



Annual Report
2011



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இலங்கை சேமிப்பு வங்கி SRI LANKA SAVINGS BANK

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SRI LANKA SAVINGS BANK

ANNUAL REPORT 2011

OUR VISION

To be the leading Banker in Microfinance.

OUR MISSION

Whilst inculcating the savings habit, providing financial and nonfinancial resources to different sectors of economy with microenterprise sector in particular.

OUR VALUES

In conducting our services we will uphold expected norms and ethics while being committed to:

Professionalism

Integrity

Efficiency

Trust

Openness

Social responsibility

CORPORATE INFORMATION

Registered Name

Sri Lanka Savings Bank Limited

Legal Status

A Licensed Specialized Bank established under the Banking Act No.30 of 1988. A Public limited Liability Company incorporated in Sri Lanka under the provisions of the Companies Act No: 17 of 1982, and re-registered under the Companies Act No: 7 of 2007 bearing Company registration No: PB 296.

Registered Office

No: 265, Ward Place, Colombo 07.
Telephone: 0112674700/1/2/3, 0112691721-2
Facsimile : 0112674705/6
E mail : slsbl@sltnet.lk

Date of Incorporation

7th July 2006.

Board of Directors

Mr. Ariyatilake Dahanayake (Chairman)

Mr. Uragodage Vijitha Perera

Mr. Kosala Ratnaweera

Mr. Thilak Wannigama

Mr. Uduwage Don Sumith Parakrama Perera

Mr. Indigahawela Gamage Palitha

Mr. Muthubandage Kamal Bandara
Dissanayake

Mr. Sanath Weeratunge (Working Director)

General Manager

Mr. Sanath Weeratunga – until 25th April 2011.

Mr. Gamage Samarasiri Perera – Acting General Manager from 12th May 2011 to 17th January 2012.

Mr. Adrian Weerasekera – appointed from 17th January 2012

Company Secretary

Mrs. Y.M.J. Fernando
*L.L.B. (Col), Attorney-at Law,
Notary Public, Commissioner for
Oaths*

Auditors

B V Fernando & Company
Chartered Accountants
No: 70/B/ 8/5P, Y.M.B.A Old
Building, Colombo 8.

Bankers

Bank of Ceylon

Peoples Bank

SRI LANKA SAVINGS BANK LTD
FIANANCIAL SUMMARY

<u>FOR THE YEAR ENDED</u>	<u>31.12.2011</u>	<u>31.12.2010</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Income	575,692	500,710	454,687	273,908
Interest Income	570,641	329,248	287,668	211,746
Interest Expenses	(137,831)	(119,093)	(16,354)	(37,049)
Net Interest Income	432,809	210,155	271,314	174,698
Other Income	5,052	41,468	18,524	26,989
Operating Income	437,861	251,623	289,838	201,686
Less: Operating Expenses	90,153	64,884	136,325	56,696
Add: Provision for Loan Losses	184,108	129,994	148,495	35,173
Operating Profit before Value Added Tax	531,816	316,733	302,008	180,163
Value Added Tax on Financial Services	(34,288)	(22,160)	(63,082)	(30,270)
Profit Before Tax	497,528	294,574	238,926	149,893
Income Tax Expenses	(56,777)	(17,072)	(51,661)	(18,874)
Profit After Tax	440,750	277,502	187,265	131,019
As At	<u>31.12.2011</u>	<u>31.12.2010</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
<u>ASSETS</u>			(Restated)	
Cash and Short Term Funds	22,953	69,592	4,681	2,408
Government Treasury Bills , Bonds and Repo	1,077,233	2,043,037	1,193,584	1,009,074
Disputed deposit with Habib Bank	0	0	0	78,400
Placements with and loans to other Banks & Financial Institutions	3,166,310	2,463,489	0	0
Money Market Investments	588,656	0	0	0
Loans and Advances	1,350,090	1,237,590	579	10,678
Interest Receivable	139,941	84,777	92,015	37,168
Investment in Securities	49,724	49,720	42,300	30,458
Property , Plant and Equipment	125,450	130,812	131,152	121,527
Deferred Tax Asset	108,275	108,275	121,162	0
Other Assets	30,981	10,525	3,220	3,302
TOTAL ASSETS	<u>6,659,613</u>	<u>6,197,817</u>	<u>1,588,694</u>	<u>1,293,015</u>
<u>LIABILITIES</u>				
Deposits from Customers	548,587	572,439	598,849	1,605,034
Borrowings	1,642,626	1,712,450	379,459	768,714
Other Liabilities	485,916	406,814	315,929	283,683
Income Tax Liability	13,886	(8,894)	27,970	(560)
Government Grant	3,321	3,232	4,169	1,026
Development Fund	196,787	196,787	196,787	196,787
Retirement Benefit Obligation	3,898	2,663	548	0
Debentures	1,300,652	1,296,119	1,308,511	0
TOTAL LIABILITIES	<u>4,195,672</u>	<u>4,181,611</u>	<u>2,832,222</u>	<u>2,854,684</u>
<u>SHAREHOLDERS' FUNDS</u>				
Stated Capital	458,447	458,447	458,447	458,447
Capital Pending allotment	2,982,233	2,982,233	0	0
Deficit Vested from PSDB	(2,166,190)	(2,166,190)	(2,166,190)	(2,166,190)
Revaluation Reserve	7,477	7,477	7,477	1,789
Investment Fund	21,619	0	0	-
Statutory Reserve Fund	52,176	29,789	15,914	6,551
Revenue Reserve	1,108,180	704,451	440,824	137,734
TOTAL SHAREHOLDERS' FUNDS	<u>2,463,941</u>	<u>2,016,207</u>	<u>(1,243,528)</u>	<u>(1,561,669)</u>
TOTAL LIABILITIES & SHARE HOLDERS' FUND	<u>6,659,613</u>	<u>6,197,817</u>	<u>1,588,694</u>	<u>1,293,015</u>

RAM Rating	- Long term	BBB
	- Short term	P2

CHAIRMAN'S MESSAGE



I have great pleasure in presenting to you on behalf of the Board of Directors, the Annual Report and audited financial statements of Sri Lanka Savings Bank Ltd. for the year ended 31st December 2011.

New opportunities have opened up all over the country for providing financial and non-financial assistance to needy sectors of the economy for sustainable development with the dawn of a new beginning, the integration of North and the East with the rest of the country. Sri Lanka is now at a stage of tremendous economic revival. The country has witnessed an unprecedented development in relation to infrastructure such as ports, power generation and roads. Several measures have been taken to promote agriculture, develop small and medium enterprises. Moreover, poverty alleviation in the most backward districts has been given high priority in the current policy frame-work of the government.

The role played by Sri Lanka Savings Bank, which commenced business in the year 2008, for the development effort of the country is commendable, specially in the area of micro-enterprise development, even if the Bank is still at the infant stage. I am pleased to present the financial performance highlights for the year 2011.

- Gross income was Rs.575 million which is 55% above the previous year
- Profit before VAT was Rs. 532 million. This is 68% increase over the previous year.
- The value of new deposits mobilized was Rs. 249 million which is 25% over the previous year

- Settlement of liabilities to failed Pramuka Bank's stake holders was Rs. 105 million
- Shareholders' funds increased to Rs. 2,464 million. This is 22% increase over the previous year

As the Chairman of the Bank I can be satisfied with the progress that we have achieved during the last 4 years. I take this opportunity to thank those who contributed to this achievement through sheer hard work and dedication. Our growth in the area of profitability and provision of micro-credit was accelerated after the merger of National Development Trust Fund which acted as a conduit for channeling government funds through a network of micro-finance institutions.

Poverty has been the hallmark in rural areas of the country where poor people are densely populated. Credit has been identified as one of the inputs that are required to alleviate poverty. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women to become economic agents for change. By providing access to financial services, micro-credit plays an important role in the fight against many aspect of poverty. Therefore "develop, promote, catalyze and support sustainable income generating opportunities and higher quality of life to middle and low income earners and economic development of the country through financial and non-financial assistance" is made one of the major objectives of the Bank.

The major project that the Bank launched to reduce poverty is small and micro-enterprise development program. The Bank plays a dynamic role in implementing this program in order to uplift the economic and social conditions of the urban and rural poor. In the year 2011, the Bank disbursed Rs. 1,561 million to our Partner Organizations for on lending to micro-enterprises for income generating activities.

Having given priority to cater to banking needs of small depositors, the Bank has taken the initiative to launch a series of customer friendly deposit schemes to partner with

common masses to encourage the habit of savings.

Sri Lanka's new development strategies, which are outlined in "Mahinda Chintana-Future Vision" are to be attained through rapid economic growth in rural and urban areas that can create better remunerated employment opportunities. Some of these targets are leading towards doubling of per capita income by 2016, reduction of poverty to 4.2% etc. Our Bank committed to alleviate poverty by providing financial and non-financial assistance for social economic development of the country.

The target market of SLSB is micro, small and medium entrepreneurs. Therefore, steps will be taken to establish SME branches on a provincial basis as proposed in the National Budget 2012. Further steps will be taken to expand low cost extension offices in un-banked and under banked areas, in order to increase access to the rural population.

In the ensuing years, the Bank will concentrate on venturing into new areas of business such as pawning, commercial credit, e-banking etc. while maintaining our position as a leading micro-finance provider.

To meet future challenges, human resources will be developed. In keeping with the vision of the Bank to have a contented, competent and efficient staff, opportunities will be provided for them to enhance and widen the scope and develop skills.

I am grateful to His Excellency the President Mahinda Rajapakse for the guidance and the direction given to our Bank. My unreserved appreciation and gratitude also go out to the Honorable Deputy Minister of Finance and

Planning, Mr. Geetanjana Gunawardena for the unstinted co-operation extended to us.

Further I wish to express my appreciation to the Secretary to the Treasury, Director General of Development Finance, Director General of Public Enterprises, Senior Officers of the Ministry of Finance and Planning for their co-

operation and to express my deep and sincere gratitude to the Governor and the Senior Officers of the Central Bank of Sri Lanka for their guidance.

Many changes that took place during the course of the year which resulted in substantial improvements in the Bank's services and policy guidance were the result of continued direction and guidance given to me by the Board of Directors. I thank all members of the Board of Directors for their concern and contribution in this regard.

The General Manager and staff though working under difficult conditions have shown excellent commitment and motivation in executing their duties. I thank them for the co-operation extended to me.

I also wish to express my deep and sincere gratitude to Sri Lanka Co-operative Rural Banks Federation Ltd., Co-operative Societies, District Co-operative Rural Banks Unions and our loyal customers for their continued patronage and trust placed on our Bank.



Ariyathilake Dahanayake
Chairman

General Manager / CEO's Review



It is with great pleasure that I present the Operational and financial review of Sri Lanka Savings Bank Ltd. (SLSB).

Incorporated in 2006, SLSB is a state-owned licensed specialized bank. Monetary Board of Central Bank of Sri Lanka vested the business of default Pramuka Savings and Development Bank Ltd (PSDB) a private license specialized bank that defaulted on its debt obligations. Simultaneously the Monetary Board published a scheme for meeting claims of creditors and depositors liabilities of PSDB by SLSB, upon realization of assets of PSDB. The SLSB commenced business operations on March 10th 2008.

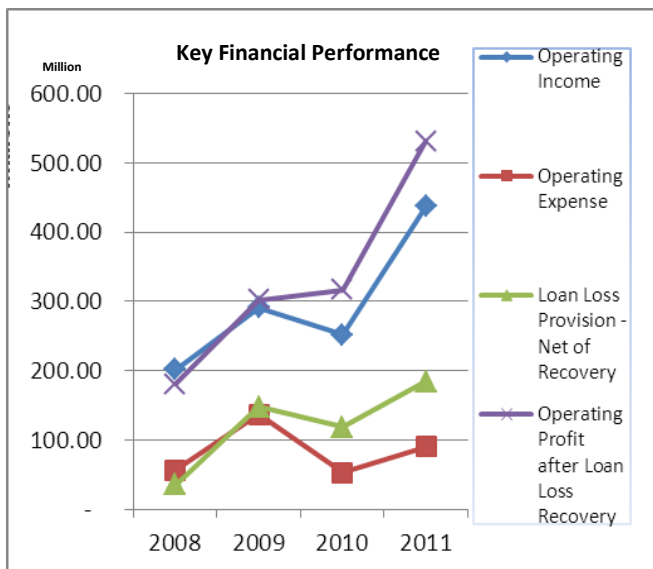
The major operations of the SLSB were deposit mobilization, recovery of non-performing assets of PSDB and settlement of liabilities of PSDB depositors in terms of the Scheme formulated by the Monetary Board of Central Bank of Sri Lanka. The limitations in the Articles of Association and the shortage of capital funds hampered the development of the Bank. Following the amalgamation with National Development Trust Fund (NDTF) the lending limitations embodied in the Articles of the Bank were amended and the Bank commenced its lending activities in 2011. The Bank has completed its 4th year of community service; now the Bank established itself in this short span having implemented appropriate strategies to meet the challenges the Bank faced in last few years.

Economic Environment

Sri Lanka posted several commendable performance indicators in key sectors like agriculture, tourism, service sector led by impressive growth in GDP. This environment paved way for providing ample opportunities for expansion of banking business for all corners of the country. With the continued expansion in economic activities the performance of the financial sector improved significantly. Inflation remained at single digit level. The interest rates declined in the first three quarters of the year. However a slight upward trend was seen in the last quarter of the year due to the funding shortfall experienced in the financial sector. Under this conducive environment, banking, finance, leasing and insurance sectors expanded their network around the country.

Financial Results

In the year under review, the SLSB has demonstrated its stability by outperforming several of the internal targets the Bank set itself. Profit before VAT on financial service and income tax was Rs.531.8 million in the year 2011. This was an increase of 68% compared to the previous year. The interest income for the year under review was Rs.570.6 million. This was an increase of Rs.241.4 million or 73% compared to the previous year. The interest income represented 99% of the total income. While interest income from fixed income securities was Rs. 445.9 million the interest income from the micro-credit loans and the nonperforming loan recoveries of PSDB amounted to Rs.71.0 million and Rs.53.7 million respectively. The total other income was Rs. 5.0 million in 2011. This was a decrease of Rs.36.4 million compared to the previous year as there were no extraordinary gains from share trading and interest adjustment made in respect of money market instruments in the year 2011.



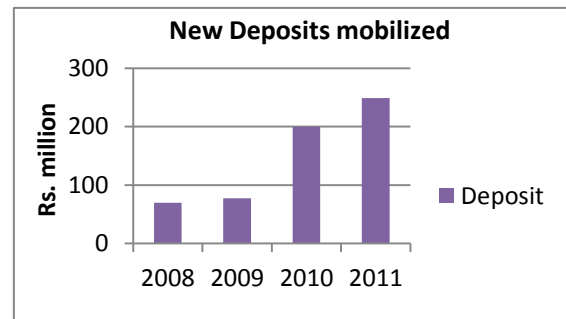
Interest payments to depositors and borrowers amounted to Rs.137.8 million. The interest expenses increased by Rs.18.7 million as a result of payment of interest on account of borrowings made for on lending to micro-finance Institutions and investments

Operating expenses increased to Rs. 90.1 million up by 71% compared to the previous year, consequent to increase in personnel expenses and expenses relating to premises equipment & establishment expenses. Personnel expenses increased by Rs. 12 million due to absorption of NDTF staff to the Bank as result of the merger. At the beginning of 2011, Bank's Head Office and Branch shifted to a spacious premises at Borella, as a result of expansion of business activities following the merger with NDTF. Consequently, the expenses relating to premises increased. However, the cost to income ratio of the Bank has comparatively reduced for the year. The provision for Income Tax amounted to Rs.56.8 which is Rs.39.7 million greater than previous year. The financial result for the year was a after tax profit of Rs. 440.7 million which was an increase of Rs.163.2 million or 59%.

Deposits

Deposit from customers were Rs. 548.6 million hence a drop of 4% or Rs.23.8 million due to settlement of deposit liabilities of PSDB depositors in terms of Liability Settlement Scheme. However, the value of deposits mobilized from new customers by Bank's only

branch at Borella was Rs.249.2 million as at December 2011. Accordingly, Fixed Deposits contributed significantly for the growth in branch deposit base. This is an increase by Rs. 50 million or 25% increase compared to the previous year.



The Bank has selected its target market as middle and lower income sector of the population. A range of deposit products with convenience and flexibility for the needs of the target market has been developed. We have resolved to leverage Micro Finance Institutions for mobilization of deposits from their members. Further, the Bank has planned to mobilize deposits from urban settlements in collaboration with Government Organizations.

Borrowings

Borrowings amounted to Rs.1,613.5 million of which Rs.1,425.7 million were the funds borrowed from international funding agencies through Government of Sri Lanka for on lending to micro-enterprises. The balance represents PSDB borrowings from investors by way of Money Market Bills. Settlement of these borrowings is being made in terms of the Liability Settlement Scheme published by Central Bank of Sri Lanka.

Debentures

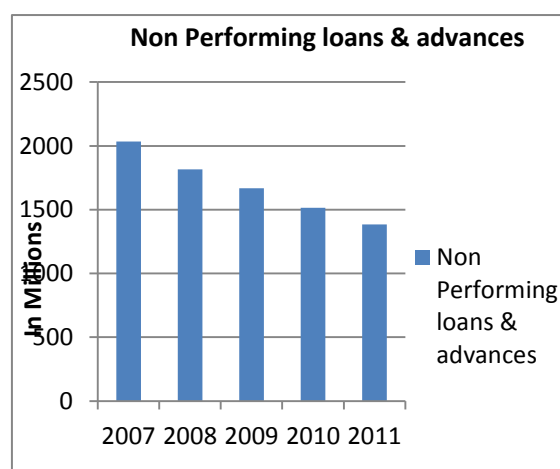
The total debentures amounted to Rs.1,300.6 million. In terms of Liability Settlement Scheme, liabilities to corporate and institutional investors/depositors with a balance more than Rs.100,000 were converted to unsecured and subordinate debentures with a maturity of 10 year with a rate of interest 5% p.a or one year Treasury Bill yield rate whichever is less to be accrued annually. These debentures will be settled in December 2017.

Assets

The total assets of the Bank increased to Rs.6,659.6 million by December 31, 2011, from Rs.6,197.8 million reported as at December 31, 2010, representing an increase of Rs.462 million or 7.4% increase compared to the previous year. Liquid assets represented 64% of the total assets or Rs.4,266 million. The liquid assets were in the form of placement with Banks, Treasury Bills and Bonds.

Loans & Advances and Recoveries

Total gross loans as at December 31, 2011 was Rs.2,735.9 million of which Rs.1,245.7 was the outstanding balance of loan granted by Micro-finance Institutions for on-lending to micro-entrepreneurs for income generating activities. During the year the Bank disbursed Rs.1,561 million to this sector. These loans have contributed to, uplifting of living standards of under-privileged people of the country. The most outstanding feature was 93% of the loans have been granted outside the Western Province and 50% of the loans were granted for agriculture and agriculture related activities. Out of total gross loan portfolio 53% or Rs. 1,468.9 million accounted for non-performing loans transferred from PSDB for which full provisioning had been made.



At the time PSDB business was vested, the total non-performing portfolio was Rs.2,034 million. Commendable recovery is seen in our non-performing loan portfolio with the aggressive recovery programme launched by the Bank. The Bank was able to bring down

the nonperforming loan balance to Rs. 1,353.7 million at the end of 2011. As most of the borrowers of PSDB have become hard core defaulters at Bank and has instituted legal actions against these borrowers. The total non-performing advances of microfinance were Rs.32.1 million, which is a 2.6% of total micro-credit portfolio.

Settlement of Liabilities

The Bank plays a pivotal role in its effort to grant relief to depositors and investors of the collapsed Pramuka Savings and Development Bank Ltd. The process of settlement of deposit and other liabilities of PSDB is under way as a special project of the Bank and it is expected to be completed by the year 2017. The Bank was able to settle liabilities of depositors and investors of PSDB amounting to Rs.854 million up to December 31, 2011.

Expansion of Business

The Bank needs to enhance deposit base and increase loan portfolio for its growth and stability. Therefore the Bank has planned to introduce various loan products such as leasing, pawning, commercial credit and personal loan scheme for private and public sector employees.

It has become necessary to improve access to financial services by micro, small and medium enterprises as they are heavily dependent on semi or informal funding causing heavy financial cost and binding to uneasy conditions which are drastically affect the sustainability of such enterprises. One of the cost effective solutions to extend credit to these enterprises in remote rural areas is albeit selecting community based organizations for disbursement and carry out pre and post credit supervision activities. At present we partner with more than 300 organizations scattered all over the country. We have taken steps to widen micro-finance horizon by enrolling more than 70 grass root level organizations in the year 2011. The Board of Directors, has taken a decision to establish SME branches on provincial basis. They also have decided to

establish Extension Offices of the Bank in un-banked and under-banked areas with the assistance of Micro-finance Institutions and private sector enterprises for increasing access to financial services by small and micro-entrepreneurs. The government policy is to take the development to the village. Therefore, we will develop cordial relationship with village level societies for the establishment of sustainable micro-finance disbursement system.

Human Resources Development

Human Resources are the backbone of the Bank and employment of skilled personnel to face challenges is one of the critical success factors for survival, growth and stability of the Bank. The Bank strongly believes that its staff is the most valuable resource for future expansion programmes and providing an excellent service to the clientele. Creating a learning culture is the foundation to enhance knowledge, skills and competence which increase our ability to create a motivated team aligned to the vision and the mission of the Bank. Bank continues to invest in its human resource by training Bank's staff at in-house training program and at outsourced training institutions.

Conclusion

It should be emphasized that under the prevailing competitive banking environment it is a challenge for a new bank to strive and grow in a short period of time. We strongly believe that SLSB is now poised on the threshold of achieving sustainable growth for the coming year.

I wish to express my deepest gratitude to the Secretary and senior officers of the Ministry of Finance and Planning, Governor and the senior officers of the Central Bank of Sri Lanka for their guidance in managing the business of the Bank. I also would like to place on record my deepest appreciation to the Chairman and the Board of Directors for their guidance and leadership in helping my team and me to steer

the Bank to growth. Finally, I wish to express my heartfelt gratitude to the all our customers for their patronage and to staff for their dedicated service.



General Manager/CEO
Adrian Weerasekera

Board of Directors



From Left to Right

**Mr. Kosala Ratnaweera (Director) , Mr. Sanath Weeratunga (Working Director) , Mr. Sumith Parakrama Perera (Director),
Mr. Kamal Bandara Dissanayake (Director), Mr. Ariyatilake Dahanayake (Chairman) , Mr. Thilak Wannigama (Director),
Mr. Vijitha Perera (Director), Mr. Indigahawela Gamage Palitha (Director) , Mr. Adrian Weerasekera (General Manager/CEO)**

BOARD OF DIRECTORS



Mr. Ariyatilake Dahanayake

B.A.(Sri Lanka), L.L.B.(Sri Lanka), Attorney-at-Law, N.P., J.P, Commissioner-for Oaths

Mr. Ariyatilake Dahanayake was nominated to the Board of Directors by the Secretary to the Treasury from the date of incorporation, and was appointed as the Chairman of the Board on the 4th July 2007. He resigned on 07th May 2010 and was reappointed as Chairman from 10th May 2010 and serves as Chairman to date. He is also the Chairman of the Beliatta Multi-Purpose Co-operative Society, and the Hambantota District Co-operative Rural Banks Union. He is also a Director of the Co-operative Insurance Company Limited, and the Sri Lanka Co-op Rural Banks Federation Ltd. Mr. Ariyatilake Dahanayake is a non-independent, non-executive Director.



Mr. Kosala Ratnaweera

Attorney-at-Law. N.P, J P, U M, Former Director, Fisheries Corporation

Mr. Kosala Ratnaweera was appointed to the Board of Directors by the Secretary to the Treasury on 24th May 2010 and serves to date as a Director. He serves as a Panel Lawyer for Bank of Ceylon, National Savings Bank, People's Bank and National Development Bank. Mr. Kosala Ratnaweera is a non-independent, non-executive Director.



Mr. Thilak Wannigama

B.Sc. (Mgt) Special, M .Sc (T&CP), Attorney-at -Law ,N.P, J.P, Commissioner for Oaths

Mr. Thilak Wannigama was appointed to the Board of Director by the Secretary to the Treasury with effect from 4th July 2007. He resigned on 7th May 2010 and was reappointed on 16th July 2010. Mr. Thilak Wannigama is also a Fund Management Consultant for the Sri Lanka Rural Bank Co-operative Federation, and Legal Consultant of the Co-operative Leasing Company Limited. Mr. Thilak Wannigama is a non-independent, non-executive Director.



Mr. Uduwage Don Sumith Parakrama Perera

Attorney-at-Law, N.P

Mr. Sumith Parakrama was appointed to the Board of Director by the Secretary to the Treasury with effect from 30th June 2010. He has been on the Board of the Coconut Cultivation Board (from 2000-2002), Lanka Electricity Company (from 2006-2010), Leco Project (Pvt) Ltd (from 2008-2010) and ANTI Leco (Pvt) Ltd (from 2008-2010). Mr. Sumith Parakrama is a non-independent, non-executive Director.



Mr. Uragodage Vijitha Perera

B Sc.(Business Admn.), Chartered Licentiate

Mr. Uragodage Vijitha Perera was appointed to the Board of Directors by the Secretary to the Treasury on 22nd February 2011. He is an Assistant Director of Department of Public Enterprises, Ministry of Finance & Planning, on secondment from the Central Bank of Sri Lanka. Mr. Uragodage Vijitha Perera is a non-independent, non-executive Director.



Mr. Indigahawela Gamage Palitha

B Com (Special)

Mr. Palitha Gamage was appointed as to the Board of Directors by the Secretary to the Treasury with effect from 2nd April 2007. He resigned on 7th May 2010 and was reappointed on 15th July 2010 and has served on the Board from that date. Mr. Palitha Gamage is the President of the Pramuka Depositors and Stakeholders Association and he represents the interests of the Pramuka Savings & Development Bank Limited depositors and creditors. Mr. Palitha Gamage is a non-independent, non-executive Director.



Mr. Muthubandage Kamal Bandara Dissanayake

BA Special (Economics), Certificate in Public Administration, Postgraduate Diploma in Management

Mr. M. K. B. Dissanayake was appointed to the Board of Directors by the Secretary to the Treasury from the 4th August 2010. He served as the Postmaster General of the Department of Posts. He has served 27 years in administrative service. Mr. M. K. B. Dissanayake was a non-independent, non-executive Director.

Mr. M. K. B. Dissanayake's appointment has been revoked on the 15th March 2012 by the Secretary to the Treasury as he has been appointed as the Additional Secretary to the Ministry of Economic Development.



Mr. Sanath Weeratunga

Mr. Sanath Weeratunga was the General Manager of the Bank from its commencement of business on 10th March 2008 upto 25th April 2011. He was appointed as a Working Director thereafter. Mr. Sanath Weeratunga has valuable experience in Banking as he served at the Peoples Bank for a span of more than thirty years from 1972 to 2006. Mr. Sanath Weeratunga is a non-independent, Executive Director.

Corporate Management



Mr. Hemapriya Joesph Adrian Weerasekera
MBA (Sri J), AIB.

Mr. Adrian Weerasekera was appointed by the Board of Directors as the General Manager/Chief Executive Officer of the Bank on the 17th January 2012. He has worked in the Banking sector for more than 20 years. He has experience in local as well international Banking. He has handled all aspects of Banking such as operational, credit, finance, corporate service and risk management.



Mr. Gamage Samarasiri Perera
B.Sc, AIB, Diploma in Bank Management
Acting General Manager /Assistant General Manager

Mr. G. S. Perera was appointed as the Acting General Manager by the Board of Directors with effect from 19th May 2011 and continued as Acting General Manager during the period under review. He was a former Senior Assistant Director of the Central Bank of Sri Lanka. He has worked for more than thirteen years at the Central Bank of Sri Lanka. He has also worked for ten years at Bank of Ceylon. He is at present functioning as the Assistant General Manager of the Bank.



Mr. Edirisinghe Karunaratne
ACMA (UK), AIB

He joined the SLSB as consultant in March 2008 prior to which he served as the General Manager/ CEO at Uva Development Bank and Assistant General Manager (Finance) at People's Bank. He has worked in the Banking and Finance sector for more than 35 years. He has experience in Finance, Investment, IT, Human Resource management, Micro Finance, Commercial Credit and Retail Banking.

Senior Managers & Managers



Ms.H Weerasekara
ACIS(UK),MBA(Sri J)
Senior Manager
HRD & Establishment



Mr.G M S N K M Gurusingha
Bsc Busi.Admin (Sri J)
Licentiate (CASL), CBF (IBSL)
Senior Manager
Operations



Mr.K K S Kumara
B.Com (Sri J) ,MAT,
Intermediate (CASL) ,
Diploma-Credit Mgt.(IBSL),
Diploma - Treasury & Risk Mgt.(IBSL)
Senior Manager
Credit



Mr.Tilak Wickremage
FCA,MCPM
Senior Manager
Finance



Ms.Y M J Fernando
Attorney-at-Law, Notary Public,
Commissioner of Oaths,
LLB (Colombo)
Company Secretary/
Manager Legal



Ms.D N Senadheera
Attorney-at-Law
Manager Legal



Mr.K A Nihal Rasikapriya
B.Com,
Professional Part 1 (CASL)
Internal Auditor

Corporate Social Responsibility Programmes

Being “socially responsible” implies playing more than just an economic role in society. It is expected that a national institution would play a direct role in meeting community needs, welfare, education, health, environment protection, etc.

One of the major objectives of the Bank is alleviation of poverty by empowering the poor towards their own development through social mobilization and financial assistance without granting them charitable donations. Micro-credit is known as an effective tool for poverty alleviation and is defined as a credit provided to the “poor” free of collateral (the only collateral is a guarantee of the ‘peer’) through institutionalized mechanism. Credit facilities are made available “as and when” needed, at the doorsteps of the client. The Bank exercises a programmed approach in alleviating poverty of people who have a vision to escape from poverty. Conducting awareness programmes among rural population, improve access to finance by establishing community based organizations (CBO) capacity building of CBOs, identification of needy people for financing and their potential income generating activities, disbursement of micro-credit through CBOs and continuous monitoring the income generating activity of the micro entrepreneur are components of this programmed approach.

The Bank provides financial assistance below the prevailing market interest rates and the Bank spends considerable sums of money for facilitating infrastructure development for CBOs and monitoring micro-entrepreneur income generating

activities. During the year under review, 47 community based organizations were set up and disbursed Rs.1,561million as micro-credit for on-lending to micro-entrepreneurs through CBOs for agriculture, animal husbandry, trade, etc.

With the vision of avoiding transmission of poverty from generation to generation, the Bank has launched “socially responsible programme known as “Gemi Sisu Neguma”. We have selected an underdeveloped school at Gotaimbaragama in Angunakolapelessa Divisional Secretariat Division. Steps were taken to cultivate 04 acre surplus land in the school premises to provide infrastructure facilities to the school. With a view to improving the living standard of the villages around the school, with the assistance of Divisional Secretary of Angunakolapelessa and Ministry of Economic Development the canal system of the area and the Peuwewa tank were repaired. The road leading to school was repaired by laying concrete. Chairman and the Board of Directors of the Bank has planned to expand this programme in other districts too.

The Micro-Finance Division of the Bank conducted a number of programmes in rural areas to promote financial awareness of rural population. 11 programmes, were successfully conducted in 2011.

At the beginning of the year 2011, the Bank provided relief measures to micro-entrepreneurs of CBOs in Eastern and North Central Provinces who were victims of floods which destroyed their income generating activities. Essential items including dry rations, clothes, medicines, etc were distributed to affected micro-entrepreneurs through CBOs.

Corporate Social Responsibility



Distribution of essential items to victims of Flood



Financial Awareness Programme at Matara



Felicitation Ceremony of Teachers at Gotaimbaragama School



100% ராஜ்ய ஊர்வணம் அரசு பாதுகாப்பு State Security



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இலங்கை சேமிப்பு வங்கி
Sri Lanka Savings Bank
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DIRECTORS REPORT

The Directors of the Sri Lanka Savings Bank Ltd. have pleasure in presenting their Annual Report together with the Audited Financial Statements for the Financial Year ended 31st December 2011.

Review of Business

The Chairman's Message and the Review of Operations by the General Manager forms an overall picture of the operations of the Sri Lanka Savings Bank Ltd., during the year ended 31.12.2011. In addition to this a full account of operations can be found in the Audit Report presented by B.V. Fernando & Co. Chartered accountants.

Legal Status of the Bank

The Bank was established on July 7th 2006 under the Companies Act No. 17 of 1982 and re-registered under Companies Act No. 07 of 2007. It bears the Registration No: PB 296. The Bank was licensed as a specialized bank under the Banking Act No. 30 of 1988.

Board of Directors

The Board of Directors of Sri Lanka Savings Bank Ltd. comprised of Eight Directors during the year under review. The entire Board of Directors was appointed by the Secretary to the Treasury, Ministry of Finance & Planning in compliance with the provisions of the Articles of Association of the Bank.

Directors Interest in Contracts

The Directors have no direct or indirect interest in any contract or proposed contracts with the Bank except as disclosed in the Note No 32 to the Financial Statements.

Directors' Responsibility

The Board of Directors takes responsibility for the preparation and presentation of these Financial Statements.

Systems of Internal Controls

The Board of Directors have endeavored to institute an effective and comprehensive system of internal control covering financial operations and compliance & risk management, required to carry on the business of banking in an orderly manner, in order to manage the Bank's assets and liabilities and secure far as possible reliability of records and the accuracy.

Corporate Governance

Systems and procedures are in place to ensure that Corporate Governance is properly practiced. Specific measures taken in this regard are elaborated in pages No. 21 to 36 of this Report.

Audit Committee

The following non-executive Directors of the Board served as members of the Board Audit Committee.

The report of the Audit Committee is given on pages 44 & 45.

Mr. U.Vijitha Perera -Committee
Chairman

Mr. Thilak Wannigama - Director

Mr. Kosala Ratnaweera - Director

Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given in pages No. 02 of this Report. The business activities of the Bank were conducted adhering to the highest level of ethical standards in order to achieve the Vision and Mission of the Bank.

Auditors

The Financial Statements for the year have been audited by B.V. Fernando & Co., Chartered Accountants. A resolution pertaining to re-appointment of Auditors and authorizing the Directors to determine their remuneration is to be proposed at the Annual General Meeting.

Staff

As at 31st December 2011 there were Fifty Four (54) members employed by the Bank. The composition of this number is as follows:-

Senior Managers	4
Managers	3
Deputy Managers	3
Assistant Managers	7
Bank Assistants	<u>16</u>
Total	33

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The balance comprised of Secretaries, Drivers and Minor Employees

Chief Executive Officer (CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. The General Manager attends Meetings of the Board by invitation.

Going Concern

The Board of Directors is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared based on the going concern concept.

Financial Statements

Financial Statements of the Bank have been prepared on a going-concern basis in compliance with the Sri Lanka Accounting Standards and in conformity with the generally accepted accounting principles and applied consistently. Reasonable and prudent judgments have been made where necessary when preparing the financial statements.

Profit and Appropriations (in thousands)

Year ended	31.12.2010 (Rs.)	31.12.2011 (Rs.)
Profit before taxation	294,573	497,527
Taxation	(17,071)	(56,777)
Profit after Taxation	277,502	440,750
Retained Profit/(loss) brought Forward	440,824	704,451
Profit available for Appropriation	718,326	1,152,185
Directors have made the Following appropriations: To Reserve	(13,875)	(44,006)
Retained Profit carried Forward	704,451	1,108,180

Revenue

The total gross income of the Bank for the financial year ended 31st December 2011 was Rs.576 million. The analysis of income is given in Note 04 to the accounts.

Capital Expenditure

The total expenditure on the acquisition of Property, Plant & Equipment during the year amounted to Rs. 2.7 million. Details of which are shown in Note 17 to the accounts.

Statutory Payments

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

Post Balance Sheet Events

No events have arisen since the Balance Sheet date which requires adjustment or disclosure in the accounts.

By order of the Board



Y M J Fernando
Secretary to the Board
Sri Lanka Savings Bank Ltd.

Corporate Governance

Corporate Governance is the means by which Companies are managed and controlled. Compliance with a good Corporate Governance Code by all companies is necessary for their development. The shareholders who are the owners of the company rely on Directors appointed by them to oversee the management of the business of the company on their behalf. The Board of Directors is accountable to the shareholders for running the day to day operations of the Company.

The objective of a company is to make the company profitable.

The Sri Lanka Savings Bank Limited has taken steps voluntarily to adopt the Corporate Governance practices recommended by various regulatory bodies such as The Institute of Chartered Accountants of Sri Lanka, The Securities and Exchange Commission of Sri Lanka and the Central Bank of Sri Lanka.

The Primary responsibility for Corporate Governance rests with Board of Directors and Senior Management of the Bank with the contribution of all stakeholders from Bank employees to Bank customers in order to ensure good Corporate Governance. Thus the Board of Directors and CEO/GM while continuing to improve and adopt the latest Corporate Governance practices have also taken steps to appoint independent committees to oversee, evaluate and recommend various operational aspects in the Bank.

Towards Good Corporate Governance

The Bank has adopted the code of Corporate Governance in order to improve good governance. The Bank has ensured its governance to be more transparent and have demonstrated a commitment to this by developing and furthering:

- Responsible, accountable and value based performance by the Management;
- Effective oversight, with executive bodies that act in the best interests of the Bank and its stakeholders and seek to enhance shareholder value in a suitable manner.

Corporate Governance is the means by which operational efficiency and effectiveness can be improved to build a sound reputation. A system of sound governance is an important contributor to the society in which it operates. Especially in the case of Sri Lanka Savings Bank Limited which is a fully Government-owned enterprise that plays an important role in building the future of the Sri Lankan economy.

BANK'S ADHERENCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA AND THE INSTITUTE OF CHARTERED ACCOUNTANTS SRI LANKA

Subject	Corporate Governance Principle	Reference to the code of Best Practice issued by SEC & ICASL	Level of Compliance
<p>A. General</p> <p>Chairman and CEO</p>	<p>If Chairman and CEO is one and the same person, disclose the Name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.</p>	<p>A.2.1 & A.5.6</p>	<p>The posts of Chairman and CEO/GM are separate positions and held by two individuals.</p>
<p>Board Balance</p>	<ul style="list-style-type: none"> • Should identify the independent Non-Executive Directors • If a Non-Executive Director is identified as "independent" notwithstanding the existence of any of the following factors, the reason for such determination should be disclosed. • A Director is not considered independent if he/she: <ul style="list-style-type: none"> ○ has been employed by the company during the period of two years immediately preceding appointment as director; ○ Currently has/had during the period of two years immediately preceding appointment as Director, a Material Business Relationship with the company, whether directly or indirectly; ○ Has a close family member who is a Director, Chief Executive Directors (and/or and equivalent position) in the Company ○ Has a Significant Shareholding in the Company ○ Has served on the Board of the company continuously for a period exceeding nine years from the date of the first appointment. ○ Is employed in another Company or Business; <ul style="list-style-type: none"> ▪ In which a majority of the other Directors of the Company are employed or are Directors ; or ▪ In which a majority of the other Directors of the Company have a Significant Shareholding or material Business Relationship; or ▪ That has a Significant Shareholding in the Company or with which the Company has a Business Connection; 	<p>A.5.5</p>	<p>Under the Articles of Association of the Bank the Secretary to the Treasury, Ministry of Finance & Planning is empowered to appoint the Board of Directors. All Directors appointed other than Mr.Sanath Weertaunga-Working Director, are in a Non-Executive capacity and are able to form an impartial view since they are not part of the Management of the Bank.</p>

	<ul style="list-style-type: none"> • Is a Director of another company; <ul style="list-style-type: none"> ○ In which a majority of the other Directors of the company are employed or are directors; or ○ That has a Business Connection in the company or Significant Shareholding • Has Material Business Relationship or a Significant Shareholding in another company or business: <ul style="list-style-type: none"> ○ In which a majority of the other Directors of the company are employed or are Directors; and/or ○ That has a Business Connection with the company or Significant Shareholding in the same. 		
Appointment of New Directors	<p>When new Directors are appointed the following details should be disclosed.</p> <ul style="list-style-type: none"> • A brief resume of each such Director; • The nature of his expertise in relevant functional areas. • The names of Companies in which the Director holds directorships or memberships in Board Committees; and • Whether such Director can be considered independent 	A.7.3	Complied with. The Directors are appointed as per the provisions under the Articles of Association by Secretary to the Treasury and are considered as not independent.
Nomination Committee	The Chairman and members of the Nomination Committee should be identified.	A.7.1	Complied with
Appraisal of Board Performance	Should disclose how performance evaluation has been conducted.	A.9.3	The Board conduct appraisals to assess its performance and effectiveness as a whole annually and should be implemented in 2012.
Board Related Disclosure	<p>The following details pertaining to each Director should be disclosed;</p> <ul style="list-style-type: none"> • Name, qualifications and brief profile. • The nature of his/her expertise in relevant functional areas • Immediate family and /or material business relationships with other Directors of the Bank <ul style="list-style-type: none"> • Names of other listed companies in Sri Lanka in which the Director concerned serve as a Director; • Names of companies in which the Director concerns serve as a Director and/ or the facts that he/she holds other Directorships in group Companies; • Number/ percentage of Board meetings of the Bank attended during the year 	A.10.1	Complied with
Disclosure of Remuneration	<ul style="list-style-type: none"> • A Statement of Remuneration Policy and details of remuneration of the Board as a whole. • Total salary of Executive Directors and total salary of Non-executive Directors. 	B.3	The Ministry of Finance and Planning determines the allowances payable to Directors, Complied with

Major Transactions	<ul style="list-style-type: none"> All Major Transactions entered into by the Bank should be disclosed. 	C.2	Complied with
Audit Committee	<ul style="list-style-type: none"> Names of the members of the Audit Committee should be disclosed. Basis for determining the independence of Auditors. 	D.3.4	Names of members of the Audit Committee are given in the Directors' Report on pages 19 to 20 The Auditors of the Bank are appointed with the approval of the Auditor General. The independence of the appointed Audit Firm is ensured by the Auditor General. The Auditor General also carries out periodical audits of the Bank.
Code of Business conducted and Ethics	<ul style="list-style-type: none"> Should disclose whether the Bank has a Code of Business conduct and Ethics for Directors and members of the Senior Management Team. Should also disclose and affirmative declaration that they have abided by such Code. The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code 	D.4.1 & D.4.2	To be implemented in 2012.
Going Concern	<ul style="list-style-type: none"> Should report that the Bank is a going concern, with supporting assumptions and qualifications as necessary 	D.1.5	The Bank is a going concern and as affirmed by the Auditors in financial reports and opinion.



Y M J Fernando
Secretary to the Board
Sri Lanka Savings Bank Ltd.

BANK'S ADHERENCE WITH THE CORPORATE GOVERNANCE RULES AS REQUIRED BY SECTION 3(8) OF THE BANKING ACT DIRECTION NO. 11 OF 2007 ISSUED BY THE CENTRAL BANK OF SRI LANKA.

Corporate Governance Section and Rule	Level of Compliance
3(1) The Responsibilities of the Board	
3(1)(i) The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied with
b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	Commercial operations commenced by end last year & taking steps to have these priorities complied covering the time period 2012.
c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Commercial operations commenced by end last year & taking steps to have these priorities complied covering the time period 2012.
d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Commercial operations commenced by end last year & taking steps to have these priorities complied covering the time period 2012.
e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with
f) Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with
g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	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;	Complied with
i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Plan to comply by end 2012
j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Suitable personnel had been identified for most of the key positions and Bank will pursue a succession plan in 2012
k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with
l) Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators;	Complied with
m) Exercise due diligence in the hiring and oversight of External Auditors	Complied with

<p>3(1)(ii) The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.</p>	<p>Complied with. Secretary to the Treasury nominates and appoints all the Directors including the Chairman. The Board appoints the General Manager / Chief Executive Officer.</p>
<p>3(1)(iii) The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.</p>	<p>Complied with</p>
<p>3(1)(iv) The Board shall ensure that arrangements are 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.</p>	<p>Complied with</p>
<p>3(1)(v) The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.</p>	<p>Complied with</p>
<p>3(1)(vi) The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an Alternate Director shall, however, be acceptable as attendance.</p>	<p>Complied with</p>
<p>3(1)(vii) The Board shall appoint a company secretary who satisfies the provisions of Section 43 read with Section 76H of the Banking Act, No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.</p>	<p>Complied with</p>
<p>3(1)(viii) All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.</p>	<p>Complied with</p>
<p>3(1)(ix) The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.</p>	<p>Complied with</p>
<p>3(1)(x) Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following:</p> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board;</p> <p>(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;</p> <p>(d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</p>	<p>Complied with</p>

<p>(e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and</p> <p>(f) the decisions and Board resolutions.</p>	
<p>3(1)(xi) There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the bank.</p>	Complied with
<p>3(1)(xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where independent Non-Executive Directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain 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 counted in the quorum for the relevant agenda item at the Board meeting.</p>	Complied with
<p>3(1)(xiii) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.</p>	Complied with
<p>3(1)(xiv) The Board shall, if it considers that 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, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.</p>	Complied with
<p>3(1)(xv) The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.</p>	Complied with
<p>3(1)(xvi) The Board shall publish in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.</p>	Complied with
<p>3(1)(xvii) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.</p>	Plan to comply in 2012
<p>3(2) The Board's Composition</p> <p>3(2)(i) The number of Directors on the Board shall not be less than 7 and not more than 13.</p>	Complied with
<p>3(2)(ii)</p> <p>(A) 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, and such period in office shall be inclusive of the total period of service served by such Director up to 01 January 2008.</p>	Complied with .No Director has exceeded 9 years.

<p>(B) In this context, the following transitional provisions shall apply:</p> <p>A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of 3 years commencing 1st January 2009.</p> <p>a) In the event that there is only one Director on the Board who has served more than nine years as at 01 January 2008, he/she shall be deemed to have vacated the office as a Director as at 31 December 2008.</p> <p>b) In the event that there are two or more Directors on the Board who have served more than nine years as at 01 January 2008, the following provisions shall apply:</p> <p>I. Of those Directors whose period of service has exceeded nine years, the longest serving Director, shall be deemed to have vacated office as a Director on 31 December 2008.</p> <p>II. Thereafter, at the end of each succeeding year, the remaining Directors shall be deemed to have vacated office in sequence, at least one Director each year, (on the basis of the longest to the shortest length of service as a Director), until all Directors who have served a period in excess of nine years as at 01 January 2008, have been deemed to have vacated office. Provided also, that all Directors of the Bank who have served more than nine years as at 01 January 2008 shall be deemed to have vacated their office by or before 31 December 2011.</p> <p>c) In the event there are any Directors who are due to complete nine years of service between 01 January 2008 and 31 December 2010, such Directors shall also be deemed to have vacated office, in sequence, at least one Director each year, (on the basis of the longest to the shortest length of service as a Director), after the Directors as set out in Direction 3(2)(ii)(B)(b) have vacated their office as Directors. Provided, however, that all such Directors covered by this sub-direction (c) shall also be deemed to have vacated their office by or before 31 December 2011.</p>	<p>No Directors have exceeded 9 years in the capacity of a Director</p>
<p>3(2)(iii) An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive officer of the bank</p>	<p>The Bank has one Executive Director and the post of Chief Executive Officer /General Manager is a separate post.</p>

<p>3(2)(iv) The Board shall have at least three independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from 01 January 2010 onwards.</p> <p>A Non-Executive Director shall not be considered independent if he/she:</p> <p>a) has direct and indirect shareholdings of more than 1 per cent of the bank;</p> <p>b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the Bank.</p> <p>c) has been employed by the Bank during the two year period immediately preceding the appointment as director;</p> <p>d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a “close relation” shall mean the spouse or a financially dependent child;</p> <p>e) represents a specific stakeholder of the Bank;</p> <p>f) is an employee or a Director or a material shareholder in a company or business organization:</p> <p>I. which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or</p> <p>II. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or</p> <p>III. in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank;</p>	<p>All Directors, other than the working Director, are non-executives. They are all appointed by the Secretary to the Treasury in complying with the provisions of the Articles of Association and are considered as non-independent. CBSL has exempted the Bank from application of the requirement of independence.</p>
<p>3(2)(v) In the event an Alternate Director is appointed to represent an independent Director, the person so appointed shall also meet the criteria that applies to the independent Director.</p>	<p>No Alternative Directors were appointed during the year.</p>
<p>3(2)(vi) Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.</p>	<p>Complied with</p>
<p>3(2)(vii) A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from 01 January 2010 onwards.</p>	<p>Complied with</p>
<p>3(2)(viii) The independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose 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.</p>	<p>Complied with</p>

<p>3(2)(ix) There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.</p>	<p>The Secretary to the Treasury nominates and appoints all the Directors including the Chairman. as per Articles of Association.</p>
<p>3(2)(x) All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.</p>	<p>The Secretary to the Treasury nominates and appoints all the Directors including the Chairman. as per Articles of Association.</p>
<p>3(2)(xi) If a Director resigns or is removed from office, the Board shall: (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.</p>	<p>Such a situation has so far not arisen.</p>
<p>3(2)(xii) A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.</p>	<p>Complied with.</p>
<p>3 (3) Criteria to assess the fitness and propriety of Directors In addition to provisions of Section 42 read with Section 76H of the Banking Act, No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director.</p>	<p>Complied with.</p>
<p>3(3)(i) The age of a person who serves as Director shall not exceed 70 years.</p> <p>In this context, the following general exemptions shall apply:</p> <p>A Director who has reached the age of 70 years prior to 31st December 2008 may continue in office for a further maximum period of 3 years commencing 1st January 2009</p> <p>(A) Where a Director who is currently serving at a Bank is over 70 years of age as at 01 January 2008, the following transitional provisions shall apply, subject, however, to the provisions as set out in Direction 3(2)(ii) hereof.</p> <p>a) If a Director is over 75 years of age as at 01 January 2008, such Director may continue to serve as a Director for a further period that shall not extend beyond 31 December 2008, and shall be deemed to have vacated office on 31 December 2008;</p> <p>b) If a Director is between 70 and 75 years of age as at 01 January 2008, such Director may continue to serve as a Director for a further period that shall not extend beyond 31 December 2009, and shall be deemed to have vacated office on 31 December 2009.</p> <p>(B) Where a Director who is currently serving at a Bank reaches the age of 70 years, between 01 January 2008 and 31 December 2009, such Director may, subject to the provisions as set out in Direction 3(2)(ii) hereof, continue to serve as a Director for a further period that shall not extend beyond 31 December 2010 and shall be deemed to have vacated office on 31 December 2010.</p>	<p>Complied with.</p> <p>There are no Directors who have exceeded 70 years of age.</p>

<p>3(3)(ii) A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. Of such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.</p>	Complied with.
<p>3(4) Management functions delegated by the Board</p> <p>3(4)(i) The Directors shall carefully study and clearly understand the delegation arrangements in place.</p>	Complied with.
<p>3(4)(ii) The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.</p>	Complied with.
<p>3(4)(iii) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.</p>	Is being reviewed in 2012
<p>3(5) The Chairman and Chief Executive Officer</p> <p>3(5)(i) The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.</p>	Complied with.
<p>3(5)(ii) The Chairman shall be a Non-Executive Director and preferably an independent Director as well. In the case where the Chairman is not an independent Director, the Board shall designate an independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.</p>	Chairman is a Non-Executive Director appointed by the Secretary to the Treasury. The requirement of independence has been exempted by CBSL.
<p>3(5)(iii) The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.</p>	Complied with.
<p>3(5)(iv) The Chairman shall:</p> <p>(a) provide leadership to the Board;</p> <p>(b) ensure that the Board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.</p>	Complied with.
<p>3(5)(v) The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.</p>	There is a formal agenda, with key items identified for all Board meetings. The Board has also approved a process for the Directors to include their proposals in the agenda.
<p>3(5)(vi) The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.</p>	Complied with.
<p>3(5)(vii) The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.</p>	Complied with.

3(5)(viii) The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	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.	Complied with.
3(5)(x) The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with.
3(5)(xi) The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the bank's operations and business.	Complied with.
3(6) Board appointed Committees 3(6)(i) Each Bank shall have at least four Board Committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the Board. All Committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with.
3(6)(ii) The following rules shall apply in relation to the Audit Committee: a) The Chairman of the committee shall be an independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied with.
b) All members of the committee shall be Non-Executive Directors.	Complied with
c) The committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	External Auditors are nominated by the Secretary to the Treasury Ministry of fiancé & Planning, in consultation with the Auditor General
d) The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with
e) The committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:	Complied with

<p>I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>II. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</p> <p>III. Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.</p>	
<p>f) The committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:</p> <p>(i) an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting;</p> <p>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>(iii) the co-ordination between firms where more than one audit firm is involved.</p>	Complied with
<p>g) The committee shall 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 the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on:</p> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) significant adjustments arising from the audit;</p> <p>(iv) the going concern assumption; and</p> <p>(v) the compliance with relevant accounting standards and other legal requirements.</p>	Complied with
<p>h) The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	No such issues were reported to the Board
<p>i) The committee shall review the External Auditor's management letter and the management's response thereto.</p>	Complied with
<p>j) The committee shall take the following steps with regard to the internal audit function of the Bank:</p> <p>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;</p> <p>II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p>	Complied with

<p>V. Ensure that 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 ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.</p>	
<p>k) The committee shall consider the major findings of internal investigations and management's responses thereto;</p>	Complied with.
<p>l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the committee shall meet with the External Auditors without the Executive Directors being present.</p>	Planned to comply in 2012
<p>m) The committee shall have: (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.</p>	Complied with
<p>n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	Complied with
<p>o) The Board shall disclose in an informative way, (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.</p>	Complied with
<p>p) The secretary of the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.</p>	Complied with. Secretary of the committee is the Head of the Internal Audit decision.
<p>q) The committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor</p>	Complied with
<p>3(6)(iii) The following rules shall apply in relation to the Human Resources and Remuneration Committee:</p>	
<p>a) The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.</p>	Remuneration to Executive Director and Chairman & fees payable to Directors for attendance at Board meetings is determined by the Ministry of Finance & Planning. The salaries of the Management are determined by the remuneration Committee and approved by the Salaries & cadre Commission & Department of Management Services. Ministry of Finance & Planning
<p>b) The committee shall set goals and targets for the Directors, CEO and the key management personnel.</p>	Planned to comply in 2012

c) The committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Planned to comply in 2012
d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Complied with
3(6)(iv) The following rules shall apply in relation to the Nomination Committee:	
a) The committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Board Nomination Committee appoints Key Management Personnel and Directors are appointed by the Secretary to the Treasury, Ministry of Finance & Planning.
b) The committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Directors are appointed by the Secretary to the Treasury, Ministry of Finance & Planning in compliance with the Articles of Association of the Bank
c) The committee shall 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 Positions.	Planned to comply in 2012
d) The committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied with in relation to the CEO and Key Management Personnel
e) The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and Key Management Personnel.	Planned to comply in 2012 in relation to Key Management Personnel only
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.	Complied with The Committee is chaired by a Director appointed by the Board.
3(6)(v) The following rules shall apply in relation to the Integrated Risk Management Committee: a) The committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, <i>i.e.</i> , credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee	Being implemented since 2012
b) The committee shall assess all risks, <i>i.e.</i> , 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.	Planned to comply in 2012
b) The committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Planned to comply in 2012

d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Planned to comply in 2012
e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Planned to comply in 2012
f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Planned to comply in 2012
g) The committee shall submit a risk assessment report within a week of each meeting the Board seeking Board's views, concurrence and/or specific directions.	Planned to comply in 2012
h) The committee shall establish 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. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Planned to comply in 2012 by appointing a Compliance Officer this position is overlooked by the Senior Manger Operations at present

Risk Management Report

The Board of Directors of the Bank has approved risk Management Policy Guidelines considering the key risk indicators covering areas of credit risk, market risk, operational risk, legal risk, compliance risk and liquidity risk during the year 2011 in order to ensure that timely and effective action is taken to help minimize risk involved losses, preventing happening of such activities and as a checklist of actions in the event of such activity.

Risk Management Policies

The Bank recognizes that risk is an integral aspect of the banking business. The Bank consistently aims to deliver a superior service by achieving an appropriate trade-off between risk and return. The Board of Directors is responsible and accountable for setting the risk appetite of the Bank, design and implementation of a prudent risk management framework and its overall soundness. The Board of Directors specially follows the Banking Act Direction No. 07 of 2011 with regard to risk management. The Board of Directors ensure that exposure and risk are maintained within approved levels. The Board sets the Bank's strategic aims, ensuring that necessary financial, human and physical resources are in place for the Bank to meet the framework of prudent and effective controls that enable key risks to be managed. The Bank's Risk Management strategy is based on a clear understanding of various risks, disciplined assessment, measurement and continuous monitoring leading to mitigation of such risks. The policies and procedures established for this purpose are continuously reviewed. The Board Integrated Risk management Committee

(BIRMC) has been appointed in 2012 by the Board. The Committee consists of three non-executive Directors, General Manager and senior officers involved in risk management and assist the Board in fulfilling its responsibilities relating to Bank's Risk Management strategies, policies and processes and report directly to the Board.

The following Board sub-committees and management committees each with specialized focus support the BIRMC and are responsible for the co-ordination of risk matters for each of the key risk areas of risk management.

- Audit Committee
- Asset and Liability Committee (ALCO)
- Credit Committee
- Investment Committee
- Management Committee
- IT Steering Committee
- Legal and Recovery Committee

The risk assessment of the bank has been categorized and since reviewed under Credit, Market, Operational, Legal, Compliance, Liquidity, etc.,

Credit Risk

Credit Risk Identification

Credit risk arises because the Bank's customers and counterparties may fail to meet their contractual obligations to the Bank and derives principally from loans and advances made to and due from them. Credit risk also arises from financial guarantees made on behalf of Bank's clients. Credit risk is the single largest risk for the SLSB. Its careful management is therefore critical to the achievement of the Bank's major objectives. The credit risk management needs to be a robust process

to enable the Bank to proactively manage loan portfolios in order to minimize losses and earn acceptable level of return. The credit risks may be mitigated by adhering to the policy guidelines, proper organization structure and procedural guidelines with regard to approval process, credit administration, credit monitoring and recovery.

General Area of Credit Risk

The Bank was established with a view to providing relief to depositors and investors of Defaulted Pramuka Savings and Development Bank LTD. (PSDB). Therefore the business of PSDB was transferred on 01 August, 2007. At the initial stage the Bank was not allowed to grant credit facilities. The National Development Trust Fund (Guaranteed Company) was merged with the Bank and assets and liabilities of the defunct National Development Trust Fund (NDTF) were transferred on 30th September, 2010. The restrictions in Bank's Article of Association were removed by amending the Articles.

The credit philosophy of the Bank is based on the vision and the objectives of the Bank, Government policies and regulatory requirements. Therefore, the credit philosophy of the Bank is accommodating credit facilities to different sectors of the economy. Microfinance sector in particular is emphasized when lending whilst increasing interest income of the Bank adhering to guidelines issued by regulatory authorities. As the vision of the Bank "to be the leading bank in providing micro-finance" the credit facilities are granted for micro-enterprise development to the micro-finance institutions (MFI) for on lending to micro-entrepreneurs for poverty alleviation and employment generation. The Board of Directors

(Board) is responsible for credit risk management. However the Board has delegated to the Credit Committee and Senior Management to carry out limited business activities under the continuous monitoring of the Board. The executives (General Manager, Assistant General Manager, Senior Manager (Credit), Branch Manager) in the credit line are responsible for managing credit risk.

Market Risk

The Bank recognizes that market risk arising from adverse changes in market variables such as interest rate, foreign exchange rate, equity prices and commodity prices. The Bank is exposed to interest rate risk. However, at present the Bank's limited exposure to equity risk is negligible.

Predominant portion of investments are in Treasury Bills, Treasury Bonds and Fixed Deposits which are for mostly one year fixed interest rates. Even if the market rates fluctuate the Bank's exposure is maximum for one year. Secondary market prices affect the Bank only on premature upliftment of deposits hence Bank is exposed to the loss of opportunity risk.

Customer Fixed Deposits are predominantly fixed for a term of one year.

The Senior Manager Finance frequently monitors the movement in interest rates and at ALCO interest rates are reviewed monthly. Interest rate exposure, movement in interest rates and specially interest rate gap analysis continuously monitored by the Bank by using relevant reports.

Operational Risk

Operational Risk by nature inherent all business activities. This could attribute to unexpected losses due to human errors, fraud, robbery, improperly documented transactions, inadequate training, IT system breakdowns, natural disasters, terrorist activities etc.

This may result in financial loss, loss of image, exposing the Bank to litigation, erosion in public confidence, reputation damage, and interruption of customer service. As the Bank is in the initial stage there is only one branch and complex operations are not taking place the exposure to this risk is not significant. However, with the expansion of branch network the required control measures will be taken. The Senior Manager (Operations) frequently reviews the systems and procedures prevailing in the Bank.

IT Steering Committee is responsible for matters relating to the IT system. Senior Manager (Finance) is responsible for monitoring investment, current accounts with Banks, Deposit accounts with the other Banks and investments in Treasury Bills & Bonds.

The Internal Auditor is responsible for conducting internal checks to mitigate operational risks.

Legal Risk

The uncertainty of the enforceability of the obligations of the Bank's customers, ex-employees, counterparties, including the foreclosure on collateral, create legal risk. Changes in law and regulations could adversely affect the Bank.

In the normal course of business, the Bank is involved in various types of litigation including litigation with borrower who are in default under the terms of their agreement. In certain circumstances the Borrowers have asserted counter claims. There could be ex-employees of the Bank who submit LT applications, citing the Bank as a respondent claiming compensation.

The legal risk is higher in new areas of business where the law is often untested by courts.

The Manager Legal, Senior Management and Legal & Recovery Committee are actively involved in managing legal risk.

Compliance and Regulatory Risk

This risk arises from a failure to comply with the rules and regulations that govern the financial service industry including "Know Your Customer", "Customer Due Diligence" and "Anti-Money Laundering Procedures". In addition, a Bank must also fully comply with all the other laws of the land. Officers of the Business units, Senior Manager Finance, HR division and Compliance Officer are responsible for managing compliance and regulatory risk.

Liquidity Risk

Liquidity is measured in terms of having funds available at all times to meet fully promptly the legitimate demand for money made on the Bank arising from deposit withdrawal, maturing investments draws under committed loan facilities and other financial commitment (viz. tax). The Bank's liquidity exposure is measured by calculating the Bank's net liquidity gap and by comparing current ratios with targets.

The Senior Manager Finance monitors frequently the liquidity position of the Bank. ALCO monitors the liquidity ratio reviewing the liquidity gaps periodically. The Board has recognized that Bank does not face liquidity in the short run as the Bank has sufficient liquidity. Moreover the Bank's Borrowings and certain deposit matures after five years and such funds have a planned repayment program and maintaining a portfolio of liquid assets mitigates any large unplanned liquid needs.

Information Technology Risk

Breakdown of computer system due to disaster, viruses, using of pirated software, substandard application software, etc. It is the responsibility of the Senior Manager in charge of IT and IT Steering Committee to attend promptly to these matters and formulation of required policies to overcome the implications.

Strategic Risk

A costly error that can occur in the budgeting/planning process due to strategic decision such as;

Failure to assess the future trends properly
Failure to evaluate projects / products/ proposals properly setting low growth and profitability targets hence Senior Manager Finance, General Manager, ALCO, Management Committee are responsible for strategic decisions.

Reputation Risk

Risk that arising from an event or behavior that could adversely impact market perception thereby affecting Bank's going concern. This may arise due to Sudden drop in profitability levels and failure to fulfill basic legal requirements, deterioration in customer services, frequent break down in systems (IT, Communication, Power, etc.), act of sabotage

Conclusion

The corporate management, Compliance Officer and senior management are responsible for enhancing Bank's image and promoting public confidence. The Board of Directors is in the process of implementing these policies with effect from the year 2012.

Compliance Statement

Sri Lanka Savings Bank Ltd during the year 2011 has identified the function for effective compliance and established a Compliance Unit within the Operations Department under the Senior Manager. The main focus of the Compliance Unit is to monitor adherence to all applicable laws and statutory requirements by the Bank and to report status to the Board of Directors.

Unit's main objective is to ensure compliance and has identified areas on a priority basis. The Compliance Unit has taken the initiative to strengthen the 'Know Your Customer' as required by the Financial Intelligence Unit and the customer transaction monitoring, reporting and anti-money laundering practices by implementing a process to capture information. Compliance unit also maintains a database of suspicious individuals and Companies who were inquired by the Financial Intelligence Unit of CBSL in terms of Section 15 (1) (b) of the Financial Transactions Reporting Act No 06 of 2006. The Compliance Unit is to strive for its vision of establishing a compliance culture throughout the Bank and has commenced awareness sessions for Branch staff which will be an ongoing process.

Regulatory and Supervisory Compliance

The Bank operates in line with directions given by the regulatory Authorities. The Compliance policies will be introduced as per the Directions, Circulars and Guidelines issued by the Bank Supervision Department of Central Bank of Sri Lanka. Steps are immediately taken to disclose to the Board of Directors any lapses or non-compliance with regards to directions and also monitoring process is on-going until the desired is achieved.

Operational Department

Bank formed a separate department for operations in the first quarter of year 2011 to optimize the operational gains from retail banking activities and to improve system procedures, internal controls, compliance requirement, policies and user manuals of the retail Banking in order to avoid human errors, frauds, failures and natural or manmade disasters.

Sri Lanka Savings Bank Ltd operates its Retail Branch only at Borella which is within the purview of Senior Manager Operations. Borella Branch's main aim is to strengthen deposit mobilization during the year 2011. The Bank has taken steps to broaden its operations and commenced the commercial Credit, Finance Leasing and Pawning Business is scheduled to commence in year 2012. Policies & procedures for products are already developed and staff are being trained under reputed external trainers to develop staff skills and provide efficient friendly services to Bank's customers.

Bank's compliance responsibility devolves on operations and compliance reports on requirements are being submitted to the Board of Directors quarterly and when it is deemed necessary.

The Bank has decided to establish Operational Risk Management Committee to evaluate & minimize the potential operational losses due to breakdown of system, procedures and internal controls or corporate governance practices. Head of operation is to act as the Secretary to both compliance & operation risk Committee.

HRD & Establishment

1. HR and Remuneration Committee

1.1 Scope of the Committee

The Committee is empowered to review all significant HR & Remuneration policies of the Bank. The Committee also determines the remuneration in relation to CEO and key management personnel of the Bank. Responsibility for setting goals and targets for directors, CEO, key management personnel and evaluating their performance against set targets also lies with the Committee.

1.2 Members

The Board appointed HR & Remuneration Committee consists of the following Directors:

Mr. U Vijitha Perera, Director

Mr. Palitha I Gamage, Director

Mr. S Parakrama Perera, Director

Mr. U Vijitha Perera headed the Committee as its Chairman and Senior Manager – HRD & Establishment functioned as Secretary.

1.3 Meetings

The Committee held eight meetings during the year 2011 and board papers on recommendations made by the Committee were submitted to the Board of Directors for ratification/approval by the Board.

Name of Director	% of meetings Attended
Mr. U Vijitha Perera (since appointment on 22. 02. 2011)	90%
Mr. Palitha I Gamage	100%
Mr. S Parakrama Perera	100%

2. Main functions

a) Main emphasis of the division for year 2011 was to recruit the best talent to take the Bank forward to cater to the increasing demand for banking services. Two Senior Managers joined the Bank during 2011.

The total number of staff as at 01st January 2011 was 47 and by the end of the year increased to 54.

b) External training and development of staff to take on new challenges was the other key area. Breakdown of the training given is indicated below:

	<u>Hours</u>	<u>No.of</u>
Participants		
Banking	397	28
Accounting & Financial Management	163	10
Legal	74	07
IT	110	16
General Management	30	03
Customer Service	16	02
Communication	<u>19</u>	<u>03</u>
Total	<u>809</u>	<u>69</u>

To encourage higher education especially in Banking and written & communication skills, the Bank also pays an honorarium to those employees who complete examinations conducted by the Institute of Bankers of Sri Lanka and the University of Colombo.

c) Thirteen employees were Promoted during 2011.

Assistant General Manager	01
Deputy Manager	03
Assistant Manager	04
Senior Bank Assistant	03
Senior Office Assistant	01
Senior Driver	01

d) Policies on Recruitment & Selection, Attendance & Leave and Training & Development were adopted in 2011.

e) The organization structure relatively flat in order to ease communication and prompt implementation of decisions which are essential during the growth stage of the Bank and the cadre position based on the corporate plan were also approved during the year 2011.

f) The Bank also introduced various benefits like medical insurance, staff loans and library facilities for staff as a retention strategy.

Audit Committee Report

The Audit Committee comprises of three Non-executive Directors.

- 1) Mr. U.Vijitha Perera - (Chairman of the Audit Committee)
- 2) Mr. Thilak Wannigama - (Member of the Audit Committee)
- 3) Mr. Kosala Ratnaweera - (Member of the Audit Committee)

Head of Internal Audit acts as the Secretary of the Audit Committee and he records and keeps detailed minutes of the committee meetings.

The General Manager / Chief Executive Officer and the Senior Manager Finance may be present at meetings by invitation. A representative of the external auditor, a member of Board of Directors, employees and even external advisers may also attend meetings by invitation of the Committee. The quorum is two committee members for decisions of the Committee. The Committee meets at least once in a quarter of the year and at such other times as the Committee Chairman deems required.

The Committee is empowered to examine the adequacy and effectiveness of internal control systems, assess compliance with regulatory requirements, review the statutory accounts, publish financial statements and consider the observations and recommendations contained in

independent reports submitted by the Internal and External Auditors.

The Committee reviewed the financial and non-financial information contained in the internal and external audit reports, attention is focused to facts highlighted in the Management Letter of External Auditors and followed up on the responses made thereto by the Bank management.

The Committee's main responsibility is to evaluate / justify the true and fair representation of facts and figures in the financial statements, annual report, monthly accounts, quarterly reports prepared by the Bank during the year concerned for disclosure requirements and the significant financial reporting judgments contained therein were free from any material misrepresentations.

In order to achieve this object, the Committee focused particularly on

- a) major judgmental areas
- b) significant changes in accounting policies and practices
- c) significant adjustments arising from the final audit
- d) the validity of the going concern assumption
- e) the compliance with relevant accounting standards and other legal requirements
- f) risks are being properly addressed and managed

The Committee is of the view that the internal controls and procedures are in place and improvements are being followed up to provide reasonable assurance to the Directors that the Bank's assets are safeguarded and results disclosed in the Financial Statements are free from material misrepresentations.



U. Vijitha Perera

Chairman – Audit Committee

May 03, 2012

Directors' Statement on Internal Control

RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors presents this Report on Internal Control.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the Sri Lanka Savings Bank Ltd's ('Bank') system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls 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 system taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls 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 and is in accordance with relevant accounting principles and regulatory requirements

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON 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 Division of the Bank check for compliance with

policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. Findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committees of the Bank review internal control issues identified by the respective Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 44 to 45.

- In assessing the internal control system, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.
- Comments made by the External Auditors in connection with internal control system will be dealt with in the future.

CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes 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 have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended December 31, 2011 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 system over financial reporting of the Bank.

By order of the Board,



Ariyatilake Dahanayake

Chairman



U Vijitha Perera

Chairman – Board Audit Committee

Colombo

May 03, 2012



Sanath Weeratunga

Working Director



Adrian Weerasekera

General Manager/CEO

B V FERNANDO & CO.
CHARTERED ACCOUNTANTS.

B V FERNANDO B. Com. (Cey), F.C.A.

W C FERNANDO

B.A. (Hons) Econ, B. phil. (Hons), Econ, C.I.M.A., F.C.A.

ATTORNEY-AT-LAW

ASSURANCE REPORT ON INTERNAL CONTROL

Independent Assurance Report to the Board
of Directors of
Sri Lanka Savings Bank Limited

Introduction

We were engaged by the Board of Directors of Sri Lanka Savings Bank Ltd ("Bank") to provide assurance on the Director's Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 2011.

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 the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE3050 – Assurance Report for Banks on Director's Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

We conducted our engagement to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process, the directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of company personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of Internal Control of the Bank.



Chartered Accountants
04th May 2012
Colombo



No. 70/B/8/SP, Y.M.B.A. Old Building, Borella, Colombo 08, Sri Lanka.
Tel: 011-4614017, 0777-356025 Fax: 011-4614017

B V FERNANDO & CO.
CHARTERED ACCOUNTANTS.

B V FERNANDO B. Com. (Cey), F.C.A.

W C FERNANDO

B.A. (Hons) Econ, B. phil. (Hons), Econ, C.I.M.A., F.C.A.
ATTORNEY-AT-LAW

INDEPENDENT AUDITOR'S REPORT

SRI LANKA SAVINGS BANK LTD

Report on the Financial Statements

We have audited the accompanying Financial Statements of SRI LANKA SAVINGS BANK LTD, which comprise the Balance Sheet as at 31st December 2011, Statement of Changes in Equity, Income Statement and Cash Flow Statement for the year then ended and the summary of significant policies and other explanatory notes exhibited.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31st December 2011 and the financial statements give a true and a fair view of the Bank's State of Affairs as at 31st December 2011 and its Profit and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151 (2) of the Companies Act No. 7 of 2007.



CHARTERED ACCOUNTANTS.

Colombo, 04th May 2012

Bv/t/sa



B.V. FERNANDO & CO
CHARTERED ACCOUNTANTS
COLOMBO.

SRI LANKA SAVINGS BANK LTD.
INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2011

		<u>2011</u>	<u>2010</u>
	<u>Notes</u>	<u>Rs</u>	<u>Rs</u>
INCOME	03	<u>575,692,435</u>	<u>370,715,854</u>
Interest Income	04	570,640,929	329,247,773
Less: Interest Expenses	05	<u>137,831,447</u>	<u>119,092,561</u>
Net Interest Income		432,809,482	210,155,212
Other Income	06	<u>5,051,506</u>	<u>41,468,081</u>
Operating Income		<u>437,860,988</u>	<u>251,623,293</u>
<u>Less : Operating Expenses</u>	07		
Personnel Cost		31,914,181	19,873,657
Provision for Staff Retirement Benefits		1,529,722	268,488
Premises, Equipment & Establishment Expenses		48,565,228	22,900,416
Fee & Commission Expenses		6,043,032	6,206,030
Other Overhead Expenses		<u>2,101,310</u>	<u>3,642,317</u>
		90,153,473	52,890,908
Less: Provision for Loan Losses	08	<u>(184,108,010)</u>	<u>(118,000,777)</u>
Operating Profit before Value Added Tax		531,815,524	316,733,162
Less: Value Added Tax On Financial Services		<u>34,287,991</u>	<u>22,159,712</u>
Profit Before Tax		497,527,533	294,573,450
Income Tax Expenses	09	<u>(56,777,309)</u>	<u>(17,071,707)</u>
Profit After Tax		<u>440,750,224</u>	<u>277,501,743</u>

The Accounting Policies and Note to Accounts from an integral part of these financial statements.

4th May 2012
Colombo

B.V. FERNANDO & CO
CHARTERED ACCOUNTANTS
COLOMBO.

SRI LANKA SAVINGS BANK LTD.
BALANCE SHEET AS AT 31ST DECEMBER 2011

	<u>Note</u>	<u>2011</u> <u>Rs</u>	<u>2010</u> <u>Rs</u>
<u>ASSETS</u>			
Cash and Short Term Funds	10	22,952,777	69,592,491
Government Treasury Bills, Bonds & Repo	11	1,077,232,870	2,043,037,449
Placements with and Loans - to Other Banks & Financial Institutions	12	3,166,309,929	2,463,488,994
Money Market Investments	13	588,656,399	-
Loans & Advances	14	1,350,090,357	1,237,589,540
Interest Receivable	15	139,941,199	84,777,096
Investments in Securities	16	49,724,016	49,720,027
Property, Plant & Equipment	17	125,449,532	130,812,453
Deferred Tax	18	108,274,803	108,274,802
Other Assets	19	30,980,799	10,524,611
TOTAL ASSETS		6,659,612,679	6,197,817,463
<u>LIABILITIES</u>			
Borrowings from Banks	20	29,102,927	52,018,029
Deposits From Customers	21	548,587,000	572,438,738
Borrowings	22	1,613,523,172	1,660,432,035
Other Liabilities	23	485,915,932	406,814,339
Income Tax Liability	24	13,885,657	(8,894,057)
Government Grant	25	3,320,773	3,232,415
Development Fund		196,787,012	196,787,012
Retirement Benefit Obligation	26	3,897,706	2,663,463
Debentures	27	1,300,651,500	1,296,118,900
TOTAL LIABILITIES		4,195,671,679	4,181,610,874
<u>SHAREHOLDERS' FUNDS</u>			
Stated Capital	28	458,446,600	458,446,600
Capital Pending Allotment	29	2,982,232,679	2,982,232,679
Deficit Vested from PSDB		(2,166,190,408)	(2,166,190,408)
Revaluation Reserve		7,477,405	7,477,405
Statutory Reserve Fund	30	52,176,014	29,789,292
Investment Fund	36	21,618,977	-
Profit & Loss Account		1,108,179,733	704,451,021
		2,463,941,000	2,016,206,589
TOTAL LIABILITIES & SHARE HOLDERS' FUND		6,659,612,679	6,197,817,463

These Financial Statements comply with the requirements of the Companies Act No. 07 of 2007.

... 

Snr. Mgr. Finance

The Directors are responsible for the preparation & presentation of these Financial Statements.

Signed for and on behalf of the Board of Directors

... 

Chairman

... 

Director

... 

General Manager/CEO

The Accounting Policies and Note to Accounts form an integral part of these financial statements.

4th May 2012

Colombo

B.V. FERNANDO & CO
CHARTERED ACCOUNTANTS
COLOMBO.

SRI LANKA SAVINGS BANK LTD.
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2011

	2011	2010
	<u>Rs</u>	<u>Rs</u>
Cash flows from Operating Activities		
Interest Received	515,476,826	336,486,058
Interest Paid	(62,162,923)	1,088,578
Receipts from Other Operating Activities	3,969,929	168,659,409
Cash Payments to Employees and Suppliers	(32,025,904)	(19,963,679)
Payments on Other Operating Activities	(48,594,574)	(27,555,121)
Operating Cash Flow before Changes in Operating Assets	<u>376,663,353</u>	<u>458,715,245</u>
(Increase)/Decrease in Operating Assets		
Loans and Advances	71,607,192	(1,249,002,978)
Placements and Deposits	(1,291,477,333)	(2,463,488,994)
Treasury Bills/Bonds and REPO	965,804,579	(849,453,312)
Other Assets	(20,456,188)	(7,304,319)
Operating Cash Flow Before Changes in Operating Liabilities	<u>102,141,604</u>	<u>(4,110,534,358)</u>
Increase/(Decrease) in operating Liabilities		
Deposits from SLSB Customers	49,290,163	110,032,656
Settlement of PSDB Customers	(73,141,901)	(148,834,833)
Bonds & Money Market Bills	(46,908,863)	1,280,973,483
Government Grants	1,025,000	0
Other Liabilities	7,010,852	(17,039,622)
Operating Cash Flow After Changes in Operating Assets/Liabilities	<u>39,416,855</u>	<u>(2,885,402,674)</u>
Income Tax Paid	(33,997,595)	(41,048,824)
VAT Paid	(38,049,526)	(34,415,627)
Net Cash Flow from Operating Activities	<u>(32,630,266)</u>	<u>(2,960,867,125)</u>
Cash flows from Investing Activities		
Acquisition of Property, Plant and Equipment	(2,752,077)	(47,125)
Disposal of Property, Plant and Equipment	0	2,750,000
Reversal Entry to Investments	6,984,185	0
Purchase of Securities	(3,989)	(7,419,591)
Dividend Received	144,935	98,217
Net Cash Flow From Investment Activities	<u>4,373,054</u>	<u>(4,618,499)</u>
Cash flows from Financing Activities		
Transfer of NDTF Trustees' Funds to Capital - Pending Allotment	0	2,978,379,158
Net Increase/(Decrease) in Debentures	4,532,600	0
Net Cash from/(Used in) Financing Activities	<u>4,532,600</u>	<u>2,978,379,158</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(23,724,612)	12,893,534
Cash and Cash Equivalents at the Beginning of the Year	<u>17,574,462</u>	<u>4,680,928</u>
Cash and Cash Equivalents at the End of the Year Note A	<u><u>(6,150,150)</u></u>	<u><u>17,574,462</u></u>
Analysis of Cash & Cash Equivalent		
Cash in Hand	4,187,439	743,023
Cash at Bank	18,765,338	68,849,468
Cash and Short Term Funds	22,952,777	69,592,491
Bank Overdraft	(29,102,927)	(52,018,029)
Note A	<u><u>(6,150,150)</u></u>	<u><u>17,574,462</u></u>

B.V. FERNANDO & CO
CHARTERED ACCOUNTANTS
COLOMBO.

SRI LANKA SAVINGS BANK LTD.
CHANGES OF EQUITY STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2011

	<u>Stated Capital Rs</u>	<u>Capital Pending Allotment Rs</u>	<u>Deficit Vested from PSDB Rs</u>	<u>Revaluation Reserve Rs</u>	<u>Statutory Reserve Fund Rs</u>	<u>Investment Fund 8% VAT Liabile Profit Rs</u>	<u>Revenue Reserve Rs</u>	<u>Total Equity Rs</u>
Balance as at 31-12-2009	458,446,600	-	(2,166,190,408)	7,477,405	15,914,206	-	440,824,366	(1,243,527,831)
Profit/(Loss) for the year of 2010	-	-	-	-	-	-	277,501,742	277,501,742
Transferred from NDTF Fund	-	2,982,232,679	-	-	-	-	-	2,982,232,679
Transferred to Statutory Reserve Fund	-	-	-	-	13,875,087	-	(13,875,087)	-
Balance as at 31-12-2010	<u>458,446,600</u>	<u>2,982,232,679</u>	<u>(2,166,190,408)</u>	<u>7,477,405</u>	<u>29,789,293</u>	<u>-</u>	<u>704,451,022</u>	<u>2,016,206,591</u>
Profit/(Loss) for the year of 2011	-	-	-	-	-	-	440,750,224	440,750,224
Prior year Adjustment	-	-	-	-	-	-	6,984,185	6,984,185
Transferred to investment Fund - (8% of VAT Liabile Income)	-	-	-	-	-	21,618,977	(21,618,977)	-
Transferred to Statutory Reserve Fund	-	-	-	-	22,386,720	-	(22,386,720)	-
Balance as at 31-12-2011	<u><u>458,446,600</u></u>	<u><u>2,982,232,679</u></u>	<u><u>(2,166,190,408)</u></u>	<u><u>7,477,405</u></u>	<u><u>52,176,014</u></u>	<u><u>21,618,977</u></u>	<u><u>1,108,179,733</u></u>	<u><u>2,463,941,000</u></u>

SRI LANKA SAVINGS BANK LTD
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

1 CORPORATE INFORMATION

1.1 General

Sri Lanka Savings Bank (SLSB) was incorporated on 7th July of 2006 under the Companies Act No:17 of 1982 and re-registered under the Companies Act No: 07 of 2007 on 22nd April 2008. The registered office of the Bank is now located at No. 265, Ward Place, Colombo 07. At the inception, the Assets and Liabilities of (defaulted) Pramuka Savings and Development Bank (PSDBL) were vested with the Bank.

Merger

Sri Lanka Savings Bank (SLSB) merged with the Trustee of The National Development Trust Fund & the Trustees of The National Development Trust Fund Company with effect from 30th September 2010.

1.3 Principal Activities and Nature of Operations

The Bank has commenced its commercial operations on 10th March 2008

During the year, principal activities of the Bank were settling of deposit liabilities of defaulted PSDBL, reconstruction of loan accounts of PSDBL, mobilizing savings, time deposits, granting loans and micro financing.

1.4 Number of Employees

The total number of employees stood at 54 on 31 st December 2011. (56 as at 31.12.2010)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 GENERAL ACCOUNTING POLICIES

2.1.1 Basis of Preparation

The Financial statements of the bank have been prepared under the historical cost convention and no adjustments being made for inflationary factors affecting the financial statements. The financial statements are presented in Sri Lankan Rupees. The significant accounting policies are explained in the succeeding notes.

The preparation and presentation of these financial statements is in compliance with the requirements of the Companies Act No.07 of 2007, Banking Act No.30 of 1988 and amendments thereto.

2.1.2 Statement of Compliance

The Balance Sheet, Income Statement, Changes in Equity and Cash Flow are prepared in conformity with Generally Accepted Accounting Policies (GAAPs), format of accounts prescribed by Central Bank of Sri Lanka (CBSL) and the Sri Lanka Accounting Standards (SLASs) laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL), applied consistently and therefore the financial statements present fairly the Financial Position, Financial Performance and Cash Flow of the Bank.

2.1.3 Significant Accounting Judgments and Estimates

In the process of applying the Bank's Accounting Principles, Management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognized in the financial statements. Further, the management is required to consider, key assumptions concerning the future and the other key resources of estimation of uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. The respective carrying amount of assets and liabilities are given in the related notes to the financial statements. The key items which involve these judgments, estimates and assumptions are discussed below.

2.1.4 Comparative Information

The Accounting Policies have been consistently applied by the Bank and are consistent with those of the previous years. The previous year's figures and phases have rearranged wherever necessary to conform current year's presentation.

SRI LANKA SAVINGS BANK LTD
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2.1.5 Impairment Losses on Loans and Advances

Specific provisions for possible loan losses are based on a continuous review of all advances, in accordance with the direction issued by the Central Bank of Sri Lanka. A specific provision of 100% on non performing advance balance has been made except for loans and advances provided against deposits and other investments as at the date of acquisition.

2.1.6 Taxation

Current Taxation

Provision for the income tax is based on the basis the profit reported in the financial statements and adjusted for the taxation purpose in terms of the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto.

2.2 ASSETS AND BASES OF THEIR VALUATION

2.2.1 Investments

a) Investments in Treasury Bills held to maturity

Investments in Treasury Bills held to maturity are stated at cost.

b) Investments in Treasury Bonds held to maturity

Investments in Treasury Bonds held to maturity are stated at cost.

Interest income received which was included in the price paid for the investments are recognized as recovery of cost of such investments.

c) Investments in Securities

Investment Securities are held for yield or capital growth in the medium to long term. These include investment Quoted shares, Unquoted shares, Debt instruments. Changes in market value of these securities are not taken in to account unless there seems to be a permanent diminution in value.

Provision has been made for unquoted shares and Debt Instruments at 100%, except for CRIB.

Quoted shares are measured at cost less impairment losses.

d) Money Market Investments

Money Market Investments are stated at cost less provision for impairment. A provision of 100% has been made at the date of acquisition.

SRI LANKA SAVINGS BANK LTD
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2.2.2 Advances to Customers

Advances to Customers are stated in the balance sheet net of provision for possible loan losses.

2.2.3 Cash and Cash Equivalents

Cash and cash equivalents include cash balance in hand and with the banks, cash in transit and short term funds.

2.2.4 Property, Plant & Equipment

a) Cost

Property, plant & equipment is recorded at cost less accumulated depreciation and less any impairment in value.

Cost and Valuation

All items of property, plant and equipment are initially recorded at cost. Where items of property, plant & equipment are subsequently revalued, the entire class of such assets are revalued.

When an asset is revalued any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset which was previously recognized as an expense. In these circumstances the increase is recognized as income to the extent of the previous written down value. When asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of the same asset, any balance remaining in the revaluation surplus in respect of an asset is transferred directly to accumulated profit or loss on retirement or disposal of the asset.

b) Depreciation

Provision for depreciation is calculated by using straight line method on the cost of all property, plant & equipment other than land & buildings in order to write off such amounts over the estimated useful lives of such assets.

The principle annual rates currently used are as follows.

Office Equipment	20%
Furniture & Fittings	20%
Computers	25%
Telephone Equipment	20%
Motor Vehicles	20%
Investment Properties (Buildings)	5%

c) De-recognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount.

SRI LANKA SAVINGS BANK LTD

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

2.3 LIABILITIES AND PROVISIONS**2.3.1 Provisions**

Provisions are recognized when the bank has a present obligation (legal and constructive) as a result of a past event, where 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.

2.3.2 Defined Benefit Plans**a) Gratuity**

Provision has been made for retirement gratuities in accordance with Sri Lanka Accounting Standard (LKAS No:26).

b) Pension Fund

All Permanent Employees are eligible for Pension Fund contribution. The bank and employees contribute 5% and 10% of gross emoluments of employees to the Pension Fund respectively.

2.3.3 Defined Contribution Plan**a) Employee Provident Fund**

Employees are eligible for Employees' Provident Fund contribution in line with respective statutes and regulations. The bank and employees contribute 12%, and 8% of gross emoluments of employees to the Employees' Provident Fund respectively.

b) Employee Trust Fund

Employees are eligible for Employees' Trust Fund contributions in line with respective statutes and regulations. The bank contributes 3% of gross emoluments to the Employees' Trust Fund.

2.3.4 Taxation**a) Current Taxes**

Current Income tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the Commissioner General Of Inland Revenue.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No: 10 of 2006

b) Deferred Taxation

Deferred income tax is provided in full using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

2.3.5 Government Grants and Subsidies

Grants related to tangible assets, including non monetary grant at fair value, are defined in the balance sheet and credited to the income statement over the useful life of the related asset.

2.4 INCOME STATEMENT**2.4.1 Revenue Recognition****a) Interest Income**

In terms of the provisions of the Sri Lanka Accounting Standard (LKAS - No: 18) on Revenue recognition and disclosures in the financial statements of banks the interest receivable is recognized on accrual basis. Interest ceases to be taken in to revenue when the recovery of interest and / or principle is in arrears for over three months.

b) Investment Income

Interest Income is recognized in respect of Treasury Bills, Treasury Bonds and Fixed Deposits on accrual basis. Capital gains & Capital Losses arising on purchase of Treasury Bonds at discount or premium recognized over period of the investment & present separately in the Income Statement.

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c) **Dividend Income**

Dividend Income from shares is recognized on the cash basis.

d) **Fees and Commission Income**

The bank recognizes fees and Commission income from a diverse range of services it provides to its customers on a cash basis.

2.4.2 **Expenses and Provisions**

a) **Interest & Other Expenses**

In terms of provisions of the Sri Lanka Accounting Standard (LKAS - No:18) on Revenue Recognition and Disclosure in the Financial Statements of Bank, interest payable and all other expenses are recognized on accrual basis in the income statements.

2.5 **OFF BALANCE SHEET AND INCOME STATEMENTS ITEMS**

2.5.1 **Events Occurring after the Balance Sheet**

All material events occurring after the balance sheet date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the accounts.

2.5.2 **Contingencies and Unrecognized Contractual Commitments**

Contingencies are possible assets or obligations that arise from past events and would be confirmed only the occurrence or non occurrence of uncertain future events, which are beyond the bank's control.

2.6 **CASH FLOW STATEMENT**

Cash Flow Statements has been prepared using direct method of preparing cash flows in accordance with Sri Lanka Accounting Standards (LKAS No. 07) on Cash Flow Statements. Cash & Cash Equivalents comprise mainly of cash and bank balances.

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NOTE 03	2011	2010
INCOME	Rs	Rs
Interest Income	570,640,929	329,247,773
Other Income	5,051,506	41,468,081
	<u>575,692,435</u>	<u>370,715,854</u>

NOTE 04

INTEREST INCOME

Treasury Bills	3,196,237	44,825,840
Treasury Bonds	61,176,511	114,724,354
REPO - Investments	87,101,074	60,954,565
Interest Income on Term Loans	53,720,710	57,846,182
Interest Income on SLSB Loans	160,607	100,142
Interest Income - Micro Finance	1,416	20,842,721
Interest Income on Loans Against PSDB Deposits	1,123,209	46,304
Interest Income - Call Placement	2,391,493	684,945
Interest Income - Term Placement	277,760,962	29,222,720
Interest Income - Securitized Papers	5,100,833	-
Interest Income - Commercial Papers	7,356,924	-
Interest Income on Loans to POS	71,326,918	-
Interest Income on Door to Door Loans	74,033	-
Interest Income on Staff Loans	1,647	-
Interest Income on MFD Loans	148,356	-
	<u>570,640,929</u>	<u>329,247,773</u>

NOTE 05

INTEREST EXPENSES

Interest Expenses - Savings	3,483,411	2,708,429
Interest Expenses - Fixed Deposits	5,222,631	5,774,214
Interest Paid to GOSL Borrowings - Micro Finance	248,438	841,464
Interest Expenses - Investors (PSDB)	10,465,817	12,930,645
Interest Expenses - Debenture Maturity (PSDB)	65,013,327	65,140,648
Insurance Premium - Door to Door Savings	-	13,957
Interest Expenses - PSDB Depositors	17,769,294	19,745,776
Interest Expense - Borrowings	31,780,494	8,024,146
Financial Cost - Divisevana Regular Deposits	-	8,521
Financial Cost - Divisevana Deposit Certificates	(7,419)	17,576
Interest Paid - Treasury Bond Backed Deposits	3,855,453	3,887,185
	<u>137,831,447</u>	<u>119,092,561</u>

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NOTE 06	2011	2010
OTHER INCOME	Rs	Rs
Profit on Disposal of Assets	0	771,936
Profit on Sale of Shares	0	8,588,434
Government Grants	936,643	936,830
Commission A/C of Savings	3,564	2,613
Lease Income on Land	0	120,000
Dividend Income	144,935	98,218
Income - Nuwara Eliya Bungalow	65,500	157,250
Adjustment for face value of Money Market Bills & CDS (PSDB)	0	29,777,358
Income From Bus Hire	207,160	297,726
Unclaimed Credits	0	10,000
Sundry Income	34,573	557,752
Loans Written Back	0	149,964
Legal Charges Recovered	38,335	0
Other Income - NDTF Co.	28,004	0
Documentation Charges	47,400	0
Commission on Bills Purchased	113	0
Provision Recovered for Other Receivables	836,634	0
Recovery of written off Loans - Micro Finance	2,708,646	0
	<u>5,051,506</u>	<u>41,468,081</u>

NOTE 07

OPERATING EXPENSES

Operating Expenses are after charging all expenses including the following

Chairman/Directors' Remuneration	2,421,600	951,500
Depreciation	8,114,997	1,805,048
Auditors' Remuneration	103,688	268,795
Advertising	516,128	2,058,307
Business Promotion Expenses	1,066,405	0
Staff Salaries	19,911,207	14,121,105
Employer's Contribution to E P F	2,356,647	1,686,488
Employer's Contribution to E T F	547,024	373,483
Legal Fees	3,867,342	5,757,596
	<u>3,867,342</u>	<u>5,757,596</u>

NOTE 08

PROVISION FOR LOAN LOSS

Provision for Loan Losses - Micro Finance	1,022,656	11,992,906
Reversal of Loan Loss Provision due to Recoveries - PSDB	(185,130,666)	(129,993,683)
	<u>(184,108,010)</u>	<u>(118,000,777)</u>

NOTE 09

INCOME TAX EXPENSES

Current Income Tax Charge	56,777,309	24,755,929
Current Income Tax Charge/(Reversal)	-	12,887,368
Reversal of Income Tax Over Provision	-	(20,571,590)
	<u>56,777,309</u>	<u>17,071,707</u>

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NOTE 10	2011	2010
CASH & SHORT TERM FUNDS	Rs	Rs
Cash In Hand	4,187,439	743,023
Cash at Bank	18,765,338	68,849,468
	<u>22,952,777</u>	<u>69,592,491</u>
NOTE 11		
GOVERNMENT TREASURY BILLS, BONDS & REPO		
Government Treasury Bills	-	160,969,750
Government Treasury Bonds	702,640,313	649,679,763
Treasury Bills Under Repurchase Agreements (REPO)	374,592,557	1,232,387,936
	<u>1,077,232,870</u>	<u>2,043,037,449</u>
NOTE 12		
PLACEMENTS WITH & LOANS TO OTHER BANKS AND FINANCIAL INSTITUTIONS		
People's Bank	1,253,768,581	998,506,526
Bank of Ceylon	827,309,714	767,006,832
National Savings Bank	852,652,549	697,975,636
Rural Development Bank	232,579,084	0
Deposit with Habib Bank	78,400,000	78,400,000
	<u>3,244,709,929</u>	<u>2,541,888,994</u>
Less : Provision for Deposit Habib Bank	78,400,000	78,400,000
	<u>3,166,309,929</u>	<u>2,463,488,994</u>
NOTE 13		
MONEY MARKET INVESTMENTS		
Commercial Papers - People's Leasing Co. Ltd	588,656,399	0
Vanik Incorporation Ltd.	57,194,500	57,194,500
Forbes	30,000,000	30,000,000
	<u>675,850,899</u>	<u>87,194,500</u>
Less : Provision for Investments	87,194,500	87,194,500
	<u>588,656,399</u>	<u>0</u>
NOTE 14		
LOANS AND ADVANCES		
PSDB	NOTE - 14.1	115,218,813
SLSB	NOTE - 14.2	23,750,494
Micro Finance Loans	NOTE - 14.3	21,716,838
		<u>1,213,154,706</u>
		<u>1,350,090,357</u>
NOTE - 14.1		
PSDB		
Loans and Advances	1,203,191,464	1,248,926,897
Loan Receivable - Staff Ledger	7,186,398	8,151,408
Rescheduled Loans	143,208,774	142,975,706
Performing Loans	115,295,172	23,826,853
	<u>1,468,881,808</u>	<u>1,423,880,864</u>
Less :		
Provision for Loan Losses		
Specific Provision	1,353,448,553	1,399,915,928
General Provision	214,442	214,442
	<u>1,353,662,995</u>	<u>1,400,130,370</u>
	<u>115,218,813</u>	<u>23,750,494</u>

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NOTE - 14.2	2011	2010
<u>SLSB</u>	<u>Rs</u>	<u>Rs</u>
Loans Against Deposit Balances	928,121	9,534,303
Staff Loans	283,001	508,333
Special Loans - Staff	764,858	0
Loans - Door to Door	2,851,485	0
Micro Finance Development Loans	15,639,373	0
Personal Loan - Public & Private Employment	1,250,000	0
	<u>21,716,838</u>	<u>10,042,636</u>

NOTE - 14.3

MICRO FINANCE LOANS

Micro Finance Loans - Performing	1,190,172,604	1,202,182,182
Micro Finance Loans - Non-Performing	55,143,665	32,322,436
Other Loans	0	430,699
	<u>1,245,316,269</u>	<u>1,234,935,317</u>
Less : Provision for Loan Losses		
Specific Provision	26,117,237	20,210,258
General Provision	6,044,327	10,928,649
	<u>32,161,564</u>	<u>31,138,907</u>
	<u>1,213,154,706</u>	<u>1,203,796,410</u>

NOTE 15

INTEREST RECEIVABLE

Government Treasury Bonds	11,119,437	24,385,040
Government Treasury Bills	0	1,804,090
REPOs	8,507,451	14,379,717
Commercial Papers	12,358,425	0
Loans & Advances	375,538	18,492,228
Term Placement	107,580,347	25,716,021
	<u>139,941,199</u>	<u>84,777,096</u>

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NOTES 16

INVESTMENT IN SECURITIES	No. of Shares	Cost	Market		2011	2010
			Value	Date	Rs	Rs
<u>Quoted Shares</u>						
National Development Bank	13800	70.36	133	31-12-2011	970,956	970,956
Commercial Bank	192	37.16	100	31-12-2011	7,135	6,045
Lanka Orix Leasing Co. Ltd	200	4.28	81	31-12-2011	855	855
Sampath Bank	2731	30.47	195	31-12-2011	83,221	80,322
Vanik Incorporation Ltd.	17000	10.36	-	31-12-2011	176,184	176,184
Watawala Plantation	4000	5.07	14	31-12-2011	20,288	20,288
Lanka Ceramic Ltd.	5000	25.67	85	16-12-2011	128,334	128,334
Trans Asia Hotel Ltd	4000	8.75	80	29-12-2011	34,983	34,983
Kelani Valley Plantation Ltd.	5500	36.02	90	31-12-2011	198,121	198,121
Hapugastenna Plantation Ltd	100	26.66	39	28-12-2011	2,666	2,666
Aitken Spence & Co. Ltd	18000	8.91	69	31-12-2011	160,364	160,364
Pan Asia Banking Corporation Ltd.	6865666	6.98	25	31-12-2011	47,952,793	47,952,793
					<u>49,735,900</u>	<u>49,731,911</u>
<u>Provision for Fall in Value</u>						
Vanik Incorporation Ltd.		17,000	10	0	(176,184)	(176,184)
					<u>(176,184)</u>	<u>(176,184)</u>
					<u>49,559,716</u>	<u>49,555,727</u>
<u>Unquoted Shares</u>						
Pramuka Merchant Corporation		500,000	10		5,000,000	5,000,000
Prime Development & Construction		230,000	10		2,300,000	2,300,000
Janashakthi Life		2,500,000	10		25,000,000	25,000,000
Janashakthi Holding		1,000,000	10		10,000,000	10,000,000
CRIB Shares		1,643	100		164,300	164,300
					<u>42,464,300</u>	<u>42,464,300</u>
Less : Provision for Fall in Value					<u>42,300,000</u>	<u>42,300,000</u>
					<u>164,300</u>	<u>164,300</u>
<u>Debentures</u>						
23% Paradise Metal Crushers (Pvt) Ltd					6,000,000	6,000,000
7% Savemore Investments (Pvt) Ltd					75,000,000	75,000,000
					<u>81,000,000</u>	<u>81,000,000</u>
Less : Provision for Fall in Value					<u>81,000,000</u>	<u>81,000,000</u>
					<u>49,724,016</u>	<u>49,720,027</u>
Balance as at end of the year					<u>49,724,016</u>	<u>49,720,027</u>

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NOTE 17

PROPERTY, PLANT & EQUIPMENT

<u>Description</u>	<u>Balance as at</u> <u>01.01.2011</u>	<u>Adjustment to</u> <u>01.01.2011</u>	<u>Adjusted Balance</u> <u>01.01.2011</u>	<u>Acquisitions</u>	<u>Balance as at</u> <u>31.12.2011</u>	<u>Balance as at</u> <u>31.12.2010</u>
	<u>Rs</u>	<u>Rs</u>	<u>Rs</u>	<u>Rs</u>	<u>Rs</u>	<u>Rs</u>
AT COST						
Land & Buildings	120,572,000	(21,067,000)	99,505,000	387,000	99,892,000	120,572,000
Investment Property (Lands)	4,659,936		4,659,936		4,659,936	4,659,936
Investment Property (Buildings)	1,900,000		1,900,000		1,900,000	1,900,000
Motor Vehicles	5,394,171	18,532,096	23,926,267		23,926,267	5,394,171
Computers	6,451,862	1,152,717	7,604,579	18,000	7,622,579	6,451,863
Office Equipment	2,645,821	4,045,384	6,691,205	229,530	6,920,735	2,645,821
Telephone Equipment	248,299		248,299	3,800	252,099	248,299
Furniture & Fittings	3,069,194	(100,649)	2,968,545	2,113,747	5,082,291	3,069,194
	<u>144,941,283</u>	<u>2,562,548</u>	<u>147,503,830</u>	<u>2,752,077</u>	<u>150,255,907</u>	<u>144,941,284</u>
AT VALUATION						
Motor Vehicles	11,715,000				11,715,000	11,715,000
Computers	257,450				257,450	257,450
Office Equipment	298,300				298,300	298,300
Furniture & Fittings	1,228,200				1,228,200	1,228,200
	<u>13,498,950</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,498,950</u>	<u>13,498,950</u>
Total Value	<u>158,440,233</u>			<u>2,752,077</u>	<u>163,754,857</u>	<u>158,440,234</u>

<u>Description</u>	<u>Balance as at</u> <u>01.01.2011</u>	<u>Adjustment to</u> <u>01.01.2011</u>	<u>Adjusted Balance</u> <u>01.01.2011</u>	<u>Charge</u> <u>for the year</u>	<u>Balance as at</u> <u>31.12.2011</u>	<u>Balance as at</u> <u>31.12.2010</u>
LESS : DEPRECIATION						
Land & Buildings	21,067,000	(21,067,000)	-	-	-	21,067,000
Investment Property (Lands)	-		-	-	-	-
Investment Property (Buildings)	190,000		190,000	95,000	285,000	190,000
Motor Vehicles	846,118	18,532,096	19,378,214	4,048,432	23,426,646	846,117
Computers	2,214,437	1,233,178	3,447,615	1,967,699	5,415,314	2,214,437
Office Equipment	884,983	3,191,954	4,076,937	970,392	5,047,329	884,983
Telephone Equipment	137,718		137,718	49,850	187,568	137,719
Furniture & Fittings	1,700,557	672,321	2,372,878	983,623	3,356,500	1,700,557
	<u>27,040,813</u>	<u>2,562,548</u>	<u>29,603,361</u>	<u>8,114,996</u>	<u>37,718,357</u>	<u>27,040,813</u>
Motor Vehicles	-		-	-	-	-
Computers	103,501		103,501	-	103,501	103,501
Office Equipment	94,537		94,537	-	94,537	94,537
Furniture & Fittings	388,930		388,930	-	388,930	388,930
	<u>586,968</u>	<u>-</u>	<u>586,968</u>	<u>-</u>	<u>586,968</u>	<u>586,968</u>
Total Depreciation	<u>27,627,781</u>	<u>2,562,548</u>	<u>30,190,329</u>	<u>8,114,996</u>	<u>38,305,325</u>	<u>27,627,781</u>

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NOTE 17 (Contd.)

PROPERTY, PLANT & EQUIPMENT

Description	Balance as at	Adjustment to	Adjusted Balance	Balance as at	Balance as at
	01.01.2011	01.01.2011	01.01.2011	31.12.2011	31.12.2010
NET BOOK VALUE	Rs	Rs	Rs	Rs	Rs
Land & Buildings	99,505,000	-	99,505,000	99,892,000	99,505,000
Investment Property (Lands)	4,659,936	-	4,659,936	4,659,936	4,659,936
Investment Property (Buildings)	1,710,000	-	1,710,000	1,615,000	1,710,000
Motor Vehicles	4,548,053	0	4,548,053	499,620	4,548,054
Computers	4,237,425	(80,461)	4,156,964	2,207,265	4,237,426
Office Equipment	1,760,838	853,430	2,614,268	1,873,406	1,760,838
Telephone Equipment	110,580	-	110,580	64,531	110,580
Furniture & Fittings	1,368,637	(772,970)	595,667	1,725,791	1,368,637
	<u>117,900,469</u>	<u>(0)</u>	<u>117,900,469</u>	<u>112,537,550</u>	<u>117,900,471</u>
Motor Vehicles	11,715,000		11,715,000	11,715,000	11,715,000
Computers	153,949		153,949	153,949	153,949
Office Equipment	203,763		203,763	203,763	203,763
Furniture & Fittings	839,270		839,270	839,270	839,270
	<u>12,911,982</u>	<u>-</u>	<u>12,911,982</u>	<u>12,911,982</u>	<u>12,911,982</u>
	<u>130,812,451</u>	<u>(0)</u>	<u>130,812,451</u>	<u>125,449,532</u>	<u>130,812,453</u>

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NOTE 18	2011	2010
DIFFERED TAX ASSET	Rs	Rs
Opening Balance	108,274,803	121,162,170
Deferred Tax (Provision) /Reversal for the year	-	(12,887,368)
Balance as at year end	<u>108,274,803</u>	<u>108,274,802</u>

NOTE 19

OTHER ASSETS

Vested from PSDB	NOTE -19.1	0	0
SLSB	NOTE -19.2	30,883,233	10,320,989
Micro Finance	NOTE -19.3	97,566	203,622
		<u>30,980,799</u>	<u>10,524,611</u>

NOTE -19.1

VESTED FROM PSDB

Sundry Debtors	2,196,000	2,196,000
Receivable Deposits	12,532,500	12,532,500
Advance Payments	12,411,000	12,411,000
Advance Payments -MED	5,567,000	5,567,000
Rent Paid in Advance	2,264,000	2,264,000
Advance Payments - Admin	19,000	19,000
Expenditure Pending Settlements	1,836,000	1,836,000
Rec.Exp O/A Property	393,000	393,000
Discount Paid in Advance	19,037,008	19,873,642
Due from Head Office	12,311,000	12,311,000
Differed Expenditure	6,107,000	6,107,000
Others	4,553,000	4,553,000
	<u>79,226,508</u>	<u>80,063,142</u>
Less : Provision	79,226,508	80,063,142
	<u>0</u>	<u>0</u>

NOTE -19.2

SLSB

Advance H/O & PSDB Pending Settlement	222,838	0
Receivable from Subscribers	0	700
Stock - Operation/General	1,226,532	944,489
Staff Receivables	(51,965)	30,800
Advance on Rent	8,740,000	9,187,500
Refundable Deposits	379,500	37,500
Festival Advance	60,500	80,000
Others	0	40,000
Advance- Fixed Assets	210,000	0
Bank Opening Expenses	12,650,112	0
Sundry Debtors	88,359	0
Receivable - Insurance Claim	13,450	0
Other income receivable N/E Cultivation	40,000	0
Funds Deposited on behalf of PSDB L/T Case	7,098,200	0
Inter Branch Accounts	205,708	0
	<u>30,883,233</u>	<u>10,320,989</u>

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NOTE -19.3**Micro Finance**

	2011	2010
	Rs	Rs
Advance Payments	97,416	97,416
Savings Deposits (Staff Security)	150	106,206
	<u>97,566</u>	<u>203,622</u>

NOTE 20**CURRENT ACCOUNTS - MICRO FINANCE**

Bank Overdraft	29,102,927	52,018,029
	<u>29,102,927</u>	<u>52,018,029</u>

NOTE 21**DEPOSITS FROM CUSTOMERS**

Savings Deposits	68,846,199	53,549,965
Shakthi Deposit Certificates	34,300	32,800
Divisevana - Deposit Certificates	129,000	223,000
Fixed Deposits	63,673,680	45,759,783
PSDB Deposits	299,298,420	372,440,321
FDMN Control - Senior Citizen	5,037,959	2,916,717
FDMT Control - Senior Citizen	9,596,174	6,714,265
Deposit Certificates - Shakthi Dual	0	8,000
Treasury Bond Backed Deposits	38,850,226	50,031,424
Treasury Bond Backed Deposit Certificates	0	24,816,463
Ashcharyaye Arunalu Savings Certificates	15,834,220	15,946,000
Fixed Deposits - Maturity(Co-op)	47,197,258	0
Dormant Savings	8,315	0
Unclaimed Balances - Others	76,793	0
Unclaimed Balances - Minor	4,455	0
	<u>548,587,000</u>	<u>572,438,738</u>

NOTE 22**BORROWINGS**

Money Market Bills	187,828,853	221,316,716
GOSL Borrowings	1,425,694,319	1,439,115,319
	<u>1,613,523,172</u>	<u>1,660,432,035</u>

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SRI LANKA SAVINGS BANK LTD
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 23	2011	2010
OTHER LIABILITIES	<u>Rs</u>	<u>Rs</u>
Expense Creditors	8,725,293	5,120,331
VAT Payable on Financial Services	56,606,703	60,368,237
Unidentified Deposits	308,150	308,150
Interest Payable -SLSB Deposits	5,149,895	6,550,511
Interest Payable -PSDB Deposits	157,879,256	140,109,961
Interest Payable - Investors (PSDB)	29,572,199	19,149,082
Interest Payable - Debentures (PSDB)	134,658,971	69,645,644
Insurance Premium Collection A/c	16,277	16,912
Interest Payable -GOSL & ADB Loans	0	21,845,276
Excess Recovery Payable - Vested from PSDB	124,387	123,387
Suspense Loan Creditors - Vested from PSDB	7,607,580	7,738,615
Liabilities : Others - Vested from PSDB	31,642,176	31,642,176
Margin Accounts - Vested from PSDB	2,788,000	2,788,000
Suspense Customers-Vested from PSDB	6,055,000	6,055,000
Suspense A/c Clearing Vested from PSDB	14,088,000	14,088,000
Gratuity Payable - Vested from PSDB	4,548,000	4,545,900
Suspense Creditors	192,577	19,023
Suspense A/C Clearing	1,964,964	59,200
Capital & Interest Received Against Loan Settlement	0	13,116,117
Unclaimed Balances - Minor	0	4,455
ADB Grant - MOCS - Micro Finance	0	3,024,736
Ww/Op Contribution Collected From Employees	597,335	279,748
Unclaimed Balances - Others	0	55,693
Staff Security Fund	47,000	79,360
Insurance Reserved Fund	38,775	30,825
Refundable Deposit on Lease on Land	0	50,000
Interest Payable - Borrowings	5,223,047	0
Interest Payable - Bonus	485,631	0
Payable Tax Consultant	40,000	0
Margin Accounts - Loan	10,193,571	0
Suspense A/C Debtors	(1,500)	0
Refundable Deposit -Others	3,000	0
Provision For PSDB L/T Case	7,098,200	0
Staff Critical Illness Fund	58,800	0
Margin A/C - Undisbursed Loans	175,000	0
Payable - Crib Charge MFD	14,677	0
Financial Payable Cost - Divisevana Regular Deposits	(4,672)	0
Financial Payable Cost - Shakthi Deposit Certificates	(5,059)	0
Financial Payable Cost - Divisevana Deposit Certificates	24,135	0
Financial Payable Cost - Shakthi Dual	563	0
	<u>485,915,932</u>	<u>406,814,339</u>

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NOTE 24	2011	2010
INCOME TAX LIABILITY	<u>Rs</u>	<u>Rs</u>
Opening Balance	(8,894,058)	27,970,428
Income Tax Paid for Previous Year	0	(10,117,075)
SRL Tax Paid for Previous Year	(183,151)	(575,037)
ESC Paid for the Previous Year	0	(5,241,584)
Reversal of Income Tax Over Provision	0	(20,571,590)
	<u>(7,076,555)</u>	<u>(8,534,858)</u>
Income Tax Provision for the year	56,777,309	24,390,078
SRL Provision for the year	0	365,851
	<u>49,700,754</u>	<u>16,221,071</u>
Notional Tax Credit	(15,147,382)	(23,310,470)
ESC Paid for the Year	(5,075,589)	(911,609)
Income Tax Paid for the Year	0	(710,349)
Withholding Tax on Interest Income	(13,591,471)	0
SRL Paid for the Year	0	(182,700)
Balance as at Year End	<u>13,885,657</u>	<u>0 (8,894,057)</u>
NOTE 25		
GOVERNMENT GRANT		
Opening Balance	3,232,415	4,169,245
Grant Received During the Year	1,025,000	0
Grant Recognized as a income During The Year	(936,643)	(936,830)
Balance as at Year End	<u>3,320,773</u>	<u>3,232,415</u>
NOTE 26		
RETIREMENT BENEFIT OBLIGATION		
Gratuity Provision	NOTE -26.1 2,132,302	1,543,547
Pension Fund	NOTE -26.2 1,765,404	1,119,916
	<u>3,897,706</u>	<u>2,663,463</u>
NOTE - 26.1		
<u>Gratuity Provision</u>		
Balance as at Beginning of the year	1,543,546	8,231
Transferred from - Micro Finance	0	1,936,521
Charge for the year	0	40,486
Interest for the year	0	19,617
Deficit/(Surplus) charge for the year	884,234	(371,286)
	<u>0</u>	<u>1,633,569</u>
Payments	(295,478)	(90,022)
Balance as at Year End	<u>2,132,302</u>	<u>1,543,547</u>
NOTE - 26.2		
<u>Pension Fund</u>		
Balance as at Beginning of the year	1,119,916	540,246
Charge for the year	645,488	579,670
Balance as at Year End	<u>1,765,404</u>	<u>1,119,916</u>

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NOTE 27
DEBENTURE ALLOTMENT

In terms of the advertisement published in the News Papers on 03rd December 2007 by the Central Bank of Sri Lanka, Liabilities to Corporate and Institutional Investors / Depositors whose balances are more than Rs. 100,000/- is to be converted to Unsecured and Subordinate Debentures with a maturity period of 10 years, with a rate of interest of five (5) percent per annum or one year Treasury Bill yield rate, whichever is less, to be accrued annually.

NOTE 28	2011	2010
STATED CAPITAL	<u>Rs</u>	<u>Rs</u>
07 Ordinary Shares @ Rs.100/- Subscriber Shares	700	700
4,584,459 Ordinary Shares @ Rs.100/- Transferred from	458,445,900	458,445,900
State Deposits placed with PSDB	<u>458,446,600</u>	<u>458,446,600</u>

NOTE 29
CAPITAL PENDING ALLOTMENT

The Capital Pending Allotment A/C represents the amounts of shares to be issued to the Treasury 'Government of Sri Lanka'.

NOTE 30
STATUTORY RESERVE FUND

The Statutory Reserve Fund was created in terms of Section 20 (1) of Banking Act No. 30 of 1988 and Section 76j(1) of Banking Act No.33 of 1995 (Amendment) transferring five percent of yearly profits after tax but before any dividend has been appropriated

NOTE 31
EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances which would require any adjustment or disclosure to the accounts have arisen since the Balance Sheet date.

NOTE 32
DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

The Chairman of the Bank is also a Director of the following entities

Name of the Director	Name of the Company	Relationship
Mr.Ariyatilake Dahanayake	Co-Operative Insurance Limited	Director of the Company
Mr.Ariyatilake Dahanayake	Beliatta MPCs Ltd	Chairman of the Company

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 33
RELATED PARTY TRANSACTIONS

(A) The Bank has carried on following business transactions with Co -Operative Insurance Ltd during the period under review.

Name of the Company	Nature of Transactions	Value - Rs.
Co-Operative Insurance Limited	Insurance Contracts	812,320.19
Beliatta MPCs Ltd	Purchase of Stationery	576,252.50

NOTE 34
COMMITMENTS & CONTINGENCIES

34.1 Commitments

There were no commitments existing as at the balance sheet date.

34.2 Contingent Liabilities

Litigation against the Bank

34.2.1 In the normal course of business, the bank is involved in various types of litigation including litigation with former borrowers of PSDB who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defenses. There are certain number of Labor Tribunal applications by former employees of PSDB, in which applicants seek to add the bank as a respondent. A claim of Rs.25,943,940/- made against the bank by a Director during the year under review. However, as per the opinion of the Bank, based on its assessments and consultation with outside counsel, no material impact of litigation which is pending against the bank on its financial condition or future operation.

NOTE 35
CONTRIBUTION TO DEPOSIT INSURANCE

As the Central Bank circular the bank has made the appropriate provision for Deposit Insurance for the the Year 2011 and paid subsequently.

NOTE 36
8% of INVESTMENT FUND (VAT)

As per the Central Bank guidelines under the cover of the letter No. 02/17/800/0014/01 dated 29th April 2011, business liable to pay Value Added Tax on financial services is required to deposit an amount equal to 8% of the value addition (profits) computed for financial VAT purposes in an Investment Account.

SRI LANKA SAVINGS BANK LIMITED**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN THAT THE FIFTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE SRI LANKA SAVINGS BANK LIMITED WILL BE HELD ON 25th, JUNE 2012 (MONDAY) AT 11.00.A.M. AT NO: 265, WARD PLACE, COLOMBO 7.

AGENDA

1. To receive and to consider the Report of the Directors, Statement of Accounts and the Balance sheet of the Company for the year ended 31st December 2011 and the Report of the Auditors thereon.
2. To reappoint Messrs. BV Fernando & Company as Auditors for the year ended 31st December 2012 and to ratify the authority given to the Board of Directors to determine their remuneration.

By Order of the Board

Y.M.J. Fernando

Company Secretary

Colombo

06th June 2012.

- Notes:*
1. A Member who is unable to attend the Meeting is entitled to appoint a proxy to attend and vote in his or her place
 2. A proxy need not be a member of the Company
 3. A proxy may not speak at the meeting unless expressly authorized by the instrument appointing him
 4. A Form of Proxy accompanies this Notice
 5. The completed Form of Proxy and the Power of Attorney if any, by which it is signed should be deposited at the Registered Office of the Company No: 265, Ward Place, Colombo 7 not later than 24 hours before the time appointed for the commencement of the Meeting.

Form of Proxy**SRI LANKA SAVINGS BANK LIMITED**

I/We.....

(NIC No.).....

of.....

being a Member/s* of the Company hereby appoint :

Mr. Ariyatilake Dahanayake	of Colombo or failing him
Mr. Palitha Gamage	of Colombo or failing him
Mr. Thilak Wannigama	of Colombo or failing him
Mr. U.D.Sumith Parakrama Perera	of Colombo or failing him
Mr. K.Ratnaweera	of Colombo or failing him
Mr.Sanath Weeratunga	of Colombo or failing him
Mr. U.Vijitha Perera	of Colombo or failing him

.....of
as my /our proxy to
 represent me/us and vote for me/us on my/our behalf at the Annual General Meeting of the
 Company to be held on the Twenty-fifth day of June 2012.

and at any adjournment thereof. Signed this Sixth day of June 2012

	For	Against
(1) The Ordinary Resolution numbered 1 set out in the Notice convening the aforesaid meeting	<input type="checkbox"/>	<input type="checkbox"/>
(2) The Ordinary Resolution numbered 2 set out in the Notice convening the aforesaid meeting	<input type="checkbox"/>	<input type="checkbox"/>

.....
Signature

In witness my/or* hands thisday ofTwo Thousand and Twelve.

- Notes**
1. Please delete the inappropriate words
 2. Instructions as to completion are given overleaf

INSTRUCTIONS AS TO COMPLETION

- i) A shareholder may exercise the right to vote either by being present in person or by proxy.
- ii) A proxy for a shareholder is entitled to attend and be heard at a meeting of shareholders as if the proxy were the shareholder.
- iii) A proxy must be appointed by notice in writing signed by the shareholder. The notice must state whether the appointment is for a particular Meeting, or for a specified term.
- iv) No proxy is effective in relation to a meeting, unless a copy of the notice of appointment is given to the Company not less than twenty four (24) hours before the start of the Meeting.
- v) Any form of proxy issued by the Company may in the case of a meeting at which special business is to be transacted be so worded that a member may direct his proxy to vote either for or against any of the resolutions to be proposed.
- vi) The proxy shall be deemed to include the right to demand or join in demanding a poll.
- vii) An instrument appointing a proxy, whether in the usual common form or not, shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates and need not be witnessed.
- viii) If you wish your proxy to speak at the meeting you should interpolate the words” and to speak” immediately after the words “to vote”

