

BRIDGING THE FUTURE



ANNUAL REPORT 2015

SRI LANKA SAVINGS BANK





BRIDGING THE **FUTURE**

SRI LANKA SAVINGS BANK

ANNUAL REPORT 2015

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CORPORATE INFORMATION

Registered Name

Sri Lanka Savings Bank Limited

Legal Status

A Public limited liability Company incorporated in Sri Lanka under the provisions of the Companies Act No: 17 of 1982, bearing registration No: N(PBS) 1336, re-registered under the Companies Act No:7 of 2007, bearing Company re registration No: PB 296. A Licensed Specialized Bank established under the Banking Act No.30 of 1988

Registered Office

No: 265, Ward Place, Colombo 07.
Telephone: 0112691721-2, 0112674700/1/2/3,
Facsimile: 0112674705 /6 /7
E mail : info@slsbl.lk

Date of Incorporation

7th July 2006.

Company Secretary

Mrs. A.R.R. Piyasekara,
Attorney-at Law, Registered Company Secretary
L.L.B. (Colombo) Pg DLS (Colombo), MSc. (Moratuwa)
Notary Public, Commissioner for Oaths.

Auditors

Auditor General
Auditor General Department,
306/72, Polduwa Road,
Baththaramulla, Sri Lanka.

Bankers

Bank of Ceylon
People's Bank

Board of Directors

Mr. K. Amarasinghe - Working Director & Acting Chairman
Mrs. S.A.C. Kulatillake - Treasury Representative
Mr. Sunil Witharanage, AAL
Mr. A. Shashimal Madapatha
Mr. D.S.W. Samarasekara
Mr. P. Dheerasinghe
Mr. D.A. Panditha
Mr. R.M.C. Rathnayaka
Mr. P.S. Dayananda, AAL
Mr. C.V.J. Arambewela, AAL



OUR MISSION

Uphold of savings habits & facilitating of the microfinance & SME network to ensure the most reliable & the most preferred financial service for income generating micro entrepreneurship & SME business activities in Sri Lanka.

OUR VISION

Most preferred Microfinance & Small
Medium Enterprises (MSME)
Bank.

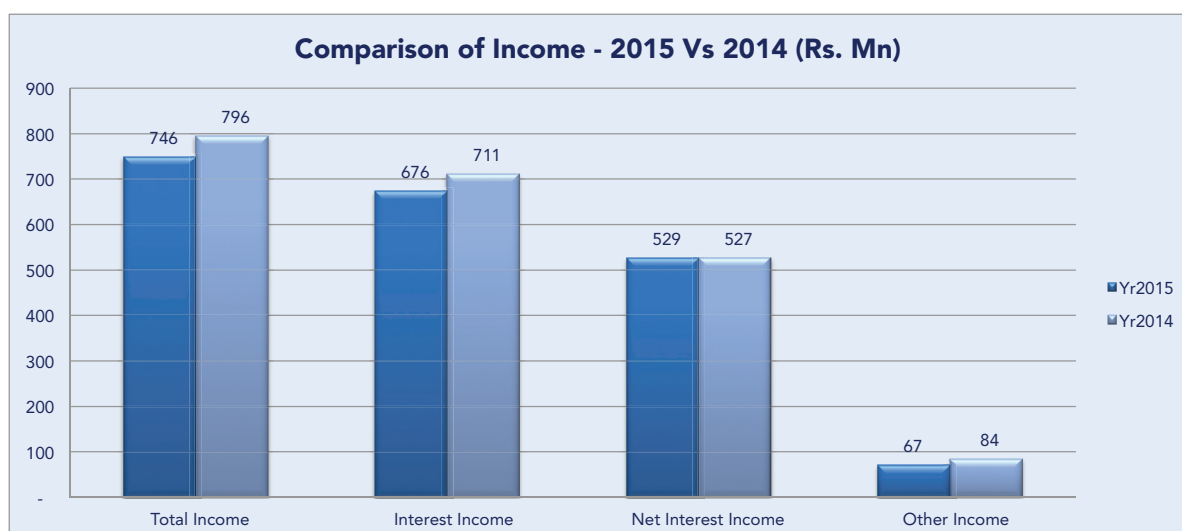
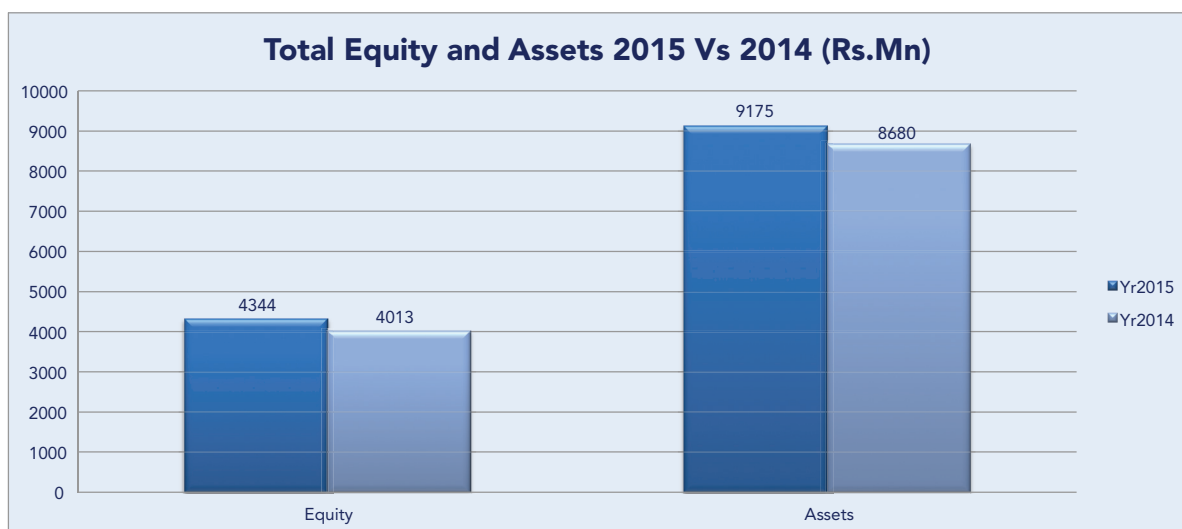
OUR VALUES

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

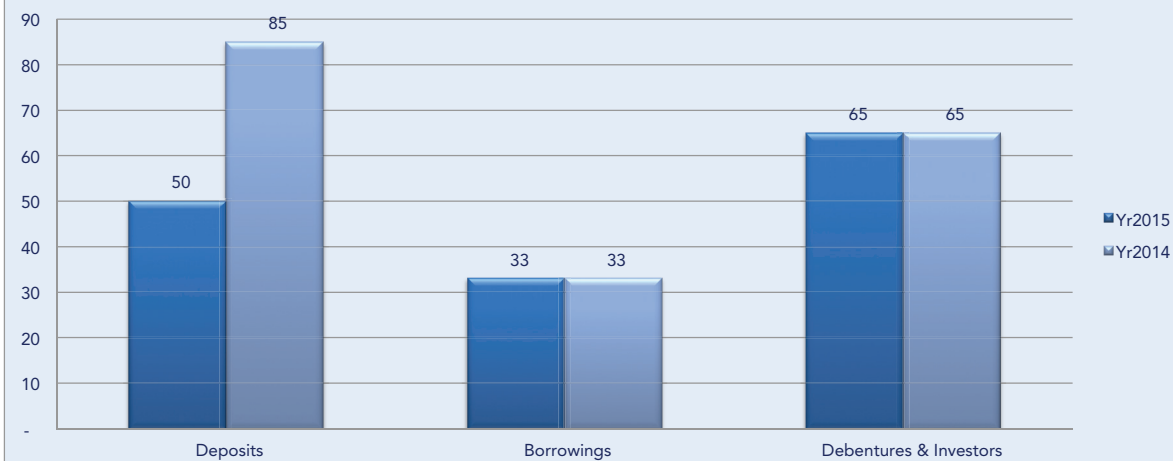
Professionalism
Integrity
Efficiency
Trust
Openness
Social Responsibility



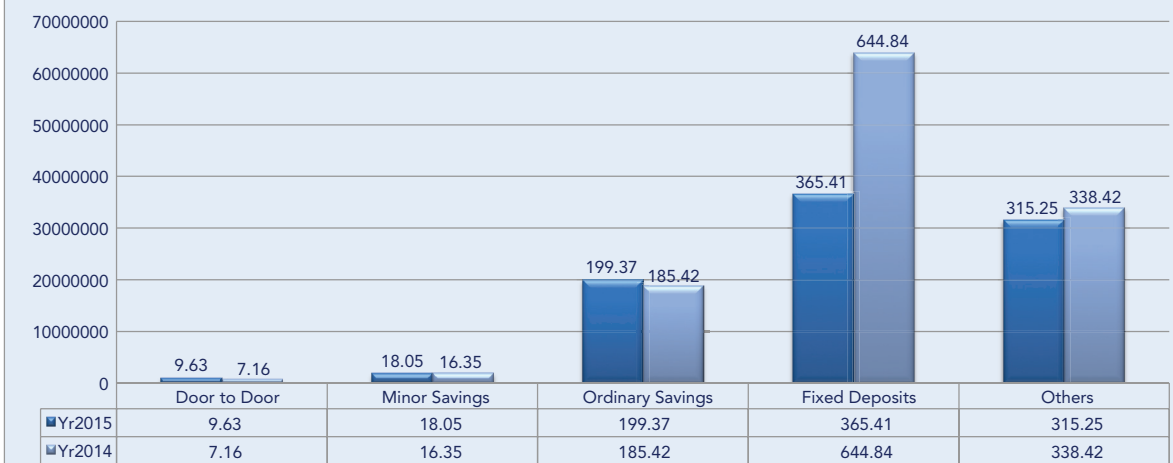
FINANCIAL HIGHLIGHTS



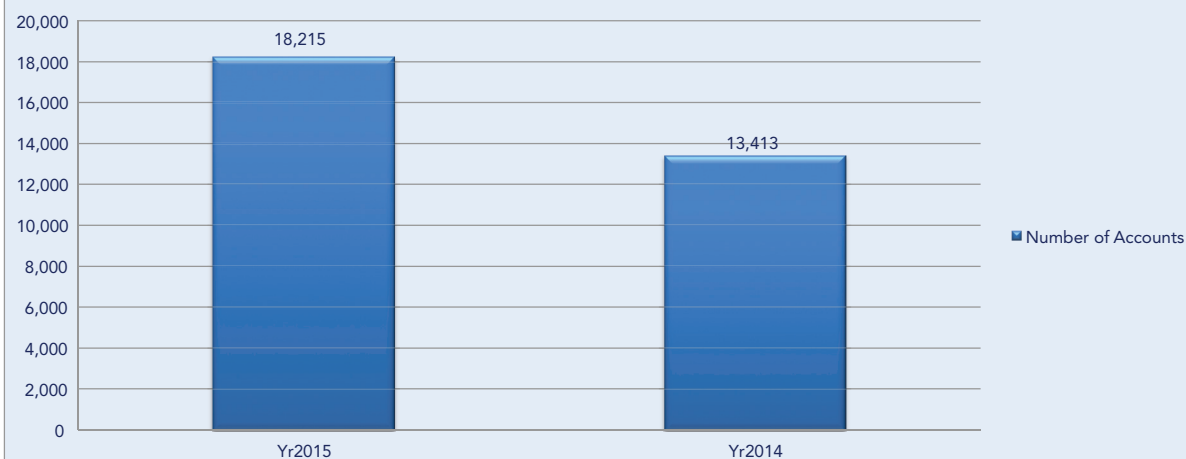
Interest Expenses - 2015 Vs 2014 (Rs. Mn)



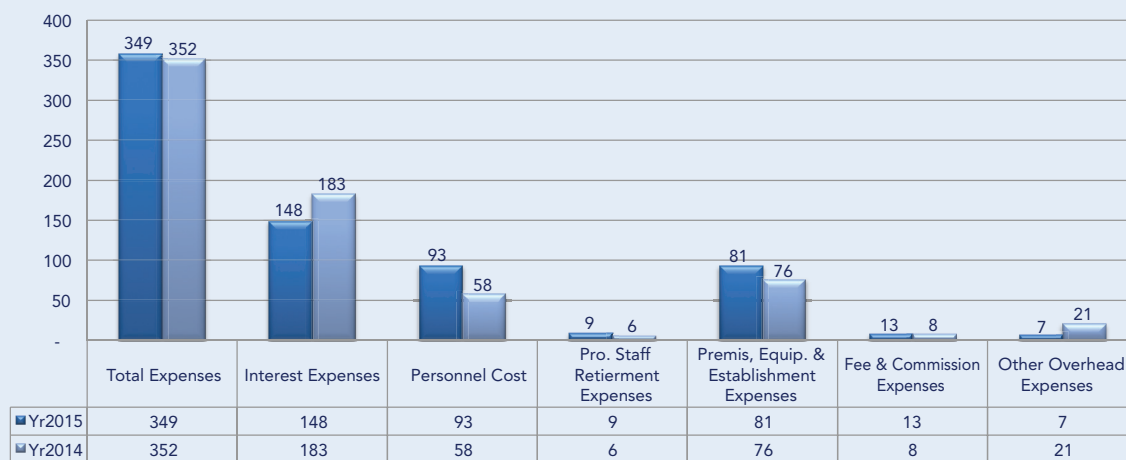
Deposit Comparison - 2015 Vs 2014 (Rs. Mn)



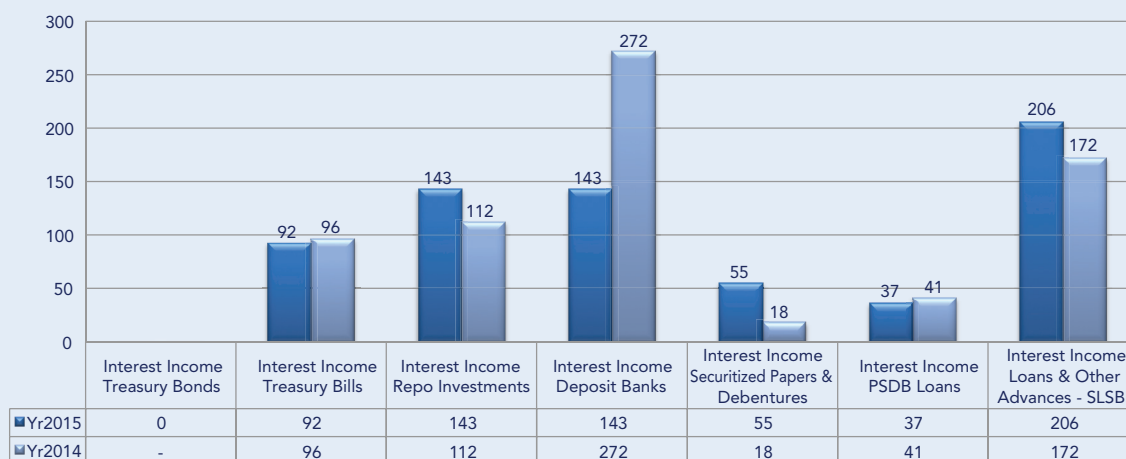
Number of Accounts Comparison - 2015 Vs 2014



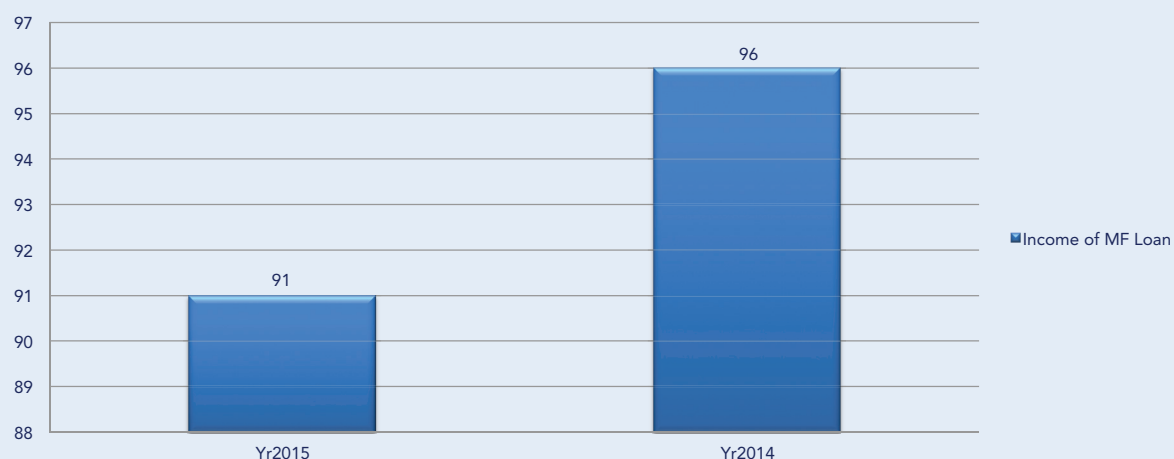
Comparison of Expenses - 2015 Vs 2014 (Rs.Mn)

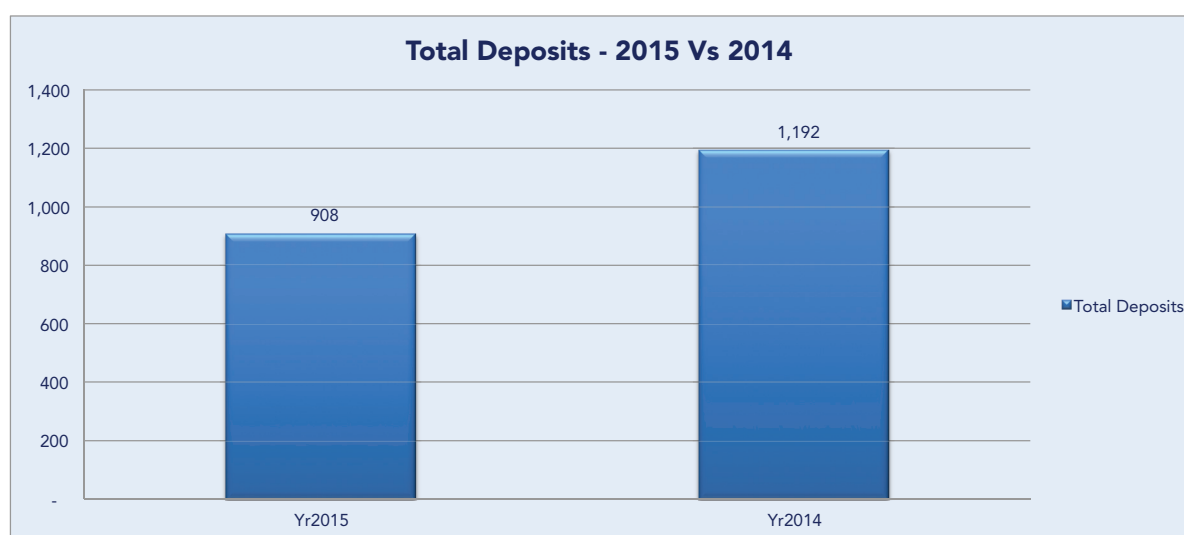
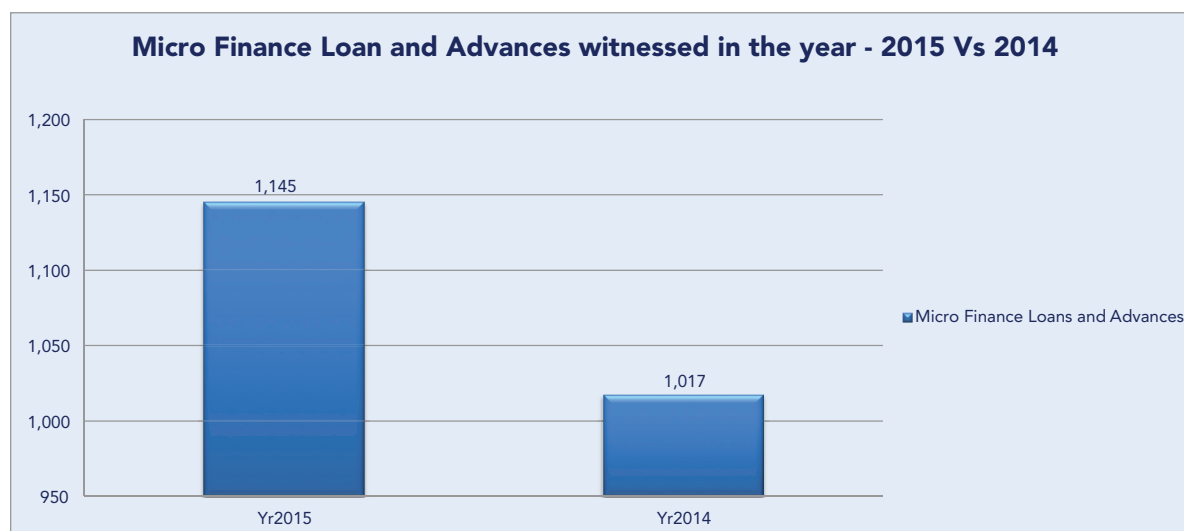


Interest Income - 2015 Vs 2014 (Rs.Mn)



Micro Finance Interest Income Comparison - 2015 Vs 2014





CHAIRMAN'S MESSAGE

It is with great pleasure that I present the Annual Report and final accounts of Sri Lanka Savings Bank Limited (SLS Bank), for the year ended 31st December 2015 on behalf of the Board of Directors.

Challenges

SLS Bank celebrated its 8th anniversary during the year 2015 and strengthens for a successful future. Being a fully government owned bank, SLS Bank has identified the crucial role of Micro, Small and Medium Enterprises (MSMEs) in the economic development process in Sri Lanka. Bank focuses from Micro finance to SME finance in line with the strategic plan of the bank.

SLS Bank is looking forward to stimulate the growth, expansion, and development of Sri Lankan economy by further encouraging, promoting and facilitating micro, small and medium enterprise development in Sri Lanka.

Corporate Governance

When developing corporate governance policies of the bank, it is crucial that there is perfect harmony with the corporate management. The bank has formed several sub committees with the corporation of the Board of Directors. Board Audit Committee, Board Integrated Risk Management Committee, Board Credit Committee, Board Human Resource and Remuneration Committee, Board Nomination Committee and Board Legal & Recovery Committee have played a vital role in strengthening the Bank's corporate governance. The contributions made by these directors and the commitment they have portrayed towards the growth of the Bank are noteworthy.

Message to Stakeholders

Our customers and business partners, whose confidence and trust on us are extremely important and sincerely appreciated. I thank all the stake holders who have stood by SLS Bank over the years. The most valuable relationships are those that remain resolute under all circumstances.

To the customers of SLS Bank, especially our rural customers and Micro Finance partner organizations, I would like to emphatically state that you are our strength and will remain so.

Among many challenges a key concern for the bank was finding people with the right skills and knowledge to manage the business. My message to the employees of SLS Bank is that we collectively have an obligation to develop our country and our people. I would like to express deep appreciation to each and every member of our staff who have worked hard amidst trying circumstances to deliver this year's results. The Bank's success would not be possible without their dedication and continued loyalty.

Appreciation

I am also grateful to the Hon. Minister of Public Enterprise Development, Hon. Deputy Minister of Public Enterprise Development, Hon. Finance Minister, Hon. State Minister of Finance, Secretary, Ministry of Public Enterprise Development, Secretary to the Treasury, the Governor of the Central Bank, Director, Bank Supervision Department of Central Bank, the Auditor General & his staff, the Attorney General, the heads of other regulatory bodies and their teams for their generous corporation and guidance.

I would like to express my sincere appreciation for the continued wise guidance and support provided by my fellow Directors of the Sri Lanka Savings Bank Limited. I take this opportunity to convey my appreciation to the ex-board members of the SLS Bank for their immense contribution to the bank during the years

In particular, I thank the General Manager /CEO and his management team for their competent and prudent management with all staff for their supportive roles and commitment towards achieving goals under highly competitive environment.



K. Amarasinghe
Acting Chairman

**GENERAL
MANAGER/
CHIEF
EXECUTIVE
OFFICER'S
REVIEW**



It gives me a great pleasure and pride to present the Annual Report of the year 2015 with certain milestones that we have achieved. SLS Bank celebrated its 8th anniversary during the year while meeting initial objectives of the Bank and immerges as MSME (Micro, Small and Medium Enterprises) Bank. We were able to reach several key millstones during the year and achieved excellent profit growth despite the fact that, we are still young bank in the market. I would like to say to all our stake holders that foundation we laid down during the year 2015 would help us to excel in forth coming years. Hence there is no doubt that we will achieve our vision while immerge as leading Government sector Bank which is catering to the Micro Finance as well as MSME sector in a large scale in Sri Lanka.

• The External Environment

Year 2015 begun with new hopes and challenges fueled by Presidential election followed by General Election. With 180 Degree change in Political environment of the country brings, new challenges, opportunities and responsibilities to the Business community of Sri Lanka.

The drop down of Oil price by more than 50% compared to year 2014 in average is been a blessing to the country where market profitability is directly affected by the same in positive manner.

However, the government has been highly concerned over the rising import bill of the country which is largely fueled by the high liquidity generates by Banking and Financial institutions in a way of loans to the general public. Hence the adverse effect on Balance of Payment was experienced.

During the period external environmental factors created mix of opportunities as well as barriers for banking business. However, with the patronage of new Board of Directors as well as senior management of the Bank, we were able to grab the market opportunities and use our internal strength in a maximum possible manner to overcome our barriers. Hence we were able to achieve a considerable level of success compared to the previous year.

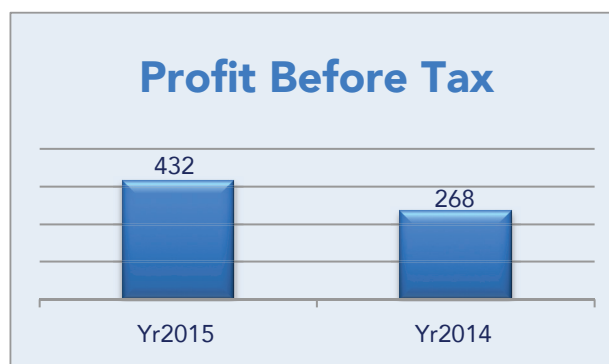
• Brief Financial Achievements



Loan Growth
37%

SLS Bank being a fully owned government bank which focuses on MSME (Micro, Small and Medium Enterprises) sector has diverted its business activities mainly on less privileged sector of the economy contrary to the profit focus, along with President's vision over poverty alleviation. There for SLS Bank has focused more on

MSME sector during the year by forming separate Micro Finance Division while more percentage of the advances portfolio was granted for commencement and enhancement of the Micro level Enterprises in the country mainly focusing to the under developed areas. During the year bank has achieved 37% growth in loan portfolio from Rs.1.7billion to Rs.2.4billion. While focus on less privilege sectors with low



cost loan programs to the community Bank find difficulties to offer attractive interest rates for our depositors. Rising interest rate in the market has made new challenge to the Bank due to demand over higher return by the depositors. There for during the year deposit portfolio shows negative growth of 31% which leads to the reduction in fund availability for investment. Accordingly interest income growth has been confined to (5)% during the year. Despite the pressure of external factors over the financial performance of the Bank, it was able to maintain operating profit more or less at the same level while achieving 84% growth in net profit.

- **Development of the product port folio**

Bank has identified the importance of creating a new Savings culture as well as encourage the normal savings. During the year Bank introduced a new minor savings product named “SLS Thilina” with attractive features of Insurance cover without incurring any cost to the beneficiaries. The product was introduced to canvass long term deposits targeting to cater our SME clientele to enable us to build up a long term savings to use for development of MSME loan products.

We made steps to connect our loan portfolio to MSME sector and “Praja Diriya” loan scheme specially designed for rural and urban self employed people. We also introduced a new loan product named “SLS Diriya” which will cater to the SME sector for the projects will be upgraded from Micro level enterprises or new commencement.

- **Human Resource Development**

During the year Bank paid more attention on Human Recourse Development activities and strengthen the professional banking culture within the bank. Number of training programs arranged to facilitate staff development while increase the salary of the staff to be par with industry average. Thereby we were able to attract better quality human resources. Thus, heavy development in Human resource process has lead 58.4% increment of Personnel cost which Bank take as good investment with long term returns. We also started to implement the “Bare foot Banking Practice” in the bank by recruiting new Business Development Officers where we could achieve very attractive results persuading us to launched our credit lines though out the country.

- **In line with Government objectives and plans**

We have planned to cater for the less fortune sector of the economy in line with the Government objectives, despite the limited number of Branches. We have widen our services approaching nearly 260 partner organizations though out the country, we also were able to cater more than 6000 end users. Bank has granted re-financed loans to make the end borrowers be much comfortable whom have been faced some difficulties to offer much weighted collateral. There by we have made necessary arrangements to convert non bankable clients to bankable by way of our flexible and customer friendly lending products.

- **Co-operate Social Responsibilities**

Bank has conducted several poverty alleviation programs, trade fair, exhibitions along with partner organizations to empower self employed population as well as the officials of partner organizations in rural areas of the country. Nevertheless, several programs were held along with IDB (Industrial Development Board) and ITI (Industrial Technology Institute) to improve the awareness of the entrepreneurs to enable them to improve their Technical knowhow, efficiency and effectiveness as well as Total Quality Management.

- **Settlement of Pramuka Depositors’ Funds**

One of our prime responsibilities is to settle the Depositors Funds of Pramuka Savings and Development Bank which was suspended the Business operation in the year 2002 by the Central Bank of Sri Lanka. We have released Rs 69.3Mn Out of the total individual deposit holders liabilities of Rs 270.8Mn during the year 2015 and already planned to release balance of Rs. 201.5 Mn during the year of 2016. Also intends to complete the settlement of individual depositors’ liabilities in full, as per the repayment scheme published by Central Bank of Sri Lanka.

Further we have already planned to release Rs. 1.9Bn corporate deposits prior to the end of year 2017.

• Future Plans and Developments

Bank has very clear long term as well as short term plans in several aspects to achieve its' Goals and objectives while catering for all stakeholders.

The implementations of BASEL III guidelines have brought new challenges to meet the minimum capital requirement. Bank has developed optional plans to keep in line with ultimate objectives. We also have planned to introduce new lending products to enable us to cater in line with the policies of the Government and the Regulatory Body specially to the SME sector clients whom will be developed from Micro level to SME level.

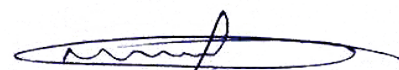
• Conclusion

I wish to convey my deep gratitude to Hon. Minister as well as the Deputy minister of the Ministry of Public Enterprises and Development, Hon. Minister of Finance, the secretary Ministry of Public Enterprises development, the secretary Ministry of Finance, secretary to the Government Treasury, The Governor of Central Bank of Sri Lanka, The Auditor General and Staff, Attorney General and the staff, The Director Bank Supervision department and staff for the tremendous support extended.

Also I wish to express my sincere gratitude to the chairman and all Board of Directors for their valuable guidance and unstinted corporation tendered to me to take the institution in the positive and corrective path during the year.

Then I take this opportunity to offer my sincere thanks to my whole senior management, all other management staff and other staff who have contributed immensely with much dedication to achieve the organization results, as well as the customers and all other stakeholders for encouraging me to achieve the desired targets.

Finally I wish to offer my sincere thanks and appreciation to our most valuable customers, business partners as well as all other stake holders for continuing the business relationship with us by having confidence on us.



W. A. Udaya Bandara
General Manager / Chief Executive Officer

BOARD OF DIRECTORS

Seated L to R

Mrs. S.A.C. Kulatillake

Mr. K. Amarasinghe

Mr. P. Dheerasinghe

Standing L to R

Mr. A. Shashimal Madapatha

Mr. P.S. Dayananda

Mr. D.S.W. Samarasekara

Mr. D.A. Panditha

Mr. R.M.C. Rathnayaka

Mr. Sunil Witharanage

Mr. C.V.J. Arambewela*



* not in the picture



BOARD OF DIRECTORS



Mr. K. Amarasinghe
Acting Chairman / Working Director
Non - Executive Director
Joined date: 12.02.2015



Mrs. S.A.C. Kulathilake
Non - Executive Director
Joined date: 24.02.2015



Mr. D.S.W. Samarasekara
Non - Executive Director
Joined date: 20.07.2016



Mr. R.M.C. Rathnayaka
Non - Executive Director
Joined date: 20.07.2016



Mr. Sunil Witharanage
Non - Executive Director
Joined date: 12.02.2015



Mr. A. Sashimal Madapatha
Non - Executive Director
Joined date: 12.02.2015



Mr. P. Dheerasinghe
Non - Executive Director
Joined date: 20.07.2016



Mr. P.S. Dayananda
Non - Executive Director
Joined date: 20.07.2016



Mr. D.A. Panditha
Non - Executive Director
Joined date: 20.07.2016



Mr. C.V.J. Arambewela
Non - Executive Director
Joined date: 26.12.2016

SENIOR MANAGEMENT

Seated L to R

Mr. K.K.K.S. Kumara
Senior Manager – Operation & Business Development

Mr. W.A.U. Bandara
General Manager / CEO

Ms. A.R. Ramya Piyasekara
Senior Manager – Legal cum Company Secretary

Standing L to R

Mr. S.A.K.A.K. Sooriyaarachchi
Senior Manager - Risk Management

Mr. N.N.N. Vithanage
Senior Manager - IT

Mr. G.M.S.N.K.M. Gurusinghe
Senior Manager - Administration & Establishment

Mr. K.M.W.C. Perera
Senior Manager - HRD

Mr. K.N.A. Dissanayake
Senior Manager - Finance & Planning

Mr. E.W. Priyantha
Acting Senior Manager - Credit





CORPORATE MANAGEMENT



Seated L to R

Ms. D.M.N.T. Dissanayake
Deputy Manager

Ms. D.S. Rajakaruna
Deputy Manager

Ms. S.J. Sally
Manager-Head Office Branch

Ms. K.H.S.H. Abeywickrama
Assistant Manager-Legal

Ms. C.J. Ambepitiya
Assistant Manager-Legal



Standing L -R

Ms. T.P. Pushpakanthi
Manager-Matara Branch

Mr. A.D.B.C. Athapaththu
Assistant Manager-Treasury Management

Mr. N.M.A.T.B. Arambepola
Manager-Mannar Branch

Mr. R.N. Rajamanthri
Manager-Recovery

Mr. B.J.H. Perera
Assistant Manager-IT

Mr. G.G.A.N. Sanjeewa
Assistant Manager

Mr. G.D.K.S. Yapa
Assistant Manager

Mr. K.A.N. Rasikapriya
Manager-Internal Audit

Mr. K.M. Perera
Manager-Anuradhapura Branch

Mr. K.S.D. Fernando
Assistant Manager

Mr. H.K.E. Padmakumara
Acting Manager-Leasing

Ms. P.B.N. Sajeewani
Deputy Manager

CORPORATE SOCIAL RESPONSIBILITY PROGRAMS - 2015

One of the major objectives of the bank is alleviation of poverty by empowering the poor towards their own development through social mobilization and financial assistance without granting them charitable donations.

The microfinance division of the bank conducted a number of programs in rural areas to promote financial awareness of rural population. The Bank has successfully conducted microfinance credit scheme to rural people commence the economic activities for the enhancement of income level and living standards.



Bank has conducted a sharing sessions with Galle district community leaders especially Bank registered partner organizations to identify their requirement and how to accommodate their financial gap and develop their members.



SLS Bank has celebrated a bank 8th Anniversary on 10th March 2015 and organized special programme with the collaboration with Galle district partner organizations at the Main hall, Galle municipal council. A special trade fair, exhibition was organized by the bank to promote self employed products produced by partner organization entrepreneurs who were received financial assistance by SLS Bank. The fair consists with flowers, traditional sweets, cottage industries and other handmade products.

Other objective was this event to upgrade technical knowledge of entrepreneurs supporting with Industrial Development Board (IDB) and Industrial Technology Institute (ITI). They emphasized how to use modern technology to produce their products with cost effectiveness and market in the competitive business environment. Further technical speech made by technical consultants and provided practical solutions for the numerous issues faced by entrepreneurs.



SLS Bank Vesak Commemorations

SLS Bank organized Dansalas at branch level on vesak full moon poya day of 2015. These Dansalas were successfully organized by branches in Anuradhapura and Head office, Borella under guidance of their respective branch managers.



Matara Branch has organized a special donation program celebrating their 2nd anniversary. They made a donation to children were at "Matara Keerthi Kumara Niwasaya". Branch Manager and all staff at Matara branch were participated.



DIRECTORS REPORT

The Directors of the Sri Lanka Savings Bank Limited have pleasure in presenting their Annual Report together with the Audited Financial Statements for the Financial Year ended 31st December 2015.

Review of Business

The Chairman's Message and the Review of Operations by the General Manager/CEO gives a detailed Report on the operations of the Sri Lanka Savings Bank Limited; for the financial year ended 31.12.2015. In addition to this a full account of operations can be found in the Audit Report presented by Government Auditors.

Legal Status of the Bank

The Bank was established on 7th July 2006 under Companies Act No. 17 of 1982, registered as a public company bearing registration No: N (PBS) 1336. It was re-registered under the new Companies Act No: 07 of 2007 and bears the re - registration No: PB 296. The Bank was licensed as a specialized bank under the Banking Act No. 30 of 1988 and commenced banking business on the 10th of March 2008.

Board of Directors

The Board of Directors of Sri Lanka Savings Bank Limited comprised of fourteen Directors during the year under review. The entire Board of Directors in compliance with the Articles of Association of the Bank has been appointed by the Secretary to the Treasury, Ministry of finance & planning. The Board meets at least once a month and met 17 times during the Year 2015. The Directors of the bank during the year 2015 were as follows:

- Mr. Asoka Somarathne - Chairman (Resigned on 08/06/2015)
- Mr. Karunarathna Amarasinghe (Working Director / Acting Chairman from 08/06/2015)
- Mrs.S.A.C. Kulathilaka (Treasury Representative)
- Mr. Sunil Witharanage
- Mr. Sam Samarasinghe (Resigned on 11/12/2015)
- Mr. Shanthilal Condegama
- Mr. A .Shashimal Madapatha
- Ms. Dushyanthi Wickramarachchi
- Mr. Y.G.P. Dayananda
- Mr. Prasanga N. Perera
- Mr. Hiran Vichakshana
- Mr. S. Lankeshwara (Appointed on 13/07/2015)
- Mr. A.L.M. Yusuf (Appointed on 12 /02 /2015 and resigned on 30/ 03/2015)
- Mr. L. Wijewardane (Appointed on March 2015 and resigned on 28 /04 /2015)

Participation at Board Meetings - 2015

Name of the Director	No of Meetings held during 2015	No of Meetings Attended
Mr. Asoka Somarathne (Chairman retired on 06.08.2015)	17	08
Mr. Karunarathne Amarasinghe (Acting chairman with effect from 6th August 2015)	17	17
Mrs. S.A.C. Kulathilaka	17	14
Mr. S. Witharanage	17	15
Mr. A.S. Madapatha	17	16
Mr. S. Samarasinghe	17	16
Mr. Prasanga N. Perera	17	14
Ms. D. Wickramarachchi	17	14
Mr. S. Condegama	17	16
Mr. Y.G.P. Dayananda	17	06
Mr. S. Lankeshwara (Appointed on 13/07/2015)	17	08
Mr. Hiran Vichakshana	17	04

Directors Interest in Contracts

The Directors have no direct or indirect interest in any contract or proposed contracts with the Bank except as disclosed in the Note No.33 to Financial statement.

Director's Responsibility

The Board of Directors takes responsibility for the preparation and presentation of these Financial Statements. The Board of Directors take responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year. The Board of Directors oversees the Management responsibilities for financial reporting through their regular meeting reviews and the Audit Committee Reports.

Systems of Internal Controls

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

Corporate Governance

Systems and procedures are in place to ensure that Corporate Governance is followed. Specific measures taken in this regard are elaborated on page No.30 of this Report.

Audit Committee

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

- Mrs. S.A.C. Kulathilake - Chairperson of the Committee
- Mr. K. Amarasinghe - Member
- Mr. Sunil Witharanage - Member

The report of the Audit Committee is given on page No.57

Vision, Mission and Corporate Conduct

The Bank's Vision Mission is given in page No.2 & 3 of this Report. The business activities of the Bank were conducted adhering of the highest level of ethical standards in order to achieve the Vision and Mission of the Bank.

Auditors

The Financial Statements for the year have been audited by Auditor General. A resolution pertaining to ratification of appointment of Auditors has been proposed at the Annual General Meeting/Extraordinary General Meeting

Staff

As at 31st December 2015 there were 106 members employed by the Bank. The composition of this number is as follows:-

Cadre position as at 31.12.2015

Designation	Number of Employees
General Manager / CEO	01
Senior Manager	08
Manager	05
Branch Manager	04
Deputy Manager	04
Assistant Manager	08
Officer	04
Credit Officer	07
Recovery Officer	01
Senior Bank Assistant	15
Secretary (grade 1)	02
Bank Assistant	25
Legal Assistant	01
Receptionist Cum Telephone Operator	01
Care Taker	03
Senior Driver	05

Driver	02
Senior Office Assistant	03
Office Assistant	01
Labourer	02
Trainee	03
BDO	01
Total	106

General Manager / Chief Executive Officer (CEO)

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

Going Concern

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

Financial Statement

Financial Statements of the Bank have been prepared on a going-concern basis in compliance with the Sri Lanka Accounting Standards and the Banking Act No: 30 of 1988 and Amendments thereto and in conformity with the generally accepted accounting principles and applied consistently. Reasonable and prudent judgments have been made where necessary when preparing the financial statements.

Profit and Appropriations (in thousands)

Year ended	31.12.2015 (Rs.)	31.12.2014 (Rs.)
Profit before taxation	432,283	267,686
Taxation	-	32,831
Profit after taxation	432,283	234,855
Retained Profit /(loss) brought Forward	2,477,641	2,283,772
Profit available for Appropriation	432,283	234,855
Directors have made the Following appropriations : to reserve	(594,091)	33,509
Retained Profit carried Forward	2,315,832	2,485,118

Revenue

The total gross income of the Bank for the financial year ended 31st December 2015 was Rs.746 Million.

Capital Expenditure

The total expenditure on the acquisition of Property, Plant & Equipment during the year amounted to Rs.26.79 Million. Details of Which are shown in cash flow statements to the accounts.

Statutory Payments

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

Post Balance Sheet Events

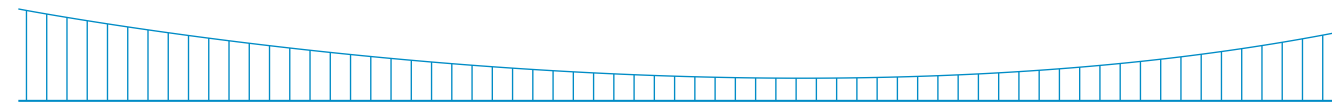
No events have arisen since the Balance Sheet date which requires adjustment or disclosure in the accounts.

By order of the Board,



.....
A.R.R. Piyasekara

Secretary to the Board
Sri Lanka Savings Bank Limited
Colombo

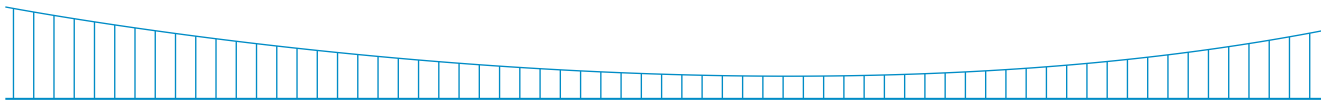


CORPORATE GOVERNANCE

Level of Compliance with the Banking Act Direction No.11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed specialized Banks in Sri Lanka issued by the Central Bank of Sri Lanka (CBSL) during the year 2015.

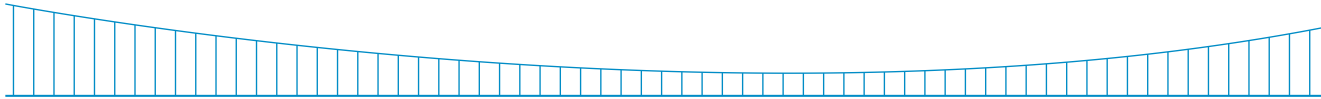
Corporate Governance Section and Rule	Level of Compliance
3 (1) The Responsibilities of the Board	
3 (1) (i) The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following:	
a) Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;	Complied
b) Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	Complied
c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied
d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied
e) Review the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied
f) Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied
g) Define the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	Complied
h) Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	Complied

Corporate Governance Section and Rule	Level of Compliance
i) Periodically assess the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied
j) Ensure that the bank has an appropriate succession plan for key management personnel;	Complied
k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied & policy to be reviewed IRM policy ammended - 2016
l) Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators;	Complied
m) Exercise due diligence in the hiring and oversight of external auditors (as per the compliance officer's opinion above level of compliance status are correct.	Complied Audit has been done by the government auditors
3(1)(ii) The board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with Direction 3(5) of these Directions.	Complied
3(1)(iii) The board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied



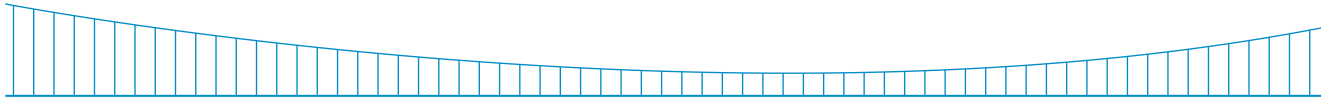
Corporate Governance Section and Rule	Level of Compliance
3(1)(iv) The board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied
3(1)(v) The board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given.	Complied
3(1)(vi) The board procedures shall ensure that a director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Not complied The directors are apprised of their attendance in accordance with the corporate governance code. One of director has not attend 3 consecutive board meeting and other directors have attend more than 2/3 of the meeting for the year.
3(1)(vii) The board shall appoint a company secretary who satisfies the provisions of Section 43 read with Section 76H of the Banking Act, No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied
3(1)(viii) All directors shall have access to advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed.	Complied

Corporate Governance Section and Rule	Level of Compliance
3(1)(ix) The company secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied
3(1)(x) Minutes of board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings. Therefore, the minutes of a board meeting shall clearly contain or refer to the following: (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 testimonies and confirmations of relevant executives which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions.	Complied
3(1)(xi) There shall be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense. The board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/their duties to the bank.	Directors are able to obtain independent professional advice, as and when necessary in discharging their responsibilities. Board approved procedure to be implemented.



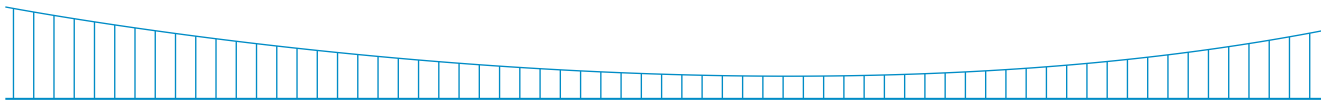
Corporate Governance Section and Rule	Level of Compliance
3(1)(xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a director has a conflict of interest in a matter to be considered by the board, which the board has determined to be material, the matter should be dealt with at a board meeting, where independent non-executive directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the board meeting.	Complied
3(1)(xiii) The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.	The Board has a schedule of matters specially reserved for its decision to ensure that direction & control of the Bank is within its authority in line with regulatory codes, guidelines & international Best Practice. Formal schedule to be developed.
3(1)(xiv) The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.	The Board is aware of the need to inform the Director of Bank Supervision prior to taking any decision or action the Bank is become insolvent.
3(1)(xv) The board shall ensure that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	We have referred this matter to the treasury as well as line ministry to get their alternative solutions where the reply is yet to be received. Suggested options are given below. • Merge with NSB as government proposal. • Obtaining grant to meet the gap as capital from treasury • Issuing debentures/ shares

Corporate Governance Section and Rule	Level of Compliance
3(1)(xvi) The board shall publish in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied
3(1)(xvii) The board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied
3(2) The Board's Composition 3(2)(i) The number of directors on the board shall not be less than 7 and not more than 13.	Complied
3(2)(ii) (A) The total period of service of a director other than a director who holds the position of chief executive officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such director up to 01 January 2008.	Complied



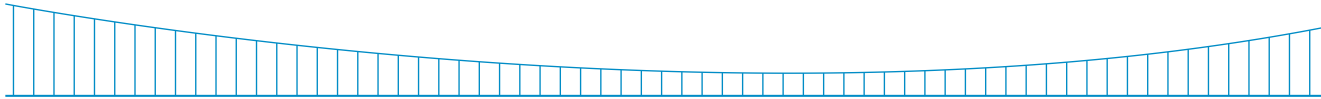
Corporate Governance Section and Rule	Level of Compliance
(B) In this context, the following transitional provisions shall apply: a) In the event that there is only one director on the board who has served more than nine years as at 01 January 2008, he/she shall be deemed to have vacated the office as a director as at 31 December 2008. b) In the event that there are two or more directors on the board who have served more than nine years as at 01 January 2008, the following provisions shall apply: I. Of those directors whose period of service has exceeded nine years, the longest serving director, shall be deemed to have vacated office as a Director on 31 December 2008. II. Thereafter, at the end of each succeeding year, the remaining directors shall be deemed to have vacated office in sequence, at least one director each year, (on the basis of the longest to the shortest length of service as a director), until all directors who have served a period in excess of nine years as at 01 January 2008, have been deemed to have vacated office. Provided also, that all directors of the bank who have served more than nine years as at 01 January 2008 shall be deemed to have vacated their office by or before 31 December 2011. c) In the event there are any directors who are due to complete nine years of service between 01 January 2008 and 31 December 2010, such directors shall also be deemed to have vacated office, in sequence, at least one director each year, (on the basis of the longest to the shortest length of service as a director), after the directors as set out in Direction 3(2)(ii)(B)(b) have vacated their office as directors. Provided, however, that all such directors covered by this sub-direction (c) shall also be deemed to have vacated their office by or before 31 December 2011.	Complied
3(2)(iii) An employee of a bank may be appointed, elected or nominated as a director of the bank (hereinafter referred to as an “executive director”) provided that the number of executive directors shall not exceed one-third of the number of directors of the board. In such an event, one of the executive directors shall be the chief executive officer of the bank	Complied

Corporate Governance Section and Rule	Level of Compliance
3(2)(iv) The board shall have at least three independent non-executive directors or one third of the total number of directors, whichever is higher. This sub-direction shall be applicable from 01 January 2010 onwards. A non-executive director shall not be considered independent if he/she: a) has direct and indirect shareholdings of more than 1 per cent of the bank; b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank. c) has been employed by the bank during the two year period immediately preceding the appointment as director; d) has a close relation who is a director or chief executive officer or a member of key management personnel or a material shareholder of the bank or another bank. For this purpose, a “close relation” shall mean the spouse or a financially dependant child; e) represents a specific stakeholder of the bank; f) is an employee or a director or a material shareholder in a company or business organization: I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank; 3(2)(v) In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that applies to the independent director.	Complied No alternate Director was appointed during the year.
3(2)(vi) Non-executive directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Secretary to the Treasury appoints Directors as per the Articles of Association.



Corporate Governance Section and Rule	Level of Compliance
3(2)(vii) A meeting of the board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless more than one half of the number of directors present at such meeting are non-executive directors. This sub-direction shall be applicable from 01 January 2010 onwards.	Complied
3(2)(viii) The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the bank. The bank shall disclose the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Complied
3(2)(ix) There shall be a formal, considered and transparent procedure for the appointment of new directors to the board. There shall also be procedures in place for the orderly succession of appointments to the board.	The Secretary to the Treasury appoints the directors.
3(2)(x) All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	None
3(2)(xi) If a director resigns or is removed from office, the board shall: (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied
3(2)(xii) A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Complied

Corporate Governance Section and Rule	Level of Compliance
3 (3) Criteria to assess the fitness and propriety of directors In addition to provisions of Section 42 read with Section 76H of the Banking Act, No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a director or to continue as a director.	
3(3)(i) The age of a person who serves as director shall not exceed 70 years. (A) Where a director who is currently serving at a bank is over 70 years of age as at 01 January 2008, the following transitional provisions shall apply, subject, however, to the provisions as set out in Direction 3(2)(ii) hereof. a) If a director is over 75 years of age as at 01 January 2008, such director may continue to serve as a director for a further period that shall not extend beyond 31 December 2008, and shall be deemed to have vacated office on 31 December 2008; b) If a director is between 70 and 75 years of age as at 01 January 2008, such director may continue to serve as a director for a further period that shall not extend beyond 31 December 2009, and shall be deemed to have vacated office on 31 December 2009. (B) Where a director who is currently serving at a bank reaches the age of 70 years, between 01 January 2008 and 31 December 2009, such director may, subject to the provisions as set out in Direction 3(2)(ii) hereof, continue to serve as a director for a further period that shall not extend beyond 31 December 2010 and shall be deemed to have vacated office on 31 December 2010.	Complied
3(3)(ii) A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank. Of such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied
3(4) Management functions delegated by the Board 3(4)(i) The directors shall carefully study and clearly understand the delegation arrangements in place.	Complied



Corporate Governance Section and Rule	Level of Compliance
3(4)(ii) The board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions.	Complied
3(4)(iii) The board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied
3(5) The Chairman and Chief Executive Officer3(5)(i) The roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual.	Complied
3(5)(ii) The chairman shall be a non-executive director and preferably an independent director as well. In the case where the chairman is not an independent director, the board shall designate an independent director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the bank's Annual Report.	Complied
3(5)(iii) The board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the board.	Complied

RISK MANAGEMENT

Risk in itself is not bad; risk is essential to progress, and failure is often a key part of learning. But we must learn to balance the possible negative consequences of risk against the potential benefits of its associated opportunity.

(Van Scoy, 1992)

The Risk Management Practice of the SLS Bank



The current operating environment is demanding a more integrated risk management approach . It is no longer sufficient to manage risk at the individual activity level or in functional silos.

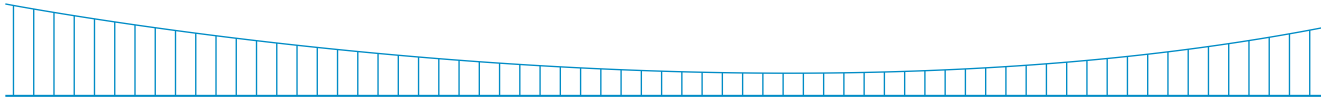
The bank Integrated risk management does not focus only on the minimization or mitigation of risks, but also supports activities that foster innovation, so that the greatest returns can be achieved with acceptable results, costs and risks.

Key questions that may assist your identification of risks include:

- For us to achieve our goals, when, where, why, and how are risks likely to occur?
- What are the risks associated with achieving each of our priorities?
- What are the risks of not achieving these priorities?
- Who might be involved (for example, suppliers, contractors, stakeholders)?

The use of the following tools and techniques may further assist the identification of risks:

- Examples of possible risk sources,
- Checklist of possible business risks and fraud risks,
- Typical risks in stages of the procurement process,
- Scenario planning as a risk assessment tool ,
- Process mapping, and
- Documentation, relevant audit reports, program evaluations and / or research reports.



Key questions to ask at this stage of the risk assessment process to identify the impact of the risk are:

- Why is this event a risk?
- What happens if the risk eventuates?
- How can it impact on achieving the objectives/outcomes?

Risk identification of a particular system, facility or activity may yield a very large number of potential accidental events and it may not always be feasible to subject each one to detailed quantitative analysis.

Analyze the risk

Risk analysis involves the consideration of the source of risk, the consequence and likelihood to estimate the inherent or unprotected risk without controls in place. It also involves identification of the controls, an estimation of their effectiveness and the resultant level of risk with controls in place (the protected, residual or controlled risk). Qualitative, semi-quantitative and quantitative techniques are all acceptable analysis techniques depending on the risk, the purpose of the analysis and the information and data available.

Evaluate the risk

Once the risks have been analysed they can be compared against the previously documented and approved tolerable risk criteria. When using risk matrices this tolerable risk is generally documented with the risk matrix. Should the protected risk be greater than the tolerable risk then the specific risk needs additional control measures or improvements in the effectiveness of the existing controls.

Treat the risk

An unacceptable risk requires treatment. The objective of this stage of the risk assessment process is to develop cost effective options for treating the risks.

outcomes that include:

- Avoiding the risk,
- Reducing (mitigating) the risk,
- Transferring (sharing) the risk, and
- Retaining (accepting) the risk.

Avoiding the risk - not undertaking the activity that is likely to trigger the risk. Reducing the risk - controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk occurs.

Monitoring the risk

It is important to understand that the concept of risk is dynamic and needs periodic and formal review. The currency of identified risks needs to be regularly monitored. New risks and their impact on the organization may be taken into account.

This step requires the description of how the outcomes of the treatment will be measured.

Milestones or benchmarks for success and warning signs for failure need to be identified.

The review period is determined by the operating environment . This is on the basis that all plant changes are subject to an appropriate change process including risk assessment. The review needs to validate that the risk management process and the documentation is still valid. The review also needs to consider the current regulatory environment and industry practices

which may have changed significantly in the intervening period. The organisation, competencies and effectiveness of the safety management system should also be covered. For an efficient risk control the analysis of risk interactions is necessary.

Communication and reporting

Clear communication is essential for the risk management process, i.e. clear communication of the objectives, the risk management process and its elements, as well as the findings and required actions as a result of the output.

Risk management is an integral element of organization's management. However, for its successful adoption it is important that in its initial stages, the reporting on risk management is visible through the framework. The requirements on the reporting have to be fixed in a qualified and documented procedure

BIRMC

SLS Bank, we have a proactive and forward looking risk management philosophy that is clearly communicated throughout the Bank, which is necessary for the creation and evolution of an appropriate risk culture that balances growth and risk. Risk philosophy of the Bank is aligned with the vision, mission, policies, and goals in order to ensure an efficient resource allocation within an appropriate strategic management framework. Our internal processes ensure that the returns are commensurate with the risks assumed and managed within the defined risk appetite.

The Bank Integrated Risk Management Committee of Sri Lanka Savings Bank Ltd has been established by the Board of Directors of the Bank in terms of the Banking Act Direction No 12 of 2007 on corporate Governance for Licensed Banks in Sri Lanka. The BIRMC operates as a functional committee of the Board which was delegated all risk management responsibilities including the task of managing and supervising the risk functions of the Bank and ensuring compliance with regulations, as required by the mandatory code of corporate Governance issued by the CBSL.

Members of the Committee

The following Directors were members of the committee during the year 2014.

- Mrs C Kulathilake
- Mr Sam Samarasinghe
- Mr Sunil Vitharana

Chairman of the Bank and the working Director are attended the meetings by invitation. General Manager, Compliance Officer and Senior Manager Legal are attending meetings on regular basis. Senior Manager Risk is secretary to the committee.

The governance structure and oversight of Risk Management rest on the Board of Directors and appropriate policies and procedures are implemented from the guidance of the board approval as required.

The responsibility of understanding the risks assumed by the Bank and ensuring that the risks are appropriately managed are vested with the Board of Directors. The Board ensures that the Bank has established a robust and management as the responsibility of Bank's Corporate and Senior Management subject to the oversight of the Board establishing limits based on risk appetite of the Bank. Established methods to monitor the Bank's compliance with internal policies relating to risk management and effectively communicate all policies and procedures.

Risk Management Department

The Risk Management (RM) Department functions completely independent from the business functions. Accordingly, the Head of RM reports directly to the BIRMC to maintain independence of action.

Meetings

The Committee held four meetings, on a quarterly basis, during the year under review to discuss the normal scope of work. The Committee also assesses all key risks of the Bank such as Credit, Market, Liquidity, Operational Risks and the Key Risk Indicators of all branches on a monthly basis. The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for their information and necessary action. Key members of the staff participate at the meetings as appropriate.

RISK GOVERNANCE COMMITTEES



The Risk Management Department is responsible for: Assisting in the preparation of the Risk Policies and Frameworks and carrying out periodic reviews.

CREDIT RISK MANAGEMENT

It is imperative that bank should have a sound credit risk management system integrated in to the overall risk management framework. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks should have a keen awareness to identify, measure, monitor and control credit risk and should have adequate capital to absorb these risks.

Components of a Good Credit Risk Management System In a bank, an effective risk management system has comprised of the following components:-

- i. Credit Policy and strategy
- ii. Credit Process
- iii. Organizational structure
- iv. People
- v. Culture

i. Credit Policy

a. A bank has a Credit Policy which has been approved by the Board. Credit policy is the foundation on which Credit Risk Management of both portfolio and processes are built. Its aim is to ensure a uniform credit extension to be practiced throughout the bank. A Credit Policy serves as the basis for consistent credit risk management throughout the bank through product, segment, geographic and organizational divisions and should apply to all employees at all levels dealing in credit risk. Credit policies which define appropriate behavior in lending business should support bank's business strategies.

ii. Credit Strategy

The bank has developed its own credit risk strategy that establishes the objectives guiding the bank's credit granting activities and adopt necessary policies/ procedures for conducting of such activities.

iii. Organization Structure

Organization structure is a pre-requisite for the successful implementation of a credit risk management system. Times have changed when the CEO of the bank had discussed and agreed with the customer to lend money and the credit department was requested to process the loan. In an effective system, the Risk Management function would be independent of the business lines and there should not be any conflict of interest between the Credit Risk Management function and the business origination divisions.

The Bank, has Risk Management Committee, which is a Board level sub-committee comprising of CEO and heads of Credit, Market and Operational risks. This committee will devise the policy and strategy for a integrated risk management covering various risks of the bank including credit risk. For this purpose the committee should effectively coordinate between the Credit Committee (CC), the Asset and Liability Management Committee (ALCO) and other committees.

Credit Process

credit process would involve the following steps:-

Transaction management – risk assessment, structuring of facilities, risk rating, internal approval. These functions would normally be carried out by the business units of a bank.

Credit Administration – This function is a part of the Risk Management Unit. Its responsibilities would be the implementation of approved facility limits, monitor the security documentation, monitoring of loan covenants, follow up on insurance, stock statements and other related activities.

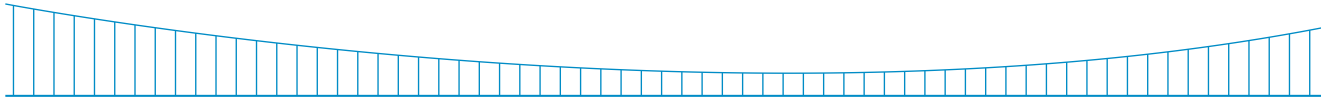
Portfolio management – management of the overall bank portfolio and problem loans.

Portfolio management would involve three stages viz:

1. Limit/reduce credit exposures – placing limits on customer, product, economic, industry and geographical sectors
2. Asset Classification

Apart from the risk rating assigned to each client as per the risk rating system adopted by the bank at the initiation of the relationship, it is necessary to identify in a timely manner any deterioration in the borrower's standing. This could be due to external factors, changes in management, cash-flow constraints or a number of other criteria which should be construed as warning signals. Although there would be no defaults at this stage, borrowers who give such signals should be "watch listed" and downgraded.

3. Provisioning for losses – Central Bank of Sri Lanka has laid down minimum requirements on classification of Non Performing Assets (NPA) and provisioning for specific losses.



In the process of managing the credit portfolio, the following proactive measures are taken:-

- Annual review of all existing obligors and a brief semi-annual review of new engagements.
- Periodic calls, visits to the sites
- Undertake at least quarterly reviews of weak (watch list) clients
- Carry out quick portfolio reviews when adverse industry/political/ economical indicators are shown.
- Undertake periodical reviews of the entire portfolio.
- Ensure that all borrowers in the bank have a risk rating

Credit Committee

The bank, depending on its size will have a Credit Committee/s which would comprise of the CEO, Head of Credit Department, Head of Credit Risk Management Department and relevant business line heads. Some of the functions of the Credit Committee would be as follows, depending on whether the Committee is an approval authority or only has an advisory capacity:-

Be responsible for implementation of the credit policy/strategy approved by the Board/Board Credit Committee.

Recommend to the Board for approval, standards for presentation of credit proposals, financial covenants and rating standards.

Recommend to the Board the delegation of credit authority, limits on large credit exposures, sector exposures, loan review mechanism, risk monitoring, evaluation, pricing of loans, provisioning etc.

Pre-clear large/unusual credit proposals

Approval of credit under its authority

Risk Management Department

Responsible for the following functions:-

- Control and monitor credit risk on a bank-wide basis within the limits/ parameters set by the Board/ Credit Committee.
- Lay down risk assessment systems, monitor quality of loan/investment portfolio, identify problem loans, monitor the use of risk rating system and loan reviews.
- Also monitor and assess the external factors which would have an impact on the portfolio and take pro-active measures to mitigate these risks and keep the Credit Committee/Board informed of impending risks.
- Present periodic portfolio reviews to the Board.

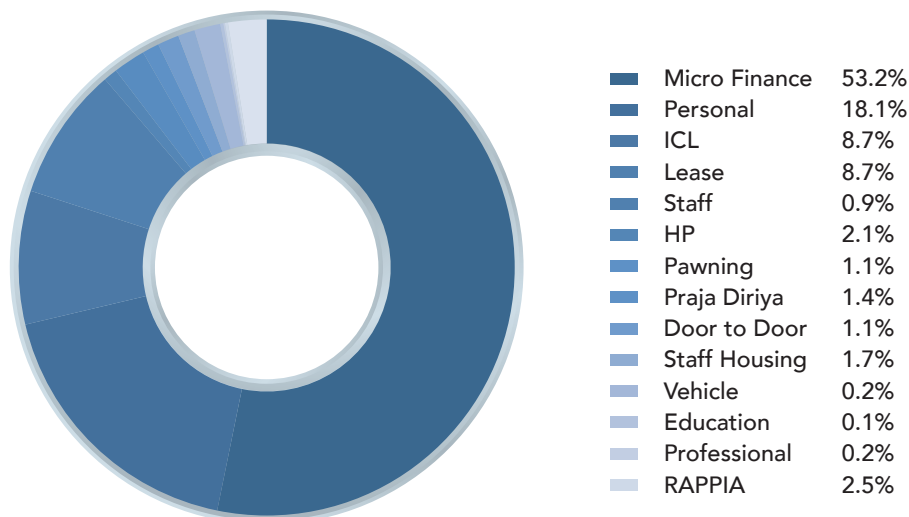
Importance of Credit Rating

As the concept of the new Basel II Accord revolves round risk weight to different risk categories, Risk Rating systems will have an important place in the framework of a credit risk management system. The Basel II recommends three levels of rating systems as indicated below:-

Methodology Rating Method

Internal Risk Scoring Model

Loan Portfolio As At 31.12.2015



Stress Testing

Conducting stress tests and measuring their impact on the Bank on account of credit, market and liquidity risk exposures is undertaken by the Bank. These tests are carried out at least quarterly and at a minimum includes those specified by the CBSL and are reported to the BIRMC.

Stress Testing applying for followings .

I. Adverse shift in Overall Loan Portfolio

II. Calculation Default Rate

• HH I – Name Concentration

- < 0.1 = Low Risk
- 0.1-0.15 = Medium Risk
- > 0.15 = High Risk

Calculation of Concentration Risk SLS Bank WITH MFD UNIT as at 31.12.2015

Bank HHI Index = 32% (0.32)

Calculation of Concentration Risk SLS Bank WITHOUT MFD as at 31.12.2015

Bank HHI Index = 22% (0.22)

Market Risk

Market risk is the risk that changes in interest rates and equity prices will adversely affect the Bank's income and/or the value of any financial instruments that it may hold.

Managing Equity Portfolio

Equity Price risk arises due to adverse movement in equity prices. Bank's proprietary equity portfolio is managed by Treasury and is Marked to Market report on a daily basis by the Risk Management Department.

Name of the Investment Company	Total Cost	Market Value	Marked to Market Gain/Loss	No of shares
National Development Bank	970,956.00	2,678,580.00	1,707,624	13800
Commercial Bank	7,135.00	24,969.00	17,834	203
LOLC	855	18,800.00	17,945	200
Sampath Bank	83,221.00	738,296.00	655,075	2977
Watawala Plantation	20,288.00	97,200.00	76,912	4000
Lanka Ceramics	128,334.00	600,000.00	471,666	5000
Cinnamon Lakeside	34,983.00	377,600.00	342,617	4000
Kelani Vally Plantation	198,221.00	385,000.00	186,879	5500
Hapugastenna Plantation	2,666.00	2,270.00	-396	100
Aiken Spence	160,364.00	1,740,600.00	1,580,236	18000
PABC Bank	47,952,793.00	186,059,548.60	138,106,756	6,865,666
Total	49,559,716.00	192,722,863.60	143,163,148	

For the management of market risks, the Board, on the recommendations of the ALCO, sets limits for the various Treasury and Investment-related activities. These are closely monitored and reported, and discussed fortnightly by the ALCO. The ALCO is responsible for the development of market risk management policies while Treasury Department is responsible for the day-to-day monitoring of exposures against these policies. The Treasury however, is primarily responsible for the overall management of market risks on an ongoing basis.

Interest Rate Risk

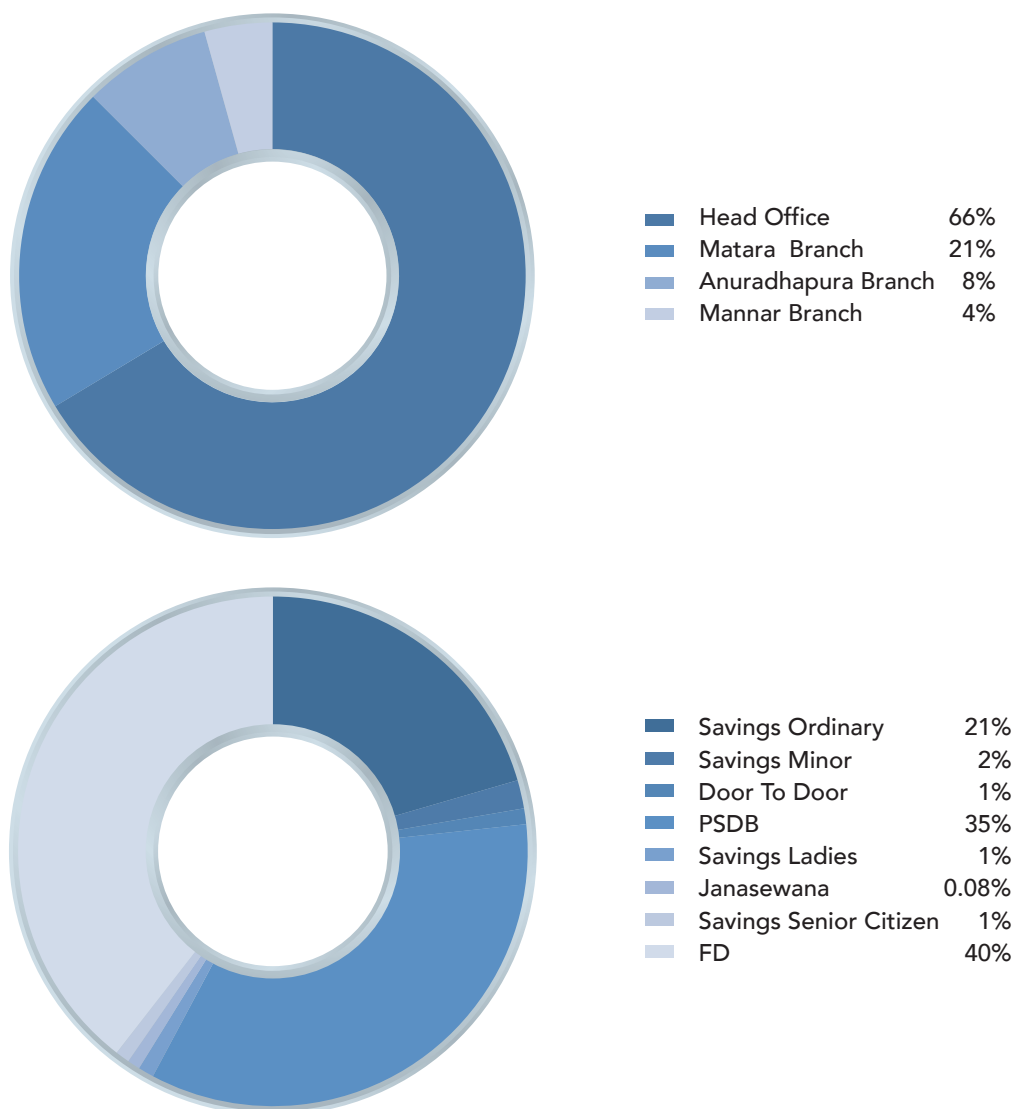
Interest rate risk is the possibility that changes in level of market interest rates will adversely affect the Bank's net interest income and the value of any financial instruments held. This risk should be managed by setting and monitoring limits for interest gaps and matching the re-pricing profile of the various interest sensitive assets and liabilities.

Net Interest Margin

As at 31.12.2015 = 6.62%

As at 31.12.2015 the bank has reported high interest income and low interest expenses.

Deposit Concentration branch wise – 31.12.2015



The Board Integrated Risk Management Committee is responsible for policies and other standards for the control of market risk. It approves the limits within delegated authorities and monitors exposures against these limits the Bank has identified.

Liquidity Risk Management

liquidity risk in the narrower sense (insolvency risk), ie the danger that a bank will be unable to meet its present and future payment obligations completely or on time.

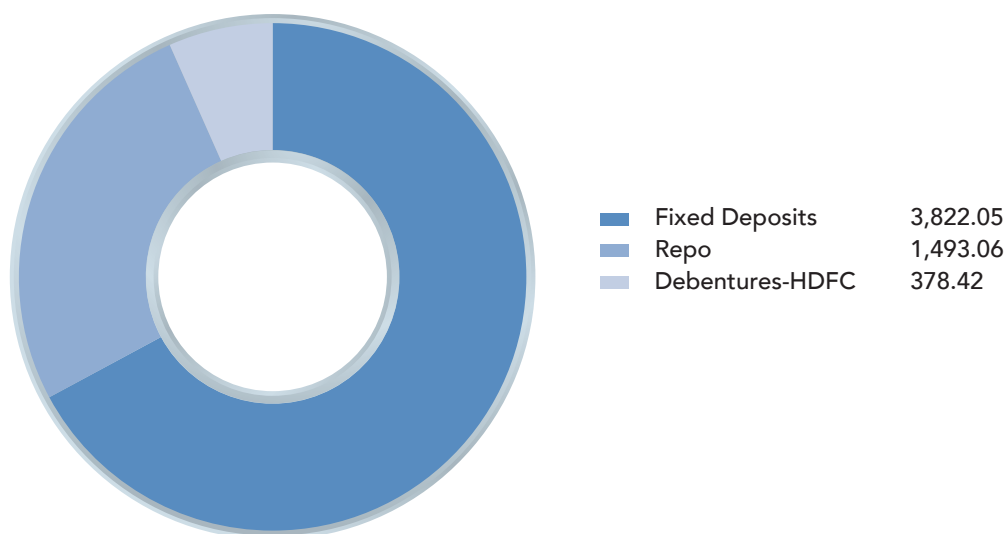
Senior management develop a strategy, policies and practices to manage liquidity risk in accordance with the risk tolerance and to ensure that the bank maintains sufficient liquidity. Senior management should continuously review information on the bank's liquidity developments and report to the board of directors on a regular basis. A bank's board of directors review and approve the strategy, policies and practices related to the management of liquidity at least annually and ensure that senior management manages liquidity risk effectively.

Following key elements of liquidity risk management in the broader sense:

- liquidity risk measurement;
- developing, reviewing and adapting the liquidity risk model, including the documentation of the mathematical and statistical procedures and workflows;
- ensuring that position data are correctly recorded;
- stress testing;
- reviewing compliance with limits and giving approval to exceed limits;
- involvement in the addition of new products to the liquidity model;
- giving senior management adequate information on the day-to-day risk situation; and
- developing and implementing contingency plans for liquidity crises.

In addition to ensuring appropriate contingency planning, ALCO oversees ongoing liquidity management. In this regard, ALCO should discuss loan and deposit growth expectations, examine expected investment cash flow, and identify upcoming funding maturities. This review should be documented and serve as the basis for strategy discussions.

Bank's Investment portfolio as at 31.12.2015

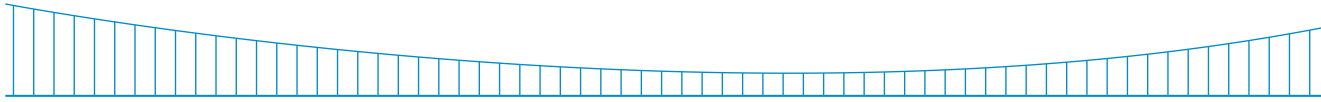


Operational Risk Management

"Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Identify an operational risks means at the same time identify its root cause

Internal Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, diversity/ discrimination events, which involves at least one internal party
External Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party (theft, hacking damage, etc.
Employment Practices and Workplace Safety	Losses arising from acts inconsistent with employment health or safety laws or agreements, from payment of personal injury claims, or from diversity / discrimination events diversity
Clients, Products and Business Practices	Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including failure and suitability) requirements, or from the nature or design of a product.
Damage to Physical Assets	losses arising from loss or damage to physical assets from natural disaster or other events
Business Disruption and System Failures	losses arising from disruption of business or system failures
Execution, Delivery & Process Management	Losses from failed transaction processing or process management from relations with trade counterparties and venders



Operational Risk Management Process Reporting

Internal view

- Enhance awareness of risk
- More informed decisions making
- Clearly defined procedures for action and remedial steps in the event of material breaches

External view

- Increase reputation versus competitors
- Reduce exposure to reputational risk through timely management of operational incidents
- Improve communication and Disclosure to external stakeholders like:
 - Supervisors
 - Auditors
 - Rating agencies
 - Clients

Strategic Risk Management

Strategic Risk is a function of the compatibility of an organization's strategic goals ,the business strategic goals ,the business strategies developed by management to achieve those goals ,the resources deployed against these goals ,and the quality of implementation.

The resources needed to carry out business strategies are both tangible and intangible. They include communication channels ,operating systems ,delivery networks ,and managerial capacities and capabilities.

Common Strategic Risks

External Risks

- Competition
- Market changes

Human Resources Risks

- Knowledge
- Staffing
- Employee theft

Financial Risks

- Cash flow
- Capital
- Price or cost pressures

Structural Resource Risks

- IT system
- Proprietary Information
- Regulatory actions

Physical Resource Risks

- Disasters
- Bottlenecks

Relationship Risks

- Reputation
- Vendor performance

Basic Steps in the Strategic Risk Management Process Performed by Management

- Communicate and share information across business and risk functions.
- Break down risk management silos
- Identify and assess possible risks
- Identify potential positive consequences of risks
- Monitor and manage risk
- It is a continual process that never ends

Reputational Risk Management

Reputational risk is the risk of damage to a bank's image and public standing that occurs due to some dubious actions taken by the bank. Sometimes reputational risk can be due to perception or negative publicity against the bank and without any solid evidence of wrongdoing. Reputational risk leads to the public's loss of confidence in a bank.

Conclusion

Bank is exposed to various risks due to specialized Business Operations. Under the Basel II framework, the major categories of risks are credit, market and operational risks. However, the bank is also facing other risks such as liquidity, legal, Compliance, information Technology and Reputational risk etc. All these risks are highly interdependent.

The Corporate management, Compliance Officer, Senior Management are responsible for enhancing Bank's image and promoting public confidence. The overall risk management has been effectively implemented by the Risk Management Committee and timely reported to the Board of Directors.

COMPLIANCE REPORT

Compliance risk is the risk arising out of non-compliance with applicable laws, regulations, codes of conduct and standards of good practice culminating in financial loss, or loss to the bank's reputation. The relevant compliance laws could arise from multiple sources including legislations, rules and standards issued by regulators and legislators, market conventions, codes of best practices are promoted by industry association and internal codes of conduct applicable to the staff members of the bank. SLS Bank has internal policies, rules and regulations to guarantee that staff and the management comply with relevant laws and regulations. Further we try to achieve higher standards of compliance by broadening the dimensions of existing regulatory framework through high standard of integrity and conduct.

Compliance unit

In accordance with the best practices and good governance advocated by the banking act for licensed specialized bank, the bank has established a compliance unit, with a dedicated compliance officer, who holds the responsibility for monitoring the bank's overall compliance risk. The compliance unit consistently assesses the bank's compliance with laws, regulations, statutory guide lines as well as internal control and policies. The unit's staff carder is not sufficiently resourced to carry out its responsibilities effectively.

- The unit identify and assesses the main compliance risk issues facing the bank annually and discuss plan to manage them in risk and audit committees.
- Compliance policy is addressed most of the compliance functions and its independency.
- The bank's compliance policy has been communicated to all heads of the departments and branch managers by providing copies of the policy.
- The head of compliance report to board's integrated risk management
- Committee and report General Manager for administration matters.
- Compliance risk associated with new products. All new products does on a proactive basis identify document and assesses the banking products are supposed to assessment of compliance officer.
- Compliance unit does the compliance testing half yearly and reports to board intergrated risk management committee and identified failures inform to the all head of departments to rectify their failures.
- Compliance unit formulate a compliance programmes.
- Several steps have been taken by the bank to ensure compliance with anti money laundering regulations. Some of those are staff training, providing printed materials and testing the knowledge of frontline staff by asking practical questions from them.

The Compliance Framework



HUMAN RESOURCE DEVELOPMENT

1. HR and Remuneration Committee (HRRC)

1.1 Scope of the Committee

The Board appointed empowered Committee is to review all significant HR & Remuneration policies of the Bank. The Committee also determines the remuneration in relation to CEO and key management personnel of the Bank. Responsibility for setting Key Performance Indicators (KPI) for CEO and key management personnel and evaluating their performance against set KPIs also lies with the Committee.

1.2 Members

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

Ms. C Kulathilake, Director

Mr. S Madapatha, Director

Mr. S Witharanage, Director

Ms. C Kulathilake headed the Committee as its Chairman and Senior Manager – HRD functioned as Secretary.

1.3 Meetings

After six successful meetings during the year 2015 almost all recommendations to the Board of Directors were adopted and such decisions were implemented during the year.

Name of Director	No. of meetings	
	Held	Attended
Ms. C Kulathilake	06	06
Mr. S Madapatha	06	06
Mr. S Witharanage	06	05

2. Main functions

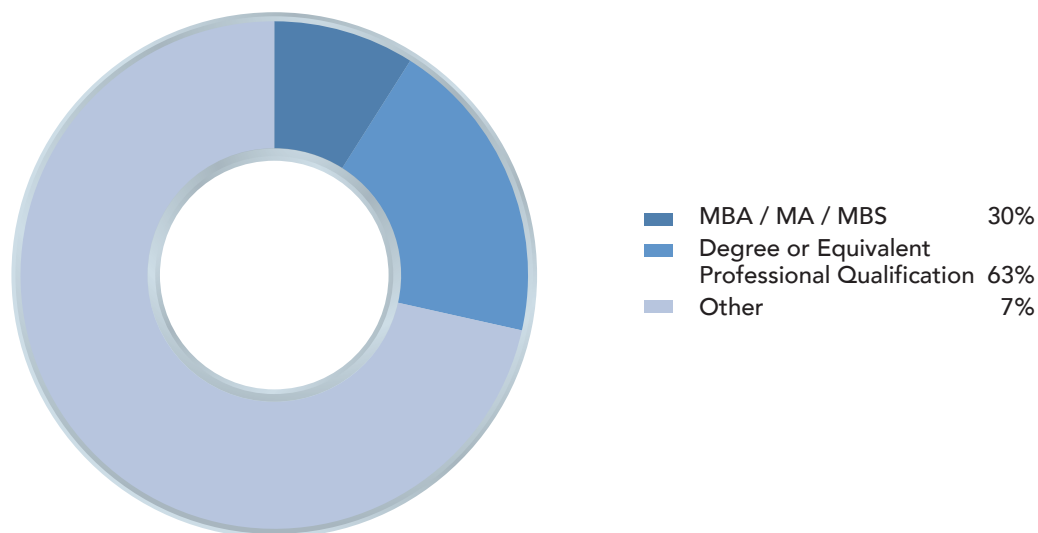
a) Main emphasis for year 2015 was to recruit the best fit to cater to the increasing demand for banking facilities and to support the expansion in the branch network.

Assistant General Manager and Senior Manager-IT joined the Bank during the year.

The total number of staff as at 01st January 2015 was 96 and by the end of the year increased to 106.

b) The educational / professional background of the executive level management is given below:

Educational/professional qualifications of employees in executive grade



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

	Hours	No. of Participants
Credit	120	06
Financial Management and auditing	188	27
Banking operations	419	71
HR & General Management	34	06
IT	540	45
Legal	42.5	10
Risk Management	40	06

One employee attended foreign training. In order to develop junior staff, Bank also conducted in-house training in banking and related subjects.

In order to provide more effective service to the Customers and also to comply with the official languages policy of the country continued conducting in-house Tamil language classes.

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

Providing training opportunities to interns pursuing higher studies as part of social responsibility

d) Establishment of the Treasury Department, fulfilling a long felt vacuum

e) The organization structure remains relatively flat in order to ease communication and prompt implementation of decisions which are essential during the growth stage of the Bank.

f) The Bank also introduced various benefits like medical insurance, critical illness cover, personal accident cover, staff housing loan, enhanced maternity facilities, bonus, encashment of unutilized leave, library facilities to staff as a motivational & retention strategy.

BOARD AUDIT COMMITTEE REPORT

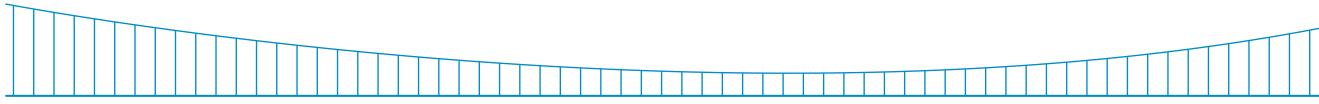
The Board Audit Committee (BAC) comprises of three Non-executive Directors. The General Manager / Chief Executive Officer and Heads of the Departments are present at meetings by invitation. A representative of the Auditor General, representatives of External Auditors, employees and even external advisers also attend meetings on invitation of the Committee. The quorum for decisions of the Committee is two (02) Committee Members. The Committee meets at least once in a quarter of the year and at times, as the Committee Chairman deems required.

During the financial year ended December 31, 2015, five (05) Board Audit Committee Meetings were held. The Head of Internal Audit Division of the Bank acted as the Secretary of the Board Audit Committee and he recorded and maintained minutes of the Board Audit Committee Meetings. The proceedings of the Board Audit Committee Meetings are regularly reported to the Board of Directors in accordance with the Terms of Reference of the Board Audit Committee approved by the Board. Following Committee Members were participated to the BAC Meetings in the Year 2015.

Date on which the BAC Meeting was held	Name and Designation of the BAC Member		
	Mrs. Chandrika Kulatilake (Chairperson of the BAC)	Mr. K. Amarasinghe (Member of the BAC)	Mr. Sunil Witharanage (Member of the BAC)
April 07, 2015 (28th BAC Meeting)	Participated	Participated	Participated
June 17, 2015 (29th BAC Meeting)	Participated	Not participated (Absent)	Participated
July 27, 2015 (30th BAC Meeting)	Participated	Participated	Participated
September 28, 2015 (31st BAC Meeting)	Participated	Participated	Participated
November 18, 2015 (32nd BAC Meeting)	Participated	Participated	Participated
Total No of BAC Meetings held in the Year 2015	Five (05)	Five (05)	Five (05)
No of BAC Meetings participated	Five (05)	Four (04)	Five (05)
No of BAC Meetings not participated (Absent)	None	One (01)	None

The Board Audit Committee is empowered to review the risk management process, examine the adequacy and effectiveness of internal control systems, assess compliance with regulatory requirements, review the financial statements and consider the observations and recommendations contained in independent reports submitted by the Internal and External Auditors.

The Board Audit Committee reviewed the financial and non-financial information contained in the internal and external audit reports, attention focused on facts highlighted in the Management Letter of External Auditors and followed up on the responses made thereto by the Bank management. Heads of Departments are called in when their reports are discussed. Therefore, the Board Audit Committee provides a forum for the review of internal and external auditors' reports and record



findings and review recommendations and corrective action taken by the Management to overcome the noted deficiencies with a view to managing significant business risks and improving controls.

The Board Audit Committee pays special attention on the following areas.

- Review of the financial information of the Bank in order to monitor the integrity of the financial statements, annual report, monthly accounts and quarterly reports prepared for disclosure.
- Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices.
- Reviewing accounting and financial reporting, risk management process and regulatory compliance.
- Review of the financial statements prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies which are consistently applied.
- Review internal audit reports and liaise with corporate management in taking precautionary measures to minimize weaknesses, procedure deviation and violations, frauds and errors.
- Assessing the independence of Internal Audit and monitoring the functions and performance of Internal Audit including overseeing the appointment of the Head of Internal Audit.
- Overseeing the appointment, compensation, resignation, dismissal of the External Auditor including review of the external audit, its cost and effectiveness and monitoring of the External Auditor's independence.
- Reviewing effectiveness of the Bank's systems of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.

In order to achieve the above objectives, the Committee focused particularly on

- a) major judgmental areas
- b) significant changes in accounting policies and practices
- c) significant adjustments arising from the final audit
- d) the validity of the going concern assumption
- e) the compliance with local and international accounting and auditing standards and other regulatory requirements
- f) whether risks are being properly addressed and managed
- g) effectiveness of internal control systems

The Board Audit Committee is of the view that adequate internal controls and procedures are in place and improvements are being followed up to provide reasonable assurance to the Directors that the Bank's assets are safeguarded and financial position and the results disclosed in the Financial Statements are free from any material misrepresentations. Further, the BAC ensured that the provisions of all information and documents required by the Auditor General for the purpose of audit and compliance with Sri Lanka Accounting Standards in the preparation and presentation of Financial Statements

On behalf of the Board Audit Committee

Mrs. Chandrika Kulatilake
Chairperson of the Board Audit Committee
Colombo, Sri Lanka
November 4, 2016

DIRECTORS' STATEMENT ON INTERNAL CONTROL SYSTEM

Responsibility

In line with the Banking Act Directions No. 12 of 2007, Section 3 (8) (ii) (b), the Board of Directors present this Report on Internal Control System over Financial Reporting of Sri Lanka Savings Bank Ltd. based on the guidelines issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control system in place at Sri Lanka Savings Bank Ltd. ("the Bank"). In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

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

Key features of the process adopted in applying in reviewing the design and effectiveness of the internal control system over financial reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division (IAD) of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee (BAC) of the Bank reviews periodically the internal control issues identified by the respective Internal Audit Department of the Bank, regulatory authorities and management and evaluates 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 Board Audit Committee Meetings are forwarded to the Board of the Bank on a periodic basis. Further, the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 57 to 58.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. The Bank has adopted the Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with requirements of recognition, measurement, classification and disclosure.
- The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Board has also established an independent Compliance Unit which ensures that Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issue of non-compliance are reported to BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day to day business operations.

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 and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

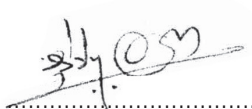
Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended December 31, 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank.

By order of the Board



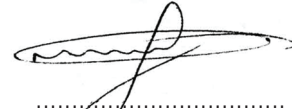
Mr. K. Amarasinghe
Acting Chairman



Mrs. C. Kulatilake
Chairperson - Board Audit Committee



Mr. Sunil Witharanage
Director



Mr. W.A.U. Bandara
General Manager / CEO

AUDITOR'S REPORT



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. } BAF/A/SLSBL/FA/2015
My No. }

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 22 September 2017
Date }

To the Shareholders of the
Sri Lanka Savings Bank Limited

Report of the Auditor General on the Financial Statements of the Sri Lanka Savings Bank Limited for the year ended 31 December 2015

The audit of financial statements of the Sri Lanka Savings Bank Limited (“the Company”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Board's Responsibility for the Financial Statements

The Board of Directors (“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 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 risk of material misstatement of the financial statements, whether





due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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 I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. According to the section 15 of the Sri Lanka Accounting Standards (LKAS) 01 Presentation of Financial Statements, additional disclosures are required to be presented when necessary, to achieve the fair presentation of financial statements. However, unreconciled difference amounting to Rs. 68,537 and Rs. 27,745,091 has been included in the prior year adjustment presented in the Statement of Changes in Equity for the year 2015 and 2014 respectively without any disclosure due to not having adequate evidences with the Bank.
2. Bank had not disclosed the nature and extent of risk arising from financial instruments to which the entity is exposed such as credit risk, market risk, liquidity risk at the end of the reporting period and how they had been managed in terms of Sri Lanka Accounting Standards (SLFRS) 7 - Financial Instruments, Disclosures.
3. Bank had not disclosed the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and recent experience in the location and category of the investment property being valued as required by Sri Lanka Accounting Standards (LKAS) 40 – Investment property.



පාලනාධිපති දෙපාර්තමේන්තුව
கணக்காய்வகம், அறிவுத் திணைக்களம்
Auditor General's Department

4. The bank reconciliations had not been aligned with the ledger and a difference of Rs. 30,916,133 was observed between the amounts taken to the bank reconciliation statements and ledger at the end of the year under review.
5. Un-reconciled differences were observed between the General Ledger and loan schedule provided in relation to other loan facilities where 06 loans balances had been overstated by Rs.4,606,059 while 03 loans had been understated by Rs. 1,462,929 in the ledger.
6. An un-reconciled difference of Rs. 6,225,150 was observed between the ledger and loan schedules provided in relation to Lease and Hire Purchases.
7. An un-reconciled net difference of Rs. 10,454,038 was observed between the inter branch current accounts and head office current accounts as at the end of the year under review.
8. The loan due to General Treasury (Micro Finance Loan to ADB) as per the financial statement as at the end of the year under review was differed by Rs. 2,611,023 with the balance confirmed by the Treasury and this difference had been transferred to the equity without any valid reason.
9. The negative loan balances amounting to Rs. 99,428,472 in the ledger could not be satisfactorily verified in audit during the year under review due to non submission of sufficient and appropriate evidence.
10. Documentary evidences were not available to verify the accuracy, existence, completeness and valuation of the other payable balance amounting to Rs. 2,784,406.
11. Even though all licensed specialized banks require to enhance minimum capital requirement up to Rs. 5 billion commencing from 01 January 2016 in terms of the circular No.02/17/402/0073/002 dated 23 December 2014 issued by Central Bank of Sri Lanka, the total capital of the Bank as per financial statements stood at Rs.4,343,236,531 only as at that date.



12. A difference of Rs. 625,761 was observed between the general ledger and the savings and fixed deposits schedules provided for the year under review.

13. An un-reconciled difference of Rs. 670,430 was observed between the schedule provided and the general ledger with regard to micro finance loan facilities.

Qualified Opinion

In my opinion, except for the possible effects of the matters described in the basis for Qualified opinion paragraphs 1 to 13 above, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, I state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In my opinion, except for the effect of such adjustments as might have been determined to be necessary had I been able to satisfy myself as to the matters disclosed in the basis for qualified opinion paragraph above
 - I have obtained all the information and explanations that were required for the audit as far as appears from my examination, proper accounting records have been kept by the company,
 - the financial statements of the Company, comply with the requirements of Section 151 of the Companies Act.

H.M.Gamini Wijesinghe

Auditor General

FINANCIAL STATEMENTS

SRI LANKA SAVINGS BANK LIMITED STATEMENT OF INCOME FOR THE YEAR ENDED 31ST DECEMBER 2015

	NOTE	2015 LKR	2014 LKR
Interest income		676,168,543	710,501,691
Interest expenses		(147,622,445)	(183,376,492)
Net interest income	5	528,546,098	527,125,199
Fee and commission income		3,261,068	1,847,405
Fee and commission expenses		(12,629,571)	(8,101,481)
Net fee and commission income/(expenses)	6	(9,368,504)	(6,254,076)
Other operating income (net)	7	66,765,800	84,049,886
Total operating income		585,943,395	604,921,009
Impairment (charges)/reversal for loans and other losses	8	75,585,703	(167,167,519)
Net operating income		661,529,098	437,753,490
Personnel expenses	9	(101,151,110)	(63,862,170)
Other expenses	10	(87,977,418)	(96,278,446)
Operating profit before value added tax (VAT)		472,400,570	277,612,874
Value added tax (VAT) on financial services		(40,118,004)	(9,927,169)
Operating profit after Value Added Tax (VAT)		432,282,566	267,685,705
Income Tax expenses	11	-	(32,830,793)
Profit for the year		432,282,566	234,854,912
Basic Earning per share	12	94	51
The accounting policies and notes from 1 to 40 form an integral part of these financial statements.			

SRI LANKA SAVINGS BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2015

	NOTE	2015 LKR	2014 LKR
Profit for the year		432,282,566	234,854,912
Other comprehensive income/(expense) net of tax			
Gain/(loss) arising on re-measuring available for sales financial assets		7,412,037	73,251,561
Actuarial loss on defined benefit plan		-	(247,233)
Other comprehensive income for the year		7,412,037	73,004,328
Total comprehensive income for the year		439,694,603	307,859,240
The accounting policies and notes from 1 to 40 form an integral part of these financial statements.			

SRI LANKA SAVINGS BANK LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2015

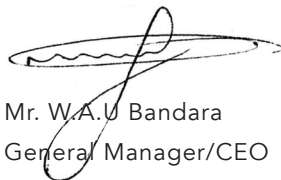
	NOTE	31.12.2015 LKR	31.12.2014 LKR
Assets			
Cash and cash equivalents	13	40,461,924	17,059,329
Sri Lanka government securities	14	1,493,066,536	3,957,895,768
Placements with banks	15	3,822,054,468	2,048,619,529
Loans and receivables to other customers	16	2,763,400,258	2,042,343,113
Financial investments – Available-for-sale	17	192,722,864	185,125,289
Property, plant and equipment	18	336,463,455	118,677,420
Intangible assets	19	587,136	4,370,000
Investment property	20	333,315,000	83,274,936
Current tax assets	21	-	60,756,483
Other assets	22	192,617,138	161,716,476
Total assets		9,174,688,778	8,679,838,343
Liabilities			
Due to banks	23	25,830,002	21,799,902
Due to other customers	24	907,707,043	1,192,188,476
Debt securities issued and other borrowings	25	3,123,338,953	3,111,104,464
Current tax liability	26	-	22,830,793
Other liabilities	27	773,989,113	318,463,646
Total liabilities		4,830,865,111	4,666,387,281
Equity			
Stated capital/assigned capital	28	3,443,290,302	3,440,679,279
Statutory reserve fund	29	139,871,220	118,257,093
Investment fund account	30	-	-
Retained earnings	31	2,315,832,215	2,485,118,287
Other reserves	32	(1,555,170,071)	(2,030,603,597)
Total equity		4,343,823,667	4,013,451,062
Total equity and liabilities		9,174,688,778	8,679,838,343
	35		
Commitments and contingencies		5,500,000	5,500,000

The accounting policies and notes from 1 to 40 form an integral part of these financial statements.

I certify that these financial statements comply with the requirements of the Companies Act No 7 of 2007.



Mr.K.N.A.Dissanayake
Senior Manager- Finance and Planning



Mr. W.A.U Bandara
General Manager/CEO

The Board of Directors is responsible for the preparation and the presentation of these financial statements.

Signed for and on behalf of the Board.



Mr.K.Amarasingha
Acting - Chairman (Working Director)



Mr. Sunil Witharanage
Director

SRI LANKA SAVINGS BANK LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Stated capital/Assigned capital		Reserves							Total Equity LKR
	Ordinary shares LKR	Capital Pending Allotment LKR	PSDB Revenue Deficit Before vesting LKR	Statutory Reserve Fund LKR	Investment Fund LKR	Available for Sales Reserve Fund LKR	Revaluation reserve LKR	Revenue reserve LKR		
Balance as at 01.01.2014	458,446,600	2,982,232,679	(2,166,190,408)	106,514,347	106,226,336	62,335,250	-	2,283,772,109	3,833,336,912	
Unreconciled difference	-	-	-	-	-	-	-	(27,745,091)	(27,745,091)	
Profit for the year	-	-	-	-	-	-	-	234,854,912	234,854,912	
Other comprehensive income	-	-	-	-	-	-	-	-	-	
Transferred to investment fund account	-	-	-	-	(106,226,336)	-	-	106,226,336	-	
Actual loss on defined benefit plan	-	-	-	-	-	-	-	(247,233)	(247,233)	
Fair value changes	-	-	-	-	-	73,251,561	-	-	73,251,561	
Transferred to statutory reserve fund	-	-	-	11,742,746	-	-	-	(11,742,746)	-	
Staff Housing loan reserve	-	-	-	-	-	-	-	(100,000,000)	(100,000,000)	
Balance as at 31.12.2014	458,446,600	2,982,232,679	(2,166,190,408)	118,257,092	-	135,586,811	-	2,485,118,287	4,013,451,061	
Balance as at 01.01.2015	458,446,600	2,982,232,679	(2,166,190,408)	118,257,092	-	135,586,811	7,477,405	2,477,640,882	4,013,451,061	
Over / Under Adjustments	-	-	-	-	-	-	-	(572,477,105)	(572,477,105)	
Profit for the year	-	-	-	-	-	-	-	432,282,566	432,282,566	
Actual loss on defined benefit plan	-	-	-	-	-	-	-	-	-	
Fair value changes	-	-	-	-	-	7,412,037	-	-	7,412,037	
Actual gain on defined benefit plan	-	-	-	-	-	-	-	-	-	
Transferred to statutory reserve fund	-	-	-	21,614,128	-	-	-	(21,614,128)	-	
Revaluation Gain	-	2,611,023	-	-	-	-	460,544,084	-	463,155,108	
Balance as at 31.12.2015	458,446,600	2,984,843,702	(2,166,190,408)	139,871,220	-	142,998,848	468,021,489	2,315,832,215	4,343,823,667	

The accounting policies and notes from 1 to 40 form an integral part of these financial statements.

The accounting policies and notes from 1 to 40 form an integral part of these financial statements.

Please refer Note No. 28 to 32 for disclosure as per LKAS 01.

Over / Under Adjustments represent the Rs. 454,275,540/- extra Tax provision, Leasing Repossession profit adjustment as well as other minor adjustments.

SRI LANKA SAVINGS BANK LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2015

	NOTE	2015 LKR	2014 LKR
Cash flows from operating activities			
Profit before tax		432,282,566	267,685,705
Adjustment for:			
Prior year adjustment	31	(579,954,510)	(27,745,091)
Unreconciled Difference			
Changes in the accounting policies.			
Non-cash items included in profits before tax	37	(65,529,274)	158,718,046
Change in operating assets	38	79,581,099	(925,651,898)
Change in operating liabilities	39	183,604,502	508,452,413
Contribution paid/payable to defined benefit plans	27.6	-	(821,957)
Tax paid	26	(5,943,598)	(10,000,000)
Net cash generated from operating activities		44,040,785	(29,362,782)
Cash flows from investing activities			
Purchase of property, plant and equipment	18.1	(26,788,790)	(20,391,485)
Intangible assets	19.0	-	-
Investment Properties	20.0	-	-
Proceeds from the sale of property, plant and equipment	7.0	2,120,500	181,215
Net cash (used in)/from investing activities		(24,668,290)	(20,210,270)
Net increase/(decrease) in cash & cash equivalents		19,372,495	(49,573,052)
Cash and cash equivalents at the beginning of the year		(4,740,573)	44,832,479
Cash and cash equivalents at the end of the year	40	14,631,922	(4,740,572)
The accounting policies and notes from 1 to 40 form an integral part of these financial statements.			

SRI LANKA SAVINGS BANK LIMITED

Summary Of SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 31ST DECEMBER 2015

1. CORPORATE INFORMATION

1.3 General

Sri Lanka Savings Bank Limited (SLSBL) is a limited liability Company, incorporated in July 2006, in Colombo, under the Companies Act No 17 of 1982 and re-registered in September 2008 under the Companies Act No.7 of 2007. The Bank is a licensed specialized bank registered under the Banking Act No.30 of 1988. The registered office of the Bank is at 265, Ward Place, Colombo 07. Branches are located in Manner, Matara, Anuradapura and Borella.

1.2 Principal activities and nature of operations

During the year, the principal activities of the Bank were mobilizing savings and time deposits, providing loans, lease, hire purchase, pawning and other credit facilities, and settling of the deposit liabilities of defaulted Pramuka Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL.

1.3 Date of authorization for issue

These Accounting Policies are remaining valid from 01/01/2015 until further amended approved by the Board of Directors of the Bank or until such time where Bank became liable to adopt full or part of regulatory Accounting policies of Bank regulators or become subsidiary of another entity where Bank may have to adopt parent entity's Accounting policies.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Bank (Statement of financial position, Income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows together with accounting policies and notes) are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of the Banking Act No. 30 of 1988 except for matters referred in noncompliance with note 3.3.1 of Property, Plant and Equipments and 3.3.3. Investment Properties.

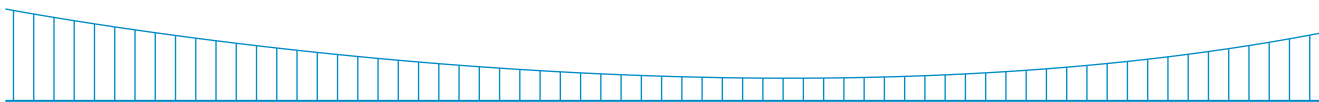
2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, except in respect of the following material items in the statement of financial position:

- Available for sale financial assets are measured at fair value
- The liability of defined benefit obligation is recognized as the present value of the defined benefit obligation

2.3 Functional and presentation currency

The financial statements are presented in Sri Lankan Rupees, which is the Bank's functional currency and presentation currency.



2.4 Presentation of financial statements

The items in statement of financial position of the Bank are presented broadly in order of liquidity.

2.5 Materiality & aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 on presentation of financial statements, each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions too are presented separately, if they are material. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.6 Comparative information

The comparative information is re-classified wherever necessary to conform to the current year's presentation.

2.7 Use of significant accounting judgments, estimates and assumptions

The preparation of the bank's financial statement and the application of certain accounting policies require critical accounting estimates that involve discretionary judgements and the use of assumption, which are susceptible to change due to inherent uncertainties.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgments, estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements:

i. Useful life-time of the property and equipment

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

ii. Going concern

The Board has made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cause significant doubt upon the Bank's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Bank. Therefore, the financial statements continue to be prepared on the going concern basis.

iii. Impairment losses on loans and advances

The Bank assesses at each reporting date or more frequently, to determine whether there is any objective evidence whether an impairment loss should be recorded in the statement of comprehensive income. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. Management judgment is required for classification of assets and the estimation of impairment losses. Estimation methodologies are based on assumptions concerning a number of factors though actual results may differ, resulting in future changes to the impairment losses so made.

iv. Impairment of available - for - sale investments

The Bank records impairment changes on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged'

requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

v. Defined benefit plans

The cost of defined benefit plans, viz: gratuity obligations are determined using project unit credit method. This method involves making assumptions about discount rates and future salary increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Bank in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balance with Banks.

For the purpose of the statement of cash flow, cash and cash equivalents consist of cash and short-term deposits as defined above.

3.2 Financial assets – Recognition and measurement

3.2.1 Date of recognition

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

3.2.2 Initial measurement of financial instruments

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

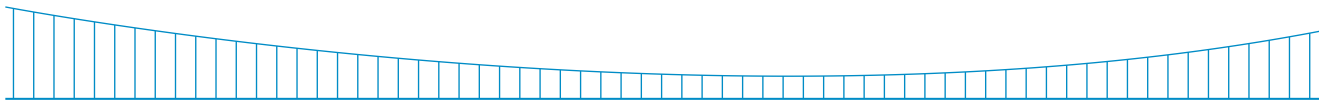
3.2.3 Non-derivative financial assets

The Bank recognizes non-derivative financial assets by the following three categories, held-to maturity investments, loans and receivables and available-for-sale financial assets.

i. 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 statement of income. The losses arising from impairment of such investments, if any, are recognised in the statement of comprehensive income.

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



ii. Loans and receivables from customers

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

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

After initial measurement, 'loans and receivables from customers' are subsequently measured at amortised cost using the EIR method 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 statement of income. The losses arising from impairment are recognised in the statement of income of in 'impairment gain/ (loss) on loans and receivables'.

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

iii. Available-for-sale financial investments

Available-for-sale investments include equity securities. Equity investments and investments in treasury bills classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the "available-for-sale reserve". When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognised in the statement of income in "other operating income".

3.2.4 Reclassification of financial assets

The Bank may reclassify non-derivative financial assets other than those designated at FVTPL upon initial recognition, in certain circumstances:

- out of the held-for-trading category and into the available for sale, loans and receivables, or held-to-maturity categories.
- out of the 'available-for-sale' category and into the 'loans and receivables', 'held for trading category' or 'held-to-maturity'. 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 statement of income.

- out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if 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.

Reclassification is at the election of the management, and is determined on an instrument by instrument basis.

3.2.5 De-recognition of financial assets

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

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
 - The Bank has transferred substantially all the risks and rewards of the asset.

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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.

3.2.6 Impairment of financial assets

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

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

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost (such as deposits with banks, loans and advances to customers, lease and hire purchase rental receivable as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together

with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment charges for loans and other losses'. The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

For the purpose of a collective evaluation of impairment, financial assets are grouped considering credit risk characteristics such as asset type, geographical location, past-due status and other relevant factors. Statistical methods are used to determine impairment losses on a collective basis for loans with similar credit risks.

Loans are grouped into ranges according to number of months in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the date of the Statement of Financial Position is likely to be greater or less than that suggested by historical experience.

Impairment of available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized in other comprehensive income.

3.2.7 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers and audited financial statements of borrowing company.

3.3. Non-financial assets

3.3.1. Property, plants and equipments

Recognition and measurement

Property & equipment are recognize if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 - property, plant & equipment.

Minimum Requirements for Capitalization

Expenditures at Acquisition:

Any expenditure that meet below criteria would identified as Fixed Assets and any expenditure that does not meet the minimum Value criteria but have economic life more than one year shall recognize in a Fixed Assets List.

- 1) It is probable that future economic Benefits associated with the item will flow to the entity.
- 2) Value of such expenditure is exceeding Rs. 2,500/-.

Expenditures Subsequent to Acquisition:

Those expenditures include the cost for renovations, betterments, or improvements that add to the permanent value of the asset, make the asset better than it was when it was purchased, or extend its life beyond the original useful life. To capitalize these costs, the improvements must fulfill at least one of the following criteria:

- 1) The useful life of the asset is increased by more than one year.
- 2) The productive capacity of the asset is improved.
- 3) The quality of units or services produced from the asset is enhanced.
- 4) Value of such expenditure is exceeding Rs. 25,000/-.

Cost model

Property, plants and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Revaluation Model

After recognition as an asset, Lands & Buildings whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciations and subsequent accumulated impairment losses. Revaluation shall be made at every Five (05) Years to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the end of the reporting period.

Subsequent cost

These are costs that are recognized in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the Bank and it can be reliably measured and minimum requirements for capitalization criteria are met.

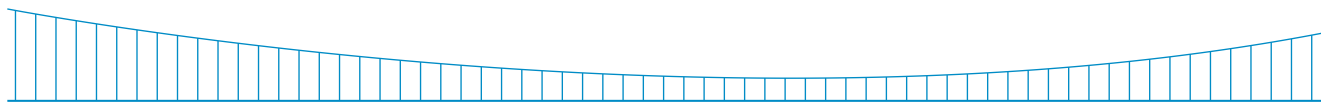
Such cost should meet the above Minimum Requirements for Capitalization.

Depreciation

Depreciation is provided at the following rates on the straight line method. Depreciation is not provided for freehold land.

The useful life time used for the purpose of depreciation are given below:

Computer hardware and software	04 years
Furniture & fittings	05 years



Motor vehicles	05 years
Office equipment and other fixed assets	05 years
Buildings including Investment Buildings	20 Years

De-recognition

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of income in the year the asset is de-recognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

3.3.2. 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.

3.3.3. Investment property

Investment on land or a building or part of a building or both, held to earn rentals or capital appreciation or both, are classified as investment property.

Investment properties would recognize subject to meeting "Minimum Requirements for Capitalization" mentioned in 3.3.1.

Cost model

Investment properties excluding Investment buildings are measured (initially) at cost (LKAS 40 Sec. 56), including transaction costs. Fair value of Investment Properties are measured by the management on annual basis and is disclosed separately in notes to the financial statement.

Fair Value

After recognition as Investment buildings, whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciations and subsequent accumulated impairment losses. Revaluation shall be made at every Five (05) Years to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the end of the reporting period.

Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognizing rental income on this basis.

3.3.4. Inventories

Inventories such as stationary stocks are valued at lower of the cost and net realizable value, after making due allowances for obsolete and slow moving items.

3.3.5. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (Qualifying Asset) are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

3.3.6. Intangible Assets

An Intangible asset is an identifiable non monetary asset without physical substance.

3.3.6.1 Basis of Recognition

An Intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. Expenditure incurred on an intangible item that was initially recognized as an expense.

3.3.6.1 (a) Computer Software

Software acquired by the bank is measured at cost less accumulated amortization.

3.3.6.2 Subsequent Expenditure

Expenditure incurred on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.3.6.3 Amortization of Intangible Assets

Intangible assets are amortized on a straight line basis in the statement of profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the bank. Amortization methods, useful lives and residual values are reviewed and adjusted if appropriate. The bank assumes that there is no residual value for its intangible assets.

Asset category	Useful life (years)
Computer Software	2-15
License	5-20
Brand	1-20
Advisory Management	1-15

The Assets are fully amortized in the month of acquisition and no amortization in the month of disposal.

3.3.6. Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as due to banks, deposits from customers and refinance borrowings as appropriate. The Bank determines the classification of its financial liabilities at initial recognition.

The Bank classifies financial liabilities in to financial liabilities at Fair Value through Profit or Loss (FVTPL) or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

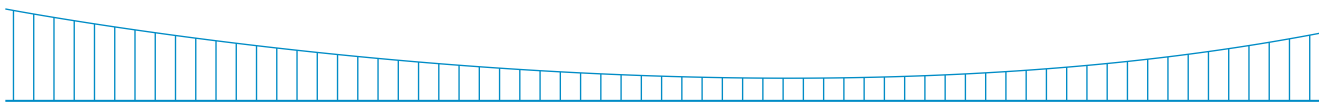
The Bank recognizes financial liabilities in the Statement of Financial Position when the Bank becomes a party to the contractual provisions of the financial liability.

i. Financial liability at FVTPL

Financial liabilities at FVTPL include financial liabilities held-for-trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognized in profit or loss.

Upon initial recognition, transaction cost are directly attributable to the acquisition are recognized in profit or loss as incurred.

The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.



ii. Other Financial liabilities

Other financial liabilities including deposits, debt issued by the Bank and the other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

3.3.7. De-recognition of financial liabilities

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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 recognized in profit or loss.

3.4. Retirement Benefit Obligations

3.4.1. Defined Benefit Plan

Provision has been made for retirement gratuities for all employees, in conformity with Sri Lanka Accounting Standards LKAS 19 - Employee Benefits. However, under the payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service. The liability is not externally funded.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted.

The discount rate is the yield at the reporting date on high quality corporate bonds. That have maturity dates approximating the terms of the Bank's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by using the projected unit credit method.

3.4.2. Contribution Plans

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'. Unpaid contributions are recorded as a liability.

Employees' Provident Fund

The Bank and Employees contribute to the approved private Provident Fund at 12% and 8% respectively.

Employees' Trust Fund

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

3.5. Provisions

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

3.6. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the statement of income in 'Interest expense'. The premium received is recognized in the statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3.7. Taxation

Income Tax exempted from year of 2013.

3.7.1. Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the statement of financial position date. The income and profit, other than dividend income and interest is exempted from the current year under section 7 (B) of Inland Revenue Act No 13 of 2013.

3.7.2. The 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. 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 recognized.

3.8.1. Interest income and interest expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the

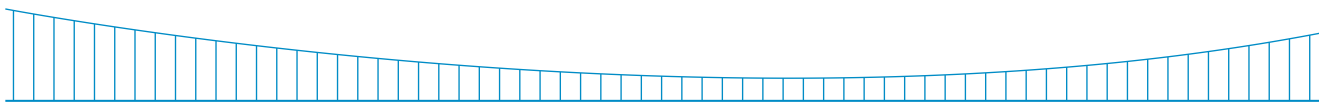
Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. However the bank has recognized the interest income related said assets on cash basis for prudence purpose owing to the nature of the impaired loan portfolio.



3.8.2. Fee and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

3.8.3. Dividend income

Dividend income is recognised in the statement of comprehensive income on an accrual basis when the Bank's right to receive the dividend is established.

3.9. Cash flow statement

The cash flow statement has been prepared using 'the indirect method', whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised.

3.10. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the financial statements are set out below. The Bank will adopt these standards when they become effective. Pending a detailed review, the financial impact is not reasonably estimated as at the date of publication of these financial statements.

- SLFRS 9 - Financial Instruments: Classification and Measurement
- SLFRS - Regulatory Deferral Accounts
- SLFRS - Revenue from Contracts

3.12. Debentures

In terms of advertisement published in newspapers on 3rd December 2007 by the Central Bank of Sri Lanka, liabilities to corporate and institutional investors/depositors of Pramuka Saving and Development Bank Limited (PSDBL) whose balances are more than Rs 100,000/- is to be converted to Unsecured and Subordinate Debentures with a maturity period of 10 years, and the interest should be accrued annually at five percent (5%) per annum or the one year Treasury bill rate whichever is lower.

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

4.1 Risk management structure

The Board of Directors has the authority to determine the overall risk management framework for the Bank and has the responsibility to oversee the effective implication of risk management strategies. Accordingly, the Board approves the risk management policies and formulates goals and limits for risk appetite and strategy. The Board has established board sub committees to effectively manage all types of risks faced by the Bank. The Board has appointed the Integrated Risk Management Committee which has the responsibility to monitor the overall risk process within the Bank.

The Board Integrated Risk Management Committee (BIRMC) is responsible to provide a direction on the risk management process and formulations of policies and procedures for the ratification by the

Board of Directors and the implementation of such policies and procedures and ensuring that all operations are within the guidelines and policies set by the Board.

The established policies, procedures and decision making process are integrated into the daily operations of SLSBL.A risk management process throughout the Bank is audited annually by the Internal Audit function (in-house), which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit

discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

The BIRMC is comprised of two Non-Executive Directors, one of whom chairs the meetings and the Director/CEO, senior management staff that attended meetings were Senior Manager-Operations, Senior Manager Finance, Senior Manager Corporate- Relations, Manager Credit and Manager IT.

The Committee oversees the risks of the Bank by assessing Market, Credit, Liquidity, Operational, Compliance, and Reputational and Strategic risks regularly, reviews and monitors the functions and the effectiveness of committees such as Assets and Liability Committee (ALCO) and Credit to manage the risks of the Bank within the set limits.

It also has established a compliance function to access the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations.

In common with all other businesses, the Bank is exposed to risks that arise from its use of financial instruments. This note describes the Bank's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Bank's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in notes.

SRI LANKA SAVINGS BANK LIMITED

FINAL ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

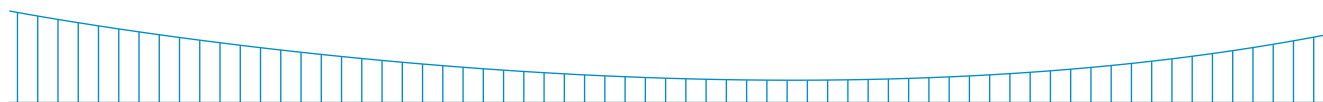
5. Net Interest Income		
	2015 LKR	2014 LKR
Interest income		
Interest income - treasury bonds	-	-
Interest income - treasury bills	92,149,307	95,754,911
Interest income - REPO investments	143,263,773	111,998,721
Interest income - debenture	24,118,731	5,692,678
Interest income - deposit banks	142,986,723	271,656,175
Interest income - securitized papers	30,993,523	12,263,036
Earning from Unit Trust	16,155,107	-
Interest income - PSDB loans	36,927,667	41,497,962
Interest income - leasing	14,924,376	8,030,261
Interest income - Loans against deposit balances	1,067,802	622,566
Interest income - Hire purchases	6,269,602	5,920,344
Interest income - Loans to partner organizations	90,986,647	95,819,106
Interest income - Door to Door Loans	2,427,460	1,492,067
Interest income - Staff loans	1,623,923	1,593,296
Interest income - Personal loans	36,972,877	16,504,930
Interest income - Individual & corporate loans	22,068,467	35,756,328
Interest income - MFD Loans	5,287,251	4,422,231
Interest income - Pawning advances	1,815,063	160,025
Interest income - Praja Diriya Loans	3,747,770	180,758
Interest income - Vehicle loans	909,049	1,136,295
Interest income - Educational Loans	17,593	-
Interest income - Staff Housing Loans	1,113,278	-
Interest income - Professional Loans	342,553	-
Total interest income	676,168,543	710,501,691
Due to other customers	38,426,482	75,094,687
Due to PSDB depositors	11,825,786	10,145,685
Debenture issued	64,722,519	65,015,173
Other borrowing	32,647,658	33,120,946
Total interest expenses	147,622,445	183,376,492
Net interest income	528,546,098	527,125,199

5.1 Net Interest Income from Sri Lanka Government Securities

	2015 LKR	2014 LKR
Interest income	235,413,080	207,753,632
Net interest income	235,413,080	207,753,632

6. Net Fee and Commission Income

	2015 LKR	2014 LKR
Fee and commission income	3,261,068	1,847,405
Fee and commission expenses	(12,629,571)	(8,101,481)
Net Fee and commission income	(9,368,504)	(6,254,076)
Comprising		
Commission on savings accounts	23,780	20,210
Documentation charges	359,700	254,300
Commission on bills purchased	27,260	33,693
Commission on guarantees	60,000	-
Commission post-dated cheques		-
Processing fees loans	1,814,465	795,480
Inspection charges	501,773	266,186
Commission insurance general	197,091	98,536
Non-refundable deposit income	277,000	379,000
Total Fee and commission income	3,261,068	1,847,405
Fee and Commission Expenses		
Consultancy fee	150,000	1,321,975
Professional fee	2,334,639	399,747
Legal fee	6,390,264	2,958,130
Title fee	2,706,227	2,500,000
Title search charges	6,420	8,000
Bank charges	272,992	735,848
CRIB charges	643,227	177,781
SLIPS - Utility Charges	30,355	-
Introducer Commission Expense - Leasing & HP	95,448	-
Total Fee and commission expenses	12,629,571	8,101,481



7. Other Operating Income (net)

	2015 LKR	2014 LKR
Gain on sale of property, plant and equipment	2,120,500	161,882
Dividend income	446,754	296,068
Sundry income	431,759	56,330
Income - Nuwara Eliya bungalow	408,300	436,510
Income - Anuradhapura bungalow	68,000	20,000
Income - bus hire	355,470	358,810
Cultivation income	40,000	-
Provision recovered other receivable	1,530,057	492,953
Trust Recovery	1,179,300	782,300
Loan Provision recovered (Over Provision)	59,512,232	79,481,654
Penalty interest	209,480	129,294
Over provision of salary of Collective Agreement		
Leasing Repossession Proceed A/C	-	1,796,310
Termination income	24,463	29,376
Legal charges recovered	439,485	8,400
Write back		
Other Operating Income (net)	66,765,800	84,049,886

8. Impairment for Financial assets

	2015 LKR	2014 LKR
Loans and receivables - To other customers	(75,585,703)	167,167,519
Available for sale financial assets	-	-
Total	(75,585,703)	167,167,519

9. Personnel Expenses

	2015 LKR	2014 LKR
Salary and bonus	66,373,735	40,882,721
Contributions to defined contribution/benefit plans	8,565,635	5,530,874
Other allowance and staff related expenses	24,069,607	16,444,624
Gratuity	2,142,133	1,003,952
Total	101,151,110	63,862,170

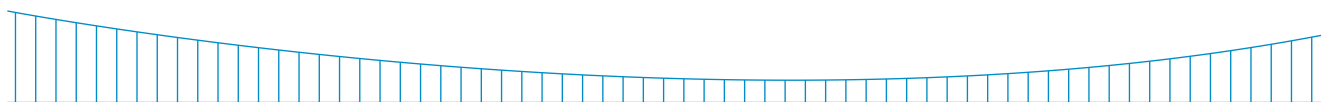
10. Other Expenses

	2015 LKR	2014 LKR
Directors' emoluments	4,150,319	3,518,197
Audit related fees	1,035,147	539,425
Professional fee	-	159,936
Depreciation of property, plant and equipment	18,614,872	17,954,644
Office administration and establishment expenses	20,490,093	19,732,863
Compensation for legal cases		-
Repairs and maintenance	6,191,273	6,223,079
Advertisements	6,906,385	20,688,042
CSR Activities	100,000	54,850
Entertainment	211,819	84,566
Labour outsourcing expenses	321,267	227,218
Security charges	5,163,369	6,735,619
Insurance	1,814,913	2,759,893
Printing and stationery	5,964,126	4,396,775
Rates and taxes	3,179,744	3,040,699
Donation	70,000	132,412
National Insurance Trust Fund Levy	2,808,800	4,053,950
Transport and fuel expenses	3,381,600	3,666,062
Subsistence and lodging expenses	1,457,504	863,525
Share investment written off	-	-
Income tax written off	-	-
Amortisation of bank opening expense	4,793,766	-
Compensation for legal cases	-	-
Miscellaneous	1,322,420	1,446,694
Total	87,977,418	96,278,446

11. Tax Expenses

	2015 LKR	2014 LKR
Current tax expense		
Reversal over provision in respect of previous year	-	-
Income tax Assessment for 2009/2010	-	32,830,793
Effect of change in tax rates		-
Reversal of provision of deferred taxation		
Total	-	32,830,793

The profit and income of the bank is exempted from income tax as per section 07 B of Inland Revenue (Amendment) Act 13 of 2014 with effect from 1st January 2013.



12. Earning per share

	2015 LKR	2014 LKR
Net profit attributable to ordinary equity holders	432,282,566	234,854,912
Weighted average number of ordinary shares for basic earning per share	4,584,466	4,584,466
Basic earnings per ordinary share	94	51

13. Cash and Cash Equivalents

	2015 LKR	2014 LKR
Cash in hand	2,827,296	4,386,237
Balances with banks (Note 13.1)	37,634,628	12,673,092
Total	40,461,924	17,059,329

13.1 Balances with banks

People's Bank - collection account leasing	2,000,153	3,527,521
People's Bank - Liberty plaza old	75,373	75,373
People's Bank - Liberty plaza -new		-
Bank of Ceylon - Borella	879,603	574,852
Bank of Ceylon - Mannar	25,000	25,000
People's Bank- 1001-52536877	32,165	32,165
People's Bank-1001-32536878	30,375	30,375
People's Bank-1001-72536882	29,867	29,867
People's Bank-1001-52536881	30,669	30,669
People's Bank-1001-32536883	34,963	34,963
People's Bank-1001-6002189	71,076	71,076
People's Bank-1001-6002212	101,688	101,688
People's Bank-1001-6002235	30,652	30,652
People's Bank - Mannar	1,978,772	-
People's Bank - Matara	1,649,246	2,628,870
People's Bank - Anuradhapura	-	1,533,990
Cash at bank NDTF 046-1001-20000683	665,025	665,025
Cash at Bank - NDTF 309-1001-72536876	-	3,281,004
People's Bank-Call deposit	30,000,000	-
Total	37,634,628	12,673,092

14. Sri Lanka Government Securities

	31.12.2015 LKR	31.12.2014 LKR
Treasury bills	-	2,245,227,722
Treasury bonds	(0)	-
Repo investment	1,493,066,537	1,712,668,047
Total	1,493,066,537	3,957,895,768

15. Placements with Banks

Fixed deposits- People's Bank	1,013,000,000	70,000,000
Fixed deposits- Bank of Ceylon	-	69,930,151
Fixed deposits- National Saving Bank	730,305,551	72,600,241
Fixed deposits- Regional Development Bank	200,000,000	384,041,573
Fixed deposits- HDFC	1,255,654,105	967,355,228
Fixed deposits- NDB	578,688,333	440,506,604
Interest receivable	44,406,479	44,185,732
Total	3,822,054,468	2,048,619,529

16. Loans and Receivables to Other Customers

	31.12.2015 LKR	31.12.2014 LKR
Gross loans and receivables	4,170,075,242	3,458,177,005
(Less): Individual impairment	(1,223,532,974)	(1,342,831,704)
Collective impairment	(183,142,010)	(73,002,189)
Net loans and receivables	2,763,400,258	2,042,343,113

Provision for Impairment based on the IFRS calculated by Independent Expert.

16.1. Analysis

	31.12.2015 LKR	31.12.2014 LKR
By product Loans and advances		
Performing loans - NDTF	1,062,287,025	796,483,019
Performing loans - PSDB	79,455,528	125,198,441
Staff loans	18,880,954	4,979,445
Special loans - staff	1,809,696	2,107,275
Loans against deposit balances	7,714,808	6,042,115
Loans - Door to door	20,799,586	11,413,523
Loans against PSDB balances	4,275,973	6,089,263
Loans - Public and private employment	404,525,251	142,898,855
Loans - Individual & corporate Loans	132,864,009	225,875,584
Loans - Staff multipurpose loan	-	13,803,278
Pawning advances	26,494,767	3,282,384
Loans - Vehicle loan	2,806,474	6,295,350
Praja Diriya Loans	32,390,582	15,825,454
Educational Loans	34,486	-
Staff Housing Loans	39,470,313	-
Professional Loans	5,784,750	-
Overdue loans	66,213,735	41,864,228
Substandard loans	48,578,125	101,061,246
Doubtful loans	19,681,287	49,157,121
Loss category	237,477,998	191,378,835
PSDB loans	1,010,330,497	1,067,164,308
Loan receivable - Staff ledger PSDB	3,320,291	3,844,679
Rescheduled loans - PSDB	3,113,403	10,216,349
Lease receivable	205,024,170	96,540,249
Hire purchases receivable	50,579,081	33,131,965
Debenture investment	378,417,619	117,064,879
Other investments	274,428,310	380,439,568
Loan Control	33,316,523	6,019,593
Undisbursed loans	-	-
Net Total	4,170,075,242	3,458,177,005
By industry		
Agriculture and fishing	962,241,694	928,720,000
Manufacturing	467,236,843	598,551,000
Tourism	20,935,707	24,398,000
Transport	88,603,000	70,330,000
Construction	586,952,449	301,128,000
Traders	516,752,420	233,004,000
New economy	4,709,352	3,964,000
Others	1,522,643,776	1,298,082,005
Gross total	4,170,075,242	3,458,177,005

16.2 . Lease rental receivable

	31.12.2015 LKR	31.12.2014 LKR
Lease rental receivable	166,391,629	50,026,721
Overdue loans	6,815,385	7,258,494
Substandard loans	7,874,182	5,931,060
Doubtful loans	4,415,350	12,676,055
Loss category	19,727,506	20,667,257
(Less) Unearned interest	(199,882)	(19,338)
Sub total	205,024,170	96,540,249

16.3 . Hire purchase receivable

	31.12.2015 LKR	31.12.2014 LKR
Hire purchase receivable	47,022,341	30,418,768
Overdue Loans	3,140,590	2,548,961
Substandard Loans	885,627	426,263
Doubtful loans	51,993	-
(Less) Unearned interest	(521,470)	(262,028)
Sub total	50,579,081	33,131,965

16.4. Other investments

	31.12.2015 LKR	31.12.2014 LKR
Commercial papers	6,000,000	16,000,000
Asset Backed Trust Certificates	274,428,310	370,439,568
Other investments	165,594,500	165,594,500
(Less) Impairment chargers	(171,594,500)	(171,594,500)
Net Other Investments	274,428,310	380,439,568

16.5 . Movements in individual and collective impairment during the Year

	31.12.2015 LKR	31.12.2014 LKR
Individual impairment		
Balance at the beginning of the year	1,342,831,704	1,290,843,625
Charge/ (write back) to income statement	(64,432,821)	163,678,744
Prior year adjustments - NPL Provision	(10,913)	-
Recoveries	(54,854,995)	(111,690,665)
Balance at the end of the year	1,223,532,974	1,342,831,704
Collective impairment		
Balance at the beginning of the year	73,002,189	69,513,413
Charge/(write back) to income statement	111,502,254	3,488,775
Recoveries	(1,362,432)	-
Balance at the end of the year	183,142,010	73,002,189
Total	1,406,674,984	1,415,833,892

Over / Under adjustment of Rs. 10,913/- is the correction entries passes in to the system due to error in the automated provision entries.

17. Financial Investments-Available-for-Sale

	31.12.2015 LKR	31.12.2014 LKR
Equity securities	235,187,164	227,764,057
(Less) Impairment chargers	(42,464,300)	(42,638,768)
Net Available-for-sale Investments	192,722,864	185,125,289

The above balances comprise of Investments in equity securities made by Pramuka Savings and Development Bank and the Bank. During the current financial year there were no trading activities.
Please refer the "Risk management report" includes in the Annual report for qualitative disclosure as per SLFRS 7.

17.1. Quoted equity security

	31.12.2015 LKR			31.12.2014 LKR		
Investment company	No of shares	Cost of shares	Market Value	No of shares	Cost of shares	Market Value
National Development Bank	13,800	970,956	2,678,580	13,800	970,956	3,450,000
Commercial Bank Limited	203	7,135	24,969	195	7,135	33,345
Lanka Orix Leasing Company	200	855	18,800	200	855	17,600
Sampath Bank Limited	2,977	83,221	738,296	2,794	83,221	660,222
Vanik Incorporation	17,000	176,184	-	17,000	176,184	-
Watawala Plantation	4,000	20,288	97,200	4,000	20,288	75,200
Lanka Ceramic PLC	5,000	128,334	600,000	5,000	128,334	600,500
Cinnamon Lakeside	4,000	34,983	377,600	4,000	34,983	368,400
Kelani Valley Plantation	5,500	198,121	385,000	5,500	198,121	407,000
Hapugastenna Plantation	100	2,666	2,270	100	2,666	3,740
Aitken Spence	18,000	160,364	1,740,600	18,000	160,364	1,863,000
Pan Asia Bank Limited	6,865,666	47,952,793	186,059,549	6,865,666	47,952,793	177,820,749
		49,735,900	192,722,864		49,735,900	185,299,757

17.2. Unquoted Equity Securities

	31.12.2015 LKR			31.12.2014 LKR		
	No of shares	Cost of shares	Management valuation	No of shares	Cost of shares	Management valuation
Pramuka Merchant Corporation	500,000	5,000,000	-	500,000	5,000,000	-
Prime Development & Constructions	230,000	2,300,000	-	230,000	2,300,000	-
Janashkathi Life	2,500,000	25,000,000	-	2,500,000	25,000,000	-
Janashkathi Holding	1,000,000	10,000,000	-	1,000,000	10,000,000	-
CRIB	1,643	164,300	-	1,643	164,300	-
(Less) Impairment for shares		(42,464,300)			(42,464,300)	
Net investment in unquoted shares		-			-	

17.3. Movements in impairment during the Year

	31.12.2015 LKR	31.12.2014 LKR
Balance at the beginning of the year	42,476,184	42,638,768
Charge/ (write back) to income statement	(11,884)	-
Balance at the end of the year	42,464,300	42,638,768

Impairment provision balance as of 31/12/2014 is wrongly states as Rs. 42,638,768/- where as in absent of IFRS adjustment it should be Rs. 42,476,184/-.

18. Property, Plant and Equipment

	31.12.2015 LKR	31.12.2014 LKR
Cost	418,988,787	183,291,876
Accumulated depreciation	(82,525,332)	(64,614,456)
	336,463,455	118,677,420

18.1. Property, Plant and Equipment

	Land	Building	Motor Vehicles	Computer Equipment	Office Equipment	Telephone Equipment	Furniture & Fittings	Total
Cost/fair value								
Balance at the beginning of the year 2014	89,110,479		38,499,967	18,055,382	13,644,198	270,099	15,225,887	174,806,011
Additions	-		9,598,640	2,411,837	7,773,834	4,715	2,928,421	22,717,447
Disposals	-		(290,000)	-	-	-	-	(290,000)
Transfers during the year	(15,000,000)		-	-	-	-	-	(15,000,000)
Prior year adjustment	-		-	-	815,652	-	242,766	1,058,418
Balance at the end of the year 2014	74,110,479		47,808,607	20,467,219	22,233,684	274,814	18,397,074	183,291,876
Balance at the beginning of the year 2015	74,110,479		47,808,607	20,467,219	22,233,684	274,814	18,397,074	183,291,876
Additions	-		4,482,850	15,700,244	5,722,272	422,505	460,919	26,788,790
Disposals	(11,400,000)		(3,501,400)	-	-	-	-	(14,901,400)
Revaluation gain transfers	229,983,000	4,320,000	-	-	-	-	-	234,303,000
	(10,493,479)							(10,493,479)
Balance at the end of the year 2015	282,200,000	4,320,000	48,790,057	36,167,462	27,955,955	697,319	18,857,993	418,988,787
Accumulated depreciation								
Balance at the beginning of the year 2014	-		27,613,177	10,234,664	7,263,567	254,220	6,863,588	52,229,217
Charge for the year	-		5,560,553	3,421,475	2,963,106	5,320	2,914,190	14,864,644
Disposals	-		(270,667)	-	-	-	-	(270,667)
Prior year adjustment	-		23,175	(1,605,051)	(626,862)	-	-	(2,208,738)
Balance at the end of the year 2014	-		32,926,238	12,051,088	9,599,812	259,540	9,777,778	64,614,456
Balance at the beginning of the year 2015			32,926,238	12,051,088	9,599,812	259,540	9,777,778	64,614,456
Charge for the year	-	54000	4,103,448	4,832,299	4,591,464	19,389	2,836,408	16,437,008
Over / Under Depreciation adjustments			4,245,560	966,463	(966,608)	(16)	(999,531)	3,245,868
Revaluation Adjustment		1,728,000						1,728,000
Disposals	-		(3,500,000)					(3,500,000)
Balance at the end of the year 2015	-	1,782,000	37,775,246	17,849,849	13,224,668	278,913	11,614,655	82,525,332
Net book value at 31.12.2015	282,200,000	2,538,000	11,014,810	18,317,613	14,731,287	418,406	7,243,338	336,463,455
Net book value at 31.12.2014	74,110,479		14,882,368	8,416,131	12,633,872	15,274	8,619,296	118,677,420

Over / Under Depreciation adjustment in Accumulated depreciation in the Yr2015 is the effect of Accumulated Depreciation adjustment done for the Fixed Assets for their "Assets' servicing period", thus over under depreciation of the Fixed assets corrected promptly.

During the year, whole class of Lands and Buildings revalued. This is to segregate the building from Lands hence depreciate the Buildings. The entity has adopted revaluation policy for "Land and Building" in every Five years and depreciate the Building over the useful time of 20years period.

There are 12 motor vehicle fully depreciated as of 31/12/2015 but still in use. The book value of these items are Rs.26,626,266/-.

There are 232 Computer Equipment items fully depreciated as of 31/12/2015 but still in use. The Book value of these items are Rs.7,880,029/- and no re-valuation done due to impracticability.

"There are 46 Telephone Equipment items items fully depreciated as of 31/12/2015 but still in use. The Book value of these items are Rs.248,299/- and no re-valuation done due to impracticability.

There are 110 Furniture & Fittings items fully depreciated as of 31/12/2015 but still in use. The Book value of these items are Rs. 3,194,219/- and no re-valuation done due to impracticability

There are 48 Re-Furbishments items fully depreciated as of 31/12/2015 but still in use. The Book value of these items are Rs.1,855,954/- and no re-valuation done due to impracticability.

There are 65 Office Equipments items fully depreciated as of 31/12/2015 but still in use. The Book value of these items are Rs. 4,100,944/- and no re-valuation done due to impracticability.

"There are 79 Other Assets items fully depreciated as of 31/12/2015 but still in use. The Book value of these items are Rs. 2,033,596/- and no re-valuation done due to impracticability.

During the Yr2015, Rs.10,493,479/- worth of Properties transferred from PPE-Lands to Investment Land as such Lands held as investment properties.

During the Yr2015, all the Land & Buildings revalued to segregate the Buildings from the Lands hence apply Depreciations.

19. Intangible assets

	31.12.2015 LKR	31.12.2014 LKR
Computer Software and Licenses	587,136	4,370,000

19.1.**Cost**

Opening balance	7,460,000	7,460,000
Addition	-	-
Closing balance	7,460,000	7,460,000

Accumulated Depreciation

Opening balance	3,090,000	-
Charge for the year	2,177,864	3,090,000
Over/ Under adjustments	1,605,000	-
Closing balance	6,872,864	3,090,000

Net book value as at the year

587,136	4,370,000
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Intangible Assets contain payments made for computer software and licenses. Such assets recognized as and when payments made only for the extend of value the payment.

SLS Bank had purchased computer software amounting Rs.4,280,000.00 On 30/04/2013. But no depreciation had been done for this asset from April to dec 2013 amount 1,605,000.00. there for on 31.12.2015 this amount of depreciation have been done. Over / Under adjustment of Rs.1,605,000.00 is done to correct the depreciaition.

20. Investment Properties

	31.12.2015 LKR	31.12.2014 LKR
Land		
Cost		
Balance at the beginning of the year	83,559,936	83,559,936
Addition	11,292,500	
Revaluation Gain	212,462,084	
Transfers	8,780,683	
Balance at the end of the year	316,095,204	83,559,936
Building		
Cost		
Balance at the beginning of the year	-	
Revaluation Gain	15,507,000	
Transfers (from Investment - Land)	1,712,796	
Balance at the end of the year	17,219,796	-
Accumulated depreciation		
Balance at the beginning of the year	(285,000)	(285,000)
Depreciation for the year	-	-
Prior Year adjustments	285,000	
Balance at the end of the year	-	(285,000)
Net balance as at 31st December 2015	17,219,796	(285,000)
Total balance as at 31st December 2015	333,315,000	83,274,936

During the Yr2015, all investment properties were revalued and segregate the Investment Buildings. Entity has adopted policy to revalue Investment properties by every Five years time, thus Investment properties are measured at Fair value as per the LKAS 40 and revaluation done every five years time. During the Yr2015, Rs. 10,493,479/- worth of Properties transferred from PPE-Lands to Investment Land as such Lands held as investment properties. During the year Rs. 11,292,500/- worth of collateral converted as Investment Assets after setting off all loan balances. Investment Assets converted as Investment properties revalued and buildings worth of Rs. 1,712,796/- transferred to Investment Buildings. Prior year adjustment of Rs. 285,000/- is the removal of historical erroneously passed depreciation entry.

21. Current Tax Assets

	31.12.2015 LKR	31.12.2014 LKR
Balance at the beginning of the year	60,756,483	60,756,483
Income tax receivable from PSDB	-	-
Transferred to Payable - Income Tax	(60,756,483)	-
	-	60,756,483
Payments made during the year		
Income tax	-	-
Notional tax credit	-	-
Balance at the end of the year	-	60,756,483

22. Other Assets

	31.12.2015 LKR	31.12.2014 LKR
Assets vested from PSDB	143,394,996	29,023,520
Receivables	166,464,350	135,284,632
Advances	7,054,462	8,617,276
Refundable deposits	720,551	724,551
Bank opening expenses	(0)	4,793,766
Other advance	1,829,738	1,781,165
Sundry debtors	47,067	87,587
Inventory	4,560,013	1,806,863
Receivable-Crib Charges staff	1,545	450
Deposits & prepayments	1,800,977	1,723,523
Disposal A/C (Assets)	3,150,000	
Total	329,023,700	183,843,332
Less: Impairment charges	(136,406,562)	(22,126,857)
Total	192,617,138	161,716,476

During the Yr2015, a property Worth of Rs. 11,400,000/- has return back to a Customer as per the Court settlement in return of fee. However, apart from Rs. 8,250,000/- remainder balance set off against customer's savings account in Yr2016 hence disposal account shows Rs. 3,150,000/- balance.

Recoverable Deposits	-	25,065,000
Advance payment	28,832,757	29,283,467
Advance payment - MED	11,134,000	11,134,000
Advance payment - Admin	38,000	38,000
Expenditure pending settlements	3,672,000	3,672,000
Rec. Exp O/A property	786,000	786,000
Discount paid in advance	16,435,039	17,463,853
Due from head office	24,622,000	24,622,000
Deferred expenditure	12,214,000	12,214,000
Others	9,106,000	9,106,000
Deposit fund on behalf of PSDB L/T Case	7,098,200	7,098,200
Sundry Debtors (Vested from PSDB)	4,392,000	-
Recoverable Deposits (Vested from PSDB)	25,065,000	-
Less: Impairment Charges	-	(111,459,000)
Total	143,394,996	29,023,520

23. Due to Bank

	31.12.2015 LKR	31.12.2014 LKR
People's Bank - Borella No. 1	7,966,351	12,908,993
People's Bank - Borella No. 2	8,504,777	4,323,843
Bank of Ceylon - Borella		-
People's Bank - Mannar (078-1-002-4-8517396) - old	710,342	710,342
People's Bank -Borella (Matara-Old) (078-1-002-6-0000683)	-	600,000
People's Bank - Mannar	-	1,165,499
People's Bank - Liberty Plaza - new	1,733,308	2,091,224
Cash at Bank - NDTF 309-1001-72536876	6,222,014	-
People's Bank - Anuradhapura	693,210	-
Total	25,830,002	21,799,902

24. Due to Other Customers

	31.12.2015 LKR	31.12.2014 LKR
Total amount due to other customers	907,707,043	1,192,188,476
Total	907,707,043	1,192,188,476

24.1. Analysis

	31.12.2015 LKR	31.12.2014 LKR
By product		
Normal savings	172,069,453	157,052,805
Normal savings Co-Operative	11,915,218	15,912,210
Minor savings	17,322,076	15,729,131
Ladies savings	5,549,079	3,877,807
Senior citizen's savings	6,802,318	5,481,606
Normal savings - staff	3,032,210	3,021,831
Door to door savings	9,630,750	7,160,428
Divisevana- regular deposit	33,798	94,001
Savings-deceased	(202)	1,645
Fixed deposits	365,408,026	644,839,068
Dormant savings	14,989	42,509
Pramuka Savings and Development bank - deposits	315,214,589	338,327,256
Janasewana Swashakthi minor savings	723,742	616,292
Janasewana Swashakthi ordinary savings	(9,003)	31,886
Sub Total	907,707,043	1,192,188,476

25. Debentures and other borrowings

	31.12.2015 LKR	31.12.2014 LKR
Debentures	1,693,414,410	1,635,861,557
Other borrowings	1,429,924,543	1,475,242,907
Total	3,123,338,953	3,111,104,464

25.1. Debentures

	31.12.2015 LKR	31.12.2014 LKR
Unsecured Subordinate Debentures	880,287,000	881,233,500
Unsecured Subordinate Debentures pending allotment	418,507,410	419,219,300
Interest payable	394,620,000	335,408,757
Sub Total	1,693,414,410	1,635,861,557

In terms of advertisement published in newspapers on 3rd December 2007 by the Central Bank of Sri Lanka, liabilities to corporate and institutional investors/depositors whose balances are more than Rs 100,000/- is to be converted to Unsecured and Subordinate Debentures with a maturity period of 10 years, and the interest should be accrued annually at five percent (5%) per annum or the one year Treasury bill rate whichever is lower. These Debentures are recognized at cost and interest accumulated on capita at the rate describe above. All such Debentures are mature on 03/12/2017.

25.2. Other borrowings

	31.12.2015 LKR	31.12.2014 LKR
PSDB - Borrowing	70,969,341	97,644,658
NDTF Loan GOSL-IDA credit	(1)	6,424,382
NDTF Loan GOSL-KFW loan	28,822,920	38,430,561
Micro finance loans to ADB	1,330,132,282	1,332,743,305
Sub Total	1,429,924,543	1,475,242,906

26. Current Tax Liability

	31.12.2015 LKR	31.12.2014 LKR
Income tax Assesment for the year of 2009/2010	22,830,793	32,830,793
Payments made during the year	(5,943,598)	(10,000,000)
Transferred to Payable -Income Tax	(16,887,196)	-
Balance at the end of the year	-	22,830,793

The Inland Revenue Department issued the Appel detemination for the Income tax year of assessment 2009/2010.

27. Other liabilities

	31.12.2015 LKR	31.12.2014 LKR
Interest payable (Note 27.1)	58,180,156	49,444,184
Payable -expense creditors (Note 27.2)	674,911,410	230,263,702
PSDB liabilities (Note 27.3)	12,501,798	17,071,958
Inter branch accounts (Note 27.4)	(8,846,473)	6,857,559
Sundry creditors (Note 27.5)	29,823,468	9,549,621
Retirement benefit obligation (Note 27.6)	7,418,754	5,276,621
Total	773,989,113	318,463,646

27.1. Interest Payable

	31.12.2015 LKR	31.12.2014 LKR
Treasury bond backed deposit certificate	780,105	780,105
Interest payable - Investors	56,914,420	48,178,448
Bonus interest payable	485,631	485,631
Sub Total	58,180,156	49,444,184

27.2. Payable -Expense Creditors

	31.12.2015 LKR	31.12.2014 LKR
Provision for salaries as per collective agreement		-
Accrued expenses	502,058,713	60,545,384
Other payables	172,852,697	169,718,319
Sub Total	674,911,410	230,263,702

27.3. PSDB liabilities

	31.12.2015 LKR	31.12.2014 LKR
Margin account loans	5,403,598	9,973,758
Provision for PSDB LT case	7,098,200	7,098,200
Sub Total	12,501,798	17,071,958

27.4. Interbranch accounts

	31.12.2015 LKR	31.12.2014 LKR
Borella branch	(105,718,031)	105,771,364
PSDB current account	199,707,563	110,080,248
SLSB current account	692,561,339	(1,044,161,843)
Matara current account	(178,424,096)	29,802,066
National Development Trust Fund current account	(428,923,884)	834,159,070
Branch Account - Anuradhapura	(178,948,955)	40,474,913
Branch Account - Mannar	8,592,538	(69,268,258)
Sub Total	8,846,473	6,857,559

27.5. Sundry creditors

	31.12.2015 LKR	31.12.2014 LKR
WW/OP Contribution collected from employees	35,109	35,109
Refundable deposit- others	54,749	55,749
Staff security deposit	208,500	139,500
Staff critical illness fund	341,323	247,100
Undisbursed Loans	28,335,161	6,019,593
Payable - CRIB charges	-	-
Payable VAT leasing	6,852	2,187,997
Insurance premium - collection account	6,006	6,006
Union Collection Account	26,600	49,400
Provision for incentives	809,167	809,167
Sub Total	29,823,468	9,549,621

27.6. Retirement benefit obligation

	31.12.2015 LKR	31.12.2014 LKR
Balance at the beginning of the year	5,276,621	6,663,547
Add: Gratuity charge for the period	2,142,133	1,003,952
Gain/(loss) arising from changes in actuarial assumptions	(0)	247,233
Less: Payments made/Payable during the year		(821,957)
Unreconciled opening balance difference		(1,816,154)
Balance at the end of the year	7,418,754	5,276,621

The actuarial valuation of the gratuity liability of the bank was carried out as at 31.12.2015 by Actuarial & Management Consultants (Pvt) Ltd. The valuation method used by the actuaries to value the fund is the 'Project unit credit method' permitted by the Sri Lanka Accounting Standard No: 19 'Employee benefits'. The bank does not fund the gratuity liability externally.

27.6.1. The principle assumptions used for this purpose are as follows.

	2015	2014
Retirement age	55	55
Rate of interest	11%	9.65%
Salary increment	30%	25%
Mortality Table	A67/70	A67/70

28. Stated Capital/Assigned Capital

	31.12.2015 LKR	31.12.2014 LKR
Ordinary shares	458,445,900	458,445,900
Ordinary shares application	700	700
Capital pending allotment	2,984,843,702	2,982,232,679
Total	3,443,290,302	3,440,679,279

The amount of Capital pending allotment is amounting Rs. 2,982,232,679 which is the equity of National Development Trust Fund (NDTF) (which includes Rs.2,129,435,718.56 from National development trust Fund and Rs.852,796,960 from National Development Trust fund company limited by guarantee) merged with the bank on 30/09/2010.

29. Statutory Reserve Fund

	31.12.2015 LKR	31.12.2014 LKR
Balance at the beginning of the year	118,257,093	106,514,347
Transfer during the period	21,614,128	11,742,746
Balance at the end of the year	139,871,220	118,257,092

The Reserve Fund was created to comply with the Directions No 33 of 1998 issued by the Central Bank under Banking Act, No. 30 of 1988. During the year 2015, the bank has transferred Rs.17,554,226 a sum equal to 5% of the Net Profits for the year ended 31st December 2015 to Reserve Fund.

30. Investment Fund Account

	31.12.2015 LKR	31.12.2014 LKR
Balance at the beginning of the year	-	106,226,336
Transfer during the period	-	(106,226,336)
Balance at the end of the year	-	-

Operation of Investment Fund Account ceased with effects from 1 October 2014 as per item 3.ii of circular No.02/17/800/0014/02 issued by the Central Bank of Sri Lanka for Licensed Specialized Banks. The adjustment in relation to cession of the fund has been transferred to the Revenue Reserve Account.

31. Retained Earnings

	31.12.2015 LKR	31.12.2014 LKR
Balance at the beginning of the year as previously stated	2,477,640,882	2,283,772,109
Unreconciled Difference		-
Over/ Under adjustment	(572,477,105)	(27,745,091)
Restatement of fair value changes		-
Profit for the year- restated	432,282,566	234,854,912
Staff housing loan fund		(100,000,000)
Actual gain on defined benefit plan	-	(247,233)
Transferred to statutory reserve fund	(21,614,128)	(11,742,746)
Transfers to other reserves		106,226,336
Balance at the end of the year	2,315,832,215	2,485,118,287

Over / Under Adjustments represent the Rs. 454,275,540/- extra Tax provision , Leasing Repossession profit adjustment as well as other minor adjustments.

The Closing Balance of Yr2014 "Retained Earnings" includes Rs. 7,477,405/- revaluation reserve. This has separated from "Retained Earnings" when stating Yr2015 opening balances and shows under "Revaluation Reserve" for fair representation of Financial Statements.

32. Other Reserves

	Balance at the beginning of the year as at 01.01.2015	Movement/ transfers	Balance at the end of the year
	LKR	LKR	31.12.2015 LKR
Available-for-sale reserve	135,586,811	7,412,037	142,998,848
Revenue deficit before vesting	(2,166,190,408)	-	(2,166,190,408)
Revaluation reserve	7,477,405	460,544,084	468,021,489
Total	(2,023,126,192)	467,956,121	(1,555,170,071)

"Available for sales reserve" is represent the gain of quoted shares held by the entity. The gain or loss of such recognized in the "Statement of Comprehensive Income".

Revenue deficit before vesting Rs. 2,166,190,408 is the residue of Rs.2, 423,071,938 negative equity of Pramuka Savings and Development Bank (PSDB) vested by Central Bank of Sri Lanka (CBSL) after adjusting loan loss reversals and Tax adjustments.

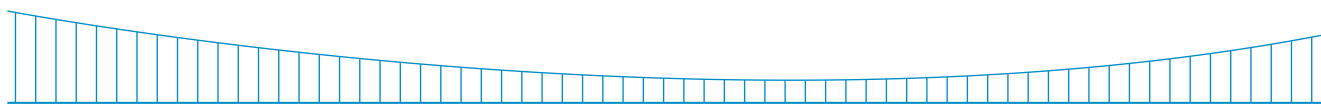
"Revaluation reserve" represents the gain / loss of the revaluation of the Investment properties and Lands and Buildings.

33. Related party disclosures

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 14 "Related Party Disclosures".

33.1 Key Management Personnel (KMP)

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

(ii) **KMP of the Bank**

Key Management Personnel include the members of the Board of Directors of the Bank (including the Executive and Non-Executive) and Corporate Management including the GM/CEO and Senior Managers of the Bank.

(iii) **Compensations to KPM**

	2015 LKR	2014 LKR
Directors' emoluments - Sitting allowances	2,648,500	
Directors' emoluments - Fixed allowances	1,428,928	
Remuneration of Corporate Management	14,580,095	
	18,657,523	10,205,244

The amount disclosed above are the amounts recognized as expenses during the reporting year relating to KMP.

In addition to the remuneration, the Bank has also provided non cash benefits to KMP in line with the approved benefit plan of the Bank.

(iv) **Transactions with KPM**

During the year Bank has not engaged in any Banking or other Business transactions with KMP and their Close Family Members other than disclosed under compensations.

(v) **Transactions involving entities which are controlled / jointly controlled by the KMP and their Close Family Members.**

During the year Bank has not engaged in any Banking or other Business transactions with any entities controlled / jointly controlled by the KMP and their Close Family Members.

34. Capital commitments

There are no significant capital commitments as of 31/12/2015.

35. Contingent liabilities

The value of bank guarantees outstanding as at the reporting date amounts to Rs. 5.5 Mn. With 100% cash margin.

35.1 Disputed tax assessments

As per the received assessments, Sri Lanka Savings Bank is liable to pay penalties Rs.247,085,857 to The Department of Inland Revenue for the period 2007 to 2014 as follows.

	Period	Amount Rs.
Income Tax	2009/10,2010/11,2011/12,2012/13	126,777,585.00
PAYE	2007/08,2009/10,2011/12,2012/13,2014/15	104,798.39
ESC	2008/09,2009/10,2010/11,2013/14	2,274,395.19
VAT on FS	2007,2008,2009,2010,2011,2012,2013,2014	116,846,271.54
NBT on FS	2014	1,082,807.00
TOTAL PENALTY PAYABLE		247,085,857.12

Ministry of Finance has sent a instruction letter to the Department of Inland Revenue advising to wave off penalties of SLSB.

36. Events after the reporting period

Other than the above no circumstances have arisen since the reporting period which would require adjustments to, or disclosures in the financial statements.

37. Non-Cash Items Included in Profit Before Tax

	2015 LKR	2014 LKR
Depreciation of property, plant and equipment	16,437,008	17,954,644
(Gain)/loss of disposal of property, plant and equipment	(2,120,500)	(161,882)
Depreciation of Intangible assets	2,177,864	
Impairment of loans and receivables	(75,585,703)	167,167,519
Charge for defined benefit plans	2,142,133	1,003,952
Fair value changes	(7,412,037)	73,251,561
Staff housing loan reserve	-	(100,000,000)
Restated Property, plant and equipment	(1,168,039)	(497,748)
Total	(65,529,274)	158,718,046

Non-Cash items are the items that include in the Income statement without any Cash in/out flow, thus such items are adjusted when deriving operating Cash flow at the Cash flow statement.

38. Change in Operating Assets

	2015 LKR	2014 LKR
Sri Lanka Government securities	2,464,829,232	(3,177,628,056)
Loans and receivables from bank	(1,773,434,938)	2,700,377,453
Loans and receivables to other customers	(645,471,441)	(313,882,860)
Financial investments – Available-for-sale	(7,597,575)	(73,231,561)
Current tax assets	60,756,483	-
Other assets	(30,900,662)	(61,286,874)
Total	68,181,099	(925,651,898)

39. Change in Operating Liabilities

	2015 LKR	2014 LKR
Due to other customers	(284,481,433)	442,976,991
Debt securities issued and other borrowings	12,234,489	27,463,958
Current tax liability	-	-
Other liabilities	455,851,446	38,011,464
Total	183,604,502	508,452,413

40. Cash and Cash Equivalent

	2015 LKR	2014 LKR
Cash in hand and cash at bank	40,461,924	17,059,329
Due to bank	(25,830,002)	(21,799,902)
Total	14,631,922	(4,740,573)

SRI LANKA SAVINGS BANK LIMITED

DETAILED NOTES

FOR THE YEAR ENDED 31ST DECEMBER 2015

1. Receivables

	31.12.2015 LKR	31.12.2014 LKR
Cash shortages - pending settlement	5,125	5,025
Payable-Paye		-
Receivable-CRIB charges	45,722	41,142
Suspense account debtors		-
Financial payable cost-shakthi dual	1,593	1,593
Loan protection policy payable account	498,036	499,711
Receivable - Withholding tax	110,510,618	96,486,308
Insurance Receivable	1,492,278	1,051,452
Loan-termination proceed receivable	1,815,289	2,981,339
Documentation charges receivables	2,765	2,765
Receivable-NBT	-	3,134,280
Leasing- Seizing Charges Receivable	129,080	13,000
Receivable legal charges	8,045,545	6,797,649
Sundry receivables	700	700
Processing charges receivable	(174,450)	24,550
Inspection charges receivable	10,250	3,000
Valuation charges receivable	82,350	15,500
Lease VAT receivables	249,093	3,451,254
Notional Tax	44,316,671	20,775,363
Stamp Duty - Receivable	995,970	-
Receivable -Senior Citizen FD - Subsidy	222,096	-
Leasing Repossession Control A/C	(1,784,380)	
Total	166,464,350	135,284,632

2. Advances

	31.12.2015 LKR	31.12.2014 LKR
Advance head office & PSDB pending settlement	7,360	7,360
Festival advance	300,590	278,500
Salary Advance	81,386	-
Recoverable from employee	13,711	-
Advance on rent	6,548,000	8,228,000
Advance & Receivable-NDTF	97,416	97,416
Advance payment for fixed assets	6,000	6,000
Cash Advance	-	-
Total	7,054,462	8,617,276

3. Accrued Expenses

	31.12.2015 LKR	31.12.2014 LKR
EPF	3,817,384	634,079
ETF	574,329	92,862
PAYE Tax	383,864	45,514
Water	85,634	68,074
Security expenses	1,495,192	1,179,593
Electricity expenses	500,543	477,835
Building up keep	96,000	96,000
Telephone general	158,653	145,384
Email & internet	323,061	323,061
Telephone mobile	182,000	182,000
Stamp duty	1,421,937	84,080
Postage and Telegrams	10,153	4,000
W H Tax	34,515	341,837
Processing charges	-	23,041
Sundry creditors	602,000	602,000
Payable-bonus	136,219	-
Payable-Out of Pocket	1,228,012	-
Payable-Overtime Expenses	1,114,251	-
Payable-sub & Lodging	538,634	-
Economic service charges	1,518,902	3,074,653
Audit fees	500,313	500,313
Suppliers	7,402,868	3,965,527
Financial services VAT	231,042,447	45,674,772
NBT	8,418,070	-
Payable - Income Tax	236,007,538	-
News papers & periodicals	1,280	490
Valuation charges payable	49,000	18,800
Insurance	767,202	370,720
Title search charges payable	2,500	2,500
CRIB charges	756,605	189,000
Tax consultants	440,000	440,000
Saving standing order control account	(54,893)	4,747
NITF levy	2,500,000	2,000,000
Service charges	4,500	4,500
Gratuity Payable	-	-
Sub Total	502,058,713	60,545,384

4. Other Payables

	31.12.2015 LKR	31.12.2014 LKR
Unidentified deposits	308,150	308,150
Margin accounts	7,983,775	7,889,775
Suspense customers	6,977,169	6,977,169
Other accrued expenses	3,335,406	3,305,406
Suspense account clearing	1,213,371	4,007,405
Suspense account creditors	75,500	14,500
Suspense account migration creditors	5,575	38,634
Creditors for HP equipment	721,372	721,372
Staff Housing Loan Fund	100,000,000	100,000,000
Cash excess - pending settlement	19,935	15,709
Suspense loan creditors	6,472,971	9,260,243
Error Correction-Savings accounts	2,961,091	2,863,423
Payable-pension fund	1,765,404	1,765,404
Financial payable cost-shakthi dual	563	563
Unidentified foreign currency	62,523	62,523
Receivable - Staff	115,522	123,737
Receivable-CRIB charges MFD	54,675	54,675
Receivable-CRIB charges personal loans	25,730	34,275
Bills Purchase A/C	114,414	114,414
Receivable-CRIB charges individual & corporate		-
Provision for contingencies	37,032,798	32,158,940
Unclaimed balance account	2,000	2,000
Provision for Salaries as per collective agreement	11,118,734	-
Cheque control -Savings	(6,044,679)	-
Control Acc for Loan-Savings	(5,625,341)	-
Unclaimed Balances-Minors	4,455	-
Unclaimed Balances-Others	104,846	-
FD Suspense	1,271,185	-
Pre-mature Suspense-FD	95,570	-
Maturity Capital Suspense Account-FD	2,679,982	-
Sub Total	172,852,697	169,718,319

SRI LANKA SAVINGS BANK LIMITED

Notice of
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE NINETH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE SRI LANKA SAVINGS BANK LIMITED WILL BE HELD ON 31ST OCTOBER 2017 AT 2.00 PM AT NO.265, WARD PLACE, COLOMBO 7.

AGENDA

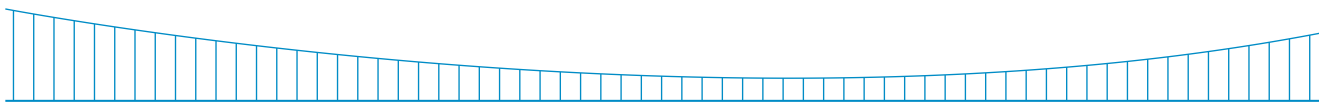
1. To receive and to consider the Report of the Directors, Statement of Accounts and the Balance sheet of the Company for the year ended 31st December 2015 and the Report of the Auditors thereon.
2. To ratify the appointment of Auditor General as auditors for the year ended 31st December 2015.
3. To re-appoint Auditor General as auditors for the year ended 31st December 2016.

By Order of the Board,

Ramya Piyasekara
Company Secretary
Colombo
13th October 2017.

Notes:

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



Form of Proxy

SRI LANKA SAVINGS BANK LIMITED

I/We.....
 (NIC No.).....
 of.....
 being a Member/s* of the Company hereby appoint :

Mr. Karunaratna Amarasinghe	of Colombo or failing him
Mr. P.B.S.C. Nonis	of Colombo or failing him
Mr. Sunil Witharanage	of Colombo or failing him
Mr. A.S. Madapatha	of Colombo or failing him
Mr. D.S.W. Samarasekara	of Colombo or failing him
Mr. P.S. Dayananda	of Colombo or failing him
Mr. C.V.J. Arambewela	of Colombo or failing him
Mr. R.M.C. Rathnayaka	of Colombo or failing him
Mr. P. Dheerasinghe	of Colombo or failing him

.....of
as my /our proxy to represent me/us and vote for me/us on my/our
 behalf at the Annual General Meeting of the Company to be held on the day of 2017.

and at any adjournment thereof. Signed thisth day of 2017.

1. The Ordinary Resolution numbered 1 set out in the Notice convening the aforesaid meeting
2. The Ordinary Resolution numbered 2 set out in the Notice convening the aforesaid meeting
3. The Ordinary Resolution numbered 3 set out in the Notice convening the aforesaid meeting

☐
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For

Against

.....
 Signature

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

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

INSTRUCTIONS AS TO COMPLETION

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



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இலங்கை சேமிப்பு வங்கி
Sri Lanka Savings Bank

No: 265, Ward Place, Colombo 07.

Telephone : 0112691721 /2, 0112674700 /1 /2 /3

Fax : 0112674704 /5 /6

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