Annual Report 2018

Every Enterprise Matters

Our passionate involvement with the micro SME and SME sectors means we are integrally involved with the support and proliferation of women's entrepreneurship, youth emancipation and development, sustainability related businesses, agri businesses and "green" projects, to name a few. Our engagement with these various stakeholders has and always will be, based upon a firm bedrock of ethics, transparency and inclusivity.

Truly, every enterprise matters to us.

SDB bank
Leads the Nation

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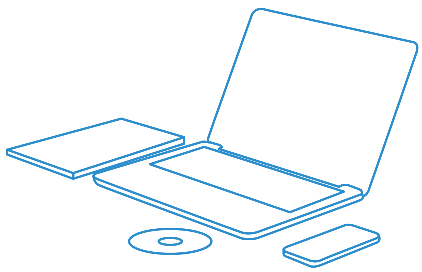
About this Report

This 5th Integrated Annual Report for the year to December 2018, is presented to inform our stakeholders, of our ability to create sustainable value over a period of time whether they be short, medium or long term. We disclose the strategy, business model, governance and risk management processes, financial performance, and the future outlook for SANASA Development Bank PLC ("SDB Bank" or "the Bank").

Comprehensive, yet concise

Our aim is to communicate the relevant information in a concise and effective way that will provide comprehensive disclosures in compliance with all related legislation and good practices.

Our Integrated Annual Report is available online at http://www.sdb.lk/annual-reports/ and in print, PDF and CD formats for our stakeholders and members of the public.



Reporting period and boundary

This Integrated Report covers the operations of SDB Bank over the 12-month period, 1 January to 31 December 2018. We have adopted an annual reporting cycle in respect of financial and sustainability reporting.

The most recent previous Annual Report covered the 12-month period ended 31 December 2017.

Our previous year Annual Reports are all available on our website, http://www.sdb.lk/annual-reports/ and reflect the journey our Bank has been on, to arrive at our current level of performance.

There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

Compliance

The Board of Directors of SDB Bank, in the spirit of good governance, accepts responsibility for the contents of this Annual Report 2018.

The Financial Statements for 2018 presented on pages 121 to 184, have been prepared in compliance with the Sri Lanka Financial Reporting Standards, the Banking Act No. 30 of 1988 and the requirements of the Companies Act No. 07 of 2007.

We have drawn on concepts, principles and guidance from the –

1. GRI Standards – "In accordance-core" option;
2. the International Integrated Reporting Framework and;
3. the Smart Integrated Reporting Methodology ™ in producing this Report.

Our sustainability reporting is also guided by the objectives and targets set out in "Sustainability Development Goals", several of which are relevant to the industry and our business.

Contact person for feedback and editorial information

We welcome your comments and suggestions, on this Annual Report, which you may address to –

Chief Financial Officer
SANASA Development Bank PLC
No.12, Edmonton Road, Kirulapone,
Colombo 6.

Tel: +94 11 283 2515
Fax: +94 11 251 4245
Email: terrance.k@sdb.lk
Website: www.sdb.lk

This is SDB Bank

Our Vision

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 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.

Our Goals

- Improve the asset base to stay competitive and resilient in the market.
- Transition from a largely microfinance focus to a broader SME corporate focus.
- Establish SDB Bank as the Bank of 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.
- Be the role model Bank for responsible finance in Sri Lanka.

Who we are

SANASA Development Bank PLC ("SDB Bank" or the "Bank") is a licensed specialised Bank registered by the Central Bank of Sri Lanka, under the Banking Act No. 30 of 1988 (as amended by the Banking Act of 1995).

The Bank's strength within the industry lies in its rural linkages, reinforced by an extensive network of co-operative societies and Government organisations. It has, since its inception, driven the participation and consequently, the socio-economic progress of grassroot level communities by making available its products to a section of society that is often unnoticed by the mainstream financial industry.

The Bank's customer base comprises the SME, retail, and co-operative society sectors. It offers a portfolio of numerous products that provide solutions in development and personal banking and leasing. At the same time, it encourages investment and savings opportunities through their deposit products.

A network of 94 branches supported by a workforce of 1,504 loyal and committed employees, represent the Bank throughout the country.

In 2017 an investment of USD 22 Mn. from SBI/FMO Emerging Asia Financial Sector Fund and International Finance Corporation in the equity of the Bank, resulted in the transfer of 21.8% ownership to the investors. Consequently, an organisational realignment took place with the support of International Finance Corporation to strengthen internal controls and processes and enhance its digital platforms.

Our Journey

The Bank which had total assets of just over LKR 100 Mn. in 1999 has progressed to administer assets valued at LKR 96 Bn. in 2018. The 10th branch of the Bank was opened in 1998 in Kandy. In the ensuing 21 years, the Bank has expanded its reach to its customers by nine-fold to 94 branches and now covers almost the entirety of the country geographically.

In the 21 years since incorporation in 1997, SDB Bank has not only shown financial resilience to withstand the economic and physical challenges that accompanied a 30-year civil war in the country, it has progressed to be the leading financial institution serving a part of society that would otherwise not have had the opportunity to further their aspirations and experience economic growth.

1985 to1990

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

1990 to 1997

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

1998

- *10th branch opened in Kandy*

1999

- *Record total assets of over LKR 100 Mn.*

2006

- *Proceeded with the 10 years development plan*

2007

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

2008

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

2009

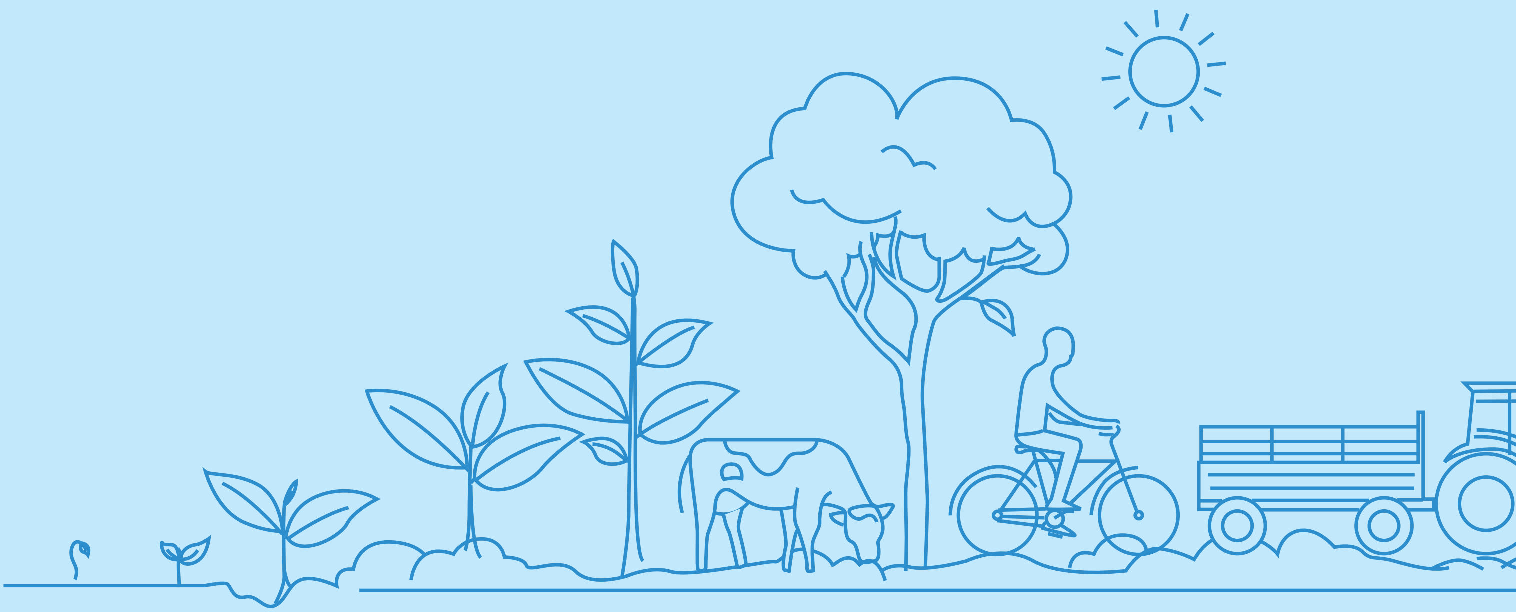
- *Introduced the SANASA Group loan scheme*
- *Increased share capital to LKR 1 Bn, from LKR 123 Mn.*
- *Expanded branch network to 50*

2010

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

2012

- *Introduced debit cards and ATM Facilities*
- *Listed on the Main Board of Colombo Stock Exchange*



2013

- *Increased total assets to LKR 25 Bn.*

2014

- *Increased staff to 1,000*
- *Oversubscribed 1st Right Issue of SANASA Development Bank PLC*
- *Issued share capital exceeds LKR 3 Bn.*

2015

- *LKR 60 Bn. Asset base*
- *LKR 4 Bn. Debenture and LKR 5 Bn. Capital base*

2016

- *LKR 66 Bn. Asset Base*
- *LKR 5.5 Bn. Capital Base*
- *Opened Tele Collection Unit in Malabe*
- *Unveiled New Logo of SANASA Development Bank PLC as "SDB Bank"*

2017

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

2018

- ***LKR 96 Bn. Asset base***
- ***The Bank was awarded the title of "The Fastest Growing MSME Bank in Sri Lanka" by the Global Banking and Finance Review, UK, at the Global Banking and Finance Awards 2018***

Our Excellence in 2018

2018 at a Glance

LKR 356.95 Mn. Profit for the year 2018

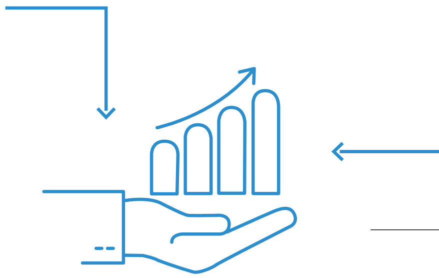
2017 – LKR 507.8 Mn.

LKR 4.7 Bn. Net interest income 2018

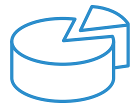
2017 – LKR 3.9 Bn.

LKR 67.5 Bn. Customer deposits 2018

2017 – LKR 59.9 Bn.



Financial Capital



LKR 96.8 Bn. Total assets 2018

2017 – LKR 82.4 Bn.

LKR 7.4 Bn. Capital base 2018

2017 – LKR 7.3 Bn.

Business Ethics and Integrity
- Governance Framework
- Compliance Policies
- Endorsement by International Investors

Systems, Processes and IT
- Loan Originating System
- Internet Banking
- Mobile Deposit Collection
- Information Dashboard

Corporate Culture and Values
- Values specified
- Included in Induction training
- Regular dissemination throughout Bank

Organisational Knowledge
- > 20 years of knowledge
- Close to SMEs
- Products suited to customers
- Basis of Strategic Plan

Fastest Growing MSME Bank Sri Lanka 2018

(Global Banking and Finance Awards 2018)

Institutional Capital

LKR 217 Bn. Investment in PP&E 2018

2017 – LKR 273 Mn.

LKR 105 Mn. Investment in IT 2018

2017 – LKR 129 Mn.

LKR 132.28 Net Asset Value per Share 2018

2017 – LKR 133.80

LKR 75.00 Market Value per Share 2018

2017 – LKR 101.90

Investor Capital

LKR 6.34 Earnings per Share (basic)

2017 – LKR 9.83

11.83 P/E Ratio (times) 2018

2017 – 10.32

3 New branch openings
2017 – 3

94 Total branch Network
2017 – 91

12 ATM Network
2017 – 11

Customer Capital

Co-operative sector deposit and loan schemes

Uththamavi Loans for women entrepreneurs

Product portfolio that caters to people of all ages and occupations

Purchasing from local suppliers

Business tie-ups with Browns and State Defense Ministry

Business Partner Capital

Online loan

E-Banking Security

Increasing customer convenience

254 New recruits (2018)
2017 – 198

200 Employees promoted (2018)
2017 – 135

Employee Capital

9.8 Mn. Investment in training (2018)
2017 – LKR 13.4 Mn.

48% Retention rate (2018)
2017 – 49%

32,000 Students-academic support for scholarship exam (2018)
2017 – 35,400

17% Increment of number of co-operative loans (2018)
2017 – 60%

LKR 8 Mn. Investment in CSR (2018)
2017 – LKR 17 Mn.

Social and Environmental Capital

LKR 21.9 Bn. Lending to SME sector (2018)
2017 – LKR 14.2 Bn.

75% Lending to outstation regions (2018)
2017 – 73%

Leadership

We have a structurally sound organisation that is backed by our SANASA societies that have been the bedrock of our operations. The Eco System of SANASA banking has provided SDB Bank a cost effective and efficient platform to engage and service a sector of the economy that otherwise would not have access to funds.

Dear Shareholders,

For SDB Bank 2018 can be identified as a year of challenges. Being a development bank that depends heavily on the interest margins for profitability, and with a customer concentration largely on small and medium scale income holders, our balance sheet strongly correlates with the performance of the real economy and the inflation of the country. Growing business against a very challenging market situation while engaging in responsible banking, supporting a sustainable development process in the country is a major challenge we faced in 2018. In addition to the country's economic conditions, the introduction of the new Income Tax Act, the changes introduced to the accounting standards, and the full implementation of the BASEL III, have all had their impact on our operations, in varying degrees reducing the profit. The details of these challenges and the subsequent impact of these has been dealt with by our CEO in more detail.

I am happy to report that despite the challenges, the fundamentals of the Bank continue to be strong, with solid growth of the assets under management.

Sri Lankan banks have been mandated by the Central Bank of Sri Lanka (CBSL) under Basel III guidelines, to adhere to new minimum capital requirements by June 2019. Any bank that does not comply with these requirements is directed to withhold profit distribution to its shareholders. We are happy to report that the Bank was able to raise LKR 1.4 Bn. capital from two international investment agencies which enabled us to fulfil part of this capital requirement without troubling the existing shareholders. In order to meet the full capital requirement, as directed by the CBSL, SDB Bank has also made arrangements to raise capital further through alternative sources (subordinate debt arrangement) by May 2019. With this arrangement we can maintain both the economic and ownership rights of the existing shareholders unaffected, while complying with minimum capital standards set by CBSL. These measures will enable us to continue providing benefits to shareholders as we did in the past and ensure the resilience and continuity of the Bank to engage in its core development mission comfortably. Therefore, I earnestly request from all shareholders to be with the Bank and support the Management at this crucial juncture to make SDB Bank future proof and resilient.

As you already know the Bank underwent a massive re-engineering process, from operational systems, platforms, and technology to management processes. We have a structurally sound organisation that is backed by our SANASA societies that have been the bedrock of our operations. The Eco System of SANASA banking has provided SDB Bank a cost effective and efficient platform to engage and service a sector of the economy that otherwise would not have access to funds.

We are happy to let you know that we are now ready to face the technology disruptions and also to confidently engage with the larger co-operative movement with correct products and processes to develop the local economy and the wealth creation of small and medium sector entreprises.

Managing risk is fundamental to the operations of our Bank and we have taken steps to strengthen our risk management processes which have been overhauled and reorganised, to provide higher levels of comfort to our shareholders, in the integrity of our operations. The digitalisation of our processes has been instrumental in streamlining and speeding up our processes. At the same time, it has given us the opportunity to introduce and instil controls in procedures that have contributed to increased vigilance on our exposure to risk.

While governance framework of the banking sector has become more stringent, we are happy to inform all shareholders that our Bank's Board of Directors consist of a diverse set of skills stemming from the vast experience they have gathered in the fields of management, banking, business, accounting, human resource management, gender mainstreaming and co-operative enterprise development. The contribution and expertise they bring to the subcommittees and the board meetings, provide clarity and direction to Management and enhance the fundamentals of governance.

I believe we have consolidated our financial position to an extent that gives assurance to our shareholders and to the market in general of our ability to provide the services we have been set up to deliver. I also assure you that we have all foundations, systems and human resources ready in the Bank to make a quantum leap.

A special mention must be made of the dedication and efforts of Mr Nimal Hapuarachchi, who retired after serving five years as the GM/CEO, for his leadership to complete the operational transformation of the Bank successfully, and Mr Kumar Mayadunne the former Chief Operating Officer who was able to provide leadership to smoothly manage the operational and HR changes. I like to also thank the staff of SDB Bank for their engagement and contribution.

I take this opportunity to thank the Board of Directors for their unstinting commitment to the well-being of the Bank and for their custodial role of the assets of the Bank. Their efforts have provided assurance to our shareholders in the responsible management of their capital.

Special thanks are also extended to all our business partners and customers who are integral to the functioning of the Bank. As the Chairperson of a bank created by the people for the people, I believe that it is only by making the average customer strong and resilient we can and we should grow as a bank. We look forward to working with you in a closer manner with better products to create value.

I am deeply grateful for the leader of SANASA movement Dr Kiriwandeniya and all the Co-operative leaders affiliated to the Federation of Thrift and credit Co-operative Societies Ltd. who created this Bank with a mission and a development purpose that is more relevant to current social economic situation of Sri Lanka than when it was created. The vision and the strategic goals of our Bank give us the road map for our development banking and the role a bank like SDB Bank can and should do to improve the real economy. I encourage all our stakeholders to actively engage with us with their ideas, funds and support in 2019.

We look forward with confidence to the year ahead.

Samadanie Kiriwandeniya
Chairperson
8 March 2019

Chief Executive Officer's Review

We have a solid capital management plan which encompasses capital adequacy to meet regulatory requirements and a balanced dividend policy that will promote reinvestment in development of new products and services.

SANASA Development Bank PLC showed resilience and strength in its operations as it circumvented the challenges that arose during the year to record a relatively strong performance.

The new Accounting Standard which required an augmented provision in respect of impairment had an effect on the profit for the year. However, income increased and the profit for the year improved, prior to the increased provision required. This demonstrated that the basics of the business remained sound and positioned the Bank well to expect an increasingly profitable future.

Operating results

The operating results achieved by the Bank showed solidity in its fundamentals. We were able to increase our net interest income by 21% over the previous year and was within 91% of the budgeted levels. We were also able to maintain our net interest income margin of 36% in the current year. This was no mean feat given the rising cost of funds and the uncertain market conditions. The Bank's net operating Income grew by 13.5%. However, the profit for the year reduced significantly due to the increase in the provision for impairment, made in compliance with the requirements of the Accounting Standard, SLFRS 9. SDB Bank also increased its contribution to the national economy by 23% through higher amounts of taxes paid during the year.

Our loans and advances grew by 16% and deposits increased by 13%, while our total assets were also augmented by 18%. Capital adequacy ratios for both Tier 1 capital and total capital were maintained well above the regulatory minimum threshold.

Implementation of BASEL III is already underway and its provisions will be fully applicable from 2019. As at December 2018, we have satisfied all its requirements comfortably. We are confident that we will continue to comply with the regulations in the years ahead.

While the decrease in profit for the year could be considered a glitch in the operating performance, we can look forward to 2019 as we have laid the foundation for growth and sustainability this year.

As mentioned previously, we have increased our tax payments during the year in keeping with the provisions of the new Income Tax Act that came into effect in 2017. It is possible that the Government may introduce new impositions on banks and we are in a good position to be ready to meet those obligations.

Refocussing on our roots

We started the year with a Bank having a substantial retail portfolio. During the year, as part of the transformation process, we have gone back to our roots in being a development bank rather than a mainstream retail bank. Our strength lies in our ability to interact with the rural sector and promote and nurture those small businesses, including those in the micro finance sector. Our eco system of banking gives us access to over 3,000 active SANASA societies and in turn, to over a million households.

IFC and its transformation activity

We have been in partnership with International Finance Corporation (IFC) to assist us with our business model, front and back office operations, and our risk and governance frameworks. They have applied their expertise in these areas and optimised our operating processes. Primary among the changes introduced was the centralisation of our credit evaluation process. Combined with the digitalisation of the loan originating system, we are now able to speed up the process of making decisions on loan applications while controlling the credit risk.

Managing risk is central to the successful operation of the Bank's business. IFC has reviewed the process of risk management, reorganised the management of credit and market risk and undertaken training of staff. They have introduced an operational risk management framework, risk and control self-assessment models and key risk indicators to measure the risk of each major department and mapped the risks associated with business processes.

In addition, corporate governance procedures were evaluated and the recommended best practices in this aspect are being implemented. They are also training the Company Secretary and other key personnel in this regard.

Digital landscape

We are enhancing our digital platforms and growing the technological side of our business. Our mobile daily deposit collection process was implemented. With mobile phone coverage of 134% (28.3 million connections) in Sri Lanka, it is extremely important that SANASA products can be accessed and transactions conducted, electronically.

Staff development

The transformation agenda spreads its effects across the Organisation. It requires the involvement and commitment of each staff member to give effect to the benefits that it will bring to the operations of the Bank. All staff have and are being trained in the various aspects of operation and the champions who were selected to drive these changes are continuing to perform admirably. A performance management system which has been linked to incentive schemes for individuals, has been a vital component in winning the support of employees and in retaining key high performing personnel.

The signing of the collective agreement with the unions has contributed to an improvement in employee relations and consequently the Bank did not experience any major disruptions to our operations during the year. The Bank has also conducted reviews of jobs which have helped in streamlining operations, embedding a sales culture and increasing productivity.

Future outlook

The engagement of our employees in transforming the Bank, the strengthening of our risk management and governance processes, the optimisation of operating processes and increased digitalisation of the Bank's activities to cater to the technologically evolving population, augurs well for the Bank's future.

Going back to our grassroots brings a focus to our activities in our area of strength and paves the way for more interaction with the growing economic sector of the country. It is exciting that we are in a position to influence the growth of this sector and make available the financial resources that can engender not only growth but also increased exposure to technological advances among the rural population and contribute to their economic advancement and improving lifestyles.

We are intending to launch two new digital products, bring more of our customers into automated and digital banking with mobile apps and real time on-line transaction facilities.

We have a solid capital management plan which encompasses capital adequacy to meet regulatory requirements and a balanced dividend policy that will promote reinvestment in development of new products and services.

SDB Bank is committed to supporting the government in its efforts to widen the impact of economic progress among the population through a focus on promoting self-reliance rather than individuals seeking Government jobs to eke out a living.

2018 brought many challenges and we have been able to meet them and continue to be a stable banking operation.

As SANASA Development Bank PLC continues implementing its transformation agenda, its relevance to customers is becoming more and more apparent. Our move as a Bank to concentrate on the development sector gives us a significant opportunity to enhance the results of the Bank and provide a more than satisfactory return to our shareholders.

Acknowledgements

I wish to thank, former CEO, Mr Nimal C Hapuarachchi for his valuable contribution and the management team, all employees for their support and commitment to travelling this journey together, towards repositioning, and improving our performance in this competitive banking industry. Your contribution to every positive move we have made, has been vital to our success. It is appreciated.

I extend my appreciation and thanks to officials of all the regulatory bodies who have and continue to provide guidance to us on regulatory matters.

The patronage of the SANASA Societies who have supported this Bank since its inception is highly regarded and we thank them for their continued association.

The Chairperson and the Board of Directors have provided guidance through their collective wisdom, in moving this Bank forward. Their support, to me and my team has been invaluable in implementing the policies and procedures and the improvements we have been able to achieve. My sincere thanks go to them.

We look forward to the year ahead where we can leverage our strengths and propel the Bank forward to greater heights and notable achievements.

Thilak Piyadigama
Chief Executive Officer
8 March 2019

Board of Directors

Mr Prasanna Premaratna
Director –
Non-Executive/Independent

Mr K G Wijerathne
Director –
Non-Executive/Non-Independent

Mr Arnoldus de Vette
Director –
Non-Executive/Non-Independent

Mr Lakshman Abeysekera
Senior Director –
Non-Executive/Independent

Ms Samadanie Kiriwandeniya
Chairperson –
Non-Executive/Non-Independent

Prof Sampath Amaratunge
Director –
Non-Executive/Independent

Mr Prabhash Subasinghe
Director –
Non-Executive/Non-Independent

Mr S Lionel Thilakarathne
Director –
Non-Executive/Non-Independent

Mr Chaaminda Kumarasiri
Director –
Non-Executive/Independent

Ms Samadanie Kiriwandeniya
Chairperson – Non-Executive, Non-Independent Director
Appointed as Chairperson 2011

Details on important previous positions held
Senior Manager, Deputy General Manager (International Relations – SDB Bank), National Coordinator – Post-Tsunami Programme.

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

Qualifications
(Skills and experience)
Extensive Senior Management experience in the fields of Participatory Development, Gender Issues Management, Microfinance and Conflict Resolution. She is also the Corporate Leader of SANASA Group. She holds her Bachelor's Degree of the University of Peradeniya in Sociology and Master's Degree in the same field from University of Saskatchewan, Canada.

Mr Lakshman Abeysekera
Senior Director – Non-Executive, Independent Director
Appointed to the Board 2013

Details on important previous positions held
Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Accountant at Hoechst (Ceylon) Limited, Senior Accountant at Lankem Ceylon PLC.

Current appointments
Independent, Non-Executive Director of People's Insurance PLC, Director of JanRich Foods Ltd., NovEx Pharmaceuticals Limited, Member of the Governing Council-AAT Sri Lanka.

Qualifications
(Skills and experience)
A professional with over 27 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 Postgraduate Institute of Management, University of Sri Jayewardenepura.

Prof Sampath Amaratunge
Non-Executive, Independent Director
Appointed to the Board 2016

Details on important previous positions held
Member of University Grants Commission, Chairman of the Federation of University Teachers Association (FUTA).

Current appointments
Vice-Chancellor of the University of Sri Jayewardenepura, Independent Director of Citizens Development Bank, Independent Director of The Kingdom of Raigam, Independent Director of Laugfs Gas PLC.

Qualifications
(Skills and experience)
He counts over 28 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 BA (Hons) in Economics from the University of Sri Jayewardenepura and MA in Economics from the University of Colombo. He also holds a MSc in Economics of Rural Development from the Saga National University and a PhD from Kogoshima National University in Japan. He 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. Prof Amaratunge is considered as an expert in the field of Economics with special reference to Rural Development.

Mr Prabhash Subasinghe
Non-Executive, Non-Independent Director
Appointed to the Board 2017

Details on important previous positions held
President of the Seafood Exporters Association

Current appointments
Managing Director of Global Rubber Industries (Pvt) Ltd., which sells its products in over 50 countries, Managing Director of Global Sea Foods (Pvt) Ltd – a supplier of high quality sea food, Director of Global Fisheries (Pvt) Ltd, Director of Ayenka Holdings (Pvt) Ltd., The Chairman of Sri Lanka Association of Manufacturers and Exporters of Rubber Products, Board Member of Sri Lanka Society of Rubber Industry, A Key Advisor for the National Export Strategy, Board Member of the Export Development Board.

Qualifications
(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 Center of Creative Leadership – Colorado USA.

Mr S Lionel Thilakarathne
Non-Executive, Non-Independent Director
Appointed to the Board 2017

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

Qualifications
(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 development a training curriculum for TOT Training on establishing Community Governance and has conducted numerous training programmes. He has published three books on Participatory Governance. Mr Lionel Thilakarathne holds a Diploma in Management from the Open University of Sri Lanka.

Mr Arnoldus de Vette
Non-Independent, Non-Executive Director
Appointed to the Board 2017

Details on important previous positions held
Senior Investment Officer at Triodos Investment Management, Trainer and VP of ABN Amro Bank Academy, Executive Vice President SBI – FMO Finance Sector Fund in Singapore, Senior Investment Officer at Dutch Development Bank FMO.

Current appointments
Senior Investment Officer at FMO in Singapore

Qualifications
(Skills and experience)
He holds over 26 year experience in Banking and Finance including international experience in responsible financing, with expertise in training and knowledge transfer. Mr Arnoldus de Vette holds a Master's 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, Assets 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.

Mr K G Wijerathne
Non-Independent, Non-Executive Director
Appointed to the Board 2018

Details on important previous positions held
General Manager at Matale Sanasa DTCCS, Director of SANASA Insurance Company Limited.

Current appointments
Executive Director Sanasa Federation Ltd. (the apex organisation of Sanasa movement in Sri Lanka), Director of SANASA Travels (Pvt) Ltd. Chairman of Pahalawewa – Sanasa Society, Director of Matale District Union, Director Matale District Co-operative Council.

Qualifications
(Skills and experience)
He has a wide range of experience in working with grass root level communities particularly working with the Sanasa Movement. He is an Attorney-at-Law with over 20 years of experience. He possesses LLB Degree and Higher National Diploma in Management from Open University of Sri Lanka. He followed a Diploma Course in Co-operative Management at International Co-operative Institute – Moscow, Insurance Management and Administration Course at CUNA – USA and Credit Unions Leadership Training Course at ACCU – Thailand.

Mr Chaaminda Kumarasiri
Non-Executive, Independent Director
Appointed to the Board 2018

Details on important previous positions held
Financial Controller at Bank of Ceylon, Chief Financial Officer at The Lanka Hospitals Corporation PLC, Assistant Vice President at HSBC Securities Services, Senior Manager – Assurance and Advisory Business Services at Ernst & Young including a secondment to the Financial Services Area office of Ernst & Young LLP, New York.

Current appointments
Chairman/Principal Consultant H C P Consulting (Pvt) Ltd. The Founder/CEO of the Human Capital Partner.

Qualifications
(Skills and experience)
Good Governance Advocate, Thought Leader, Chartered Accountant, Corporate Trainer, Leadership Coach and a Management Consultant with many years of experience, holding senior leadership positions in leading local as well as multinational organisations.

He is also a regular writer on Financial Literacy, Strategic Management and Leadership for print media and a sought after resource person for organisational transformation projects and capacity building initiatives. He counts over 20 years of lecturing and corporate training experience especially on Strategic Planning, Leadership Development, Organisational Transformation, Change Management and Financial Intelligence for Business Managers, and Emotional well-being through Mindfulness.

He is a Fellow Member of CA Sri Lanka, ACCA – UK, AAT and an Associate Member of CMA. He holds a BSc Accountancy (Special) Degree from the University of Sri Jayewardenepura with a First Class and has completed his MBA in Finance at the University of Colombo.

He also serves as a Member of the Governing Council of CA Sri Lanka; the national body of accountants.

Mr Prasanna Premaratna
Non-Executive, Independent Director
Appointed to the Board 2018

Details on important previous positions held
Chairman of Regional Development Bank, Chief Executive Officer of DFCC Consulting Private Limited (a fully owned subsidiary of DFCC Bank), Vice President of DFCC Bank, Pioneer member of the Management Team of Pelwatte Sugar Industries before moving into the Banking sector.

Current appointments
Board Member of the South Asia Partnership of Sri Lanka (SAPSRI).

Qualifications
(Skills and experience)
He counts over 30 years of private sector and public sector experience as an Agriculturist and as a Development Banker specially involved in the Small and Medium Enterprise sector development. As a Development Banker, he was mainly involved in developing the SME sector and assisting many start-up projects. Since February 2015 until April 2018, he held the position of Chairman, Regional Development Bank. He holds a Master's Degree in Agriculture from the USSR, Postgraduate Diploma in Bank Management from the Institute of Bankers of Sri Lanka and Postgraduate Executive Diploma in International Relations from the Bandaranaike Centre for International Studies (BCIS) Colombo. He has participated in many local and overseas programmes in Development Banking and agriculture related banking programmes in Europe, South East Asia and in Japan. He is a Member of the Association of Professional Bankers – Sri Lanka (APB).

Corporate Management

Mr Thilak Piyadigama
Chief Executive Officer
MBA

Mr S A Samarakoon
Chief Information Officer
MBA (Colombo), BSc Eng (Comp. Sc. and Eng) (Moratuwa), C Eng., MIEEE

Mr A M Chandrasagara
Chief Internal Auditor
FCA, FIB, Dip. in Info. Sys. Cont. and Audit

Mr H C Lokugeegana
Chief Risk Officer
MBA, B.B. Mgt. (HR) Sp., FIB, Dbirm (IBSL), AMIPM, MAAT, ACC Dir.SL

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

Mr Terrance Kumara
Chief Financial Officer
MBA (USQ), FCA, MAAT

Mrs Tamarika Rodrigo
Assistant General Manager/Company Secretary
Attorney-at-Law, Notary Public, ACC Dir.SL

Mr Sameera D Liyanage
AGM – Marketing and Retail Banking
MCIM (UK), MSLIM, PG Dip. in Marketing (CIM), Chartered Marketer

Senior Management

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

Mr K A I D Dayananda
Deputy Chief Internal Auditor
ACCA (UK), FABE (UK), MBA-Banking Mgt. (Sikkim Manipal India)

Mrs P Krishani Enoka
Head of Treasury
MBA (UK) Merit, BSc (Phy. Science) Hons, AIB, Dip. in Treasury Investment and Risk Mgt., Certificate in Treasury and Foreign Currency Operations

Mrs M H Attanayake
Head of Credit
BSc Agri. (Hons), MSc Agri

Ms K K C J Dassanayake
Chief Manager – Southern Region
BSc Agri., MSc (Hons), AIB

Mrs M M Y L Muththunga
Head of Systems and Operations
BSc Hons.

Mrs Kokila Perera
Deputy Head of Finance
ACA, ACMA (SL), Bachelor of Business Administration (Special) (Uni. of Colombo)

Mr K K S U Kumara
Head of Administration
BSc (Mgt.)

Mr W T R Prabath
Chief Manager – Human Resources Management
MBA (Honalulu), BSc. (Physics – Special) Hons, Higher Dip. in Advanced Finacial Mgt, Dip. in Business Mgt., Dip. in Financial Mgt, AUKAP (UK)

Mr E A L S Edirisuriya
Chief Manager – Western Region 1
Dip. in Finance and Bank Mgt., Investment Advisor Certified by CSE.

Mr J P Dinil Perera
Head of IT
Project Management Professional (PMI), Certified Information Systems Auditor (ISACA), Intermediate Banking Diploma (IBSL)

Mr P D Dhammika
Head of Co-operative Development
BSc Management (Public) (Special), DABF (IBSL), Dip. in Microfinance (IBSL), Dip. in SME Finance (IBSL), MCPM

Mr W D Premachandra
Head of SME
MBA (USJP), BCom (USJP)

Not in picture

Mr P G Sunil
Chief Manager – North Western Region
BSc Business Administration (Sp)

Mr P W K J R Chandrasiri
Chief Manager – Sabaragamuwa Region
BSc (Mgt. and Administration – Special) (USJP)

Mr G A S Wimalarathne
Chief Manager – North Central Region
BA (Hons) Business Statistics, Postgraduate Dip. – Business Statistics

Mr B W S Premarathne
Chief Manager – Central Region
MBA (UK), BCom (Special), MCIM (UK), MSLIM, MAAT, HNDA, Chartered Marketer

Mrs S N T Igalagamage
Compliance Officer
BSc (Agri – Special) Hons., Dip. in HRM, MIMSL

Mr R S A M B Y Rajakaruna
Senior Manager – Human Resource Development
BA, PGCC (India) , Dip. in Psy, ACGC, National Dip. in T&D (SLITAD)

Mr W H M U B Welikumbura
Senior Manager – Retail Liabilities and Fee-based Services
MBA (Pera), PGDM, MSLIM, BMS, Associate APB

Mr D H Gamage
Senior Manager – Matara Branch
Intermediate Banking Diploma (IBSL), Advanced National Diploma in HRM

Mr K B S Kumara
Senior Manager – Credit Assessment
BA (Special), Diploma in Microfinance (IBSL)

Mr B A I Wickramarathne
Senior Manager – Inspection and Audit
MSc App Fin (USJP), BSc Applied Accounting (Oxford Brookes), AIB (IBSL)

Mr U K B Aravinda
Senior Manager – Business Planning and MIS
BSc Business Administration (USJP), CBA (CA Sri Lanka)

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

Ms P R Perinpanayagam
Senior Manager – Integrated Risk Management
FCCA (UK), BSc Hons Applied Accounting (UK), CFA Level 3 completed

Mr P Senadeera
Senior Manager – Kiribathgoda Branch
PG Dip. in Economic Development (Colombo), AIB, DBF (IBSL), Diploma in Finance and Bank Management (IBSL), Intermediate Banking Diploma (IBSL), Diploma in SME Finance (IBSL), MAAT, ATII (SL)

Mrs N N Edirisinghe
Head of Credit Administration
BSc (Colombo), Intermediate Banking Diploma (IBSL), Certificate in Hire Purchase and Lease Financing (IBSL), ACS

Mr W V P A Samantha
Divisional Head – Leasing Assessment
BCom (Special), AIB, DBF (IBSL), MSc App Fin (USJP)

Mr W D S D Mahathanthila
Senior Manager – Finance
PG. Dip. in Business and Financial Administration (CA Sri Lanka), BSc Applied Sciences (Rajarata)

Mr P K A D S Perera
Senior Manager – Co-operative Credit Assessment
AIB, BCom (USJP), DBF (IBSL)

Not in picture

Mrs K V R Jeewanthi
Senior Manager – Research and Refinance
BSc Business Administration (Special) (SJP), PGD in Community Development (Colombo), Intermediate Banking Diploma (IBSL), Microfinance Facilitator (CGAP)

Mr A M Nimal Chandra
Senior Manager – Western Region II
BA

Mr R A C N Rathnayake
Senior Manager – Matale Branch
BSc Accountancy and Finance (SP.) Hons and Registered Trainer and Consultant (Ministry of Public Management Reforms)

Mr V K L Sugumar
Senior Manager – Northern Region
BCom, AIB (SL)

Mr M J H Perera
Senior Manager – Rikillagaskada Branch
BSc Business Administration (Sp)

Mr K B Rathnayake
Senior Manager – Uva Region
BA (General), MA

Mr A S Perera
Senior Manager – Bandarawela Branch
BA, Intermediate Banking Diploma (IBSL), National Certificate in Technology (Civil Engineering)

Mr K H P P K Gnanasiri
Senior Manager – Ampara Branch
BA (Special)

Our
Business Model

Operating Environment

It was a year when the jobless rate in the US hit a 49 year low of 3.7%, sparking fears of continuing interest rate rises to dampen the hot labour market and the likelihood of wages growth.

It wasn't just the US job market that got hotter in 2018, temperatures were on the up as well. An analysis of past temperature records revealed that June, July and August recorded readings in 2017 that were dramatically higher when compared with 1970. Climate change has been a burning issue that is not likely to go away for a long time yet.

Global carbon emissions soared to record highs in 2018 and this was attributed to more cars being used and an increase in the use of coal. The biggest offenders were China, the US, India, Russia, Japan, Germany, Iran, Saudi Arabia, South Korea, and Canada. The EU as a whole region of countries ranked third. On the brighter side, China is the fastest adopter of electric vehicles (EVs) worldwide, and its demand is forecast to keep growing. In China, EVs will account for 19% of all passenger vehicle sales, compared to 14% in Europe and 11% in the US, according to Bloomberg's Electric Vehicles Outlook 2018.

Bitcoin plummeted in value amid concern that regulators could crack down on cryptocurrencies and consequently, institutional investment failed to materialise. Prices have dropped more than 80% from the previous year's record high.

Meanwhile, Brexit continues to fuel uncertainty in Britain's financial markets. With Britain's parliamentarians unable to reach a consensus, the volatility of the British Pound is likely to endure.

Amidst plenty of gloom around economics and climate change, it was found that the average level of global peacefulness declined, according to the 2018 Global Peace Index, with 92 countries deteriorating and only 71 improving. According to the UNHCR, there are now almost 70 million forcibly displaced people worldwide, around 1% of the world's population, the highest number in modern history.

Business and commercial transactions, particularly in the banking sector however, continue unabated as online activity flourishes. The following chart captured the numbers of transactions that took place in a 60 second period in 2018 on the internet, through the multitude of apps and online facilities that are available for use and permeates most of the public's activities in the current day. With USD 862 K spent online every minute and all of the other activity that is commercially oriented, it focuses the mind in an institution like SDB Bank, on the potential for participation and growth.

Meanwhile in Sri Lanka, the year marked the 70th anniversary of independence from colonial rule. The Local Government elections were conducted in February while floods in May resulted in social and economic turmoil. These events, among many others however, were overtaken by the constitutional crisis of October. The uncertainty surrounding the political situation and the resultant inactivity of the Government sector, had significant adverse effects on the business community and incurred severe losses to the economy.

The economy was forecast to grow by 3.8% in 2018. Inflation was around 4.5% while per-capita GDP growth for Sri Lanka was expected at 3.2%. This placed the country at 2nd from the bottom of South Asian countries, showing a growth rate just above that of Afghanistan which recorded their growth at 2.8%.

Fitch Ratings was quoted in August 2018, that they were maintaining a negative outlook on the banking sector as operating conditions remained challenging. However, their research also showed that the performance of the banks remained fairly stable and that their credit profiles were likely to remain broadly intact.

Sri Lankan banks had raised Tier 1 capital of LKR 66 Bn. and Tier 2 capital of LKR 45 Bn. since 2017, ahead of the full implementation of Basel III in 2019. Higher credit costs were expected to affect the profitability of the banks, although their fundamental strengths were likely to be able to withstand these imposts.

The large state commercial banks were expected to seek further capital as they are vulnerable to dividend demands from the State. Slow economic growth and pressure on disposable income have led to an increase in NPLs. The Gross NPL ratio for the sector increased by 3% in 2018, from 2.5% at the end of 2017.

The focus of the Central Bank of Sri Lanka on managing inflation and risks from fiscal slippage was likely to contain credit expansion. Deposits are expected to continue to be the main source of finance for Sri Lankan banks as they strive to increase their CASA ratio and thus manage the cost of capital.

The rate hikes already instituted by the Federal Reserve of the USA and the probability of more increases in the short-term sets the stage for continued strengthening of the US Dollar. Consequently, funds outflow from the domestic financial market will increase pressure on the exchange rate and foreign exchange reserves. The result could well be further depreciation of the currency in 2019.

All of the above will present many challenges to the banking industry and similarly to SDB Bank. The winners will be those institutions that respond creatively but responsibly to the difficult conditions.

SDB Bank's involvement with the micro SME and SME sectors positions the Bank to function within a niche that is more locally based than others in the banking industry in the country. While the prevailing credit pressures and economic challenges amongst their clientele remain relevant, their mode of operation revolves around the fundamentals of ethics, transparency, and inclusivity which will guide their decision-making process and thus ensure the Bank continues to function sustainably.

Strategic Direction

Strategic direction, being one of the most important forces in a business, establishes the structure for internal responsibilities. It allows a common purpose towards which all employees drive their activities and produce the results the Bank is looking for.

A transformation agenda was set by SDB Bank and several strategies were set in motion in 2018. The key strategies identified are:

- Rebalancing the Bank's advances portfolio with an emphasis on growing the participation of the SME and co-operative sectors while reducing its exposure to the retail segment.
- Guiding the Bank back to its founding purpose by focusing and strengthening its activities in development financing.
- Equipping the employees with skills required to propel the Bank's transformation agenda.
- Improving process efficiencies by centralising all credit approvals and introducing a Loan Originating System to improve loan turnaround times and ensure the consistent application of the Bank's credit policy.
- Strengthening SDB Bank's digital proposition with the development of the mobile banking application.
- Embedding sustainability considerations into its lending proposition.
- Developing a non-financial strategy aimed at enhancing financial literacy, customer education, and the empowerment of women.

SDB Bank's contribution to sustainable development

As the primary development bank with a strong rural presence in Sri Lanka, SDB Bank's strategic direction and core operations are geared towards the socio-economic progress of the communities it operates in. The Bank's unique status places it in a prime position to contribute to the UN Sustainable Development Goals (SDGs) agreed to by global leaders in September 2015. The 17 SDGs are geared towards mobilising efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind.

SDB Bank is at the forefront in its efforts to make its contribution to achieving these goals.

SDG 1 – end poverty

The Bank's transformation agenda is clearly directed at focussing on the SME, micro-enterprises and the co-operative sector which affect grassroot level communities. This is a segment of society that have hitherto not had sufficient access to the formal financial system. SDB Bank's lending has paved the way for these individuals and families to start-up businesses, generate employment, and alleviate poverty to some extent. The Bank disbursed LKR 21,929 Mn. to SMEs and micro-enterprises across the island in 2018.

SDG 4 – education

The Bank's CSR initiative, SDB *Lakdaru* Scholarship Seminars, is an ongoing project aimed at providing access to academic support for children attempting scholarship examinations. 43 programmes were carried out in Sinhala and Tamil throughout the country with the participation of 32,000 students.

SDG 5 – gender equality and women empowerment

The empowerment of women is a key aspect of the transformation agenda of the Bank. "SDB *Uththamavi*" is a product designed to provide investment and lending opportunities at attractive rates, for women entrepreneurs. The Bank disbursed LKR 20,239 Mn. in support of entrepreneurial activities spearheaded by females. The Bank is an equal opportunity employer with females comprising 48% of the total permanent workforce.

SDG 8 – economic growth

The Bank's approach to economic growth is closely aligned with meeting the first goal of alleviating poverty. The two are inexorably linked given SDB Bank's close association with the rural sector and their activities in investment and lending in the micro-economic segment of the market.

SDG 10 – reduced inequality

A substantial portion of the Bank's lending is channelled to co-operative societies whose role is primarily with the country's grassroot communities. SDB Bank is also an active participant in distributing Government funds, at concessionary rates, for rural development and poverty alleviation. In 2018, LKR 840 Mn. was disbursed by the Bank in this regard.

SDG 12 – sustainable consumption and production

The Bank has committed itself to consumption practices that are weighted towards Reducing, Recycling, and Reusing resources. Through this process the Bank has reduced the use of paper, fuel, energy, and electronic waste.

SDG 17 – partnerships

The Bank has partnered with numerous Government agencies, such as the National Enterprise Development Authority, Small Enterprises Development Division, Southern Development Authority and Divisional Secretariats, to access those communities who are most under-served in terms of resources. SDB Bank has through these partnerships, been able to promote socio-economic progress in these communities.

The combination of the imperatives placed before the Bank, through its transformation agenda and its commitment to the SDGs, is helping to propel the Bank's activities in a way that will enable it to reach a higher and more profitable level of operation, while lessening its environmental footprint and promoting its growth as a responsible corporate citizen.

Strengthening Our Bank

Achieving Our Financial Goals

SANASA Development Bank PLC experienced, what could best be described as a subdued financial performance in 2018. This was mainly due to the increased "provision for impairment" of loans and advances that all banks were required to make, to comply with Accounting Standard SLFRS 9.

The summary comparative results for the 2 years 2018 and 2017 are shown below:

	2018 (LKR Bn.)	2017 (LKR Bn.)
Net interest income	**4.693**	3.887
Net fee and commission income	**0.222**	0.275
Total operating income	**5.216**	4.425
Impairment for loans and other losses	**0.526**	0.293
Net operating income	**4.690**	4.132
Profit before taxes	**1.113**	1.102
Taxes (VAT, NBT, Debt repayment levy, Inc. tax)	**0.756**	0.594
Profit after taxes	**0.357**	0.508

Net interest income increased year on year by 21% with interest expense maintaining their cost at 64% of income. This was a positive result since the credit market did not offer cheap money during the year.

Highlights

Total asset base – LKR 96.818 Bn.	Growth of asset base – 17.5%
Deposits – LKR 67.475 Bn.	Deposits growth – 12.6%
Loans and advances – LKR 77.507 Bn.	Growth in loans and advances – 16.2%
Total equity – LKR 7.448 Bn.	Market capitalisation – LKR 4.22 Bn.

Transformation and their financial impact

The transformation of SDB Bank began in 2014 as the Bank planned to increase their Equity to LKR 5 Bn. by the end of 2015 and the asset base to LKR 100 Bn. by end December 2018. The equity is now at over LKR 7 Bn. and the Asset base was LKR 97 Bn. at 31 December 2018.

The next milestone was to convert the focus of the Bank from the micro sector to the SME sector. The Organisation was re-structured with an emphasis on 3 main pillars – SME, Retail and Co-operatives. Business generated from the 3 pillars has now moved from a prior concentration to 28%, 66% and 6% respectively.

In addition, as part of the transformation process, the credit approval structure was revamped and centralised, a tele-collection centre was established to manage the recovery process, the credit administration function was de-centralised to 4 different locations, Treasury and Risk Management were revamped and good practices with sufficient internal controls were introduced.

The loan approval process was automated from the previous manual system. The efficiency levels have increased and processing time has been reduced, resulting in achieving the desired volumes of business.

Internet and mobile banking are expected to be launched in 2019.

Meanwhile, 64% of all loans are now subject to floating interest rates.

When it comes to lending the Bank follows International Corporate Social Responsibility (ICSR) principles, which covers environmental, social and governance aspects.

Financial performance

The key financial performance indicators relevant to the Bank's activities are shown below:

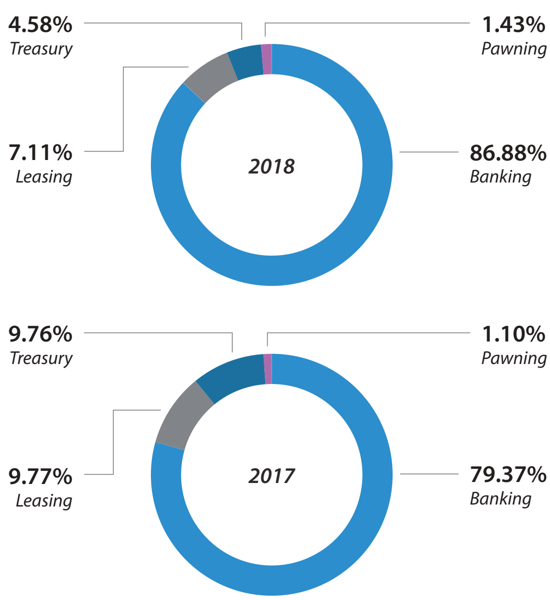
Key performance indicators

	2018 YoY growth %	Five year average growth %	Sector growth 2018 %
Interest income	21	25	13.9
Net interest income	21	21	16.3
Profit after tax	(29)	20	(8.7)
Gross lending portfolio	16	29	19.6
Deposits	13	24	14.8

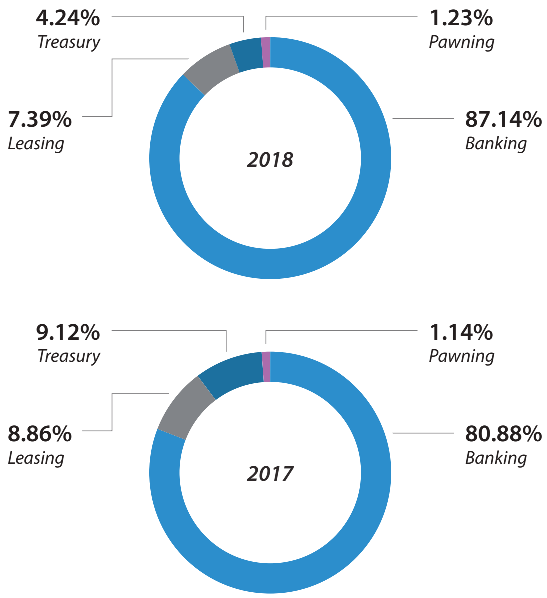
While interest income and net interest income each grew by 21%, the Profit after tax suffered a decline due to the increased Provision for Impairment required to be made in compliance with SLFRS 9. Despite the decrease in the profit after tax, the Bank strengthened its fundamentals with growth in the Gross Lending Portfolio and Deposits by 16% and 13% respectively.

The composition of net operating income is weighted heavily towards income from banking activities as against leasing, treasury and pawning. The composition of total operating income is also similarly affected.

Net operating income

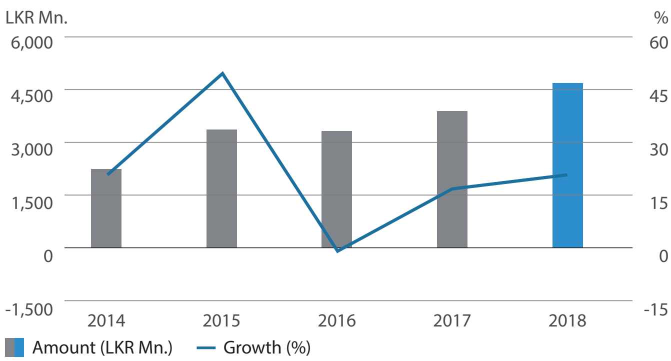


Total operating income



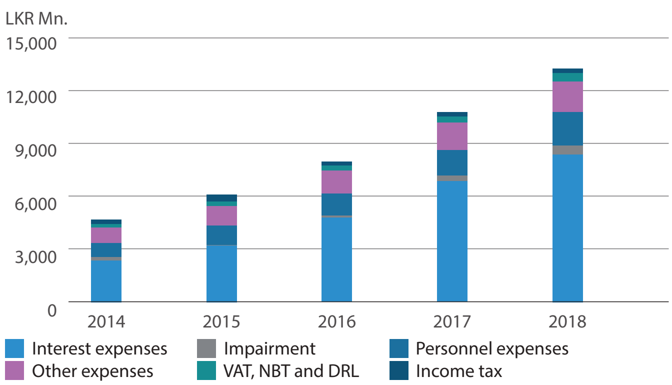
Net interest income has been showing steady growth except in 2016.

Net interest income growth



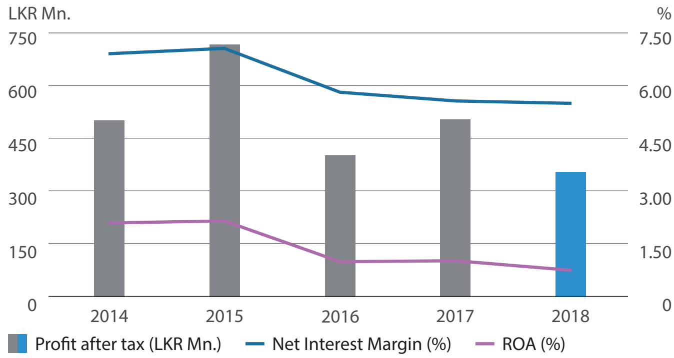
The composition of expenses has been consistent over the years and is being managed effectively.

Total expenses composition



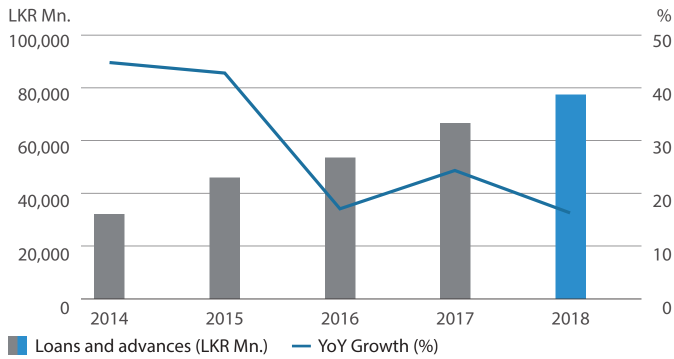
The profitability, net interest margins and return on assets haven't been as consistent in their growth patterns and will be an area of focus for the Bank in the future.

Profitability, NIM and ROA



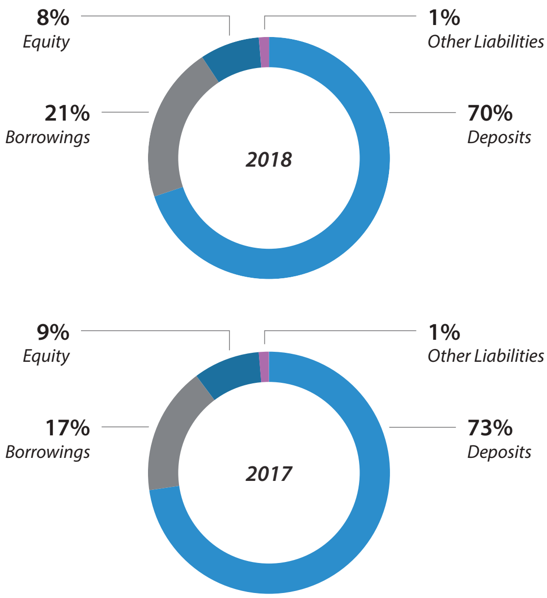
The rate of growth in loans and advances, while being less than in previous years, is still maintaining a consistent growth pattern as it implements its transformation agenda.

Loans and advances growth



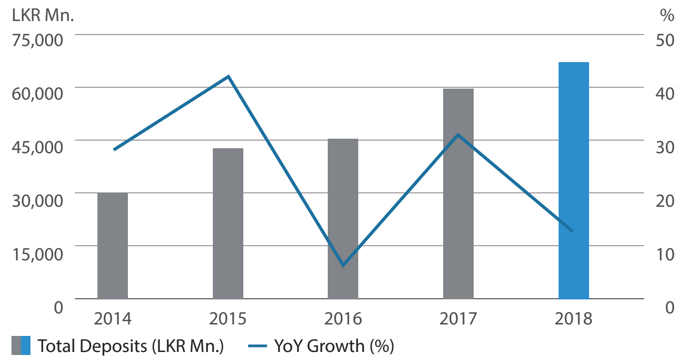
The primary source of funding for the Bank remains deposits from its customers. The reliance on this reduced slightly in 2018 (from 73% in 2017 to 70% in 2018) and shifted to 21% of borrowings in the funding profile of the Bank.

Funding profile



The negative growth in deposits contributed to obtaining more finance from borrowings in 2018.

Deposits growth



Value creation for shareholders

	2018	2017
Earnings per share (LKR)	**6.34**	9.87
Diluted Earnings per share (LKR)	**6.34**	9.87
Dividend pay-out ratio (%)	**Nil**	58.94
Dividend per share (LKR)	**Nil**	6.00
Dividend yield (%)	**Nil**	5.89
Market Capitalisation (LKR Bn.)	**4.22**	5.58
Return on Equity (%)	**4.83**	7.90
Growth in market capitalisation (%)	**-24**	28

The value created for shareholders suffered a setback this year, not through its operating fundamentals, but as a consequence of adjustments to the impairment provisions to comply with amendments to the accounting standard SLFRS 9.

Building an Institution of Repute

Being a pioneer development bank, coupled with the recent business transformation, places SANASA Development Bank PLC in a unique position to play a vital role in the promotion and development of the small and medium industries sector. Funds to meet sustainable development goals are not plentiful and development banks can be instrumental in narrowing that gap. However, misusing development bank funds can lead to fiscal risks, and credit market distortions. To avoid these potential pitfalls, development banks need a well-defined mandate, operate without political influence, focus on addressing significant market failures, concentrate on areas where the private sector is not present, monitor and evaluate interventions and adjust as necessary to ensure impact and be transparent and accountable.

SANASA Development Bank's institutional capital consists of a broad spectrum of tangible and intangible components that are available for use by the Bank in conducting its business. They include, organisational knowledge, corporate culture and values, business ethics and integrity, systems and processes. This places SDB Bank in a pivotal position to assume that responsibility as a development bank and respond to the demands of that role.

Organisational knowledge

Since its inception in 1997, the Bank adopted, fostered, and maintained high ethical standards in the conduct of its business internally and in dealing with customers, stakeholders, and the banking industry.

Over these 21 years it has built up a storehouse of organisational and industry knowledge. It has recognised a niche in the marketplace where the smaller SMEs and those outside the main metropolitan areas lacked the resources to engender economic activity. SDB Bank filled that need with products that were tailored to suit its clientele and their businesses, and structured their offerings to make them attractive to customers. That customer base has been able to make use of the expertise that SDB Bank has made available to them and their appreciation in turn of the role the Bank has played is evident in the results achieved by the customers and consequently, the Bank.

The development of a comprehensive strategic plan from 2017 to 2020 has channelled this knowledge through an organisational realignment that is designed to transform the Bank into the apex co-operative Bank in Sri Lanka and achieve commercial banking status in the medium term.

Corporate culture and values

The organisational values adopted by the Bank espouse the "fostering and maintenance of the highest ethical standards at all levels of the Bank and its agencies and in dealing with customers, stakeholders, and competitors".

This is standard practice within the Bank as it is embedded in every aspect of its operations.

Business ethics and integrity

The Bank's commitment to practising the above value is borne out by the governance framework that has been put in place. It embodies comprehensive policies that subscribe to compliance with all regulatory and statutory requirements and strong business ethics which are disseminated throughout the organisation to set the tone for employee behaviour and practice.

The Bank's ability to attract international investors such as SBI-FMO Emerging Asia Financial Sector Fund Pte. Ltd., International Finance Corporation and Nederlandse Financierings – Maatschappij voor Ontiwikkelingslanden N.V. has endorsed its sound record of good governance.

Systems, processes and IT

The Bank has moved forward in reviewing and improving the utility value of its systems and processes. The Bank's IT systems undergo continuous review to provide a safe, secure and stable environment for its customers and employees.

Digital dialogue is a way of the future and SDB Bank has kept up with developments in this area. The automation of the loan process has made it more convenient for customers to make their applications and also set in train a process that takes a much shorter time than previously experienced.

Internet banking is a way of life and SDB Bank has responded to the challenge with online transaction processing introduced to mainstream banking functions.

Management reporting whilst it must be accurate, must also be timely, especially within the banking industry. An information dashboard is now available to provide on-line, up to the minute data that can be accessed at branch level by staff and Management.

The Bank is also now able to collect deposits from customers in any location and issue receipts immediately by using their mobile devices.

Working with Passion

The human capital of SDB Bank is an intangible asset/quality, not listed in the Bank's balance sheet. It is the accumulated wealth of knowledge, talents, training, skills, judgement, and the accrued experiences of the pool of employees at the Bank.

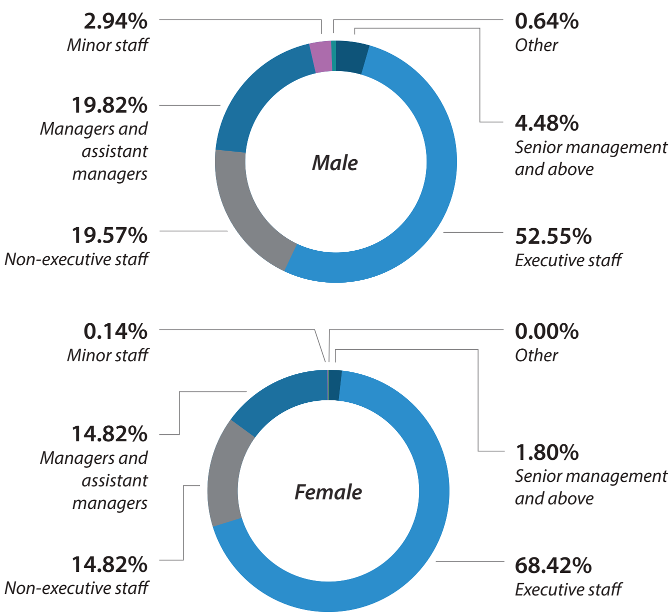
The Bank recognises that improvements to its human capital through training, education, and experience makes the individual more productive, the Bank more profitable, and increases the collective wealth of society.

The Bank's human capital is managed by its human resources (HR) Department. This Department oversees recruitment, assists with workforce planning and strategy, employee training and development, and reporting and analytics.

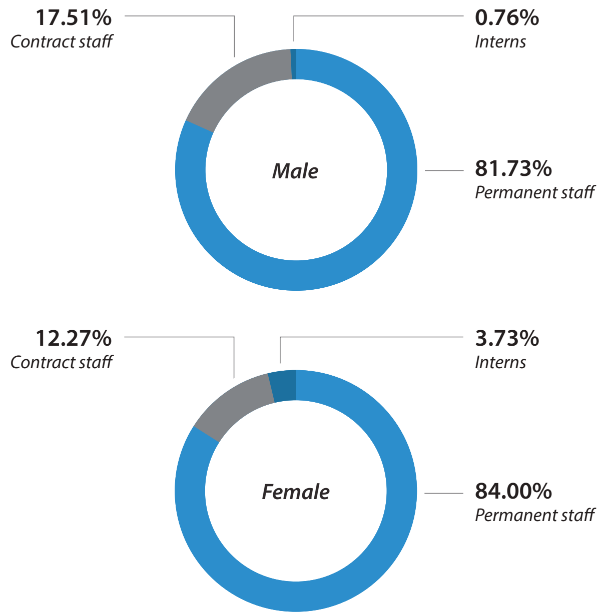
The composition of staff at SDB Bank comprises the following:

Refer online HTML version for more details.

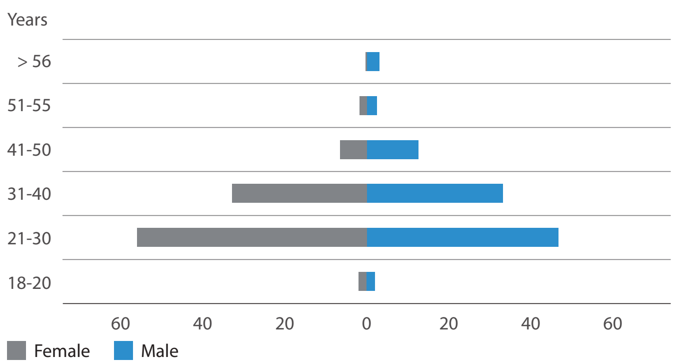
Grade-wise staff



Categories of employment

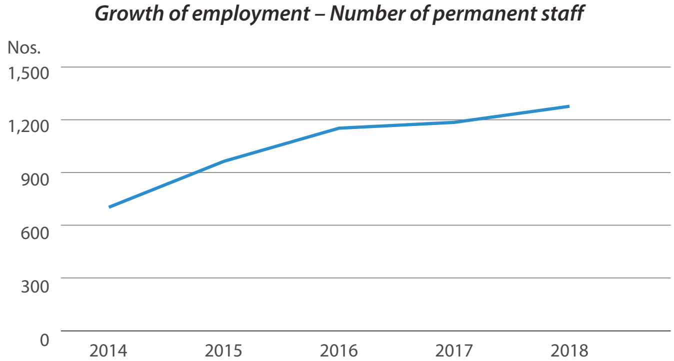


Age pyramid



The growth of employment at SDB Bank is shown in the following table.

Growth of employment – Number of permanent staff



Training and development

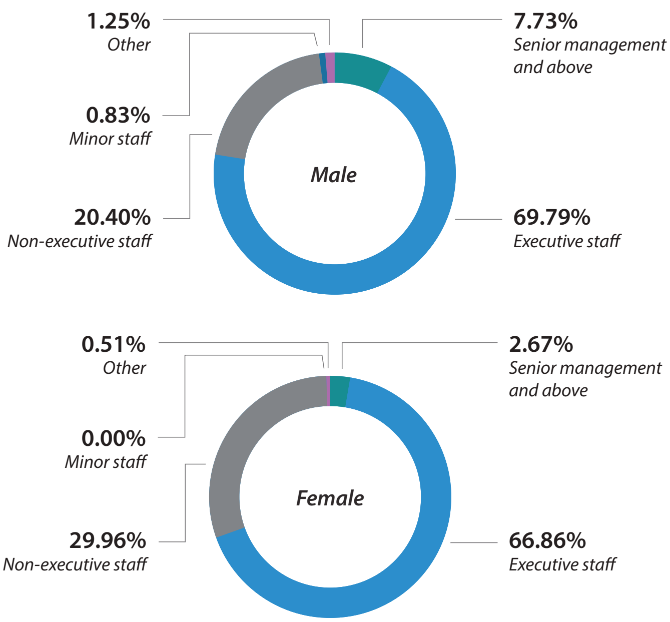
SDB Bank has structured its training programme to encompass internal, external, and foreign interactions and transactions. This is further divided into training on technical aspects and development of soft skills.

The training is focused on the needs of the market segments which the Bank caters to i.e. SME, Retail, and Co-operative.

The training consists of programmes that empower the relevant employees to identify the credit worthiness of businesses, potential areas of improvement, and prospects for income generation. The soft skills involve training on how to handle SME customers and make them want to deal with the Bank on an ongoing basis.

The Bank's total investment in training and development amounted to LKR 9.8 Mn. which translates into 3,817 hours and 204 sessions of training in various fields.

Training hours by grade



Refer online HTML version for more details.

Employee engagement

The Bank's engagement with its employees is continuous and takes place on formal and informal platforms.

Management visit branches, where there is a free exchange of ideas and also provides an opportunity for employees to raise issues that may be causing concern to them. It has been found that discussions unhindered by formalities often solve problems that would otherwise fester if left unaddressed.

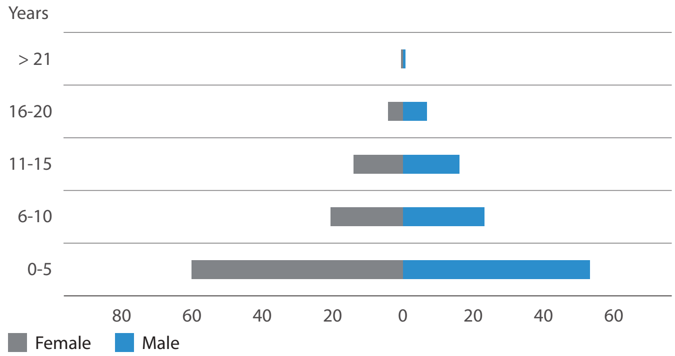
Social functions are organised regionally which help to build relationships amongst employees in a less formal environment. CSR events, such as blood donation campaigns, operating Wesak *dansalas*, *bakthi geetha*, award ceremonies, cricket festivals and tree planting projects give the opportunity for employees to participate in activities which are external to their work programmes and enhance their feelings of self-worth and contributions to society.

Employee retention

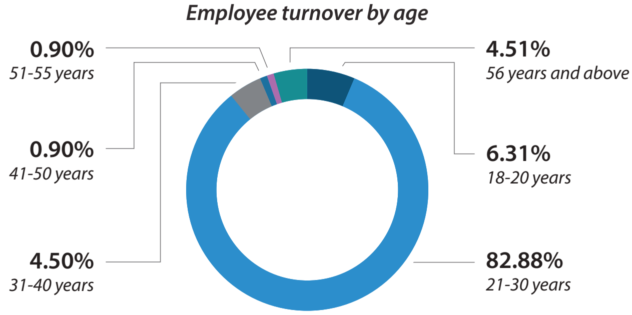
The level of employee retention at the Bank is relatively strong with 43% of the workforce having continuous employment with the Bank in excess of at least six years.

Refer online HTML version for more details.

Staff years of service by gender



Employee turnover by age



The employee turnover rates by grade and gender are shown in the table below.

Employee turnover by grade & gender	Male %	Female %
Senior Management and above	0.06	0.06
Executive staff	0.80	1.24
Non-Executive staff	3.40	1.50
Managers and Assistant Managers staff	0.20	0.06
Others	0.06	–
Total turnover	4.52	2.86

Performance management

Performance evaluations of employees have hitherto taken place annually and are measured against three dimensions of employment:

- Business targets/KPIs
- Behavioural attributes
- Value propositions

In 2018, the Bank introduced bi-annual reviews of performance with the system being linked to incentives, training and career advancement.

Equal opportunities are given for employees to apply for vacancies that arise throughout the Bank. In certain instances, depending on the requirements, certain vacancies are filled by external candidates.

Employee recruitment by age	Total	%	Male	%	Female	%
18-20 years	34	13.39	23	14.29	11	11.83
21-30 years	198	77.95	119	73.91	79	84.95
31-40 years	6	2.36	5	3.11	1	1.08
41-50 years	9	3.54	7	4.35	2	2.15
51-55 years	2	0.79	2	1.24	0	0.00
56 years and above	5	1.97	5	3.11	0	0.00
Total new hires	254	100.00	161	100.00	93	100.00

Benefits provided to employees

The Bank actively encourages the recruitment of employees best suited to relate to its culture and values and offer competitive terms of employment which lead to better retention rates as well.

The benefits that employees currently enjoy are:

- 21 days of annual leave
- Comprehensive medical insurance
- Employer's contribution to EPF 14% (minimum requirement is 12%)
- Medical leave of 14 days
- May carry forward to the following year, unutilised annual leave up to 7 days
- Membership of the Welfare Society
- Special leave for critical illnesses
- Female officers with infants are allowed feeding hours until their infants reach the age of 1 year
- Education support: Honorarium payments for completion of banking exams and reimbursement of professional membership subscriptions
- Two years no pay leave for those who are pursuing their higher education abroad, subject to a signed bond between the employee and the employer

Industrial relations

SDB Bank recognises the employees' right to freedom of association and consequently 75% of their workforce is unionised. The Bank maintains harmonious relationships with its unions and there were no major disruptions to work during the year. This is a significant achievement as it represents a complete turnaround to the fractious industrial relations environment it experienced a few years previously.

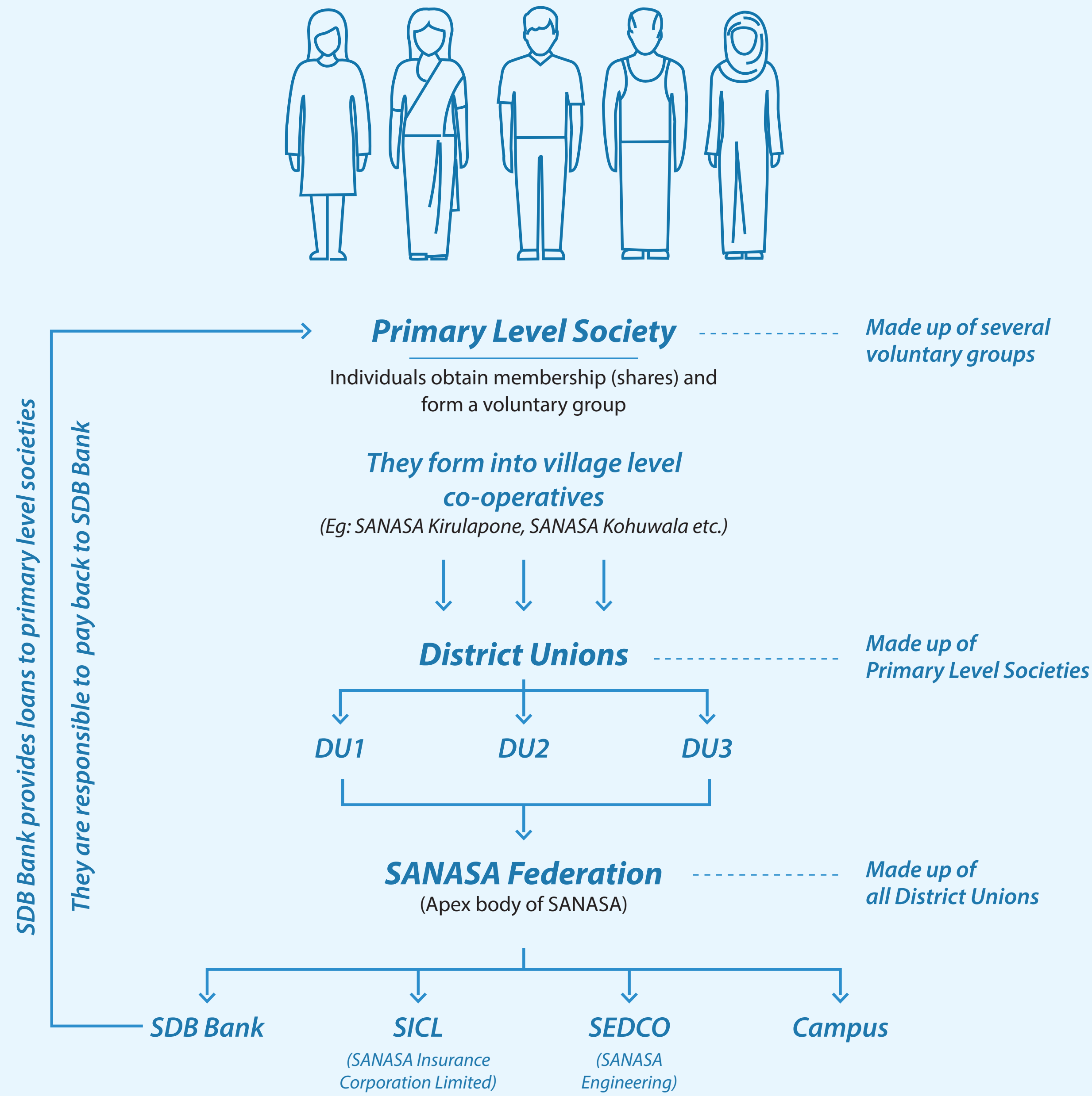
Future outlook

The Bank has adopted a transformation agenda for 2017-2020 which necessitates changes across many areas of its operations, including its human capital.

One of the key focus areas of this programme relates to revenue generation through Customer Value Propositions (CVP) development and branch optimisation programmes. The focus on improving performance assessments of employees and implementing a robust performance tracking system is expected to bring about a change in the attitudes, culture, and employee practices.

Creating Value

The SANASA Eco System



The money collected by individuals is finally lent back to them by SDB Bank through the primary level societies. This is utilised to uplift the lives of people. They are responsible to pay back to SDB Bank. It's an eco-system that works. People's money for the people.

Economic, social, environmental, political, and regulatory factors significantly influence the Bank's operating environment and to some degree, affects the value it creates and the results it achieves. The impact is largely dependent however on how the Bank responds to these challenges.

The concentration of the Bank's business is at the grassroot levels of society. In keeping with the Bank's commitment to meet the needs of this sector, it has developed the unique SANASA Eco System of banking.

The System involves the creation of primary level societies through multiple groups of individuals. Each group of individuals collectively contribute to a society by investing in shares of that society and through membership fees. The system is propagated through the formation of a multitude of separate societies, along the lines of co-operatives.

These societies are affiliated to geographically dispersed District Unions, who in turn belong to the apex body called the SANASA Federation.

The SANASA Development Bank PLC (SDB Bank), SANASA Insurance Corporation Limited, SEDCO (SANASA Engineering) and SANASA Campus, all function under the patronage of the SANASA Federation.

One of the sources of finance for SDB Bank is the collection of funds via the primary level societies.

The members of the primary level societies are principally those who are encouraged to start and/or develop their cottage industries, microbusinesses, and even small businesses. These businesses, now find themselves in a position where finance no longer needs to be a constraining factor in the development of their businesses. They are in a position to expand and grow their businesses by accessing funds through the primary level society.

The Bank, in the normal course of business, lends money to these individuals through the primary level societies, to enable them to service the needs of its members. The members, by borrowing through the society in turn, are able to develop and grow their businesses.

The close relationship of members to each of these societies, instils a sense of responsibility and discipline in servicing these borrowings without default. This provides a sense of security to SDB Bank in lending to these societies who have the responsibility of collecting their dues from its members.

The double benefit of this method of operating, is the access that SDB Bank has to low cost finance, in the form of investments by members in each society and their membership fees and the reliability of repayments from its members to each society. The result is the ability of the Bank to make available loans and advances at a lower cost, that eventually benefits the customer.

This business model encourages the participation of individuals in the rural environment in business mechanics through their investment and access to borrowings. It exposes them to the processes, responsibilities, and structures of conducting a business and hence their empowerment to be productive members of society.

In addition to the banking aspect of business, the Federation is also responsible for the functioning of its insurance and engineering arms of business and importantly the upliftment of education through their Campus. Membership of the societies, enables the members and their families to further their advancement in society through training and education which may otherwise have been inaccessible through the mainstream avenues of further education.

This forms the cornerstone of the Bank, in living up to its proposition that "Every Enterprise Matters".

In proactively driving the Bank's agenda forward, it adopted a strategic approach to transform the direction of its activities.

By keeping its finger on the pulse of the market, it determined that the microeconomic segment of the market, together with the SMEs, needed greater attention in terms of availability of finance and growth of its activities. While the credit risk of this sector could prove to be a negative factor, SDB Bank put in place processes to strengthen its credit evaluation processes while at the same time reducing the time taken to process applications.

Given the coverage of mobile devices amongst the population, it was necessary to increase digital access to its processes and products. SDB Bank has responded quickly and effectively to this requirement.

SDB Bank is extremely conscious of the needs of the stakeholder. Understanding and effectively responding to the stakeholders' needs is critical in meeting the end goals of delivering a satisfactory service and managing a sustainable business. The Bank put in place a stakeholder engagement process to meet and exceed those needs.

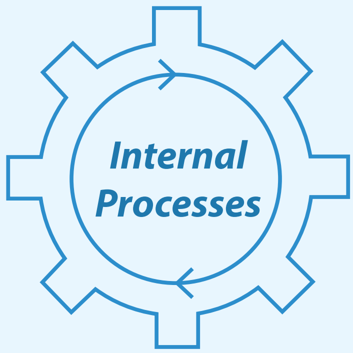
How We Create Value

Working with passion
(on page 35)

Winning customer loyalty
(on page 44)

Building strong partnerships
(on page 47)

Building an institute of repute
(on page 34)



Achieving our financial goals
(on page 31)

Contributing to society and environment
(on page 49)

Investors
Growth in Income ***20%***
Loans and Advances grew by ***16%***
Interest Income increased by ***21%***
Profit after tax ***LKR 357 Mn.***
Earnings per share ***LKR 6.34***

Customers
Loans and advances ***LKR 77.5 Mn.***
Interest paid ***LKR 8.4 Mn.***

Employees
Payments to employees ***LKR 1.8 Mn.***
Training hours ***3,817***

Community
Participated in flag pinning ceremony
Sponsored karaththa kavi books
Multimedia projector to the Konewewa Maha Vidyalaya, Mahapothana

Business partners
8 Nos.
Tax payments ***LKR 756.12 Mn.***

Environment
Bio gas unit at Kataragama
Planted ***1,000*** trees at Bulathsinhala

Winning Customer Loyalty

The Bank has closely aligned its Transformation Agenda to the UN Sustainable Development Goals. SDB Bank is in a unique position to influence the outcome of those goals since their main clientele are those for whom these goals have specifically been set. Recognising this synergy has been an important step for the Bank to establish their brand of product.

A diagram showing the contribution SDB Bank is making to achieving the Sustainability Development Goals is shown on page 49. Given the connection between the Bank's strategic direction and the resultant benefits to the community SDB Bank serves, the outcome is not only the fulfilment of the SDGs but also the growing allegiance of its customers to the Bank.

SDB Bank has adopted modern developmental tools and penetrated the rural market by introducing technological advancements and educating the communities in their use. The benefits therefore have been two-fold with the population experiencing exposure to technology and their practical application and the Bank being able to streamline its operations to provide an efficient and effective level of service and engender customer loyalty to the institution and its business.

This is in perfect alignment with the Mission of the Bank which states that they "strive to become the most responsible financial institution" by providing high quality and innovative financial products and services to its Customers and operating in a culture of learning and continuous value creation.

The practice of "foster and maintaining the highest ethical standards at all levels of the Bank and its stakeholders" has been the glue that has held the operations together and presented the Bank in a favourable light to all who choose to deal with it.

New products have been launched by the Co-operative Development Division in 2018:

1. Co-operative Top Saver Savings Account, designed to encourage deposits in the co-operative sector.
2. SDB *Samoopa Saviya* Loan scheme, a loan scheme for co-operative societies and other registered societies. The features of this product relate to –
   a. societies for society usage:
   b. societies to be on lent to members;
   c. society/Co-operative Development staff members.

The purpose for which these products have been designed to favour lending to business-oriented activities, with a small portion catering to fulfilling personal needs.

The array of products that have been made available to the Bank's customers, serve their needs and continue to contribute to SDB Bank's engagement with the public.

Refer online HTML version for more details.

Savings products

"Lakdaru" *"Dayada"* *"Uththamavi"* *"Jawaya"*

"Top Saver" *"Co-operative Top Saver"* *"Upahara"* *"Ayojana"* *"SDB Normal Savings"*

Loan facilities

"Samupa Saviya" *"Divi Saviya"* *"Swarna Kirana"* *"Uththamavi"*

"SDB Personal Loan" *"Sonduru Sevana"* *"SDB Leasing"* *"Uththamachara"* *"Upahara"* *"Jawaya"*

Lakdaru
(Children's savings account)

Creation of wealth	Type of wealth
Development of saving and thrift habit from the beginning	Financial and economic wealth
Saving of money for future opportunities	Financial and economic wealth
1% higher interest rate parallel to normal savings	Financial and economic wealth
Special insurance coverage (inclusive of Government hospitalisation coverage as well)	Financial and economic wealth
Scholarship seminars for children	Knowledge wealth
Seminar for parents on child philosophy development	Social wealth

Upahara
(Savings and Loan scheme for senior citizens)

Creation of wealth	Type of wealth
Up to 2.5% additional interest rate on savings	Financial and economic wealth
0.25% extra interest on fixed deposits	Financial and economic wealth
Three day hassle free loan service	Financial and economic wealth
Experience and know-how sharing	Time wealth
Ability to develop as an entrepreneur	Knowledge wealth
Rejoining the senior citizens to active workforce of the country	Physical wealth
Entrepreneurship workshops and training	Social wealth

Samupa Saviya
(Financial solution for Co-operative Segment)

Creation of wealth	Type of wealth
Extra 0.25% interest for FD	Financial wealth
Offer the coverage for entire Co-operative segments (Society, society members and staff members of the society)	Social wealth
Capacity building training facilities	Knowledge wealth

Uththamavi
(Women's savings and loan scheme)

Creation of wealth	Type of wealth
1% additional interest for savings	Financial wealth
Hospitalisation insurance coverage	Health wealth
Trainings to knowledge building on financial literacy	Knowledge wealth
Loan scheme for women entrepreneurs	Financial and economic wealth
Investment plan with *Uththamavi – Ayojana* investment plan	Financial and economic wealth
Entrepreneurship development workshops for women empowerment	Social wealth

Top Saver
(Savings account with highest interest rate)

Creation of wealth	Type of wealth
Up to 10% maximum interest rate for savings	Financial wealth
Develop the thrift habit among youth segment	Financial wealth

Building Strong Partnerships

Procurement policy

It is the procurement policy of the Bank to source and purchase their consumables and engage service personnel from the local area of operation, thus providing employment and contributing to the economic growth of the area.

Business tie-ups

Memorandum of Understanding (MOUs) have been signed with Browns Agriculture, to promote leasing and with Lotus Tours (Pvt) Ltd. for *Dambadiwa* tours.

In addition, SDB Bank has tied-up with the State Defense Ministry to promote *Jawaya* and *Uththamavi*, to encourage women entrepreneurship and their participation in the workforce.

In their bid to inspire SMEs, SDB Bank has also signed an agreement with the Gym Association of Sri Lanka who are in the process of standardising gymnasiums throughout the country by subjecting them to comply with national standards.

Increasing convenience to customers

To facilitate the processing of loan applications, procedures have been introduced for branches to follow a uniform system of uploading the relevant documents on to the loan originating system.

SDB Bank opened its 92nd, 93rd and 94th branches at Galewela, Piliyandala and Panadura respectively. The Bank also relocated branches in 2018, at Batticaloa, Narammala, Mapalagama, Thalgaswala, Nanattan, and Ampara in a bid to enhance the convenience of the customers.

The first street promotional campaign of SDB *Millyanapathi Varama* was conducted at Warakapola on 26 September 2018 to promote door to door banking with the SDB *Ayojana* account.

Awards and recognition

Through the process of creating value to community and the economy, SDB Bank receives recognition for their achievements.

SDB Bank was once again recognised for its invaluable contribution towards the upliftment and development of the MSME sector, and received the "Fastest Growing MSME Bank in Sri Lanka" for the year 2018. The award was made by the leading UK-based publication, Global Banking and Finance Review.

The Bank held "SDB Champions Night" Awards Ceremony on the 24 November 2018 at Raffles Residence, Mirihana, Nugegoda.

Contributing to Society and the Environment

SDB Bank has always recognised the role a leading institution such as the Bank plays in the communities and has initiated and supported many CSR projects that contribute not only to society but also to the environment.

Lakdaru grade 5 scholarship seminar series

The annual SDB Bank Grade 5 Scholarship Seminar series was organised for students who sat for the Grade 5 Scholarship Examination in 2018. The seminar series was sponsored by SDB *Lakdaru* Children's Account and was held island-wide in both Sinhala and Tamil mediums. The first seminar of the scholarship seminar series for year 2018 was held on 20 January 2018 at Keppetipola Vidyalaya, Maha Oya.

Blind musical orchestra

The Bank sponsored the Musical Show organised by the Blind Musical Orchestra.

Blood donation

In line with 21st Anniversary, the Welfare Society of the Bank organised a blood donation campaign on 21 August 2018, for the patients at Apeksha Hospital, Maharagama.

Donation of bio gas unit

The Bank sponsored the newly established bio gas unit at the Sri Abhinawarama Temple, a place that caters to the needs of nearly 1,000 pilgrims visiting Kataragama during the season.

Donation of multi media projector

In line with the 21st Anniversary, SDB Bank handed over a Multimedia Projector to the Konewewa Maha Vidyalaya, Mahapothana.

Donation of reading books

The Bank sponsored *Karaththa Kavi* story books that were published in line with Children's Day.

Neelaharitha project

The State Ministry of Defence together with SDB Bank launched the green initiative "*Neelaharitha* Project", which is aimed at contributing to the Government vision of empowering retired military personnel from the Tri-forces, the civil security, and police force.

While profitable operation of the Bank is vital, SDB Bank is actively involved in a vital community related role that exemplifies the corporate social responsibility of a leading business institution and sets them apart in the rural environment in which they primarily operate.

- SDB Bank, in collaboration with ADIC Sri Lanka, organised a *Jawaya* Youth camp for young entrepreneurs from 23 to 25 February 2018 at Kegalle SANASA campus.
- SLIDA'S school of Postgraduate Studies organised a series of public lectures with a view to enhance the managerial capacity of executives in Sri Lanka's public and private sectors. This lecture was held on 20 September 2018 at SLIDA in collaboration with SDB Bank.

Contribution to SDGs

2 ZERO HUNGER

Zero Hunger

SDB Bank and Brown & Company PLC has entered into a MOU to offer financing solutions exclusively for the brand new TAFE & MASSEY FERGUSON four wheel tractors, assuring the Bank's commitment to the agricultural sector

4 QUALITY EDUCATION

Quality Education

19 seminars held under Grade 5 scholarship series and Multimedia Projector to Konewewa Maha Vidyalaya, Mahapothana

5 GENDER EQUALITY

Gender Equality

Empower women through *Uththamavi* loan scheme

7 AFFORDABLE AND CLEAN ENERGY

Affordable and Clean Energy

Drive Green Leasing promotional campaign for Electric and Hybrid vehicles

10 REDUCED INEQUALITIES

Reduced Inequalities

Disbursed LKR 6,629 Mn. to Senior Citizens and War Heroes to uplift their life

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Responsible Consumption and Production

Donating a bio-gas unit to Kataragama Abhinawaramaya

15 LIFE ON LAND

Life on Land

SDB Bank as a part of its Green initiative, organised a CSR cultivation project to plant 1,000 plants on Saturday, 29 December 2018 at Molkawa, Bulathsinhala

SUSTAINABLE DEVELOPMENT GOALS

Investor Relations

Investor relations consists of a dialogue between the Bank and the financial markets, of information that helps the investment community, make judgements on the Bank's market value vis-a-vis the potential and sustainability of the Organisation. The feedback received from investors and the market also provides valuable insight to the Bank in strategic decision-making.

The Bank's active investor engagement enables the market make sound decisions on their current and probable future shareholdings and investments in other securities.

At SDB Bank, the Annual General Meeting is the primary platform for communicating the Bank's performance while the Annual Report gives detailed, yet succinct information on its activities, use of its different forms of capital and its responsible social capital involvement. In addition, the Bank has one-on-one interactions with significant investors and other publications through the Colombo Stock Exchange.

Through these avenues of contact, the Bank helps investors gain a balanced view of its operating results, financial position (Balance sheet) and its liquidity, through the Cash Flow Statement. Furthermore, these disclosures help investors get a reasonable understanding of the Bank's strategic direction, governance, risk management, and the future business prospects.

It is expected that through sharing these many facets of information, current and potential investors will appreciate the value of the Bank and build and strengthen their relationship with the Bank.

Accountability, transparency, and good governance are at the forefront of the Bank's operations and the emphasis placed on these aspects in our communications with our investors give them the confidence that the operations are being conducted in line with best practices from around the world.

Our investor relations programme is designed to achieve the following:

- A competitive price for the Bank's shares;
- A healthy level of transactions of the Bank's shares on the stock exchange;
- Easier and cheaper access to capital in the future; and
- Reduced volatility in the share price through maintaining a loyal group of investors.

At SDB Bank, we believe that successful investor relations are achieved through regular exchange of information with the market and is therefore integral to our communication strategy.

SDB Bank Securities

Types

- Quoted ordinary shares
- Debentures

Listing details

Ordinary shares

Listed exchange	: Colombo Stock Exchange (CSE) Main Board
Sector	: Banks Finance and Insurance
Quoted date	: 31 May 2012
Code-ISIN	: LK0412N00003
Stock symbol	: SDB.N000

Debentures

Type	Code	ISIN	Par value LKR	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)

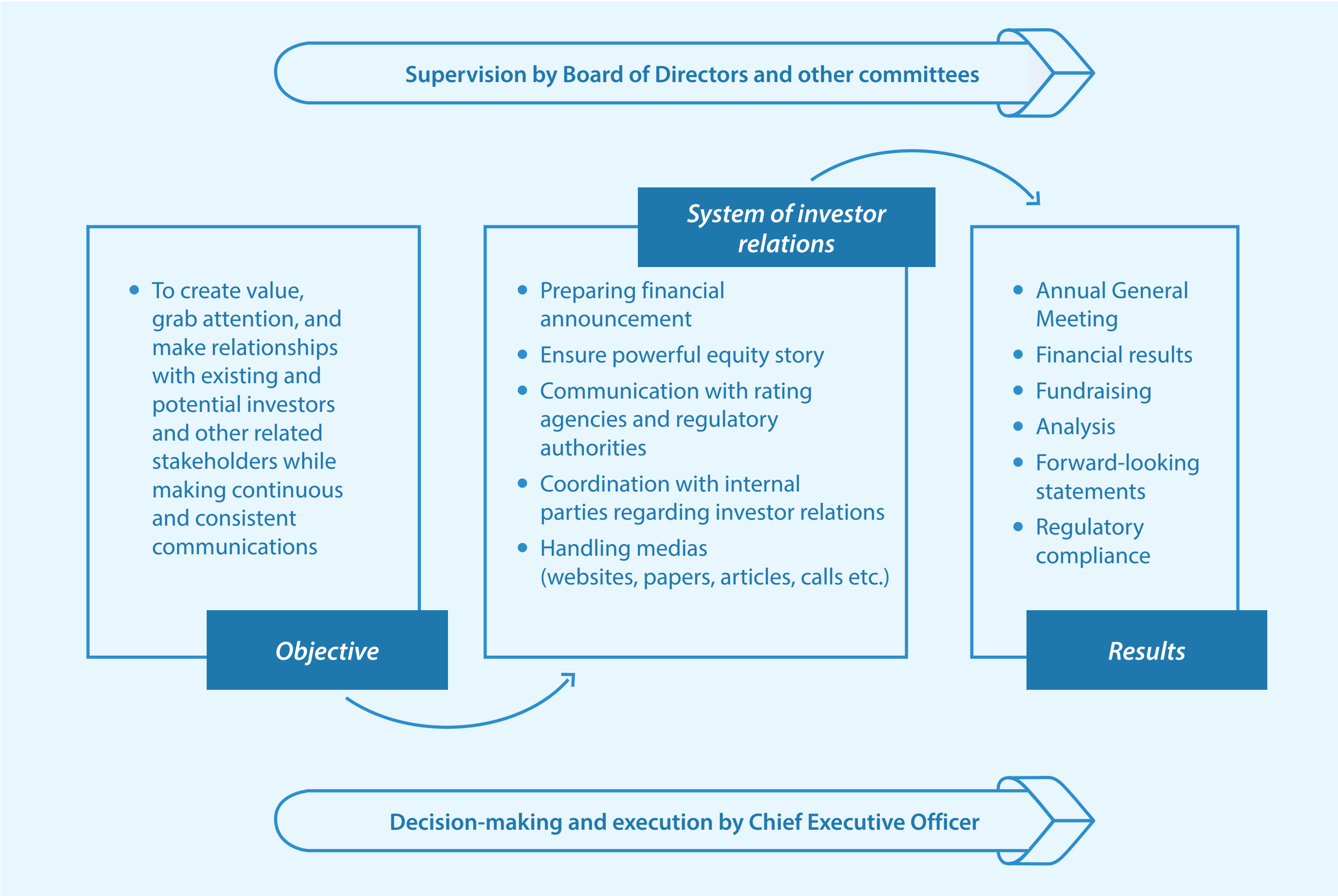
Credit ratings

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, capitalisation, liquidity and market position among others.

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

Useful links for investors

Information	Link (website)
SDB Bank	www.sdb.lk
Colombo Stock Exchange	www.cse.lk
Fitch Ratings Lanka Ltd.	www.fitchratings.lk
Central Bank of Sri Lanka	www.cbsl.gov.lk



Our Listed Securities

Summary of trading activity

SDB Bank Share Trading	**2018**	2017	2016	2015	2014
Number of transactions (No.)	**4,392**	5,981	10,940	26,889	24,450
Number of shares traded (No.)	**11,169,042**	4,830,202	5,649,252	19,891,297	11,631,552
Value of shares traded (LKR Mn.)	**1,199.97**	500.47	725.61	2,667.29	1,095.13
Average daily turnover (LKR Mn.)	**5.06**	2.08	3.02	11.16	4.54

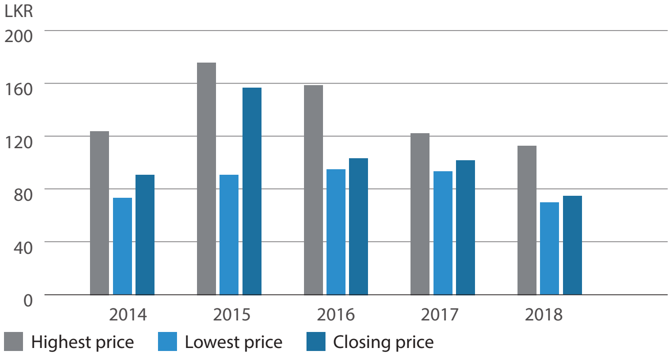
Performance of securities – Bank market capitalisation and share trading details

Bank market capitalisation	**2018**	2017	2016	2015	2014
SDB Bank market capitalisation (LKR Bn.)	**4.22**	5.58	4.36	6.32	3.43
Increase/decrease in market capitalisation of SDB Bank (%)	**-24**	28	-31	84	77
CSE market capitalisation (LKR Bn.)	**2,839.44**	2,899.29	2,745.00	2,938.00	3,104.90
SDB Bank market capitalisation as a % of CSE market capitalisation (%)	**0.15**	0.19	0.16	0.22	0.11
Market capitalisation rank of SDB Bank	**91**	83	96	78	114

Bank share price movement

Bank share price movement	**2018**	2017	2016	2015	2014
Highest price (LKR)	**112.90**	122.50	158.80	176.00	124.00
Lowest price (LKR)	**70.00**	93.80	95.20	91.00	73.50
Price as at 31 December (LKR)	**75.00**	101.90	103.70	157.10	90.90

SDB Bank share price movement trend

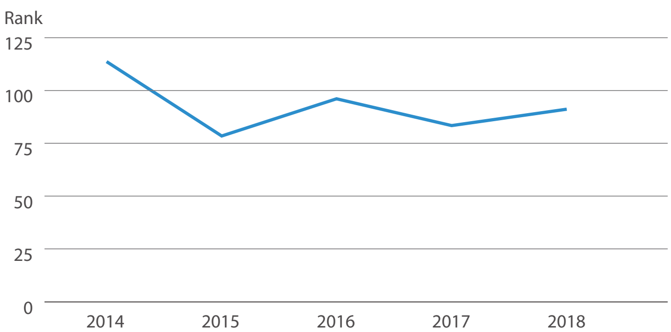


Value creation – CSE market price vs Banking industry

CSE market	**2018**	2017	2016	2015	2014
Market price-earnings ratio (PER) (Times)	**9.65**	10.60	12.4	17.98	19.66
Market Price to Book Value (PBV) (Times)	**1.18**	1.31	1.4	1.99	2.20
Market Dividend Yield (DY) (%)	**3.09**	3.19	2.8	2.18	2.09

Banking industry	**2018**	2017	2016	2015	2014
Market Price-Earnings Ratio (PER) (Times)	**5.4**	6.6	7.0	11.00	13.50
Market Price to Book value (PBV) (Times)	**0.9**	1.1	1.2	1.40	1.80
Market Dividend Yield (DY) (%)	**2.8**	2.5	3.3	3.00	2.60

SDB Bank market capitalisation rank



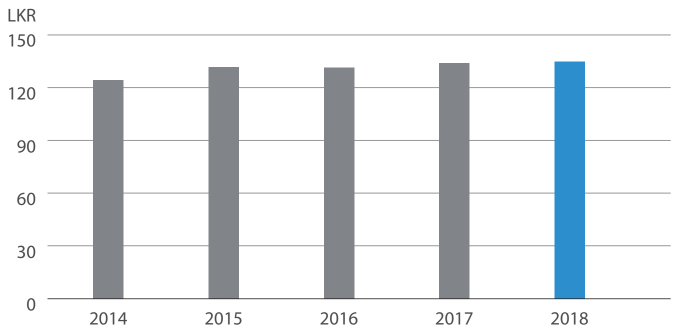
Dividends

A dividend is a distribution of reward, from a portion of the Bank's earnings, and is paid to the ordinary shareholders annually. The amount declared and paid each year varies in relation to the earnings of the Bank. It strikes a balance between a fair return to the shareholders for their investment and the business requirements to maintain the sustainability of the Bank.

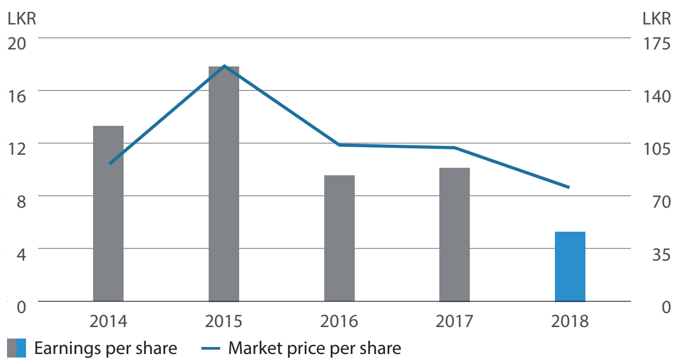
Dividends are decided and managed by the Bank's Board of Directors and they are approved by the shareholders through the exercise of their voting rights.

Year	Profit for the year (LKR Mn.)	Total dividend paid (LKR Mn.)	Dividend per share (LKR)	Dividend payout ratio (%)	Dividend yield (%)
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	507.82	136.94	6.00	58.94	5.89
2018	356.95	–	–	–	–

Net assets per share



Earnings and market price per share



Shareholders

Analysis of shareholders

Resident/Non-Resident

	31 December 2018				31 December 2017			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Resident shareholders	**37,632**	**99.958**	**43,693,059**	**77.596**	38,269	99.963	42,545,930	77.67
Non-resident shareholders	**16**	**0.042**	**12,615,193**	**22.404**	14	0.037	12,232,937	22.33
Total	**37,648**	**100**	**56,308,252**	**100**	38,283	100	54,778,867	100

Individual/Institutional

	31 December 2018				31 December 2017			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Individual shareholders	**34,060**	**90.47**	**16,516,455**	**29.33**	34,710	90.67	16,242,578	29.65
Institutional shareholders	**3,588**	**9.53**	**39,791,797**	**70.67**	3,573	9.33	38,536,289	70.35
Total	**37,648**	**100**	**56,308,252**	**100**	38,283	100	54,778,867	100

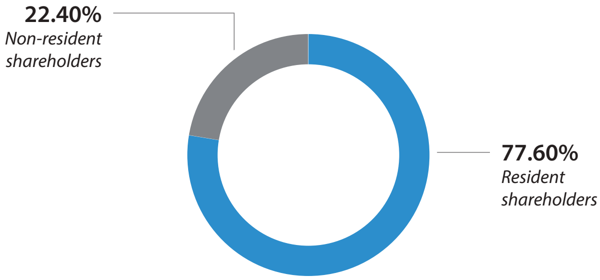
Institutional sub analysis

	31 December 2018				31 December 2017			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Foreign	**4**	**0.010**	**12,289,797**	**21.83**	3	0.01	11,942,201	21.80
Local and other institutions	**50**	**0.133**	**11,847,519**	**21.04**	47	0.12	10,927,204	19.95
Sanasa federation Acc 1	**1**	**0.002**	**720,024**	**1.27**	**1**	0.01	764,730	1.40
Acc 2			**28,439**	**0.05**			27,658	0.05
Sanasa societies	**3372**	**8.957**	**7,047,079**	**12.52**	3,360	8.77	6,365,985	11.62
Sanasa unions	**35**	**0.093**	**1,242,645**	**2.21**	34	0.09	1,147,359	2.09
MPCCS	**21**	**0.056**	**156,595**	**0.28**	21	0.05	152,301	0.28
Trust companies	**105**	**0.279**	**6,459,699**	**11.47**	107	0.28	7,208,851	13.16
Total	**3,588**	**9.53**	**39,791,797**	**70.67**	3,573	9.33	38,536,289	70.35

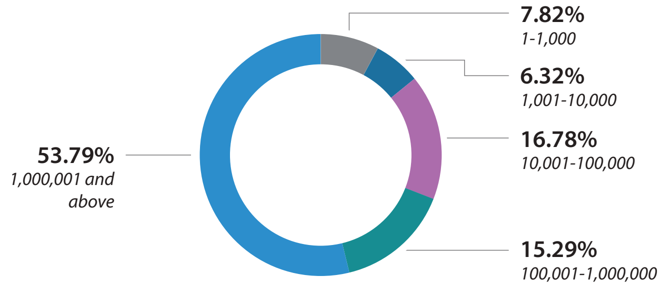
Share ownership composition

	31 December 2018				31 December 2017			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
1 – 1,000	**36,003**	**95.63**	**4,404,185**	**7.82**	36,659	95.76	4,472,661	8.17
1,001 – 10,000	**1,286**	**3.42**	**3,556,285**	**6.32**	1,282	3.35	3,530,007	6.44
10,001 – 100,000	**313**	**0.83**	**9,447,858**	**16.78**	294	0.77	9,237,897	16.86
100,001 – 1,000,000	**38**	**0.10**	**8,607,818**	**15.29**	40	0.10	9,277,569	16.94
1,000,001 – and above	**8**	**0.02**	**30,292,106**	**53.79**	8	0.02	28,260,733	51.59
	37,648	**100**	**56,308,252**	**100**	38,283	100	54,778,867	100

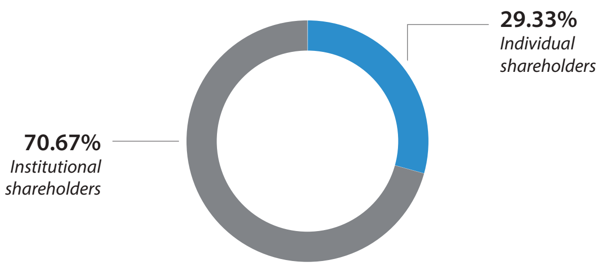
Resident/Non-resident shareholding by number of shares



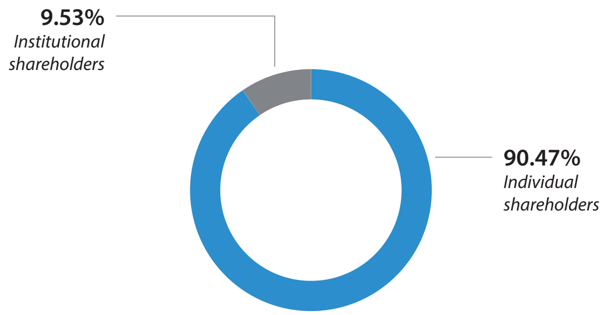
Share ownership by number of shares



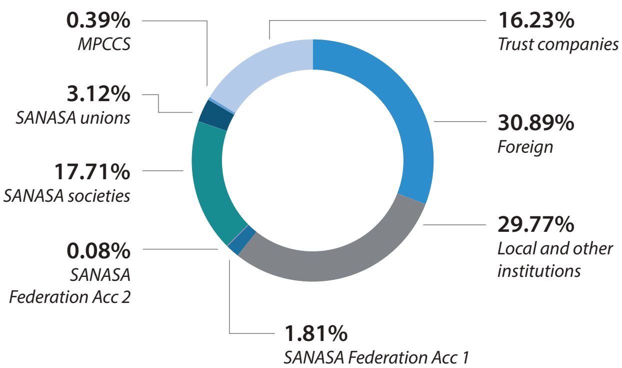
Individual/Institutional shareholding by number of shares



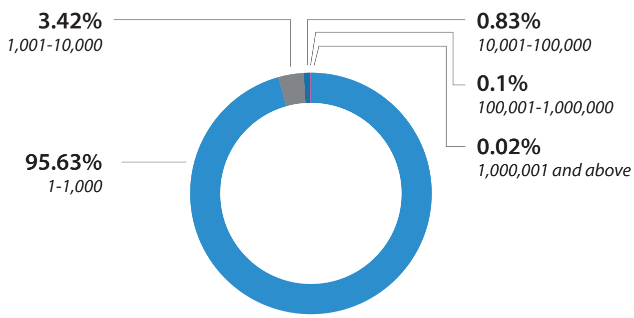
Individual/Institutional shareholding by number of shareholders



Institutional shareholding by number of shares



Share ownership by number of shareholders



Composition of shareholders – Top twenty shareholders

No.	Shareholder name	31 December 2018		31 December 2017	
		No. of shares	**%**	No. of shares	%
1.	Seylan Bank PLC/DR Thirugnanasambandar Senthilverl	**6,936,510**	**12.32**	6,203,204	11.32
2.	Ayenka Holdings (Pvt) Ltd.	**6,779,840**	**12.04**	–	–
3.	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD.	**5,045,636**	**8.96**	4,906,926	8.96
4.	CB NY S/A International Finance Corporation	**4,991,644**	**8.86**	4,854,419	8.86
5.	Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V	**2,242,504**	**3.98**	2,180,856	3.98
6.	People's Leasing & Finance PLC	**2,094,012**	**3.72**	2,036,446	3.72
7.	Seemasahitha SANASA Rakshana Samagama (General)	**1,162,630**	**2.06**	1,130,669	2.06
8.	Kegalle SANASA Shareholders Trust Company Limited	**1,039,330**	**1.85**	1,010,758	1.85
9.	Seemasahitha SANASA Rakshana Samagama (Life)	**910,708**	**1.62**	885,672	1.62
10.	Sampath Bank PLC/Dr T Senthilverl	**871,885**	**1.55**	835,005	1.52
11.	Sanasa Federation Ltd.	**720,024**	**1.28**	764,730	1.40
12.	Polgahawela Sanasa Societies Union Ltd	**387,314**	**0.69**	351,804	0.64
13.	Hambantota DTCCS Union Ltd.	**384,257**	**0.68**	373,694	0.68
14.	Warakapola SANASA Shareholders Trust Company Ltd.	**380,249**	**0.67**	511,257	0.93
15.	Dr T Senthilverl	**373,598**	**0.66**	34,837	0.06
16.	Kolonnawa SANASA Shareholders Trust Company Ltd.	**257,370**	**0.46**	250,295	0.46
17.	Mr D P Pieris	**257,067**	**0.46**	343,107	0.63
18.	Polgahawela SANASA Shareholders Trust Company Ltd.	**238,667**	**0.42**	234,256	0.43
19.	Sampath Bank PLC/Mr Arunasalam Sithampalam	**224,333**	**0.40**	26,093	0.05
20.	Dr S Yaddehige	**205,653**	**0.37**	265,466	0.48
	Total	**35,503,231**	**63.05**	27,199,494	49.65

	31 December 2018		31 December 2017	
	No. of shares	**%**	No. of shares	%
Total number of shares registered	**48,686,639**	**86.46**	46,999,562	85.80
Total number of shares unregistered	**7,621,613**	**13.54**	7,779,305	14.20
Total Number of shares issued	**56,308,252**	**100**	54,778,867	100
Shares held by Directors	**75,243**	**0.13**	73,062	0.13
Shares held by institutions	**39,791,797**	**70.67**	38,536,289	70.35
Balance held by public	**16,441,212**	**29.20**	16,169,516	29.52
Total Number of shares issued	**56,308,252**	**100**	54,778,867	100
Shares held by public	**56,231,740**	**99.86**	54,704,570	99.86
Shares held by Directors and related parties	**76,512**	**0.14**	74,297	0.14
Total	**56,308,252**	**100**	54,778,867	100

Directors' and CEO's shareholding

Name	31 December 2018		31 December 2017	
	No. of Shares	**%**	No. of Shares	%
Ms S Kiriwandeniya (Chairperson)	**5,785**	**0.0102**	5,627	0.010
Mr P Subasinghe (Director)	**69,341**	**0.1231**	67,435	0.123
Mr K G Wijerathne (Director)	**117**	**0.0002**	–	–
Total	**75,243**	**0.1335**	73,062	0.133

Other information for ordinary shareholders

Record of scrip issue

Year	New proportion	Old proportion	No. of shares listed	Date listed
2017	1	22.8533	2,279,147	12 June 2017
2018	–	–	–	–

Record of right issue (2014)

Code	Close price LKR	Highest price LKR	Lowest price LKR	Turnover LKR	No. of shares	Trades
SDB.R0000	15.00	24.00	10.70	31,153,089.00	2,191,458	1,717

Date of allotment	No. of shares provisionally allotted	Consideration per share LKR	Final allotment no. of shares	Amount raised LKR	Proportion	Date issued
18 November 2014	12,587,661	80.00	12,587,661	1,007,012,880.00	1:2	30 December 2014

Utilisation of funds raised through right issue

Objective No.	Objective as per circular	Amount allocated as per circular in LKR	Proposed date of utilisation as per circular	Amount allocated from proceeds in LKR	% of total proceeds	Amounts utilised in LKR	% of utilisation against allocation
1	To increase the Bank's capital base and to finance portfolio growth whilst strengthening the balance sheet.	1,007,012,880	Nine months from the date of allotment	1,007,012,880	100	1,007,012,880	100

Market capitalisation

CSE Market and Banking Industry	**2018**	2017	2016	2015	2014
CSE market capitalisation (LKR Bn.)	**2,839.44**	2,899.29	2,745.00	2,938.00	3,104.90
S & P SL20 (31/12)	**3,135.18**	3,671.72	3,496.44	3,625.69	4,089.14
All share price index (31/12)	**6,052.37**	6,369.26	6,228.26	6,894.50	7,298.95
Banking, and finance and insurance sector market capitalisation (LKR Bn.)	**784.24**	769.97	653.86	699.84	753.69

Market share trading

Market share trading	**2018**	2017	2016	2015	2014
Number of transactions	**885,657**	981,977	1,056,849	1,506,790	1,982,709
Number of shares traded	**6001**	8,468	7,196	9,415	16,722
Value of shares traded (LKR Mn.)	**200,068.84**	220,591.24	176,935.45	253,251.01	340,917.12
Average Daily Turnover (LKR Mn.)	**833.62**	915.43	737.23	1,059.63	1,414.59

SDB Bank value creation for ordinary shareholders

SDB Bank	**2018**	2017	2016	2015	2014
Net asset value per share (LKR)	**132.28**	133.83	131.22	131.62	124.35
Basic earnings per share (LKR)	**6.34**	9.87	9.60	17.90	13.36
Dividend per share (LKR)	**Nil**	6.00	7.50	10.00	10.00
Market price per share as at 31 December (LKR)	**75.00**	101.90	103.70	157.10	90.90
Price-Earnings Ratio (PER) (Times)	**11.83**	10.32	10.80	8.78	6.80
Price to Book Value (PBV) (Times)	**0.57**	0.76	0.79	1.19	0.73
Dividend Yield (DY) (%)	–	5.89	7.23	6.37	11.00
Dividend payout (%)	–	58.94	78.13	55.85	74.86
Number of shares (No. Mn.)	**56.31**	54.78	42.06	40.25	37.76
Number of shareholder	**37,648**	38,283	39,374	40,283	45,446
Total equity (LKR Mn.)	**7,448.73**	7,331.16	5,519.28	5,297.35	4,695.97
Stated capital (LKR Mn.)	**5,921.54**	5,758.69	4,062.96	3,794.09	3,533.55
Debt to equity (Times)	**11.83**	10.09	10.75	10.12	7.42
Interest cover (Times)	**1.08**	1.11	1.13	1.34	1.31
Return on equity (%)	**4.83**	7.90	7.46	14.42	12.49
Earnings growth (%)	**(14.41)**	22	(43.97)	42.84	103.26
Quick assets ratio (%)	**0.65**	0.63	0.65	0.55	0.67

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

	2018				2017			
	Balance as at 31 December LKR '000	**Coupon rate %**	**Annual effective rate %**	**Interest rate comparable Government Securities %**	Balance as at 31 December LKR '000	Coupon rate %	Annual effective rate %	Interest rate comparable Government Securities %
Type A	**1,674.695**	**9.60**	**9.83**	**11.42**	1,672,156	9.60	9.83	9.93
Type B	**422,906**	**10.00**	**10.25**	**11.58**	422,266	10.00	10.25	10.25
Type C	**1,509,819**	**9.90**	**10.15**	**11.42**	1,505,823	9.90	10.15	9.93
Type D	**591,128**	**10.30**	**10.57**	**11.58**	589,567	10.30	10.57	10.25

Utilisation of funds raised through debenture issue

Objective Number	Objective as per prospectus	Amount allocated as per prospectus in LKR	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in LKR	% of total proceeds	Amounts utilised in LKR	% of utilisation against allocation
1	To raise medium term funds to manage assets and liability mismatch and to minimise the interest rate risk	–	–	–	–	–	100
2	To finance the budgeted lending portfolio (approximately 90% as loans and the balance as leasing) and to minimise 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

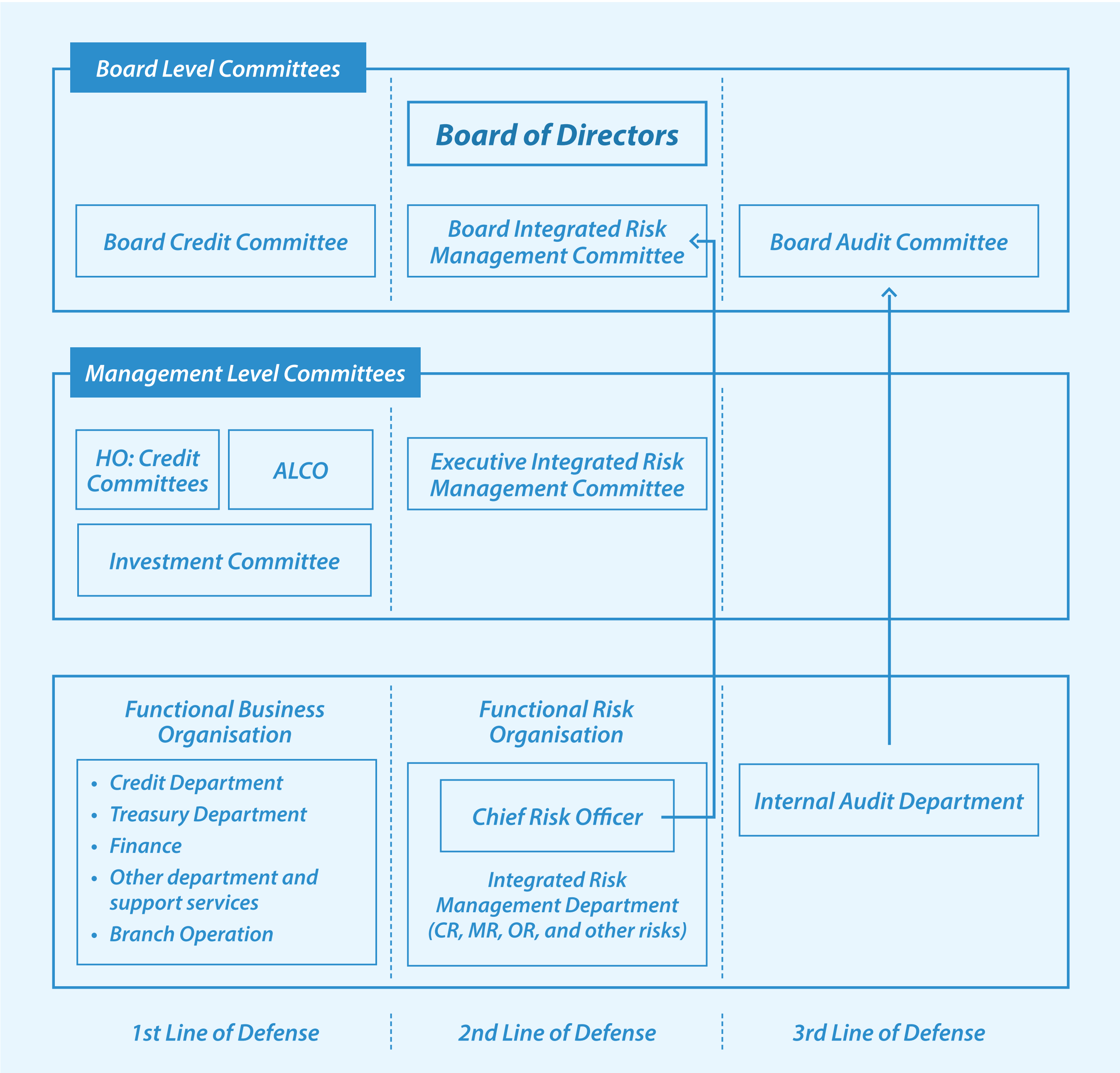
Managing Our Risks

SANASA Development Bank's approach to risk management is based on policy frameworks approved by the Board of Directors, governance structures, and tools and techniques to identify, measure, mitigate and manage all risk exposures.

The Board of Directors has the ultimate responsibility to manage risk. It formulates policy and sets the risk parameters. The Board Integrated Risk Management Committee (BIRMC) assists the Board of Directors in this regard.

The responsibility for implementing the risk management framework lies with the Executive Integrated Risk Management Committee (EIRMC) who review the Bank's credit, market, liquidity and operational risk indicators as well as its internal capital adequacy levels.

The Chief Risk Officer has a triple reporting responsibility to the EIRMC, the Operational Risk Management Committee and the BIRMC.



The above Committees and Organisation Structure is limited only to Risk and related areas.

Approach to risk management

Having recognised the importance of risk management to the effective running of the Bank, the Board of Directors has developed a risk management policy that is designed to help identify, measure, manage and report all material risks.

Relevant procedures have been built around these policies which are communicated throughout the Bank to assist business units in the discharge of their duties and in dealing with customers.

The Bank adopts the internationally recognised Three Lines of Defence governance model where transparency and accountability are practised through clear segregation of duties.

The 1st Line of Defence (functions own and manage risks) consists of identifying, managing, and reporting of risks at all levels. The intention is to manage specific risks at the source as effectively as possible.

The 2nd Line of Defence (functions oversee risk) is the centralised oversight of the 1st Line of Defence by the risk management, compliance, finance and other support functions.

The 3rd Line of Defence (independent assurance) comprises Internal and External audit who provide unaffiliated opinions on the strength and effectiveness of controls.

In order to embed a risk awareness culture across the organisation, ongoing training programmes are conducted and various communiques are issued continuously. During the year 33 training programmes were conducted. Risk consciousness is an integral part of the Bank's induction programme and consists of several mandatory training modules for all employees. In addition, a risk reporting process at multiple levels in the organisation, lends weight to its importance in the functions of the Bank.

Risk appetite

The risk appetite of the Bank is articulated through a clear set of indicators, with limits and triggers, relating to the key risks the Bank is exposed to. This set of guidelines is reviewed and updated regularly by the Board of Directors in keeping with the strategic objectives and corporate plan for the year.

The following are the Bank's key risk appetite indicators, along with actual performance results for the year.

Key Risk Indicator	As at 31 December	Internal limit
Credit risk		
Gross non-performing loans ratio	2.6%	3%
Top twenty exposures/total loans	4.5%	20%
Market risk		
Single counterparty exposure (fixed income)	27%	30%
Single counterparty exposure (public equity)	0%	10%
Single counterparty exposure (private equity)	1%	10%
Liquidity		
SLAR	23.2%	20%
LCR	142.2%	90%

Risk reporting

An integral part of risk management is regular reporting of those factors relating to the exposures that have been identified. These reports are sent to the Board of Directors, the relevant department head, Operational Risk Management Committee and the EIRMC by the Chief Risk Officer.

Risk exposure	Risk reports
Credit risk	Number of NPL accounts by sector, geography, and product relative to the provision coverage
Market risk	Impact of rate shifts on the Bank's economic value of equity and earnings Trading book value and return against limits
Liquidity risk	Liquidity allocation Cash flow forecasts Analysis of regulatory and internal cash flow maturities Stressed cash flow analysis
Operational risk	Summary of operational loss events by business unit
Strategic and reputational risk	Key Budgetary ratios Scorecard based questionnaires to assess reputation risk across the Bank

Stress testing

The Bank conducts regular stress testing to identify 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 risks are evaluated with reference to capital and earnings positions.

The Board Integrated Risk Management Committee (BIRMC) conducts regular reviews of the stress testing outcomes, including the major assumptions that underpin them.

The following table shows examples of stress factors that need to be tested to determine their impact on the Capital Adequacy Ratio (CAR), Net Interest Margin (NIM) and profitability.

	Credit risk	Concentration risk	Interest rate risk	Liquidity risk
Stress scenario	Increase in NPL ratio Shifts in NPL categories	Increase in HHI (Herfindahl-Hirschman index) values across lending counterparties and sector	Movement in interest rates	Liquidity stress scenarios

External drivers of risk

While risk exposures shown above are to a great degree controllable by the Bank, there are external factors, the outcomes of which, the Bank is unable to influence. Given the environment in which a bank operates, economic conditions in the country, government policy, regulatory changes and climate change are some of those aspects which can have an effect on the Bank's profitability and ability to comply with laws and regulations.

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

Macroeconomic conditions

- While the economy recovered slowly in the first half of the year due to more favourable weather conditions, the political uncertainties in the latter half resulted in a subdued performance overall. The inactivity of the Government sector in the second half of the year brought hardship to many of the Bank's customers who either suffered from a lack of government contracts or were not able to receive payment for jobs that were already completed. This in turn, had a negative effect on the Bank's performance.
- The Government's intent is to spread the economy throughout the country and disperse the concentration of economic activity in the Western Province. This feeds well into SDB Bank's market strategy of concentrating their energies on the rural and SME sectors. The realisation of this intent is yet to be seen and the question remains as to whether the Government will be allowed to pursue this agenda without political interference.

Regulatory changes

The introduction of more stringent provisioning requirements on non-performing loans and advances as specified by the accounting standard SLFRS 9, imposes greater pressure on the profitability of the Bank.

- Basel III is a set of international banking regulations developed by the "Bank for International Settlements" in order to promote stability in the international financial system. The purpose of Basel III is to reduce the ability of banks to damage the economy by taking on excess risk.
- Basel III introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector. Banks are required to maintain proper leverage ratios and meet certain minimum capital requirements.
- Under Basel III, the minimum capital adequacy ratio that banks must maintain is 11.88%. The capital adequacy ratio measures a bank's capital in relation to its risk-weighted assets. The capital-to-risk-weighted-assets ratio promotes financial stability and efficiency in economic systems throughout the world.

- The Liquidity Coverage Ratio (LCR) requirements are designed to ensure banks maintain an adequate level of readily available, high-quality liquid assets (HQLA), that can quickly and easily be converted into cash to meet any liquidity needs that might arise during a 30-day period of liquidity.

  The Basel III guidelines to prudent banking practices come into full effect from January 2019.

  Its gradual implementation has enabled the Bank to progressively improve its capital ratios which are now comfortably above the minimum standards set. This of course means that there is less capital that can be used to generate a return and it creates its own challenges to the Bank in raising additional capital to service the needs of the market.
- The new Income Tax Act was introduced and resulted in higher tax contributions from SDB Bank to the Government. In addition to the increased doubtful debt provisions, these tax payments were another impost on the Bank that contributed to a curtailment of the profit for the year. There is conjecture that further taxes may be introduced and the Bank will need to be in a position to meet those obligations and yet generate a satisfactory return to the shareholders.

Political environment

- Political instability in the last quarter of 2018 which brought the country to almost a standstill, had a profound effect on the business climate in the country. The subsequent breakdown in relationship between the President and the Prime Minister, brings on further uncertainty to the effective functioning of Government. The flow-on result is the ambiguity that pervades economic activity, which in turn poses more difficult questions for the Bank to deal with in running a profitable operation.
- The slowdown in Government activity has prevailed past the political events of the last quarter of 2018, into the new year. The Bank has to find ways to circumvent this situation and find ways to generate a sufficient quantum of business.

Climate change

- Drought and floods have become regular occurrences over the recent past. Since these unfortunate events generally take place in rural areas, the Bank is aware of the need to take adequate precautions to prevent losses.

The Bank's relationships within the banking industry, particularly in Sri Lanka, must be nurtured and matured to gain an increasingly influential voice. The closer the Bank is to the regulators, other major banks and to the political environment, the more likely it will be able to influence and/or be prepared to respond to future challenges.

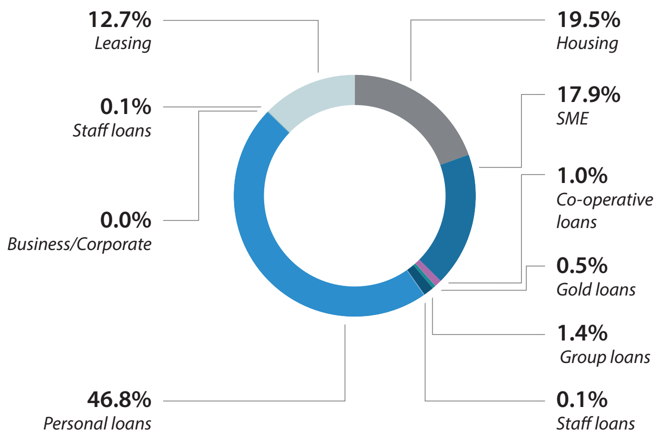
SDB Bank continues to grow its voice in the banking industry by being a niche player catering almost exclusively to the rural sector in a developmental role.

Credit risk

The Bank's underlying business model requires the extension of credit to individuals and businesses to enable them to fund their occupations and other personal needs. Credit risk relates to the potential losses than can arise by customers being unable to discharge their obligations in the repayment of loans and advances taken by them.

SDB Bank has in place the Board Credit Committee which is charged with the responsibility of 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, amongst others, of the Bank's credit policy include pre-credit sanctioning criteria, delegated approval authority, due diligence, collateral management and post-credit monitoring. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

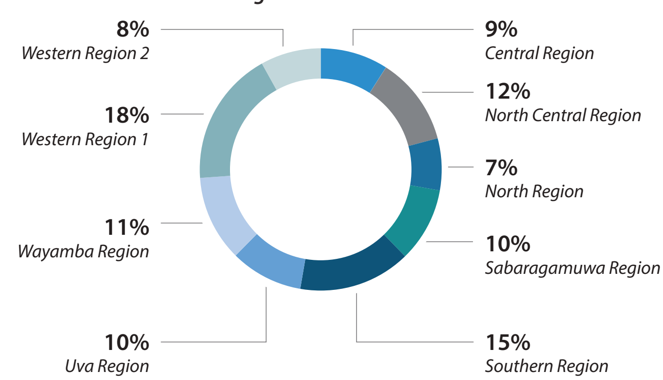
NPL's by Product



Concentration risk

Concentration risk is the potential for a loss in value of the loan portfolio when an individual or group of exposures move together in an unfavourable direction. The implication of concentration risk is that it generates such a significant loss that recovery is unlikely. The exposures can be geographical or sector wide. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Region wise Portfolio



Market risk

Market risk refers to the risk of losses in the Bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market.

How SDB Bank manages market risk

The Bank's main market risk exposure relates to interest rate risk. Fluctuations in interest rates affect the cost of funds and consequently the Bank's profitability.

The Assets and Liabilities Committee (ALCO) is responsible for monitoring the Bank's market risk exposure. It reviews the impact of interest rate risk on the banking book as well as net interest margin, funding mismatches and the cumulative rate sensitive gap. The Committee also undertakes stress tests on the Net Interest Margin (NIM) and equity, under different interest rate scenarios.

A comprehensive set of policies is in place to govern all aspects of market risk. These policies are reviewed and updated regularly in view of emerging market risks.

The term structure of the Bank's interest rate sensitive instruments is given below:

	Less than 7 day	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	>5 years
Interest bearing assets (%)	3	10	18	16	30	9	10	5
Interest bearing liabilities (%)	7	5	15	26	25	13	8	0

Its exposure, to SME and consumption driven loans which fall into the short to medium-term categories relates well to the Bank's ability to source mid to long-term debt and equity financing respectively.

Equity risk

Equity risk relates to potential losses in earnings resulting in adverse fluctuations of the share price. SDB Bank had zero investments in shares and consequently this does not pose a risk.

Liquidity risk

Liquidity risk relates to the possibility that the Bank will be unable to meet its financial obligations by settling them in cash or being able to convert a security or hard asset to cash without a loss of capital and/or income in the process.

The ALCO is responsible for managing the Bank's liquidity risks. The Committee regularly reviews the Bank's cash flow positions, projections, funding capabilities and pricing decisions to ensure internal targets and regulatory liquidity requirements are met.

Liquidity risk performance in 2018

During the year the Bank maintained its liquidity ratios well within the internal limits and above regulatory minimums specified by the Central Bank of Sri Lanka (CBSL).

An analysis of the funding profile of the Bank, shows that the deposits are distributed amongst a range of customers and other sources where a few do not control a large percentage of the total.

The Bank also has in place a contingency plan to bridge unexpected liquidity shortfalls. In the event of liquidity stress, Treasury is able to borrow 80% against Treasury Securities as repco borrowings through bank approved primary dealers.

	2018			
Liquidity ratios	March	June	September	December
SLAR* (%)	21.02	21.15	21.32	23.22
LD ratio** (%)	118	117	121	122
LCR*** (%)	94	126.49	167.66	142.15

**Statutory Liquid Asset Ratio*
***Gross Loan to Deposit*
****Liquid Coverage Ratio*

Operational risk

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Operational Risk Management Unit (ORMU) is responsible for administering the evaluation, to defined operational risk parameters, of all key business units on their exposure. This is a mechanism that enables business units to identify and assess their own risks and introduce measures to improve risk control. The Bank also maintains an Operational Risk Loss Data Base in line with Basel guidelines. Processes are also in place to capture all operational loss events which are then categorised in accordance with the guidelines.

Exposure to IT/Cyber risk is a significant threat for all businesses. So far, SDB Bank has been protected from these risks due to the Bank's minimal exposure to digitalised processes. However, the Bank is now venturing increasingly into these electronic processes and is actively strengthening processes to mitigate cyber risk.

Operational risk performance in 2018

Indicators showed that operational risks were contained within the defined parameters and no significant breaches were recorded during the year. The total value and volume of operational losses by category are shown below.

Category	Events
External fraud	0
Internal fraud	12
Employment practices and workplace safety	11
Client, products, and business practices	7
Damage to physical assets	2
Business disruption and system failure and power failure	275
Execution, delivery and process management	19

Legal risk

"Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to your business, its relationships, processes, products and services."

– Whalley, M. 2016.

Added to these is the risk of arrest and prosecution.

All legal documents executed on behalf of the Bank are vetted by the Legal Department of the Bank. Services of external lawyers are obtained whenever required. Internal processes described in previous sections, relating to compliance with regulatory provisions, are in place to mitigate potential losses and harm to the Organisation.

Strategic risk

Strategic risk relates to the possibility that the strategic direction the Bank is taking does not lead to the desired outcome or results in losses. This may be due to external or internal factors which are responded to inadequately or ineffectively.

SDB Bank in formulating their medium-term strategic plan have put in place performance indicators and set milestones in terms of achieving the required outcomes. The Board of Directors plays an active role through adopting relevant policies, monitoring progress through a number of reporting formats and helping the Bank maintain its focus on the end goals.

Capital management

The Internal Capital Adequacy Assessment Process (ICAAP) which complies with Basel requirements, outlines the process for assessing overall capital adequacy in relation to the Bank's risk profile.
The implementation of this framework ensures that the Bank possesses sufficient capital to cover its material risk exposures.

	Regulatory requirement	2018
Tier 1 (%)	7.87	11
Total Capital (%)	11.88	12.55

The implementation of a state-of-the-art loan originating system, centralised credit approvals and the move to concentrate more on the SME sector, paves the way to reducing the Bank's credit risk exposure.

During the year the Bank undertook several measures to improve its operational risk reporting and measurement process. A system for Loss event reporting and measurement was implemented which enables the Bank to accurately track operational loss incidents. Bank-wide training initiatives was conducted to strengthen staff competency on accurate loss data capture and reporting. The risk and control self-assessment process was further refined to enable departments and branches to evaluate their own risk.

Corporate Governance

Message from the Chairperson on Corporate Governance

Dear Stakeholders

Sound corporate governance practices form the bedrock of sustainable value creation and the Board of Directors of SDB Bank 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 CBSL, CSE and the SEC. 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 three new additions to the Board; Mr K G Wijerathne, Chaaminda Kumarasiri and Prasanna Premaratna who 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 has also renewed employee confidence on the Bank's mission, providing renewed vigour and enthusiasm to our team. In 2018 the Board met 15 times and key areas of focus included implementation of the transformation strategies.

The reports on pages 68 to 94 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 CBSL and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2017.

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

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

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

Samadanie Kiriwandeniya
Chairperson

8 March 2019
Colombo, Sri Lanka

Governance and Compliance

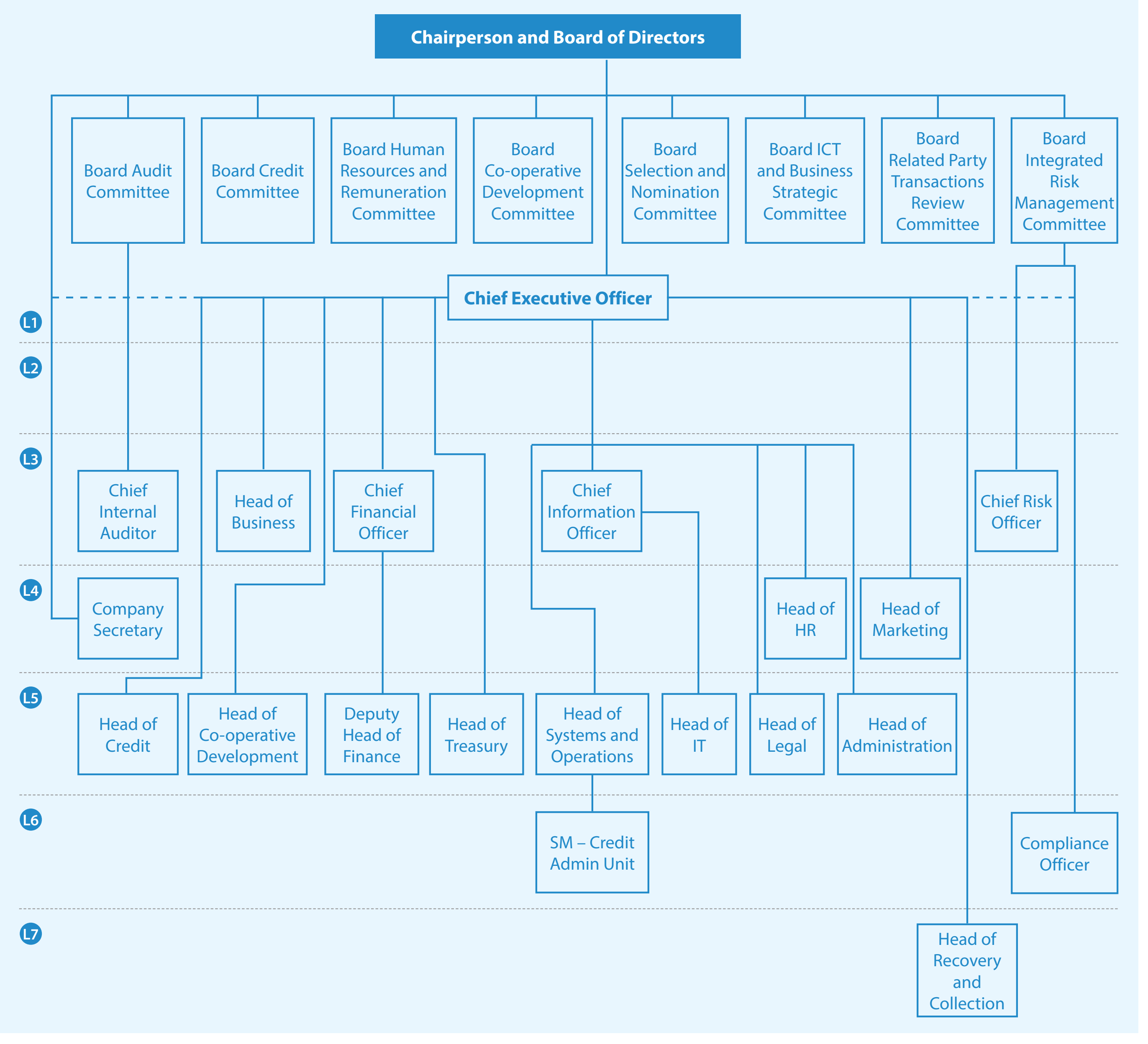
Bank's approach to corporate governance

SDB Bank's Board of Directors holds 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
• Companies Act No. 07 of 2007	• Articles of Association of the Bank
• Banking Act No. 30 of 1988 and amendments thereto	• Board-approved policies on all major operational aspects
• 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	• Policy for secrecy of information, credit and other internal manuals
• Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (a Voluntary Code)	• Integrated Risk Management Procedures • Code of Conduct and Ethics for Directors
• Listing Rules of the Colombo Stock Exchange	• Procedure Manual for anti-money laundering and prevention of terrorist finance
• Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto	• Processes for internal controls
• Financial Transactions Reporting Act No. 06 of 2006	• Bank's Code of Ethics/Conduct
• Inland Revenue Act No. 24 of 2017	• Bank's Whistle-blowing Policy
• Prevention of Money Laundering Act No. 05 of 2006	• Internal Circulars on ethical/operational practices
• Convention on the Suppression of Terrorist Financing Act No. 25 of 2005	• Communication Policy of the Bank • Customer Charter • Disciplinary Procedure Code • Grievance Handling Policy

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 designated an Independent Director as the Senior Director. The Board is supported by eight subcommittees, 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 nine Directors, all of whom operate in a Non-Executive Capacity while four are Independent. The Board of Directors submits 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 16 to 20 for detailed profiles of Board Members. During the year, the following three Directors were appointed to the Board:

- Mr K G Wijerathne
- Mr Chaaminda Kumarasiri
- Mr Prasanna Premaratna

Diversity of skills

The Board combines diverse industry insights, skills and experience and therefore is 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 two Directors holding membership in professional accountancy bodies and several Directors holding MBAs from reputed universities.

Chairperson and CEO

The role of chairperson and CEO has been separated ensuring balance of power and authority. The Chairperson is a Non- Executive Director and is responsible for setting the Board's annual work plan and agenda, ensuring that 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 (BS & NC). An affidavit of authenticity is required from the nominated person and the details communicated to the CBSL 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 or not. SDB Bank has no discriminatory criteria for disqualification of nominees however BS & NC calls for nominations as per the criteria laid down by the Banking Act.

Board Human Resources and Remuneration Committee

The Bank's remuneration for the Board of Directors and the Key Management Persons are determined based on a formal Remuneration Policy and is designed to attract and motivate professionals and high-performers. The BHRRC is responsible for providing guidance to the Board on the remuneration of Board of 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 makes 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 organised by the CBSL.

Board Meetings

The Board convenes regularly and met 15 times in 2018; details of meeting attendance are given in the Annual Report of the Board of Directors on the Affairs of the Company on page 113. 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.

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 collective 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. Going further, members of the Subcommittees also assess their performance effectiveness annually.

Board subcommittees

The Board of Directors of the Bank formed mandatory Board Sub committees and voluntary Board Subcommittees to assist the Board. The composition of both mandatory and voluntary Board Subcommittees, as at 31 December 2018 is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 112.

Accountability and audit

The Board is responsible for presenting a balanced and accurate assessment of 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 Standard on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Directors' responsibility with regards to Financial Statements is given on page 120 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 are given on pages 60 to 65 of this Report.

External Audit

The Board 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 Annual Statement confirming independence as required by the Companies Act No. 07 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 Bank Code of Conduct: The Code sets out the ethical behaviour expected from 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 Bank Code of Conduct upon recruitment.
- Whistle-blowing Policy: The Bank has a Board-approved Whistle-blowing Policy that enables any person, including a member of staff to report unlawful or unethical behaviour while ensuring that their anonymity is preserved.

Compliance Status

Compliance with the Provisions of the Banking Act Direction No.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 and corporate values were approved by Board of Directors for 2017-2020 and communicated to all employees through frequent meetings with the Corporate and 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
	(d) A policy of communication is available with all stakeholders, including depositors, creditors, shareholders 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 Direction 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 Descriptions (JDs). Areas of authority and key responsibilities of Board of Directors (BOD) are defined in the Articles of Association.	Complied with
	(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 KMPs 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 2018.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(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 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 No. 3 (5).	Appointment of the Chairperson and CEO is done by the Board and functions are defined as per Direction No 3 (5).	Complied with
3 (1) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	15 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 seven 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 seven 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

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (1) (x)	The Minutes of a Board meeting contain or refer to the following: (a) A summary of data and information used by the Board in its deliberations; (b) The matters considered by the Board; (c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) The decisions and Board resolutions.	Minutes of the Board meetings contains all the necessary information required under the direction.	Complied with
3 (1) (xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	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
3 (1) (xv)	The Board shall ensure that the Bank capitalised 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 No. 3 of these directions.	This report serves this purpose.	Complied with
3 (1) (xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Board has a scheme of self-assessment of Directors and the Company Secretary maintains records of such evaluations.	Complied with
3 (2)	**The Board's Composition:**		
3 (2) (i)	The Board comprises of not less than 7 and not more than 13 Directors.	The Board comprised Nine Directors as at 31 December 2018.	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 nine 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

Guideline	Function of the Board	Level of compliance	Complied/Not
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 2018.	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 111 of this Annual Report.	Complied with
3 (2) (ix)	There shall be procedure for the appointment of new Directors to the Board.	A procedure for appointing new Directors with the recommendation of the Board Selection and Nomination Committee is in place.	Complied with
3 (2) (x)	All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.	Appointment of Directors are done according to the 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 Colombo Stock Exchange.	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
3 (3)	**Criteria to assess the fitness and propriety of Directors**		
3 (3) (i)	The age of a person who serves as Director does not exceed 70 years.	Declarations given by Directors at the time of 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
3 (4)	**Management functions delegated by the Board**		
3 (4) (i)	The delegation arrangements have been approved by the Board.	The Board is empowered by the Articles 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
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

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (5)	**The Chairman and CEO**		
3 (5) (i)	The roles of Chairman and CEO is separate and not performed by the same individual.	Roles of Chairman and CEO are held by two different individuals that carry out different functions.	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 designates 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 and 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 and 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
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 2018.	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

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (6)	**Board-appointed Committees**		
3 (6) (i)	The Bank has established at least four Board committees as set out in Direction 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
	(c) The Committee has made recommendations on matters in connection with – (i) The appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the Auditors; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee make recommendations regarding those matters.	Complied with
	(d) The Committee has obtained representations from the External Auditor 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 2018 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 finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	Committee has discussed and finalised the Audit Plan 2018, nature and scope of the audit and deliverables, with the External Auditors in accordance with SLAuS before the audit commences.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(g) The Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts, and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following: (i) Major judgemental areas; (ii) Any changes in accounting policies and practices; (iii) The going concern assumption; and (iv) The compliance with relevant accounting standards and other legal requirements; and (v) In respect of the Annual Financial Statements the significant adjustments arising from the audit.	BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, when the Annual Financial Statements and other accounts are submitted to the BAC by the CFO.	Complied with
	(h) The Committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.	Committee has met the External Auditors in the absence of the Executive Management during the year.	Complied with
	(i) The Committee has reviewed the External Auditors' 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 2018 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 2018.	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. Its functions are performed with impartially proficiency and due professional care.	Complied with
	(k) The minutes to determine whether the Committee has considered major findings of internal investigations and Management's responses thereto;	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

Guideline	Function of the Board	Level of compliance	Complied/Not
	(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 2018, 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.	This information is disclosed in the Annual Report under the following headings: (i) "Report of the Board Audit Committee". (ii) and (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
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 and 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. However, this process needs to be strengthened after implementation of new performance management system going forward. 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 present at all meetings other than when matters relating to the CEO are discussed.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
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) 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 Job descriptions approved by the HRRC committee. These Job descriptions are submitted at the Nomination Committee for their review.	Complied with
	(d) The Committee has obtained from the Directors, CEO, and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction No. 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.	The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank. The Bank has developed a one-to-one succession plan for KMPs.	Complied with
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	The Committee is chaired by an Independent Director, and the majority of the members are also Independent Directors. The CEO participates only on invitation.	Complied with
3 (6) (v)	The following rules apply in relation to the Board Integrated Risk Management Committee (BIRMC):		
	(a) The Committee shall consist of at least three Non-Executive Directors, CEO, and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational, and strategic risks, and work within the framework of the authority and responsibility assigned to the Committee.	At present BIRMC consists of three Non-Executive Directors. 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.	Complied with
	(b) The Committee has a process to assess all risks, i.e. credit, market, liquidity, operational, and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	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. At present the Bank has no subsidiary or associate companies.	Complied with
	(c) The Committee has reviewed specific quantitative and qualitative risk limits for all management level Committees such as the Credit Committee and the Asset, and Liability Committee, and report any risk indicators periodically.	The Committee has reviewed the effectiveness of management level committees such as the Credit Committee and the Asset, and Liability Committee.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(d) The Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	The BIRMC reviews risk indicators which have exceeded the defined limits.	Complied with
	(e) The Committee has met at least quarterly.	Committee has met five times during 2018.	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 into 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 the 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.	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. The Compliance Officer submits a monthly compliance report to the Board and Related Party Transaction Report on a monthly basis to the main Board.	
3 (7)	**Related Party Transaction**		
3 (7) (i)	There is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.	There is a Board approved "Related Party Transaction Policy" which defines guidelines on related parties and avoiding any conflicts of interest with said parties that may arise from such transactions of the Bank. 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. Further, the Related Party Transactions Review Committee (RPTRC) is a subcommittee of the Board and is responsible for making decisions over related party transactions other than day-to-day business activities.	Complied with
3 (7) (ii)	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. (a) The grant of any type of accommodation, as defined in the Monetary Board's directions on maximum amount of accommodation. (b) The creation of any liabilities of the Bank in the form of deposits, borrowings, and investments. (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank. (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential, or otherwise sensitive information that may give benefits to such related parties,	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. Bank has started the reporting of related party transactions with regard to related entities to the Board of Directors on a monthly basis.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (7) (iii)	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 favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. (a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. (b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty. (c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; (d) Providing services to or receiving services from a related party without an evaluation procedure; (e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential, or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	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 favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. The Bank modified the system to enable the effective identification of related party transactions and to ensure that there are no favourable treatments offered to such related parties than that accorded to other constituents of the Bank carrying on the same business. However, this process needs to be strengthened, implementing a mechanism to get a "pop up" when the name or other identifying data of a related party is entered into systems of the Bank. Monitoring has to be carried out accordingly covering all the products of the Bank to ensure the Bank would not offer "more favorable treatment" to related parties.	Complied with
3 (7) (iv)	The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	This requirement is documented in the Board approved Related Party Transaction Policy.	Complied with
3 (7) (v)	(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 December 2018.	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 December 2018.	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 2018.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(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 2018.	Complied with
3 (7) (vi)	There is a process in place to identify when the bank grants any accommodation or "more favourable 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 favourable treatments were given to the employees under any category other than staff benefit schemes approved by the Board of Directors.	Complied with
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
3 (8)	**Disclosures**		
3 (8) (i)	The Board ensure that the Board has disclosed: (a) Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Annual Audited Financial Statements including basis of preparation and presentation, statement of compliance is disclosed in the Annual Report 2018 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.	Specific disclosures are available on page 120 of this Annual Report under "Statement of Directors Responsibility for Financial Reporting".	Complied with
	(b) The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Specific disclosures are available on page 116 of this Annual Report under "Directors' Statement on Internal Control over Financial Reporting".	Complied with
	(c) The board has obtained the assurance report issued by the Auditors under "Sri Lanka Standards on Assurance Engagements SLSAE – 3050 – Assurance reports for banks on Directors Statement on Internal Control" referred to in Direction 3 (8) (ii) (b) above.	Board has obtained the Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control" and included on page 118 of this Annual Report.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(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.	Details on the same are disclosed under heading "Board of Directors". Fees and transactions with the Bank has been disclosed in this report under direction 3 (8) (ii) (f).	Complied with
	(e) Total net accommodation as defined in direction 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.	Disclosures of accommodation outstanding as of balance sheet date to related parties are made under Notes to the Financial Statements in the Annual Report. Net accommodations granted to each category of related parties and its percentage as a Bank capital is as follow.	Complied with

Category of Related Party	Balance LKR Mn.	%
Board of Directors	21.47	0.29
Corporate Management	104.21	1.40
Related Companies	72.99	0.98

Spouses and other family members of Related Parties – NIL

Guideline	Function of the Board	Level of compliance	Complied/Not
	(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.	Disclosure of remuneration paid by the Bank to its KMP and Directors and other transactions with KMPs and Directors are disclosed below.	Complied with

Category of KMP	Balance as at 31 December 2018 (LKR Mn.)		Remuneration/ Fees paid during the year (LKR Mn.)
	Deposit	Loan outstanding	
Directors	0.08	2.03	19.44
Corporate Management (AGM grade and above)	3.87	26.81	77.40

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" on page 115 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 was issued by the Monetary Board during the year.	Complied with

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
A. Directors			
A.1. The Board			
The Bank should be headed by a Board, which should direct, lead and control the Bank			
All Directors of the Bank 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 judgement. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment.			
1. Board meetings	A.1.1	The Board should meet regularly. At least once a quarter.	The Board meets regularly on monthly basis. During the year the Board met 15 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, recognise their duties to comply with laws of the country which are applicable to the Bank. A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This will be coordinated through the Board Secretary, as and when it is requested.
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 judgement	A.1.5	All Directors should bring an independent judgement to bear on issues of strategy.	Directors are responsible for bringing independent and objective judgement, and scrutinising the decisions taken by the Corporate Management led by the GM/CEO, on issues of strategy, performance, resources utilisation and business conduct.
6. Dedication of adequate time and effort by the Board and Board Committee	A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	"The Chairperson and members of the Board have dedicated adequate time for the fulfillment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended Subcommittee 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 recognise the need for continuous training and expansion of knowledge and undertake such professional development as they consider necessary in assisting them to carry out their duties as Directors.
A.2 Chairman and CEO			
There should be a clear division of responsibilities between the Chairperson and the 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 the Chief Executive Officer are functioning separately at SDB Bank. 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. CEO is responsible for the day-to-day operations of the Bank.			
1. Division of responsibilities of the Chairperson and the MD/CEO	A.2.1	A decision to combine the posts of Chairman and the CEO in one person should be justified and highlighted in the Annual Report.	The roles of the Chairperson and the Chief Executive Officer have been segregated, ensuring an appropriate balance of power.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
A.3 Chairman's role			
The Chairperson should lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully and preserves order and facilitates the effective discharge of the Board function.			
1. Role of the Chairperson	A.3.1	The Chairman should conduct Board proceedings in a proper manner and ensure an effective discharge of the Board functions.	The Chairperson leads the Board ensuring effectiveness in all aspects of its role. The Chairperson of SDB Bank is a Non-Executive Director, elected by the Board. The Chairperson's role encompasses – Ensuring that the new Board members are given appropriate induction, covering terms of appointment, duties and responsibilities.
A.4 Financial acumen			
The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board is equipped with members having sufficient financial acumen and knowledge.			
1. Availability of sufficient financial acumen and knowledge	A.4.1	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	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".
A.5 Board balance			
It is preferable for the Board to have balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.			
1. Presence of Non-Executive Directors	A.5.1	The Board should include at least 2 Non-Executive Directors or a number equalling to 1/3 of all Directors whichever is higher and in the event of CEO and Chairman is same the majority should be consistent with Non-Executives.	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2018.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive Directors out of all, should be Independent Directors.	Board comprises 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.
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 2018.
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.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
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.

A.7 Appointments to The Board

There should be a formal and transparent procedure for the appointment of new Directors to the Board.

1. Nomination Committee	A.7.1	A Nomination Committee should be established to make recommendations to the Board on selection of New Directors. The Chairman and members of the Committee should be disclosed in the Annual Report.	The Nomination Committee made recommendations to the Board on all new Board appointments. The Terms of Reference of the Committee was formally approved by the Board and Chairman and members are disclosed in the Annual Report under "Report of the Board Selection and Nomination Committee (BS & NC)".
2. Assessment of Board Composition by the Nomination Committee	A.7.2	The Nomination Committee or in the absence of Nomination Committee, the Board as a whole should annually assess Board composition.	The Nomination Committee carried out continuous review of the structure, size and composition (including the skills, knowledge, experience and independence required for Directors) of the Board to address and challenge adequately key risks and decisions that confront or may confront the Board and makes recommendations to the Board with regard to any changes.
3. Disclosure of details of new Directors to shareholders	A.7.3	Upon the appointment of a new Director, the Company should forthwith disclose relevant particulars to shareholders.	New appointments of Directors are disclosed through the CSE as well as at the AGM.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
A.8 Re-election			
All Directors should submit themselves for re-election at regular intervals and at least once in every three years.			
1. Appointment of Non-Executive Directors	A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions of Companies Act relating to the removal of Directors and their reappointment should not be automatic.	Articles of Association of the Bank requires, each Director other than the CEO and any nominee Director, to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior review.
2. Election of Directors by the shareholders	A.8.2	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment and re-election thereafter at intervals of no more than three years.	Complied with.
A.9 Appraisal of Board Performance			
The Board should periodically appraise its own performance against the preset targets in order to ensure that the Board responsibilities are satisfactorily discharged.			
1. Appraisal of Board performances	A.9.1	The Board should annually appraise it self on its performance in the discharge of its key responsibilities as set out in A.1.2.	Self-assessments for Board of Directors were done for the year 2018.
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.
3. Disclosure of the method of appraisal of board and board Subcommittee performances	A.9.3	The Board should state how such evaluation was done in the Annual Report.	Refer the " Board of Directors" in the Annual Report.
A.10 Disclosure of Information in respect of Directors			
Details in respect of each Director should be disclosed in the Annual Report for the benefit of the shareholders.			
1. Details in respect of Directors	A.10.1	The Annual Report of the Company should disclose details regarding Directors.	Details of the Directors are given in the Annual Report under "Board of Directors" and "Annual Report of the Board of Directors on the Affairs of the Company".
A.11 Appraisal of the CEO			
The Board of Directors should at least annually assess the performance of the Chief Executive Officer.			
1. Targets for MD/CEO	A.11.1	At the commencement of every fiscal year the Board in consultation with the CEO should set objectives for the Company.	CEO's performance objectives are aligned with business objectives of the Bank. The performance targets for the CEO are set at the commencement of every year by the Board.
2. Evaluation of the performance of the MD/CEO	A.11.2	The performance of CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets have been achieved.	Bank has a process to review and evaluate the performance of CEO at the Board Human Resources and Remuneration Committee.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018

B. Directors' remuneration

B.1. Remuneration procedures

The Bank should have a formal and transparent procedure for developing policy on Executive remuneration and fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her remuneration.

1. HR and 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 and 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 and Remuneration Committee	B.1.2 and B.1.3	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman who should be appointed by the Board and the Chairman and members of the Committee should be stated in the Annual Report.	All Committee members are Non-Executive Directors and the Chairperson is appointed by the Board. Composition of the Committee is given in the Annual Report under "Report of the Board Human Resources and Remuneration Committee".
3. Remuneration of the Non-Executive Directors	B.1.4	The Board as a whole or as required by the Articles of Association the shareholders should determine the remuneration of Non-Executive Directors.	Remuneration of Non-Executive Directors are determined by the Board Human Resources and Remuneration Committee.
4. Consultation of the Chairperson and access to professional advice	B.1.5	The Remuneration Committee should consult the chairman and CEO about its proposals relating to the remuneration of other executive Directors and have access to other professional advice.	Input of the Chairman is obtained by her involvement as a member of the said sub committee and access is available to obtain professional advices if necessary.

B.2 Level and make up of remuneration

The level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Bank successfully. A Proportion of Executive Directors remuneration should be structured to link rewards to the corporate and individual performance.

1. Level and make up of the remuneration of Executive Directors	B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors.	The Board is mindful of the fact that the remuneration of Executive and the Non-Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Bank.
2 Comparison of remuneration with other companies	B.2.2	The Remuneration Committee should judge where to position the level of remuneration of the Company relative to other companies.	The Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the 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.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
7. Early termination of Directors	B.2.7	Remuneration Committee should consider what compensation commitments, their Directors contracts of service, if any entail in the event of early termination.	Compensation on early termination will be discussed on case by case basis considering the relevant facts.
8. Early termination not included in the initial contract	B.2.8	Where the initial contract does not explicitly provide for compensation commitments, remuneration committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	Compensation on early termination will be discussed on case by case basis by the Remuneration Committee.
9. Remuneration of the Non-Executive Directors	B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	The level of remuneration of Non-Executive Directors reflect the time commitment and responsibility of their role taking into consideration 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 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.

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 purpose a resolution at the AGM relating to the adoption of the report and accounts.	Bank propose a separate resolution at the AGM on each substantially separate issue.
3. Availability of all Board Sub Committee Chairmen at the AGM	C.1.3	The Chairman of the Board should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Board which includes the Chairman of the Audit, Remuneration, Nomination and Integrated Risk Management Committees are present at the AGM to answer any questions.
4. Adequate notice of the AGM	C.1.4	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Bank gives notice of the AGM and related papers to the shareholders 15 working days prior to the meeting date.
5. Procedures of voting at General Meetings	C.1.5	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	Voting procedures at General Meetings are circulated to the shareholders along with the Annual Report.

C.2 Communication with shareholders

The Board should implement effective communication with shareholders.

1. Dissemination of timely information	C.2.1	There should be a channel to reach all shareholders of the Company in order to disseminate timely information.	All the financial information of the Bank could be reached through 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.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
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 – 011 2832590
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 – 011 2832590
7. The process of responding to shareholder matters	C.2. 7	The process for responding to shareholder matters should be formulated by the Board and disclosed.	Answering the shareholders' matters is done by Company Secretary/through the above contact numbers and at the AGM.

C.3 Major and material transactions

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

1. Major transactions	C.3.1	Prior to a company engaging in or committing to a "Major related party transaction" with a related party, Directors should disclose to shareholders the purpose and all relevant material facts and obtain shareholders' approval by ordinary resolution.	During 2018 there were no major transactions that took place as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affects Bank's net asset base.

D. Accountability and audit

D.1. Financial reporting

The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.

1. Statutory and regulatory reporting	D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators.	SDB Bank has reported a true and fair view of its position and performance for the year ended 31 December 2018 and at the end of each month of 2018. In the preparation of quarterly and annual financial statements, SDB Bank 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 Bank 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.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
4. Management Discussions and analysis	D.1.4	Annual Report should contain a "Management Discussion and Analysis".	The Annual Report contains "Management Discussion and Analysis".
5. Declaration by the Board that the business as a going concern	D.1.5	The Directors should report that the business is going concern, with supporting assumptions or qualifications as necessary.	This is given in the "Annual Report of the Board of Directors on the affairs of the Company" in the Annual Report.
6. Summoning an EGM to notify serious loss of capital	D.1.6	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Director shall forthwith summon an EGM of the Company to notify shareholders of the position and remedial actions.	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.

D.2 Internal Control

The Board should have a sound system of internal controls to safeguard shareholders" investments and the Bank's assets.

1. Annual evaluation of the internal controls system	D.2.1	The Directors should at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal control.	The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls is evaluated by the Audit Committee In the year 2018. Risk has been reviewed by BIRMC quarterly. 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".
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.

D.3 Audit Committee

The Board should have a formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor.

1. Composition of the Audit committee	D.3.1	The Audit committee should be comprised of a minimum of two independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	Complied with. (Please refer the composition of Audit committee in the Annual Report.)
2. Review of objectivity of the External Auditor	D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness , and the independence and objectivity of the Auditors.	The Audit Committee ensures the independence and objectivity of External Auditors.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
3. Terms of reference of the Audit Committee	D.3.3	The Audit Committee should have a written Terms of Reference.	Bank has written Terms of Reference for Audit Committee which addresses requirements of the code.
4. Disclosures of the Audit committee	D.3.4	The names of the Directors of Audit Committee, determination of the independence of the Auditors and its basis should be disclosed in the Annual Report.	The names of the members of the Audit Committee are given in the Annual Report. The Committee ensures the rotation of External Audit Engagement Partner once in every 5 years. The External Auditor has provided an Independent confirmation in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC.

D.4 Code of Business Conduct and Ethics

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

1. Code of Business Conduct and Ethics	D.4.1	Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and Key Management Personnel and if there is such a Code, make an affirmative declaration in the Annual Report.	The Bank has developed a Code of Business Conduct and 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 behaviour 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 and Ethics.	Please refer the "Chairperson's Statement on Corporate Governance" for details.

D.5 Corporate Governance Disclosures

The Bank should disclose the extent of adoption of best practice in Corporate Governance.

1. Disclosure of Corporate Governance	D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner in which Company has complied with the principles and provisions of this code.	This requirement is met through the presentation of this report.

E. Institutional investors

E.1 Shareholders voting

Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.

1. Institutional shareholders	E.1.1	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern.

E.2 Evaluation of governance disclosures

1. Evaluation of Governance Disclosures	E.2.1	When evaluating companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention.	Institutional investors' concerns are addressed as and when raised.

F. Other Investors

F.1 Investing/Divesting decision

1. Individual shareholders	F.1.1	Individual shareholders, investing directly in shares of companies should be encouraged to carryout adequate analysis or seek independent advice in investing or divesting decisions.	Information are readily available for individual shareholders investing directly in shares of the Company to encourage and carryout adequate analysis.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
F.2 Shareholder Voting			
2. Individual shareholder's 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.
G. Sustainability reporting			
G.1 Principles of sustainability reporting			
1. Principle 1 – Economic sustainability	G.1.1	Principle of economic sustainability governance recognises how organisations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate in their sphere of influence and how this is integrated through the organisation.	The Bank 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 – Formalisation of sustainability report	G.1.7	Sustainability reporting and disclosure should be formalised as part of the Company's reporting process and take place on a regular basis.	Sustainability reporting is based on local and global standards providing credible accounts of the Bank's economic, social and environmental impact.

Report of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee (BIRMC) is vested by the Board with the role of defining the risk appetite of the Bank, and ensuring that bank operates within its designated tolerance for risk at all times. The BIRMC is also responsible for ensuring that a robust governance structure is in place so that all existing and emerging risks are mitigated in a timely and effective manner. Any bank is exposed to various risks when it operates in a dynamic environment. The BIRMC is further responsible for the continuous development of a culture of risk awareness within the Bank and staff are aware of the latest risks. The BIRMC also appraises the performance of the Chief Risk Officer and Compliance Officer ensures that the staff of the Risk Department are suitably skilled and experienced to carry out their duties effectively.

Composition of the committee

The BIRMC comprised the following Directors and members:

- Prof S Amaratunge – Chairman, Independent, Non-Executive Director
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director (Appointed to the BIRMC w.e.f 20 June 2018)
- Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director (Appointed to the BIRMC w.e.f 20 June 2018)

Mr D J K Newunhella and Mr L Abeysekera, Independent Non-Executive Directors served in the committee until 20 June 2018. Mr Navindra Liyanaarachchi Non Independent, Non-Executive Director served as a member of the committee, resigned from the Board with effect from 29 August 2018. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by members who had retired from the Committee.

The Company Secretary acts as the secretary of the meeting.

Term of reference (ToR) of the committee

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

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

The major function of the BIRMC is to manage and review the overall risk profile of the Bank which includes the following responsibilities:

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

Committee activities during the year

During the year under review several value additions and procedures were introduced by the Committee to further strengthen the Risk Management Process of the Bank. The Operational Risk Policy was approved and training on loss data capture and loss reporting was rolled out to the branches. Formal lines for operational loss reporting was established with the appointment of risk champions at branch and department level.

The BIRMC reviewed the quarterly Internal capital adequacy calculations and methodology and future projections. The Bank's capital augmentation strategy in the light of changing macro economic factors.

The Committee also reviewed the significant risks arising from Credit, Market, Liquidity and Operational areas in addition to reviewing the effectiveness and efficiency of Key Management Committee meetings held during the year.

Meetings

The BIRMC met five times during the year under review. The attendance of the Committee members at the meetings of the Committee is tabled on page 113 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 action taken where necessary.

Prof S Amaratunge
Chairman
Board Integrated Risk Management Committee

8 March 2019

Report of the Board Audit Committee

Composition of the Committee

The Board Audit Committee ("the Committee") appointed by and responsible to the Board of Directors ("the Board") comprises three (03) Non-Executive, Independent Directors, and one (01) Non-Independent, Non-Executive Director.

The following members serve/served on the Board Audit Committee (BAC):

- Mr Lakshman Abeysekera – Senior Director/Chairman – BAC – Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr K G Wijerathne – Non-Independent, Non-Executive Director (Appointed to the BAC w.e.f. 20 June 2018)
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director (Appointed to the BAC w.e.f. 20 June 2018)

Mr Jayantha Kumara Newunhella – Independent, Non-Executive Director served in the Committee until 20 June 2018. We take this opportunity to place on record the Committee's appreciation for the valuable service rendered by Mr Jayantha Kumara Newunhella as a member of the BAC.

The Chairman of the BAC Mr Lakshman Abeysekera is an Independent Non-Executive Director. Brief profiles of Mr Lakshman Abeysekera and other members of the BAC are given on pages 16 to 20 of the Annual Report.

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

Terms of reference

The BAC was functioned as per the Terms of Reference approved by the Board of Directors. The Board reviews the Terms of Reference once a year and as and when required and it 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 and 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 Specialised 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 Exchange 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;
- Assessing the reasonableness of the underlying assumptions for estimates and judgements made in preparing the Financial Statements.
- Reviewing accounting and financial reporting, risk management processes and regulatory compliance;
- Reviewing of the Financial Statements (including quarterly/interim statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies which are consistently applied;
- Reviewing internal audit reports and liaising with Corporate Management in taking precautionary measures to minimise control weaknesses, procedure violations, frauds, and errors;
- Assessing the independence and reviewing the adequacy of the scope, functions and resources of the Internal Audit Department, including the appointment of the Chief Internal Auditor (CIA) and the performance of the CIA and senior staff members of the Internal Audit Department;
- 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;
- Monitoring and reviewing the procedures placed by the Bank to ensure that proper awareness is created on "Responding to Non-Compliance with Laws and Regulations (NOCLAR)" standard; and
- Engaging independent advisors on specialised functions where it is deemed necessary.

Meetings

For the purpose of discharging its duties, the BAC met Eighteen (18) times during the year. Attendance of the Committee members of each of these meetings is given in the table on page 113 of the Annual Report. The minutes of the meetings have been regularly reported to the Board of Directors. Chief Internal Auditor and Chief Financial Officer have normally attended meetings on invitation and Chief Executive Officer and the relevant Senior Management/Officers in other grades are also participated in the meetings on invitation. On the invitation of the Committee, the Engagement Partner and the Senior Officers of the Banks External Auditors, Messrs Ernst & Young attended for three (03) Committee Meetings during the year. The Committee continued guiding the Management with the selection of the new Accounting Policies which are required under the new Accounting Standards. In Four (04) out of Eighteen (18) meetings, it has been discussed and recommended the Quarterly and Annual Financial Statements for Board approval. The Committee met Chief Internal Auditor and other senior internal Audit staff in two (02) meeting without presence of the Management. The BAC met the External Auditors in three (03) occasions during the year and evaluated the independence of External Auditors and concluded that adequate independency has been maintained by them.

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 and 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 Chief Financial Officer and also reports from the External Auditors on the outcome of their review and annual audit.

SLFRS – 9 "(Financial Instruments)" has been taken in to consideration by the Board and it is effective from 1 January 2018 by replacing the Sri Lanka Accounting Standard – LKAS 39 "(Financial Instruments: Recognition and Measurement)". SLFRS – 9 uses a forward looking "expected credit loss model" compared to the previously applied "incurred credit loss model" under LKAS 39. The Bank has obtained the services of an External Consultancy for the implementation of SLFRS – 9. The models have been developed, tested and submitted for External Auditors for verification and implemented for the year ended 31 December 2018. The Board will continuously strengthen the processes required for validation and compliance with SLFRS – 9, with the support and recommendations made by the External Auditors.

In accordance with revised Sri Lanka Standards on Auditing, Independent Auditors' reports for financial years ending on or after 31 December 2018 are required to incorporate the reporting of Key Audit Matters. As part of the Bank's Audit Committee's responsibilities, notably its review of financial results, reports from internal and external audit, finance and internal financial control reports, the Bank's Accounting Policies, as well as the annual Financial Statements; the BAC took cognisance of the Key Audit Matters as reported in the Independent Auditors' Report. In addition, the Committee reviewed Management's judgements on significant accounting and external reporting issues and confirmed external audit's agreement with the treatment thereof.

Internal Control Over Financial Reporting (ICOFR)

The Bank is required to comply with Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka and assessed the adequacy and effectiveness of internal control over financial reporting as of 31 December 2018.

The Bank assessed the adequacy and effectiveness of its internal control over financial reporting as of 31 December 2018 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 31 December 2018, the Bank's internal control over financial reporting is effective. Directors' Report on the Bank's Internal Control over Financial Reporting is provided on pages 116 and 117 in the Annual Report. The Bank's External Auditors have reviewed the effectiveness of the Bank's internal control over financial reporting and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. External Auditor's Report on the Bank's Internal Control over Financial Reporting is provided on page 118 of the Annual Report.

Annual corporate governance report

As required by Section 3 (8) (ii) (g) of the Banking Act. Direction No. 12 of 2007, on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka, the Annual Corporate Governance Report for 2018 is provided on pages 72 to 94 in the Annual Report. The External Auditors of the Bank have performed procedures set-out in Sri Lanka Related Services Practice Statement 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLRSPS 4750), to meet the compliance requirement of the Corporate Governance directive. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported by the Board on pages 72 to 94.

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.
- Evaluated the independence of External Auditor and concluded that adequate independency has been maintained by them.
- 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. 07 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 & Young, Chartered Accountants, be reappointed for the financial year ending 31 December 2019 subject to the approval of shareholders at the 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 Internal 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.

The Committee reviewed the performance appraisal of the Chief Internal Auditor and other Senior Staff members of the Internal Audit Department.

The Chief Internal Auditor reports directly to the BAC. 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 four (04) broad areas namely:

- Branch Audits;
- Departments/Divisions Audits, including Treasury, Risk Management and Regional Office Audits;
- Information System Audits and;
- Investigations.

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

Branch Audits, Departments/Divisions Audits, including Information Technology Operations and Regional Offices were covered during 2018, as per the Risk-Based Audit Plan (RBAP) approved by the BAC. Also the investigations were conducted by the Internal Audit Department where necessary.

Progress of implementation of BAC decisions with agreed timelines to implement has been introduced and monitored through regular updates from CIA on the status of the implementation.

Along with the significant findings, the Internal Audit Department has engaged in sharing and providing knowledge through audit exit meetings 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 and accountability, responsibility, independence, reporting, commitment, unrestricted access that assist the Internal Audit Department to discharge its function effectively. The Internal Audit Charter and the Internal Audit Manual were reviewed/revised and approved by the Board and BAC respectively.

Whistle blowing

SANASA Development Bank's Whistle-Blowing Policy is intended to serve as a channel of fraud risk management. The policy allows any team member who has a legitimate concern on an existing or potential "wrong doing", 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, 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.

Reporting to the Board

The Minutes of the BAC Meetings are tabled at the Board meetings enabling all Board members to have access to them.

Professional advice

The BAC has the authority to seek external professional advice on matters within its purview; and consultations were obtained when need arises.

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.

On behalf of the Board Audit Committee (BAC),

Lakshman Abeysekera
Chairman/Senior Director
Board Audit Committee (BAC)

8 March 2019
Colombo, Sri Lanka

Report of the Board Human Resources and Remuneration Committee

Board Human Resources and Remuneration Committee (BHRRC) of SDB Bank 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 BHRRC

The Board Human Resources and Remuneration Committee consists of Three (03) Non-Executive Directors appended below:

- Mr Chaaminda Kumarasiri – (Chairman – BHRRC), Independent, Non-Executive Director (Appointed to the BHRRC w.e.f. 20 June 2018)
- Ms Samadanie Kiriwandeniya – (Chairperson) Non-Independent, Non-Executive Director
- Mr Lakshman Abeysekera – (Senior Director), Independent, Non-Executive Director (Re-appointed to the BHRRC w.e.f. 26 September 2018)

Prof Sampath Amaratunge and Mr D J K Newunhella, Independent Non-Executive Directors served in the Committee until 20 June 2018 and 31 July 2018 respectively. Mr Navindra Liyanaarachchi Non-Independent, Non-Executive Director served as a member of the committee since 20 June 2018 resigned from the Board with effect from 29 August 2018. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by members who had retired from 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 Chief Executive Officer and the Head of Human Resources, except when matters relating to those two positions are discussed.

Committee Meetings of BHRRC

The Committee held Fourteen (14) Board Human Resources and Remuneration Committee Meetings during the year under review and deliberated 74 papers associated with a wide array of aspects relating to the Human Resources function of the Bank. The Committee has been able to continuously direct the HRM function of the Bank to align with its strategic direction whilst complying with the regulatory and statutory framework of the Bank.

Scope and responsibilities

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

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

Key HR initiatives during the year

During the year, the Committee, comprehensively reviewed the performance of the Key Management Personnel's (KMP) of the Bank for the year 2017 against the set goals and targets. They also set goals and targets for KMPs for 2018 in line with the strategic vision and direction of the Bank in 2018.

The Committee acknowledges that in addition to effective strategic planning and talent management, cultivating a work environment that supports and sustains a culture of superior performance that drives success both current and in the future is essential and thus approved a performance linked bonus plan for all staff according to the overall achievement of Bank level profit target, a rewarding incentive scheme for sales personnel and a performance-based variable pay plan for support staff.

The Committee also recommended to Board of Directors of the Bank, a fair salary revision of 33% to Bank staff in par with industry standard. A Collective Agreement has been signed with the Ceylon Bank Employees' Union for the period between 2018-2020 simultaneously with the salary revision. Further, viable Non-salary benefits have also been negotiated to implement. This salary revision along with the Collective Agreement were recommended to promote trust and industrial harmony, uplifting the quality of the work life of employees and to motivate employees for better performance.

The Bank undertook a job evaluation and grading exercise across the Bank and job descriptions were reviewed and revised. The Committee deliberated on the policy parameters and recommended these changes. With these changes new grades were created, re-aligned etc., and promotions were carried out accordingly as recommended by the Committee.

Apart from the above, during the financial year, the Committee had considered many aspects related to human resources aspects of the Bank which is mutually beneficial for the Bank and its employees.
To ensure that the Committee's performance is optimal, a self-evaluation of the Committee Members was also carried out and circulated amongst the members of the Committee for necessary action.

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

Chaaminda Kumarasiri
Chairman
Board Human Resources and Remuneration Committee

8 March 2019
Colombo, Sri Lanka

Report of the Board Selection and Nomination Committee

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

Composition of the BS & NC

The Board Selection and Nomination Committee comprises three (03) Non-Executive Directors (of which a majority are Independent) appointed by the Board of Directors of the Bank. During the year 2018, the following Directors served on the BS & NC:

- Mr Lakshman Abeysekera – Senior Director/Chairman – BS & NC, Independent, Non-Executive Director
- Ms Samadanie Kiriwandeniya – Chairperson, Non-Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director (Appointed to the BS & NC w.e.f. 20 June 2018)

Mr Jayantha Kumara Newunhella – Independent, Non-Executive Director served in the Committee until 20 June 2018. We take this opportunity to place on record the Committee's appreciation for the valuable service rendered by Mr D J K Newunhella as a member of the Board Selection and Nomination Committee.

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

Primary Objectives of the BS & NC

The BS & NC was established to assist the Board of Directors in fulfilling its role and responsibilities with regard to the selection and appointment of Independent Directors, election and re-election of Non-Independent Directors, and appointment of Chief Executive Officer 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 CEO and appointment/promotion for other Key Management Positions.
- To ensure that the Directors, 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 mobilise such skills and expertise.
- To put in place a proper succession plan for retiring Directors and Key Management Personnel with a view to ensure the uninterrupted and smooth functioning of all aspects of the Bank's operations and decision-making process in the long run and business continuing in unforeseen situations.

The Terms of Reference of the Board Selection and Nomination Committee was adopted by the Board in 2012 and it was further reviewed and refined in 2018.

Meetings of the BS & NC and its effectiveness

The Committee met Fourteen (14) times during the year under review and it focused mainly on the following:

- Board composition – Identified the skills required and recommended the appointment of two new Directors with expertise in Credit, Human Resources, Finance and Auditing aspects.
- 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 skills 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 Chief Executive Officer of the Bank reviewed and analysed the expertise required and available at Corporate and Senior Management level and specially discussed the succession plan for Key Management Personnel'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 Key Management Personnel's and during the year under review. Board Selection and Nomination Committee interviewed and evaluated candidates and selected to fill the post of Chief Executive Officer.
- Job grading – Parallel to the job evaluation and grading exercise carried out, the Board Selection and Nomination Committee evaluated candidates and elected to fill the posts of Chief Information Officer, Chief Financial Officer, Head of SME and Deputy Head of Finance.
- Due to retirement of current GM/CEO on 28 February 2019 Interviews were carried out in October 2018 to select a suitable candidate for the position of CEO. Accordingly, the Committee was able to finalise the selection of CEO by December 2018.

For and on behalf of the Board Selection and Nomination Committee,

Lakshman Abeysekera
Chairman/Senior Director
Board Selection and Nomination Committee

8 March 2019
Colombo, Sri Lanka

Report of the Board Related Party Transactions Review Committee

The Board of Directors of the Bank constituted a Board Related Party Transactions Committee (BRPTRC) voluntarily in July 2014 further to the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) so as to ensure compliance with the Rules pertaining to Related Party Transactions as set out in the Listing Rules of the CSE, which required mandatory compliance from 1 January 2016. The composition and scope of the work of the Committee are in conformity with the provisions of the said Section in the Listing Rules.

Composition of BRPTRC

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

- Mr Chaaminda Kumarasiri – Chairman – BRPTRC, Independent, Non-Executive Director (Appointed to BRPTRC w.e.f. 20 June 2018)
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr Prasanna Premaratna – Independent, Non-Executive Director (Appointed to BRPTRC w.e.f. 12 September 2018)

Mr M K L Fernando – Independent, Non-Executive Director served as a member of the Committee retired from the Board on 9 June 2018 after reaching the age of 70 years and Mr D J K Newunhella – Independent, Non-Executive Director served as the Chairman of the Committee until 31 July 2018. We take this opportunity to place on record the Committee's appreciation for the valuable service rendered by Mr D J K Newunhella and Mr M K L Fernando as members of the Related Party Transactions Review Committee.

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

Terms of Reference of the Committee

The Terms of Reference (ToR) of the Board Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the ToR in December 2018. The Committee carries out the following duties and responsibilities:

- All transactions with Related Parties of the Bank in order to ensure that Related Parties are treated on par with other shareholders of the Bank;
- Implementing regulations relating to Related Parties issued by Central Bank of Sri Lanka and Securities and Exchange Commission of Sri Lanka;
- Ensure that the interests of Shareholders as a whole are taken into account by a listed entity when entering into related party transactions; and
- Ensure that there is a safeguard to prevent of taking advantage of their positions by Directors, Key Management Personnel or substantial shareholders.

Committee meetings of BRPTRC

The Committee met Four (4) times during the year under review and the attendance of Committee members at meetings is stated in the table on page 113 of the Annual Report. Attendance of Committee meetings is compulsory for Chief Executive Officer, Compliance Officer and Chief Risk Officer except when matters related to those positions are discussed.

The proceedings of the Committee Meetings are formally documented and have been regularly reported to the Board of Directors. The Board of Directors in their decisions take due consideration of the comments/ observations made by the Committee.

Objective of the Committee

In carrying out the duties of the Committee, the Committee avoids "Conflicts of Interest" which may arise from any transaction of the Bank with any person particularly with related parties, ensure arm's length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which requires the Bank to avoid engaging in transactions with related parties in a manner that would grant such parties "more favourable treatment" than accorded to other constituents of the Bank carrying on the same business, in line with the security requirements as stated in the Banking Act Directions and in compliance with the approval procedure set out in the Banking Act.

Summary of activities

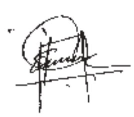
During the year the Committee reviewed transactions relating to the procurement of goods and services carried out by the Bank with various related parties on an "arms-length" basis. The Committee also considered and reviewed loans granted to SANASA Societies and other affiliated SANASA entities.

The Committee also reviewed the ToR of the Committee for the year 2018.

The Committee noted that the Bank has not entered into any transactions as contemplated in Section 9.1.1 and 9.1.2 of the Listing Rules of the CSE and that accordingly there are no disclosures to be made in this regard in accordance with Section 9.3.2 (a) and 9.3.2 (b) of the Listing Rules of the CSE.

The Committee has reviewed the Related Party Transactions of the Bank during the period of 1 January 2018 to 31 December 2018 and has thus complied with the rules pertaining to Related Party Transactions as set out in Section 9 of the Listing Rules of the CSE.

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



Chaaminda Kumarasiri
Chairman
Board Related Party Transactions Review Committee

8 March 2019
Colombo, Sri Lanka

Report of the Board ICT and Business Strategic Committee

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

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

Composition of the Committee

BICT & BSC comprises of Five (05) Non-Executive Directors, appointed by the Board of Directors. During the year 2018, the following Directors served on BICT & BSC:

- Ms Samadanie Kiriwandeniya – (Chairperson – BICT & BSC) Non-Independent, Non-Executive Director
- Mr Lakshman Abeysekera – Senior Director, Independent, Non-Executive Director
- Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director (Appointed to BICT & BSC w.e.f. 20 June 2018)
- Mr Arnoldus de Vette – Non-Independent, Non-Executive Director (Appointed to BICT & BSC w.e.f. 20 June 2018)

Mr M K L Fernando – Independent, Non-Executive Director served as a member of the committee up to 9 June 2018. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by Mr M K L Fernando as members of the Committee.

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

Meetings of BICT & BSC

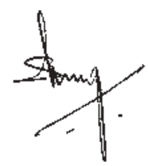
The Committee met Four (04) times during the period under review and during the year Committee deliberated followings and suggested recommendations for implementation of;

- Agency Banking Model
- Engaging Co-operative sector in the capital mobilisation
- IT Strategy on linking Societies and reaching customer door-step.
- Budget 2019
- Business Strategies 2019
- Marketing Budget and Plan 2019

The Scope of ToR

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

For and on behalf of the Board ICT and Business Strategic Committee.



Samadanie Kiriwandeniya
Chairperson
Board ICT and Business Strategic Committee

8 March 2019
Colombo, Sri Lanka

Report of the Board Credit Committee

The main income generation activity of the Bank is its lending operation. It has employed capital funds of its shareholders as well as deposits mobilised 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 (BCC) 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 Four (04) Non-Executive Directors who meet at least once a month to deliberate on issues under its purview:

Composition of the BCC

- Mr Prasanna Premaratna – Chairman – BCC, Independent, Non-Executive Director (Appointed to BCC w.e.f. 12 September 2018)
- Ms Samadanie Kiriwandeniya – (Chairperson) Non-Independent, Non-Executive Director
- Mr Lionel Thilakarathne – Non-Independent, Non-Executive Director
- Mr Arnoldus de Vette – Non-Independent, Non-Executive Director

Mr M K L Fernando – Independent, Non-Executive Director served as the Chairman of the Committee retired from the Board on 9 June 2018 after reaching the age of 70 years. Mr H M G B Herath and Mr D J K Newunhella served in the Committee until 22 May 2018 and 31 July 2018 respectively. We take this opportunity to place on record the Committee's appreciation for the valuable service rendered by Mr M K L Fernando, Mr H M G B Herath and Mr D J K Newunhella as members of the Committee.

Company Secretary is functioning as the Secretary of the Committee. Chief Executive Officer, Head of Business, Chief Risk Officer, Head of Credit, Head of Recovery and Collection, shall attend the Meetings and Head of Co-operative Division, Head of Legal, Head of SME 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 behaviour in the market and the internal and external factors affecting such fluctuations
- Monitor the portfolio mix to ensure sectoral exposure, collateral diversification, term diversification and lending to priority sectors
- Provide relevant directions to ensure adherence to statutory and regulatory compliance requirements
- Ascertain the quality of the credit portfolio by monitoring credit collections and delinquent loan recoveries
- Evaluate and afford interest concessions where appropriate, for full and final settlements of hardcore loans and write-offs of loan capitals whenever it deems necessary and recommend to the Board of Directors

Apart from the aforesaid, the Board Credit committee has the prerogative to call for any other information or special report relating to the Credit Operation of the Bank, if it deems necessary for its scrutiny.

The Committee met Thirteen (13) times, during the year under review to discuss the normal scope of work and the proceedings of the Committee Meetings have been reported to the Board of Directors.

During the meetings held in 2018 the committee carried out following activities:

- Reviewed and agreed on the revised Terms of Reference of the Committee and recommended for approval of the Board of Directors
- Reviewed and amended the Credit Policy and Credit Manual of the Bank and recommended for approval of the Board of Directors
- Reviewed and revised payment rates of the outsourced companies who carried out recovery function and recommended for approval of the Board of Directors
- Reviewed and approved credit proposals comprising new facilities, annual review of revolving facilities, changes to terms and conditions of facilities already approved and interest rate concessions given to past due facilities
- Review the progress of recovery department on the implementation of action planned approved by Board Credit Committee on the handling of non-performing Loan facilities

For and on behalf of the Board Credit Committee.

Prasanna Premaratna
Chairman
Board Credit Committee

8 March 2019
Colombo, Sri Lanka

Financial Reports

Financial Calendar

Financial Calendar – 2018

Annual General Meeting	
22nd Annual General Meeting	To be held on 30 May 2019
21st Annual General Meeting	Held on 22 May 2018

Dividend Payments	Amount (LKR)	Date of dividend announced	Date of dividend paid/shares alloted
Cash dividend for 2017	2.50	15 March 2018	1 June 2018
Scrip dividend for 2017	3.50	15 March 2018	22 May 2018

Annual Financial Statements	
Annual Financial Statements of 2018	Signed on 8 March 2019
Annual Financial Statements of 2017	Signed on 26 February 2018

Interim Financial statements*	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
4th Quarter 2018	28 February 2019	29 March 2019
3rd Quarter 2018	15 November 2018	28 November 2018
2nd Quarter 2018	13 August 2018	30 August 2018
1st Quarter 2018	14 May 2018	30 May 2018
4th Quarter 2017	27 February 2018	28 March 2018

Proposed Financial Calendar 2019

Annual General Meeting	
23rd Annual General Meeting	To be held on or before 31 May 2020

Annual Financial Statements	
Annual Financial Statements of 2019	To be signed in March 2020

Interim Financial statements*	Date to be released to the CSE	Date to be published to the newspapers (In Sinhala, English, Tamil)
1st Quarter 2019	15 May 2019	31 May 2019
2nd Quarter 2019	15 August 2019	31 August 2019
3rd Quarter 2019	15 November 2019	30 November 2019
4th Quarter 2019	28 February 2020	30 March 2020

**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 Specialised 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

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 31 December 2018 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 and amendments thereto and the Directions issued thereunder including the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

The Financial Statements of the Bank for the year ended 31 December 2018, including the comparatives for 2017 were approved and authorised for issue by the Board of Directors on 8 March 2019 in accordance with the Resolution of the Directors. 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 specialised bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability company in Sri Lanka on 6 August 1997 under the Companies Act No. 17 of 1982. The Bank was reregistered as per the requirements of the Companies Act No. 07 of 2007 ("Companies Act") on 30 October 2007. The reregistration number of the Bank is PB 62 PQ. The Registered Office as well as the Head Office of the Bank is at No. 12, Edmonton Road, Kirulapone, Colombo 6, Sri Lanka.

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 stable outlook by ICRA Lanka Limited.

Vision, mission, goals, values and corporate conduct

The Bank's Vision and Mission statements are exhibited on page 5 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.

Principal business activities

The principal activities of the Bank include accepting deposits at competitive rates of interest and the investment of these deposits in community-based lending programmes, with special focus on Cooperative 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 Re-finance 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 (3 in 2017), bringing the total number of delivery points within the country to 94 at the end of 2018 (91 at the end of 2017).

Review of operations

The "Chairperson's Review" on pages 10 to 12 the "Chief Executive Officer's Review" on pages 13 to 15, and the "Performance and value creations" on pages 39 to 49, 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.

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 2019 enabling customers to easily access to most banking services 24/7. Please refer sections on "Chairperson's Review", "Chief Executive Officer's Review" on pages 10 to 15 and "Performance and value creations" on pages 39 to 49 for initiatives taken in this regard.

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. 07 of 2007 and Banking Act No. 30 of 1988. The Financial Statements of the Bank for the year ended 31 December 2018 duly signed by the Chief Financial Officer and Chief Executive Officer, two Directors of the Bank and the Company Secretary are given on pages 121 to 184, which form an integral part of the Annual Report of the Board of Directors.

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 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 121 to 184 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 120 forms an integral part of this Report.

Auditors' report

The External Auditors' of the Bank are Messrs Ernst and Young, Chartered Accountants. Messrs Ernst & Young, Chartered Accountants carried out the Audit on the Financial Statements of the Bank for the year ended 31 December 2018 and their report on these Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given on page 121 of this Annual Report. The Auditors' remuneration details are stated in Note 10 to the Financial Statements on page 145. As per the knowledge of the Directors the Auditors are independent and do not have any relationships or any interest in contracts with the Bank.

Significant accounting policies

The Significant Accounting Policies adopted in the preparation of the Financial Statements are given on pages 128 to 142 and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

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.

Financial results and appropriations

Gross income

The gross income of the Bank for 2018 was LKR 13.64 Bn. (2017: LKR 11.37 Bn.). An analysis of the gross income is given in Note 3 to the Financial Statements on pages 143 to 144.

Profits and appropriations

The net profit before tax of the Bank amounted to LKR 644 Mn. in 2018 (2017: LKR 753 Mn.) and this has reduced by 14% when compared to 2017. Further, the net profit after tax of the Bank amounted to LKR 357 Mn. in 2018 (2017: LKR 508 Mn.) and this was a decrease of 30% when compared to 2017. A detailed breakup of profits and appropriations of the Bank is given below:

Description	**2018 LKR**	2017 LKR
Profit for the year		
Profit for the year ended 31 December after payment of all operating expenses and provision for depreciation and contingencies	**644,142,473**	752,601,109
Less: Taxation	**(287,192,354)**	(244,777,577)
Net profit after tax	**356,950,119**	507,823,532
Other Comprehensive Income (OCI)		
Actuarial Gain/(losses) on defined benefit plans	**(45,995,306)**	2,885,075
Gains/(losses) on remeasuring available-for-sale financial assets	**(3,388,111)**	–
Deferred tax relating to other comprehensive income	**12,878,686**	(807,812)
Total comprehensive income for the year	**320,445,388**	509,900,786
Unappropriated profit brought forward from previous year	**1,328,049,884**	1,237,288,175
Balance available before adjustment	**1,648,495,272**	1,747,188,961
Impact of adoption of SLFRS 9 as at 1 January 2018	**(37,054,387)**	–
Appropriations		
Transfer to statutory reserve fund	**(17,847,506)**	(25,391,177)
Dividend		
Final cash dividend – 2016 (LKR 2.50) per share	–	(131,249,300)
Final scrip dividend – 2016 (LKR 5.00) per share	–	(262,498,600)
Final cash dividend – 2017 (LKR 2.50 per share)	**(136,947,168)**	–
Final scrip dividend – 2017 (LKR 3.50 per share)	**(191,726,035)**	–
Unappropriated balance carried forward as at 31 December	**1,264,920,177**	1,328,049,884

Taxation

The income tax rate applicable on the Bank's domestic operations is 28% (2017: 28%). Details of tax payments are given in Note 11 to the Financial Statements on page 146.

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 11.2 to the Financial Statements on pages 146 and 147.

The Bank is liable for VAT and NBT on financial services at 15% (2017: 15%) and 2% (2017: 2%) respectively. With effect from 1 October 2018 the Bank is liable for the Debt Repayment Levy (DRL) at 7% and from 1 April 2013, the Bank is liable for Crop Insurance Levy at 1% which is payable to the National Insurance Trust Fund Board.

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.

Reserves

A summary of the Bank's reserves position is as given below:

As at 31 December	2018 LKR	2017 LKR
Statutory reserve fund	**215,611,469**	197,763,963
Other reserves	**30,814,883**	34,202,994
Retained profits	**1,280,762,267**	1,340,503,863

Information on the movement of reserves is given in the Statement of Changes in Equity on page 126 and in Notes 30 to 32 to the Financial Statements on pages 162 and 163.

Capital expenditure

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to LKR 216,934,546 (2017: LKR 272,786,130). Details are given in Note 20 to the Financial Statements.

Capital commitments

The contracted and approved capital expenditure as at the date of the reporting is given in Note 20 to the Financial Statements.

Property, plant and equipment, intangible assets and leasehold property

Information on property, plant and equipment and leasehold property of the Bank are given in Note 20 to the Financial Statements on page 154. Particulars of intangible assets are given in Note 22 to the Financial Statements on page 156.

Investment properties of the Bank are disclosed in accordance with Sri Lanka Accounting Standard – 40 – "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 155 and 156.

Stated capital

The stated capital of the Bank as at 31 December 2018 amounted to LKR 5,921,538,126 consisting of 56,308,252 ordinary voting shares (2017: LKR 5,758,689,211 consisting of 54,778,867 ordinary voting shares).

The number of shares in issue of the Bank increased from 54,778,867 ordinary shares to 56,308,252 ordinary shares as a result of the scrip dividend of one ordinary share for every 35.3754159668 ordinary shares held by shareholders. The details of the shares issued are given in Note 29 to the Financial Statements.

Debt Capital

The Bank has issued Rated Guaranteed Redeemable Debentures of LKR 100 each in 2015 which are guaranteed by Sampath Bank PLC and Seylan Bank PLC to the total outstanding value of LKR 4,198,547,716 as at 31 December 2018 (2017: LKR 4,189,812,218), which are listed on the Colombo Stock Exchange. The details of the debentures outstanding as at 31 December 2018 are given in Note 26 to the Financial Statements.

Share information

Information in relation to earnings, net assets, dividends and market value per share etc., is given on page 58. 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 51 to 58 to this Report.

Details on shareholding distribution, share ownership composition and substantial shareholding are as follows:

Distribution schedule of shareholdings

Shareholder	As at 31 December 2018		As at 31 December 2017	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	**34,060**	**16,516,455**	34,710	16,242,578
Institution				
Foreign	**4**	**12,289,797**	3	11,942,201
Local and other institutions	**50**	**11,847,519**	47	10,927,204
SANASA Federation Acc 1	**1**	**720,024**	1	764,730
Acc 2		**28,439**		27,658
SANASA societies	**3,372**	**7,047,079**	3,360	6,365,985
SANASA unions	**35**	**1,242,645**	34	1,147,359
MPCCS	**21**	**156,595**	21	152,301
Trust companies	**105**	**6,459,699**	107	7,208,851
Total	**37,648**	**56,308,252**	38,283	54,778,867

Composition of share ownership

		31 December 2018				31 December 2017			
		Number of shareholders	**%**	**Number of shares**	**%**	Number of shareholders	%	Number of shares	%
1	– 1,000	**36,003**	**95.63**	**4,404,185**	**7.82**	36,659	95.76	4,472,661	8.17
1,001	– 10,000	**1,286**	**3.42**	**3,556,285**	**6.32**	1,282	3.35	3,530,007	6.44
10,001	– 100,000	**313**	**0.83**	**9,447,858**	**16.78**	294	0.77	9,237,897	16.86
100,001	– 1,000,000	**38**	**0.10**	**8,607,818**	**15.29**	40	0.10	9,277,569	16.94
1,000,001	– and above	**8**	**0.02**	**30,292,106**	**53.79**	8	0.02	28,260,733	51.59
		37,648	**100**	**56,308,252**	**100**	38,283	100	54,778,867	100

Substantial shareholdings

Names of the twenty largest shareholders, with their respective shareholdings and percentage holdings as at 31 December 2018 with their Comparative Shareholding as at 31 December 2017 are as follows:

No.	Shareholder name	31 December 2018		31 December 2017	
		No. of shares	**%**	No. of shares	%
1.	Seylan Bank PLC/Dr Thirugnanasambandar Senthilverl	**6,936,510**	**12.32**	6,203,204	11.32
2.	Ayenka Holdings (Pvt) Ltd.	**6,779,840**	**12.04**	–	–
3.	SBI FMO Emerging Asia Financial Sector Fund (PTE) LTD.	**5,045,636**	**8.96**	4,906,926	8.96
4.	CB NY S/A International Finance Corporation	**4,991,644**	**8.86**	4,854,419	8.86
5.	Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V	**2,242,504**	**3.98**	2,180,856	3.98
6.	People’s Leasing & Finance PLC	**2,094,012**	**3.72**	2,036,446	3.72
7.	Seemasahitha SANASA Rakshana Samagama (General)	**1,162,630**	**2.06**	1,130,669	2.06
8.	Kegalle SANASA Shareholders Trust Company Limited	**1,039,330**	**1.85**	1,010,758	1.85
9.	Seemasahitha SANASA Rakshana Samagama (Life)	**910,708**	**1.62**	885,672	1.62
10.	Sampath Bank PLC/Dr T Senthilverl	**871,885**	**1.55**	835,005	1.52
11.	SANASA Federation Ltd.	**720,024**	**1.28**	764,730	1.40
12.	Polgahawela Sanasa Societies Union Ltd.	**387,314**	**0.69**	351,804	0.64
13.	Hambanthota DTCCS Union Ltd.	**384,257**	**0.68**	373,694	0.68
14.	Warakapola SANASA Shareholders Trust Company Ltd.	**380,249**	**0.67**	511,257	0.93
15.	Dr T Senthilverl	**373,598**	**0.66**	34,837	0.06
16.	Kolonnawa SANASA Shareholders Trust Company Ltd.	**257,370**	**0.46**	250,295	0.46
17.	Mr D P Pieris	**257,067**	**0.46**	343,107	0.63
18.	Polgahawela SANASA Shareholders Trust Company Ltd.	**238,667**	**0.42**	234,256	0.43
19.	Sampath Bank PLC/Mr Arunasalam Sithampalam	**224,333**	**0.40**	26,093	0.05
20.	Dr S Yaddehige	**205,653**	**0.37**	265,466	0.48

Equitable treatment to shareholders

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

Information on the Directors of the Bank

The Board of Directors of the Bank consists of Nine (2017: Ten) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31 December 2018 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 16 to 20 of the Annual Report. The classification of Directors into Executive Director (ED), Non-Executive Director (NED) and Independent Director (ID), Non-Independent Director (NID) is given against the names as per Listing Rules and Corporate Governance Rules of Colombo Stock Exchange and Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

Name of the Director	Executive/ Non-Executive status	Independent/ Non-Independent status
Ms S Kiriwandeniya	Non-Executive	Non-Independent
Mr Lakshman Abeysekera	Non-Executive	Independent
Prof Sampath Amaratunge	Non-Executive	Independent
Mr Prabhash Subasinghe	Non-Executive	Non-Independent
Mr K G Wijerathne	Non-Executive	Non-Independent
Mr S Lionel Thilakarathne	Non-Executive	Non-Independent
Mr Arnoldus de Vette	Non-Executive	Non-Independent
Mr Chaaminda Kumarasiri	Non-Executive	Independent
Mr H Prasanna Premaratna	Non-Executive	Independent
New appointments made during 2018		
Mr K G Wijerathne – Appointed w.e.f. 22 May 2018	Non-Executive	Non-Independent
Mr Chaaminda Kumarasiri – Appointed w.e.f. 1 June 2018	Non-Executive	Independent
Mr H Prasanna Premaratna – Appointed w.e.f. 12 September 2018	Non-Executive	Independent
Resignations/Retirements during 2018		
Mr H M G B Herath (Retired w.e.f. 22 May 2018)	Non-Executive	Non-Independent
Mr M K L Fernando (Retired w.e.f. 9 June 2018)	Non-Executive	Independent
Mr D J K Newunhella (Resigned w.e.f. 31 July 2018)	Non-Executive	Independent
Mr N Liyanaarachchi (Resigned w.e.f. 29 August 2018)	Non-Executive	Non-Independent

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 in office, since their last election or appointment, and Mr B R A Bandara who has appointed by board to fill casual vacancy will be subject to election at the 22nd AGM, and he is eligible to be re-elected.

ii. The Board recommended the re-election of the following Directors, after considering the contents of the Affidavits and Declarations submitted by them and all other related issues:

   (a) Mr P Subasinghe

   (b) Mr S Lionel Thilakarathne

   (c) Mr B R A Bandara

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 Specialised 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 2018 during the period under review Mr H M G B Herath completed nine years.

Board subcommittees

The Board of Directors of the Bank formed four mandatory Board subcommittees namely, The Board Selection and Nomination Committee, The Board Human Resources and Remuneration Committee, The Board Integrated Risk Management Committee and The Board Audit Committee as required by the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised 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 1 January 2016.

The Board of Directors also has formed three other voluntary Board subcommittees 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 subcommittees confirm 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 subcommittees, as at 31 December 2018 and the details of the attendance by Directors at meetings are tabulated on page 113 while the reports of these subcommittees are found on page 112 in this Report.

Board subcommittees and its composition

Committee	Composition	Mandate
Board Integrated Risk Management Committee	Prof S Amaratunge (Chairman) Mr C Kumarasiri Mr P Subasinghe	Quarterly
Board Audit Committee	Mr L Abeysekera (Chairman/Senior Director) Prof S Amaratunge Mr K G Wijerathne Mr C Kumarasiri	Monthly
Board Human Resources and Remuneration Committee	Mr C Kumarasiri (Chairman) Ms S Kiriwandeniya Mr L Abeysekera (Senior Director)	At least 6 times annually
Board Selection and Nomination Committee	Mr L Abeysekera (Chairman/Senior Director) Prof S Amaratunge Ms S Kiriwandeniya	If and when it is required
Board-Related Party Transactions Review Committee	Mr C Kumarasiri (Chairman) Prof S Amaratunge Mr H P Premaratna	Quarterly
Board ICT and Business Strategic Committee	Ms S Kiriwandeniya (Chairperson) Mr L Abeysekera (Senior Director) Prof S Amaratunge Mr P Subasinghe Mr A P J de Vette	Quarterly
Board Credit Committee	Mr H P Premaratna (Chairman) Ms S Kiriwandeniya Mr S L Thilakarathne Mr A P J de Vette	Monthly
Board Co-operative Development Committee	Mr K G Wijerathne (Chairman) Mr L Abeysekera (Senior Director) Mr S L Thilakarathne	Quarterly

Director's meetings

Details of the meetings of the Board of Directors which comprises with Board Meetings, Board Audit Committee Meetings, Board Selection and Nomination Committee Meetings, Board Human Resource and Remuneration Committee Meetings, Board Credit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board ICT and Business Strategic Committee Meetings, Board-Related Party Transactions Review Committee Meetings and Board Co-operative Development Committee Meetings and the attendance of Directors at these meetings are given below:

Name of the Director	Board Meeting	Board Credit Committee (BCC)	Board Audit Committee (BAC)	Board Human Resources and Remuneration Committee (BHRRC)	Board Integrated Risk Management Committee (BIRMC)	Board Selection and Nomination Committee (BS and NC)	Board ICT and Business Strategic Committee (BICT & BSC)	Board Related Party Transactions Review Committee (BRPTRC)	Board Co-operative Development Committee (BCDC)	Total
Ms S Kiriwandeniya	14/15	12/13	–	14/14	–	13/14	4/4	–	–	57/60
Mr L Abeysekera	15/15	–	18/18	13/14	3/5	14/14	4/4	–	3/6	70/76
Mr H M G B Herath	5/15	6/13	–	–	–	–	–	–	3/6	14/34
Mr D J K Newunhella	9/15	2/13	10/18	10/14	3/5	5/14	–	3/4	–	42/83
Prof S Amaratunge	10/15	–	13/18	6/14	4/5	5/14	1/4	3/4	–	42/74
Mr M K L Fernando	6/15	6/13	–	–	–	–	–	2/4	3/6	17/38
Mr P Subasinghe	13/15	–	–	–	1/5	5/14	3/4	–	–	22/38
Mr N Liyanaarachchi	9/15	–	–	0/14	2/5	–	–	–	4/6	15/40
Mr S L Thilakarathne	15/15	12/13	–	–	–	–	–	–	6/6	33/34
Mr A P J de Vette	12/15	11/13	–	–	–	–	1/4	–	–	24/32
Mr K G Wijerathne	7/15	–	7/18	–	–	–	–	–	3/6	17/39
Mr C Kumarasiri	8/15	–	8/18	4/14	2/5	4/14	–	2/4	–	28/70
Mr H P Premaratna	5/15	4/13	–	–	–	–	–	1/4	–	10/32

Mr L Abeysekera	Appointed to the BCDC w.e.f. – 20 June 2018
	Retired from the BHRRC, BIRMC w.e.f. – 20 June 2018
	Reappointed to the BHRRC w.e.f. – 26 September 2018
Mr H M G B Herath	Retired from the Board, BCDC, BCC w.e.f. – 22 May 2018
Mr D J K Newunhella	Resigned from the Board w.e.f. – 31 July 2018
	Appointed to the BCC w.e.f. – 20 June 2018
	Resigned from BS & NC, BAC, BIRMC w.e.f. – 20 June 2018
	Resigned from BHRRC, BRPTRC, BCC w.e.f. – 31 July 2018
Prof S Amaratunge	Retired from the BHRRC w.e.f. – 20 June 2018
	Appointed to the BS & NC, BICT & BSC w.e.f. – 20 June 2018
Mr M K L Fernando	Retired from the Board w.e.f. – 9 June 2018
	Retired from the BCC, BRPTRC, BCDC, BICT & BSC w.e.f. – 9 June 2018
Mr P Subasinghe	Appointed to the BIRMC w.e.f. – 20 June 2018
Mr N Liyanaarachchi	Resigned from the Board w.e.f. – 29 August 2018
	Appointed to the BHRRC w.e.f. – 20 June 2018
	Resigned from the BHRRC, BCDC, BIRMC w.e.f. – 29 August 2018
Mr A P J de Vette	Appointed to the BICT & BSC w.e.f. – 20 June 2018
Mr K G Wijerathne	Appointed to the Board w.e.f. – 22 May 2018
	Appointed to the BAC, BCDC w.e.f. – 20 June 2018
Mr C Kumarasiri	Appointed to the Board w.e.f. – 1 June 2018
	Appointed to the BAC,BHRRC, BIRMC, BRPTRC w.e.f. – 20 June 2018
Mr H P Premaratna	Appointed to the Board w.e.f. – 12 September 2018
	Appointed to the BRPTRC, BCC w.e.f. – 12 September 2018

ure 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:

Number of shares

Name of the Director	As at 31 December 2018	As at 31 December 2017
Ms S Kiriwandeniya	**5,785**	5,627
Mr L Abeysekera	–	–
Prof S Amaratunge	–	–
Mr P Subasinghe	**69,341**	67,435
Mr S L Thilakarathne	–	–
Mr A P J de Vette	–	–
Mr K G Wijerathne	**117**	–
Mr C Kumarasiri	–	–
Mr H P Premaratna	–	–

Public shareholding percentage

	As at 31 December 2018 %	As at 31 December 2017 %
Public	**99.87**	99.87
Directors	**0.13**	0.13

ors' 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. 07 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.

ors' remuneration

As required under the Section 168 (1) (f) of the Companies Act No. 07 of 2007, Directors' remuneration and other benefits in respect of the Bank for the financial year ended 31 December 2018 are given in Note 10 to the Financial Statements on page 145.

d party transactions

Directors have disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standards – LKAS 24 – "Related Party Disclosure" which is adopted in preparation of the Financial Statements. Those transactions are given in Note 35 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

Bank has also complied with the requirement of the Code of Best Practice 2017 issued by The Institute of Chartered Accountants of Sri Lanka, Listing Rules of Colombo Stock Exchange (CSE) and with all disclosure requirements stipulated thereunder.

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.

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.

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 165.

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 LKR 2,876,530 (2017: LKR 2,265,973). Further LKR 708,400 (2017: LKR 708,410) 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 10 to the Financial Statements on page 145.

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 judgement, 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.

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 51 to 58.

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 Risks" on pages 60 to 65 and in Note 41 to the Financial Statements on pages 174 to 183.

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.

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 116 and 117.

The Board has obtained an assurance report from the External Auditors on Directors' Statement on Internal Control which is given on page 118 of the Annual Report.

Outstanding litigations

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 33.2 of the Financial Statements given on pages 164 and 165 will not have a material impact on the financial position of the Bank or its future operations.

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 endeavours 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 and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank 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 on pages 72 to 94.

Annual General Meeting and the Notice of Meeting

The 22nd Annual General Meeting of the Bank will be held at SANASA Uththamavi Hall, Paragammana, Hettimulla, Kegalle at 9.00am on the 30 May 2019.

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,

Samadanie Kiriwandeniya
Chairperson

Lakshman Abeysekera
Senior Director

Tamarika Rodrigo
Company Secretary

8 March 2019

Directors' Statement on Internal Control over Financial Reporting

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 recognises that the business of Banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material 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 and 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 BAC for review at their periodic meetings. The BAC also reviews and 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 BAC of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the Management , including Key Audit Matters (KAM) given by the External Auditors: and evaluates the adequacy and effectiveness of the risk management and internal control systems. The BAC also reviews the internal audit functions with particular emphasis on the scope of audits, quality and effectiveness of the same. The minutes of the BAC meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (BAC).
- The Board Integrated Risk Management Committee (BIRMC) was established to assist the Board to oversee the overall risk management of the principal areas of the Bank. The Executive Integrated Risk Management Committee (EIRMC) which includes representation from all key business, operating and control units of the Bank to assist BIRMC to execute the assigned functions as per the ToR.

- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Senior Management Committee, Assets and Liability Management Committee, Investment Committee, the Information Technology Steering Committee, Executive Integrated Risk Management Committee (EIRMC) and the Operational Risk Management Committee.
- 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.
- SLFRS 9 "(Financial Instruments)" has been taken in to consideration by the Board and it is effective from 1 January 2018 by replacing the Sri Lanka Accounting Standard – LKAS 39 "(Financial Instruments: Recognition and Measurement)". SLFRS – 9 uses a forward looking "expected credit loss model" compared to the previously applied "incurred credit loss model" under LKAS 39. The Bank has obtained the services of an External Consultant for SLFRS 9 implementation. The models have been developed, tested and submitted for External Auditors for verification and implemented for the year ended 31 December 2018.

Despite SLFRS 9 becoming applicable from 1 January 2018 Bank continued to report its Interim Financial Statements based on LKAS 39, based on the option granted by The Institute of Chartered Accountants of Sri Lanka to prepare the Interim Financial Statements continuing the application of LKAS 39 – "Financial Instruments: Recognition and Measurement". However, the Financial Statements for the year ended 31 December 2018 are being presented in line with SLFRS 9 "(Financial Instruments)".

Since adoption of this standard, progressive improvement on processes to comply with new requirements of classification, estimation of expected credit losses and disclosure were made whilst, further strengthening of processes will take place pertaining to expected credit loss estimation and financial statement disclosures.

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 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control over Financial Reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given in Auditors' Report of this Annual Report.

By Order of the Board,

Lakshman Abeysekera
Senior Director, Chairman – Board Audit Committee (BAC)

Chaaminda Kumarasiri
Non-Executive, Independent Director

Samadanie Kiriwandeniya
Chairperson

8 March 2019
Colombo, Sri Lanka

Independent Assurance Report

Building a better
working world

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AdeS/RM/TW

ENDENT ASSURANCE REPORT TO THE BOARD OF TORS OF SANASA DEVELOPMENT BANK PLC

Report on the Directors' Statement on Internal Control

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 2018.

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. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

Our independence and quality control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by The Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by The Institute of Charted Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

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 (Revised) 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 (Revised) 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.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

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

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.

8 March 2019
Colombo

Chief Executive Officers' and Chief Financial Officers' Responsibility Statement

The Financial Statements of SANASA Development Bank PLC (Bank) as at 31 December 2018 are prepared in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);
- Companies Act No. 07 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 judgement 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 judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and procedures for safeguarding assets, preventing and detecting frauds and/or errors as well as other irregularities which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

We confirm, compliance with Section 3 (8) (ii) of the Banking Act Direction No. 12 of 2007 on Corporate Governance (Internal Control Over Financial Reporting – ICOFR) issued by the Central Bank of Sri Lanka as of 26 December 2007 and that the Bank's Internal Controls over Financial Reporting is adequate and effective. The Annual Report of the Directors on pages 107 to 115 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 116 and 117 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 118 of this Annual Report.

The Financial Statements of the Bank were audited by Messrs. Ernst & Young, Chartered Accountants, the Independent External Auditors. Their report is given on pages 121 to 123 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 96 to 99.

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 number 33.2 to the Financial Statements in the Annual Report.

Thilak Piyadigama
Chief Executive Officer

Terrance Kumara
Chief Financial Officer

8 March 2019
Colombo, Sri Lanka

Statement of Directors' Responsibility for Financial Reporting

The responsibilities of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the provisions of the Companies Act No. 07 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 on pages 121 to 123 of the Annual Report.

As per the provisions of the Sections 150 (1), 151,152 and 153 (1) and (2) of the Companies Act No. 07 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 Chief Financial Officer under the supervision of 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 31 December 2018; and
2. The financial performance of the Bank for the financial year ended 31 December 2018.

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. Judgements 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) which came into effect from 1 January 2012, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the 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).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of Annual Financial Statements of Licensed Specialised Banks.

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 31 December 2018 are given on pages 116 to 117 of the Annual Report, "Directors Statement on Internal Control over Financial Reporting". External Auditors' Assurance Report on the "Directors Statement on Internal Control" is given on page 118 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Bank maintains proper books of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee. The report of the said Committee is given on page 96 to 99 in the Annual Report. The Board of Directors also approves the Interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this 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.

The Financial Statements of the Bank have been certified by the Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the Financial Statements of the Bank have been signed by two Directors and the Company Secretary of the Bank on 8 March 2019 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

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

8 March 2019
Colombo, Sri Lanka

Building a better
working world

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AdeS/RM/JJ

Independent Auditors' Report

To the shareholders of SANASA Development Bank PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of SANASA Development Bank PLC ("the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for loans and advances including Bank's transition to SLFRS 9 Loans and advances amounting to LKR 77.51 Bn. (Note 16), net of impairment allowance of LKR 1.97 Bn. (Note 16) consist of 80% of the total assets of the Bank as at 31 December 2018. The impact on transition to SLFRS 9 of the Bank's financial statements previously reported, is disclosed in Note 43. The estimation of impairment allowance for loans and advances involved significant assumptions, estimates and complex manual calculations. Significant estimates and assumptions used by the Management in such calculations and the basis for impairment allowance are disclosed in Notes 16, 41 and 2.3.2 respectively. Impairment allowance for loans and advances was considered a key audit matter due to the magnitude, significance of the assumptions involved and the transition to Sri Lanka Financial Reporting Standard 9 (SLFRS 9).	To assess the reasonableness of the impairment charges, our audit procedures (among others) included the following: • We evaluated design effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of significant judgements, estimates and assumptions in relation to the impairment by the Board Audit Committees and Management. • In addition to the above, following key procedures were also performed: **For a sample of loans and advances individually assessed for impairment:** • We tested for a sample of loans and advances where impairment indicators existed, reasonableness of Management's estimated future recoveries including the expected future cash flows and discount rates. We also compared the actual recoveries against previously estimated amounts of future recoveries. • For loans and advances granted to customers in industries with elevated risk of credit loss, we assessed the main criteria used by the Management in its assessment of expected impairment losses and reasonableness of impairment made thereof.

Key audit matter	How our audit addressed the key audit matter
	For loans and advances collectively assessed for impairment: • We test checked the completeness and accuracy of the underlying information and calculations thereon by agreeing details to the relevant source documents, information in IT systems and reperforming the calculations. • We also considered the reasonableness of macroeconomic and other factors used by Management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. • We assessed the adequacy of the related financial statement disclosures as set out in Notes 16, 41 and 2.3.2. • We tested the quantitative impact of the transition and assessed the adequacy of the Banks's disclosure on the impact of the initial adoption of SLFRS 9 as set out in Note 43.
Preparation of financial statements inclusive of significant disclosures The Bank uses multiple IT systems in its operations. As a result, the preparation of financial statements inclusive of key disclosures are heavily dependent on information derived from those multiple systems. The process of preparing key disclosures involved generation of multiple system reports, collation, analysis and spread sheet based further calculation. Accordingly, we considered the risk of any control lapses of the preparation of accounting and financial information as a key audit matter.	Our audit procedures included the following, amongst others: • Understanding and evaluation of design effectiveness of key automated, IT dependent and manual controls implemented by Management over generation of multiple system reports and collation of required information on which the significant financial statements disclosures are based. • Test-checking; – the reports used to generate significant disclosures for accuracy and completeness; – source data with those of the reports generated from the related systems; – calculations made by Management; – reasonableness of categorisations made by Management; • Assessing if the significant disclosures are being made in line with applicable new and revised accounting standards. • Where we considered necessary, performing additional substantive audit procedures on selected disclosures.

Other information included in the Bank's 2018 Annual Report

Other information consists of the information included in the Bank's 2018 Annual Report, other than the financial statements and our Auditors' Report thereon. Management is responsible for the other information. The Bank's 2018 Annual Report is expected to be made available to us after the date of this Auditors' Report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and those charged with governance for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit 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 Bank's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
4. Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, 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.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditors' Report is 2097.

8 March 2019
Colombo

Statement of Comprehensive Income

For the year ended 31 December	Note	2018 LKR	2017 LKR
Interest income		**13,116,781,577**	10,829,333,073
Interest expenses		**(8,423,757,728)**	(6,941,840,502)
Net interest income	3	**4,693,023,849**	3,887,492,571
Fee and commission income		**226,767,650**	278,769,564
Fee and commission expenses		**(4,396,881)**	(3,511,099)
Net fee and commission income	4	**222,370,769**	275,258,465
Net gain/(loss) from financial instruments at fair value through profit or loss	5	**280,172,060**	211,759,394
Other operating income (net)	6	**20,811,102**	50,845,398
Total operating income		**5,216,377,780**	4,425,355,828
Impairment for loans and other losses	7	**(525,843,881)**	(293,536,909)
Net operating income		**4,690,533,899**	4,131,818,919
Personnel expenses	8	**(1,827,073,349)**	(1,474,145,865)
Depreciation and amortisation expenses	9	**(224,260,432)**	(191,576,973)
Other expenses	10	**(1,526,131,852)**	(1,364,051,181)
Operating profit before value added tax (VAT) and NBT on financial services		**1,113,068,266**	1,102,044,901
Value Added Tax (VAT) on financial services		**(362,940,818)**	(300,961,855)
Nation Building Tax (NBT) on financial services		**(52,702,722)**	(48,481,937)
Debt repayment levy		**(53,282,253)**	–
Operating profit/(loss) after VAT and NBT on financial services		**644,142,473**	752,601,109
Profit before tax		**644,142,473**	752,601,109
Tax expenses	11	**(287,192,354)**	(244,777,577)
Profit for the year		**356,950,119**	507,823,532
Other comprehensive income			
Other comprehensive income/(expenses) not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans	28.1.3	**(45,995,306)**	2,885,075
Deferred tax relating to defined benefit plans	11.2.1	**12,878,686**	(807,821)
Loss arising on re-measuring available for sale financial assets		**(3,388,111)**	–
Other comprehensive income for the year net of tax		**(36,504,731)**	2,077,254
Total comprehensive income for the year		**320,445,388**	509,900,786
Earnings per share on profit			
Basic/diluted earnings per share – (LKR)	12	**6.34**	9.87

The Accounting Policies and Notes on pages 128 through 184 from an integral part of the Financial Statements.

Statement of Financial Position

As at 31 December	Note	2018 LKR	2017 LKR
Assets			
Cash and cash equivalents	13	**4,171,938,630**	1,190,389,606
Placements with banks	14	**9,528,425,565**	6,014,703,836
Financial assets fair value through profit or loss	15	**146,103,330**	4,473,805,573
Financial assets at amortised cost			
– loans and receivables to other customers	16	**77,507,021,162**	66,687,415,593
– debt and other instruments	17	**3,405,600,286**	–
Other financial asset classified under loans and receivable	17.3	–	1,479,949,628
Financial assets measured at fair value through other comprehensive income	18	**60,148,048**	–
Financial investments – Available for sale	18	–	63,536,159
Financial investments – Held to maturity	17.4	–	599,551,021
Asset classified as held for sale	19	–	37,175,411
Property, plant and equipment	20	**704,738,493**	726,472,629
Investment properties	21	**22,334,630**	23,390,660
Intangible assets	22	**3,727,725**	8,148,340
Deferred tax assets	11.2	**69,414,926**	–
Other assets	23	**1,198,314,390**	1,070,174,846
Total assets		**96,817,767,185**	82,374,713,302
Liabilities			
Due to other customers	24	**67,474,821,535**	59,904,734,365
Other borrowings	25	**15,420,967,962**	8,827,609,604
Debt securities issued	26	**4,198,547,716**	4,189,812,218
Subordinated term debts	27	**1,008,027,823**	1,004,354,742
Current tax liabilities		**143,987,552**	32,152,742
Deferred tax liabilities	11.2	–	58,000,392
Other liabilities	28	**1,122,687,852**	1,026,889,208
Total liabilities		**89,369,040,440**	75,043,553,271
Equity			
Stated capital	29	**5,921,538,126**	5,758,689,211
Statutory reserve fund	30	**215,611,469**	197,763,963
Retained earnings	31	**1,280,762,267**	1,340,503,863
Other reserves	32	**30,814,883**	34,202,994
Total equity		**7,448,726,745**	7,331,160,031
Total equity and liabilities		**96,817,767,185**	82,374,713,302
Contingent liabilities and commitments	33	**182,986,032**	166,260,031

Certification

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

Terrance Kumara
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements.

Signed for and on behalf of the Board by:

M S Kiriwandeniya
Chairperson

Lakshman Abeysekera
Senior Director

Thilak Piyadigama
Chief Executive Officer

Tamarika Rodrigo
Company Secretary

The Accounting Policies and Notes on pages 128 through 184 from an integral part of the Financial Statements.

8 March 2019
Colombo

Statement of Changes in Equity

For the year ended 31 December	Stated capital	Reserves				
	Ordinary voting shares	Statutory reserve	Retained earnings	Available-for-sale reserve/fair value through OCI	General reserves	Total Equity
	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 1 January 2017	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
Total comprehensive income for the year	–	–	509,900,786	–	–	509,900,786
Transactions with equity holders, recognised directly in equity						
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)
Total transactions with equity holders	1,695,727,497	25,391,177	(419,139,077)	–	–	1,301,979,597
Balance as at 31 December 2017	5,758,689,211	197,763,963	1,340,503,863	(12,453,979)	46,656,973	7,331,160,031
Balance as at 31 December 2017	5,758,689,211	197,763,963	1,340,503,863	(12,453,979)	46,656,973	7,331,160,031
Impact of adoption of SLFRS 9 as at 1 January 2018 (Note 43)	–	–	(37,054,387)	–	–	(37,054,387)
Restated balance under SLFRS 9 as at 1 January 2018	5,758,689,211	197,763,963	1,303,449,476	(12,453,979)	46,656,973	7,294,105,644
Profit for the year	–	–	356,950,119	–	–	356,950,119
Other comprehensive income (net of tax)	–	–	(33,116,620)	(3,388,111)	–	(36,504,731)
Total comprehensive income for the year	–	–	323,833,499	(3,388,111)	–	320,445,388
Transactions with equity holders, recognised directly in equity						
Scrip dividend	162,848,915	–	(191,726,035)	–	–	(28,877,120)
Dividends to equity holders	–	–	(136,947,168)	–	–	(136,947,168)
Transfer to statutory reserve fund	–	17,847,506	(17,847,506)	–	–	–
Total transactions with equity holders	162,848,915	17,847,506	(346,520,708)	–	–	(165,824,287)
Balance as at 31 December 2018	**5,921,538,126**	**215,611,469**	**1,280,762,267**	**(15,842,090)**	**46,656,973**	**7,448,726,745**

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 shareholders, this reserve will be used by the Bank for the future capitalisation purposes of the Bank.

Fair value through OCI/available-for-sale reserve

The available for sale reserve is consist of fair value adjustment made to unquoted equity investment.

The Accounting Policies and Notes on pages 128 through 184 from an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31 December	Note	2018 LKR	2017 LKR
Cash flows from/(used in) operating activities			
Interest received		**12,879,033,724**	10,627,484,784
Fee and commission received		**218,856,327**	274,824,879
Receipts from other operating activities		**65,627,056**	63,788,378
Interest payment		**(7,836,343,603)**	(6,073,127,221)
Cash payment to employees		**(1,953,287,233)**	(1,371,766,033)
Payments to suppliers and other operating activities		**(2,103,279,424)**	(2,729,403,858)
Fee and commission expenses		**(4,396,881)**	(3,511,098)
VAT and NBT on financial services		**(415,643,540)**	–
Operating profit before changes in operating assets		**850,566,426**	788,289,831
(Increase)/decrease in operating assets			
Funds advanced to customers		**(11,345,449,448)**	(13,348,413,681)
Other short-term securities		**590,167,755**	134,290,035
Increase/(decrease) in operating liabilities			
Deposits from customers		**7,570,087,169**	14,212,976,273
Net cash from operating activities before income tax		**(2,334,628,098)**	1,787,142,456
Income tax paid		**(162,478,859)**	(236,542,946)
Net cash from operating activities		**(2,497,106,956)**	1,550,599,510
Cash flows from/(used in) investing activities			
Dividend received		**476,587**	6,929,443
(Increase)/decrease in non-dealing securities		**–**	503,399,317
(Increase)/decrease in dealing securities		**4,607,874,303**	(4,017,135,040)
(Increase)/decrease in treasury bonds and other investments		**1,617,468,415**	(1,438,102,869)
Proceeds from sale of property, plant and equipment		**59,872,470**	10,747,244
Purchase of property, plant and equipment	20	**(216,934,545)**	(272,786,130)
Net cash from/(used in) investing activities		**6,068,757,231**	(5,206,948,034)
Cash flows from (used in) financing activities			
Proceeds from issuance/allotment of shares		**–**	1,461,340,018
Dividend paid		**(136,947,168)**	(131,249,300)
Repayment of long-term borrowing		**(6,012,141,112)**	–
Interest paid on subordinated debt		**(137,219,807)**	–
Increase/(decrease) in borrowing		**12,755,127,856**	376,047,727
Funds received/(utilised) during the period		**(11,463,482)**	(28,568,474)
Net cash flow from/(used in) financing activities		**6,457,356,287**	1,677,569,970
Net increase/(decrease) in cash and cash equivalents		**10,029,006,561**	(1,978,778,554)
Cash and cash equivalent at the beginning of the year	13.3	**6,586,895,822**	8,565,674,376
Cash and cash equivalents at the end of the year	13.3	**16,615,902,383**	6,586,895,822

The Accounting Policies and Notes on pages 128 through 184 from an integral part of the Financial Statements.

Notes to the Financial Statements

porate information

1.1 General

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

1.2 Principal activities

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

1.3 Parent entity and ultimate parent entity

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

1.4 Date of authorisation of issue

The Financial Statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 8 March 2019.

ounting policies

2.1 Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for financial assets recognised through other comprehensive income and other financial assets and liabilities held for trading. The Financial Statements are presented in Sri Lankan Rupees (LKR) and all values are rounded to the nearest rupee, except when otherwise indicated.

2.1.1 Changes in accounting policies and disclosures

In these Financial Statements, the Bank has applied SLFRS 9 and SLFRS 15, effective for annual periods beginning on or after 1 January 2018, for the first time.

SLFRS 9 – Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 43.

SLFRS 15 – Revenue from Contracts with Customers

Since 1 January 2018, the Bank has also adopted SLFRS 15. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

Apart from the changes mentioned above, 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 1 on "Presentation of Financial Statements".

2.1.2 Statement of compliance

The Financial Statements of the Bank which comprise 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 and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto.

2.1.3 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgement 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 judgement is required to establish fair values. The judgements 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 judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provide for the impairment loss on loans and advances as disclosed in Note 7 and Note 16. All individually not insignificant loans and advances and unimpaired individual significant customers are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to Expected Credit Loss (ECL – applicable from 1 January 2018 onwards) 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, remaining maturity, customer identification number, etc.), and judgements to the effect of concentrations of risks and economic data (including levels of unemployment, gross domestic production, interest rate and exchange rate fluctuation).

(d) Deferred tax assets

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

(e) Taxation

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

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

(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 lifetime of the property and equipment

The Bank reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods' and hence they are subject to uncertainty.

2.3 Summary of significant accounting policies

2.3.1 Foreign currency translation

The Financial Statements are presented in Sri Lankan Rupees (LKR).

Transactions and balances

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

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

2.3.2 Financial instruments

2.3.2.1 Initial recognition and subsequent measurement

(a) Date of recognition

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

(b) Initial measurement of financial instruments

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

(c) Subsequent measurement

(a) Financial Instruments (Policies applicable after 1 January 2018)

(i) Classification of financial instruments

The Bank classifies its financial assets into the following measurement categories:

- Measured at fair value (either through other comprehensive income, or through Profit or Loss); and
- Measured at amortised cost.

The classification depends on the Bank's business model for managing financial assets and the contractual terms of the financial assets cash flows. The Bank classifies its Financial Liabilities at amortised cost unless it has designated liabilities at fair value through profit.

(ii) Financial assets measured at amortised cost

Placements, loans and receivables to other customers and debt and other instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and profits on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note (*vi*) Impairment of Financial Assets.

(iii) Financial assets measured at fair value through other comprehensive income

Equity instruments

Investment in equity instruments that are neither trading financial assets recognised through profit or loss, nor contingent consideration recognised by the Bank in a business combination to which SLFRS 3 – "Business Combinations" applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by Management. Long-term nature of investment for portfolios where Management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss.

(iv) Fair value through profit or loss

Fair value through profit or loss comprise:

- Financial investments – for trading;
- Instruments with contractual terms that do not represent solely payments of principal and profit.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of profit or loss as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the creditworthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

(a) Financial investments – for trading

A financial investment is classified as financial assets recognised through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Government Securities and investment in Unit Trust Securities are classified as financial assets recognised through profit or loss and recognised at fair value. Refer Note 15.

(b) Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring Financial Assets or Liabilities on a different basis. The Bank does not designate any financial instruments under this category.

(v) Impairment of financial assets

The Bank applies a three-stage approach to measuring Expected Credit Losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

Debt instruments

- Instruments measured at amortised cost and fair value through other comprehensive income;
- Loans and receivables to other customers; and
- Financial Guarantee Contracts

ECL is not recognised on equity instruments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12-month ECL from customers who are not significantly credit deteriorated (i.e. less than 30 days past due):

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

In being consistent with the policies of the Bank, significant deterioration is measured through the rebuttable presumption of 30 days past due in line with the requirements of the standard.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and financing income is calculated by applying the effective rate to the amortised cost (net of provision) rather than the gross carrying amount.

Determining the stage for impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for impairment loss for these financial assets is based on a 12-month ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the statement of profit or loss.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective rate.
- Undrawn commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For further details on how the Bank calculates ECLs including the use of forward-looking information, refer to the credit quality of financial assets section in Note 23. For details on the effect of modifications of loans and receivables to other customers on the measurement of ECL refer to note on provision for expected credit loss.

ECLs are recognised using a provision for impairment loss account in statement of profit and loss. The Bank recognises the provision charge in statement of profit or loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the statement of financial position.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD: The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD: The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of capital and financing income, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued financing income from missed payments.

LGD: The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including the realisation of any collateral.

(vi) Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised in the Statement of Financial Position when the Bank becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and Receivables to other customers are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

The Bank derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

A financial liability is derecognised from the Statement of Financial Position when the Bank has discharged its obligation or the contract is cancelled or expires.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. Refer to note on financial risk management – Offsetting of Financial Assets and Liabilities.

(c) Critical accounting assumptions and estimates applicable for financial assets

The application of the Bank's accounting policies requires the use of judgements, estimates, and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Bank.

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgement, estimates, and assumptions are specified below:

(i) Fair value measurement

A significant portion of financial instruments are carried on the statement of financial position at 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.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

(ii) Impairment charges on loans and receivables to other customers

Judgement is required by Management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and receivables to other customers. In estimating these cash flows, the Bank makes judgements about the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the advance portfolio (such as credit quality, levels of arrears, credit utilisation, advances to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, Inflation, GDP Growth Rate, country risk and the performance of different individual groups). The impairment loss on financing and receivables is disclosed in more detail in Note 23 – Provision for Expected Credit Losses.

(d) Subsequent measurement (Policies applicable before 1 January 2018)

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

(a) Financial assets held for trading

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in "Net operating income". Interest and dividend income or expense is recorded in "Net trading income" according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, listed equities and Unit trusts.

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

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

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

The assets and liabilities are part of a 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.

(c) "Day 1" profit or loss

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

(d) Held-to-maturity financial investments

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

Included in this classification are debt securities and investment in debentures.

(e) 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 amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" in the comprehensive income. The losses arising from impairment are recognised in the comprehensive income in "Impairment for loans and receivables".

Included in this classification are placement with local banks, other financial asset classified under loans and receivable and loans and receivable to customers.

(f) Available-for-sale financial investments

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

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

Included in this classification is unquoted equity securities.

The initial and subsequent measurement of financial liabilities depends on their classification as described below:
At the inception the Bank determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as:

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
 - Financial liabilities held for trading
 - Financial liabilities designated at fair value through profit or loss

(ii) Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

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

(ii) Financial liabilities at amortised cost

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities at amortised cost under "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 parts of the EIR. The EIR amortisation is included in "Interest expenses" in the Income Statement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

This category consists of due to other customers, other borrowings, 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 reassessing 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 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 reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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 recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Income Statement".

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

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

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

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

(b) Available-for-sale financial investments

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

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

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

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

(c) Renegotiated loans

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

(d) Collateral valuation

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

(A) Financial assets

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

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

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

(B) Financial liabilities

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

2.3.2.5 Offsetting financial instruments

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

2.3.3 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "repurchase agreements", reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or 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 recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within "reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Bank.

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

2.3.4 Securities lending and borrowing

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

2.3.5 Leases

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

2.3.5.1 Operating Leases

Bank as a lessor

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

2.3.5.2 Finance leases

Bank as a lessor

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

2.3.6 Cash and cash equivalents

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

2.3.7 Property and equipment

Property, plant and 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 and Equipment". Initially property and equipment are measured at cost.

(i) Basis of recognition and measurement

Cost model

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

When parts of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The Bank applies the cost model to property, plant and 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 capitalises the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

(vi) Derecognition

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

(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 vehicles	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 recognised at cost. After initial recognition the Bank uses the cost method to measure all of its investment property in according with requirements in LKAS 16 on "Property, Plant and Equipment".

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

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

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

Buildings	20 years

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

(iii) Useful economic life, amortisation and impairment

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

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

Amortisation

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

The class of intangible assets	Useful life	Amortisation method
Computer software	7 years	Straight-line method

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

(iv) Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

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

2.3.12 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of bank guarantees. Bank guarantees are initially recognised in the Financial Statements (within "other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the income statement, and the best estimate of expenditure required 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 recognised 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 recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.3.14 Retirement Benefit Obligations

(a) Defined Benefit Plan-Gratuity

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

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

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

The Bank recognises all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognised 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 recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(a) Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "Other operating income". However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Fee and commission income

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

- Fee income earned from services that are provided over a certain period of time
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

- Fee income from providing transaction services

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

(c) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

(d) Net operating income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities "held for trading".

2.3.16 Taxes

(a) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

(b) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

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

(c) Value Added Tax (VAT) on financial services

Value Added Tax 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 recognised. At present, the rate of 14% 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 Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 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 31 December 2013 and the exemption was removed with effect from 1 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

(h) Debts Repayments Levy (DRL)

DRL on financial service is calculated in accordance with the Finance Act No. 35 of 2018 of a period from 1 October 2018 to December 2021. DRL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services. The DRL rate applied in 2018 is 7%.

2.3.17 Grants

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

2.3.18 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

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

2.3.19 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 on "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 2018

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 2018.

SLFRS 16 – Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract, i.e. the customer ("Lessee") and the supplier ("Lessor"). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 on "Leases" and related interpretations. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new Standard requires a lessee to:

- recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating lease or finance lease, and to account for those two types of leases differently.

SLFRS –16 will become effective on 1 January 2019. The Bank is currently assessing the impact on the implementation of the above Standard.

Year ended 31 December

3. Net interest income

	2018 LKR	2017 LKR
Interest income		
Cash and cash equivalents	**60,099,522**	108,954,586
Placements with banks	**851,002,417**	791,936,162
Financial assets at amortised cost:		
– Loans and receivables to other customers	**11,955,309,807**	9,757,778,114
– Debt and other instruments	**250,369,831**	–
Financial investments – held to maturity	–	88,639,079
Other financial asset classified under loans and receivable – Debenture	–	26,824,825
– Commercial papers	–	55,155,101
– Trust certificates	–	45,205
Total interest income	**13,116,781,577**	10,829,333,073
Interest expenses		
Financial liabilities at amortised cost:		
– Due to other customers	**6,576,577,677**	5,403,843,692
– Due to debt securities holders	**393,858,241**	–
– Other borrowers	**1,453,321,810**	1,537,996,810
Total interest expenses	**8,423,757,728**	6,941,840,502
Net interest income	**4,693,023,849**	3,887,492,571

3.1 Net interest income from Sri Lanka Government Securities

	2018 LKR	2017 LKR
Interest income	**149,604,115**	166,672,805
(Less): Interest expenses	–	–
Net interest income from Sri Lanka Government Securities	**149,604,115**	166,672,805

4. Net fee and commission income

	2018 LKR	2017 LKR
Fee and commission income	**226,767,650**	278,769,564
Fee and commission expenses	**(4,396,881)**	(3,511,099)
Net fee and commission income	**222,370,769**	275,258,465

4.1 Net fee and commission earned from

	2018 LKR	2017 LKR
Loans	**98,983,799**	170,908,206
Deposits	**1,629,265**	2,346,270
Guarantees	**2,232,754**	2,107,028
Commission earned from insurance	**18,776,277**	30,282,769
Commission earned from ATM	**18,652,403**	18,822,660
Late fees charged from overdue rentals	**30,005,579**	18,257,833
Others	**52,090,692**	32,533,699
Net fee and commission income	**222,370,769**	275,258,465

Year ended 31 December

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

	2018 LKR	2017 LKR
Government debt securities – Treasury bills and bonds	**(942,414)**	24,727,750
Unit trust	**281,114,474**	187,031,644
Total	**280,172,060**	211,759,394

other operating income

	2018 LKR	2017 LKR
Gain on sale of property, plant and equipment	**2,812,163**	8,901,610
Dividend income	**476,587**	6,929,443
Account maintenance fees	**16,329,296**	31,840,402
Other income	**1,193,056**	3,173,943
Other operating income	**20,811,102**	50,845,398

airment for loans and other losses

7.1 Balance with Bank

	2018 LKR	2017 LKR
Stage 1	**606,166**	–
Total	**606,166**	–

7.2 Placement with banks

	2018 LKR	2017 LKR
Stage 1	**5,671,770**	–
Total	**5,671,770**	–

7.3 Financial assets at amortised cost – Loans and receivables to customers

	2018 LKR	2017 LKR
Stage 1	**(9,390,783)**	–
Stage 2	**48,205,067**	–
Stage 3	**480,902,288**	–
Total	**519,716,573**	–

7.4 Debt and other instruments

	2018 LKR	2017 LKR
Stage 1	**(150,628)**	–
Total	**(150,628)**	–

Year ended 31 December

	2018 LKR	2017 LKR
7.5 Collective impairment losses	–	289,822,414
Individual impairment losses	–	3,714,495
Total	–	293,536,909
Gross total	**525,843,881**	293,536,909

8. Personnel expenses

	2018 LKR	2017 LKR
Salary and bonus	**1,343,605,896**	1,070,931,842
Contributions to defined contribution plans – EPF	**178,360,466**	134,946,361
– ETF	**38,216,904**	28,916,026
Contributions to defined benefit plans	**54,590,639**	51,924,037
Overtime	**7,932,044**	4,964,266
Staff welfare	**26,607,544**	20,800,381
Staff allowances	**78,858,344**	76,442,284
Others	**98,901,512**	85,220,669
Total	**1,827,073,349**	1,474,145,865

9. Depreciation and amortisation expenses

	2018 LKR	2017 LKR
Depreciation of property, plant and equipment	**218,783,787**	181,731,039
Depreciation of investment property	**1,056,030**	1,056,030
Amortisation of intangible assets	**4,420,615**	8,789,904
Total	**224,260,432**	191,576,973

10. Other expenses

	2018 LKR	2017 LKR
Directors' emoluments	**19,660,000**	21,200,000
Auditors' remuneration	**4,000,000**	3,359,156
Professional and legal expenses	**1,495,216**	5,785,537
Office administration and establishment expenses	**1,500,976,636**	1,333,706,488
Total	**1,526,131,852**	1,364,051,181

10.1 Directors' Emoluments include fees paid to Non-Executive Directors.

Year ended 31 December

x expense

	2018 LKR	2017 LKR
Current tax expense		
Income tax for the year	**341,234,017**	251,970,411
Adjustment in respect of current income tax of prior periods	**46,084,930**	(17,756,147)
Deferred taxation charge/(reversal)	**(100,126,593)**	10,563,313
Total	**287,192,354**	244,777,577

11.1 Reconciliation of tax expenses

	2018 LKR	2017 LKR
Profit before tax	**644,142,473**	752,601,109
Income tax for the period (Accounting profit @ 28%)	**180,359,893**	210,728,310
Income exempt from tax	**(36,886,787)**	(69,724,667)
Adjustment in respect of current income tax of prior periods	**46,084,930**	(17,756,147)
Add: Tax effect of expenses that are not deductible for tax purposes	**778,552,158**	183,744,896
Less: Tax effect of expenses that are deductible for tax purposes	**(520,532,902)**	(89,568,327)
Add: Tax impact on leasing loss	**(60,258,345)**	16,790,198
Tax expense for the period	**387,318,947**	234,214,264
Deferred taxation charge	**(100,126,593)**	10,563,313
At the effective income tax rate of 44.59% (2017 : 32.52%)	**287,192,354**	244,777,577

11.2 Deferred tax assets, liabilities and income tax relates to the followings:

	Statement of financial position		Statement of comprehensive income	
	2018 LKR	2017 LKR	**2018 LKR**	2017 LKR
Deferred tax liability				
Capital allowances for property, plant and equipment	**15,637,704**	24,008,134	**(8,370,430)**	(494,566)
Capital allowances for leased assets	**148,218,327**	185,228,090	**(37,009,763)**	36,154,440
	163,856,031	209,236,224	**(45,380,193)**	35,659,874
Deferred tax assets				
Defined benefit plans	**99,359,246**	72,001,044	**(27,358,202)**	(12,502,650)
Loss on lease assets	**–**	79,234,788	**79,234,788**	(11,786,090)
Impairment allowances	**133,911,711**	–	**(133,911,711)**	–
	233,270,957	151,235,832	**(82,035,125)**	(24,288,740)
Deferred taxation charge			**(127,415,319)**	11,371,134
Net deferred tax liability/(asset)	**(69,414,926)**	58,000,392		

Year ended 31 December

11.2.1 Composition of deferred tax charge

	2018 LKR	2017 LKR
Impact on income tax expense	**(100,126,593)**	10,563,313
Impact on other comprehensive income	**(12,878,686)**	807,821
Impact on comprehensive income	**(113,005,279)**	11,371,134
Impact on opening balance under SLFRS 9	**(14,410,040)**	–
Total impact	**(127,415,319)**	11,371,134

12. 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.

	2018 LKR	2017 LKR
Net profit for the period	**356,950,119**	507,823,532
Profit attributable to ordinary shareholders	**356,950,119**	507,823,532

	2018 Number	2017 Number
Weighted average number of ordinary shares in issue	**56,308,252**	51,429,758
	56,308,252	51,429,758
Basic/diluted earnings per ordinary share	**6.34**	9.87

The subordinated term debts detailed in Note No. 27 are resulted for anti-diluted earning per share.

13. Cash and cash equivalents

	2018 LKR	2017 LKR
Cash in hand	**424,829,523**	302,643,017
Balances with banks	**3,747,730,463**	887,746,589
Less: impairment	**(621,356)**	–
Total	**4,171,938,630**	1,190,389,606

13.1 The below table shows the analysis of cash and cash equivalents based on exposure to credit risk:

	2018	
	Stage 1 LKR	**Total LKR**
Placements	**4,172,559,986**	**4,172,559,986**
Less: Impairment	**(621,356)**	**(621,356)**
Balance as at 31 December	**4,171,938,630**	**4,171,938,630**

Year ended 31 December

13.2 The below table shows the stage-wise classification of impairment allowances:

	2018 LKR	2017 LKR
Stage 1		
Opening balance as at 1 January	**15,190**	–
Changes/(Write back) to income statement	**606,166**	–
Closing balance as at 31 December	**621,356**	–

13.3 Cash and cash equivalents for cash flow statement

	2018 LKR	2017 LKR
Cash and cash equivalents	**4,171,938,630**	1,190,389,606
Repurchase agreement	**2,934,221,630**	715,158,613
Fixed deposits less than three months	**9,509,742,123**	4,681,347,603
	16,615,902,383	6,586,895,822

acements with banks

	2018 LKR	2017 LKR
Placement with Banks	**9,535,897,658**	6,014,703,836
Total	**9,535,897,658**	6,014,703,836
Less: impairment	**(7,472,093)**	–
Carrying value after impairment	**9,528,425,565**	6,014,703,836

14.1 The below table shows the stage-wise classification of placement and the impairment allowance:

	2018	
	Stage 1 LKR	**Total LKR**
Placement	**9,535,897,658**	**9,535,897,658**
Less: Impairment allowance for placement	**(7,472,093)**	**(7,472,093)**
Carrying value after impairment as at 31 December	**9,528,425,565**	**9,528,425,565**

14.2 The below table shows the stage wise classification of impairment allowances:

	2018 LKR	2017 LKR
Stage 1		
Opening balance as at 1 January	**1,800,323**	–
Charges/(write back) to income statement	**5,671,770**	–
Closing balance as at 31 December	**7,472,093**	–

Year ended 31 December

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

	2018 LKR	2017 LKR
Sri Lanka Government Securities – Treasury Bonds	–	337,940,600
Quoted equities (Note 15.1)	–	20,567,010
Unit trust	**146,103,330**	4,115,297,963
Total	**146,103,330**	4,473,805,573

15.1 Quoted equities

	2018		2017	
	Number of shares	**Market value LKR**	Number of shares	Market value LKR
John Keells Holdings PLC	–	–	25,800	3,831,300
Hatton National Bank PLC	–	–	5,300	1,033,500
Aitken Spence PLC	–	–	72,600	3,963,960
DFCC Bank	–	–	17,345	2,129,966
National Development Bank PLC	–	–	36,571	4,988,284
Tokyo Cement PLC	–	–	70,000	4,620,000
	–	–	–	20,567,010

16. Financial assets at amortised cost – Loan and receivable to other customers

	2018 LKR	2017 LKR
Gross loans and receivables (Note 16.1)	**79,482,459,527**	68,104,871,364
Less: impairment	**(1,975,438,365)**	(1,417,455,771)
Net loans and advances	**77,507,021,162**	66,687,415,593
Gross loans and receivables (Note 16.1)	**79,482,459,527**	68,104,871,364
Less: Individual impairment	**(350,360,455)**	(220,946,259)
Collective impairment	**(1,625,077,910)**	(1,196,509,512)
Net loans and advances	**77,507,021,162**	66,687,415,593

Year ended 31 December

16.1 The below table shows the analysis of cash and cash equivalents based on exposure to credit risk:

	Stage 1	Stage 2	Stage 3	Total
Significant impairment loans				
Term loan	–	–	1,000,469,342	1,000,469,342
Leasing	–	–	145,961,745	145,961,745
Collective impairment loans				
Pawning	1,187,539,873	56,887,961	13,850,772	1,258,278,606
Cash margin	5,134,496,941	430,882,184	8,813,039	5,574,192,164
Staff loans	1,097,737,911	–	23,866,152	1,121,604,063
Term loans				
Business	7,763,492,734	1,161,498,837	595,625,756	9,520,617,327
Cooperative	2,133,338,868	111,133,683	287,054,035	2,531,526,586
Housing	2,200,895,413	453,150,141	240,483,984	2,894,529,538
Personal	47,665,057,056	1,126,826,518	1,553,195,979	50,345,079,553
Lease rentals	3,562,166,844	1,295,727,450	232,306,309	5,090,200,603
Gross loans and advances	70,744,725,640	4,636,106,774	4,101,627,113	79,482,459,527
Less : impairment allowance	(318,278,117)	(269,805,490)	(1,387,354,758)	(1,975,438,365)
Closing balance as at 31 December	70,426,447,523	4,366,301,284	2,714,272,355	77,507,021,162

16.2 By product

	2018 LKR	2017 LKR
Loans and advances		
Pawning	**1,258,278,606**	834,073,305
Cash margin	**5,574,192,164**	4,450,768,626
Staff loans	**1,121,604,063**	909,505,218
Lease rentals receivable	**5,236,162,349**	4,364,186,223
Term loans	–	57,546,337,993
Business	**10,248,947,436**	–
Cooperative	**2,682,172,444**	–
Housing	**2,971,196,180**	–
Personal	**50,389,906,285**	–
Gross total	**79,482,459,527**	68,104,871,364

16.2.1 Lease rentals receivable

	2018 LKR	2017 LKR
Within one year	**2,896,844,537**	2,547,227,240
One to five years	**3,890,404,144**	3,036,753,747
After five years	**35,539,483**	21,244,121
– Unearned income on rentals receivable	**(1,586,625,815)**	(1,241,038,885)
	5,236,162,349	4,364,186,223

Year ended 31 December

16.3 By currency

	2018 LKR	2017 LKR
Sri Lankan Rupee	**79,482,459,527**	68,104,871,364
Gross total	**79,482,459,527**	68,104,871,364

16.4 Movements in individual and collective impairment during the year

	2018 LKR	2017 LKR
Stage 1		
Opening balance as at 1 January	**327,668,900**	–
Changes/(Write back) to income statement	**(9,390,783)**	–
Closing balance as at 31 December	**318,278,117**	–
Stage 2		
Opening balance as at 1 January	**221,600,423**	–
Charges/(Write back) to income statement	**48,205,067**	–
Closing balance as at 31 December	**269,805,490**	–
Stage 3		
Opening balance as at 1 January	**917,503,123**	–
Charges/(Write back) to income statement	**480,902,288**	–
Write-off during the year	**(11,050,653)**	–
Closing balance as at 31 December	**1,387,354,758**	–

	Individual impairment LKR	Collective impairment LKR	Total impairment LKR
As at 1 January 2017	217,231,764	914,805,585	1,132,037,349
Charge to income statement	3,714,495	289,822,414	293,536,909
Write-off during the year	–	(8,118,487)	(8,118,487)
As at 31 December 2017	220,946,259	1,196,509,512	1,417,455,771
As at 31 December 2017	220,946,259	1,196,509,512	1,417,455,771
Impact of adoption of SLFRS 9 (Note 43)	–	49,316,676	49,316,676
Restated balance under SLFRS 9 as at 1 January 2018	220,946,259	1,245,826,188	1,466,772,447
Charge/(Write back) to income statement	129,414,196	390,302,377	519,716,573
Recovery/(Write-off) during the year	–	(11,050,655)	(11,050,655)
As at 31 December 2018	350,360,455	1,625,077,910	1,975,438,365

Year ended 31 December

ancial assets at amortised cost – Debt and other instruments

	2018 LKR	2017 LKR
Debentures	**174,804,870**	–
Repurchase agreement	**2,934,221,630**	–
Treasury bill	**296,755,397**	–
Less: Impairment	**(181,611)**	–
Total	**3,405,600,286**	–

17.1 The below table shows the analysis of debt and other instruments based on exposure to credit risk:

	2018	
	Stage 1	Total
Debentures	**174,804,870**	**174,804,870**
Repurchase agreement	**2,934,221,630**	**2,934,221,630**
Treasury bill	**296,755,397**	**296,755,397**
Less: Impairment allowance for placement	**(181,611)**	**(181,611)**
Closing balance as at 31 December	**3,405,600,286**	**3,405,600,286**

17.2 The below table shows the stage wise classification of impairment allowance:

	2018 LKR
Stage 1	
Opening balance as at 1 January	**332,239**
Charge/(Reversal) to statement of profit of loss	**(150,628)**
Net write-off during the year	–
Closing balance as at 31 December	**181,611**

17.3 Other financial asset classified under loans and receivable

	2018 LKR	2017 LKR
Debentures	–	174,767,627
Commercial papers	–	590,023,387
Repurchase agreement	–	715,158,613
Total	–	1,479,949,628

17.4 Financial investment held to maturity

	2018 LKR	2017 LKR
Sri Lanka Government Securities		
Treasury bill	–	48,069,096
Treasury bond	–	200,930,556
Inv – debenture repo	–	350,551,370
Held-to-maturity investments	–	599,551,022

Year ended 31 December

18. Financial assets measured at fair value through other comprehensive income

	2018 LKR	2017 LKR
Equities – unquoted (Note 18.1)	**60,148,048**	–
Financial assets measured at fair value through other comprehensive income	**60,148,048**	–

Financial investments – available for sale

	2018 LKR	2017 LKR
Equities – unquoted (Note 18.1)	–	63,536,159
Net available-for-sale investments	–	63,536,159

18.1 Equities – unquoted

	2018		2017	
	Number of shares	**Amount LKR**	Number of shares	Amount LKR
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
Loss from mark to market valuation as at 31 December market value		**(15,842,090)**		(12,453,979)
		60,148,048		63,536,159

18.1.1 Unquoted equity securities accounted as financial investments – Available for sale

	2018 LKR	2017 LKR
Opening balance as at 1 January	**63,536,159**	63,686,559
Disposal during the year	–	(100,000)
Loss from mark to market valuation	**(3,388,111)**	(50,400)
Balance as at 31 December	**60,148,048**	63,536,159

Type	Level	Method of valuation	Significant unobservable inputs	Sensitivity of fair value to unobservable inputs
Unquoted share investment	Level 3	Market approach – price to book value of comparable peer companies	Median price to book value-liquidity discount	Positively correlated sensitivity
			Regulatory non-compliance adjustment	Positively correlated sensitivity

19. Asset classified as held for sale

	2018 LKR	2017 LKR
Asset classified as held for sale	–	37,175,411
	–	37,175,411

Assets classified as held for sale include land and building located in Galle. These land and building sold amount of LKR 39,000,000.00, and capital gain was LKR 1,797,589.00.

Year ended 31 December

operty, plant and equipment

2018	**Land and buildings LKR**	**Leasehold properties LKR**	**Computer hardware LKR**	**Machinery and equipment LKR**	**Furniture and fittings LKR**	**Vehicle LKR**	**Total LKR**
Cost							
Opening balance at 1 January 2018	**251,979,214**	**590,000**	**678,783,946**	**480,614,783**	**325,426,778**	**145,774,508**	**1,883,169,229**
Additions	–	–	**104,758,145**	**33,466,175**	**66,557,679**	**12,152,546**	**216,934,546**
Disposals	–	–	**(13,149,277)**	**(12,065,666)**	**(16,572,410)**	**(2,105,323)**	**(43,892,676)**
Closing balance at 31 December 2018	**251,979,214**	**590,000**	**770,392,814**	**502,015,293**	**375,412,047**	**155,821,731**	**2,056,211,099**
Less: Accumulated depreciation							
Opening balance at 1 January 2018	**29,721,712**	**590,000**	**481,626,273**	**363,356,943**	**194,351,555**	**104,837,167**	**1,174,483,649**
Charge for the year	**1,875,385**	–	**109,850,005**	**42,348,288**	**43,880,560**	**20,829,549**	**218,783,787**
Disposals	–	–	**(12,879,450)**	**(10,756,449)**	**(16,053,609)**	**(2,105,323)**	**(41,794,831)**
Closing balance at 31 December 2018	**31,597,097**	**590,000**	**578,596,828**	**394,948,782**	**222,178,506**	**123,561,393**	**1,351,472,605**

2017	Land and buildings LKR	Leasehold properties LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Vehicle LKR	Total LKR
Cost							
Opening balance at 1 January 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 December 2017	251,979,214	590,000	678,783,946	480,614,783	325,426,778	145,774,508	1,883,169,230
Less: Accumulated depreciation							
Opening balance at 1 January 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 December 2017	29,721,712	590,000	481,626,273	363,356,943	194,351,555	104,837,167	1,174,483,649

	2018 LKR	2017 LKR
Work in progress		
Building	–	17,787,049
	–	17,787,049

	Land and buildings LKR	Leasehold properties LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Vehicle LKR	Work in progress LKR	Total LKR
Cost								
Net book value at 31 December 2018	**220,382,118**	**–**	**191,795,986**	**107,066,511**	**153,233,541**	**32,260,338**	**–**	**704,738,493**
Net book value at 31December 2017	222,257,503	–	197,157,673	117,257,840	131,075,223	40,937,341	17,787,049	726,472,629

Year ended 31 December

20.1 Freehold land and buildings

The details of the land and building owned by the Bank are as fallows:

Location/Address	Extent		31 December 2018 Cost		31 December 2017 Cost	
	Land (Purchase)	Building (Square feet)	Land LKR	Building LKR	Land LKR	Building LKR
No. 14, Edmonton Road, Kirulapone	17.85	–	**38,999,000**	–	38,999,000	–
No. 12/01, Edmonton Road, Kirulapone	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
SANASA Campus Ltd., Paragammana, Hettimulla, Kegalle	320	2,600	**1,002,912**	**4,568,824**	1,002,912	4,568,824
60/65, Sahasapura Scheme, Baseline Mw, Borella	–	1,006	–	**2,420,118**	–	2,420,118
			191,213,132	**60,766,082**	195,988,132	73,116,691

20.2 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of LKR 216,934,546.00 (2017 – LKR 272,786,130.00). Cash payments amounting to LKR 216,934,546.00 (2017 – LKR 272,786,130.00) were made during the year for purchase of property, plant and equipment.

20.3 Property, plant and equipment includes fully depreciated assets having a gross carrying amount of LKR 1,040,724,692.00 (2017 – LKR 1,005,246,056.00)

20.4 There were no restrictions on the title of the property, plant and equipment as at 31 December 2018.

20.5 There were no idle property,plant and equipment as at 31 December 2018.

21. Investments properties

	2018 LKR	2017 LKR
Cost		
Balance at the beginning of the year	**35,359,000**	35,359,000
Additions	–	–
Balance at the end of the year	**35,359,000**	35,359,000
Less: Accumulated depreciation		
Balance at the beginning of the year	**11,968,340**	10,912,310
Charge for the year	**1,056,030**	1,056,030
Balance at the end of the year	**13,024,370**	11,968,340
Net book value at the end of the year	**22,334,630**	23,390,660

Year ended 31 December

21.1 The details of the investment property owned by the Bank are as fallows:

Location/Address	Extent		**31 December 2018 Cost**		31 December 2017 Cost	
	Land (Purchase)	Building (Square feet)	**Land LKR**	**Building LKR**	Land LKR	Building LKR
No. 6 A/176, Walauwatta, Kegalle	28	8,233.5	**14,238,400**	**21,120,600**	14,238,400	21,120,600
			14,238,400	**21,120,600**	14,238,400	21,120,600

21.2 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 LKR 52,788,900.00. Valuation was carried out by R M W N K Chandrasekara independent Professional Valuer.

tangible assets

	2018 LKR	2017 LKR
Cost		
Balance at the beginning of the year	**211,929,704**	211,929,704
Additions	**–**	–
Balance at the end of the year	**211,929,704**	211,929,704
Less: Accumulated amortisation		
Balance at the beginning of the year	**203,781,364**	194,991,460
Charge for the year	**4,420,615**	8,789,904
Balance at the end of the year	**208,201,979**	203,781,364
Net book value at the end of the year	**3,727,725**	8,148,340

22.1 There were no idle Intangible assets as at 31 December 2018.

22.2 There were no restrictions on the title of the intangible assets as at 31 December 2018.

her assets

	2018 LKR	2017 LKR
Postage legal and other charges receivable	**55,628,494**	85,814,742
VAT receivable	**7,314,404**	4,670,565
Prepaid staff cost	**635,701,610**	556,212,985
Deposits and prepayments	**425,178,412**	361,361,223
Inventory	**74,491,470**	62,115,332
Total	**1,198,314,390**	**1,070,174,846**

Year ended 31 December

24. Due to other customers

	2018 LKR	2017 LKR
Total amount due to other customers	**67,474,821,535**	59,904,734,365
Total	**67,474,821,535**	59,904,734,365

24.1 Analysis

	2018 LKR	2017 LKR
By product		
Savings deposits	**12,369,442,964**	10,367,022,523
Fixed deposits	**55,105,378,571**	49,537,711,842
Total	**67,474,821,535**	59,904,734,365

	2018 LKR	2017 LKR
By currency		
Sri Lankan rupee	**67,474,821,535**	59,904,734,365
Total	**67,474,821,535**	59,904,734,365

25. Other borrowings

	2018 LKR	2017 LKR
Term loan (Note 25.1)	**12,347,696,633**	5,320,976,437
Securitised borrowings (Note 25.2)	**827,867,887**	1,329,718,451
Refinance borrowing (Note 25.3)	**2,245,403,442**	2,176,914,716
Total	**15,420,967,962**	8,827,609,604

Year ended 31 December

25.1 Term loan – Details

Institution	Fixed/ Floating	Tenure months	**2018 LKR**	2017 LKR
National Savings Bank	Floating	48	**458,077,389**	708,621,084
National Savings Bank	Floating	48	**1,833,200,000**	–
Sampath Bank PLC	Floating	60	**158,658,090**	258,865,164
Sampath Bank PLC	Floating	60	**158,658,090**	258,865,164
Sampath Bank PLC	Floating	60	**300,675,854**	400,878,338
Sampath Bank PLC	Floating	60	**317,382,295**	417,583,273
Seylan Bank PLC	Floating	22	**38,094,448**	302,834,016
Seylan Bank PLC	Floating	60	**823,023,219**	503,236,986
DFCC Bank	Floating	48	**489,776,081**	–
DFCC Bank	Floating	48	**448,974,730**	–
Pan Asia Banking Corporation PLC	Floating	60	**–**	248,283,332
Peoples Bank	Floating	60	**786,169,108**	1,215,226,882
MCB Bank Ltd.	Floating	60	**141,502,782**	191,685,397
HNB Bank PLC	Floating	48	**564,330,767**	814,896,800
HNB Bank PLC	Floating	48	**1,469,852,568**	–
NDB Bank PLC	Fixed/Floating	3	**1,013,227,397**	–
IFC	Fixed	60	**2,415,304,500**	–
FMO	Floating	52	**930,789,315**	–
			12,347,696,633	5,320,976,437

25.1.1 Term loan – Movement

	Opening balance 1 January 2018 LKR	Obtained during year LKR	Repayment LKR	**Closing balance 31 December 2018 LKR**
National Savings Bank	708,100,000	2,000,000,000	(417,000,000)	**2,291,100,000**
Sampath Bank PLC	1,333,280,000	–	(400,032,000)	**933,248,000**
Seylan Bank PLC	802,000,000	500,000,000	(442,950,000)	**859,050,000**
Pan Asia Banking Corporation PLC	248,000,000	–	(248,000,000)	**–**
Peoples Bank	1,207,846,115	–	(426,298,629)	**781,547,486**
MCB Bank Ltd.	191,550,000	–	(50,100,000)	**141,450,000**
HNB Bank PLC	812,530,000	1,500,000,000	(281,210,000)	**2,031,320,000**
NDB Bank PLC	–	3,100,000,000	(2,100,000,000)	**1,000,000,000**
DFCC Bank	–	1,000,000,000	(62,500,002)	**937,499,998**
FMO	–	925,530,757	–	**925,530,757**
IFC	–	2,331,000,000	–	**2,331,000,000**
Interest payable	17,670,321	–	–	**115,950,393**
	5,320,976,436	11,356,530,757	(4,428,090,631)	**12,347,696,633**

Year ended 31 December

25.2 Securitised borrowings

	2018 LKR	2017 LKR
Trust 1	**4,269,292**	103,588,703
Trust 2	**823,598,595**	1,226,129,748
	827,867,887	1,329,718,451

25.3 Refinance borrowing

	2018 LKR	2017 LKR
SANASA Federation (Refinance of *Athwela* Loans)	**54,200,000**	54,200,000
Central Bank of Sri Lanka (RERED)	**3,930,019**	7,809,688
Central Bank of Sri Lanka (*Susahana*)	**80,827**	80,827
Asian Development Bank (*Dasuna*)	**191,488**	4,585,032
Borrowings under CBSL – Perennial Crops	**–**	306,675
Borrowings under CBSL – Tea Development	**103,530**	785,148
Borrowings under Refinance of *Jayatha*	**441,306,600**	365,602,250
Borrowing under Awakaning East	**30,123,850**	122,544,550
Borrowing under Awakaning North	**1,671,750**	7,346,250
Borrowing under *Saubagya*	**1,246,363,283**	1,119,347,996
Borrowing under SPENDP	**408,000**	1,108,000
Borrowing – Refinance Smile iii	**434,120,501**	481,693,300
Borrowing – Refinance Nadep	**–**	–
Borrowing – Refinance Sepi	**2,700,000**	375,000
Borrowing – *Suwashakthi* Loan	**3,848,997**	11,130,000
Borrowing – *Athwela* (READ)	**25,516,667**	–
Borrowing – *Kapruka Ayojana*	**837,930**	–
	2,245,403,442	2,176,914,716

25.4 Analysis of maturity of refinance borrowings

	2018 LKR	2017 LKR
Due within one year	**985,193,182**	742,386,052
1-5 years	**1,223,230,860**	1,235,764,364
After 5 years	**36,979,400**	198,764,300
	2,245,403,442	2,176,914,716

25.5 Securities and terms

Interest rate ranging for above borrowings 0.5% to 15.12% per annum.

Bank has pledged from the lease portfolio sum of LKR 1,892,536,930.00 for the securitised borrowings. (2017 – LKR 2,014,701,610.00)

Year ended 31 December

bt security issued

	2018 LKR	2017 LKR
Debentures	**4,198,547,716**	4,189,812,218
Total	**4,198,547,716**	4,189,812,218

26.1 Types of debentures (Fixed)

(i) Rated Guaranteed Redeemable Debentures of LKR 100.00 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 December 2015	31 December 2018	9.83	1,597,390,000	77,304,923	1,674,694,923
B	Semi-annually	31 December 2015	31 December 2020	10.25	402,610,000	20,295,956	422,905,956
					2,000,000,000	97,600,879	2,097,600,879

(ii) Rated Guaranteed Redeemable Debentures of LKR 100.00 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 December 2015	31 December 2018	10.15	1,438,050,000	71,768,545	1,509,818,545
D	Semi-annually	31 December 2015	31 December 2020	10.57	561,950,000	29,178,292	591,128,292
					2,000,000,000	100,946,837	2,100,946,836
					4,000,000,000	198,547,716	4,198,547,716

bordinated term debts

	2018 LKR	2017 LKR
Subordinated term debts	**1,008,027,823**	1,004,354,742
Total	**1,008,027,823**	1,004,354,742

27.1 Subordinated term debts – Details

Investor	Tenor/Repayment	Interest rate	2018 LKR	2017 LKR
FMO	Repayment or conversion after 66 months	6-month T-bill rate + 550 basis points Payable per annum	**706,706,095**	707,197,511
SBI-FMO	Repayment or conversion after 66 months	6-month T-bill rate + 450 basis points Payable per annum	**316,696,269**	317,031,638
Less: Initial transaction cost			**(15,374,541)**	(19,874,408)
			1,008,027,823	1,004,354,742

Year ended 31 December

28. Other liability

	2018 LKR	2017 LKR
Defined benefit plan – Retiring gratuity obligations (Note 28.1)	**354,854,450**	257,476,102
Special purpose project funds	**407,765,490**	432,773,270
Accruals and other payables	**360,067,912**	336,639,836
Total	**1,122,687,852**	1,026,889,208

28.1 Retirement benefit obligations

28.1.1 Defined benefit liability

	2018 LKR	2017 LKR
Defined benefit liability (Note 28.1.2)	**354,854,450**	257,476,102
	354,854,450	257,476,102

28.1.2 Changes in the defined benefit obligation are as follows:

	2018 LKR	2017 LKR
Defined benefit obligation as of 1 January	**257,476,102**	212,494,263
Net benefit expense (Note 28.1.3)	**100,585,945**	49,038,962
Benefit paid	**(3,207,597)**	(4,057,124)
Defined benefit liability as of 31 December	**354,854,450**	257,476,101

28.1.3 Net benefit expense

	2018 LKR	2017 LKR
Interest cost	**28,359,486**	25,362,255
Current service cost	**26,231,153**	26,561,782
	54,590,639	51,924,037
Amounts recognised in the other comprehensive income		
Actuarial (Gain)/Loss on obligations	**45,995,306**	(2,885,075)
Balance at the end of the year	**100,585,945**	49,038,962

28.1.4 The principal financial assumptions used are as follows:

Messrs Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2018. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2018	2017
Long term interest rate	**12.30%**	10.40%
Future salary increase rate	**11.30%**	9.40%
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.

Year ended 31 December

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

Assumption	Rate change	2018 Impact to financial position increment/(Reduction) of liability	2018 Impact to comprehensive income charged/(Reversal)	2017 Impact to financial position Increment/(Reduction) of liability	2017 Impact to comprehensive income charged/(Reversal)
Discount rate	1+	**(31,422,769)**	**(31,422,769)**	(24,073,734)	(24,073,734)
Discount rate	1-	**36,365,685**	**36,365,685**	27,982,463	27,982,463
Salary increment rate	1+	**35,249,002**	**35,249,002**	29,084,484	29,084,484
Salary increment rate	1-	**(31,042,941)**	**(31,042,941)**	(25,363,729)	(25,363,729)

28.3 The expected Benefit payout in the future years of Retirement Gratuity

	2018 LKR	2017 LKR
Within next 12 months	**29,520,864**	20,188,199
Between 2 and 5 years	**209,523,632**	142,334,381
Beyond 5 years	**471,331,175**	276,456,232

ated capital

	2018 LKR	2017 LKR
Ordinary shares – Issued and fully paid	**5,921,538,126**	5,758,689,211
Total	**5,921,538,126**	5,758,689,211

Ordinary shares – Issued and fully paid	At the beginning of the year 1January 2018 Number	Issued for script during the year Number	Redemptions/ transfers Number	**At the end of the year 31December 2018 Number**
Ordinary shares – Voting	54,778,867	1,529,385	–	**56,308,252**
	54,778,867	1,529,385	–	**56,308,252**

	At the beginning of the year 1January 2018 LKR	Issued for cash during the year LKR	Redemptions/ transfers LKR	**At the end of the year 31December 2018 LKR**
Ordinary share value – Voting	5,758,689,211	162,848,915	–	**5,921,538,126**
	5,758,689,211	162,848,915	–	**5,921,538,126**

atutory reserve fund

	2018 LKR	2017 LKR
Opening balance	**197,763,963**	172,372,786
Transfer during the period	**17,847,506**	25,391,177
Closing balance	**215,611,469**	197,763,963

Year ended 31 December

31. Retained earnings

	2018 LKR	2017 LKR
Opening balance	**1,340,503,862**	1,249,742,153
Impact of adoption of SLFRS 9 as at 1 January 2018	**(37,054,387)**	–
Profit for the year	**323,833,499**	509,900,786
Transfers to other reserves	**(17,847,506)**	(25,391,177)
Scrip dividend	**(191,726,035)**	(262,498,600)
Cash dividend	**(136,947,168)**	(131,249,300)
Closing balance	**1,280,762,266**	1,340,503,862
Dividend per share	**5.8**	7.7

32. Other reserves

	Opening balance at 1 January 2018 LKR	**Movement/ transfers LKR**	**Closing balance at 31 December 2018 LKR**
General reserve	**46,656,973**	**–**	**46,656,973**
FVOCI/available-for-sale reserve	**(12,453,979)**	**(3,388,111)**	**(15,842,090)**
Total	**34,202,994**	**(3,388,111)**	**30,814,883**

	Opening balance at 1 January 2017 LKR	Movement/ transfers LKR	Closing balance at 31 December 2017 LKR
General reserve	46,656,973	–	46,656,973
Available-for-sale reserve	(12,453,979)	–	(12,453,979)
Total	34,202,994	–	34,202,994

33. Contingent liabilities and commitments

	2018 LKR	2017 LKR
33.1 Guarantees	**182,986,032**	166,260,031
Total	**182,986,032**	166,260,031

33.2 Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year end, the Bank had several unresolved legal claims. The Bank is the opinion that litigation which is currently pending will not have a material impact on the reported financial results of the Bank.

Following cases are filed against the Bank:

1. L/17/11 – DC Kesbewa

In the above case the Bank has been made the second defendant to a land case claiming a sum of LKR 7,000,000.00 against a property mortgage. The case in on trial stage. Registered attorney is Mr Augustus Jayarathne.

2. SPL 252/11 – DC Elpitiya

The plaintiff of this case is Diyakithulkanda Society and defendants are Kotmale Milk Food (Pvt) Ltd and SANASA Development Bank PLC. Claiming amount is sum of LKR 1,000,000.00 case filed against a bank Guarantee. The case is on trial stage. Registered attorney is Mr N Halpandeniya.

3. DSP 178/09 – DC Kandy

Above case filed against the Bank challenging the legality of repossession of leased vehicle and plaint value is sum of LKR 3.5 Mn. Presently the case in on trial stage. Registered attorney is Mr A M Ganganatha and Counsel is Mr Samantha Ratwatte (Precedent's Counsel).

4. DMR/496/15 – DC Colombo

The case has been filed against the Bank challenging the legality of a writ execution and claiming that the Bank has unduly enriched. The plaint value is LKR 6,000,000.00. Presently the case is on trial stage. Registered attorney is Mr Augustus Jayarathne.

5. MB 1935 – DC Matale

The case has been filed by a group of people who occupy the mortgage property claiming possession of the same. Outstanding value of the mortgage bond is LKR 1,331,471.60. Case is to consider survey plan. Registered attorney is Mr S M M Koswatta.

6. 6495/SPL – DC Colombo

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 Samararathne Associate.

7. 207/CL – DC Kuliyapitiya

Assets of the guarantors in Case No. 1827/M have been seized by the fiscal as per the judgement of that case. The Petitioner has filed this claim case claiming rights for the seized assets. Presently the case is in trial stage. The Registered attorney is Mr Supun Adikari.

8. 6940/P – DC Kurunegala

A partition action has been filed where a portion of the subject land has been mortgage to the Bank. Presently case is in the stage of filling Statement of claim and consideration of survey plan. Registered Attorney is Mr G B Senanayake.

9. 13/17/CL – DC Badulla (Leasing)

Assets of the guarantors in Case No. 1805/M have been seized by the fiscal as per the judgement of that case. The Petitioner has filed this claim case claiming rights for the seized assets. Presently the objections filed by the Bank. The Registered attorney is Mrs Niranjala Rathnayake.

10. 551/CL, 552/CL and 553/CL – DC Avissawella

Assets of the guarantors in Case No. 27944/M have been seized by the fiscal as per the judgement of that case. The petitioner has filed three claim cases claiming rights for the seized assets. Presently settlements entered in the cases. The Registered attorney is Ms W M J C Wijemanna.

11. DMR/4015/17 – DC Colombo

The Bank rejected to renew the service contract of Mr I M Aruna Dayanatha as Head of HR. Mr Dayanatha filed an action against the Bank and the members of BHRRC claiming damages of LKR 500,000,000.00 for reputational loss suffered from non-renewal of his service contract. Presently the case fixed for amended plaint. The Registered attorney is Mrs Bushra Hashim.

12. 218/L – DC Wariyapola

Plaintiff mortgaged the subject property to the Bank and filed land ejectment case to eject licensee occupying the property. The Bank is 2nd defendant. Case is coming up to file answer. The Registered attorney is Mrs Jenat Jayawardana.

13. M/10238 – DC Galle

An injunction order obtained against auction of the property in Case No. MB/2808 filed in DC Galle. Presently the case fixed for objection. The Registered attorney is Mr M S Dahanayake.

14. WP/HCCA/COL/139/2018

The initial case related to a mortgage bond action where the order granted favouring the Bank, and defendant appealed to High Court under Case No. WP/HCCA/COL 237/2010 (F) against the order and such appeal dismissed without costs. The defendant filed present action praying leave to appeal against the previous order. Presently the case fixed for support. The Registered attorney Mr Augustus Jayarathne.

15. WP/HCCA/COL/272/15 (F)

An appeal case filed against the order of the preliminary case bearing No. DMB/124/09 of District Court Colombo. Presently the case is fixed for argument. The Registered attorney Mr Saman Suraweera.

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 Standrad – 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) and all transaction with FMO are given below.

	2018 LKR	2017 LKR
Interest repayment	**240,127,258**	40,788,616
Reimbursement of expenses	**2,465,459**	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 and 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.

35.2.1 Key management personnel compensation

	2018 LKR	2017 LKR
Short term employee benefits	**33,113,000**	31,794,000
Post employment benefits	**2,080,800**	2,346,000

35.2.2 Other transactions with key management personnel – Balance outstanding

	2018 LKR	2017 LKR
Balance as at 1 January	**2,352,976**	2,620,771
Grantings	**–**	–
Repayments	**(323,793)**	(267,795)
Balance as at 31 December	**2,029,183**	2,352,976
Interest income	**300,885**	328,950

35.2.3 Deposits and investment from key management personnel – Balance outstanding

	2018 LKR	2017 LKR
Deposits accepted and reviewed during the period	**2,982,512**	3,630,269
Balance as at 31 December	**163,274**	1,271,965
Interest expenses	**10,138**	10,668

35.2.4 Other payment to key management personnel

	2018 LKR	2017 LKR
Cash dividend	**157,494**	4,343

35.2.5 Share purchase

	2018 Nos.	2017 Nos.
Shares	**–**	73,062

35.2.6 Term and conditions of transaction with related parties

All related party transactions are carried out in the normal course of business and transacted at normal business terms. Transaction from related parties are made on terms equivalent to those that prevail in arm's length 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.

sets pledged

Bank has pledged from the lease portfolios sum of LKR 1,892,536,929.00 (2017 – LKR 2,014,701,610.00) for the securitised borrowings.

37. Analysis of financial instruments by measurement basis

As at 31 December 2018	Amortised cost LKR	FVPL LKR	FVOCI LKR	Total LKR
Financial assets				
Cash and cash equivalents	4,171,938,630	–	–	4,171,938,630
Placements with banks	9,528,425,565	–	–	9,528,425,565
Financial assets at fair value through profit or loss	–	146,103,330	–	146,103,330
Financial assets at amortised cost:				
– Loans and receivables to other customers	77,507,021,162	–	–	77,507,021,162
– Debt and other instruments	3,405,600,286	–	–	3,405,600,286
Financial assets measured at fair value through other comprehensive income	–	–	60,148,048	60,148,048
Total financial assets	**94,612,985,642**	**146,103,330**	**60,148,048**	**94,819,237,021**
Financial liabilities				
Due to other customers	67,474,821,535	–	–	67,474,821,535
Other borrowings	15,420,967,962	–	–	15,420,967,962
Debt Securities issued	4,198,547,716	–	–	4,198,547,716
Subordinated term debts	1,008,027,823	–	–	1,008,027,823
Total financial liabilities	**88,102,365,036**	–	–	**88,102,365,036**

As at 31 December 2017	FVTPL LKR	HTM LKR	AFS LKR	Amortised cost LKR	Total LKR
Financial assets					
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
Total financial assets	4,473,805,573	599,551,021	63,536,159	75,372,458,663	80,509,351,416
Financial liabilities					
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
Total financial liabilities	–	–	–	73,926,510,929	73,926,510,929

ir value of financial instruments

38.1 Financial instruments recorded at fair value

The fallowing 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.

Fair value through OCI/Financial investment – Available for sale
Fair value through OCI valued using valuation techniques or pricing models primary consist of unquoted equity securities.

Fair value through profit and loss/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

Financial assets	**As at 31 December 2018**			
	Level 1 LKR	**Level 2 LKR**	**Level 3 LKR**	**Total LKR**
Financial assets fair value through profit or loss				
Quoted equities	–	–	–	–
Sri Lanka Government Securities – Treasury bond	–	–	–	–
Unit trusts	**146,103,330**	–	–	**146,103,330**
Fair value through OCI	–		**60,148,048**	**60,148,048**
Unquoted equities	–	–	–	–
	146,103,330	–	**60,148,048**	**206,251,378**

Financial assets	As at 31 December 2017			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Financial assets fair value through profit or loss				
Quoted equities	20,567,010	–	–	20,567,010
Sri Lanka Government Securities – Treasury bond	–	337,940,600	–	337,940,600
Unit trusts	4,115,297,963			4,115,297,963
Financial investments – Available for sale:				–
Unquoted equities	–	–	63,536,159	63,536,159
	4,135,864,973	337,940,600	63,536,159	4,537,341,732

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

Net trading income

Financial assets	2018 LKR	2017 LKR
Financial assets at fair value through profit or loss		
Sri Lanka Government Securities – Treasury bond	**(942,414)**	24,727,750
Unit trust	**281,114,474**	187,031,644
	280,172,060	211,759,394

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

Setout 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 2018	Level	Carrying value LKR	Fair value LKR
Financial assets			
Cash and cash equivalents	Note*	**4,171,938,630**	**4,171,938,630**
Placements with banks	Note*	**9,528,425,565**	**9,528,425,565**
Financial investments – Held to maturity	1, 2	–	–
Financial assets at amortised cost:			
– Loans and receivables to other customers	2	**77,507,021,162**	**77,781,165,229**
– Debt and other instruments	Note*	**3,405,600,286**	**3,405,600,286**
Total financial assets		**94,612,985,642**	**94,887,129,710**
Financial liabilities			
Due to other customers	2	**67,474,821,535**	**57,889,168,348**
Other borrowings	2	**15,420,967,962**	**15,418,148,997**
Debt securities issued	2	**4,198,547,716**	**4,198,547,716**
Subordinated term debts	2	**1,008,027,823**	**1,008,027,823**
Total financial liabilities		**88,102,365,036**	**78,513,892,884**

As at 31 December 2017		Carrying value LKR	Fair value LKR
Financial assets			
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
Total financial assets		75,972,009,684	82,821,970,852
Financial liabilities			
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
Total financial liabilities		73,926,510,929	72,730,660,193

*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 2018				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	10,947,252,698	827,449,414	1,161,471,770	180,607,695	13,116,781,577
Interest expenses	(6,611,642,530)	(474,369,619)	(1,221,112,089)	(116,633,491)	(8,423,757,729)
Net interest income	4,335,610,168	353,079,795	(59,640,319)	63,974,204	4,693,023,848
Fee and commission income	194,148,717	32,618,933	–	–	226,767,650
Fee and commission expenses	(4,102,534)	(294,347)	–	–	(4,396,881)
Net fee and commission income	190,046,183	32,324,586	–	–	222,370,769
Net loss from financial instruments at fair value through profit or loss	–	–	280,172,060	–	280,172,060
Other operating income (net)	20,334,514	–	476,587	–	20,811,101
Total operating income	4,545,990,865	385,404,381	221,008,326	63,974,204	5,216,377,778
Impairment for loans and other losses	(470,940,030)	(51,990,820)	(6,127,309)	3,214,279	(525,843,880)
Net operating income	4,075,050,835	333,413,561	214,881,017	67,188,484	4,690,533,898
Depreciation and amortisation expenses	(205,765,548)	(14,763,188)	(101,863)	(3,629,832)	(224,260,432)
Segment result	3,869,285,287	318,650,373	214,779,154	63,558,651	4,466,273,467
Un-allocated expenses					(3,353,205,201)
Value Added Tax (VAT) on financial services					(362,940,818)
Nation Building Tax (NBT) on financial services					(52,702,722)
Debt repayment levy					(53,282,253)
Profit before tax					644,142,476
Tax expenses					(287,192,354)
Profit for the year					356,950,122
Other comprehensive income					
Other comprehensive income for the year net of tax					(36,504,731)
Total comprehensive income for the year					320,445,391
Segment assets	71,147,289,913	5,104,648,758	13,140,277,228	1,255,082,491	90,647,298,390
Un-allocated assets	–	–	–	–	6,170,468,795
Total assets	71,147,289,913	5,104,648,758	13,140,277,228	1,255,082,491	96,817,767,185
Segment liabilities	70,144,010,272	5,032,665,831	12,954,980,323	1,237,384,014	89,369,040,440
Total equity	–	–	–	–	7,448,726,745
Total liabilities	70,144,010,272	5,032,665,831	12,954,980,323	1,237,384,014	96,817,767,185
Addition to non-current assets	199,134,182	14,287,411	–	3,512,853	216,934,545

	31 December 2017				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
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)
Net interest income	3,302,733,396	349,730,489	184,755,561	50,273,126	3,887,492,571
Fee and commission income	235,993,758	42,775,806	–	–	278,769,565
Fee and commission expenses	(3,284,524)	(226,575)	–	–	(3,511,099)
Net fee and commission income	232,709,233	42,549,231	–	–	275,258,465
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
Total operating income	3,579,358,584	392,279,720	403,444,398	50,273,126	4,425,355,827
Impairment for loans and other losses	(299,934,014)	11,201,293	–	(4,804,188)	(293,536,909)
Net operating income	3,279,424,570	403,481,013	403,444,398	45,468,938	4,131,818,919
Depreciation and amortisation expenses	(176,533,215)	(12,824,707)	(126,953)	(2,092,098)	(191,576,973)
Segment result	3,102,891,355	390,656,306	403,317,444	43,376,840	3,940,241,946
Un-allocated expenses					(2,838,197,046)
Value Added Tax (VAT) on financial services					(300,961,853)
Nation building tax (NBT) on financial services					(48,481,937)
Debt repayment levy					–
Profit before tax					752,601,110
Tax expenses					(244,777,577)
Profit for the year					507,823,534
Other comprehensive income					
Other comprehensive income for the year net of tax					2,077,254
Total comprehensive income for the year					509,900,788
Segment assets	61,603,758,587	4,249,583,702	12,631,546,216	834,073,305	79,318,961,810
Un-allocated assets	–	–	–	–	3,055,751,492
Total assets	61,603,758,587	4,249,583,702	12,631,546,216	834,073,305	82,374,713,302
Segment liabilities	58,283,225,521	4,020,524,899	11,950,687,323	789,115,528	75,043,553,271
Total equity	–	–	–	–	7,331,160,031
Total liabilities	58,283,225,521	4,020,524,899	11,950,687,323	789,115,528	82,374,713,302
Addition to non-current assets	251,532,033	18,273,188	–	2,980,909	272,786,130

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 2018			31 December 2017		
	Within 12 Months LKR	After 12 Months LKR	Total LKR	Within 12 Months LKR	After 12 Months LKR	Total LKR
Assets						
Cash and cash equivalents	**4,171,938,629**	**–**	**4,171,938,629**	1,190,389,606	–	1,190,389,606
Placements with banks	**9,528,425,565**	**–**	**9,528,425,565**	6,014,703,836	–	6,014,703,836
Financial assets fair value through profit or loss	**146,103,330**	**–**	**146,103,330**	4,473,805,573	–	4,473,805,573
Loans and receivables to other customers	**17,213,381,317**	**60,293,639,845**	**77,507,021,162**	14,188,294,779	52,499,120,815	66,687,415,593
Debt and other instruments	**3,316,920,287**	**88,680,000**	**3,405,600,287**	–	–	–
Other financial asset classified under loans and receivable	**–**	**–**	**–**	1,316,269,628	163,680,000	1,479,949,628
Financial assets measured at fair value through other comprehensive income	**–**	**60,148,048**	**60,148,048**	–	–	–
Financial investments – Available for sale	**–**	**–**	**–**	–	63,536,159	63,536,159
Financial investments – Held to maturity	**–**	**–**	**–**	–	599,551,021	599,551,021
Asset classified as held for sale	**–**	**–**	**–**	37,175,411	–	37,175,411
Property, plant and equipment	**–**	**704,738,491**	**704,738,491**	–	726,472,630	726,472,630
Investment properties	**–**	**22,334,630**	**22,334,630**	–	23,390,660	23,390,660
Intangible assets	**–**	**3,727,725**	**3,727,725**	–	8,148,340	8,148,340
Deferred tax assets	**–**	**69,414,926**	**69,414,926**	–	–	–
Other assets	**1,198,314,392**	**–**	**1,198,314,392**	1,070,174,846	–	1,070,174,846
Total assets	**35,575,083,520**	**61,242,683,665**	**96,817,767,185**	28,290,813,678	54,083,899,624	82,374,713,303
Liabilities						
Due to other customers	**47,596,788,688**	**19,878,032,846**	**67,474,821,534**	43,298,550,760	16,606,183,605	59,904,734,365
Other borrowings	**6,221,139,240**	**9,199,828,723**	**15,420,967,963**	3,333,255,454	5,494,354,151	8,827,609,604
Debt securities issued	**3,233,987,716**	**964,560,000**	**4,198,547,716**	198,547,716	3,991,264,502	4,189,812,218
Subordinated term debts	**15,058,060**	**992,969,761**	**1,008,027,821**	30,652,824	973,701,918	1,004,354,741
Current tax liabilities	**143,987,553**	**–**	**143,987,553**	32,152,744	–	32,152,744
Deferred tax liabilities	**–**	**–**	**–**	–	58,000,391	58,000,391
Other liabilities	**767,833,402**	**354,854,450**	**1,122,687,852**	769,413,106	257,476,102	1,026,889,208
Total liabilities	**57,978,794,659**	**31,390,245,780**	**89,369,040,439**	47,662,572,603	27,380,980,669	75,043,553,272
Net assets/(liability)	**(22,403,711,138)**	**29,852,437,885**	**7,448,726,746**	(19,371,758,925)	26,702,918,954	7,331,160,031

sk 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 General Manager, Chief Executive Officer and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity and plus any other risk developments.

Risk mitigation

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

Excessive risk concentration

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

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

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

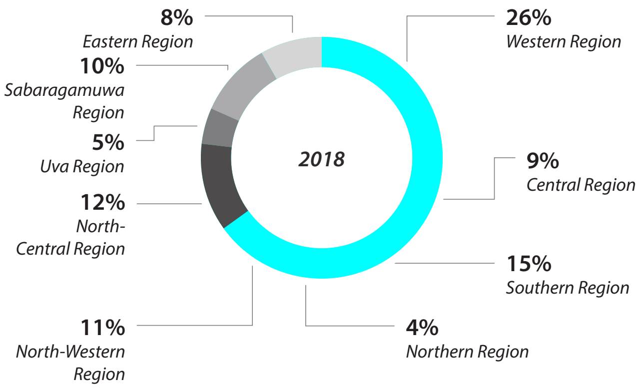
The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes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

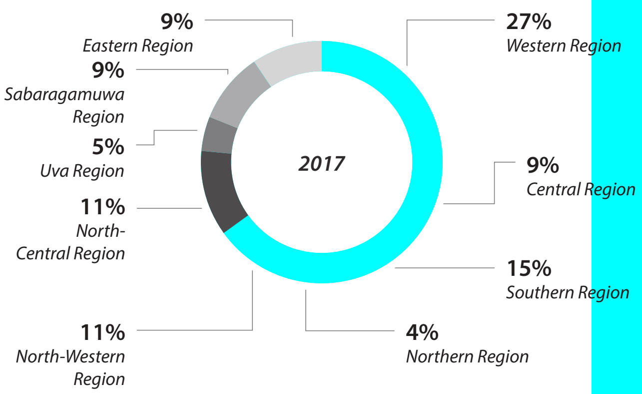
Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

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 2018 was LKR 330 Mn.

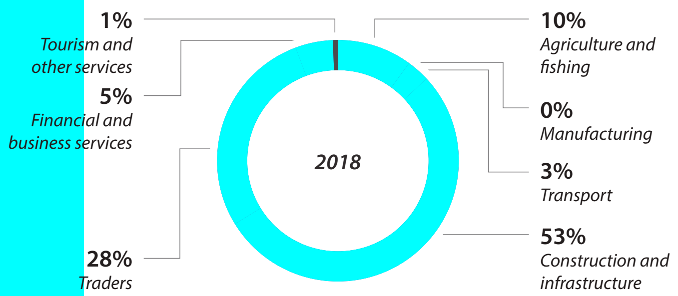
The following table shows the maximum exposure to credit risk for the components of the Statement of Financial Position, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at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

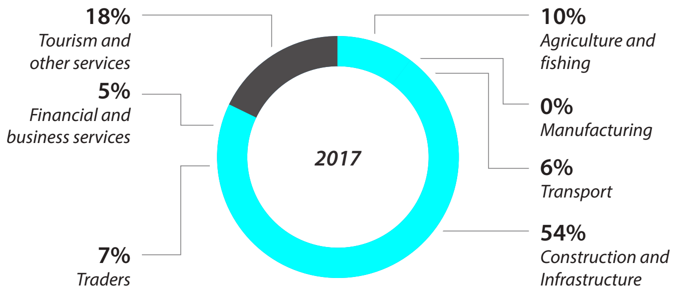
Geographical Analysis





Industry analysis





Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

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

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the Underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

Maximum exposure credit risk by class of financial assets

	31 December 2018		31 December 2017	
	Maximum exposure to credit risk LKR	**Net exposure LKR**	Maximum exposure to credit risk LKR	Net exposure LKR
Cash and cash equivalents	**4,171,938,630**	**4,171,938,630**	1,190,389,606	1,190,389,606
Placements with banks	**9,528,425,565**	**9,528,425,565**	6,014,703,836	6,014,703,836
Financial assets fair value through profit or loss	**146,103,330**	**146,103,330**	4,473,805,573	4,473,805,573
Other financial asset classified under loans and receivables	**–**	**–**	1,479,949,628	764,791,015
Financial assets at amortised cost:				
– loans and receivables to other customers	**79,482,459,527**	**65,213,196,435**	68,104,871,364	49,479,935,628
– debt and other instruments	**3,405,600,286**	**471,378,656**	–	–
Financial investments Held to maturity	**–**	**–**	599,551,021	599,551,021
Total	**96,734,527,338**	**79,531,042,616**	81,863,271,028	62,523,176,679

Credit quality by class of financial assets

31 December 2018	Neither past due nor impaired LKR	Pass due but not impaired LKR	Individually impaired LKR	Total LKR
Cash and cash equivalents	**4,171,938,630**	–	–	**4,171,938,630**
Placements with banks	**9,528,425,565**	–	–	**9,528,425,565**
Financial assets fair value through profit or loss	**146,103,330**	–	–	**146,103,330**
Financial assets at amortised cost:				
– loans and receivables to other customers	**64,662,927,979**	**13,673,100,463**	**1,146,431,087**	**79,482,459,528**
– debt and other instruments	**3,405,600,287**	–	–	**3,405,600,287**
Total	**81,914,995,791**	**13,673,100,463**	**1,146,431,087**	**96,734,527,340**

31 December 2017	Neither past due nor impaired LKR	Pass due but not impaired LKR	Individually impaired LKR	Total LKR
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 receivables	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
Total	70,556,170,446	10,873,357,267	497,279,475	81,926,807,187

	Pass due but not impaired				
	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	Total LKR
31 December 2018					
Loans and receivables to other customers (without impairment)	**6,081,797,677**	**4,413,998,529**	**222,108,245**	**2,955,196,012**	**13,673,100,463**
31 December 2017					
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

Impairment assessment (Policy applicable from 1 January 2018) definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three instalments in arrears due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events (among others) include;

- When contractual payments of a customer are more than 30 days past due;
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful. Limits shall be set and documented by licensed banks;
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.;
- When the customer is deceased/insolvent;
- When the Bank is unable to contact or find the customer.

It is the Bank's policy to consider a financial instrument as "cured" and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

Probability of default is the estimate of the likelihood of default over a given time horizon. A default may only happen at a time horizon if the facility has not been previously derecognised and is still in the portfolio.

An early exit (EE) may occur in case of default unless the facility reverts to performing without significant modification of the contractual terms. The marginal probability of default for the period is then adjusted from the probability that an early exit occurred during the previous periods.

12 months PD

This is the estimated probability of default occurring within the next 12 months.

The 12 month PD is applied for the "current" and "1-30 days" buckets since there is no significant deterioration in credit risk.

Lifetime PD

This is the estimated probability of default occurring over the remaining life of the financial instrument.

The lifetime PD is applied for the 31-60 days and 61-90 days buckets since there is a significant deterioration in credit risk. The PD for the above 90 days category is 100% since there is objective evidence of impairment as the default has occurred.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

These components will all need to be estimated based on past experience and future expectations, for sections of the portfolio that are segmented so that they have similar credit characteristics.

Loss given default

Loss given default is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed the above 90 days at-least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan.

Virtually closed contracts are also be added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as an account having been restructured. In certain cases, the Bank may also consider that event as a significant increase in credit risk as opposed to a default.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the following in the categorisation of credit facilities/ exposures into stages for computation of expected credit loss.

Stage 1

- All credit facilities, which are not categorised under Stages 2 or 3 below.

Stage 2

- Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9.
- All restructured loans, which are restructured up to two times (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest instalment post-restructure).
- Under-performing credit facilities/exposures.

Stage 3

- Credit facilities where contractual payments of a customer are more than 90 days past due or three instalments in arrears, subject to the rebuttable presumption as stated in SLFRS 9.
- All restructured loans, which are restructured more than twice.
- All rescheduled loans, other than credit facilities/exposures (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest instalment post-restructure).
- All credit facilities/customers classified as non-performing as per CBSL Directions.
- Non-performing credit facilities/customers.

Grouping financial assets measured on a collective basis

As explained in Note 2.3.2 dependent on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

An individual impairment assessment is performed for exposures over the Individually Significant Threshold of LKR 5 Mn. for which there is objective evidence of expected loss based on the current status of the customer, i.e. based on whether customer is performing, non-performing, rescheduled or watch-listed.

Exposures that are assessed for individual impairment and for which an impairment provision has been recognised are not included in the collective assessment of impairment. If it is determined that no objective evidence of expected loss exists for an individually assessed exposure, or assessed for objective evidence and there is no requirement for individual impairment, whether significant or not, this is included in a group of exposures with similar credit risk characteristics that are collectively assessed for impairment under the relevant bucket.

A collective assessment is performed for exposures as follows:

- Exposures that have not been individually assessed i.e. falling below the individually significant threshold
- Exposures that have been assessed for Objective Evidence of Incurred Loss and were found to have no such evidence of expected loss
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation

The Bank groups these exposure into homogeneous portfolios to extent possible so as ensure that data point available for meaningful calculations.

Impairment assessment (policy applicable before 1 January 2018)

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

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

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

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 other debt investments that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired. The Bank generally bases its analyses on historical experience.

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

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

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

Commitments and guarantees

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

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

Maturity analysis 2018	Less than 7 Days LKR	7-30 Days LKR	1-3 Months LKR	3-12 Month LKR	1-3 Years LKR	3-5 Years LKR	Over 5 Years LKR	Total LKR
Financial assets								
Cash and cash equivalents	4,171,938,630	–	–	–	–	–	–	4,171,938,630
Investments	3,466,827,144	5,764,834,724	3,834,399,122	30,599,084	96,802,800	60,148,048	–	13,253,610,920
Loans and receivables to other customers	1,416,410,358	2,117,141,125	3,269,857,395	15,520,336,642	23,958,709,739	17,900,396,885	25,835,847,050	90,018,699,193
Total financial assets	9,055,176,132	7,881,975,848	7,104,256,516	15,550,935,726	24,055,512,539	17,960,544,933	25,835,847,050	107,444,428,744
Financial liabilities								
Due to other customers	2,782,918,433	4,192,909,422	10,733,966,507	31,340,676,236	12,710,070,042	5,875,048,928	3,345,510,561	70,981,100,128
Other borrowings	–	283,182,271	1,809,763,544	4,089,634,458	9,417,061,777	5,606,886,353	45,854,456	21,252,382,859
Debt securities issued	–	–	–	1,013,630,925	–	–	–	1,013,630,925
Total financial liabilities	2,782,918,433	4,476,091,692	12,543,730,051	36,443,941,619	22,127,131,819	11,481,935,281	3,391,365,017	93,247,113,912
Net financial assets/ (liabilities)	6,272,257,699	3,405,864,156	(5,439,473,535)	(20,893,005,893)	1,928,380,720	6,478,609,652	22,444,482,033	14,197,134,832

Maturity analysis 2017	Less than 7 Days LKR	7-30 Days LKR	1-3 Months LKR	3-12 Month LKR	1-3 Years LKR	3-5 Years LKR	Over 5 Years LKR	Total LKR
Financial assets								
Cash and cash equivalents	1,190,389,606	–	–	–	–	–	–	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
Total financial assets	3,564,470,358	4,276,563,221	8,703,904,011	15,003,125,298	20,216,347,851	16,717,024,270	22,580,251,905	91,061,686,912
Financial liabilities								
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
Total financial liabilities	1,857,449,478	6,186,702,282	12,191,905,849	30,929,555,490	17,585,325,758	7,038,777,746	3,012,500,584	78,802,217,188
Net financial assets/ (liabilities)	1,707,020,880	(1,910,139,062)	(3,488,001,838)	(15,926,430,193)	2,631,022,093	9,678,246,524	19,567,751,321	12,259,469,724

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 2018

Asset or liability	Carrying amount LKR	On demand LKR	1-3 Months LKR	3-12 Month LKR	Over 1 Year LKR	Non- interest LKR	Total LKR
Cash and cash equivalents	4,171,938,630	301,146,575	–	–	–	3,870,792,055	4,171,938,630
Placements with banks	9,528,425,565	6,100,000,000	3,250,000,000	178,425,565	–	–	9,528,425,565
Other financial asset classified under loans and receivables	–	–	–	–	–	–	–
Financial investments – Held to maturity	–	–	–	–	–	–	–
Loans and receivables to other customers	77,507,021,162	3,040,896,001	2,813,966,720	11,358,518,596	58,256,775,070	2,036,864,775	77,507,021,162
Interest-bearing assets	91,207,385,357	9,442,042,576	6,063,966,720	11,536,944,161	58,256,775,070	5,907,656,830	91,207,385,357
Due to other customers	67,474,821,535	6,322,925,433	9,729,321,198	31,544,542,057	19,878,032,846	–	67,474,821,534
Other borrowings	15,420,967,962	282,415,255	1,791,301,041	4,147,422,945	9,199,828,723	–	15,420,967,963
Debt securities issued	4,198,547,716	3,035,440,000	–	198,547,716	964,560,000	–	4,198,547,716
Subordinated term debts	1,008,027,823	–	–	15,058,060	992,969,761	–	1,008,027,821
Interest-bearing liabilities	88,102,365,036	9,640,780,687	11,520,622,239	35,905,570,778	31,035,391,330	–	88,102,365,034
Interest rate sensitivity gap	3,105,020,321	(198,738,111)	(5,456,655,519)	(24,368,626,617)	27,221,383,740	5,907,656,830	3,105,020,323

	If market interest rate go up by 1% effect to interest income	If market interest rate drop by 1% effect to interest income
Effect on rate sensitive assets	912,073,854	881,023,650
Effect on rate sensitive liabilities	(881,023,650)	(912,073,854)
Sensitivity of profit or loss	31,050,203	(31,050,203)

Interest rate sensitivity asset 2017

Asset or Liability	Carrying amount LKR	On demand LKR	1-3 Months LKR	3-12 Month LKR	Over 1 Year LKR	Non-interest LKR	Total LKR
Cash and cash equivalents	1,190,389,606	301,146,575	–	–	–	889,243,031	1,190,389,606
Placements with banks	6,014,703,836	900,000,000	3,200,000,000	1,914,703,836	–	–	6,014,703,836
Other financial asset classified under loans and receivables	1,479,949,628	1,001,736,169	287,722,693	26,810,765	163,680,000	–	1,479,949,628
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	2,436,082,864	2,236,123,771	9,516,088,143	51,096,532,120	1,402,588,695	66,687,415,593
Interest-bearing assets	75,972,009,684	4,988,965,609	5,723,846,465	11,707,153,765	51,260,212,120	2,291,831,726	75,972,009,684
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	–	4,189,812,218
Subordinated term debts	1,004,354,742	–	–	30,651,824	973,701,918	–	1,004,353,742
Interest-bearing liabilities	73,926,510,929	7,315,311,784	11,092,773,502	28,444,184,970	27,074,239,674	–	73,926,509,929
Interest rate sensitivity gap	2,045,498,755	(2,326,346,175)	(5,368,927,038)	(16,737,031,205)	24,185,972,446	2,291,831,726	2,045,499,756

	If market interest rate go up by 1% effect to interest income	If market interest rate drop by 1% effect to interest income
Effect on rate sensitive assets	759,720,097	739,265,109
Effect on rate sensitive liabilities	(739,265,109)	(759,720,097)
Sensitivity of profit or loss	20,454,988	(20,454,988)

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.

43. Transition disclosures

The following disclosure set out the impact of adopting SLFRS 9 on the Statement of Financial Position, and retained earnings including the effect of replacing LKAS 39's incurred credit loss calculations with SLFRS 9's expected credit losses.

A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1 January 2018 is, as follows:

First Day Impact

Bank (Audited) as at 1 January 2018		LKAS 39 measurement			Remeasurement SLFRS 9		
	Note	Category	Amount	Reclassification	ECL	Category	Amount
Financial assets							
Cash and cash equivalents		AC	1,190,389,606	–	–	AC	1,190,389,606
Less: Impairment					(15,190)		(15,190)
Carrying value after impairment							1,190,374,416
Placements with banks		AC	6,014,703,836	–	–	AC	6,014,703,836
Less: Impairment			–	–	(1,800,323)		(1,800,323)
Carrying value after impairment							6,012,903,513
Financial assets fair value through profit or loss		FVPL	4,473,805,573	–		FVPL	4,473,805,573
To: Debts and other instruments				2,079,500,649		AC	2,079,500,649
From: Other financial asset classified under loans and receivable	A	L&R	1,479,949,628	(1,479,949,628)	–		–
From: Financial investments – Held-to-maturity	C	HTM	599,551,021	(599,551,021)	–		–
Less: Impairment					(332,239)		(332,239)
Carrying value after impairment							2,079,168,410
Loans and receivables to other customers		L&R	68,104,871,364	–	–	AC	68,104,871,364
Less: Individual impairment			(220,946,259)	–	–		(220,946,259)
Collective impairment			(1,196,509,512)	–	(49,316,676)		(1,245,826,188)
Carrying value after impairment							66,638,098,918
From: Financial investments – Available-for-sale	B	AFS	63,536,159	(63,536,159)	–		–
To: Financial assets measured at fair value through other comprehensive income				63,536,159		FVOCI	63,536,159
			80,509,351,416	–	(51,464,427)		80,457,886,989
Non-financial liabilities							
Deferred tax liability	D		58,000,392	–	(14,410,040)		43,590,352
Equity							
Retained earnings	E	N/A	1,340,503,863	–	(37,054,387)	N/A	1,303,449,476

A. As at 1 January 2018 financial assets previously classified as other loans and receivables have been reclassified as debt and other instruments at amortised cost.

B. Financial assets previously classified under available-for-sale category have been reclassified as financial assets fair value through other comprehensive income (FVOCI) upon adoption of SLFRS 9.

C. As at 1 January 2018, the Bank elected to classified its previous held to maturity portfolios as debt and other instruments measured at amortised cost.

D. The impact of SLFRS 9 remeasurements on deferred tax is set out below under E .

E. The impact on retained earning by transition to SLFRS 9 is as follows:

	LKR
Closing Balance under LKAS 39 as at 31 December 2017	1,340,503,863
Remeasurement adjustment on adoption of SLFRS 9	
Recognition of SLFRS 9 ECLs for loans and investments	(51,464,427)
Deferred tax on above	14,410,040
Total change in equity due to adoption of SLFRS 9	(37,054,387)
Closing Balance under LKAS 9 as at 1 January 2018	1,303,449,476

The following table reconciles the aggregate opening credit loss provision under LKAS 39 to the ECL allowances under SLFRS 9:

	Loan loss provision under LKAS 39 as at 31 December 2017 LKR	Remeasurement LKR	**ECL impairment under SLFRS 9 as at 1 December 2018 LKR**
Cash and cash equivalents	–	15,190	**15,190**
Placements with banks	–	1,800,323	**1,800,323**
Financial assets at amortise cost:			
Loans and receivables to other customers	1,417,455,771	49,316,676	**1,466,772,447**
Debts and other instruments	–	332,239	**332,239**
	1,417,455,771	51,464,428	**1,468,920,199**

Supplementary Information

Ten Years Statistical Summary

Year ended 31 December	SLFRS							SLAS		
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Advances	**77,507,021**	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
Investments	**13,140,277**	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
Fixed assets	**730,801**	795,187	715,824	658,991	617,495	642,130	759,581	810,489	641,201	543,169
Total assets	**96,817,767**	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
Deposits	**67,474,822**	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
Borrowings	**20,627,544**	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
Share capital (allotted)	**5,921,538**	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
Reserves	**1,527,189**	1,572,471	1,456,318	1,503,256	1,162,429	853,715	733,369	781,866	478,984	246,219
Shareholders' funds	**7,448,727**	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
Total income	**13,640,136**	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
Total expenses	**12,995,993**	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
Profit/loss before tax	**644,142**	752,601	617,425	1,110,559	751,179	333,359	516,497	581,495	646,603	445,512
Taxation	**(287,192)**	(244,778)	(213,704)	(389,984)	(246,732)	(85,175)	(175,781)	(199,453)	(323,123)	(237,140)
Profit/loss after tax	**356,950**	507,824	403,722	720,575	504,447	248,184	340,716	382,042	323,480	208,372
Number of accounts	**1,310,198**	1,230,406	1,131,355	1,068,345	992,782	903,476	858,454	697,227	585,508	523,275
Number of customer centres	**94**	91	88	87	82	82	81	79	72	52
Number of employees	**1,504**	1,363	1,248	1,198	1,004	856	823	884	735	615

Disclosures as per Schedule III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

Key regulatory ratios – Capital and Liquidity

Item	As at 31 December 2018	As at 31 December 2017
Regulatory capital (LKR '000)		
Common equity Tier I capital	**7,419,999**	7,293,936
Tier I capital	**7,419,999**	7,293,936
Total capital	**8,462,226**	8,564,260
Regulatory capital ratio (%)		
Common equity Tier I capital ratio (minimum requirement – 2018: 6.375%, 2017: 5.75%)	**11.00**	12.42
Tier I capital ratio (minimum requirement – 2018: 7.875%, 2017: 7.25%)	**11.00**	12.42
Total capital ratio (minimum requirement – 2018: 11.875%, 2017: 11.25%)	**12.54**	14.59
Regulatory liquidity		
Statutory liquid assets (LKR '000)	**14,811,217**	11,829,936
Statutory liquid assets ratio (minimum requirement – 20%)		
Domestic banking unit (%)	**23.22**	21.34
Off-shore banking unit (%)	**–**	–
Total stock of high quality liquid assets (LKR '000)	**3,460,374**	1,736,506
Liquidity coverage ratio – (%) rupee (minimum requirement – 2018: 90%, 2017 – 80%)	**142.15**	94.09
Liquidity coverage ratio – (%) all currency (minimum requirement – 2018: 90%, 2017 – 80%)	**142.15**	94.09

Basel III computation of capital ratios

Item	Amount LKR '000 As at 31 December 2018	Amount LKR '000 As at 31 December 2017
Common equity Tier I (CET I) capital after adjustments	**7,419,999**	7,293,936
Common equity Tier I (CET I) capital	**7,448,727**	7,331,160
Equity capital (stated capital)/assigned capital	**5,921,538**	5,758,689
Reserve fund	**215,612**	197,764
Published retained earnings/(accumulated retained losses)	**1,280,762**	1,340,504
Published accumulated Other Comprehensive Income (OCI)	–	–
General and other disclosed reserves	**30,815**	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	–	–
Total adjustments to CET I capital	**28,728**	37,224
Goodwill (net)	–	–
Intangible assets (net)	**3,728**	8,148
Others (investments in the capital of banking and financial institutions)	**25,000**	29,076
Additional Tier I (AT I) capital after adjustments	–	–
Total Additional Tier I (AT I) capital	–	–
Qualifying additional Tier I capital instruments	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to AT I capital	–	–
Investment in own shares	–	–
Others (specify)	–	–
Tier II capital after adjustments	**1,042,227**	1,270,324
Tier II capital	**1,067,227**	1,299,400
Qualifying Tier II capital instruments	**711,628**	992,970
Revaluation gains	–	–
Loan loss provisions	**355,599**	306,430
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to Tier II	**25,000**	29,076
Investment in own shares	–	–
Others (investments in the capital of financial institutions)	**25,000**	29,076
CET I capital	**7,419,999**	7,293,936
Total Tier I capital	**7,419,999**	7,293,936
Total capital	**8,462,226**	8,564,260
Total Risk Weighted Assets (RWA)	**67,474,294**	58,717,587
RWAs for credit risk (Table 1)	**62,660,450**	53,619,752
RWAs for operational risk (Table 2)	**4,813,844**	5,081,280
RWAs for market risk (Table 3)	–	16,554
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	**11.00**	12.42
of which: capital conservation buffer (%)	–	–
of which: countercyclical buffer (%)	–	–
of which: capital surcharge on D-SIBs (%)	–	–
Total Tier I capital ratio (%)	**11.00**	12.42
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	**12.54**	14.59
of which: capital conservation buffer (%)	–	–
of which: countercyclical buffer (%)	–	–
of which: capital surcharge on D-SIBs (%)	–	–

Table 1 (A): Credit risk under standardised approach – Credit risk exposures and Credit Risk Mitigation (CRM) effects

Asset Class	Amount (LKR '000) as at 31 December 2018					
	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	3,225,200	–	3,225,200	–	–	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	13,280,750	–	13,280,750	–	2,690,254	20
Claims on financial institutions	–	–	–	–	–	–
Claims on corporates	209,639	–	209,639	–	92,757	44
Retail claims	71,824,374	–	66,469,118	–	52,840,130	79
Claims secured by residential property	4,723,711	–	4,723,711	–	3,040,257	64
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)	1,106,108	–	1,106,108	–	1,330,472	120
Higher-risk categories	–	–	–	–	–	–
Cash items and other assets	2,838,899	679,989	2,838,899	285,099	2,666,580	85
Total	97,208,682	679,989	91,853,426	285,099	62,660,450	68

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.

Table 1 (B): Credit risk under standardised approach – Exposures by asset classes and risk weights

Description	Amount (LKR '000) as at 31 December 2018 (Post CCF and CRM)							
Risk weight / Asset classes	0%	20%	50%	75%	100%	150%	>150%	Total credit exposures amount
Claims on Central Government and CBSL	3,225,200	–	–	–	–	–	–	3,225,200
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	–	13,167,070	113,680	–	–	–	–	13,280,750
Claims on financial institutions	–	–	–	–	–	–	–	–
Claims on corporates	–	146,103	–	–	63,536	–	–	209,639
Retail claims	82,576	1,077,164	–	50,738,720	14,570,657	–	–	66,469,118
Claims secured by residential property	–	–	3,366,908	–	1,356,802	–	–	4,723,711
Claims secured by commercial real estate	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)	–	–	10,916	–	635,546	459,645	–	1,106,108
Higher-risk categories	–	–	–	–	–	–	–	–
Cash items and other assets	424,504	41,143	–	–	2,658,351	–	–	3,123,998
Total	3,732,281	14,431,480	3,491,505	50,738,720	19,284,893	459,645	–	92,138,525

Table 2: Operational risk under basic indicator approach

Business lines	Capital charge factor	Gross income (LKR '000) as at 31 December 2018			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 (LKR '000) the basic indicator approach					571,644
Risk-weighted amount for operational risk (LKR '000) the basic indicator approach					4,813,844

Table 3: Market risk under standardised measurement method

Business lines	RWA Amount as at 31 December 2018 (LKR '000)
(a) RWA for interest rate risk	–
General interest rate risk	–
(i) Net long or short position	–
(ii) Horizontal disallowance	–
(iii) Vertical disallowance	–
(iv) Options	–
Specific interest rate risk	–
(b) RWA for equity	–
(i) General equity risk	–
(ii) Specific equity risk	–
(c) RWA for foreign exchange and gold	–
Capital charge for market risk {(a) +(b) + (c)} * CAR	–

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 1 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 1 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 cognisance 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 optimise 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 optimise the Risk Weighted Assets for the purpose of improving the capital allocation of the Bank.

Basel III computation of liquidity coverage ratio

Item	Amount (LKR '000)			
	As at 31 December 2018		As at 31 December 2017	
	Total un-weighted value	**Total weighted value**	Total un-weighted value	Total weighted value
Total stock of high-quality liquid assets (HQLA)	**3,482,290**	**3,460,374**	4,869,546	1,736,506
Total adjusted Level 1 assets	**3,336,186**	**3,336,186**	1,041,904	1,041,904
Level 1 assets	**3,336,186**	**3,336,186**	1,041,904	1,041,904
Total adjusted Level 2A assets	**146,103**	**124,188**	3,815,227	3,242,943
Level 2A assets	**146,103**	**124,188**	3,815,227	3,242,943
Total adjusted Level 2B assets	–	–	12,415	6,208
Level 2B assets	–	–	12,415	6,208
Total cash outflows	**68,601,375**	**9,737,202**	57,993,974	3,165,395
Deposits	**50,445,248**	**5,044,525**	54,580,495	1,513,777
Unsecured wholesale funding	**17,085,209**	**4,271,302**	2,659,335	1,063,734
Secured funding transactions	**47,835**	**47,835**	55,530	55,530
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**1,023,083**	**373,539**	698,614	532,354
Additional requirements	–	–	–	–
Total cash inflows	**19,479,079**	**10,518,710**	6,131,699	1,319,898
Maturing secured lending transactions backed by collateral	**3,482,290**	**21,915**	1,041,904	–
Committed facilities	**1,250,000**	–	2,450,000	–
Other inflows by counterparty which are maturing within 30 days	**14,746,790**	**10,496,795**	2,639,795	1,319,898
Operational deposits	–	–	–	–
Other cash inflows	–	–	–	–
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar Days)* 100	–	**142.15**	–	94.09

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 2018	December 2016	December 2016
Par value of instrument (LKR)	100	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated
Original maturity date, if applicable	N/A	December 2021	December 2021
Amount recognised in regulatory capital (in LKR '000 as at reporting date)	5,758,689	491,798	219,830
Accounting classification (equity/liability)	Equity	Liability	Liability
Issuer call subject to prior supervisory approval			
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A
Coupons/dividends			
Fixed or floating dividend/coupon	Floating dividend	Floating coupon	Floating coupon
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	LKR 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	LKR 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

Differences between accounting and regulatory scopes and mapping of Financial Statement categories with regulatory risk categories

	Amount (LKR '000 as at 31 December 2018)					
	a	b	c	d	e	
Item	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	Explanation for differences between accounting and regulatory reporting
Assets						
Cash and cash equivalents	4,171,939	4,257,217	4,257,217			Impairment of financial assets under SLFRS 9
Placements with banks	9,528,426	9,375,500	9,375,500			Interest receivable on placements with banks is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9
Financial assets fair value through profit or loss	146,103	146,103	146,103			In regulatory reporting these investments are classified as investments – trading account
Financial assets at amortised cost						
– Loans and receivables to other customers	77,507,021	78,219,982	78,575,582		(355,599)	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 SLFRS 9
– Debt and other instruments	3,405,600	3,388,880	3,338,880		50,000	Interest receivable on debt and other instruments is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9
Financial assets measured at fair value through other comprehensive income	60,148	63,536	63,536			Impairment of financial assets under SLFRS 9
Property, plant and equipment	704,738	705,516	705,516			
Investment properties	22,335	22,335	22,335			
Intangible assets	3,728	3,728	–		3,728	
Defferred tax assets	69,415	–	–			
Other assets	1,198,314	724,013	724,013			The difference is due to audit adjustments and interest receivable on investments recognition
Total assets	**96,817,767**	**96,906,810**	**97,208,682**	**–**	**(301,871)**	
Liabilities						
Due to banks	–	–				
Due to other customers	67,474,822	64,337,626	–			Interest payable on deposits are stated under other liabilities in regulatory reporting
Other borrowings	15,420,968	15,075,069	–			Interest payable on borrowings are stated under other liabilities in regulatory reporting
Debt securities issued	4,198,548	4,000,000	–			Interest payable on borrowings are stated under other liabilities in regulatory reporting
Subordinated term debts	1,008,028	992,970	–			Interest payable on borrowings are stated under other liabilities in regulatory reporting
Current tax liabilities	143,988	141,270	–			Taxes are computed based on different profits under each reporting method
Deferred tax liabilities	–	58,000	–			Due to deferred tax adjustments defined benefit obligation and audit adjustments
Other liabilities	1,122,688	5,087,239	–			Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting
Total liabilities	**89,369,040**	**89,692,174**	–			
Off–balance sheet liabilities						
Guarantees	182,986	182,986	182,986			
Undrawn loan commitments	–	497,003	497,003			
Shareholders' equity						
Equity capital (stated capital)/ assigned capital	5,921,538	5,921,538	–			
of which amount eligible for CET I	5,921,538	5,921,538	–			
of which amount eligible for AT I	–	–	–			
Retained earnings	1,280,762	1,260,402	–			Due to differences which arise in profits computed in previous GAAP and SLFRSs
Accumulated other comprehensive income	(15,842)	–	–			
Other reserves	262,268	231,967	–			
Total shareholders' equity	**7,448,727**	**7,413,907**	–			

Sources and Utilisation of Income

Sources of Income

	LKR '000				
For the year ended 31 December	**2018**	2017	2016	2015	2014
Interest	**11,955,310**	9,757,778	7,229,388	6,123,438	4,290,669
Investments	**1,161,472**	1,071,555	947,799	485,811	559,501
Commission and other	**523,354**	537,863	260,340	271,631	386,996
Total	**13,640,136**	11,367,196	8,437,527	6,880,879	5,237,165

Utilisation of Income

	LKR '000				
For the year ended 31 December	**2018**	2017	2016	2015	2014
Employees					
Salaries and other payments to staff	**1,827,073**	1,474,146	1,266,115	1,114,754	767,848
Suppliers					
Interest paid	**8,423,758**	6,941,841	4,846,840	3,240,875	2,400,763
Other expenses	**2,276,236**	1,849,165	1,414,892	1,141,051	1,127,100
	10,699,994	8,791,006	6,261,733	4,381,926	3,527,863
Net income before government taxes	**1,113,068**	1,102,044	909,680	1,384,199	941,454
Government					
Income tax, VAT on FS, NBT and debt repayment levy	**756,118**	594,221	505,958	663,625	437,007
Shareholders					
Dividends	–	136,947	131,249	100,617	94,407
Retained profit	**356,950**	370,876	272,473	619,958	410,040
	356,950	507,824	403,722	720,575	504,447
Total	**13,640,136**	11,367,196	8,437,527	6,880,879	5,237,165

Quarterly Statistics – Key Ratios

	2018 (LKR '000)				2017 (LKR '000)			
	31 December	**30 September**	**30 June**	**31 March**	31 December	30 September	30 June	31 March
Regulatory capital adequacy								
Basel III								
Common equity Tier I capital ratio (%)	**11.00**	**10.76**	**11.70**	**12.01**	12.42	12.02	N/A	N/A
Tier I capital ratio (%)	**11.00**	**10.76**	**11.70**	**12.01**	12.42	12.02	N/A	N/A
Total capital ratio (%)	**12.54**	**12.39**	**13.82**	**14.12**	14.59	14.25	N/A	N/A
Basel II								
Core capital adequacy ratio (%)	**N/A**	**N/A**	**N/A**	**N/A**	N/A	N/A	13.01	11.04
Total capital adequacy ratio (%)	**N/A**	**N/A**	**N/A**	**N/A**	N/A	N/A	14.81	11.51
Asset quality								
Gross non-performing advances ratio (%)	**2.56**	**2.59**	**2.46**	**2.35**	2.07	2.20	2.21	2.17
Net non-performing advances ratio (%)	**0.08**	**0.24**	**0.17**	**0.11**	1.02	0.14	0.13	0.13
Profitability								
Interest margin (%)	**5.50**	**5.53**	**5.33**	**5.26**	5.57	6.75	6.82	6.67
Return on assets (%)	**0.72**	**0.83**	**0.86**	**0.86**	1.01	0.96	0.96	1.01
Return on equity (%)	**4.83**	**5.91**	**6.16**	**6.33**	7.90	6.98	6.37	7.92
Regulatory liquidity								
Statutory liquid asset ratio (%)	**23.22**	**21.32**	**21.15**	**21.02**	21.34	21.23	21.49	21.26
Statutory liquid assets (LKR '000)	**14,811,217**	**13,526,330**	**12,991,250**	**12,268,781**	11,829,936	10,823,751	10,282,201	9,538,888
Liquidity coverage ratio (%)	**142.15**	**167.66**	**126.49**	**91.59**	94.09	N/A	N/A	N/A
Share information								
Market value per share (LKR)	**75.00**	**71.70**	**94.00**	**107.60**	101.90	97.00	103.00	99.00
Highest price per share for the period (LKR)	**112.90**	**93.50**	**110.00**	**112.90**	122.50	110.00	122.56	106.00
Lowest price per share for the period (LKR)	**70.00**	**70.10**	**88.00**	**101.00**	93.80	96.00	98.00	95.20
Debenture information								
Debt to equity ratio (Times)	**11.83**	**11.34**	**11.10**	**10.36**	10.08	9.81	9.26	11.22
Interest cover (Times)	**1.08**	**1.09**	**1.09**	**1.09**	1.11	1.11	1.11	1.12
Quick asset ratio (Times)	**0.65**	**0.70**	**0.70**	**0.61**	0.63	0.69	0.59	0.63

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
AT I 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
BRC Business Registration Certificate
BSS Baseline Standard

(C)

CAR Capital Adequacy Ratio
CASL Chartered Accountants of Sri Lanka (ICASL)
CBSL Central Bank of Sri Lanka
CCB Capital Conservation Buffer
CEO Chief Executive Officer
CET 1 Common Equity Tier I
CFO Chief Financial Officer
CO_2e 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
ERM Enterprise Risk Management
ESC Economic Service Charges
ESOP Employee Share Option Plan
ETF Employees' Trust Fund
EUR Euro
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

(K)

kg Kilograms
km Kilometre
KMP Key Management Personnel
KPI Key Performance Indicator
KRI Key Risk Indicators
kWh Kilowatt-hour
KYC Know Your Customer

(L)

LCB Local Commercial Bank
LCR Liquidity Coverage Ratio
LGD Loss Given Default
LKAS Sri Lanka Accounting Standards
LTV Ratio Loan to Value Ratio

(M)

m³ Cubic meter
MIS Management Information Systems
MoM Month on Month
Mn. Millions
MSME Micro, Small and Medium Scale Entrepreneur
MW Megawatt

(N)

N/A Not Applicable
NBT Nation Building Tax
NED Non-Executive Director
NIC National Identity Card
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 Price Earnings Ratio
PAT Profit After Tax
PBT Profit Before Tax
PD Probability of Default
PoS Point of Sale

(Q)

Q&A Question and Answer

(R)

RCSA Risk and Control Self Assessments
RMU Risk Management Unit
ROA Return on Assets
ROCE Return on Capital Employed
ROE Return on Equity
RPT Related Party Transaction
RPTRC Related Party Transactions Review Committee
RSA Rate Sensitive Assets
RSL Rate Sensitive Liabilities
RWA Risk Weighted Assets

(S)

SAFA South Asian Federation of Accountants
SBU Strategic Business Unit
SDF Standing Deposit Facility
SEC Securities and Exchange Commission of Sri Lanka
SLA Statutory Liquid Assets
SLAR Statutory Liquid Asset Ratio
SLAS Sri Lanka Accounting Standards
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

Glossary of Terms

(A)

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual basis
Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised cost
Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Asset and Liability Committee (ALCO)
A Risk Management Committee in a bank that generally comprises of the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

Available-for-sale financial assets
Available-for-sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Average Weighted Deposit Rate (AWDR)
AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest-bearing deposits of commercial banks and the corresponding interest rates.

Average Weighted Prime Lending Rate (AWPLR)
AWPLR is calculated by the Central Bank weekly based on commercial bank's lending rates offered to their prime customers during the week.

(B)

Basel II
The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the "International Convergence of Capital Measurement and Capital Standards".

Basel III
The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

(C)

Capital adequacy ratio
The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Cash equivalents
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows
Cash flows are inflows and outflows of cash and cash equivalents.

Cash Generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Collectively assessed loan impairment provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

Commitment to extend credit
Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees.

Commitments
Credit facilities approved but not yet utilised by the clients as at the reporting date.

Contingencies
A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Contractual maturity
Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Control
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

(E)

Earnings Per Share (EPS)
Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective interest rate
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate (ETR)
Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity instrument
Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity method
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the reporting period
Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised 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 or 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.

(I)

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 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 servere liquidity strees 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 loose in the event of obligor default.

(M)

Market capitalisation
Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality
The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

(N)

Net asset value per share
Shareholders' funds divided by the number of ordinary shares in issue.

Net-interest income
The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Non-controlling interest
Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

(O)

Operational risk
Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

(P)

Power
The Power is the existing rights that give the current ability to direct the relevant activities.

Price Earnings Ratio (P/E Ratio)
The current market price of the share is divided by the earnings per share of the Bank.

Probability of Default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Prudence
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

(R)

Relevant activities
Relevant activities are activities of the investee that significantly affect the investee's returns.

Repurchase agreement
This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

Return on Average Assets (ROAA)
Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Average Equity (ROAE)
Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue reserve
Reserves set aside for future distribution and investment.

Reverse repurchase agreement
Transaction involving the purchase of government securities by a Bank or dealer and resale back to the seller at a given price on a specific future date.

Rights issue
Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Risk-weighted assets
Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

(S)

Segmental analysis
Analysis of financial information by segments of an enterprise specifically-the different industries and the different geographical areas in which it operates.

Segment reporting
Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

Shareholders' funds
Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

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.

22nd Annual General Meeting

Agenda

Date

30 May 2019

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 second Annual General Meeting call to order Lighting of the oil lamp Religious observances Pledge of the Co-operative Movement Observing one-minute silence in memory of departed members of the Sanasa Movement.
10.25 a.m. – 10.30 a.m.	Notice of Meeting – Company Secretary
10.30 a.m. – 10.45 a.m.	Confirmation of the minutes of Annual General Meeting held on 22 May 2018
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 – Chief Executive Officer

Feedback Form

Dear Stakeholder,
We welcome your valuable comments, query and feedback on our commitment, performance and Annual Report – 2018. Please complete the following and return to:

Company Secretary,
SANASA Development Bank PLC,
No.12, Edmonton Road, Kirulapone, Colombo – 06
Tel: +94 11 283 2500 Fax: +94 11 251 4256

1. Which stakeholder group(s) do you belongs to?

Shareholder	☐	Employee	☐
Investor	☐	Supplier	☐
Customers	☐	Service Provider	☐
Regulator	☐	SANASA Society	☐
Public Authority	☐	Co-operative Society	☐
Finance Analyst	☐	NGO	☐
Other	☐	Community	☐
Student	☐	Journalist	☐

2. Rate our Annual Report in terms of:

	Excellent	Very Good	Good	Average	Poor
Informative	☐	☐	☐	☐	☐
Transparent	☐	☐	☐	☐	☐
Design and Layout	☐	☐	☐	☐	☐
Overall Impression	☐	☐	☐	☐	☐
Comprehensive	☐	☐	☐	☐	☐

3. Which section do you find most useful? ....

4. Which section do you find least useful? ....

5. What is the area that 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 6 August 1997 and re-registered under the Companies Act No. 07 of 2007 and registered as a Licensed Specialised 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 August 1997

Company Registration Number
PB 62 PQ

Central Bank Registration Number
Central Bank License No. 6 (Under Banking Act No. 30 of 1988 on 21 August 1997)

Accounting Year End
31 December

Registered Office and Principal Place of Business
Address: No. 12,
Edmonton Road, Kirulapone,
Colombo 06.

Phone: + 94 11 283 2500
Fax: + 94 11 251 4256
Email: comsec@sdb.lk
Web: 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 31 May 2012.

Chief Executive Officer
Mr Thilak Piyadigama

Compliance Officer
Ms S N T Igalagamage

Company Secretary
Ms Tamarika Rodrigo

Auditors
Messrs Ernst & Young Chartered Accountants,
No. 201, De Saram Place,
P O Box 101,
Colombo 10.

Bankers
People's Bank,NDB Bank PLC
Nations Trust Bank PLC
Hatton National Bank PLC
Sampath Bank PLC

Board of Directors
Ms Samadanie Kiriwandeniya (Chairperson)
Mr Lakshman Abeysekera (Senior Director)
Prof Sampath Amaratunge (Director)
Mr Prabhash Subasinghe (Director)
Mr S Lionel Thilakarathne (Director)
Mr Arnoldus de Vette (Director)
Mr K G Wijerathne (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)

Board Subcommittee Directors

Board Audit Committee
Mr Lakshman Abeysekera (Chairman/Senior Director)
Prof Sampath Amaratunge (Director)
Mr K G Wijerathne (Director)
Mr Chaaminda Kumarasiri (Director)

Board Human Resources and Remuneration Committee
Mr Chaaminda Kumarasiri (Chairman)
Ms Samadanie Kiriwandeniya (Chairperson)
Mr Lakshman Abeysekera (Senior Director)

Board Credit Committee
Mr Prasanna Premaratna (Chairman)
Ms Samadanie Kiriwandeniya (Chairperson)
Mr S Lionel Thilakarathne (Director)
Mr Arnoldus de Vette (Director)

Board Selection and Nomination Committee
Mr Lakshman Abeysekera (Chairman/Senior Director)
Ms Samadanie Kiriwandeniya (Chairperson)
Prof Sampath Amaratunge (Director)

Board Integrated Risk Management Committee
Prof Sampath Amaratunge (Chairman)
Mr Prabhash Subasinghe (Director)
Mr Chaaminda Kumarasiri (Director)

Board Related Party Transactions Review Committee
Mr Chaaminda Kumarasiri (Chairman)
Prof Sampath Amaratunge (Director)
Mr Prasanna Premaratna (Director)

Board ICT and Business Strategic Committee
Ms Samadanie Kiriwandeniya (Chairperson)
Mr Lakshman Abeysekera (Senior Director)
Prof Sampath Amaratunge (Director)
Mr Prabhash Subasinghe (Director)
Mr Arnoldus de Vette (Director)

Board Co-operative Development Committee
Mr K G Wijerathne (Chairman)
Mr Lakshman Abeysekera (Senior Director)
Mr S Lionel Thilakarathne (Director)

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 Sri Lanka
Association of Compliance Officers of Banks Sri Lanka
Sri Lanka Banks' Association (Guarantee) Limited
The Financial Ombudsman Sri Lanka (Guarantee) Limited

Credit Rating
BB+ Stable by Fitch Lanka Limited
SL[BBB-] with a Stable Outlook by ICRA Lanka Limited

This Annual Report is Carbon Neutral

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