

Illuminating path to prosperity

Annual Report 2017



பிரதேச வளர்ச்சி வங்கி
பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank

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Illuminating path to prosperity

As a national bank, we are dedicated to improving the living standards of the rural masses of Sri Lanka by providing readily accessible and affordable financial solutions that in turn would contribute significantly to the upliftment of the rural economy. The Bank therefore sees itself as a pathfinder for the masses, illuminating theirs and the Nation's path to sustainable prosperity.

Vision

Nurturing entrepreneurs who will propel our Country's socio-economic prosperity

Mission

We provide financial and advisory services through a dedicated team of professionals aims to productively uplift the socio-economic prosperity of regions

Regional Development Bank...

The beginning 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 mobilisation 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.

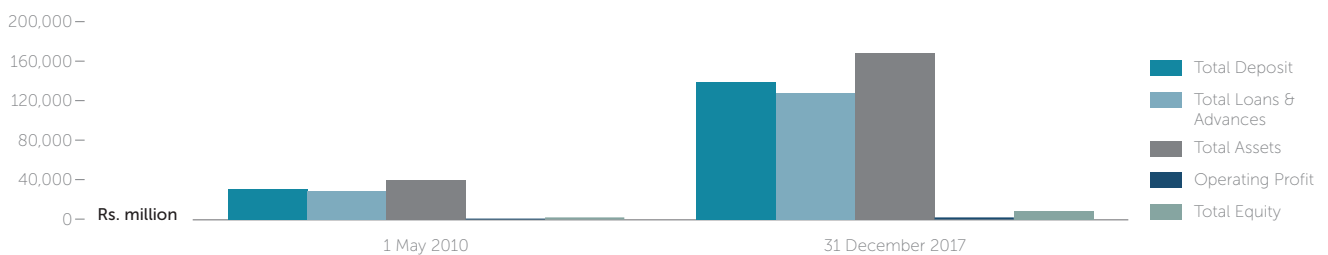
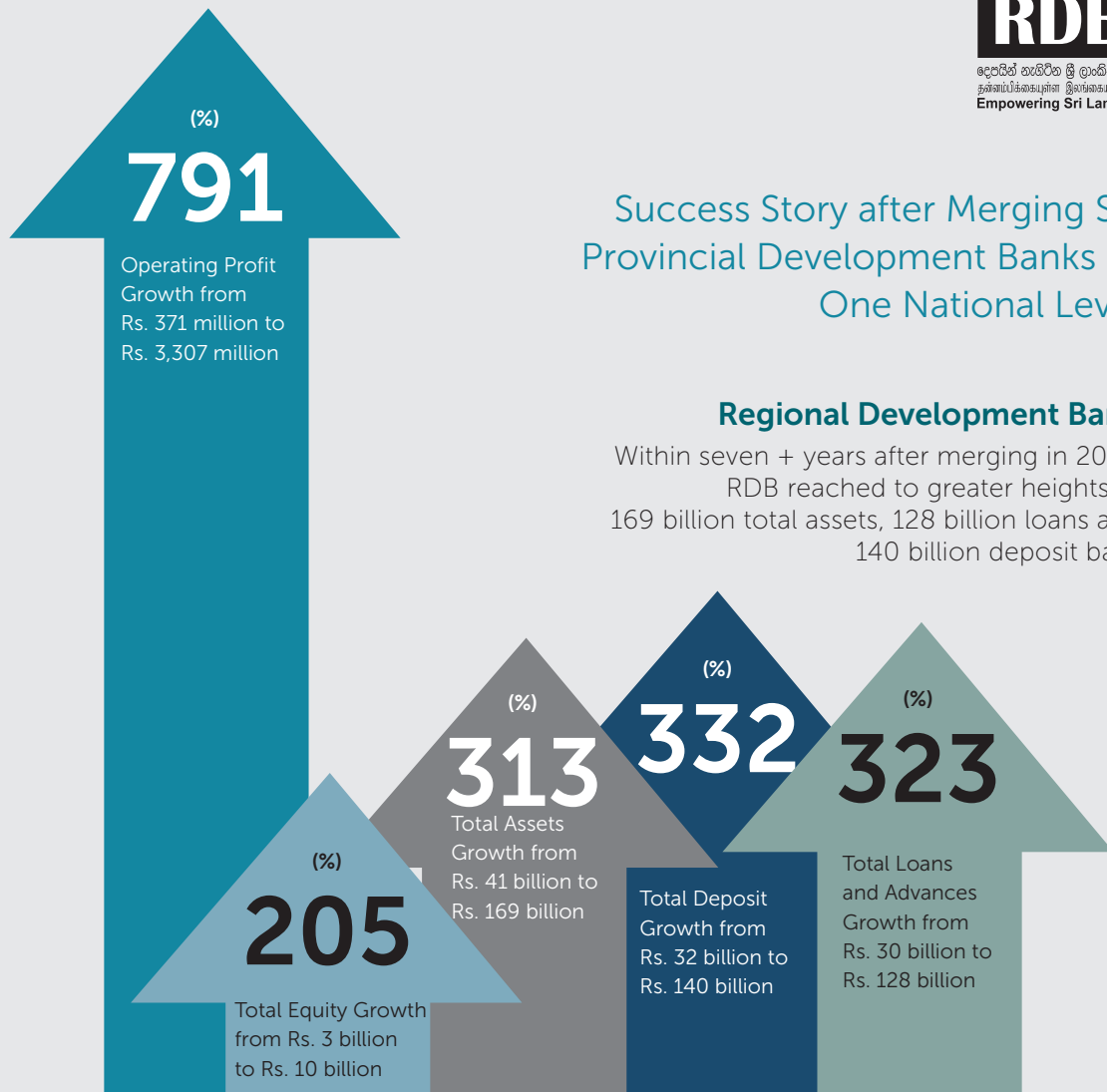
Today, with over six million loyal account holders complemented by 265 branches and empowered by over 2,350 professional permanent staff members, the RDB is well equipped to implement its vision of nurturing entrepreneurs who will propel our country's socio-economic prosperity.



Success Story after Merging Six Provincial Development Banks as One National Level

Regional Development Bank

Within seven + years after merging in 2010, RDB reached to greater heights of 169 billion total assets, 128 billion loans and 140 billion deposit base



Results achieved by Provincial Development Banks (i.e., Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks) during the twenty-four years' period from 1985 to 2009, have drastically improved during the seven years' period (2010-2017) after establishing Regional Development Bank (RDB) in 2010 merging all previous Provincial Development Banks.

During May 2010 to December 2017

- Total Deposits of RDB has increased by Rs. 108 billion from Rs. 32,350 million to Rs. 139,827 million.
- Total Loans and Advances of RDB has increased by Rs. 98 billion from Rs. 30,311 million to Rs. 128,344 million.
- Total Asset of RDB has increased by Rs. 128 billion from Rs. 41,018 million to Rs. 169,259 million.

History of RDB

The beginnings of Regional Development Bank (RDB) can be traced to 1985 when district level banks under the category of Regional Rural Development Banks were established in terms of the Regional Rural Development Bank Act No. 15 of 1985. Subsequently in 1997, under the Regional Development Bank Act No. 06 of 1997, seventeen Regional Rural Development Banks were amalgamated into six provincial development banks; Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks. With the introduction of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008 these six banks were merged into one national entity as Pradeshiya Sanwardhana Bank (Regional Development Bank) on 1 May 2010. In 2015, RDB celebrated 30th Anniversary. Being the RDB at national level Government-owned development bank, the objectives of the Bank shall be to facilitate the overall regional economic development of Sri Lanka by promoting the development activities such as agriculture, industry, trade, commerce, livestock, fisheries and empowerment of women mainly by granting financial assistance to Micro Financial Institutions and small and medium scale enterprises.

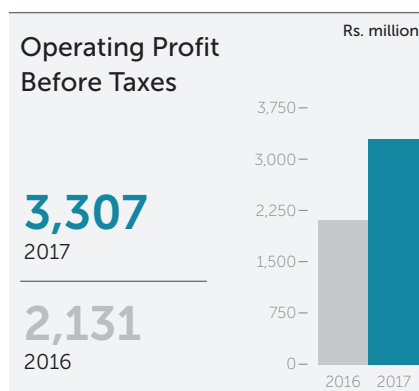
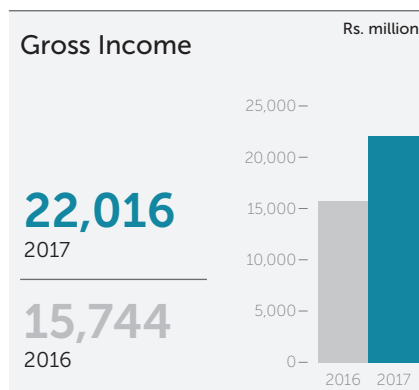
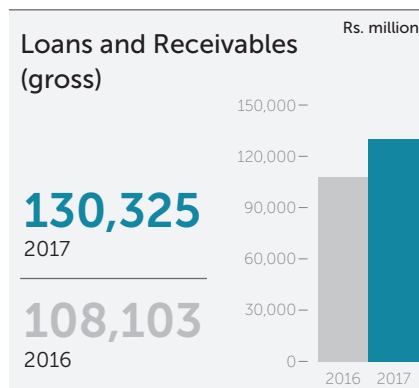
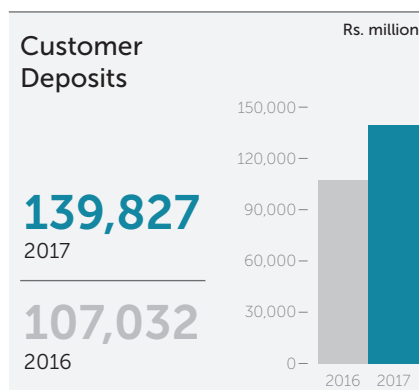
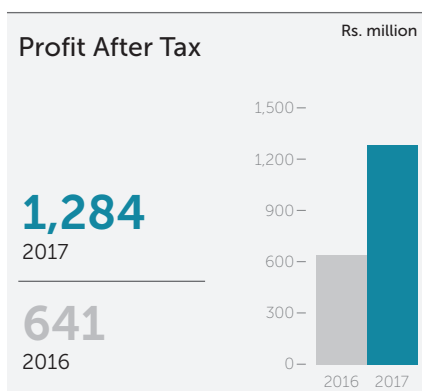
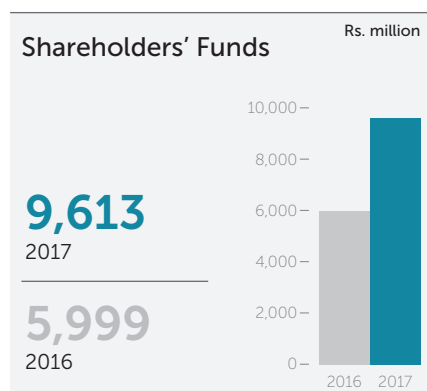
Financial Highlights

- As a financial institution dedicated to development financing, 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. Our key asset is our customer base of over six million spread throughout the country, including 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 265 branches in the island-wide network.
- The total income of the Bank has increased by 40%, compared to the previous year. In the year 2017, operating profit increased to Rs. 3,307 million, which is 55% over the operating profit of Rs. 2,131 million, recorded in 2016. ROA before tax of the Bank has increased to 2.2% that stood at 1.8% in 2016.

Support Services to Our Customers

- **Western Union with NDB** – Money transfers through the Western Union is easier and speedy way to transfer funds with total security from any foreign destination to our country and customers are able to collect them through all branches of the RDB which are widely located in rural and semi-urban areas.
- **Lanka Money Transfer (LMT) with DFCC** – Lanka Money Transfer remits money directly and instantly to customer bank accounts with no downtime. Lanka Money Transfer is with a wide international network consisting of over 275 locations and this service available at 265 RDB branches island wide.
- **Utility Bills Payment Facility** for the bills of Sri Lanka Telecom, Ceylon Electricity Board (CEB), National Water Supply and Drainage Board (NWSDB).
- **RDB ATM and LankaPay ATM Facility** – Now our customers are able to withdraw their money at any one of over 3,500 ATMs island wide. Around 100,000 ATM cards have been issued to customers up to now.
- **Common Electronic Fund Transfer (CEFT) System** – Inter Bank fund transfer facility is available for our Customers.

	2017 Rs. '000	2016 Rs. '000	Change %
Operating results for the year			
Gross income	22,016,079	15,744,337	40
Operating profit before tax	3,306,995	2,130,568	55
Taxation	2,023,065	1,489,280	36
Profit after tax	1,283,930	641,288	100
Profit attributable to shareholders	1,113,803	518,605	115
Assets and liabilities			
Customer deposits	139,827,365	107,031,721	31
Loans and receivables (gross)	130,324,846	108,102,760	21
Total assets	169,259,202	130,913,984	29
Total liabilities	159,646,453	124,915,039	28
Shareholders' funds	9,612,749	5,998,946	60
Profitability			
Return on assets (%)	2.20	1.79	
Return on equity (%)	16.45	11.04	
Non-performing loans ratio	3.27	2.85	
Regulatory ratios			
Capital adequacy ratio			
As per Basel II			
Tier I (minimum ratio of 5%)	N/A	6.50	
Tier II (minimum ratio of 10%)	N/A	9.27	
As per Basel III			
Common equity Tier I capital ratio %	8.73	N/A	
Total Tier I capital ratio %	8.73	N/A	
Total capital ratio %	12.57	N/A	
Statutory liquid assets ratio %	26.27	21.25	





For over three decades the mission of the Regional Development Bank has been to uplift the rural masses. The Bank advances its vision by paving the way for the owners of micro and SME (Small and Medium-sized Enterprises) to maintain healthy businesses.

Dear Shareholder,

Despite 2017 being a challenging year for the Nation and the Bank, the Regional Development Bank (RDB) marked success on many fronts. With the assistance of the Bank's shareholders and the immense strength and commitment displayed by the employees, the Bank managed to overcome the impact of adverse weather conditions and the unfavourable economic environment that prevailed during the year 2017. It's also noteworthy that the trust and confidence placed by the existing and new customers sustained the banking activities of the RDB.

For over three decades the mission of the Regional Development Bank has been to uplift the rural masses. The Bank advances its vision by paving the way for the owners of micro and SME (Small and Medium-sized Enterprises) to maintain healthy businesses. Having fulfilled its mission this year, the Bank is pleased to report that its loan portfolio has grown from Rs. 106 billion to Rs. 128 billion while its deposit portfolio marked a Rs. 32 billion growth.

Operating Environment

At a global level, growth was projected to increase to 3.7% in 2017. Yet growth remained subdued as it did in the previous year. This situation was evidenced in the economies of many countries. In Sri Lanka, growth was severely affected due to the adverse weather conditions that crippled the Southern and North Central provinces with heavy rains and droughts respectively. As the Regional Development Bank (RDB) is primarily based in the outstations the livelihoods of its customers were impacted to a great extent.

Moreover, headline inflation was high while the core inflation remained at reasonable levels. This resulted in high interest rates at the beginning of the year. The decline of interest rates at the latter part of the year was a result of changes such as higher liquidity levels, lower levels of borrowings by the Government and moderate inflation. Economic growth is projected to improve in the coming year, as the Gross Domestic Product (GDP) is estimated to grow between 5%- 5.3% in 2018 – an estimation that will propel the Bank's fresh strategic focuses.

Renewed Strategic Outlook

As the Bank was in its second year of the five-year strategic plan, it continued to put in place a solid Human Resource Management System. Necessary arrangements have also been made to commence the Loan Originating System (LOS) in the first quarter of 2018.

Today, there is a significant amount of competition in the field of development banking. Taking into consideration these progressions and given that many of RDB's customers are no longer the owners of micro businesses, the Regional Development Bank has felt the need to look at its business model with a renewed perspective. In order that the Bank reaches its growth targets it will have to

consider the ever-evolving needs of its customer base. The Bank has also felt the need to broad-base its capital base by enhancing its shareholder portfolio. These changes when incorporated into the existing business model would help the Bank achieve long-term growth.

Research-Based Improvements

RDB has also been a keen facilitator of developments in the agricultural sector. A systematic process that ensures the island-wide distribution of agricultural produce has still not been put in place making way for haphazard processes of distribution and exportation. As the largest development bank in Sri Lanka the RDB continues to conduct research on ways in which systems of this kind operate in the world. The four **Isuru** Companies-based on the cooperative structure – established by the Bank ensure a more systematic process of distribution and could create an island-wide phenomenon. This system could pave the way for smoother local and international transactions. This is a project the Bank hopes to spearhead. Moreover, as a joint venture, with the assistance of expert input of external resources the Bank will also put in place systems to improve the dairy sector of the country.

Advancements Amidst Setbacks

The adverse weather conditions interrupted the operations of a few of the Bank's branches but RDB stood strong amidst the storm. The Bank expects to open several new branches in the near future. These will add to the 265 branches in operation island-wide. The Bank has also taken steps to relocate certain branches to Bank-owned premises. In addition to the granaries maintained by the Bank in Upuldeniya, Buttala and Mannar, the Government also handed over the operations of the granary in Embilipitiya. In the future, the Regional Development Bank hopes to enhance the management of the day-to-day operations of the granaries.

Further Afield...

The Regional Development Bank is equipped for a future of promise. The ever-growing family of RDB is trained to take on the changes envisioned for its future. While the Bank has encountered issues in the recruitment process (further discussed by the GM/CEO of RDB on page 9), within 2017 the Bank recruited a dynamic group of youngsters in the grade of Management Trainee who will be the future of the Bank.

Thankful To...

The Government of Sri Lanka was immensely helpful in the operations of the Bank during the year, especially given the troubling situations faced by some of the Bank's customers. The RDB family is grateful to His Excellency the President Maithripala Sirisena, the Hon. Prime Minister Ranil Wickramasinghe, Hon. Minister of Public Enterprise Development Kabir Hashim, and the Ministry officials for their valuable advice and continuous support. A special thanks to Hon. Minister of Finance Mangala Samaraweera and the officials of the General Treasury for their direction and assistance.

The guidance extended by the Governor of the Central Bank, Deputy Governors, and the officials of the Regional Development Department of the Central Bank is much appreciated along with the support extended to the Bank by the Auditor General and his staff members. Appreciation must also be extended to District Secretaries, Divisional Secretaries and all other categories of Government and Non-Government officials who supported RDB in its journey to uplift the rural masses.

The Board of Directors has been a pillar of strength, headed by GM/CEO Mr. T. A. Ariyapala, Corporate Management and all the staff members who worked hard to deliver strong results. The Bank is also thankful to its valued customers and depositors for their continued patronage and trust while the support extended to RDB by the multilateral lending organisations and investment institutions is much appreciated. Most importantly, a special thank you to the Bank's shareholders for their continued confidence in the RDB. On behalf of the Board of Directors the Bank also extends its sincere appreciation to the Print, Electronic and Social Media for the exposure that is being provided to the Bank.

As the Regional Development Bank ventures into a promising new year, it will empower the Nation and its rural populous.



Prasanna Premaratne

Chairman

GENERAL MANAGER/ CHIEF EXECUTIVE OFFICER'S REVIEW



The Bank takes pride in its significant growth for which the contributing factors were the 29% growth in the asset base amounting to Rs. 38 billion and 20% growth in the loans and advances portfolio which amounted to a remarkable Rs. 22 billion.

Regional Development Bank's commitment to fulfilling its mission has helped maintain success through the years. Essentially, the Bank believes in maintaining fruitful relationships with customers to nurture and lead Sri Lankan entrepreneurs particularly in rural areas. This year too, the Bank's unwavering dedication to its customers affected by the unfavourable weather conditions ensured their upliftment while also enabling the growth of the Bank.

The Bank takes pride in its significant growth for which the contributing factors were the 29% growth in the asset base amounting to Rs. 38 billion and 20% growth in the loans and advances portfolio which amounted to a remarkable Rs. 22 billion. The Bank was able to manage diligently its Non-Performing Loans, that kept the ratio at 3.27% as at 31 December 2017. The Bank wishes to stress that given the unfortunate situation faced by many of its customers, it did not want to be an additional source of pressure.

The Bank also achieved a gross income of Rs. 22 billion and operating profit of Rs. 3.3 billion for the year 2017 recording a year on year growth of 40% and 55% respectively. Furthermore, the Bank achieved impressive results in Profit before tax of Rs. 2.19 billion and Profit after tax of Rs.1.28 billion recording a year on year growth of 74% and 100% respectively. These goals were reached through the implementation of strategic plans, enhanced product portfolios, and the combined efforts of the RDB family.

Training and Recruitment

The professional growth of the RDB family has been a constant preoccupation of the Bank's Management. To further enhance the skills of its employees, the Bank initiated training sessions as it did in the past. A select number of employees also received foreign training. Within the year, number of employees in positions ranging from Banking Assistant to Deputy General Manager were identified and promoted accordingly.

However, the Bank also noted that within the next two years around 200 of its employees are due to retire. Employees at a junior level have not developed the necessary skills and expertise to take on these positions. As a solution to this impending challenge the Bank recruited more than 115 Management Trainees from around the Island. In 2018, the Bank also hopes to recruit at least 300 Development Assistants to be groomed to take on the mission of the Bank. The retainment of millennials has also long been a concern of the Bank and one that could be addressed with the refreshing strategic outlook of the Bank.

Enhanced Product Portfolio

While the Bank's focus lay on the loan system – the development of the Loan Originating System (LOS) – RDB also made sure to enhance its product portfolio. Within the year, the Bank introduced 14+ and RDB Victory in order to accommodate the growing needs of its depositors. While 14+ is an account developed to inculcate savings habits among teenagers, RDB Victory was introduced to encourage long-term investment. These deposit schemes significantly contributed to the total deposit base of the Bank this year.

Reaching Out

The Bank's customer base was duly informed about the enhancements added to its product portfolio. As in the past, the **Dorin Dora** officials paid personal visits to the customers to convey the message. These officials also have Palmtops to provide receipts for deposits made during their visits. RDB also conducted 13,800 **Jana Hamu** programmes this year. These timely programmes introduced a significant number of people among the rural populous to formal banking activities. Programmes of this kind help the Bank's customers make informed savings decisions. Much like in the past entrepreneur development programmes were also conducted in similar geographies. These programmes primarily focus on encouraging the youth and women in similar areas to take on entrepreneurial projects in their communities. Projects of this kind have encouraged many to venture into business and have in turn created jobs.

Technological Innovations

The Bank has always focused on incorporating the latest banking technologies in order to make its products more user-friendly. As it was done in previous years, more ATMs were introduced island-wide. This year, the Bank also introduced another convenience which allows customers to transfer money to any other bank in Sri Lanka through the RDB. In the coming years the Bank will be on continuous quest for technologies that will enhance its operations while incorporating them into the system in due course.

Facing Challenges, Meeting the Future

Taxation exerted a significant amount of pressure on businesses in Sri Lanka. As a development bank, RDB relies heavily on its deposits and loans. Given the business model of banks of this kind, the Government would have to create a special taxation scheme for development banks. As RDB plans to develop the agricultural system of the country, a special taxation scheme will ensure that the Bank will have sufficient credit lines to further its development ventures. The past year was challenging but has also made the Bank increasingly aware of areas that require attention and those that need to undergo change. The Regional Development Bank is well-equipped to meet the future.

Acknowledgements

The Bank has thrived with the support received from the Chairman and Board of Directors while the dedication of the Management Team and the staff members is greatly appreciated. Gratitude must also be conveyed to the Hon. Minister of Public Enterprise Development, Hon. Minister of Finance and the Governor and the officials of the Central Bank of Sri Lanka. A special acknowledgement goes to the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank for the support extended to the Bank. Sincerest appreciation must be conveyed to the Auditor General and the Government and Non-Government institutions and their officials who assisted RDB throughout the year. Finally, a very special thanks to RDB's six million customers whose steadfast faith in the Bank has always been a source of strength.



T. A. Ariyapala

General Manager/Chief Executive Officer

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Products and Services

Achieving profit after Tax of 148% over the budget whilst being challenged by highly volatile business environment, ensures bank's stability to face unforeseen future challenges.

As a financial institution, dedicated to Development Finance, Regional Development Bank (RDB) is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programmes in the island, playing a vital role as a financier. RDB has now emerged as a unique Financial Institution for Regional Development in the island, serving the sectors of the economy, where most financial institutions are reluctant to actively participate in this sensitive and sophisticated arena. Our key asset is our customer base of over six million, spread throughout the country, including both North and East. Development of the country and its people are the main focus of the Bank. So, the Bank is committed in empowering them and thereby developing the Nation through its island-wide branch network of 265 branches.

Profitability

Year 2017 is very significant year to the RDB because we were able to record performance well above the budgeted targets. The total income of the Bank has increased by 40%, compared to the previous year. In the year 2017, operating profit increased to Rs. 3,307 million, which is 55% over the operating profit of Rs. 2,131 million, recorded in 2016. Return on Assets (ROA) before tax has recorded as 2.2% that stood at 1.8% in 2016. Also, the Bank reached total assets of Rs. 169 billion as at 31 December 2017 which recoded 29% growth over the previous year.

Salient Achievements over the Budget

	Actual Rs. '000	Budgeted Rs. '000	Achievement %
Gross income	22,016,079	20,168,515	109
Operating profit	3,306,995	3,015,304	110
Profit after tax	1,283,930	869,114	148

RDB's Quarterly Financial Performance

RDB's quarterly financial performance has improved significantly during the year 2017.

	2017				2016
	31 December Rs. '000	31 September Rs. '000	31 June Rs. '000	31 March Rs. '000	31 December Rs. '000
Net operating income	10,157,834	6,768,673	4,163,400	2,031,747	8,451,603
Profit before tax	3,306,995	2,102,526	1,172,677	501,023	2,130,568
Profit after tax	1,283,930	725,825	365,982	154,917	641,288
Loans and receivables	130,324,846	123,460,985	116,894,818	111,840,457	108,102,760
Customer deposits	139,827,365	129,240,327	121,929,692	107,422,072	107,031,721
Total assets	169,259,202	158,483,741	147,765,497	138,553,757	130,913,984
Shareholder's fund	9,612,749	6,724,770	6,364,927	6,153,862	5,998,946

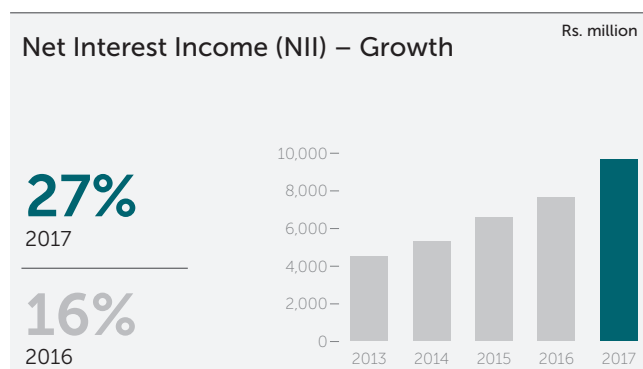
Income

Total income of the Bank showed an year on year increase of 40% from Rs. 15.7 billion to Rs. 22 billion. The major contributor to this was interest income which grew by 41% whilst fee and commission income which grew by 22% too contributed to total income.

Composition of Total Income	Rs. '000
Interest income	20,909,580
Fee and commission income	1,101,825
Other operating income	4,674
Total income	22,016,079

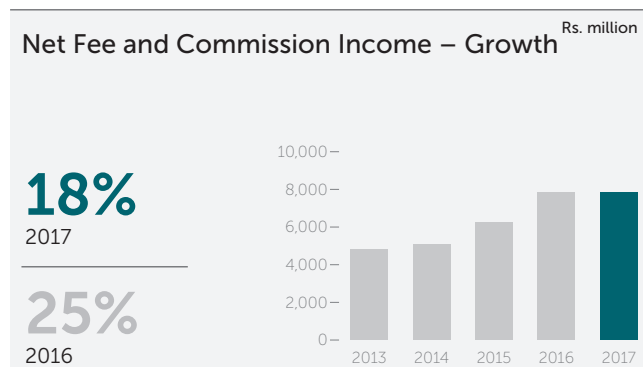
Net Interest Income (NII)

Net interest income grew significantly by 27% in the financial year 2017, as it increased from Rs. 7,616 million to Rs. 9,676 million.



Net Fee and Commission Income

A 18% growth was recorded during the year 2017. It reached Rs. 921 million in the year 2017 against Rs. 781 million recorded in the year 2016.



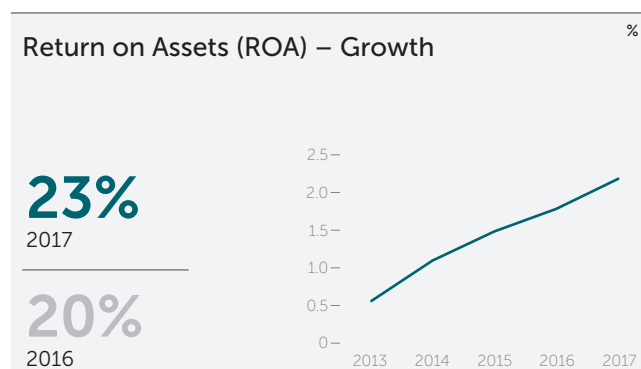
Taxation

	2017 Rs. '000	2016 Rs. '000	Change %
VAT on financial services	984,943	767,485	28
Nation building tax	131,326	107,483	22
Income tax	906,796	614,312	48
Total tax expense	2,023,065	1,489,280	36

During the year 2017, the Bank has incurred Value Added Tax on financial services and Nation Building Tax, amounting to Rs. 1,116 million and Income Tax amounting to Rs. 907 million. A total of Rs. 2,023 million has been incurred during the year as taxes.

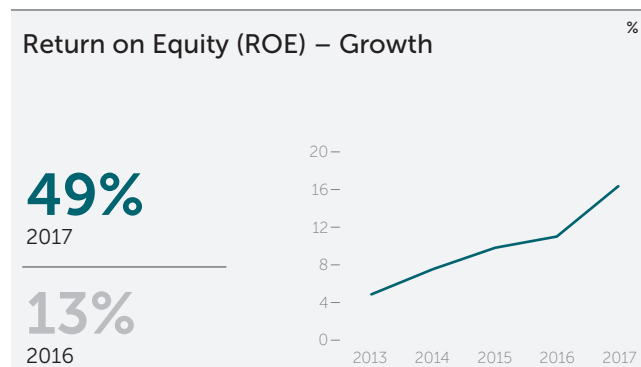
Return on Assets (ROA)

The Bank recorded ROA (before tax) of 2.2% for the year 2017 as against 1.8% recorded for the year 2016.



Return on Equity (ROE)

A remarkable 49% growth was recorded in year 2017 achieving ROE of 16.45% from 11.04% recorded in 2016 in view of 100% increase in Profit after Tax (PAT) compared to the previous year.

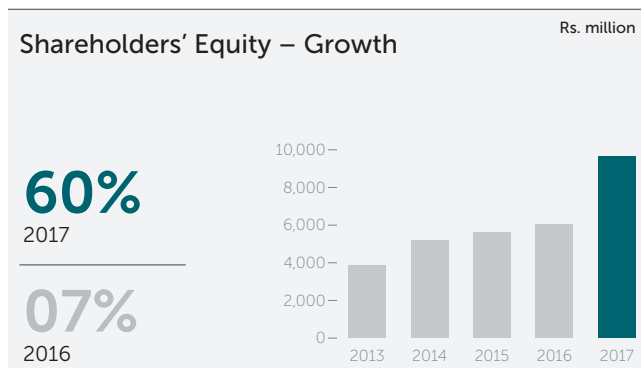


Total Assets

The Bank recorded a growth of 29% in total assets as at the end of the year 2017, over the corresponding year. Accordingly, the total assets base crossed the Rs. 160 billion mark to reach Rs. 169 billion.

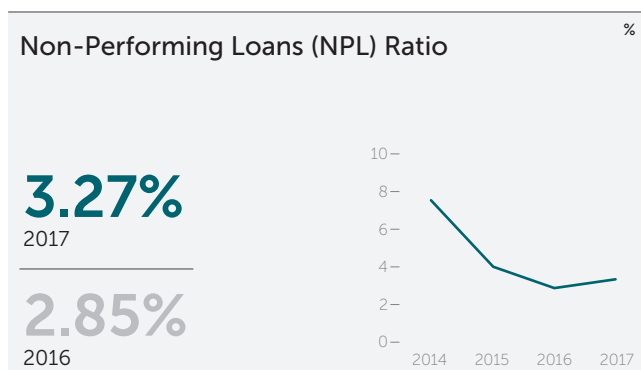
Total Shareholders' Equity

Total shareholders' equity of the Bank arrived Rs. 9,613 million with remarkable operating results and new capital injection of Rs. 2500 million by General Treasury at the end of year 2017.

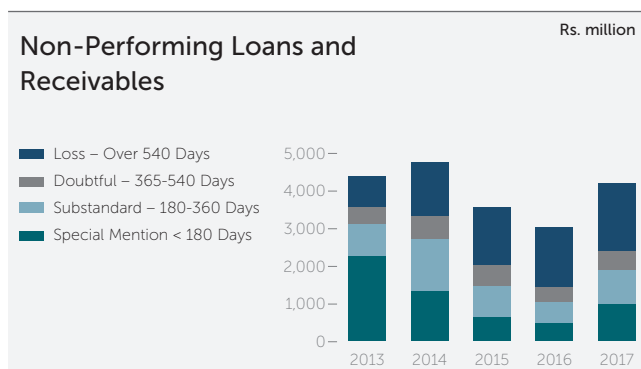


Assets Quality

Non-Performing Loan (NPL) ratio of the Bank maintained at 3.27% as at 31 December 2017 which was at 2.85% in the previous year end. Strong reviewing, monitoring and recovery processes helped the Bank to maintain NPL ratio at a manageable level.



Given below is an analysis of the Bank's non-performing loans, based on the credit risk classification of the Central Bank of Sri Lanka:



Liquidity

	2017 %	2016 %
Statutory liquid assets ratio	26.27	21.25

The Bank has consistently maintained its liquidity levels well above the regulatory requirements. Unexpected fixed deposit inflow in the month of December 2017 resulted in recording a higher Statutory Liquid Assets ratio.

IT Improvements

2017 was another year in which bank worked continuously to enhance customer service and internal efficiencies through technology implementation.

During the year bank increased android based mobile savings collection officers to 356 thus further enhancing the bank services at customer door step.

During the year bank managed to implement three key modules of the Human Resource Management System namely employee profiles, time attendance and payroll functions.

In 2017, many enhancements were done to the core banking system in order to facilitate availability of information critical to provide better customer service or information vital for decision making.

During first half of the year, seventeen IT & business section users were given a training at the core banking system vendor in Chennai. During the visit, staff was exposed to new technology usage in banking and finance sector.

2017 saw a significant achievement in issuance of ATM cards. Bank completed the issue of 100,000 cards to its customers. Bank ATM card holders can access their bank account from 24 bank owned ATM machines and more than 3500 ATM's of Lankapay network to perform transactions throughout 24 hours of the day. During 2017, bank introduced a SMS service to customers to inform them of banking transaction on their accounts. This enable a customer to get SMS notification on all transactions on his account via SMS.

Also bank take the pride in introducing utility bill payment facility, Common Electronic Fund Transfer (CEFT) facility to its customers. These initiatives are to definitely improve the customer service and banking convenience to our valued customers.

Another major initiative undertaken was the preparation of an IT strategic plan for 2017-2022 period. With the implementation of this plan it is expected to further streamline IT activities in order to serve its customer base with the help of technological development.

CUSTOMER AND RELATIONSHIP REVIEW

Credit and Operations

The Bank is expected to make a significant contribution towards the upliftment of the Nation as a Development Bank, which has a national presence. Credit is the most important function, with this instrument being used by the Bank in meeting this objective. Credit can be used to stimulate important segments such as Agriculture, Small Industries, Fisheries, Animal Husbandry, Housing and Service Sectors of the Economy, thereby enhancing the contributions made by these sectors towards National Income. One of the noteworthy features of the Bank is its strong presence in rural areas, which has been continuing from the inception of Regional Rural Development Banks since 1985.

The Bank therefore, has executed many strategies to meet the given objectives in all activities of the Bank, including lending operations. Terms of loan facilities were designed to suit the 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, Advisory Support on Management and Marketing. Credit plus services also helps to reduce the risk of lending and thereby reduces the dependency on securities for lending.

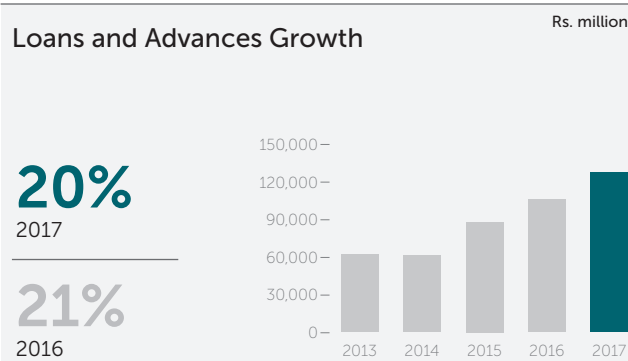
Currently, the Bank is operating an assortment of different loan schemes, designed for various needs of all customer categories. Funds for operation of most of the development loan programmes are received through refinancing schemes implemented by multilateral organisations such as World Bank, Asian Development Bank, European Investment Bank and Central Bank of Sri Lanka (CBSL). Accordingly, during the year under review, the Bank continued to act as a Participating Credit Institution (PCI) under 15 such refinancing programmes of which, six are from the CBSL. The Bank strongly represented itself by participating in almost all Refinance schemes operated by the CBSL.

During the year under review, the Bank was in a position to go ahead with a novel instrument for lending in the name of "Warehouse Receipt Financing". This was the first time in Sri Lanka, such an innovative instrument was used for financing by a bank to help farmer communities. This instrument will facilitate farmers to obtain temporary funds by pledging stocks during harvesting periods, without selling their produce at low market prices. The Bank has already commenced the management of three warehousing projects at Upuldeniya in the Anuradhapura District, at Buttala in the Monaragala District and newly commenced at Murunkan in the Mannar District in March 2017 on behalf of the Government, constructed with the support of the World Bank. The farmers are facilitated to store their harvest in this store, without selling until the price levels stabilised. In the meantime, the farmers can get short-term loans on the warehouse receipt to meet urgent cash needs, until disposal of the harvest, once prices have come up to a reasonable level.

The Bank continued to generate of fee income by channelling insurance activities relating to the loans granted by the Bank during 2017.

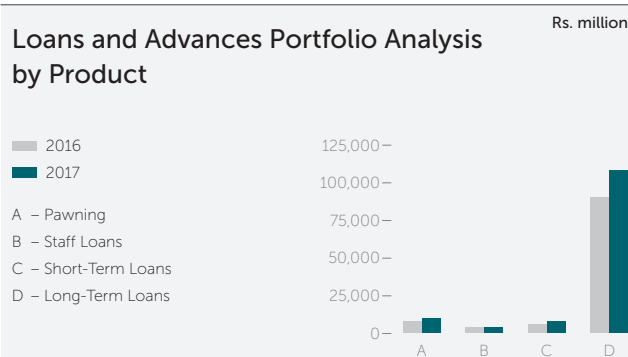
For this purpose, the Bank obtained the services of seven insurance companies to obtain insurance policies such as Agriculture Insurance, Livestock Insurance, Vehicle Loan Insurances, Housing Loan Insurances etc. The fee income so earned during 2017, amounted to Rs. 5.2 million. Based on this experience, the Bank established a separate Bancassurance Unit during the year 2017 in order formalise and expand the insurance activities.

Further, the Bank commenced utility bills payment facility through RDB's branch network in 2017 facilitating customers to settle the bills of Ceylon Electricity Board, National Water Supply & Drainage Board and Sri Lanka Telecom PLC. RDB expects to further extend this facility in the near future to other service providers as well.



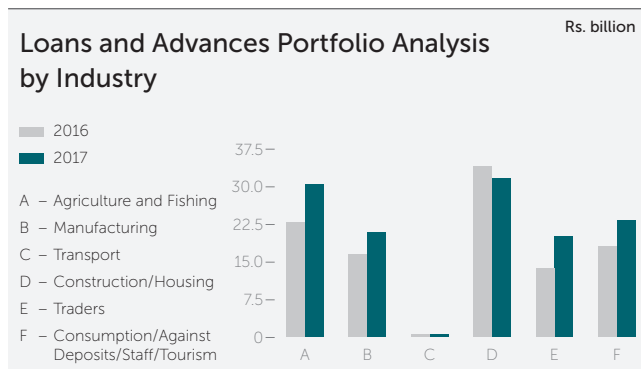
Loans and Advances Portfolio Analysis – By Product

Category	2017 Rs. million	2016 Rs. million
Pawning	9,512	7,874
Staff Loans	3,501	3,194
Short term	7,730	6,211
Long term	107,601	89,527
Total	128,344	106,806



Loans and Advances Portfolio Analysis – By Industry

Category	2017 Rs. million	2016 Rs. million
Agriculture and fishing	30,866	23,118
Manufacturing	21,349	16,609
Transport	336	374
Construction/Housing	31,982	34,469
Traders	20,324	13,814
Consumptions/Against Deposit/Staff/Tourism	23,487	18,422
Total	128,344	106,806



Recoveries

During 2017, special attention was given by the Bank to manage its Non-Performing Loan (NPL) portfolio, which was around 2.85% of the total portfolio at the end of 2016. As a result of the special efforts made and facing diligently the stress arisen due to certain unfortunate situation experienced by many of our customers, the Bank managed to maintain the NPL ratio at 3.27% as at 31 December 2017 whilst having 20% credit growth.

Non-Performing Category	2017 Rs. million	2016 Rs. million
Special Mention	986	492
Substandard	885	544
Doubtful	533	404
Loss	1,787	1,610
Total Non-Performing	4,191	3,050
NPL Ratio (%)	3.27	2.85

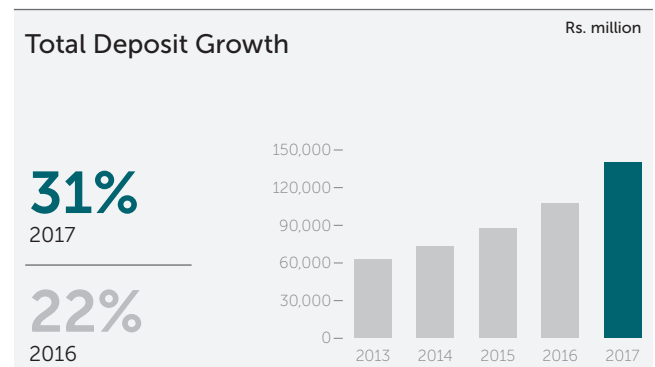
Deposit Growth

Deposit Base of the Bank increased to Rs. 140 billion that represents a 31% growth over the previous year. Further the Bank was able to increase the savings deposits by Rs. 3 billion during the year.

The Bank held more deposit campaigns all over the regions to achieve this deposit balance. On 2 January the 1st Day Campaign was held at branch level which was very successful. Most of our customers representing all segments commenced their New Year transactions with the Bank.

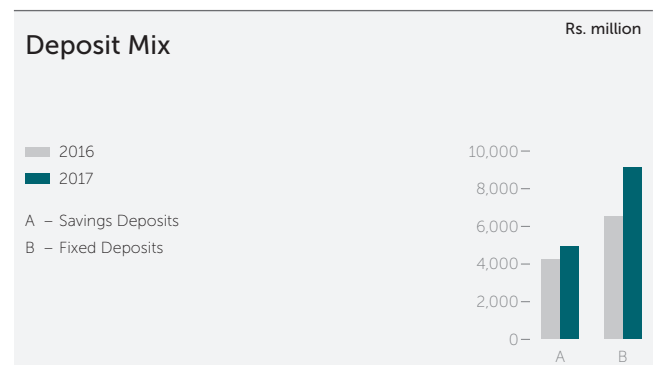
International Women's Day is one key event the Bank commemorates every year. A special savings promotion scheme was introduced to uplift women's savings based on the International Women's Day. Also on the Sinhala and Tamil New Year Day, the Bank invites the customers to commence the New Year at the auspicious time and get special benefits through their transactions with the Bank.

Also there is a significant contribution for minor savings accounts every year in parallel to Children's Day on 1 October. In line with this special day "RDB Ape Lamai" programme was launched along with a special savings promotion programme that contributed significantly to the current year savings portfolio.



Deposit Mix

Type of Deposit	2017 Rs. million	2016 Rs. million
Savings deposits	48,988	42,000
Fixed deposits	90,839	65,032
Total	139,827	107,032



SOCIETY AND ENVIRONMENTAL REVIEW



RDB Opens Biggest Grain Warehouses

The Regional Development Bank has always sought to uplift and empower the lives of its grass root level customers over the years, the Bank has initiated several projects to this end. The recent opening of the warehouse on 26 January 2017 in Murukkan in Mannar District where farmers can safely store their harvest is one such occasion.

Lack of adequate storage facilities can affect the farmers in a myriad of negative ways. Improper storing practices too can reduce the value of their harvest. The warehouse project is a solution to these issues that farmers face and offers them a safe, quality warehouse, where they can keep their grain without fear of insects and rodents, water damage, etc.

The project is run in collaboration with the Ministry of Finance and RDB has previously opened warehouses in a 5 acre land in Upuldeniya and Buththala last years with a 5,000 ton storage capacity and on 26 January 2017 Murukkan in Mannar with a 10,000 ton storage capacity, where farmers in the village and nearby areas were given a place to store the harvest. The warehouse is equipped with electricity, telephones and has equipment to measure the harvest and a laboratory to check the quality of the harvest.

In addition to giving a safe place for the storage of grains, helps the farmers to sell their harvest at a competitive price and also provides financial assistance should they require it.

RDB Bank proudly marks International Women's Day with "Adara Amma" for Exalted Motherhood

The position Sri Lanka women have in society is completely different from the current position of women in other part of the world. We can be happy about Sri Lankan women having an honoured position in society and are duly respected at most of the time.

RDB bank has always taken a lead role to strengthen the economic and social position in the society by assisting continually all over the island having more emphasis on women entrepreneurs.

At present, when attention is directed to banks and financial institutions, many programmes targeting women are being operated. In this, as a state development bank, a task second to none has been entrusted to the Regional Development Bank. The reason for this is the high levels of skill and strength the RDB Bank has to direct women to the development of the country while strengthening them.

As in the former years, International Woman's Day commemorative programmes are activated at branch level island-wide on 8th of March and the RDB "Liya Saviya" Account has introduced the following programme adding value to it.

- "Adara Amma" Programme for Exalted Motherhood
- An RDB "Kekulu" Account as a valuable present for your baby
- Financial facilities on concessionary basis
- Special training workshops
- Special awards for deposits

The main commemoration ceremony of the series of programmes to mark international Women's Day 2017 was held by the RDB on 8 March at the Sarasavi Studio, Dalugama, Kelaniya. Women customers of the Kelaniya Branch of the RDB joined in the commemoration celebrations held under the patronage of the Chairman of the Bank, Prasanna Premaratne, Working Director, Priyantha Abeysinghe and brand ambassador veteran actress Umayangana Wickramasinghe through a "Women's walk" on 8 March 2017.



RDB Bank Sponsors for the "Entrepreneur – 2017"



Bank sponsored the entrepreneur – 2017 national exhibition of entrepreneurs at BMICH on 31 March 2017.

Bank enabled them to find market opportunities for our entrepreneurs' island wide by participating in the trade fair in addition to giving financial assistance.



RDB Aluth Aurudu Day Programme

RDB bank keeps its branch network opened on New Year day for New Year transactions with parallel to Sinhala and Hindu New Year festival.

"RDB **Badu Malla**" – granting a valuable pack of consumer items every hour throughout the banking time during New Year day. This was a most attractive package for every **Aluth Aurudu** day Campaign held Island wide successfully this year as well.

Felicitation event of founder Hon. Ronnie De Mel



RDB Bank felicitates its founder former Minister of Finance Hon. Ronnie De Mel on 24 June at Hilton Colombo. Minister of Public Enterprises Hon. Kabir Hashim, Foreign minister Hon. Ravi Karunanayake and Central Bank Governor Dr. Indrajith Coomaraswamy participated as special guests.

RDB Bank Golden Awards and Excellence Awards – 2016



The 4th edition of the annual "Golden Awards – 2016" and "performance excellence awards" organised to recognise the district, provincial and national level top performers, were held on 16 July 2017, under the patronage of Minister of Public Enterprise Development Hon. Kabir Hashim.

A total of 90 Golden Awards were presented to employees who contributed more than 25 years of valuable service to the RDB.

The overall best branch award was won by the Miriswatta Branch while Embilipitiya and Kirimetiya secured the second and third places among 265 branches Island wide. The highest performing province award went to the Western Province while Gampaha District became the best performing district.

Minister of Public Enterprises Hon. Kabir Hashim was the chief guest at the event together with Officials of the Central Bank, Chairman Prasanna Premaratne, Working Director Priyantha Abeysinghe together with the other members of the Board of Directors and General Manager/CEO T. A. Ariyapala, Corporate Management of the Bank, RDB officers and Employees' Union officials participated at the event.

Key Performance Highlights

- Best Branch of the year 2016 – 1st Place – Miriswatta
- 2nd Best Branch of the year 2016 – Embilipitiya
- 3rd Best Branch of the year 2016 – Kirimetiya
- Best performed District of the year 2016 – Gampaha
- Best performed Province of the year 2016 – Western Province



More empower “RDB Door to Door Service”

RDB bank operates “RDB Door to Door service” through a dedicated team of service providers, who on daily basis visit the business premises and the residences in the command areas of respective branches. These regular visits provide great relief and convenience to the target group and saves their opportunity cost, as otherwise they would have to sacrifice their valuable time visiting the branch again and again for their banking transactions.

To empower these agents furthermore Bank conducted workshop recently at Mass Holdings Training Centre related to enhance marketing ability, develop better communication skills, improve financial literacy and other customer care needs.

RDB General Manager/CEO Mr. T. A. Ariyapala, Head of HR Mr. Jagath Karunathilake, DGM-Operations and Banking support services Mr. MB. Jayasinghe, AGM-Research and Development Mr. Prasad Handunhewa, Chief Manager-Research and Development Mr. Deepthi Mahanama and Veteran Lecturer Mr. Sanath Gamage participated as resource persons.



RDB CELEBRATE World Children’s Day – 2017 with RDB “Ape Lamai” Programme

During the month of October when the World Children’s Day is celebrated, Bank offers children’s savings till to the Bank and getting “Ketayata Ketayak Saha Mudalata Mudalak” (A till for the till and money for money). Accordingly, by stepping into the closest Branch with till children get an opportunity to participate in the “Ketayata Ketayak Saha Mudalata Mudalak” Programme and the children of the nation foremost, everybody gets the opportunity to obtain special World Children’s Day gifts on that day.

Furthermore, children get the opportunity of getting valuable gift items with a special interest rate by investing savings in “RDB Jaya Sankha” Savings Certificates. Accordingly, in this month of October when the World Children’s Day is celebrated, the RDB Bank awards gifts to the children of the nation expecting to strengthen their tendency to save.

As the premier development bank in the island, RDB branches celebrate World Children’s Day this year more colourfully with lots of activities.

RDB Appointed New Working Force 116 as Management Trainees on 20 November 2017.



RDB Walk 2017 – Eastern Province conducted “RDB Walk” for Brand awareness within Eastern Province.

CSR Community Endeavours

CSR is titled to aid an organisation’s mission as well as serve as a guide to what the Company represents for its consumers. According to that RDB implements following CSR projects recent past to benefit its customers, also it effects to enhance its Brand image.

Accordingly that Bank implements following CSR projects during the year.

Flood Relief Programme

There were few flood relief programmes were conducted for the victims in affected areas in Kelaniya, Kolonnawa, Wellampitiya, Kegalle areas mainly with the involvement of staff members and Employees Union of the Bank.

Also Bank join with the “Manusath Derana” national flood relief programme announced by TV Derana network Bank assist them to deliver collected foods and other essential items by providing Bank’s mobile trucks.



Social Benevolent Project – Sri Pada Season

With the beginning of annual **Sri Pada** pilgrimage season Bank launches special CSR campaign every year with the connection of Nallathanni Business Community union and under this social benevolent project Bank donates:

- Main Pandal for the entrance
- Water tanks for pilgrims to use drinking water
- Name boards for the public places
- Name boards for the Nallathanni Business shops

Also delivered credit facility for small and medium scale businessmen to implement their seasonal business with parallel to the season.



Sanitary Facilities for Needy Schools

For the purpose of uplifting sanitary facilities in remote area schools of the island covering all 25 districts, Bank handed over proposal to His Excellency President Honourable Maithreepala Sirisena mentioning possibility to take over this Project as Bank’s Corporate Social Responsibility (CSR) this year. This was handed over to HE at the presence of branch shifting event at Siripura on 01 January 2016.

According to the proposal Bank plans to implement twenty-five new toilet units for both male and female students in remote area schools covering 25 districts of the island starting from this year.

School Sanitary Facilities – 2017

Province	District	School	Nearest Branch
Sabaragamuwa	Kegalle	01. Dehiovita National College	Dehiovita
Northern	Jaffna	02. Warani College	Jaffna
Eastern	Trincomalee	03. Selvanayagapura College	Trincomalee
Central	Kandy	04. Lookandura School	Gampola
	Nuwara Eliya	05. Madakumbura Parakkrama College	Kotmale
	Matale	06. Tholambugolla Vidyalaya	Galewela
Uva	Badulla	07. Vijaya vidyalaya	Welimada
	Monaragala	08. Pallewela Kanishta Vidyalaya	Siyambalanduwa
NWP	Kurunegala	09. Dodangaslanda Maha Vidyalaya	Ridigama
	Puttalam	10. Nawagattegama Viadyalaya	Nawagattegama
Southern	Galle	11. Mahagoda School	Karandeniya
	Matara	12. Gamaunu Primary school	Kekanadura
	Hambantota	13. Beragama Kanitu Vidyalaya	Ambalanthota
Western	Kalutara	14. Kelinkanda Primary school	Baduraliya

SPECIAL EVENTS

With the relocation of its branches RDB renewed its genuine banking relationship with the individuals and businessmen in the area, opening its doors to the aspiring entrepreneurs to benefit from the banks many customised financial facilities and advisory services, as well as more sophisticated banking atmosphere.



Homagama branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the Working Director Mr. Priyantha Abeysinghe and GM/CEO Mr. T. A. Ariyapala, on 16 January 2017.



Kirinda branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the Working Director Mr. Priyantha Abeysinghe and GM/CEO Mr. T. A. Ariyapala, on 30 March 2017.



Ahangama branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the Working Director Mr. Priyantha Abeysinghe and GM/CEO Mr. T. A. Ariyapala, on 13 February 2017.



Galnewa branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the GM/CEO Mr. T. A. Ariyapala, on 6 February 2017.



Peradeniya branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the GM/CEO Mr. T. A. Ariyapala, on 3 April 2017.



Puttalam District Office moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the Working Director Mr. Priyantha Abeysinghe and GM/CEO Mr. T. A. Ariyapala, on 6 February 2017.



Thirappane Branch moves to more convenient own location and ceremonially opened by Minister of Public Enterprise Development Honourable Kabir Hasheem along with the Chairman Mr. Prasanna Premaratne, Working Director Mr. Priyantha Abeysinghe and GM/CEO Mr. T. A. Ariyapala, on 10 July 2017.



Rakwana Branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the Working Director Mr. Priyantha Abeysinghe and GM/CEO Mr. T. A. Ariyapala, on 8 May 2017.



Pothuhera Branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the Working Director Mr. Priyantha Abeysinghe and GM/CEO Mr. T. A. Ariyapala, on 2 October 2017.



Kelaniya Branch moves to more convenient location and ceremonially opened by Chairman Mr. Prasanna Premaratne along with the GM/CEO Mr. T. A. Ariyapala, on 27 June 2017.

Overview

The Bank is involved in achieving tangible and intangible assets in a consistent manner by applying a strategic and integrated approach in the acquisition, development and engagement of human capital by using relevant tools, proper policies, practices, and processes. This holistic approach created a conducive climate towards achieving the Bank's business objectives and ensured the well-being of employees. This also resulted in the enhancement of employee productivity which is reflected through Human Capital Investment and Human Capital ROI.

Workforce Productivity Impact

The Human Capital Financial Statement (HCFS) was introduced to measure and monitor workforce productivity impact through HR analytics. The HR analytics are used as a planning and monitoring tool to enhance workforce productivity and to link human capital investment (cost of workforce) to business results.

It is evident that business performance was improved significantly during the last three years as workforce created value (tangible assets) greater than its cost (cost of workforce).

Summary of HCFS 2015 – 17

Criteria	2017	2016	2015
Operating Profit (Rs. million)	3,307	2,130	1,484
Total Income (Rs. million)	22,016	15,744	12,510
Full Time Employees (FTE)	2,395	2,342	2,368
Total Cost of Workforce (TCOW) (Rs. million)	5,346	4,699	4,168
Return on Human Capital Investment (%)	61.9	45.3	35.6
Human Capital ROI	1.62	1.47	1.43
Productivity per FTE (Rs. million)	1.381	0.950	0.759

Automation of HR Functions

Several attempts were made to complete the automation of the integrated HR system. The HR system consists of 14 modules and the automation process consists of the gathering of requirements, preparation of User Requirement Specification (URS), software development/customisation, preparation of test scripts/test data, User Acceptance Testing (UAT), capture of employee historical data and parallel/live run. The modules, employee profile, Employee Self-service, Time and attendance and payroll are currently live and few other modules are in the UAT stage and the software development/customisation of the rest of the modules are to be completed by 31 May 2018. The integrated HR system will provide timely and accurate management information and significantly enhance the ROI on human capital.

Talent Acquisition

RDB is committed towards identifying the ideal personnel through a defined and formal recruitment process targeted

towards overall organisational performance, excellence, and sustainability. The Bank recruited 123 candidates on a transparent and competitive basis, achieving the closest fit between the vacancy profile and the candidate profile. Cadre positions include Corporate Management (02), Senior Management (03), Executive Management (108) and Minor Staff (10).

The Bank selected 116 Management Trainees out of 9,950 candidates who responded to the advertisement. The competitive selection process included a written examination and interviews. Recruitment of Trainee Development Assistants is yet to be finalised as there was a response from 57,764 applicants.

Career Advancement

The Bank encouraged talented and competent candidates to apply for available vacancies. They were selected on the basis of merit, considering performance and the fulfillment of required academic and professional qualifications. Eligible candidates were interviewed and 63 positions were filled internally. These promotions include Corporate Management (02), Senior Management (13), Executive Management (35) and Clerical and Allied (13). Promotions to the Assistant Manager grade were delayed due to certain impediments and are yet to be finalised.

The Succession Plan is now in place to provide individuals with high potential to move into key job positions and a fast track was introduced for high flyers to reach Key Management Positions within a shorter time duration. The succession plan for Key Management Positions (KMPs) will be updated through an assessment annually.

Performance Management

Arrangements were made to align staff towards objectives, through a performance driven KPI review system. This system facilitates measuring and monitoring individuals and team performance on the agreed upon KPIs. The KPI based evaluation system was implemented and administered during the year. The Bank is expected to recognise staff members who contributed to the Bank's performance through this system and reward best performers through financial and non-financial stimulus from 2018 onwards.

Staffing Structure and Functionality

We continued to review staffing structure, functionality and staffing composition in order to facilitate functional integration and the alignment of strategy. The review of the branch business model is yet to be completed. Cadre assessment was made on the revised branch grading and prepared staffing plan.

IT staff were absorbed into the close service in which promotions were given under a new IT structure (07 positions) whereas some IT positions were filled by external candidates (04 positions) as a certain amount of time is taken to groom internal staff to take on these positions.

The Operations and Business Support Department was established to monitor and support functioning of the branch network towards customer driven goals. The recovery division was established to strengthen the recovery mechanism and to make the credit division more focused on development lending activities.

Grievance Redress

A mechanism was introduced to discuss staff-related issues and grievances as it is expected to resolve potential conflict by way of improving communication. An Employee Day was declared at the head office and at provincial level to discuss HR-related issues. On a quarterly basis, dates were also fixed to communicate with staff.

Manpower Strength

The Bank offers employment on a permanent and contract basis, excluding Deposit Mobilisation Field Assistants (those who were converted to a fixed term contract) and Rural Leaders (linked with microfinance system) who also provide services to the Bank. These categories would provide valuable inputs to the performance of the Bank. A summary of the strength of manpower is as follows:

Manpower Type	Head Count
Permanent/Contract Employees	2,395
Deposit Mobilisation Field Assistants	344
Rural Leaders	256
Total	2,995

The cadre positions as at 1 January 2017 was 2,342. During the year, 119 were recruited and 66 resigned from service either due to reaching retirement age or due to other reasons. Accordingly, the cadre position as at 31 December 2017 was 2,395 and the province-wise breakdown is given below:

Province	Number of Branches	Head Count	%
Western	34	290	12.11
Central	33	292	12.19
North Central	32	259	10.81
Southern	54	409	17.08
Uva	26	199	8.31
Sabaragamuwa	34	268	11.19
North Western	35	332	13.86
Eastern	20	164	6.85
Head Office		182	7.60
Total	268	2,395	100.00

Headcount distribution by job category is given below. The Bank also provides equal employment opportunities for males and females as indicated below:

Designation	Male	Female	Total
General Manager/CEO	1	0	1
Deputy General Manager/ Head of Division	7	1	8
Regional General Manager/ Senior Assistant General Manager	13	0	13
Assistant General Manager	17	2	19
Chief Manager	42	14	56
Senior Manager	82	22	104
Assistant Manager/Manager	447	398	845
Banking Assistant	605	592	1,197
Driver	63	0	63
Office Assistant/Labourer	82	7	89
Head Count	1,359	1,036	2,395
Percentage	56.74	43.26	100.00

Career Training

The Bank provided continuous training to change the attitude of the staff, impart knowledge, and encourage the hands-on learning of banking operations that would in turn enhance customer service. Eighty one (81) training programmes were conducted for 1,487 participants. Foreign exposure visits were provided through training programmes organised in the Philippines (in 03 batches), for 108 participants represented mostly by the branch staff. The purpose of the training was to provide exposure on best practices and hands-on learning experience on various projects assisted by the banks. In addition, through foreign training, 24 officers were allowed to impart knowledge in their functional areas. The total investment on training during the year was Rs. 60.4 million.

Staff Recognition

The Best Performance Awards was conducted to recognise staff members who contributed significantly to the Bank's performance during 2016. The system was introduced with clearly defined criteria under each category of awards while best performers were selected under the team performance category. The award ceremony was held as a national event with the Guest of Honour being Minister of Public Enterprise Development, Hon. Kabir Hashim. Miriswatta Branch won the first place on the overall performance and another 42 awards were distributed based on different performance categories. Ninety employees who completed 25 years of satisfactory service in the Bank were recognised with Gold awards.

HR Board Subcommittee

In order to ensure the best Corporate Governance practices and the Directions of the CBSL, two separate sub committees were formed, namely; the Board of Human Resources and Remuneration Committee and Nomination Committee. The two committees were headed by the Chairman of the bank. Three Nominations Committee meetings and seven Board Human Resources and Remuneration Committee meetings were held during the year 2017.



Investment/Saving Accounts

RDB Kekulu & RDB Yovun – Minor Savings Account

RDB **Kekulu** account is exclusively designed for children under 12 years of age and RDB **Yovun** is for in between 12-17 years. This enables every child in our motherland to save with RDB for a bright future. RDB offers a new savings till for every new account as an attraction. Further there is a wide range of gift items such as exclusively designed umbrellas, school bags, dictionaries, gift vouchers and children's bicycles on offer for balances in the accounts at different levels.

The Bank has also taken steps to inculcate the savings habit amongst the minor community providing highest returns on savings. While also encouraging school children and minors to save. According, the RDB as a state bank, has launched two specialised Savings Accounts named "RDB **Kekulu**" and "RDB **Yovun**" to establish the future economic stability of the Sri Lankan sons & daughters and is working on establishing this lesson of economy from the tender age and the savings habit, while working with children on various avenues such as;

Useful gifts scholarships and other encouragements to get them used to thrift and savings.

With parallel to that RDB establishing schools savings centres to motivate children to practice saving habit and it becomes very significant movement for children to grow up their savings habit.

Also the account is designed to achieve additional objectives i.e., assisting children's education and also helping them to become good citizens. Gifts/prizes are offered for account holders who obtain best results at the year 5 scholarships and O/L examinations. Further educational seminars are arranged for the account holders who sit for the above examination.



RDB 4 Teen Plus

RDB 14+ Account, recently introduced by RDB Bank to make the young community bend towards savings habit can be named as a special savings tool.

This account has been specially planned for the new young men and women above 14 years. Thrift and savings habit being practiced from young age by planning for the future will pave way for the security of the future. Accordingly, RDB 14+ is operated with value additions that could attract the teens of 14 and above.

A higher interest rate with the addition of 30% bonus interest compared to the growth of the balance in the Account is offered by RDB 14+ Account. As an ATM card is issued the children above 14 have got an opportunity to withdraw money for their financial needs. Therefore, children will not need to hold much money in their hands. School children may use this account for their urgent monetary requirements as with every withdrawal by the ATM Card an SMS message is sent to guardian's mobile phone giving withdrawal details.

As per the data of Census and Statistics nearly 10% of Sri Lanka's total workforce is between 15-25 years of age. That category within the workforce may reap special benefits from this account.

Loan facilities may be obtained by the young community to fulfil their dreams of owning a house, vehicle, furniture, business, buying electronic equipment and accessories, for educational needs, for foreign tours and that can be arranged through this account. Further, account holders are entitled to special benefits at the time of demise of the mother or father or at the time of any sickness of the children.

All transaction activities will be intimated by SMS messages to your mobile phone to keep you updated.



RDB Liya Saviya – Women Saving Account

This account was introduced targeting courageous women in Sri Lanka. The initial deposit to open a "RDB Liya Saviya" account is Rs. 100/-. In addition to financial facilities Bank provides consultancy services for women who contribute to the country's economy through self-employment. The special characteristics in the account are higher rate of interest, bonus interest and advances on competitive interest rates etc.

Also special seminars, skill development vocational training programmes and many more zonal and national level workshops conduct every year for women entrepreneurs with parallel to International women's day.



RDB Victory

RDB Victory Account is introduced by the Bank as a special savings account where a higher interest can be obtained while making withdrawals. As a special benefit a bonus interest of 70% is offered through this account. Further, a special loan scheme by which the account holder may obtain a loan of ten times the account balance maintained is a special feature of this account. A bonus is paid through this account even for the number of days the deposit is held. Further, all transactions are intimated by SMS messages.

Savings practice of the citizens of a country is vital for the development of a country and RDB Victory Deposit can be introduced as an attractive deposit scheme that uplift the saving habits of the people. Provision of money exchange services under discounted rates is a special benefit that is offered by this account.

RDB Adults/Senior citizen's Savings Account

Bank offers competitive interest rates in the market for this senior citizen segment. With an initial deposit of Rs. 500/-, any individual above 18 years of age is eligible to open an adult's savings account. Senior citizens are given higher interest rates for their investment.

RDB Investment Account

This is the general investment account introduced by the Bank for the clients who receiving credit facilities. The special features of the product contain an attractive interest rate for deposits and a special loan scheme customised for the target segment.

RDB Fixed Deposits

RDB fixed deposits are identified as a popular mode of investments among its individual and corporate customers as well. FDs are available at RDB for periods of 1, 2, 3 and 6 months as well as 1-5 years. Since the inception, Bank was able to provide very attractive interest rates compared with other state banks. Special interest rates are offered for fixed deposits with maturity periods of 1 year and above.



RDB Dorin Dora – Daily Collection System

This is the flagship product/service of RDB. This system operates through a dedicated set of service providers, who on daily basis visit the business premises and the residences in the command areas of respective branches. These regular visits provide great relief and convenience to the target group and saves their opportunity cost, as otherwise they would have to sacrifice their valuable time visiting the branch again and again for their banking transactions. The **Dorin Dora** product/service is not only limited to collecting deposits, but has helped the target clientele to obtain loans for development purposes, service the loan account and pay the instalments and interest promptly at their convenience. This unique product/service helped many small scale entrepreneurs and individuals to build up healthy account balances over periods of time without much effort and hassle. Also these transactions are carried out via electronic portable devices (Palm Top) and the transaction is automatically updated to the Bank's system.

Thus it has been able to fulfil the vision of the Bank "Nurturing Entrepreneurs".

Also the Bank has plans to extend this service by providing services to settle their utility bills as well.



Western Union and Lanka Money Transfer (LMT)

Money transfers through the Western Union and Lanka Money Transfer are another easier and speedy ways to transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas.



New ATMs Opening

With the exception of current accounts, Bank offers a vast range of products and services to the customers, including savings accounts, children's savings accounts, women's accounts and senior citizen's accounts, pawning facilities as well as an array of long-term loan facilities. Despite the range of services, until recently, the bank has not offered card facilities to its customers.

However with the revolutionary introduction of Lanka pay common ATM switch by Lanka clear the Bank is now ready to offer ATM cards to our customers. Therefore since 2015, RDB has taken strategic actions to enable the customers to withdraw money from their accounts using the RDB ATM card through any ATMs that carries the Lanka Pay logo.

As the majority of customers at RDB are made up of rural and semi-urban entrepreneurs and they are engaged in professions such as agriculture, fisheries, and animal husbandry, this ATM card is expected to offer better convenience as well as security.

At present Bank has installed 27 RDB ATMs in Kelaniya, Mawaramandiya, Siripura, Pannala, HQB-Kurunegala, Hedeniya, Ja-Ela, Kegalle, Dambulla, Chillaw, Badulla, Medawachchiya, Vavuniya, Wariyapola, Samanthurai, Batticaloa, Horana, Katuwana, Wellawaya, Miriswatta, Mirissa, Kandy Hospital, Embilipitiya, Homagama, Nittambuwa, RDB Mobile vehicle-Nittambuwa.

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01 Mr. Prasanna Premaratne Chairman

Mr. Prasanna Premaratne assumed duties as Chairman of the Bank on 19 February 2015.

He is an Agriculturist and a qualified Banker with nearly 30 years of experience working as a Development Banker specially involved in the Small and Medium Enterprise (SME) sector development.

He 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 Centre for International Studies (BCIS) Colombo.

Mr. Prasanna Premaratne was a pioneer member of the Palawatte 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).

02 Mr. M. C. M. Muneer Director

Mr. M. C. M. Muneer is an Attorney-at-Law by profession and serves as a Notary Public, Commissioner for Oaths and approved Company Secretary. He holds a B.Com degree from University of Colombo and Master's in Law qualification. He is a Life Member of Bar Association of Sri Lanka, member of Bar Council and life member of Colombo Law Society. He also serves as the Treasurer of Muslim Lawyers Association.

03 Mr. M. J. P. Salgado Director

Mr. Salgado is a permanent cadre employee of Bank of Ceylon holding the position of Deputy General Manager. His current business portfolio includes Product Management and Business Process Re-Engineering Project, Electronic Banking and Credit/Debit Card Operations and Central Back Office.

He counts over 28 years of experience in banking gaining wide experience in the fields of Province Sales Management, Premier Banking, ISSP Implementation, Special Project, Contact Centre and Assurance. He was an active member of the "Venesa Transformation Project" in the Bank of Ceylon.

Graduated from the University of Sri Jayewardanepura, he holds a B.Com. 2nd Class Upper Division Special Degree, Associate Member of Institute of Bankers of Sri Lanka, Licentiate Certificate from the Institute of Chartered Accountants of Sri Lanka and Member of Association of Accounting Technicians of Sri Lanka. Prior to joining the bank Mr. Salgado was employed at Mahaweli Engineers and Construction Agency in the capacity of Accountant.

04 Ms. Shamara Herat Director

Ms. Shamara Herat holds a Bachelor of Commerce Degree from the University of Delhi in India, while her primary education and her secondary education were at Holy Family Convent, Wennappuwa and at Ladies' College, Colombo respectively.

Ms. 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 Marketing Consultant (Head of Marketing and Human Resources) for a global jewellery brand, she is responsible for the promotion of fine jewellery through its worldwide supply chain in London, Maldives and Sri Lanka. She also guides and manages the overall Human Resources for the Company.

05 Mr. Jagath Gamanayake Director

Mr. Jagath Gamanayake is the Senior Deputy General Manager of National Savings Bank. He counts over 20 years experience in the Banking Industry. Prior to joining the National Savings Bank Mr. Gamanayake has served in many industries including Fertilizer, Building Products and Consumer Products etc.

He is a Fellow Member of the Sri Lanka Institute of Marketing (SLIM) and of the Institute of Bankers of Sri Lanka (IBSL). He holds a Master's 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 the UK and is a Chartered Marketer.

He is a Council Member of the Association of Professional Bankers and Alternative Director of IBSL. He is a Lecturer at IBSL and Aquinas University College.

06 Mr. A. R. Desapriya**Director**

Mr. A. R. Desapriya has 31 years of work experience in the public sector. He is a special grade officer of Sri Lanka Administrative Service (SLAS).

During this period, he worked in different areas of the public sector and held various positions in the General Treasury in the capacity of Director and Additional Director General.

Before assuming duties in his current position as Deputy Secretary to the Treasury, he worked as the Director General of National Budget Department. He is also serving as a member on the Board of the Insurance Regulatory Commission of Sri Lanka, a member of the Welfare Benefits Board and a member on the Board of the Sri Lanka Telecom PLC.

Mr. A. R. Desapriya has a BSc Degree in Public Administration from the University of Sri Jayewardanapura, Sri Lanka and MBA Degree from University of Lubljana, Slovenia.

08 Mr. K. B. Rajapakse**Director**

Mr. K. B. Rajapakse, is the Senior Deputy General Manager (Retail Banking) of People's Bank and counts over 31 years of experience in the field of commercial banking. He is an Attorney at Law and holds a Second Class Honours Degree, BSc in Public Administration, University of Sri Jayawardenapura Sri Lanka.

He also holds a Diploma in Institute of Credit Management of Sri Lanka, Postgraduate Diploma of Management and IT from University of Kelaniya and is a Fellow Member of Institute of Bankers of Sri Lanka.

At present Mr. Rajapakse is serving as a Director of Institute of Bankers of Sri Lanka, Agricultural & Agrarian Insurance Board and also as an Alternate Director of Credit Information Bureau of Sri Lanka.

07 Mr. W. A. Priyantha Abeysinghe**Working Director**

Mr. W. A. Priyantha Abeysinghe assumed duties as Working Director of Regional Development Bank on 2 November 2015.

Mr. Abeysinghe holds a B.Com (Special) Degree from the University of Sri Jayewardanapura, a Diploma in Gemology with 10 years of experience in Gem Mining, Gem Identification, Gem Valuation and Machinery Mining and a Diploma in Hotel Management.

Mr. Abeysinghe had served as a District Manager of Regional Rural Development Bank from 1988 to 1994.



01 Mr. T. A. Ariyapala
General Manager/
Chief Executive Officer

Mr. T. A. Ariyapala is currently the General Manager/Chief Executive Officer of Regional Development Bank since 2014. He completes 39 years of banking service in various capacities having specialised in Development Banking, Co-operatives and Branch Banking and 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 B.Sc. Business Administration Special Degree and also a Bachelor of Law Degree (LL.B.) 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 Co-operatives, Project Lending, Micro Finance, Human Resource Management and Branch Business/Banking and has rejuvenated SME Banking, SME Centre Concept and Development Lending during his tenure at People's Bank.

Mr. Ariyapala is a member of the Board of Directors of the Sri Lanka Bank's Association (Guarantee) Limited (SLBA), and Financial Ombudsman Sri Lanka (Guarantee) Limited (FOSL). He was an Alternative Director of the Governing Board of the Institute of Bankers of Sri Lanka and a member of the Co-operative Rural Banks Regulatory Commission.

02 Mr. Vajira Jayasinghe
Chief Information Officer

Mr. Vajira Jayasinghe, an IT professional with more than twenty years of experience, joined Regional Development Bank in June 2011. He holds a B.Sc. 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 sixteen 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.

03 Mr. T. Kuhan
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 26 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 the University of Colombo. His other qualifications are Postgraduate Diploma in Bank Management and Diploma in Banking and Finance both from the Institute of Bankers of Sri Lanka (IBSL) and National Diploma in Technology (NDT) in Mechanical Engineering awarded by University of Moratuwa. He is a Senior Fellowship Holder of IBSL. He is also an examiner and a visiting lecturer of IBSL.

04 Mr. Ajith Alahakoon
Deputy General Manager/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 L B Finance Limited, and dedicated his service for seven successful years as an Assistant General Manager.

Mr. Alahakoon has over 39 years of finance and general management experience in the banking industry and financial services. Furthermore, he was involved in the formation of Abans Finance Limited and became its first General Manager in 2006. He undertook the assignment of the formation of Global Trust Finance Limited in 2010 as its first General Manager/CEO. Before joining Regional Development Bank, he had worked at Housing Development Finance Corporation as Head of Credit.

05 Mr. Jagath Karunathilaka
Head of HRD and Administration

Mr. Jagath Karunathilaka, a HR specialist with more than 31 years experience, joined RDB in July 2014. He worked as Assistant General Manager/Head (Human Resources and Logistics) of State Mortgage and Investment Bank (SMIB). He served as Additional Project Director (HRD & Admin.) in Gamidiriya (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 B.Sc. Business Administration (Special) Degree from University of Sri Jayewardanepura (1986), holds a Postgraduate Certificate in HRM (1996) and an 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. Mr. Karunathilaka has obtained Certification for conducting HRD Audits from IPM (2017) as 'Certified HR Auditor'.

06 Mr. Sumeda Edirisuriya
Chief Financial Officer

Mr. Sumeda Edirisuriya graduated from the University of Sri Jayewardanepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possesses a Master of Business Administration Degree from the University of Colombo. Mr. Edirisuriya counts over 27 years of experience in the fields of Auditing, Accounting, Taxation, Management Consultancy and Banking & Finance at leading institutions including Ernst & Young – Colombo, National Development Bank and Seylan Bank. He joined RDB in January 2017. Prior to his appointment as Chief Financial Officer at RDB, he has held the positions of Chief Financial Officer, Compliance Officer and Acting General Manager/CEO at Lankaputhra Development Bank.

07 Mr. A. H. M. M. B. Jayasinghe
Deputy General Manager –
Operations & Business Support

Mr. A. H. M. M. B. Jayasinghe graduated from the University of Sri Jayewardanepura Sri Lanka with a BSc. Business Administration Special Degree, in 1986. He holds Postgraduate Executive Diploma in Bank Management from Institute of Bankers of Sri Lanka, Postgraduate Diploma in Management from University of Wayamba, Postgraduate Diploma in Regional Development from NIBM Sri Lanka and M.B.A. from University of Wayamba. After the graduation he joined the Regional Development Bank in 1987 and served at the levels of Branch Manager, Zonal Manager, District Manager, Chief Manager, Assistant General Manager and Regional General Manager. Mr. A. H. M. M. B. Jayasinghe has over 30 years of experience in Banking Industry.

08 Mr. C. L. Pihillanda
Deputy General Manager – Credit

Mr. Pihillanda has successfully completed the Degree in Bachelor of Commerce from University of Kelaniya. He holds Postgraduate Diploma in Management from University of Peradeniya. Also passed Intermediate Examination from Institute of Bankers of Sri Lanka. He joined the Bank (previously Mahanuawara Regional Rural Development Bank/RRDB) as a Manager. During his career of banking he has gained wide range of experience in management level as a Branch Manager, Chief Manager, and Assistant General Manager and also as a Regional General Manager in Sabaragamuwa and Southern Provinces. He has over 30 years of experience in Banking Industry.

09 Mrs. N. S. Thilakarathna
Head of Internal Audit

Ms. Nandanie Thilakarathna was appointed as the Head of Audit of the Bank since April 2017. She is a fellow Member of the Institute of Chartered Accountants of Sri Lanka. She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper from the University of Sri Jayewardanepura. She is a fellow member of the Institute of Bankers of Sri Lanka. She holds a Diploma in Information System Security Controls and Audit conducted by the Institute of Chartered Accountants of Sri Lanka with technical collaboration of the Institute of Chartered Accountants of India. Before joining the Bank she was the Chief Internal Auditor of The People's Bank and counts 28 years of experience in project lending and auditing.

REGIONAL GENERAL MANAGERS/ SENIOR ASSISTANT GENERAL MANAGERS

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06

01 Mr. U. B. Semasinghe
Regional General Manager –
North Western Province
B.Com. (Special) Degree –
University of Colombo

02 Mr. D. M. Senarathna Bandara
Regional General Manager –
Central Province
B.Com. (Special) Degree –
University of Sri Jayewardanepura

03 Mr. D. M. T. S. Kumara
Regional General Manager –
North Western Province
B.Sc. Business Administration
(Special) Degree –
University of Sri Jayewardanepura

04 Mr. W. S. Hewawasam
Regional General Manager –
Western Province
B.A. Econ. (Special) Degree –
University of Sri Jayewardanepura

05 Mr. A. H. M. G. Abeyrathne
Regional General Manager –
Sabaragamuwa Province
B.Com. (Special) Degree –
University of Kelaniya,
Diploma in Micro Finance –
Open University of Sri Lanka

06 Mr. I. J. Wijesekara
Regional General Manager –
Eastern Province
B. Com. (Special) Degree –
University of Sri Jayewardanepura



07 Mr. G. S. D. De Silva

Regional General Manager –
Southern Province
B.Sc. – Business Administration
(Special) Degree –
University of Sri Jayewardanepura

08 Mr. B. H. M. S. Basnayake

Regional General Manager –
Uva Province
B.Sc. Business Administration
(Special) Degree –
University of Sri Jayewardanepura
Diploma in Management –
University of Uva

09 Mr. S. A. U. R. K. Sinhalagoda

Senior Assistant General Manager –
Operations
B.Com. (Special) Degree –
University of Kelaniya

10 Mr. K. P. Dahanayake

Senior Assistant General Manager –
Credit Administration
B.Com. (Special) Degree – University
of Ruhuna, Postgraduate-Diploma in
Management – University of Rajarata

11 Mr. W. M. Nimal De Silva

Senior Assistant General Manager –
Administration
B.Sc. Business Administration
(Special) Degree –
University of Sri Jayewardanepura

12 Mr. W. Kottage

Senior Assistant General Manager –
HR Services
B.Com. (Special) Degree – University
of Ruhuna

13 Mr. W. M. D. S. Wickramasinghe

Senior Assistant General Manager –
Compliance
B.Com. (Special) Degree – University
of Ruhuna, Postgraduate-Diploma in
Business Management –
University of Colombo, Certificate in
Risk Management in Banking – Sweden

ASSISTANT GENERAL MANAGERS/ HEADS OF DIVISIONS

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06

01 Mr. K. Ariyathilake

Assistant General Manager –
Micro Finance and Special Projects
Higher National Diploma in HRD –
National Institute of Business
Management

02 Ms. C. S. Weragoda

Assistant General Manager –
Southern Province
B.Sc. Business Administration
(Special) Degree –
University of Sri Jayewardanapura

03 Mr. W. V. E. G. Warakagoda

Assistant General Manager – Treasury
B.Sc. – Business Administration
(Special) Degree – University of
Sri Jayewardanapura, Sri Lanka,
Intermediate Examination –
The Institute of Chartered Accountants
of Sri Lanka

04 Mr. L. B. Upali

Assistant General Manager –
SME/Credit
B.Com Special Degree –
University of Kelaniya

05 Mr. B. M. U. S. Basnayaka

Assistant General Manager –
Marketing
Diploma in Agriculture –
College of Agriculture, Palvehera

06 Mr. R. M. R. Randeniya

Assistant General Manager –
North-Western Province
Bachelor of Arts Degree –
University of Peradeniya



07 Mr. D. S. P. C. Hadunhewa
Assistant General Manager –
Research and Product Development

08 Mr. D. P. Dharmadasa
Assistant General Manager –
Uva Province
Bachelor of Arts Degree –
University of Peradeniya

09 Ms. B. R. D. Pushpakumari
Assistant General Manager –
HR Development
B.Com. (Special) Degree –
University of Kelaniya

10 Mr. B. G. W. Athula Kumara
Assistant General Manager –
Eastern Province
BSc Public Administration Special
Degree –
University of Sri Jayewardanepura

11 Mr. W. M. C. Wanigasinghe
Assistant General Manager –
Internal Audit
Bachelor of Arts (Economics) Degree –
University of Sri Jayewardanepura

12 Mr. W. M. S. Wijethunga
Assistant General Manager –
Information Technology
BSc in Applied Science, MSc in IT,
MBA specialised in IT



13 Mr. M. M. M. S. Ananda
Assistant General Manager –
Western Province
Associate Member of IBSL

14 Mr. G. M. B. C. De Silva
Assistant General Manager –
North Central Province
B.Com Degree,
Associate Member of IBSL,
PGDBM – University of Wayamba

15 Mr. M. A. Gnanarathna
Assistant General Manager –
Sabaragamuwa Province
BSc Public Administration Special
Degree – University of
Sri Jayewardanepura

16 Mr. P. S. T. Ranathunga
Assistant General Manager –
Uva Province
BA (Special) Degree –
University of Colombo



17



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20

17 **Mr. P. M. S. Wickramarathna**
Assistant General Manager – Recovery
B.Com Special Degree –
University of Colombo

18 **Mr. K. B. Wijerathne**
Assistant General Manager – Finance
BSc. Business Management Special
Degree – University of Rajarata
Intermediate examination of IBSL

19 **Mr. K. C. D. Dharmapriya**
Assistant General Manager –
Risk Management
Bachelor of Arts – University of
Peradeniya, Senior Associate Member
of Institute of Bankers of Sri Lanka

20 **Ms. R. M. T. Rajapaksha**
Board secretary/
Acting Chief Legal Officer
Attorney at law
LLB – University of Colombo

RDB being a development bank, credit is the major business line and in view of the increasing administration process of the growing credit portfolio, in 2017 we have established a comprehensive loan review mechanism (LRM) to improve credit administration under the purview of Risk Management Division.

Risk is inherent in financial activities. "Without taking risk no one can earn more" this concept is applicable to banking business also. In order to sustainable growth in the financial market the Bank has to manage and mitigate these risk factors, hence the risk management concept coming into existence as a guidance and road map to mitigate and manage those risk.

Banks face several types of risks such as Credit Risk, Operational 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 organisation pays close attention to their risk culture and risk practices. In line with this, RDB is also in the process of adopting best practices. All staff members are responsible to identify asses and manage those risks up to some extent. The following section focuses on RDB present risk governance structure and future trends.

Integrated Risk Governance

Risk governance structure of RDB starts from the Board of Directors and drill down to the Branch level through risk management policies, procedures, committees and delegated authority levels. Board of Directors of RDB has the final responsibility in governing the risk of the overall Bank. Board Integrated Risk Management Committee (BIRMC), Board Credit Committee (BCC), Board IT Committee (BITC) and the Board Audit committees (BAC) are supporting to the Board to oversee the overall risk management of the Bank and Management committees (MC) and the Chief Risk Officer (CRO) who is independent person from the business line of the Bank provides the regular reports to the Board on the day to day operation of the all business levels.

The **IRMC** is the Committee chaired by the Executive Director and supported to make decisions on Bank risk management framework. The Committee given recommendation on bank overall risk profile and recommended the risk management policies, procedures and Internal Capital Adequacy Assessment Process (ICAAP) of the Bank. Policies procedures and the ICAAP are formulated, reviewed and presented to the IRMC by the CRO and his division in periodic manner.

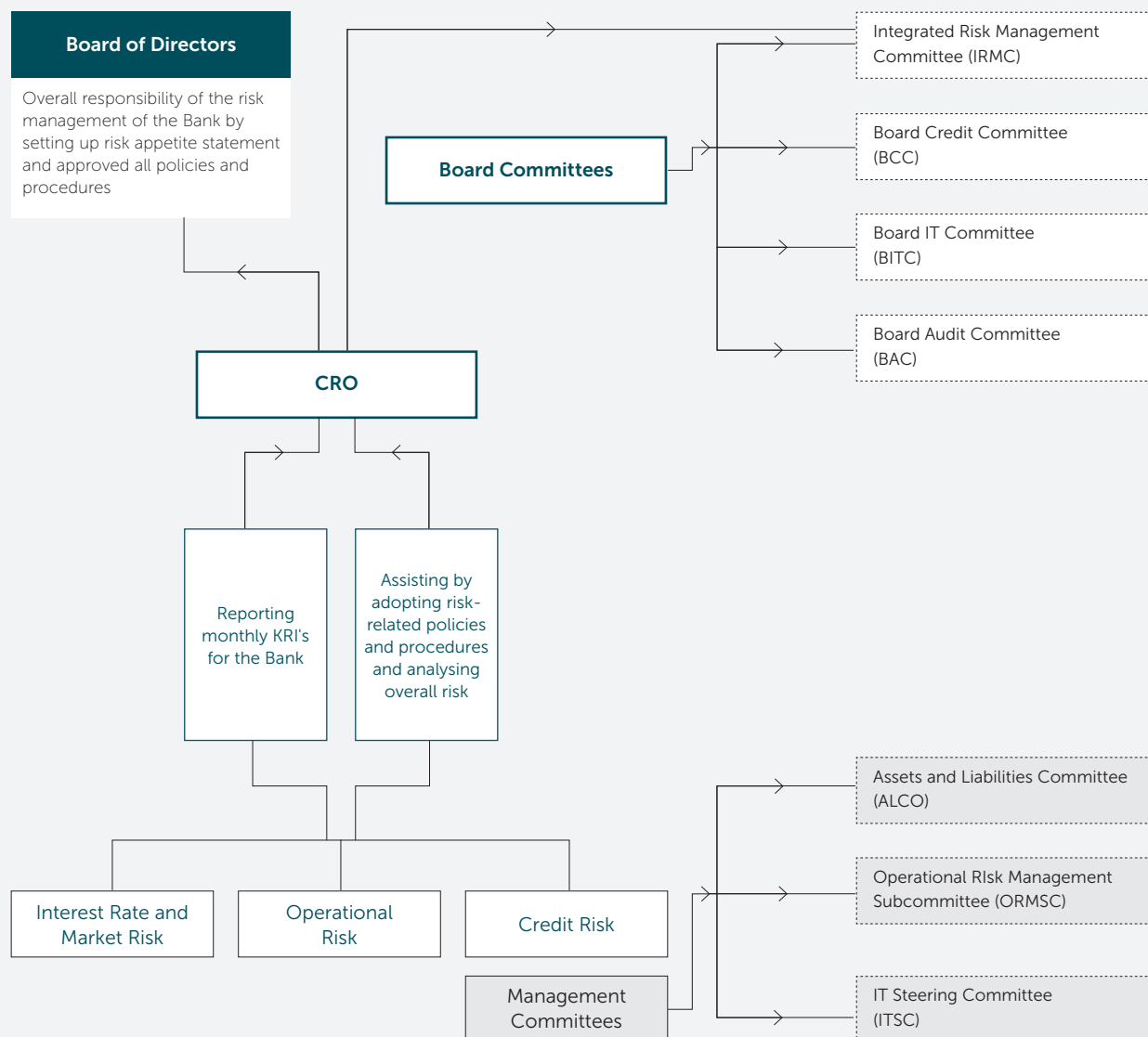
The **BAC** examines the internal control and regulatory compliance of the Bank on behalf of the Board of RDB. The Committee also accesses the performance, accuracy and independence of the internal audit of the Bank.

The **MC** is the committee which is headed by the GM/CEO of the Bank and representing all executive level persons of the Bank. The committee perform periodically and whenever necessary. The committees are reviewed the reports from all operational level of the Bank to mitigate the risk and uncertainty periodically.

CRO (Chief Risk Officer) is an independent person who has the responsibility of assisting the BOD and IRMC about the overall risk management of the Bank and risk management techniques.

RMD (Risk Management Department) which is headed by the CRO has the three separate functions of risk management credit risk, operation risk and the market and interest rate risk.

Risk Governance Structure



Effectiveness of the risk management basically depends on the risk management policies, procedures and framework. These are the strategic guideline for the effective risk management of RDB. RMD has established comprehensive risk management policies, procedures and frame work which are approved by the Board of Directors with the recommendation of IRMC. All these policies, procedures and framework are reviewed annually by the RMD.

Risk Management Policy, Procedures and Framework for RDB

Policy	Year of established	Coverage
Credit risk management policy	2012	Sectoral limits and methods of risk management and mitigation techniques of credit
Operational risk management policy	2012	Techniques for identify mitigation and management of operational risk and details on operational subcommittee
Liquidity risk management policy	2012	Techniques of management of liquid assets and liquid liabilities
Interest rate risk management policy	2012	Techniques for identify mitigation and management of interest rate risk
Stress testing policy	2012	Stress testing framework for capital adequacy, liquidity
Integrated risk management framework	2013	Risk management framework for RDB
Market risk management policy	2015	Techniques for identify mitigation and management of market risk
Loan review policy	2016	Loan review mechanism
Business continuity plan	2016	Guideline for business continuity plan for disaster
Acceptable usage policy	2015	Guideline for information usage
Information security policy	2015	Guideline for IT security

Banking is a business exposed to various types of risk from its inherent. The main and most obvious risks the banks generally face are credit, market and operational risks. However, developments in technology and regulation and financial crises in the recent past have encouraged the banks to consider of other risk categories like strategic risk, compliance risk, legal risk, reputation risk etc. In the circumstances, today every banking institution tends to give high consideration to their risk culture and risk management practices. In this section, we have analysis the main financial and non-financial risk that RDB exposure.

Credit Risk

Credit risk, is the risk associated with the loss of principal or the 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

Credit Risk Exposure

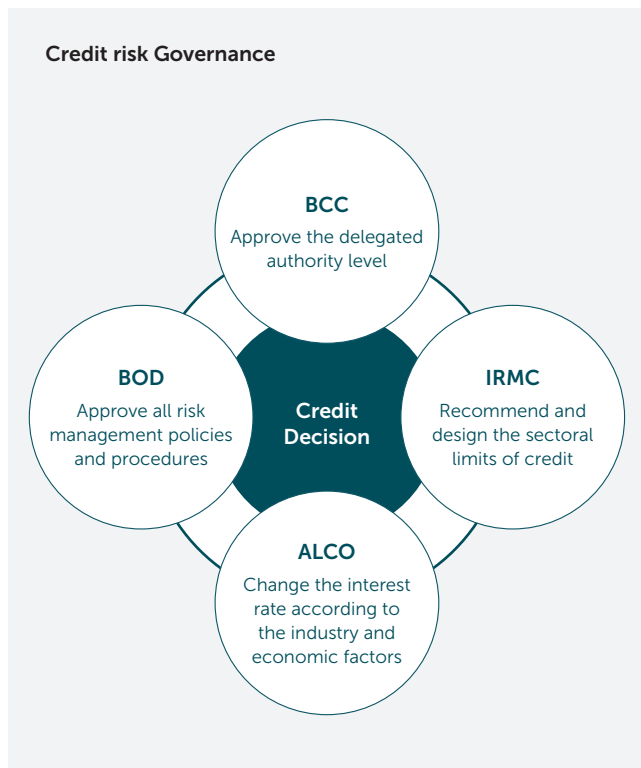
The total credit exposure of RDB is 75.64% of its total assets. Extending credit is the major business line of the Bank and as a result, credit risk is the most significant type of risk that is being managed.

Our lending portfolio increased to Rs. 128.34 billion during the year, which is a 20% increase, compared to last year. As of end of year 2017, Bank's credit portfolio consist of 626 loan facilities over 5 million category and top 10 borrowers contribute 0.49% to the total advance portfolio and further analysis indicates that the top three clients are contributing 0.13%, 0.11%, and 0.03% respectively to the portfolio. RDB loan portfolio consist with agriculture loan, animal husbandry loan, industrial loan (SME), trading and services loan, housing loan, pawning, consumption loan and loans against deposits.

RDB being a development bank, credit is the major business line like any other bank which tends to increase the overall risk exposure of the Bank. Therefore, the Bank has placed a considerable weight age on credit risk management process.

Credit Risk Governance

The Credit Risk Management policy of RDB is the main guideline for credit risk management which is approved by the Board and reviewed annually which contains all policies and procedures and methods to identify, manage and mitigate the credit risk. Board level committees and the Management level committees are also engage with credit risk governance of RDB. Credit Risk Administration Unit which is attached to RMD is responsible to identify and monitor the security risk, risk of NPL and credit monitoring. Credit risk management team under RMD is responsible to submit review on credit portfolio of the RDB to Board on periodically.



Credit Risk Mitigation, Monitoring and Reporting

The loan portfolio is closely monitored by branch manager/loan officers and individual credit facilities at ground level (branch level) through daily customer analysis and recovery processes. However, at Head Office level, Risk Management Department analyses the credit portfolio of the Bank and reports to the Board of Directors under the KRI (Key Risk Indicator) Report with independent observations on a monthly basis. The KRI Report includes total Credit Portfolio Analysis, NPA Analysis, and Loan Provisioning Analysis etc. Risk Management Division closely monitors the Bank's top 20 borrowers on a monthly basis and report to the Board of Directors. Following mitigations techniques and approaches are used by RDB to manage quality credit portfolio.

Delegated Approving Authority

The Bank has specific delegated authority levels to approve credit facilities. Normally, credit proposals are analysed by experienced credit officers and handed over to the relevant approval authority level. However, high value credit proposals are approved by the Credit Committee and the Board of Directors. At present, loan proposals which exceed authority level of the Deputy General Manager Credit are subject to an independent evaluation by the CRO. The Bank continued with the structured evaluating and approving process introduced in 2014 and it immensely contributed to the Bank's credit portfolio risk management.

Credit Administration Unit

In view of increasing administration process of the credit portfolio, in March 2016 the Bank established the credit administration unit under the Risk Management Division as an independent unit. The unit is responsible to monitor credit security documents and review all loans above over 3 million.

Loan Review Mechanism (LRM)

Since 2017, RDB has established a comprehensive LRM to maintain quality loan portfolio. Loan review policy of RDB establishes a common framework for Loan Review Mechanism to improve qualitative and quantitative credit administration. The Review should cover all performing loans above the threshold limit, which should be more than 40% of the loan portfolio of the Bank. The threshold limit should be decided/approved by the Board of Directors with the recommendation of the Credit Committee.

Risk Rating

The Bank has introduced the customer rating based on bank specific format since August 2016. Customers are rated as AAA, AA, A and BBB. According to the directions given in the circular customer who has below BBB rating is not eligible for a credit facility from the Bank.

Risk-Based Pricing

RMD introduced a risk-based pricing for credit facilities of the Bank since 2016. The Bank has adjusted the price of the facility based on the customer risk rating. This pricing system is applied to facilities considered under Bank funds only and other facilities considered under refinance schemes are exempted from the risk-based pricing.

Loan Loss Provisioning (Impairment Provisions and CBSL Provision)

To comply with the accounting standard of Sri Lanka the Bank has calculated impairment for loan loss base on the two methods:

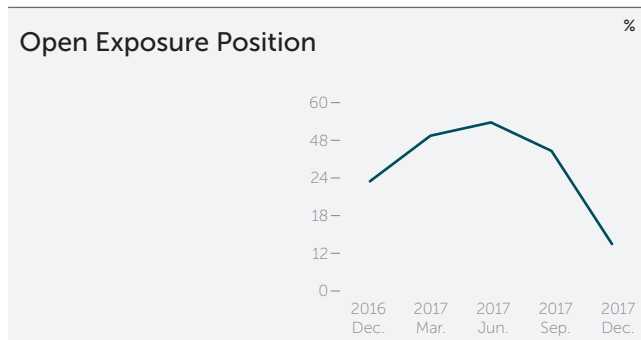
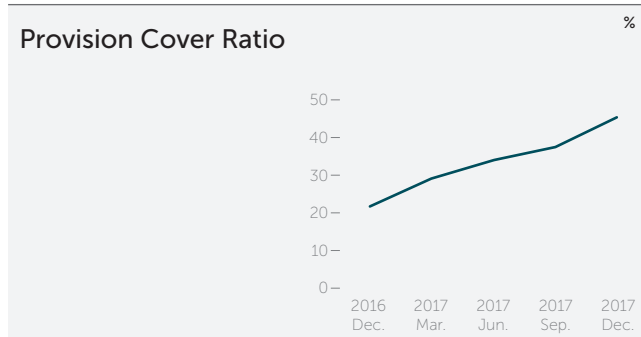
- Individual Impairment
- Collective impairment

According to the Central Bank (CBSL) Guidelines, the Bank follows two types of provisioning methods. Provisioning categories are:

- General Provision (according to Central Bank Guidelines)
- Specific Provision (according to Central Bank Guidelines)

Provision cover ratio and the open credit exposure ratio of the Bank are calculated and analysed by the Risk Management Department periodically. The Risk Management Department submits these ratios together with its observations to the Board of Directors on a monthly basis.

As of end of December 2017, the open credit exposure and the provision cover ratios of the Bank were as follows:

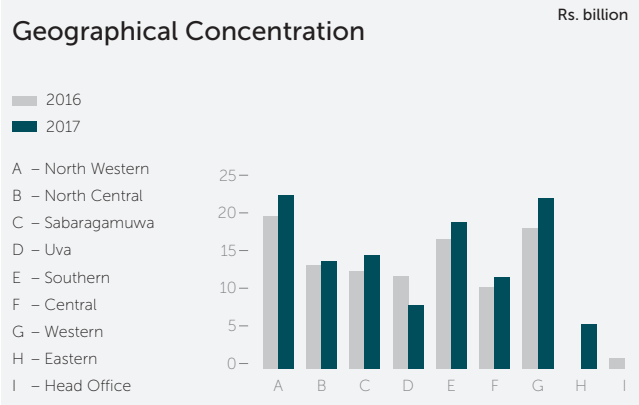


Sectoral Limits and managing concentration risk

The Bank has established approved sectoral limits for credit through credit risk management policy. Risk management department of RDB periodically approved these limits according to the economic and Industry standards. Business units manage their individual credit portfolio according to these sectoral limits. The Bank has managed the concentration risk on each sector, product and geographically based on periodic reviewed sectoral limits.

Sectors	HHI	
	2016	2017
Agriculture	0.021	0.027
Animal husbandry	0.001	0.001
Industrial (SME)	0.080	0.104
Transport service loans	0.000	0.000
Housing	0.104	0.062
Pawning	0.003	0.003
Other priority	0.019	0.023
Staff	0.001	0.001
Total	0.228	0.220

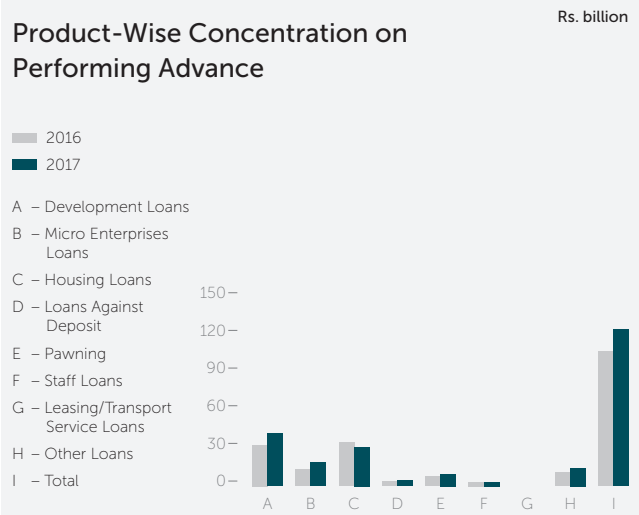
Geographical Concentration



*From 1 January 2017, Branches which are situated in Eastern Province are taking in to consideration as a Separate Region

**From end of the 1st quarter 2017 Head Office Branch is assigned to the Western Region

Product-Wise Concentration on Performing Advance



Liquidity Risk

It is the risk that a Bank encounters difficulties in meeting its financial commitments that are settled by delivering cash or other financial assets.

Liquidity Risk Management at RDB

The Bank has always complied with Bank Liquidity Management Framework and CBSL guidelines on Bank liquidity. It is the Bank's policy to maintain a sound liquidity position, above the regulatory requirement of 20% on Liquid Asset Ratio (LAR) and above 80% of Liquidity Coverage Ratio (LCR). To achieve this objective, the Bank evaluates and monitors liquid assets and liabilities on an ongoing basis.

Liquidity Risk Governance

The main responsibility of managing the Bank's liquidity lies with the Assets and Liabilities Management Committee (ALCO). ALCO is an Executive Level Committee consisting of the Bank's Corporate and Executive Level employees. The Committee meets at least once a month or more frequently on a need basis.

Liquidity Risk Mitigation, Monitoring and Reporting

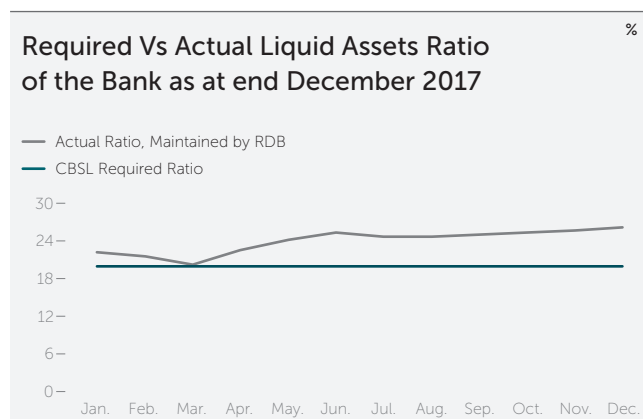
The bank has follows two main approaches to measure liquidity risk of the bank which are,

- Stock approach
- Flow approach

According to the regulatory requirements the bank has used mainly two ratios to measure the liquidity risk of the Bank under stock approach.

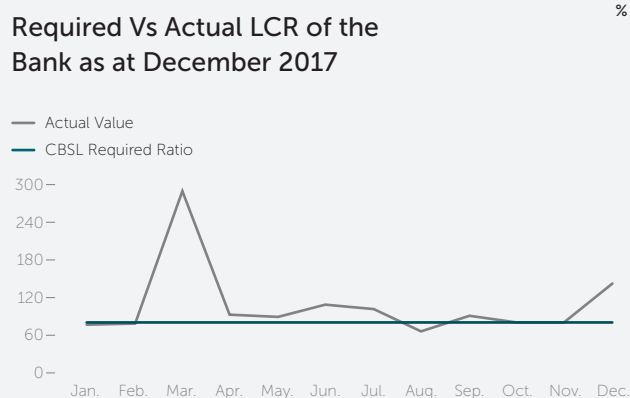
Liquid Assets Ratio (LAR)

RDB has maintained its Liquid Assets Ratio (LAR) above the regulatory requirement of 20%.

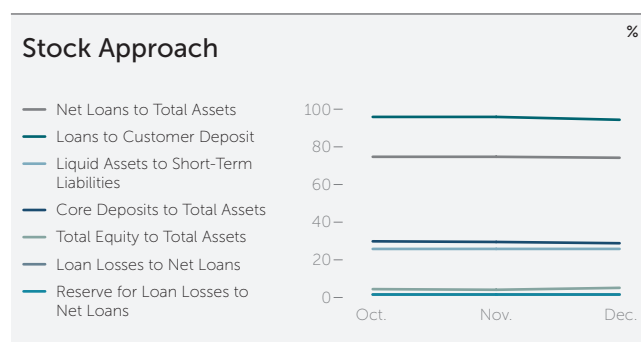


Liquidity Coverage Ratio (LCR)

RDB has also adhered to the CBSL direction of Liquidity Coverage Ratio (LCR) in the year 2016 and maintained LCR ratio of 142% as at end of December 2017 it is above the minimum regulatory requirement of (80%).



Following other ratios are also calculated for measure the liquidity risk:



Stress Testing on Liquidity

The Risk Management Department regularly carries out a Stress Testing on Bank Liquidity under three scenarios, which is related to different severity conditions. Every month, the Department evaluates the result of the stress testing and measures the possible impacts of unexpected situations on liquidity of the Bank. According to the result of stress testing, the Board of Directors is informed by the Risk Management Department on appropriate course of action and funding arrangements for such situations through ALCO.

Details	Balance as at 31 December 2017	All figures in Rs. '000		
		Minor	Moderate	Major
Magnitude of shock %		2	4	6
Liquid assets	33,639,321	33,639,321	33,639,321	33,639,321
Total liabilities	128,050,615	128,050,615	128,050,615	128,050,615
Value fall on total liabilities		2,561,012	5,122,025	7,683,037
Revised total liabilities after shock		125,489,603	122,928,591	120,367,578
Revised liquid assets after shock		31,078,308	28,517,296	25,956,284
Liquid asset ratio %	26.27	24.77	23.20	21.56

Operational Risk

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

Operational Risk Management at RDB

Total client base of the Bank presently exceeds 6 million people which represent nearly 20% of the population of the island. The Bank today has 268 branches covering entire country including branches in the North and the East. RDB is the third largest Bank in the country in terms of the number of branches and currently operate with more than 3,000 staff members. Hence RDB has exposed various operational lapses in present.

Up to the end of 2014, the Bank worked on four different IT platforms. Now RDB is on a new centralised IT solution and day by day the Bank introduce new technological product to their customer segments. After commissioning the new IT solution, the Bank is automatically exposed to IT risk. Since 2015, RDB has facilitated ATM networks for the customers all over the country connected with the lanka pay network and its own ATM centres.

Operational Risk Governance

RDB has established a comprehensive risk operational Risk Management Policy in 2013 and approved by the Board of Directors. This is main guidance for the Bank operational risk management of the Bank and it is periodically review.

Operational Risk Management Unit

The operational risk management unit under RMD has submitted periodic reports of operational loss on monthly KRI.

Operational Risk Management Subcommittee

Since 2012, RMD has established an Operational Risk Subcommittee "under the supervision of Chief Risk Officer of the Bank. The Committee re-established in 2017 with the establishment of Operation Department for the Bank and now meets at least monthly and submits a report quarterly to the IRMC for their assessment. This covers all aspect of operational issues in RDB.

IT Steering Committee

The Bank has established an IT Steering Committee in 2013 headed by CIO of the Bank which represents all technical people and CRO and periodically discuss all IT-related issues in the Bank and make recommendation and solutions to the Board of Director.

Operational Risk Mitigation, Monitoring and Reporting

RDB has implemented following Mitigation, Monitoring and Reporting Technics for the Bank's Operational Risk Management.

Loss Data Reporting

RMD is reporting the loss of data since 2012. All losses reported to the Investigation Unit are recorded by the RMD and every quarter, loss data which exceeded the threshold limit of Rs. 500,000/- are reported to the Central Bank. The Bank has maintained a database related to various types of loss data.

Business Continuity Plan (BCP)

The Bank finalised its Business Continuity Plan (BCP) during the year 2015 and reviewed same in 2017 covering all the branches and Head Office of RDB. Main responsibility of operating BCP is under DGM – Operations. The Bank has also carried out a BCP drilling head office in 2017.

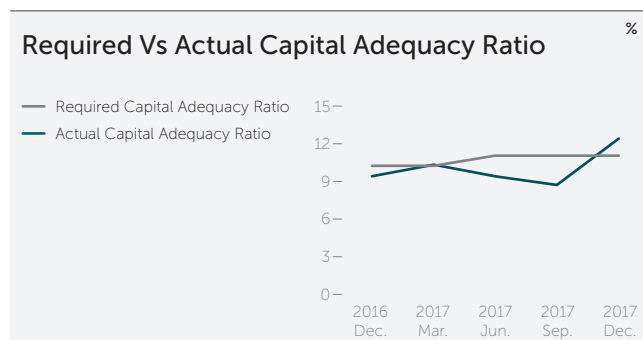
Information Security Management System (ISMS)

Since the year 2015, the Information Security Management System (ISMS) function is in operation under the supervision of Chief Risk Officer of the Bank. Approved information security and acceptable usage policies are in force and reviewed periodically.

Capital Management

Time to time RDB has revised its capital augmentation plan to have a proactive capital management in order to comply with the regulatory requirement. Up to the end of second quarter 2017, the Bank has comply with Basel II accords and maintain minimum capital adequacy requirement of 10%. However, with the introduction of Basel III from June 2017 RDB has to increase its capital to meet the capital adequacy a minimum ratio of 11.25%.

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



Since the minimum requirements have not been met on several occasions as shown from the above graph and the Bank has to reach the regulatory requirement according to the Basel III accords, 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.

The Board has approved to raise capital through a debenture issue of up to Rs. 2 billion in the current financial year. Carrying out the above two strategies of the Bank will strengthen its capital base to surpass the minimum requirement imposed by the regulator.

The Bank has received a capital infusion of Rs. 2.5 billion from the General Treasury in December 2017.

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 2017 are as follows:

Non-Performing Advance portfolio	Original CAR %	Scenario 1 %	Scenario 2 %	Scenario 3 %
Magnitude of the shock	–	2	3	4
Directly to loss category	12.57	12.54	12.52	12.50
Shift of shock within all categories	12.57	12.54	12.52	12.54

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 SAGM 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 improve in future with the completion of the Core Banking Solution implementation.



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கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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My No. }

BAF/F/RDB/CG/2017

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Your No. }

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திகதி }
Date }

// April 2018

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 this 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.

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, 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 financial statements in accordance with Sri Lanka Auditing Standards, 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.

H. M. Gamini Wijesinghe
Auditor General



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Auditor General's Department

The Responsibilities of the Board

Level of Compliance

3 (1)

3 (1) (i) Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the Bank.

(a) The Board approval, the Bank's strategic objectives and corporate values.

Complied with;
The Board has approved the corporate goals and objectives of the Bank for 2016-2020 as determined by Pradeshiya Sanwardhana Bank Act. No. 41 of 2008.

However, the existing corporate plan has not been updated for the period of 2017-2021.

Whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.

Communication of the objectives throughout the Bank is done by circulars, emails, awareness programmes through Key Management Personnel where necessary.

(b) The Board approval of the overall business strategy of the Bank.

Complied with;
The Board approved corporate plan includes the overall business strategy of the Bank for year 2016-2020.

The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.

The overall risk policy and risk management procedures of the Bank have documented which are reviewed by the Integrated Risk Management Committee.

The overall business strategy contains measurable goals, for at least the next three years.

Corporate plan with measurable goals for next five year from 2016 onward has been approved.

(c) The appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.

Complied with;
A continuous and prudent assessment process is in place to identify and manage the risk. Policies and procedures are approved and reviewed by the Integrated Risk Management Committee.

(d) The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;

Complied with;
Communication policy has been approved by the Board and has been reviewed. The implementation of the policy is done by all managerial levels with the close monitoring process.

(e) The Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems;

Complied with;
The Internal Audit Department of the Bank report to the Audit Committee on the adequacy and integrity of the internal control system and management information system of the Bank and the Audit Committee reviews the same.

(f) 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;
The Board has identified Key Management Personnel of the Bank.

(g) 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 Board Charter defines the areas of authority and key responsibilities for the Board of Directors themselves. The areas of authority and key responsibilities of the Key Management Personnel have been given through relevant job descriptions.

(h) The Board has exercised appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;

Complied with;
The Board has exercised appropriate oversight of the affairs of the Bank through Board and Board Subcommittees. Key Management personnel are also called by the Board to explain matters relating to their respective areas.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
(i) 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.	Complied with; Self-assessment forms of Board of Directors were available.
(j) The Board has a succession plan for Key Management Personnel.	Complied with; Board approved succession plan is available.
(k) 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; The Board whenever necessary invites Key Management Personnel to review policies and discuss progress towards corporate objectives. Further, the Board has discussed and reviewed the progress of the Corporate Plan once in the year 2017.
(l) 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 concern and update on the changes in the regulatory environment and maintain relationship with regulators.
(m) The Board has a process in place for hiring and oversight of External Auditors.	Not applicable; Under Section 33 of the Pradeshiya Sanwardhana Bank Act, Auditor General is the External Auditor of the Bank.
3 (1) (ii) The Board has appointed the Chairman and the Chief Executive Officer (CEO). The functions and responsibilities of the Chairman and the CEO are in line with Direction 3 (5) of these Directions.	Complied with; The Chairman is appointed by the Hon. Minister while the Board appoints the General Manager/Chief Executive Officer. The Chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business.
3 (1) (iii) The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	Complied with; Fourteen Board meetings have been conducted. Regular meetings are conducted monthly and additional meetings are conducted as and when necessary.
3 (1) (iv) The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with; Regular Board meetings are scheduled monthly and Directors are noticed on scheduled date of the next meeting well in advance, enabling them to include matters and proposals.
3 (1) (v) That the Board has given notice of at least seven days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Complied with; Notice of monthly Board meetings, provide to the Directors seven days prior to the meeting date as a practice.
3 (1) (vi) 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; There were no occasions observed for not attending more than two-third-of Board meetings or immediately preceding three consecutive meetings.
3 (1) (vii) The Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with; The Board has appointed a secretary to the Board as defined by Section 43 of the Banking Act No. 30 of 1988
3 (1) (viii) 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 service of the Board Secretary.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
3 (1) (ix) 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 maintained by the Board Secretary and available for any Director for inspection.
3 (1) (x) The minutes of a Board meeting contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations (b) the matters considered by the Board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied with; Board Minutes will cover the following requirements, (i) Discussed matters in decision taken on particular subjects. (ii) Approvals/comments or reviews on submitted Board papers. (iii) Progress Instructions and matters directed to management. (iv) Decisions on policy matters and review of performances. (v) Highlights and recommendations on Board Subcommittees. (vi) Other contemporary matters discussed.
3 (1) (xi) There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with; The Board approved procedure to seek independent professional advice is available.
3 (1) (xii) There is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoids conflicts of interests, or the appearance of conflicts of interest. A Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested. Has he/she been counted in the quorum for the relevant agenda item at the Board meeting.	Complied with; When a resolution is passed at the Board meetings regarding a particular matter on which Directors are personally interested, he/she abstained from voting for the resolution. The interesting Director does not count in the quorum for the relevant agenda item at the Board meeting.
3 (1) (xiii) The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	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 to make the ultimate decisions.
3 (1) (xiv) The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	Not Applicable; Although, such a situation has not arisen, the Board is aware of the necessity to inform the Director of Bank Supervision, prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payment to its depositors and other creditors.
3 (1) (xv) The Board has the Bank capitalised at levels as required by the Monetary Board.	Complied with; Bank has maintained the minimum level of capital adequacy as at 31 December 2017 as determined by the Monetary Board. However, some occasions reported below the required level.
3 (1) (xvi) 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; The Annual Report includes the Corporate Governance Report which discloses the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka.



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Auditor General's Department

The Responsibilities of the Board		Level of Compliance
3 (1) (xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Complied with; Self-assessment forms of Board of Directors were available.
3 (2) The Board's Composition		
3 (2) (i)	The Board comprise not less than 7 and not more than 11 Directors.	Complied with; The Board comprises 8 Directors as at 31 December 2017.
3 (2) (ii)	(a) 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 nine years, check that the transitional provisions have been applied with.	Not applicable;
3 (2) (iii)	The number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	Complied with; There are no Executive Directors appointed as Directors.
3 (2) (iv)	The Board has at least three Independent Non-Executive Directors or one-thirds of the total number of Directors, whichever is higher.	Complied with; There are four Independent Non-executive Directors in the Board.
	Check if Non-Executive Directors can be considered independent if he/she:	
	(a) Holds a direct and indirect shareholdings of more than 1% of the Bank;	Not applicable.
	(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) here of, exceeding 10% of the regulatory capital of the Bank;	Not applicable.
	(c) has been employed by the Bank during the two year period immediately preceding the appointment as Directors;	Not applicable.
	(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)	Not applicable.
	(e) represents a specific stakeholder of the Bank	Not applicable.
	(f) is an employee or a Director or a material shareholder in a company or business organisation:	Not applicable.
	(i) which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% 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% of regulatory capital in the Bank.	
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.	Not applicable; No Alternate Director was appointed.
3 (2) (vi)	The Bank has a process for appointing Independent Directors.	Not applicable; All Directors are appointed by the Hon. Minister in consultation with Secretary to the Treasury.



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Auditor General's Department

The Responsibilities of the Board

Level of Compliance

3 (5) The Chairman and CEO

3 (5) (i)	The role 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. The Chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business.
3 (5) (ii)	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. The designation of the Senior Director is disclosed in the Bank's Annual Report.	Complied with; Chairman is an Independent Non-Executive Director and no Senior Director designated as an Independent Director of the Bank.
3 (5) (iii)	The Board has a process to identify and disclose in its Corporate Governance Report, which shall be a part of its Annual Report, any relationship [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.	Complied with; Annual declarations provided by Directors help to identify such relationships.
3 (5) (iv)	The Board has a self-evaluation process where the Chairman: (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with; Self-assessment Forms of Board of Directors were available.
3 (5) (v)	A formal agenda is circulated by the Company Secretary approved by the Chairman.	Complied with; The agenda for each Board meeting is prepared and circulated by the Board Secretary in consultation with the Chairman and CEO.
3 (5) (vi)	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 discussion in Board meetings are circulated with the Notice of Meeting at least seven days prior to the meeting other than for urgent matters.
3 (5) (vii)	The Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank.	Complied with; Self-assessment Forms of Board of Directors were available.
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Complied with; The feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contribution of Non-Executive Directors.
3 (5) (ix)	The Chairman engages in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with; Chairman is a Non-Executive Director and does not directly involve in supervision of Key Management Personnel.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
3 (5) (x) There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with; As per the Pradeshiya Sanwardhana Bank Act No. 41 of 2008 four ex-officio members who represent four shareholder Banks were appointed to the Board. They act as a channel between the Board and the shareholders.
3 (5) (xi) The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	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)	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. The Board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied with; The Bank has established six Board Subcommittees which directly report to the Board as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v). A brief report on duties, roles and performance on each committee is included in the Annual Report.
3 (6) (ii)	Audit Committee:	
(a)	Chairman of the Audit Committee is an Independent Non-Executive Director and possesses qualifications and experience.	Complied with;
(b)	All members of the Committee are Non-Executive Directors.	Complied with; All members in the Board Audit Committee are Non-Executive Directors.
(c)	The Committee has made recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Not Applicable; As per Section 33 of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, the Auditor General is the External Auditor of the Bank. Therefore, the Committee has no role to play with the engagement of External Auditor. However, the implementation of Central Bank guidelines issued to auditors from time to time and application of relevant accounting standards are discussed at the meetings.
(d)	The Committee has obtained representations from the External Auditor's on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards SLAuS.	Not Applicable; As per Section 33 of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, the Auditor General is the External Auditor of the Bank.
(e)	The Committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	Not Applicable; Such situation has not arisen since Auditor General is the auditor of the Bank.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
(f) The Committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	Not Applicable; Subsections (3) and (4) of 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.
(g) The Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	Complied with; The Board Audit Committee reviews financial statements of the Bank. This review includes quarterly and annual financial statements, major judgemental areas and changes in accounting policies related to financial statements.
(h) The Committee has met the External Auditors relating to any issue in the absence of the executive management with relation to the audit.	Complied with; Committee has had two meetings with the External Auditors without the Executive Directors being present.
(i) The Committee has reviewed the External Auditor's Management Letter and the Management's response thereto.	Complied with; Committee has reviewed the Management Letter and the responses thereto.
(j) The Committee shall take the following steps with regard to the internal audit function of the Bank: (i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	Complied with
(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	Complied with
(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied with Annual Performance Appraisal Report of the Chief Internal Auditor for the year 2017 has been submitted to the Board Audit Committee.
(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied with; The appointment/terminations of senior members of Internal Audit Division has been done with the recommendations of members of the Board Audit Committee. The interview panel conducted the selection process of Head of Internal Audit was consisted of Directors also were the members of Board Audit Committee.
(v) The Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied with; The Committee appraised the performance of Head of the Internal Audit Department.
(vi) The internal audit function is independent of the activities it audits.	Complied with Internal audit function is independent of the activities it audits and directly report to the Board Audit Committee.
(k) The minutes to determine whether the Committee has considered major findings of internal investigations and Management's responses thereto.	Complied with The major internal audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
(l) Whether the Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	Complied with;
(m) The Terms of Reference of the Committee to ensure that there is; (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with; The "Terms of Reference" of the Audit Committee covers all these areas.
(n) The Committee has met, at least four times and maintained minutes.	Complied with; Five committee meetings were conducted during the year 2017.
(o) The Board has disclosed in the Annual Report, (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings	Complied with;
(p) The Secretary of the Committee is the Company Secretary or the head of the internal audit function.	Complied with Board Secretary is the Secretary to the Audit Committee.
(q) 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.	Complied with; Board approved "Whistle Blower" Policy is in place.
3 (6) (iii) Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
(a) The Committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the "Terms of Reference" and minutes.	Complied with; Remunerations of Directors are determined by the circulars of Public Enterprise Department of the Ministry of Finance. The Committee has approved a remuneration policy which determines the remuneration, allowances and other financial payments to Key Management Personnel.
(b) The goals and targets for the Directors, CEO and the Key Management Personnel are documented.	Complied with; Goals and targets for the Key Management Personnel have documented through annual action plan given by each Key Management Personnel. Further, the Key Performance Indicators approved by the Committee for each Key Management Personnel were available.
(c) The Committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals periodically to determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with. The relevant committees evaluate the performance of Key Management Personnel against set targets and goals, periodically. The performance evaluation of key Management Personnel against Key Performance Indicators (KPI) were due to be evaluated by the Committee in 2018.
(d) 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.	Complied with; "Terms of Reference" of the Board Human Resources and Remuneration Committee provides that the CEO is not present at meetings of the Committee, when the matters relating to the CEO are being discussed.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
3 (6) (iv) Does the following rules apply in relation to the Nomination Committee:	
(a) The Committee has implemented a procedure to select/ appoint new Directors, CEO and Key Management Personnel.	Complied with; Appointments of Directors are done by the Hon. Minister in consultation with the Secretary to the Treasury. The Board appoints the CEO. The Committee has approved a scheme of recruitment and Internal Promotion which indicate procedure to select Key Management Personnel.
(b) The Committee has considered and recommended (or not recommended) the re-election of current directors.	Not Applicable; The Hon. Minister appoints the Board of Directors in consultation with Secretary to the Treasury.
(c) The committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions.	Complied with. The Pradeshiya Sanwardhana Bank Act No. 41 of 2008 gives itself the required qualification and experience to be eligible for selection for the posts of Chief Executive Officer, Deputy General Managers and Regional General Managers. The approved Scheme of Recruitment and Internal Promotion indicates eligibility criteria for Key Management Personnel.
(d) The Committee has obtained from the Directors, CEO and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	Complied with; Declarations on fitness and propriety of the Directors, CEO and Key Management Personnel were obtained and updated annually.
(e) The Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	Complied with Board approved succession plan is in place.
(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied with; The Committee consists of four Directors, who are independent. The CEO attends the meeting by invitation.
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 consists of five Non-Executive Directors, Chief Executive Officer and Chief Risk Officer. The Compliance Officer attends the Committee as an invitee.
(b) The Committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with; Report on Key Risk Indicators of the Bank is prepared on a monthly basis by Chief Risk Officer and submit for the review of Board of Directors.
(c) The Committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the Credit Committee and the Asset-Liability Committees, and report any risk indicators periodically.	Complied with; Management level committee meeting minutes were reviewed by the Board Integrated Risk Management Committee to ensure adequacy and effectiveness of committee operations except IT Steering Committee, Procurement committee and Premises Committee since these Committees are over looked by the other Board Subcommittees and Board directly.
(d) The Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with; Reports on Key Risk Indicators were reviewed by the Committee.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
(e) How many times the Committee has met at least quarterly.	Complied with; Committee has met four times for the year 2017.
(f) The Committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Complied with; The formal disciplinary code is in place. The Committee has taken decisions to recommend disciplinary action procedure related to risk matters through the committee papers.
(g) The Committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific Directions.	Complied with; Report on the Key Risk Indicators of the Bank is prepared on a monthly basis by Chief Risk Officer of the Bank and submitted to the nearest Board meeting in the following month.
(h) The Committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated Compliance Officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.	Complied with; Compliance function of the Bank is headed by the Compliance Officer and a compliance risk assessment report is submitted to Board Integrated Risk Management Committee periodically by the Compliance Officer.

3 (7) Related Party Transactions

3 (7) (i)	There is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:	Partially complied with. Board approved policy on Related Party Transaction is available. Monitoring process on Related Party Transaction is in place. Though the policy is subject for an annual review, it has not been reviewed since 2015.
	(a) Any of the Bank's subsidiary companies;	
	(b) Any of the Bank's associate companies;	
	(c) Any of the Directors of the Bank;	
	(d) Any of the Bank's Key Management Personnel;	
	(e) A close relation of any of the Bank's Directors or Key Management Personnel;	
	(f) A shareholder owning a material interest in the Bank;	
	(g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.	
3 (7) (ii)	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.	Partially complied with; Except transaction (a), Related Party Transaction Policy of the Bank does not include any process to identify and report other type of transaction with related parties.
	(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.	



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
3 (7) (iii) 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.	Complied with; Accommodation granted to Directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two-thirds of the number of Directors constituting the Board.
(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 subdirection: (i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No. 7 of 2007 on Maximum Amount of Accommodation. (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 five years or more.	Complied with.
(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.	Complied with.
(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;	Complied with.
(d) Providing services to or receiving services from a related party without an evaluation procedure;	Complied with.
(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.	Complied with.
3 (7) (iv) The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with. Accommodation granted to Directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two-thirds of the number of Directors constituting the Board.
3 (7) (v) (a) The Bank has a process, where any accommodation has been granted by the 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.	Complied with. The Board approved policy on Related Party Transaction covers this requirement.
(b) where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	No such situations have arisen.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
(c) There is a process to identify any Director who fails to comply with the above subdirections be deemed to have vacated the office of Director and has the Bank disclosed such facts to the public.	No such situations have arisen.
(d) 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.	No such situations have arisen.
3 (7) (vi) There is a process in place to identify when the Bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with.
3 (7) (vii) 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.	Complied with. The Board approved policy on Related Party Transaction covers this area.

3 (8) Disclosures

3 (8) (i) 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.	Annual audited financial statements and quarterly financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.
(b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Those Financial Statements are published in the newspapers in the specified formats in Sinhala, Tamil and English.
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. The notes to the financial statements disclose that the financial statements have been prepared in accordance with Sri Lanka Accounting Standards in compliance with the requirement of the Banking Act No. 30 of 1988 and Pradeshiya Sanwardhana Bank Act No. 41 of 2008 and amendments thereto.
(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. Directors' Statement on the Effectiveness of the Internal Control System over Financial Reporting is given under the "Directors' Statement on Internal Control".
(c) 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. The Bank has obtained a certificate on the effectiveness of Internal Controls over Financial Reporting from the Auditor General.



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Auditor General's Department

The Responsibilities of the Board	Level of Compliance
(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. Details of Directors have been given other than the age of Directors. Short-term Employment Benefits paid to the Board of Directors has been disclosed under notes to the financial statements.
(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.	Complied with.
(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.	Complied with. The aggregate value of remuneration paid to the Key Management Personnel and the aggregate value of transaction with Key Management Personnel which include accommodations granted, deposits with the Bank and relevant interest income and expenses were disclosed under notes to the financial statements.
(g) The Board has obtained the External Auditor's Report on the compliance with Corporate Governance Directions.	Complied with. External Auditor's Report on compliance requirements of the Corporate Governance Directions issued by the Central Bank of Sri Lanka is included in the Annual Report.
(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with. The Directors' Report included in the Annual Report clearly sets out details regarding compliance with prudential requirements, regulations and laws and internal controls.
(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.	Not Applicable. No such situation has arisen.

ATTENDANCE OF THE BOARD AND THE BOARD COMMITTEES

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Board of Directors/Board Subcommittees Composition and Directors/Committee Members Attendance at Board and Board Subcommittee Meetings during year 2017

Name of Directors and Executive/Non-Executive/Independent Capacity	Board of Directors		Board Audit Committee		Board Integrated Risk Management Committee			Board HR and Remuneration Committee			Board Credit Committee			Board Nomination Committee			Board IT Steering Committee			
	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A
Mr. Prasanna Premaratne (Chairman)	14	14							C	07	07	C	07	07	C	03	03			
Mr. T. A. Ariyapala (General Manager)	14	13				04	04		07	07		07	07		03	03		04	04	
Mr. A. R. Desapiya (Director)	14	09	C	05	05															
Mr. Mukthar Marikkar (Director)*	08	05																C	01	01
Mr. J. K. Gamanayaka (Director)	14	12	M	05	05							M	07	06						
Mr. K. B. S. Bandara (Director)**	02	00																		
Mr. K. B. Rajapakshe (Director)	14	12				C	04	04				M	07	04				C	04	04
Mr. Niranjana Arulpragasam (Director)***	10	06							M	05	01				M	01	00	M	02	01
Mr. A. H. M. Riyaz (Director)****	08	06	M	02	02	M	02	02												
Mr. M. J. P. Salgado (Director)*****	12	09				M	04	04										M	03	03
Mr. M. C. M. Muneer (Director)*****	06	06	M	03	02	M	01	00	M	01	01				M	01	01	M	01	01
Mr. K. A. S. Kuruwitaarachchi (Director)*****	04	04										M	01	01				M	01	01
Ms. E. S. K. Herat (Director)	14	12	M	05	04				M	07	06	M	01	01	M	02	02			
Mr. W. A. Priyantha Abeysinghe (Working Director)	14	14				M	04	03	M	07	06	M	07	06	M	03	03			

S – Status of Director in Respective Committees

C – Chairman of Committee

E – Eligibility of Attendance

M – Member of the Committee

A – Attendance

BI – By Invitation

* Resigned from 21 July 2017

** Resigned from 6 March 2017

*** Resigned from 25 September 2017

**** Resigned from 3 July 2017

***** Appointed on 1 March 2017

***** Appointed on 3 July 2017

***** Appointed on 3 July 2017 and Resigned from 31 October 2017

ANNUAL REPORT OF THE BOARD OF DIRECTORS

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's seventh year ended 31 December 2017. The Report also confirms to the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and Directions on Corporate Governance. The Bank was originally established in 1997 when seventeen Rural Development Banks were merged into six banks namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata and 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 Bank Act No. 41 of 2008. 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 Microfinance Institutions and Small and Medium Enterprises.

Vision, Mission

The Bank's Vision and Mission are given on page 2 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 is 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/LKASs) 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's seventh year ended 31 December 2017, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 84 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 76 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 the Board of Directors.

Auditor's Report

The Auditor General carried out the audit of the Bank in 2017, 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 87 to 95.

Directors' Remuneration

Details of Directors' emoluments paid during the year are given in Note 12 to the financial statements.

Future Developments

An overview of future developments of the Bank is given in the Chairman's statement (pages 6 to 8), the General Manager/CEO's review (pages 9 to 11) and the Management Discussion and Analysis (pages 12 to 28).

Review of Business Performance

A review of the Bank's performance during the financial year 2017 is contained in the Chairman's Statement (pages 6 to 8), the General Manager/CEO's review (pages 9 to 11) and the Management Discussion and Analysis (pages 12 to 28). 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 9 to 11 and in the Financial Highlights on page 5.

Stated Capital

The total shareholders' fund as at 31 December 2017 is Rs. 9.6 billion. The Stated Capital contributed by shareholders at the end of year is Rs. 3.87 billion and their percentage of shareholding is as follows:

	Rs.	%
General Treasury	3,377,446,711	87.25
Bank of Ceylon	164,484,480	4.25
People's Bank	164,484,480	4.25
National Savings Bank	164,521,260	4.25
Total	3,870,936,931	100.00

Income

The gross income of the Bank for 2017 was Rs. 22 billion. Details of the income are given in page 96.

Taxation

The Bank contributed Rs. 2,095 million by way of taxes and levies to the Government in 2017. This consisted of Rs. 979 million of Income Tax, Rs. 985 million of Financial Service Value Added Tax and Rs. 131 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.

Property, Plant and Equipment

The total capital expenditure incurred by the Bank on the acquisition of property, plant and equipment, Leasehold Property and intangible assets during the year amounted to Rs. 325 million (2016 Rs. 402 million), the details of which are given in Notes 23 and 26 of the financial statements on pages 103 to and 105 of this Annual Report.

Events After the Balance Sheet Date

There have been no material events occurring after the balance sheet date that require adjustment to or disclosure in the financial statements.

Outstanding Litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 36.1 of the financial statements will not have a material impact on the financial position of the Bank or its future operations.

Capital and Reserves

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

	2017 Rs.	2016 Rs.
Stated Capital	3,870,936,931	1,370,936,931
Statutory Reserve Fund	663,652,150	599,455,675
Special Reserve Fund	518,042,478	453,846,004
General Reserve Fund	2,843,208,353	2,586,422,452
Retained Earnings	1,716,908,747	988,284,444
Total	9,612,748,660	5,998,945,505

Dividends

In view of Capital Requirements under Basel III, the directions have not approved dividend distribution out of profits for the year 2017.

Board of Directors

The Board of Directors comprises 11 members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders representing the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following are the names of the members of the Board of Directors whose brief profiles appear on pages 30 to 32 of this Annual Report:

Mr. Prasanna Premarathna – Chairman

Mr. A. R. Desapriya – Non-Independent/Non-Executive Director

Mr. J. K. Gamanayake – Non-Independent/Non-Executive Director

Mr. M. J. P. Salgado – Non-Independent/Non-Executive Director

Mr. K. B. Rajapakse – Non-Independent/Non-Executive Director

Ms. E. S. K. Herat – Independent/Non-Executive Director

Mr. M. C. M. Muneer – Independent/Non-Executive Director

Mr. W. A. P. Abeysinghe – Working Director

Resignation of Directors

Mr. M. S. M. Marikkar – Independent/Non-Executive Director
(Resigned from 21 July 2017)

Mr. A. H. M. Riyaz – Independent/Non-Executive Director
(Resigned from 3 July 2017)

Mr. K. B. S. Bandara – Non-Independent/Non-Executive Director
(Resigned from 6 March 2017)

Mr. F. N. Arulpragasam – Independent/Non-Executive Director
(Resigned from 25 September 2017)

Mr. K. A. S. Kuruwitaarachchi – Independent/Non-Executive Director
(Resigned from 31 October 2017)

New Appointment of Directors

Director	Appointment Date
Mr. M. J. P. Salgado	1 March 2017
Mr. M. C. M. Muneer	3 July 2017
Mr. K. A. S. Kuruwitaarachchi	3 July 2017

Board Subcommittees

The Board of Directors of the Bank while assuming the overall responsibility and accountability has also established the following Board Subcommittees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances. The composition of Board Subcommittees is as follows:

Audit Committee

1. Mr. A. R. Desapriya – (Chairman of the Committee)
2. Ms. Shamara Herat
3. Mr. J. K. Gamanayaka
4. Mr. A. H. M. Riyaz – Resigned from 3 July 2017
5. Mr. K. A. S. Kuruwitaarachchi – Since 25 July 2017. Resigned from 31 October 2017
6. Mr. M. C. M. Muneer – Since 25 July 2017

Report of the Audit Committee is given on page 70 and forms a part of the Director's Report.

Integrated Risk Management Committee

1. Mr. K. B. Rajapakse (Chairman of the Committee)
2. Mr. A. H. M. Riyaz – Resigned from 3 July 2017
3. Mr. M. J. P. Salgado
4. Mr. M. C. M. Muneer – Since 25 July 2017
5. Mr. W. A. P. Abeysinghe
6. Mr. T. A. Ariyapala – GM/CEO
7. Mr. T. Kuhan – Chief Risk Officer
8. Mr. W. M. S. Wickramasinghe – SAGM – Compliance

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 Premaratna – (Chairman of the Committee)
2. Ms. Shamara Herat
3. Mr. F. N. Arulpragasam – Resigned from 25 September 2017
4. Mr. W. A. P. Abeysinghe
5. Mr. M. C. M. Muneer – Since 19 October 2017
6. Mr. T. A. Ariyapala – GM/CEO
7. Mr. K. M. J. S. Karunathilaka – Head of HRD

Board IT Steering Committee

1. Mr. M. S. M. Marikkar (Committee Chairman – Resigned from 21 July 2017)
2. Mr. K. B. S. Bandara
3. Mr. K. B. Rajapakse (Committee Chairman – Since 25 July 2017)
4. Mr. F. N. Arulpragasam – Resigned from 25 September 2017
5. Mr. K. A. S. Kuruwitaarachchi – Since 25 July 2017. Resigned from 31 October 2017
6. Mr. M. C. M. Muneer – Since 28 November 2017
7. Mr. T. A. Ariyapala – GM/CEO
8. Mr. V. Jayasinghe – Chief Information Officer
9. Mr. T. Kuhan – Chief Risk Officer

Board Credit Committee

1. Mr. Prasanna Premaratna – (Chairman of the Committee)
2. Mr. K. B. Rajapakse
3. Mr. J. K. Gamanayake
4. Mr. K. A. S. Kuruwitaarachchi – Since 29 August 2017 Resigned from 31 October 2017
5. Mr. M. C. M. Muneer – Since 28 November 2017
6. Mr. W. A. P. Abeysinghe
7. Mr. T. A. Ariyapala – GM/CEO
8. Mr. S. A. Alahakoon – DGM Recoveries
9. Mr. C. L. Pihillanda – DGM Credit
10. Mr. T. Kuhan – Chief Risk Officer

Nomination Committee

1. Mr. Prasanna Premaratna – (Chairman of the Committee)
2. Ms. Shamara Herat
3. Mr. F. N. Arulpragasam – Resigned from 25 September 2017
4. Mr. W. A. P. Abeysinghe
5. Mr. M. C. M. Muneer – Since 19 October 2017
6. Mr. K. A. S. Kuruwitaarachchi – Since 19 October 2017 Resigned from 31 October 2017
7. Mr. T. A. Ariyapala – GM/CEO
8. Mr. K. M. J. S. Karunathilaka – Head of HRD

Directors' Meetings

The number of Directors' meetings which comprise Board meetings, Board Audit Committee meetings, Board Integrated Risk Management Committee meetings, Board Human Resource and Remuneration Committee meetings, Board Nomination Committee meetings, Board Credit Committee meetings and Board IT Steering Committee meetings and the attendance of Directors at these meetings are given on Corporate Governance Report page 65 of this Annual Report.

Directors' Interest in Contracts

Director's interest in contract with the Bank both directly and indirectly are referred to in Note 37.2.3 to the financial statements. The Directors do not have any other direct or indirect interest in contracts or proposed contracts with the bank.

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 37 to the financial statements.

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 standardisation and to optimise 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 on 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 42 to 49 to this Annual Report.

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 page 78. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 77 of this Annual Report.

Corporate Governance

In the Management to 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 50 to 64 for which the Board has obtained a Report of Factual Findings 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 31 December 2017.

By the Order of the Board,



Secretary to the Board

BOARD AUDIT COMMITTEE (BAC) REPORT

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provisions of the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed specialised banks in Sri Lanka. Proceedings of BAC are based on the charter adopted by the Board of Directors for the functioning of the Committee.

The Board of Directors periodically reviews and authorises the Board Audit Committee Charter for the purposes of delegating authority, scope and responsibilities of the BAC. With its delegated powers, BAC determines the scope and duties of Internal Audit functions in accordance with Internal Audit Charter.

Composition of The Committee

The BAC comprises the following Non-Executive Directors, who conduct Committee proceedings in accordance with the Board Audit Committee Charter approved by the Board of Directors:

1. Mr. A. R. Desapriya – (Chairman)
2. Ms. Shamara Herat – (Director)
3. Mr. J. K. Gamanayaka – Director)
4. Mr. A. H. M. Riyaz – (Director) (Resigned on 3 July 2017)
5. Mr. M. C. M. Muneer – (Director) (Appointed from 25 July 2017)

General Manager/CEO, Head of Audit, Chief Risk Officer, Chief Financial Officer and Senior Assistant General Manager (Compliance) and a representative of the Auditor General attend the BAC meetings when invited by the BAC. Relevant officers from business units also are invited to attend certain meetings in order to make presentations on matters designed to enhance BAC awareness on key issues and developments of business, which are relevant to The Board Audit Committee in the performance of its role. The Board Secretary functions as the secretary to the BAC.

Duties and Role of the Board Audit Committee

The BAC is responsible for –

- Reviewing of financial information of the Bank, in order to monitor integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure.
- Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices.
- Reviewing of accounting and financial reporting, risk management processes and regulatory compliance.
- Reviewing of financial statements (including quarterly statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies, which are consistently applied.
- Reviewing of internal audit reports and coordinating with corporate management in taking precautionary procedures to obviate violations, frauds and errors.

- Assessing independence of monitoring performance and functions of The Internal Audit Department including overseeing the appointment of the Head of Auditor.
- Reviewing of effectiveness of the Bank's system of internal control over financial reporting to provide reasonable assurance regarding the reliability of Financial Statements for external purposes in accordance with applicable accounting standards and regulatory requirements.
- Engaging independent advisors on specialised functions where it deems necessary.

Meetings

Meetings of the Committee are convened quarterly, in accordance with the regulations/guidelines for organisational corporate governance issued by the Central Bank of Sri Lanka. Five (05) Audit Committee meetings have been held during the year ended 31 December 2017.

Attendance of committee members is as follows:

Name of the committee member	Attendance
Mr. A. R. Desapriya	05/05
Ms. Shamara Herat	04/05
Mr. J. K. Gamanayaka	05/05
Mr. A. H. M. Riyaz (Resigned on 3 July 2017)	02/02
Mr. M. C. M. Muneer (Appointed from 25 July 2017)	02/03

According to the internal audit plan, during the year under review entire branch network and the Compliance Division, Finance Division, North Western Province Office and Hambantota District Office have been audited by The Internal Audit Division under the supervision and guidance of The Audit Committee. At the same time BAC has assisted the Board in ensuring that Annual Audited Financial Statement and Quarterly Financial Statements are prepared and published in accordance with the requirements prescribed by the supervisory and regulatory authorities and applicable accounting standards.

Furthermore, actions have already been taken for improving internal control system and means of mitigating frauds, errors and other loss events. The Board Audit Committee evaluates the Bank's sustainability, profitability and other related concerns. Arrangements have also been made to enhance knowledge and skills of Audit Staff.

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



A. R. Desapriya

Chairman
Board Audit Committee

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE (BHRRC), BOARD NOMINATION COMMITTEE (BNC) REPORT

Introduction

Regional Development Bank (RDB) is required to establish Board Subcommittees to report directly to the Board of Directors in terms of the corporate governance practices and the Directions of Central Bank of Sri Lanka (CBSL) as set out in the Directions 3 (6) issued to Licensed Specialised Banks. In terms of its Section 3 (6) (iii) and (iv). Two separate committees were formed with the composition of the Board of Directors, namely Board Human Resources and Remuneration Committee and Board Nomination Committee. Responsibilities were assigned to the two committees within the scope defined as per CBSL directions.

BHRRC and BNC functioned as two separate committees as per defined Terms of Reference (TOR) with effect from 27 March 2017.

Scope

The scope of BHRRC includes:

- Determining the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank.
- Setting goals and targets and evaluating the performance of the Directors, CEO and the KMPs and evaluating the performance of the CEO and Key Management Personnel against the set targets and goals periodically.
- Guiding and advising to devise human resource strategies and policies linked with business and functional strategies of the Bank.

The scope of Nomination Committee includes:

- Defining qualifications, experience and key attributes required for appointment or promotion to the post of CEO and the KMPs.
- Implementing a procedure to select/appoint new members to the Board Subcommittees, CEO and KMPs or reconsider their reappointment and the extension of the CEO and the KMPs on the performance and contribution made by them towards overall objectives of the Bank.
- Ensuring that Directors 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.
- Considering and recommending from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

These two committees make their recommendations for approval of the Board of Directors.

Composition and Meetings

The two committees were headed by the Chairman of the Bank.

Three (03) Board Nomination Committee meetings and seven (07) Board Human Resources and Remuneration Committee meetings were held during the year ended 31 December 2017.

Head of HRD and Administration shall present all papers through General Manager with background and other related information and analysis to enable Committee members to arrive at decisions.

The Secretary to these committees is the Secretary to the Board. Division or Unit heads are invited for opinions on their respective functions as and when required.

The General Manager/CEO shall be present at all meetings of the BHRRC whereas GM/CEO shall be present at Nomination Committee meetings by invitation.

The quorum for a meeting of each Committee shall be two Independent Non-Executive Directors.

The Committee shall meet at least quarterly.

The Committee members were changed during the year and attendance details are as follows:

Board Human Resources and Remuneration Committee Members

Name	Attended/Eligible
Mr. Prasanna Premaratna – Chairman	7/7
Ms. Shamara Herat – Non-Executive Director	6/7
Mr. Niranjana Arulpragasam – Non-Executive Director (Resigned on 25 September 2017)	1/5
Mr. M. C. M. Muneer – Non-Executive Director (Appointed w.e.f. 19 October 2017)	1/1
Mr. W. A. P. Abeyasinghe – Working Director	6/7
Mr. T. A. Ariyapala – GM/CEO of the Bank	
Mr. K. M. J. S. Karunathilaka – Head of HRD and Administration	
Ms R. M. T. Rajapakse – Secretary to the Committee	

Board Nomination Committee Members

Name	Attended/Eligible
Mr. Prasanna Premaratna – Chairman	3/3
Ms. Shamara Herat – Non-Executive Director	2/3
Mr. Niranjana Arulpragasam – Non-Executive Director (Resigned on 25 September 2017)	1/1
Mr. M. C. M. Muneer – Non-Executive Director (Appointed w.e.f. 19 October 2017)	1/1
Mr. W. A. P. Abeyasinghe – Working Director	3/3
Ms. R. M. T. Rajapakse – Secretary to the Committee	

Summary of Activities

In October 2017 the Board considered the need for reconstitution of the two committees in view of the resignation of Mr. Niranjana Arulpragasam, Director who was a member of the BNC and the BHRRC. Accordingly, it was decided to appoint Ms. Shamara Herat and Mr. M. C. M. Muneer to the BNC and also to appoint Mr. Muneer to BHRRC to replace the outgoing Director.

The Secretary to the Committees submit recommendations with the minutes of the meetings of BHRRC and BNC for the approval of the Board of Directors. The Board approved the recommendations made by the BHRRC and BNC during the period under review.



Prasanna Premaratne

Chairman
Board Human Resources, Remuneration Committee
Nomination Committee

BOARD IT STEERING COMMITTEE (BITSC) REPORT

Scope

The BITSC has been established to ensure the Degree of reliance on information and communication technology and to assist the Bank with the growing demands of IT governance.

The Committee is responsible to set overall strategies for Information and Communication Technologies and recommend to the Board of Directors the implementation of Information and Communication Technology activities of the Bank to improve customer services and internal efficiency.

Composition of the Committee

The BITSC approved by the Board of Directors of Regional Development Bank (RDB) comprises the following members:

Committee Members

1. Mr. Mukthar Marikkar – Chairman of the Committee/Director (from 1 January 2017 to 21 July 2017).
2. Mr. K. B. Rajapakse – Member/Director (from 1 January 2017 to 31 July 2017).
– Chairman of the Committee from 25 July 2017.
3. Mr. Niranjana Arulpragasam – Member/Director (from 1 January 2017 to 25 September 2017).
4. Mr. M. J. P. Salgado – Member/Director (from 1 March 2017).
5. Mr. M. C. M. Muneer – Member/Director (from 28 November 2017).
6. Mr. K. A. S. Kuruwitaarachchi – Member/Director (from 25 July 2017 to 31 October 2017).

General Manager/Chief Executive Officer, Deputy General Manager/Chief Information Officer and Chief Risk Officer are members of the Corporate Management who attend to these meetings as invitees. Any officers of the Bank can also attend the meetings by invitation.

The quorum for the meeting of BITSC is two members. BITSC has conducted four meetings during 2017 thus meeting the regulatory requirements.



K. B. Rajapakse

Chairman
Board IT Steering Committee (BITSC)

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC) REPORT

The Integrated Risk Management Committee of the Bank which was established to ensure the risk management framework has provided an integrated and adequate coverage over all risks faced by Regional Development Bank. RDB Integrated Risk Management Committee was established based on the CBSL Guidelines. The establishment of Integrated Risk Management Committee refers to monitor the risk profile of the Bank and implementation of integrated risk management for control and mitigate the risk factors.

Main Duties of the Integrated Risk Management Committee

To give recommendation to the Board of Directors, which at least includes:

- Development of an integrated risk management policy.
- Improvements on the integrated risk management policy based on evaluation results.

Composition of the Committee

The IRMC approved by the Board of Directors of RDB comprises the following members of which three are Non-Executive members which is in line with the statutory requirements imposed by the Central Bank of Sri Lanka:

1. Mr. K. B. Rajapakse – Chairman of the Committee/ Non-Executive Director
2. Mr. K. B. S. Bandara – Chairman of the Committee Up to March 2017/Non-Executive Director
3. Mr. A. H. M. Riyaz – Member Up to July 2017/ Non-Executive Director
4. Mr. M. J. P. Salgado – Member since July 2017/ Non-Executive Director
5. Mr. M. C. M. Muneer – Member Since July 2017/ Non-Executive Director
6. Mr. W. A. P. Abeysinghe – Member/Working Director
7. Mr. T.A. Ariyapala – GM/CEO
8. Mr. T. Kuhan – Chief Risk Officer

Deputy General Manager – Credit, Senior Assistant General Manager – Operations and Chief Financial Officer attended the meetings by invitation during 2017.

The brief profiles of the members of the Committee representing the Board of Directors and the Corporate Management are given on pages 30 to 35 of this Annual Report. The Secretary to the Board is also the Secretary to the Committee as well.

Terms of Reference

The Board approved Terms of Reference of the Committee is indicated below:

1. To ensure that the Bank has a comprehensive risk management framework, appropriate compliance and system in place.
2. To assess all risk types, including but not limited to: credit, liquidity, operational and strategic and reputational risks to the Bank, appropriate risk indicators and Management information.
3. To ensure that risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risk 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 Basel III road map implementation and regulatory guidelines. We draw your attention to the Risk Management Section of the report (pages 42 to 49) which extensively covers the level of adherence against the Terms of Reference, achievements during the year and actions taken to mitigate key risks.

Meetings

The Committee has met four times during the year and complied with the minimum requirement specified by Central Bank of Sri Lanka Guidelines.

Reporting

The proceedings of the IRMC meetings are reported to the Board through submission of the meeting minutes. Report on Risk Profile of the Bank and other specific matters are submitted separately for the Board of Directors approval on recommendation of the IRMC. The recommendations made by the IRMC during the year under review were approved by the Board of Directors.



K. B. Rajapakse

Chairman
Integrated Risk Management Committee

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements of the Pradeshiya Sanwardhana Bank as at 31 December 2017 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. Listing Rules of the Colombo Stock Exchange;
4. Banking Act No. 30 of 1988 and amendments thereto;
5. Directions, circulars and guidelines issued to Licensed Specialised Banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka on corporate governance; and
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 Specialised 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 1 January 2012. The Accounting Policies are consistently applied by the Bank. Comparative information has been re-stated 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, Income Statement 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 recognised 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 page 81 of the Annual 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 70 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 36.1 of the financial statements section of the Annual 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/CEO

5 March 2018



P. S. Edirisuriya
Chief Financial Officer

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

This statement of the Board of Directors sets out the responsibilities of the Directors relating to the Financial Reporting Framework of the Bank. The responsibilities of the Auditors in relation to the financial statements are set out in the Report of the Auditors on page 81 of the Annual Report.

Financial Statements

The Directors of the Bank are responsible for ensuring that the Bank keeps proper books of accounts of all the transactions and prepare financial statements in accordance with Generally Accepted Accounting Principles and Sri Lanka Accounting Standards (SLFRS/LKAS) that give a true and fair view of the state of affairs of the Bank at the end of each financial year and in compliance with the relevant statutory/regulatory requirements. The financial statements comprise of income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, Significant Accounting Policies and Notes there to.

The Directors acknowledge that in the preparation of financial statements for the ended 31 December 2017, presented in the Annual Report, the most appropriate accounting policies have been used, applied consistently and adequately disclosed. Reasonable and prudent judgements have been made where necessary in order to ensure the proper reflection of the form and substance of transaction in the process of preparing financial statements.

The financial statements for the year ended 31 December 2017 are in conformity with the requirements of the Pradeshiya Sanwardhana Bank Act No. 44 of 2008, Banking Act No. 30 of 1988 and amendments thereto, Sri Lanka Accounting Standards and other statutory/regulatory requirements. These financial statements reflects true and fair view of the state of affairs of the Bank as at 31 December 2017.

Going Concern

The Directors are of the view that the Bank has adequate resources to continue in business for the foreseeable future and accordingly, continued to adopt going concern basis in preparing the financial statements.

Internal Control, Risk Management and Compliance

The Directors are also responsible for the system of internal financial controls and risk management and paying significant attention on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement. Whilst Emphasising inherent risks that cannot be completely eliminated, the Bank has taken possible steps to mitigate them by ensuring various systems and other controls. A report by the Directors on the Bank's internal control

mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on page 81 of the Annual Report.

The Directors and Management have put in place risk management policies and guidelines. Board Sub Committees have been established to monitor and manage material risks and arrangements been made to submit reports on risk to the Integrated Risk Management Committee on periodic basis for discussion.

Compliance with applicable laws, regulations, rules, directives and guidelines are monitored by Compliance Division and is reported to the Integrated Risk Management Committee and Board of Directors periodically.

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, play a significant role in strengthening the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on page 70 and 74 respectively of the Annual Report.

The Auditor General has been made available with all records of the Bank including the financial statements by the Board of Directors and been provided every opportunity to undertake the inspections they considered appropriate.

Compliance

The Directors, to the best of their knowledge and belief, are satisfied that all taxes payable by the Bank and all other known statutory dues to the Government and to the other relevant regulatory and statutory authorities, which were due and payable by the Bank as at the end of financial year, have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board



Secretary to the Board

AUDITOR GENERAL'S REPORT ON STATEMENT ON INTERNAL CONTROL

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Regional Development Bank Annual Report 2017



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මගේ අංකය
எனது இல.
My No. }

BAF/F/RDB/IC/2017

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

// April 2018

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 2017.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, 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 risk 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 aspect 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.

H. M. Gamini Wijesinghe
Auditor General

DIRECTORS' STATEMENT ON INTERNAL CONTROL

Requirement

This report has been issued in line with the Banking Act Direction No. 12 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 and acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objective 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 internal control process is reviewed periodically 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 subcommittees of Audit, Credit and Integrated Risk Management have been established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Board has approved an Operational Manual in related to the financial and other controls of the Bank in its all transactions. The procedures laid down in the manual have been communicated to all members of the staff.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the

internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report.

- 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 the periodic meetings.
- The Audit Committee of the Bank review internal control issues identified by the 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 adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The process and procedures initially applied to adopt the aforementioned accounting standards were further strengthened during the year 2017 based on the feedback received from external Auditors, regulators and the Board Audit Committee. The bank will continue to further strengthen the process on impairment of Loans and Advances, financial statement disclosures and 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.

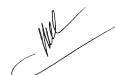
Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on internal control for the year ended 31 December 2017 and are supposed to report to the Board whether anything 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.



A. R. Desapriya

Chairman
Audit Committee



Prasanna Premaratne

Chairman



W. A. Priyantha
Abeysinghe

Director

24 January 2018

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මගේ අංකය
எனது இல.
My No.

BAF/F/RDB/1/17/21

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date April 2018

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 2017 in terms of Section 14 (2) (C) of the Finance Act No. 38 of 1971

The audit of financial statements of the Pradeshiya Sanwardhana Bank ("the Bank") for the year ended 31 December 2017 comprising of the statement of financial position as at 31 December 2017 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, 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.

Board's Responsibility for the Financial Statements

Board of Directors ("the Board") 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 Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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. 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 of 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 Board, as well as evaluating the overall presentation of the financial statements.

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

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 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements had been presented the information required by the Banking Act, No. 30 of 1988 and subsequent amendments thereto.

Report to Parliament

My report to Parliament in pursuance of provisions in Articles 154 (6) of the Constitution will be table in due course.

H. M. Gamini Wijesinghe

Auditor General

INCOME STATEMENT

For the Year ended 31 December	Note	2017 Rs.	Bank 2016 Rs.
Gross income	5	22,016,079,277	15,744,336,598
Interest income		20,909,579,906	14,813,083,474
Interest expenses		(11,233,284,493)	(7,197,198,715)
Net interest income	6	9,676,295,413	7,615,884,759
Fee and commission income		1,101,825,405	905,636,508
Fee and commission expenses		(181,086,441)	(124,649,164)
Net fee and commission income	7	920,738,964	780,987,344
Net gain/(loss) from financial instruments at fair value through profit or loss	8	(7,700)	4,200
Other operating income (net)	9	4,673,967	25,616,616
Total operating income		10,601,700,644	8,422,492,919
Net impairment charges on loans and other receivables	10	(443,866,831)	29,110,255
Net operating income		10,157,833,813	8,451,603,174
Less – Operating Expenses			
Personnel expenses	11	(4,980,435,598)	(4,609,232,586)
Amortisation of intangible assets		(40,785,417)	(37,168,652)
Other expenses	12	(1,704,618,122)	(1,549,634,014)
Levy paid to general treasury		(125,000,000)	(125,000,000)
Operating profit before value added tax (VAT)		3,306,994,676	2,130,567,922
NBT		(131,325,757)	(107,482,813)
Value added tax (VAT) on financial services		(984,943,174)	(767,485,246)
Profit before tax		2,190,725,745	1,255,599,863
Tax expenses	13	(906,796,239)	(614,311,651)
Profit for the year		1,283,929,506	641,288,212
Earnings per share			
Earnings per share: Basic	14	9.23	4.68

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 87 to 134. The Report of the Auditor General is given on page 81.

STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December	Note	2017 Rs.	Bank 2016 Rs.
Profit for the year		1,283,929,506	641,288,212
Other comprehensive income/(expenses)			
Items that will not be reclassified to Profit or Loss			
Actuarial gain/(loss) on defined benefit plan	31.3	(236,286,599)	(170,393,439)
Deferred tax effect on above	24.1	66,160,248	47,710,163
Total other comprehensive income for the year, net of taxes		(170,126,351)	(122,683,276)
Total comprehensive income for the year		1,113,803,154	518,604,936

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 87 to 134. The Report of the Auditor General is given on page 81.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2017 Rs.	Bank 2016 Rs.
Assets			
Cash and cash equivalents	16	482,919,655	428,697,741
Sri Lanka Government Securities	17	2,512,362,500	–
Balances with banks	18	27,702,520,133	18,979,572,034
Placements with banks	19	6,682,475,675	1,682,030,495
Financial assets – held for trading	20	196,500	204,200
Loans and receivables from other customers	21	127,508,812,394	105,653,630,944
Financial Investments – held-to-maturity	22	516,934,932	516,741,803
Intangible assets	23	37,842,762	58,025,552
Deferred tax assets	24	343,878,698	217,649,611
Other assets	25	2,266,365,532	2,191,034,111
Property, plant and equipment	26	1,204,892,835	1,186,397,657
Total assets		169,259,201,615	130,913,984,148
Liabilities			
Due to banks	27	10,729,312,134	11,765,493,022
Due to other customers	28	139,827,364,797	107,031,720,855
Debt issued and other borrowed funds	29	4,707,852,534	2,708,377,456
Other liabilities	30	2,686,028,770	2,130,544,286
Retirement benefit obligation	31	1,695,894,720	1,278,903,024
Total liabilities		159,646,452,955	124,915,038,643
Equity			
Stated capital/assigned capital	32	3,870,936,931	1,370,936,931
Statutory reserve fund	33	663,652,150	599,455,675
Retained earnings	34	1,716,908,747	988,284,444
Other reserves	35	3,361,250,831	3,040,268,455
Total shareholders' equity		9,612,748,660	5,998,945,505
Total equity and liabilities		169,259,201,615	130,913,984,148
Contingent liabilities and commitments	36	406,561,172	453,555,712

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 87 to 134. The Report of the Auditor General is given on page 81.

I certify that the financial statements have been prepared in compliance with the requirements of the Banking Act No. 30 of 1988 and the Pradeshiya Sanwardhana Banking Act No. 41 of 2008.



P. S. Edirisuriya
Chief Financial Officer



T. A. Ariyapala
CEO/General Manager

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 Premaratne
Chairman



W. A. P. Abeyasinghe
Director

2 March 2018
Colombo.

For the Year ended 31 December	Note	2017 Rs.	Bank 2016 Rs.
Cash Flow from Operating Activities			
Profit before tax		3,306,994,676	2,130,567,922
Adjustment for:			
Non-cash items included in profit before tax	39	1,077,334,374	423,360,531
Changes in operating assets	40	(24,958,618,433)	(19,002,958,980)
Changes in operating liabilities	41	34,542,627,172	21,615,023,501
Others reclassification	42	30,154	(2,247)
Contribution paid to defined benefit plans		(47,155,929)	(22,372,294)
Tax paid		(1,990,669,221)	(1,308,145,965)
Net cash generated from/(used in) operating activities		11,930,542,793	3,835,472,468
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	26	(303,997,879)	(385,493,382)
Net purchase of intangible assets	23	(20,602,627)	(16,378,229)
Proceeds from the sale of property, plant and equipment		1,017,097	22,705,687
Net cash (used in)/from investing activities		(323,583,410)	(379,165,924)
Cash Flows from Financing Activities			
Net proceeds from the issue of ordinary share capital	32	2,500,000,000	–
Net proceeds from the issue of subordinate debt	29	2,000,000,000	–
Interest paid on debentures		(460,163,717)	(209,554,246)
Dividend paid		–	(137,093,693)
Net cash from financing activities		4,039,836,283	(346,647,939)
Net increase/(decrease) in cash and cash equivalents		15,646,795,667	3,109,658,605
Cash and cash equivalents at the beginning of the year		19,056,079,201	15,946,420,596
Cash and cash at the end of the year		34,702,874,868	19,056,079,201
Reconciliation of Cash and Cash Equivalents			
Cash and balances with Central Bank	16	482,919,655	428,697,741
Favourable balances with banks	18/19	34,384,995,809	20,661,602,529
Unfavourable balances with banks	27	(165,040,596)	(2,034,221,069)
		34,702,874,868	19,056,079,201

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 87 to 134. The Report of the Auditor General is given on page 81.

STATEMENT OF CHANGES IN EQUITY

	Bank					
	Stated Capital Rs.	Statutory Reserve Fund Rs.	Special Reserve Fund Rs.	General Reserve Fund Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 January 2016	1,370,936,931	567,391,264	421,781,592	2,458,164,810	799,159,665	5,617,434,262
Total Comprehensive Income for the year						
Profit for the year	–	–	–	–	641,288,212	641,288,212
Other comprehensive income	–	–	–	–	(122,683,276)	(122,683,276)
Total comprehensive income for the year	–	–	–	–	518,604,936	518,604,936
Transactions with Equity Holders, Recognised Directly in Equity						
Transferred to statutory reserve fund	–	32,064,411	–	–	(32,064,411)	–
Transferred to special reserve fund	–	–	32,064,411	–	(32,064,411)	–
Transferred to general reserve fund	–	–	–	128,257,642	(128,257,642)	–
Dividend 2015	–	–	–	–	(137,093,693)	(137,093,693)
Transactions with equity holders, recognised directly in equity	–	32,064,411	32,064,411	128,257,642	(329,480,157)	(137,093,693)
Balance as at 31 December 2016	1,370,936,931	599,455,675	453,846,003	2,586,422,452	988,284,444	5,998,945,505
Balance as at 1 January 2017	1,370,936,931	599,455,675	453,846,003	2,586,422,452	988,284,444	5,998,945,505
Total Comprehensive Income for the Year						
Profit for the year	–	–	–	–	1,283,929,506	1,283,929,506
Other comprehensive income	–	–	–	–	(170,126,351)	(170,126,351)
Total comprehensive income for the year	–	–	–	–	2,102,087,598	7,112,748,659
Transactions with Equity Holders, Recognised Directly in Equity						
Issued stated capital	2,500,000,000	–	–	–	–	2,500,000,000
Transferred to statutory reserve fund	–	64,196,475	–	–	(64,196,475)	–
Transferred to special reserve fund	–	–	64,196,475	–	(64,196,475)	–
Transferred to general reserve fund	–	–	–	256,785,901	(256,785,901)	–
Transactions with equity holders, recognised directly in equity	2,500,000,000	64,196,475	64,196,475	256,785,901	(385,178,851)	2,500,000,000
Balance as at 31 December 2017	3,870,936,931	663,652,150	518,042,478	2,843,208,353	1,716,908,747	9,612,748,660

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 87 to 134. The Report of the Auditor General is given on page 81.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

1.1 General

Pradeshiya Sanwardhana Bank 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 Pradeshiya Sanwardhana Bank. The Bank was established as a statutory body under the Pradeshiya 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 2017 was 3,361 (3,396 as at 31 December 2016).

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 Microfinance Institutions and Small and Medium Enterprises.

There were no significant changes in the nature of the principal activities of the Bank during the financial year under review.

1.3. Directors Responsibility for 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 Pradeshiya Sanwardhana Bank Act No. 41 of 2008 and its amendments, Banking Act No. 30 of 1988 and its amendments thereto and Sri Lanka Accounting Standards.

1.4 Approval of Financial Statements by Board of Directors

The financial statements of the Bank for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 02 March 2018.

2. Accounting Policies

2.1 Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for the following material items:

- The liability for defined benefit obligation are actuarially valued and recognised as the present value of the defined benefit obligation.
- Financial assets held for trading are measured at fair value.

2.1.1 Statement of Compliance

The Financial Statements, as at 31 December 2017 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Banking Act No. 30 of 1988 and amendments thereto and Pradeshiya Sanwardhana Bank Act No. 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008 and amendments thereto.

2.1.2 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 Pradeshiya Sanwardhana Bank operates. Financial information presented in Sri Lanka Rupees has been rounded to the nearest rupees unless indicated otherwise.

2.1.3 Presentation of Financial Statements

The items of the Bank presented in their statement 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 44.

2.1.4 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards – LKAS 1 – “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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and 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.

2.1.5 Statement of Cash Flow

The cash flow statement has been prepared by using The Indirect Method in accordance with the Sri Lanka Accounting Standard – LKAS 7 – “Statement of Cash Flows”. Cash and cash equivalents comprise cash in hand and 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.

Details of cash and cash equivalents are given in Note 16, Note 18 and Note 19 to financial statements.

Cash and cash equivalents include cash in hand, balances with banks, money at call and short notice net of unfavourable balances.

2.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of financial statements of the Bank in conformity with Sri Lanka Accounting Standards requires the management to make judgements, 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 judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements of the Bank are as follows:

2.2.1 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, the 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.

2.2.2 Impairment Losses on Loans and Advances

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor’s financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

The Bank review its individually significant loans and advances more than Rs. 2 million as per the Board decisions, at each reporting date commencing from 31 December 2017 to assess whether an impairment loss should be recorded in the statement of profit or loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

All loans and advances which are more than Rs. 2 million have been assessed individually and found not impaired and all individually insignificant loans and advances are then assessed collectively. A collective component of the total allowance is established for groups of homogeneous loans that are not considered individually significant.

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

The Bank uses net flow rate method to establish historical loss experience. This methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

The impairment loss on loans and advances is disclosed in more detail in Note 21.

2.2.3 Taxation

The Bank is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, which results in adjustments to tax income and expenses and deferred tax amounts that were initially recorded in the financial statements Note 13 and Note 24.

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. Judgement 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.

2.2.4 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.

2.2.5 Useful Life-Time of the Property and Equipment

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

2.2.6 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.

2.2.7 Fair Value of Financial Instruments

When the fair value of financial assets and financial liabilities, recorded in the statement of financial position cannot be derived from active markets, they are determined using variety of valuation techniques that include the use of mathematical models. The inputs of these models are taken from observable markets where possible, however if such data are not available, a degree of judgment is exercised in establishing fair values which minimize the effect of use of unobservable inputs.

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 Financial Instruments – Initial Recognition and Measurement

3.1.1 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.

3.1.2 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 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 income statement.

3.1.3 Subsequent Measurement of Financial Assets

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 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 recognised 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.

3.1.3.2 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.

3.1.3.3 Loans and Receivables to Customers and Banks

Loans and receivables to customers and banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and:

- Bank does not intend to sell immediately or in the near term.

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

3.1.4 Non-Derivative Financial Liabilities

Other financial liabilities are initially measured at fair value less any directly attributable transaction costs.

3.1.4.1 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.

3.1.5 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.

3.1.6 De-recognition of Financial Assets and Financial Liabilities

3.1.6.1 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 contractual rights to receive cash flows from the asset expire, or
- It refers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred, or
- The Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial 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.

3.1.6.2 Financial Liabilities

A financial liability is derecognised when the contractual 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 de recognition 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.

3.1.7 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.

Objective 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.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans

and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impaired losses are recognised in income statement and reflected in an allowance account against loans and receivables and held-to-maturity securities.

3.1.8 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.

3.1.9 Offsetting Financial Instruments

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

3.2 Property, Plant and Equipment

Property, plant and equipment (PPE) are recognised if it is probable that future economic benefits associated with the assets will flow to the Bank and the cost of the asset can be reliably measured.

Items of PPE are 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 depreciation period or method, as appropriate, and treated as changes in accounting estimates.

The depreciation is recognised in the income statement on a 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
Partition and fittings	– 20% per annum

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank.

The carrying amount of an item of PPE 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/expense in the income statement in the year the asset is derecognised.

Capital Work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalisation.

3.3 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.

3.3.1 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 3.2.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

3.4 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. 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

3.5 Impairment of Non-Financial Assets

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in income statement.

Financial Guarantees

"Financial guarantees" are contracts that require the Bank to make specific payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.6 Pension Benefits

3.6.1 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 3.6.2 for the definition of defined contribution plan.

Gratuity

In compliance with the payment 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 31 December 2017 by Messrs Actuarial and Management Consultants (Pvt) Limited, a qualified actuary using the projected unit credit method.

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.

3.6.2 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 Bank 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%.

3.7 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.

3.8 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.

3.8.1 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 3.1.5) 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.

3.8.2 Fees 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:

3.8.2.1 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.

3.8.2.2 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.

3.8.3 Net Trading Income

Net trading income comprise gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and dividends.

3.8.4 Taxation

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.

3.8.4.1 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 13 to the financial statements.

3.8.4.2 Deferred Tax

Deferred tax is recognised 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 utilised.

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 realized 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.

3.8.4.3 Value Added Tax (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.

3.8.4.4 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 1 January 2014. NBT on the financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

3.8.4.5 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.

3.8.4.6 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.

3.9 Earnings Per Share (EPS)

The Bank presents Basic 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.

4. Standards Issued but not yet Effective as at 31 December 2017

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2017. Accordingly, these Accounting Standards have not been applied in the preparation of the financial statements for the year ended 31 December 2017.

SLFRS 9 – “Financial Instruments”

This Standard replaces the existing guidance in LKAS 39 – “Financial Instruments: Recognition and Measurement”. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 9.

SLFRS 16 – “Leases”

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 15 – “Revenue from Contracts with Customers”

This Standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 – “Revenue”, LKAS 11 – “Construction Contracts” and IFRIC 13 – “Customer Loyalty Programmes”. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 15.

5. Gross Income

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Total interest income (Note 6)	20,909,579,906	14,813,083,474
Fee and commission income (Note 7)	1,101,825,405	905,636,508
Other operating income (Note 9)	4,673,967	25,616,616
Total gross income	22,016,079,277	15,744,336,598

6. Net Interest Income

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Interest Income		
Sri Lanka Government Securities	180,961,704	846,266,432
Financial assets at fair value through profit or loss	1,086,885	395,508
Loans and receivables from banks	3,185,054,352	996,505,293
Loans and receivables from other customers	17,542,476,965	12,969,916,241
Total interest income	20,909,579,906	14,813,083,474
Interest Expenses		
Due to banks	(963,057,237)	(719,654,780)
Due to other customers	(10,270,227,255)	(6,477,543,935)
Total interest expenses	(11,233,284,493)	(7,197,198,715)
Net interest income	9,676,295,413	7,615,884,759

6.1 Notional Tax Credit on Secondary Market Transactions

In terms of the Section 137 of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, a company which derives 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 31 December 2017 and the notional tax credit amounts to Rs. 8,754,380/- (Rs. 95,909,155/-).

7. Net Fee and Commission Income

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Fee and commission income	1,101,825,405	905,636,508
Fee and commission expenses	(181,086,441)	(124,649,164)
Net fee and commission income	920,738,964	780,987,344
Comprising		
Loans	972,849,082	658,094,664
Trade and remittances	5,394,635	5,686,501
Deposits	(166,176,255)	(109,864,447)
Others	108,671,502	227,070,626
Net fee and commission income	920,738,964	780,987,344

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

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Change in fair value of financial assets at fair value through profit or loss (Note 20.1)	(7,700)	4,200
Total	(7,700)	4,200

9. Other Operating Income (Net)

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Gain/(Loss) on sale of property, plant and equipment	860,208	21,870,086
ATM income	3,134,123	2,988,096
Recoveries of NPL loans	679,636	758,434
Other operating income (net)	4,673,967	25,616,616

10. Impairment Charges for Loans and Other Receivables

For the Year ended 31 December	2017 Rs.	Bank 2015 (Restated) Rs.
Other customers collective impairment [Note 21 (B1)]	(294,227,267)	(37,740,600)
Other customers individual impairment [Note 21 (B2)]	(149,639,564)	66,850,855
Net impairment (charge)/reversal for loans and other losses	(443,866,831)	29,110,255

11. Personnel Expenses

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Salary and bonus	2,930,498,761	2,704,924,471
Contributions to defined benefit plans	227,861,027	158,784,525
Others	1,822,075,810	1,745,523,590
Total	4,980,435,598	4,609,232,586

12. Other Expenses

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Directors' emoluments	5,109,865	5,216,100
Auditors' remunerations	2,200,000	5,439,471
Professional and legal expenses	20,417,418	30,780,048
Depreciation of property, plant and equipment	285,315,658	233,177,270
Office administration and establishment expenses	1,166,027,818	1,057,342,936
Computerisation expenses	86,555,333	108,904,520
Business tax expenses	549,416	504,638
Other commission paid	37,489	946,356
Savings insurance fund	127,831,947	93,272,818
Crop insurance levy	7,157,696	6,999,504
Staff security deposits interest	3,384,653	2,674,101
Capital loss on pawning advance	30,828	4,376,252
Total	1,704,618,122	1,549,634,014

13. Tax Expenses

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Income Taxation		
Taxation based on profits for the year (Note 13.1)	978,574,649	634,005,130
(Over)/Under provision in respect of 2016/2017 year [Note 13 (A.i)]	(4,342,727)	(21,625,231)
(Over)/Under provision in respect of 2013/2014 year [Note 13 (A.ii)]	(7,366,844)	237,127
Origination/(Reversal) of temporary differences (Note 24.1)	(60,068,839)	1,694,625
Total	906,796,239	614,311,651

13.1 Reconciliation of Tax Expenses

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Profit/(loss) before tax	2,190,725,745	1,255,599,863
Add : Tax effect of expenses that are not deductible for tax purposes	1,834,351,789	1,466,843,261
(Less) : Tax effect of expenses that are deductible for tax purposes	(530,168,074)	(458,139,089)
: Income and profit exempt from income tax	—	—
Taxable profit	3,494,909,460	2,264,304,035
Income tax for the period (taxable profit @ applicable tax rate)	28%	28%
Tax expense for the period	978,574,649	634,005,130

A. (Over)/Under Provision in Respect of Previous Year

A.i 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 2016/2017.

A.ii During the 2013/2014 and 2014/2015 period tax payable amount corrected as per the Department of Inland Revenue and finalised the said period income tax liability.

14. Earnings Per Share

In accordance with the Sri Lanka Accounting Standard – LKAS – 33 “Earnings per share”, basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

For the Year ended 31 December	Bank	
	2017 Rs.	2016 Rs.
Net profit attributable to ordinary equity holders of the Bank	1,283,929,506	641,288,212
Net profit attributable to ordinary equity holders	1,283,929,506	641,288,212
	Numbers	Numbers
Weighted average number of ordinary shares in issue	139,148,488	137,093,693
Basic earnings per ordinary share (Rs.)	9.23	4.68

15. Analysis of Financial Instruments by Measurement Basis

A. Bank – Current Year (2017)

As at 31 December	FVTPL Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Total Rs.
Assets					
Cash and cash equivalents	–	–	482,919,655	–	482,919,655
Sri Lanka Government Securities	–	2,512,362,500	–	–	2,512,362,500
Balances with banks	–	–	27,702,520,133	–	27,702,520,133
Placements with banks	–	–	6,682,475,675	–	6,682,475,675
Financial assets held for trading	196,500	–	–	–	196,500
Loans and receivables from other customers	–	–	127,508,812,394	–	127,508,812,394
Financial Investments – held to maturity	–	516,934,932	–	–	516,934,932
Other assets	–	–	1,203,616,689	–	1,203,616,689
Total financial assets	196,500	3,029,297,432	163,580,344,547	–	166,609,838,478

B. Bank – Current Year (2017)

As at 31 December	Amortised Cost Rs.	Total Rs.
Liabilities		
Due to banks	10,729,312,134	10,729,312,134
Due to other customers	139,827,364,797	139,827,364,797
Debt issued and other borrowed funds	4,707,852,534	4,707,852,534
Other liabilities	2,684,596,813	2,684,596,813
Total financial liabilities	157,949,126,279	157,949,126,279

A. Bank – Previous Year (2016)

As at 31 December	FVTPL Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Total Rs.
Assets					
Cash and cash equivalents	–	–	428,697,741	–	428,697,741
Balances with banks	–	–	18,979,572,034	–	18,979,572,034
Placements with banks	–	–	1,682,030,495	–	1,682,030,495
Financial assets held for trading	204,200	–	–	–	204,200
Loans and receivables from other customers	–	–	105,653,630,944	–	105,653,630,944
Financial Investments – held to maturity	–	516,741,803	–	–	516,741,803
Other assets	–	–	1,036,497,573	–	1,036,497,573
Total financial assets	204,200	516,741,803	127,780,428,787	–	128,297,374,790

B. Bank – Previous Year (2016)

As at 31 December	Amortised Cost Rs.	Total Rs.
Liabilities		
Due to banks	11,765,493,022	11,765,493,022
Due to other customers	107,031,720,855	107,031,720,855
Debt issued and other borrowed funds	2,708,377,456	2,708,377,456
Other liabilities	2,111,181,490	2,111,181,490
Total financial liabilities	123,616,772,823	123,616,772,823

16. Cash and Cash Equivalents

As at 31 December	2017 Rs.	Bank 2016 Rs.
Cash in hand	482,919,655	428,697,741
Total	482,919,655	428,697,741

17. Sri Lanka Government Securities

As at 31 December	2017 Rs.	Bank 2016 Rs.
Treasury bills/bonds	2,512,362,500	–
Total	2,512,362,500	–

18. Balances with Banks

As at 31 December	2017 Rs.	Bank 2016 Rs.
Fixed deposit	27,613,144,979	18,913,418,549
Other bank balances	89,375,154	66,153,485
Total	27,702,520,133	18,979,572,034

19. Placements with Banks

As at 31 December	2017 Rs.	Bank 2016 Rs.
Money market placements	6,682,475,675	1,682,030,495
Total	6,682,475,675	1,682,030,495

20. Financial Assets at Fair Value through Profit or Loss

Equity securities (Note 20.1)	196,500	204,200
	196,500	204,200

20.1

Balance as at 1 January 2017	204,200	200,000
Less: Disposal of investment	–	–
Less: Unrealised gain/(loss) on change in fair value	–	–
Change in fair value during the year	(7,700)	4,200
Balance as at 31 December 2017	196,500	204,200

20.2 Equity Securities

	No. of Shares	2017 Cost of Investment Rs.	Market Value Rs.	No. of Shares	2016 Cost of Investment Rs.	Market Value Rs.
People's Merchant Bank PLC	600	12,000	7,500	600	12,000	10,200
Ceylinco Seylan Development Limited	10,000	150,000	139,000	10,000	150,000	144,000
CRIB	50,000	50,000	50,000	50,000	50,000	50,000
		212,000	196,500		212,000	204,200

21. Loans and Receivables from Other Customers

As at 31 December	2017 Rs.	Bank 2016 Rs.
Gross loans and receivables	130,324,845,514	108,102,759,708
(Less): Zero rate loan fair value adjustment	(106,515,708)	(159,863,434)
	130,218,329,805	107,942,896,274
(Less): Staff loan fair value adjustment	(745,241,375)	(760,806,772)
	129,473,088,430	107,182,089,502
(Less): Collective impairment charges	(1,790,452,774)	(1,504,274,860)
(Less): Individual impairment charges	(173,823,262)	(24,183,698)
Net loans and receivables from other customers	127,508,812,394	105,653,630,944

A. Analysis

As at 31 December	2017 Rs.	Bank 2016 Rs.
By Product		
Pawning	9,511,754,589	7,873,700,312
Staff loans	3,500,798,223	3,193,923,358
Short term	7,729,591,786	6,211,115,500
Long term	107,601,393,581	89,526,857,771
Interest receivable on loans and advances	1,981,307,335	1,297,162,767
Gross total	130,324,845,514	108,102,759,708
By Currency		
Sri Lankan Rupee	130,324,845,514	108,102,759,708
Gross total	130,324,845,514	108,102,759,708
By Industry		
Agriculture and fishing	30,865,590,362	23,117,832,251
Manufacturing	21,349,483,377	16,608,806,781
Transport	336,310,452	374,428,761
Construction/housing	31,981,747,151	34,469,374,843
Traders	20,323,499,280	13,813,538,095
Others (consumptions/against deposit/staff/tourism)	23,486,907,556	18,421,616,210
Interest receivable on loans and advances	1,981,307,335	1,297,162,767
Gross total	130,324,845,514	108,102,759,708
By CBSL		
Performing	126,133,962,706	105,052,762,334
Special mention	985,984,132	491,778,190
Substandard	884,759,741	543,842,613
Doubtful	533,000,080	403,879,938
Loss	1,787,138,855	1,610,496,633
Gross total	130,324,845,514	108,102,759,708

B. Movements of Individual and Collective Impairment During the Year

B.1 Collective Loan Impairment

As at 31 December	2017 Rs.	Bank 2016 Rs.
Opening balance as at 1 January	1,504,274,860	1,533,034,292
Charge/(write-back) to income statement (Note 10)	294,227,267	37,740,600
Recoveries during the year	—	—
Write-offs	—	(56,124,907)
Other movements	(8,049,353)	(10,375,125)
Closing balance as at 31 December	1,790,452,774	1,504,274,860

Total Collective Impairment

The following impairment provisions were estimated based on three years historical data.

However, the impairment provision is recognised net of the funds available in the Special Reserve Fund (created to provide for bad and doubtful debts of the Bank as per the Section 23 of Pradeshiya Sanwardhana Bank Act No. 41 of 2008) as disclosed below:

	2017 Rs.	2016 Rs.
Collective impairment recognised on loans and receivables (Note 21.B.1)	1,790,452,774	1,504,274,860
Collective impairment not recognised	518,042,478	453,846,003
	2,308,495,253	1,958,120,863

B.2 Individual Loan Impairment

As at 31 December	2017 Rs.	Bank 2016 Rs.
Opening balance as at 1 January	24,183,698	91,034,553
Charge/(write-back) to income statement (Note 10)	149,639,564	(66,850,855)
Closing balance as at 31 December	173,823,262	24,183,698

22. Financial Investments – Held to Maturity

As at 31 December	2017 Rs.	Bank 2016 Rs.
Debt securities – Debentures	516,934,932	516,741,803
Total	516,934,932	516,741,803

	2017			2016		
	No. of Debentures	Cost of Investment Rs.	Amortised Cost Rs.	No. of Debentures	Cost of Investment Rs.	Amortised Cost Rs.
Commercial Bank of Ceylon PLC	5,000,000	500,000,000	516,934,932	5,000,000	500,000,000	516,741,803
Total		500,000,000	516,934,932		500,000,000	516,741,803

23. Intangible Assets

As at 31 December	2017 Rs.	Bank 2016 Rs.
Computer Software		
Opening balance as at 1 January	157,437,556	140,809,327
Additions	20,602,627	16,378,229
Reclassification adjustments	–	250,000
Closing balance as at 31 December	178,040,183	157,437,556
(Less): Amortisation		
Opening balance as at 1 January	99,412,004	61,993,352
Charge for the year	40,785,417	37,168,652
Reclassification adjustments	–	250,000
Closing balance as at 31 December	140,197,422	99,412,004
Net book value	37,842,762	58,025,552

24. Deferred Tax Assets/Liabilities

As at 31 December	2017 Rs.	2016 Rs.
Deferred tax asset	(474,850,522)	(358,092,847)
Deferred tax liability	130,971,824	140,443,236
Net deferred tax (asset)/liability	(343,878,698)	(217,649,611)

Recognition of deferred tax asset of Rs. 474,850,522/- (2016 – Rs. 358,092,847/-) is based on management's profit forecasts (which are based on available evidence including historical levels of profitability), which indicates that it is probable that the Bank will have future taxable profits against which these assets can be used.

24.1 Amounts Recognised in the Income Statement

As at 31 December	2017 Rs.	2016 Rs.
Recognised in profit or loss	(60,068,839)	1,694,625
Recognised in other comprehensive income	(66,160,248)	(47,710,163)

24.2 Movement in Deferred Tax Balances

Bank	Net Balance as at 1 January 2017	Recognised in Profit or Loss	Recognised in OCI	Net Balance at 31 December 2017	Deferred Tax Asset	Deferred Tax Liability
Property, plant and equipment	140,443,236	(9,471,412)	–	130,971,824	–	130,971,824
Employee benefits	(358,092,847)	(50,597,427)	(66,160,248)	(474,850,522)	(474,850,522)	–
	(217,649,611)	(60,068,839)	(66,160,248)	(343,878,698)	(474,850,522)	130,971,824

Bank	Net Balance as at 1 January 2016	Recognised in Profit or Loss	Recognised in OCI	Net Balance at 31 December 2016	Deferred Tax Asset	Deferred Tax Liability
Property, plant and equipment	100,553,192	39,890,044	–	140,443,236	–	140,443,236
Employee benefits	(272,187,265)	(38,195,419)	(47,710,163)	(358,092,847)	(358,092,847)	–
	(171,634,073)	1,694,625	(47,710,163)	(217,649,611)	(358,092,847)	140,443,236

25. Other Assets

As at 31 December	2017 Rs.	Bank 2016 Rs.
Cost		
Receivables	1,139,239,311	757,855,201
Deposits and prepayments	82,637,319	184,184,695
Sundry debtors	61,292,955	46,893,119
Tax receivables	3,084,424	231,749,253
Others	980,111,523	970,351,843
Total	2,266,365,532	2,191,034,111

26. Property, Plant and Equipment

26.1 Property and Equipment

	Land and Buildings	Computer Hardware	Office, Equipment, Furniture and Fittings	Bank 2017 Motor Vehicles	Working Progress	Partition & Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2017 (Current Year) Cost/Fair value							
Opening balance at 1 January 2017	425,737,406	511,606,202	883,046,653	264,452,969	69,152,961	204,281,292	2,358,277,483
Additions	8,504,695	61,549,350	136,196,998	15,961,183	27,848,666	53,936,987	303,997,879
Disposals	–	(9,085,452)	(10,938,880)	(798,179)	–	(196,829)	(21,019,339)
Transfers during the year	40,577,976	–	–	–	(40,577,976)	–	–
Reclassification adjustments	–	(15,643)	346,206	–	–	(330,035)	528
Closing balance at 31 December 2017	474,820,077	564,054,457	1,008,650,979	279,615,973	56,423,650	257,691,416	2,641,256,552
Finance Lease							
Opening balance at 1 January 2017	–	–	–	103,924,400	–	–	103,924,400
Additions	–	–	–	–	–	–	–
Closing balance at 31 December 2017	–	–	–	103,924,400	–	–	103,924,400
(Less): Accumulated depreciation							
Opening balance at 1 January 2017	88,008,252	334,228,374	557,814,168	162,908,942	–	66,032,616	1,208,992,352
Charge for the year	18,733,133	68,256,202	99,891,894	30,280,633	–	47,481,646	264,643,508
Disposals	–	(9,074,492)	(10,890,058)	(798,169)	–	(99,731)	(20,862,450)
Reclassification adjustments	–	16,783	116,930	–	–	(103,031)	30,682
Closing balance at 31 December 2017	106,741,385	393,426,867	646,932,934	192,391,406	–	113,311,500	1,452,804,092
Finance Lease							
Opening balance at 1 January 2017	–	–	–	66,811,876	–	–	66,811,876
Charge for the year	–	–	–	20,672,150	–	–	20,672,150
Closing balance at 31 December 2017	–	–	–	87,484,026	–	–	87,484,026
(Less): Impairment charges	–	–	–	–	–	–	–
Net book value at 31 December 2017	368,078,692	170,627,590	361,718,044	103,664,941	56,423,650	144,379,917	1,204,892,835

	Land and Buildings	Computer, Hardware	Office, Equipment, Furniture and Fittings	Bank 2016 Motor Vehicles	Working Progress	Partition & Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016 (Previous Year) Cost/Fair value							
Opening balance at 1 January 2016	396,046,149	448,601,457	678,424,377	281,921,681	66,085,510	169,467,862	2,040,547,036
Additions	17,168,965	85,692,232	221,249,429	1,536,650	25,359,076	34,487,029	385,493,381
Disposals	(79,333)	(22,437,487)	(16,647,394)	(19,005,362)	–	(125,775)	(58,295,351)
Written off	(9,690,000)	–	(2,900)	–	–	–	(9,692,900)
Transfers during the Year	22,291,625	–	–	–	(22,291,625)	–	–
Reclassification adjustments	–	(250,000)	23,142	–	–	452,177	225,319
Closing balance at 31 December 2016	425,737,406	511,606,202	883,046,654	264,452,969	69,152,961	204,281,293	2,358,277,485
Finance Lease							
Opening balance at 1 January 2016	–	–	–	103,924,400	–	–	103,924,400
Additions	–	–	–	–	–	–	–
Closing balance at 31 December 2016	–	–	–	103,924,400	–	–	103,924,400
(Less): Accumulated Depreciation							
Opening balance at 1 January 2016	71,800,073	298,906,903	505,174,630	149,035,169	–	28,641,508	1,053,558,283
Charge for the year	16,208,179	57,730,514	68,857,139	32,879,111	–	36,998,701	212,673,644
Disposals	–	(22,159,186)	(16,239,867)	(19,005,338)	–	(55,359)	(57,459,750)
Written off	–	–	(2,897)	–	–	–	(2,897)
Reclassification adjustments	–	(249,857)	25,163	–	–	447,766	223,072
Closing balance at 31 December 2016	88,008,252	334,228,374	557,814,168	162,908,942	–	66,032,616	1,208,992,352
Finance Lease							
Opening balance at 1 January 2016	–	–	–	46,308,251	–	–	46,308,251
Charge for the year	–	–	–	20,503,625	–	–	20,503,625
Closing balance at 31 December 2016	–	–	–	66,811,876	–	–	66,811,876
(Less): Impairment charges	–	–	–	–	–	–	–
Net book value at 31 December 2016	337,729,154	177,377,828	325,232,486	138,656,551	69,152,961	138,248,677	1,186,397,657

26.2 Fully-Depreciated Property, Plant and Equipment

A class-wise analysis of the initial cost of fully-depreciated property, plant and equipment of the Bank which are still in use as at reporting date is as follows:

As at 31 December	Bank	
	2017 Rs.	2016 Rs.
Asset Class		
Building	1,844,583	694,583
Computer, hardware	316,531,342	181,699,402
Office equipment, furniture and fittings	406,411,837	360,701,924
Motor vehicles	128,322,504	118,026,665
Partition and fittings	4,613,656	1,406,421
	857,723,922	662,528,995

26.3 Title Restrictions on Property, Plant and Equipment

There were no title restrictions on property, plant and equipment of the Bank as at the reporting date.

26.4 Property, Plant and Equipment Pledged as Security for Liabilities

No freehold property, plant and equipment have been pledged as security for any liability.

26.5 Compensation from Third Parties for Items of Property, Plant and Equipment

There were no compensation received/receivable from third parties for items of property, plant and equipment which were impaired or given up.

26.6 Temporally Idle Property, Plant and Equipment

There were no temporally idle property, plant and equipment as at the reporting date.

26.7 The Details of Freehold Land and Buildings held by the Bank as at 31 December 2017 are as follows:

Name of Premises and Address	Extent (Perches)	Building (Square Feet)
Central Province		
Matale – No. 62, Main Street, Matale	4.8	2,280.0
Dambulla – No. 734, Anuradhapura Road, Dambulla	8.2	2,210.0
Galewela – Dambulla Road, Galewela	8.7	2,380.0
Wilgamuwa – Hettipola, Wilgamuwa	38.0	1,740.0
Agarapatana – No. 158, Holbrook, Agarapatana	10.8	1,598.0
Naula – No. 26, Dambulla Road, Naula	20.0	1,640.0
North-Central Province		
Mihintale – Trincomalee Road, Mihintale	20.0	6,359.0
Medawachchiya – Mannar Road, Medawachchiya	34.0	4,371.0
Galenbindunuwewa – Pola Road, Galenbidunuwewa	70.0	1,687.0
Medirigiriya – Main Street, Medirigiriya	40.0	–
Siripura – New Town, Siripura	30.0	4,973.0
Thirappane – Kandy Road, Thirappane	65.4	8,030.0
North-Western Province		
Mawathagama – Kandy Road, Mawathagama	21.5	–
P/O Kurunegala – No. 155, Negombo Road, Kurunegala	14.0	8,484.0
Polpithigama – Kurunegala Road, Polpithigama	20.0	2,784.0
Mampuri – Kalpitiya Road, Mampuri	80.0	15,181.0
Palakuda – Kalpiti Road, Thalawila	20.3	2,244.0
Nattandiya – Marawila Road, Nattandiya	15.7	1,200.0
Puttalam – Kurunegala Road, Puttalam	51.0	1,250.0
Wariyapola – No. 29/4, Adhikari Mawatha, Wariyapola	10.0	6,208.0
Southern Province		
Kekanadura – Weherahena Road, Kekanadura	12.0	1,704.0
Akmeemana – Ganegoda, Akmeemana	6.5	1,614.0
Galle Branch – No. 301, Matara Road, Magalle, Galle	30.0	5,820.0
Katuwana – Uda Gomadiya Road, Katuwana	39.1	16,480.2
Tangalle – No. 81, Beliatta Road, Tangalle	16.0	–
Uragasmanhandiya – Kosgoda Road, Uragasmanhandiya	20.0	1,940.0
Ambalantota – No. 139, Hambantota Road, Ambalantota	25.0	2,568.0
Angunakolapelessa – Ranna Road, Angunakolapelessa	12.0	2,371.0
D/O Galle – No. 301, Matara Road, Magalle, Galle	30.0	4,820.0
Uva Province		
Girandurukotte – Development Centre, Girandurukotte		2,920.0
Monaragala D/O – Monaragala Road, Buttala		1,613.0
Head Office – No. 933, Kandy Road, Wedamulla, Kelaniya	24.0	5,375.0
Sabaragamuwa Province		
Balangoda – No. 17, Rest House Approach Road, Balangoda	20.0	–
Total		

Date of Valuation	Cost/Revalued Amount of Land Rs.	Cost/Revalued Amount of Building Rs.	Total Value Rs.	Accumulated Depreciation Rs.	Written Down Value Rs.
26 December 2014	–	11,915,631	11,915,631	1,795,506	10,120,125
18 December 2003	2,851,908	–	2,851,908	1,743,767	1,108,141
1 March 2008	–	6,540,518	6,540,518	3,215,765	3,324,753
24 August 2009	–	7,581,277	7,581,277	3,764,885	3,816,392
17 August 2012	–	1,260,000	1,260,000	564,000	696,000
25 February 1998	–	2,471,252	2,471,252	1,977,002	494,250
30 December 2005	–	8,859,427	8,859,426	5,307,486	3,551,941
19 March 2013	–	16,192,223	16,192,222	4,048,056	12,144,167
14 March 2013	–	3,124,975	3,124,975	1,434,582	1,690,393
31 December 2007	–	9,643,650	9,643,650	4,830,468	4,813,182
24 February 2016	–	22,291,625	22,291,625	2,064,716	20,226,909
8 December 2016	379,869	6,761,474	7,141,343	766,544	6,374,800
3 March 2016	10,801,311	–	10,801,311	–	10,801,311
29 December 2004	–	18,200,366	18,200,366	7,924,047	10,276,319
30 December 2014	–	17,504,901	17,504,901	2,698,672	14,806,229
30 December 2014	–	25,188,128	25,188,128	3,786,816	21,401,312
25 March 2003	–	5,792,157	5,792,157	2,409,381	3,382,776
11 February 2003	–	3,110,574	3,110,574	622,475	2,488,099
26 June 2006	–	3,802,742	3,802,742	1,358,779	2,443,963
12 November 2013	–	35,609,963	35,609,963	3,360,316	32,249,647
10 May 2004	1,418,000	1,194,535	2,612,535	776,175	1,836,360
2 October 1993	–	600,000	600,000	599,999	1
9 October 1999	–	4,712,509	4,712,509	2,826,430	1,886,079
22 March 2001	1,320,000	7,406,958	8,726,958	4,812,832	3,914,126
5 May 2005	1,620,667	1,675,534	3,296,201	1,340,045	1,956,156
10 April 2012	–	13,354,618	13,354,618	3,823,445	9,531,173
30 August 2004	2,000,000	3,070,100	5,070,100	1,994,864	3,075,236
27 August 2001	–	2,350,914	2,350,914	1,880,194	470,720
8 October 1999	1,750,000	4,884,716	6,634,716	2,896,665	3,738,051
30 November 2011	–	3,227,674	3,227,674	1,040,000	2,187,674
22 October 1999	4,312,263	–	4,312,263	2,210,765	2,101,497
5 March 2012	54,380,000	139,371,952	193,751,952	28,866,707	164,885,245
18 February 2013	6,285,664	–	6,285,664	–	6,285,664
	87,119,682	387,700,395	474,820,077	106,741,385	368,078,692

27. Due to Banks

As at 31 December	2017 Rs.	Bank 2016 Rs.
Borrowings	165,040,596	3,039,128,792
Leasing (Note 27.1)	2,842,626	26,658,790
Refinance	10,561,428,912	8,699,705,440
Total	10,729,312,134	11,765,493,022

27.1 Maturity of the Leasing

As at 31 December	2017 Rs.	Bank 2016 Rs.
Not later than one year	2,894,307	14,906,797
Later than one year and not later than five years	–	13,366,488
Later than five years	–	–
	2,894,307	28,273,285
Less – Interest in suspense	(51,681)	(1,614,495)
Total	2,842,626	26,658,790

28. Due to Other Customers

As at 31 December	2017 Rs.	Bank 2016 Rs.
At Amortised cost	139,827,364,797	107,031,720,855
Total	139,827,364,797	107,031,720,855

A. Analysis

As at 31 December	2017 Rs.	Bank 2016 Rs.
By Product		
Savings deposits	28,050,272,766	32,669,437,915
Long-term savings	20,937,708,039	9,330,705,983
Fixed deposits	90,839,383,993	65,031,576,957
Total	139,827,364,797	107,031,720,855
By Currency		
Sri Lankan Rupee	139,827,364,797	107,031,720,855
Total	139,827,364,797	107,031,720,855

29. Debt Issued and Other Borrowed Funds

As at 31 December	2017 Rs.	Bank 2016 Rs.
Redeemable debentures (Note 29.1)	4,707,852,534	2,708,377,456
Total	4,707,852,534	2,708,377,456

29.1 Redeemable Debentures

As at 31 December	2017 Rs.	Bank 2016 Rs.
Opening balance as at 1 January	2,708,377,456	2,693,032,538
Debenture issued	2,000,000,000	–
Debenture redeemed	–	–
Interest payable	459,638,795	224,899,164
Interest paid	(460,163,717)	(209,554,246)
Closing balance as at 31 December	4,707,852,534	2,708,377,456

Details of debenture issued

	Note	No. of Debentures	Face Value Rs.	Amortised Cost 2017 Rs.	2016 Rs.
Debentures issued in 2016	29.1.1	25,000,000	2,500,000,000	2,707,852,534	2,708,377,456
Debentures issued in 2017	29.1.2	20,000,000	2,000,000,000	2,000,000,000	–
Total debentures issued by the Bank			4,500,000,000	4,707,852,534	2,708,377,456

Debenture issued by the Bank

29.1.1 Debenture Issued in 2016

Unsecured subordinated redeemable five year debentures of Rs. 100/- each issued in 2016. The debentures are quoted in the Colombo Stock Exchange.

Type	No. of Debentures	Face Value Rs.	Amortised Cost 2017 Rs.	Amortised Cost 2016 Rs.	Allotment Date	Maturity Date	Rate of the Interest
A	21,288,500	2,128,850,000	2,320,446,500	2,320,971,422	30 January 2015	30 January 2020	Fixed – 9.00% per annum payable annually
B	3,610,200	361,020,000	377,053,640	377,053,640	30 January 2015	30 January 2020	Fixed – 8.81% per annum payable bi-annually
C	101,300	10,130,000	10,352,394	10,352,394	30 January 2015	30 January 2020	Fixed – 8.71% per annum payable quarterly
	25,000,000	2,500,000,000	2,707,852,534	2,708,377,456			

29.1.2 Debenture Issued in 2017

Unsecured subordinated redeemable five year debentures of Rs. 100/- each issued in 2017. The debentures are quoted in the Colombo Stock Exchange.

Type	No. of Debentures	Face Value Rs.	Amortised Cost 2017 Rs.	Amortised Cost 2016 Rs.	Allotment Date	Maturity Date	Rate of the Interest
A	3,000,000	300,000,000	300,000,000	–	31 March 2017	31 March 2022	Fixed – 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	–	31 March 2017	31 March 2022	Fixed – 15.5% per annum payable biannually
	20,000,000	2,000,000,000	2,000,000,000	–			

30. Other Liabilities

As at 31 December	2017 Rs.	Bank 2016 Rs.
Sundry creditors	167,509,776	120,628,488
Other payables	2,517,680,814	2,009,865,937
Inter bank transaction in transit	838,179	49,861
Total	2,686,028,770	2,130,544,286

31. Retirement Benefit Obligation

As at 31 December	2017 Rs.	Bank 2016 Rs.
Retirement benefit obligation (Note 31.1)	1,695,894,720	1,278,903,024
	1,695,894,720	1,278,903,024

31.1 Net Asset/(Liability) Recognised in the Statement of Financial Position

As at 31 December	2017 Rs.	Bank 2016 Rs.
Opening balance as at 1 January	1,278,903,024	972,097,354
Provision made during the year (Note 31.2)	227,861,027	158,784,525
Net actuarial (gain)/Loss on obligation (Note 31.3)	236,286,599	170,393,439
	1,743,050,650	1,301,275,318
Benefits paid by the Bank	(47,155,929)	(22,372,294)
	1,695,894,720	1,278,903,024

31.2 Amount Recognised in Income Statement

As at 31 December	2017 Rs.	Bank 2016 Rs.
Current service cost	80,787,179	61,574,790
Interest cost	147,073,848	97,209,735
Total amount recognised in the income statement	227,861,027	158,784,525

31.3 Amount Recognised in Statement of Other Comprehensive Income

As at 31 December	2017 Rs.	Bank 2016 Rs.
Net actuarial (Gain)/Loss on obligation	236,286,599	170,393,439
Total amount recognised in other comprehensive income	236,286,599	170,393,439

31.4 An actuarial valuation of the gratuity fund was carried out as at 31 December 2017 by Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Method", recommended by Sri Lanka Accounting Standard – LKAS 19 "Employee Benefits".

Actuarial Assumptions	2017	2016
Discount rate as at 31 December	10.30%	11.50%
Future salary increment rate	8% (Every three years with the next increment due on 1 January 2018)	8% (Every three years with the next increment due on 1 January 2018)
Mortality	A1967/70 Mortality Table	A1967/70 Mortality Table
Retirement age	57 Years	57 Years

31.5 Sensitivity of Assumptions Used in the Actuarial Valuation

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

The sensitivity of the total comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on to total comprehensive income and employment benefit obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	2017		2016	
		Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year Rs.	Present Value of Defined Benefit Obligation Increase/(Decrease) in the Liability Rs.	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year Rs.	Present Value of Defined Benefit Obligation Increase/(Decrease) in the Liability Rs.
1%	–	91,608,580	(91,608,580)	67,876,228	(67,876,228)
(-1%)	–	(103,547,903)	103,547,903	(76,267,477)	76,267,477
–	1%	(112,448,206)	112,448,206	(71,380,057)	71,380,057
–	(-1%)	101,046,505	(101,046,505)	64,474,734	(64,474,734)

32. Stated Capital

As at 31 December	Bank	
	2017 Rs.	2016 Rs.
Ordinary Shares		
Opening balance as at 1 January (137,093,693 ordinary shares)	1,370,936,931	1,370,936,931
Issue of shares (250,000,000 ordinary shares)	2,500,000,000	–
Closing balance as at 31 December	3,870,936,931	1,370,936,931

33. Statutory Reserve Fund

As at 31 December	Bank	
	2017 Rs.	2016 Rs.
Opening balance as at 1 January	599,455,675	567,391,264
Transfer during the period	64,196,475	32,064,411
Closing balance as at 31 December	663,652,150	599,455,675

34. Retained Earnings

As at 31 December	Bank	
	2017 Rs.	2016 Rs.
Opening balance as at 1 January	988,284,444	799,159,665
Profit for the year	1,283,929,506	641,288,212
Other comprehensive Income	(170,126,351)	(122,683,276)
Transfers to other reserves	(385,178,851)	(192,386,464)
Dividend	–	(137,093,693)
Closing balance as at 31 December	1,716,908,747	988,284,444

35. Other Reserves

A. Bank – Current Year (2017)

	Opening Balance as at 01 January Rs.	Movement/ Transfers Rs.	Closing Balance as at 31 December Rs.
General reserve	2,586,422,452	256,785,901	2,843,208,353
Special reserve fund	453,846,003	64,196,475	518,042,478
Total	3,040,268,455	320,982,376	3,361,250,831

B. Bank – Previous Year (2016)

	Opening Balance as at 01 January Rs.	Movement/ Transfers Rs.	Closing Balance as at 31 December Rs.
General reserve	2,458,164,810	128,257,642	2,586,422,452
Special reserve fund	421,781,592	32,064,411	453,846,003
Total	2,879,946,403	160,322,053	3,040,268,456

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.

36. Contingent Liabilities and Commitments

In the normal course of business, the Bank undertakes commitments and incurs contingent liabilities with legal recourse to its customers to accommodate the financial and investment needs of clients, to conduct trading activities, and to manage its own exposure to risk. These financial instruments generate interest or fees and carry elements of credit risk in excess of those amounts recognised as assets and liabilities in the statement of financial position. However no material losses are anticipated as a result of these transactions.

These contingencies and commitments are quantified below:

As at 31 December	Bank	
	2017 Rs.	2016 Rs.
Guarantees and performance bonds	133,565,207	101,856,888
Other contingent items	272,995,965	351,698,824
Total	406,561,172	453,555,712

36.1 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, two clients have filed cases against the Bank preventing the sale of assets mortgaged to the Bank, fourteen staff members have filed cases with labour tribunal against the Bank, three clients have filed cases against the Bank for claiming damage, four labour department cases, eight employees applications have filed in the Human Rights Commission, four employees applications have filed for their writs in the Court of Appeal and the Bank has filed three appeals 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.

37. Related Party Disclosures

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, 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.

37.1 Parent and the Ultimate Controlling Party

Regional Development Bank is a Government owned bank.

37.2 Key Management Personnel (KMPs) of the Bank

As per the Sri Lanka Accounting Standard – LKAS 24 – "Related Party Disclosures", the KMPs include 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, the Chief Executive Officer, Deputy General Managers, Senior Assistant General Managers, Regional General Managers, Compliance Officer, Chief Internal Auditor and Board Secretary.

37.2.1 Compensation to Key Management Personnel (KMPs)

	2017 Rs.	Bank 2016 Rs.
Short-term employment benefits	109,320,058	32,120,383
Post employment benefits	–	–
Total	109,320,058	32,120,383

During the year Management has decided to reclassify above amount for the better presentation.

37.2.2 Transactions, Arrangements and Agreements Involving Key Management Personnel (KMP) and their Close Family Members (CFMs)

Items in the Statement of Financial Position	2017 Rs.	2016 Rs.
Assets		
Loans and receivables	37,298,432	50,358,206
Total	37,298,432	50,358,206
Liabilities		
Deposits	71,887,329	76,172,589
Total	71,887,329	76,172,589
Items in the Statement of Profit or Loss		
Interest income	2,622,421	1,970,533
Interest expenses	5,722,345	4,022,156
Total	8,344,766	5,992,689

37.2.2.1 Terms and Conditions of the Accommodation Granted to KMPs and their CFMs

Type of the Loan	Balance as at 31 December 2017	Security Details Type	Value	Other Terms and Conditions
Staff housing loans	10,580,905	Land	61,756,783	Terms are similar to comparable transactions with unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.
Staff vehicle loans	14,741,291	Motor vehicle	29,344,344	
Cash backed loans	3,523,205	Fixed deposit	4,105,000	
Consumptions and other loans	8,453,030			
	37,298,432			

Type of the Loan	Balance as at 31 December 2016	Security Details 31 December 2016 Type	Value	Other Terms and Conditions
Staff housing loans	13,664,497	Land	45,184,783	Terms are similar to comparable transactions with unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.
Staff vehicle loans	23,498,726	Motor vehicle	39,509,662	
Cash backed loans	5,578,475	Fixed deposit	7,925,000	
Consumptions and other loans	7,616,508			
	50,358,206			

37.2.3 Goods and Services Purchased

During the year, goods and services purchased from the entities where KMPs have either control and/or joint control in the normal course of the business, are detailed below:

	2017 Rs.	2016 Rs.
Goods and services purchased	2,649,210	9,048,762
Total	2,649,210	9,048,762

37.3 Transactions with the Significant Investor and Related Entities

In accordance in paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 – “Related Party Disclosures”, the Bank has exempted from the disclosure requirements under paragraph 18 on transactions with Government of Sri Lanka, significant investor and its related entities.

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

The Bank has disclosed individually significant transactions and other transactions collectively, but not individually with significant investor and related entities under LKAS 24. The Bank has entered 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:

	2017 Rs.	2016 Rs.
Levy paid to General Treasury	(125,000,000)	(125,000,000)
Total	(125,000,000)	(125,000,000)

Further Rs. 0/- (2016- Rs. 125,000,000/-) presented under the other asset as pre-payment to the General Treasury.

	Outstanding Balance	
	2017 Rs.	2016 Rs.
Items in the Statement of Financial Position		
Assets		
Loans and receivables	320,379,150	383,779,065
Total	320,379,150	383,779,065
Liabilities		
Deposits	20,072,193,145	28,019,434,124
Total	20,072,193,145	28,019,434,124
Items in the Statement of Profit or Loss		
Interest income	47,231,606	44,510,386
Interest expenses	1,741,012,384	1,832,961,280
Total	1,788,243,990	1,877,471,666

37.3.1 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)

37.4 Pricing Policy with Related Parties

The Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees.

38. Assets Pledged as Security

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2017 and 2016 is shown in the preceding tables:

2017

Type of Facility	Amount of Facility Rs. million	Nature of Security	Value of Security Rs. million	Balance as at 31 December 2017 Rs. million
1. Over Draft – BOC	1,912	FD – 74353124	184.402	
		FD – 81290454	242	
		FD – 74817306	225.483	
		FD – 74588793	208.884	
		FD – 74619066	208.897	
		FD – 80912939	510.129	
		FD – 79767742	650	
2. Over Draft – PB	200	FD – 14-6001-000131896	327.446	

2016

Type of Facility	Amount of Facility Rs. million	Nature of Security	Value of Security Rs. million	Balance as at 31 December 2016 Rs. million
1. Over Draft – BOC	2,451	FD – 70963965	600	1,819.09
		FD – 74353124	170.84	
		FD – 74361333	231.85	
		FD – 74817306	207.63	
		FD – 74588793	192.43	
		FD – 74619066	192.36	
		FD – 74041168	481.62	
		FD – 76767742	650	
2. Over Draft – PB	200	FD – 14-6001-00009136-8	304.76	

39. Non-Cash Items Included in Profit Before Tax

For the Year ended 31 December	Note	2017 Rs.	Bank 2016 Rs.
Depreciation of property, plant and equipment	12	285,315,658	233,177,270
Amortisation of intangible assets	23	40,785,417	37,168,652
EIR adjustment		(607,989)	800,102
Impairment losses on loans and advances	10	443,866,831	(29,110,255)
Capital loss on pawning advance	12	30,828	4,376,252
Property and equipment write-off	26	–	9,690,003
Liya isuru fair value adjustment		(53,347,726)	(97,972,640)
Levy paid to general treasury		125,000,000	125,000,000
Change in fair value on financial assets held for trading	7	7,700	(4,200)
Charge for defined benefit plans	11	227,861,027	158,784,525
Movements of other funds		9,282,836	3,320,908
(Profit)/loss on sale of fixed assets	9	(860,208)	(21,870,086)
Total		1,077,334,374	423,360,531

40. Change in Operating Assets

For the Year ended 31 December	Note	2017 Rs.	Bank 2016 Rs.
Net change in Sri Lankan Government Securities	17	(2,512,362,500)	607,814,250
Net change in loans and receivables from other customers		(22,245,731,384)	(18,451,470,351)
Change in other assets		(200,331,421)	(642,561,076)
Net change in financial investments – held to maturity		(193,129)	(516,741,803)
Total		(24,958,618,433)	(19,002,958,980)

41. Change in Operating Liabilities

For the Year ended 31 December	2017 Rs.	Bank 2016 Rs.
Net change in due to banks	832,999,585	1,958,107,106
Net change in due to other customers	32,796,251,932	19,277,220,838
Net change in other liabilities	913,375,655	379,695,557
Total	34,542,627,172	21,615,023,501

42. Change in Reclassification of Intangible Assets, Property and Equipment

For the Year ended 31 December	Note	2017 Rs.	Bank 2016 Rs.
Property, plant and equipment	26	30,154	(2,247)
Total		30,154	(2,247)

43. Fair Value of Financial Instruments

43.1 Fair Value Hierarchy

Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments.

Level 3 – inputs there are unobservable: This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument valuation.

43.2 Financial Instruments Measured at Fair Value

The following table shows an analysis of financial instruments recorded at fair value at the reporting date by level of the fair value hierarchy: into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

As at 31 December	2017			Total Rs.
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	
Financial asset held for trading	196,500	–	–	196,500
	196,500	–	–	196,500

As at 31 December	2016			Total Rs.
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	
Financial asset held for trading	204,200	–	–	204,200
	204,200	–	–	204,200

Trading assets measured at fair value are quoted equities and unquoted equities. For quoted equities, the Bank uses quoted market price in active markets as at the reporting date. Unquoted equities are measured at cost because the fair value cannot be measured reliably.

43.3 Financial Instruments not Measured at Fair Value

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

		2017		2016	
	Fair Value Hierarchy	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets					
Cash and cash equivalents	Level 2	482,919,655	482,919,655	428,697,741	428,697,741
Sri Lanka Government Securities	Level 2	2,512,362,500	2,512,362,500	–	–
Balances with banks	Level 2	27,702,520,133	27,702,520,133	18,979,572,034	18,979,572,034
Placements with banks	Level 2	6,682,475,675	6,682,475,675	1,682,030,495	1,682,030,495
Financial investments – held to maturity	Level 2	516,934,932	516,934,932	516,741,803	516,741,803
Loans and Receivables from Other Customers – Without Impairment					
Pawning	Level 2	9,511,754,589	9,511,754,589	7,873,700,312	7,873,700,312
Staff loans	Level 2	3,500,798,223	3,500,798,223	3,193,923,358	3,193,923,358
Short term	Level 2	7,729,591,786	7,729,591,786	6,211,115,500	6,211,115,500
Long term	Level 2	107,601,393,581	107,601,393,581	89,526,857,771	89,526,857,771
Interest receivable on loans and advances	Level 2	1,981,307,335	1,981,307,335	1,297,162,767	1,297,162,767
Other assets	Level 2	1,203,616,689	1,203,616,689	1,036,497,573	1,036,497,573
		169,425,675,098	169,425,675,098	130,746,299,354	130,746,299,354
Financial Liabilities					
Due to banks	Level 2	10,729,312,134	10,729,312,134	11,765,493,022	11,765,493,022
Due to other customers	Level 2	139,827,364,797	139,827,364,797	107,031,720,855	107,031,720,855
Debt issued and other borrowed funds	Level 2	4,707,852,534	4,707,852,534	2,708,377,456	2,708,377,456
Other liabilities	Level 2	2,684,596,813	2,684,596,813	2,111,181,490	2,111,181,490
		157,949,126,279	157,949,126,279	123,616,772,823	123,616,772,823

43.3.1 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.

Loans and Receivables to Customers

More than 56% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year. Therefore fair value of loans and advances to customers approximates to their carrying value as at the reporting date.

Due to Customers

More than 69% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

44. Current vs Non-Current Analysis

2017

	Within 12 Months Rs.	Bank After 12 Months Rs.	Total Rs.
Assets			
Cash and cash equivalents	482,919,655	–	482,919,655
Sri Lankan Government Securities	–	2,512,362,500	2,512,362,500
Balances with banks	27,702,520,133	–	27,702,520,133
Placements with banks	6,682,475,675	–	6,682,475,675
Financial assets held for trading	–	196,500	196,500
Loans and receivables from other customers	46,319,034,702	81,189,777,692	127,508,812,394
Financial investments – held to maturity	–	516,934,932	516,934,932
Intangible assets	–	37,842,762	37,842,762
Deferred tax assets	–	343,878,698	343,878,698
Other assets	2,266,365,532	–	2,266,365,532
Property and equipment	–	1,204,892,835	1,204,892,835
Total assets	83,453,315,696	85,805,885,919	169,259,201,615
Liabilities			
Due to banks	2,682,328,034	8,046,984,101	10,729,312,134
Due to other customers	96,528,410,196	43,298,954,601	139,827,364,797
Debt issued and other borrowed funds	–	4,707,852,534	4,707,852,534
Other liabilities	2,686,028,770	–	2,686,028,770
Retirement benefit obligation	–	1,695,894,720	1,695,894,720
Total liabilities	101,896,766,999	57,749,685,956	159,646,452,955
Maturity gap	(18,443,451,302)	28,056,199,963	9,612,748,660
Cumulative gap	(18,443,451,302)	9,612,748,660	–

2016

	Within 12 Months Rs.	Bank After 12 Months Rs.	Total Rs.
Assets			
Cash and cash equivalents	428,697,741	–	428,697,741
Balances with banks	17,558,555,404	1,421,016,630	18,979,572,034
Placements with banks	1,682,030,495	–	1,682,030,495
Financial assets held for trading	–	204,200	204,200
Loans and receivables from other customers	37,823,894,996	67,829,735,948	105,653,630,944
Financial Investments – held to maturity	–	516,741,803	516,741,803
Intangible assets	–	58,025,552	58,025,552
Deferred tax assets	–	217,649,611	217,649,611
Other assets	2,191,034,111	–	2,191,034,111
Property and equipment	–	1,186,397,657	1,186,397,657
Total assets	59,684,212,747	71,229,771,401	130,913,984,148
Liabilities			
Due to banks	4,197,116,541	7,568,376,481	11,765,493,022
Due to other customers	69,874,061,259	37,157,659,596	107,031,720,855
Debt issued and other borrowed funds	–	2,708,377,456	2,708,377,456
Other liabilities	1,784,335,546	346,208,740	2,130,544,286
Retirement benefit obligation	–	1,278,903,024	1,278,903,024
Total liabilities	75,855,513,346	49,059,525,297	124,915,038,643
Maturity gap	(16,171,300,599)	22,170,246,104	5,998,945,505
Cumulative gap	(16,171,300,599)	5,998,945,505	–

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 Bank's 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.

45.1.2 Asset and Liability Committee (ALCO)

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 and 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 and 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 Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits and 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 Maximum Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying Amount	
	2017	2016
Cash and balances with Central Bank	482,919,655	428,697,741
Sri Lanka Government Securities	2,512,362,500	–
Balances with banks	27,702,520,133	18,979,572,034
Placements with banks	6,682,475,675	1,682,030,495
Financial assets held for trading	196,500	204,200
Loans and Advances to customers	127,508,812,394	105,653,630,944
Financial Investments – held to maturity	516,934,932	516,741,803
Other assets	1,203,616,689	1,036,497,573
	166,609,838,478	128,297,374,790

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

	2017 Rs.	2016 Rs.
Contingent Liabilities		
Bank guarantee	133,565,207	101,856,888
Bills send for collection	272,995,965	351,698,824
Total contingent liabilities and commitments	406,561,172	453,555,712

45.2.2 Credit Quality Analysis of Financial Assets

2017

	Neither Past Due nor Impaired Rs.	Past Due but not Impaired Individually Rs.	Individually Impaired Rs.	Total Rs.
Cash and balances with Central Bank	482,919,655	–	–	482,919,655
Balances with banks	27,702,520,133	–	–	27,702,520,133
Placements with banks	6,682,475,675	–	–	6,682,475,675
Sri Lanka Government Securities	2,512,362,500	–	–	2,512,362,500
Financial assets held for trading	196,500	–	–	196,500
Financial investments – held to maturity	516,934,932	–	–	516,934,932
Loans and receivables from other customers – without impairment	112,538,295,114	17,062,270,748	724,279,651	130,324,845,514
Other assets	1,203,616,689	–	–	1,203,616,689
Total	151,639,321,198	17,062,270,748	724,279,651	169,425,871,598

2016

	Neither Past Due nor Impaired Rs.	Past Due but not Impaired Individually Rs.	Individually Impaired Rs.	Total Rs.
Cash and balances with Central Bank	428,697,741	–	–	428,697,741
Balances with banks	18,979,572,034	–	–	18,979,572,034
Placements with banks	1,682,030,495	–	–	1,682,030,495
Financial assets held for trading	204,200	–	–	204,200
Financial Investments – held to maturity	516,741,803	–	–	516,741,803
Loans and receivables from other customers – without impairment	97,148,706,540	10,772,871,478	181,181,690	108,102,759,708
Other assets	1,036,497,573	–	–	1,036,497,573
Total	119,792,450,386	10,772,871,478	181,181,690	130,746,503,554

Reconciliation of changes in the carrying amount of impaired loans and advances to customers are shown in Note 21.B.

45.2.3 Aging Analysis of Past Due but not Impaired Loans by Class of Financial Assets

2017

	31-90 Days Rs.	91-180 Days Rs.	Above 180 Days Rs.	Total Rs.
Loans and receivables from other customers	13,534,979,793	614,282,886	2,913,008,069	17,062,270,748
Total	13,534,979,793	614,282,886	2,913,008,069	17,062,270,748

2016

Loans and receivables from other customers	8,055,863,461	343,818,055	2,373,189,962	10,772,871,478
Total	8,055,863,461	343,818,055	2,373,189,962	10,772,871,478

45.2.4 Credit Exposure on Sector Wise – Loans and Receivables to Customers

	2017 Rs.	2016 Rs.
Agriculture	30,865,590,362	23,117,832,251
Industrial	21,349,483,378	16,608,806,781
Trade and business	20,323,499,280	13,813,538,095
Transport service	332,170,877	374,428,761
Housing	31,981,747,151	34,469,374,843
Consumption	15,273,703,174	11,379,091,745
Loans against deposit	4,712,406,159	3,824,400,147
Leasing	4,139,576	7,417,516
Staff	3,500,798,223	3,210,706,803
Interest receivable on loans and advances	1,981,307,335	1,297,162,767
Total	130,324,845,514	108,102,759,708

45.2.5 Collateral Held 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

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Definition of Past Due

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

2017

Products	Maximum Exposure to Credit Risk Rs.	Collateral Value Rs.	Exposure Net of Collateral Rs.
Cash and cash equivalents	482,919,655	–	482,919,655
Sri Lanka Government Securities	2,512,362,500	–	2,512,362,500
Balances with banks	27,702,520,133	–	27,702,520,133
Placements with banks	6,682,475,675	–	6,682,475,675
Financial assets held for trading	196,500	–	196,500
Loans and receivables from other customers	130,324,845,514	20,095,471,269	110,229,374,245
Financial investments – held to maturity	516,934,932	–	516,934,932
Other assets	1,203,616,689	–	1,203,616,689

2016

Cash and cash equivalents	428,697,741	–	428,697,741
Sri Lanka Government Securities	–	–	–
Balances with banks	18,979,572,034	–	18,979,572,034
Placements with banks	1,682,030,495	–	1,682,030,495
Financial assets held for trading	204,200	–	204,200
Loans and receivables from other customers	108,102,759,708	15,702,706,483	92,400,053,225
Financial Investments – held to maturity	516,741,803	–	516,741,803
Other assets	1,036,497,573	–	1,036,497,573

45.2.5.1 Type of Credit Exposure

The table below sets out the principal types of collateral held against different types of financial assets:

	Percentage of Exposure that is Subject to Collateral Exposure		Principal Type of Collateral Held
	31 December 2017 Rs.	31 December 2016 Rs.	
Loans and Advances to Retails Customers			
Mortgage lending	20,095,471,269	15,702,706,483	Residential property
Personal loans	110,229,374,245	92,400,053,225	Personal guarantee/ Motor vehicle/Equipment etc.
Investment Debt Securities			
Debenture – Commercial Bank	500,000,000	500,000,000	None
	130,824,845,514	108,102,759,708	

45.2.5.2 Loan-to-Value Ratio (LTV)

Residential Mortgage Lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes adjustment for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in-house price indices.

	31 December 2017 Rs.	31 December 2016 Rs.
LTV Ratio		
Less than 50%	–	–
51-70%	20,095,471,269	15,702,706,483
71-90%	–	–
91-100%	–	–
More than 100%	–	–
Total	20,095,471,269	15,702,706,483

45.2.6 Concentration of Credit Risk

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

Concentrations of Credit Risk

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk for loans and advances, lending commitments, financial guarantees and investment securities is shown below:

	Note	Loans and Advances to Customers		Investment Debt Securities		Lending Commitments and Financial Guarantees	
		2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Carrying amount	20, 21, 22	130,324,845,514	108,102,759,708	516,934,932	516,741,803	406,561,172	453,555,712
Amount committed/guaranteed							
Concentration by sector							
Corporate:							
Other						406,561,172	453,555,712
Government							
Banks				516,934,932	516,741,803		
Retail:							
Personal guarantee		109,958,376,321	91,642,985,354				
Mortgages		20,095,471,269	15,702,706,483				
Unsecured lending		270,997,924	757,067,871				
		130,324,845,514	108,102,759,708	516,934,932	516,741,803	406,561,172	453,555,712

45.3 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities 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.

The Bank sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Bank's liquidity policies and procedures. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquid ratios, maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

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.

45.3.1 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 2017. 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

2017

	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	482,919,655	–	–	–	–	482,919,655
Sri Lanka Government Securities	–	–	–	2,512,362,500	–	2,512,362,500
Balances with banks	22,588,795,415	5,113,724,717	–	–	–	27,702,520,133
Placements with banks	6,682,475,675	–	–	–	–	6,682,475,675
Financial assets held for trading	–	–	–	–	196,500	196,500
Financial Investments	–	–	–	516,934,932	–	516,934,932
Loans and receivables from other customers	12,341,667,190	33,977,735,115	50,281,715,721	24,656,275,398	6,251,418,970	127,508,812,394
Other assets	469,842,170	1,796,523,362	–	–	–	2,266,365,532
Total assets	42,565,700,105	40,887,983,194	50,281,715,721	27,685,572,830	6,251,615,470	167,672,587,320
Liabilities						
Due to banks	695,954,667	1,584,214,337	4,224,571,565	4,224,571,565	–	10,729,312,134
Due to other customers	45,170,409,112	49,779,207,578	8,964,477,372	11,840,924,425	24,072,346,311	139,827,364,797
Debt issued and other borrowed funds	–	–	2,707,852,534	2,000,000,000	–	4,707,852,534
Other liabilities	1,741,692,527	532,500,501	65,152,632	21,531,757	325,151,353	2,686,028,770
Total liabilities	47,608,056,306	51,895,922,416	15,962,054,103	18,087,027,747	24,397,497,664	157,950,558,234
Total net asset/(liability)	(5,042,356,201)	(11,007,939,222)	34,319,661,618	9,598,545,083	(18,145,882,193)	9,722,029,086

2016

	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	428,697,741	–	–	–	–	428,697,741
Balances with banks	604,061,297	16,954,494,106	368,264,403	574,228,488	478,523,740	18,979,572,034
Placements with banks	1,682,030,495	–	–	–	–	1,682,030,495
Financial assets held for trading	–	–	–	–	204,200	204,200
Financial Investments – held to maturity	–	–	–	516,741,803	–	516,741,803
Loans and receivables from other customers	10,094,200,545	27,749,885,669	40,568,339,761	21,219,926,596	6,021,278,373	105,653,630,944
Other assets	742,902,438	1,448,131,673	–	–	–	2,191,034,111
Total assets	13,551,892,516	46,152,511,448	40,936,604,164	22,310,896,887	6,500,006,313	129,451,911,328
Liabilities						
Due to banks	2,231,563,812	2,145,835,898	3,597,339,677	3,790,753,635	–	11,765,493,022
Due to other customers	36,075,394,797	33,798,666,462	7,939,669,311	10,365,504,545	18,852,485,740	107,031,720,855
Debt issued and other borrowed funds	–	–	–	2,708,377,456	–	2,708,377,456
Other liabilities	1,410,110,160	374,225,386	26,418,646	261,250,062	58,540,032	2,130,544,286
Total liabilities	39,717,068,769	36,318,727,746	11,563,427,634	17,125,885,698	18,911,025,772	123,636,135,619
Total net asset/(liability)	(26,165,176,253)	9,833,783,702	29,373,176,530	5,185,011,189	(12,411,019,459)	5,815,775,709

45.3.2 Contractual Maturities of Commitments and 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.

Contingent Liabilities	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
2017						
Bank guarantee	58,948,098	7,100,000	67,517,109	–	–	133,565,207
Bills sent for collection	272,995,965	–	–	–	–	272,995,965
Total contingent liabilities	331,944,063	7,100,000	67,517,109	–	–	406,561,172
2016						
Bank guarantee	2,756,000	32,740,502	51,798,622	14,561,764	–	101,856,888
Bills sent for collection	351,698,824	–	–	–	–	351,698,824
Total contingent liabilities	354,454,824	32,740,502	51,798,622	14,561,764	–	453,555,712

45.3.3 Offsetting of Financial Instruments

2017

	Gross Amounts	Gross Amounts Set Off on the Statement of Financial Position	Net Amount Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Lease rentals receivable	–	–	–	–	–	–
Financial Liabilities						
Due to customers	139,827,364,797	–	139,827,364,797	–	–	139,827,364,797

The financial instruments and 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.

2016

	Gross Amounts	Gross Amounts Set Off on the Statement of Financial Position	Net Amount Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Lease rentals receivable	–	–	–	–	–	–
Financial Liabilities						
Due to customers	107,031,720,855	–	107,031,720,855	–	–	107,031,720,855

45.3.4 Statutory Liquid Assets Ratio

For the year ended of December 2017	26.30%
For the year ended of December 2016	21.25%

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

The Bank is aware of the importance of due to banks and 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 and Due to other customers (Deposits).

Due to banks and due to other customers to loans and receivables from banks and other customers ratio.

As at 31 December 2017	93.20%
As at 31 December 2016	102.02%

45.4 Market Risk

Market risk is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to the changes in the obligator's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

2017

As at 31 December	Carrying Amount	Market Risk Measure	
		Trading Portfolios	Non-Trading Portfolios
Assets Subject to Market Risk			
Cash and balances with Central Bank	482,919,655	–	482,919,655
Sri Lanka Government Securities	2,512,362,500	–	2,512,362,500
Balances with banks	27,702,520,133	–	27,702,520,133
Placements with banks	6,682,475,675	–	6,682,475,675
Financial Investments – held to maturity	516,934,932	–	516,934,932
Financial assets held for trading	196,500	196,500	–
Loans and receivables from other customers	127,508,812,394	–	127,508,812,394
Other assets	2,266,365,532	–	2,266,365,532
Liabilities Subject to Market Risk			
Due to banks	10,729,312,134	–	10,729,312,134
Due to other customers	139,827,364,797	–	139,827,364,797
Debt issued and other borrowed funds	4,707,852,534	–	4,707,852,534
Other liabilities	2,686,028,770	–	2,686,028,770

2016

As at 31 December	Carrying Amount	Market Risk Measure	
		Trading Portfolios	Non-Trading Portfolios
Assets subject to Market Risk			
Cash and balances with Central Bank	428,697,741	–	428,697,741
Balances with banks	18,979,572,034	–	18,979,572,034
Placements with banks	1,682,030,495	–	1,682,030,495
Financial Investments – held to maturity	516,741,803	–	516,741,803
Financial assets held for trading	204,200	204,200	–
Loans and receivables from other customers	105,653,630,944	–	105,653,630,944
Other assets	2,191,034,111	–	2,191,034,111
Liabilities subject to Market Risk			
Due to banks	11,765,493,022	–	11,765,493,022
Due to other customers	107,031,720,855	–	107,031,720,855
Debt issued and other borrowed funds	2,708,377,456	–	2,708,377,456
Other liabilities	2,130,544,286	–	2,130,544,286

45.4.1 Exposure to Interest Rate Risk – Non-Trading Portfolios

2017

	Carrying Amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Cash and balances with Central Bank	482,919,655	482,919,655	–	–	–
Balances with banks	27,702,520,133	22,588,795,415	5,113,724,717	–	–
Placements with banks	6,682,475,675	6,682,475,675	–	–	–
Financial investments – held to maturity	516,934,932	–	–	516,934,932	–
Loans and receivables from other customers	127,508,812,394	12,341,667,190	33,977,735,115	74,937,991,119	6,251,418,970
Other assets	2,266,365,532	469,842,170	1,796,523,362	–	–
Total undiscounted assets	165,160,028,320	42,565,700,105	40,887,983,194	75,454,926,051	6,251,418,970
Due to banks	10,729,312,134	695,954,667	1,584,214,337	8,449,143,130	–
Due to other customers	139,827,364,797	45,170,409,112	49,779,207,578	20,805,401,797	24,072,346,311
Debt issued and other borrowed funds	4,707,852,534	–	–	4,707,852,534	–
Other liabilities	2,686,028,770	1,741,692,527	532,500,501	86,684,389	325,151,353
Total undiscounted liabilities	157,950,558,234	47,608,056,306	51,895,922,416	34,049,081,849	24,397,497,664
Interest rate sensitivity	7,209,470,086	(5,042,356,201)	(11,007,939,222)	41,405,844,201	(18,146,078,693)

2016

	Carrying Amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Cash and balances with Central Bank	428,697,741	428,697,741	–	–	–
Balances with banks	18,979,572,034	604,061,297	16,954,494,106	942,492,891	478,523,740
Placements with banks	1,682,030,495	1,682,030,495	–	–	–
Financial Investments – held to maturity	516,741,803	–	–	516,741,803	–
Loans and receivables from other customers	105,653,630,944	10,094,200,545	27,749,885,669	61,788,266,357	6,021,278,373
Other assets	2,191,034,111	742,902,438	1,448,131,673	–	–
Total undiscounted assets	129,451,707,128	13,551,892,516	46,152,511,448	63,247,501,051	6,499,802,113
Due to banks	11,765,493,022	2,231,563,813	2,145,835,898	7,388,093,312	–
Due to other customers	107,031,720,855	36,075,394,797	33,798,666,462	18,305,173,856	18,852,485,740
Debt issued and other borrowed funds	2,708,377,456	–	–	2,708,377,456	–
Other liabilities	2,130,544,286	1,410,110,160	374,225,386	287,668,708	58,540,032
Total undiscounted liabilities	123,636,135,619	39,717,068,770	36,318,727,746	28,689,313,332	18,911,025,772
Interest rate sensitivity	5,815,571,509	(26,165,176,254)	9,833,783,702	34,558,187,719	(12,411,223,659)

45.4.2 Exposure to Currency Risk

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

45.5 Operational Risk

"Operational risk" is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to its Bank Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost effective.

46. Capital Management

46.1 Regulatory Capital

The Bank's lead regulator the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole.

- a. Ensure regulatory minimum capital adequacy of 10% requirements are not compromised.
- b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
- c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
- d. Ensure maintaining of quality capital.
- e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
- f. Ensure capital consumption by business actions are adequately priced.
- g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital.

2017

As per the Requirement of Basel III

Item	Amount Rs. '000
Common equity Tier I capital	9,230,998
Total Tier I capital	9,230,998
Total capital	13,285,846
Total risk weighted amount	105,690,378
Risk weighted amount for credit risk	94,097,801
Risk weighted amount for market risk	–
Risk weighted amount for operational risk	11,592,578
Common equity Tier I capital ratio	8.73%
Capital conservation buffer	
Capital surcharge on D-SIBs	
Total Tier I capital ratio	8.73%
Total capital ratio	12.57%

2016

As per the Requirement of Basel II

Item	Amount Rs. '000
Total core capital (Tier I)	5,781,219
Capital base	8,244,450
Total risk-weighted amount	88,977,850
Risk-weighted amount for credit risk Part III (a)	78,271,085
Risk-weighted amount for market risk Part IV	–
Risk-weighted amount for operational risk Part V	10,706,765
Core capital (Tier I)	6.50%
Total capital ratio	9.27%

46.2 Capital Allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Description	2017 Rs.	2016 Rs.	2015 Rs.
Profit and Loss			
Total income	22,016,079,277	15,744,336,598	12,510,118,902
Interest income	20,909,579,906	14,813,083,474	11,759,232,735
Interest expenses	(11,233,284,493)	(7,197,198,715)	(5,168,680,370)
Net interest income	9,676,295,413	7,615,884,759	6,590,552,365
Net other income	925,405,231	806,608,160	636,705,017
Total operating income	10,601,700,644	8,422,492,919	7,227,257,382
Impairment charges on financial assets	(443,866,831)	29,110,255	(201,065,522)
Net operating income	10,157,833,813	8,451,603,174	7,026,191,860
Personal expenses	(4,980,435,598)	(4,609,232,586)	(4,082,141,685)
Amortisation of intangible assets	(40,785,417)	(37,168,652)	(35,364,098)
Other expenses	(1,704,618,122)	(1,549,634,014)	(1,299,268,713)
Levy paid to General Treasury	(125,000,000)	(125,000,000)	(125,353,097)
Operating profit	3,306,994,676	2,130,567,922	1,484,064,267
NBT	(131,325,757)	(107,482,813)	(90,949,795)
VAT on financial services	(984,943,174)	(767,485,246)	(421,199,552)
Profit before taxation	2,190,725,745	1,255,599,863	971,914,920
Tax on profit	(906,796,239)	(614,311,651)	(442,763,183)
Profit after taxation	1,283,929,506	641,288,212	529,151,737
Assets			
Cash and cash equivalents	482,919,655	428,697,741	310,591,598
Sri Lanka Government Securities	2,512,362,500	–	607,814,250
Balances with banks	27,702,520,133	18,979,572,034	2,952,333,673
Placements with banks	6,682,475,675	1,682,030,495	12,861,621,185
Financial assets – held for trading	196,500	204,200	200,000
Loans and receivables from other customers	127,508,812,394	105,653,630,944	87,079,453,950
Financial investments – held to maturity	516,934,932	516,741,803	–
Intangible assets	37,842,762	58,025,552	78,815,975
Deferred tax assets	343,878,698	217,649,611	171,634,073
Other assets	2,266,365,532	2,191,034,111	1,673,473,035
Property, plant and equipment	1,204,892,835	1,186,397,657	1,044,604,902
Total assets	169,259,201,616	130,913,984,148	106,780,542,641

Description	2017 Rs.	2016 Rs.	2015 Rs.
Liabilities			
Due to banks	10,729,312,134	11,765,493,022	7,951,290,707
Due to other customers	139,827,364,797	107,031,720,855	87,753,699,915
Debt issued and other borrowed funds	4,707,852,534	2,708,377,456	2,693,032,538
Other liabilities	2,686,028,770	2,130,544,286	1,792,987,865
Retirement benefit obligation	1,695,894,720	1,278,903,024	972,097,354
Total liabilities	159,646,452,955	124,915,038,643	101,163,108,379
Equity			
Stated capital	3,870,936,931	1,370,936,931	1,370,936,931
Statutory reserve fund	663,652,150	599,455,675	567,391,264
Retained earnings	1,716,908,747	988,284,444	799,159,665
Other reserves	3,361,250,831	3,040,268,455	2,879,946,402
Total shareholders' equity	9,612,748,660	5,998,945,505	5,617,434,262
Total equity and liabilities	169,259,201,616	130,913,984,148	106,780,542,641
Statutory liquid assets ratio	26.27%	21.25%	21.77%
Capital adequacy ratio –			
As per BASEL II			
Tier I	N/A	6.50%	7.56%
Tier II	N/A	9.27%	10.53%
As per BASEL III			
Common Equity Tier I Capital Ratio	8.73%	N/A	N/A
Total Tier I Capital Ratio	8.73%	N/A	N/A
Total Capital Ratio	12.57%	N/A	N/A

Listed Debenture Information

Unsecured Subordinated Redeemable 5-years Debentures of Rs. 100/-.

Type	No. of Debentures	Face value (Rs.)	Amortised cost 2017 (Rs.)	Allotment Date	Maturity Date	Rate of the interest	Interest Rate of comparable Government Security %	Traded Yield %	01 January 2017 – 31 December 2017 %	01 January 2016 – 31 December 2016 %
A	21,288,500	2,128,850,000	2,320,446,500	30 January 2015	30 January 2020	Fixed – 9.00% per annum payable annually	9.97	0	Not Traded	Not Traded
B	3,610,200	361,020,000	377,053,640	30 January 2015	30 January 2020	Fixed – 8.81% per annum payable bi-annually	9.97	0	Not Traded	Not Traded
C	101,300	10,130,000	10,352,394	30 January 2015	30 January 2020	Fixed – 8.71% per annum payable quarterly	9.97	0	Not Traded	Not Traded
	25,000,000	2,500,000,000	2,707,852,534							

Instrument Rating: "A-" ICRA LANKA

RDB Debenture Type C

Last Traded Date 3 December 2015

– Highest Price – Rs. 90/-, Lowest Price – Rs. 90/-, Last Transaction Price – Rs. 90/-.

Unlisted Debenture Information

Unsecured Subordinated Redeemable 5-year Debentures of Rs.100/-.

Type	No. of Debentures	Face value (Rs.)	Amortised cost 2017 (Rs.)	Allotment Date	Maturity Date	Rate of the interest
A	3,000,000	300,000,000	300,000,000	31 March 2017	31 March 2022	Fixed – 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	31 March 2017	31 March 2022	Fixed – 15.50% per annum payable bi-annually
	20,000,000	2,000,000,000	2,000,000,000			

Instrument Rating: "A-" ICRA LANKA

Significant Ratios

	31 December 2017	31 December 2016
Net assets value per share (Rs.)	24.83	43.76
Debt to equity (%)	48.98	45.15
Interest cover (Times)	4.44	3.98

Share Information

Shareholders	31 December 2017		31 December 2016	
	No of Ordinary Shares	Holding %	No of Ordinary Shares	Holding %
General Treasury	337,744,671	87.3	87,744,671	64.0
Bank of Ceylon	16,448,448	4.2	16,448,448	12.0
People's Bank	16,448,448	4.2	16,448,448	12.0
National Savings Bank	16,452,126	4.3	16,452,126	12.0
	387,093,693		137,093,693	

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

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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. Monaragala District
20. Ratnapura District
21. Colombo District
22. Kalutara District
23. Galle District
24. Matara District
25. Hambantota District

District	Branches
1. Jaffna	Jaffna
	Chunnakam
2. Kilinochchi	Kilinochchi
3. Mannar	Mannar
4. Vavuniya	Vavuniya
	Kanagarayankulam
	Bogaswewa
5. Trincomalee	Trincomalee
	Kantale
	Mutur
6. Anuradhapura	Anuradhapura City
	Galnewa
	Kahatagasdigiliya
	Medawachchiya
	Rambawa
	Thambuttegama
	Anuradhapura New Town
	Galenbindunuwewa
	Gonapathirawa
	Kekirawa
	Mihintale
	Thalawa
	Thirappane
	Thambuttegama E/C
7. Puttalam	Anamaduwa
	Chilaw
	Kirimetiya
	Mampuri
	Nattandiya
	Nawagattegama
	Puttalam
	Bowatta
	Dummalasuriya
	St. Anapura
	Mahawewa
	Mundel
	Palakuda
	Pannala

District	Branches
8. Polonnaruwa	Aralaganvila
	Galamuna
	Kaduruwela
	Medirigiriya
	Pulastigama
	Siripura
	Bakamuna
	Hingurakgoda
	Manampitiya
	Polonnaruwa
	Sewanapitiya
9. Kurunegala	Alawwa
	Galgamuwa
	Ibbagamuwa
	Kurunegala
	Mawategama
	Narammala
	Panduwassnuwara
	Potuhera
	Wariyapola
	Headquarters Branch
	Ambanpola
	Giriulla
	Kuliyapitiya
	Maho
	Melsiripura
	Nikaweratiya
	Polpitigama
	Rideegama
10. Matale	Dambulla
	Laggala
	Matale
	Wilgamuwa
	Galewela
	Naula
	Rattota

District	Branches	District	Branches	District	Branches
11. Kandy	Danture	13. Gampaha	Divulpitiya	17. Ampara	Akkaraipattu
	Hataraliyadda		Ja-Ela		Damana
	Kandy		Mawaramandiya		Mahaoya
	Manikhinna		Mirigama		Potuvil
	Peradeniya		Negombo		Uhana
	Marketing Information Centre		Ragama		Ampara
	Dawlagala		Gampaha		Kalmunai
	Hedeniya		Kirindiwela		Nintavur
	Katugastota		Minuwangoda		Sammanturai
	Udadumbara		Miriswatta		Dehiattakandiya
	Teldeniya		Nittambuwa	18. Monaragala	Badalkumbura
	Gampola		Kelaniya		Buttala
	Marassana	14. Nuwara Eliya	Agarapatana		Medagama
	Udawela		Ginigathhena		Sevanagala
	Wattegama		Kotagala		Thanamalvila
	Morayaya		Nuwara Eliya		Bibila
	Pujapitiya		Rikillagaskada		Madulla
	Nawalapitiya		Haguranketa		Monaragala
			Nildandahinna		Siyambalanduwa
			Pundaluoya		Wellawayaya
12. Kegalle	Aranayake	15. Badulla	Badulla	19. Ratnapura	Balangoda
	Dehiowita		Bogahakumbura		Embilipitiya
	Dewalegama		Diyatalawa		Godakawela
	Kegalle		Haldummulla		Kalawana
	Kotiyakumbura		Kandaketiya		Kolonna
	Nelundeniya		Mahiyanganaya		Nivithigala
	Rambukkana		Meegahakiula		Pothupitiya
	Warakapola		Rideemaliyadda		Rakwana
	Bulathkohupitiya		Welimada		Sri Palabaddala
	Deraniyagala		Bandarawela		Eheliyagoda
	Hemmathagama		Girandurukotte		Erathna
	Kitulgala		Haputale		Kahawatta
	Mawanella		Lunugala		Kiriella
	Pitagaldeniya		Maligatenna		Kuruwita
	Ruwanwella		Passara		Pelmadulla
	Yatiantota		Uva-Paranagama		Pulingupitiya
		16. Batticaloa	Batticaloa		Ratnapura
			Kalavanchikudy		Weligepola
			Kattankudy		
			Valachchenai		
			Chenkaladi		
			Eravur		
			Kokkadicholai		

District	Branches
20. Colombo	Homagama
	Kolonnawa
	Awissawella
	Piliyandala
21. Kalutara	Agalawatta
	Beruwala
	Dodangoda
	Horana
	Kalutara
	Meegahatenna
	Moragahahena
	Panadura
	Walagedara
	Baduraliya
	Bulathsinhala
	Gonapola
	Ingiriya
	Matugama
	Millaniya
	Morontuduwa
	Wadduwa
	Warakagoda
22. Galle	Ahangama
	Baddegama
	Batapola
	Galle
	Hikkaduwa
	Karadeniya
	Karapitiya
	Pitigala
	Udugama
	Uragasmanhandiya
	Akmeemana
	Balapitiya
	Elpitiya
	Gonagalpura
	Imaduwa
	Kaluwella
	Neluwa
	Thalgaswala
	Yakkalamulla

District	Branches
23. Matara	Akuressa
	Deiyandara
	Devinuwara
	Gandara
	Kamburugamuwa
	Mawarala
	Morawaka
	Pitabaddara
	Urubokka
	City Branch
	Deniyaya
	Dikwella
	Hakmana
	Kirinda
	Kamburupitiya
	Mirissa
	Pamburana
	Thihagoda
	Weligama
	Kekenadura
24. Hambantota	Agunakolapalassa
	Barawakumbuka
	Hambantota
	Lunugamwehera
	Ranna
	Tangalle
	Tissamaharamaya
	Ambalantota
	Beliatta
	Katuwana
	Middeniya
	Sooriyawewa
	Walasmulla
	Warapitiya
	Weeraketiya

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

Credit Rating

"A" Stable ICRA Lanka Limited

Board of Directors

Independent Non-Executive Directors

Mr. Prasanna Premaratne – Chairman
Ms. Shamara Herat – Director
Mr. M. C. M. Muneer – Director
Mr. W. A. Priyantha Abeysinghe – Working Director

Non-Independent Non-Executive Directors

Mr. J. K. Gamanayake – Director
Mr. M. J. P. Salgado – Director
Mr. K. B. Rajapakshe – Director
Mr. A. R. Desapriya – Director

General Manager

Mr. T. A. Ariyapala

Secretary to the Board of Directors

Ms. R. M. T. Rajapaksha

Number of Branches

265

Head Office

No. 933, Kandy Road,
Wedamulla, Kelaniya
Tel: 011 2035454/011 2035455-9
Fax: 011 2035467
E Mail: info@rdb.lk
Website: www.rdb.lk
Tax Payer Identification Number (TIN): 409272339
VAT Reg. No: 409272339 – 7000

Auditors

Auditor General
Auditor General's Department
No. 306/72, Polduwa Road, Battaramulla.

Provincial Office

North Central Provincial Office

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

Uva Provincial Office

No. 1/315, Passara Road, Badulla.

Sabaragamuwa Provincial Office

No. 28B, Bandaranayake Mawatha, Ratnapura.

Southern Provincial Office

No. 28B, Esplanade Road, Uyanwatta, Matara.

Central Provincial Office

No. 16, Dharmashoka Mawatha, Kandy.

Western Provincial Office

No. 36, Kandy Road, Miriswatta, Mudungoda.

North Western Provincial Office

No. 155, Negombo Road, Kurunegala.

Eastern Provincial Office

No. 51A, New Kalmunai Road, Kallady, Batticaloa.



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තත්කාලීන සහයෝගයක් ලබාදීම සඳහා
Empowering Sri Lankans

Regional Development Bank
No. 933, Kandy Road,
Wedamulla, Kelaniya,
Sri Lanka

www.rdb.lk