity shortfalls. In case of a liquidity stress, the Treasury is able to borrow 80% against Treasury Securities as repo borrowings through bank approved primary dealers. An emergency reserve of contingency lines is also available. The BIRMC monitors availability of contingency funding on a quarterly basis. The CFP team has clearly designated roles which will come into play in the event of a liquidity stress situation. The ALCO is responsible for daily monitoring of liquidity in such cases.

### Operational Risk

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems or from external events. These risks arise from all operations and activities and functions collectively hold responsibility for managing the Bank's operational risk exposures within the defined parameters

#### How we manage Operational Risk

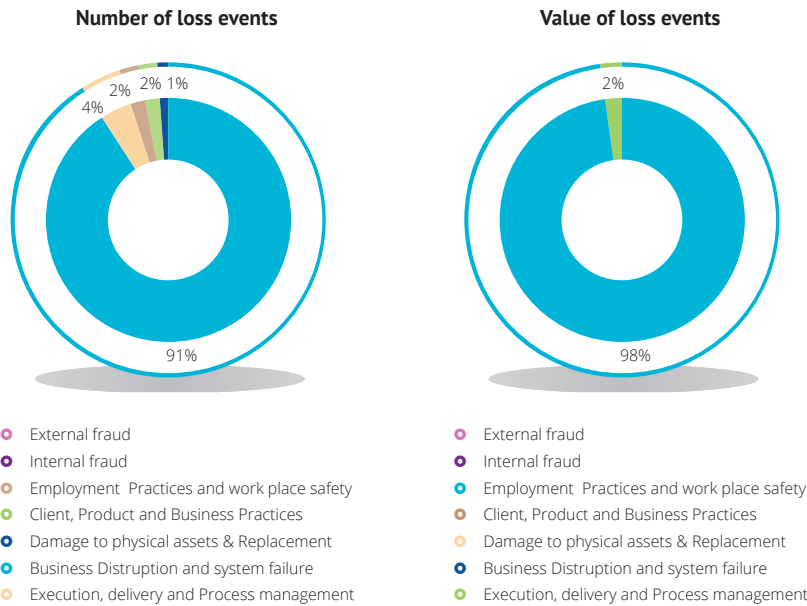
Oversight responsibility for operational risk management has been delegated to a dedicated Operational Risk Management Unit (ORMC). Risk and Control Self-Assessments are administered to all key business units to evaluate the exposure to defined operational risk parameters. This is structured and comprehensive mechanism which enables business lines and supporting units to identify and assess its own risks and introduce measures aimed at improving risk control. The Bank also maintains an Operational Risk Loss Data Base in line with Basel guidelines. Processes are in place to capture all operational loss events which are then categorised as per the requirements of the guidelines.

Exposure to IT/cyber risk is an emerging threat for financial institutions; currently SDB's exposure to cyber security risks are low, as the Bank's digital proposition is still under development.



**Operational Risk Performance in 2017**

Operational risk indicators were maintained within the defined parameters while there were no material loss events during the year. The total value and volume of operational losses by category is given below;



**Legal Risk**

Legal 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 vetted by the dedicated Legal Department which consists of experienced and competent in house Legal Officers. Services of external lawyers are obtained whenever required. 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.

**Strategic Risk**

Strategic risks are the potential losses arising from the possibility of the Bank's future business plans and strategies being inadequate. Strategic risks arise from external and/or internal factors and inability to respond to emerging risks and opportunities in the operating landscape

SDB formulated its new medium-term strategic plan in consultation with IFC and initial activities commenced during the year under review. Key elements of the strategic plan include re-balancing the Bank's portfolio towards the co-operative and SME sectors while proportionally reducing exposure to the retail sector. Main strategic achievements during the year include the centralisation of credit approvals, setting up of 3 dedicated SME centres and upskilling employees through the Quantum Leap initiative (refer to page 44 for further information).

**Capital Management**

As a Bank, proactive and effective management of our capital base is vital in ensuring that an adequate buffer is maintained to absorb adverse scenarios. The Internal Capital Adequacy Assessment Framework (ICAAP) which complies with Basel requirements outlines the process for assessing overall capital adequacy in relation to the institution's risk profile. The ICAAP exercise thus ensures that the Bank possesses sufficient capital to cover its material risk exposures. The ICAAP process carried out during the year indicates that the Bank is well within the stipulated ratios.

As per the Banking Act Direction No. 01 of 2016 Capital Requirements under Basel III banks are required to implement capital augmentation plans on a staggered basis. SDB is the first licensed specialised bank to augment its capital to meet these requirements. Following the capital infusion in 2017, the overall capital ratio strengthened to 14.59% (2016: 12.27%) supported by the raising of tier 2 debt.

	Regulatory requirement	2017
Tier 1	7.25%	12.42%
Total capital	11.25%	14.59%

**Way Forward**

SDB's partnership with IFC has opened avenues to strengthen its risk management framework and practices through access to international best practices. The anticipated implementation of a loan origination system and centralised credit approvals, coupled with the portfolio shift towards SME is anticipated to result in a long-term improvement in the Bank's credit risk exposure. Meanwhile, the Bank intends to introduce new templates for operational risk vulnerabilities, following consultation with the IFC. The monitoring of operational risks will also be automated allowing the analysis of Key Risk Indicators to be done via the Bank's IT system.



## Report of the Board Committees

### REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

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.

- ▶ **Mr. Jayantha Kumara Newunhella** – (Chairman-BIRMC) Independent, Non- Executive Director (Appointed to the BIRMC w.e.f 28.03.2017 and appointed as Chairman w.e.f. 27.06.2017)
- ▶ **Mr. Lakshman Abeysekera** - (Senior Director) Independent, Non-Executive Director
- ▶ **Prof. Sampath Amaratunge** - Independent, Non- Executive Director
- ▶ **Mr. Navindra Liyanaarachchi** - Non-Independent, Non- Executive Director (Appointed to the BIRMC w.e.f 27.06.2017)

Ms. Samadanie Kiriwandeniya Non-Independent, Non-Executive Director served as a member of the committee up to 28th March 2017 and Mr. H.M.G.B. Herath Non-Independent, Non-Executive Director served as a member of the committee up to 27th June 2017. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by Ms. Samadanie Kiriwandeniya and Mr. H.M.G.B. Herath as members of the Committee.

Company Secretary functions as the secretary to the committee.

#### 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 Specialized 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 quarterly 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, regularity 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 as follows.

1. New policies on Integrated Risk Management and Credit were reviewed by the committee and subsequently was recommended to the Board.
2. Reviewed the implication of Basel III on SDB Capital requirement.

3. The Committee also reviewed risk based compliance test.

Further, an Internal Capital Adequacy Assessment Process (ICAAP) was carried out by the Integrated Risk Department.

#### 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 127 to 137.

#### Meetings of the Committee

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 157. 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 2017, 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



**Jayantha Kumara Newunhella**  
Chairman  
Board Integrated Risk Management Committee

26th February 2018  
Colombo, Sri Lanka

## REPORT OF THE BOARD AUDIT COMMITTEE (BAC)

### Composition of the Committee

The Audit Committee ("the committee") appointed by and responsible to the Board of Directors comprises of three (03) Non-Executive, Independent Directors.

*Members serve / served on the Audit committee.*

**Mr. Lakshman Abeysekera** - (Chairman-BAC/ Senior Director)- Independent, Non-Executive Director

**Mr. Jayantha Kumara Newunhella** - Independent, Non-Executive Director

**Prof. Sampath Amaratunge** - Independent, Non-Executive Director (*Appointed to the BAC w.e.f 27.06.2017*)

Mr. H.M.G.B. Herath-Non-Independent, Non-Executive Director served in the Committee until he was appointed to the Board Credit Committee & the Board Co-operative Development Committee on 27.06.2017. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by Mr. H.M.G.B Herath as a member of the Board Audit Committee.

The Chairman of the BAC Mr. Lakshman Abeysekera who is a Independent Non-Executive 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 Postgraduate Institute of Management, University of Sri Jayewardenepura and counts over 26 years of experience in the fields of Accounting, Finance and Management. Brief profiles of the members of the BAC are given in pages 28 to 31 of the Annual Report.

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

### Terms of Reference

The Board Audit Committee functions 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 the 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).

### Duties and Role of the Board Audit Committee

*The BAC is responsible for:*

- ▶ Reviewing financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure;
- ▶ Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices;
- ▶ Reviewing accounting and financial reporting, risk management processes and regulatory compliance;
- ▶ Reviewing of the Financial Statements (including quarterly/ interim statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies which are consistently applied;
- ▶ Reviewing internal audit reports and liaising with Corporate Management in taking precautionary measures to minimize control weaknesses, procedure violations, frauds, and errors;

- ▶ Assessing the independence and monitoring the performance and functions 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

### Meetings of the Committee

For the purpose of discharging its duties, the Audit Committee met Nineteen (19) times during the year. Attendance at Committee meetings is given in the table in page 157 of the Annual report. The Minutes of the meetings are regularly communicated to the Board of Directors. Chief Internal Auditor and Head of Finance attend to the meetings on invitation and General Manager/Chief Executive Officer, Chief Operating Officer and the relevant Senior Management/officers in other grades also participate 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 Four (04) 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 Five (05) out of Nineteen (19) meetings, the Quarterly and Annual Financial Statements

## Report of the Board Committees

### REPORT OF THE BOARD AUDIT COMMITTEE (BAC)

have been discussed and recommended for Board approval. The committee met the Chief Internal Auditor and other senior internal Audit staff in a meeting without presence of the management. The BAC met the External Auditors in Four (04) occasions during the year and on one occasion the BAC met External Auditors without the presence of General Manager/ CEO and the corporate management to ensure that there were no limitations of scope in relation to the Audit and to allow for full disclosure of any incident which could have had a negative impact on the effectiveness on the External/Internal Audits and concluded that there was no cause for concern. The committee is conscious of the need to keep its knowledge up to date and committee members participated at presentations conducted internally on relevant topics.

#### Financial Reporting

The Committee, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors 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 2017.

The Bank assessed the adequacy and effectiveness of its internal control over financial reporting as of 31st December 2017 based on the criteria set out in the Guidance for Directors of Banks on "The Directors' Statement of Internal Control", issued by the Institute of Chartered Accountants of Sri Lanka (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 2017, the Bank's internal control over financial reporting is effective. Directors' Report on the Bank's Internal Control over Financial Reporting is provided in page 161 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 in page 163.

#### 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 2017 is provided in pages 95 to 126 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 in pages 95 to 126.

#### 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 with the External Auditors to discuss their audit approach and procedure, including matters relating to the scope of the audit and Auditor's independence
- ▶ Reviewed the audited Financial Statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards
- ▶ Reviewed the Management Letters issued by the External Auditor together with management responses thereto
- ▶ 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:
  - a) *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.*

b) *The Guideline for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.*

- ▷ Reviewed the Letter of Representation issued to the External Auditors by the Board.
- ▷ Reviewed the 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 re-appointed for the financial year ending 31st December 2018 subject to the approval of shareholders at the next Annual General Meeting.

**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 including succession planning 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 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.

As per the best practices, the committee also had independent discussions

with the Chief Internal Auditor and the senior internal Audit staff without the management team to ensure independence of the internal Audit Department's operations.

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

- ▷ Branch Audits
- ▷ Departments/Divisions Audits, including Treasury, Risk Management & Regional Office Audits
- ▷ 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.

The Risk based Audit plan which was approved by the BAC at the beginning of the year for the Department has been achieved. 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 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, independence, unrestricted access rights etc. that need to discharge its function effectively. The internal Audit charter, and the Internal Audit Manual, were revised and approved by the Board & BAC respectively.

**Whistle Blowing**

Whistle Blowing Policy of the SANASA Development Bank 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", 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, and 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.

**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



**Lakshman Abeysekera**

Senior Director  
 Chairman - Board Audit Committee

26th February 2018  
 Colombo, Sri Lanka



## Report of the Board Committees

### REPORT OF THE BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE (BHRC)

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 of the Committee

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

- ▶ **Mr. Lakshman Abeysekera** - (Chairman-BHRC / Senior Director) Independent, Non-Executive Director
- ▶ **Ms. Samadanie Kiriwandiya** - Non-Independent, Non-Executive Director
- ▶ **Mr. Jayantha Kumara Newunhella** - Independent, Non-Executive Director
- ▶ **Prof. Sampath Amaratunge** - Independent, Non-Executive Director (Appointed to the BHRC w.e.f 27.06.2017)

Mr. J.A. Lalith G. Jayasinghe - Non-Independent, Non-Executive Director served as a member of the committee retired with effect from 30th May 2017. Mr. M.K. Lalith Fernando - Independent, Non-Executive Director served as a member of the committee retired from the committee with effect from 27th June 2017. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by Mr. M.K. Lalith Fernando, Mr. J.A Lalith G. Jayasinghe as members of the Committee.

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 of the Committee

15 meetings of the Board Human Resources and Remuneration Committee have been conducted during the year 2017 and the Committee has deliberated 83 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 BHRC 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. The committee mainly focused on regulatory requirements and related work streams of the Quantum Leap project. Some noteworthy considerations of the Committee relating to these aspects can be elaborated as follows,

#### ▶ Revising the Code of Conduct

Bank possesses a code of conduct relating to employees. However, the dynamics and complexities of the business environment have compelled to enrich the code of conduct of the bank. Accordingly the code of

conduct of the bank has been revised by enriching the codes relating to diverse areas. This has been initiated with the intention of safeguarding and uplifting the good will of the bank and enhancing the professionalism of its employees.

#### ▶ Human Resource Work Stream of the Quantum Leap Project

During the year, the committee has placed a special concern and emphasize on the human resource work stream of the quantum leap project. The Committee reviewed the series of change management work-shops conducted to cover all employees of the bank during the year. In addition, the Committee reviewed the training programmes conducted on sales skills, new loan originating system and SME financing related to the strategic direction identified and endeavoured through Quantum Leap Project.

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



**Lakshman Abeysekera**

Senior Director  
Chairman - Board Human Resources and Remuneration Committee

26th February 2018  
Colombo, Sri Lanka

## REPORT OF THE BOARD SELECTION AND NOMINATION COMMITTEE (BS&NC)

The Board Selection and Nomination Committee, having reviewed its performance during the year 2017, presented the following report.

The Board Selection and Nomination Committee 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 Committee

The Board Selection and Nomination Committee 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 2017, the following Directors served on the BS & NC.

- ▶ **Mr. Lakshman Abeysekera** - (Chairman - BS & NC/ Senior Director) Independent, Non-Executive Director
- ▶ **Ms. Samadanie Kiriwadeniya** - Non - Independent, Non-Executive Director
- ▶ **Mr. Jayantha Kumara Newunhella** - Independent, Non-Executive Director

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

### Primary Objectives of the Committee

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.
- ▶ Re-election of Directors - the Board Selection and Nomination Committee 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. Board Selection and Nomination Committee also recommended suitable Directors to fill the vacancies in place of retiring Directors.
- ▶ Filling the skill gaps in the key management team, the Board Selection and Nomination Committee continuously reviewed 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 Board Selection and Nomination Committee 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 KMP and during the year under review, Board Selection and Nomination Committee interviewed and evaluated candidates and elected to fill the post of Head of Business and IT Consultant to the Board of Directors.

The Terms of Reference of the Board Selection and Nomination Committee was adopted by the Board in 2012.

### Meetings of the Committee and its effectiveness

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

- ▶ 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.

For and on behalf of the Board Selection and Nomination Committee



**Lakshman Abeysekera**

Senior Director  
Chairman - Board Selection and Nomination Committee

26th February 2018  
Colombo, Sri Lanka

## Report of the Board Committees

### REPORT OF THE BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE (BRPTRC)

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

#### Composition of the Committee

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

- ▷ **Mr. Jayantha Kumara Newunhella** - (Chairman - BRPTRC) Independent, Non- Executive Director
- ▷ **Prof. Sampath Amaratunge** - Independent, Non-Executive Director
- ▷ **Mr. M.K. Lalith Fernando** - Independent, Non-Executive Director

#### 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 Colombo Stock Exchange (CSE) Listing Rules.

The Company Secretary functions as the Secretary to the Committee as per the approved Terms of Reference of the Committee.

#### Meetings of the Committee

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

The Committee held 8 meetings during the period under review. The proceedings of the committee meetings have been regularly reported to the Board of Directors.

#### Objective of the Committee

- ▷ To avoid favourable treatments to related parties in granting facilities and providing and obtaining services and purchases / sale of assets
- ▷ Implementing regulations related to Related Parties issued by CBSL and CSE

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



**Jayantha Kumara Newunhella**

Chairman  
Board Related Party Transactions Review  
Committee

26th February 2018  
Colombo, Sri Lanka

## REPORT OF THE BOARD STRATEGIC PLANNING AND BUSINESS DEVELOPMENT COMMITTEE (BSP&BDC)

In the year 2015, the Board established the Board Strategic Planning 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.

IT 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 the Committee

BSP & BDC comprises of three Non-Executive Directors appointed by the Board of Directors. During the year 2017, the following Directors served on BSP & BDC ;

- ▷ **Ms. Samadanie Kiriwandeniya** - (Chairperson- BSP & BDC) Non-Independent, Non- Executive Director
- ▷ **Mr. Lakshman Abeysekera** - Independent, Non-Executive Director
- ▷ **Mr. M.K. Lalith Fernando** - Independent, Non-Executive Director
- ▷ **Mr. Prabhash Subasinghe** - Non-Independent, Non- Executive Director (Appointed to BSP & BDC w.e.f 27.06.2017)

Prof. Sampath Amaratunge - Independent, Non-Executive Director served as a member of the committee up to June 2017. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by Prof. Sampath Amaratunge as a member of the Committee.

Company Secretary of the Bank serves as the Secretary to the Committee based on the approved terms of reference for the Committee.

### Meetings of the Committee

The Committee met quarterly during the year and proceedings of the meetings had been reported to the Board of Directors focussing mainly on the following.

- ▷ During the period the committee examined and made recommendations to the Strategic Plan 2017-2020
- ▷ Committee reviewed the Business Plan of IT Department
- ▷ Committee reviewed the Digitalization Journey of the Bank

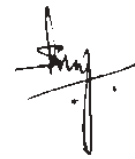
### The Scope of ToR

- ▷ 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 organization 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 and Business Development Committee.



**Samadanie Kiriwandeniya**  
Chairperson  
Board Strategic Planning and Business Development Committee

26th February 2018  
Colombo, Sri Lanka

## Report of the Board Committees

### REPORT OF THE BOARD CREDIT COMMITTEE (BCC)

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 five Non-Executive Board Directors who meet at least once a month to deliberate on issues under its purview.

#### Composition of the Committee

- ▶ **Mr. M.K. Lalith Fernando** - (Chairman-BCC) Independent, Non- Executive Director
- ▶ **Ms. Samadanie Kiriwandeniya** - Non-Independent, Non-Executive Director
- ▶ **Mr. H.M.G.B. Herath** - Non-Independent, Non-Executive Director (Appointed to the BCC w.e.f 27.06.2017)
- ▶ **Mr. S. Lionel Thilakarathne** - Non-Independent, Non-Executive Director (Appointed to the BCC w.e.f 27.06.2017)
- ▶ **Mr. Arnoldus de Vette** - Non-Independent, Non-Executive Director (Appointed to the BCC w.e.f 27.12.2017)

Mr. B.R.A. Bandara - Non-Independent, Non-Executive Director served as a member of the committee retired to be a Director with effect from 30th May 2017.

We take this opportunity to place on record the committee's appreciation for the valuable service rendered by Mr. B.R.A. Bandara as a member of the Committee.

Company Secretary functions as the Secretary of the Committee. GM/CEO, Head of Credit, Chief Risk Officer, shall attend the meetings and Head of Co-operative division, Head of Legal, Manager Recoveries, Manager Leasing shall attend the meetings by invitation 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 behavior 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 12 occasions during 2017. Attendance of Committee members is given in page 157. 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. Lalith Fernando**  
Chairman  
Board Credit Committee

26th February 2018  
Colombo, Sri Lanka





***With Best  
Compliments  
From***

**SDB** bank

*Our journey over the last two decades  
is symbolized by the solidarity we have  
developed with our customers.*



*Financial*  
**REPORTS**

# Financial Calendar

## Financial Calendar 2017

Annual General Meeting	
21st Annual General Meeting	To be held on 22nd May 2018
20th Annual General Meeting	Held on 30th May 2017

Dividend Payments	Amount (Rs.)	Date of Dividend Announced	Date of Dividend Paid/ shares allotted
Cash dividend for 2016	2.50	19/04/2017	09/06/2017
Scrip dividend for 2016	5.00	19/04/2017	30/05/2017

Annual Financial Statements	
Annual Financial Statements of 2017	Signed on 26/02/2018
Annual Financial Statements of 2016	Signed on 16/03/2017

Interim Financial Statements **	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
4th quarter of 2016	28/02/2017	29/03/2017
1st quarter of 2017	15/05/2017	31/05/2017
2nd quarter of 2017	09/08/2017	24/08/2017
3rd quarter of 2017	14/11/2017	28/11/2017
4th quarter of 2017	27/02/2018	28/03/2018

## Proposed Financial Calendar 2018

Annual General Meeting	
22nd Annual General Meeting	To be held on or before 31st May 2019

Dividend Payments*	Amount (Rs.)	Date of Dividend Announced	Date of Dividend to be Paid/ shares to be allotted
Cash dividend for 2017	2.50	15/03/2018	01/06/2018
Scrip dividend for 2017	3.50	15/03/2018	22/05/2018

Annual Financial Statements	
Annual Financial Statements of 2018	To be signed in March 2019

Interim Financial Statements **	Date to be released to the CSE	Date to be published to the newspapers (In Sinhala, English, Tamil)
1st quarter of 2018	15/05/2018	31/05/2018
2nd quarter of 2018	15/08/2018	31/08/2018
3rd quarter of 2018	15/11/2018	31/11/2018
4th quarter of 2018	28/02/2019	30/03/2019

\* 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 Directors have pleasure in presenting to the shareholders the Annual Report of the SANASA Development Bank PLC together with the Audited Financial Statements for the year ended December 31, 2017 and the Auditors' Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 & amendments thereto and the Directions issued there under including the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialized Banks in Sri Lanka and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

This Report was approved by the Board of Directors on February 26, 2018. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

SANASA Development Bank PLC ("The Bank") is a Licensed Specialized 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 PB 62 PQ.

The ordinary voting shares of the Bank are listed on the Main Board of the Colombo Stock Exchange since May 2012. The Senior Rated Guaranteed Debentures issued by the Bank are also listed on the CSE. 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.

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

## 2. Vision, Mission, Goals, Values and Corporate Conduct

The Bank's Vision and Mission Statements are exhibited on page 04 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.

The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the Bank's Code of Conduct.

## 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 programs, 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.

The Bank has established delivery points across all districts of the country. During the year under review, 3 new delivery points were added (1 in 2016), bringing the total number of delivery points within the country to 91 at the end of 2017 (88 at the end of 2016).

## 4. Review of Operations

The 'Chairperson's Review' on pages 20 to 23, the 'General Manager/CEO's Review' on pages 24 to 27, and the 'Performance and value creations' on pages 50 to 76, together with the Audited Financial Statements provide an overall review of business performance and the state of affairs of the Bank together with important events that took place during the year as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

## 5. Future Developments

The Bank intends expanding its network of delivery channels by employing client-focused strategy with effective management of capital, liquidity and risks. The Bank is planning to launch its online and mobile banking platforms in 2017 enabling customers to easily access to most banking services 24/7. Please refer Sections on 'Chairperson's Review', 'General Manager/CEO's Review' on pages 20 to 27 and 'Performance and value creations' on pages 50 to 76 for initiatives taken in this regard.

## 6. Financial Statements

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs /LKASs) 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 2017 duly signed by the Assistant General Manager- Finance, General Manager/ Chief Executive Officer, two Directors of the Bank and Company Secretary are given on pages 167 to 219, 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, which reflect a true and fair view of the financial position and performance of the Bank. The Directors are of the view that the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 167 to 219 have been prepared in conformity with the requirements of the SLFRSs and LKASs as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the

Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The 'Statement of Directors' Responsibility' appearing on page 165 forms an integral part of this Report.

## 8. Auditors Report

The Auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Messrs Ernst & Young Accountants carried out the Audit on the Financial Statements of the Bank for the year ended 31st December 2017 and their report on those Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given in page 166.

## 9. Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of the

financial statements are given in pages 171 to 185 and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

## 10. Going Concern

The Directors have made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

## 11. Financial Results and Appropriations

### 11.1 Gross Income

The gross income of the Bank for 2017 was Rs. 11.37 Bn. (Rs. 8.45 Bn.

In 2016). An analysis of the income is given in Note 03 to 06 to the Financial Statements on pages 186 to 187.

### 11.2 Profits and Appropriations

The net profit before tax of the Bank amounted to Rs. 753 Mn in 2017 (Rs. 617 Mn in 2016) and this was an increase of 22%, (-44% in 2016). Further, the net profit after tax of the Bank amounted to Rs. 508 Mn in 2017 (Rs. 404 Mn in 2016) and this was an increase of 26% (-44% in 2016).

On this basis, the cash dividend payout ratio amounts to 25% of the profit after tax of 2017, compared to 26% for 2016, while total dividend payout ratio amounts to 59% for 2017, compared to 78% for 2016. This is well above the minimum dividend payout ratio of 10% (10% in 2016) stipulated in the Deemed Dividend Tax Rule. A detailed breakup of profits and appropriations of the Bank is given below.

Description	2017	2016
	Rs.	Rs.
<b>Profit for the year</b>		
Profit for the year ended 31st December after payment of all operating expenses and provision for depreciation and contingencies	752,601,109	617,425,417
Less: Taxation	(244,777,577)	(213,703,773)
<b>Net Profit after Tax</b>	<b>507,823,532</b>	<b>403,721,644</b>
<b>Other Comprehensive Income (OCI)</b>		
Actuarial Gain/(losses) on defined benefit plans	2,885,075	(49,638,943)
Gains/(losses) on re-measuring available-for-sale financial assets	-	(12,453,979)
Diferred tax relating to other comprehensive income	(807,821)	13,898,904
<b>Total Comprehensive Income for the year</b>	<b>509,900,786</b>	<b>355,527,626</b>
Unappropriated profit brought forward from previous year	1,237,288,175	1,302,002,771
<b>Balance available before appropriation / adjustments</b>	<b>1,747,188,961</b>	<b>1,657,530,397</b>
<b>Appropriations</b>		
Transfer to Statutory Reserve fund	(25,391,177)	(17,776,381)
Dividend		
Final cash dividend - 2015 (Rs.2.50 per share)	-	(109,162,402)
Final scrip dividend - 2015 (Rs.7.50 per share)	-	(293,303,439)
Final cash dividend - 2016 (Rs.2.50 per share)	(131,249,300)	-
Final scrip dividend - 2016 (Rs.5.00 per share)	(262,498,600)	-
<b>Unappropriated balance carried forward</b>	<b>1,328,049,884</b>	<b>1,237,288,175</b>
Proposed Dividend		
Final cash dividend - 2017 (Rs. 2.50 per share)	(136,947,167)	-
Final scrip dividend - 2017 (Rs. 3.50 per share)	(191,726,035)	-
<b>Balance carried forward as at 31st December</b>	<b>999,376,682</b>	<b>-</b>



## Annual Report of the Board of Directors on the Affairs of the Company

### 12. Taxation

The Income Tax Rate applicable on the Bank's domestic operation is 28% (2016: 28%). Details of Tax payments are given in Note 10 to the Financial Statements on page 188.

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). Details of Deferred Tax provisions made are given in Note 10 to the Financial Statements on page 188.

The Bank also liable for VAT on financial value addition at 15% (2016: 15% and 11%) and NBT at 2% (2016: 2%) respectively. 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 (including all taxes, duties and levies payable by the Bank) due to the Government, other regulatory institutions and related to the employees have been made on time or where relevant provided for.

### 14. Dividends on Ordinary Shares

The Directors recommended that a final dividend of Rs. 6.00 per share (2016: Rs.7.50 per share) to be paid for the financial year ended 31st December 2017. This will be paid by Rs. 2.50 in the form of cash dividend and balance Rs. 3.50 in the form of scrip dividend (2016: Rs. 2.50 in the form of cash dividend and balance Rs. 5.00 in the form of scrip dividend) The dividend is subject to Shareholders approval at the Annual General Meeting. Further, the aforesaid final dividend is proposed to be satisfied by issue and allotment of new shares, subject to a 14% withholding tax.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency

from the Auditors in respect of dividend payment in terms of Section 56 (2) of the Companies Act No. 07 of 2007. Details of Information on dividends are given in Note 31 to the Financial Statements on page 201.

### 15. Reserves

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

	2017	2016
	Rs.	Rs.
Statutory reserve	197,763,963	172,372,786
Other reserve	34,202,994	34,202,994
Retained earnings	1,340,503,863	1,249,742,154

Information on the movement of reserves is given in the Statement of Changes in Equity on page 169 and in Notes 30, 31 and 32 to the Financial Statements on Page 201.

### 16. Capital Expenditure

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to Rs. 272,786,130 (2016: Rs. 236,556,367). Details are given in Notes 20 to the financial statements.

### 17. Property, Plant & Equipment, Intangible Assets and Leasehold Property

Information on Property, Plant & Equipment and Leasehold property of the bank are given in Note 20 to the financial statements on pages 193 and 194. Particulars of intangible assets are given in Note 22 to the financial statements on page 195.

Investment properties of the bank are disclosed in accordance with Sri Lanka Accounting Standard – 40 on "Investment Property". Specific information on extent, location of the land and buildings held by the Bank are given under Note 21 to the financial statements on pages 194 and 195.

### 18. Issue of Shares and Subordinated Debt

#### 18.1 Stated Capital

The stated Capital of the Bank as at 31st December 2017 amounted to Rs. 5,758,689,211/- consisting of 54,778,867 ordinary shares (2016: Rs. 4,062,961,714/- consisting of 42,061,577 ordinary shares)

The number of shares in issue of the Bank increased from 42,061,577 ordinary shares to 54,778,867 ordinary shares as a result of the scrip dividend of one ordinary share for every 22.8533 ordinary shares held by shareholders and the private placement of ordinary shares to Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., SBI-FMO Emerging Asia Financial Sector Fund Pte. Ltd and International Finance Corporation.

The details of the shares issued are given in Note 29 to the Financial Statements.

## 18.2 Issue of shares and subordinated convertible debt by the bank

Details of the shares issued by the bank are given in the table below

Reasons for the Issue	Details of the Share issue	2017	2016
		Voting ordinary shares	Voting ordinary shares
Part of final dividend for 2016 amounting Rs.5/- per share (Rs.7.50 per share in 2015) satisfied in the form of issue and allotment of new shares	Number of shares issued	2,279,147	1,814,952
	Consideration	234,387,477	268,866,989
Private placement ordinary shares to Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.; SBI-FMO Emerging Asia Financial Sector Fund Pte. Ltd. and International Finance Corporation	Number of shares issued	10,438,143	N/A
	Consideration	1,461,340,020	N/A

The bank made a subordinated convertible debt issue during the year 2017 to Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V (FMO) and SBI-FMO Emerging Asia Financial Sector Fund Pte. Ltd (The Fund). The subordinated convertible debt would confer upon FMO and the Fund, as lenders of the facilities, the right to convert all or part of the outstanding amounts under the said facilities into ordinary voting shares of the bank at a conversion price which will be the lower of Rs.140/- (Fixed conversion price) or 1.1 times of the book value per share at the time of conversion. The monetary board of the Central Bank of Sri Lanka has granted approval for the inclusion of the subordinated convertible debt by FMO and the Fund as Tier - 2 Capital of the Bank.

The conversion may take place within any time commencing from the date of fifth anniversary of utilization/ disbursement date and ending on the date falling 66 months after the utilization date subject to FMO and The Fund together holds a maximum of 15% of the issued capital carrying voting rights post equity investment and conversion of subordinated convertible debt. The conversion may

however take place prior to the above mentioned period only with prior written consent of the Bank unless an event of default occurs in accordance with the terms of the Subordinated Term Facility Agreements and if the investors opt to convert.

In accordance with Section 52 of the Companies Act No. 7 of 2007, the Board of SDB is of the view that the consideration of the lower of Rs. 140/- per share (Fixed Conversion Price) or 1.1 times the Book Value per share for the ordinary voting shares to be issued at the time of exercising the conversion option of the Subordinated Term Loans is fair and reasonable to the Bank and to all its existing shareholders.

The summarized details of the subordinated convertible debt issue is given below;

Investor	Tenor/Repayment	Interest Rate	Principal amount
FMO	66-month term and a bullet repayment at the end of the 66-month term subject to conversion as detailed above	6-month T-bill rate + 550 basis points + TCX± Adjustment payable per annum	306,740,000
SBI-FMO	66-month term and a bullet repayment at the end of the 66-month term subject to conversion as detailed above	6-month T-bill rate + 450 basis points payable per annum	686,229,761

## Annual Report of the Board of Directors on the Affairs of the Company

### 19. Share information

There were 38,283 registered ordinary shareholders as at 31st December 2017 (2016: 39,374). Shareholder distribution, share ownership composition and substantial shareholding are as follows;

#### 19.1 Distribution schedule of shareholdings

Shareholder	As at 31st December 2017		As at 31st December 2016	
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares
Individual	34,710	16,242,578	35,835	16,008,716
<b>Institution</b>				
Foreign	03	11,942,201	01	1,003,408
Local & Other Institutions	47	10,927,204	47	9,806,387
Sanasa Federation	01	Acc 1 764,730 Acc 2 27,658	01	633,763
Sanasa Societies	3,360	6,365,985	3,329	5,031,168
Sanasa Unions	34	1,147,359	31	1,040,936
MPCCS	21	152,301	21	145,928
Trust Companies	107	7,208,851	109	8,391,271
	<b>38,283</b>	<b>54,778,867</b>	<b>39,374</b>	<b>42,061,577</b>

#### 19.2 Composition of Share Ownership

	31st December 2017				31st December 2016			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 - 1000	36,659	95.76	4,472,661	8.17	37,773	95.94	4,594,425	10.92
1001 - 10000	1,282	3.35	3,530,007	6.44	1,289	3.27	3,522,161	8.37
10001 - 100000	294	0.77	9,237,897	16.86	260	0.66	8,270,894	19.67
100001 - 1000000	40	0.10	9,277,569	16.94	47	0.12	11,782,079	28.01
1000001 - & Above	8	0.02	28,260,733	51.59	5	0.01	13,892,018	33.03
	<b>38,283</b>	<b>100</b>	<b>54,778,867</b>	<b>100</b>	<b>39,374</b>	<b>100</b>	<b>42,061,577</b>	<b>100</b>

### 19.3 Substantial Shareholdings

Names of the twenty largest shareholders, percentages of their respective holdings and percentage holding of the public are as follows;

No	Shareholder Name	31st Dec 2017		31st Dec 2016	
		No. of Shares	%	No. of Shares	%
1	Seylan Bank PLC /Dr. Thirugnanasambandar Senthilverl	6,203,204	11.32	5,392,720	12.82
2	Global Rubber Industries (Pvt) Ltd	5,937,455	10.84	4,461,548	10.61
3	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD	4,906,926	8.96	-	-
4	CB NY S/A International Finance Corporation	4,854,419	8.86	1,003,408	2.39
5	Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V	2,180,856	3.98	-	-
6	People's Leasing & Finance PLC	2,036,446	3.72	1,951,073	4.64
7	Seemasahitha SANASA Rakshana Samagama (General)	1,130,669	2.06	1,083,269	2.58
8	Kegalle SANASA Share Holders Trust Company Limited	1,010,758	1.85	968,385	2.30
9	Seemasahitha SANASA Rakshana Samagama (Life)	885,672	1.62	848,543	2.02
10	Sampath Bank PLC/Dr. T. Senthilverl	835,005	1.52	600,000	1.43
11	Sanasa Federation Limited	764,730	1.40	633,763	1.51
12	Warakapola SANASA Share Holders Trust Company Limited	511,257	0.93	489,824	1.16
13	Mrs. A. S. Palihena	450,000	0.82	410,000	0.97
14	Hambanthota DTCCS Union Ltd	373,694	0.68	358,028	0.85
15	Polgahawela Sanasa Societies Union Ltd	351,804	0.64	331,000	0.79
16	Mr. D.P. Pieris	343,107	0.63	328,723	0.78
17	Polpithigama SANASA Share Holders Trust Company Limited	280,518	0.51	268,758	0.64
18	Dr. S. Yaddehige	265,466	0.48	884,782	2.10
19	Kollonnawa SANASA Share Holders Trust Company Limited	250,295	0.46	239,802	0.57
20	Polgahawela SANASA Share Holders Trust Company Limited	234,256	0.43	225,629	0.54

### 19.4 Information on Earnings, Dividend, Net Assets and Market Values

Information relating to earnings, dividend, net assets and market value per share is given in "Financial Highlights" on page 08. Information on the trading of shares and movement in the number of shares represented by the stated capital is given in the section on "Investor Relations" on pages 83 to 93.

### 19.5 Equitable Treatment to Shareholders

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

### 20. Information on the Directors of the Bank

#### 20.1 Information on Directors as at December 31, 2017

The Board of Directors of the Bank consists of Ten (2016: Eight) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31st December 2017 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 28 to 31 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.

## Annual Report of the Board of Directors on the Affairs of the Company

Name of the Director	Executive/Non-Executive Status	Independent/Non-Independent status
Ms. Samadanie Kiriwadeniya	Non - Executive	Non - Independent
Mr. Lakshman Abeysekera	Non - Executive	Independent
Mr. H.M.G.B. Herath	Non - Executive	Non - Independent
Mr. Jayantha Kumara Newunhella	Non - Executive	Independent
Prof. Sampath Amaratunge	Non - Executive	Independent
Mr. M.K. Lalith Fernando	Non - Executive	Independent
Mr. Prabhash Subasinghe	Non - Executive	Non - Independent
Mr. Navindra Liyanaarachchi	Non - Executive	Non - Independent
Mr. S. Lionel Thilakarathne	Non - Executive	Non - Independent
Mr. Arnoldus de Vette	Non - Executive	Non - Independent

### 20.2 New appointments made during 2017

Mr. Prabhash Subasinghe (Appointed w.e.f. 30-05-2017)	Non - Executive	Non - Independent
Mr. Navindra Liyanaarachchi (Appointed w.e.f. 30-05-2017)	Non - Executive	Non - Independent
Mr. S. Lionel Thilakarathne (Appointed w.e.f. 30-05-2017)	Non - Executive	Non - Independent
Mr. Arnoldus de Vette (Appointed w.e.f. 31-10-2017)	Non - Executive	Non - Independent

### 20.3 Resignations/Retierment during 2017

Mr. B.R.A. Bandara (Retiered by rotation w.e.f. 30-05-2017)	Non - Executive	Non - Independent
Mr. J. A. Lalith G. Jayasinghe (Retiered by rotation w.e.f. 30-05-2017)	Non - Executive	Non - Independent

### 20.4 Retirement by Rotation and Re-election/Re-appointment of Directors

- i. In terms of Article 6 (4) of the Articles of Association, one third of the aggregate of Non-Executive Directors shall retire by rotation at each Annual General Meeting. Article 6 (4) provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation), have been longest inoffice, since their last election or appointment.
- ii. Accordingly the following Directors will be subjected to retire by rotation and are eligible for re-election:
  - a) Ms. Samadanie Kiriwadeniya
  - b) Mr. H.M.G.B. Herath
  - c) Mr. S. Lionel Thilakarathne
- iii. Directors who served on the Board for over Nine years  
In terms of the Banking Act Direction No. 12 of 2007 (Corporate Governance for Licensed Specialized Banks in Sri Lanka), the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed Nine years. As of 31 December 2017 none of the Directors have completed Nine year service period.

### 21. Board Sub-Committees

The Board of Directors of the Bank formed four mandatory Board Sub-Committees namely, Selection & Nomination Committee, Human Resources & Remuneration Committee, Integrated Risk Management Committee and Audit Committee as required by the Banking Act Direction No. 12 of 2007 on 'Corporate Governance for Licensed Specialized Banks in Sri Lanka' issued by the CBSL.

The Board formed a Related Party Transactions Review Committee in 2014 to assist the Board in reviewing all related party transactions carried out by the Bank by early adopting the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (the SEC) which became mandatory from January 01, 2016.

The Board of Directors also has formed three other voluntary Board Sub-committees to assist the Board. These committees play a critical role in order to ensure that the activities of the Bank at all times are conducted with the highest ethical standards and in the best interest of all its stakeholders. The Terms of Reference of these Sub-committees conform to the recommendations made by various regulatory bodies, such as the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission, and the Colombo Stock Exchange. The composition of both mandatory and voluntary Board Sub-committees, as at December 31, 2017 is given below.





## Annual Report of the Board of Directors on the Affairs of the Company

1	Ms. M.S. Kiriwandeniya	- Retired From BIRMC w.e.f 28.03.2017
2	Mr. L. Abeysekera	- Appointed to the BCDC w.e.f 27.01.2017 & Retired from BCDC w.e.f 27.06.2017
3	Mr. H.M.G.B. Herath	- Appointed to the BCDC w.e.f 27.01.2017, Appointed to the BIRMC w.e.f 28.03.2017 & Retired from BIRMC w.e.f 27.06.2017, Appointed to the BCC w.e.f 27.06.2017 & Retired from BAC w.e.f 27.06.2017
4	Mr. D.J.K. Newunhella	- Appointed to the BIRMC w.e.f 28.03.2017
5	Prof. S. Amaratunge	- Appointed to the BAC & BHRRRC w.e.f 27.06.2017 & Appointed to the BCDC w.e.f 27.01.2017 & retired from BCDC 27.06.2017, Retired from BSP & BDC w.e.f 27.06.2017
6	Mr. M.K.L. Fernando	- Retired From BHRRRC w.e.f 27.06.2017 & Appointed to the BCDC w.e.f 27.06.2017
7	Mr. P. Subasinghe	- Appointed to the Board w.e.f 30.05.2017, Appointed to the BSP & BDC w.e.f 27.06.2017
8	Mr. N. Liyanaarachchi	- Appointed to the Board w.e.f 30.05.2017, Appointed to BIRMC & BCDC w.e.f 27.06.2017
9	Mr. B.R.A. Bandara	- Appointed to the BCDC w.e.f 27.01.2017, Retired From Board, BCC & BCDC w.e.f 30.05.2017
10	Mr. S.L. Thilakarathne	- Appointed to the Board w.e.f 30.05.2017, BCC & BCDC w.e.f 27.06.2017
11	Mr. J.A.L.G. Jayasinghe	- Appointed to the BCDC w.e.f 27.01.2017, Retired From Board, BHRRRC & BCDC w.e.f 30.05.2017
12	Mr. A.P.J. de Vette	- Appointed to the Board w.e.f 31.10.2017 & BCC w.e.f 27.12.2017

### 23. Disclosure of Directors' Dealing in Shares

Individual ordinary voting shareholdings of persons who were Directors of the Bank at any time during the financial year are as follows:

#### 23.1 No. of Shares

Name of the Director	As at 31 December 2017	As at 31 December 2016
Ms. M.S. Kiriwandeniya	5,627	5,392
Mr. L. Abeysekera	-	-
Mr. H.M.G.B. Herath	-	-
Mr. D.J.K. Newunhella	-	-
Prof. S. Amaratunge	-	-
Mr. M.K.L. Fernando	-	-
Mr. P. Subasinghe	67,435	-
Mr. N. Liyanaarachchi	-	-
Mr. S.L. Thilakarathne	-	-
Mr. A.P.J. de Vette	-	-
Mr. B.R.A. Bandara	-	784
J(Ceased directorship w.e.f. 30-05-2017)		

#### 23.2 Shareholding Percentage

	As at 31 December 2017	As at 31 December 2016
Directors	0.13%	0.01%
Public	99.87%	99.99%

### 24. Directors' Interests in Contracts or Proposed Contracts

The Bank maintains Directors' Interests Register as required under the provisions of Section 168 (1) (e) of the Companies Act No 7 of 2007. The Directors of the Bank have disclosed their interests in contracts or proposed contracts, in terms of Section 192 (1) and 192 (2) of the Companies Act. These interests have been recorded in the interests' register which is available for inspection in terms of the provisions of the Companies Act. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

### 25. Directors' Remuneration

As required under the Section 168 (1) (f) of the Companies Act No 7 of 2007, Directors' remuneration and other benefits in respect of the Bank for the financial year ended December 31, 2017 are given in Note 9 to the Financial Statements on page 187.

### 26. Related Party Transaction

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 35 to the financial statements, forming part of the Annual Report of the Board of Directors.

### 27. Directors' and Officers' Insurance

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, secretaries, officers and certain employees of the Bank as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

## 28. Environmental Protection

To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment. Specific measures taken to protect the environment are given on pages 75 and 76.

## 29. Events after the Reporting Period

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the Reporting period, other than those disclosed in Note 34 to the Financial Statements on page 203.

## 30. Appointment of Auditors and their Remuneration

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 Rs. 2,265,973 (2016: Rs. 1,950,520). Further Rs. 780,410 (2016: Rs. 752,800) were paid by the Bank for audit related and non-audit services including reimbursement of expenses. Details of the Audit Fees paid are given on Note 9 to the financial statements on page 187.

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.

## 31. Information on Ratios, Market Prices of Shares and Credit Ratings

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on 'Investor Relations' on pages 83 to 93.

## 32. Risk Management and Internal Control

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the Section on 'Managing Risk' on pages 127 to 137 and in Note 41 to the Financial Statements on pages 211 to 218.

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 is being under regular review of the Board of Directors. This comprises Internal reviews, Internal Audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect the frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

## 33. Board of Directors on the Affairs of the Company

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 page 161 to 162.

The Board has obtained an assurance report from the external auditors on Directors' Statement on Internal Control which is given on page 163 of the Annual Report.

## 34. Outstanding Litigations

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 33 of the financial statements given on pages 201 to 203 will not have a material impact on the financial position of the Bank or its future operations.

## 35. Corporate Governance

Directors' Declarations

- i. the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee.
- ii. the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested.
- iii. all endeavors have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue.
- iv. the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business plans

## Annual Report of the Board of Directors on the Affairs of the Company

and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and Associates are prepared based on the Going Concern assumption, and

- v. they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence. The measures taken and the extent to which the Bank has complied with the Code of Best Practice on Corporate Governance issued by The CA Sri Lanka and the SEC, the CSE and the CBSL are given in on pages 95 to 126.

### 36. Annual General Meeting and the Notice of Meeting

The 21st Annual General Meeting of the Bank will be held at SANASA Uththamavi Hall, Paragammana, Hettimulla, Kegalle at 9.00a.m on the 22nd May 2018. The notice of meeting is given on page 254 of the Annual Report.

### 37. Acknowledgement 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.

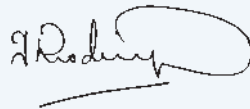
For and on behalf of the Board of Directors.



**Samadaine Kiriwadeniya**  
Chairperson



**Lakshman Abeysekera**  
Senior Director



**Tamarika Rodrigo**  
Company Secretary

26th February 2018  
Colombo, Sri Lanka

## Directors' Statement on Internal Control over Financial Reporting

About Our Report  
Overview of SDB  
Our Leadership  
Strategy & Transformation

Performance & Value Creation  
Sustainable Stewardship  
Financial Reports [▶](#)  
Supplementary Information

### Responsibility

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at SANASA Development Bank PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognizes that the business of Banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to 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 misstatements 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 regularity 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.
- ▶ In assessing the internal control system over financial reporting, the 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



## Directors' Statement on Internal Control over Financial Reporting

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.

- ▷ The Board also has taken in to consideration the requirements of the Sri Lanka Accounting Standards-SLFRS 9 on 'Financial Instruments' that has been issued with effective date being January 01,2018, as it is expected to have a significant impact on the calculation of impairment of financial instruments on an 'expected credit loss model' compared to the 'incurred credit loss model' currently being applied under the Sri Lanka Accounting Standards – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. The bank engaged with an external consultant to carry out a gap analysis and implement the processes required to comply with SLFRS 9 on a timely manner. The Gap analysis report was discussed at the BAC meeting and necessary directions were provided by the BAC members for the implementation.

- ▷ 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 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 2017 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 Controls 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**

Senior Director  
Chairman - Board Audit Committee



**Jayantha Kumara Newunhella**

Independent, Non-Executive Director



**Samadanie Kiriwandeniya**

Chairperson

26th February 2018  
Colombo, Sri Lanka

## Independent Assurance Report

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

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

AdeS/RM/AD

### 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 2017.

#### 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

26th February 2018  
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 Manalunga FCA Ms. P V K N Sajewani 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 2017 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 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 150 to 160 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 161 and 162. 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 163 of this Annual Report.

The Financial Statements of the Bank were audited by Messrs. Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on page 166 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 139 to 141.

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. 33 to the Financial Statements in the Annual Report



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



**Terrance Kumara**  
Assistant General Manager – Finance

26th February 2018  
Colombo, Sri Lanka

## Statement of Directors' Responsibility for Financial Reporting

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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 166 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 2017; and
2. The financial performance of the Bank for the financial year ended 31st December 2017.

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 (CA Sri Lanka) 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 2017 are given in pages 161 to 162 of the Annual Report, "Directors Statement on Internal Control". External Auditors' Assurance Report on the "Directors Statement on Internal Control" is given on page 163 of the Annual Report.

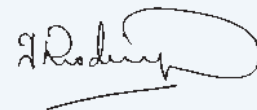
Directors are required to prepare the financial statements and to provide the Bank's external auditor, Messrs Ernst & Young, Chartered Accountants, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for 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 Rs 6.00 per share for this year to be paid in 01st June 2018.

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

26th February 2018  
Colombo, Sri Lanka

## Independent Auditors' Report



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

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

AdeS/RM/JJ

### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SANASA DEVELOPMENT BANK PLC

#### Report on the Financial Statements

We have audited the accompanying financial statements of SANASA Development Bank PLC, (the "Bank"), which comprise the statement of financial position as at 31 December 2017, 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 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 31 December 2017, 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.

**Ernst & Young**  
Chartered Accountants

26th February 2018  
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 31 December 2017

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		2017	2016
	Note	Rs.	Rs.
Interest income		10,829,333,073	8,177,186,889
Interest expenses		(6,941,840,502)	(4,846,840,351)
<b>Net interest income</b>	3	<b>3,887,492,571</b>	<b>3,330,346,538</b>
Fee and commission income		278,769,564	212,540,050
Fee and commission expenses		(3,511,099)	(9,596,114)
<b>Net fee and commission income</b>	4	<b>275,258,465</b>	<b>202,943,936</b>
Net gain/(loss) from financial instruments at fair value through profit or loss	5	211,759,394	17,351,017
Other operating income (net)	6	50,845,398	40,045,507
<b>Total operating income</b>		<b>4,425,355,828</b>	<b>3,590,686,997</b>
Impairment for loans and other losses	7	(293,536,909)	(125,043,863)
<b>Net operating income</b>		<b>4,131,818,919</b>	<b>3,465,643,134</b>
Personnel expenses	8	(1,474,145,865)	(1,266,115,183)
Other expenses	9	(1,555,628,153)	(1,289,848,347)
<b>Operating profit before value added tax (VAT)</b>		<b>1,102,044,901</b>	<b>909,679,605</b>
Value added tax (VAT) on financial services & NBT		(349,443,792)	(292,254,188)
<b>Operating profit after value added tax (VAT)</b>		<b>752,601,109</b>	<b>617,425,417</b>
<b>Profit before tax</b>		<b>752,601,109</b>	<b>617,425,417</b>
Tax expenses	10	(244,777,577)	(213,703,773)
<b>Profit for the year</b>		<b>507,823,532</b>	<b>403,721,644</b>
<b>Other Comprehensive Income</b>			
<i>Other Comprehensive Income/(Expenses) not to be reclassified to profit or loss</i>			
Actuarial losses on defined benefit plans	28.1.3	2,885,075	(49,638,943)
Deferred tax relating to defined benefit plans		(807,821)	13,898,904
<b>Other Comprehensive Income to be reclassified to profit or loss</b>			
Loss arising on re-measuring available for sale financial assets		-	(12,453,979)
<b>Other Comprehensive Income for the year net of tax</b>		<b>2,077,254</b>	<b>(48,194,018)</b>
<b>Total Comprehensive Income for the year</b>		<b>509,900,786</b>	<b>355,527,626</b>
<b>Earnings per share on profit</b>			
Basic earnings per share - (Rs).	11	10.18	9.60
Diluted earnings per share - (Rs).	11	9.90	-

The Accounting Policies and Notes on pages 171 through 219 from an integral part of the Financial Statements.

## Statement of Financial Position

As at 31 December 2017

	Note	2017 Rs.	2016 Rs.
<b>Assets</b>			
Cash and cash equivalents	12	1,190,389,606	1,044,725,493
Placements with banks	13	6,014,703,836	6,919,027,281
Financial assets fair value through profit or loss	14	4,473,805,573	244,911,140
Other financial asset classified under loans and receivable	15	1,479,949,628	1,503,539,374
Loans and receivables to other customers	16	66,687,415,593	53,632,538,822
Financial investments - Available-for-sale	17	63,536,159	566,935,476
Financial investments - Held-to-maturity	18	599,551,021	492,267,661
Asset classified as Held for sale	19	37,175,411	37,175,411
Property, plant and equipment	20	726,472,629	637,263,173
Investment properties	21	23,390,660	24,446,690
Intangible assets	22	8,148,340	16,938,244
Other assets	23	1,070,174,846	913,030,314
<b>Total assets</b>		<b>82,374,713,302</b>	<b>66,032,799,079</b>
<b>Liabilities</b>			
Due to other customers	24	59,904,734,365	45,691,758,092
Other borrowings	25	8,827,609,604	9,482,950,010
Debt securities issued	26	4,189,812,218	4,182,653,234
Subordinated term debts	27	1,004,354,742	-
Current tax liabilities		32,152,742	23,110,292
Deferred tax liabilities	10.2	58,000,392	46,629,257
Other liabilities	28	1,026,889,208	1,086,418,546
<b>Total liabilities</b>		<b>75,043,553,271</b>	<b>60,513,519,431</b>
<b>Equity</b>			
Stated capital	29	5,758,689,211	4,062,961,714
Statutory reserve fund	30	197,763,963	172,372,786
Retained earnings	31	1,340,503,863	1,249,742,154
Other reserves	32	34,202,994	34,202,994
<b>Total equity</b>		<b>7,331,160,031</b>	<b>5,519,279,649</b>
<b>Total equity and liabilities</b>		<b>82,374,713,302</b>	<b>66,032,799,079</b>
Contingent liabilities and commitments	33	166,260,031	148,030,175

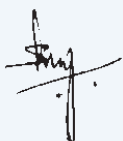
### Certification

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 these Financial Statements. Signed for and on behalf of the Board by;



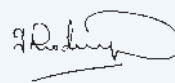
Samadanie Kiriwandeniya  
Chairperson



Lakshman Abeysekera  
Senior Director



Nimal C Hapuarachchi  
General Manager/CEO



Tamarika Rodrigo  
Company Secretary

The Accounting Policies and Notes on pages 171 through 219 from an integral part of the Financial Statements.

26 February 2018  
Colombo

## Statement of Changes In Equity

Year ended 31 December 2017

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	Stated Capital		Reserves			Total Equity
	Ordinary Voting Shares	Statutory Reserve	Retained Earnings	Available For Sale Reserve	General Reserves	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Balance as at 01 January 2016</b>	3,794,094,725	154,596,405	1,302,002,771	-	46,656,973	5,297,350,874
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)
<b>Total comprehensive income for the year</b>	-	-	367,981,605	(12,453,979)	-	355,527,626
<b>Transactions with equity holders, recognised directly in equity</b>						
Scrip Dividend	268,866,989	-	(293,303,439)	-	-	(24,436,450)
Transfer to Statutory Reserve fund	-	17,776,381	(17,776,381)	-	-	-
Dividends to equity holders	-	-	(109,162,402)	-	-	(109,162,402)
<b>Total transactions with equity holders</b>	268,866,989	17,776,381	(420,242,222)	-	-	(133,598,852)
<b>Balance as at 31 December 2016</b>	4,062,961,714	172,372,786	1,249,742,154	(12,453,979)	46,656,973	5,519,279,648
<b>Balance as at 1 January 2017</b>	4,062,961,714	172,372,786	1,249,742,154	(12,453,979)	46,656,973	5,519,279,648
Profit for the year	-	-	507,823,532	-	-	507,823,532
Other comprehensive income (net of tax)	-	-	2,077,254	-	-	2,077,254
<b>Total comprehensive income for the year</b>	-	-	509,900,786	-	-	509,900,786
<b>Transactions with equity holders, recognised directly in equity</b>						
Share issue/increase of assigned capital	1,461,340,020	-	-	-	-	1,461,340,020
Scrip Dividend	234,387,477	-	(262,498,600)	-	-	(28,111,123)
Transfer to Statutory Reserve fund	-	25,391,177	(25,391,177)	-	-	-
Dividends to equity holders	-	-	(131,249,300)	-	-	(131,249,300)
<b>Total transactions with equity holders</b>	1,695,727,497	25,391,177	(419,139,077)	-	-	1,301,979,597
<b>Balance as at 31 December 2017</b>	5,758,689,211	197,763,963	1,340,503,863	(12,453,979)	46,656,973	7,331,160,031

### 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.

### Available for sale reserve

The Available for sale reserve is consist of fair value adjustment made uncoated equity investment.

The Accounting Policies and Notes on pages 171 through 219 from an integral part of the Financial Statements.

## Statement of Cash Flows

Year ended 31 December 2017

		2017	2016
	Note	Rs.	Rs.
<b>Cash Flows From / (Used in) Operating Activities</b>			
Interest Received		10,627,484,784	8,177,186,889
Fee and Commission Received		274,824,879	212,540,050
Receipts from other Operating Activities		63,788,378	101,752,074
Interest Payment		(6,073,127,221)	(4,846,840,351)
Cash Payment to Employees		(1,371,766,033)	(1,386,214,260)
Payments to Suppliers and Other Operating Activities		(2,729,403,858)	(1,552,399,590)
Fee and Commission Expenses		(3,511,098)	(9,596,114)
<b>Operating Profit before Changes in Operating Assets</b>		<b>788,289,831</b>	<b>696,428,698</b>
<b>(Increase)/Decrease in Operating Assets</b>			
Funds Advanced to Customers		(13,348,413,681)	(7,927,083,794)
Other Short Term Securities		134,290,035	516,458,126
<b>Increase/(Decrease) in Operating Liabilities</b>			
Deposits from Customers		14,212,976,273	2,668,365,273
<b>Net Cash from Operating Activities Before Income Tax</b>		<b>1,787,142,456</b>	<b>(4,045,831,697)</b>
Income Tax Paid		(236,542,946)	(437,427,735)
<b>Net Cash from Operating Activities</b>		<b>1,550,599,510</b>	<b>(4,483,259,431)</b>
<b>Cash Flows from / (Used in) Investing Activities</b>			
Dividend Received		6,929,443	1,759,173
(Increase)/ Decrease in Non Dealing Securities		503,399,317	(499,710,818)
(Increase)/ Decrease in Dealing Securities		(4,017,135,040)	(227,560,123)
(Increase)/ Decrease in Treasury Bonds and other Investments		(1,438,102,869)	700,172,712
Proceeds from sale of Property, Plant and Equipment		10,747,244	10,311,927
Purchase of Property, Plant and Equipment	20	(272,786,130)	(236,556,367)
<b>Net Cash from/ (used in) Investing Activities</b>		<b>(5,206,948,034)</b>	<b>(251,583,496)</b>
<b>Cash Flows from (Used in) Financing Activities</b>			
Proceeds from Issuance/Allotment of Shares		1,461,340,018	-
Dividend Paid		(131,249,300)	(109,162,402)
Net Increase/(Decrease) in Borrowing		376,047,727	3,086,154,080
Funds Received/(Utilized) During the period		(28,568,474)	354,219
<b>Net Cash Flow from/ (used in) Financing Activities</b>		<b>1,677,569,970</b>	<b>2,977,345,897</b>
<b>Net Increase/ (Decrease) in Cash and Cash Equivalents</b>		<b>(1,978,778,554)</b>	<b>(1,757,497,030)</b>
Cash and Cash Equivalent at the beginning of the year	12	8,565,674,376	10,323,171,406
Cash and Cash Equivalents at the end of the year	12	6,586,895,822	8,565,674,376

The Accounting Policies and Notes on pages 171 through 219 from an integral part of the Financial Statements.

# Notes to the Financial Statements

Year ended 31 December 2017

## 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 31 December 2017 were authorized for issue in accordance with a resolution of the directors on 26 February 2018.

## 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 40.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

#### 2.1.3 Comparative information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with the Sri Lanka Accounting Standard - LKAS 01 on 'Presentation of Financial Statement'.

### 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 38.

#### (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.



## Notes to the Financial Statements

Year ended 31 December 2017

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 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 28.1.4.

### (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:

#### (h) 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, listed equities and unit trust.

**(i) 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 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

**(j) '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.

**(k) 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 investment in debentures.

**(l) Due from banks, 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.

## Notes to the Financial Statements

Year ended 31 December 2017

### (m) 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'.

Included in this classification is unquoted equity securities.

#### 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, debt securities issued and subordinated term debts.

#### 2.3.2.2 Determination of fair value

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

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

asset or liability

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based 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 38.

### 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 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 assets' 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'.

## Notes to the Financial Statements

Year ended 31 December 2017

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.

##### (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'.

## Notes to the Financial Statements

Year ended 31 December 2017

### 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 and 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.

**(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 according 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

**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. 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

## Notes to the Financial Statements

Year ended 31 December 2017

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 Method
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 LKAS 19- Employee Benefits, the bank has adopted the actuarial valuation method for employee benefit liability an actuarial valuation is carried out every year to ascertain the liability. A separate fund is not maintained for this purpose.

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

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for 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'.

**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



## Notes to the Financial Statements

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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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### (c) Value Added Tax on Financial Services (VAT)

VAT on Financial Services is calculated in accordance with the Value Added Tax Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before 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 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.

### 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 the 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 2017

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 2017. Accordingly these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 December 2017.

#### 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' 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 recognize, being the lifetime loss associated with defaults that are expected to arise in the next 12 months.

## Notes to the Financial Statements

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### 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 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 - 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.

## Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs.	Rs.
<b>3. NET INTEREST INCOME</b>		
Interest income on,		
Cash and cash equivalents	108,954,586	183,778,751
Placements with banks	791,936,162	628,514,832
Loans and receivables to other customers	9,757,778,114	7,229,388,036
Financial investments - Held-to-maturity	88,639,079	35,191,853
Other financial asset classified under loans and receivable - Debenture	26,824,825	33,200,864
- Commercial Papers	55,155,101	60,877,849
- Trust Certificates	45,205	6,234,704
<b>Total interest income</b>	<b>10,829,333,073</b>	<b>8,177,186,889</b>
Interest expenses on,		
Due to other customers	5,403,843,692	3,695,176,665
Other borrowings	1,537,996,810	1,151,663,686
<b>Total interest expenses</b>	<b>6,941,840,502</b>	<b>4,846,840,351</b>
<b>Net interest income</b>	<b>3,887,492,571</b>	<b>3,330,346,538</b>
<b>3.1 Net Interest Income from Sri Lanka Government Securities</b>		
Interest income	166,672,805	214,660,107
(Less): Interest expenses	-	(2,121,294)
<b>Net interest income</b>	<b>166,672,805</b>	<b>212,538,813</b>
<b>4. NET FEE AND COMMISSION INCOME</b>		
Fee and commission income	278,769,564	212,540,050
Fee and commission expenses	(3,511,099)	(9,596,114)
<b>Net fee and commission income</b>	<b>275,258,465</b>	<b>202,943,936</b>
<b>4.1 Net fees and commission earned from</b>		
Loans	170,908,206	136,490,322
Deposits	2,346,270	1,443,082
Guarantees	2,107,028	1,970,514
Commission earned from insurance	30,282,769	9,407,634
Commission earned from ATM	18,822,660	14,902,409
Late fees charged from overdue rentals	18,257,833	10,923,244
Others	32,533,699	27,806,731
<b>Net fee and commission income</b>	<b>275,258,465</b>	<b>202,943,936</b>
<b>5. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR (LOSS)</b>		
Government Debt Securities-Treasury Bills and Bonds	24,727,750	17,351,017
Unit Trust	187,031,644	-
<b>Total</b>	<b>211,759,394</b>	<b>17,351,017</b>





## Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs.	Rs.
<b>10. TAX EXPENSE</b>		
Current tax expense		
Income tax for the year	251,970,411	261,142,023
Adjustment in respect of current income tax of prior periods	(17,756,147)	(41,555,746)
Deferred taxation charge/(reversal)	10,563,313	(5,882,505)
<b>Total</b>	<b>244,777,577</b>	<b>213,703,773</b>
<b>10.1 Reconciliation of tax expenses</b>		
Profit before tax	752,601,110	617,425,417
Income tax for the period (Accounting profit @ 28%)	210,728,310	172,879,117
Income Exempt from Tax	(69,724,667)	(12,011,793)
Adjustment in respect of current income tax of prior periods	(17,756,147)	(41,555,745)
Add: Tax effect of expenses that are not deductible for tax purposes	183,744,896	471,517,089
Less: Tax effect of expenses that are deductible for tax purposes	(89,568,327)	(388,818,850)
Add: Tax impact on leasing loss	16,790,198	17,576,459
<b>Tax expense for the period</b>	<b>234,214,264</b>	<b>219,586,278</b>
Deferred Taxation Charge	10,563,313	(5,882,505)
<b>At the effective income tax rate of 32.52% (2016 : 34.61%)</b>	<b>244,777,577</b>	<b>213,703,773</b>

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

	Statement of Financial Position		Statement of Comprehensive Income	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
<b>Deferred Tax Liability</b>				
Capital allowances for Property, Plant & Equipment	24,008,134	24,502,700	(494,566)	(5,416,388)
Capital allowances for Leased Assets	185,228,090	149,073,650	36,154,440	31,056,260
	<b>209,236,224</b>	<b>173,576,349</b>	-	-
<b>Deferred Tax Assets</b>				
Defined Benefit Plans	72,001,044	59,498,394	(12,502,650)	(23,852,438)
Loss on Lease Assets	79,234,788	67,448,698	(11,786,090)	(21,568,842)
	<b>151,235,832</b>	<b>126,947,092</b>		
<b>Deferred Taxation Charge</b>			<b>11,371,134</b>	<b>(19,781,409)</b>
<b>Net Deferred Tax Liability</b>	<b>58,000,392</b>	<b>46,629,257</b>		
<b>10.2.1 Composition of Deferred tax charge</b>				
Impact on income tax expense			10,563,313	(5,882,505)
Impact on other comprehensive income			807,821	(13,898,904)
<b>Impact on Comprehensive income</b>			<b>11,371,134</b>	<b>(19,781,409)</b>

## 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.

	2017	2016
	Rs.	RS.
Net Profit for the period	507,823,532	403,721,644
Profit attributable to Ordinary Shareholders (Rs.)	507,823,532	403,721,644

	2017	2016
	Number	Number
Weighted Average Number of Ordinary Shares in Issue	49,900,373	42,061,577
	49,900,373	42,061,577
Weighted Average Number of Ordinary Shares in Issue for DPS basis	51,318,901	-
	51,318,901	-
Basic earnings per ordinary share	10.18	9.60
Diluted earnings per ordinary share	9.90	-

	2017	2016
	Rs.	RS.
<b>12. CASH AND CASH EQUIVALENTS</b>		
Cash in hand	302,643,017	277,405,374
Balances with banks	887,746,589	767,320,119
<b>Total</b>	<b>1,190,389,606</b>	<b>1,044,725,493</b>

### 12.1 Cash and Cash Equivalents for Cash Flow Statement

Repurchase Agreement	715,158,613	604,458,325
Fixed Deposits less than 3 months	4,681,347,603	6,916,490,558
	6,586,895,822	8,565,674,376

## 13. PLACEMENTS WITH BANKS

Placement with Local Banks	6,014,703,836	6,919,027,281
	6,014,703,836	6,919,027,281

## 14. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Sri Lanka Government Securities- Treasury Bonds	337,940,600	234,806,750
Quoted Equities (14.1)	20,567,010	10,104,390
Unit Trust	4,115,297,963	-
<b>Total</b>	<b>4,473,805,573</b>	<b>244,911,140</b>

## Notes to the Financial Statements

Year ended 31 December 2017

<b>14. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)</b>				
<b>14.1 Quoted Equities</b>				
	2017		2016	
	No of Shares	Market Rs.	No of Shares	Market Rs.
John Keells Holding PLC	25,800	3,831,300	14,057	2,038,265
Hatton National Bank PLC	5,300	1,033,500	162	36,450
Aitken Spence PLC	72,600	3,963,960	45,600	2,964,000
DFCC Bank	17,345	2,129,966	17,345	2,124,763
National Development Bank PLC	36,571	4,988,284	18,852	2,940,912
Tokyo Cement PLC	70,000	4,620,000	-	-
		20,567,010		10,104,390
<b>15. OTHER FINANCIAL ASSET CLASSIFIED UNDER LOANS AND RECEIVABLE</b>				
	2017		2016	
	Rs.		Rs.	
Debentures		174,767,627		588,687,440
Commercial Papers		590,023,387		310,393,609
Repurchase Agreement		715,158,613		604,458,325
<b>Total</b>		<b>1,479,949,628</b>		<b>1,503,539,374</b>
<b>16. LOANS AND RECEIVABLES TO OTHER CUSTOMERS</b>				
Gross loans and receivables		68,104,871,364		54,764,576,170
Less: Individual impairment		(220,946,259)		(217,231,764)
Collective impairment		(1,196,509,512)		(914,805,585)
<b>Net loans and receivables</b>		<b>66,687,415,593</b>		<b>53,632,538,823</b>
<b>16.1 By product</b>				
Loans and advances				
Pawning		834,073,305		703,732,139
Cash Margin		4,450,768,626		3,864,764,521
Staff loans		909,505,218		797,426,073
Lease rentals receivable		4,364,186,223		4,204,215,443
Term loans		57,546,337,993		45,194,437,994
<b>Gross total</b>		<b>68,104,871,364</b>		<b>54,764,576,170</b>
<b>16.1.1 Lease rentals receivable</b>				
Within one year		2,547,227,240		2,398,497,547
One to five years		3,036,753,747		2,860,666,638
After five years		21,244,121		40,056,582
- Unearned income on rentals receivable		(1,241,038,885)		(1,095,005,325)
		4,364,186,223		4,204,215,443
<b>16.2 By currency</b>				
Sri Lankan Rupee		68,104,871,364		54,764,576,170
<b>Gross total</b>		<b>68,104,871,364</b>		<b>54,764,576,170</b>

**16.3** Movements in Individual and Collective Impairment during the Year

	Individual impairment	Collective impairment	Total Impairment
	Rs.	Rs.	Rs.
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
At 1 January 2017	217,231,764	914,805,585	1,132,037,346
Charge/(Write back) to income statement	3,714,495	289,822,414	293,536,909
Recovery/(Write-off) during the year	-	(8,118,487)	(8,118,487)
At 31 December 2017	220,946,259	1,196,509,512	1,417,455,768

	2017	2016
	Rs.	Rs.
<b>17. FINANCIAL INVESTMENTS -AVAILABLE FOR SALE</b>		
Equities - Unquoted ( 17.1)	63,536,159	63,686,559
Unit Trust	-	503,248,918
Net Available-for-sale Investments	63,536,159	566,935,477

	2017		2016	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
<b>17.1 Equities - Unquoted</b>				
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
SANASA Security Services (Pvt) Limited	-	-	1,000	100,000
Loss from mark to market valuation as at 31st December		(12,453,979)		(12,453,979)
		63,536,159		63,686,559

	2017	2016
	Rs.	Rs.
<b>17.1.1 Unquoted Equity Securities accounted as Financial Investments - Available-for-Sale</b>		
Opening Balance 01 January	63,686,559	79,678,638
Investments made during the year	-	-
Disposal during the year	(100,000)	(3,538,100)
Loss from mark to market valuation	(50,400)	(12,453,979)
Balance as at 31 December	63,536,159	63,686,559



## Notes to the Financial Statements

Year ended 31 December 2017

### 17. FINANCIAL INVESTMENTS -AVAILABLE FOR SALE (Contd.)

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	Positively correlated sensitivity
			Liquidity discount	
			Regulatory non-compliance adjustment	Positively correlated sensitivity

	2017	2016
	Rs.	Rs.
<b>18. FINANCIAL INVESTMENT HELD TO MATURITY</b>		
Sri Lanka Government Securities		
Treasury Bill	48,069,096	294,943,110
Treasury Bond	200,930,556	197,324,551
Inv-Debenture Repo	350,551,370	-
Held-to-Maturity Investments	599,551,021	492,267,661
<b>19. ASSET CLASSIFIED AS HELD FOR SALE</b>		
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.43,110,000/- 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 inputs
Land	Level 3	Open market value method	Estimated price per perch Rs. 700,000/-	Positively correlated sensitivity
Building	Level 3	Open market value method	Estimated price per sq.ft Rs. 2,600/- Rs. 3,200/-	Positively correlated sensitivity

**20. PROPERTY, PLANT AND EQUIPMENT**

2017	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture and fittings	Vehicle	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>							
Opening balance at 01.01.2017	251,979,214	590,000	555,573,790	437,472,261	264,479,129	134,909,319	1,645,003,714
Additions	-	-	128,998,228	50,796,018	69,612,983	23,378,900	272,786,130
Disposals	-	-	(5,788,072)	(7,653,496)	(8,665,335)	(12,513,711)	(34,620,614)
Closing balance at 31.12.2017	251,979,214	590,000	678,783,946	480,614,783	325,426,778	145,774,508	1,883,169,230
<b>Less: Accumulated depreciation</b>							
Opening balance at 01.01.2017	25,776,982	560,500	404,293,970	326,329,747	168,310,339	100,256,053	1,025,527,590
Charge for the year	3,944,730	29,500	83,045,664	43,305,166	34,311,153	17,094,825	181,731,039
Disposals	-	-	(5,713,361)	(6,277,970)	(8,269,937)	(12,513,711)	(32,774,980)
Closing balance at 31.12.2017	29,721,712	590,000	481,626,273	363,356,943	194,351,555	104,837,167	1,174,483,649

2016	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture and fittings	Vehicle	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>							
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
<b>Less: Accumulated depreciation</b>							
Opening balance at 01.01.2016	21,832,252	531,000	355,458,242	275,348,506	167,820,924	98,381,549	919,372,471
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	1,025,527,591

	2017	2016
	Rs.	Rs.
<b>Work in Progress</b>		
Building	17,787,049	17,787,049
	17,787,049	17,787,049

	Land and Buildings	Leasehold properties	Computer Hardware	Machinery & Equipment	Furniture and fittings	Vehicle	Work in Progress	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Net book value at 31.12.2017	222,257,503	-	197,157,673	117,257,840	131,075,223	40,937,341	17,787,049	726,472,629
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

## Notes to the Financial Statements

Year ended 31 December 2017

### 20.1 Freehold Land & Building

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

Location/Address	Extent		31 December 2017 Cost/Valuation		31 December 2016 Cost/Valuation	
	Land (Purchase)	Building (Square feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No. 14, Edmonton Road, Kirulapona	17.85	-	38,999,000	-	38,999,000	-
No. 12/01, Edmonton Road, Kirulapona	18.05	-	46,799,000	-	46,799,000	-
A1, SANASA Housing Project, Toppass, Nuwara Eliya	14	1,200	400,000	2,100,000	400,000	2,100,000
No. 145, Rathnapura Road, Horana	13	5,956	20,539,000	6,500,000	20,539,000	6,500,000
No. 63A, Matara Road, Akuressa	14	3,728	14,423,820	8,975,180	14,423,820	8,975,180
No. 255, Sunnysaid Garden, Karapitiya	18.5	5,992	9,250,000	20,833,360	9,250,000	20,833,360
No. 342, Main Street, Kegalle	13.25	5,580	34,760,400	14,118,600	34,760,400	14,118,600
No.6 /176, Walauwatta, Kegalle	20	-	16,639,000	-	16,639,000	-
No.5 /176, Walauwatta, Kegalle	12	1,334	8,400,000	1,250,000	8,400,000	1,250,000
No. 149, Abdul Wahab Mw, Galle	25	13,024	4,775,000	12,350,609	4,775,000	12,350,609
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	160	2,600	-	5,571,736	-	5,571,736
60/65,Sahasapura Scheme, Baseline Mw. Borella	-	1,006	-	2,420,118	-	2,420,118
			194,985,220	74,119,603	194,985,220	74,119,603

**20.2** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.272,786,130/-(2016 Rs. 236,556,367/-). Cash payments amounting to Rs. 272,786,130/-(2016 Rs. 236,556,367) 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.549,413,942.56 (2016 739,555,847)

**20.4** There were no restrictions on the title of the property, plant and equipment as at 31 December 2017

**20.5** There were no idle property, plant and equipment as at December 2017

	2017	2016
	Rs.	Rs.
<b>21. INVESTMENTS PROPERTY</b>		
<b>Cost</b>		
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
<b>Less: Accumulated depreciation</b>		
Balance at the beginning of the year	10,912,310	9,856,280
Charge for the year	1,056,030	1,056,030
Balance at the end of the year	11,968,340	10,912,310
Net book value at the end of the year	23,390,660	24,446,690

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

Location/Address	Extent		31 December 2017 Cost/ Valuation		31 December 2016 Cost/Valuation	
	Land (Purchase)	Building (Square feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
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 of it's carrying value. There were no direct operating expenses arising from investment property that generated retain 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 assets is Rs.62,417,250/- . Valuation was carried out by R.M.W.N.K.Chandrasekara independent Professional Valuer.

	2017 Rs.	2016 Rs.
<b>22. INTANGIBLE ASSETS</b>		
<b>Cost</b>		
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
<b>Less: Accumulated Amortization</b>		
Balance at the beginning of the year	194,991,460	164,788,427
Charge for the year	8,789,904	30,203,034
Balance at the end of the year	203,781,364	194,991,460
Net book value at the end of the year	8,148,340	16,938,243

**22.1** There were no idle Intangible assets as at 31 December 2017

**22.2** There were no restriction on the title of the Intangible assets as at 31 December 2017

	2017 Rs.	2016 Rs.
<b>23. OTHER ASSETS</b>		
Postage legal and other charges receivable	85,814,742	34,619,325
VAT Receivable	4,670,565	20,048,093
Prepaid Staff Cost	556,212,985	452,383,345
Deposits and prepayments	361,361,223	229,237,310
Inventory	62,115,332	50,849,738
<b>Total</b>	<b>1,070,174,846</b>	<b>787,137,810</b>

## Notes to the Financial Statements

Year ended 31 December 2017

		2017	2016
		Rs.	Rs.
<b>24.</b>	<b>DUE TO OTHER CUSTOMERS</b>		
	Total amount due to other customers	59,904,734,365	45,691,758,092
	<b>Total</b>	<b>59,904,734,365</b>	<b>45,691,758,092</b>
<b>24.1</b>	<b>Analysis</b>		
	By product		
	Savings deposits	10,367,022,523	8,040,718,022
	Fixed deposits	49,537,711,842	37,651,040,070
	<b>Total</b>	<b>59,904,734,365</b>	<b>45,691,758,092</b>
	By currency		
	Sri Lanka Rupee	59,904,734,365	45,691,758,092
	<b>Total</b>	<b>59,904,734,365</b>	<b>45,691,758,092</b>
<b>25.</b>	<b>OTHER BORROWINGS</b>		
	Term loan (25.1)	5,320,976,437	5,324,827,304
	Securitized Borrowings (25.2)	1,329,718,451	1,938,699,760
	Refinance Borrowing (25.3)	2,176,914,716	2,219,422,945
	<b>Total</b>	<b>8,827,609,604</b>	<b>9,482,950,010</b>

### 25.1 Term Loan - Details

Institution	Date of Borrowed	Fixed / Floating	Rate	Tenture	2017 Rs.	2016 Rs.
National Savings Bank	21.11.2016	Floating	Weekly AWPLR+2% Monthly review	48 months	708,621,084	962,415,439
National Savings Bank	01.05.2015	Fixed	8.75%	24 months	-	209,435,771
Sampath Bank PLC	07.08.2015	Floating	AWPLR+1.5% Repriced Monthly	60 months	258,865,164	359,094,797
Sampath Bank PLC	19.08.2015	Floating	AWPLR+1.5% Repriced Monthly	60 months	258,865,164	359,094,797
Sampath Bank PLC	29.12.2016	Floating	AWPLR+2% Repriced Monthly	60 months	400,878,338	500,559,726
Sampath Bank PLC	07.03.2017	Floating	AWPLR+2% Repriced Monthly	60 months	417,583,273	-
Seylan Bank PLC	07.04.2017	Floating	AWPLR+3% Repriced Monthly	22 Months	302,834,016	-
Seylan Bank PLC	15.12.2017	Floating	AWPLR+2.5% Repriced Monthly	60 months	503,236,986	-
Seylan Bank PLC	18.09.2015	Floating	AWPLR+1.5% Repriced Monthly	24 months	-	334,267,163
Pan Asia Banking Corporation PLC	29.06.2015	Floating	First 24 months 12.5% fixed & AWPLR+2.5% Monthly review	60 months	248,283,332	349,162,507
Peoples Bank, Corporate Branch	15.10.2015	Floating	AWPLR+1.75% Quarterly reweive	60 months	1,215,226,882	1,644,807,874
MCB Bank Ltd	21.10.2016	Floating	AWPLR+1.5% Monthly reweive	60 months	191,685,397	241,828,490
HNB Bank	24.03.2017	Floating	AWPLR+2% Monthly review	48 months	814,896,800	-
Central finance PLC	07.06.2016	Fixed	13.50%	12 months	-	104,292,590
NDB Bank	17.06.2016	Fixed	12.75%	12 months	-	259,868,151
					<b>5,320,976,437</b>	<b>5,324,827,304</b>

Term Loan - Movement	Opening Balance 01.01.2017	Obtained during year	Interest Expense	Repayment	Closing Balance 31.12.2017
	Rs.	Rs.	Rs.	Rs.	Rs.
National Savings Bank	1,171,851,210	-	114,809,295	463,230,126	708,621,084
Sampath Bank PLC	1,218,749,320	500,000,000	193,656,027	382,557,380	1,336,191,940
Seylan Bank PLC	334,267,163	1,000,000,000	63,641,043	528,196,160	806,071,003
Pan Asia Banking Corporation PLC	349,162,507	-	39,683,035	100,879,175	248,283,332
Peoples Bank, Corporate Branch	1,644,807,874	-	187,877,689	429,580,992	1,215,226,882
MCB Bank Ltd	241,828,490	-	28,571,644	50,143,093	191,685,397
HNB Bank	-	1,000,000,000	96,015,387	185,103,200	814,896,800
Central finance PLC	104,292,590	-	3,169,846	104,292,590	-
NDB Bank	259,868,151	250,000,000	32,871,575	509,868,151	-
	5,324,827,305	2,750,000,000	760,295,542	2,753,850,868	5,320,976,437

	2017	2016
	Rs.	Rs.
<b>25.2 Securitised Borrowings</b>		
Trust 1	103,588,704	377,730,492
Trust 2	1,226,129,748	1,560,969,268
	1,329,718,451	1,938,699,760
<b>25.3 Refinance Borrowing</b>		
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000
Central Bank of Sri Lanka (RERED)	7,809,688	11,714,534
Central Bank of Sri Lanka (Susahana)	80,827	80,827
Asian Development Bank (Dasuna)	4,585,032	10,695,176
Borrowings Under CBSL - Perennial Crops	306,675	2,263,327
Borrowings Under CBSL - Tea Development	785,148	2,081,300
Borrowings Under Refinance of Jayatha	365,602,250	362,144,650
Borrowing under Awaiking East	122,544,550	244,231,150
Borrowing under Awaiking North	7,346,250	24,260,400
Borrowing under Saubagya	1,119,347,996	1,116,272,482
Borrowing under SPENDP	1,108,000	2,196,000
Borrowing - Refinance Smile Iii	481,693,300	288,783,100
Borrowing - Refinance Nadeep	-	100,000,000
Borrowing - Refinance Sepi	375,000	500,000
Borrowing - Suwashakthi Loan	11,130,000	-
	2,176,914,716	2,219,422,945
<b>25.4 Analysis of Maturity of Refinance Borrowings</b>		
Due within one year	742,386,052	784,927,327
1-5 years	1,235,764,364	1,386,416,019
After 5 years	198,764,300	48,079,600
	2,176,914,716	2,219,422,945
<b>25.5 Securities and terms</b>		
Interest rate ranging for above borrowings 3% to 13.5% per annum.		
Bank has pledged from the lease portfolio sum of Rs. 2,014,701,610/- for the Securitised Borrowings. (2016 - 2,527,569,253/-)		



## Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs.	Rs.
<b>26. DEBT SECURITY ISSUED</b>		
Debentures	4,189,812,218	4,182,653,234
<b>Total</b>	<b>4,189,812,218</b>	<b>4,182,653,234</b>

### 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	77,304,923	1,672,156,278
B	Semi Annually	31-Dec-15	31-Dec-20	10.25	402,610,000	20,295,956	422,266,110
					2,000,000,000	97,600,879	2,094,422,388

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	71,768,545	1,505,822,918
D	Semi Annually	31-Dec-15	31-Dec-20	10.57	561,950,000	29,178,292	589,566,912
					2,000,000,000	100,946,836	2,095,389,830
					4,000,000,000	198,547,716	4,189,812,218

	2017	2016
	Rs.	Rs.
<b>27. SUBORDINATED TERM DEBTS</b>		
Subordinated term debts	1,004,354,742	-
<b>Total</b>	<b>1,004,354,742</b>	<b>-</b>

### 27.1 Subordinated term debts - Details

			2017	2016
Invester	Tenor/Repayment	Interest Rate	Rs.	Rs.
FMO	Repayment or conversion after 66 months	6-month T-bill rate + 550 basis points + TCX± Adjustment, payable per annum	707,197,511	-
SBI-FMO	Repayment or conversion after 66 months	6-month T-bill rate + 450 basis points . payable per annum	317,031,638	-
	Less: Initial Transaction cost		(19,874,408)	-
			<b>1,004,354,742</b>	<b>-</b>

	2017	2016
	Rs.	Rs.
<b>28. OTHER LIABILITY</b>		
Defined Benefit Plan - Retiring Gratuity Obligations (28.1)	257,476,102	212,494,263
Special Purpose Project Funds	432,773,270	459,787,818
Accruals & Other Payables	336,639,837	414,136,465
<b>Total</b>	<b>1,026,889,208</b>	<b>1,086,418,546</b>
<b>28.1 Retirement Benefit Obligations</b>		
<b>28.1.1 Defined Benefit Liability</b>		
Defined benefit liability (28.1.2)	257,476,101	212,494,263
	257,476,101	212,494,263
<b>28.1.2 Changes in the Defined benefit obligation are as follows</b>		
Defined benefit obligation as of 01 January	212,494,263	127,306,983
Net Benefit expense (28.1.3)	49,038,962	89,179,844
Benefit paid	(4,057,124)	(3,992,564)
Defined benefit liability as of 31 December	257,476,101	212,494,263
<b>28.1.3 Net Benefit expense</b>		
Interest Cost	25,362,255	18,153,068
Current Service Cost	26,561,782	21,387,833
	51,924,037	39,540,901
<i>Amounts recognised in the Other Comprehensive Income</i>		
Actuarial (Gain)/Loss on obligations	(2,885,075)	49,638,943
Balance at the End of the Year	49,038,962	89,179,844
<b>28.1.4 The principal financial assumptions used are as follows</b>		
Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2017. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:		
Long Term Interest Rate	10.40%	12.50%
Future Salary increase Rate	9.40%	11.50%
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 10.5 years		
<b>28.2</b>	Sensitivity analysis on discounting rate and salary increment rate to Statement of Financial Position and Comprehensive Income	

## Notes to the Financial Statements

Year ended 31 December 2017

Assumption	Rate change	2017		2016	
		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+	(24,073,734)	(24,073,734)	(19,751,581)	(19,751,581)
Discount rate	1-	27,982,463	27,982,463	22,943,103	22,943,103
Salary increment rate	1+	29,084,484	29,084,484	22,269,391	22,269,391
Salary increment rate	1-	(25,363,729)	(25,363,729)	(19,543,456)	(19,543,456)

### 28.3 The expected Benefit Payout in the future years of Retirement Gratuity

	2017	2016
	Rs.	Rs.
Within next 12 months	20,188,199	17,732,946
Between 2 and 5 years	142,334,381	128,613,406
Beyond 5 years	276,456,232	325,374,144

	2017	2016
	Rs.	Rs.
<b>29. STATED CAPITAL</b>		
Ordinary Shares - Issued and fully paid	5,758,689,211	4,062,961,714
<b>Total</b>	<b>5,758,689,211</b>	<b>4,062,961,714</b>

Ordinary Shares - Issued and fully paid	At the beginning of the year	Issued for cash during the year	Redemptions/Transfers	At the end of the year
	01.01.2017			31.12.2017
	Number	Number	Number	Number
Ordinary Shares - Voting	42,061,577	12,717,290	-	54,778,867
	42,061,577	12,717,290	-	54,778,867

Ordinary Shares Value - Voting	At the beginning of the year	Issued for cash during the year	Redemptions/Transfers	At the end of the year
	01.01.2017			31.12.2017
	Rs.	Rs.	Rs.	Rs.
Ordinary Shares Value - Voting	4,062,961,714	1,695,727,497	-	5,758,689,211
	4,062,961,714	1,695,727,497	-	5,758,689,211

	2017	2016	
	Rs.	Rs.	
<b>30. STATUTORY RESERVE FUND</b>			
Opening balance	172,372,785	154,596,404	
Transfer during the period	25,391,177	17,776,381	
Closing balance	197,763,962	172,372,785	
<b>31. RETAINED EARNINGS</b>			
Opening balance	1,249,742,153	1,302,002,770	
Profit for the year	509,900,786	367,981,605	
Transfers to other reserves	(25,391,177)	(17,776,381)	
Scrip Dividend	(262,498,600)	(293,303,439)	
Cash Dividend	(131,249,300)	(109,162,402)	
Closing balance	1,340,503,863	1,249,742,153	
<b>32. OTHER RESERVES</b>			
<b>2017</b>	<b>Opening balance at 01.01.2017</b>	<b>Movement/ transfers</b>	<b>Closing balance at 31.12.2017</b>
	Rs.	Rs.	Rs.
General reserve	46,656,973	-	46,656,973
Available for sale Reserve	(12,453,979)	-	(12,453,979)
<b>Total</b>	<b>34,202,994</b>	<b>-</b>	<b>34,202,994</b>
<b>2016</b>	<b>Opening balance at 01.01.2016</b>	<b>Movement/ transfers</b>	<b>Closing balance at 31.12.2016</b>
	Rs.	Rs.	Rs.
General reserve	46,656,973	-	46,656,973
Available-for-sale reserve	-	(12,453,979)	(12,453,979)
<b>Total</b>	<b>46,656,973</b>	<b>(12,453,979)</b>	<b>34,202,994</b>
	<b>2017</b>	<b>2016</b>	
	Rs.	Rs.	
<b>33. CONTINGENT LIABILITIES AND COMMITMENTS</b>			
<b>33.1 Guarantees</b>	166,260,031	148,030,175	
<b>Total</b>	<b>166,260,031</b>	<b>148,030,175</b>	

## Notes to the Financial Statements

Year ended 31 December 2017

<b>33. CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)</b>
<b>33.2 Litigation Against the Bank</b>
<p>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.</p> <p>Following cases are filed against the Bank</p>
<b>1. L/17/11 - DC Kesbewa</b>
In the above case the Bank has been made the Second Defendant to a land case claiming a sum of Rs. 7,000,000/- against a property mortgage. The case is on trial stage. Registered attorney is Mr. Augusts Jayarathne
<b>2. 2440/M – DC Chilaw</b>
This case has been filed against the bank claiming sum of Rs. 550,000/- on a fixed deposit certificate created through a cheque (Money) transaction and the case is on Written Submission stage. Registered attorney is Mr. M.A.T. Marasinghe
<b>3. SPL 252/11 – DC Elpitiya</b>
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 Rs. 1, 000,000/- case filed against a bank Guarantee. The case is on trial stage. Registered attorney is Mr. N. Halpandeniya
<b>4. DSP 178/09 - DC Kandy</b>
Above case filed against the Bank challenging the legality of repossession of leased vehicle and plaint value is sum of Rs. 3.5 Mn. Presently the case is on trial stage. Registered attorney is Mr. A.M. Ganganatha and Counsel is Mr. Samantha Ratwatta
<b>5. 3413/M – DC Ambalangoda</b>
The Bank has appealed against the order of District Court and the plaint value is sum of Rs. 50, 000 and registered attorney is Mr. S.M.P. Silva , Presently waiting for completion of appeal briefs.
<b>6. DMR/496/15 – DC Colombo</b>
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 Rs. 6,000,000/- Presently the case has been fixed for trial. Registered attorney is Mr. Augustus Jayarathne
<b>7. MB 1935 – DC Matale</b>
The case has been filed by a group of people who occupy the mortgage Property claiming the possession of the same. Outstanding value of the mortgage Bond is Rs. 1,331,471.60. Case is fixed for submit Commission Report . Registered attorney is Mr. S.M.M.Koswatta
<b>8. 6495/SPL – DC Colombo</b>
This is a special case filed against the Bank 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 Samararatne Associate.
<b>9. 207/CL – DC Kuliyaipitiya</b>
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. The Registered attorney is Mr. Supun Adikari
<b>10. 6940/P – DC Kurunegala</b>
A Partition action has been filed where a portion of the subject land has been mortgage to the Bank. The Survey Commission report is pending. Registered Attorney is Mr. G.B. Senanayake

**11. 13/17/CL – DC Badulla (Leasing)**

Assets of the guarantors in Case No. 1805/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 written Submission. The Registered attorney is Mrs. Niranjala Rathnayake

**12. 4183/CL – DC Chilaw**

Assets of the guarantors in Case No. 3803/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 written Submission. The Registered attorney is Mr. Anton Perera

**13. 222/CL – DC Anuradhapura**

Assets of the guarantors in Case No. 25711/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 filed for Objection. The Registered attorney is Mr. A. Wikramarachchi

**34. 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.

**35. 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.

**35.1 Transactions with other Related Parties**

According to the LKAS 24 FMO consider as a related party (Significant Investor) & all transaction with FMO are given below.

	2017	2016
	Rs.	Rs.
Interest Repayment	40,788,616	-
Reimbursement of Expenses	25,054,634	-

**35.2 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 unfavourable features.



## Notes to the Financial Statements

Year ended 31 December 2017

<b>35. RELATED PARTY DISCLOSURE (Contd.)</b>		<b>2017</b>	<b>2016</b>
		Rs.	Rs.
<b>35.2.1</b>	<b>Key Management Personnel Compensation</b>		
	Short Term Employee Benefits	34,140,000	31,535,000
<b>35.2.2</b>	<b>Other Transactions with Key Management Personnel - Balance outstanding</b>		
	Balance as at 01 January	2,620,771	5,260,040
	Granting's	-	-
	Repayments	(267,795)	(2,639,269)
	Balance as at 31 December	2,352,976	2,620,771
	Interest Income	328,950	10,070,727
<b>35.2.3</b>	<b>Deposits &amp; Investment from Key Management Personnel - Balance outstanding</b>		
	Deposits accepted and reviewed during the period	3,630,269	10,604,443
	Balance as at 31 December	1,271,965	2,870,201
	Interest Expenses	10,668	45,090
<b>35.2.4</b>	<b>Share Base Payment to Key Management Personnel</b>		
	Cash dividend	4,343	9,757
<b>35.2.5</b>	<b>Share purchase</b>		
	Shares	73,062	6,176
<b>35.2.6</b>	<b>Term and conditions of transaction with related parties</b>		
	All related party transaction 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 transaction 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.		
<b>36.</b>	<b>ASSETS PLEDGED</b>		
	Bank has pledged from the lease portfolios sum of Rs. 2,014,701,610/- (2016 - Rs. 2,527,569,253/-) for the Securitised Borrowings		

**37. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS**

As at 31 December 2017	Fair value through Profit or loss	HTM	AFS	Amortised cost	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>					
Cash and cash equivalents	-	-	-	1,190,389,606	1,190,389,606
Placements with banks	-	-	-	6,014,703,836	6,014,703,836
Financial assets at fair value through profit or loss	4,473,805,573	-	-	-	4,473,805,573
Financial investments - Available-for-sale	-	-	63,536,159	-	63,536,159
Financial investments - Held-to-maturity	-	599,551,021	-	-	599,551,021
Loans and receivables to other customers	-	-	-	66,687,415,593	66,687,415,593
Other financial asset classified under loans and receivable	-	-	-	1,479,949,628	1,479,949,628
<b>Total financial assets</b>	<b>4,473,805,573</b>	<b>599,551,021</b>	<b>63,536,159</b>	<b>75,372,458,663</b>	<b>80,509,351,416</b>
<b>Financial Liabilities</b>					
Due to other customers	-	-	-	59,904,734,365	59,904,734,365
Other borrowings	-	-	-	8,827,609,604	8,827,609,604
Debt Securities issued	-	-	-	4,189,812,218	4,189,812,218
Subordinated term debts	-	-	-	1,004,354,742	1,004,354,742
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73,926,510,929</b>	<b>73,926,510,929</b>

As at 31 December 2016	Fair value through Profit or loss	HTM	AFS	Amortised cost	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>					
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
<b>Total financial assets</b>	<b>244,911,140</b>	<b>492,267,661</b>	<b>566,935,476</b>	<b>63,099,830,970</b>	<b>64,403,945,247</b>
<b>Financial Liabilities</b>					
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
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,357,361,336</b>	<b>59,357,361,336</b>

## Notes to the Financial Statements

Year ended 31 December 2017

### 38. FAIR VALYE OF FINANCIAL INSTRUMENTS

#### 38.1 Financial instruments Recorded at Fair Value

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

##### Financial Investment-Available for sale

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

##### Financial Investment-Held for trading

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

#### 38.2 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.

##### 38.2.1 As at 31 December 2017

Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial assets fair value through profit or loss</b>				
Quoted Equities	20,567,010	-	-	20,567,010
Sri Lanka Government Securities - Treasury Bond	-	337,940,600	-	337,940,600
Unit trust	4,115,297,963	-	-	4,115,297,963
<b>Financial investments - Available-for-sale</b>				
Quoted Equities	-	-	63,536,159	63,536,159
	4,135,864,973	337,940,600	63,536,159	4,537,341,732

##### As at 31 December 2016

Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial assets fair value through profit or loss</b>				
Quoted Equities	10,104,390	-	-	10,104,390
Sri Lanka Government Securities- Treasury Bond	-	234,806,750	-	234,806,750
<b>Total Assets</b>				
Quoted 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

	2017	2016
	Rs.	Rs.
<b>Financial Assets</b>		
<b>Financial Assets at Fair Value through Profit or Loss</b>		
Sri Lanka Government Securities- Treasury Bond	24,727,750	17,351,017
Unit Trust	187,031,644	-
	211,759,394	17,351,017

### 38.3 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 2017	Level	Carrying Value	Fair Value
		Rs.	Rs.
<b>Financial Assets</b>			
Cash and cash equivalents	Note*	1,190,389,606	1,190,389,606
Placements with banks	Note*	6,014,703,836	6,014,703,836
Financial investments - Held-to-maturity	1,2	599,551,021	599,551,021
Loans and receivables to other customers	2	66,687,415,593	73,537,376,761
Other financial asset classified under loans and receivable	Note*	1,479,949,628	1,479,949,628
<b>Total financial assets</b>		75,972,009,684	82,821,970,852
<b>Financial Liabilities</b>			
Due to other customers	2	59,904,734,365	58,697,767,996
Other borrowings	2	8,827,609,604	8,838,725,237
Debt securities issued	2	4,189,812,218	4,189,812,218
Subordinated term debts	2	1,004,354,742	1,004,354,742
<b>Total financial liabilities</b>		73,926,510,929	72,730,660,193

As at 31 December 2016	Level	Carrying Value	Fair Value
		Rs.	Rs.
<b>Financial Assets</b>			
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
<b>Total financial assets</b>		63,592,098,631	64,531,868,270
<b>Financial Liabilities</b>			
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
<b>Total financial liabilities</b>		59,357,361,336	58,988,359,775

## Notes to the Financial Statements

Year ended 31 December 2017

### 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.

### 39. SEGMENT REPORTING

31 December 2017					
	Banking	Leasing	Treasury	Pawning	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Interest income	8,694,173,937	721,645,748	1,290,243,796	123,269,591	10,829,333,073
Interest expenses	(5,391,440,541)	(371,915,259)	(1,105,488,235)	(72,996,465)	(6,941,840,502)
<b>Net interest income</b>	<b>3,302,733,396</b>	<b>349,730,489</b>	<b>184,755,561</b>	<b>50,273,126</b>	<b>3,887,492,571</b>
Fee and commission income	235,993,758	42,775,806	-	-	278,769,564
Fee and commission expenses	(3,284,524)	(226,575)	-	-	(3,511,098)
<b>Net fee and commission income</b>	<b>232,709,234</b>	<b>42,549,231</b>	<b>-</b>	<b>-</b>	<b>275,258,464</b>
Net loss from financial instruments at fair value through profit or loss	-	-	211,759,394	-	211,759,394
Other operating income (net)	43,915,955	-	6,929,443	-	50,845,398
<b>Total operating income</b>	<b>3,579,358,585</b>	<b>392,279,720</b>	<b>403,444,398</b>	<b>50,273,126</b>	<b>4,425,355,828</b>
Impairment for loans and other losses	(299,934,014)	11,201,293	-	(4,804,188)	(293,536,909)
<b>Net operating income - Segment Result</b>	<b>3,279,424,570</b>	<b>403,481,013</b>	<b>403,444,398</b>	<b>45,468,938</b>	<b>4,131,818,919</b>
Un-allocated Expenses					(3,029,774,019)
Value added tax (VAT) on financial services					(349,443,792)
<b>Profit before tax</b>					<b>752,601,108</b>
Tax expenses					(244,777,577)
<b>Profit for the year</b>					<b>507,823,531</b>
Other Comprehensive Income					
Other Comprehensive Income for the year net of tax					2,077,254
<b>Total Comprehensive Income for the year</b>					<b>509,900,785</b>
<b>Segment Assets</b>	<b>61,603,758,587</b>	<b>4,249,583,702</b>	<b>12,631,546,216</b>	<b>834,073,305</b>	<b>79,318,961,810</b>
Un-allocated Assets	-	-	-	-	3,055,751,492
<b>Total Assets</b>	<b>61,603,758,587</b>	<b>4,249,583,702</b>	<b>12,631,546,216</b>	<b>834,073,305</b>	<b>82,374,713,302</b>
<b>Segment Liabilities</b>	<b>58,283,225,521</b>	<b>4,020,524,899</b>	<b>11,950,687,323</b>	<b>789,115,528</b>	<b>75,043,553,721</b>
Total Equity	-	-	-	-	7,331,160,031
<b>Total Liabilities</b>	<b>58,283,225,521</b>	<b>4,020,524,899</b>	<b>11,950,687,323</b>	<b>789,115,528</b>	<b>82,374,713,302</b>

31 December 2016					
	Banking	Leasing	Treasury	Pawning	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
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)
<b>Net interest income</b>	<b>2,699,115,236</b>	<b>379,031,532</b>	<b>203,729,248</b>	<b>48,470,522</b>	<b>3,330,346,538</b>
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)
<b>Net fee and commission income</b>	<b>196,943,846</b>	<b>6,000,089</b>	<b>-</b>	<b>-</b>	<b>202,943,936</b>
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
<b>Total operating income</b>	<b>2,933,836,383</b>	<b>385,031,621</b>	<b>223,348,471</b>	<b>48,470,522</b>	<b>3,590,686,997</b>
Impairment for loans and other losses	(126,626,309)	12,574,453	-	(10,992,007)	(125,043,863)
<b>Net operating income - Segment Result</b>	<b>2,807,210,074</b>	<b>397,606,074</b>	<b>223,348,471</b>	<b>37,478,515</b>	<b>3,465,643,134</b>
Un-allocated Expenses					(2,555,963,530)
Value added tax (VAT) on financial services					(292,254,188)
<b>Profit before tax</b>					<b>617,425,416</b>
Tax expenses					(213,703,773)
<b>Profit for the year</b>					<b>403,721,644</b>
<b>Other Comprehensive Income</b>					
Other Comprehensive Income for the year net of tax					(48,194,018)
<b>Total Comprehensive Income for the year</b>					<b>355,527,626</b>
<b>Segment Assets</b>	<b>48,912,628,042</b>	<b>4,032,280,286</b>	<b>9,726,680,932</b>	<b>687,630,494</b>	<b>63,359,219,754</b>
Un-allocated Assets					2,673,579,325
<b>Total Assets</b>	<b>48,912,628,042</b>	<b>4,032,280,286</b>	<b>9,726,680,932</b>	<b>687,630,494</b>	<b>66,032,799,079</b>
<b>Segment Liabilities</b>	<b>46,715,778,365</b>	<b>3,851,175,447</b>	<b>9,289,819,191</b>	<b>656,746,428</b>	<b>60,513,519,431</b>
Total Equity	-	-	-	-	5,519,279,648
<b>Total Liabilities</b>	<b>46,715,778,365</b>	<b>3,851,175,447</b>	<b>9,289,819,191</b>	<b>656,746,428</b>	<b>66,032,799,079</b>



## Notes to the Financial Statements

Year ended 31 December 2017

### 40. MATURITY ANALYSIS OF ASSETS AND LIABILITIES-BANK

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

	31 December 2017			31 December 2016		
	Within	After	Total	Within	After	Total
	12 Months	12 Months		12 Months	12 Months	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>						
Cash and cash equivalents	1,190,389,606	-	1,190,389,606	1,044,725,493	-	1,044,725,493
Placements with banks	6,014,703,836	-	6,014,703,836	6,919,027,281	-	6,919,027,281
Financial assets fair value through profit or loss	4,473,805,573	-	4,473,805,573	244,911,140	-	244,911,140
Other Financial Asset Classified under Loans and receivable	1,316,269,628	163,680,000	1,479,949,628	1,339,859,374	163,680,000	1,503,539,374
Loans and receivables to other customers	14,188,294,779	52,499,120,815	66,687,415,593	12,144,356,518	41,488,182,304	53,632,538,822
Financial investments - Available-for-sale	(12,453,979)	75,990,138	63,536,159	503,248,918	63,686,559	566,935,477
Financial investments - Held-to-maturity	-	599,551,021	599,551,021	297,743,611	194,524,050	492,267,661
Asset classified as Held for sale	37,175,411	-	37,175,411	37,175,411	-	37,175,411
Property, plant and equipment	-	726,472,630	726,472,630	-	637,263,173	637,263,173
Investment properties	-	23,390,660	23,390,660	-	24,446,690	24,446,690
Intangible assets	-	8,148,340	8,148,340	16,938,244	-	16,938,244
Other assets	1,070,174,846	-	1,070,174,846	913,030,314	-	913,030,314
<b>Total assets</b>	<b>28,278,359,699</b>	<b>54,096,353,603</b>	<b>82,374,713,302</b>	<b>23,461,016,304</b>	<b>42,571,782,776</b>	<b>66,032,799,080</b>
<b>Liabilities</b>						
Due to other customers	43,298,550,760	16,606,183,605	59,904,734,365	33,776,010,160	11,915,747,932	45,691,758,092
Other borrowings	3,333,255,454	5,494,354,151	8,827,609,604	3,684,788,276	5,798,161,734	9,482,950,010
Debt Securities issued	198,547,716	3,991,264,502	4,189,812,218	198,005,235	3,984,647,999	4,182,653,234
Subordinated Term Debts	30,652,824	973,701,918	1,004,354,741	-	-	-
Current tax liabilities	32,152,744	-	32,152,744	23,110,292	-	23,110,292
Deferred tax liabilities	-	58,000,391	58,000,391	-	46,629,257	46,629,257
Other liabilities	769,413,106	257,476,102	1,026,889,208	873,924,283	212,494,263	1,086,418,546
<b>Total liabilities</b>	<b>47,662,572,603</b>	<b>27,380,980,669</b>	<b>75,043,553,272</b>	<b>38,555,838,246</b>	<b>21,957,681,185</b>	<b>60,513,519,432</b>
<b>Net Assets/ (Liability)</b>	<b>(19,384,212,904)</b>	<b>26,715,372,934</b>	<b>7,331,160,030</b>	<b>(15,094,821,942)</b>	<b>20,614,101,590</b>	<b>5,519,279,649</b>

**41. RISK MANAGEMENT**

**41.1 Introduction**

Risk is inherent in the bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the bank's continuing profitability and each individual within the bank is accountable for the risk exposures relating to his or her responsibilities. The bank is exposed to credit risk, liquidity risk and market risk and operational risk.

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

**Risk management structure**

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

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

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

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

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

Bank Treasury is responsible for managing the bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the bank.

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

**Risk measurement and reporting systems**

Monitoring and controlling risks is primarily performed based on limits established by the bank. These limits reflect the business strategy and market environment of the bank as well as the level of risk that the bank is willing to accept, with additional emphasis on selected industries. In addition, the bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

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

## Notes to the Financial Statements

Year ended 31 December 2017

### 41. RISK MANAGEMENT (Contd.)

#### Risk mitigation

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

#### Excessive risk concentration

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

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

### 41.2 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

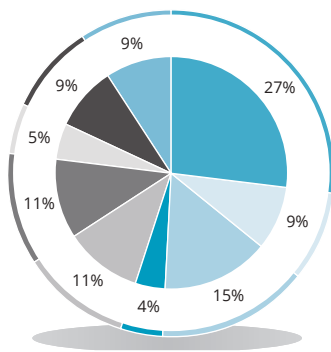
The bank makes available to its customers guarantees which may require that the bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the bank to similar risks to loans and are mitigated by the same control processes 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 2017 was Rs.250Mn.

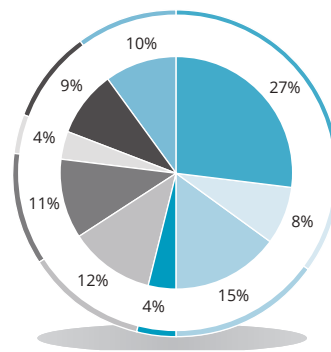
The following table shows the maximum exposure to credit risk for the components of the statement of financial position, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at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

### Geographical Analysis



#### 2017

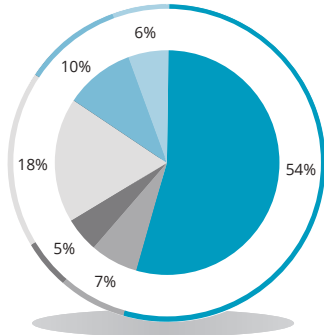
- Western Region
- Central Region
- Southern Region
- Northern Region
- North Western Region
- North Central Region
- Uva Region
- Sabaragamuwa Region
- Eastern Region



#### 2016

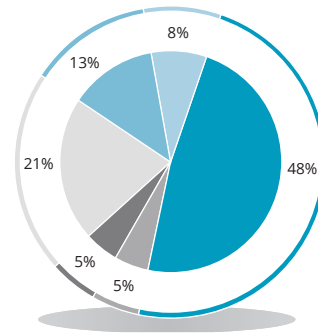
- Western Region
- Central Region
- Southern Region
- Northern Region
- North Western Region
- North Central Region
- Uva Region
- Sabaragamuwa Region
- Eastern Region

### Industry Analysis



#### 2017

-  Agriculture & Fishing
-  Manufacturing
-  Transport
-  Construction & Infrastructure
-  Traders
-  Financial & Business Services
-  Tourism & Other services



#### 2016

-  Agriculture & Fishing
-  Manufacturing
-  Transport
-  Construction & Infrastructure
-  Traders
-  Financial & Business Services
-  Tourism & Other services

### 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.

## Notes to the Financial Statements

Year ended 31 December 2017

### 41. RISK MANAGEMENT (Contd...)

#### Maximum exposure Credit risk by class of financial assets

	31 December 2017		31 December 2016	
	Maximum Exposure to credit risk	Net Exposure	Maximum Exposure to credit risk	Net Exposure
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	1,190,389,606	1,190,389,606	1,044,725,493	1,044,725,493
Placements with banks	6,014,703,836	6,014,703,836	6,919,027,281	6,919,027,281
Financial assets fair value through profit or loss	4,473,805,573	4,473,805,573	244,911,140	244,911,140
Other financial asset classified under loans and receivable	1,479,949,628	764,791,015	1,503,539,374	1,503,539,374
Loans and receivables to other customers (without impairment)	68,104,871,364	49,479,935,628	54,764,576,170	40,030,614,335
Financial investments Held-to-maturity	599,551,021	599,551,021	492,267,661	492,267,661
<b>Total</b>	<b>81,863,271,028</b>	<b>62,523,176,679</b>	<b>64,969,047,119</b>	<b>50,235,085,284</b>

#### Credit quality by class of financial assets

31 December 2017	Neither past due nor impaired	Pass due but not impaired	Individually impaired	Total
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	1,190,389,606	-	-	1,190,389,606
Placements with banks	6,014,703,836	-	-	6,014,703,836
Financial assets fair value through profit or loss	4,473,805,573	-	-	4,473,805,573
Other financial asset classified under loans and receivable	1,479,949,628	-	-	1,479,949,628
Loans and receivables to other customers (without impairment)	56,734,234,623	10,873,357,267	497,279,475	68,104,871,364
Financial investments Available-for-sale	63,536,159	-	-	63,536,159
Financial investments Held-to-maturity	599,551,021	-	-	599,551,021
<b>Total</b>	<b>70,556,170,446</b>	<b>10,873,357,267</b>	<b>497,279,475</b>	<b>81,926,807,187</b>

31 December 2016	Neither past due nor impaired	Pass due but not impaired	Individually impaired	Total
	Rs.	Rs.	Rs.	Rs.
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	54,764,576,169
Financial investments Available-for-sale	566,935,476	-	-	566,935,476
Financial investments Held-to-maturity	492,267,661	-	-	492,267,661
<b>Total</b>	<b>50,781,546,996</b>	<b>14,150,031,022</b>	<b>604,404,576</b>	<b>65,535,982,594</b>

31 December 2017	Pass due but not impaired				Total
	Less the 30 day	31 to 60 days	61 to 90 days	More than 90 days	
	Rs.	Rs.	Rs.	Rs.	
Loans and receivables to other customers (without impairment)	5,531,449,543	3,486,694,869	83,868,750	1,771,344,105	10,873,357,267

31 December 2016	Pass due but not impaired				Total
	Less the 30 day	31 to 60 days	61 to 90 days	More than 90 days	
	Rs.	Rs.	Rs.	Rs.	
Loans and receivables to other customers (without impairment)	9,697,373,005	3,203,953,036	124,153,589	1,124,551,393	14,150,031,023

### Impairment assessment

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

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

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

### Individually assessed allowances

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

### Collectively assessed allowances

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

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

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



## Notes to the Financial Statements

Year ended 31 December 2017

### 41. RISK MANAGEMENT (Contd...)

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.

### 41.3 Liquidity risk and funding management

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

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

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

#### Analysis of financial assets and liabilities by remaining contractual maturities

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

MATURITY ANALYSIS 2017	Less than 7 Days	7-30 Days	1-3 Months	3-12 month	1-3 Years	3-5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial assets</b>								
Cash and cash equivalents	1,190,389,606	-	-	-	-	-	-	1,190,389,606
Investments	1,261,352,776	2,566,281,288	6,112,613,027	2,551,080,736	135,068,944	166,276,813	-	12,792,673,584
Loans and receivables to other customers	1,112,727,976	1,710,281,932	2,591,290,984	12,452,044,561	20,081,278,906	16,550,747,457	22,580,251,905	77,078,623,721
<b>Total Financial assets</b>	<b>3,564,470,358</b>	<b>4,276,563,220</b>	<b>8,703,904,011</b>	<b>15,003,125,298</b>	<b>20,216,347,850</b>	<b>16,717,024,270</b>	<b>22,580,251,905</b>	<b>91,061,686,912</b>
<b>Financial liabilities</b>								
Due to other customers	1,857,449,478	5,986,894,014	11,788,193,037	25,159,935,467	10,648,181,107	4,843,891,238	2,813,736,284	63,098,280,625
Other borrowings	-	199,808,268	403,712,812	2,586,321,829	5,923,513,726	2,194,886,508	198,764,300	11,507,007,443
Debt Securities issued	-	-	-	3,183,298,195	1,013,630,925	-	-	4,196,929,120
<b>Total Financial liabilities</b>	<b>1,857,449,478</b>	<b>6,186,702,282</b>	<b>12,191,905,849</b>	<b>30,929,555,490</b>	<b>17,585,325,758</b>	<b>7,038,777,746</b>	<b>3,012,500,584</b>	<b>78,802,217,188</b>
<b>Net Financial assets/(liabilities)</b>	<b>1,707,020,880</b>	<b>(1,910,139,062)</b>	<b>(3,488,001,838)</b>	<b>(15,926,430,193)</b>	<b>2,631,022,092</b>	<b>9,678,246,524</b>	<b>19,567,751,321</b>	<b>12,259,469,724</b>
<b>MATURITY ANALYSIS 2016</b>								
<b>Financial assets</b>								
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	-	9,913,265,817
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
<b>Total Financial assets</b>	<b>4,734,817,410</b>	<b>5,134,698,820</b>	<b>8,479,802,599</b>	<b>15,028,873,332</b>	<b>26,577,240,664</b>	<b>18,901,694,043</b>	<b>9,826,143,381</b>	<b>88,683,270,249</b>
<b>Financial liabilities</b>								
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	9,234,086,030
Debt Securities issued	-	-	-	198,005,235	3,345,054,880	1,062,945,120	-	4,606,005,233
<b>Total Financial liabilities</b>	<b>9,266,339,519</b>	<b>3,389,389,731</b>	<b>10,576,014,292</b>	<b>24,771,933,446</b>	<b>9,229,418,094</b>	<b>3,928,040,937</b>	<b>62,802,968</b>	<b>61,223,938,921</b>
<b>Net Financial assets/(liabilities)</b>	<b>(4,531,522,109)</b>	<b>1,745,309,088</b>	<b>(2,096,211,693)</b>	<b>(9,743,060,114)</b>	<b>17,347,822,630</b>	<b>14,973,653,107</b>	<b>9,763,340,414</b>	<b>27,459,331,328</b>

## Notes to the Financial Statements

Year ended 31 December 2017

### 41. RISK MANAGEMENT (Contd...)

#### 41.4 Market risk

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

#### Interest rate risk

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

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

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

INTEREST RATE SENSITIVITY ASSET 2017	Carrying Amount						Rs.		
	Rs.	On demand	1-3 month	3-12 month	over 1 year	Non Interest	Total	Rs.	
<b>Asset or Liability</b>									
Cash and cash equivalents	1,190,389,606	301,146,575	-	-	-	889,243,031	1,190,389,606		
Investments	6,014,703,836	900,000,000	3,200,000,000	1,914,703,836	-	-	6,014,703,835		
Other financial asset classified under loans and receivable	1,479,949,628	1,001,736,169	287,722,693	26,810,765	163,680,000	-	1,479,949,627		
Financial investments - Held-to-maturity	599,551,021	350,000,000	-	249,551,021	-	-	599,551,021		
Loans and receivables to other customers	66,687,415,593	24,36,082,864	22,36,123,771	9,516,088,143	51,096,532,120	1,402,588,695	66,687,415,593		
<b>Interest Bearing Assets</b>	<b>75,972,009,684</b>	<b>4,988,965,609</b>	<b>5,723,846,465</b>	<b>11,707,153,765</b>	<b>51,260,212,120</b>	<b>2,291,831,726</b>	<b>75,972,009,684</b>		
Due to other customers	59,904,734,365	7,116,025,898	10,693,703,945	25,488,820,917	16,606,183,605	-	59,904,734,365		
Other borrowings	8,827,609,604	199,285,886	399,069,557	2,734,900,011	5,494,354,151	-	8,827,609,604		
Debt securities issued	4,189,812,218	-	-	189,812,218	4,000,000,000	-	4,189,812,217		
Subordinated term debits	1,004,354,742	-	-	30,651,824	973,701,918	-	1,004,354,742		
<b>Interest Bearing Liabilities</b>	<b>73,926,510,929</b>	<b>7,315,311,784</b>	<b>11,092,773,502</b>	<b>28,444,185,969</b>	<b>27,074,239,674</b>	<b>-</b>	<b>73,926,510,928</b>		
<b>Interest Rate Sensitivity Gap</b>	<b>2,045,498,755</b>	<b>(2,326,346,175)</b>	<b>(5,368,927,038)</b>	<b>(16,737,032,204)</b>	<b>24,185,972,447</b>	<b>2,291,831,726</b>	<b>2,045,498,756</b>		
	<p>If market interest rate go up by 1% effect to interest income</p>								
Effect on Rate Sensitive Assets	759,720,097	759,720,097		739,265,109					
Effect on Rate Sensitive Liabilities	(739,265,109)	(739,265,109)		(759,720,097)					
Sensitivity of Profit or Loss	20,454,988	20,454,988		(20,454,988)					
	<p>If market interest rate drop by 1% effect to interest income</p>								

INTEREST RATE SENSITIVITY ASSET 2016	Carrying Amount		On demand		1-3 month		3-12 month		over 1 year		Non Interest		Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Asset or Liability</b>														
Cash and cash equivalents	1,044,725,492	1,256,415	-	-	-	-	-	-	-	-	1,043,469,078	-	1,044,725,492	
Investments	6,919,017,281	100,154,542	6,816,362,740	2,500,000	2,500,000	-	-	-	-	-	-	-	6,919,017,281	
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	8,489,174,213	41,488,182,304	41,488,182,304	-	-	-	-	-	54,764,576,170	
<b>Interest Bearing Assets</b>	64,724,125,979	2,808,270,554	10,534,325,779	8,491,674,213	8,491,674,213	41,846,386,354	41,846,386,354	1,043,469,078	-	-	-	-	64,724,125,979	
Due to other customers	45,691,758,092	6,118,256,140	17,640,562,388	20,229,190,343	20,229,190,343	1,703,749,221	1,703,749,221	-	-	-	-	-	45,691,758,092	
Other borrowings	9,482,950,010	161,697,673	262,577,581	2,142,816,490	2,142,816,490	6,925,584,362	6,925,584,362	-	-	-	-	-	9,492,776,106	
Debt securities issued	4,182,653,234	198,005,235	-	-	-	-	-	-	3,984,647,999	-	-	-	4,182,653,234	
<b>Interest Bearing Liabilities</b>	59,357,361,336	6,477,959,049	17,903,139,969	22,372,006,832	22,372,006,832	12,613,981,582	12,613,981,582	-	-	-	-	-	59,367,087,433	
<b>Interest Rate Sensitivity Gap</b>	5,366,764,643	(3,669,688,494)	(7,368,814,190)	(13,880,332,619)	(13,880,332,619)	29,232,404,772	29,232,404,772	1,043,469,078	-	-	-	-	5,357,038,546	

	If market interest rate go up by 1% effect to interest Income	If market interest rate drop by 1% effect to interest Income
<b>Effect on Rate Sensitive Assets</b>	647,241,260	593,573,613
<b>Effect on Rate Sensitive Liabilities</b>	(593,573,613)	(647,241,260)
<b>Sensitivity of Profit or Loss</b>	53,667,646	(53,667,646)

#### 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.

#### 42 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.



*Supplementary*  
**INFORMATION**

## Disclosures as per Schedule III of Banking Act No. 01 of 2016 , Capital Requirements under Basel III

### Key Regulatory Ratios - Capital and Liquidity

Item	As at 31.12.2017	As at 30.09.2017
<b>Regulatory Capital (Rs.'000)</b>		
Common Equity Tier 1 Capital	7,293,936	6,784,667
Tier 1 Capital	7,293,936	6,784,667
Total Capital	8,564,260	8,044,624
<b>Regulatory Capital Ratio (%)</b>		
Common Equity Tier 1 Capital Ratio (Minimum Requirement- 5.75%)	12.42	12.02
Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	12.42	12.02
Total Capital Ratio (Minimum Requirement - 11.25%)	14.59	14.25
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets (Rs.' 000)	11,829,936	10,823,751
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	21.34	21.23
Off-Shore Banking Unit (%)	-	-
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 2017 - 80%)	94.09	134.29
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 2017 -80%)	94.09	134.09

### Basel III Computation of Capital Ratios

Item	Amount (Rs.' 000) As at 31.12.2017	Amount (Rs.' 000) As at 30.09.2017
Common Equity Tier 1 (CET1) Capital after Adjustments	7,293,936	6,784,667
Common Equity Tier 1 (CET1) Capital	7,331,160	6,784,667
Equity Capital (Stated Capital) /Assigned Capital	5,758,689	5,758,689
Reserve Fund	197,764	172,373
Published Retained Earnings/(Accumulated Retained Losses)	1,340,504	855,994
Published Accumulated Other Comprehensive Income (OCI)	-	-
General and other Disclosed Reserves	34,203	34,203
Unpublished Current Year's Profit/(Losses) and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
<b>Total Adjustments to CET1 Capital</b>	<b>37,224</b>	<b>36,592</b>
Goodwill (net)	-	-
Intangible Assets (net)	8,148	9,253



## Disclosures as per Schedule III of Banking Act No. 01 of 2016 , Capital Requirements under Basel III

Basel III Computation of Capital Ratios (Contd.)

Item	Amount	Amount
	(Rs.' 000) As at 31.12.2017	(Rs.' 000) As at 30.09.2017
Others (Investments in the capital of banking and financial institutions)	29,076	27,339
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Total Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	1,270,324	1,259,957
Tier 2 Capital	1,299,400	1,287,296
Qualifying Tier 2 Capital Instruments	992,970	992,970
Revaluation Gains	-	-
Loan Loss Provisions	306,430	294,326
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	29,076	27,339
Investment in Own Shares	-	-
Others (Investments in the capital of financial institutions)	29,076	27,339
CET 1 Capital	7,293,936	6,784,667
Total Tier 1 Capital	7,293,936	6,784,667
Total Capital	8,564,260	8,044,624
Total Risk Weighted Assets (RWA)	58,717,587	56,435,193
RWAs for Credit Risk (Table 1)	53,619,752	52,017,371
RWAs for Operational Risk (Table 2)	5,081,280	4,388,862
RWAs for Market Risk (Table 3)	16,554	28,960
CET 1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	12.42	12.02
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	12.42	12.02
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	14.59	14.25
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

**Table 1(A): Credit Risk under Standardized Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects**

Asset Class	Amount (Rs.' 000) as at 31.12.2017					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On- Balance Sheet Amount	Off- Balance Sheet Amount	On- Balance Sheet Amount	Off- Balance Sheet Amount	RWA	RWA Density (%)
Claims on Central Government and CBSL	957,089	-	957,089	-	-	0%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	6,864,054	-	6,864,054	-	1,372,811	20%
Claims on Financial Institutions	-	-	-	-	-	-
Claims on Corporates	5,116,848	-	5,116,848	-	1,084,162	21%
Retail Claims	61,342,917	-	61,342,917	-	44,614,127	73%
Claims Secured by Residential Property	4,534,474	-	4,534,474	-	3,108,345	69%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	727,151	-	727,151	-	923,230	127%
Higher-risk Categories	-	-	-	-	-	-
Cash items and Other Assets	2,573,783	618,697	2,573,783	259,470	2,517,078	89%
<b>Total</b>	<b>82,116,315</b>	<b>618,697</b>	<b>82,116,315</b>	<b>259,470</b>	<b>53,619,752</b>	<b>65%</b>

**Note:**

(i) NPAs - As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

## Disclosures as per Schedule III of Banking Act No. 01 of 2016 , Capital Requirements under Basel III

**Table 1(B): Credit Risk under Standardized Approach - Exposures by asset Classes and Risk Weights**

Description Asset Classes Risk Weight	Amount (Rs.' 000) as at 31.12.2017 (Post CCF & CRM)							Total Credit Exposures Amount
	0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and CBSL	957,089	-	-	-	-	-	-	957,089
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	6,864,054	-	-	-	-	-	6,864,054
Claims on Financial Institutions	-	-	-	-	-	-	-	-
Claims on Corporates	-	5,040,858	-	-	75,990	-	-	5,116,848
Retail Claims	4,304,599	721,614	-	47,387,596	8,929,108	-	-	61,342,917
Claims Secured by Residential Property	-	-	2,852,259	-	1,682,215	-	-	4,534,474
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	28,988	-	277,018	421,145	-	727,151
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash items and Other Assets	280,347	44,785	-	-	2,248,651	-	-	2,573,783
<b>Total</b>	<b>5,542,035</b>	<b>12,671,310</b>	<b>2,881,247</b>	<b>47,387,596</b>	<b>13,212,982</b>	<b>421,145</b>	<b>-</b>	<b>82,116,315</b>

**Table 2: Operational Risk under Basic Indicator Approach**

Business Lines	Capital Charge Factor	Gross Income (Rs.' 000) as at 31.12.2017			Amount
		1st Year	2nd Year	3rd Year	
The Basic Indicator Approach	15%	4,209,531	3,587,217	3,636,133	
Capital Charges for Operational Risk (Rs.' 000) The Basic Indicator Approach	-	-	-	-	571,644
Risk-Weighted Amount for Operational Risk (Rs.' 000) The Basic Indicator Approach	-	-	-	-	5,081,280

**Table 3: Market Risk under Standardised Measurement Method**

Business Lines	RWA Amount (Rs.' 000) as at 31.12.2017
<b>(a) RWA for Interest Rate Risk</b>	-
General Interest Rate Risk	-
(i) Net Long or Short Position	-
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
<b>(b) RWA for Equity</b>	1,862
(i) General Equity Risk	1,242
(ii) Specific Equity Risk	621
<b>(c) RWA for Foreign Exchange &amp; Gold</b>	-
<b>Capital Charge for Market Risk {(a) +(b) + (c)} * CAR</b>	<b>16,554</b>

### Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

#### Overview

A proper “Capital management process” is vital in ensuring the long-term stability of the business, SANASA Development Bank has continued to maintain Capital Adequacy Ratios at healthy levels by keeping a significant margin over and above the regulatory minimum requirements. The Basel III Capital Standards introduced by the CBSL with effect from 1st July 2017 provides stringent framework for Banks to enhance the quality, consistency and the transparency of their “capital” through the introduction of new capital buffers, new mandatory disclosure requirements and revised definitions for capital instruments. Under the new directive, minimum Regulatory Requirements for Tier I Capital Ratio (5%) and Total Capital Ratio (10%) have been increased significantly to 8.50% and 12.50% respectively, with Banks required to comply with these requirements over a period of 18 months, to meet the 01st January 2019 international time line for the implementation of Basel III.

#### Capital Management Process

In order to comply with the new Basel III guidelines, SANASA Development Bank’s Capital Management Process is under supervision of Board Strategic Planning committee. The three year (2018-2020) capital management plan rolled out has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank’s Strategic Plan, taking cognizance of the estimated negative impact to the Bank’s capital structure arising from changes in new regulations such as SLFRS 9, Inland Revenue Act, etc. Efforts taken to comply with the Basel III regulations saw the Bank increases its capital levels by issuing Basel III compliant debt instruments. Steps were also taken to optimize the capital ratios by rebalancing the Risk Weighted Assets (RWA)

#### Moving Forward

Moving forward with the Capital Management plan, the Bank will execute specific medium term and long term strategies to raise both Tier I and Tier II capital in line with Basel III minimum regulatory requirements. In addition, timely actions have been identified and will be executed during the coming years to optimize the Risk Weighted Assets for the purpose of improving the capital allocation of the Bank.

## Disclosures as per Schedule III of Banking Act No. 01 of 2016 , Capital Requirements under Basel III

### Basel III Computation of Liquidity Coverage Ratio

Item	Amount (Rs.' 000)			
	As at 31.12.2017		As at 30.09.2017	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	4,869,546	1,736,506	3,653,373	1,510,180
Total Adjusted Level 1A Assets	1,041,904	1,041,904	906,108	906,108
Level 1 Assets	1,041,904	1,041,904	906,108	906,108
Total Adjusted Level 2A Assets	3,815,227	3,242,943	2,739,747	2,328,785
Level 2A Assets	3,815,227	3,242,943	2,739,747	2,328,785
Total Adjusted Level 2B Assets	12,415	6,208	7,518	3,759
Level 2B Assets	12,415	6,208	7,518	3,759
<b>Total Cash Outflows</b>	<b>57,993,974</b>	<b>3,165,395</b>	<b>57,488,702</b>	<b>2,456,248</b>
Deposits	54,580,495	1,513,777	55,316,827	1,369,555
Unsecured Wholesale Funding	2,659,335	1,063,734	1,543,883	617,553
Secured Funding Transactions	55,530	55,530	59,575	59,575
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	698,614	532,354	568,417	409,565
Additional Requirements	-	-	-	-
<b>Total Cash Inflows</b>	<b>6,131,699</b>	<b>1,319,898</b>	<b>5,519,513</b>	<b>1,331,703</b>
Maturing Secured Lending Transactions backed by Collateral	1,041,904	-	906,108	-
Committed Facilities	2,450,000	-	1,950,000	-
Other Inflows by Counterparty which are Maturing within 30 days	2,639,795	1,319,898	2,663,405	1,331,703
Operational Deposits	-	-	-	-
Other Cash Inflows	-	-	-	-
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash outflows over the Next 30 Calendar Days) * 100</b>		<b>94.09</b>		<b>134.29</b>

## Main Features of Regulatory Capital Instruments

Description of the capital Instrument	Stated Capital	Subordinated Term Debt (2016)	Subordinated Term Debt (2016)
Issuer	SANASA Development Bank PLC	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)
Unique Identifier	LK0412N00003	N/A	N/A
Governing Law of the Instrument	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations
Original date of Issuance	May 2012 to May 2017	December 2016	December 2016
Par value of Instrument (Rs.)	100	N/A	N/A
Perpetual or Dated	Perpetual	Dated	Dated
Original Maturity Date, if Applicable	N/A	December 2021	December 2021
Amount Recognized in Regulatory Capital (in Rs. '000 as at Reporting Date)	5,758,689	686,230	306,740
Accounting Classification (Equity/ Liability)	Equity	Liability	Liability
Issuer Call subject to Prior Supervisory Approval			
Optional Call Date, Contingent Call Dates and Redemption Amount (Rs. '000)	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A
<b>Coupons/Dividends</b>			
Fixed or Floating Dividend/Coupon	Floating Dividend	Floating Cupon	Floating Cupon
Coupon Rate and any Related Index (%)	N/A	6 Months T-Bill Rate+450bps	6 Months T-Bill Rate+550bps
Non-Cumulative or Cumulative	Non-Cumulative	Cumulative	Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible	Convertible
If Convertible, Conversion Trigger (s)	N/A	N/A	N/A
If Convertible, Fully or Partially	N/A	Fully or Partially subject to a maximum of 15% of the issued share capital	Fully or Partially subject to a maximum of 15% of the issued share capital
If Convertible, Mandatory or Optional	N/A	Optional	Optional
If Convertible, Conversion Rate	N/A	Rs.140 or 1.1x of Book value per share which ever is lower in the event if Bank issues new shares to any new investor	Rs.140 or 1.1x of Book value per share which ever is lower in the event if Bank issues new shares to any new investor



## Disclosures as per Schedule III of Banking Act No. 01 of 2016 , Capital Requirements under Basel III

### Differences between Accounting and Regulatory Scopes and mapping of Financial Statement Categories with Regulatory risk Categories

Item	Amount (Rs. '000 as at 31.12.2017)					Explanation for differences between accounting and regulatory reporting
	a	b	c	d	e	
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	
<b>Assets</b>						
Cash and cash equivalents	1,190,390	1,190,390	1,190,390			
Placements with banks	6,014,704	6,616,399	6,616,399			Investments in reverse repurchase agreement is included in other financial assets classified under loans and other receivables in published financial statements and interest receivable on placements with banks are classified as other assets in regulatory reporting.
Investments - Held for Trading	-	354,751		354,751		In published financial statements held for trading investments are classified as Financial assets designated at Fair Value through Profit or Loss.
Financial assets designated at Fair Value through Profit or Loss	4,473,805	-				In regulatory reporting these investments are classified under Held-to Maturity investments.
Other financial assets classified under loans and receivable	1,479,950	-				In regulatory reporting these investments are classified under Held-to Maturity investments.
Loans and receivables to other customers	66,687,415	66,940,468	67,246,898		(306,430)	In regulatory reporting loans and receivables to customers arrived after netting off CBSL time based provisions. However, in published financial statements loans and receivables to customers arrived after netting off impairment allowances as per LKAS 39.
Financial investments - available-for-sale	63,536	-				In regulatory reporting these investments are classified under Held-to Maturity investments.

Item	Amount (Rs. '000 as at 31.12.2017)					Explanation for differences between accounting and regulatory reporting
	a	b	c	d	e	
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	
Financial investments - held-to-maturity	599,551	5,512,458	5,454,306		58,152	In published financial statements, held to maturity investments are reclassified as Financial assets designated at Fair Value through Profit or Loss, Other financial assets classified under loans and receivable and Financial investments - available-for-sale investments.
Assets classified as Held for sale	37,175	37,175	37,175			
Property, plant and equipment	726,473	709,732	709,732			
Investment Properties	23,391	23,391	23,391			
Intangible assets	8,148	8,148			8,148	
Differed tax assets	-	-				
Other Assets	1,070,175	827,153	827,153			The difference is due to audit adjustments and interest receivable on investments recognition.
<b>Total assets</b>	<b>82,374,713</b>	<b>82,220,065</b>	<b>82,105,443</b>	<b>354,751</b>	<b>(240,130)</b>	
<b>Liabilities</b>						
Due to banks	-	-				
Due to other customers	59,904,734	57,239,844	57,239,844			Interest payable on deposits are stated under Other Liabilities in regulatory reporting.
Other borrowings	8,827,610	8,571,526	8,571,526			Interest payable on deposits are stated under Other Liabilities in regulatory reporting.
Debt securities issued	4,189,812	4,000,000	4,000,000			Interest payable on deposits are stated under Other Liabilities in regulatory reporting.
Subordinated term debts	1,004,355	992,970	992,970			Interest payable on deposits are stated under Other Liabilities in regulatory reporting.
Current tax liabilities	32,153	196,146	196,146			Taxes are computed based on different profits under each reporting method.

## Disclosures as per Schedule III of Banking Act No. 01 of 2016 , Capital Requirements under Basel III

Item	Amount (Rs. '000 as at 31.12.2017)					Explanation for differences between accounting and regulatory reporting
	a	b	c	d	e	
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	
Deferred tax liabilities	58,000	66,905	66,905			Due to deferred tax adjustments, defined benefit obligation and audit adjustments.
Other liabilities	1,026,889	4,183,049	4,183,049			Interest payable on Borrowing and deposits added to the Other Liabilities in regulatory reporting.
<b>Total liabilities</b>	<b>75,043,553</b>	<b>75,250,440</b>	<b>75,250,440</b>			
<b>Off-balance sheet liabilities</b>						
Guarantees	166,260	166,260	166,260			
<b>Shareholders' equity</b>						
Equity capital (stated capital)/ Assigned Capital	5,758,689	5,758,689	5,758,689			
of which Amount Eligible for CET 1	5,758,689	5,758,689	5,758,689			
of which Amount Eligible for AT 1	-	-	-			
Retained Earnings	1,340,504	1,004,359	1,004,359			Due to differences which arise in profits computed in previous GAAP and SLFRSs.
Accumulated Other Comprehensive Income	-	-	-			
Other Reserves	231,967	206,576	206,576			
<b>Total Shareholders' Equity</b>	<b>7,331,160</b>	<b>6,969,624</b>	<b>6,969,624</b>			

## Sources & Utilization of Income

[About Our Report](#) | [Performance & Value Creation](#)  
[Overview of SDB](#) | [Sustainable Stewardship](#)  
[Our Leadership](#) | [Financial Reports](#)  
[Strategy & Transformation](#) | [Supplementary Information](#)

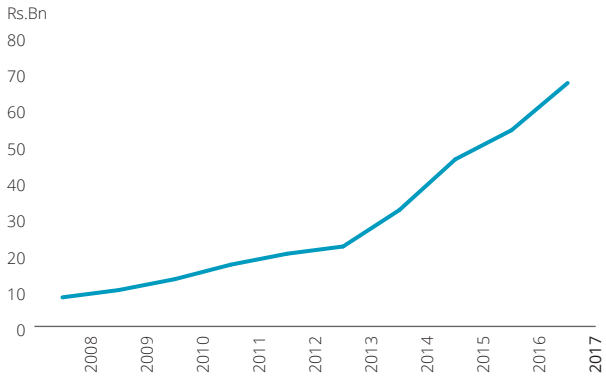
Sources of Income (Rs.000')					
For the year ended 31st December	2017	2016	2015	2014	2013
Interest	9,757,778	7,229,388	6,123,438	4,290,669	3,798,892
Investments	1,071,555	947,799	485,811	559,501	590,493
Commision & other income	537,863	260,340	271,631	386,996	288,156
<b>Total</b>	<b>11,367,196</b>	<b>8,437,527</b>	<b>6,880,879</b>	<b>5,237,165</b>	<b>4,677,541</b>

Utilization of Income (Rs.000')					
For the year ended 31st December	2017	2016	2015	2014	2013
<b>Employees</b>					
Salaries & other payments to staff	1,474,146	1,266,115	1,114,754	767,848	540,777
<b>Suppliers</b>					
Interest paid	6,941,841	4,846,840	3,240,875	2,400,763	2,525,580
Other expenses	1,849,165	1,414,892	1,141,051	1,127,100	1,195,443
	8,791,006	6,261,733	4,381,926	3,527,863	3,721,024
Net income before Govt. Taxes	1,102,044	909,680	1,384,199	941,454	415,741
<b>Government</b>					
Income tax, Vat on FS and NBT	594,221	505,958	663,625	437,007	167,557
<b>Shareholders</b>					
Dividends	136,947	131,249	100,617	94,407	176,227
Retained profit	370,876	272,473	619,958	410,040	71,957
	507,824	403,722	720,575	504,447	248,184
<b>Total</b>	<b>11,367,196</b>	<b>8,437,527</b>	<b>6,880,879</b>	<b>5,237,165</b>	<b>4,677,541</b>

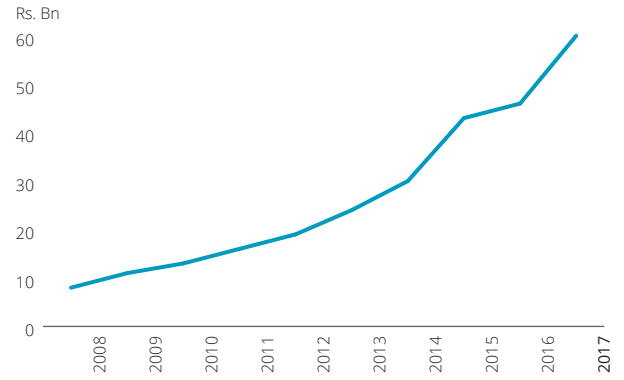
## Ten Years Statistical Summary

	SLFRS							SLAS		
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Advances	66,687,416	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
Investments	12,631,546	9,726,681	7,955,575	6,715,715	6,051,470	3,605,884	3,189,884	3,367,280	3,182,045	1,790,160
Fixed assets	795,187	715,824	658,991	617,495	642,130	759,581	810,489	641,201	543,169	235,272
Total assets	82,374,713	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
Deposits	59,904,734	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
Borrowings	14,021,777	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
Share capital (Allotted )	5,758,689	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
Reserves	1,572,471	1,456,318	1,503,256	1,162,429	853,715	733,369	781,866	478,984	246,219	162,914
Shareholders' fund	7,331,160	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
Total income	11,367,196	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
Total expenses	10,614,595	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
Profit/loss before tax.	752,601	617,425	1,110,559	751,179	333,359	516,497	581,495	646,603	445,512	225,078
Taxation	(244,778)	(213,704)	(389,984)	(246,732)	(85,175)	(175,781)	(199,453)	(323,123)	(237,140)	(127,989)
Profit/loss after tax.	507,824	403,722	720,575	504,447	248,184	340,716	382,042	323,480	208,372	97,089
No. of accounts	1,230,406	1,131,355	1,068,345	992,782	903,476	858,454	697,227	585,508	523,275	412,350
No. of customer centres	91	88	87	82	82	81	79	72	52	44
No. of employees	1,363	1,248	1,198	1,004	856	823	884	735	615	504

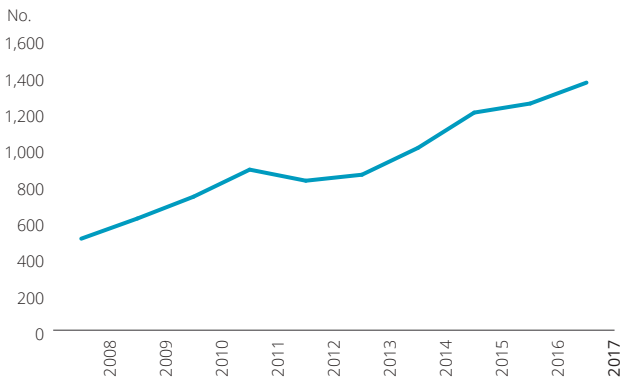
**Advances**



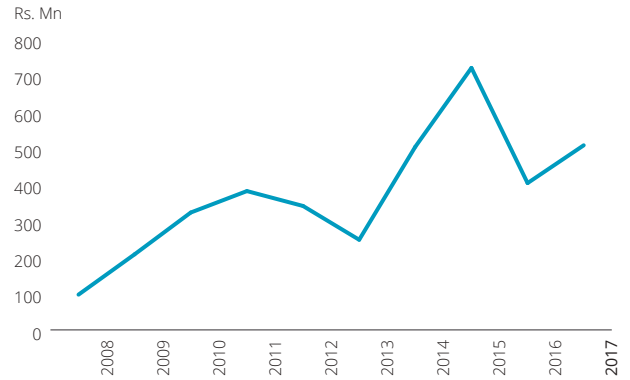
**Deposits**



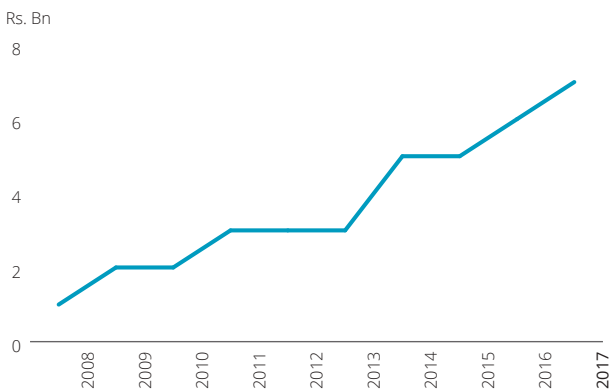
**No of employees**



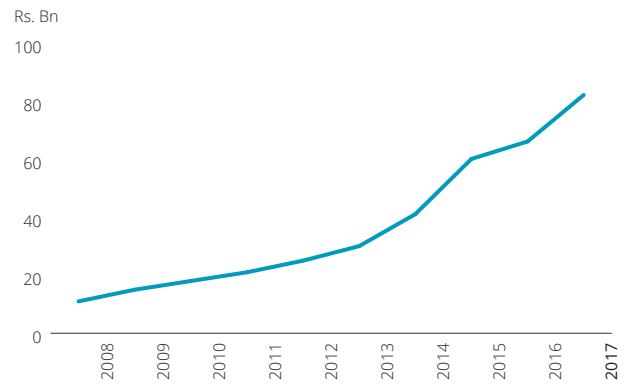
**Profit/loss after tax**



**Shareholders' fund**



**Total assets**





## Last Five Years Financial Summary

### STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2017	2016	2015	2014	2013
	Rs.	Rs.	Rs.	Rs.	Rs.
Interest income	10,829,333,073	8,177,186,889	6,609,248,423	4,850,169,802	4,389,385,317
Interest expenses	(6,941,840,502)	(4,846,840,351)	(3,240,874,613)	(2,400,763,438)	(2,525,580,243)
<b>Net interest income</b>	<b>3,887,492,571</b>	<b>3,330,346,538</b>	<b>3,368,373,811</b>	<b>2,449,406,364</b>	<b>1,863,805,074</b>
Fee and commission income	278,769,564	212,540,050	217,475,178	164,626,078	122,422,512
Fee and commission expenses	(3,511,099)	(9,596,114)	(2,965,660)	(2,282,774)	(2,271,948)
<b>Net fee and commission income</b>	<b>275,258,465</b>	<b>202,943,936</b>	<b>214,509,519</b>	<b>162,343,304</b>	<b>120,150,564</b>
Net gain/(loss) from financial instruments at fair value through profit or loss	211,759,394	17,351,017	5,094,794	53,941,819	102,444,027
Other operating income (net)	50,845,398	40,045,507	52,026,524	168,427,740	63,289,199
<b>Total operating income</b>	<b>4,425,355,828</b>	<b>3,590,686,997</b>	<b>3,640,004,646</b>	<b>2,834,119,227</b>	<b>2,149,688,864</b>
Impairment for loans and other losses	(293,536,909)	(125,043,863)	(49,594,295)	(204,389,615)	(324,620,912)
<b>Net operating income</b>	<b>4,131,818,919</b>	<b>3,465,643,134</b>	<b>3,590,410,351</b>	<b>2,629,729,612</b>	<b>1,825,067,952</b>
Personnel expenses	(1,474,145,865)	(1,266,115,183)	(1,114,753,851)	(767,848,095)	(540,776,607)
Other expenses	(1,555,628,153)	(1,289,848,347)	(1,091,457,100)	(920,427,546)	(868,550,481)
<b>Operating profit before value added tax (VAT) and NBT</b>	<b>1,102,044,901</b>	<b>909,679,605</b>	<b>1,384,199,399</b>	<b>941,453,972</b>	<b>415,740,864</b>
Value added tax (VAT) on financial services	(349,443,792)	(292,254,188)	(273,640,749)	(190,274,968)	(82,382,123)
<b>Operating profit after value added tax (VAT)</b>	<b>752,601,109</b>	<b>617,425,417</b>	<b>1,110,558,650</b>	<b>751,179,003</b>	<b>333,358,741</b>
Profit before tax	752,601,109	617,425,417	1,110,558,650	751,179,003	333,358,741
Tax expenses	(244,777,577)	(213,703,773)	(389,984,089)	(246,732,027)	(85,175,179)
<b>Profit for the year</b>	<b>507,823,532</b>	<b>403,721,644</b>	<b>720,574,561</b>	<b>504,446,976</b>	<b>248,183,562</b>
<b>Other Comprehensive Income</b>					
Actuarial losses on defined benefit plans	2,885,075	(49,638,943)	(2,687,681)	(27,091,104)	(5,464,049)
Gains and losses on re-measuring available-for-sale financial assets	(807,821)	13,898,904	-	-	1,972,960
Income tax relating to other comprehensive income	-	(12,453,979)	752,551	7,585,510	1,529,934
<b>Other Comprehensive Income for the year net of tax</b>	<b>2,077,254</b>	<b>(48,194,018)</b>	<b>(1,935,130)</b>	<b>(19,505,594)</b>	<b>(1,961,155)</b>
<b>Total Comprehensive Income for the year</b>	<b>509,900,786</b>	<b>355,527,626</b>	<b>718,639,431</b>	<b>484,941,382</b>	<b>246,222,407</b>
Basic earnings per share - Basic	10.18	9.60	17.90	13.36	9.39

**STATEMENT OF FINANCIAL POSITION**

As at 31 December	2017	2016	2015	2014	2013
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>					
Cash and cash equivalents	1,190,389,606	1,044,725,493	5,057,791,122	661,651,213	399,384,665
Placements with banks	6,014,703,836	6,919,027,281	4,757,400,770	2,223,162,226	2,530,597,930
Financial assets fair value through profit or loss	4,473,805,573	244,911,140	-	-	1,210,673,101
Other Financial Asset Classified under Loans and receivable	1,479,949,628	1,503,539,374	1,926,055,413	4,164,273,491	1,701,091,364
Loans and receivables to other customers	66,687,415,593	53,632,538,822	45,830,498,891	32,060,498,194	22,116,644,789
Financial investments - Available-for-sale	63,536,159	566,935,476	79,678,638	29,734,245	165,699,464
Financial investments - Held-to-maturity	599,551,021	492,267,661	1,192,440,373	298,544,685	443,408,074
Asset Held for Sale	37,175,411	37,175,411	37,175,411	-	-
Property, plant and equipment	726,472,629	637,263,173	549,171,557	513,592,432	506,770,866
Investment properties	23,390,660	24,446,690	25,502,720	26,558,750	27,614,780
Intangible assets	8,148,340	16,938,244	47,141,277	77,344,311	107,744,105
Current tax assets	-	-	-	-	40,080,715
Other assets	1,070,174,846	913,030,314	787,137,810	517,187,167	482,895,121
<b>Total assets</b>	<b>82,374,713,302</b>	<b>66,032,799,079</b>	<b>60,289,993,982</b>	<b>40,572,546,714</b>	<b>29,732,604,974</b>
<b>Liabilities</b>					
Due to other customers	59,904,734,365	45,691,758,092	43,023,392,820	30,249,433,851	23,594,767,783
Other borrowings	8,827,609,604	9,482,950,010	6,600,338,605	4,602,233,293	1,878,642,869
Debt securities issued	4,189,812,218	4,182,653,234	3,979,110,559	-	-
Subordinated term debts	1,004,354,742				
Current tax liabilities	32,152,742	23,110,292	260,733,158	113,192,235	-
Deferred tax liabilities	58,000,392	46,629,257	66,410,666	53,513,422	46,004,803
Other liabilities	1,026,889,208	1,086,418,546	1,062,657,301	858,200,137	832,942,750
<b>Total liabilities</b>	<b>75,043,553,271</b>	<b>60,513,519,431</b>	<b>54,992,643,109</b>	<b>35,876,572,938</b>	<b>26,352,358,205</b>
<b>Equity</b>					
Stated capital	5,758,689,211	4,062,961,714	3,794,094,725	3,533,545,080	2,526,532,200
Statutory reserve fund	197,763,963	172,372,786	154,596,404	118,664,432	94,417,362
Retained earnings	1,340,503,863	1,249,745,154	1,302,002,771	997,107,291	489,354,652
Other reserves	34,202,994	34,202,994	46,656,973	46,656,973	269,942,555
<b>Total equity</b>	<b>7,331,160,031</b>	<b>5,519,279,648</b>	<b>5,297,350,872</b>	<b>4,695,973,776</b>	<b>3,380,246,769</b>
<b>Total equity and liabilities</b>	<b>82,374,713,302</b>	<b>66,032,799,079</b>	<b>60,289,993,982</b>	<b>40,572,546,714</b>	<b>29,732,604,974</b>
Contingent liabilities and commitments	166,260,031	148,030,175	136,574,133	129,506,905	144,378,258

## Quarterly Statistics

	2017 (Rs. 000)				2016 (Rs. 000)			
	31st December	30th September	30th June	31st March	31st December	30th September	30th June	31st March
As at								
Statement of Financial Position								
Total Assets	82,374,713	79,530,933	73,995,569	69,805,584	66,032,799	64,989,028	61,937,712	61,089,479
Loans and Receivables to other customers	66,687,416	63,911,220	60,672,499	57,377,136	53,632,539	52,436,107	50,902,175	48,245,275
Due to other customers	59,904,734	56,697,796	50,844,691	48,232,044	45,691,758	45,491,585	43,178,584	42,433,521
Total Equity	7,331,160	7,134,377	7,008,734	5,618,424	5,519,280	5,394,327	5,350,183	5,411,027
For the three months ended								
Statement of Comprehensive Income								
Net interest income	919,701	1,005,759	1,006,515	955,517	943,975	781,038	785,583	819,752
Net fee and commission income	77,905	65,469	61,386	55,612	(8,589)	83,130	70,996	57,408
Net gain/(loss) from financial instruments	196,402	7,736	5,402	1,009	7,227	6,432	3,854	(162)
Other operating income (net)	21,816	7,680	22,869	14,577	420	8,490	9,554	21,581
Total operating income	1,215,824	1,086,644	1,096,172	1,026,715	943,033	879,090	869,987	898,578
Impairment for loans and other losses	(74,184)	(65,194)	(102,116)	(52,043)	(18,451)	38,851	24,574	80,071
Net operating income	1,141,640	1,021,450	994,056	974,673	961,484	840,239	845,413	818,507
Operating profit/(loss) before VAT	304,610	285,408	250,850	261,177	272,487	182,634	211,218	243,341
Value added tax on financial services and NBT	(78,318)	(94,005)	(88,159)	(88,961)	(109,859)	(60,711)	(61,136)	(60,548)
Profit before tax	226,291	191,403	162,691	172,216	162,629	121,923	150,082	182,794
Tax expense	(49,585)	(59,760)	(73,471)	(61,961)	(4,781)	(72,679)	(72,266)	(63,978)
Profit for the year	176,706	131,644	89,221	110,254	157,848	49,245	77,816	118,816
Other comprehensive income for the period	20,077	(6,000)	(6,000)	(6,000)	(32,894)	(5,100)	(5,100)	(5,100)
Total comprehensive income for the period	196,783	125,644	83,221	104,254	124,954	44,145	72,716	113,716

	2017				2016			
	31st December	30th September	30th June	31st March	31st December	30th September	30th June	31st March
<b>Regulatory Capital Adequacy</b>								
<b>Basel III</b>								
Common Equity Tier I Capital Ratio (%)	12.42	12.02	N/A	N/A	N/A	N/A	N/A	N/A
Tier I Capital Ratio (%)	12.42	12.02	N/A	N/A	N/A	N/A	N/A	N/A
Total Capital Ratio (%)	14.59	14.25	N/A	N/A	N/A	N/A	N/A	N/A
<b>Basel II</b>								
Core Capital Adequacy Ratio (%)	N/A	N/A	13.01	11.04	11.90	11.24	11.27	11.75
Total Capital Adequacy Ratio (%)	N/A	N/A	14.81	11.51	12.38	11.71	11.73	12.11
<b>Asset Quality</b>								
Gross No-performing Advances Ratio (%)	2.07	2.20	2.21	2.17	2.10	2.42	2.34	2.52
Net No-performing Advances Ratio (%)	1.02	0.14	0.13	0.13	1.22	0.25	0.19	0.27
<b>Profitability</b>								
Interest Margin (%)	5.57	6.75	6.82	6.67	5.83	5.65	5.83	6.00
Return on Assets (%)	1.01	0.96	0.96	1.01	0.98	0.97	1.09	1.20
Return on Equity (%)	7.90	6.98	6.37	7.92	7.46	6.13	7.39	8.88
<b>Regulatory Liquidity</b>								
Statutory Liquid Asset Ratio (%)	21.34	21.23	21.49	21.26	22.13	22.69	21.48	22.34
<b>Share Information</b>								
Market value per share (Rs.)	101.90	97.00	103.00	99.00	103.70	113.76	119.90	136.70
Highest price per share for the period (Rs.)	122.50	110.00	122.56	106.00	116.50	128.90	154.00	158.80
Lowest price per share for the period (Rs.)	93.80	96.00	98.00	95.20	95.20	106.10	116.20	116.00
<b>Debenture Information</b>								
Debt to Equity Ratio (%)	10.08	9.81	9.26	11.22	10.75	10.81	-	-
Interest Cover(Times)	1.11	1.11	1.11	1.12	1.13	1.13	-	-
Quick Asset Ratio (%)	0.63	0.69	0.59	0.63	0.65	0.68	-	-

## GRI Index

GRI Standard	Disclosure	Page number	Omission
GRI 101: Foundation 2016 (does not include any disclosures)			
<b>General Disclosures</b>			
GRI 102: General Disclosures 2016			
	102-1 Name of Organisation	11	
	102-2 Activities, brands, products and services	11	
	102-3 Location of headquarters	11	
	102-4 Location of operations	11	
	102-5 Ownership and legal form	11	
	102-6 Markets served	11	
	102-7 Scale of the organisation	07	
	102-8 Information on employees and other workers	60	
	102-9 Supply chain	42	
	102-10 Significant changes to the organisation and supply chain	11	
	102-11 Precautionary principle	127	
	102-12 External initiatives	14	
	102-13 Membership of associations	70	
	102-14 Statement from senior decision maker	21	
	102-16 Values, principles, norms and standards of behaviour	78	
	102-18 Governance Structure	78	
	102-40 List of stakeholder groups	40	
	102-41 Collective bargaining agreements	63	
	102-42 Identifying and selecting stakeholders	40	
	102-43 Approach to stakeholder engagement	40	
	102-44 Key topics and concerns raised	40	
	102-45 Entities included in the consolidated financial statements	06	
	102-46 Defining report content and topic boundary	47	
	102-47 Material topics	47	
	102-48 Restatement of information	N/A	
	102-49 Changes in reporting	06	
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	102-52 Reporting cycle	06	
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<b>Material topics</b>			
<b>Economic Performance</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 201: Economic Performance 2016	201-2- Financial implications and other risks and opportunities due climate change	75	
	201-3 Defined benefit plan obligations and other retirement plans	172	

GRI Standard	Disclosure	Page number	Omission
<b>Indirect economic impacts</b>			
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	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 203: Indirect economic impacts 2016	203-1: Infrastructure investments and services supported	64	
<b>Energy</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	76	
<b>Water</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 303: Water 2016	303-1 Water withdrawal by source	76	
<b>Employment</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 401: Employment 2016	401-1 Employee hires and turnover	60	
	401-2 Benefits provided to full time employees that are not provided to temporary or part-time employees	61	
<b>Labour Management Relations</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 402: Labour Management Relations 2016	402-1 Minimum notice periods regarding operational changes	63	
<b>Training and education</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 404: Training and education	404-1 Average hours of training per year per employee	62	
	404-2 Programs for upgrading skills and transition assistance programmes	62	
	404-3 Percentage of employees receiving regular performance and career development reviews	62	



## GRI Index

GRI Standard	Disclosure	Page number	Omission
<b>Diversity and equal opportunity</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
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	103-2 Evaluation of the Management Approach	48	
GRI 405: Diversity and equal opportunity 2016	405-2 Ratio of basic salary and remuneration of women to men	61	
<b>Local Communities</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
	103-2 Evaluation of the Management Approach	48	
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments and development programmes	70	
<b>Marketing and labelling</b>			
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	103-2 Evaluation of the Management Approach	48	
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	69	
	417-2 Incidents of non-compliance concerning product and service information and labelling	69	
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<b>Customer Privacy</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	48	
	103-2 The Management Approach and its components	48	
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GRI 418: Customer Privacy 2016	418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	69	

## Branch Network

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[Overview of SDB](#) | [Sustainable Stewardship](#)  
[Our Leadership](#) | [Financial Reports](#)  
[Strategy & Transformation](#) | [Supplementary Information](#)

S.N	Branch	Telephone/ Fax	Address	Email
1	1st Colombo City	Tel. 011-2326265 Fax. 011-2337687	No. 55, Kumaran Rathnam Mawatha, Colombo 02	colombo@sdb.lk
2	Akkaraipattu	Tel./ Fax. 067-2279365	No. 73, Main Street, Town Division 02, Akkaraipattu	akkaraipattu@sdb.lk
3	Akurassa	Tel. 041-2283596 Fax. 041-2283173	No. 63A, Matara Road, Akurassa	akurassa@sdb.lk
4	Aluthgama	Tel./Fax. 034-2270718	No. 39, Welipenna Road, Aluthgama	aluthgama@sdb.lk
5	Ambalangoda	Tel./Fax. 091-2255779	No. 321, New Road, Ambalangoda	ambalangoda@sdb.lk
6	Ambalanthota	Tel./Fax. 047-2225466	No. 69/1, Tangalle Road, Ambalanthota	ambalanthota@sdb.lk
7	Ampara	Tel. 063 - 2222661 Fax. 063 - 2222633	No.05, Amarathunga Building, D.S.Senanayaka Street, Ampara	ampara@sdb.lk
8	Anamaduwa	Tel./Fax. 032-2263026	No. 16/11, Chilaw Road, Anamaduwa	anamaduwa@sdb.lk
9	Angunukolapelessa	Tel./Fax. 047-2229205	Ranna Road, Angunakolapelessa	angunukola@sdb.lk
10	Anuradhapura	Tel. 025-2234110 Fax. 025-4580377	No. 12, Maithreepala Senanayaka Mawatha, Anuradhapura	anuradap@sdb.lk
11	Aralaganwila	Tel./Fax. 027-2257200	Kolongas Junction, New Town, Aralaganwila	aralaganwila@sdb.lk
12	Badulla	Tel./Fax. 055-2224135	No. 28, Anagarika Dharmapala Mw, Badulla	badulla@sdb.lk
13	Battaramulla	Tel. 011-2866990 Fax. 011-5523291	No. 210/01, Kaduwela Road, Battaramulla	battaram@sdb.lk
14	Batticaloa	Tel. /Fax. 065-2226611	No. 24, Bar Road, Batticaloa	batticaloa@sdb.lk
15	Buttala	Tel./ Fax. 055-2273387	Madurapperuma Building, Katharagama Road, Buttala	buttala@sdb.lk
16	Bandarawela	Tel. 057-2221282 Fax. 057-2221292	No.62, Main Street, Bandarawela	bandarawela@sdb.lk
17	Chilaw	Tel./ Fax: 032-2220801	No. 50/52, Skyline Building, Colombo Road, Chilaw	chilaw@sdb.lk
18	Chunnakam	Tel./Fax. 021-2241582	No. 126, K.K.S. Road, Chunnakam	chunnakam@sdb.lk
19	Dambulla	Tel./Fax.066-2283244	No. 360/D, Anuradhapura Road, Dambulla	dambulla@sdb.lk
20	Dehiattakandiya	Tel./Fax. 027-2250414	No. 10/4, New Town, Dehiattakandiya	dehiattakandiya@sdb.lk
21	Dehiwala	Tel. 011-2718670 Fax. 011-2718680	No. 107/A, Galle Road, Dehiwala	dehiwala@sdb.lk
22	Deniyaya	Tel./Fax. 041-2273100	No. 61, Main Street, Deniyaya	deniyaya@sdb.lk
23	Deraniyagala	Tel./Fax. 036-2249801	No. 17, Main Street, Deraniyagala	deraniyagala@sdb.lk
24	Dematagoda	Tel./Fax. 011-2686118	No. 33, Kolonnawa Road, Dematagoda, Colombo 09	dematagoda@sdb.lk
25	Elpitiya	Tel./Fax. 091-2291524	No. 18/12 New Road, Elpitiya	elpitiya@sdb.lk
26	Embilipitiya	Tel./Fax. 047-2261891	No. 15, H.K.T. Building, Pallegama, Embilipitiya	embilipi@sdb.lk
27	Ekala	Tel. 011-2228861 Fax. 011-2228871	No. 46, Orex City, Shopping Complex, Ekala	ekala@sdb.lk
28	Galenbindunuwewa	Tel./Fax. 025-2258038	No. 55, Anuradhapura Road, Galenbindunuwewa	gdwewa@sdb.lk

## Branch Network

S.N	Branch	Telephone/ Fax	Address	Email
29	Galle	Tel./Fax. 091-2226811	No. 15A, Wakwella Road, Galle	galle@sdb.lk
30	Gampaha	Tel. 033-2224631 Fax. 033-2224422	No. 09, Sirikurusa Road, Gampaha	gampaha@sdb.lk
31	Gampola	Tel. 081-2352185 Fax. 081-2352172	No. 10A, Gangasiri Road, Gampola	gampola@sdb.lk
32	Giriulla	Tel./Fax. 037-2289524	No. 02, Main Street, Giriulla	giriulla@sdb.lk
33	Hatharaliyadda	Tel./Fax. 081-2464250	No. 21/5, Kandy Road, Hatharaliyadda	hatharaliyadda@sdb.lk
34	Hingurana	Tel. 063-2240245 Fax. 063-2240285	No. 26, Muwangala Road, Hingurana	hingurana@sdb.lk
35	Horana	Tel. 034-2261177 Fax. 034-2262534	No. 145, Rathnapura Road, Horana	horana@sdb.lk
36	Jaffna	Tel./Fax. 021-2221280	No. 212, Maha Lakshmi Building, Stanly Road, Jaffna	jaffna@sdb.lk
37	Kaduwela	Tel./Fax. 011-2548428	No. 500A, Colombo Road, Kaduwela	kaduwela@sdb.lk
38	Kalawanchikudy	Tel./Fax. 065-2251409	Rajashe Building, Main Street, Kalawanchikudy	kalawanchikudy@sdb.lk
39	Kalmuani	Tel./ Fax. 067-2222467	No. 299, Main Street, New Bazar , Kalmunai	kalmunai@sdb.lk
40	Kalutara	Tel. 034-2221115 Fax. 034-2221116	No. 09, Gnanodaya Mawatha, Kaluthara South	kaluthara@sdb.lk
41	Kandy	Tel. 081-2204385 Fax. 081-2202940	No. 171, D.S. Senanayaka Road, Kandy	kandy@sdb.lk
42	Kanthale	Tel./Fax. 026-2234380	No. 14, Kandy Road, Kanthale	kantale@sdb.lk
43	Karapitiya	Tel. 091-2245252 Fax. 091-2224638	No. 255, Sunny Side Gardens, Karapitiya	karapiti@sdb.lk
44	Katuwana	Tel. 047-3623900 Fax. 047-2248213	AAG Building, Middeniya Road, Katuwana	katuwana@sdb.lk
45	Kegalle	Tel. 035-2222352 Fax. 035-2231051	No. 342, Main Street, Kegalle	kegalle@sdb.lk
46	Kekirawa	Tel./Fax. 025-2263306	No. 29/B, Thalawa Road, Kekirawa	kekirawa@sdb.lk
47	Kilinochchi	Tel. 021-2285097 Fax. 021-2285316	No. 464, A 9 Road, Karadippokku, Kilinochchi	kilinochchi@sdb.lk
48	Kiribathgoda	Tel. 011-2917137 Fax. 011-2917872	No. 141, Kandy Road, Kiribathgoda	kiribath@sdb.lk
49	Kirulapona	Tel. 011-2832548 Fax. 011-2514252	No. 12, Edmonton Road, Colombo 06	kirulapone@sdb.lk
50	Kuliyapitiya	Tel. 037-2284555 Fax. 037-2284556	No. 173, Madampe Road, Kuliyapitiya	kuliyapitiya@sdb.lk
51	Kurunagala	Tel. 037-2223510 Fax. 037-2229607	No. 105, Colombo Road, Kurunegala	kurunegala@sdb.lk
52	Mahabage	Tel. 011-2960514 Fax. 011-2960547	No. 511, Negombo Road, Mahabage	mahabage@sdb.lk

S.N	Branch	Telephone/ Fax	Address	Email
53	Maharagama	Tel. 011-2089340 Fax. 011-2840242	No. 134, High level Road, Maharagama	maharagama@sdb.lk
54	Maho	Tel./Fax. 037-2275045	No. 19A, Main Street, Maho	maho@sdb.lk
55	Malabe	Tel. 011-2078653 Fax. 011-2078681	No. 410/1, Aturugiriya Road, Malabe	malabe@sdb.lk
56	Mapalagama	Tel./Fax. 091-2296200	"Samantha", Ethumale, Mapalagama	mapalagama@sdb.lk
57	Matale	Tel. 066-2230388 Fax. 066-2232439	No. 271, Main Street, Matale	matale@sdb.lk
58	Matara	Tel. 041-2229944 Fax. 041-2234284	No. 24/A, E.H.Coaray Tower, Dharmapala Mawatha, Matara	matara@sdb.lk
59	Mathugama	Tel. 034-2248373 Fax. 034-2248374	No. 120/1 Aluthgama Road, Mathugama	mathugama@sdb.lk
60	Mawanella	Tel./Fax. 035-2246662	No. 121, Kandy Road, Mawanella	mawanella@sdb.lk
61	Medawachchiya	Tel./Fax. 025-2245221	No. 78A, Jaffna Road, Medawachchiya	medawach@sdb.lk
62	Monaragla	Tel. 055-2277192 Fax. 055-2277800	No. 139, Wellawaya Road, Monaragala	monaraga@sdb.lk
63	Moratuwa	Tel. 011-2636627 Fax. 011-2624322	No. 310, "Wijaya Mahal", Katubedda, Moratuwa	moratuwa@sdb.lk
64	Mutur	Tel./Fax. 026-2238122	Main Street, Batticalo Road, Mutur	mutur@sdb.lk
65	Mannar	Tel./Fax. 023-2251910	No.58, Main Street, Mannar	mannar@sdb.lk
66	Nanattan	Tel./Fax. 023-3238200	Moddakadai, Nanattan	nanattan@sdb.lk
67	Narammala	Tel./ Fax. 037-2248278	No. 202, Kurunegala Road, Narammala	narammala@sdb.lk
68	Negombo	Tel. 031-2227714 Fax. 031-2227715	No. 150, Greens Road, Negombo	negombo@sdb.lk
69	Nochchiyagama	Tel./Fax. 025-2257154	No. 94, Puttalama Road, Nochchiyagama	nochchi@sdb.lk
70	Nuwara Eliya	Tel. 052-2223526 Fax. 052-2223521	No. 116, Kandy Road, Nuwara Eliya	nuwaraeliya@sdb.lk
71	Padavi Parakramapura	Tel./Fax. 025-2254311	Kodithuwakku Building, Padavi Parakrampura	padaviya@sdb.lk
72	Pilimathalawa	Tel. 081-2069716 Fax. 081-2577156	No. 255, Colombo Road, Pilimathalawa	pilimathalawa@sdb.lk
73	Polonnaruwa	Tel. 027-2226622 Fax. 027-2226623	No. 894/A, Sawmill Junction, Kaduruwela	polonnaruwa@sdb.lk
74	Pothuvil	Tel./ Fax.063-2248026	Ibrahim Building, Main Street, Pothuvil	pothuvil@sdb.lk
75	Rambukkana	Tel. 035-2264388 Fax. 035-2265170	No. 152, Kurunegala Road, Rambukkana	rambukkana@sdb.lk
76	Rathnapura	Tel./Fax. 045-2226015	No. 93, Inner Circule Road, Rathnapura	rathnapu@sdb.lk
77	Rikillagaskada	Tel. 081-2365556 Fax. 081-2365775	No. 51, Kandy Road, Rikillagaskada	rikillagaskada@sdb.lk

## Branch Network

S.N	Branch	Telephone/ Fax	Address	Email
78	Ruwanwella	Tel. 036-2268726 Fax. 036-2267426	No. 93A, Main Street, Ruwanwella	ruwanwel@sdb.lk
79	Samanthurai	Tel./Fax. 067-2261378	No. 1/21 E, Police Road, Samanthurai	samanthurai@sdb.lk
80	Siyabalanduwa	Tel. 055-2279141 Fax. 055-2279241	Rathnayake Building, Near the Filling Station, Main Street, Siyabalanduwa	siyabalanduwa@sdb.lk
81	Thalawa	Tel./Fax. 025-2050871	Kurunegala Road, Thalawa	thalawa@sdb.lk
82	Thambuththegama	Tel. 025-2275011 Fax. 025-2275008	Rejina Junction, Anuradhapura Road, Thambuththegama	thambuth@sdb.lk
83	Trincomalee	Tel/Fax. 026-2222076	No. 95, Post Office Road, Trincomalee	trinco@sdb.lk
84	Thissamaharamaya	Tel. 047-2238790 Fax. 047-2238791	No.51, Kachcheriyagama, Thissamaharama	tissamaharama@sdb.lk
85	Uhana	Tel./Fax. 063-2250102	No. 164/1, Kandy Road, Uhana	uhana@sdb.lk
86	Valachchenai	Tel./Fax. 065-2258044	Main Street, Valachchenai	valachchenai@sdb.lk
87	Vavuniya	Tel. 024-2260984 Fax. 024-2224312	No. 234, Kandy Road, Vavuniya	vavuniya@sdb.lk
88	Warakapola	Tel. 035-2267741 Fax. 035-2268070	No. 198, Main Street, Warakapola	warakapo@sdb.lk
89	Wariyapola	Tel. 037-2267086 Fax. 037-2267646	No. 54, Kurunegala Road, Wariyapola	wariyapola@sdb.lk
90	Wennappuwa	Tel. 031-2245531 Fax. 031-2245532	Main Street, Wennappuwa	wennappuwa@sdb.lk
91	Yakkalamulla	Tel./Fax. 091-2286770	Yakkalamulla Junction, Galle Road, Yakkalamulla	yakkalamulla@sdb.lk

## 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 uncollectability.

#### 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.

#### 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.



## Glossary of Terms

### 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.

## 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 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.

## Glossary of Terms

### 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.

#### 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

### B

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
CO <sub>2</sub> e	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

### F

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 <sup>3</sup>	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 Commit tee
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 (%)	$\frac{\text{Collective impairment*100}}{\text{Gross portfolio}}$
Cost to income ratio (%)	$\frac{\text{Total operating cost without VAT on financial services*100}}{\text{Total operating income}}$
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 (%)	$\frac{\text{Total dividends*100}}{\text{Profit/loss attributable to ordinary shareholders}}$
Dividend yield (%)	$\frac{\text{Dividend per ordinary share*}}{100 \text{ Market price per share}}$
Earnings per share (EPS) Rs.	$\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Number of shares}}$
Earnings yield (%)	$\frac{\text{Earnings per share*}}{100 \text{ Market price per share}}$
Gross non-performing advances ratio (%)	$\frac{\text{Non-performing portfolio (net of interest In suspense and unearned income)*100}}{\text{Gross portfolio (net of interest in suspense and unearned income)}}$
Individual impairment to total loans & advances (%)	$\frac{\text{Individual impairment*100}}{\text{Gross portfolio*100}}$

RATIO	DEFINITION
Interest cover (Times)	$\frac{\text{Profit before interest and tax}}{\text{Interest cost}}$
Lending to loans & advances ratio (%)	$\frac{\text{Current year granting*100}}{\text{Gross loans & advances}}$
Market capitalization Rs.	Market price per share*Number of shares
Net assets per share (NAPS) Rs.	$\frac{\text{Total shareholders' equity}}{\text{Number of shares}}$
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) (%)	$\frac{\text{Profit before interest and tax*100}}{(\text{Borrowings}+\text{Deposits}+\text{Equity})}$
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 %	$(\text{Closing market price}-\text{Opening market price})+\text{DPS)*100}$ Opening market price



## 21st Annual General Meeting

### Agenda

#### Date

22nd May 2018

#### 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.	Twenty first Annual General Meeting call to order <i>Lighting of the oil lamp</i> <i>Religious observances</i> <i>Pledge of the Co-operative Movement</i> <i>Observing one-minute silence in memory of departed members of the Sanasa Movement.</i>
10.25 a.m. - 10.30 a.m.	Notice of Meeting - Company Secretary
10.30 a.m. - 10.45 a.m.	Confirmation of the minutes of Annual General Meeting held on 30th May 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

## Feedback Form

Dear Stakeholder,

We welcome your valuable comments, query and feedback on our commitment, performance and Annual Report - 2017. 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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Design & Lay Out	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall Impression	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comprehensive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Which section do you find most useful? .....

4. Which section do you find least useful? .....

5. What is the area that need 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 No. 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 1988 (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 1988 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 : +94 112 514 256

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 Pages 241 to 244

## Board of Directors and Board Sub- Committees

### Board of Directors

Ms. Samadanie Kiriwandeniya (Chairperson)

Mr. Lakshman Abeysekera (Senior Director)

Mr. H.M.G.B. Herath (Director)

Mr. Jayantha Kumara Newunhella (Director)

Prof. Sampath Amaratunge (Director)

Mr. M.K. Lalith Fernando (Director)

Mr. Prabhath Subasinghe (Director)

Mr. Navindra Liyanaarachchi (Director)

Mr. S. Lionel Thilakarathne (Director)

Mr. Arnoldus de Vette (Investor Director)

### Board Sub Committees

#### Board Audit Committee

Mr. Lakshman Abeysekera

(Chairman/Senior Director)

Mr. Jayantha Kumara Newunhella

Prof. Sampath Amaratunge

#### Board Human Resources & Remuneration Committee

Mr. Lakshman Abeysekera

(Chairman/Senior Director)

Ms. Samadanie Kiriwandeniya

Mr. Jayantha Kumara Newunhella

Prof. Sampath Amaratunge

#### Board Credit Committee

Mr. M.K. Lalith Fernando (Chairman)

Ms. Samadanie Kiriwandeniya

Mr. H.M.G.B. Herath

Mr. S. Lionel Thilakarathne

Mr. Arnoldus de Vette

#### Board Selection & Nomination Committee

Mr. Lakshman Abeysekera

(Chairman/Senior Director)

Ms. Samadanie Kiriwandeniya

Mr. Jayantha Kumara Newunhella

## Board Integrated Risk Management Committee

Mr. Jayantha Kumara Newunhella (Chairman)

Mr. Lakshman Abeysekera (Senior Director)

Prof. Sampath Amaratunge

Mr. Navindra Liyanaarachchi

## Board Related Party Transactions Review Committee

Mr. Jayantha Kumara Newunhella (Chairman)

Prof. Sampath Amaratunge

Mr. M.K. Lalith Fernando

## Board Strategic Planning & Business Development Committee

Ms. Samadanie Kiriwandeniya (Chairperson)

Mr. Lakshman Abeysekera (Senior Director)

Mr. M.K. Lalith Fernando

Mr. Prabhath Subasinghe

## Board Co-operative Development Committee

Mr. H.M.G.B. Herath (Chairman)

Mr. M.K. Lalith Fernando

Mr. S.Lionel Thilakarathne

Mr. Navindra Liyanaarachchi

## 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.

☎ 011-2832515

📠 011-2514247



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