PROMISE OF PROSPERITY

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இலங்கை மக்களின் இதயத்துடிப்பு
THE HEARTBEAT OF SRI LANKA

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லங்காபுத்ர அபிவிருத்தி வங்கி
LANKAPUTHRA DEVELOPMENT BANK

Lankaputhra Development Bank
Annual Report 2012

Contents

PROMISE OF PROSPERITY

Ours has always been a promise to stay with you, empowering you every step of the way, giving you the strength to rise, one step at a time. Today, we have proven to be your truest partner, and for tomorrow, ours is a promise of prosperity.

The visual symbolism of the theme is "strength to rise" and the use of the colours of the national flag depict our promise to represent and partner every Sri Lankan.

Our Vision

To be the Vibrant Facilitator of Economic and Social Development in Sri Lanka

Our Mission

- To be the core development bank in Sri Lanka, significantly strenghthening entrepreneurship at regional, national and international levels.
- To add value to our employees by creating positive working environment supporting professionalism thereby developing our people to be the best they can be.
- To aid in the development of rural economy of Sri Lanka thereby reducing disparity and helping to uplift the lives of the less fortunate.
- Caring for our customers consistently benchmarking excellent customer service standards to be the best in the industry.

Our Values

- Lending a hand to economic development
- Develop entrepreneurs to international standards
- Build a team of professionals with accountability

Financial Highlights

		2012	2011
Total Income (Rs. Mn)		714.5	560.2
Profit for the Year (Rs. Mn)		218.2	79.8
Earnings Per Share (Rs.)		6.05	2.21
Return on Total Assets (before tax) (%)		4.2	1.9
Return on Equity (%)		5.15	2
Capital Adequacy Ratio	- Tier 1 (%)	86.06	70
	- Tier 2 (%)	86.40	70.2
Total Assets (Rs. Mn)		6,984.4	6,506.7
Loans & Advances - (Rs. Mn)		2,859.4	2,540.9
Deposit Base		241.6	207.7

We Are

We, the Lankaputhra Development Bank Limited, are a Licensed Specialized Bank fully owned by the Government of Sri Lanka established under the Banking Act No 30 of 1988, incorporated in Sri Lanka under the provisions of the companies Act No 17 of 1982.

We cater to the development of the hitherto neglected sectors of the rural economy. This new initiative is carefully planned to primarily to contribute to the achievement of national development priorities there by complementing government efforts.

Our efforts are, truly tied up with the grass root level needs of the rural sector. A vital factor in our effort is to help construction, agriculture and industrial sectors of the rural folk by channeling finances, providing advice and render guidance.

Our mission will fulfill the long awaited national development through the development of the rural economy, which is the back bone of the country's economy.

In 2012, Our "Promise of Prosperity" meant that over thousands Sri Lankans fulfilled their commercial and personal aspirations.

Chairperson's Message

In spite of the challenging backdrop, the Lankaputhra Development Bank was able to achieve significant growth due to proactive and far-sighted actions that were put in motion at the beginning of the financial year.

KUMUDINIY KULATHUNGA
Chairperson

It gives me great pleasure to present the audited financial statements and annual report for the year 2012. You, our shareholders will be pleased to note that Lankaputhra Development Bank has shown remarkable progress in its performance, in the financial year 2012. As such, at the end of the reporting period, we are indeed proud to note that your Bank profitability has grown to Rs. 218 million, notably, the highest profits recorded since the inception of the Bank in 2006.

Subsequent to assuming duties as the Chairperson of your Bank in January 2012, I have diligently observed the progress achieved during the course of this financial year. Indeed, I must make note that progress marked during the year is not only noteworthy but also commendable.

Global Economy at a Glance

Global economies have demonstrated either protracted or negative growth during the year in comparison with the trend in the previous year. The United States, however, has shown a moderate recovery. The Federal Reserve – the American Central Bank –projects that the overall unemployment levels will remain high despite gradual improvements to the labour market. Similarly, the European Union continued to witness aggravation as growth spiraled. Policies that directly address the sovereign debt crisis will remain the chief determination of Europe's growth prospects in 2013. Subsequent to a catastrophic earthquake, Japan's economy shouldered numerous shocks; unfortunately conditions are yet to improve. Japan's progress in 2013, therefore relies on the strength of the global economy with revival of its export engine dependent on the support of the global demand. China encountered difficulties during the fiscal year to sustain export incomes and policy decisions are being taken to strengthen domestic consumption. Therefore, China's growth will mainly depend on the efficiency and effectiveness of their policies and of course, the overall global conditions. The imposition of International trade sanctions on Iran, the second largest oil producer in (OPEC) had a consequent effect on fuel prices.

Sri Lanka's Economy Remains Resilient

Sri Lanka's economy faced heightened trials in the face of growing global challenge in the year 2012. The European sovereign debt crisis and the fiscal cliff in the U.S. together permeated the stability of the Sri Lankan economy. Sanctions on Iran contributed towards higher forex consumption as persistently high petroleum prices shaved off the nation's forex reserves. Additionally, slow growth in the developed economies translated to slow demand for our exports.

On the domestic front, draught conditions severely affected agriculture and hydropower generation, gas and water sectors. Subsequently, rains in the last quarter of the year disrupted food supplies. As was forecasted, and as a direct outcome of these externalities, import expenditure declined. Import of consumer goods and intermediate goods also declined. Simultaneously, export earnings eroded but were assisted by an increase in forex earnings from tourist arrivals as Sri Lanka recorded in excess of one million tourists during the year. Sri Lanka's growth momentum in 2012 was less expeditious than in the previous two years. However, as per the budget proposals for 2013 it is evident that the proposals are in line with the objective of transforming Sri Lanka to an upper middle-income country by the year 2016, through the realisation of a per capita income of USD 4000.

The Banking and Financial Environment

Credit growth in the banking sector was moderate during the year due to an 18% credit ceiling imposed by Central Bank of Sri Lanka (CBSL) on Commercial banks. However, credit to public corporations increased in 2012, especially to the Ceylon Electricity Board and Ceylon Petroleum Corporation. The Central Bank announced that the credit ceiling will expire by end 2012 and has subsequently, done so. CBSL will then endeavour to maintain domestic financial stability to ensure sustainability of the countries growth. The Sri Lankan Rupee is expected to further appreciate in the coming year. The Bank therefore needs to bridge the investment and savings gap to sustain the growth momentum.

Progress and Performance Review

In spite of the challenging backdrop, the Lankaputhra Development Bank was able to achieve significant growth due to proactive and far-sighted actions that were put in motion at the beginning of the financial year. Prudent planning and a robust monitoring system to review our major business activities, in a comprehensive manner frequently, have I believe delivered quantifiable results, this financial year.

Chairperson's Message contd.

Based on the corporate plan that was developed, targets were given to branches and progress was reviewed monthly. Setbacks and obstacles were overcome through engagement across the organisation, and solutions formulated for implementation. All investments were handled prudently with a view to accrue maximum return to your Bank.

Critical issues with regard to the non-performing loans portfolio was addressed in a systematic manner and I am pleased to note that we were able to reduce our NPL ratio from 55% to 45% during the course of the year. The top 20 non-performing loans positions were monitored and followed up by a Board Appointed Committee headed by the General Manager, facilitated by myself. The positions of non-performing advances in branches were also stringently monitored on a monthly basis throughout the year. As a result of these concerted efforts, we have been able to yield a significant improvement in the recovery of loans granted by SME bank, which was amalgamated, to the Lankaputhra Development Bank in 2008. A number of volunteers from across our organisation have worked diligently towards recovery of loans granted under the SME Bank's purview and this has shown remarkable improvements in recovery. As a result of these persistent efforts, your Bank was able to secure a profit of Rs. 218 million at the end of this financial year, the highest profits earned so far in its existence.

Forward Outlook

After consolidating our position during 2012 we are now planning for further progress and growth during 2013 with strength stability and commitment.

Recruitments for key management positions will be finalized in the coming year and plans underway to recruit Management trainees to be assigned to existing branches after intensive and relevant training. More emphasis will be made to mobilize savings accounts and thus promotional programmes will be held to facilitate mobilisation. We hope to encourage Government employees to open savings accounts in order to encourage their savings habits whilst improving their retirement income. We have currently identified the need to improve the capabilities of existing staff and steps are being taken to provide both technical as well as soft skills training, as per gaps identified in a training need analysis that is currently underway.

In keeping with the "Mahinda Chinthana Vision" we will forge ahead as a strong pillar in the framework of development banking in Sri Lanka. As such, we will continue to assist other state banks also to empower that segment of customers who have the commitment and the capacity to contribute to the economic development of the nation. Included amongst these are those who are unable to offer tangible securities to procure financial assistance from banks through the utilization of treasury bonds offered to the bank by the Government, by issuing guarantees for such loans.

Also on the drawing boards are plans to open small branches on a low cost basis in the North and Eastern provinces in order to serve these areas more effectively in keeping with the Governments vision to accelerate development in the previously conflict riddled provinces. We expect to utilise the available staff to operate these new branches.

Further focus will also be laid on recovery of non-performing advances, in a systematic manner with the aim to sustain the rate of reduction in the NPA to meet industry norms in the medium term.

Acknowledgements

I take this opportunity to thank my colleagues on the Board for their committed support and cooperation in discharging my duties as a Chairperson. Their contribution has been of extreme value in reaching the heights the Bank has achieved this financial year.

I also take this opportunity to thank the Directors Mr. Sumith Wijesinghe and Mr. K S M de Silva, who have resigned from the Board for their continued contributions at the Board meetings during their tenure. I also warmly welcome Mr. H S Dharmasiri, General Manager retired of Peoples' Bank to the Board of Lankaputhra Development Bank.

I thank the General Manager for his undivided efforts towards the progress made during the year under reference and the Senior Management and Staff of the Bank, who have dedicated themselves to achieve the set targets. My thanks to the trade union for the corporation extended to achieve a significant growth in the Banks operations. If not for the

industrial peace that prevailed throughout the year, the Bank would not have been able to achieve these significant improvements in its performance in 2012.

On behalf of the Lankaputhra Development Bank, I extend my sincere thanks to our customers for their continued loyalty and patronage and we will continue to commit ourselves to serve you better in the coming year as well.

I thank His Excellency, the President Mahinda Rajapakse, who is also the Minister of Finance and Planning for his far reaching vision for this bank. I thank the former Deputy Minister of Finance and Planning, Mr. Geethanjana Gunawardena, and the present Deputy Minister of Finance and Planning, Mr. Sarath Amunugama, Secretary to the Ministry of Finance and Planning, Dr. P B Jayasundara, Governor of the Central Bank of Sri Lanka, Mr. Ajith Nivad Cabral, Auditor General and the respective officials of the Central Bank for their valuable guidance and support.

Kumudiniy Kulathunga
Chairperson

29th May 2013

CEO's Review

The Bank registered the highest ever profit after tax of Rs. 218.2 million, almost a tripling of the PAT in the previous financial year. Additionally, we successfully managed the credit portfolio through the institution of robust credit assessment measures.

LASANTHA AMARASEKARA
General Manager/ CEO

Yet another financial year has come to an end and it is time for us to review of our operational and financial performance for 2012. It is with great pleasure that I present to you the Annual Report and Audited Accounts of Lankaputhra Development Bank for the year 2012. I am confident that our stakeholders will be pleased with the performance of the Bank this financial year.

Global trepidation transposes to local economy

With the ongoing sovereign debt crisis permeating and destabilizing almost all of Europe, impending financial calamity cast a shadow of gloom on some of the largest economies and catalyzed a considerable degree of uncertainty across the global financial services industry during 2012. Despite external and domestic challenges, the local economy adjusted well to cautious policy measures enacted by the Central Bank of Sri Lanka, thereby retaining stability. The GDP expansion stood at a comfortable 6.4%, although marginally short of the 7% growth target for the year.

Financial sector stability

The financial sector expanded whilst remaining stable despite challenging market conditions both globally and domestically, and continued to support the growth momentum in the economy. The credit ceiling imposed by the CBSL in the early part of the year assisted to moderate the expansion of credit.

Although financial markets were volatile during the early part of 2012, policy measures taken were able to restore stability in financial markets during the latter part of the year. Continued strengthening of the supervisory and regulatory framework governing the financial sector ensured that a sound and conducive environment for effective financial intermediation prevailed.

Of the financial services sector, the Banking sector remained stable. The scenario of expanded credit growth evidenced in 2011, moderated in 2012. The Banking sector continued to maintain its dominant role in the financial services sector with an enlargement of assets to 56.4% from 55.1% in the previous fiscal year.

Expansion of services to SME

During the year, CBSL stipulated all institutions in the banking sector to commence services to SMEs through dedicated SME operations, to ensure greater access to financing for SMEs. The legal and operational framework for microfinance that is expected to come into force in the near future will assist to further expand the availability of financing for micro enterprises. Whilst these measures will serve to enhance competition for our services, we welcome the move to enlarge the scope and scale of services to the SME sector. We remain confident, that going forward, despite the growth in competition, that Lankaputhra Development Bank will continue to be able to offer a range of competitive products and services.

A year of promise

2012 was operationally a year of promise for Lankaputhra Development Bank. We started to reap the rewards of initiatives instituted in the previous financial year, towards making your Company more robust. Indeed, during the year, the Bank progressively made headway in a number of fronts. Our concerted efforts to contract the Non Performing Advances (NPA) bore fruition, and at year-end our balance sheet reflects a NPA of 45.8%, significantly lowered from 55% in 2011. The NPA portfolio comprised primarily of a few large-scale customers, and in 2012 effective restructuring of these bad debts, stimulated repayment. The remainder that we have categorised as willful defaulters have had legal action initiated against them. Whilst the NPA has improved during the reporting period, we remain cognizant of the fact that it is still above the norm, but we remain confident that continued concentration on NPA management would yield success as we move forward.

From a financial performance perspective, it gives me great pleasure to announce that in 2012, The Bank registered the highest ever profit after tax of Rs. 218.2 million, almost a tripling of the PAT in the previous financial year. Additionally, we successfully managed the credit portfolio through the institution of robust credit assessment measures. Credit quality is reflective of this, as in 2012 there were negligible additions to the NPA.

CEO's Review contd.

Income rose by a commendable 18% during the year compared to 2011, mainly as a result of rising interest rates for lending products. Operating expenses were curtailed during the year through effective and efficient management of resources to Rs. 219.5 million, down by 4%.

Total assets of the Bank exceeded Rs. 6.9 billion, which accounts for a 7% YoY growth. The total deposit base grew by 16%; however, our focus during the year was on developing the credit portfolio, as the Bank remains well capitalized and stable. The priority therefore, was to enlarge the credit portfolio whilst maintaining sound portfolio health. A total provision of Rs. 47 million was made during the year, in line with guidelines issued by CBSL as provisions for NPA.

Investments into human capital

A constantly changing external environment together with a shifting market situation requires us to be equipped to tackle more potent challenges and to reap from future opportunities. During the year in review, we invested time and effort towards determining future talent requirements and conducted an assessment to match existing individual capabilities to expected business requirements in the long term. Our challenge is to grow our people and impart knowledge and skills on diverse areas of the business. We believe that by broadening the knowledge base through upgrading of skills, our progression as a viable partner to the SME and micro sector of Sri Lanka will be better facilitated. During the year, one key area of knowledge enhancement was credit assessment for project based lending. A key corporate management position was created during the year to bring more resources to NPA management and to streamline the recoveries process. As such an AGM-Recoveries was introduced to the team.

On the HR front, cordial relations and industrial peace assisted the bank to move with one focus and a team spirit towards achievement. I am confident and I trust that the Lankaputhra team will work cohesively towards greater achievements in the years ahead. Appreciation is of course due, for their diligence and dedication this financial year towards a united drive for greater performance.

Future Outlook

Our focus in the coming financial year will be to expand the branch network to have a consistent presence in all provinces including the North and Uva. There onwards, the emphasis will lie in developing accessibility through district-wide presence, as we are confident that penetration into rural communities will better facilitate an economic resurgence through empowerment of under-served communities, who hitherto lack access to finance.

From a credit perspective, we will place greater emphasis on project based lending to assist SME's. We are also in the process of formulating a scheme to select potential innovators/ entrepreneurs from diverse sectors to be groomed as future leaders. The objective therefore, is to mentor each selected individual to become successful commercial visionaries through financial and technical assistance.

Having recognized the commitment of LDB to foster the developments of SMEs in the country, in the 2013 budget proposals, the government allocated Rs. 500 million to commence a special credit guarantee scheme for those who lack adequate collateral to borrow from mainstream banking institutions.

Appreciations

I gratefully acknowledge the assistance extended by the Secretary to the Ministry of Finance and Planning, Governor of the Central Bank of Sri Lanka, Deputy Secretaries of the Treasury, Director General of the Department of Public Enterprises, the Director of Bank Supervision, Auditors M/s. SJMS Associates and other respective officials of these institutions.

We are grateful for the sustained support and patronage of our customers and commit to ourselves to deliver value to them in the future.

Our staff demonstrated their loyalty by working with dedication towards our corporate goals this year, and appreciations are due to each one of them for their dedicated cooperation.

My sincere gratitude and appreciation to the Chairperson and the members of the Board of Directors for their visionary guidance at all times. I also gratefully acknowledge the contribution of the Board sub-committees.

A note of appreciation is due to our shareholders and all other stakeholders. I look forward to their continued support as we move with dedication towards the promise of greater prosperity in the years ahead.

Lasantha Amarasekara
General Manager/ CEO

29th May 2013

Board of Directors

Mrs. Kumudiniy Kulathunga
Chairperson / Independent Non-Executive Director

Appointed - w.e.f. 04th January 2012

- *Special Bachelor's Degree in Arts (1972) - University of Colombo, Sri Lanka*
- *Bachelor of Philosophy (Honours) Degree (1973)- University of Colombo, Sri Lanka*
- *A Fellow Member of the Institute of Bankers of Sri Lanka*
- *Diploma in Bank Management, Institute of Bankers of Sri Lanka in 1989*
- *Diploma in Personnel Management, National Institute of Business Management (NIBM) in 1997*

Mrs. Kumudiniy Kulathunga has served the premier state owned Commercial Bank, the Bank of Ceylon for 36 years having played a dynamic role in various senior executive positions i.e. Deputy General Manager, including branch operations, retail lending, supplies & procurement and construction of new branches. She has wide knowledge and expertise in leading the banking teams in Eastern, North Western & Western Provinces as Assistant General Manager in charge. She also has acquired wide expertise and experience in the area of Human Resources while serving as the Deputy General Manager Human Resources and Assistant General Manager Training at Bank of Ceylon, when formulating personnel policies on transfer, promotion, recruitment and employee appraisal.

Mrs. Kulathunga is a Non-executive nominee Director on the Board of City Finance Corporation and also presently serves as the Senior Human Resource Consultant at the Academy of Financial Studies, the training arm of the Ministry of Finance and Planning.

Mr. M. M. M. Mowjood
Independent Non-Executive Director

Appointed - w.e.f. 17th May 2010

- *BCom Special (Hons) Degree (University of Sri Jayawardenapura)*
- *MBA (American University of Asia)*
- *ACMA (Sri Lanka), ACMA (UK)*

Prior to being appointed as a Director of LDB Mr. Mowjood held several senior posts including the posts of Working Director and the acting Chairman of Road Development Authority (RDA). Mr. Mowjood was also a Director of Maga Neguma Emulsion Limited, Maga Nuguma Construction Company Limited, Maga Neguma Consultancy Services, Sri Lanka Tea Board and National Savings Bank. Presently he serves as the member of the National Police Commission.

Mr. S. K. Pathirana
Independent Non-Executive Director

Appointed - w.e.f. 17th May 2010

- *LL.B Degree University of Colombo and Attorney-at-Law*

Mr. Pathirana is a practicing attorney with over 25 years of experience in civil and criminal law. Mr. Pathirana has served as the working Director of Sri Lanka Salu Sala Ltd.

Mr. W. A. D. S. Gunasinghe
Independent Non-Executive Director

Appointment - w.e.f. 12th August 2011

- *M.Sc in Agriculture, State Agricultural University, Kharkov, Ukraine (USSR) (1992)*
- *Post Graduate Diploma in Sub National Level Development Planning, University of Colombo (1997)*
- *M.A. in Development Studies, Institute of social Studies, Hague, Netherlands (2001)*

Mr. Gunasinghe is currently the Director, Department of National Planning, Ministry of Finance & Planning.

He also served in the capacity of Deputy Director and Assistant Director, Department of National Planning and the Sri Lanka Planning Service Board, Ministry of Finance & Planning during the period 2003 – 2010.

Mr. Gunasinghe has severs the Assistant Director, North Central Province Rural Development Project and the Assistant Director, Divisional Secretariat, Ella and Divisional Officer, Department of Agrarian Service.

He was a Member of the Board of Directors of State Printing Corporation from 2007-2009 and is presently a Member of the Board of Directors of Sri Lanka Institute of Textile and Apparel.

Board of Directors contd.

Mr. K. S. M. De Silva
Independent Non-Executive Director

Appointed - w.e.f. 12th August 2011

- *B.Com (Special) (Second Class Lower Division) University of Kelaniya - 2003*
- *Finalist of CASL – June 2011 – Institute of Chartered Accountants of Sri Lanka.*
- *A Member of the Institute for Development of Public Accountants of Sri Lanka (IPFDA)*

Mr. De Silva is currently an Assistant Director, Department of Public Enterprises of General Treasury and has participated in foreign training on small & medium term enterprises development policies in Japan.

He has also served as an Accountant in Crisis Response of Small and Medium Enterprises Development Facility Project under the World Bank Fund of the Ministry of Finance & Planning.

Mr. De Silva has previously worked in the Ministry of Defence in the capacity of an Enforcement Officer covering the areas of Auditing and Investigation.

Mr. T. K. H. Hemachandra
Independent Non-Executive Director

Appointment - w.e.f. 12th August 2011

- *Master of Arts in Regional Development Planning, Institute of Social Studies, The Netherlands , 1985*
- *Bachelor of Arts (Hons) in Geography (2nd class upper), University of Kelaniya, Sri Lanka*
- *Sri Lanka Planning Service (Class I)*

Mr. Hemachandra currently serves as a Director of Multitech Solutions (Pvt) Ltd.

He served as the Project Director; Technical Education Development Project funded by the Asian Development Bank comes under the Ministry of Youth Affairs & Skills Development and also served as a Director in Technology Development Guarantee Limited and in the Center for Technology Education Promotion & Training (Guarantee) Ltd, Kandy.

For the past thirty years he has served as the Project Director in number of technical assistance projects funded by ADB, UNDP, NORAD, OPEC JICA, European Union, GTZ, IFAD, Netherlands and Switzerland in the sectors of Technical Education and Vocational Training, Natural Resources Development, Disaster Management and Prevention, Pollution Prevention and Management, Fisheries and Fisheries Training, Irrigation, Rural and Social Infrastructure Development etc. Therein he was involved from the inception to successful completion on start up, planning and implementation management, monitoring, evaluation ensuring quality management to achieve expected outcomes.

He has also served in the Ministry of Policy Planning, as the Director of Regional Development and the Head of Monitoring Unit of the Regional Development Division and the Director General of National Institute of Fisheries and Nautical Engineering in the Ministry of Fisheries and Aquatic Resources.

Mr. H. S. Dharmasiri
Independent Non-Executive Director

Appointment - w.e.f 03rd October 2012

- *B.A. (Hon) University of Colombo - 1973*
- *B.Phill University of Colombo - 1975*
- *F.I.B. Institute of Banker Sri Lanka - 2009*
- *Diploma in Bank Management - IBSL*

Mr.Dharmasiri has over 35 years banking service at executive level at People's bank (1975-2011) ranging from Branch manager to GM/CEO.

He has followed study courses relating to Banking & Management by AIM (Philippines), AOTS (Japan), NIBM (Pune) and University of Colombia (New York). He served as a member of the Governing Board in Institute of Bankers of Sri Lanka and as a Director of Credit Information Bureau, Lanka Clear Co.Ltd and People's Travels (Pvt) Ltd.

Corporate Management Team

Mr. Lasantha Amarasekara
General Manager / Chief Executive Officer
BBM (B'lore), MBA (Aus), MCL (Aus), DFS-Fin.Planning (Aus)

Mr. Ranjith Dissanayake
Assistant General Manager - Credit
B.Com (Special) (Uni. of Colombo) AIB (SL)

Mr. Sumeda Edirisuriya
Chief Financial Officer/ Compliance Officer
B.Sc (Business Administration (Special) (USJ), MBA (Uni. of Colombo), ACA, ACMA (SL), CMA (Aus.)

Mr. P. A. S. Athula Kumara
Chief Internal Auditor
B.Sc Management (Special) - (USJ)
Sri Lanka Accountants Service
Member of IPFDA

Mr. U. V. Gunadasa
Assistant General Manager - Recoveries
AIB (Sri Lanka)
Dip. in Management & Organization of Co-op-USSR
Diploma in Advanced English (Uni.of Colombo)

Mr. R.S. Pandittesekere
Senior Manager – Legal/ Company Secretary
LLB (Uni. of Colombo)
Attorney-at-Law

Mr. Gemunu Samarawickrama
Senior Manager – HR & Admin
Special Degree in Economics (Uni. of Peradeniya)
Diploma in Personnel Management – NIBM
Associate Member of the Institute of Personnel Management (IPM)

Management Team

Heads of Divisions

Mr. Shelton Fernando
Acting Senior Manager - Information Technology

B.Sc Estate Management & Valuation (Special) (USJ)
Australian Computer Society Examination (ACS)
British Computer Society Examination (BCS)
Member of the Computer Society of Sri Lanka (MCS) (SL)
Member of the British Computer Society (MBCS)

Ms. Dulmani Jayasekera
Manager - Special Projects

Bachelor of Science (Hons) (Uni. of Colombo)
Masters of Business Adm. (MBA) (Uni. of Colombo)
M.Sc in Applied Statistics (Uni. of Colombo)
Masters in Financial Economics (Uni. of Colombo)
Associate Member of the Chartered Institute of Management Accountants (ACMA) (UK)

Mr. Karshana Gunatilake
Head of Marketing & BD/Procurement Officer

B.Sc Marketing Management (Special) (USJ)
Intermediate – ICASL
DICS – Institute of Computer Technology
CIPPCA – Diploma in Public Procurement & Contract Administration (NPA & SLIDA)

Branch Managers

Mr. Asoka Fernando
Manager - Colombo Branch

GSQ - (Uni. of Peradeniya)
Associate of the IBSL (AIB)

Ms. Wasanthi Nanayakkara
Manager - Hambantota Branch

B.A Sociology (01st Class Hon. Div.) (Uni. of Kelaniya)

Mr. Rahula Senanayake
Manager - Polonnaruwa Branch /
Act.Manager - Batticaloa Ext.Office

B.A. Political Science (Special) - (Uni. of Colombo)
Master of Arts in Political Science - (Uni. of Peradeniya)

Mr. Udula Bandara
Manager - Kegalle Ext.Office

B.Sc Agricultural Science - (Uni. of Rajarata)
M.Sc. Natural Resource Management - (Uni. of Peradeniya)

Ms. Deepika Navarathne
Manager - Kandy Branch

B.Sc. Marketing Management (Special) (USJ) (Hons)
Masters of Business Administration (MBA) (Uni. of Rajarata)
Member of the Chartered Institute of Marketing (MCIM) - UK
Associate Member of the Sri Lanka Institute of Marketing (AMSLIM)

Mr. U.M. Ranathunga
Manager - Wennappuwa Ext.Office

B.A Economics (Special) – (Uni. of Colombo)

Management Discussion and Analysis

Economic Overview: *Consolidation of growth in 2012*

Sri Lanka recorded a year of consolidation in 2012, demonstrated by persistent yet tapered momentum in growth. With almost all global economies struggling in the continued wake of the financial crisis and the unending stresses of the euro zone instability, developing nations witnessed contracted growth as demand for exports and global trade contracted. The ongoing sovereign debt crisis permeated and destabilized almost all of Europe. The impending financial calamity cast a shadow of gloom on some of the largest economies and catalyzed a considerable degree of uncertainty across the global financial services industry during 2012.

However, in the face of these recent incidents, Asia laid claim to economic supremacy with strong demonstrated growth during the year. Asia now has the potential to become the world's newest regional economic zone, with growth rate of 6% in 2012. In the upcoming year, the continent is expected to push itself to a new frontier of economic output. When economic integration of the region is achieved, Asia will hold the reins to economic leadership as it touts possibly the largest single market with seamless production across the area. Nevertheless, China, Asia's veritable economic superpower experienced a slowing in its growth in 2012, due to contracted demand from global markets and a slowing in domestic consumption. Japan's economy battled the pervasive effects of the 2012 tsunami, and continued bad weather as the Asian superpower of yore strived to regain its balance.

Sri Lanka remained resilient in the wake of global financial instability and the economy once again demonstrated resilience. Despite external and domestic challenges, the economy adjusted well to cautious policy measures enacted by the Central Bank of Sri Lanka, thereby retaining stability. As a consequent to the major growth momentum witnessed in 2010 and 2011 where policymakers allowed for rapid expansion, a mix of stringent policy measures aimed at macroeconomic stabilisation was adopted in early 2012. These measures aimed to overcome the challenges of a protracted recovery in the global economy as well as rapidly rising domestic credit. Consequently, economic growth declined in 2012 to approximate to an average 6.5 per cent during the year.

Excessive credit demand and high imports precipitated CBSL during the year to place a ceiling of 18% on bank credit expansion, with the addition of a further 5% for foreign funds. The ceiling effectively contracted broad money growth towards the second half of the year, minimizing a situation of excessive liquidity.

Inflation that had been on the rise from February to July 2012 eased in December with effective demand management policies moderating aggregate demand sufficiently, to reach single digit levels by year-end.

Authorities also stipulated frameworks for the augmentation of capital for the banking sector through the raising of tier-2 capital.

SME as a strategic focus: *delivering value*

Recognizing the importance of small and medium scale entrepreneurs to the growth of the national economy, Lankaputhra Development Bank continued to position itself during the year under review as the catalytic partner for Small & Medium enterprise development, in an attempt to foster sustainable development across the nation. The development of the Bank's service offer was in direct alignment of the Governments' vision for precipitated economic development and the recognition of SMEs as a critical component of economic progress for the nation.

Having served the SME segment from the Bank's inception, the Bank served to focus its service provision to meet specific SME needs during the year 2012 through productivity enhancements and a plan to institute focal branch units in key centres across the country.

Offering a full range of financial solutions together with an array of benefits and advantages, the Bank sought to provide SMEs engaged in different types of businesses with the opportunity to realize their full potential and achieve their goals of business expansion and personal growth. Additionally, the Bank also partnered with SME and micro sector customers to engage towards knowledge share and knowledge expansion with focus on business development and management.

Operational Performance: *an overview*

Performance-wise, our Development Banking operations recorded commendable growth. Operationally, improvements in all key areas were evident including loan approval process, diversity of services and credit facilities, credit growth in target areas, loan portfolio quality, loan disbursements and loan monitoring. Largely as a direct outcome of the skills and dedication of our staff combined with a scenario of improved infrastructure, the Bank successfully achieved significant growth and perceptible improvements during this financial year.

Lankaputhra Development Bank continued to provide an array of Short and Medium Term credit facilities together with financial advice and know-how to SMES. Micro Financing and Pawning remained a significant component of the Short and Medium Term credit offer. Leasing facilities for equipment and machineries in the agricultural sector remained core to the portfolio in 2012, as in previous years. The Bank also continued to provide facilities to customers to maintain their savings from short to long-term periods.

The operations in 2012 have made a significant contribution towards the Bank achieving its vision. In effect, banking operations during the year has assisted to strengthen entrepreneurship at regional and national levels, helping to uplift the lives of the less fortunate whilst also creating a positive working environment for employees to provide excellent customer service.

Short and Medium Term Loans

During the financial year under review, approvals of Short and Medium Term Loans - comprising of project loans, micro finance loans, special project loans, and finance leasing - cumulated to LKR 1,000 million. This is an aggregate growth of 56 percent in comparison with LKR 560 million recorded in the previous year. As such, project loan approvals accounted for LKR 500 million of the current year's total. The core business segments financed during the reporting period were financed Agriculture, fisheries, construction, tourism and services.

The total loan portfolio increased to LKR 2,525 million by year-end. The portfolio comprises term project loans (54 percent), micro finance loans (10 percent), and special loans and finance leasing (12 percent). The loan portfolio is well diversified with nearly 60 percent accounted for by five broad industry sectors. Exposure to each sector is regularly monitored against the internal exposure limits set by the Banks' Board Credit Committee. During 2012, operations were conducted with acute focus on proactively managing concentration risks.

The gross non-performing loans recorded a reduction and the NPA ratio improved from 55 percent to 45 percent during the year. This quality improvement is a cumulative outcome and the combined effect of the concerted recovery efforts of our dedicated staff as well as a more strenuous loan monitoring process.

The Bank continued to offer a lower rate of interest and place high importance on the feasibility of projects. Average interest rate of loans remains within 15 percent and LDB continued to give priority to financing of start-up enterprises, projects that have credible means to create employment, and projects are export oriented or capable of import substitution as well as service-oriented enterprises.

During the reporting period, the Bank laid emphasis on progress assessment of past projects and provided additional funding where required to achieve targeted productivity and sustainability. In the event of changed economic and social factors, LDB has worked with customers to keep the projects on target. LDB also provided rehabilitation and financial advisory services to 15 customers during the year.

Most loans were processed at branch level and branch managers and credit officers worked along with project promoters to establish feasibility of projects. Branch managers have delegated authority to approve small and medium loans up to pre-stipulated thresholds. This has increased the efficiency and turnaround of loan disbursements.

LDB's financial advisory services have assisted entrepreneurs to better comprehend the credit criteria and requirements of LDB for projects financing. LDB in 2012 continued to adhere to its policy of protecting the projects it is financing whilst taking every effort to safeguard shareholders/depositors money.

Micro Finance

Micro Finance has become a notable feature of LDB's expanding loan portfolio. Micro Finance was introduced to the loan portfolio in 2011 and has consequently increased to LKR 253 million at the end of the reporting period. Micro finance loans are targeted primarily towards women entrepreneurs.

During 2012, the Wennapuwa Branch initiated a new loan scheme to members of the Co-Op Fisheries Societies. This has been proven to be quite successful in enhancing livelihood of fisheries community in the area. The Polonnaruwa Branch continued the provision of loans to members of Kantale Women's Foundation. Involvement of trained Foundation Officials in monitoring these loans enabled the Bank to achieve greater cost efficiencies.

During 2012, LDB disbursed 1,300 micro finance loans amounting to LKR 200 million for the financing of diverse projects. These loans have demonstrated a higher recovery rate. Surveys conducted by LDB during the financial year have assisted towards highlighting the positive economic impact of these loans towards livelihood development and sustainable economic output for low-income communities.

Management Discussion and Analysis contd.

Due to the limited number of branches the transaction cost of micro finance loans are relatively higher than other type of loans. As such, LDB has been making a continuous effort to keep this cost at manageable levels by distributing/monitoring these loans via societies.

Savings and Term Deposits

LDB offered 10 savings and deposit products in 2012 to better meet the needs of customers in the regions. During 2012 the deposit base has increased by 16 percent and the number of depositors by 18 percent.

Branches and Information Network

LDB during the year invested LKR 25 million towards the maintenance and improvement of infrastructure within its nation-wide branch network. Consequently, each branch is equipped with modern facilities, vehicles, office equipment and communication equipment to provide uninterrupted customer service.

As such, LDB's customers and staff have been provided with safe and convenient environments for transaction of business.

All branches are linked with a live banking system and this has augmented the customer service through the infusion of efficiency while managing operational costs at minimal levels.

Skilled and Dedicated Staff

LDB continued to attract and retain the best of staff to serve our customers. The Bank currently has 154 employees of which 80 are engaged in operational activities throughout the country. LDB has offered facilities to employees to improve their education, housing, leisure and professional development.

Support Pillars: *Information Technology*

The main goal of the IT Department of Lankaputhra Development Bank is to meet the business and statutory requirements by ensuring the efficient and smooth operation of Information Technology infrastructure whilst providing the necessary support to cover the IT needs of the Bank.

The Department constantly enhances IT Systems, policy, services and procedures for the easy functioning and dissemination of the Bank's services to its staff and customers. For this purpose, users have been trained on all operational banking systems and also provided with necessary instructions and guidance to ensure smooth operation of these systems

In the year 2012, Bank selected a Disaster Recovery Solution after the preparation of specifications, calling for proposals, evaluation and selection of vendors. The chosen system has subsequently gained board approval. A contract was also given for revamping the Bank's web site to be used as a more effective marketing and operations tool.

Given the criticality of data back up, the Bank's data storage has been further strengthened through the utilization of additional storage facility available at the BOC Nugegoda branch.

As a measure of minimizing the large amounts paid as software license fees and to avoid software piracy issues, a project has been launched to shift to free domain office software such as Open Office in place of Microsoft Office, thereby saving a large amount of money otherwise required as licensing fees. The Bank is confident that open source will be the most effective and efficient means, going forward.

The IT Department has successfully eliminated the identified discrepancies in systems' data by streamlining the systems and submitted more accurate data to CRIB in a timely manner. This enabled the Bank to obtain A+ rating in September 2012.

As planned, the Bank launched Pawning operations in all branches with the networked banking environment, for the purpose of providing better financial strength to its customers. IT also facilitated the Help Desk for end users of the Bank in a bid to solve day-to-day IT related operational issues/problems.

Support Pillars: *Human Capital*

In an environment where efficiency and productivity play a major role in organizational development, LDB's greatest concern is its Human Capital. The flexibility of adopting to change in a dynamic economic environment is important for an organization, especially in the Financial Sector. Changing of interest rates and introducing new products and services alone is not sufficient for the survival and continuity for a Bank. The client expectation is quality and satisfied customer service, which should be felt and not seen. Hence, the economic factor Human Capital is therefore exceptionally a valuable asset in the Balance Sheet.

The present staff cadre at LDB has grown up to 153, which started with 45 Professionals in 2006. The 100% Government owned Specialized Development Bank (LDB), merged with Private Sector Infrastructure Development Company (PSIDC) and Small and Medium Enterprises Bank (SME Bank) in 2007 and 2008 respectively, thereby strengthening its capital base, in order to serve the rural sector of the country, as envisioned by His Excellency the President of Sri Lanka Hon. Mahinda Rajapakse in his Government Policy "Mahinda Chinthana". The Bank today has spread its wings to the Southern, Eastern, Western, Central, North Central, Sabaragamuwa and North Western Provinces with 7 Branches.

Policies

The Bank in order to achieve the said objectives, in its policies very categorically emphasized the need for employee motivation and career development. The Bank always believes its internal development of staff for higher positions as well as external injections of professionals. The guidelines are documented in terms of policy documents such as recruitment, transfer, promotion, grievance handling & disciplinary matters.

Further, the Bank has also taken steps to address the employee's motivation factor by introducing housing loans at concessionary interest rates, Staff Health Insurance Scheme, Personal Loan Scheme, and reimbursement of education expenses and many more.

In this competitive environment, of a limited pool of talents, the Bank believes the importance of Development of Human Capital and adopts a variety of strategies.

Job Design

Job design is important for making clear awareness among the staff of their responsibilities, challenges and functions. Lack of awareness, decrease the level of efficiency and effectiveness. Therefore we were highly concerned on designing jobs in a manner to develop and maintain knowledgeable, Skill full, customer oriented and dedicated work force, which could perform in a rapidly changing business environment.

Team Work

Though the total staff of the bank is 153 and very small compared to other similar banks within this financial year we were able to earn a net profit of Rs. 1.4 million per person and it reflects good teamwork and dedication. In view of strengthening team spirit we arranged the annual get together and combined deposit mobilization programs.

Management Discussion and Analysis contd.

Training and Development

Training programs were arranged to cater the pre identified needs such as subject knowledge refreshment and attitude change as indicated below.

Area of training (Local Trainings)	No. of participants
Operations	10
Compliance / Basel II	02
IAS	02
Integrated Risk Management	03
Others (Marketing, Audit, Secretarial, IT)	22
Total	39

Area of training (In-house/Group Trainings)	No. of participants
Training programme on 'Credit' at Head Office	41
Training Programme on 'Valuation for Credit Purposes' at Head Office	42
Workshop on “Occupational Stress Management - SL Foundation	26
Way To Success 1 - Workshop on “Attitude Development & Self Motivation”	133
Total	242

Area of training (Foreign Trainings)	No. of participants
International Programme in SME Banking at Financial Services- India	1
Course on Women as SME Leaders – Malaysia	1
Total	2

Accordingly 283 Nos. of staff members have participated in training programs local and foreign.

A group Training programme conduct by an external resource person on “Way to Success”

Exposure to Foreign Training

SME Banking at Financial Services - India in the Year 2012

Course on Women as SME Leaders - Malaysia in the Year 2012

Outcome

Within the financial year the contribution made by the whole staff assisted the Bank to achieve the objectives and record a net profit of Rs. 218 million, a Rs. 141 million increase compared to that of the previous year. The staff willingly participated in all training programs and business promotion activities assisting to promote the Bank’s business while developing themselves.

Financial Review

We are pleased to present financial results of the Lankaputhra Development Bank for the year 2012 as follows. As a part of implementation of government's budget proposal for 2007,LDB merged with former SME Bank Limited effective from 1st January 2008 and one month down the line from there LDB acquired assets and liabilities of Private Sector Infrastructure Development Company Limited (PSIDC). This report mainly describes the key arrears such as profitability, liquidity, asset base and key performance indicators of the bank

Profitability

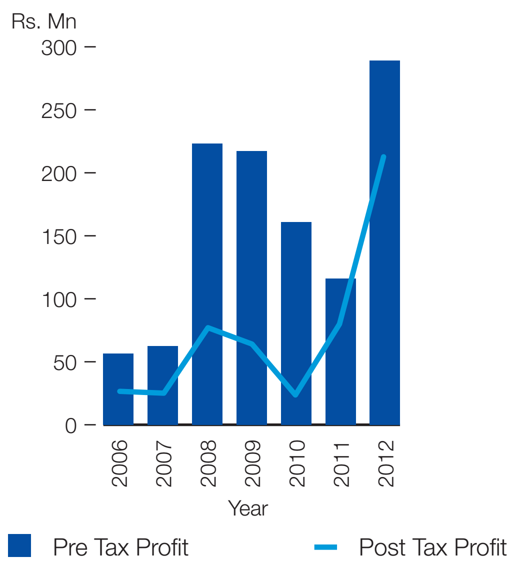
LDB recorded a profit after taxation of Rs. 218.2 million for the year 2012 with a substantial increase in profit compared to year 2011. Further it is worthwhile to note that current year's profit is after contributing Rs. 126.4 million to government's revenue by way of taxes. Comparing to previous year's contribution it has increased by 50.6 million in current year. This rise in tax expense is mainly due to growth in taxable profits derived from interest income earned through the core business of lending as well as from Investments in securities. Meanwhile the impairment loss on financial assets has come down remarkably from 126.9 million to 97.5 million in the current year. Besides the above reasons, LDB managed to recover a non performing investment in full which resulted in reversing of a provision made for impairment loss of Rs. 70 Mn to the profit which too contributed significantly to increase in the net profit of the bank for the year 2012.

Though the net profit position has improved positively, interest income earned from lending was reduced due to decline in market lending rates and slow growth in lending. The growth in total interest income in year 2012, by 17% over the past year was mainly due to favourable interest rates offered on investment securities in market and careful divestment of the investment portfolio in high yielding instruments. Total operating expenses including provisioning have been maintained at minimum levels in the year 2012 compared to the previous year. .As a result of substantial increase in profit in 2012 Earning per Share has raised from Rs.2.21 in 2011 to Rs. 6.05 in 2012. In Comparison to the mandatory requirement of 20% of Statutory Liquid Asset Ratio (SLAR), the Bank has maintained its SLAR at. 793.20 % as at 31/12/2012 which has reaffirmed the strong position of the bank.

Analysis of Growth of Profits (Rs. Mn.)

Year	Pre Tax Profit	Post Tax Profit
2006	52	23
2007	58	23
2008	227	76
2009	221	63
2010	163	21
2011	118	79
2012	294	218

Analysis of Growth of Profits



Deposit Base

At the end of year bank's deposit base stood at 242 Mn which represents an increase of 16% compared to previous year. Savings deposits represent nearly 76.3% of Bank's deposit base while the balance 23.7% represents time deposits. During the financial year under review the bank revised interest rates on deposits several times to be in line with market interest rates which in turn resulted in reasonable increase in the deposit base. However the bank did not much attention in increasing the deposit base in view of bank's strong liquidity position.

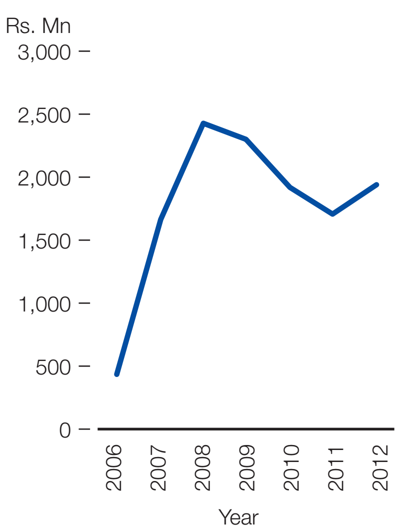
Financial Review contd.

Loans and Advances

Net loans and advance portfolio of the bank grown by 221 Mn from Rs. 1711 Mn in year 2011 to Rs. 1932 million in year 2012 by 13%. Bank has been able to increase its loan portfolio while reducing Non Performing Loan (NPL) ratio to 45.8% as at 31/12/2012 from 55.5% of same which stood as at 31/12/2011. However the bank has achieved above favourable results whilst experienced the general downturn of the economic environment coupled with unstable inflationary conditions prevailed locally & worldwide during the year under review. Net NPL ratio of the bank as at 31/12/2012 stood at 24.2% as a result of adequate provisioning. However, still the NPL ratio of the bank remains above the industry average which has been identified as the most crucial issue of the bank and therefore being monitored very closely and continuously.

Year	Loans & Advances - Net (Rs. Mn)
2006	427
2007	1656
2008	2430
2009	2301
2010	1910
2011	1711
2012	1932

Growth in Loans & Advances



Capital Adequacy and Liquidity

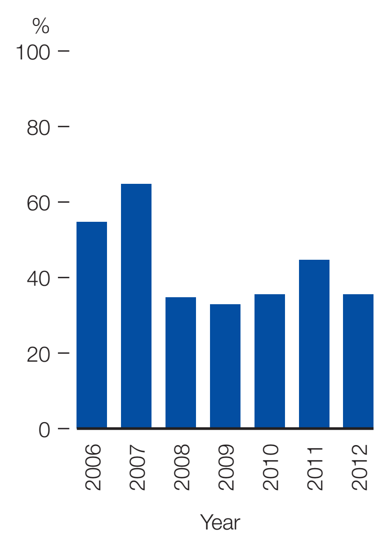
LDB'S capital adequacy ratios are recorded at 86.06% at Tire I level and 86.40% at the Total Capital level, as at 31st December 2012. This Computation is in accordance with the standardized approach on credit risk and the basic indicator approach on the operational risk, under the terms of Basel II. These ratios are well above the minimum levels mandated by the Central Bank of Sri Lanka. Meanwhile the bank continued to maintain its liquidity position also at a higher level. The statutory liquid Asset Ratio computed in accordance with the Central Bank guidelines stood at 793.20% as at 31st December 2012.

Key Performance Indicators

The banks cost-to-income ratio has been maintained at 37% in the year 2012 which can be treated as a substantial improvement compared 45% of same in the previous year. This favourable change is mainly due to increase in 27.6% in net interest income & reduction in operating expenses by around 4% compared to the previous year.

Year	Cost to Income ratio
2006	55.00%
2007	65.10%
2008	35.40%
2009	32.84%
2010	36.00%
2011	45.00%
2012	36.00%

Cost to Income Ratio



The following table illustrates bank's performance in relation to some of the key performance indicators.

KPI	2012	2011
Interest Margin (%)	8.6	6.2
Return On Assets (%)	4.3	1.9
Return On Equity (%)	5.5	2.0
Earning Per Share - Basic (Rs.)	6.05	2.21
Core Capital Adequacy Ratio	86.06	70.0
Total Capital Adequacy Ratio	86.40	70.2
Statutory Liquid Asset Ratio	793.2	1,085.1

The exceptionally healthy position increase in above ratios in comparison to year 2011 is mainly due to substantial increase in profit derived from core business activities & treasury operations .and strong liquidity position. In view of these in the main sources of income of the bank we were in a position to record a growth of 173% in the profit after tax for the year 2012.

Product and Services

Savings and Deposits

DESHABHIMANI Savings Account

Deshabhimani Savings account is for all Sri Lankan citizens. Holders of these accounts can pride themselves of being stakeholders in the noble task of building the nation.

Benefits / Features

- High interest rate
- Interest will be calculated daily and credited to the account monthly
- Standing order facility

SURUVIRU Term Deposit

LDB's Suruviru Term Deposit is a risk free investment opportunity which gives the highest rate of interest on money deposited for a fixed period of time. Suruviru Term Deposit can be opened for periods of 3, 6 or 12 months. Interest thereon is payable annually or monthly.

Benefits / Features

- High interest rate
- Minimum deposit LKR 10,000
- Payment of Interest Monthly or Maturity
- Parents/Guardians can operate Term Deposit on behalf of minors below 18 years of age
- Term Deposit will be accepted as a security for loans, Guarantees.
- Express loans of up to 90% of the deposit.

LAKMUTHU Children's Savings Account

Lakmuthu Children's Savings account is a rewarding way to save and build a secure future for our children.

Benefits / Features

- High Interest Rate
- Ability to open an Account with Rs. 500/-
- Attractive rewards

SANDALIYA Savings Account

Sandaliya Savings account is unique savings scheme exclusively designed for hard working women in Sri Lanka.

Benefits / Features

- Attractive rate of interest
- Entitled to a special Golden benefit scheme to purchase gold jewelry to the value of ten times of the deposit.
- Special concessions will be given for those who engaged in micro, small and medium scale enterprise.

Loans and Advances

Project Loans for SMEs

A Loan scheme designed to help small and medium scale entrepreneurs at concessionary rates and terms. Loan could be obtained to start a new project or expansion of an existing business, acquiring advance technology and construction of factory buildings, laboratories, purchasing machinery and equipments for industries.

Working Capital Loans

Permanent and regular working capital financing is considered for the projects which are financed by LDB only.

Micro Finance Loans

A Loan scheme specially designed to help small scale entrepreneurs at concessionary rates mainly for self employment projects.

Special Project Loans

SARUSARA - New Comprehensive Rural Credit Scheme (NCRCS)

A special low interest loan scheme introduced to enable small farmers to maintain low cost of production, and thereby a market with better price for their production. Facility is to cultivate paddy and subsidiary food crops as approved by Central Bank of Sri Lanka and pre cultivation activities (production of seed and planting materials) and post cultivation activities (purchase and storage of paddy and other agricultural products).

SAUBAGYA - Prosperity Credit Scheme

The Central Bank of Sri Lanka had introduced the “Saubagya” loan scheme for the purpose of providing credit facilities for agriculture, livestock, micro, small and medium scale enterprises (MSMEs) and MSMEs affected by any disaster in the Island.

ABHIVURDHI - Agro Livestock Development Loan Scheme (ALDL)

With a view to enhancing local liquid milk production, milk and milk based products and promoting agricultural crop processing industries in the country, the Central Bank of Sri Lanka has introduced this special credit programme.

Loans could be obtained for construction of cattle sheds, purchase of cows and concentration feed, veterinary services and drugs and construction of bio-gas tanks. Agro-based industries are also eligible to obtain loans for construction of industrial buildings/modernization, purchase of modern machinery and equipment, storage, cold rooms and transportation services and other required services, equipment for maintenance of standards.

PRABODHANI - (PAMPII) Loan Scheme

The Central Bank of Sri Lanka had implemented a credit scheme mainly to improve income level and social conditions of the poor in selected project areas and to enhance an inclusive formal financial service for the poor by providing credit for income generating activities undertaken by the beneficiaries. The main categories of activities are Agriculture, Fisheries, Livestock, Trade and Services, Small Industries and others.

VISKAM Loan Scheme

A Loan scheme designed for those who are either presently engaged or are to engage in the agriculture sector & agro based Industries. Main objective of this credit scheme is to provide credit facilities for value added economic activities related to Agriculture and Innovative Projects in the Agriculture sector.

SHASTHREE - Higher Educational Loan Scheme

A higher Education Loan scheme specially designed for the benefit of students interested in studying for higher examinations including Post Graduate, Academic and Professional.

JAYADIRI - New Entrepreneur Development Credit Programme

This loan Programme is designed to help new businesses and new innovators who face difficulties in accessing finance and need capital, by granting credit facilities based on the strength of the project feasibility. The objective of this project is to build new entrepreneurs with the financial assistance and guidance of LDB and develop them further in regional national and international levels.

E-TOP - Computer Loan Scheme

With the objective of improving the computer literacy amongst government and private sector employees and their children, and as a part of the mission to place Sri Lanka in a dynamic global hub, LDB has introduced a loan scheme to purchase laptops for fixed income earners.

LAKSAVIYA Leasing

“Laksaviya Leasing” facility is for entrepreneurs and professionals to acquire conveniently, the required plant, machinery, vehicles and equipment which are essential for their business and professional activities.

LAKSAHANA Pawning

An advance can be obtained to meet urgent cash requirements by pawning gold jewelry.

Social Responsibility Report

Empowering the nation

From a national business perspective, the Bank has been championing behavioural change to create a more conducive social and economic focus in view of the future national objectives and the need for greater productivity of Sri Lanka's human resources. Community development through engagement of the corporate sector therefore remains critical to the end objective, and this has been one of the key drivers for greater engagement between the Bank and the community at large.

Through out the years of our existence, Lankaputhra Development Bank has firmly believed in being a meaningful stakeholder in the betterment of the community within which we operate. During the year 2012, the Bank continued with its commitment, engaging in many successful social responsibility projects across the nation, LDB pledges to continue with projects of this magnitude in the future, staying true to its corporate slogan, "Heart beat of Sri Lanka".

As a bank owned by the State, we have an ingrained concerned for the society's wellbeing. As such our obligations during our operations in the past few years have fallen outside of mere financial service provision to one that includes livelihood development, poverty reduction and empowerment. The Bank has apart from our commercial interests, contributed in every conceivable manner towards the welfare of the society.

Our efforts towards owned are interwoven into every aspect of our corporate being. We have promoted entrepreneurship from our inception; indeed, we were established for the purpose of promoting entrepreneurship. We continue to foster and stimulate local communities to make paradigm shifts in their livelihoods through entrepreneur development. We have changed attitudes and perceptions by taking families from below poverty lines to wealth creation, stimulating and nourishing the idea that positive change through belief and hard work is a possibility.

Our Mission is to be the guiding beacon in the socio-economic development of Sri Lanka. Our Vision is to be the leading development Bank in the country with the objective of assisting entrepreneurs and spearheading the development of the rural economy to eradicate poverty and eliminate social disparity in the country.

As a result of our efforts to empower communities, a large number of entrepreneurs in the country have benefited by way of low cost financial assistance, through technical and skills-based knowledge share. We have at branch level engaged with our customers on an ongoing basis to develop their entrepreneurial and managerial skills.

We organized number of entrepreneurial workshops during the year as a part of our social investment, encompassing areas such as financial control, preparation of project reports, risk and credit management. We collaborated with other government institutions and trade Associations to provide comprehensive curricula.

Empowerment through low cost finance

LDB Kandy branch collaborated with Nuwara Eliya Cooperative Society and Nuwara Eliya District Chamber of Commerce to offer a loan scheme to assist farmers to purchase power tiller machines. Over 500 farmers in the District are enlisted to receive benefits under "Govi Navodaya" Loan scheme at low interest rates.

Preservation of national heritage

LDB launched one of its social responsibility projects under the theme, "Lets get together and restore Abhayagiriya" in Anuradhapura. The project contributed towards the restoration of the stupa.

This national campaign was carried out with the participation of a majority of the staff of the bank and was organized by the Polonnaruwa branch. The bank was able to enlist the support of its clients and the business community, comprising nearly 500 participants.

Livelihood development

LDB implemented a special loan scheme with the aim of promoting self – employment in Kantale. The loans were disbursed to members of the Vanitha Sanwardena Padanama. This was organized as a community development program. Training programs were conducted to develop their skills as micro entrepreneurs. More than 500 participants received loans from this special loan scheme. The Bank is closely monitoring their self-employment activities with the objective of upgrading them into SME category.

Commitment towards a better society

Donation of Gifts to Year 5 scholarship holders by the Polonnaruwa Branch

Offer Lakmuthu Children savings accounts to year 5 scholarship holders by Kandy Branch

Social Responsibility Report contd.

A project to enhance the self employment among women in Gampola by the Kandy Branch

A Community development project by the Hambantota Branch

A Community development project by the Batticaloa Branch to develop self employment activities among people in Poratheebu Patthu Vellabeli DS Division

Donation of gifts to small children by Hambantota Branch

Risk Management

Approach to Risk Management

Effective risk management is fundamental to the success of the Bank, and is recognised as one of the Bank's strategic priorities. The Lankaputhra Development Bank has a disciplined risk management culture where risk management is a responsibility shared by all of the Bank's employees.

Overview

One of the key challenges faced by the financial sector today is to strike a balance between risk and return. Risks and uncertainties form an integral part of banking which by nature entails takings risks. Risk Management is a discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It encompasses identification, measurement, matching, mitigations, monitoring and controlling risk exposures to ensure that

a) The individuals who take or manage risks clearly understand it.
b) The organization's Risk exposure is within the limits established by the Board of Directors.
c) Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors.
d) The expected payoffs compensate for the risks taken
e) Risk taking decisions are explicit and clear.
f) Sufficient capital as a buffer is available to take risk

Managing Risk at Lankaputhra Development Bank

The risks are inter-dependent and events affecting on one area of risk can have ramifications and penetration for a range of other categories of risks. Managing risk therefore is nothing but managing the change, before the risk manages the changes brought in. Timely identification, correct measurement, effective control measures and efficient monitoring systems are the foremost important factors in risk management.

Risk management as commonly perceived does not mean minimizing risk; rather the goal of risk management is to optimize risk-reward trade-off in order to maximize shareholder wealth both in financially and/or non financially, taking into consideration the catalytic role the Bank plays for the development of Sri Lanka.

The Bank recognises various types of risk based on the origin and nature as follows:

Management Committees

The following executive committees are involved in managing the various risks that the Bank is exposed to:

- Corporate Management Committee
- Asset & Liability Committee (ALCO)
- Internal Management Credit Committee (IMCC)
- Internal Recovery Committee
- Technology Policy and Review Committee
- Publicity and Promotion Committee
- Procurement Committee
- Staff Committee
- Staff Transfer Committee

Risk Management contd.

Credit Risk

Credit Risk is the risk of financial loss, arising from borrower or counterparty's inability to meet its obligations in accordance with the agreed terms and conditions. Credit risk can be defined as the major risk faced by a financial institution due to its direct lending as well as off-balance sheet exposures such as Guarantees, Letters of Credit, to their customers. It includes failures in repayment of capital or interest in full, within the agreed time period at the agreed rate of interest and in the agreed currency. The Bank considers the Credit Risk as the most material risk in the overall risk management process in view of the fact that Lending is the main line of business of the Bank. The changes may cause deterioration in the credit quality of the loans and advances portfolio of the Bank and can have a negative impact on its earnings. The Bank's Credit Risk derives mainly from loans and advances and all types of lending are subject to credit risk, which includes obligor's financial, business management risks, as well as risks relating to the collaterals.

Credit Risk Management

Sound credit management is a prerequisite for the Bank's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. The prudent management of credit risk can minimise operational risk while securing reasonable returns. The Bank manages the credit risk in the entire portfolio as well as individual credits or transactions with a view to minimise the non performing loans and also to manage any concentrations as well as to maximise returns. We measure, monitor and manage credit risk for each borrower and also at the portfolio level.

Primary responsibility of Credit Risk Management vests with the Lending Officers at various levels of the Bank. The Lending Officers actively manage /monitor their respective portfolios in accordance with the credit policies and established procedures. Ensuring lending staff comply with the set policies, procedures and guidelines of the Bank is the first step in managing credit risk. The second step is to ensure Board approved policies exist to limit or manage other areas of credit risk. The Bank is managing the credit risk exposures of the borrowers through establishment of individual credit limits, which are approved by various layers of Lending Officers/Credit Committees depending on the size of the credit exposure where all approval signatories carry equal responsibility for credit risk. No single person can originate and approve the granting of credit. The Board of Directors on the recommendation of the Board Credit Committee undertakes approval of large value credit exposures.

The Bank's Credit Policy approved by the Board of Directors lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both the individual transactions and portfolio levels. These policies are documented, well defined, consistent with prudent practices and regulatory requirements and adequate for the nature and complexity of the Bank's activities.

Branch-wise as well as portfolio-wise credit risk reviews are carried out on a regular basis to ensure that a constant level of quality is maintained in all loan and advances.

Credit Risk Mitigation and Control

Credit risk mitigation, which refers to the process through which credit risk is reduced or it is transferred to counterparty, is an essential component of risk management. Credit Risk Mitigation techniques constitute an important factor in managing lending portfolios. The Bank adopts different policies and procedures in mitigating credit risks in its lending activities. Although as a principle the Bank does not grant credit facilities solely on the basis of collaterals provided, the most common and traditional way of mitigating the credit risk continues to be obtaining various collaterals such as lien over deposits, mortgages, guarantees amongst others.

The Comprehensive Credit Policy of the Bank provides clear guidelines for the Credit Officers and always supports an effective credit risk management culture which promotes transparency of lending decisions at all times. A well defined approval hierarchy enriched with high ethical standards, established procedures and credit risk limits function as the core credit risk mitigating mechanism in the overall credit culture of the Bank.

At individual exposure level, most common traditional credit risk mitigation is the collaterals provided by the borrowers. These include Mortgage over properties, Lien over deposits, Guarantees etc. The Bank as a policy obtains professional, independent valuations when fixed assets are taken as collateral and these values are periodically monitored by the Credit Officers. The Bank recognises that collateral does not, by itself, convert a bad loan into a good loan. However, a well secured loan has less credit risk than an otherwise equivalent unsecured loan and therefore the Bank encourages adequate collateral whenever prudent. The choice of collateral and the required amount of collateral shall be driven primarily by the purpose and risk of each extension of credit.

A post disbursement review process is in place to assess performance subsequent to the approval committee to ensure necessary learning and to strengthen controls where appropriate.

Non-Performing Loans (NPL)

The Bank monitors the level of net impaired loans in its portfolio, which is defined as the gross amount of impaired loans less the total of all specific, general and provisions for credit losses and interest in suspense. Due to the prudent Credit Risk Management of the bank, it has been able to bring down the NPL position of the bank to 45.57% as at 31st December 2012, which is a remarkable improvement compared to the previous years.

Provision for Credit Losses

Provision for credit losses is the incremental amount added to the cumulative specific and general provisions for credit losses during the year to bring it up to a level that the management considers adequate to absorb all probable credit related losses in the Bank's loan portfolio. The provision for the year 2012 amounted to Rs. 92.7 Mn, which is an increase/ decrease of Rs. 97.5 Mn as against the previous year.

Provisioning is implemented in three categories:

- General provision (in line with the Guidelines issued by Central Bank of Sri Lanka)
- Judgmental provision (provision made as a prudential measure on selected accounts)
- Specific provision (in line with the Guidelines issued by Central Bank of Sri Lanka)

Provision for non-performing loans and advances are made in accordance with the applicable Accounting Standards and the regulations imposed by the Central Bank of Sri Lanka. The provisioning policy of the Bank is given under the Accounting Policies on Page 82.

Concentration Risk

Concentration risk is the probability of a loss arising from significantly imbalanced exposure to a particular group, sector or region. Bank endeavours to maintain a balanced growth across different sectors and business lines.

Gross loans and advances of the Bank as at 31st December 2012 totaled to Rs. 2,525 Mn and the Bank has also classified its portfolio into various sectors and sub-sectors.

The graphical presentations below depict the analysis of the Bank's overall credit risk exposure as at 31st December 2012.

Credit Exposures by Sectors

Agriculture & Fishing	30%
Manufacturing	20%
Tourism	4%
Transport	3%
Construction	3%
Traders	4%
New Economy	1%
Financial Business	1%
Infrastructure	3%
Other Services	30%

Credit Exposure by Product Type

Pawning	3%
Leasing	4%
Staff Loans	3%
Scheme Loans	7%
Loans	83%

Risk Management contd.

Market Risk

Market risk is the risk of potential losses accruing through the adverse fluctuation in the market interest rates, equity prices and exchange rates. Market risk could impact a bank mainly in two ways, via loss of cash flows or loss of economic value. Market risk can be looked at in two dimensions, as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the banking book. Mismatches carried in interest rates, currency and equity products, which are exposed to general and specific market movements and changes in the level of volatility of interest rates, foreign exchange rates and equity prices generate market risk to the Bank.

The Market Risk Management process of the Bank broadly involves risk identification, assessment and establishment of tolerance limits for risk exposures and overall risk monitoring and control.

Interest Rate Risk

Interest rate risk can be termed as the risk of loss in the net interest income earnings perspective or the net worth economic value perspective due to the adverse changes in the market risk. Interest rate risk represents the most significant market risk exposure to financial instruments. Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rate risk is measured as the potential volatility in the net interest income caused by changes in market rates.

The Bank considers the importance of managing Interest Rate Risk from the earnings perspective and ensures that adverse interest rate movements do not materially impact the Net Interest Income (NII) of the Bank. The Assets and Liability Committee (ALCO) periodically gives direction for the management of interest rate risk on the basis of its expectations of future trends. ALCO suggests necessary corrective actions in order to realign the exposure with the current assessment of the markets.

Foreign Exchange Rate Risk

Foreign Exchange Rate Risk emerges from adverse movements in exchange rates in terms of foreign currency transactions, assets or cross-border business activities. Foreign exchange risk may also arise as a result of exposures of banks from the maturity mismatches of foreign currency positions.

Presently the Bank is not exposed to exchange risk on its foreign currency borrowing from the Government of Sri Lanka (GOSL) as the Bank continues to maintain such mismatching through investments in foreign currency.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities as and when they fall due. Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will require the Bank to sell positions at a value which is below their underlying worth, or may result in the inability to exit from the positions. Almost every financial transaction that the Bank undertakes has implications for the overall liquidity position.

The main objective of liquidity risk management and controlling is to ensure that the Bank maintains its ability to make payments and undertake refinancing activities at any point in time in a profitable manner. Effective liquidity risk management is essential in order to maintain the confidence of the depositors and counterparties, manage the cost of funds as well as to ensure that the Bank's core businesses continue to generate revenue even under adverse conditions.

Responsibility of managing and controlling liquidity of the entire Bank lies with the Assets and Liability Committee (ALCO) that meets on regular basis. The Assets and Liabilities Committee (ALCO) of the Bank formulates and reviews strategies and provides guidance for the management of liquidity risk. As part of its sound liquidity risk management, the Bank maintains high quality liquid assets such as government bonds.

Operational Risk

Operational Risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, which is the risk of loss resulting from failure to comply with laws and regulatory requirements. Operational risks are inherent in the Bank's business activities and are typical of any organisation. It is not cost effective to eliminate all operational risks and in any event it would not be possible to do so. Losses from operational risks of small significance are expected to occur and are accepted as part of the normal course of business. Those of material significance are rare and the Bank seeks to reduce the likelihood of these events to be in line with its Risk Appetite.

The objective in managing operational risk is to increase the efficiency and effectiveness of the Bank's resources, minimise losses and utilise opportunities. Operational risk management forms part of the day-to-day responsibilities of management at all levels. Capability to carry out a large number of transactions effectively and accurately while complying with applicable laws and regulations constitute operational risk management activities of the Bank.

Bank's Internal Audit is the Bank's third line of defence and performs an independent review of the operational risk management framework, policies, and practices to ensure that operational risk practices are implemented consistently across the Bank as operational risk management matures.

Legal Risk

Legal Risk is treated as a component of Operational Risk as a negative impact that could arise by way of fines, penalties, litigations etc. The Bank has an in-house Legal Department headed by a Senior Manager.

An on going review of products, services, policies, processes and systems and legal documentation including contracts with external parties are handled by the legal department to ensure conformity with the applicable laws and regulations. Where specific expertise is required, we obtain professional services of external legal experts.

Reputation Risk

Reputation risk is the risk of losing public trust or tarnishing of the Bank’s image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Reputation Risk management and mitigation aspects are embedded in the Bank's policies, procedures and training programmes.

Insurance

As part of its risk management approach the Bank also uses insurance as a risk transfer strategy to mitigate the impact of operational losses which may occur as a result of third party claims resulting from errors and omissions, physical loss of securities, employee or third party frauds and natural disasters. The Bank’s existing insurance arrangements have been extensively reviewed during the year in order to make use of Insurance as a mechanism of risk transfer. Insurance policies have been risk reviewed to identify any uncovered areas, and, the respective business units have been provided with recommendations for improvements.

Compliance Risk

Compliance Risk is the risk of legal or regulatory sanctions, material financial losses, or loss to reputation; the Bank may suffer as a result of its failure to comply with laws, regulations, organisation standards and code of conduct.

During the period under review there were no material non-compliance with prudential requirements, regulations, laws and internal controls pertaining to the Bank.

Risk Based Capital Adequacy

Capital Adequacy Ratio (CAR) measure the adequacy of a Bank's capital against the risks it encounters. It is a key ratio used to protect depositors and promote the stability and efficiency of Banks around the world. The CAR is an expression of a Bank's capital as a percentage of its Risk Weighted Assets. (RWA).

The Bank continued to maintain a strong capital base position under the simplest approaches of Basel II where banks are expected to increase the quality and quantum of minimum capital allowing for higher losses to be absorbed during stressed periods.

Way forward

The Lankaputhra Development Bank has been relying on practicing constantly evolving policies, organisational structure, committee approaches and processes to manage various risks. During the year, committees such as Credit, ALCO, and Recovery were entrusted with handling the risk management aspects of the Bank. The Bank relies on Basel proposals and Statutory Directions/Guidelines as the foundation for its forward looking approach in building process and systems attuned to risk management practices.

Corporate Governance

Lankaputhra Development Bank is a licensed specialized Bank incorporated under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 (re-registration No. PB 52) and having its registered office at No. 80, Nawala Road, Nugegoda.

In carrying out its activities, the Bank places the value of Corporate Governance at its highest priority starting from the Board of Directors and Senior Management down to all operational level staff members.

We adopted the following statues, regulations and social codes of best practices, with regard to the Area of Corporate Governance.

1. Companies Act No. 07 of 2007
2. Mandatory codes of Corporate Governance issued by the Central Bank of Sri Lanka, and compliance with relevant laws under the Banking Act.

In complying with the regulatory requirements, our Corporate Governance Report consists of Mandatory codes of Corporate Governance issued by the Central Bank of Sri Lanka, and compliance with relevant laws under the Banking Act.

In addition, as a state owned Bank, the Bank is governed by the provisions and the administrative regulations of the Ministry of Finance and Planning and the Government.

We obtained an external auditor's certification from SMJS Associates, on compliance with corporate governance directions of the CBSL, which is attached hereto.

SJMS
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Report of Factual Findings

To the Board of Directors of Lankaputhra Development Bank

We have performed the procedures agreed with you and enumerated in an Appendix to this report, with respect to the corporate governance direction issued by the Central Bank of Sri Lanka (CBSL). Our engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Service 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive.

We report our findings in the attached Appendix to this report.

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

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Sri Lanka Auditing Standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statements of Lankaputhra Development Bank, taken as a whole.

SJMS Associates

SJMS Associates
Chartered Accountants

29th May 2013

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, T. Krishnakumar, Ms. S. L. Jayasuriya, D. S. W. Andradi,
C. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, Ms. A. U. M. Keppetipola, R. H. M. Mirfaz, Ms. S. Y. Kodagoda

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
3(1)	The responsibilities of the board		
3(1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.		
	a) Check the board approval of the bank's strategic objectives and corporate values. Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Yes	None
	b) Check the board approval of the overall business strategy of the bank. Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. Check that the overall business strategy contains measurable goals, for at least the next three years.	The Board has not maintained a separate risk policy and documented risk management procedures and mechanisms. However, the Board sub committees and management committees overlooks the risk aspects of lending and operations of the Bank.	None
	c) Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	The Board has not identified systems to manage risks. However the decisions taken by the board, sub committees and management committees are referred to relevant departments for implementation.	None
	d) Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers.	Yes	None
	e) Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems.	Yes	None
	f) Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercisecontrol over business activities, operations and risk management.	Yes	None

Rule No.	Requirement	Complied Status	Findings
	g) Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel.	Yes	None
	h) Check that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy.	Yes	None
	i) Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	The Board of Directors is of the opinion that this Section is not applicable since all directors are appointed to the Bank by the Ministry of Finance & Planning.	All directors are appointed to the bank by the Ministry of Finance & Planning.
	j) Check that the board has a succession plan for key management personnel.	This has not been complied with. However, the Bank is in the process of developing suitable succession plan.	However, the Bank is in the process of developing a suitable succession plan.
	k) Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Yes	None
	l) Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	Yes	None
	m) Check that the board has a process in place for hiring and oversight of external auditors.	Yes	None
3(1)(ii)	Check that the board has appointed the chairman and the Chief Executive Officer (CEO).	The Board Has appointed CEO and the position of Chairman is appointed by the Ministry of Finance and Planning.	The CEO is appointed by the Board and the Chairman is appointed by the Ministry of Finance and Planning.
	Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
	Board Meetings		
3(1)(iii)	Check that the board has met regularly and held board meetings 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.	Yes	None
3(1)(iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Yes	None
3(1)(v)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend and for all other board meetings, reasonable notice has been given.	Yes	None
3(1)(vi)	Check that the board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	Yes	None
3(1)(vii)	Check that the board has appointed a company secretary who satisfies the provisions of Section 43 read with Section 76H of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Yes	None
3(1)(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Yes	None
3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Yes	None

Rule No.	Requirement	Complied Status	Findings
3(1)(x)	Check that the minutes of a board meeting contain or refer to the following: (a) a summary of data and information used by the board in its deliberations (b) the matters considered by the board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions.	Yes	None
3(1)(xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Yes	None
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors to avoid conflicts of interests, or the appearance of conflicts of interest. Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest/is interested. Check that he/she has not been counted in the quorum for the relevant agenda item at the board meeting in such instance.	Yes	None
3(1)(xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
3(2)	The board's Composition		
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.	Yes	None
3(2)(ii)	(A) Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Yes	None
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Not arisen yet	None
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Yes	None
3(2)(iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	Yes	None
	a) Holds a direct and indirect shareholdings of more than 1 percent of the bank.	Yes	None
	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.	Yes	None
	c) has been employed by the bank during the two year period immediately preceding the appointment as director.	Yes	None
	d) has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)	Yes	None
	e) represents a specific stakeholder of the bank	Yes	None

Rule No.	Requirement	Complied Status	Findings
	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.	Yes	None
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.	Yes	None
3(2)(vi)	Check that the bank has a process for appointing independent directors.	The Board of Directors is of the opinion that this Section is not applicable since all directors are appointed to the Bank by theMinistry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.	All Directors are appointed to the Bank by the Ministry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.
3(2)(vii)	Check that although the number of directors required to constitute the quorum of the bank at a meeting is present, unless more than one half of the number of directors present at such meeting are non-executive directors.	Yes	None
3(2)(viii)	Check that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	The Board of Directors is of the opinion that this Section is not applicable since all directors are appointed to the Bank by the Ministry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.	All Directors are appointed to the Bank by the Ministry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.
3(2)(x)	Check that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	The Board of Directors is of the opinion that this Section is not applicable since all directors are appointed to the Bank by the Ministry of Finance and Planning.	All directors are appointed to the bank by the Ministry of Finance and Planning
3(2)(xi)	Check if a director resigns or is removed from office, the board: (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	The Board of Directors is of the opinion that this Section is not applicable since all directors are appointed and removed by the Ministry of Finance and Planning.	All directors are appointed and removed by the Ministry of Finance and Planning.
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank.	Yes	None
3(3)	Criteria to assess the fitness and propriety of directors		
3(3)(i)	Check that the age of a person who serves as director does not exceed 70 years.	Yes	None
	(A) Check that the transitional provisions have been complied with.	Yes	None
	(B) Check that the transitional provisions have been complied with.	Yes	None
3(3)(ii)	Check if a person holds office as a director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the bank. 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.	Yes	None

Rule No.	Requirement	Complied Status	Findings
3(4)	Management functions delegated by the board		
3(4)(i)	Check that the delegation arrangements have been approved by the board.	Yes	None
3(4)(ii)	Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Yes	None
3(4)(iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Yes	None
3(5)	The Chairman and CEO		
3(5)(i)	Check that the roles of Chairman and CEO are separate and not performed by the same individual.	Yes	None
3(5)(ii)	Check that the chairman is a non-executive director and preferably an independent director as well. In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference. Check that the designation of the senior director be disclosed in the bank's Annual Report.	Yes	None
3(5)(iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Yes	None
3(5)(iv)	Check that the board has a self-evaluation process where the chairman: (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	Yes	None
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Yes	None
3(5)(vii)	Check that the board has a self-evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	Yes	None
3(5)(viii)	Check that the board has a self-evaluation process that assesses the contribution of non-executive directors.	Yes	None
3(5)(ix)	Check that the chairman shall not engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Yes	None
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Yes	None
3(5)(xi)	Check that the CEO functions as the apex executive-in charge of the day-to-day management of the bank's operations and business.	Yes	None
3(6)	Board appointed committees		
3(6)(i)	Check that the bank has established at least four board committees as set out in Directions 3(6) (ii), 3(6) (iii), 3(6) (iv) and 3(6) (v) of these Directions. Check that each board committee report is addressed directly to the board. Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.	The bank has complied with except for Integrated Risk Management Committee. During the financial year 2012 only two board committees have operated - HR & remuneration committee and Board audit committee. Nomination Committee is not relevant to the bank.	During the financial year 2012 only two board committees have operated - HR & remuneration committee and Board audit committee. Nomination committee is not relevant to the bank.

Rule No.	Requirement	Complied Status	Findings
3(6)(ii)	Audit Committee:		
	a) Check that the Chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Yes	None
	b) Check that all members of the committee are non-executive directors.	Yes	None
	c) Check that the committee has made recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Yes	None
	d) Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	Yes	None
	e) Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	Yes	None
	f) Check that the committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
	g) Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	Yes	None
	h) Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	Yes	None
	i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Yes	None
	j) Check that the committee shall take the following steps with regard to the internal audit function of the bank:		
	I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	Yes	None
	II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	Yes	None
	III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	Yes	None
	IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Yes	None

Rule No.	Requirement	Complied Status	Findings
	V. Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Yes	None
	VI. Check that the internal audit function is independent of the activities it audits.	Yes	None
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Yes	None
	l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Yes	None
	m) Check the terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Yes	None
	n) Check that the committee has met, at least four times and maintained minutes.	Yes	None
	o) Check that the board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	Yes	None
	p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
	q) Check that the "whistle blower" policy covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters. ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action.	Yes	None
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:		
	a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the "Terms of reference" and minutes.	Yes	None
	b) Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Yes	None
	c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Yes	None
	d) Check that the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Yes	None
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee:	The Board of Directors is of the opinion that this Section is not applicable since all directors are appointed to the bank by the Ministry of Finance and Planning.	No nomination committee has been formed in the bank as all directors are appointed by the Ministry of Finance and Planning.
3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	No. However, all risk aspects are closely monitored by the board, Board sub committeesand management committees.	None.

Rule No.	Requirement	Complied Status	Findings
3(7)	Related party transactions		
3(7)(i)	Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a. Any of the bank's subsidiary companies; b. Any of the bank's associate companies; c. Any of the directors of the bank; d. Any of the bank's key management personnel; e. A close relation of any of the bank's directors or key management personnel; f. A shareholder owning a material interest in the bank; g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.	Yes	None
3(7)(ii)	Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.	Yes	None
	a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.	Yes	None
	b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.	Yes	None
	c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.	Yes	None
	d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
3(7)(iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business.	Yes	None
	a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction: I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. II. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of 5 years or more.	Yes	None
	b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.	Yes	None
	c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	Yes	None
	d) Providing services to or receiving services from a related-party without an evaluation procedure;	Yes	None
	e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	Yes	None

Rule No.	Requirement	Complied Status	Findings
3(7)(iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	The Bank is in the process of implementing a procedure for granting accommodations to directors and KMPs.	None
3(7)(v)	a) Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.	The Bank is in the process of implementing a procedure.	The Bank is in the process of implementing a procedure.
	b) Check where such security is not provided by the period as provided in Direction 3(7)(v) (a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	Yes	None
	c) Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public.	Not arisen yet	None
	d) Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.	Not arisen yet	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
3(7)(vi)	Check that there is a process in place to identify when the bank grants any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.	Not arisen yet	None
3(7)(vii)	Check that there is a process to obtain prior approval from the Monitory board for any accommodation granted by a bank under Direction 3(7) (v) and 3(7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.	Not arisen yet	None
3(8)	Disclosures		
3(8)(i)	Check that the board has disclosed:		
	a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Yes	None
	b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Yes	None
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report:	Yes	None
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Yes	None

Rule No.	Requirement	Complied Status	Findings
	b) The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Yes	None
	c) Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8) (ii) (b) above.	Yes	None
	d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Yes	None
	e) Total net accommodation as defined in 3(7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Not arisen yet	None
	f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Yes	None
	g) Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Yes	None
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Yes	None

Corporate Governance contd.

Rule No.	Requirement	Complied Status	Findings
	i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or noncompliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	Observed	None

Attendance for Board Meetings - 2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held - 2012	Number of Meetings Entitled	Number of Meetings participated
Mrs. K Kulathunga	Non – executive / Independent Director (Chairman)	12	12	12
Mr. M M M Mowjood	Non – executive / Independent Director	12	12	12
Mr. S K Pathirana	Non – executive / Independent Director	12	12	10
Mr. W A D S Gunasinghe	Non – executive / Independent Director	12	12	04
Mr. K S M de Silva	Non – executive / Independent Director	12	12	11
Mr. Sumith Wijesinghe	Non – executive / Independent Director	12	07	06
Mr. Hector Hemachandra	Non – executive / Independent Director	12	12	10
Mr. H. S. Darmasiri	Non – executive / Independent Director	12	03	03

Human Resource / Remuneration Committee Meetings -2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held - 2012	Number of Meetings Entitled	Number of Meetings participated
Mr. Hector Hemachandra	Non – executive / Independent Director (Chairman)	1	1	1
Mrs. K Kulathunga	Non – executive / Independent Director	1	1	1
Mr. K S M de Silva	Non – executive / Independent Director	1	1	1
Mr. S K Pathirana	Non – executive / Independent Director	1	1	1

Board Audit Committee Meetings - 2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held - 2012	Number of Meetings Entitled	Number of Meetings participated
Mr. M M M Mowjood	Non – executive / Independent Director (Chairman)	4	4	4
Mr. K S M de Silva	Non – executive / Independent Director	4	4	4
Mr. W A D S Gunasinghe	Non – executive Independent Director	4	4	3

Directors' Report

The Directors of Lankaputhra Development Bank Ltd. have pleasure in submitting their report.

Principal Activities

To be in line with the core objective of the bank to develop SME sector entrepreneurs, our products and services have been formulated in a customer friendly manner.

Bank provides short and medium term loans/advances by way of micro credit for self employment projects, project loans and working capital loans for Small and Medium scale Projects. Advances to all sectors and sub sectors covering agriculture, fisheries, manufacturing, industries and infrastructure development, mainly in the regional sector are in line with principal activity with a view to encourage production and service based projects in remote areas, whereas the Bank offers lower interest rates than that of other kinds of advances granted in Western province.

Government sponsored credit lines such as NCRCS, ALDL, Viskam and Probodani, Saubagya etc., with marginal interest rates are much popular among rural community.

Bank extends leasing facilities, especially for project oriented purposes. Gold jewellery pawning business was also commenced targeting small scale income generating activities. In order to inculcate savings habits among entrepreneurs, it is mandatory to deposit an initial sum proportionate to the loan they wish to obtain. Our expectation is to mobilize a reasonable quantum of deposits in borrower's accounts when the loan is fully settled.

Capital Expenditure

The details of Property, Plant & Equipment will be given in the Financial Statements.

Share Capital

The issued and paid up Share Capital of the Company is LKR 3,671,972,223 consisting of 36,071,028 ordinary shares as at 31st December 2012. There are seven shareholders holding ordinary voting shares.

Profits and Appropriations

	2012 LKR
Profit for the year ended 31st December before taxation after charging all expenses including deprecation etc.	294,049,106
Provision for Taxation	75,839,007
Profit for the year ended 31st December after taxation	218,210,099
Transferred to Mandatory Reserves	50,749,808
Dividends paid	18,035,514
Retained profit at the beginning of the year	292,934,497
Retained profit to be carried forward	442,359,274

Human Resources

There were 153 employees serving the Bank as at 31st December 2012.

Grade	No. of Staff
General Manager	01
Asst. General Manager	03
Senior Manager	02
Manager	07
Assistant Manager	14
Executive Staff	20
Non-Executive Staff	73
Secretaries and other support staff	33

The staff cadre is 153, from 45 staff members at the commencement in 2006. The 100% Government owned Specialized Development Bank LDB, merged with PSIDC and SME Bank in the year 2008, thereby strengthening its capital base, increasing the ability to serve the rural sector of the country, as envisioned by the President of Sri Lanka Hon. Mahinda Rajapaksha under the Mahinda Chinthanaya Policy. The Bank today has spread its wings to the Southern, Central, North Central, North Western, Eastern and Western with 4 Branches and 3 extension offices.

Directors' Report contd.

In order to achieve its objectives, the Bank has categorically emphasized the need for employee motivation and career development. The Bank believes in the development of staff capabilities to take up higher positions rather than external professional injections. Relevant guidelines are documented as policy documents such as recruitment, transfer, promotion, grievance handling & disciplinary action.

Further, the Bank has also taken steps to enhance the employees' motivation by introducing a low interest rate housing loan scheme, staff health insurance scheme, personal loan scheme and reimbursement of educational expenses.

Directorate

As of January 2012 the Board of Directors of Lankaputhra Development Bank Ltd was comprised of the Chairperson and six directors. All Directors are appointed by the Secretary to the Ministry of Finance and Planning.

Resignation of Directors

Mr. Sumith Wijesinghe, director resigned on 15th August, 2012.

Appointment of Director

Secretary to the Ministry of Finance and Planning appointed the following Board member on 03rd October, 2012.

- Mr. Halpitage Sunil Dharmasiri, Director

Composition of Share Holding as at 31St December 2012

	No. of Ordinary Shares
Secretary to the Treasury	36,071,022
Mr. A. de Vass Gunawardena	1
Mr. M.P.T. Cooray	1
Mr. S.R. Attygalle	1
Mr. S.B. Divaratne	1
Mr. R.A. Jayatissa	1
Mr. Sumith Abeysinghe	1
Total	36,071,028

Directors' Remuneration and Other Benefits

Directors' remuneration for the financial year ended 31st December 2012 is Rs. 1,308,000/-.

Post Balance Sheet Events

The post balance sheet events will be disclosed in the financial statements.

Re-Appointment of Auditors

The financial statements for the year ended 31st December 2012 have been audited by Messrs. SJMS Associates who offer themselves for re-appointment. Amount payable by the bank to Messrs. SJMS Associates as audit fees and expenses for the year 2012 is Rs. 530,145.00. As far as the Directors are aware, the auditors do not have any relationship or interest in the bank other than those disclosed above. The audit committee and directors of the bank recommended their re-appointment in accordance with the Companies Act No 07 of 2007. A resolution will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

R. S. Pandittesekere
Company Secretary

Colombo
29th May 2013

Financial Information

Audit Committee Report

The Audit Committee is empowered to review the adequacy and effectiveness of Bank's Internal Control Systems, review Annual financial statements, assess compliance with Bank's regulatory requirements, review the Internal Audit Reports and take necessary follow-up actions.

Internal Audit ensures that the Bank's operations are conducted in accordance with the highest standards in the industry by providing an independent objective assurance function as well as by advising on best practices through a systematic and disciplined approach. Internal Audit helps the Bank to accomplish it's objectives by evaluating and improving the effectiveness of Risk Management, Controls and good governance processes.

Composition of the Committee

The Board of Directors appointed the Audit Committee comprising three Non-Executive Directors. The Members of the Audit Committee are as follows;

M. M. M. Mowjood	-	Chairman (Audit Committee)
W. A. D. S. Gunasinghe	-	Member
K. S. M. De Silva	-	Member

Chief Internal Auditor is Secretary to the Audit Committee. General Manager / CEO , Heads of Divisions and representatives of External Auditors also attend meetings by invitation.

Meeting and Activities

During the financial year the Committee carried out the following activities;

- Reviewed the performance of the year in year 2011 and paid attention to strategically important areas comprising of management responses and collective measures taken by the Bank to achieve Bank's objectives.
- Reviewed the loan granting process and Credit Manual of the Bank and suggested the remedial action to be taken.
- Reviewed significant Internal Audit findings with a view to taking timely corrective action.
- Reviewed current position of Non-Performing Loan portfolio of the Bank and suggested follow up action to be taken.

Further, the Committee ensured that the bank complied with the directions issued by the Bank Supervision Department of the Central Bank of Sri Lanka and other relevant authorities.

M. M. M. Mowjood
Chairman - Audit Committee

Colombo
29th May 2013

Compliance Report

The Compliance function was established in the bank to develop policies and procedures to eliminate or minimize the risk of breach of regulatory requirements and of damages to the bank's reputation and to ensure theses policies and regulations are strictly adhered to. This ensures that the bank conforms to local regulatory requirements and internal compliance and ethical standards.

The Bank maintained a regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives.

The Internal Audit department carries out audits to review at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards and any non-compliance is communicated to management and members of staff to rectify immediately.

Understand and apply all new legal and regulatory developments relevant to the business of the Bank with the help of the Legal and other Departments.

During the financial year the Bank has complied with the following.

- The bank has submitted all reports required and requested by Central Bank of Sri Lanka.
- The Directors confirm that to the best of their knowledge that all statutory payments, taxes on behalf of the bank and in relation to the employees have been made by the bank or provided for in the financial statement.
- All documentary requirements imposed by the companies Act. No 07 of 2007 with regard to filing of various returns and documents with registrar of Companies have been duly completed and compliance has been made with all other legal requirements in connection with the said Companies Act.
- Comply with capital measurement and standard of banking regulations and supervisory practices committee.(BASEL Committee).The Central Bank of Sri Lanka has made in mandatory for all licensed sepecialized banks to maintain an amount of minimum capital that could be invested by the shareholders of the bank. In keeping with current international practices, and the requirements as per the Central Bank of Sri Lanka, the minimum capital adequacy standard to be achieved is the risk weighted asset ratio of 10% with core capital constituting not less than 5%. The Bank's capital Adequacy ratios are 86.1 % for Tier 1 and 86.4 % for Tier 2 as at 31 December 2012. These ratios are well above the minimum requirements of the Central Bank of Sri Lanka.
- In maintaining sound operational Banking Practice, the Bank adheres to the recent introduced Anti Money Laundering related legislations such as the Prevention of Money Laundering Act, No. 05 of 2006 (PMLA) Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA), Financial Transactions Reporting Act, No. 06 of 2006 (FTRA) and rules and regulations stipulated by the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka from time to time. Further the Bank has the following Internal Committees as part of complying with the regulations. The Committees are Corporate Management Committee, Staff Committee, Asset and Liability Committee, Procurement Committee, Internal Management Credit Committee, Technology Policy and Review Committee, Publicity and Promotion Committee and Human Resources and Remuneration Committee.

P. S. Edirisuriya
Compliance Officer

Colombo
29th May 2013

Directors' Responsibility for Financial Reporting

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepared Financial Statements that give a true and fair view of the state of affairs and the profit/loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee.

The Board of Directors has instituted effective and comprehensive systems of internal control. This comprises internal checks, internal audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgment and estimates in preparing the Financial Statements for the year 2012.

The Bank's Financial Statements for the year ended 31st December 2012 prepared and presented in this Report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank.

R. S. Pandittesekere
Senior Manager, Legal/Company Secretary

Colombo
29th May 2013

Directors' Report on the Bank's Internal Control System

Responsibility

In line with the Banking Act Direction No. 12 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control.

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of Internal Controls as and when there are changes to business environment or regulatory guidelines. The Board has assessed the Internal Control system taking in to account, the principles for the assessment of Internal Control system as given in that guidance.

The Board is of the view that the system of Internal Controls 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 purpose and is in accordance with relevant accounting principles and regulatory requirements.

The management assist 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 Internal Control Processes

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

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and the business directions that have been approved.

- As and when determined to be necessary, members of the Senior Management provide necessary amendments to Internal Control systems in their respective areas to increase the efficiency and effectiveness. Any instances of control breakdowns, control weaknesses in IT driven systems and processes which may result in losses and any instances of conflicts of interest involving management are reported to the Board Audit Committee by the Internal Auditors.

- Processes which have significant impact on Financial Statements of the Bank were identified, flow charts for the said processes are used to highlight the vulnerable areas where lapses could occur and the controls in place to prevent such lapses were listed out. This process has assisted the Management to provide reasonable assurance regarding the reliability of the financial reporting, and the preparation of Financial Statements.

- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the Internal Control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit are submitted to the Board Audit Committee for review at the periodic meetings.

- The Board Audit Committee of the Bank reviews Internal Control issues identified by the Internal Audit Division, regulatory and authorities the management to look in to and evaluate the adequacy and effectiveness of the Internal Control systems. They also review the Internal Audit function with particular emphasis on the quality of audits performed. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on page 63 The Internal Audit Division checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their Audit Process.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The external auditors have reviewed the above Directors Statement on Internal Control included in the annual report of the Bank for the year ended 31 December 2012 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 and adopted by the Board in the review of the design and effectiveness of the Internal Control System of the Bank.

By order of the Board.

Kumudiniy Kulathunga
Chairperson

M.M.M. Mowjood
Director
Chairman – Board Audit Committee

Rajitha Pandittesekere
Company Secretary

Colombo
29th May 2013

Independent Assurance Report

.SJMS.
ASSOCIATES
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates
Chartered Accountants
No. 02, Castle Lane,
Colombo 04, Sri Lanka.
Tel: +94(11) 2580409, 2503262
Fax: +94(11) 2582452

Restructure & Corporate Recovery
Tel: 5364293, 5444420 Fax: 5364295

E-mail: sjmsa@sjmsassociates.com
Website: www.sjmsassociates.lk

To the Board of Directors of Lankaputhra Development Bank

Introduction
We were engaged by the Board of Directors of Lankaputhra Development Bank ("Bank") to provide assurance on the Director's Statement on Internal Control ("Statement") included in the annual report for the Year ended 31 December 2012.

Management's responsibility for the Statement on Internal Control
Management is responsible for the sufficiency and reliability of internal controls in place at the Bank as specified in the Banking Act (Corporate Governance) Direction, No. 12 of 2007 ("direction") and to prepare and present the statement as required by paragraph 3 (8) (2) (c) in accordance with the direction.

Our responsibilities and compliance with SLSAE 3050
Our responsibility is issue a report to the Board on the Statement based on the work performed. We conducted our engagement based on the Sri Lanka Standard on Assurance Engagements 3050 – Assurance Report for Bank on Director's Statement on Internal Control (SLSAE 3050), issued by Institute of Chartered Accountants of Sri Lanka.

Summary of work performed
Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective appropriate evidence has been obtained by performing the following procedures:

(a) Enquire the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.

(b) Reviewed the documentation prepared by the directors to support their Statement.

(c) Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) Attended meetings of the audit committee at which the annual report, including the statement on Internal Control is considered and approved for submission to the Board of Directors.

(f) Considered whether the Director's Statement on Internal Control cover the year under review and that adequate processes are in place to identify any significant matters arising.

(g) Obtained written representations from directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

Our conclusion
Based on the procedures performed, nothing has come to our attention that cause us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of design and effectiveness of internal control system over financial reporting of the Bank

SJMS Associates

SJMS Associates
Chartered Accountants

Colombo
29th May 2013

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, T. Krishnakumar, Ms. S. L. Jayasuriya, D. S. W. Andradi,
G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, Ms. A. U. M. Keppetipola, R. H. M. Minfaz, Ms. S. Y. Kodagoda

Independent Auditor's Report

.SJMS.
ASSOCIATES
Independent Correspondent Firm to
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Report on the Financial Statements

We have audited the accompanying financial statements of Lankaputhra Development Bank Limited, which comprise the statement of financial position as at 31st December 2012 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 notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination the bank maintained proper accounting records for the year ended 31st December 2012 and the financial statements give a true and fair view of the bank's financial position as at 31st December 2012 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

In our opinion, these financial statements also comply with the requirements of section 151(2) of the Companies Act No. 07 of 2007 and the present the information required by the Banking Act No. 30 of 1988.

SJMS Associates

SJMS Associates
Chartered Accountants

Colombo
29th May 2013

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, T. Krishnakumar, Ms. S. L. Jayasuriya, D. S. W. Andradi,
G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, Ms. A. U. M. Keppetipola, R. H. M. Minfaz, Ms. S. Y. Kodagoda

Statement of Comprehensive Income

For the year ended 31st December	Note	2012 Rs.	2011 Rs.
Interest income		652,696,365	556,553,097
Interest expense		(59,478,303)	(53,228,434)
Net interest income	5	593,218,061	503,324,663
Fee and commission income	6	2,567,267	2,316,899
Other operating income (net)	7	59,286,225	1,343,540
Total operating income		655,071,553	506,985,102
Impairment loss on financial assets		(97,512,221)	(126,984,825)
Net operating income		557,559,331	380,000,276
Personnel expenses	8	(100,517,656)	(99,773,861)
Premises, equipment and establishment expenses		(108,528,185)	(121,037,739)
Other operating expenses		(10,436,613)	(7,521,741)
Profit before VAT on financial services and income tax		338,076,877	151,666,936
VAT on financial services		(44,027,771)	(24,776,551)
Profit before income tax	9	294,049,106	126,890,385
Income tax expense	10	(75,839,007)	(47,076,278)
Profit for the year		218,210,099	79,814,107
Other comprehensive income		-	-
Total comprehensive income for the year		218,210,099	79,814,107
Earnings per share - basic	11	6.05	2.21

The accounting policies and notes from 01 to 37 form an integral part of these financial statements.

Statement of Financial Position

	Note	As at 31st December 2012 Rs.	As at 31st December 2011 Rs.	As at 01st January 2011 Rs.
Assets				
Cash and cash equivalents	13	37,207,216	36,185,158	49,769,687
Financial assets - held-to-maturity	14	471,221,627	779,176,346	778,886,098
Investment in REPOs	15	1,062,129,727	2,001,136,436	1,377,087,182
Investment in fixed deposits	16	1,818,854,593	1,203,991,118	1,108,944,402
Investment in other debt instruments	17	1,484,234,950	569,655,094	1,096,138,922
Investment in unquoted securities	18	2,229,919	2,229,919	2,229,919
Loans and receivables to customers	19	1,932,190,376	1,711,222,280	1,910,822,186
Intangible assets	20	6,622,180	7,799,682	13,303,486
Property and equipment	21	97,004,680	98,196,720	86,185,493
Capital work in progress		-	-	24,663,838
Other assets	22	72,722,250	97,172,521	46,252,101
Total assets		6,984,417,519	6,506,765,274	6,494,283,314
Liabilities				
Deposits from customers	23	241,611,539	207,764,456	297,092,746
Due to banks	24	2,207,881	12,610,818	3,199,617
Refinance borrowings	25	2,325,541,984	2,081,411,388	2,012,570,585
Other liabilities	26	199,737,039	182,914,933	205,445,942
Retirement benefit obligation	27	6,143,783	6,087,974	5,167,949
Deferred tax liability	28	-	6,974,995	10,959,498
Total liabilities		2,775,242,225	2,497,764,565	2,534,436,337
Shareholder's funds				
Stated capital	29	3,671,972,223	3,671,972,223	3,671,972,223
Statutory reserve fund	30	25,068,040	14,157,535	10,291,616
Investment fund	31	69,775,756	29,936,454	-
Retained earnings		442,359,274	292,934,497	277,583,137
Total shareholders' funds		4,209,175,294	4,009,000,709	3,959,846,976
Total liabilities and equity		6,984,417,519	6,506,765,274	6,494,283,314
Commitments and contingencies	33	59,585,000	104,663,000	111,433,992

I certify that the financial statements have been prepared and presented in compliance with the requirements of the Companies Act No. 07 of 2007.

Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board of Directors by the following on 29th May 2013.

Chairman Director General Manager/CEO

The accounting policies and notes from 01 to 37 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31st December

	Stated capital Rs.	Reserve fund Rs.	Investment fund account Rs.	Retained earnings Rs.	Total Rs.
Balance as at 31st December 2010	3,671,972,223	10,291,616	-	195,540,715	3,877,804,554
Impact of adopting SLFRSs as at 1st January 2011	-	-	-	82,042,422	82,042,422
Restated balance as at 1st January 2011	3,671,972,223	10,291,616	-	277,583,137	3,959,846,976
Profit for the year	-	-	-	79,814,107	79,814,107
Other comprehensive income for the year	-	-	-	-	-
Transfers during the year	-	3,865,919	29,936,454	(33,802,373)	-
Dividends paid	-	-	-	(30,660,374)	(30,660,374)
Balance as at 31st December 2011	3,671,972,223	14,157,535	29,936,454	292,934,497	4,009,000,709
Profit for the year	-	-	-	218,210,099	218,210,099
Other comprehensive income for the year	-	-	-	-	-
Transfers during the year	-	10,910,505	39,839,303	(50,749,808)	-
Dividends paid	-	-	-	(18,035,514)	(18,035,514)
Balance as at 31st December 2012	3,671,972,223	25,068,040	69,775,757	442,359,274	4,209,175,294

Reserve fund represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

Investment fund account consists of 8% of the profits calculated for the payment of Value Added Tax and 5% of the Profit Before Tax calculated for payment of income tax purposes during the year.

The accounting policies and notes from 01 to 37 form an integral part of these financial statements.

Statement of Cash Flow

	2012 Rs.	2011 Rs.
Cash flows from operating activities		
Profit before tax	294,049,106	126,890,385
Adjustment for:		
Non-cash items included in profits before tax (A)	47,484,989	160,615,420
Change in operating assets (B)	(652,291,870)	(116,677,229)
Change in operating liabilities (C)	294,799,783	(31,462,316)
Dividend income	(244,200)	(183,500)
Contribution paid to defined benefit plans	(1,144,191)	(279,975)
Tax paid	(7,034,081)	(116,069,251)
Net cash generated from/ (used in) operating activities	**(24,380,463)**	**22,833,533**
Cash flows from investing activities		
Purchase of property, plant and equipment	(13,981,907)	(16,623,390)
Proceeds from the sale of property, plant and equipment	-	1,271,000
Proceeds from the sale and maturity of financial investments	70,000,000	-
Net purchase of intangible assets	(2,421,320)	-
Dividends received from investment	244,200	183,500
Net cash generated from/ (used in) investing activities	**53,840,973**	**(15,168,890)**
Cash flows from financing activities		
Dividend paid to the owners of the parent company	(18,035,514)	(30,660,374)
Net cash (used in) financing activities	**(18,035,514)**	**(30,660,374)**
Net increase/(decrease) in cash & cash equivalents	11,424,996	(22,995,731)
Cash and cash equivalents at the beginning of the year	23,574,339	46,570,070
Cash and cash equivalents at the end of the year (D)	34,999,335	23,574,339
	34,999,335	**23,574,339**

A. Non-cash items included in profit before tax

	2012 Rs.	2011 Rs.
Depreciation of property, plant and equipment	15,173,947	19,153,240
Amortisation of intangible assets	3,598,822	4,425,594
Impairment losses on loans and advances	97,512,221	126,984,825
Charge for defined benefit plans	1,200,000	1,200,000
Reversal of provision for investment	(70,000,000)	-
Loss on disposal of PPE	-	1,970,753
Written off of PPE	-	6,881,008
	47,484,989	160,615,420

Statement of Cash Flow contd.

	2012 Rs.	2011 Rs.
B. Change in operating assets		
Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit or loss	(282,481,904)	(192,902,390)
Net increase in leases	(16,595,742)	(17,797,544)
Net (increase)/ decrease in loans and advances to customers	(301,884,573)	90,412,624
Change in pre-payments and accrued income	(51,329,651)	3,610,081
	(652,291,870)	(116,677,229)
C. Change in operating liabilities		
Change in deposits from banks, customers and debt securities issued	277,977,678	(20,487,487)
Change in accruals and deferred income	16,822,105	(10,974,829)
	294,799,783	(31,462,316)
D. Reconciliation of cash & cash equivalents		
Cash in hand	14,640,005	5,822,638
Banks balances	22,561,863	30,358,070
Due to banks	(2,207,881)	(12,610,818)
Money at short notice	5,348	4,449
	34,999,335	23,574,339

The accounting policies and notes from 01 to 37 form an integral part of these financial statements.

Summary of Significant Accounting Policies

1. Corporate information

1.1 General

Lankaputhra Development Bank Limited (the 'Bank') is a Government owned licensed specialised bank established under the Banking Act No.30 of 1988. It is a public limited liability bank, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 80, Nawala Road, Nugegoda.

1.2 Principal activities and nature of operations

The Bank provides a range of financial services including the acceptance of savings and term deposits, financing project loans and short term working capital requirements.

1.3 Date of authorization for issue

The financial statements of Lankaputhra Development Bank Ltd., for the year ended 31 December 2012 were authorised for issue in accordance with the resolution of the Board of Directors on 29th May 2013.

2. Basis of preparation

2.1 Statement of compliance

The financial statements of the Bank (statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement 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 in compliance with the requirements of the Companies Act No.07 of 2007 and provide appropriate information as required by the Banking Act No. 30 of 1988.

The bank's financial statements up to and including the year ended 31st December 2011 were prepared in accordance with Sri Lanka Accounting Standards (SLASs) which were effective up to 31st December 2011. The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which became effective from financial periods beginning on or after 01st January 2012. These new standards comprise of accounting standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Accordingly, the financial statements for the year ended 31st December 2012 are the first financial statements prepared and presented in compliance with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) which became effective from 01st January 2012.

In preparing financial statements in accordance with SLFRS, required adjustments have been made for the previously reported financial periods and the effect of the transition from SLASs to SLFRSs has been presented in the reconciliation statements and accompanying notes in respect of items, which have a material impact on, previously reported items.

Note 4 to these financial statements, discloses the impact of the transition to SLFRS on the reported financial position, financial performance, and cash flows, including the nature and effect of significant changes in accounting policies from those used in the bank's financial statements for the year ended 31st December 2011 prepared under SLAS.

2.2 Basis of measurement

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

- available for sale financial assets are measured at fair value
- 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 presentational currency.

2.4 Presentation of financial statements

The items in statement of financial position of the Bank are presented broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note no 32 to these financial statements.

2.5 Materiality &aggregation

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

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability

Summary of Significant Accounting Policies contd.

simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.6 Comparative information

The accounting policies have been consistently applied by the Bank with those of the previous financial year in accordance with LKAS 01 - presentation of financial statements, except those which had to be changed as a result of application of the new SLFRS. Further, comparative information is reclassified wherever necessary to comply with the current presentation.

2.7 Use of significant accounting judgments, estimates and assumptions

The preparation of financial statements requires the application of certain critical accounting assumptions relating to the future. Further, it requires the management of the Bank to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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. Hence, actual experience and results may differ from these judgments and estimates.

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 cast 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 Company 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 actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. 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 theses financial statements and in preparing the opening SLFRS statement of financial position at 1stJanuary 2011 for the purpose of transition to SLFRS, unless otherwise is indicated.

3.1 Foreign currency transactions and balances

All foreign currency transactions are converted to Sri Lanka rupees which is the Bank's functional & reporting currency, at the rates of exchange prevailing at the time the transactions were effected. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Sri Lanka Rupees using the spot foreign exchange rate as at the year end and all differences arising on non–trading activities are taken to 'Other operating income' in the Income Statement. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items in foreign currency measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange differences arising on the settlement or reporting of monetary items at rates different from those which were initially recorded are dealt with in the statement of comprehensive income.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks, and money at short notice.
For the purpose of the statement of cash flow, cash and cash equivalents consist of cash and short-term deposits as defined above.

3.3 Financial assets – recognition and measurement

3.3.1 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.

3.5.2 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.

3.5.3 Non-derivative financial assets

The Bank recognizes non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables and available-for-sale financial assets.

i. Financial assets at fair value through profit or loss

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

ii. Held-to-maturity financial investments

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

Summary of Significant Accounting Policies contd.

iii. 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 income statement. The losses arising from impairment are recognised in the income statement 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.

iv. Available-for-sale financial investments

Available-for-sale investments include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (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 income statement in "other operating income".

Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method. Dividend earned whilst holding available for sale financial investments are recognised in the income statement as "other operating income" when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement and removed from the "available-for-sale reserve".

3.5.7 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 income statement.
- 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.

3.5.8 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.

3.5.9 Identification, measurement and assessment of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group offinancial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

In assessing collective impairment the Bank uses of historical trends of the probability of default, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

Summary of Significant Accounting Policies contd.

Changes in impairment provisions attributable to time value are reflected as a component of interest income.If, in a subsequent period, the fair value of an impaired available for- sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

In addition to the above, the Bank also considers the guidelines issued by Central Bank of Sri Lanka in assessing it's impairment provision on loans, advances and leases.

3.5.10 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.

3.5.11 Collateral repossessed

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.5.12 Investment in reverse repurchase agreements

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

3.6 Non-financial assets

3.6.1 Property and equipment

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

Cost model

Property 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.

Subsequent cost

Subsequent expenditure incurred for the purpose of acquiring, extending, or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure and such expenses are recognised in the carrying amount of an asset. The costs associated with day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Depreciation

The provision for depreciation is calculated by using the straight line method on cost of the property & equipment other than freehold land.

The useful life time used for the purpose of depreciations are given below;

Leasehold improvements	15 years
Building	15 years
Motor vehicles	05 years
Office & electrical equipment	10 years
Computer software & equipment	05 years
Furniture & fittings	10 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

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 income statement 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.

3.6.2 Intangible assets

The intangible assets include the value of computer software cost of purchased licenses. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Amortisation

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

Computer software	5 years

3.6.3 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.

3.7 Finance leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under lease receivable. Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the impairment for rentals doubtful of recovery.

3.7.1 Identification and measurement of impairment for lease receivables

Lease receivables are assessed for impairment as stated above in note 3.5.9.

3.8 Financial liabilities

3.8.1 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.

Summary of Significant Accounting Policies contd.

3.8.2 De-recognisition of financial liabilities

A financial liability is de-recognised 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 recognised in profit or loss.

3.9 Retirement Benefit Obligations

3.9.1 Defined benefit plan

The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, further salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The gratuity liability is not externally funded.

3.9.2 Defined 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 15% and 10% respectively.

Employees' Trust Fund

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

3.10 Provisions

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

3.11 Financial guarantees

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

Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Interest expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3.12 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The contingencies and capital commitments for which the Bank liable severally or otherwise are also included with appropriate disclosures.

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

3.13 Taxation

Income Tax expense comprises of current and deferred tax. Income tax expense is recognised in the statement of comprehensive Income.

3.13.1 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 reporting date.

However, with effect from 1st April 2013 the Bank would not be liable for income taxation according to the provisions in 2013 Budget proposal.

3.13.2 Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

However deferred tax balance as at 31st December 2012 was written back since with effect from 1st April 2013 the Bank would not be liable for income taxation according to the provisions in 2013 Budget proposal.

3.13.3 VAT on financial services

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto.

The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.14 Recognition of income and expenses

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

3.14.1 Interest income and interest expense

Interest income and expense are recognised 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 Statement of Comprehensive Income 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.14.2 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.

3.14.3 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.

Summary of Significant Accounting Policies contd.

3.15 Dividend on ordinary shares

Dividend on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim Dividend are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting date.

3.16 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.

3.17 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 10 - Consolidated financial statements
SLFRS 11 - Joint arrangements
SLFRS 12 - Disclosure of interests in other entities
SLFRS 13 - Fair value measurement

Notes on the Financial Statements

4. First time adoption of SLFRS - explanation of transition to LKASs/SLFRSs

As stated in note 2.1, these are the Bank's first financial statements prepared in accordance with SLFRS. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31st December 2012, the comparative information presented for the year ended 31st December 2011 and in the preparation of an opening SLFRS based statement of financial position at 1st January 2011 (the date of transition). The reconciliations are given below:

4.1 Reconciliation of shareholders equity

	Note	Under SLAS 2011	SLFRS/ LKAS Adjustments	Under SLFRS 2011	Under SLAS 1-Jan-2011	SLFRS/ LKAS Adjustments	Under SLFRS 1-Jan-2011
Assets							
Cash and cash equivalents		36,185,158	-	36,185,158	49,769,687	-	49,769,687
Financial assets - held-to-maturity		779,176,346	-	779,176,346	778,886,098	-	778,886,098
Investment in REPOs		2,001,136,436	-	2,001,136,436	1,377,087,182	-	1,377,087,182
Investment in fixed deposits		1,203,991,118	-	1,203,991,118	1,108,944,402	-	1,108,944,402
Investment in other debt instruments		569,655,094	-	569,655,094	1,096,138,922	-	1,096,138,922
Investment in unquoted securities		2,229,919	-	2,229,919	2,229,919	-	2,229,919
Loans and advances to customers	(a), (b)	1,722,270,232	(11,047,953)	1,711,222,279	1,910,886,052	(63,866)	1,910,822,186
Intangible assets		7,799,682	-	7,799,682	13,303,486	-	13,303,486
Property and equipment		98,196,720	-	98,196,720	110,849,331	(24,663,838)	86,185,493
Capital work in progress		-	-	-	-	24,663,838	24,663,838
Deferred tax assets		-	-	-	-	-	-
Other assets	(d),(b), (e)	136,645,728	(39,473,207)	97,172,521	169,510,485	(123,258,384)	46,252,101
Total assets		6,557,286,434		6,506,765,274	6,617,605,564		6,494,283,314
Liabilities							
Deposits from customers	(c)	206,339,747	1,424,709	207,764,456	294,574,626	2,518,120	297,092,746
Due to banks		12,610,818	-	12,610,818	3,199,617	-	3,199,617
Refinance borrowings	(c),(d)	2,253,887,938	(172,476,550)	2,081,411,388	2,201,314,416	(188,743,831)	2,012,570,585
Other liabilities	(c), (e)	146,922,403	35,992,530	182,914,933	224,584,904	(19,138,962)	205,445,942
Retirement benefit plan		6,087,974	-	6,087,974	5,167,949	-	5,167,949
Deferred tax liability		6,974,995	-	6,974,995	10,959,498	-	10,959,498
Total liabilities		2,632,823,876		2,497,764,565	2,739,801,010		2,534,436,337
Shareholder's funds							
Stated capital		3,671,972,223	-	3,671,972,223	3,671,972,223	-	3,671,972,223
Statutory reserve fund		14,157,535	-	14,157,535	10,291,616	-	10,291,616
Investment fund		29,936,454	-	29,936,454	-	-	-
Retained earnings		208,396,347	84,538,150	292,934,497	195,540,715	82,042,423	277,583,137
Total shareholders' funds		3,924,462,559		4,009,000,709	3,877,804,554		3,959,846,976
Total liabilities and equity		6,557,286,435		6,506,765,274	6,617,605,564		6,494,283,314

Notes on the Financial Statements contd.

4.2 Reconciliation of comprehensive income

	Note	Under SLAS 31-Dec-2011	SLFRS/ LKAS Adjustments	Under SLFRS 31-Dec-2011
Interest income	(a)	460,615,581	95,937,516	556,553,097
Interest expense	(d)	(51,342,408)	(1,886,026)	(53,228,434)
Net interest income		409,273,173		503,324,663
Fee and commission income		2,316,899	-	2,316,899
Other operating income (net)	(d)	444,741	898,799	1,343,540
Total operating income		412,034,813		506,985,102
Impairment loss on financial assets	(a)	(31,419,604)	(95,565,221)	(126,984,825)
Net operating income		380,615,208		380,000,277
Personnel expenses	(b)	(99,401,567)	(372,294)	(99,773,861)
Premises, equipment and establishment expenses		(121,037,739)	-	(121,037,739)
Other operating expenses	(d)	(11,004,696)	3,482,955	(7,521,741)
Profit before VAT on financial services and income tax		149,171,207		151,666,936
VAT on financial services		(24,776,551)	-	(24,776,551)
Profit before income tax		124,394,656		126,890,385
Income tax expense		(47,076,278)	-	(47,076,278)
Profit for the year		77,318,378		79,814,107
Other comprehensive income		-	-	-
Total comprehensive income for the period		77,318,378		79,814,107

4.3 Reconciliation of cash flow statement

There are no material differences between the Company's statement of cash flows presented under SLFRSs and the statement of cash flows presented under SLASs except for the following:

- The cash flow statements were presented using the direct method under SLAS. However, it was presented under the indirect method under SLFRS.

4.4 Notes to the reconciliation of equity as at 1 January 2011 and 31st December 2011 and total comprehensive income for the year ended 31st December 2011

(a) The Bank charged an impairment provision for loans and advances in accordance with LKAS 39 - Financial Instruments - Recognition & measurement. The interest in suspense and the provisions made in accordance with Central Bank of Sri Lanka regulations were reversed. Further additional provisions were measured for loans and advances.

The impact arising from the change is summarised as follows:
For the year ended 31st December 2011

Statement of comprehensive income	Rs.
Interest income	
Reversal of interest suspended/(charge of interest in suspense reversed) based on CBSL guidelines	95,565,221
Additional impairment provision for loans and advances	(95,565,221)
Adjustment before income tax	Nil

	31.12.2011 Rs.	01.01.2011 Rs.
Statement of financial position		
Loans and receivables to other customers		
Interest in suspense	95,565,221	219,945,771
Impairment provision	(95,565,221)	(219,945,771)
Adjustment to retained earnings	-	-

(b) The Bank measured the staff loans granted at reduced interest rates at fair value, based on the market interest rates that prevailed at the time of granting the loan. Accordingly, the interest benefit accruing to the staff members are treated as a prepaid staff cost while interest is accounted for at the relevant market interest rate. The prepaid staff cost is amortised to the statement of comprehensive income over the tenor of the loan.

The impact arising from the change is summarised as follows:
For the year ended 31st December 2011

Statement of comprehensive income	Rs.
Interest income	
Unwinding of interest income on staff loans at market interest rate	372,294
Personnel expenses	
Amortisation of prepaid staff cost	(372,294)
Adjustment before income tax	-

	31.12.2011 Rs.	01.01.2011 Rs.
Statement of financial position		
Loans and receivables to other customers		
Staff loans	(11,047,953)	(63,866)
Other assets		
Unamortised prepaid staff cost	11,047,953	63,866
Adjustment to retained earnings	-	-

Notes on the Financial Statements contd.

(c) The Bank reclassified interest payable under deposits from customers and refinance borrowings in order to account those balances based on amortised cost as opposed to nominal cost under the previous SLAS.

The impact arising from the change is summarised as follows:

	31.12.2011 Rs.	01.01.2011 Rs.
Statement of financial position		
Deposits from customers	1,424,709	2,518,120
Refinance borrowings	8,927,307	8,434,887
Other liabilities	(10,352,016)	(10,953,007)
Adjustment to retained earnings	-	-

(d) The Bank reclassified prepaid interest under refinance borrowings, in order to account the balance based on amortised cost as opposed to nominal cost under the previous SLAS. Further, foreign currency revaluation loss reclassied under other income.

The impact arising from the change is summarised as follows:
For the year ended 31st December 2011

Statement of comprehensive income	Rs.
Other operating income (net)	
Gain/ (loss) on foreign currency revaluation	898,799
Interest expense	(1,886,026)
Other operating expenses	3,482,955
Adjustment before income tax	2,495,728

	31.12.2011 Rs.	01.01.2011 Rs.
Statement of financial position		
Other assets	(96,865,706)	(115,136,296)
Refinance borrowings	(181,403,856)	(197,178,718)
Adjustment to retained earnings	84,538,150	82,042,422

(e) The Bank reclassified withholding tax receivable under tax payable which was previously shown under other assets.

	31.12.2011 Rs.	01.01.2011 Rs.
Statement of financial position		
Other assets		
Tax receivable	46,344,546	(8,185,954)
Other liabilities		
Tax payable	46,344,546	(8,185,954)
Adjustment to retained earnings	-	-

	2012 Rs.	2011 Rs.

5. Net interest income

	2012 Rs.	2011 Rs.
Interest income		
Financial assets - held-to-maturity	79,913,403	59,549,125
Investment in REPOs	223,173,957	143,761,476
Investment in fixed deposits	81,181,381	45,690,929
Investment in other debt instruments	27,440,332	19,403,885
Income from leases	13,341,429	13,291,089
Loans and advances to customers	219,506,550	272,963,355
Other loans & receivables	8,139,313	1,893,238
	652,696,365	556,553,097
Interest expense		
Deposits from customers	12,869,086	14,512,742
Refinance borrowings	46,609,217	38,715,692
	59,478,303	53,228,434
Net interest income	593,218,061	503,324,663

6. Fee & commission income

	2012 Rs.	2011 Rs.
Commission income - guarantees	123,696	158,340
Commission income - letters of credit	11,480	41,321
Registration fees	231,500	480,000
Legal fees income	1,779,985	1,257,798
Commission income - miscellaneous	387,092	336,051
Commission income - Western Union	33,514	43,389
	2,567,267	2,316,899

7. Other income

	2012 Rs.	2011 Rs.
Rent income	300,000	2,000
Gain/ (loss) on foreign currency revaluation	(14,708,740)	898,799
Reversal of provision of investment in preference shares	70,000,000	-
Sundry income	3,450,764	259,591
Dividend income	244,200	183,150
	59,286,225	1,343,540

8. Personnel expenses

	2012 Rs.	2011 Rs.
Salary and bonus	72,654,324	75,074,200
Contributions to defined contribution/benefit plans	10,326,552	10,667,329
Provision for staff retirement benefits	1,200,000	1,200,000
Others	16,336,780	12,832,332
	100,517,656	99,773,861

Notes on the Financial Statements contd.

	2012 Rs.	2011 Rs.

9. Operating expenses

Operating expenses include the following:

	2012 Rs.	2011 Rs.
Directors' emoluments	1,308,000	1,602,000
Employee benefit	80,970,357	83,379,163
Legal expenses	2,748,117	1,339,480
Depreciation	19,153,239	23,594,298
Amortization of intangible assets	3,598,822	4,425,594
Auditor's remuneration - Audit	473,344	430,313
- Non-audit	-	231,336
Donations	1,058,000	268,300
Employees' Provident Fund contributions	8,605,460	8,856,109
Employees' Trust Fund contributions	1,721,092	1,771,222

10. Income tax expense

	2012 Rs.	2011 Rs.
Deferred tax reversal	(6,974,995)	(3,984,503)
Income tax expense	82,814,002	51,060,781
	75,839,007	47,076,278

10.1 Reconciliation of the total tax charge

A reconciliation between the tax expense and the accounting profit for the years ended 31st December 2012 and 2011 are as follows:

	2012 Rs.	2011 Rs.
Profit before tax (as per draft tax computation)	297,540,686	124,394,657
Add: Disallowable expenses	164,051,332	153,608,490
Less: Tax deductible expenses	(165,827,727)	(95,493,216)
Less: Exempt income	-	-
Adjusted profit/ (loss) for tax purposes	295,764,291	182,509,931
Income from other sources	-	-
Assessable income	295,764,291	182,509,931
Less: Qualifying payments	-	(150,000)
Tax losses	-	-
Taxable income	295,764,291	182,359,931
Income tax on current year's profit @28%	82,814,002	51,060,781
(Over)/ under provision in respect of previous years	-	-
Increase/ (decrease) in current year provision	82,814,002	51,060,781
Effective tax rate	25.50%	37.80%
Effective tax rate (excludning deferred tax)	27.80%	39.50%

11. Earnings per share - basic

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	2012	2011
Profit attributable to equity holders	218,210,098	79,814,107
Number of shares used as denominator	36,071,028	36,071,028
Basic earnings per share (Rs.)	6.05	2.21

12. Analysis of financial instruments by measurement basis

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized.

The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 and by headings of the Statement of Financial Position.

12.1 Analysis of financial instruments by measurement basis - as at 31.12.2012

	Held for trading	Amortised cost	Held to maturity	Available for sale	Total
Financial Assets					
Cash and cash equivalents	37,207,216	-	-	-	37,207,216
Financial assets - Held-to-maturity	-	-	471,221,627	-	471,221,627
Investment in REPOs	-	1,062,129,727	-	-	1,062,129,727
Investment in fixed deposits	-	1,818,854,593	-	-	1,818,854,593
Investment in other debt instruments	-	1,484,234,950	-	-	1,484,234,950
Investment in unquoted securities	-	-	-	2,229,919	2,229,919
Loans and receivables to customers	-	1,932,190,377	-	-	1,932,190,377
Total Financial Assets	37,207,216	6,297,409,647	471,221,627	2,229,919	6,808,068,409
Financial Liabilities					
Deposits from customers	-	241,611,539	-	-	241,611,539
Due to banks	-	2,207,881	-	-	2,207,881
Refinance borrowings	-	2,325,541,984	-	-	2,325,541,984
Total Financial Liabilities	-	2,569,361,404	-	-	2,569,361,404

Notes on the Financial Statements contd.

12.2 Analysis of financial instruments by measurement basis - as at 31.12.2011

	Held for trading	Amortised cost	Held to maturity	Available for sale	Total
Financial Assets					
Cash and cash equivalents	36,185,158	-	-	-	36,185,158
Financial assets - held-to-maturity	-	-	779,176,346	-	779,176,346
Investment in REPOs	-	2,001,136,436	-	-	2,001,136,436
Investment in fixed deposits	-	1,203,991,118	-	-	1,203,991,118
Investment in other debt instruments	-	569,655,094	-	-	569,655,094
Investment in unquoted securities	-	-	-	2,229,919	2,229,919
Loans and receivables to customers	-	1,711,222,280	-	-	1,711,222,280
Total Financial Assets	36,185,158	5,486,004,928	779,176,346	2,229,919	6,303,596,351
Financial Liabilities					
Deposits from customers	-	207,764,456	-	-	207,764,456
Due to banks	-	12,610,818	-	-	12,610,818
Refinance borrowings	-	2,081,411,388	-	-	2,081,411,388
Total Financial Liabilities	-	2,301,786,662	-	-	2,301,786,662

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
13. Cash and cash equivalents			
Cash in hand	14,640,005	5,822,638	10,713,680
Bank balances	22,561,863	30,358,070	39,051,338
Money at short notice	5,348	4,449	4,669
	37,207,216	36,185,158	49,769,687
14. Financial assets - held-to-maturity			
Treasury bills held to maturity	471,221,627	779,176,346	778,886,098
	471,221,627	779,176,346	778,886,098
15. Investment in REPOs			
Treasury bills under repurchase agreements	1,062,129,727	2,001,136,436	1,377,087,182
	1,062,129,727	2,001,136,436	1,377,087,182
16. Investment in fixed deposits			
Bank of Ceylon	1,818,854,593	1,203,991,118	1,108,944,402
	1,818,854,593	1,203,991,118	1,108,944,402

17. Investment in other debt instruments

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Investment in debentures - unquoted			
USD debentures of Bank of Ceylon	634,234,950	569,655,094	555,340,923
Investment in government securities - unquoted			
GOSL Rupee loan	-	-	540,797,999
Loan given to treasury	850,000,000	-	-
	1,484,234,950	569,655,094	1,096,138,922

18. Investment in unquoted securities

	No of shares	Cost 31.12.2012	Director's valuation 31.12.2012	No of shares	Cost 31.12.2011	Director's valuation 31.12.2011	No of shares	Cost 01.01.2011	Director's valuation 01.01.2011
HVA Lanka Exports (Pvt) Ltd									
- cumulative, redeemable preference shares	-	-	-	7,000,000	70,000,000	-	7,000,000	70,000,000	-
Credit Information Bureau of Sri Lanka									
- ordinary shares	2,229,919	2,229,919	-	1,221	2,229,919		1,221	2,229,919	
		2,229,919	-		72,229,919	-		72,229,919	-
Provision for impairment in value of unquoted investment securities									
Balance at the beginning of the year		70,000,000			70,000,000			70,000,000	
Reversal/provision for impairment for the year		(70,000,000)			-			-	
Balance at the end of the year		-			70,000,000			70,000,000	
Net carrying amount of unquoted investment securities		2,229,919			2,229,919			2,229,919	

18.1 The above investment in unquoted securities are classified as available for sale investments.

19. Loans and receivables to customers

		31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Loans and advances	19.1	2,717,191,049	2,433,710,097	2,536,265,125
Leases	19.2	105,840,424	89,244,681	71,447,139
Staff loans	19.3	4,941,123	5,395,435	5,802,696
Staff housing loans		31,407,599	12,549,666	-
		2,859,380,195	2,540,899,879	2,613,514,960
Allowance for impairment losses	19.4	(927,189,819)	(829,677,599)	(702,692,774)
		1,932,190,376	1,711,222,280	1,910,822,186

Notes on the Financial Statements contd.

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
19.1 Loans and advances			
Working capital loans	233,575,437	206,075,300	168,885,496
Project loan	1,823,108,450	1,867,839,868	2,062,327,364
Short term loans	87,750,396	60,695,178	72,053,125
Krushi Nawodaya loans	6,043,175	12,452,850	44,141,251
Micro Credit Finance loans	253,152,528	121,403,260	62,009,482
Kapruka Ayojana loans	3,828,988	5,805,601	4,786,473
Agro Livestock Development loans	54,537,084	38,505,565	19,578,554
Special loans	1,826,758	2,165,323	2,350,648
Anturium loans	4,358,402	4,701,509	5,441,990
Big onion loans	959,198	998,686	1,254,245
Mahaweli loans	25,086,225	34,610,509	57,580,262
New Comprehensive Rural credit scheme	34,918,022	31,423,475	14,027,021
Lakkam loan	1,785,813	3,087,033	4,613,786
Saubagya loan - Micro, Small & Medium Enterprises (MSME)	6,533,810	6,010,331	3,734,889
Saubagya loan - affected Micro, Small & Medium Enterprises (A-SME)	852,104	1,138,793	1,409,367
Poverty Alleviation Micro Finance Project loan (PAMP II)	9,787,294	11,370,540	12,071,172
Kadurata Navodaya loan	1,081,403	2,463,256	-
Shasthree loan	20,661,378	2,874,912	-
Viskam loan	70,459,206	15,125,039	-
Pawning	73,953,802	4,963,067	-
Computer loan scheme	2,931,576	-	-
	2,717,191,049	2,433,710,097	2,536,265,125
19.2 Leases			
Gross rentals receivable	132,311,941	110,790,775	94,236,971
Unearned income	(26,471,517)	(21,546,094)	(22,789,832)
	105,840,424	89,244,681	71,447,139
19.2.1 Rentals receivable on leased assets			
Not later than one year			
Gross investment in leases	87,427,810	41,392,727	-
Unearned interest income	(17,562,944)	(11,404,578)	-
	69,864,866	29,988,149	-
Later than one year and not later than five years			
Gross investment in leases	44,884,132	69,398,048	-
Unearned interest income	(8,908,573)	(10,141,515)	-
	35,975,558	59,256,533	-

19. Loans and receivables to customers (contd.)

19.3 Staff loan

	2012 Rs.	2011 Rs.
At the beginning of the year	5,395,435	5,802,696
Loans granted during the year	4,060,943	3,093,500
Loans recovered during the year	(4,405,277)	(3,276,781)
Staff cost - SLFRS adjustment	(109,978)	(223,980)
At the end of the year	4,941,123	5,395,435

19.4 Staff housing loan

	2012 Rs.	2011 Rs.
At the beginning of the year	12,549,666	-
Loans granted during the year	48,042,673	23,924,730
Loans recovered during the year	(7,423,972)	(614,958)
Staff cost - SLFRS adjustment	(21,760,768)	(10,760,106)
At the end of the year	31,407,599	12,549,666

19.5 Movement in impairment allowance for Loans and Receivable

	2012 Rs.	2011 Rs.
As at 1st January	829,677,599	702,692,774
Charge for the year	97,512,220	126,984,825
As at 31st December	927,189,819	829,677,599

20. Intangible assets

	2012 Rs.	2011 Rs.	2010 Rs.
Computer software			
Cost			
As at 1st January	23,741,136	24,819,346	24,819,346
Additions	2,421,320	-	-
Disposals during the year	-	(1,078,210)	-
As at 31st December	26,162,456	23,741,136	24,819,346
Accumulated amortisation			
As at 1st January 2011	15,941,454	11,515,860	6,663,289
Amortisation during the year	3,598,822	4,425,594	4,852,571
As at 31st December 2011	19,540,276	15,941,454	11,515,860
Net book value	6,622,180	7,799,682	13,303,486

Notes on the Financial Statements contd.

21. Property plant and equipments

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Cost	206,704,070	192,722,163	168,110,273
Accumulated depreciation	109,699,390	94,525,443	81,924,780
	97,004,680	98,196,720	86,185,493

21.1

	As at 01.01.2011 Rs.	Additions Rs.	Disposals during the year Rs.	As at 31.12.2011 Rs.	Additions Rs.	Disposals during the year Rs.	As at 31.12.2012 Rs.
Cost							
Land	15,000,000	-	-	15,000,000	-	-	15,000,000
Building	18,034,049	-	-	18,034,049	-	-	18,034,049
Lease hold improvements	16,959,022	12,243,083	(12,139,834)	17,062,271	518,325	-	17,580,596
Motor vehicles	30,645,160	-	-	30,645,160	-	-	30,645,160
Office & electrical equipment	31,456,207	17,225,985	(4,535,504)	44,146,688	9,407,766	-	53,554,454
Computer equipment	42,532,596	7,087,267	-	49,619,863	2,837,151	-	52,457,014
Furniture & fittings	13,483,239	4,121,369	-	17,604,608	1,218,665	-	18,823,273
Other assets	-	609,524	-	609,524	-	-	609,524
Total	168,110,273	41,287,228	(16,675,338)	192,722,163	13,981,907	-	206,704,070
Accumulated depreciation							
Building	4,264,703	1,202,871	-	5,467,574	1,202,871	-	6,670,445
Lease hold improvements	4,563,328	1,673,125	(4,288,475)	1,947,978	1,172,483	-	3,120,461
Motor vehicles	26,441,304	2,682,039	-	29,123,343	711,619	-	29,834,962
Office & electrical equipment	11,285,922	4,400,236	(2,264,102)	13,422,056	5,186,755	-	18,608,811
Computer equipment	30,263,672	7,724,625	-	37,988,297	5,073,379	-	43,061,676
Furniture & fittings	5,105,851	1,470,344	-	6,576,195	1,826,840	-	8,403,035
Other assets	-	-	-	-	-	-	-
Total	81,924,780	19,153,240	(6,552,577)	94,525,443	15,173,947	-	109,699,390
Written down value	86,185,493			98,196,720			97,004,680

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year.

21.2 Fully depreciated property, plant & equipment

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Building	-	-	-
Lease hold improvements	-	-	-
Motor vehicles	28,043,075	24,408,650	-
Office & electrical equipment	-	-	-
Computer equipment	32,952,772	19,307,250	-
Furniture & fittings	-	-	-
Other assets	-	-	-
	60,995,847	43,715,900	-

21.3 Title restriction on property, plant and equipment

There were no restrictions on the title of property, plant and equipments as at 31st December 2012.

	2012 Rs.	2011 Rs.	2010 Rs.

22. Other assets

	2012 Rs.	2011 Rs.	2010 Rs.
Deposits and prepayments	37,044,412	15,770,461	46,188,235
Tax receivable	2,759,140	70,354,108	-
Prepaid staff cost	32,918,698	11,047,953	63,866
	72,722,250	97,172,521	46,252,101

22.1 Pre-paid staff cost

	2012 Rs.	2011 Rs.
As at 1st January	11,047,953	63,866
SLFRS adjustment - new grants and settlements	25,819,692	11,356,380
SLFRS adjustment - charge to staff cost	(3,948,946)	(372,294)
As at 31st December	32,918,698	11,047,953

23. Deposits from customers

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Savings deposits	184,393,754	137,179,869	162,388,570
Time deposits	57,217,785	70,584,587	134,704,176
	241,611,539	207,764,456	297,092,746

24. Due to banks

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Bank overdraft	2,207,881	12,610,818	3,199,617
	2,207,881	12,610,818	3,199,617

25. Refinance borrowings

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
GOSL loan - SLR	222,487,608	230,073,151	239,628,008
Susahana loan	-	248,750	248,750
Perennial crop loan	2,281,579	2,987,715	3,799,145
Mahaweli loan	56,196,760	54,196,760	64,366,594
GOSL loan - USD	1,973,249,588	1,738,660,905	1,675,143,525
Modernization of Small and Medium Garment Enterprises loan	16,261,169	21,938,224	25,471,563
Saubhagya loan	7,062,281	8,393,896	3,913,000
Poverty Alleviation Micro Finance Project loan	11,318,234	16,735,258	-
Viskam loan	36,684,765	8,176,729	-
	2,325,541,984	2,081,411,388	2,012,570,585

Notes on the Financial Statements contd.

		31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
26. Other liabilities				
Accrued expenditure		14,222,069	16,187,281	24,710,469
Other payable	26.1	169,134,631	169,134,631	169,134,631
Financial services VAT payable		8,885,639	(2,406,979)	1,122,872
Tax payable		-	-	10,477,970
Suspense account		7,494,700	-	-
		199,737,039	182,914,933	205,445,942

26.1 Other payable

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
GOSL financial assistance for re-opening of closed down garment factories			
Funds received	730,000,000	730,000,000	730,000,000
Amount disbursed (credit risk is not held by the bank)	(560,865,369)	(560,865,369)	(560,865,369)
	169,134,631	169,134,631	169,134,631

These funds were received for disbursement among closed down garment factories pursuant to a decision by the Cabinet of Ministers (Reference No. 07/0147/207/008) where the Ministry of Finance is acting as the facilitator to implement a scheme to restructure/ rehabilitate closed factories as envisaged in the Budget Proposal - 2007.

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
27. Retirement benefit plan			
Opening defined benefit obligation	6,087,974	5,167,649	3,967,949
Current service cost	1,200,000	1,200,000	1,200,000
Benefits paid	(1,144,191)	(279,675)	-
Closing defined benefit obligation	6,143,783	6,087,974	5,167,949

The principal assumptions used in determining pension obligations for the bank's plan are shown below:

	2012	2011
Discount rate	11%	11%
Expected rate of return on assets	-	-
Future salary increases	3%	3%

Acturial valuation of the gratuity liabilities has been carried out by Actuarial & Management Consultants (Pvt) Ltd. The liability as at 31st December 2012 is Rs. 5,337,156.

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
28. Deferred tax (asset)/liability			
At the beginning of the year	(6,974,995)	10,959,498	8,201,003
Transfer from / (to) income statement	6,974,995	(3,984,503)	2,758,495
At the end of the year	-	6,974,995	10,959,498
29. Stated capital			
No of fully paid ordinary shares	36,071,028	36,071,028	36,071,028
Stated capital	3,671,972,223	3,671,972,223	3,671,972,223
30. Statutory reserve fund			
As at the beginning of the year	14,157,535	10,291,616	9,257,884
Transferred during the year	10,910,505	3,865,919	1,033,732
As at the end of the year	25,068,040	14,157,535	10,291,616

5% of profits after tax is transferred to the Reserve Fund as required by section 20 (1) of the Banking Act No.30 of 1988. This Reserve Fund will be used only for the purposes specified in section 20 (2) of the Banking Act No. 30 of 1988.

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
31. Investment fund account			
As at the beginning of the year	29,936,454	-	-
Transferred during the year	39,839,303	29,936,454	-
As at the end of the year	69,775,756	29,936,454	-

As proposed in the Government Budget 2011, Finance Companies are required to establish and operate an Investment Fund Account (IFA) commencing January, 2011. According to the guidelines issued by the Central Bank of Sri Lanka (CBSL), Finance Companies are required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for payment of income tax. These funds have to be utilized for granting credit facilities for prescribed purposes or invested in long term government securities/bonds.

Details of investments in government securities and credit facilities granted utilizing the proceeds of this fund as at 31.12.2012 are given below.

Instrument	Rate of interest	Maturity	Amount invested Rs.
Treasury bonds	-	-	-
Treasury bills	12.07%	17/05/2013	94,308,500
			94,308,500

Notes on the Financial Statements contd.

32. Maturity analysis

	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Assets						
Interest bearing assets						
Treasury bills held to maturity	255,865,432	215,356,195	-	-	-	471,221,627
Repurchase agreements	1,062,129,728	-	-	-	-	1,062,129,728
Due from banks	20,359,330	-	-	-	-	20,359,330
Investment securities	850,000,000	6,434,950	-	-	630,029,919	1,486,464,869
Investment fixed deposits	1,124,830,226	694,024,368	-	-	-	1,818,854,593
Loans & advances	207,479,381	312,363,595	732,510,864	558,961,193	120,875,345	1,932,190,376
Lease rentals receivables						
	3,520,664,096	1,228,179,108	732,510,864	558,961,193	750,905,264	6,791,220,524
Non-interest bearing assets						
Cash & short term funds	14,640,005	-	-	-	-	14,640,005
Other assets	24,540,055	7,117,011	17,468,332	24,914,498	890,236	24,540,055
Property, plant & equipment	-	-	-	-	97,004,680	97,004,680
Intangible asset	-	-	-	-	6,622,178	6,622,178
	39,180,060	7,117,011	17,468,332	24,914,498	104,517,094	193,196,996
Total assets	3,559,844,156	1,235,296,119	749,979,196	583,875,691	855,422,358	6,984,417,520
Liabilities						
Interest bearing liabilities						
Deposits	13,208,170	42,554,979	86,892	-	185,761,497	241,611,539
Due to banks	-	-	-	-	-	-
Refinance borrowings	1,869,335	27,030,463	43,464,760	32,660,640	2,220,516,786	2,325,541,984
Deferred liabilities	6,143,783	-	-	-	-	6,143,783
	21,221,288	69,585,442	43,551,652	32,660,640	2,406,278,283	2,573,297,306
Non- Interest bearing liabilities						
Other liabilities	30,703,626	37,164,944	-	1,232,400	132,843,949	201,944,919
Stated capital	-	-	-	-	3,671,972,223	3,671,972,223
Reserves	-	-	-	-	537,203,071	537,203,071
	30,703,626	37,164,944	-	1,232,400	4,342,019,243	4,411,120,213
Total Liabilities	51,924,914	106,750,386	43,551,652	33,893,040	6,748,297,526	6,984,417,519

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.

33. Commitments and contingencies

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Capital commitments			
Commitments on direct advances			
Undrawn credit facilities	17,860,000	47,450,000	89,533,992

Contingencies

In the normal course of business the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Documentary letters of credits	-	15,488,000	-
Guarantees	41,725,000	41,725,000	21,900,000
	41,725,000	57,213,000	21,900,000

Litigation against the bank

There is no material litigation against the bank as at the balance sheet date.

34. Assets pledged

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
The following assets have been pledged as security for liabilities			
Treasury bills held to maturity	455,372,404	779,176,346	778,886,098
Fixed deposits	126,000,000	-	-
	581,372,404	779,176,346	778,886,098

Notes on the Financial Statements contd.

35. Related party disclosures

Transactions with the State (GOSL)and State Controlled Entities are as follows,

	State		Entities either controlled or in which significant influence is held by the state	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Balance Sheet				
Assets				
Money at short notice	-	-	5,348	4,449
Due from banks	-	-	22,561,863	83,181,499
Loans and advances (Rupee loan to CBSL)	-	-	850,000,000	-
Investments in Government treasury bills	-	-	455,372,404	-
Repurchase agreements	-	-	1,024,042,215	2,751,470,881
Investments in securities	-	-	630,029,919	793,685,303
Investment in fixed deposits	-	-	1,778,721,841	1,186,323,644
Other assets-prepaid interest on GOSL loan - USD	78,995,864	96,865,706	-	-
Liabilities				
Deposits	-	-	-	7,010,650
Refinance loans taken over	-	-	56,882,698	35,599,392
Other liabilities	185,498,631	169,134,631	-	-
Off Balance Sheet Items				
Guarantees/ collateral given	-	-	41,725,000	41,725,000
Income Statement				
Interest income earned from related parties	-	-	413,002,241	286,596,372
Interest paid to related parties	-	35,941,032	21,604,284	888,634
Other income earned from related parties	-	-	-	-
Expenses relating to services obtained/ taxes	-	-	141,720,105	95,367,934

Entities either controlled or in which significant influence is held by the state include Bank of Ceylon, Peoples Bank, Ruhunu Development Bank, Rajarata Development Bank, Wayamba Development Bank, Sabaragamuwa Development Bank, Central Bank of Sri Lanka, Employees Provident Fund, National Water Supply and Drainage Board, Ceylon Electricity Board, Department of Inland Revenue, National Savings Bank, Employees Trust Fund, Sri Lanka Telecom Ltd, Land Reform Commission, Sri Lanka Chamber of Small and Medium Industries.

36. Events after the reporting date

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

37. Risk management

Introduction

Risk is considered as inherant in the banks due to nature of the business activities, but can be mitigated / managed through the process of proper and timely identification, qualification and monitoring.

Being a Specialized Bank mainly involve in the development financing, the bank is exposed mainly to credit risk, liquidity risk and market risk whilst impact of the other risks such as operational risk, foreign currency risk etc. appear to be immaterial due to nature of the present business activities undertaken.

Credit risk

The credit risk faced by the bank can be defined as the failure of the borrower to meet boligations according to contactual agreement with the bank. The bank is managing / mitigating this aspect through careful srutiny of the borrower profile, stringent appraisal process, strict authority levels, fixing exposure limits for borrowers as well as market sectors, obtaining suitable securies and maintaining close relationship with the borrowers.

Liquidity risk and funding management

Liquidity risk can be defined as the inability to meet obligations of an institution without incurring additional cost or losses. Liquidity issues of a bank can arise due to mismatches of long term assets against short term liabilities. Liquidity planning must ensure the bank's ability to meet its obligations even in stressed instances without incurring material costs or losses.

The bank is presently managing liquidity risk through proper forecast of funding requirements timely and match same with fund inflows, maintaining a highly liquid portfolio whilst assuring a handsome return, retention of substantial fraction of shareholder's return of the bank.

Market risk

Market risk can be defined as the exposure to losses due to adverse market changes such as changes in interest rates, foreign exchange rates, commodity prices and equity prices. The bank is not that exposed to market risk and the market risk aspect is managed / mitigated through fixing lending and deposit rates in line with the capital structure and related cost on same whilst offering competitive rates, meeting most of the fund requirements internally rather than depending on external resources and frequently discussing related significant issues at ALCO etc., there by managing market risk satisfactorily.

Capital Adequacy

Capital Adequacy Ratio is used to measure the adequacy of Bank's capital base in relation to the risks which arise from its assets and its off balance sheet transactions. Under the guidelines of Central Bank of Sri Lanka effective from 01 January 2008, Banks must compute the Capital Adequacy Ratio in accordance with the “International Convergence of Capital Measurement and Capital Standards – a Revised Framework” (Basel II)

Basis of Computation

The risk weights assigned to the on and off balance sheet assets and the composition of capital as prescribed by the Central Bank of Sri Lanka.

Computation of Capital Adequacy Ratio

	2012		2011	
	Assets Rs.'000	Risk-Weighted Assets Amount Rs.'000	Assets Rs.'000	Risk-Weighted Assets Amount Rs.'000
Risk-Weighted Amount for Credit Risk				
Claims on Central Government and CBSL	455,372	-	767,423	-
Claims on Foreign sovereigns and their Central Banks	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-
Claims on official entities and Multilateral Development Banks (MDBs)	-	-	-	-
Claims on Banks Exposures	3,099,496	1,419,337	3,765,784	2,300,811
Claims on Finance Companies and Specialised Leasing Companies	-	-	3,678	3,678
Claims on Corporates	361,167	361,167	447,197	447,197
Retail claims	1,049,841	1,049,841	611,428	611,428
Claims Secured by Residential Property	-	-	-	-
Claims Secured by Commercial real Estate	-	-	-	-
Non Performing Assets (NPAs)	612,638	860,244	740,787	1,063,137
Non Performing Assets Secured by Residential Property	-	-	-	-
Higher Risk Categories	-	-	-	-
Cash Items	14,640	-	5,823	-
Other Assets	348,436	348,436	344,737	344,737
	5,941,590	4,039,025	6,686,857	4,770,988

		2012		2011	
	Credit Conversion Factor %	Principal amount of Off Balance Sheet Items Rs.'000	Credit Equivalent of Off-Balance Sheet Items Rs.'000	Principal amount of Off Balance Sheet Items Rs.'000	Credit Equivalent of Off- Balance Sheet Items Rs.'000
Off-Balance Sheet Items					
General Guarantees of Indebtedness	100	41,725	41,725	41,725	41,725
Documentary Letters of Credit	20	-	-	15,488	3,098
Undrawn Term Loans	50	17,860	8,930	47,450	23,725
		59,585	50,655	104,663	68,548

	2012 Rs.'000	2011 Rs.'000
Risk-Weighted Amount for Operational Risk		
Average Net Income for Last Three Financial Years	567,940	558,477
Less: Realised profits from the sale of securities in the banking book		
Extraordinary / irregular item of income		
Gross Income	567,940	558,477
Total Capital Charge for Operational Risk = (Gross Income*15%)	85,191	83,772
Total Risk-Weighted Amount for Operational Risk	851,910	837,716
(Total Capital Charge for Operational Risk x 10)		
Calculation of Total Risk-Weighted Amount		
Risk-Weighted Amount for Credit Risk	4,047,954	4,770,988
Risk-Weighted Amount for Market Risk	-	-
Risk-Weighted Amount for Operational Risk	851,910	837,715
	4,899,864	5,608,703

Calculation of Total Capital Base	2,012 Rs.'000	2,011 Rs.'000
Core Capital (Tier 1)		
Paid-up Ordinary Shares/Common Stock / Assigned Capital	3,671,972	3,671,972
Non-cumulative, Non-redeemable Preference Shares	-	-
Share Premium	-	-
Statutory Reserve Fund	25,068	14,158
Published Retained Profits / (Accumulated Losses)	442,359	208,397
General and Other Reserves	69,776	29,936
Surplus/Loss after tax arising from the sale of fixed and long-term investments		
Unpublished Current Year's Profit / Losses		
Approved perpetual debt capital instruments		
	4,209,175	3,924,463
Supplementary Capital (Tier II)		
Revaluation Reserves (as approved by CBSL)	-	-
General Provisions	16,799	12,271
Hybrid (debt/equity) Capital Instruments	-	-
Approved Subordinated Term Debt	-	-
Actual Amount of Approved Subordinated Term Debt	-	-
	16,799	12,271
Capital Base (Tier I + Tier II)	4,225,974	3,936,734

Capital Adequacy contd.

	2,012 Rs.'000	2,011 Rs.'000
Core Capital Ratio (Minimum Ratio – 5%)	86.10%	70%
Core Capital (Tier I) x 100 / Total Risk Weighted Assets		
Total Capital Ratio (Minimum Ratio – 10%)	86.40%	70.2%
Capital Base x 100 / Total Risk Weighted Assets		

Limits

(I) The Total of Tier II Supplementary Elements should not exceed a maximum of 100% of Tier I Elements

(II) General Provision should not exceed 1.25% of Risk-Weighted Assets

Statement of Value Added

Economic Value Addition

For the Year ended December 31,	2012 Rs.	2011 Rs.
Shareholders' Fund	4,209,175,294	4,009,000,709
Accumulated Provision for Credit Losses	927,189,819	829,677,599
	5,136,365,113	4,838,678,308
Profit Attributable to Shareholders	218,210,099	79,814,107
Provision for Credit Losses	97,512,220	126,984,825
Less; Actual Credit Loss Written Off	-	-
	315,722,319	206,798,932
Economic Cost % (**)	13.38%	11.33%
Economic Cost %	687,245,652	548,222,252
Economic Value Addition	(371,523,333)	(341,423,320)

The Economic value created by the Bank to its Shareholders' credit during the period is reflected in the above analyse

**Economic Cost % is arrived by adding 2% for Risk Premium to 12 months Average Treasury Bill Rate

Statement of Value Added contd.

Financial Value Addition

For the Year ended December 31,	2012 Rs.	2012 %	2011 Rs.	2011 %
Value Added				
Income Earned	714,549,857		560,213,536	
Cost of Services	159,289,862		158,193,616	
Value Added by Banking Services	555,259,995		402,019,920	
Less: Provision for loan Losses	(97,512,221)		(126,984,825)	
Provision for Impairment of Investments	-		-	
	457,747,774		275,035,095	
Distribution of Value Added				
To Employees				
Salaries,Wages and Other Benefits	100,517,656		99,773,861	
	100,517,656	22.0%	99,773,861	36.3%
To Providers of Capital				
Dividends to Shareholders	18,035,514		30,660,374	
	18,035,514	3.9%	30,660,374	11.1%
To Government				
Income Tax	75,839,007		47,076,278	
Value Added Tax on Financial Services	44,027,771		24,776,551	
	119,866,778	26.2%	71,852,829	26.1%
For Expansion and Growth Retained in the Bank				
Retained Income	200,174,585		49,153,733	
Depreciation/Amortization	19,153,239		23,594,298	
	219,327,824	47.9%	72,748,031	26.5%
	457,747,774	100.0%	275,035,095	100.0%

Sources and Distribution of Income

For the Year ended December 31,	2012 Rs.	2011 Rs.
Sources of Income		
Interest Income	652,696,365	556,553,097
Fees and Commission Income	61,853,492	3,660,439
	714,549,857	560,213,536
Distribution of Income		
To Depositors and to providers of Loans as Interest	59,478,303	53,228,434
To Employees as Emoluments	100,517,656	99,773,861
Depreciation set aside	19,153,239	23,594,298
Provision for Possible Loan Losses	97,512,221	126,984,825
To providers of supplies and Services	99,811,559	104,965,182
To Government as Taxation	119,866,778	71,852,829
- Income Tax (Including Deferred Tax)	75,839,007	47,076,278
- Financial Services VAT	44,027,771	24,776,551
To Shareholders as Dividends	18,035,514	30,660,374
To Reserves	200,174,585	49,153,733
	714,549,857	560,213,536

Three Year Summary

Description	2012 Rs.	2011 Rs.	2010 Rs.
PROFIT & LOSS			
Total Income	714,549,857	560,213,536	671,530,801
Interest Income	652,696,365	556,553,097	657,994,176
Interest Expenses	(59,478,303)	(53,228,434)	(69,137,894)
Net Interest Income	593,218,062	503,324,663	588,856,282
Other Income	61,853,492	3,660,439	13,536,625
Total operating income	655,071,554	506,985,102	602,392,907
Impairment loss on financial assets	(97,512,221)	(126,984,825)	(165,707,669)
Net operating income	557,559,333	380,000,277	436,685,238
Personal expenses	(100,517,656)	(99,773,861)	(91,225,484)
Premises, equipment and establishment expenses	(108,528,185)	(121,037,739)	(110,530,136)
Other operating expenses	(10,436,613)	(7,521,741)	(11,917,236)
	338,076,879	151,666,936	223,012,382
VAT on Financial Services	(44,027,771)	(24,776,551)	(59,746,196)
Profit Before Taxation	294,049,108	126,890,385	163,266,186
Tax on Profit	(75,839,007)	(47,076,278)	(142,591,545)
Profit After Taxation	218,210,101	79,814,107	20,674,641
ASSETS			
Cash and Cash Equivalents	37,207,216	36,185,158	49,769,687
Financial assets-held-to-maturity	471,221,627	779,176,346	778,886,098
Investment in REPOs	1,062,129,727	2,001,136,436	1,377,087,182
Investment in Fixed Deposits	1,818,854,593	1,203,991,118	1,108,944,402
Investment in other debt instruments	1,484,234,950	569,655,094	1,096,138,922
Investment in unquote securites	2,229,919	2,229,919	2,229,919
Loans and receivables to customers	1,932,190,376	1,711,222,280	1,910,822,186
Intangible assets	6,622,180	7,799,682	13,303,486
Property, Plant & Equipment	97,004,680	98,196,720	86,185,493
Capital work in progress	-	-	24,663,838
Other Assets	72,722,250	97,172,521	46,252,101
Total Assets	6,984,417,519	6,506,765,274	6,494,283,314
LIABILITIES			
Deposits	241,611,539	207,764,456	297,092,746
Amounts Due to Banks	2,207,881	12,610,818	3,199,617
Refinance Borrowings	2,325,541,984	2,081,411,388	2,012,570,585
Other Liabilities	199,737,039	182,914,933	205,445,942
Retirement benefit obligation	6,143,783	6,087,974	5,167,949
Differed tax Liabilities	6,974,995	10,959,498	
Total Liabilities	2,775,242,226	2,497,764,564	2,534,436,337
SHAREHOLDERS' FUNDS			
Stated Capital	3,671,972,223	3,671,972,223	3,671,972,223
Statutory reserve fund	25,068,040	14,157,535	10,291,616
Investment fund	69,775,756	29,936,454	0
Retained earning	442,359,274	292,934,497	277,583,137
Total Shareholders' fund	4,209,175,293	4,009,000,709	3,959,846,976
Total Liabilities and Shareholders' Fund	6,984,417,519	6,506,765,274	6,494,283,314
Liquid Assets Ratio	793.20%	1085.1%	783.4%
Capital Adequacy Ratio - Tier 1	86.06%	70.0%	74.9%
- Tier 2	86.40%	70.2%	75.1%

Branch Network

Colombo Branch

No. 80, Nawala Road, Nugegoda.
Tel : 011-2821030-35
Fax : 011-2821233
E-mail : asokaf@lankaputhra.lk

Hambantota Branch

No. 01, Galwala Road, Hambantota.
Tel : 047-2222384-7
Fax : 047-2222388
E-mail : wasanthin@lankaputhra.lk

Polonnaruwa Branch

No. 55, Habarana Road, Polonnaruwa.
Tel : 027-2226576-9
Fax : 027-2226580
E-mail : rahuls@lankaputhra.lk

Kegalle Extension Office

No. 247, Main Street, Kegalle.
Tel : 035-2221301-3
Fax : 035-2221304
E-mail : udulab@lankaputhra.lk

Kandy Branch

No. 335, Peradeniya Road, Kandy.
Tel : 081-2222467-9
Fax : 081-2222459
E-mail : deepikan@lankaputhra.lk

Wennappuwa Extension Office

No. 217, Chilaw Road, Wennappuwa.
Tel : 031-2245564-6
Fax : 031-2245567
E-mail : udair@lankaputhra.lk

Batticaloa Extension Office

No. 05, Central Road, Batticaloa.
Tel : 065-2227834-6
Fax : 065-2227816
E-mail : rahuls@lankaputhra.lk

Milestones

1st December 2011
Commencement of Laksahana Pawning advance scheme.

14th January 2011
Relocation of Head Office premises to Nawala Road, Nugegoda.

29th July 2009
Opening of Batticaloa Extension Office by Hon. Basil Rajapaksha, M.P. and Senior Advisor to his Excellency the President.

15th March 2009
Commencement of Laksaviya Leasing Scheme.

1st July 2008
Opening of Wennappuwa Extension Office by Hon. Milroy Fernando, M.P., Minister of State Plantation, Management & Development.

3rd April 2008
Opening of Kandy Branch by Hon. Ranjith Siyambalapitiya, M.P., Minister of Finance & State Revenue .

5th February 2008
Acquisition of assets & liabilities of Private Sector Infrastructure Development Company Limited.

1st January 2008
Merger of SME Bank Limited.

12th October 2007
Opening of Kegalle Extension Office by Hon. Ranjith Siyambalapitiya, M.P., Minister of Finance & State Revenue .

5th March 2007
Opening of Polonnaruwa Branch by Hon. Maithreepala Sirisena, M.P., Minister of Agriculture Development & Agrarian Services.

8th February 2007
Opening of Hambantota Branch by Hon. Chamal Rajapaksha, M.P., Minister of Irrigation & Water Management/ Ports & Aviation.

3rd July 2006
Opening of Colombo Branch by Dr. P. B. Jayasundara Secretary to the Treasury.

27th June 2006
Launching of LDB By His Excellency the President Mahinda Rajapaksha.

Annual General Meeting

The 7th Annual General Meeting of Lankaputhra Development Bank Ltd. will be held on 28th June 2013 at 3.00 p.m. at No. 80, Nawala Road, Nugegoda.

Form of Proxy

Lankaputhra Development bank Ltd.
No. 80, Nawala Road,
Nugegoda

I/We, ...
of ....
being a shareholder/ Shareholders of Lankaputhra Development Bank Ltd. Hereby appoint ....
.... of .... as
my/our proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of Lankaputhra Development Bank Ltd., to be held on the 28th June 2013 at 3.00 pm and at any adjournment thereof and at every poll which may be taken in consequent thereof.

To receive and to consider the Report of the Directors and Audited Financial Statements for the year ended 31st December 2012 and the Report of Auditors.	In favour/against*
Appointment of Auditors for the year 2013 and to authorize the Board of Directors to determine their remuneration.	In favour/against*

** Please select whatever is required and delete others.*

Signed on this ....day of 2013

....
Signature of Shareholder

Notes

Notes

Corporate Information

Registered Name
Lankaputhra Development Bank Ltd

Legal Status
A public limited liability company incorporated in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and licensed as a specialized bank under the provisions of Banking Act No. 30 of 1988.

(New Registration number as per the Companies Act No. 7 of 2007 – PB 52)

Date of Incorporation
24th February 2006

Company Secretary
Mr. R S Pandittesekere

Registered Office
No. 80, Nawala Road, Nugegoda.
Telephone: (94) 011 2821030 / 35, 2821040
Facsimile: (94) 011 2821020
E-mail: info@lankaputhra.lk
Website: www.lankaputhra.lk

Auditors
SJMS Associates
Chartered Accountants
No. 02, Castle Lane
Colombo 04.

Bankers
Bank of Ceylon

PROMISE OF
PROSPERITY

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இலங்கை மக்களின் இதயத்துடிப்பு
THE HEARTBEAT OF SRI LANKA

ලංකාපුත්‍ර සංවර්ධන බැංකුව
லங்காபுத்ர அபிவிருத்தி வங்கி
LANKAPUTHRA DEVELOPMENT BANK

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