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பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank

ANNUAL REPORT 2014

Relationships, beyond Transactions.





Relationships, beyond Transactions.

A good relationship drives success. It is the essence of any transaction. It is an intricate balance of Understanding, Loyalty, Trust and Respect. The value of a good relationship is priceless and goes beyond any one-off, monetary interaction. At Regional Development Bank, we develop relationships for life. We take time to understand your needs and are focussed on helping you succeed in life. In return, we seek your trust and respect your patronage when you invest in us.

Regional Development Bank – Creating treasured, life-long relationships!



VISION

“To take Sri Lanka towards prosperity by empowering people through regional economic development.”

MISSION

“To be a strong financial institution that aims at uplifting the socio-economic status of the regions by providing an innovative banking service through a dedicated, efficient and professional staff.”



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About

Regional Development Bank

The beginnings of Regional Development Bank (RDB) goes back to the year 1985, when district level banks under the category of Regional Rural Development Banks were established.

In 1997, seventeen such Regional Rural Development Banks were merged into six Provincial Level Banks, namely Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks.

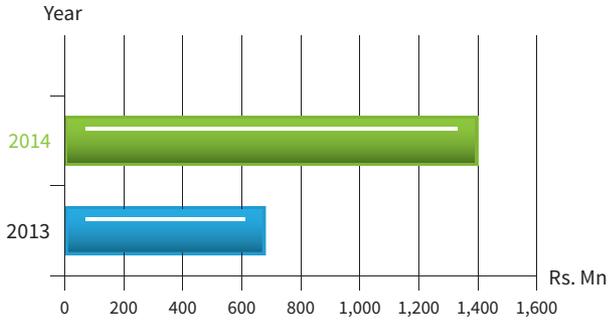
These six provincial banks were further merged in May 2010, as a national level development bank and named the Pradeshiya Sanwardhana Bank (Regional Development Bank or RDB). The RDB was established under the Pradeshiya Sanwardhana Bank Act No.41 of 2008 as a fully State-owned national level bank with the long-term objective of improving the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

Originally based on the “barefoot banking concept”, the Bank strives to provide innovative, simple and effective financial instruments (mainly deposit mobilization and lending) to those at the middle and bottom of the income pyramid. The Bank is keen on empowering its customers in the micro, small and medium-scale industries, women entrepreneurs as well as those in the agriculture, livestock, fisheries and other small industries, all of which in turn would contribute towards the country’s economic development. The Bank has also taken steps to inculcate the savings habit amongst the rural people providing higher returns on savings and fixed deposits, while also encouraging school children and minors to save.

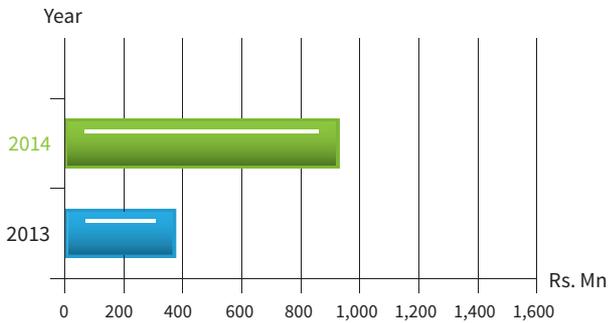
Today, with 6 million loyal account holders complemented by 265 branches and empowered by over 2,423 professional permanent staff members, the RDB continues to implement its vision of providing financial assistance to the rural sector and developing the nation through this sector, thereby empowering all Sri Lankans.

Financial Highlights

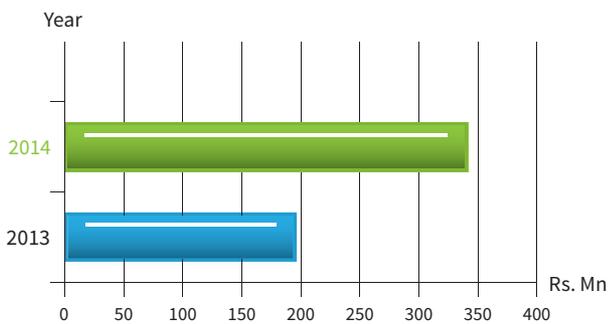
Operating Profit



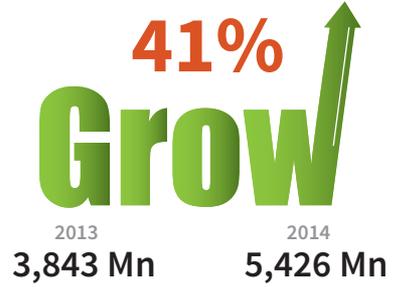
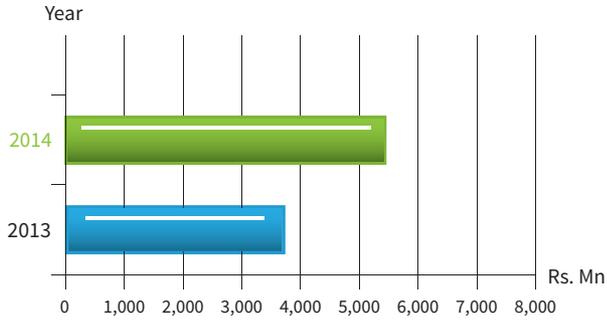
PBT



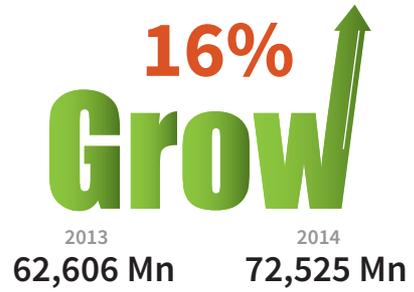
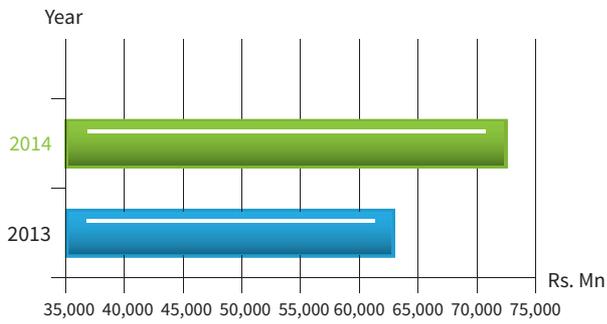
PAT



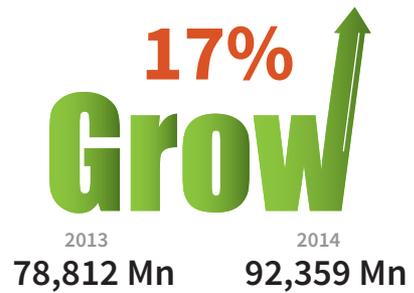
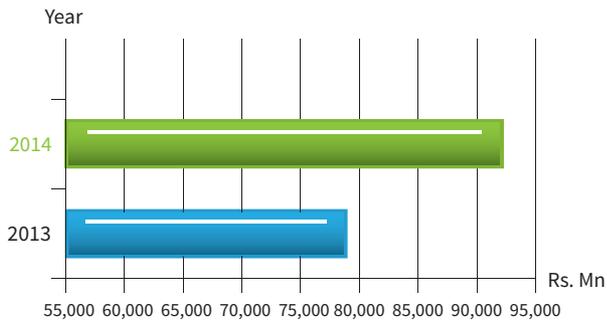
Total Equity



Total Deposits



Total Assets



Chairman's Review



It is with great pleasure that I present the Fifth Annual Report and Audited Accounts of the Regional Development Bank for the year ended 31 December 2014. Although the Bank was in operation for nearly five years as a Development Bank at a National Level, the beginnings of the Regional Development Bank can be traced as far back as 1985 when the district level banks as Regional Rural Development Banks (RRDB) were established under the Regional Rural Development Bank Act No: 15 of 1985.

Subsequently in 1997, seventeen such Regional Rural Development Banks were amalgamated into six Provincial Development Banks which were functioning independently as Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks.

Thereafter, these six banks were amalgamated into one National entity as Pradeshiya Sanwardhana Bank (Regional Development Bank - RDB) on 1 May 2010.

The objective of establishing the Pradeshiya Sanwardhana Bank is to facilitate overall regional development of all economic sectors by promoting Agriculture, Fisheries, Livestock, empowerment of women, and small and medium scale enterprises. The amalgamation has resulted in consolidating financial stability, making way for investments into sustainable structural changes, increase in productivity, introducing advanced customer service operations and human resource development.

HELPING THE RURAL MASSES

The Bank has launched several programmes during the year 2014, with the objective of improving living standards of the rural masses. These programmes provided them accessible and affordable credit facilities which contribute to strengthen the rural economy. The Bank strives to provide innovative yet simple financial products for deposit mobilization and credit delivery to those at the bottom and the middle levels of the income pyramid.

Programmes such as “Janahamu Dasadahasak,” savings mobilization programme under “Divineguma”, “Yaya” programme for food security, “Kamatha” programme and home gardening programmes for women have been well accepted by the rural population. All these programmes were instrumental in inculcating the savings habits among the low income earners.

ESTABLISHMENT OF SMALL AND MEDIUM SCALE ENTERPRISE DEVELOPMENT CENTERS

Small and medium scale enterprises (SMEs) make up a large portion of the Sri Lankan economy, accounting for almost 80% of all businesses. SMEs are found in all sectors of the economy and provide employment to individuals of all skill levels and generate income for them.

The focus on SME policy discussions emanates from their role in developing entrepreneurial skills and innovation of promoting economic growth. Therefore, the SME sector is treated as the engine of growth and backbone of the economy. Considering the importance, the Bank has focused much attention and it is now considered a priority to establish SME development centers at the Head Office, provincial and at branch level.

MICRO FINANCE UNIT

During the year 2014, the Micro Finance unit has played a major role in nurturing the micro level businesses, training them on key operational activities and solving their project related issues. The Bank endeavoured and took all possible steps to find the relevant refinance sources for lending to the target groups enabling them to keep their costs of production to a minimum. Additionally, we educated and encouraged them to deal with the formal sector instead of opting for the informal sector.

SPECIAL PROJECTS UNIT

This unit was specially established to carry out research and development work to find out the financial needs of rural households and how best they could utilize the services provided by the Bank in a more fruitful manner.

Further, we have been able to successfully develop 500 women entrepreneurs throughout the island. The Bank continues to assist these entrepreneurs financially and with appropriate training until they become National Level Business Enterprises.

FORMATION OF SMALL GROUPS

During the recent past, we have experienced an exponential growth in linkages between the Regional Development Bank (RDB) and the Small Help Groups (SHGs) throughout the country. These SHGs are very effective and attracted as a “Banker to the rural women”. SHG consists of 5-10 members who start savings among the members of the group. Once the SHG becomes financially stable, the group will establish a linkage between the Bank and the SHG. Then the Bank will consider granting a loan to the SHG, which in return will become the source of finance to the group members. The loans will be granted on “Group Guarantees” and the availability of movable or immovable collateral will not be a problem to the ultimate borrower. Surveys show that these members belong to the lowest income groups of the rural community who are mostly landless. However, the re-payment rate of these loans is very successful. Hence, the Bank is very keen to continue this model and actively takes part in formation of SHGs.

FINANCIAL PERFORMANCE DURING THE YEAR UNDER REVIEW

During the year, the Bank obliged to disburse Rs.2.3 billion among 14,491 borrowers under a special loan scheme called “Liya Isura” which focused on women entrepreneurs. This was under a special direction issued by the Government of Sri Lanka during its Budget proposal for the year 2014. All these loans were approved and disbursed without collateral and at zero interest rate causing a huge interest loss to the Bank. The estimated interest loss during the Financial Year is approximately Rs. 100.0 million.

Chairman's Review *Contd.*

Despite the interest free loan, the Bank could earn a Profit before Tax of Rs.929 million as against the budgeted profit of Rs.949 million for the year ended 31 December 2014. The total deposits, loans and advances were budgeted as Rs.74,513 million and Rs.64,868 million respectively. The Bank achieved a deposit portfolio of Rs.72,525 million while the loans and advances reached Rs.63,128 million during the year under review.

APPRECIATION

In conclusion, a special appreciation goes to the Honourable Minister of Finance for all the guidance and valuable advice. We also remember with gratitude the Secretary to the Treasury and all officials of the Ministry of Finance and the Treasury, the Governor, the Deputy Governors, Assistant Governors, Directors and other officials of the Central Bank of Sri Lanka. The District Secretaries, Assistant Secretaries and all other categories of Government and Non Government officials who assisted the Regional Development Bank in their journey to uplift the livelihood of millions of less fortunate rural community in Sri Lanka.

On behalf of the current Board of Directors, I wish to thank the previous Chairperson and the previous Board of Directors who contributed immensely to the growth of the Bank's activities during the previous couple of years.

Also I wish to convey my appreciation to the previous General Manager, the incumbent General Manager/ Chief Executive Officer, Senior Management and all levels of staff who worked tirelessly extending their fullest support and cooperation to achieve the Bank's goals and results during the year. I value the excellent support extended by the current Board of Directors and their invaluable contributions made throughout.

On behalf of the Board of Directors, I would like to extend our appreciation to the Auditor General for conducting audits as well as the Digital and Print Media in Sri Lanka for their continued support.

Finally, together with the Board of Directors, I sincerely thank all our valued customers who placed their trust and loyalty in us throughout the years of existence of the Bank and for being with us always.



Prasanna Premaratna
Chairman

Relationships,
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General Manager/CEO's Review of Operations



It is with great pleasure that I review the operations of the Regional Development Bank for the year ended 31st December 2014. Since the establishment of the RDB at National level in 2010, the Bank has performed in a unique manner, considering the humble beginnings of a single bank unit opened way back in 1985 in the remote hamlet in Bulathsinhala to serve the rural poor in the vicinity. It has today grown to become a bank with one of the biggest networks, consisting of 265 branches and a staff of 2,423 in fewer than 3 decades of operations.

RURAL DEVELOPMENT

In the current context, rural development is so interdependent and interrelated with rural financial

framework that one cannot dwell upon one subject in isolation of the other. Further, as perhaps never before, rural development has been given the utmost importance. During the recent past we have witnessed a dramatic integration of the Banking System with rural development and poverty alleviation. The establishment of the Regional Development Bank for the development of the rural economy is unquestionably a significant milestone in Sri Lanka's banking history as it has been another source of strong credit infrastructure.

CORE AREAS OF RURAL DEVELOPMENT

Given this background, it is my view that the Bank's new rural development strategy, while reaching

the rural poor, also commits the Bank to several core areas of rural development. These include fostering and enabling environment for broad-based and sustainable rural, social and economic growth, enhancing agricultural productivity and competitiveness, encouraging economic growth, improving social well-being, managing and mitigating risk and vulnerability and enhancing sustainability of prudent natural resource management.

I would like to emphasize that the bank as financial intermediaries have also been called upon to act as catalysts of correcting economic, social and regional imbalances. As a State-owned bank, this role is further sensitized to provide a device for implementing government policy of rural development. I am very much pleased to note that the policies framed by the Bank have been instrumental in launching a series of rural financial innovations with a view to catalyzing the development of the rural sector, accounting for more than 70% of the population of the island.

SME SECTOR DEVELOPMENT

During the year under review Small and Medium-scaled Enterprises (SME) sector was given its due recognition. Special SME units were established during the previous years and continued at the Head Office and provincial office levels to fulfill financial requirements of the SME sector. Dedicated operational level staff were given special training and assigned to the branches in order to facilitate the SME sector.

INCULCATING SAVINGS HABIT AND DEPOSIT MOBILIZATION

Low income entities of the society also want to save and many of them do really save. However, many of them are constrained by the multiple demands for their low income and also lack of available deposit-related services. In many discussions on the financial services for the rural development and the poor, very often only the credit facilities are given a prominent place. Savings are either forgotten or not discussed. The consequence of scarce availability of appropriate savings-related services is that most poor and low income people save in informal ways using various methods. The problem with these savings methods is that they are risky and they can

be illiquid. Due to this, the Bank has inculcated the savings habits through group formation and daily collections.

I am very much pleased to note that the Bank has launched a novel investment savings product branded “RDB Divineguma” to cover “Divineguma” beneficiaries and has been able to open 797,947 savings accounts, mobilizing Rs.4 billion as at 31st December 2014. Through the daily collection system, the Bank has reached a total of Rs.1,332 million from 103,598 accounts. Under the “Janahamu Dasadahesak” Programme, our branches have successfully conducted over 14,000 community development forums and have addressed 350,434 people at village level in 2014.

FINANCIAL AND OPERATIONAL PERFORMANCES

It is my pleasure to bring to light that the Bank has been able to conclude another year of remarkable progress. We have grown our customer numbers as well as increased deposits and profits. The Bank has reached a gross income of Rs.11 billion. I am very pleased to report that the Bank has delivered excellent results in year 2014 with an Operating Profit of Rs.1,400 million, up from Rs.687 million in the previous year, which is an increase of 104%. Profit Before Tax (PBT) has been Rs.929 million as against the budgeted amount Rs.949 million, up from Rs.553 million in the previous year, recording an increase of over 134%.

Further, the total assets of the Bank grew steadily and reached Rs.92 billion with an increase of 18%. The Bank has increased its deposits up to Rs.72 billion.

The Bank has maintained the required liquidity ratio for the period under review as per the guidelines of the Central Bank of Sri Lanka.

IT DEVELOPMENT

The Bank has made every effort to identify our customer needs and aspirations and respond to those requirements. The Bank has invested in strengthening its IT infrastructure and it is with great pleasure that I announce that the Bank has completed the Core Banking System (CBS) of our 265 branches with the assistance of our committed staff. This will ensure that we can offer excellent customer service to over six million valued

General Manager/CEO's Review of Operations

Contd.

customers of the Bank. We continue to invest in cutting-edge technology to strengthen our service delivery channels.

RATINGS

Lanka Rating Agency (LRA) rated Pradeshiya Sanwardhana Bank's (RDB's) long-term rating "A (LKA)" reporting a stable outlook and short term PI. The rating was given based on the Bank's background, management strategies, performance, financial liquidity and assets growth.

FUTURE OUTLOOK

The Bank has to continue to play a key role in regional development throughout the coming years. As such the Bank shall strive to provide innovative, yet simple financial solutions to those at the middle and bottom of the income pyramid. The Bank is keen on empowering its customers in the micro, small and medium scale enterprises as well as agriculture, livestock and fisheries industries, who would in turn contribute towards the country's economic development. Further, the Bank would give special attention for the empowerment of women. We work hard to embed a culture of strong values and sustainable growth on to our operations for the long-term benefit of customers.

APPRECIATION

I wish to place on record my sincere appreciation to our shareholders, the Government Treasury, Bank of Ceylon, People's Bank and the National Savings

Bank. I also wish to express my gratitude to the Honourable Minister of Finance and officials of the Ministry of Finance and Central Bank of Sri Lanka for the guidance, advice and cooperation extended to us. I would like to thank our former Chairperson, the Board of Directors and former General Manager/ Chief Executive Officer for their dedication and commitment in the Pradeshiya Sanwardhana Bank's affairs and for their guidance and wisdom in all our meetings and deliberations.

My appreciation also goes to the present Chairman and Board of Directors, Bank's senior management and all our employees for the extra ordinary job they have performed and the cooperation extended, thereby ensuring that the Bank kept sight of its goals.

Also, convey my appreciation to the Auditor General, and other Government and Non – Government institutions and officials who assisted us to achieve Bank's goals during the year.

Finally, I extend appreciation and gratitude to our valued customers whose participation and partnership made our growth possible. We are confident that with the support of our shareholders and employees of the Bank, we will continue to fulfill our objectives in the future.



T.A. ARIYAPALA

GENERAL MANAGER/ CHIEF EXECUTIVE OFFICER

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Board of Directors



Mr. Prasanna Premaratna
Chairman

Mr. Prasanna Premaratna holds a Masters Degree in Agriculture from the USSR, a Postgraduate Diploma in Bank Management from the Institute of Bankers of Sri Lanka and a Postgraduate Executive Diploma in International Relations from the Bandaranaike Center for International Studies (BCIS) Colombo.

He is an Agriculturist and a qualified Banker with nearly 25 years of experience working as a Development Banker specially involved in small and medium enterprise (SME) sector development. Mr. Prasanna Premaratna was a pioneer member of the Pelwatte Sugar Industries management team, a Vice President of DFCC Bank and the Chief Executive Officer of DFCC Consulting Private Limited a fully-owned subsidiary of DFCC Bank. He is a Life Member of the Association of Professional Bankers of Sri Lanka (APB) and a Board Member of the South Asia Partnership of Sri Lanka (SAPSRI).



Mr. Janaprith Fernando
Director

Mr. Janaprith Fernando is an Attorney-at-Law by profession with over 20 years experience in Civil Litigation, Company Law, Commercial Law, Human Resources and Administration and Company Secretarial Practice.

He is presently practicing as a Senior Counsel, since year 2000 to date as well as functioning as a Company Secretary and Legal Counsel in many mercantile and non-governmental institutions. Mr. Fernando also currently serves as resource person, lecturer, facilitator and auditor of the World and Asia Pacific Region Scout Movement in seminars and workshops held across the Asia Pacific region.

Mr. Fernando has previously worked as Junior to Late Gamini Dissanayake, P.C. 1992 to 1994 and Junior to Late Desmond Fernando, P.C. 1995 to 1999 as well as having served as in-house Counsel at Dissanayake Amarantunga Associates.



Mr. Sarath Hewage
Director

Mr. Sarath Hewage is a BA graduate from the University of Peradeniya and also holds a Postgraduate Diploma in Economics (P.G. Dip. in Econ.) and a Master of Arts Degree in Economics (M.A.) from the University of Peradeniya. Mr. Hewage is reading for the Master of Philosophy Degree in Economics (M.Phil.) and his research area of the M.Phil Degree is 'Economics and Political Pressures for Violate the Fiscal Responsibility Management by the Governments: A Case Study of Sri Lanka.' In addition, he holds a Certificate in Youth Affairs from the Commonwealth Youth Secretariat Asia Centre in Chandigarh, India.

Mr. Hewage is the Working Director at the Coconut Cultivation Board of the Ministry of Plantation Industries. In addition, he is a Research Assistant to the Members of Parliament of the Ministry of Parliamentary Affairs. He has held several positions in the Ministry of Tourism and Sports and also has served as a government school teacher.

Mr. Hewage works as a Lecturer for External Degree Programmes in academic work and is presently teaching the subjects of Micro & Macro Economics, Managerial Economics and International Business Studies.



Dr. P.N. Weerasinghe
Director

Dr. Pradeep N Weerasinghe is a Senior Lecturer in Mass Media at the Department of Mass Media, University of Colombo. He is currently Chairman of the National Summit Secretariat on Media Reforms and Thematic Head of National Summit on Media Reforms, Principal Investigator of Management of Post Conflict Settings Research Project, Coordinator of Postgraduate Degree Programmes and Coordinator of Diploma in Radio and Television Journalism at the University of Colombo. He received BA in Economics, International Relations and Journalism (from the University of Colombo) with a First Class, MSSC in Mass Communication (from the University of Kelaniya) and PhD in Mass Media (from University of Wuhan). Prior to joining University of Colombo, between 1993 and 2003, he served as a Broadcast Journalist and Programme Manager at Sri Lanka Broadcasting Corporation. He was Media Expert at China Radio and Television International, Beijing. He is an interdisciplinary academic working in the field of Communication Economics, Media Management, Community Media and Citizen Empowerment.



Mr. Mukthar Marikkar
Director

Mr. Mukthar Marikkar, who is an Engineer by profession, is also a Fellow Member of the Chartered Institute of Marketing (UK), and the American Society of Heating, Refrigerating and Air Conditioning Engineers. He is the Chairman and Managing Director of the Frostaire Group of Companies. Furthermore, he is a member of the Board of Directors of the State Pharmaceutical Corporation of Sri Lanka.

Mr. Marikkar has served as the Consul General for the Republic of Tunisia in Sri Lanka since 2001 to date and was the Founder Director and Deputy Chairman of Pan Asia Banking Corporation Limited. He has also served in the state sector as the Deputy Chairman at Rupavahini Corporation of Sri Lanka as well as Deputy Chairman at the Sri Lanka Broadcasting Corporation.



Ms. Shamara Herath
Director

Ms. Shamara Herath holds a Bachelor of Commerce Degree from the University of Delhi in India. Shamara commenced her career in the field of Finance/Accounting and worked for the Corporate Finance Division of Vanik Incorporation Limited. Thereafter, she set up her own advertising agency. In her present role as Head of Marketing and Human Resources for a global jewellery brand, she is responsible for the promotion of fine jewellery through its world wide supply chain in London, Maldives, Sri Lanka, Seychelles and Malaysia. She also guides and manages the overall Human Resources of the Company.

Board of Directors contd.



Mr. M.I.M. Rezwie
Director

Mr. M.I.M. Rezwie, AIDMP – UK counts over 25 years of experience in Commercial Banking in Sri Lanka, having served at the Colombo branch of Bank of Credit & Commerce (Overseas International) Ltd and later Seylan Bank PLC. He retired from Seylan Bank in 2012. He has wide experience in Information Technology and Information System Audit fields. He is also an Associate Member of the Institute of Data Processing Management UK and holds a Diploma from the Institute of Book keepers UK.



Mr. S.R. Attygalle
Director

Mr. S.R. Attygalle is an Assistant Governor of the Central Bank of Sri Lanka and currently serves as a Deputy Secretary to the Treasury. He has over 23 years of experience in the areas of Monetary and Fiscal Policy.

Mr. Attygalle holds a Masters (M.Sc.) Degree in Quantitative Development Economics from the University of Warwick, United Kingdom and a Bachelor of Science (B.Sc.) Degree in Physical Science from the University of Colombo.

Prior to the appointment as the Deputy Secretary to the Treasury, Mr. Attygalle had been serving as the Director General of the Department of Fiscal Policy and Department of Public Enterprises of the Ministry of Finance and Planning and has contributed substantially to the Government's endeavours in the fiscal consolidation process. He has been contributing towards the formulation of the Annual Budget and leading the technical team for the Free Trade Agreement (FTA) with China.

Mr. Attygalle had also served as a Director and Acting Chairman of National Savings Bank and a Director to the Board of Bank of Ceylon and also represented the Treasury as a Board Member in several Boards in key Government institutions such as Sri Lanka Ports Authority, University Grants Commission and Insurance Board of Sri Lanka.

At present, Mr. Attygalle is representing the Treasury at the Securities and Exchange Commission of Sri Lanka and Sevana Fund.



Mr. Jagath Gamanayaka
Director

Mr. Jagath Gamanayaka is the Senior Deputy General Manager (Branch Operations & Marketing) of National Savings Bank. He counts over 17 years in the Banking Industry. Prior to joining National Savings Bank he has gained working experience in different industries including Fertilizer, Building Products, Consumer Products etc...

He is a Fellow Member of the Sri Lanka Institute of Marketing (SLIM), Member of American Marketing Association (AMA) and an Associate Member of the Institute of Bankers of Sri Lanka (IBSL). He holds a Masters Degree in Business Administration (MBA) from the University of Colombo and a Bachelor of Science (Special) Degree from the University of Peradeniya. He also holds a Diploma in Banking & Finance from IBSL, and a Diploma in Marketing from the Chartered Institute of Marketing (CIM) in UK and is a Chartered Marketer.

He has contributed to the marketing fraternity by joining SLIM and served as one of the former Secretaries of SLIM. He has also served as a member of the Sri Lanka Region Financial Interest Group of CIM.

He is a lecturer at IBSL for MBA, CMA, CIM and Postgraduate Diploma in Management Studies and lectures on Marketing and Management. He also lectures at Aquinas University College.



Mr. Koliya B. Senarath Bandara
Director

Mr. Koliya Bandara is a nominee Director of Bank of Ceylon since February 2014 and a member of the Integrated Risk Management Committee. He is a permanent employee of Bank of Ceylon holding the position of Deputy General Manager since March 2012. His current business portfolio at BOC includes Product Management, Islamic Financing, Development Banking, Electronic Banking and Credit/Debit Cards Operations.

He counts over 25 years experience in banking, both local and abroad, gaining wide exposure in the fields of information systems, investments, treasury management, international banking operations and corporate banking. He worked at Bank of Ceylon London Branch as a Dealer and later at Bank of Ceylon (UK) Ltd as the Chief Executive Officer which has helped him to gain a sound fundamental knowledge of regulations and compliances in the banking arena. Prior to joining the Bank, he was an Assistant Lecturer at University of Kelaniya and served at the Mahaweli Authority.

He had been a resource person at the Institute of Bankers of Sri Lanka (IBSL) in the fields of Credit & Investment Management.

Mr. Bandara is a Physical Science graduate of the University of Kelaniya, Sri Lanka and holds a MBA with Merit Pass from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, Sri Lanka. He is a Fellow Member of the Institute of Bankers of Sri Lanka and obtained a Postgraduate Diploma in Bank Management from the same institute, achieving the "Best Student" award in 1998.



Mrs. G.P.R. Jayasinghe
Director

Mrs. Renuka Jayasinghe joined the People's Bank in 1987 as a Management Trainee, counts over 27 years of experience in the field of banking and is in charge of Personal Banking as well as Cooperative & Development Banking.

She holds a First Class Special Degree in B.Com from the University of Sri Jayewardenepura and has a professional banking qualification AIB – Sri Lanka. She is a Life Member of the Institute of Bankers of Sri Lanka.

Corporate Management



Mr. T. A. Ariyapala
General Manager / CEO

Mr. T.A. Ariyapala, who is currently the General Manager/Chief Executive Officer of Regional Development Bank, completes 36 years of banking service in various capacities having specialized in Development Banking, Cooperatives and Branch Banking & SME. Mr. Ariyapala joined the People's Bank in 1978 and served at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and Deputy General Manager up to September 2014. He holds a BSc Business Administration Special Degree and also a Bachelor of Law Degree (LLB) and is an Attorney at Law. He is a Fellow Member of the Institute of Bankers of Sri Lanka (IBSL, FIB) and also an Associate Member of the Association of Accounting Technicians of Sri Lanka (MAAT). He has received extensive local and overseas training and exposure in Cooperatives, Project Lending, Micro Finance, Human Resource Management and Branch Business/Banking and has rejuvenated SME Banking, SME Centre Concept & Development Lending during his tenure at People's Bank.



Mr. Vajira Jayasinghe
*Deputy General Manager /
Information Technology*

Mr. Vajira Jayasinghe, an Information Technology professional with more than twenty years of experience, joined Regional Development Bank in June 2011. He holds a BSc Engineering Degree from the University of Moratuwa. He also has a Master of Engineering Degree from the Asian Institute of Technology in Thailand and Master of Business Administration degree from the University of Hawaii, USA. After graduation, he started his career as a Systems Engineer at IBM World Trade Corporation. He counts more than twelve years of work experience in Management positions of financial services and banking industry. A Certified Information Technology Professional (CITP) of the British Computer Society and a Certified Project Management Professional (PMP) of the Project Management Institute of USA, Mr. Jayasinghe is a Chartered Engineer in Information and Communication Technology.



Mr. T. Kuhan
*Deputy General Manager /
Chief Risk Officer*

Mr. T. Kuhan, a professional banker, joined RDB in September 2011 after serving two reputed private banks, namely HNB and Union Bank. He counts over 23 years of continuous service exclusively in the banking sector in different managerial capacities with exposure to development banking, corporate credit, branch banking, risk management and trade financing. He is a holder of Masters in Financial Economics and Postgraduate Diploma in Economic Development both from University of Colombo. His other qualifications are Postgraduate Diploma in Bank Management and Diploma in Banking & Finance both from Institute of Bankers of Sri Lanka (IBSL) and National Diploma in Technology (NDT) in Mechanical Engineering awarded by University of Moratuwa.



Mr. Ajith Alahakoon
Deputy General Manager /
Credit Recovery

Mr. Ajith Alahakoon graduated from the University of Sri Jayewardenepura Sri Lanka with a Special Degree in Commerce, in 1987. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka as well as the Institute of Bankers of Sri Lanka. He started his banking career at People's Bank in 1979. Moreover, he has been deeply involved in the formation of SANASA Development Bank as a member of the steering committee. Subsequently, he moved to LB Finance Ltd, and dedicated his service for seven successful years as an Assistant General Manager. Mr. Alahakoon has over 33 years of finance and general management experience in the banking industry and financial services. Furthermore, he was involved in the formation of Abans Finance Ltd and became its first General Manager in 2006. He undertook the assignment of the formation of Global Trust Finance Ltd. in 2010 as its first General Manger/CEO. Before joining Regional Development Bank, he had worked at Housing Development Finance Corporation as Head of Credit.



Mr. C. Kalupahana
Chief Finance Officer

Mr. Kalupahana joined the Bank in September 2013. Prior to his appointment as Chief Finance Officer at RDB, he has held senior positions at companies local & overseas, including Head of Finance, Head of Audit, Assistant General Manager, Senior Deputy General Manager and General Manager in the fields of Banking, Finance, Insurance and other different fields. He has more than 30 years experience and obtained true international exposure having worked in British, Irish and American companies for several years in Tanzania, Saudi Arabia and Angola, in addition to several companies in Sri Lanka. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICA), a Fellow Member of the Association of Accounting Technicians of Sri Lanka, a Fellow Member of the Institute of Professional Managers of Sri Lanka and had a membership at the Board of Certified Public Accountants & Auditors of Tanzania. Mr. Kalupahana has obtained four years training required to admit as a member of ICA, from KPMG - Sri Lanka.



Mr. Jagath Karunathilaka
Head - Human Resources
Development & Administration

Mr. Jagath Karunathilaka, a HR specialist with more than 28 years experience, joined RDB in July 2014. He worked as Assistant General Manager/ Head (HR & Logistics) of State Mortgage and Investment Bank (SMIB). He served as Additional Project Director (HRD & Admin.) in Gemidiriya (World Bank-aided project). He also worked as Director (HRD and Admin.) of Sri Lanka Rupavahini Corporation and Senior Management Consultant and Manager (Admin and Finance) of Sri Lanka Institute of Co-operative Management. Mr. Karunathilaka possesses a Degree in (Business Admin.) from University of Sri Jayewardenepura (1986), holds a Postgraduate Certificate in HRM (1996) and a MBA (2003) from the Postgraduate Institute of Management (PIM). He is an Associate Member of the Institute of Personnel Management of Sri Lanka (IPM). He is a recipient of the National HR Excellence Award 2010 from IPM.

Regional General Managers / Senior Assistant General Managers



NORTH WESTERN PROVINCE

Regional General Manager

MR. U.B. SEMASINGHE

B.Com (Special) University of Colombo



SOUTHERN PROVINCE

Regional General Manager

MR. C.L. PIHILLANDA

*B.Com (Special) University of Kelaniya
Postgraduate Diploma in Management - University of
Peradeniya*



NORTH CENTRAL / NORTHERN PROVINCE

Regional General Manager

MR. D.M. SENARATHNA BANDARA

*B.Com (Special) University of
Sri Jayewardenepura*



CENTRAL PROVINCE

Regional General Manager

MR. K.P. DAHANAYAKE

*B.Com (Special) University of Ruhuna
Postgraduate Diploma in Management,
University of Rajarata*



WESTERN PROVINCE

Regional General Manager

MR. A.H.M.M.B. JAYASINGHE

*BBA, University of Sri Jayewardenepura
Postgraduate Diploma in Management - University
of Wayamba, Postgraduate Diploma in Regional
Development NIBM and RVB Netherland
Postgraduate Executive Diploma in
Bank Management (IBSL)*



UVA / EASTERN PROVINCE

Regional General Manager

MR. D.M.T.S. KUMARA

*B.Sc - Business Administration (Special) University of
Sri Jayewardenepura*



SABARAGAMUWA PROVINCE

Regional General Manager

MR. SANATH SENADHEERA

B.Com (Special), University of Kelaniya

Regional General Managers / Senior Assistant General Managers contd.



MR. W.G. JAYANTHA PREMADASA

Senior Assistant General Manager
(Finance & Planning)

*B.Com (Special) University of Sri Jayewardenepura,
Higher National Diploma in Commerce A.M.P.M.A. (UK)*



MR. S.A.U.R.K. SINHALAGODA

Senior Assistant General Manager
(Operations)

B.Com (Special) University of Kelaniya



MR. W.S. HEWAWASAM

Senior Assistant General Manager
(Human Resource Dev. & Administration)

B.A.(Econ Special) University of Sri Jayewardenepura

Assistant General Managers



MR. S.C. FERNANDO

Assistant General Manager
(Business Development & Marketing)

*MBA University of Sri Jayewardenepura, FIB (SL), FSLIM (SL),
FASMI (Aus), Certified Professional Marketer (Asia Pacific
Marketing Federation)
Dip. in Bank Mgt. (IBSL), Dip. Mkt. SL (SLIM), Practicing
Marketer (SLIM)*

MR. W.M.D.S. WICKRAMASINGHE

Assistant General Manager
(Compliance Officer)

*B.Com (Special) University of Ruhuna
Postgraduate Diploma in Business Management -
University of Colombo
Certificate in Risk Management in Banking - Sweden*



MR. SISIL DE SILVA

Assistant General Manager
(Pawning & Recovery)

*B.Sc. - Business Administration (Special)
University of Sri Jayewardenepura*

MR. J.P.K. HERATH

Assistant General Manager
(Administration)

Diploma in Agriculture - Aquinas



Assistant General Managers Contd.



SOUTHERN PROVINCE
Assistant General Manager

MR. W.M. NIMAL DE SILVA
B.Sc. - Business Administration (Special) University of Sri Jayewardenepura

SABARAGAMUWA PROVINCE
Assistant General Manager

MR. I.J. WIJESEKARA
B.Com - University of Sri Jayewardenepura



SOUTHERN PROVINCE
Assistant General Manager

MR. W. KOTTAGE
*B.Com (Special) University of Kelaniya
Postgraduate Diploma in Management - University of Peradeniya*



UVA PROVINCE
Assistant General Manager

MR. D.P. DARMADASA
Bachelor of Arts University of Peradeniya





UVA PROVINCE

Assistant General Manager

MR. W.V.E.G. WARAKAGODA

*B.Com. (Special) University of Sri Jayewardenepura
Intermediate - Institute of Chartered Accounts of Sri Lanka*

CENTRAL PROVINCE

Assistant General Manager

MR. B.H.M.S. BASNAYAKE

*B.Com. (Special) University of Sri Jayewardenepura
Management Diploma - University of Uva*



NORTH WESTERN PROVINCE

Assistant General Manager

MR. L.B. UPALI

*B.Com. (Special)
University of Kelaniya*



SOUTHERN PROVINCE

Assistant General Manager

MR. K. ARIYATHILAKA

Higher National Diploma in HRD - NIBM



Assistant General Managers Contd.



NORTH CENTRAL PROVINCE

Assistant General Manager

MR. B.M.U.S. BASNAYAKA

Diploma in Agriculture - College of Palwehera

NORTH CENTRAL PROVINCE

Assistant General Manager

MR. R.M.R. RANDENIYA

Bachelor of Arts University of Peradeniya



NORTH WESTERN PROVINCE

Assistant General Manager

MS. B.R.D. PUSHPAKUMARI

B.Com. (Special) University of Kelaniya



SABARAGAMUWA PROVINCE

Assistant General Manager

MS. C.S. WEERAGODA

B.Sc. Business Administration (Special) University of Sri Jayewardenepura





WESTERN PROVINCE

Assistant General Manager

MR. A.H.M.G. ABEYRATHNA

B.Com. (Special) University of Kelaniya

Diploma in Micro Finance - Open University of Sri Lanka

MR. D.S.P.C. HANDUNHEWA

Assistant General Manager

Head Office - Special Unit



MR. P. KORALAGEDARA

Chief Internal Auditor

BA, AIB



MS. KASUNI PINNAWELE

Chief Legal Officer

Board Secretary





Management Discussion & Analysis

Management Discussion & Analysis

As a financial institution dedicated to development of finance, Regional Development Bank continues to play a vital role in the uplifting of social and economic development activities in the country. The Bank has been in the forefront of almost all the development programmes in the island taking a significant role as a financier. Regional Development Bank has now emerged as a unique financial institution for regional development in the island, serving to the needy sectors of the economy while most financial institutions are reluctant to actively participate in this sensitive and complex arena.

Our key asset is our customer base of over six million spread throughout the country, including the North and East. Development of the country and its people is the main focus of the Bank. Hence, the Bank is committed to empowering them and thereby developing the nation through its 268 service centers in the island-wide network.

Profitability

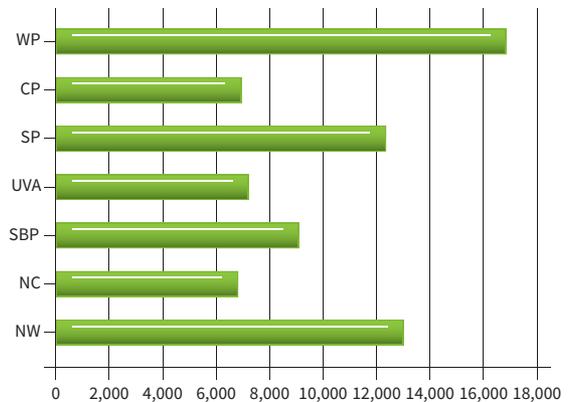
In the year 2014, the total income of the Bank has increased by 2% compared to the previous year. Operating profit increased to Rs.1,400 million which is an 104% increase over the profit of Rs. 687 million recorded in 2013. The Bank reached these results after making more than Rs.566 million for Loan Loss Provisions for the capital losses in the Pawning Loan portfolio experienced under volatile situations with adverse fluctuations in the gold market during the last 2 years. ROA before Tax of the Bank has increased to 1%, having stood at 0.5% in 2013.

Deposit Mobilization

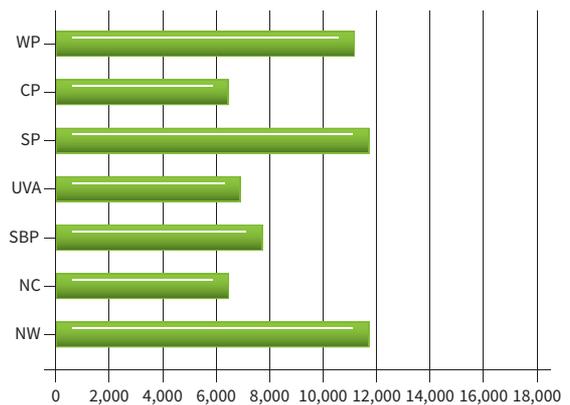
Improving of saving habits among the under-privileged communities is the base to develop their living conditions. Therefore, the Bank aggressively worked towards inculcating the saving habit among the vulnerable people in the financial environment. In order to arrest such adverse situations and increase savings, the Bank launched special savings mobilization programmes such as “Ithurum Wasana”, “Janahamu Dasadahesak”, “Liya Saviya” and “Divineguma” programmes. These programmes cover all segments of society, ranging from a child to senior citizens.

During the year 2014, the Bank was able to increase the savings deposits by 37%, including long-term savings deposits to Rs.30 billion from Rs.24 billion in 2013. The total deposits increased to Rs.72.5 billion from Rs.62.6 billion in 2013. Fixed Deposits to Saving Deposits Ratio of the Bank that stood at 61:39 in 2013 was brought down to 58:42 in 2014 due to this special effort.

Deposit (Province wise) Rs. Mn



Loan & Advance (Province wise) Rs. Mn



Loans

Pradeshya Sanwardhana Bank, with the given mandate to contribute towards the economic and social development of the nation, endeavoured to encourage key sectors by using its financial tools. In view of the above, the package of loans offered by the Bank consists of a range of development-oriented loan facilities towards Agriculture, Small Industries, Fisheries, Animal Husbandry, Housing, Commercial and Services sectors which are mainly available only from a development bank. A noteworthy feature of operations is the strong and dominant presence in the rural areas which is ignored by most of the other financial institutions. Terms of the loan facilities were designed to suit such needy sectors by offering concessionary interest rates, conveniently crafted repayment plans with comfortable grace periods on soft security requirements. In addition, the Bank provided credit plus facilities such as entrepreneurship development, training and advisory support on management and marketing. Credit plus services also help to reduce risk of lending and thereby reduce the dependency on securities for lending.

The loans advances increased from Rs.62 billion in 2013 to Rs.63 billion in 2014, which represent a growth of 2%.

Management Discussion & Analysis Contd.

The Bank continued its efforts to diversify and balance the loan portfolio and because of the special attention given, a significant growth of the loans to the important sectors was achieved. During 2014, Agriculture loans increased by Rs.700.0 million, Industrial loans increased by Rs.1.8 billion, Commercial loans increased by Rs.2.0 billion, Fisheries & Animal Husbandry loans increased by Rs.611 million and Housing loans by Rs.3.5 billion. Meanwhile, the Bank has been able to reduce the pawning advances portfolio during the year which was at an excessive level in the past. There was a very high dependency on pawning and nearly 45% of the loan disbursements in 2013 were for pawning. The Bank made a deliberate attempt to change this pattern and focus lending towards development-oriented activities. During 2014, the Bank substantially achieved this objective by reducing disbursement of loans as pawning advances to 26%. The pawning portfolio, which was at Rs. 18.7 billion in 2013 was brought down to Rs. 9.7 billion, which has contributed to balance the loan portfolio by reducing high alignment towards pawning advances.

Sector	No. of Loans	%	Value (Rs.).	%
Agriculture	381,889	48.5	13,928	25.5
Animal Husbandry	26,712	3.4	1,956	3.6
Fisheries	16,471	2.1	767	1.4
Industries	77,045	9.8	7,939	14.6
Trade & Commerce	88,127	11.2	7,943	14.6
Housing	55,182	7.0	9,125	16.8
Others	57,415	7.3	6,428	11.8
Total	788,081	100.0	54,571	100.0

As mentioned above, the Bank recorded a strong presence in the outstations as evident in Table 2. Only 8.4% of the loans were given in the Western Province and the large majority of loans (91.6%) were given in the regions to ensure balanced economic and social development in the country.

Province	No. of Loans	%	Value (Rs.).	%
Sabara-gamuwa	125,733	16.0	10,069	18.5
Uva	124,237	15.8	10,109	18.5
Central	102,709	13.0	6,195	11.4
Southern	83,191	10.6	6,470	11.9
North Central	140,987	17.9	7,867	14.4
North Western	144,700	18.4	7,154	13.1
Western	66,524	8.4	6,708	12.3
Total	788,081	100.0	54,571	100.0

The Bank was also able to implement several new loan schemes to support important sectors. “Mahaweli Sawiya” and “Mahaweli Shakthi” are two loan schemes introduced with the cooperation of the Mahaweli Development Authority. “Mahaweli Sawiya” was introduced to encourage Mahaweli farmers to enter into other economic activities and “Mahaweli Shakthi” loan scheme was introduced to support Mahaweli farmer organizations to enter into viable commercial enterprises. Entrepreneurship training was also provided to them before commencement of these lending programmes. “Praja Shakthi” loan scheme is another new introduction during the year to help various community organizations and their members to obtain small loans without coming to banks. “Kapruka Jaya Isura” is another loan scheme introduced to help coconut growers to commence another business activity relating to the coconut industry. This loan scheme was made available with the support of the Coconut Development Authority where loans up to Rs.5.0 million are granted at a concessionary rate of 5% per annum. An interest-free loan scheme named “Liya Isura” was introduced to encourage female entrepreneurs to develop businesses. Under this loan scheme, over 14,000 loans were given to the value of Rs.2.2 billion. This was a good opportunity to help small-time female entrepreneurs who are expected to add to the future clientele of the Bank. Another loan scheme, namely “Detu Saviya”, was commenced during the year with a view to provide strength to the senior citizens of the country. Under this loan scheme, loans up to Rs.1.0 million were made available without obtaining any security.

Some of the other developments taken place in the lending area during the year under review were the increase of housing loans amount to Rs.2.5 million at an interest rate of 11% per annum, introduction of vehicle loan scheme up to Rs.2.5 million at an interest rate of 11% per annum, increase of the loan limit under “Thilina” loan scheme from Rs.750,000 to Rs.1.0 million, and further relaxation of Guarantor requirements, all of which have contributed to the credit growth.

The Bank continued to mobilize funds for its development lending activities through refinancing schemes provided by national and international sources. Most of these funding sources are long-term and on very soft terms and therefore it is an effective alternative to use of funds mobilized through savings and time deposits. Accordingly, the Bank participated in 12 refinancing schemes implemented by the government, Central Bank of Sri Lanka, NDB Bank and Coconut Development Authority. Refinance borrowings during the year increased by Rs.3.2 billion from Rs.7.5 billion in December 2013 to Rs.10.7 billion in December 2014, an increase of 42.7%.

The Bank continued to focus its attention towards the SME sector by setting up dedicated SME centers in the regions in 2013. Training of officers to man those SME centers were carried out. During 2014, by adding 10 more units, the number of SME centers increased to 19 and this undoubtedly contributed to substantially increase the SME lending portfolio.

Human Resources

Overview

RDB is committed to provide opportunities for employees to grow to their full potential and to improve their quality of life, while creating a healthy and productive work environment in which the Bank would guide individuals and provide HR services on sourcing, training, motivating and retaining the right caliber of people required to meet the objectives of the Bank.

Organization Structure and Functional Integration

A study was undertaken to revisit the existing structure of the Bank and the staffing arrangements already in place with a view of developing a new structure to avoid certain impediments.

A new structure has been developed clearly delineating the different functional areas by establishing reporting relationships and redefining functional areas for better integration. The organizational structure of RDB comprises of 4 levels namely,

1. Head Office Level (National Level)
2. Provincial Level (7 Provincial Offices)
3. District Level (19 District Offices)
4. Branch Level (265 Branches)

A new structure for IT functions has been prepared determining cadre requirements to fill with right skills/ persons in IT positions with the implementation of the Core Banking System (CBS).

Manpower Strength

The manpower of the Bank consisted of employees who have been deployed for the cadre positions on permanent and contract basis. Apart from this, Deposit Collectors who have been outsourced as agents to promote deposits and Rural Leaders linked with micro finance systems would provide manpower services to the Bank. The Bank also provides opportunities to Trainees who are required to undergo 6-12 months of training as requested by Universities, Technical Colleges and recognized professional institutions. In addition to this, school leavers eligible for university entrance are also absorbed as Trainees. These categories would provide valuable inputs to the Bank's performance. The summary of the manpower strength is as follows:

Manpower Type	Head Count
Permanent/ Contract Employees	2,423
Deposit Collectors	250
Rural Leaders	305
Trainees	689
Total Head Count	3,667

The Bank filled the positions with 2,423 permanent and contract employees who have been attached to the Head Office and seven provinces, details of which are given below.

Province	No. of Branches	Head Count	Percentage
Western	33	273	11.3
Central	33	305	12.6
North Central	35	295	12.2
Southern	54	404	16.7
Uva	43	359	14.8
Sabaragamuwa	34	274	11.3
North Western	32	358	14.8
Head Office	1	155	6.4
Total	265	2,423	100

The Bank provides equal employment opportunities for both males and females, details of which are given below.

Province	Male	Female
Western	145	128
Central	160	145
North Central	183	112
Southern	223	181
Uva	235	124
Sabaragamuwa	150	124
North Western	233	125
Head Office	92	63
Total	1,421	1,002
Percentage	58.6%	41.4%

Management Discussion Contd.

Age Profile: Bank has privileged and capitalized on most of the experienced and senior staff having 58.6% of those aged 40 years and above, as shown in the age profile given below.

Age Category (Years)	No. of Employees	Percentage
50 or above	513	21.2
40-49	906	37.4
30-39	507	20.9
29 or below	497	20.5
Total	2,423	100

Skill Profile: The majority of the Bank's employees are skillful and experienced, having worked more than 10 years in various capacities. Their percentage accounted to 58.6%. The complete breakdown is given below.

Service Category (Years)	No. of Employees	Percentage
0-4	540	22.3
5-9	462	19.1
10-14	56	2.3
15-19	211	8.7
20-24	775	32.0
25-29	379	15.6
Total	2,423	100

Training and Development

Human Resource Development (HRD) is considered as an integral part of the Bank's business model. The Board-approved training policy has been put in place in order to provide adequate training opportunities for the entire staff to adopt a systematic approach through Training Need Analysis (TNA). This provides structured and formal opportunities for technical and non-technical job roles applicable in achieving the overall objectives of the Bank.

Training Plan 2014 was implemented with a budgetary provision of Rs.62 million to provide training opportunities for the staff through 221 programmes (local and foreign) covering the areas of SME, Risk Management, Finance, ICT, HR and Management and Personal Development, of which Rs.24 million has been utilized.

70 of the Bank's staff were trained on SME Financing on a special 14-day residential training workshop, the impact of which has yielded impressive results in preparation of project proposals. This programme was conducted under the financial assistance programme of the SMEDef of the Ministry of Finance and Planning. All senior staff was given technical training on the preparation of a procurement plan which was useful for them to prepare the procurement plan for 2015.

Benefits Provided

The staff has adequately benefited through numerous facilities introduced via collective agreement such as medical benefits, loans on concessionary rates, bonus, and insurance cover, among others. All this has helped the Bank to maintain employee well-being.

Employee Recognition

For the first time in the Bank's history, we commenced the recognition and rewarding of employees who have completed 25 years of service.

89 employees who have completed 25 years of satisfactory service were awarded with gold coins.



Team recognized with gold coins - 2014

HR Board Sub Committee

The above committee was initiated according to the corporate governance directions which came into operation with effect from 1st January 2008. The Bank established BHRRC and has conducted committee meetings since 2011.

The BHRRC appointed for the year 2014 comprised of 3 Directors, General Manager/CEO and Head of HRD and Administration. Chief Legal Officer functioned as the secretary to the committee. It was headed by the Chairperson, Mrs. Keshala Jayawardana.

The said committee functioned in accordance with regulation of Board and guidelines issued by the Central Bank of Sri Lanka. It is authorized to determine the remuneration policy, evaluate performance, monitor and review the development of HR performance.

The Terms of Reference of the BHRRC was revised and included the scope of the nomination committee as an extended workload since the two committees - the Human Resource Remuneration Committee and the Nomination Committee - are interrelated. As a result, the committee formed and functioned as a single committee. Six meetings were held during the year 2014.

Special Events



Special Events Contd.

No	Date	Programme	Location
01	2014.01.16	Handing over educational materials to Kabulumulla School - Yatiyanthota	Sabaragamuwa Province, Kabulumulla School
02	2014.02.01	Silver Jubilee Celebrations of Staff "Swarna Thilina Sammana"	BMICH, Colombo 07.
03	2014.02.20	Signing Lanka Money Transfer Agreement with DFCC	Colombo
04	2014.03.12	Celebrating World Women's Day at Mundel	Mundel North Central Province
05	2014.03.21	Participation at Deyata Kirula National Exhibition 2014	Kuliyapitiya North Central Province
06	2014.04.10	Creating innovative markets for RDB Entrepreneurs at Kalutara (<i>Rasakewili Gammanaya</i>)	Kalutara Western Province
07	2014.04.11	RDB Ithurum Wasana Grand Draw	Kelaniya Head Office
08	2014.05.14	RDB Wesak Celebrations	Island-wide
09	2014.06.25	Journey to India with 50 RDB 'Gewathu Waga' winners	Bangalore India
10	2014.06.26	SME center opening	Bolawatta North Western Province

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Special Events Contd.

No	Date	Programme	Location
11	2014.08.28	One Thousand Loans to Entrepreneurs Programme of Western Province Stage 1	Miriswatta Western Province
12	2014.08.29	“Shilpa Udana” Handy Craft Exhibition	BMICH Colombo 07
13	2014.09.10	Launch Ceremony of “RDB Praja Shakthi” Loan Scheme	All Island
14	2014.10.02	Retirement of GM/CEO Mr. R. Siriwardena	Head Office
15	2014.10.02	Arrival of new GM/CEO Mr. T.A. Ariyapala	Head Office
16	2014.10.20	Creating RDB “Sith Ru Rata” Art Competition	All Island
17	2014.11.05	One Thousand Loans to Entrepreneurs Programme of Western Province Stage 2	Nittambuwa Western Province
18	2014.11.18	One Thousand Loans to Entrepreneurs Programme of Western Province Stage 3	Kirindiwela Western Province
19	2014.11.18	Presenting Proposals for a new Collective Agreement 2015 - 2017	Head Office
20	2014.12.17	Assisting small entrepreneurs to brand their businesses	Kotagala Central Province

Branch Relocations

No	Date	Branch	Address
01	2014.03.10	Nildandahinna	No.27, Ambanwella Road, Nildandahinna.
02	2014.03.24	Warakagoda	No.21, Warakagoda.
03	2014.03.31	Hanguranketha	No.158, Boralessa Road, Hanguranketha.
04	2014.04.10	Beruwala	No.183, Galle Road, Beruwala.
05	2014.05.05	Badulla	No.19B, Bank Road, Badulla.
06	2014.05.22	Kurunegala	Surathissa Mawatha, Paramount Building, Kurunegala.
07	2014.05.26	Narammala	No.99A, Kuliypitiya Road, Narammala.
08	2014.05.26	Ruwanwella	No.134/A, Main Street, Ruwanwella.
09	2014.07.28	Ududumbara	No.57, Hunnasgiriya Road, Ududumbara.
10	2014.08.11	Kiriella	Opposite Fish Market, Kiriella.
11	2014.08.25	Wadduwa	No.590, Galle Road, Wadduwa.
12	2014.09.22	Hambanthota	No.9, Jail Street, Hambanthota.
13	2014.10.28	Kolonnawa	No.186, Kolonnawa Road, Kolonnawa.
14	2014.11.17	Pamburana	No.614A, Walgama, Galle Road, Matara.
15	2014.11.24	Southern Regional Office	No.28B, Uyanwattha Ground Road, Matara, Uyanwattha.
16	2014.11.24	Kamburugamuwa	No.18, Galle Road, Kamburugamuwa.
17	2014.12.01	Morawaka	Wijaya Building, Deniyaya Road, Morawaka.
18	2014.12.09	Pitagaldeniya	Avissawella Road, Pitagaldeniya, Arandara.

Special Events Contd.

Nildandahinna Branch

Date - 2014.03.10

Address - No. 27, Ambanwella Road, Nildandahinna.

Chief Guest - RDB GM/CEO Mr. R. Siriwardena



Warakagoda Branch

Date - 2014.03.24

Address - No. 21, Warakagoda.

Chief Guest - RDB GM/CEO Mr. R. Siriwardena



Hanguranketha Branch

Date - 2014.03.31

Address - No. 158, Boralessa road, Hanguranketha.

Chief Guest - RDB GM/CEO Mr. R. Siriwardena



Beruwala Branch

Date - 2014.04.10

Address - No. 183, Galle Road, Beruwala.

Chief Guest - RDB GM/CEO Mr. R. Siriwardena



Badulla Branch

Date - 2014.04.08

Address - No. 198, Bank Road, Badulla.

Chief Guest - Secretary to Irrigation & Water Management Minister Hon. Nimal Siripala De Silva



Kurunegala Branch

Date - 2014.05.22

Address - Surathissa Mawatha, Paramount Building, Kurunegala.

Chief Guest - Kurunegala Municipal Councillor Mr. Gamini Peramunage



Narammala Branch

Date - 2014.05.26

Address - No. 99 A, Kuliypatiya Road, Narammala.

Chief Guest - RDB GM/CEO Mr. R. Siriwardena



Ruwanwella Branch

Date - 2014.05.26

Address - No. 134/A, Main Street, Ruwanwella.

Chief Guest - Minister of Telecommunication and Information Technology, Mr. Ranjith Siyambalapitiya



Ududumbara Branch

Date - 2014.07.28

Address - No. 57, Hunnasgiriya Road, Ududumbara.

Chief Guest - RDB Chairperson Keshala Jayawardana



Kiriella Branch

Date - 2013.08.11

Address - Opposite Fish Market, Kiriella.

Chief Guest - RDB GM/CEO Mr. R. Siriwardena



Special Events Contd.

Wadduwa Branch

Date - 2014.08.25
Address - No. 590, Galle Road, Wadduwa.
Chief Guest RDB GM/CEO Mr. R. Siriwardena



Hambanthota Branch

Date - 2014.09.22
Address - No. 9, Jail Street, Hambanthota.
Chief Guest - RDB Executive Director Mr. H.A. Amarasena



Kolonnawa Branch

Date - 2014.10.28
Address - No. 186, Kolonnawa Road, Kolonnawa.
Chief Guest - Head of HR & Admin Mr. Jagath Karunathilaka



Pamburana Branch

Date - 2014.11.17
Address - No. 614 A, Walgama, Galle Road, Matara.
Chief Guest - RDB Executive Director Mr. H.A. Amarasena



Southern Regional Office

Date - 2014.11.24
Address - No. 28B, Uyanwattha Ground Road, Matara, Uyanwattha.
Chief Guest - RDB Chairperson Keshala Jayawardana



Kamburugamuwa Branch

Date - 2014.11.24

Address - No. 18, Galle Road, Kamburugamuwa.

Chief Guest - RDB Chairperson Keshala Jayawardana



Morawaka Branch

Date - 2014.12.01

Address - Wijaya Building, Deniyaya Road, Morawaka.

Chief Guest - RDB Executive Director Mr. H.A. Amarasena



Pitagaldeniya Branch

Date - 2014.12.09

Address - Avissawella Road, Pitagaldeniya, Arandara.

Chief Guest - Regional General Manager Sabaragamuwa Province Mr. Sanath Senadeera



Product Information

RDB Kekulu

RDB understands the importance of providing a brighter tomorrow to the nation's children, the future of the country. To help parents achieve this dream, we came up with the "RDB Kekulu" minor savings account. "RDB Kekulu" has been tailor-made to help parents save methodically as they watch their children grow. The account can be opened with a minimum initial deposit of only Rs.100/-. A special interest rate, together with an exciting gift scheme, offers even greater encouragement for parents to save regularly on behalf of their children.

RDB Yovun



The early teen years are the crucial years in a child's development as it's the period where they start the transition from being playful kids to responsible adults and citizens of our country. In order to build closer ties with these children, RDB introduced the "RDB Yovun" savings account which focuses on children between the ages of 12 and 17. With a minimum deposit of only Rs.500/- these children can open a "RDB Yovun" account and enjoy an interest rate higher than the regular interest rate. RDB also offers "RDB Yovun" account holders a helping hand with their education through several educational seminars and motivational projects targeting the G.C.E. (O/L) Examination. In addition to this, special gift schemes are available for them during the month of October every year while account holders who obtain the best results in the G.C.E. (O/L) examination are also rewarded.

RDB Liya Saviya



Women undoubtedly play a central role in every aspect of today's society. To honour the courageous women of Sri Lanka, RDB introduced the "RDB Liya Saviya" account. "RDB Liya Saviya" provides financial facilities and

consultancy services for women who contribute to the economy of the country through self-employment. Other special features of this account include bonus interest, higher interest for savings balances and competitive interest rates for advances.



RDB Subha Mangalam

The years leading up to marriage are important ones for the couple to lay the financial foundation for a happy, stable marriage. "RDB Subha Mangalam" savings account was created to cater to this need. It allows them to invest money either in a lump sum or in small, regular amounts at their convenience over a long period of time until they get married. At the time of their marriage the "RDB Subha Mangalam" account holder gets the capital, interest and a special bonus interest. A very special interest rate is offered to these accounts to make the investment more fruitful.



RDB Senior Citizen's Account

Having toiled for decades and sacrificed so much for their families, society and the country at large, our senior citizens deserve to be recognized for their valuable lifetime contributions. That is why RDB has taken the necessary steps to address this by introducing the "RDB Senior Citizen's Account". Since a majority of senior citizens depend on the interest income from fixed deposits for their monthly income, "RDB Senior Citizen's Account" offers special interest rates on fixed deposits to all senior citizens, giving them a higher return. This means that at a time when other financial institutions are dropping their interest rates for fixed deposits, RDB has been able to make a positive difference in the lives of these senior citizens through the "RDB Senior Citizen's Account".

RDB Fixed Deposits



Since inception, RDB has gained a reputation as a bank that offers higher interest rates than other banks. RDB Fixed Deposits is another one of our products that continues this tradition by offering highly-competitive interest rates and has won the confidence of our valued customers for the past 29 years. RDB Fixed Deposits are available for relatively shorter periods of 1, 2, 3 and 6 months as well as for longer periods of 1, 2, 3, 4 and 5 years. Special interest rates are offered for fixed deposits of 1 year and more.

RDB Athata Poliya



“RDB Athata Poliya” is yet another unique product by RDB. Its key feature is that it provides the total amount of interest that is entitled for the deposit, at the time of placing the deposit.

RDB Dorin Dora



“RDB Dorin Dora” is the flagship product/service offered by the Bank. It is an innovative, daily collection system that operates through a dedicated set of agents. These

agents visit the business premises and the residences in the command areas of respective branches on a daily basis. These visits provides great relief and convenience to the customer as it saves their opportunity cost and allows them to focus all their efforts on their core business. They do not need to sacrifice their valuable time visiting the branch several times for their banking transactions. In addition to collecting deposits, the “RDB Dorin Dora” helps the customers to obtain loans for development purposes, service the loan account and pay the installments and interest promptly at their convenience. “RDB Dorin Dora” has helped many small-scale entrepreneurs and individuals to build up healthy account balances over time, with minimum effort and hassle. Thus, “RDB Dorin Dora” has truly been able to fulfill the vision of the Bank - “Empowering people through regional economic development”.

Loans and Advances

The Bank has a range of loan products to cater to almost all segments of society. These loan schemes are designed to suit varying needs of different client segments. These can be broadly categorized into cultivational loans, agricultural loans, small industrial loans, small and medium enterprise loans, self employment loans, micro finance loans, housing loans, personal loans and pawning loans and so forth. Under these main categories, number of loan schemes are included to fit into a customer’s requirements. Terms of these loan schemes are customer friendly and flexible enough to the satisfaction of the recipients of such loans. Loan products are available for household requirements, business purposes, personal needs, housing and various development projects of different sectors and magnitudes. In addition, adequate discretion has been given to the bank officer’s to tailor make loans if there are any special needs by the customers. Importantly, the Bank has now taken steps to emphasise more towards development loans which will ensure development of the customer as well as the country. Another interesting step taken recently is our attempt to channel our loan products to a wide segment of the society through social organisations such as farmer societies, womens societies, various benevolent societies etc... which has enabled the Bank to successfully reach the informal sector that has not benefitted from the formal banking industry.

Corporate Social Responsibility

Community Development Forums (Jana Hamu) – Making of a better society

Development banking is a complex process with intricate challenges and responsibilities. The development banker has to augment knowledge and sharpen skills to acquaint with the target customers, and all relevant factors at rural, provincial and at national level to make a meaningful contribution towards the nation and its people. More than anything else he should be a person who is genuinely interested in people and their development. Thus, constantly being in touch and building a good rapport with the people, understanding them and their genuine needs and providing most appropriate solutions for their problems are important aspects.

Regional Development Bank in the year 2013 identified significant gaps between financial institutions and their existing as well as prospective customers to improve exchanging ideas and views. RDB also noted that such gaps were more immoderate when it came to instances where the existing or prospective customers resided far away from the branch networks of financial institutions.

At the beginning of year 2013, RDB embarked on an ambitious project of conducting 10,000 community development forums at locations convenient to the target customers with the objective of rectifying the gaps identified and getting much closer to them. These forums provided an ideal platform for the Bank and the customers to have a fair exchange of ideas and opinions. These forums paved way for rural masses to openly express their views, provide new ideas and obtain clarifications for any doubts they may have about the Bank and its services,

problems they encounter managing finances and their income earning projects etc... The Bank continued this programme in the year 2014 too.

The 10,000 community development forums in 2013, and another 14,000 forums in 2014, enabled the Bank to get an in-depth knowledge of the customer's requirements in a better manner, and provide solutions, efficiently advise and assist customers in agriculture and other projects. Bank facilitated forming of small groups of five to six individuals and provided them training and guidance to acquaint themselves with values, ethics and basic business know how before embarking on income generated projects which lead to them improving their lifestyles living and social standards.

Regional Development Bank invested its resources for the rural and semi-urban masses to become responsible citizens through many special briefings and training programmes conducted regularly. Such efforts allowed them to plan, organize and implement their day-to-day lives in a better manner and to explore ways and means to upgrade their lifestyles through material and time-saving methods, rather than only focusing on an approach of saving Rupees and Cents. RDB also provided advice and guidance for entrepreneurs to avoid bad practices and bring in sound values to their lives in order to make the society better through productive and interactive sessions. In addition, Bank also provided assistance for promising, viable projects initiated by individuals who portrayed the talent, drive and vision to make their projects into successful ventures.



Risk Management

The banking industry is exposed to various types of inherent risks. In today's competitive banking industry, bankers refer to risk as a measure of business strength, an indicator of profitability, an incept for good governance and a means of business.

In general, banks face several types of risks such as Credit Risk, Operations Risk and Market Risk. In addition to these three main risk categories, banks also have to consider various other risk categories such as Strategic Risk, Forex Risk, Compliance Risk, Legal Risk and Reputation Risk. As a result, every banking organization pays close attention to their risk culture and risk practices. In line with this, RDB is also in the process of adopting best practices.

Credit Risk Management

Credit Risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Credit Risk Management at RDB

The total credit exposure of the Bank is 67% of total assets of the Bank. Credit is the major business line of the Bank. Hence, Credit Risk is the major type of risk that the Bank has faced.

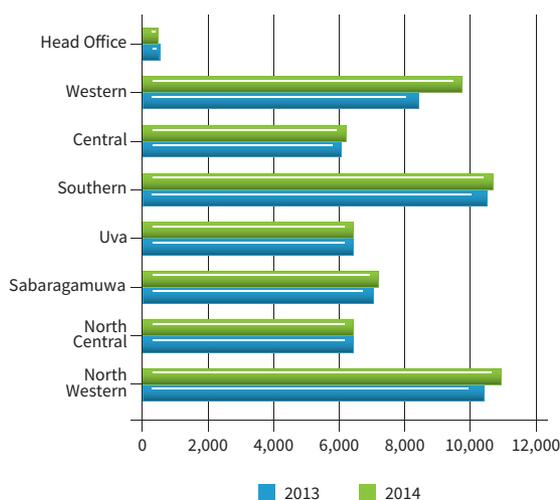
During the year, our lending portfolio has increased up to Rs.1.912 billion, an increase of 3.18% when compared to last year. However, the Banking industry faced a gold market crisis in 2013 and as a result of it our lending portfolio was also affected. This year, we have taken adequate action to reduce concentration on our pawning portfolio.

- Introduced and maintained new credit limit for pawning portfolio
- Introduced the gold smelting process
- Reinforced the recovery process
- Strengthened the auction process and frequency
- Diversified our credit portfolio into several industries including SME, Agriculture and Housing

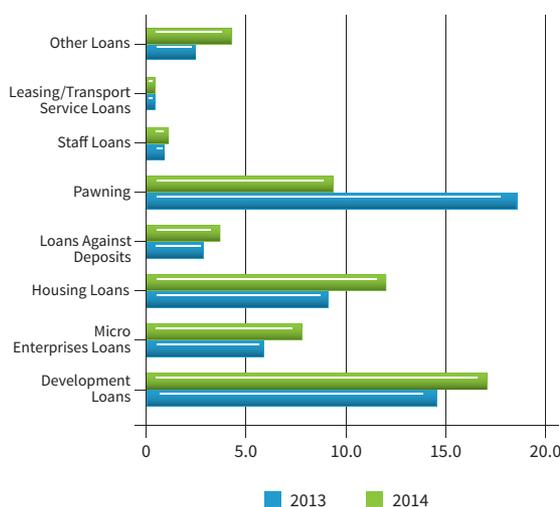
Hence, we have successfully mitigated bank concentration risk by diversifying our lending portfolio into other sectors as well.

Sector	HHI	
	2013	2014
Agriculture	0.058	0.040
Animal husbandry	0.001	0.001
Industrial (SME)	0.047	0.081
Trading and services	0.000	0.000
Housing	0.026	0.039
Pawning	0.056	0.020
Other priority	0.010	0.016
Staff	0.000	0.000
Total	0.198	0.197

Geographical Concentration



Performing Advances - Product-wise



Risk Management Contd.

Credit Risk Management Process

Credit is the major business line of RDB like any other Bank and is the major exposure to overall risk of the Bank. The Bank has placed a considerable weightage to the Credit Risk management process. Hence, RDB has already established a Board-approved comprehensive Credit Risk management policy which is being reviewed annually. The Bank mitigates, manages and measures its Credit Risk according to this Credit Risk management policy and its framework.

Sectorial Limits and Delegated Approving Authority

The Bank has established approved credit sectorial limits and the Risk Management Department monthly analyzes these sectorial limits and reports to the Board of Directors through the Integrated Risk Management Committee (IRMC). The Credit Department and business units (266 Branches) adjust their targets according to approved limits. Periodically, the Credit Department enhances the knowledge of its employees engaged in credit function by organizing various training programmes and issuing circulars.

The Bank has specific delegated authority levels to approve the credit facility. Normally, every credit proposal is analyzed by experienced Credit Officers and handed over to the relevant approval authority level while high value credit proposals are approved by the Credit Committee and Board. At present, every loan proposal which exceeds the Regional General Manager's delegated authority level are subject to an independent evaluation by the CRO. This structured evaluation and approval process introduced in 2014 has comparatively declined the Bank's Credit Risk on its portfolio.

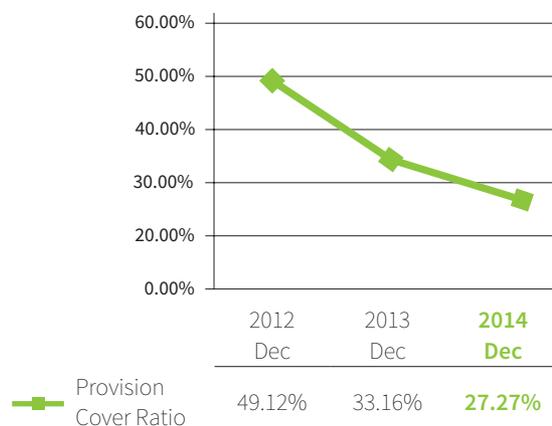
Loan Loss Provisioning

According to the Central Bank of Sri Lanka (CBSL) guidelines, the Bank follows two types of provisioning methods:

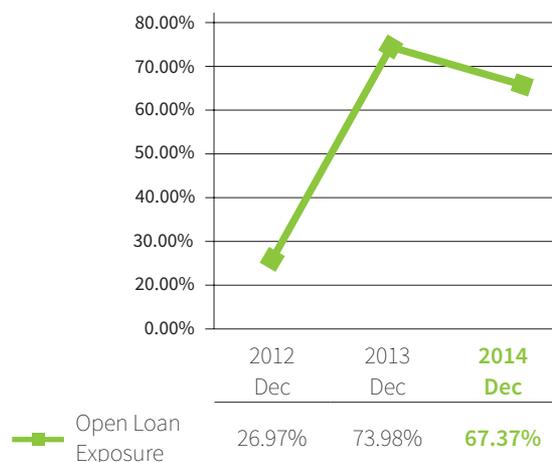
- General Provision
- Specific Provision

Provision cover ratio and open exposure ratio of the Bank is calculated and analyzed by the Risk Management Department periodically. The Risk Management Department submits these ratios, along with their observations, to Board of Directors at every month end.

Provision Cover Ratio



Open Loan Exposure



Impairment Assessment on Loan Loss

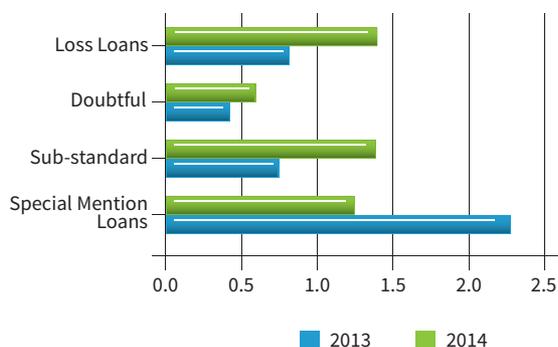
The Bank also has adapted to new accounting standards SLAS 44 and 45 for impairment and has used these options to match their loan loss with their profit.

Credit Risk Monitoring and Reporting

Lending Officers closely monitor their total credit portfolio and individual credit facilities in branch level through daily customer analysis and recovery process. However, at the Head Office level Risk Management Department analyzes the credit portfolio of the Bank and reports to the Board of Directors under the KRI (Key Risk Indicator) Report with the observations on a monthly basis. It includes Total Credit Portfolio analysis, NPA analysis, Loan Provisioning analysis, and several others indicators. The Risk Management Division also carries out a close monitoring of the Bank's Top 20 borrowers on a monthly basis.

As at the end of 2014 the Top 20 borrowers and depositors are contributing 1.76% and 9.23% on credit and deposit portfolios respectively.

Non-Performing Advances



Liquidity Risk Management

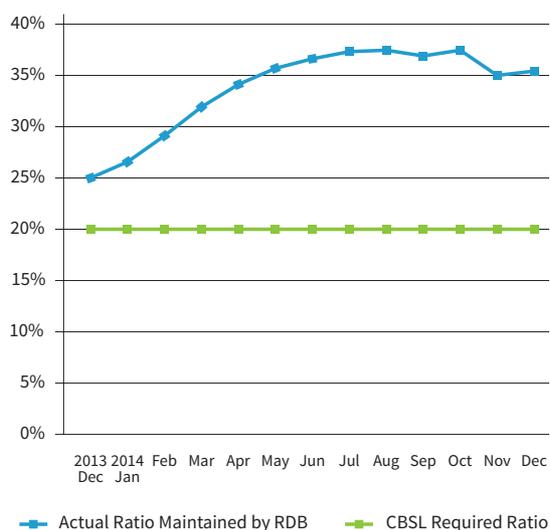
Liquidity Risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset.

Liquidity Risk Management at RDB

The Bank has been maintaining a Liquidity Risk Management Policy since 2013 and reviews it annually. We have always complied with the Bank liquidity management framework and CBSL guidelines on Bank Liquidity. The Bank makes an effort to maintain liquidity position above the regulatory requirement of 20%. To achieve this objective, the Bank evaluates and monitors liquid assets and liabilities while keeping high quality liquid assets base through ALCO.

During the year 2014 the Bank has maintained the liquidity ratio above the required level.

Required Vs Actual Liquid Assets Ratio of the Bank as at end December 2014



	2013	2014
1st quarter	22.16%	31.70%
2nd quarter	22.20%	35.70%
3rd quarter	21.14%	36.70%
Year end	25.50%	35.50%

Comparative figure (2013-2014)

ALCO

Main responsibility of managing the Bank's liquidity lies with the Assets and Liability Management Committee (ALCO). ALCO consists of the Bank's corporate and executive level employees and is an executive level committee. The committee meets at least once a month or as and when it is necessary.

The Bank is also in the process of preparing to adopt the new LCR (Liquidity Cover Ratio) requirements announced by the CBSL from the year 2015.

Stress Testing on Liquidity

Risk Management Department regularly carries out a stress testing on Bank Liquidity under three scenarios which is related to different severity positions. Every month, the Department evaluates the result of the stress testing and measures the possible impact of an unexpected situation on liquidity of the Bank. According to the result of the stress testing the Board of Directors are informed by the Risk Management Department on appropriate solutions and funding arrangements for such situations.

Details	Balance as at 31/12/2014	Shocks		
		Minor	Moderate	Major
Magnitude of Shock		5%	10%	15%
Liquid Assets	25,337,747	25,337,747	25,337,747	25,337,747
Total Liabilities	71,361,099	71,361,099	71,361,099	71,361,099
Value fall on Total Liabilities		3,568,055	7,136,110	10,704,165
Revised Total Liabilities after shock		67,793,044	64,224,989	60,656,934
Revised Liquid Assets after shock		21,769,692	18,201,637	14,633,582
Liquid Asset Ratio	35.51%	32.11%	28.34%	24.13%

Risk Management Contd.

Operational Risk Management

Operational Risk is an expression of the danger of unexpected direct or indirect losses resulting from inadequate or failed internal processes, people and systems as well as external events caused by as credit or market.

Operational Risk Management at RDB

Loss Data Reporting

Since 2012, Risk Management Department is involved with loss data capturing and reporting process. All losses are recorded by the Risk Management Department and every quarter loss data which exceeds the threshold limit of Rs.500,000 is reported to the CBSL while the Bank continues to maintain a database related to various types of loss data. All these operational issues and loss events are discussed at the IRMC level.

IT Infrastructure Development

Up to end of 2014 the Bank operated on different IT systems. Today, the Bank has successfully deployed a new, centralized IT solution. After introducing this IT solution we are automatically exposed to IT Risk. Therefore, the Bank has approved information security and acceptable usage policies to commence the ISMS (Information Security Management System) officer functions from the year 2015.

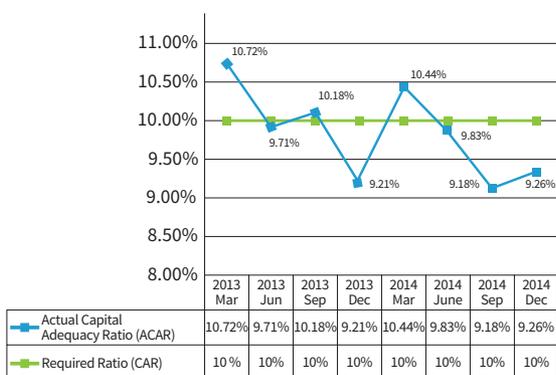
Business Continuity Plan (BCP)

The Bank has finalized its Business Continuity Plan (BCP) during this year. The implementation/drill of this BCP will commence from the year 2015.

Capital Adequacy

The Bank capital adequacy during the past two years is in the following manner.

Required Vs Actual Capital Adequacy Ratio



Since the minimum requirements have not been met on several occasions as shown from the above graph the Board of Directors approved the following actions to strengthen the capital base of the Bank.

1. To call for additional infusion of capital from the existing shareholders as per the Pradeshiya Sanwardhana Bank Act. This does not allow a new investor to come in as a shareholder.
2. To issue debentures.

As per the first strategy the Bank has raised Rs.271.54 million from the existing shareholders during the year 2014.

The Board has also approved to raise capital through a debenture issue of up to Rs.2.5 billion before the 2014 financial year end. However, due to unavoidable operational issues the debenture issue was not completed before the end of the year and it has decided to have the debenture issue during January 2015.

Carrying out the above two strategies of the Bank will strengthen its capital base to surpass the minimum requirement imposed by the regulator.

The Board and the Management is also conscious on the NPA movement of the credit portfolio which affects the capital adequacy of the Bank. Hence, periodic stress testing is being done by the Risk Management Department as per the approved stress testing policy guidelines of the Bank and the results are being notified to the Board through IRMC on a quarterly basis.

The results of the stress testing for the year 2014 are as follows.

Non-Performing Advance portfolio	Original CAR	Scenario 01	Scenario 02	Scenario 03
Magnitude of the shock	-	4%	8%	16%
Directly to loss category	9.26%	5.78%	5.46%	4.82%
Shift of shock within all categories	9.26%	6.02%	5.96%	5.83%

Compliance Risk Management

The Management of the Bank places great emphasis on ensuring that the Bank is moving in concurrence with its statute and the rules and regulations imposed by the monetary authority as well as the other legal/government entities in order to avoid failures or breaches of such obligations towards the Bank.

The key objectives of the Compliance Officer are to ensure the internal controls/regulatory requirements are complied with.

The Bank's compliance function falls under the purview of the IRMC headed by AGM Compliance. In order to achieve this objective he monitors and assesses the compliance requirements and submits quarterly reports on the compliance status of the Bank to the IRMC for review.

The Compliance Officer also overlooks the timely submission of necessary statutory reports of the Bank to the regulator.

Interest Rate Risk

The exposure of the Bank's financial condition to adverse movements in interest rates is known as the Interest Rate Risk. Changes in interest rates can have significant impact on the Bank's earnings as well as the underlying economic value of Bank assets, liabilities and off-balance sheet items.

According to the Interest Rate Risk Management Policy approved by the Board, ALCO is responsible to determine the interest rates based on gap and duration analysis of the Bank. Based on this analysis, Risk Management Department will carry out risk assessment on the interest rate fluctuations. However, at present ALCO determines

interest rates for both lending and deposits based on the market conditions and credit deposit ratio due to system limitations. This area of risk assessment will further improved in future with the completion of the Core Banking Solution implementation.

Future Risk Management activities of RDB

In order to inculcate the Risk Management culture across the Bank, the management is in the process of conducting training/awareness programmes for the staff of the entire network on a phased-out basis during the coming year. It is also accepted by the Management that the Risk Management Department is to be further strengthened with new eligible individuals and experienced staff to monitor and upgrade the risk management procedures of the Bank.

In the circumstances, in the year 2015, a restructuring process of the Risk Management Department is to be effected with the introduction of the Credit Administration as a separate unit in order to enhance the check and control processes and thereby minimize the operational risk and credit risk lapses. (Indicated by the regulator during their recent statutory examinations)

Relationships,
beyond Transactions.



Corporate Governance



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. }
My No. }

FB/M//RDB/CG/2014

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

19 June 2015

The Chairman,

Pradeshiya Sanwardhana Bank.

Auditor General's Report of Factual Findings of Pradeshiya Sanwardhana Bank to the Board of Directors of the Pradeshiya Sanwardhana Bank on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka.

I have performed the procedures enumerated in Annexure to the report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the corporate Governance direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive. In carrying out this engagement, I was assisted by a firm of Chartered Accountants in Public Practice.

I report my findings in the attached Annexure to this report

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, I do not express, any assurance on the compliance with directives of corporate governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Governance Report in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any financial statements of Pradeshiya Sanwardhana Bank, taken as a whole.

W.P.C. Wickramaratne

Acting Auditor General



Corporate Governance

3(1)	The Responsibilities of the Board	Findings
3(1)(i)	Agreed upon procedures carried out to ensure the board has strengthened the safety and soundness of the Bank.	
	<p>a) Check the Board approval, the bank's strategic objectives and corporate values.</p> <p>Check whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.</p>	<p>Complied with.</p> <p>Board approved the strategic objectives and corporate values in the year 2011 and it is determined by the Pradeshiya Sanwardana Bank Act No.41 of 2008.</p> <p>Strategic objectives have been reviewed during the year 2014 and improvements have been recommended with professional consultation is in process.</p> <p>Communicating the objectives through the Bank is done via circulars, e-mails, awareness programs and through the Key Management Personnel wherever necessary.</p>
	<p>b) Check the Board approval of the overall business strategy of the Bank.</p> <p>Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</p> <p>Check that the overall business strategy contains measurable goals, for at least the next three years.</p>	<p>Complied with.</p> <p>The available Board approved corporate plan covers the period for five years 2011-2015 .</p> <p>Business strategy for the next 05 year period commencing 2016 is under review. Overall business strategy include the Information Technology (IT) since the Bank introduced the Core Banking system.</p>
	<p>c) Check that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.</p>	<p>Complied with.</p> <p>Identifying and implementing the principal risk are performed by the Board through Integrated Risk Management Committee (IRMC). Reviewing policies/charters has been carried out and approved by the Board during the year 2014. Three (03) IRMC meetings were held during the year.</p>
	<p>d) Check that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;</p>	<p>Complied with.</p> <p>The policy has been reviewed and approved by the Board for the year 2014.</p>

e)	Check that the Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with. Internal control system is documented in the operational manual. Bank has taken steps in December, 2014, to review the adequacy & integrity of the MIS, vide board papers : 2014 / 490, 2014 / 535 & 2014 / 589 and established IT steering committee.
f)	Check that the Board has identified and designated Key Management Personnel, as defined in the Sri Lanka 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. Refer 3 (7) of this report and disclosure of related party transactions as per LKAS 24 disclosures.
g)	Check that the Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	Complied with. The areas of authority for the Board is governed by the Pradeshiya Sanwardana Bank Act and KMP's authority and responsibilities by the job descriptions.
h)	Check that the Board has exercised appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Complied with. Each department has given an action plan and at provincial levels. KMP/RGM performance review meetings were held monthly.
i)	Check that the Board has periodically assessed 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.	Not Complied. Assessment of the effectiveness of the Board Directors' own governance practices: No evidence to access that has been complied. (i) ensured – Nominated Directors are appointed by the Ministry of Finance in consultation with the Secretary to the Treasury. (ii) Not arise. (iii) No document to ensure
j)	Check that the Board has a succession plan for Key Management Personnel	Complied with. Board approved succession plan is in place.
k)	Check that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with. Review meetings have been scheduled with CEO and KMPs. Any matter concern is reported to the Board by CEO.

Corporate Governance contd.

	l)	Check that the Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	Complied with The Board is updated of the changes in the regulatory environment and maintains relationship with regulators. The process is managed by the Compliance Officer.
	m)	Check that the Board has a process in place for hiring and oversight of external auditors.	Complied with. By Act (Section 33 of Part V) the Auditor General represents as the external auditor.
3(1)(ii)		Check that the Board has appointed the Chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these directions.	Complied with. Ministry of Finance nominates and appoint the Chairman and the Board appoints the General Manager/Chief Executive Officer. Chairman's functions is a non-executive capacity.
3(1)(iii)		Check that the Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	Complied with. Board of Directors meet monthly and as and when necessary. 12 regular meetings and 2 special meetings were held during the year.
3(1)(iv)		Check that the Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with. Board meetings are scheduled monthly and Directors are noticed of the date of the next meeting well in advance, enabling them to include matters and proposals .
3(1)(v)		Check that the Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Complied with Notice of monthly Board meetings agenda and Board papers are circulated to the Directors 7 days prior to the meeting.
3(1)(vi)		Check that the Board has taken required action on Directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, to be acceptable as attendance.	Complied with. Attendance registry of Directors maintained and no such situation taken place during the year 2014.
3(1)(vii)		Check that the Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with. The Board has appointed a Board secretary who satisfies these provisions and requirements.
3(1)(viii)		Check the process to enable all Directors to have access to advice and services of the company secretary.	Complied with. All Directors have access to advice and services of the Board secretary.

3(1)(ix)	Check that the company secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	Complied with. Minutes of Board meetings are open to any Director for inspection.
3(1)(x)	Check that the minutes of a Board meeting contain or refer to the following: (a) A summary of data and information used by the Board in its deliberations (b) the matters considered by the Board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions.	Complied with.
3(1)(xi)	Check that there are procedures agreed by the Board to enable Directors upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with. Professional advice could be obtained at Bank's expense by taking decisions at Board meetings. However, there is no laid down procedure formulated.
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoid conflicts of interests, or the appearance of conflicts of interest. Check that a Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested. Check that has he/she been counted in the quorum for the relevant agenda item at the Board meeting.	Not complied. No procedure to avoid conflicts of interests, or the appearance of conflicts of interest. No such situation has arisen. No such situation has arisen.
3(1)(xiii)	Check that the Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	Complied with. A schedule of matters reserved for Board's decisions is included in the agenda to ensure Board's contribution in the decision-making process and to make the ultimate decisions.
3(1)(xiv)	Check that the Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	Complied with. Although this situation has not arisen, the Board has instructed the Asset Liability Committee, the CEO and other officers responsible should monitor liquidity risk, and bring promptly to the notice of the Board of any event about to become insolvent to inform the Director of Bank Supervision.

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3(1)(xv)	Check that the Board has the Bank capitalized at levels as required by the Monetary Board	Not Complied. Bank capital adequacy ratio has fallen below the required minimum for the quarters June, September and December 2014. Bank has subsequently taken steps to issue shares and debentures to overcome the capital level.
3(1)(xvi)	Check that the Board publishes, in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with. This Corporate Governance report discloses the extent to which the Bank has complied with Direction 3 of the Banking Act directions on Corporate Governance.
3(1)(xvii)	Check that the Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Not Complied with. This has to be implemented.
3(2) The Board's Composition		
3(2)(i)	Check that the Board comprise of not less than 7 and not more than 13 Directors.	Complied with. Board comprises 09 Directors.
3(2)(ii)	(a) Check that the total period of service of a Director other than a director who holds the position of CEO, does not exceed nine years.	Complied with. None of the Directors have completed nine years as described in the direction.
	(b) In the event of any Director serving more than 9 years, check that the transitional provisions have been applied with.	No Directors have exceeded 09 years.
3(2)(iii)	Check that the number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	Complied with.
3(2)(iv)	Check that the Board has at least three independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. Check if Non-Executive Directors can be considered independent if he/she:	Complied with. The Board comprises nine Directors out of which seven are Non-Executive Directors. Two Non-Executive Directors and the Chairperson of the Board are designated as Independent Non-Executive Directors.
	a) Holds a direct and indirect shareholdings of more than 1 per cent of the Bank;	Directors of the Bank are representing the Treasury, Bank of Ceylon, National Savings Bank and People's Bank.
	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 percent of the regulatory capital of the Bank;	Refer 3(2)(iv)(a) above
	c) has been employed by the Bank during the two year period immediately preceding the appointment as Director;	Refer 3(2)(iv)(a) above
	d) has had a close relation; who is a Director, CEO, a member of Key Management Personnel, a material shareholder of the Bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child);	Refer 3(2)(iv)(a) above
	e) represents a specific stakeholder of the Bank;	Refer 3(2)(iv)(a) above

	f)	is an employee or a Director or a material shareholder in a Company or business organization: (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 (ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or (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.	Refer 3(2)(iv)(a) above
3(2)(v)		In the event an alternate Director was appointed to represent an independent Director, Check the person so appointed meet the criteria that applies to the independent Director.	No alternate Directors were appointed.
3(2)(vi)		Check that the Bank has a process for appointing independent Directors.	All Directors are appointed by the Ministry in consultation with Secretary to the Treasury.
3(2)(vii)		Check that the stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.	Complied with.
3(2)(viii)		Check that the Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and independent Non-Executive Directors in the annual corporate governance report.	Complied with. Annual Report carries the details of the Board of Directors.
3(2)(ix)		Check the procedure for the appointment of new Directors to the Board.	Complied with. All Directors are appointed by the Ministry in consultation with Secretary to the Treasury.
3(2)(x)		Check that all Directors appointed to fill a casual vacancy is subject to election by shareholders at the first general meeting after their appointment.	Not applicable
3(2)(xi)		Check if a Director resigns or is removed from office, the Board: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with. All appointments and removal of Directors are done by the Ministry in consultation with Secretary to the Treasury.
3(2)(xii)		Check if there is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another Bank.	None of the present Directors act as a Director of any other Bank/s. However three Directors of the Bank are employees of the Shareholder Banks.
3(3) Criteria to assess the fitness and propriety of Directors			
3(3)(i)		Check that the age of a person who serves as Director does not exceed 70 years.	Complied with.
	(a)	Check that the transitional provisions have been complied with	Not applicable.

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3(3)(ii)	Check if a person holds office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Not applicable.
3(4) Management functions delegated by the Board		
3(4)(i)	Check that the delegation arrangements have been approved by the Board.	Complied with. The Board has delegated matters pertaining to the affairs of the Bank to the Board subcommittees and also to the CEO and other Key Management Personnel.
3(4)(ii)	Check that the Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	No such instances have occurred.
3(4)(iii)	Check that the Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with. The delegation processes been reviewed by way of management, KMP and RGM meetings.
3(5) The Chairman and CEO		
3(5)(i)	Check that the roles of Chairman and CEO is separate and not performed by the same individual.	Complied with. The positions of the Chairman and the CEO have been separated and held by two individuals.
3(5)(ii)	Check that the Chairman is a Non-Executive Director. In the case where the Chairman is not an independent Director, check that the Board designate an independent Director as the senior Director with suitably documented terms of reference. Check that the designation of the senior Director be disclosed in the Bank's Annual Report.	Complied with Chairman is a Non-Executive Director and no senior Directors designated in the Bank.
3(5)(iii)	Check that the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	Directors declarations have been obtained.
3(5)(iv)	Check that the Board has a self evaluation process where the Chairman: (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with. The Board meetings are chaired by the Chairperson who provides the leadership to the Board and all key issues are discussed and resolved. The Board has a self evaluation process.
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the Chairman.	Complied with. The agenda for each Board meeting is prepared by the Board secretary in consultation with Chairman and CEO.

3(5)(vi)	Check that the Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings	Complied with. Matters to be taken up for discussions are circulated with the notice of the meeting at least 07 days prior to the meeting.
3(5)(vii)	Check that the Board has a self evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank.	Not complied. Chairman takes the lead and all Directors act in the best interest of the Bank. However, there is no self evaluation process in place and yet to be implemented.
3(5)(viii)	Check that the Board has a self evaluation process that assesses the contribution of Non-Executive Directors.	Not complied. No self evaluation process.
3(5)(ix)	Check that the Chairman engages in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with. Chairperson is a Non Executive Director and does not get directly involved with supervision of Key Management Personnel.
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. All shareholders are represented by a Director in the Board.
3(5)(xi)	Check that the CEO functions as the apex executive-in-charge of the day to day management of the Bank's operations and business.	Complied with. The CEO is supported by the Key Management Personnel to manage the day-to-day-management of the Bank's operations and business and reports directly to the Board.
3(6) Board appointed Committees		
3(6)(i)	Check that the Bank has established at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Check that each Board committee report is addressed directly to the Board. Check that the Board presents in its Annual Report, a report on each committee on its duties, roles and performance.	Complied with. The Bank has established four Board committees which directly report to the Board. 1. Audit Committee 2. Human Resources and Remuneration Committee 3. Integrated Risk Management committee 4. IT steering committee (by Board paper 589/2014 on 09th December 2014)
3(6)(ii)	Audit Committee:	
	a) Check that the Chairman of the committee is an independent Non Executive Director and possesses qualifications and related experience	Complied with. Chairman of the audit committee is a Non Executive Director possesses qualifications and experience.
	b) Check that all members of the committee are Non-Executive Directors.	Complied with.

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c)	<p>Check that the committee has made recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with.</p> <p>Auditor General is the external auditor for the Bank.</p> <p>Complied with.</p>
d)	<p>Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAS.</p>	<p>Refer 3(6) (ii)(c)</p>
e)	<p>Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.</p>	<p>Complied with.</p> <p>Approval obtained as and when necessary to obtain non-audit services from any external auditor.</p>
f)	<p>Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.</p>	<p>Refer 3(6) (ii)(c)</p>
g)	<p>Check that the committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <ul style="list-style-type: none"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit. 	<p>Not complied with.</p> <p>No evidence contains in the minutes that the financial statements have been reviewed by the audit committee.</p>
h)	<p>Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.</p>	<p>Complied with.</p> <p>The representative of the Auditor General is also present in the audit committee meetings.</p>
i)	<p>Check that the committee has reviewed the external auditor's management letter and the management's response thereto.</p>	<p>Not complied.</p> <p>Minutes does not revealed the management letter has been discussed.</p>

J)	<p>Check that 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 programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</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> <p>(v) Check 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 provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>(vi) Check that the internal audit function is independent of the activities it audits.</p>	<p>Complied with</p> <p>Complied with</p> <p>Not implemented</p> <p>Not applicable. Internal Audit Department is in-house built</p> <p>Not applicable</p> <p>Complied with Internal audit function is an independent unit.</p>
k)	<p>Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.</p>	<p>Complied with.</p> <p>The major internal audit findings and the management's responses were discussed by the audit committee and the necessary recommendations were made.</p>
l)	<p>Check whether the committee has had at least two meetings with the external auditors without the Executive Directors being present.</p>	<p>Complied with.</p> <p>Three meetings were held CEO and the external auditors were present.</p>
m)	<p>Check the terms of reference of the committee to ensure that there is;</p> <p>(i) explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	<p>Complied with</p>
n)	<p>Check that the committee has met, at least four times and maintained minutes.</p>	<p>Three meetings were held during the year 2014.</p>
o)	<p>Check that the Board has disclosed in the Annual Report,</p> <p>(i) details of the activities of the audit committee;</p> <p>(ii) the number of audit committee meetings held in the year; and</p> <p>(iii) details of attendance of each individual Director at such meetings</p>	<p>Complied with.</p> <p>Three meetings were held during the year 2014.</p>

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	p)	Check that the secretary of the committee is the Board Secretary or the head of the internal audit function.	Complied with. Secretary of the committee is the company secretary.
	q)	Check that the “whistle blower” policy covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters. (ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and (iii) Appropriate follow-up action.	Not implemented
3(6)(iii)		Human Resources and Remuneration Committee Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
	a)	Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the “Terms of reference” and minutes.	Not complied. The committee has not yet implemented a policy to determine the remuneration
	b)	Check that the goals and targets for the Directors, CEO and the Key Management Personnel are documented.	Not complied. However the systems to be implemented has been proposed and discussed at meetings held.
	c)	Check that the committee has considered evaluations of 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.	Not complied. However the targets and goals to be set and evaluations of the performance has been proposed and discussed at meetings held.
	d)	Check that the “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	CEO was present for the 04 meetings held but no matters were discussed relating to the CEO.
3(6)(iv)		Does the following rules apply in relation to the Nomination Committee:	
	a)	Check that the committee has implemented a procedure to select/ appoint new Directors, CEO and Key Management Personnel.	Not applicable
	b)	Check that the committee has considered and recommended (or not recommended) the re-election of current Directors.	Not applicable
	c)	Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions.	Not applicable
	d)	Check that the committee has obtained from the Directors, CEO and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied with. Declarations have been obtained.
	e)	Check that the committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	Succession plan for and Key Management Personnel were decided. Retiring Directors decide by the Ministry.

	f)	Check that 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
3(6)(v)		Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	a)	The committee shall consist of at least three Non-Executive Directors CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied with The committee consist of 03 Non-Executive Directors. 03 meetings were held during the year 2014.
	b)	Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank-basis and Group-basis.	Complied with Report on risk profile of the Bank is submitted by the committee to the Board.
	c)	Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	Complied with Committee reviews the quantitative risk limits of other management committees. All these committees policies/charters were reviewed and submitted to the Board.
	d)	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with Reviewed the risk profile report.
	e)	Check how many times the committee has met at least quarterly.	Committee has met 03 times, June, September and October 2014.
	f)	Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Procedure is in place.
	g)	Check that the committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with
	h)	Check that the committee has 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 and that there is a dedicated compliance officer selected from Key Management Personnel to carry out the compliance function and report to the committee periodically.	Complied with. A monthly / quarterly report on statutory and mandatory requirements and statements of compliance to Central Bank of Sri Lanka is submitted by the finance department and the compliance officer. Compliance officer also submitted a report to IRMC to access compliance risk of the Bank.

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3(7) Related party transactions		
3(7)(i)	<p>Check that there is a established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <p>(a) Any of the Bank’s subsidiary companies;</p> <p>(b) Any of the Bank’s associate companies;</p> <p>(c) Any of the Directors of the Bank;</p> <p>(d) Any of the Bank’s key management personnel;</p> <p>(e) A close relation of any of the Bank’s Directors or Key Management Personnel;</p> <p>(f) A shareholder owning a material interest in the Bank;</p> <p>(g) A concern in which any of the Bank’s Directors or a close relation of any of the Bank’s Directors or any of its material shareholders has a substantial interest.</p>	<p>Not Complied with.</p> <p>No documented process is established by the Board to identify related party transaction and avoid any conflicts of interest. The transactions of the Directors representing the shareholder Banks are disclosed in the financial statements.</p> <p>Transactions related to the Directors have been identified through the Directors declaration submitted to CBSL.</p>
3(7)(ii)	<p>Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.</p>	No process other than 3(7) (i).
	a) The grant of any type of accommodation, as defined in the Monetary Board’s Directions on maximum amount of accommodation.	
	b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.	
	c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.	
	d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	
3(7)(iii)	<p>Does the Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business</p>	No process other than 3(7) (i).
	<p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board. For purposes of this sub-direction:</p> <p>(i) “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>(ii) The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank’s share capital and debt instruments with a maturity of 5 years or more.</p>	
	b) Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.	
	c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties	

	d)	Providing services to or receiving services from a related-party without an evaluation procedure;	
	e)	Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3(7)(iv)		Check that the Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	No process in place.
3(7)(v)	a)	Check that the Bank has a process, where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	The Board secretary obtains declarations from all Directors prior to their appointment & they are requested to declare any further transactions.
	b)	Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	This situation not arisen in the Bank.
	c)	Check that there is a process to identify any Director who fails to comply with the above sub-directions be deemed to have vacated the office of Director and has the Bank disclose such fact to the public.	This situation has not arisen in the Bank.
	d)	Check the process in place to ensure Clause 3(7)(v)(c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	This situation has not arisen in the Bank.
3(7)(vi)		Check that there is a process in place to identify when the Bank grants any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v).	No process in place.
3(7)(vii)		Check that there is a process to obtain prior approval from the Monetary Board for any accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	No process in place.

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3(8) Disclosures		
3(8)(i)	Check that the Board has disclosed:	Complied with.
	a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Audited financial statements are disclosed in the Annual Report and quarterly financial statements are published in the newspapers in all three languages.
	b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
3(8)(ii)	Check that the Board has made the following minimum disclosures in the Annual Report:	
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Refer Directors Report page Annual Report.
	b) The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with Refer Directors Report on internal controls on page on Annual Report.
	c) Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	Complied with
	d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied with
	e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Disclosure in the financial statements.
	f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Not complied Only Board of Directors & CEO's remunerations and accommodations granted is disclosed.
	g) Check that the Board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied with
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with. Relevant disclosures are made in Chairperson's and CEO's Review and the Director's Report.
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied with.

Attendance of Board and the Committees

Board of Directors / Board subcommittees Composition and Directors / Committee Members Attendance at Board and Board Sub-committee Meetings during 2014

Name of Directors and Executive / Non Executive / Independent Capacity	Board of Directors		Board of Audit Committee			Board Intergrated Risk Management Committee			Board HR and Remuneration Committee			Board IT Steering Committee		
	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A
1. Ms. Keshala Jayawardana (Chairperson)	16	16	-	-	-	-	-	-	M	06	06	-	-	-
2. * Mr. Rathnasiri Siriwardena (General Manager)	13	13	-	02	02	M	02	02	M	03	03	-	-	-
3. ** Mr. T.A. Ariyapala (Director)	13	11	-	-	-	-	-	-	-	-	-	-	-	-
4. Mr. B.M.S. Batagoda (Director)	16	11	M	03	03	-	-	-	-	-	-	-	-	-
5. Mr. Dammika Perera (Director)	16	07	C	03	01	M	03	02	-	-	-	M	-	-
6. *** Mr. K.B.S. Bandara (Director)	13	10	-	-	-	M	02	02	-	-	-	M	-	-
7. Mr. C.K. Nanayakkara (Director)	16	15	-	-	-	-	-	-	M	06	06	-	-	-
8. Mr. J.M.S.D. Rathnayaka (Director)	16	11	M	02	02	M	01	00	M	06	05	-	-	-
9. Mr. Russell De Mel (Director)	16	13	M	01	01	C	03	03	-	-	-	M	-	-
10. **** Mr. H.A. Amarasena (Executive Director)	14	11	-	-	-	-	-	-	-	-	-	-	-	-
11. Ms. Madavie Herath (Executive Director)	16	12	-	-	-	-	-	-	-	-	-	-	-	-
12. ***** Mr. Sarath De Alwis (Executive Director)	02	00	-	-	-	-	-	-	-	-	-	-	-	-
13. ***** Mr. T.A. Ariyapala (General Manager)	03	03	-	-	-	M	01	01	M	03	03	-	-	-
14. ***** Ms. Renuka Jayasingha (Director)	01	01	-	-	-	-	-	-	-	-	-	-	-	-

* S - Status of Director in Respective Committees

M - Member of the Committee

* A - Attendance

C - Chairman of Committee

* E - Eligibility to Attend

BI - By Invitation

* Retired from October 2014

** Resigned from October 2014

*** Appointed from March 2014

**** Appointed from February 2014

***** Resigned from February 2014

***** Appointed from October 2014

***** Appointed from December 2014

Directors' Report

GENERAL

The Directors of the Pradeshiya Sanwardhana Bank (RDB) take pleasure in presenting their Annual Report on the affairs of the Bank, together with the audited Financial Statements of the Bank for the year ended 31st December 2014. The Report also confirms to the requirements of the Pradeshiya Sanwardhana Bank Act No.41 of 2008, Banking Act No.30 of 1988 and Direction on Corporate Governance. The Bank was originally established in 1997 when seventeen Regional Development Banks were merged into six banks namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata & Sabaragamuwa Development Banks. These six Provincial Development Banks were further merged in May 2010 as a national level Development Bank and named the Pradeshiya Sanwardhana Bank (Regional Development Bank or RDB). RDB was established under the Pradeshiya Sanwardhana Act No. 41 of 2008. The RDB is a fully state-owned national level Bank with the objectives of empowering the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are to facilitate the overall economic development of Sri Lanka by promoting the development of agriculture, industry, trade, commerce, livestock, fisheries activities and empowerment of Sri Lankans, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

VISION, MISSION

The Bank's Vision & Mission are given on page 02 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under the Vision and Mission.

GOING CONCERN

The Board of Directors are satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going concern basis in preparing the Financial Statements.

FINANCIAL STATEMENTS

The Financial Statements of the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS's) laid down by the Institute of Chartered Accountants of Sri Lanka and complied with the Banking Act No. 30 of 1988. The Financial Statements of the Bank for the year ended 31st December 2014, are duly signed by the Chief Finance Officer, Chief Executive Officer and two Directors of the Bank, are given on page 90 and form an integral part of the Annual Report of the Board of Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of the affairs of the Bank. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments. The Directors' Responsibility Statement appearing on page 78 of this Annual Report describes in detail the Directors' responsibilities in relation to the Financial Statements, which forms an integral part of the Annual Report of Directors.

AUDITOR'S REPORT

The Auditor General carried out the audit of the Bank in 2014, the audit was carried out throughout the year. Issues identified in their report were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information, were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 81 of this Annual Report. As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of Financial Statements are given on pages 93 to 104.

DIRECTORS' REMUNERATION

Details of Directors' emoluments paid during the year are given in Note 11 of the Financial Statements.

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the message from the Chairman (pages 8 to 10), the message from the General Manager/CEO (pages 12 to 14) and the Management Discussion and Analysis (pages 30 to 34)

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2014 is contained in the message from the Chairman (pages 8 to 10), the message from the General Manager/CEO (pages 12 to 14) and the Management Discussion and Analysis (pages 30 to 34). These reports form an integral part of the Annual Report.

FINANCIAL RESULTS

The Bank's financial and operational performance is given on the General Manager/CEO's Review on pages 12 to 14 and the Financial Highlights on pages 6 to 7.

STATED CAPITAL

The total shareholders' fund as at 31.12.2014 is Rs.5.4 billion, which is significantly higher than the minimum capital requirement imposed by the Central Bank of Sri Lanka. The Stated Capital contributed by shareholders at the end of year is Rs.1.37 billion and their percentage of shareholding is as follows.

		Rs.	%
01.	Government Treasury	877,446,711	64
02.	Bank of Ceylon	164,484,480	12
03.	People's Bank	164,484,480	12
04.	National Savings Bank	164,521,260	12
	Total	1,370,936,931	100

INCOME

The income of the Bank for 2014 was Rs.11 billion. Details of the income are given in page 105.

TAXATION

The Bank contributed Rs.1,058 million by way of taxes and levies to the Government in 2014. This consisted of Rs.586 million of Income Tax, Rs.404 million of Value Added Tax and Rs.67 Million of NBT. The Income Tax Rate applicable on the Bank's operations is 28%. It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method. The Bank was also liable for Financial VAT at 12%.

PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, Leasehold Property and Intangible Assets during the year amounted to Rs.251 million (2013 Rs.314 million), the details of which are given in Notes 24 of the Financial Statements on pages 116 to 117 of this Annual Report.

EVENTS AFTER THE BALANCE SHEET DATE

The events occurring after the date of the statement of financial position are disclosed in Notes 37 of the Financial Statements.

OUTSTANDING LITIGATION

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 34 of the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

RESERVES

The Reserves of the Bank including retained earnings consist of the following:

	2014 Rs.	2013 Rs.
Stated Capital	1,370,936,931	1,099,400,151
Statutory Reserve Fund	523,268,291	506,153,956
Special Reserve Fund	377,658,619	360,544,284
General Reserve Fund	2,281,672,916	2,213,215,574
Retained Earnings	872,318,223	(336,320,804)
Total	5,425,854,981	3,842,993,161

BOARD OF DIRECTORS

The Board of Directors comprises eleven Members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders and represent the Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following were the newly-appointed Board of Directors whose brief profiles appear on pages 16 to 19 of this Annual Report.

- Mr. Prasanna Premarathna – Chairman
- Mr. S.R. Attygalle – Independent Non-Executive Director
- Mr. Mukthar Marikkar – Independent Non-Executive Director
- Mr. Janaprith Fernando – Independent Non-Executive Director
- Ms. Shamara Herath – Independent Non-Executive Director
- Mr. Koliya B. Senarath Bandara – Independent Non-Executive Director
- Mr. Sarath Hewage – Independent Non-Executive Director
- Dr. P.N. Weerasinghe – Executive Director (Working Director)
- Mr. M.I.M. Rezwie – Independent Non-Executive Director
- Mr. Jagath Gamanayaka – Independent Non-Executive Director
- Ms. G.P.R. Jayasinghe – Independent Non-Executive Director

Directors' Report contd.

RESIGNATION OF DIRECTORS

Ms. Keshala Jayawardana, Mr. H. A. Amarasena, Ms. A.V.K. Madhavi Herath, Dr. B.M.S. Batagoda, Mrs.C.K.Nanayakkara, Mr.S.D.N.Perera, Mr.K.B.S.Banadara, Mrs. Renuka Jayasinghe, Mrs. J.M.S.D. Rathnayake and Mr. Russell De Mel resigned from the Board with effect from 20.01.2015.

NEW APPOINTMENT OF DIRECTORS

Director	Appointment Date
Mr. Prasanna Premarathna	10/02/2015
Mr. S.R. Attygalle	24/02/2015
Mr. Mukthar Marikkar	10/02/2015
Mr. Janaprith Fernando	10/02/2015
Ms. Shamara Herath	10/02/2015
Mr. Koliya B. Senarath Bandara	18/05/2015
Mr. Sarath Hewage	10/02/2015
Dr. P.N. Weerasinghe	10/02/2015
Mr. M.I.M. Rezwie	17/03/2015
Mr. Jagath Gamanayaka	25/03/2015
Ms. G.P.R. Jayasinghe	05/05/2015

BOARD COMMITTEES

The Board of Directors of the Bank while assuming the overall responsibility and accountability, has also appointed the following Board Sub Committees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances. The composition of Board Sub Committees are as follows:

AUDIT COMMITTEE

1. Mr. S.R. Attygalle (Chairman of the Committee)
2. Mr. Sarath Hewage
3. Ms. Shamara Herath
4. Mr. J.K. Gamanayaka
5. Mr. M.I.M. Rezwie
6. Mr. Koralagedara (Chief Internal Auditor)

Report of the Audit Committee is given on page 75 and forms a part of the Director's Report of the Board.

INTEGRATED RISK MANAGEMENT COMMITTEE

1. Mr. K.B.S. Bandara (Chairman of the Committee)
2. Mr. S.R. Attygalle
3. Ms. G.P.R. Jayasinghe

4. Mr. M.I.M. Rezwie
5. Mr. T.A. Ariyapala (GM / CEO)
6. Mr. T. Kuhan – Chief Risk Officer
7. Mr. Sumanadasa – Compliance Officer

Report of the Integrated Risk Management Committee is given on page 74 which forms part of the Directors' Report of the Board.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

1. Mr. Prasanna Premarathna - (Chairman of the Committee)
2. Mr. S.R. Attygalle
3. Mr. Janaprith Fernando
4. Dr. P.N. Weerasinghe
5. Mr. T.A. Ariyapala (GM / CEO)
6. Mr. K.M.J.S. Karunathilaka - Head of HRD

BOARD IT STEERING COMMITTEE

1. Mr. Mukthar Marikkar (Committee Chairman)
2. Mr. K.B.S. Bandara
3. Ms. G.P.R. Jayasinghe
4. Mr. M.I.M. Rezwie
5. DGM – Information Technology

DIRECTORS' MEETINGS

The number of Directors' meetings which comprise Board Meetings, Audit Committee Meetings, Integrated Risk Management Committee Meetings and the attendance of Directors at these meetings are given on Corporate Governance Report page 69 of this Annual Report.

RELATED PARTY TRANSACTIONS

The Directors have also disclosed the transactions, if any, that could classify as related party transactions in terms of Sri Lanka Accounting Standards (LKAS 24) Related Party Disclosures, which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 36 to the Financial Statements forming part of the Annual Report of the Board.

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER (GM/CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. The General Manager has the right to be present at, and to participate in the meetings of the Board.

HUMAN RESOURCES

The Bank continued to develop and maintain dedicated and highly-motivated employees who are committed to creating sustainable value through high-quality service.

OPERATIONAL EXCELLENCE

To increase efficiency and reduce operating cost, the Bank has ongoing initiatives to drive policy and process standardization and to optimize the use of existing technology platforms.

ENVIRONMENTAL PROTECTION

The Bank has taken initiatives to safeguard and enhance the environment which is vital for sustainable development and growth of the Bank. The Bank has not engaged in any activity that is harmful or hazardous to the environment.

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 in time.

RISK MANAGEMENT INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been re-designed to mitigate the risks to which the Bank is exposed to and provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying, evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risks are detailed on pages 47 to 51.

DIRECTORS' STATEMENT OF INTERNAL CONTROL

The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on pages 78 to 79. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 77 of the Annual Report.

CORPORATE GOVERNANCE

In the management of the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced/improved from time to time to enhance risk management measures and to improve accountability and transparency. A separate report on corporate governance is given on pages 54 to 68 for which the Board has obtained an Assurance Report from the Auditor General.

COMPLIANCE WITH LAWS, REGULATIONS AND PRUDENTIAL REQUIREMENTS

The Bank has at all times ensured that it complied with Pradeshiya Sanwardhana Bank Act and all other applicable laws, regulations and prudential requirements.

AUDITORS

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31st December 2014.

Integrated Risk Management Committee Report

Risk Management has become an important function in banks with the BASELL accords. Accordingly, Regional Development Bank (RDB) also aims at improved shareholder value delivery by striking a balance between risks and returns. During the year 2014 RDB has strengthened and taken steps to further improve the risk management framework of the Bank to ensure that its operations fall in line with the best practices described by CBSL and BASELL II accords.

The IRMC comprises of the following six members of which three are Non-Executive Directors.

1. Mr. Dammika Perera – Member of the Committee/Director (NED) (From January to June – Chairman and thereafter a member of the committee)
2. Mr. Russell De Mel – Chairman of the Committee/Director (IND) (From June to December – Chairman of the committee)
3. Ms. J. M. S. D. Rathnayake – Member of the Committee/Director (NED) (From January to June – Chairman and thereafter ceased to be a member of the committee)
4. Mr. K. B. S. Bandara – Member of the Committee/Director (NED) (From June to December a member of the committee)
5. Mr. T. A. Ariyapala – Member of the Committee/GM / CEO of the Bank (From September to December)
6. Mr. R. Siriwardena – Member of the Committee/ GM / CEO of the Bank (From January to September GM/CEO of the Bank and retired thereafter)
7. Mr. T. Kuhan – Member of the Committee/CRO of the Bank
8. Mr. W. Sumanadasa – Member of the Committee/ Compliance Officer of the Bank

(IND – Independent Director and NED – Non-Executive Director)

DGM Credit and SAGM Operations usually attends the meeting by invitation.

Brief Profiles of the Directors representing the Committee are given in pages 16 to 19 of the Annual Report.

The Secretary to the Board functions as the Secretary to the Risk Management Committee as well. The broader level outlook of terms of reference of the Committee approved by the Board of Directors is appended below.

1. To ensure that the Bank has a comprehensive risk management framework, appropriate compliance and systems in place.

2. To assess all risk types, including but not limited to: credit, liquidity, operational and strategic reputational risks to the Bank through appropriate risk indicators and management information.
3. To ensure risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risks taken beyond the risk tolerance set by the committee, on the basis of the Bank's policies and regulatory and supervisory requirements.
4. To monitor and assess the effectiveness of the Bank's Risk Management System and the robustness of the risk management function.
5. To periodically assess performance against internally defined risk appetite.
6. To review the Bank's compliance report and action taken in relation to report.
7. To review issues related to integrated Risk Management framework.
8. To review progress on BASELL II roadmap implementation and regulator guidelines. We draw your attention to the Risk Management Section of the report (pages 47 to 51) which extensively covers level of adherence against the terms of reference, achievements during the year and actions taken to mitigate key risks.

The committee has met three times during the year 2014 and the attendances at the meetings are given in the table on page 69 of the Annual Report. Since there was a change in the committee composition and due to the delay in appointing some Board members, the committee could not meet the minimum requirement of four meetings as directed by the CBSL.

The discussions and conclusions reached at the meetings are recorded in minutes and a summary of the report for each meeting is circulated to the Board of Directors at the very next Board Meeting for their information and advice.



Kasuni Pinnawele

Board Secretary

Audit Committee Report

COMPOSITION OF AUDIT COMMITTEE

The Audit Committee appointed by the Board of Directors of the Bank consists of the following Non-Executive Directors.

1. Mr. Dhammika Perera (Chairman of the Committee)
2. Dr. B.M.S. Batagoda
3. Mrs. J.M.S.D. Rathnayaka (Resigned)
4. Mr. Russell de Mel

The Audit Committee consists of three Non-Executive Directors and Mr. Dhammika Perera has been nominated as the Chairman of the Committee. The Head of Finance and Planning participates at the meetings of the Committee by invitation while the Superintendent of the Government Audit Department participates at the Committee meetings as an Observer. The General Manager/Chief Executive Officer of the Bank participates by invitation as and when required, while the Secretary to the Board of Directors also functions as the Secretary to the Audit Committee.

OBJECTIVES

The main objective of the Audit Committee is to encourage and safeguard the highest standards of integrity in financial reporting, risk management and internal controls. In achieving the main objectives/goals the Committee is responsible with regard to the following:

- Make recommendations on matters related to appointment of the External Auditors for audit services to be provided in compliance with the relevant laws/regulations, the application of accounting standards, the service period, the audit fees, any resignation or dismissal of the auditor and other connected matters.
- Monitoring the structure and content of procedures to ensure the integrity of financial statements and financial reports of the Bank.
- Monitoring and reviewing existing arrangements to assure objectivity and effectiveness of external and internal audit functions of the Bank.
- Reviewing Internal Control Systems and Risk Management Systems of the Bank to ensure their effectiveness and making appropriate recommendations.
- Reviewing of Internal Audit Reports, External Audit Management Letters as well as follow-up audits thereon.
- Reviewing and monitoring compliance with the ethical standards of the Bank and regulatory and financial reporting requirements. Reviewing and making recommendations in order to maintain smooth relations with relevant regulatory authorities such as the Central Bank of Sri Lanka.

MEETINGS

Meetings of the committee are convened quarterly, in accordance with the regulations/guidelines for organizational corporate governance issued by the Central Bank of Sri Lanka. Three Audit Committee meetings have been held during the year ended 31.12.2014.

During the year 2014, the Audit Committee directed its attention primarily on the following matters with regard to corporate governance.

- Maintenance of the Internal Audit Department under a professional, capable and experienced/skilled staff.
- Ensuring independence of Internal Audit Department.
- Reviewing Internal Control Systems and providing recommendations for further enhancement of its efficiency.
- Approval for grading of branches based on risk factors identified using risk-based internal audit strategies.
- Reviewing the Internal Audit Action Plan for the year 2014.
- Reviewing Internal Audit Reports prepared for 2014.
- Reviewing the Management Letter submitted by the External Auditors.
- Reviewing the External Auditors' observations and making necessary recommendations.
- Follow-up with regard to the implementation of recommendations highlighted in the audit reports.

According to the Internal Audit Plan, during the reviewing year one hundred and sixty branches have been audited by the Internal Audit Department under the supervision of the Audit Committee. Furthermore, action has already been taken for improving Internal Control System and mitigating frauds, errors and other loss events. The Audit Committee evaluates the Bank's sustainability, profitability and other related concerns.

Accordingly, the Audit Committee certifies that the Bank maintains adequate and appropriate controls and adheres to the procedures/systems for compliance in financial reporting and risk management.



Kasuni Pinnawele

Board Secretary

CEO & CFO Officers' Responsibility Statement

The Financial Statements of the Regional Development Bank as at 31st December 2014 are prepared and presented in compliance with the following regulatory requirements:

1. Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
2. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
3. Companies Act No. 07 of 2007
4. Banking Act No. 30 of 1988 and amendments thereto
5. Directions, circulars and guidelines issued to Licensed Commercial Banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka on corporate governance
6. Pradeshiya Sanwardhana Bank Act No. 41 of 2008.

The formats used in the presentation of the Financial Statements and disclosures are in compliance with the specified formats for the preparation of Annual Financial Statements of Licensed Specialized Banks, issued by the Central Bank of Sri Lanka.

The Accounting Policies of the Bank are in compliance with Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, which came into effect from 1st January 2012. The Accounting Policies are consistently applied by the Bank. Comparative information has been reclassified wherever necessary to comply with the current year's presentation. All significant items have been disclosed and explained by way of Notes to the Financial Statements. We confirm to the best of our knowledge, that the Financial Statements presented herewith give a true and fair view of the financial position, Statement of Profit or Loss and the cash flows of the Bank for the year. We also believe that the Bank has adequate resources to continue its operations in the foreseeable future and accordingly adopt the going concern basis for the preparation of the Financial Statements.

The Board of Directors and the management of the Bank accept responsibility for the integrity and the objectivity of the Financial Statements. The estimates and judgements relating to the Financial Statements were made on a reasonable and prudent basis; in order that the Financial Statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Bank is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in implementing internal control systems, with the use of a core banking system, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Internal Auditor of the Bank has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank are consistently followed. However, there are inherent limitations that should be recognized in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Bank was audited by Auditor General's Department. The Report issued by Auditor General is available on pages 81 to 87 of this Report.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with the Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on page 75 to ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee at the Audit Committee Meeting to discuss any matter of substance.

We confirm to the best of our knowledge that:

- The Bank has complied with all applicable laws, rules, regulations and guidelines;
- There is no material non-compliance;
- There is no material litigation against the Bank other than those disclosed in Note 34 of the Financial Statements section of this Report;
- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank as at the reporting date have been paid, or where relevant provided for.



T.A. Ariyapala
General Manager



Chandrasiri Kalupahana
Chief Financial Officer



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. }
My No. }

FB/M//RDB/IC/2014

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

19 June 2015

The Chairman,

Pradeshiya Sanwardhana Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of Pradeshiya Sanwardhana Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over financial reporting ("Statement") of Pradeshiya Sanwardhana Bank included in the annual report for the year ended 31 December 2014. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in Public practice,

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 2002 by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

My engagement has been conducted to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process, the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

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

SLSAE 3050 does not require me 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 me 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.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process, the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

W.P.C. Wickramaratne

Acting Auditor General



Directors' Statement on Internal Control

REQUIREMENT

This report has been issued in line with the Banking Act Direction 11 of 2007 Section 3 (8) (ii) (b), and prepared based on the guidelines issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

RESPONSIBILITY

The Board of Directors is responsible for Internal Control in Regional Development Bank and for reviewing its effectiveness and adequacy. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than 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 of against financial losses or fraud.

BOARD REVIEW PROCESS

The process was 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 Bank has taken steps to improve the system of internal controls to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes.

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

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:

- Board sub-committees of Audit and Integrated Risk Management Committee (IRMC) are established by the Board to assist the Board in ensuring the effectiveness of the 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 Board has approved an Operational Manual related to the financial and other controls of the Bank in all its transactions. The procedures laid down in the manual have been communicated to all members of the staff.
- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Audit Committee. 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. The Bank has prepared year-ending financial statements using manual processes, where the Management Information System (MIS) team at the Head Office and Regional Offices are involved in preparation and presentation. At present, the Bank is implementing a centralized software core-banking platform.
- The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned accounting standards were further strengthened during the year 2014 based on the feedback received from the External Audit Department, regulators and the Board Audit Committee. The Bank will continue to further strengthen the processes such as impairment of Loans and Advances and Financial Statement disclosures related to Risk Management.

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 for the year ended 31 December 2014 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board review of the design and effectiveness of the internal control system of the Bank.



T.A. Ariyapala
General Manager/CEO



Mukthar Marikkar
Director



Prasanna Premarathna
Chairman

Relationships,
beyond Transactions.



Financial Information



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கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

FB/M/RDB/1/14/29

මගේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

30 June 2015

The Chairman,

Pradeshiya Sanwardhana Bank.

Report of the Auditor General on the Financial Statements of the Pradeshiya Sanwardhana Bank for the year ended 31 December 2014 in terms of Section 38 of 1971.

The audit of financial statements of the Pradeshiya Sanwardhana Bank for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of income, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 33 of the Pradeshiya Sanwardhana Bank Act, No 41 of 2008. A detailed report in terms of Section 13(7) (a) of the Finance Act will be issued to the Chairman of the Bank in due course.

1.2 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 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

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





2.2 Comments on Financial Statements

2.2.1 Non - Compliance with Sri Lanka Accounting Standards (LKAS)

The following non-compliance with LKAS 39 - Financial Instrument Recognition and Measurement were observed in audit

- (a) Staff Loan amounting to Rs. 1,160,083,733 had been identified as a financial instrument and shown under loans and receivables in the financial statements. However, it had not been measured at amortized cost as required.
- (b) Individual impairment for individually significant loans and receivables had not been done in term of paragraph 64 of the standard.

2.2.2 Unreconciled Differences

The differences aggregating Rs.34,448,230 was observed between the refinance balances payable under the Central Bank of Sri Lanka (CBSL) refinance shown in the ledger accounts and the balances confirmed by the CBSL as at 31 December 2014.

2.3 Non - compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances observed in audit are given below.

Reference to Laws, Rules, Regulations, etc.		Non - Compliance			
(a)	Section 31 of the Pawn Broker's Ordinance No.13 of 1942	A pawnbroker may bid for and purchase at a sale by auction made or purporting to be made under this Ordinance, a pledged pawned with him, and on such purchase the pawned broker shall be deemed to be the absolute owner of the pledged purchase. In contrary to this provision 23.95 kilograms of unsold pawned articles had been smelted without obtaining the absolute ownership of such articles.			
(b)	Public Administration Circulars No. 03/2012 of 23 February 2012	A Vehicle had been handed over to the retired General Manager without being obtained the appropriate approval from the General Treasury.			
(c)	Guideline 8.13.4 of the Government Procurement Guidelines 2006 - Variations to Contracts	If the aggregate amount of the variation is exceeding 10 percent of the contract price, the Chairman-should be obtained the approval from the Secretary to the line Ministry before issuing such variation orders. However, the relevant approvals had had not been obtained for the variation orders made to the following contract works.			
		Name of the Contract	Initial Contract Price (Rs.)	Value of Variation Orders (Rs.)	Value of Variation Orders as a percentage of Contract Price (%)
		Repair to existing branch office building at Mihintale	1,226,216	2,656,182	217
		Construction of Thirappane branch building	20,668,821	9,507,451	46





3 Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Bank for the year ended 31 December 2014 had resulted in a pre-tax profit of Rs. 397,011,990 as compared with the corresponding pre-tax profit of Rs. 397,011,990 in the preceding year, thus indicating an improvement of Rs. 531,656,074 in the financial results for the year under review.

The decrease of impairment charges for loans and other losses, and interest expenses by Rs.999,561,030 and Rs. 627,908,328 respectively and increase of fee and commission income by Rs. 48,644,978 as compared with the preceding year were the main reasons attributed for this improvement in the financial result.

3.2 Analytical Financial Review

The following observations are made.

3.2.1 Cost of fund and Financial Yield

According to the information and financial statements furnished to audit, the following table gives the cost of funds and financial yield for the year ended under review and the previous year.

Description	2014			2013		
	Avg. Balance	Cost Revenue	Cost Revenue as a percentage of Average Balance	Avg. Balance	Cost Revenue	Cost Revenue as a percentage of Average Balance
	Rs.000	Rs.000	%	Rs.000	Rs.000	%
(I) Cost of Fund						
(a) Deposits						
Saving Deposits	27,135,633	1,117,842	4.12	22,492,183	900,907	4.01
Fixed Deposits/						
Certificate of Deposits	40,430,295	3,744,264	9.26	36,145,997	4,607,587	12.75
Total Deposits	67,565,928	4,862,106	7.2	58,638,181	5,508,494	9.39
(b) Borrowings						
Refinanced Loans	7,448,855	370,001	4.97	5,903,403	262,271	4.44
Other Borrowings	1,703,025	78,761	4.62	1,391,406	168,011	12.07
Total Borrowings	9,151,880	448,762	4.90	7,294,809	430,282	5.90
(c) Cost of Fund on Mobilization (a+b)						
(Weighted Average Cost of Capital)	76,717,808	5,310,868	6.92	65,932,989	5,938,776	9.01
(d) Other Liabilities	4,233,544	-	-	3,836,925	-	-
(e) Capital	1,235,169	-	-	1,099,400	-	-
(f) Reserves	3,399,256	-	-	2,957,782	-	-



Description		2014			2013		
		Avg. Balance	Cost Revenue	Cost Revenue as a percentage of Average Balance	Avg. Balance	Cost Revenue	Cost Revenue as a percentage of Average Balance
		Rs.000	Rs.000	%	Rs.000	Rs.000	%
(g)	Total Other Liabilities with Shareholder's Equity						
	(c+d+e+f)	85,585,777	-	-	73,827,096	-	-
	Less :						
(h)	Other Assets	3,068,274	-	-	2,599,514	-	-
	Financial Cost (g-h)	82,517,503	3,003,545	3.64	71,227,583	2,699,190	3.79
	Overhead Costs	82,517,503	1,610,614	1.95	71,227,583	1,016,078	1.43
	Total Cost of Funds	82,517,503	9,925,027	12.03	71,227,583	9,654,044	13.55
(II)	Financial Yield						
	Loan Portfolio	61,034,934	8,450,783	13.85	57,612,758	8,577,987	14.89
	Investments	21,482,568	2,142,304	9.97	13,614,825	1,862,946	13.68
	Financial Yield	82,517,503	10,593,087	12.84	71,227,583	10,440,933	14.66
	Margin	82,517,503	668,060	0.81	71,227,583	786,889	1.10
	Fee Based and Other Income	82,517,503	957,488	1.16	71,227,583	472,915	0.66
	Margin	82,517,503	1,625,548	1.97	71,227,583	1,259,804	1.77
	Tax	82,517,503	1,058,054	1.28	71,227,583	495,086	0.70
	Net Margin	82,517,503	567,494	0.69	71,227,583	764,718	1.07

The following observations are made in this regard.

- (a) Cost of Deposit Ratio had decreased by 23 percent in the year 2014 as compared with the preceding year mainly due to decrease of interest expenses by 12 percent.
- (b) Even though the borrowings had increased by 25 percent in the year under review, the Cost of Borrowing Ratio had decreased by 17 percent, as a result of lower interest rates for the year 2014.
- (c) In view of the above, the Weighted Average Cost of Capital had decreased by 23 percent Actual Category in the year 2014 as compared with the preceding year.

3.2.2 Significant Accounting Ratios

According to the information made available, some of the important ratios of the Bank for the year under review and the preceding year are as follows.

Category	Sector Ratio (Licensed Specialized Bank)	Actual	
		2014	2013
(a) Prolitability Ratio	16.41%	8.3%	3.61%
Net Interest Margin	3.63%	6.4%	6.32%
Net Interest Income on Interest Income	30.12%	49.86%	43.12%
Non Interest Income to Total Income	10.51%	5.30%	5.04%
Interest Cost on Interest Income	69.88%	50.14%	56.88%



Category	Sector Ratio (Licensed Specialized Bank)	Actual	
		2014	2013
Overhead Expenditure on Net Interest Income	-	30.49%	22.57%
Staff Cost to Operating Expenses	50.73%	62.26%	72.65%
Return on Average Assets	2.19%	1.09%	0.53%
Return on Equity	14.34%	7.39%	4.73%
Earnings per Share (Rs.)	-	3.04	1.74
(b) Gearing Ratio			
(i) Total Assets to Equity		17.02 : 1	20.51 : 1
(ii) Borrowings to Equity		1.81 : 1	2.21 : 1
(c) Capital Adequacy Ratio			
(i) Tier i	23.25%	8.87%	8.82%
(ii) Tier ii	20.62%	9.26%	9.21%
(d) Liquid Assets Ratio (Minimum 20 percents)			
	67.76%	35.51%	25.51%

The following observations are made in this regard.

- (a) The capital adequacy ratio had far below than the minimum requirement of 10 percent. However, after issuing the debentures valued at Rs. 2.5 billion in January 2015, the capital adequacy ratio had increased to 11 percent in the first quarter of 2015.
- (b) High interest margin of 6.40 percent had reported as at 31 December 2014 as compared with the average Licensed Specialized Bank ratio of 3.63 percent.
- (c) The contribution of non-interest income to the total income of the Bank was only 5.30 percent which was significantly lower than average Licensed Specialized Bank ratio of 10.51 percent. Therefore, the Bank was highly concentrated on interest income and would be vulnerable to change in interest rates.
- (d) According to the Banking Industry Analysis of 2014, the Bank had recorded a higher ratio of the personal cost out of total expenses (excluding the interest expenses and fee and commission expenses) which was 62.26 percent as compared with the average Licensed Specialized Bank ratio of 50.73 percent.
- (e) Return on average assets and return on equity ratios of the Bank were only 1.09 percent and 7.39 percent respectively which were significantly lower than average Licensed Specialized Bank ratio of 2.19 percent and 14.34 percent.

3.2.3 Maturity Profile of the Bank

Analysis of the profile of the financial assets and financial liabilities of the Bank as at 31 December 2014 revealed that the total long term financial liabilities were far in excess over total financial assets and the long term liquidity gap up to 3 to 5 years and over 5 years in 2014 had been Rs.387,289,824 and Rs.4,671,490,827 respectively. Details are given below.

	0-3 Morths Rs.	3 -12 Months Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Total Rs.
Assets						
Cash and Balance with Central Bank	236,997,514	-	-	-	-	236,997,514
Sri Lanka Government Securities	-	1,789,084,271	-	-	-	1,789,084,271
Balance with Banks	18,191,222,200	7,974,193,222	-	-	-	26,165,415,422
Financial Assets Held for Trading	-	-	-	-	206,300	206,300



	0-3 Morths Rs.	3 -12 Months Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Total Rs.
Loans and Receivables from Other Customers	10,641,256,097	19,030,853,503	17,951,645,172	11,028,353,538	9,685,055,527	68,337,163,837
Other Assets	177,692,089	49,337,768	390,795,864	-	-	617,825,721
Totrl Assets	29247,167,961	28,843,468,763	18342,441,036	11,028,353,538	9,685,261,282	97,146,693,125
Liabilities						
Due to Banks	599,573,675	1,793,611,679	4,782,964,477	3,054,887,233	-	10,231,037,063
Due to Other Customers	25,603,386,928	20,806,089,165	5,935,939,862	8,088,148,842	13,922,523,985	74,356,088,781
Other Liabilities	1,680,781,534	451,943,705	495,034,379	272,607,287	434,228,669	3,334,595,573
Total Liabilities	27,883,742,136	23,051,644,549	11,213,938,718	11,415,643,362	14,356,752,653	87,921,721,418
Maturity Gap	1,363,425,825	5,791,824,214	7,128,502,319	(387,289,824)	(4,671,490,827)	9,224,971,708

4. Operating Review

4.1 Performance

The following observations are made in this connection.

(a) Deposits

Bank's deposit structure was highly concentrated on high cost fixed deposits which represented 58 percent of the total deposits as at 31 December 2014. Interest expenses on fixed deposits represented 77 percent of total interest expense as at 31 December 2014. High dependence on high cost fixed deposits may be adversely affected to the cost of fund.

(b) Loan Portfolio

The non performing loan ratio to the total loans and advances was 7.69 percent in the year 2014, which shows an increase of 9 percent as compared with the preceding year.

4.2 Operating Inefficiencies

The following observations are made.

- According to the special investigation carried out by the Internal Audit Division of the Bank, it was revealed that two loans valued at Rs. 12.5 million had been offered by the Kolonnawa Branch by violating the existing loan granting procedures. However, disciplinary action had not been taken against the officers responsible for granting of these loans.
- Hikkaduwa Branch had granted a loan amounting to Rs. 10 million to a customer on 13 December 2013. However, no single installment had been recovered even up to the date of audit on 31 March 2015. The total outstanding balance with interest as at 31 December 2014 was Rs. 13,567,123.





5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan for the period 2011-2015 had been prepared by the Bank, the targets set out for the year under review had not been achieved as planned. Details are shown below.

Item	Target (Rs.)	Actual (Rs.)	Variance (Rs.)
Profit	1,702,240,000	303,539,698	1,398,700,302
Investments	33,219,153,000	27,505,171,827	5,713,981,173
Loans and Advances	80,752,893,000	61,371,585,932	19,381,307,068
Deposits from Customers	105,566,914,000	72,525,364,971	33,041,549,029
Other Liabilities	2,476,507,000	3,765,103,216	(1,288,596,216)

The following observations are also made in this connection

- According to the Corporate Plan, the Bank had expected to maintain the non performing loan ratio of the Bank below 4 percent. Nevertheless, it was 7.69 percent as at 31 December 2014.
- The Bank had targeted to increase the branch network up to 400 branches and commencement of ATM network in the year 2014. However, only 265 branches were in operation as at end of the year under review and ATM network had not been commenced even by the end of the year under review.
- Although, the Bank had targeted to mobilize, amounting to Rs. 105,566 million of deposits from customers, it was mobilized only Rs. 72,525 million, or 69 percent as at 31 December.
- Although the expected split between saving deposits and fixed deposit was 55:45 in 2014, the actual split shows 42:58 as at 31 December 2014.

5.2 Action Plan

The Bank had not prepared an action plan for the year 2014 as requested by the Public Enterprise Circular No. PED 47 dated 18 December 2007.

5.3 Procurement Plan

The Bank had not prepared a master procurement plan and a procurement time schedule for the year 2014 to ensure the timely completion of the procurement and to obtain the best market value for it.

5.4 Budgetary Control

Significant variances were observed between the budgeted and actual figures, thus indicating that the Budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Bank in time to time. Special attention is needed in respect of the following areas of control.

- | | |
|--------------------------------|---|
| (a) Accounting | (b) Loan Administration |
| (c) Human Resources Management | (d) Corporate Governance |
| (e) Pawning | (f) Compliance with Instructions of the Central Bank of Sri Lanka |
| (g) Internal Control | (h) Budgetary Control |

W.P.C. Wickramaratne

Acting Auditor General



Income Statement

For the year ended 31 December	Note	Bank	
		2014 Rs.	2013 Restated Rs.
Gross income	4	11,186,356,204	10,994,634,547
Interest income		10,593,086,967	10,440,932,854
Interest expenses		(5,310,868,124)	(5,938,776,452)
Net interest income	5	5,282,218,843	4,502,156,402
Fee and commission income		595,406,906	546,761,928
Fee and commission expenses		(90,296,171)	(73,847,088)
Net fee and commission income	6	505,110,735	472,914,840
Net gain/(loss) from financial instruments at fair value through profit or loss	7	55,580	69,859
Other operating income (net)	8	(2,137,669)	6,939,765
Total operating income		5,785,247,489	4,982,080,866
Impairment charges for loans and other losses	9	452,377,502	(547,183,528)
Net operating income		6,237,624,991	4,434,897,338
Less - Operating expenses			
Personnel expenses	10	3,003,545,285	2,699,189,913
Amortization of intangible assets		13,005,537	32,839,594
Other expenses	11	1,610,614,900	1,016,077,938
Levy paid to general treasury		210,118,527	-
Operating profit before Value Added Tax (VAT)		1,400,340,742	686,789,893
NBT		(67,381,811)	-
Value Added Tax (VAT) on financial services		(404,290,867)	(289,777,903)
Operating profit after Value Added Tax (VAT) before tax		928,668,064	397,011,990
Profit before tax		928,668,064	397,011,990
Tax expenses	12	(586,381,354)	(205,307,621)
Profit for the year		342,286,709	191,704,369
Earnings per share			
Earnings per share : Basic	13	3.04	1.74

The Notes to the Financial Statements from pages 93 to 140 form an integral part of these Financial Statements.

Statement of Other Comprehensive Income

For the year ended 31 December	Note	Bank	
		2014 Rs.	2013 Restated Rs.
Profit for the year		342,286,709	191,704,369
Comprehensive income/(expenses)			
Other comprehensive income not to be reclassified to Income Statement			
Actuarial gains and losses on defined benefit plans	28.1.3	10,997,545	(694,854)
Deferred tax effect on above	22	(3,273,872)	194,559
Comprehensive income for the year, net of taxes		7,723,673	(500,295)
Total comprehensive income for the year		350,010,383	191,204,074
Attributable to:			
Equity holders of the parent		350,010,383	191,204,074
Non-controlling interest		-	-
		350,010,383	191,204,074

The Notes to the Financial Statements from pages 93 to 140 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Bank		
		2014 Rs.	2013 Restated Rs.	2012 Restated Rs.
Assets				
Cash and cash equivalents	16	236,997,574	226,501,435	202,978,066
Sri Lankan government securities	17	1,789,084,271	-	-
Balances with banks	18	26,165,415,422	15,667,124,920	11,972,103,907
Financial assets held for trading	19	206,300	698,759	628,900
Loans and receivables from banks		-	-	12,108,219
Loans and receivables from other customers	20	61,579,234,734	60,490,634,208	54,734,881,685
Intangible assets	21	54,961,763	72,013,872	55,441,895
Deferred Tax assets	22	188,321,788	183,619,028	94,639,347
Other assets	23	1,519,103,148	1,426,148,631	1,154,083,775
Property and equipment	24	825,856,722	745,631,756	614,955,873
Total assets		92,359,181,722	78,812,372,609	68,841,821,667
Liabilities				
Due to banks	25	9,790,601,722	8,513,158,091	6,076,459,128
Due to other customers	26	72,525,364,971	62,606,490,794	54,669,870,235
Other liabilities	27	3,704,157,314	3,043,005,706	3,126,445,393
Retirement benefit obligation	28	913,202,684	806,724,857	697,674,934
Total liabilities		86,933,326,741	74,969,379,448	64,570,449,690
Equity				
Stated capital/Assigned capital	29	1,370,936,931	1,099,400,151	1,099,400,151
Statutory reserve fund	30	523,268,291	506,153,956	506,153,956
Retained earnings	31	872,318,223	(336,320,804)	(199,073,730)
Other reserves	32	2,659,331,535	2,573,759,857	2,864,891,600
Total shareholders' equity		5,425,854,981	3,842,993,161	4,271,371,977
Total equity		5,425,854,981	3,842,993,161	4,271,371,977
Total equity and liabilities		92,359,181,722	78,812,372,609	68,841,821,667
Contingent liabilities and commitments	34	168,961,738	146,618,951	163,182,094

The Significant Accounting Policies on pages 93 to 104 and accompanying Notes on pages 105 to 140 form an integral part of these financial statements. These financial statements are in compliance with the requirements of the Pradeshiya Sanwardhana Banking Act No: 41 of 2008.


C. Kalupahana
 Chief Financial Officer


T.A. Arjapala
 General Manager/CEO

The Board of Directors is responsible for the preparation and presentation of these Financial Statements which were approved by the Board of Directors and signed on their behalf.


H. Prasanna Premaratna
 Chairman


Dr. P.N. Weerasinghe
 Director

Cash Flow Statement

For the year ended 31 December	Note	Bank	
		2014 Rs.	2013 Restated Rs.
Cash flow from operating activities			
Profit before tax		1,400,340,742	686,789,893
Adjustment for:			
Non-cash items included in profit before tax	39	535,118,905	857,135,015
Changes in operating assets	40	(3,203,229,786)	(6,662,680,214)
Changes in operating liabilities	41	11,025,663,165	10,093,755,223
Others reclassification	42	19,821,386	663,641
Contribution paid to defined benefit plans		(19,090,431)	(9,934,129)
Tax paid		(360,708,539)	(1,048,628,249)
Net cash generated from operating activities		9,397,915,443	3,917,101,180
Cash flows from investing activities			
Purchase of property, plant and equipment	24	(170,027,634)	(202,168,393)
Net purchase of intangible assets	21	(45,099,278)	(50,574,797)
Proceeds from the sale of property, plant and equipment		1,709,703	7,272,239
Net proceeds from sales of investment share market		691,705	-
Net cash (used in)/from investing activities		(212,725,504)	(245,470,951)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital	29	271,536,780	-
Dividend paid		(21,129,614)	-
Net cash from financing activities		250,407,166	-
Net increase/(decrease) in cash & cash equivalents		9,435,597,105	3,671,630,229
Cash & cash equivalents at the beginning of the year		15,846,712,202	12,175,081,973
Cash and cash at the end of the year		25,282,309,307	15,846,712,202
Reconciliation of Cash & Cash Equivalents			
Cash and balances with Central Bank	16	236,997,574	226,501,435
Favorable Balances with banks	18	26,165,415,422	15,667,124,920
Unfavorable Balances with banks		(1,120,103,689)	(46,914,152)
		25,282,309,307	15,846,712,202

The Notes to the Financial Statements from pages 93 to 140 form an integral part of these Financial Statements.

Statement of Changes of Equity

	Bank						Total
	Stated Capital	Statutory Reserve Fund	Special Reserve Fund	General Reserve Fund	Investment Fund	Retained Earnings	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01/01/2012	1,099,400,151	504,066,435	358,456,763	2,026,650,476	360,652,351	(126,488,077)	4,222,738,099
Profit for the year (Restate)	-	-	-	-	-	316,804,488	316,804,488
Other comprehensive income	-	-	-	-	-	-	-
Transferred to Statutory Reserve Fund	-	2,087,521	-	-	-	(2,087,521)	-
Transferred to Special Reserve Fund	-	-	2,087,521	-	-	(2,087,521)	-
Transferred to General Reserve Fund	-	-	-	8,350,083	-	(8,350,083)	-
Transferred to Investment Fund	-	-	-	-	376,865,016	(376,865,016)	-
Transferred to Staff Welfare Fund	-	-	-	22,300,000	-	-	22,300,000
Transferred to Staff Medical Fund	-	-	-	40,166,261	-	-	40,166,261
Transferred to Staff Loan Assurance Fund	-	-	-	5,808,739	-	-	5,808,739
Transferred from Dividend Payable	-	-	-	109,940,015	-	-	109,940,015
Transferred from Investment Fund	-	-	-	-	(446,385,625)	-	(446,385,625)
Balance as at 01/01/2013	1,099,400,151	506,153,956	360,544,284	2,213,215,574	291,131,742	(199,073,730)	4,271,371,977
Profit for the year (Restate)	-	-	-	-	-	191,704,369	191,704,369
Other comprehensive income	-	-	-	-	-	(500,295)	(500,295)
Transferred to Investment Fund	-	-	-	-	223,797,289	(223,797,289)	-
Transferred from Investment Fund	-	-	-	-	(514,929,031)	-	(514,929,031)
Dividend 2012	-	-	-	-	-	(104,653,859)	(104,653,859)
Balance as at 31/12/2013	1,099,400,151	506,153,956	360,544,284	2,213,215,574	-	(336,320,804)	3,842,993,161
Issued stated capital	271,536,780	-	-	-	-	-	271,536,780
Profit for the year	-	-	-	-	-	342,286,709	342,286,709
Other comprehensive income	-	-	-	-	-	7,723,673	7,723,673
Transferred to Investment Fund	-	-	-	-	961,314,657	-	961,314,657
Transferred to Statutory Reserve Fund	-	17,114,335	-	-	-	(17,114,335)	-
Transferred to Special Reserve Fund	-	-	17,114,335	-	-	(17,114,335)	-
Transferred to General Reserve Fund	-	-	-	68,457,342	-	(68,457,342)	-
Transferred from Investment Fund	-	-	-	-	(961,314,657)	961,314,657	-
Balance as at 31/12/2014	1,370,936,931	523,268,291	377,658,619	2,281,672,916	-	872,318,223	5,425,854,980

Notes to the Financial Statements

Year ended 31 December 2014

1. Corporate Information

1.1. General

Pradeshia Sanwardhana Bank (RDB) can be traced back to as far as 1985 when district level banks under the category of Regional Rural Development Banks were established. Later in 1997, seventeen such Regional Development Banks were merged into six provincial level banks, which functioned as Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. In May 2010, these six banks were merged into one national level bank and designated as the Pradheshiya Sanwardhana Bank. The Bank was established as a statutory body under the Pradheshiya Sanwardhana Bank Act No.41 of 2008. The registered office of the Bank is located at No 933, Kandy Road, Wedamulla, Kelaniya.

Permanent, training and contract staff strength of the Bank as at 31 December 2014 was 3,112. (3,139 as at 31 December 2013).

1.2. Principal Activities and Nature of Operations

The principal activities of the Bank are to facilitate the overall economic development of Sri Lanka by promoting the development of agriculture, industry, trade, commerce, livestock, fisheries activities and empowerment of women, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

2. Accounting Policies

2.1. Statement of Compliance

The Income Statement, the Statement of Comprehensive Income, Statement of Financial Position, Cash Flow Statement, Statement of Changes in Equity, together with the Significant Accounting Policies and Notes, ('Financial Statements'), as at 31 December 2014 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS'S/LKAS'S), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto.

2.2. Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments, other financial assets and liabilities held for trading and liabilities for defined benefit obligations all of which have been measured at fair value.

2.3. Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements of the Bank, in compliance with provisions of the Companies Act No. 07 of 2007 and SLFRSs.

2.4. Approval of Financial Statements by Directors

The Financial Statements of the Bank for the year ended 31 December 2014 were authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 15 June 2015.

2.5. Functional and Presentation Currency

The Financial Statements of the Bank are presented in Sri Lanka Rupees, which is the currency of the primary economic environment in which Pradeshia Sanwardhana Bank operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupees unless indicated otherwise.

2.6. Presentation of Financial Statements

The items of the Bank presented in their Statements of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note No. 44.

Notes to the Financial Statements Contd.

2.7. **Materiality & Aggregation**

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

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

2.8. **Comparative Information**

The comparative information is re-classified wherever necessary to conform to the current year's presentation. The details of such re-classification have been provided in Note 33.

2.9. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of Financial Statements of the Bank in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Bank are as follows:

2.9.1. **Going Concern**

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

2.9.2. **Impairment Losses on Loans and Advances**

The collective assessment takes account of data from the loan portfolio (such as levels of arrears, type of loans, etc.), and judgments on the effect of concentrations of risks and economic data.

The Bank uses net flow rate method to establish historical loss experience.

The impairment loss on loans and advances is disclosed in more detail in Note 20 and further described under Note 45.

2.9.3. **Deferred Tax Assets**

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

2.9.4. **Defined Benefit Plans**

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

2.9.5. Useful Lifetime of the Property and Equipment

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

2.9.6. Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Bank in preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Bank, unless otherwise indicated.

3.1. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with banks, and money at call and short notice that are subject to an insignificant risk of changes in their value.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Details of cash and cash equivalents are given in Note 16 and Note 18 to Financial Statements.

For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short-term deposits as defined above, net of unfavourable balances.

3.2. Financial Instruments - Initial Recognition and Subsequent Measurement

3.2.1. Date of Recognition

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

3.2.2. Classification and Initial Measurement of Financial Instruments

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

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities at fair value through profit and loss as per the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through the Income Statement.

Notes to the Financial Statements Contd.

3.2.3. Classification and Subsequent Measurement of Financial Assets

The subsequent measurement of financial assets depends on their classification.

3.2.3.1. *Financial Assets at Fair Value Through Profit or Loss*

The subsequent measurement of financial assets depends on their classification.

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

3.2.3.2. *Financial Assets Held for Trading*

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading income'. Dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

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

3.2.3.3. *Held-To-Maturity Financial Investments*

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement.

If the Bank was to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

3.2.3.4. *Due from Banks and Loans and Receivables to Customers*

Due from banks and loans & receivables to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available for sale
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts 'Due from banks' and 'Loans and receivables from customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment gain/ (loss) on loans and receivables'.

3.2.3.5. *Available-for-Sale Financial Investments*

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

3.2.4. Debt Issued and Other Borrowed Funds

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the classified as liabilities under financial assets held for trading, where the substance of the contractual holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

3.2.5. Reclassification of Financial Assets

The Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

3.3. De-recognition of Financial Assets and Financial Liabilities

3.3.1. Financial Assets

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

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Notes to the Financial Statements **Contd.**

3.3.2. Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.4. Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 43.

3.5. Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.5.1. Foreclosed Properties

Foreclosed properties represent properties that are acquired in full or partial satisfaction of debts the shortfall between the prevailing market value of the foreclosed asset and related loan outstanding is recognised as a provision for loan losses in the Income Statement during the year of acquiring the said property in satisfaction of debt.

3.5.2. Offsetting Financial Instruments

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

3.6. Leasing

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

3.6.1. Leases - Bank as a lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the

present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the Income Statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in Note 3.8.

Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term.

3.7. Cash and Cash Equivalents

Cash and cash equivalents as referred to in the Cash Flow Statement comprises cash on hand and amounts due from banks on demand or with an original maturity of three months or less.

3.8. Property and Equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The depreciation is calculated using the straight-line basis over the useful life of the assets, commencing from when the assets are available for use. Land is not depreciated. The estimated useful lives are as follows:

Building	5% per annum
Computer Equipment	20% per annum
Office Equipment	20% per annum
Motor Vehicles	20% per annum
Furniture	15% per annum
Iron Safes	10% per annum

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the Income Statement in the year the asset is derecognised.

3.9. Intangible Assets

The Bank's other intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the Income Statement.

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

Computer software	3 years
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Notes to the Financial Statements Contd.

3.10. Impairment of Non-Financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount.

Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Income Statement in credit loss expense. The premium received is recognised in the Income Statement in net fees and commission income on a straight-line basis over the life of the guarantee.

3.11. Pension Benefits

3.11.1. Defined Benefit Pension Plan-Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits). Please refer Note 3.11.2 for the definition of defined contribution plan.

3.11.1.1. Gratuity

In compliance with the Gratuity Act No.12 of 1983 provision is made in the accounts.

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31st December 2014 by M/s. Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary.

Recognition of Actuarial gains and losses: The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Funding Arrangements: The Gratuity liability is not externally funded.

3.11.2. Defined Contribution Pension Plan

'A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods' as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability.

1. Employees' Provident Fund

The Bank and employees contribute to the Employees' Provident Fund at 15% and 10% respectively.

2. Employees' Trust Fund

The Bank contributes to the Employees' Trust Fund at 3%.

3.12. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.13. Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.13.1. Interest and Similar Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and interest and similar expense for financial liabilities. However, for a reclassified financial asset (Refer Note 3.2.5) for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.13.2. Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following category:

3.13.2.1. Fee Income Earned from Services that are Provided over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, loan service charges, inspection charges and stationary charges recovered from the customers.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

3.13.3. Dividend Income

Revenue is recognised when the Bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

3.13.4. Significant Accounting Policies – Tax Expense

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income (OCI)', in which case it is recognised in Equity or in OCI.

Notes to the Financial Statements **Contd.**

3.13.4.1. Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified in Note 12 to the Financial Statements.

3.13.4.2. Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

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

3.13.4.3. VAT on Financial Services

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

3.13.4.4. Nation Building Tax (NBT) on Financial Service

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto with effect from 01st January 2014. NBT on the financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

3.13.4.5. *Withholding Tax (WHT) on Dividends*

Dividend distributed out of taxable profit of the local subsidiaries attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank.

WHT that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

3.13.4.6. *Dividends on Ordinary Shares*

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

3.14. Other

3.14.1. Earnings per Share (EPS)

The Bank presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.14.2. Cash Flow Statement

The Cash Flow Statement has been prepared by using 'The Direct Method' in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks, placements with banks, money at call and short notice.

3.15. New Accounting Standards that Became Effective during the Year

LKAS 1 - Presentation of Items of Other Comprehensive Income - Amendments to LKAS

The amendments to LKAS 1 introduce a grouping of items presented in Other Comprehensive Income. Item that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of freehold land and buildings). The amendments affect presentation only and have no impact on the Bank financial position or performance.

SLFRS 7 - 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'

Amendments to SLFRS 7 requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with LKAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with LKAS 32. The necessary disclosures required by the new amendment have been included in the Notes to the Financial Statements.

SLFRS 10 - 'Consolidated Financial Statements' and LKAS 27 – 'Separate Financial Statements'

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. SLFRS 10 replaces the parts of previously existing LKAS 27 Consolidated and Separate Financial Statements that dealt with Consolidated Financial Statements and SIC - 12 Consolidation – Special Purpose Entities. SLFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable

Notes to the Financial Statements **Contd.**

returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in SLFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. SLFRS 10 had no impact on the Bank.

SLFRS 11 - 'Joint Arrangements' and LKAS 28 - 'Investment in Associates and Joint Ventures'

SLFRS 11 replaces LKAS 31 - 'Interests in Joint Ventures' and SIC - 13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under SLFRS 11 must be accounted for using the equity method. SLFRS 10 had no impact on the Bank.

SLFRS 12 - 'Disclosure of Interests in Other Entities'

SLFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. SLFRS 12 had no impact on the Bank.

SLFRS 13 - 'Fair Value Measurement'

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of SLFRS 13 has not materially impacted the fair value measurements carried out by the Bank. SLFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including SLFRS 7 - 'Financial Instruments: Disclosures'. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

3.16. Standards Issued but not yet Effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Bank financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

SLFRS 9 – Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities. This standard was originally effective for annual periods commencing on or after 01st January 2018. However, the effective date has been deferred subsequently.

SLFRS 14 – Regulatory Deferral Accounts

The scope of this standard is limited to first-time adopters of SLFRS that already recognize regulatory deferral account balances in their financial statements. Consequently, the financial statements of rate regulated entities that already apply SLFRS, or that do not otherwise recognize such balances, will not be affected by this standard. This standard is effective for the annual periods beginning on or after 01st January 2016.

SLFRS -15 – Revenue from Contracts with customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 1 Construction contracts and IFRIC 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01st January 2017.

None of these new standards and interpretation are expected to have an effect on the Consolidated Financial of the Group/Financial Statements of the Company, except for SLFRS 9 and 15. Pending the detailed review of such standards and interpretations, the extent of the impact has not been determined by the management.

4. Gross Income

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Total interest income (Note 5)	10,593,086,967	10,440,932,854
Fee and commission income (Note 6)	595,406,906	546,761,928
Other operating income (Note 8)	(2,137,669)	6,939,765
Total gross income	11,186,356,204	10,994,634,547

5. Net Interest Income

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Interest Income		
Sri Lankan government securities	92,119,663	38,022,869
Financial assets designated at fair value through profit or loss	244,336	129,947
Loans and receivables to banks	2,049,940,127	1,824,792,984
Loans and receivables to other customers	8,450,782,841	8,577,987,055
Total interest income	10,593,086,967	10,440,932,854
Interest expenses		
Due to banks	(448,762,673)	(430,281,689)
Due to other customers	(4,862,105,451)	(5,508,494,763)
Total interest expenses	(5,310,868,124)	(5,938,776,452)
Net interest income	5,282,218,843	4,502,156,402

6. Net Fee and Commission Income

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Fee and commission income	595,406,906	546,761,928
Fee and commission expenses	(90,296,171)	(73,847,088)
Net fee and commission income	505,110,735	472,914,840
Comprising		
Loans	538,674,195	428,892,045
Trade and remittances	7,886,712	7,076,593
Deposits	(78,847,510)	(65,597,907)
Others	37,397,338	102,544,110
Net fee and commission income	505,110,735	472,914,840

Notes to the Financial Statements Contd.

7. Net Gain/(Loss) from Financial Instruments Fair Value through Profit or Loss

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Financial assets designated at fair value through profit or loss	55,580	69,859
Total	55,580	69,859

8. Other Operating Income (Net)

For the Year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Gain on sale of property, plant and equipment	1,640,580	7,231,897
Capital gain on equity securities	141,543	-
Loss on sale of property, plant and equipment	(3,968,440)	(732,333)
Recoveries of NPL loans (Note 20(b))	48,649	434,277
Amortization of grant	-	5,924
Other operating income (net)	(2,137,669)	6,939,765

9. Impairment Charges for Loans and Other Losses

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
To other customers collective impairment (Note 20(b))	(452,377,502)	547,183,528
Total	(452,377,502)	547,183,528

10. Personnel Expenses

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Salary and bonus	1,858,217,835	1,606,271,892
Contributions to defined contribution plans	136,897,691	120,564,526
Others	1,008,429,759	972,353,495
Total	3,003,545,285	2,699,189,913

11. Other Expenses

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Directors' emoluments	3,147,970	2,812,440
Auditors' remunerations	1,918,114	1,428,126
Professional and legal expenses	9,355,902	9,142,467
Depreciation of property, plant and equipment	151,124,569	131,947,959
Office administration and establishment expenses	804,839,413	781,063,097
Computerization expenses	48,070,734	33,537,339
Business tax expenses	354,719	443,192
Other commission paid	1,877,433	1,177,493
Savings insurance fund	67,016,914	52,084,392
Crop insurance levy	5,849,793	2,441,432
Staff security deposits interest	2,262,933	-
Capital loss on pawning advance	67,368,645	-
<i>Liya Isuru</i> fair value adjustment provision (11.1)	447,427,762	-
Total	1,610,614,900	1,016,077,938

11.1 'Day 1' profit or loss

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

12. Tax Expenses

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Income taxation		
Taxation based on profits for the year (Note 12(a))	515,589,086	238,113,707
(over)/ under provision in respect of previous year (Note 12(c))	32,458,751	6,889,495
Deem dividend tax	46,310,153	49,089,538
Transfers to / (from) deferred taxation (Note 12(b))	(7,976,635)	(88,785,119)
Total	586,381,354	205,307,621

Notes to the Financial Statements Contd.

12. Tax Expenses (contd.)

a. Reconciliation of tax expenses

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Profit/(loss) before tax	928,668,064	397,011,990
Add: Tax effect of expenses that are not deductible for tax purposes	1,296,011,137	691,168,237
(Less): Tax effect of expenses that are deductible for tax purposes	(383,289,608)	(237,774,131)
Taxable profit	1,841,389,593	850,406,096
Income tax for the period (taxable profit @ applicable tax rate)	28%	28%
Tax expense for the period	515,589,086	238,113,707

Notional Tax Credit on Secondary Market Transactions

Any company which derived income from the secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, such company is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transaction to an amount of one ninth of the same. Accordingly, the net interest income earned by the Bank from above transactions has been grossed up in the Financial Statements for the year ended 31st December 2014 and the notional tax credit amounts to Rs.4,644,278/- (Rs.1,020,892/-).

b. The deferred tax (credit)/charge in the Income Statement comprise of the following.

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Deferred tax assets	30,450,227	(57,377,534)
Deferred tax liabilities	(38,426,862)	(31,407,584)
Deferred tax (credit)/charge to Income Statement (Note 22)	(7,976,635)	(88,785,119)

c. (Over)/ under provision in respect of previous year

During the period tax payable amount corrected as per the income tax return submitted to the Department of Inland Revenue for the year of assessment 2013/2014.

13. Earnings Per Share

For the year ended 31 December	Bank	
	2014 Rs.	2013 Rs.
Net profit attributable to ordinary equity holders	342,286,709	191,704,369
Net profit attributable to ordinary equity holders	342,286,709	191,704,369
	Numbers	Numbers
Weighted average number of ordinary shares for basic earnings per share	112,543,792	109,940,015
Basic earnings per ordinary share	3.04	1.74

14. Dividend Paid and Proposed

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs.1/- per share for the year ended 31st December 2014, a distribution of approximately Rs.137,093,693/- .

In accordance with Sri Lanka Accounting Standard - LKAS 10 (Event after the reporting period), above proposed final dividend has not been recognized as a liability as at the year end.

15. Measurement of Financial Instruments

a. Bank - Current year

As at 31 December	2014				
	FVTPL Rs.	HTM Rs.	L&R Rs.	AFS Rs.	Total Rs.
ASSETS					
Cash and Cash Equivalents	-	-	236,997,574	-	236,997,574
Sri Lanka government securities	-	1,789,084,271	-	-	1,789,084,271
Balances with banks	-	-	26,165,415,422	-	26,165,415,422
Financial assets held for trading	206,300	-	-	-	206,300
Loans and receivables from other customers	-	-	61,579,234,734	-	61,579,234,734
Other assets	-	-	617,825,721	-	617,825,721
Total financial assets	206,300	1,789,084,271	88,599,473,451	-	90,388,764,022

b. Bank - Current year

As at 31 December	2014	
	Amortised cost Rs.	Total Rs.
LIABILITIES		
Due to banks	9,790,601,772	9,790,601,772
Due to other customers	72,525,364,971	72,525,364,971
Total financial liabilities	82,315,966,743	82,315,966,743
Other liabilities	3,334,595,573	3,334,595,573
Total other liabilities	3,334,595,573	3,334,595,573
Total liabilities	85,650,562,316	85,650,562,316

Notes to the Financial Statements Contd.

Bank - Previous year

As at 31 December	2013				Total Rs.
	FVTPL Rs.	HTM Rs.	L&R Rs.	AFS Rs.	
ASSETS					
Cash and cash equivalents	-	-	226,501,435	-	226,501,435
Balances with banks	-	-	15,667,124,920	-	15,667,124,920
Financial assets held for trading	698,759	-	-	-	698,759
Loans and receivables from other customers	-	-	60,490,634,208	-	60,490,634,208
Other assets	-	-	1,205,821,610	-	1,205,821,610
Total financial assets	698,759	-	77,590,082,173	-	77,590,780,932

As at 31 December	2013	
	Amortised cost Rs.	Total Rs.
LIABILITIES		
Due to banks	8,513,158,091	8,513,158,091
Due to other customers	62,606,490,794	62,606,490,794
Total financial liabilities	71,119,648,885	71,119,648,885
Other liabilities	3,165,734,331	3,165,734,331
Total other liabilities	3,165,734,331	3,165,734,331
Total liabilities	74,285,383,216	74,285,383,216

16. Cash and Cash Equivalents

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Cash in hand	236,997,574	226,501,435
Total	236,997,574	226,501,435

17. Sri Lanka Government Securities

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Treasury bills/Treasury bonds	1,789,084,271	-
Sub total	1,789,084,271	-
Held-to-maturity		
Treasury bills	1,789,084,271	-
Sub total	1,789,084,271	-
Total	1,789,084,271	-

18. Balances with Banks

As at 31 December	Bank		
	2014 Rs.	2013 Rs.	2013 Rs.
Fixed deposit	24,698,711,942	14,896,194,378	11,296,217,045
Money market placement	1,017,169,314	563,071,816	460,731,457
Other bank balances	449,534,166	207,858,726	215,155,405
Total	26,165,415,422	15,667,124,920	11,972,103,907

19. Financial Assets at Fair Value through Profit or Loss (excluding Sri Lanka Government Securities)

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Held for trading		
Equity securities (19.1)	698,759	628,900
Less: Disposal of investment	(548,039)	-
Add: Capital gain	55,580	69,859
Sub total	206,300	698,759
Total	206,300	698,759

Notes to the Financial Statements Contd.

19.1 Equity Securities

	2014			2013		
	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
DFCC Bank	-	-	-	722	14,580	93,138
Lanka Walltiles PLC	-	-	-	1,890	45,000	101,871
Merchant Bank of Sri Lanka PLC	-	-	-	3,461	274,665	47,070
People's Merchant Bank PLC	600	12,000	15,300	1,400	28,000	15,680
Kelani Tyres PLC	-	-	-	6,000	175,000	297,000
Ceylinco Seylan Development Ltd	10,000	150,000	141,000	10,000	150,000	94,000
CRIB	50,000	50,000	50,000	50,000	50,000	50,000
		212,000	206,300		737,245	698,759
Provision for shares - devaluation		(5,700)	-		(38,486)	-
		206,300	206,300		698,759	698,759

20. Loans and Receivables from Other Customers

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Gross loans and receivables	63,127,939,906	62,187,153,216
(Less): Zero rate loan fair value adjustment	(407,480,802)	-
	62,720,459,104	62,187,153,216
(Less): Collective impairment charges	(1,141,224,370)	(1,696,519,008)
Net loans and receivables	61,579,234,734	60,490,634,208

a. Analysis

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
By product		
Pawning	10,615,275,145	18,784,211,582
Staff loans	1,363,939,927	1,036,230,031
Short-term	4,933,877,757	21,515,145,216
Long-term	45,092,346,330	18,757,879,629
Interest receivable on loans & advances	1,122,500,746	2,093,686,758
Gross total	63,127,939,906	62,187,153,216
By currency		
Sri Lankan Rupee	63,127,939,906	62,187,153,216
Gross total	63,127,939,906	62,187,153,216
By industry		
Agriculture and fishing	17,471,567,441	20,208,859,426
Manufacturing	8,992,240,366	8,259,116,797
Transport	211,615,710	223,416,653
Construction/housing	14,021,697,256	10,321,047,798
Traders	10,322,142,893	8,323,810,990
Others (consumptions/against deposit/staff)	10,986,175,495	12,757,214,794
Interest receivable on loans & advances	1,122,500,746	2,093,686,758
Gross total	63,127,939,906	62,187,153,216
By performing		
Performing	58,393,365,874	57,799,787,920
Special Mention	1,343,559,301	2,257,505,993
Substandard	1,368,547,932	852,679,555
Doubtful	602,509,068	445,775,531
Loss	1,419,957,731	831,404,218
Gross total	63,127,939,906	62,187,153,216

b. Movements in Individual and Collective Impairment Charges during the Year

Collective loan impairment

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Collective impairment charges		
Opening balance at 01/01/ 2014	1,696,519,008	1,317,699,417
Charge/(write back) to Income Statement (9)	(452,377,502)	547,183,528
Recoveries during the year (8)	(48,649)	(434,277)
Other movements	(102,868,487)	(167,929,659)
Closing balance at 31/12/2014	1,141,224,370	1,696,519,008

Notes to the Financial Statements Contd.

21. Intangible Assets

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Computer Software		
Opening balance at 01/01/2014	112,179,008	77,497,461
Additions	45,099,278	50,574,797
Written off	(8,784,553)	(15,194,876)
Reclassify	(66,902,715)	(698,374)
(Less): Impairment charges	-	-
Closing balance at 31/12/2014	81,591,017	112,179,008
(Less): Amortisation		
Opening balance at 01/01/2014	40,165,135	22,055,565
Charge for the year	13,005,537	32,839,594
Written off	(5,539,004)	(14,695,291)
Reclassify	(21,002,415)	(34,733)
Closing balance at 31/12/2014	26,629,254	40,165,135
(Less): Impairment charges	-	-
Net book value	54,961,763	72,013,872

22. Deferred Tax Assets/Liabilities

	Bank			
	Balance Sheet as at 31-12-2014	Balance Sheet as at 31-12-2013	Income Statement for the Year Ended 31-12-2014	Income Statement for the Year Ended 31-12-2013
Deferred Tax Liability				
Capital allowances for tax purposes	67,374,970	105,801,832	38,426,862	31,407,584
	67,374,970	105,801,832	38,426,862	31,407,584
Deferred Tax Assets				
Defined benefit plans - Income Statement	258,776,071	225,688,401	33,087,670	30,339,419
Defined benefit plans - comprehensive income	(3,079,313)	194,559	(3,273,872)	194,559
General provision for performing Loans and advances	-	48,328,722	(48,328,722)	11,828,940
Unclaimed bad debt provision - specific provision	-	15,209,175	(15,209,175)	15,209,175
	255,696,758	289,420,857	(33,724,099)	57,572,093
Deferred income tax income / (expense) - Income statement			7,976,635	88,785,119
Deferred income tax income / (expense) - Statement of Comprehensive Income			(3,273,872)	194,559

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Reflected in the Balance Sheet as follows		
Deferred tax assets	255,696,758	289,420,857
Deferred tax liabilities	67,374,970	105,801,832
Deferred tax assets (net)	188,321,788	183,619,025

23. Other Assets

As at 31 December	Bank		
	2014 Rs.	2013 Rs.	2012 Rs.
Cost			
Receivables	121,027,618	114,682,207	252,069,726
Deposits and prepayments	446,161,164	974,657,630	580,899,469
Sundry debtors	41,840,826	107,209,738	113,241,696
Others	290,141,866	228,736,377	207,872,884
Inter-bank transaction in transit	619,931,675	862,679	-
Total	1,519,103,148	1,426,148,631	1,154,083,775

Notes to the Financial Statements Contd.

24. Property, Plant and Equipment

	Bank 2014						Total Rs.
	Land & Buildings Rs.	Computer, Hardware Rs.	Office, Equipment, & Furniture Rs.	Motor Vehicles Rs.	Working Progress Rs.		
2014 (Current year) Cost/fair value							
Opening balance at 01/01/2014	304,455,199	302,646,355	639,031,995	159,064,556	70,735,765		1,475,933,869
Additions	480,118	58,221,087	32,252,488	24,227,392	54,846,549		170,027,634
Disposals	-	(10,427,334)	(8,013,339)	(4,783,850)	-		(23,224,523)
Transfers during the year	54,198,935	-	-	-	(54,198,935)		-
Reclassify	(20,000)	65,369,912	(33,848,067)	(2,090)	(1,452,697)		30,047,059
Closing balance at 31/12/2014	359,114,252	415,810,019	629,423,076	178,506,009	69,930,682		1,652,784,039
Finance Lease							
Opening balance at 01/01/2014	-	-	-	67,668,000	-		67,668,000
Additions	-	-	-	36,035,000	-		36,035,000
Closing balance at 31/12/2014	-	-	-	103,703,000	-		103,703,000
(Less): Accumulated depreciation							
Opening balance at 01/01/2014	46,824,072	207,432,041	411,304,242	126,057,977	-		791,618,332
Charge for the year	11,584,367	37,943,048	67,016,923	16,100,814	-		132,645,151
Disposals	-	(10,072,231)	(7,576,439)	(4,783,839)	-		(22,432,509)
Reclassify	(8,227)	19,725,586	(15,756,376)	7,161	-		3,968,144
Closing balance at 31/12/2014	58,400,212	255,028,444	454,988,350	137,382,113	-		905,799,118
Finance Lease							
Opening balance at 01/01/2014	-	-	-	6,351,781	-		6,351,781
Charge for the year	-	-	-	18,479,418	-		18,479,418
Closing balance at 31/12/2014	-	-	-	24,831,198	-		24,831,198
(Less): Impairment charges	-	-	-	-	-		-
Net book value at 31/12/2014	300,714,040	160,781,576	174,434,727	119,995,697	69,930,682		825,856,722

Property, Plant and Equipment Contd.

Bank 2013						
	Land & Buildings Rs.	Computer, Hardware Rs.	Office, Equipment, & Furniture Rs.	Motor Vehicles Rs.	Working Progress Rs.	Total Rs.
2013 (Previous year) Cost/fair value						
Opening balance at 01/01/2013	270,963,267	267,916,252	549,178,540	156,396,791	39,004,199	1,283,459,048
Additions	16,200,312	36,038,365	92,747,877	7,433,652	49,748,187	202,168,393
Disposals	(725,000)	(1,935,075)	(1,905,867)	(4,765,887)	-	(9,331,829)
Transfers during the year	18,016,621	-	-	-	(18,016,621)	-
Reclassify	-	626,813	(988,556)	-	-	(361,743)
Closing balance at 31/12/2013	304,455,199	302,646,355	639,031,995	159,064,556	70,735,765	1,475,933,869
Finance Lease						
Opening balance at 01/01/2013	-	-	-	6,940,000	-	6,940,000
Additions	-	-	-	60,728,000	-	60,728,000
Closing balance at 31/12/2013	-	-	-	67,668,000	-	67,668,000
(Less): Accumulated depreciation						
Opening balance at 01/01/2013	36,747,901	176,979,727	345,848,610	115,798,488	-	675,374,726
Charge for the year	10,544,086	32,436,615	67,658,566	15,025,362	-	125,664,629
Disposals	(465,209)	(1,922,086)	(1,905,572)	(4,765,872)	-	(9,058,738)
Reclassify	(2,706)	(62,216)	(297,361)	-	-	(362,284)
Closing balance at 31/12/2013	46,824,072	207,432,041	411,304,242	126,057,977	-	791,618,332
Finance Lease						
Opening balance at 01/01/2013	-	-	-	68,449	-	68,449
Charge for the year	-	-	-	6,283,332	-	6,283,332
Closing balance at 31/12/2013	-	-	-	6,351,781	-	6,351,781
(Less): Impairment charges	-	-	-	-	-	-
Net book value at 31/12/2013	257,631,127	95,214,314	227,727,753	94,322,798	70,735,765	745,631,756

Notes to the Financial Statements Contd.

25. Due to Banks

As at 31 December	2014 Rs.	Bank	
		2013 Rs.	2012 Rs.
Borrowings	2,153,383,689	1,113,554,152	1,600,901,118
Leasing (25.1)	77,567,191	61,544,700	6,811,067
Refinance	7,559,650,892	7,338,059,238	4,468,746,943
Total	9,790,601,772	8,513,158,091	6,076,459,128

25.1 Maturity of the Leasing

As at 31 December	2014 Rs.	Bank	
		2013 Rs.	2012 Rs.
Not later than 1 year	32,688,204	21,676,884	8,981,887
Later than 1 year and not later than 5 years	60,961,489	58,260,565	-
Later than 5 years	-	-	-
	93,649,693	79,937,449	8,981,887
Less - Interest in suspense	(16,082,502)	(18,392,749)	(2,170,820)
Total	77,567,191	61,544,700	6,811,067

26. Due to Other Customers

As at 31 December	2014 Rs.	Bank	
		2013 Rs.	2012 Rs.
At amortised cost	72,525,364,971	62,606,490,794	54,669,870,235
Total	72,525,364,971	62,606,490,794	54,669,870,235

a. Analysis

As at 31 December	2014 Rs.	Bank	
		2013 Rs.	2012 Rs.
By product			
Savings deposits	22,417,310,614	16,556,186,394	12,887,172,039
Long-term savings	7,704,623,927	7,593,145,234	7,947,862,483
Fixed deposits	42,403,430,430	38,457,159,166	33,834,835,714
Total	72,525,364,971	62,606,490,794	54,669,870,235
By currency			
Sri Lanka Rupee	72,525,364,971	62,606,490,794	54,669,870,235
Total	72,525,364,971	62,606,490,794	54,669,870,235

The maturity analysis of borrowing is given in Note No 45.3.3

27. Other Liabilities

As at 31 December	2014 Rs.	Bank	
		2013 Rs.	2012 Rs.
Sundry creditors	1,179,952,660	85,642,452	133,779,502
Interest payable	1,230,580,467	1,391,247,905	1,242,611,197
Other payables	1,293,472,158	1,566,115,348	1,639,934,933
Inter-bank transaction in transit	152,029	-	110,119,761
Total	3,704,157,314	3,043,005,706	3,126,445,393

28. Retirement Benefit Obligation

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Provisions for retiring gratuity (Note 28.1)	913,202,684	806,724,857
	913,202,684	806,724,857

28.1 Provisions for Retiring Gratuity

28.1.1 Net Asset /(Liability) Recognized in the Statement of Financial Position

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Opening balance at 01/01/2014	806,724,857	697,674,934
Provision made during the year (Note 28.1.2)	132,218,133	115,808,448
Provision made during the year (Note 28.1.3)	(10,997,545)	694,854
	927,945,445	814,178,236
Benefits paid by the plan	(14,742,761)	(7,453,379)
	913,202,684	806,724,857

28.1.2 Amount Recognised in Income Statement

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Service cost	47,512,023	42,552,580
Net interest on the net defined benefit liability (asset)	84,706,110	73,255,868
Total amount recognised in Income Statement	132,218,133	115,808,448

Notes to the Financial Statements Contd.

28.1.3 Amount Recognised in Statement of Comprehensive Income

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Liability experience (gains) losses arising during the year	(10,997,545)	694,854
Total amount recognised in Income Statement	(10,997,545)	694,854

28.1.4 Defined Benefit Obligation Reconciliation

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Benefit obligation at end of prior year	806,724,857	697,674,934
Company service cost	47,512,023	42,552,580
Interest cost	84,706,110	73,255,868
Actual benefit paid from plan	(14,742,761)	(7,453,379)
(Gain)/loss due to changes in assumptions	(10,997,545)	694,854
Total amount recognised in Income Statement	913,202,684	806,724,857

28.2 An actuarial valuation of the gratuity fund was carried out as at 31 December 2014 by Ms M/s. Actuarial & Management Consultants (Pvt) Ltd a firm of professional actuaries.

Actuarial assumptions	2014	2013
Discount rate as at 31 December	10.00%	10.50%
Future salary increment rate	20% (Every three years with the next increment due on 01st January 2015)	7% (Per annum)
Mortality	A1967/70 Mortality Table	A1967/70 Mortality Table
Retirement age	57 Years	57 Years

28.3 Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	Sensitivity Effect on Income Statement Increase/(Reduction) in results for the year Rs.	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs.
1%		855,732,000	(855,732,000)
(-1%)		(977,644,963)	977,644,963
	1%	(935,478,253)	935,478,253
	(-1%)	891,514,809	(891,514,809)

29. Stated Capital

	Bank	
As at 31 December	2014 Rs.	2013 Rs.
Ordinary shares		
As at 31 December 2013 (109,940,015 ordinary shares)	1,099,400,151	1,099,400,151
Issue of shares (27,153,678 ordinary shares)	271,536,780	-
Total	1,370,936,931	1,099,400,151

Number of shares as at 31 December 2014 increased to 137,093,693 from 109,940,015 as at 31 December 2013 due to effect of the capital augmentation plan.

30. Statutory Reserve Fund

	Bank	
As at 31 December	2014 Rs.	2013 Rs.
Opening balance at 01/01/2014	506,153,956	506,153,956
Transfer during the period	17,114,335	-
Closing balance at 31/12/2014	523,268,291	506,153,956

Notes to the Financial Statements Contd.

31. Retained Earnings

As at 31 December	Bank		
	2014 Rs.	2013 Rs.	2012 Rs.
Opening balance at 01/01/2014	(336,320,804)	(199,073,730)	(126,488,077)
Profit for the year	342,286,709	191,704,369	316,804,488
Other comprehensive Income	7,723,673	(500,295)	
Transfers to other reserves	858,628,644	(223,797,289)	(389,390,141)
Dividend	-	(104,653,859)	-
Closing balance at 31/12/2014	872,318,223	(336,320,804)	(199,073,730)

32. Other Reserves

a. Bank - Current year

	2014		
	Opening Balance as at 01/01/2014 Rs.	Movement/ Transfers Rs.	Closing Balance as at 31/12/2014 Rs.
	General Reserve	2,213,215,574	68,457,342
Investment Fund	-	-	-
Special Reserve Fund	360,544,284	17,114,335	377,658,619
Total	2,573,759,857	85,571,677	2,659,331,535

b. Bank - Previous year

	2013		
	Opening Balance as at 01/01/2013 Rs.	Movement/ Transfers Rs.	Closing Balance as at 31/12/2013 Rs.
	General Reserve	2,213,215,574	-
Investment Fund	291,131,742	(291,131,742)	-
Special Reserve Fund	360,544,284	-	360,544,284
Total	2,864,891,600	(291,131,742)	2,573,759,857

The general reserve is the result of the Bank transferring a certain amount of profit from retained earnings accounts to general reserve account. The purpose of setting up the general reserve is to meet potential future unknown liabilities.

33. Comparative Information

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year.

Statement of Financial Position

	Note	Reclassified (Rs.)	As disclosed in the 2013 (Rs.)	Adjustment (Rs.)
Due to other customers	33.1.1	62,606,490,794	62,628,060,626	(21,569,832)
Other liabilities	33.1.1	2,765,617,144	2,744,047,313	21,569,831
Other assets	33.1.2	1,426,148,631	1,444,541,379	(18,392,748)
Due to bank	33.1.2	8,513,158,091	8,484,636,687	28,521,404
Balances with banks	33.1.3	15,667,124,920	15,620,210,767	46,914,152

33.1 Notes to the Financial Statements

	Note	Reclassified (Rs.)	As disclosed in the 2013 (Rs.)	Adjustment (Rs.)
Due to other customers				
At amortised cost	33.1.1	62,606,490,794	62,628,060,626	(21,569,832)
Analysis				
By product				
Fixed deposits	33.1.1	38,457,159,166	38,478,728,998	(21,569,832)
By currency				
Sri Lanka rupee	33.1.1	62,606,490,794	62,628,060,626	(21,569,832)
Other liabilities				
Other payables	33.1.1	1,288,726,787	1,267,156,953	21,569,834
Other assets				
Other	33.1.2	228,736,377	247,129,125	(18,392,748)
Due to bank				
Borrowings	33.1.3	1,113,554,152	1,066,640,000	46,914,152
Leasing	33.1.2	61,544,700	79,937,449	(18,392,749)
Balances with banks				
Other bank balances	33.1.3	207,858,726	160,944,574	46,914,152

33.1.1 During the year the Central Bank has informed not to declare Staff Security Deposits (Rs.21,569,832) under the normal deposit presentation there for it present under other payable under other liability for better presentation.

33.1.2 During the year the Colombo Stock Exchange (CSE) has informed to declare lease liability as per the LKAS 17, therefore remove interest in suspense balance (Rs.18,392,749) from other asset and net off under lease liability for better presentation.

33.1.3 During the year the overdraft bank balances (Rs.46,914,152) which were net of under the other bank balance at the last year presented under the borrowings for better presentation.

Notes to the Financial Statements Contd.

34. Contingent Liabilities and Commitments

As at 31 December	Bank	
	2014 Rs.	2013 Rs.
Guarantees performance bonds	61,655,651	59,171,150
Other contingent items	107,306,087	87,447,801
Total	168,961,738	146,618,951

34.1 Litigation against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the date of the Statement of Financial Position date three clients have filed cases against the Bank preventing the sale of assets mortgaged to the Bank, twenty one staff members have filed cases with labour tribunal against the Bank, one client has filed cases against the Bank for claiming damage and the Bank has filed an appeal to the Supreme Court against decision given by the District Court. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

35. Correction of an Error

As per the following findings of Government audits, the errors have been corrected by restating each of the affected financial statement line items for the prior period as follows.

- 1) 2011 and 2012 tax over payment
- 2) 2011 and 2012 DDT payable amount
- 3) 2012 Dividend payable amount

Impact on equity increase/(decrease) in equity	31/12/2013	01/01/2013
	Rs.	Rs.
Other liabilities	(277,388,562)	(123,645,166)
Total liabilities	(277,388,562)	(123,645,166)
Net Impact on Equity	(277,388,562)	(123,645,166)

Impact on Statement of Profit or Loss (increase/(decrease) in profit

	31/12/2013
	Rs.
Income tax expenses	(49,089,537)
Dividend	(104,653,859)
Net Impact on Profit for the Year	(153,743,396)
Net Impact on Profit for the Previous Year	(123,645,166)
Net Impact on equity for the Year	(277,388,562)

36. Related party disclosures Compensation of Key Management Personnel of the Bank

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS 24 - "Related Party Disclosures" i.e. significant investors, subsidiary and associate companies, post employment benefit plans for the Bank's employees, Key Management Personnel (KMPs), Close Family Members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off Balance Sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

36.1 Parent and the ultimate controlling party

Regional Development Bank is a Government-owned Bank.

36.2 Key Management Personnel (KMPs) of the Bank

As per the Sri Lanka Accounting Standard - LKAS 24 - "Related Party Disclosures", the KMPs includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. KMPs include the members of the Board of Directors of the Bank, including the Chief Executive Officer.

36.3 Compensation to Key Management Personnel (KMPs)

	Bank	
	2014	2013
(a) Compensation to Board of Directors & CEO	Rs.	Rs.
Short-term employment benefits	4,566,123	6,414,871
Total	4,566,123	6,414,871

Notes to the Financial Statements Contd.

36.4 Key Management Personnel of the Bank and their close family members had the following facilities with the Bank:

Items in the Statement of Financial Position	Bank	
	2014 Rs.	2013 Rs.
Assets		
Loans and receivables	1,020,836	500,000
Total	1,020,836	500,000
Liabilities		
Deposits	2,826,065	1,540,502
Total	2,826,065	1,540,502
Items in the Statement of Profit or Loss		
Interest income	156,290	3,384
Interest expenses	260,148	24,975
Total	416,437	28,359

36.5 Transactions with the significant investors

	Bank	
	2014 Rs.	2013 Rs.
Levy paid to general treasury	210,118,527	-
Total	210,118,527	-

Further Rs. 375,000,000/- presented under the other asset as pre-payment to the general treasury.

36.6 Transactions with the Government of Sri Lanka and its Related Entities

A number of entities in which the Government of Sri Lanka has an interest have a significant interest in the Bank.

36.6.1 The Bank enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The significant financial dealings during the year and as of the date of the Statement of Financial Position are as follows:

Items in the Statement of Financial Position	Outstanding Balance	
	2014 Rs.	2013 Rs.
Assets		
Loans and receivables	459,293,248	960,617,907
Total	459,293,248	960,617,907
Liabilities		
Deposits	15,895,800,770	9,796,842,130
Total	15,895,800,770	9,796,842,130
Items in the Statement of Profit or Loss		
Interest income	64,319,968	90,101,234
Interest expenses	536,551,005	408,340,553
Total	600,870,973	498,441,786

36.6.2 Further transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

- Investment in Treasury Bills and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - (EPF, ETF)

37. Events Occurring after the Reporting Date

On 23rd January, 2015 the Bank issued Twenty Five Million unsecured subordinated redeemable debentures of Rs. 100/- each amounting to Rs. 2.5 Billion, which were categorised as debenture types A, B and C as described below.

Type	Redeemable Years	Each bargaining interest at fixed rate	Interest Payment Period	Annual Effective Rate
A	5	9.00%	Annually	9.00%
B	5	8.81%	Bi-Annually	9.00%
C	5	8.71%	Quarterly	9.00%

No adjustment was required in the financial statements for the year ended 31 December 2014 after the debenture amounting to Rs. 2.5 Billion was issued, Bank's Capital Adequacy ratio calculated at 12.6%.

There have been no material events occurred after the reporting date that requires adjustment to or disclosure in the Financial Statements other than disclosed above.

Notes to the Financial Statements Contd.

38. Assets Pledged

The assets pledged as security for credit facilities obtained are as follows:

	Type of Facility	Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31-12-2014 Rs. Mn
1	Over Draft - BOC	1,564	FD - 70963965	600 with interest	-
			FD-74353124	150.332 with interest	-
			FD-74361333	205.026 with interest	-
			FD-74817306	183.468 with interest	-
			FD-74588793	169.320 with interest	-
			FD-74619066	169.320 with interest	-
			FD-74041168	424.764 with interest	-
2	Over Draft - PB	200	FD -14-6001-00009136-8	268.576 with interest	-
3	Borrowings (Term Loan - Public Bank)	100	Pledge agriculture Loan	-	33.28

39. Non-Cash items included in Profit Before Tax

For the year ended 31 December	Note	Bank	
		2014 Rs.	2013 Rs.
Depreciation of property, plant and equipment	11	151,124,569	131,947,959
Amortisation of intangible assets	21	13,005,537	32,839,594
EIR adjustment		2,703,290	21,222,027
Impairment losses on loans and advances	9	(452,377,502)	547,183,528
Capital loss on pawning advance	11	67,368,645	-
“Liya Isuru” fair value adjustment		407,480,802	-
Levy paid to general treasury		210,118,527	-
Capital gain on investment	7	(55,580)	(69,859)
Capital gain on equity securities	8	(141,543)	-
Charge for defined benefit plans	10	136,897,691	120,564,526
Movements of other funds		(3,333,391)	9,946,804
(Profit) / loss on sale of fixed assets	8	2,327,861	(6,499,564)
Total		535,118,905	857,135,015

40. Change in Operating Assets

For the year ended 31 December	Note	Bank	
		2014 Rs.	2013 Rs.
Net change in Sri Lankan government securities	17	(1,789,084,271)	-
Net change in loans and receivables from banks		-	12,108,219
Net change in loans and receivables from other customers	20	(1,111,072,470)	(6,302,977,404)
Change in other assets (please specify)	23	(303,073,045)	(371,811,029)
Total		(3,203,229,786)	(6,662,680,214)

41. Change in Operating Liabilities

For the year ended 31 December	Note	Bank	
		2014 Rs.	2013 Rs.
Net change in due to banks	25	168,219,144	2,406,006,739
Net change in due to other customers	26	9,916,170,886	7,936,968,364
Net change in other liabilities	27	941,273,135	(249,219,880)
Total		11,025,663,165	10,093,755,223

42. Change in reclassification of intangible assets and property and equipment

For the year ended 31 December	Note	Bank	
		2014 Rs.	2013 Rs.
Intangible assets	21	45,900,301	663,641
Property and equipment	24	(26,078,915)	-
Total		19,821,386	663,641

43. Fair Value of Financial Instruments

43.1 Financial instruments recorded at fair value

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

43.2 Trading assets and other assets measured at fair value

Trading assets and other assets measured at fair value are the government debt securities, asset-backed securities and quoted equities. Government debt securities and asset-backed securities are valued using yield curves published by the Central Bank of Sri Lanka. For quoted equities Bank uses quoted market price in active markets as at the reporting date

Notes to the Financial Statements Contd.

43.3 Determination of fair value and fair value hierarchy

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

43.4 Fair values are determined according to the following hierarchy:

Level 1 – quoted market price (unadjusted): financial instruments with quoted prices in active markets.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: financial instruments are valued using valuation techniques where one or more significant inputs are unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2014				
As at 31 December	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
Financial asset held for trading	206,300	-	-	206,300
	206,300	-	-	206,300

2013				
As at 31 December	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
Financial asset held for trading	698,759	-	-	698,759
	698,759	-	-	698,759

43.5 Determination of fair value and fair value hierarchy

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Fair Value Classification	2014		2013	
		Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial assets					
Cash and cash equivalents	Note 43.5.1	236,997,574	236,997,574	226,501,435	226,501,435
Sri Lankan government securities	Note 43.5.1	1,789,084,271	1,789,084,271	-	-
Balances with banks	Note 43.5.1	26,165,415,422	26,165,415,422	15,667,124,920	15,667,124,920
Loans and receivables from other customers - without impairment					
Pawning	Level 2	10,615,275,145	10,615,275,145	18,784,211,582	18,784,211,582
Staff loans	Level 2	1,363,939,927	1,363,939,927	1,036,230,031	1,036,230,031
Short-term	Level 2	4,933,877,757	4,933,877,757	21,515,145,216	21,515,145,216
Long-term	Level 2	45,092,346,330	45,092,346,330	18,757,879,629	18,757,879,629
Interest Receivable on Loans & Advances	Level 2	1,122,500,746	1,122,500,746	2,093,686,758	2,093,686,758
Other assets	Note 43.5.1	617,825,721	617,825,721	1,205,821,610	1,205,821,610
		91,937,262,894	91,937,262,894	79,286,601,181	79,286,601,181
Financial liabilities					
Due to banks	Note 43.5.1	9,790,601,772	9,790,601,772	8,513,158,091	8,513,158,091
Due to other customers	Level 2	72,525,364,971	72,525,364,971	62,606,490,794	62,606,490,794
Other liabilities	Note 43.5.1	3,334,595,573	3,334,595,573	3,165,734,331	3,165,734,331
		85,650,562,316	85,650,562,316	74,285,383,216	74,285,383,216

41.4.1 Basis of measurement for the fair value of financial assets and liabilities not carried at fair value

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

Notes to the Financial Statements Contd.

Financial investment held to maturity

The fair value of financial investment held to maturity is estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

44. Maturity Analysis

	2014		Total Rs.
	Within 12 Months Rs.	After 12 Months Rs.	
Assets			
Cash and cash equivalents	236,997,574	-	236,997,574
Sri Lankan government securities	1,789,084,271	-	1,789,084,271
Balances with banks	26,165,415,422	-	26,165,415,422
Financial assets held for trading	-	206,300	206,300
Loans and receivables from other customers	29,672,109,600	31,907,125,134	61,579,234,734
Goodwill and intangible assets	-	54,961,763	54,961,763
Deferred tax assets	-	188,321,788	188,321,788
Other assets	1,051,353,375	467,749,774	1,519,103,148
Property and equipment	-	825,856,722	825,856,722
Total assets	58,914,960,242	33,444,221,480	92,359,181,722
Liabilities			
Due to banks	2,391,482,239	7,399,119,533	9,790,601,772
Due to other customers	46,409,476,092	26,115,888,879	72,525,364,971
Other liabilities	2,481,010,452	1,223,146,862	3,704,157,314
Retirement benefit obligation	-	913,202,684	913,202,684
Total liabilities	51,281,968,783	35,651,357,958	86,933,326,741
Maturity Gap	7,632,991,459	(2,207,136,478)	5,425,854,981
Cumulative Gap	7,632,991,459	5,425,854,981	-

44. Maturity Analysis

	2013		
	Within 12 Months	After 12 Months	Total
	Rs.	Rs.	Rs.
Assets			
Cash and cash equivalents	226,501,435	-	226,501,435
Balances with banks	11,198,266,607	4,468,858,313	15,667,124,920
Financial assets held for trading	-	698,759	698,759
Loans and receivables from other customers	36,727,218,749	23,763,415,459	60,490,634,208
Goodwill and intangible assets	-	72,013,872	72,013,872
Deferred Tax assets	-	183,619,028	183,619,028
Other assets	1,366,266,737	59,881,894	1,426,148,631
Property and equipment	-	745,631,756	745,631,756
Total assets	49,518,253,528	29,294,119,081	78,812,372,609
Liabilities			
Due to banks	1,851,105,505	6,662,052,586	8,513,158,091
Due to other customers	40,062,320,802	22,544,169,992	62,606,490,794
Other liabilities	1,260,518,633	1,782,487,072	3,043,005,706
Retirement benefit obligation	-	806,724,857	806,724,857
Total liabilities	43,173,944,940	31,795,434,508	74,969,379,448
Maturity Gap	6,344,308,588	(2,501,315,427)	3,842,993,161
Cumulative Gap	6,344,308,588	3,842,993,161	-

45. Risk Management

45.1 Introduction

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

45.1.1 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises of Non-Executive Directors and members of senior management of the Bank. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Notes to the Financial Statements Contd.

45.1.2 ALCO Committee

ALCO is chaired by the General Manager and has representatives from Finance Department, Credit Departments, and the Bank Chief Risk Officer. The Committee meets regularly to monitor and manage the assets & liabilities of the Bank and also overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

45.1.3 Risk Measurement & Reporting

The Bank's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to the Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (Risk Appetite).

45.1.4 Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

45.2 Credit Risk

Credit risk is the risk of financial loss to the Bank if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers/other banks and investments in debt securities. In addition to the credit risk from direct funding exposure, the Bank would also be exposed to indirect liabilities such as guarantees etc, which would carry credit risk. The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

45.2.1 Impairment Assessment

The methodology of the impairment assessment has explained in the Note 3.5 under Accounting Policies. For all financial assets recognized in Bank's financial statement, the maximum exposure to the credit risk is equivalent to the respective carrying amount.

	2014	2013
	Rs.	Rs.
Agriculture	17,471,567,441	20,208,859,426
Industrial	8,992,240,366	8,259,116,797
Trade & Business	10,322,142,893	8,323,810,990
Transport Service	211,615,710	223,416,653
Housing	14,021,697,256	10,321,047,798
Consumption	4,188,071,102	8,847,432,719
Loans Against Deposit	2,764,028,998	2,756,763,696
Leasing	9,352,816	15,090,581
Staff	4,024,722,579	1,137,927,798
Interest Receivable on Loans & Advances	1,122,500,746	2,093,686,758
	63,127,939,906	62,187,153,216

45.2.2 Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables.
- For retail lending, mortgages over residential properties and personnel guarantees.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with underlying agreement.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Definition of Past Due

Banks consider that any amounts uncollected ninety one days or more beyond their contractual due date are 'past due'.

45.2.3 Credit Quality of Financial Assets

2014				
	Neither past due nor impaired Rs.	Past due but not impaired individually Rs.	Individually impaired Rs.	Total Rs.
Cash and balances with Central Bank	236,997,574	-	-	236,997,574
Sri Lankan government securities	1,789,084,271	-	-	1,789,084,271
Balances with banks	26,165,415,422	-	-	26,165,415,422
Financial assets held for trading	206,300	-	-	206,300
Loans and receivables from other customers - without impairment	59,736,925,175	3,391,014,731	-	63,127,939,906
Other assets	617,825,721	-	-	617,825,721
Total	88,546,454,463	3,391,014,731	-	91,937,469,194

Credit Quality of Financial Assets

2013				
	Neither past due nor impaired Rs.	Past due but not impaired individually Rs.	Individually impaired Rs.	Total Rs.
Cash and balances with Central Bank	226,501,435	-	-	226,501,435
Balances with banks	15,667,124,920	-	-	15,667,124,920
Financial assets held for trading	698,759	-	-	698,759
Loans and receivables from other customers - without impairment	52,413,802,840	9,773,350,376	-	62,187,153,216
Other assets	1,205,821,610	-	-	1,205,821,610
Total	69,513,949,563	9,773,350,376	-	79,287,299,940

Notes to the Financial Statements Contd.

45.2.4 Aging Analysis of past due but not impaired loans by class of Financial Assets

2014				
	90-180 Days Rs.	180-365 Days Rs.	365-545 Days Rs.	Total Rs.
Loans and receivables from other customers	1,368,547,932	602,509,068	1,419,957,731	3,391,014,731
Total	1,368,547,932	602,509,068	1,419,957,731	3,391,014,731

Aging Analysis of past due but not impaired loans by class of Financial Assets

2013				
	90-180 Days Rs.	180-365 Days Rs.	365-545 Days Rs.	Total Rs.
Loans and receivables from other customers	4,381,653,087	4,149,388,578	1,242,308,711	9,773,350,376
Total	4,381,653,087	4,149,388,578	1,242,308,711	9,773,350,376

45.2.5 Maximum exposure to credit risk

2014		
	Maximum Exposure to Credit Risk Rs.	Exposure Net of Collateral Rs.
Products		
Cash and cash equivalents	236,997,574	236,997,574
Sri Lankan government securities	1,789,084,271	1,789,084,271
Balances with banks	26,165,415,422	26,165,415,422
Financial assets held for trading	206,300	206,300
Loans and receivables from other customers	61,579,234,734	61,579,234,734
Other assets	617,825,721	617,825,721

2013		
	Maximum Exposure to Credit Risk Rs.	Exposure Net of Collateral Rs.
Products		
Cash and cash equivalents	226,501,435	226,501,435
Balances with banks	15,667,124,920	15,667,124,920
Financial assets held for trading	698,759	698,759
Loans and receivables from other customers	60,490,634,208	60,490,634,208
Other assets	1,205,821,610	1,205,821,610

45.2.6 Analysis of Risk Concentration

The concentration risk is monitored/managed through sector, product etc. maximum exposure to a single borrower and geographical area.

45.2.7 Commitments and Contingencies

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

The table below shows the Bank's maximum credit risk exposure for commitments and contingencies. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the Statement of Financial Position.

Commitments and Contingent Liabilities	2014	2013
	Rs.	Rs.
Contingent Liabilities		
Bank Guarantee	61,655,651	59,171,150
Bills Sent for Collection	107,306,087	87,447,801
Total Contingent Liabilities and Commitments	168,961,738	146,618,951

45.3 Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The most important of these is to maintain the minimum 20% liquid assets ratio to meet the regulatory requirement. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale. Further the Statutory Liquid Assets Ratio of the Bank for the month of December 2014 is as follows.

Notes to the Financial Statements Contd.

45.3.1. Offsetting of Financial Instruments

2014						
	Gross amounts Rs.	Gross amounts set of on the Statement of Financial Position Rs.	Net amount presented on the Statement of Financial Position Rs.	Cash collateral Rs.	Financial instrument collateral Rs.	Net Amount Rs.
Financial Assets						
Lease rentals receivable	9,352,816	-	9,352,816	-	-	9,352,816
Financial Liabilities						
Due to customers	72,525,364,971	-	72,525,364,971	-	-	72,525,364,971

The financial instruments & cash collateral amount disclosed reflect their fair values. The rights of set off relating to the financial instruments and cash collateral are conditional upon the default of the counterparty.

45.3.2. Statutory Liquid Assets Ratio

For the month of December 2014 - 35.51%

For the month of December 2013 - 25.51%

45.3.3 Due to Banks & Due to Other Customers (Deposits) to Loans and Receivables from Banks & Other Customers (Advances) Ratio

The Bank is aware of the importance of due to banks & other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks & due to other customers (Deposits).

Due to banks & due to other customers to Loans and receivables from banks & other customers Ratio

As at 31 December 2014 - 87.10%

As at 31 December 2013 - 95.92%

45.3.4 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2014. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Contractual maturities of undiscounted cash flows of financial assets and liabilities

2014

	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Assets						
Cash and balances with Central Bank	236,997,574	-	-	-	-	236,997,574
Sri Lankan government Securities	-	1,789,084,271	-	-	-	1,789,084,271
Balances with banks	18,191,222,200	7,974,193,222	-	-	-	26,165,415,422
Financial assets held for trading	-	-	-	-	206,300	206,300
Loans and receivables from other customers	10,641,256,097	19,030,853,503	17,951,645,172	11,028,353,538	9,685,055,527	68,337,163,837
Other assets	177,692,089	49,337,768	390,795,864	-	-	617,825,721
Total assets	29,247,167,961	28,843,468,763	18,342,441,036	11,028,353,538	9,685,261,826	97,146,693,125
Liabilities						
Due to banks	599,573,675	1,793,611,679	4,782,964,477	3,054,887,233	-	10,231,037,063
Due to other customers	25,603,386,928	20,806,089,165	5,935,939,862	8,088,148,842	13,922,523,985	74,356,088,781
Other liabilities	1,680,781,534	451,943,705	495,034,379	272,607,287	434,228,669	3,334,595,573
Total liabilities	27,883,742,136	23,051,644,549	11,213,938,718	11,415,643,362	14,356,752,653	87,921,721,418
Total Net Asset/(Liability)	1,363,425,825	5,791,824,214	7,128,502,319	(387,289,824)	(4,671,490,827)	9,224,971,708

Contractual maturities of undiscounted cash flows of financial assets and liabilities

2013

	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Assets						
Cash and balances with Central Bank	226,501,435	-	-	-	-	226,501,435
Balances with banks	3,750,169,418	7,448,097,189	4,468,858,313	-	-	15,667,124,920
Financial assets held for trading	-	-	-	-	698,759	698,759
Loans and receivables from other customers	15,211,349,211	21,515,869,538	15,383,530,889	8,051,820,930	5,361,155,035	65,523,725,602
Other assets	1,146,687,027	43,412,975	15,721,608	-	-	1,205,821,610
Total assets	20,334,707,090	29,007,379,702	19,868,110,810	8,051,820,930	5,361,853,794	82,623,872,326
Liabilities						
Due to banks	462,776,376	1,388,329,129	3,702,211,010	2,959,841,575	-	8,513,158,091
Due to other customers	22,101,759,965	17,960,560,837	5,124,115,742	6,981,979,563	12,018,421,004	64,186,837,111
Other liabilities	919,985,017	484,391,855	461,278,575	345,270,674	954,808,210	3,165,734,331
Total liabilities	23,484,521,358	19,833,281,821	9,287,605,327	10,287,091,812	12,973,229,214	75,865,729,532
Total Net Asset/(Liability)	(3,149,814,268)	9,174,097,881	10,580,505,483	(2,235,270,883)	(7,611,375,420)	6,758,142,794

Notes to the Financial Statements Contd.

45.3.5 Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2014						
	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingent Liabilities						
Bank guarantee	4,332,852	8,236,000	42,786,799	6,300,000	-	61,655,651
Bills sent for collection	107,306,087	-	-	-	-	107,306,087
Total Contingent Liabilities	111,638,939	8,236,000	42,786,799	6,300,000	-	168,961,738

2013						
	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingent Liabilities						
Bank guarantee	24,706,000	1,532,004	28,733,146	4,200,000	-	59,171,150
Bills sent for collection	87,447,801	-	-	-	-	87,447,801
Total Contingent Liabilities	112,153,801	1,532,004	28,733,146	4,200,000	-	146,618,951

45.4 Interest Rate Risk

Bank does not have any Interest Rate sensitivity financial asset or liability except for borrowings at variable interest rate.

Below table explain the changes to Income Statement if market rate changes by 1%.

2014		
Change Interest Rate	Effect on Profit Rs. Mn.	Effect on Equity Rs. Mn.
+ 1%	(0.33)	(0.33)
- 1%	0.33	0.33

2013		
Change Interest Rate	Effect on Profit Rs. Mn.	Effect on Equity Rs. Mn.
+ 1%	(0.67)	(0.67)
- 1%	0.67	0.67

45.5 Currency Risk

Bank does not have any foreign currency transaction and therefore do not expose to any foreign currency risk.

45.6 Equity Price

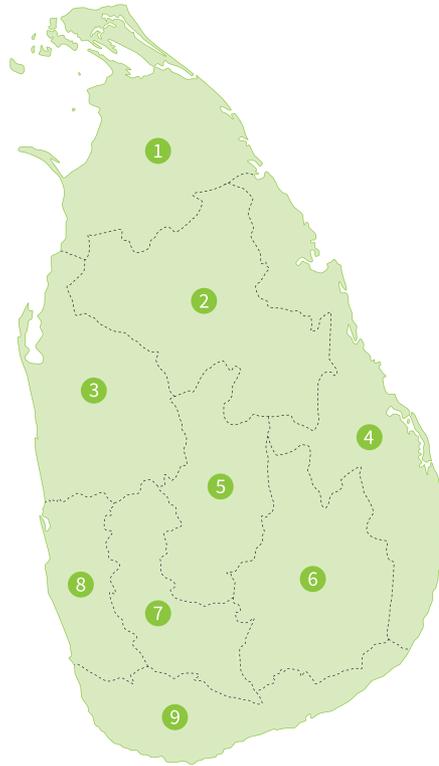
If bank holding any equity interest which is classing as held to trading if the market price increase by 10% the profit and equity will increase by Rs. 21,200/- and vice versa.

Relationships,
beyond Transactions.

Branch Network

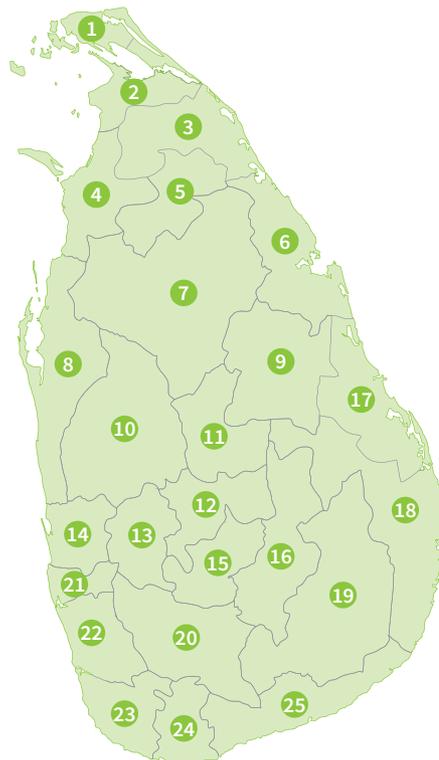
Provinces of Sri Lanka

- 1 Northern Province
- 2 North Central Province
- 3 North Western Province
- 4 Eastern Province
- 5 Central Province
- 6 Uva Province
- 7 Western Province
- 8 Sabaragamuwa Province
- 9 Southern Province



Districts of Sri Lanka

- 1 Jaffna District
- 2 Kilinochchi District
- 3 Mullaitivu District
- 4 Mannar District
- 5 Vavuniya District
- 6 Trincomalee District
- 7 Anuradhapura District
- 8 Puttalam District
- 9 Polonnaruwa District
- 10 Kurunegala District
- 11 Matale District
- 12 Kandy District
- 13 Kegalle District
- 14 Gampaha District
- 15 Nuwara Eliya District
- 16 Badulla District
- 17 Batticaloa District
- 18 Ampara District
- 19 Moneragala District
- 20 Ratnapura District
- 21 Colombo District
- 22 Kalutara District
- 23 Galle District
- 24 Matara District
- 25 Hambantota District



Jaffna District

- Jaffna
- Chunnakam
- Kanagarayankulam

Vavuniya District

- Vavuniya
- Bogaswewa

Mannar District

- Mannar

Mullaitivu District

- Mullaitivu

Kilinochchi District

- Kilinochchi

Trincomalee District

- Trincomalee
- Muthur
- Kanthale

Anuradhapura District

- Anuradhapura City
- Galenbidunuwewa
- Galnewa
- Gonapathirawa
- Kahatagasdigiliya
- Kekirawa
- Medawachchiya
- Mihinthale
- Rambawa
- Thalawa
- Thambuththegama
- Thirappane
- Anuradhapura New City
- Thambuththegama New City

Polonnaruwa District

- Aralaganvila
- Bakamoona
- Galamuna
- Hingurakgodra
- Kaduruwela
- Manampitiya
- Medirigiriya
- Polonnaruwa
- Pulasthigama
- Sewanapitiya
- Siripura

Rathnapura District

- Balangoda
- Eheliyagoda
- Embilipitiya
- Erathna
- Godakawela
- Kahawatta
- Kalawana
- Kiriella
- Kolonna
- Kuruwita
- Nivithigala
- Pelmadulla
- Pothupitiya
- Pulingupitiya
- Rakwana
- Ratnapura
- Sri Palabaddala
- Weligepola

Kegalle District

- Aranayake
- Bulathkohupitiya
- Dehiowita
- Deraniyagala
- Dewalegama
- Hemmathagama
- Kegalle
- Kitulgala
- Kotiyakumbura
- Mawanella
- Nelundeniya
- Pitagaldeniya
- Rambukkana
- Ruwanwella
- Warakapola
- Yatiyanthota

Batticaloa District

- Batticaloa
- Chenkaladi
- Kalavanchikudy
- Eravur
- Kaththankudy
- Kokkadicholai
- Valachchenai

Kurunegala District

- Alawwa
- Ambanpola
- Galgamuwa
- Giriulla
- Ibbagamuwa
- Kuliapitiya
- Kurunegala
- Maho
- Mawathagama
- Melsiripura
- Narammala
- Nikaweratiya
- Panduwasnuwara
- Polpitiyagama
- Pothuhera
- Rideegama
- Wariyapola
- Headquarters Branch

Puttalam District

- Anamaduwa
- Bowaththa
- Chilaw
- Dummalasuriya
- Kirimetiya
- Mahawewa
- Mampuri
- Mundel
- Naththandiya
- Palakuda
- Nawagaththegama
- Pannala
- Puttalam

Ampara District

- Akkaraipaththu
- Ampara
- Damana
- Kalmunai
- Mahaoya
- Nintavur
- Pothuvil
- Sammanthurai
- Uhana
- Dehiattakandiya

Badulla District

- Badulla
- Bandarawela
- Bogahakumbura
- Dehiaththakandiya
- Diyathalawa
- Girandurukotte
- Haldummulla
- Haputhale
- Kandaketiya
- Lunugala
- Mahiyangana
- Maligathanna
- Meegahakiula
- Passara
- Rideemaliyadda
- Uva Paranagama
- Welimada

Moneragala District

- Badalkumbura
- Bibila
- Buttala
- Madulla
- Medagama
- Monaragala
- Sevanagala
- Siyambalanduwa
- Thanamalvila
- Wellaway

Galle District

- Ahangama
- Akmeemana
- Baddegama
- Balapitiya
- Batapola
- Elpitiya
- Galle
- Gonagalpura
- Hikkaduwa
- Imaduwa
- Kakenadura
- Kaluwella
- Karapitiya
- Neluwa
- Pitigala
- Thalgaswala
- Udugama
- Yakkalamulla
- Urugasmanhandiya

Hambantota District

- Agunakolalpassa
- Ambalantota
- Barawakumbuka
- Beliatta
- Hambantota
- Katuwana
- Lunugamwehera
- Middeniya
- Ranna
- Sooriyawewa
- Tangalle
- Walasmulla
- Tissamaharamaya
- Warapitiya
- Weeraketiya

Matara District

- Akuressa
- City Branch
- Deiyandara
- Deniyaya
- Devinuwara
- Dikwella
- Gandara
- Hakmana
- Kamburugamuwa
- Kamburupitiya
- Karandeniya
- Kirinda
- Mawarala
- Mirissa
- Morawaka
- Pamburana
- Pitabaddara
- Thihagoda
- Urubokka
- Weligama

Kandy District

- Danthure
- Dawlagala
- Hataraliyadda
- Hedeniya
- Kandy
- Katugastota
- Manikhinna
- Udadumbara
- Peradeniya
- Theldeniya
- Marketing Information Centre

Matale District

- Dambulla
- Galewela
- Laggala
- Matale
- Morayaya
- Naula
- Pujapitiya
- Rattota
- Udawela
- Wattegama
- Wilgamuwa

Nuwara Eliya District

- Agarapathana
- Gampola
- Ginigathhena
- Haguranketha
- Kotagala
- Marassana
- Nawalapitiya
- Nildandahinna
- Nuwara Eliya
- Pundaluoya
- Rikillagaskada

Gampaha District

- Divulapitiya
- Gampaha
- Ja-Ela
- Kiridwela
- Mawaramandiya
- Minuwangoda
- Mirigama
- Miriswattha
- Negombo
- Nittambuwa
- Ragama
- Kelaniya

Kalutara District

- Agalawatta
- Baduraliya
- Beruwala
- Bulathsinhala
- Dodangoda
- Gonapola
- Horana
- Ingridiya
- Kalutara
- Mathugama
- Meegahathanna
- Millaniya
- Moronathuduwa
- Panadura
- Wadduwa
- Walagedara
- Warakagoda

Notes

Lined area for notes with a large decorative graphic in the center. The graphic features a stylized eye or lens within a circular frame, surrounded by abstract green and orange shapes.



No. 933, Kandy Road, Wedamulla, Kelaniya, Sri Lanka.
Tel : +94 11 2035454 +94 11 2035455-9 Fax : + 94 11 2035467
web : www.rdb.lk

Corporate Information

REGISTERED NAME OF THE BANK

Pradeshiya Sanwardhana Bank

LEGAL STATUS

A licensed Specialised Bank established under Pradeshiya Sanwardhana Bank Act No. 41 of 2008

BOARD OF DIRECTORS

Mr. Prasanna Premarathna

Mr. S.R. Attygalle

Mr. Mukthar Marikkar

Mr. Janaprieth Fernando

Ms. Shamara Herath

Mr. Sarath Hewage

Dr. P.N. Weerasinghe - Working Director

Mr. M.I.M Rezwie

Mr. J.K. Gamanayaka

Mr. K.B.S. Bandara

Ms. G.P.R. Jayasinghe

GENERAL MANAGER /CEO

Mr. T.A Ariyapala

SECRETARY TO THE BOARD OF DIRECTORS

Ms. Kasuni Pinnawele (Chief Legal Officer)

HEAD OFFICE

No. 933, Kandy Road,

Wedamulla,

Kelaniya.

Tel: 011 2035454 / 011 2035455-9

Fax: 011 2035467

Email: info@rdb.lk

Website: www.rdb.lk

VAT Registration No. 409272339-7000

AUDITORS

Auditor General

Auditor General's Department

306/72, Polduwa Road, Battaramulla,

Sri Lanka.

PROVINCIAL OFFICES

North Central Provincial Office,

No. 65 D, 4th Lane, Abaya Place,

Anuradhapura.

Uva Provincial Office,

No.1/315, Passara Road,

Badulla.

Sabaragamuwa Provincial Office,

No. 28, Bandaranayaka Mawatha,

Rathnapura.

Southern Provincial Office,

No.28 B, Esplanade Road,

Uyanwatta, Matara.

Central Provincial Office,

No. 15, Dharmashoka Mawatha,

Kandy.

Western Provincial Office,

No. 36, Kandy Road, Miriswaththa,

Gampaha.

North Western Provincial Office,

No. 155, Negombo Road,

Kurunegala.