Annual Report

2013

Growing For Sustainability

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பிரதேச அபிவிருத்தி வங்கி

RDB Regional Development Bank

Our Vision

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

Our Mission

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

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RDB Regional Development Bank

Growing for sustainability.

Universe in toto is extremely beyond our imagination, reach and even one's chimera, and scientists say it is still growing. However among the incalculable objects in this indescribable space, the earth exists exceptional, due to the uniqueness of having lively species such as animals and plants.

Amongst these live species human beings belonging to the homo sapien fragment reigns at the zenith. Like the earth is unique among the universe, the human beings are unique to the earth so much, as the sustainability and possibly the end of the earth would depend much upon them.

It is told that before hundreds of thousand years, a planet called "Maldec" where life existed, was destructed due to hunger of power of a powerful species lived on it.

Sustainability has become the key, and it needs the growth element not only for the human body, but essentially for the human mindset which could prevent catastrophic ending to our planet earth like the aforesaid Maldec.

Planting seeds on the earth as well as in the mindsets of humans to create a better tomorrow will ensure the continuation and the existence of the precious world of ours.

Regional Development bank move along the above lines, believes this alleyway is unique to the institution to toddle together for prosperity, providing financial assistance to its clientele mostly consisting of people engaged in primary production activities such as agriculture, fisheries and animal husbandry etc., and also supporting the development of human values and skills making both to synchronize and grow for sustainability..................

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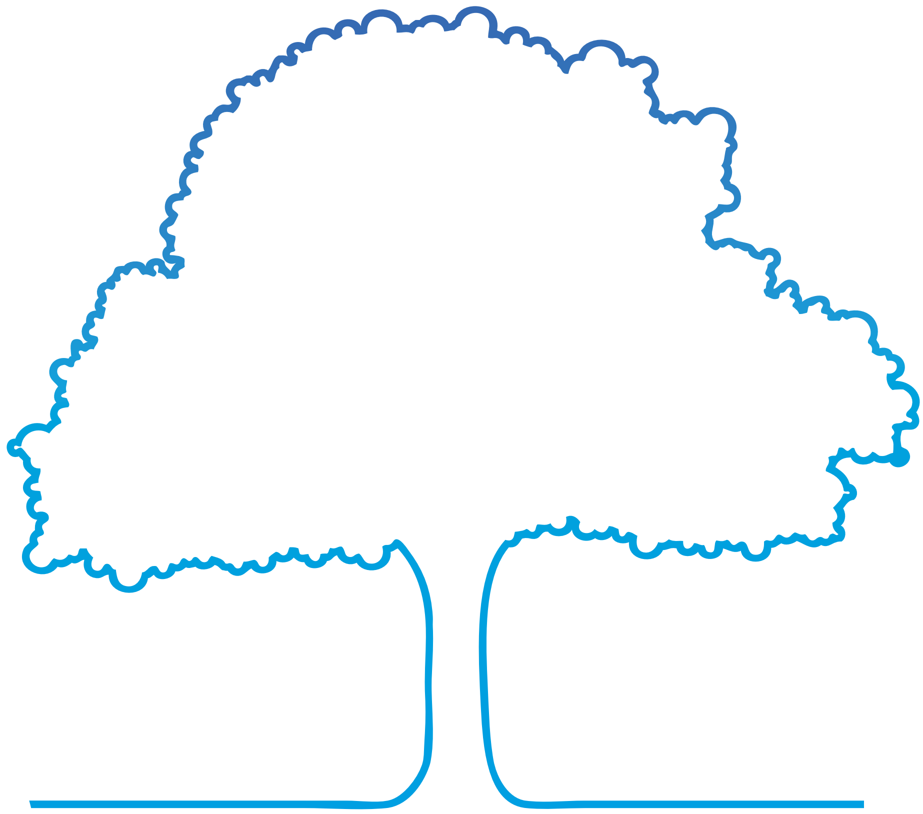


THE STORY OF THE RDB TREE

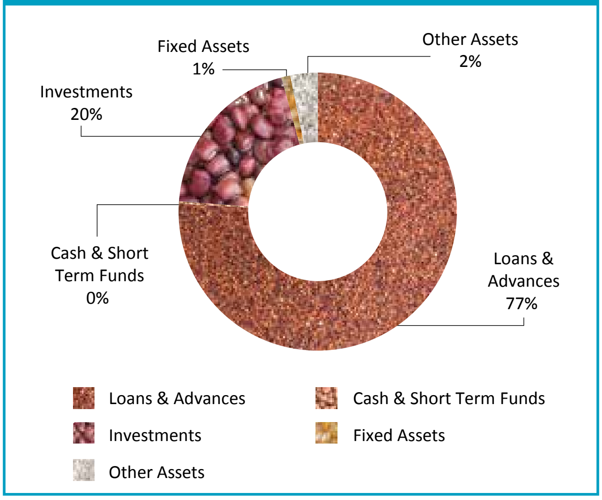
The beginnings of the Regional Development Bank (RDB) can be traced back to as far as 1985 when district level banks under the category of Regional Rural Development Banks were established. Later in 1997, seventeen such Regional Rural Development Banks were merged into six provincial level banks, which functioned as Rajarata, Ruhuna, Wayamba, Uva, Kandurata & Sabaragamuwa Development Banks. In May 2010, these six banks were merged into one national level bank and designated as the Pradheshiya Sanwardana Bank (Regional Development Bank / RDB). The Bank was established as a statutory body under the Pradheshiya Sanwardana Bank Act No. 41 of 2008. The 100% Government owned bank was set up with the objective of improving the living standards of the rural masses by providing them accessible and affordable credit facilities that in turn would contribute to strengthen the rural economy. Originally based on the "barefoot banking concept", the bank strives to provide innovative yet simple financial solutions to those at the middle and bottom of the income pyramid.

The bank is keen on empowering its 'customers in the micro, small and medium scale industries, women as well as the agriculture, livestock and fisheries industries who would in turn contribute towards the country's economic development. Bank has also taken steps to inculcate the savings habit amongst the rural people providing higher returns on savings and fixed deposits, and encouraging school children and minors to save.

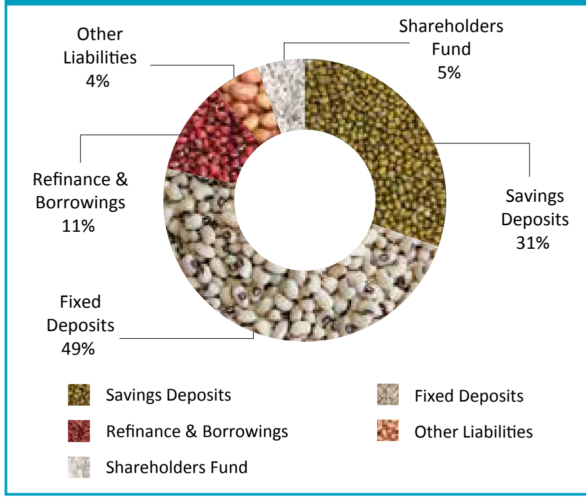
The results have been most encouraging and today the bank is proud to have established over 5 million loyal customer base and given employment to 3,000 plus staff members. The seed planted in 1985 at Kaluatra is now a well grown tree with 265 branches.

FINANCIAL HIGHLIGHTS

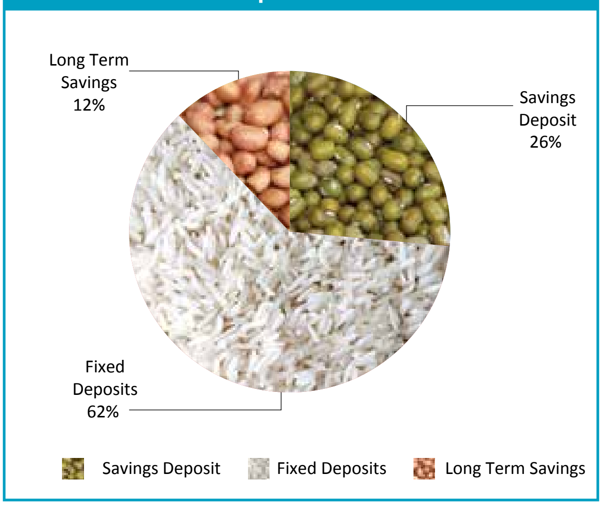
Assets Composition



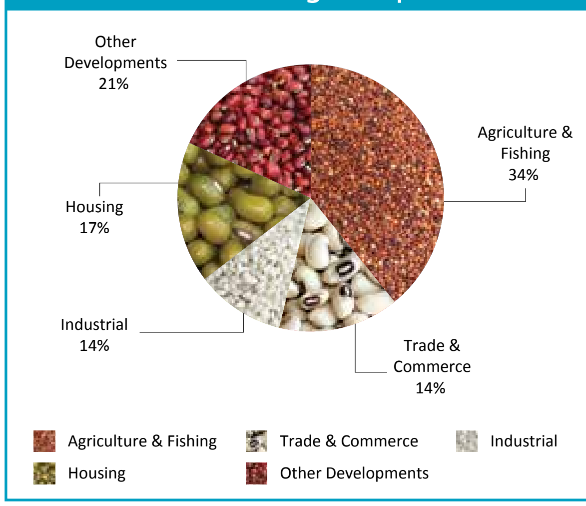
Liability Composition



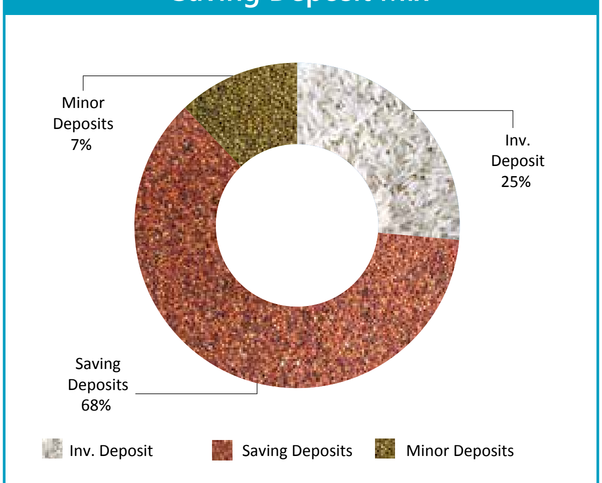
Deposit Mix



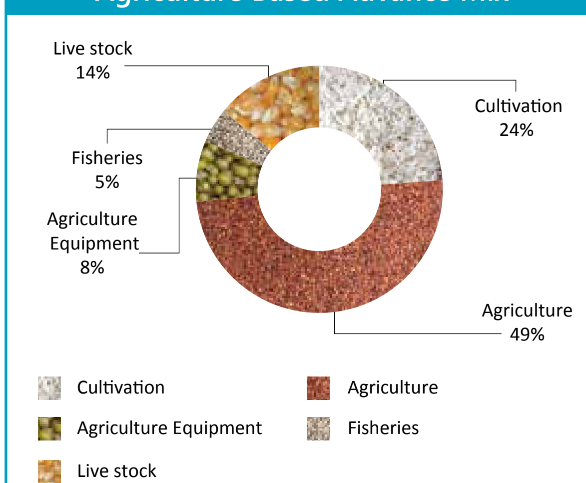
Loans Outstanding - Purpose Wise



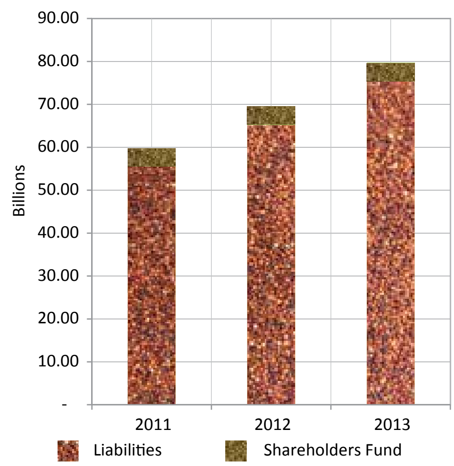
Saving Deposit Mix



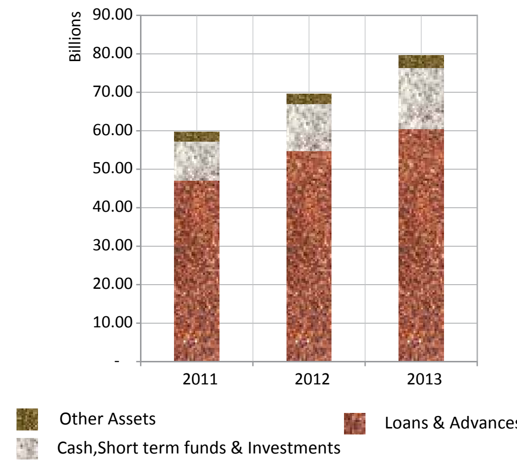
Agriculture Based Advance Mix



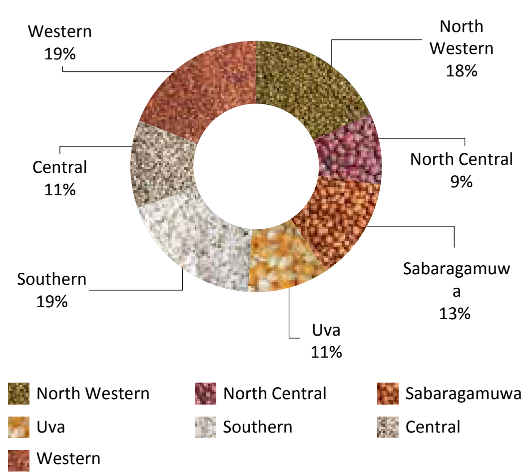
Liability Growth



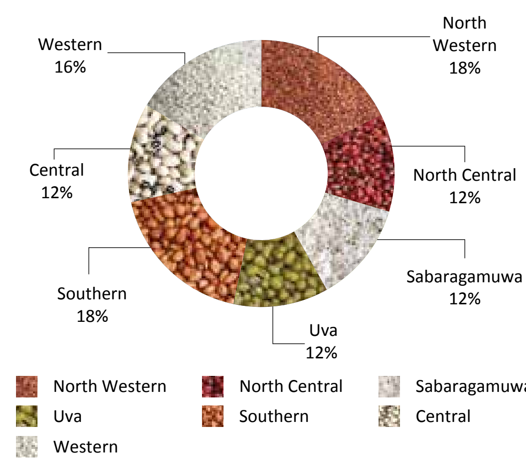
Assets Growth



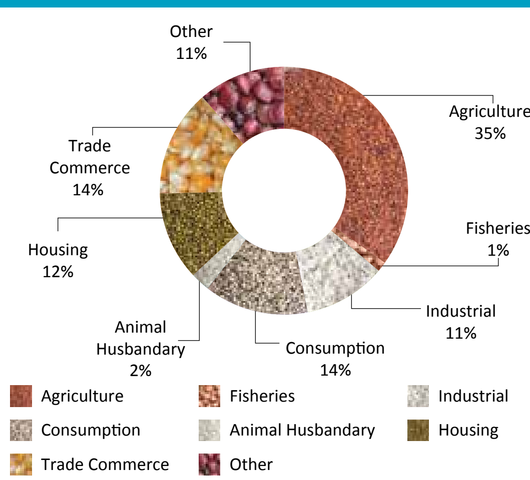
Province Wise Deposits



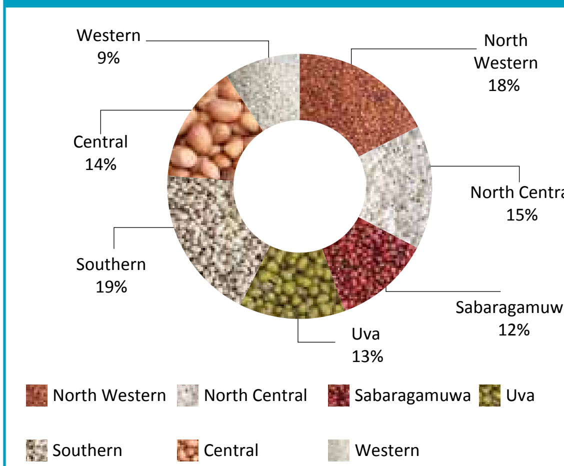
Province Wise Loan Outstanding



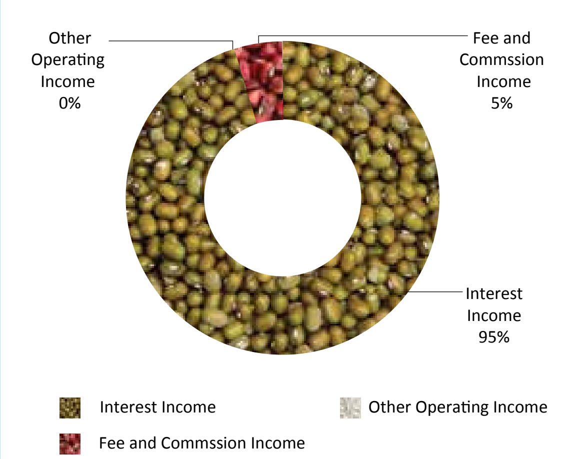
Loans Granted - Purpose Wise



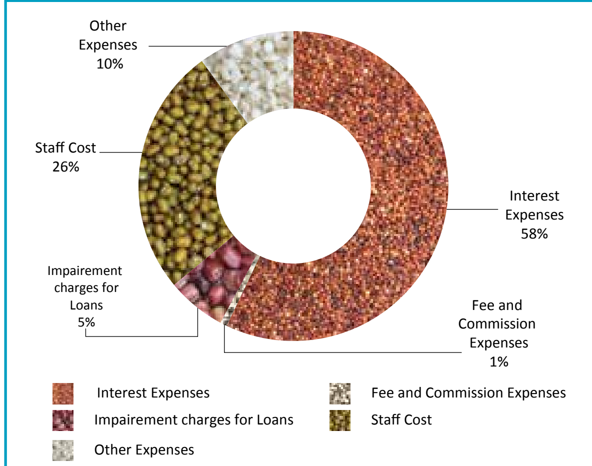
Loans Granted - Province Wise



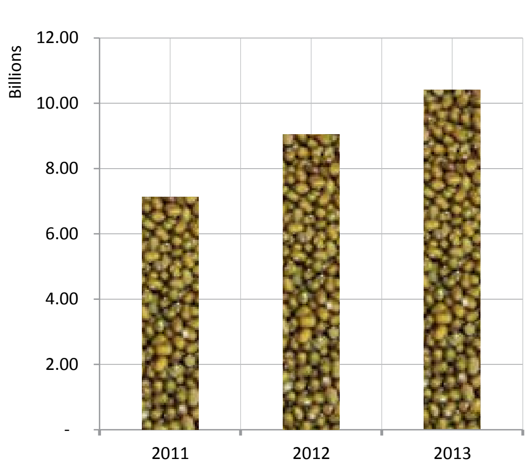
Income Mix



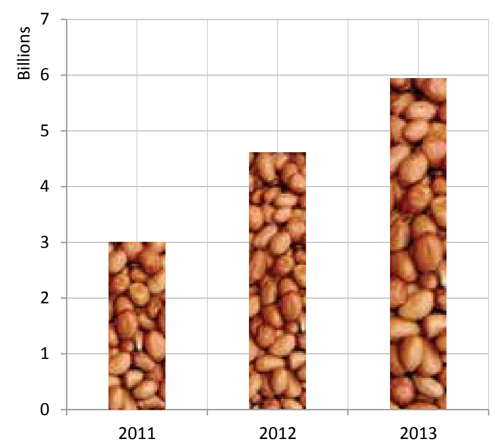
Expenditure Mix



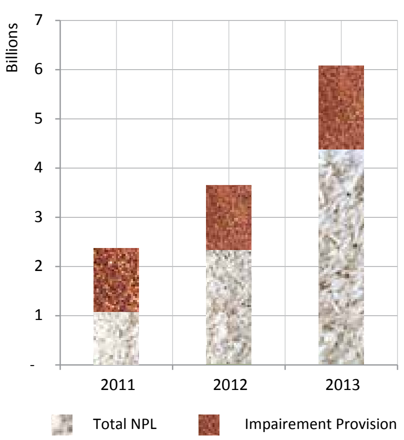
Interest Income



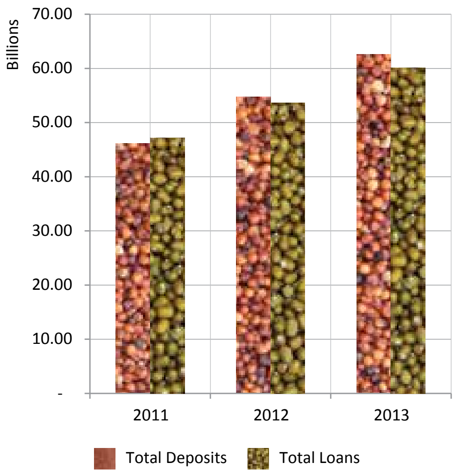
Interest Expenditure



NPL vs Impairement Provision



Tot Deposits/Tot Loans




RDB
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பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank
RDB
Head Office

Chairperson's Review

It is with great pleasure that I present the fourth Annual Report and the Audited Accounts of the Bank for the year ended 31st December 2013.

The beginnings of the Regional Development Bank can be traced back to as far as 1985, when district level banks under the category of Regional Rural Development Banks were established.

Later in 1997, seventeen such Regional Rural Development Banks were merged in to six provincial level development banks, which functioned as Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. These six banks were amalgamated in to one National level Bank and designated as Pradeshiya Sanwardhana Bank. The Bank was established as a statutory body, under the Pradeshiya Sanwardhana Bank Act No. 41 of 2008.

Being the Pradeshiya Sanwardhana Bank at national level, the object of the Bank shall be to facilitate regional economic development of Sri Lanka by promoting the development activities such as agriculture, industry, trade, commerce, livestock, fisheries and empowerment of women mainly by granting financial assistance to Micro Financial Institutions and small and medium scale enterprises.

POVERTY FREE SRI LANKA

I am very much happy that we have now been able to streamline/consolidate all policies and operational procedures that have been practiced by six different entities over the years. Now we all work as one family with one vision towards creating a poverty free Sri Lanka by empowering low income earners through regional economic development.

The Bank has launched several programmes during the year 2013, with the objective of improving the living standards of the rural masses by providing them accessible and affordable credit facilities that in turn would contribute to strengthen the rural economy towards eliminating poverty in the country. The Bank strives to provide innovative yet simple financial services for deposit mobilization and credit delivery to those at the middle and bottom of the income pyramid.

The Bank earned Rs. 397 million before tax profit as against the budgeted profit of Rs.790 million the year ended 31st December 2013. The total deposits, loans and advances were budgeted as Rs. 65,797 million and Rs 65,684 million respectively. The Bank has increased its deposits up to Rs. 62,647 million and loans and advances has been increased up to Rs. 60,093 million during the year under review. The adverse fluctuation of Gold price in the world market made an adverse impact to the profit of the Bank. Due to this price reduction, the Bank transferred Rs. 2,289 million to the non performing category resulting a provision of Rs. 444 million through the profit and loss account. Further an amount of Rs. 348 million was made as a provision for anticipated capital losses.

ESTABLISHMENT OF SMALL AND MEDIUM ENTERPRISES DEVELOPMENT CENTERS

Small and Medium scale enterprises (SMEs), make up a large part of Sri Lanka's Economy accounting for 80 percent of all businesses. These are found in all sectors of the economy and provide employment to individuals who possess different skills; skilled, semi skilled and unskilled and generate income for them.

Such enterprises are found in all sectors of the economy and pave way to skilled, semi skilled, unskilled individuals generating incomes.

The focus on SME in policy discussions also emanates from their role in developing entrepreneurial skills, innovation and promoting economic growth. Therefore the SME sector is treated as the engine of growth and backbone of the economy, keeping in line with this. The Board of Directors of the Bank has focused much attention and it is considered as a priority to establish SME development centers at the head office, provincial and at branch level.

We have been able to establish these special SME units at the head office and provincial levels to cater to the SME sector. Further Sixty Nine SME officers were trained for this purpose and assigned them to the head office, provincial SME units and branches to meet the objectives.

I am very much happy that the Bank has been selected by the Ministry of Finance as an arm of delivering credit to the SME sector under the World Bank project. Bank was allocated Rs. 300 million under this project and a further, Rs. 300 million credit line is anticipated.

ESTABLISHMENT OF THE MICRO FINANCE UNIT AT THE HEAD OFFICE

During the past, we have seen an exponential growth between the Bank and the Self Help Groups (SHGs). These groups have been instrumental for the growth of refinanced lending as well as lending on the Banks' funds. In every part of Sri Lanka, these self help groups have attracted much attention throughout the history of the Bank as a source of rural finance, especially for women.

The Bank is therefore keen on empowering its customers at the micro level who would in turn contribute towards the country's economic development and uplifting their living standards.

The micro finance unit was established to cater to the micro level customers. This unit has played a major role in organizing the poor, training them on their self employment activities and solving operational problems in their businesses and obtaining refinance as much as possible for on lending to the target groups, encouraging them to save their small sums of money in the formal sector instead of informal savings.

SPECIAL PROJECT UNIT

Being a fully government owned Bank, it is the view of the Board of Directors and the Management that we should play a key role in providing financial services to micro, small and medium scale enterprises and the rural sector. Therefore the Bank should have a research based financial services rather than just providing supply backed financial instruments. The special projects unit was established to make surveys and researches to provide yet simple financial services to meet the needs of every person who can make use of such financial services in a fruitful manner.

During the year 2013, the special project unit innovated several projects such as; "Janahamu Dasa Dahasak", "Yaaya Programme", "Hela Osu Saviya", "Formation of Groups", "Home Gardening Contest", "Production of Seed Potatoes", "Production of Big Onion Seeds", "Production of Seed Paddy Programme", "Divinaguma Savings Programme" and "Kamatha Programme".

"JANAHAMU DASA DAHASAK" PROGRAMME

Any financial system to be truly inclusive it should meet the needs of everyone, including the poor who can make use of such financial services in an economically productive manner. However, it is found that there are thousands of people who do not approach the banks for their financial services such as credit and savings. Therefore the Bank decided to launch a programme to address them in their residential locations and planned to have ten thousand such programmes.

Each branch was requested to conduct at least 4 meetings per month. I am very much happy that our branches surpassed this target of ten thousand meetings with the people and the Bank was able to have 16,026 meetings as at 31-12-2013, 498,800 people participated in these meetings and the Bank was able to open 334,784 new accounts.

SAVINGS MOBILIZATION UNDER "DIVINAGUMA"

Poor people also want to save and many of them save. But they are constrained by the multiple demands for their low incomes and also lack of available deposit related services. In many discussions on the financial services for the poor, often the savings is forgotten or not discussed. The consequence of scarce availability of appropriate savings services is that most poor and low income people save in informal ways in various methods. The problem of these savings methods is that they are risky and they can be illiquid. Due to this reason the Bank has inculcated savings habits through group formation.

Apart from this the Bank introduced a separate savings product under the brand name of "Divinaguma" to cover the Divinaguma beneficiaries. This was launched in the year 2012 and I am happy to mention that the Bank has been able to open 591,666 Divinaguma savings accounts and was able to mobilize 2.1 billion as at 31-12-2013 diversifying the deposit portfolio.

"YAAYA" PROGRAMME AND FOOD SECURITY

It was proposed in the year 2012 government budget that the surest way to consolidate our food security is to expand our self sufficiency goal. This goal was expanded beyond rice, to include peanuts, green gram, black gram, sesame and maize. In addition to the above mentioned grains, kurakkan (finger millet) was also included in the Banks plans for increasing the production and the high breed seeds were distributed free of charge.

The Bank had several discussions with the Hon. Minister of Agriculture and also with the ministry officials and launched an integrated programme under the brand name of "Yaaya Programme" to increase the production of grains in the country. As advised by the Department of Agriculture, according to the climate and soil conditions a suitable grain was selected for each district. Since all these grains are cultivated by small scale farmers, RDB had a key role to play in framing policies in the year 2013 to accommodate them. Needed financial services were provided to the farmers and they were made available to promote related activities in many parts of the island.

Further we have had negotiations with the food processing industrialists enabling them to purchase the requirement of kurakkan (finger millet) from the local farmers which has been hither to import. The project was extremely successful.

"KAMATHA" PROGRAMME

Galen Bindunuwewa is an area that produce maize in large quantities. Most of the farmers are women. The women's organization of maize cultivation of the area faced many problems in drying their crops to reduce the moisture contents to suit the quality of the grains. On their request Bank was able to design a customized loan scheme enabling them to prepare threshing floors made out of concrete. Bank was able to grant loans for threshing floors to 110 women. The Bank shall educate the other farmers as well in the future. These thresh floors are now been used for multipurposes.

STORAGE FACILITIES FOR BIG ONION FARMERS

The big onion farmers do not have storage facilities and they send their production to the market immediately after the harvest, resulting a large drop in price. To avoid this situation Bank designed a credit programme under the guidance of the Ministry of Finance and Planning. The funds were provided by the World Bank to the Government and as such the Bank was able to grant such loans to the farmers of Matale, Anuradhapura, and Kurunagala districts at a lower rate of interest. The rate of interest was 9% per annum and these loans amounting to Rs 19.9 million were granted to 197 farmers. It is my view that this scheme should be further extended to cover larger number of farmers.

HOME GARDEN PROGRAMME

The Bank launched a home gardening contest as an island wide programme, simultaneously to the programme conducted by the Ministry of Economic Development. The aim of the home gardening contest is to improve the nutrition level and living standards of families. I am very happy to mention that people in urban, semi urban areas as well as the rural areas were participated in this contest enthusiastically.

A target of 50 home gardens were given to each branch and it is with great pleasure that I mention in our 265 branch network, all of them have achieved their targets. The best home garden of each district will be selected and a foreign exposure trip will be awarded in the coming year to the 25 best contestants of which all participants are women.

"HELA OSU SAVIYA" PROGRAMME

Sri Lanka is a country of rich heritage, one of which is it's indigenous system of medicine. Indigenous medicine is providing Ayurveda services to the nation through curative and preventive diseases. However, it is found that many of the herbal products are imported from various countries to Sri Lanka, although many of them can be grown in our country. Therefore as a pilot project the Bank had discussions with the Uva Provincial Council and the Ayurveda Department of Uva to launch a programme to produce the varieties suitable to cultivate in the area.

The intention of the Bank and the Ministry of indigenous medicine was to encourage the Divinaguma beneficiaries to produce herbal products in the region even in small scales for which the marketing facilities were arranged by the Department of Ayurveda of the Uva province. As a result we now conduct discussions with the Ministry of indigenous medicine at national level to conduct the "Hela Osu Saviya" programme Island wide.

BIG ONION SEED PRODUCTION

A special project to assist big onion cultivators was implemented by the Bank in 2013 in collaboration with the Agriculture Department of the Central Province and the government agent of Matale. Under this project, selected big onion cultivators received the required technology and assistance from the Agriculture Department and a soft loan up to Rs. 400,000/= at a concessionary interest of 9% per annum from the Bank, with refinance provided by the Central Bank. It is my view that during the next season further financial assistance should be provided to construct storage bars for preserving the harvest.

I am very happy that we now have big onion farmers who produce good quality seeds and they are scattered over Dambulla, Kimbissa, Galewela, Devahuwa, Naula and Kongahawela areas in Matale district. The government agent Matale, Department of Agriculture and the Bank has a target to produce the entire need of big onion seeds in our country by 2016.

PRODUCTION OF SEED POTATO

A special project to assist the seed potato farmers was implemented by the Bank in the year 2013 in collaboration with the government agent Nuwara Eliya and Department of Agriculture in the Central Province. The climate of Nuwara Eliya district is ideally suited for seed potato production and therefore in the pilot project, all seed potato producing farmers were selected from Kuda Oya, Meepilimana and Pattipola of the Nuwara Eliya district. For this pilot project 116 farmers were selected and they were given the required technology and assistance from the Agriculture Department and a soft loan up to Rs. 200,000/= at a concessionary interest of 9% per annum from the Bank, with refinance provided by the Central Bank. The main hindrance is the non availability of storage facilities for preserving the harvest. I am very happy to mention that we have planned to develop 1000/500/250 farmers in Bopaththalawa, Agarapathana and Ragala areas respectively for seed potato production during the coming year.

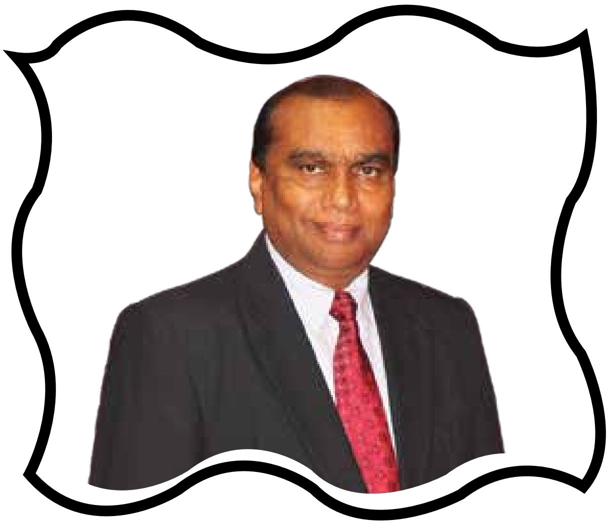
APPRECIATION

On behalf of the Board I wish to convey my appreciation to the General Manager / Chief Executive Officer, the Management Team and the Staff for their continuous support, cooperation and helping me to achieve the best for the Bank.

The guidance and support extended to us during this period by his Excellency the President as the Minister of Finance, the Secretary of the Treasury and the officials, the Governor of Central Bank of Sri Lanka and its officials, all the Government officials and the Board of Directors who have been extremely helpful and encouraging.

I would also like to thank the Auditor General for conducting the year end audit. Finally, I extend my appreciation and gratitude to our much valued customers whose participation and partnership has made our growth possible. We are very much confident with the support of stake holders of the Bank, we will continue to fulfill our objectives throughout the future.

Keshala Jayawardana
Chairperson



General Manager/CEO's Review

I believe that the purpose of our existence as a national level bank is exhibits in our name itself "Pradeshiya Sanwardana Bank (RDB)", a bank dedicated to service the rural, regional neighborhood of the country. As a fully government owned entity who have been serving the nation since 1985 and has won the trust worthiness of rural population not as just a bank but as a friend in need providing financial supports and inculcating savings habit among them, thereby further accomplished ourselves as a development bank during the year 2013.

As the Chief Executive Officer of the Bank it is my duty to steer the business in a way that it would add value to the stakeholders while serving the utmost purpose / the reason of our existence. It is my privilege to present General Manager's review for the 4th successive year. I would like to state that during the year under review we have succeeded in performing fairly despite of the gold price fluctuations which has affected the entire banking sector.

Even though the performance of the year didn't reach its set targets we were able to serve rural population extending our 25 years of service to the country in more sophisticated and inspired ways.

OUR TWO NEW UNITS

Prioritizing, the responsibilities of a development bank, RDB extended its wings during last year to serve our clientele by establishing the following two units dedicated to extend our support to emerging entrepreneurs and the business community of the country.

SMALL AND MEDIUM ENTREPRENEUR DEVELOPMENT UNIT

A unit specially designed to encourage and fulfill financial requirements of emerging and established entrepreneurs spread within rural community of the country. Dedicated operational level staff is already been allocated in regional level SME units and further, at head office level it is proposed to establish a SME unit in order to facilitate and centralize the activities of the regional level units.

SPECIAL PROJECT MANAGEMENT UNIT

The unit was established to tow specific objectives of the Bank, to expand existing business span of the Bank and to promote / coordinate special directed development schemes initiated in both regional and head office levels. This unit is headed by an Assistant General Manager and is under the direct supervision and monitoring of Chairperson and myself.

It is true that the above two units are designed to strengthen our role as development bank in local financial arena but our focus was to initiate well organized network to reach the targeted economic groups introducing low cost financial solutions.

INTRODUCING NEW PRODUCT

In the year 2013 RDB realized the need of introducing low cost deposit mobilization program while attracting our existing and potential clientele inculcating savings habit in rural population of the country. The strategic approach to satisfy this need was the launch of special draw under the name of "RDB Ithurum Wasana". This has made a favorable impact on deposit growth as well as deposit mix of the Bank during the year 2013.

With the launch of this draw we have expanded our wings to the general public through mass media and we have achieved intensive popularity and established the RDB brand in local business arena. It's worth mentioning that we have achieved this much of popularity with the brand name RDB in short span of four years of time after the establishment as a national level bank in the year 2010.

FINANCE AND OPERATIONAL PERFORMANCE

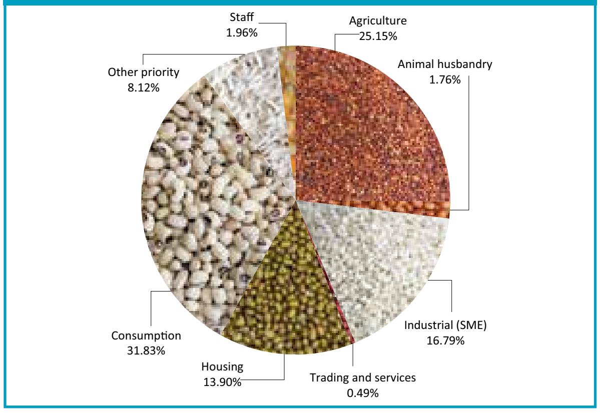
The Bank has reached Rs. 10,994 Mn. as the gross income in the past financial year which is an increase of 15 % from the previous financial year. However, the net interest income has recorded at Rs. 4,502 Mn. by the end of year 2013 as against Rs. 4,437 Mn. in year 2012 reflecting a marginal YOY growth. The raising interest cost which is a common phenomenon during the year 2013 among all banks in Sri Lanka has contributed to this minimum growth in net interest income of the Bank.

The Bank has recorded a pre-tax profit of Rs. 686.79 Mn. as against Rs. 1492.43 Mn. in the year 2012, which is a decline of 54% after leaving out the pawning interest income of Rs. 440 Mn. relevant to the period between 12 and 15 months from the income of the year for the pawning advance and making a special provision of Rs. 348 Mn. for pawning capital losses. Last year credit expansion of Rs. 60,093.29 Mn. was experienced by the Bank and this was 12% increase compared to Rs. 53,667.17 Mn. in year 2012. The pawning portfolio which contributed to 31% of the total credit portfolio has made the main impact in the profitability and the credit expansion of the Bank. The Total personnel cost has contributed up to 25% of the total cost of the Bank. The diversified credit portfolio of the Bank reflects the following main sectoral categories.

General savings to FD ratio of a Bank is important in deciding the liquidity level of the Bank and also it is a critical factor in determining the interest cost. With the inspiration on the deposit mobilization backed by the introduction of "Ithurum Wasana lottery scheme" the Bank was able to strengthen the ratio from 38% to 39% during the year.

This healthy movement in deposit portfolio will be further encouraged during coming years.

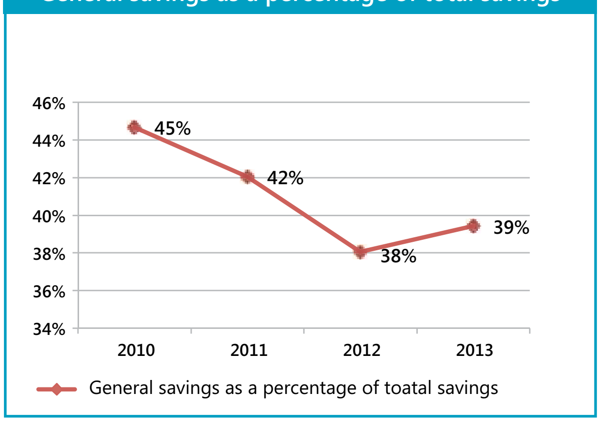
Sector wise credit portfolio



OUR SERVICE EXPANSION

During the year we continued our branch expansion program mainly focusing on Northern and Eastern Provinces of the country. Kalawanchikudi, Kokkadicholai, Muthur, Bogaswewa were the four branches who are newly joined RDB team empowering blossoming economic development in those areas, in addition 15 branch renovations/ relocations were also done during the year facilitating sophisticated bank services to the clientele.

General savings as a percentage of total savings



FUTURE INITIATIVES / PARTICIPATION IN NATIONAL DEVELOPMENT PLAN

It's proud to mention that being government owned pioneer development bank, we have privileged to exercise number of budgetary proposals on behalf of the government development plan for year 2014 and among them Women entrepreneurship empowerment loan scheme won the attraction of rural unemployed women the most. With the implementation of this special loan scheme they will be able to have loan facilities up to Rs. 250,000 without interest and collaterals. As a barefoot banker I believe that this initiative for the year 2014 will be an immense opportunity to contribute towards women empowerment of the society.

Monetary and non monetary benefits from CORE banking system implementation of the Bank are also awaited in year 2014.

Central Bank of Sri Lanka has taken number of policy measures during the beginning of the year 2014 with the view of establishing strong financial sector, among them one such policy measure was to restrict low cost deposit mobilization through lottery schemes. Even though the introduction of "Ithurum Wasana" did contribute us on accelerating low cost deposit mobilization, with newly introduced regulatory parameters RDB is also planning to move away from restricted deposits lines and to introduce new deposit mobilization strategies during the year ahead.

With all these action plans and set targets 2014 will be a challenging year for all of us and I believe all my able staff will be stand together with me to steer the Bank to a golden era.

APPRECIATIONS

My sincere appreciations to the Secretary to the Treasury & Ministry of Finance together with his staff, the Central Bank Governor and his able staff, Auditor-General and his able staff for their support given throughout the last financial year and expect the same level of support in the coming year.

My gratitude goes to the Chairperson and Board of Directors for their continuous support, encouragement and guidance during year 2013.

I wish to thank, my fellow team members of entire RDB network for their fullest support to achieve the Bank's successful results and our valuable customers for the relationship they maintain with the Bank.

I am also confident that the staff of RDB will play a key role in shaping-up the future of the Bank through their dedicated service.

R. Siriwardhane
General Manager/CEO

" Our sweat and
the guiding light of
RDB Bank
would have definitely
contributed
to our success...."

Board of Directors

Board of Directors

1

Ms. Keshala Jayawardana
Chairperson

Ms. Keshala Jayawardana resumed duties as the Chairperson of Regional Development Bank in December 2011. She commenced her professional career as a lecturer at University of Peradeniya, where she completed her special Degree in Political Science. She also holds a MA in Public Administration from the same University and served the University for a period over 14 years. She commenced her banking career as the Chairperson of Kandurata Development Bank and after serving 4 years in this position. In 2009 with a view to serve the public she entered into politics and became a member of the Central Provincial Council and served 3 years, where she was instrumental in implementing following projects which immensely assisted the people in the area. • Skill development training programmes for young entrepreneurs and school leavers. • Uplifting economic status of the rural poor providing self employment opportunities. Currently she also serves as a Director of NAITA. (National Apprentices Industrial Training Authority)

Dr. B.M.S Batagoda
Director

2

Dr. Batagoda is a BA Honours (in Geography) Graduate from the University of Sri Jayawardenepura and also holds a Ph.D. in Environmental Science from University of East Anglia, UK, MSc in Natural Resources Management from Michigan State University, USA and an Attorney-at-Law of the Supreme Court of Sri Lanka. In addition, he holds a Certicate in Public Administration from the Institute of Development Administration, Sri Lanka. Dr. Batagoda is a Board member of Ceylon Electricity Board, Litro Gas Lanka Ltd., SAARC Development Fund, Lanka Sugar Company, Sri Lanka Insurance, Institute of Policy Studies and Post Graduate Institute of Management, Sri Lanka Carbon Fund and Sri Lanka Fulbright Commission. In addition, he is the Deputy Secretary to the Treasury. He was the Director-General of the Department of Public Enterprise and National Planning, Ministry of Finance and Planning. He held several senior positions in the Ministry of Public Administration, Ministry of Plantation Industries, Ministry of Environment and Natural Resources and Ministry of Finance and Planning. Further, he has served as an Assistant Secretary to his Excellency the President of Sri Lanka. Dr. Batagoda has authored several books including State of the Environment in Sri Lanka, The Economic Valuation of Alternative Uses of Mangrove Forests in Sri Lanka and co-authored books including Urban Air Quality Management in Sri Lanka, Theoretical Manual for Environmental Valuation in Sri Lanka and Fiscal Policies on Fuels and Vehicles in Sri Lanka etc.

3

Mr. Sarath De Alwis
Executive Director

Mr. Sarath de Alwis holds a degree in Geography in University of Ruhuna and a post graduate diploma in education. He has gained 20 years of experience as a Geography teacher for advanced level students. Mr. Alwis was the Chairman of Ruhuna Development Bank during the years 2009 - 2010. He holds the position of the Advisor to honorable Minister Dullas Alahapperuma (Minister of Youth affairs and Skills Development)

Ms. A.V.K. Madhavie Herath
Executive Director

4

Qualified with B. A. (Hons) - Economics and M. Phil – Economics from University of Peradeniya, Mrs. A.V.K. Madhavie Herath acted as former Chairperson in Kandurata Development Bank for the period of 2009.03.01 to 2010.04.31. Mrs. Herath currently acts as a Senior Lecturer in Department of Economics of University of Peradeniya, and she does lectures for internal students and post graduate students in subjects of Money and Banking, International Trade, International Finance, Economics Development, History of Economic Thoughts, and Comparative Economics. Mrs. Madhavie Herath has done researches in areas of Money and Banking, and Economic Development. Her seminars and publications have been done relevant to Money and Banking, Economic Development, and Subsidies and Economic Development.

5

Ms. C. K. Nanayakkara
Director

Ms C.K Nanayakkara former Assistant Governor of the Central Bank of Sri Lanka was appointed as a member of the Board of Directors of the Regional Development Bank in February, 2011. She has served the Central Bank for 35 years and has gained wide experience in Central Bank activities, holding senior positions in the Departments of Regional Development, Training and Management Development, Communications, and, as the Secretary of the Central Bank. While in the Central Bank she was particularly involved in implementing several Rural Credit programs initiated by the Bank and has also been a member of the Board of Directors of the former Regional Rural Development Banks at Gampaha, Kalutara and Uva. Ms. Nanayakkara holds a honours degree in Geography from the University of Ceylon Colombo and Bachelor of Philosophy from the same university. She has also followed Post Graduate Studies in Economics at the London School of Economics U.K

Mr. T. A. Ariyapala
Director

6

Mr. Ariyapala joined People's Bank in 1978 and is in charge of Cooperative, Development & SME Banking. He holds a B.SC Business Administration Degree and Degree in Bachelor of Laws and is an Attorney-at-Law. He is a Fellow Member of the Institute of Bankers of Sri Lanka (FIBSL) and an Associate Member of the Institute of Accounting Technicians of Sri Lanka (MAAT). His career experience is over 33 years at the levels of Branch Manager, Assistant Regional Manager, Regional Manager, Zonal Assistant General Manager and Deputy General Manager. He has received extensive local and overseas training and exposure in Cooperative, Project Lending, Micro Finance, Human Resource Management and Branch Business / Banking. He has been responsible for rejuvenating SME Banking & development lending in People's Bank.

7

Mr. S.D.N. Perera
Director

Mr. Dhammika Perera joined the Board of Regional Development Bank in May 2010, at its inception. At present Mr. Dammika Perera serves as Senior Deputy General Manager of National Savings Bank. He joined the NSB in 1986 and since then he has held many key positions at the Bank such as Deputy Chief Internal Auditor, Chief Internal Auditor, Assistant General Manager (Internal Audit) and Deputy General Manager (Audit & Vigilance). At present he oversees the Audit, Investigations, IT, Credit, Administration, and Security of the Bank. Mr. Dhammika Perera is a Certified Information Systems Auditor and was the President of Information Systems Audit and Control Association, Sri Lanka Chapter. He is also a member of the Institute of Internal Auditors, USA; and serves in the Board of Governor of the Sri Lanka Chapter of Institute of Internal Auditors. He holds a B.Com Special Degree and Diploma in Bank Management and is a finalist of the Institute of Chartered Accountants, Sri Lanka. He has delivered presentations at various Seminars organized by the ISACA Sri Lanka Chapter and Institute of Chartered Accountants on internal audit and information systems audit related subjects and fraud investigations.

Mr. Russell De Mel
Director

8

Mr. Russell de Mel was with NDB Bank for over 30 years, largely in the field of Corporate Banking. Prior to his appointment as Director/CEO he served as vice President – Head of the Corporate Banking Group and as Vice President – Head of Group Risk Management.

During the initial phase of his career at NDB Bank he has held many key positions in the field of Project and Infrastructure Finance. Over the last two decades he has been actively associated with some of the key commercial projects NDB Bank partnered with both local and foreign investors. He also played a leading role in the privatization of the plantation sector. As Head of Group Risk Management he was instrumental in re-aligning the risk management function within the NDB Group.

Mr. Russell de Mel is a Fellow of the Chartered Institute of Management Accountants UK. In addition, he has memberships at several professional bodies.

9

Ms. J.M.S.D. Rathnayake
Director

Ms. J.M.S.D. Rathnayake possess following qualification of Master of Public Policy & Management from the University of Melbourne, Australia(2002). Postgraduate Diploma in Development Studies from the Institute of Developing Economics, Tokyo, Japan (1997). Postgraduate Diploma in Economic Development from the University of Colombo, Sri lanka (1996). Bachelor of Science(Mathematic) (Second Class Honors) from the University of Kelaniya, Sri lanka(1991). TOT in Micro Finance - ADB, WB, UNDP (2005). She is Currently Employed as the Additional Director General (Agriculture and Regional Development) - The Department of National Planning, Ministry of Finance Planning at the Secretariat Building, Colombo, Sri Lanka (2013 May - todate)

Mr. R. Siriwardhane
General Manager/CEO

Mr. Siriwardhane joined the Rajarata Development Bank as its 1st General Manager / CEO in 1998. After the amalgamation of the six provincial banks, he was appointed as the General Manager/CEO of the Regional Development Bank with efect from 1st May 2010. He commenced his banking career with Bank of Ceylon in 1976 and subsequently joined Hatton National Bank and served for a period of 12 years. In 1990 he joined the Sri Lanka Export Development Board and thereafter the National Development Trust Fund and Pubic Bank Malaysia. He counts over 34 years of service in the banking industry in various capacities specialized in development banking. He is a B.Sc (Business Management) graduate from Sri Jayawardenepura University and holds a post graduate diploma in regional development from the University of Colombo. He is also an associate member of the Institute of Bankers of Sri Lanka.

Ms. Kasuni Pinnawele
Chief Leagal Officer/Board Secretary

Board Secretary & Chief Legal Officer Ms Kasuni Pinnawele joined the bank in 2011. Prior to assuming her duties as Chief Legal Officer and Board Secretary at the Bank she held positions in the public and private sectors, including Deputy Director (Legal) at the Consumer affairs Authority under the Ministry of Internal Trade & Co-operatives, Chief Executive Officer of a Company within the Capital Maharajah Group and Industrial Relations Advisor at the Employers Federation of Ceylon. She holds a Bachelor of Arts (Honours) Degree in Law & Criminology from the University of Keele, United Kingdom and is an Attorney-at-Law with 13 years of experience in Commercial Law, Litigation, Conveyancing, Company Secretarial, Labour Law, Employment Law, Commercial Arbitration, Consumer Protection Law, Industrial Relations, Administration and Human Resource Management.

Corporate Managment Team

MR. R. SIRIWARDHANE

GENERAL MANAGER/CEO
B.Sc (Business Management) Sri J
PG Diploma - Regional Development - (Colombo) AIB (SL).

MR. T. KUHAN

DEPUTY GENERAL MANAGER (HR)
CHIEF RISK OFFICER
MA (Fin Econ) Colombo, PG Dip. (Econ Dev) Colombo,
PG Dip, Bank Mgt. (SL), AIB (SL)

MR. S. A. ALAHAKOON

DEPUTY GENERAL MANAGER
CREDIT & RECOVERY
B.Com (Special) Sri J
ACA, AIB (SL)

MR. VAJIRA JAYASINGHE

DEPUTY GENERAL MANAGER - (IT)
B.Sc Eng. (Moratuwa), M.Eng. (Thailand)
MBA (USA), Eng.MCSSL, CITP (BCS), PMP

MR. C. KALUPAHANA

HEAD OF FINANCE & PLANNING
FCA, FMAAT, FCPM, CPA(T)

Regional General Managers & Senior Assistant General Managers

NORTH WESTERN PROVINCE
REGIONAL GENERAL MANAGER
MR. U.B. SEMASINGHE
B.Com (Special) Colombo

CENTRAL PROVINCE
REGIONAL GENERAL MANAGER
MR. K.P. DAHANAYAKE
B.Com (Special) Ruhuna
Post Graduate Diploma in Management, Rajarata

MR. W.G.J. PREMADASA
SENIOR ASSISTANT GENERAL MANAGER
(FINANCE & PLANNING)
B.com (Special) Sri J
Higher National Diploma in Commerce A.M.P.M.A (UK)

SOUTHERN PROVINCE
REGIONAL GENERAL MANAGER
MR. C.L. PIHILLANDA
B.Com (Special) Kelaniya.
PG Diploma in Management-Peradeniya

WESTERN PROVINCE
REGIONAL GENERAL MANAGER
MR. A.H.M.M.B. JAYASINGHE
BBA, Sri J
PG Diploma in Management - Wayamba
Post Graduate Diploma in Regional Development NIBM and RVB Netherland
Post Graduate Executive Diploma in Bank Management (IBSL)

NORTH CENTRAL/NORTHERN PROVINCE
REGIONAL GENERAL MANAGER
MR. D.M. SENARATHNA BANDARA
B.Com (Special) Sri J

SABARAGAMUWA PROVINCE
REGIONAL GENERAL MANAGER
MR. SANATH SENADHEERA
B.com (Special) Kelaniya

UVA/EASTERN PROVINCE
REGIONAL GENERAL MANAGER
MR. D.M.T.S KUMARA
Bsc. - Business Administration (Special) Sri J

MR. S.A.U.R.K. SINHALAGODA
SENIOR ASSISTANT GENERAL MANAGER
(OPERATIONS)
B.Com (Special) Kelaniya

MR. W.S. HEWAWASAM
SENIOR ASSISTANT GENERAL MANAGER
(HUMAN RESOURCE DEV. & ADMINISTRATION)
B.A. Econ (Special) Sri J

Assistant General Managers in Head Office

MR. S.C. FERNANDO

ASSISTANT GENERAL MANAGER
(BUSINESS DEV. & MARKETING)
MBA Sri J, FIB (SL), FSLIM (SL), FASMI (Aus),
Certified Professional Marketer (Asia Pacific Marketing Federation)
Dip. in Bank Mgt. (IBSL), Dip. Mkt. SL (SLIM),
Practising Marketer (SLIM)

MR. W.M.D.S. WICKRAMASINGHE

ASSISTANT GENERAL MANAGER
(COMPLIANCE OFFICER)
B.com. (Special)-Ruhuna,
PG in Business Management Diploma-Colombo
Certificate in Risk Management in Banking - Sweden

MR. I.J. WIJESEKARA

ASSISTANT GENERAL MANAGER
(CREDIT & RECOVERY)
B.com - Sri J

MR. A.H.M.G. ABEYRATHNE

ASSISTANT GENERAL MANAGER
(DEVELOPMENT FINANCE)
B.com. (Special) Kelaniya
Diploma in Micro Finance - Open University of Sri Lanka

MR. D.S.P.C. HADUNHEWA

ASSISTANT GENERAL MANAGER
(SPECIAL UNIT)

MR. J.P.K. HERATH

ASSISTANT GENERAL MANAGER
(ADMINISTRATION)
Diploma in Agriculture - Gannoruwa

Assistant General Managers in Regions

MS. C.S. WERAGODA
ASSISTANT GENERAL MANAGER
SABARAGAMUWA PROVINCE
BSc. - Business Administration (Special)
Sri J

MR. D.P. DARMADASA
ASSISTANT GENERAL MANAGER
UVA PROVINCE
BA - Peradeniya

MR. W.M. NIMAL DE SILVA
ASSISTANT GENERAL MANAGER
SOUTHERN PROVINCE
BSc. - Business Administration (Special)
Sri J

MR. K. ARIYATHILAKE
ASSISTANT GENERAL MANAGER
SOUTHERN PROVINCE
Higher National Diploma in HRD NIBM

MR. R.M.R. RANDENIYA
ASSISTANT GENERAL MANAGER
NORTH CENTRAL PROVINCE
BA-Peradeniya

MR. W.V.A.G. WARAKAGODA
ASSISTANT GENERAL MANAGER
UVA PROVINCE
B.com. (Special) Sri J

MR. L.B. UPALI
ASSISTANT GENERAL MANAGER
NORTH WESTERN PROVINCE
B.com. (Special) Kelaniya

MR. B.M.U.S. BASNAYAKE
ASSISTANT GENERAL MANAGER
NORTH CENTRAL PROVINCE
Diploma in Agriculture Palwehera

MR. W. KOTTAGE
ASSISTANT GENERAL MANAGER
WESTERN PROVINCE
B.com. (Special) Ruhuna

MR. B.H.M.S. BASNAYAKE
ASSISTANT GENERAL MANAGER
CENTRAL PROVINCE
B.com. (Special) Sri J
Management Diploma - Uva

MR. G.S.D. DE SILVA
ASSISTANT GENERAL MANAGER
WESTERN PROVINCE
B.sc (Bus. Admin. (Special)) Sri J

MS. B.R.D. PUSHPAKUMARI
ASSISTANT GENERAL MANAGER
NORTHWESTERN PROVINCE
B.com. (Special) Kelaniya

MS. H.M.N. MANOJIKA HERATH
CHIEF INTERNAL AUDITOR
FMAAT, ACA, Dip, in Banking & Fin (IBSL)
B.sc (Bus. Admin. Special in Fin.)
MBA (Wayamba)

Management Discussion

The bank, being the Government owned financial institution has been entrusted with the responsibility to facilitate the overall regional economic development of Sri Lanka by promoting the development of Agriculture, Industry, Trade, Commerce, Livestock, and Fisheries activities and empower financing development projects serving to the needy sectors of the economy. Regional Development Bank has now become the major Development Institution especially financing development projects of small and medium size projects of low income groups who organize projects which will contribute to the social and economic development. We have 4,856,000 customer base which is 14% increase compare to 4,250,000 customers in the previous year. We have been serving our customers through our branch network of 265 branches and 3 mobile service centers spread all parts of the country.

During the year, bank has received an award for 'Banking Institutions Compliance Award' presented By the Institute of Chartered Accountants at the Chartered Accountants annual report award competition. The Fitch Ratings Lanka has affirmed Bank's National Long Term rating at 'BBB+ (lka)'/Stable.

The year under review was an adverse year for the bank. The Bank's financial achievement in 2013 has fallen behind the budgeted targets. Though the bank has taken drastic steps to fall in line with the targets, the bank's overall financial performances have fallen short due to unforeseen situations which affected the entire banking and financial industry of the country. The adverse fluctuations of the Gold price throughout the year badly affected in the smooth recovery processes that prevailed for decades in the pawning sector. As a result bank has to make a special provision of Rs 792 Million for both capital loss for the pawning advances & loss in pawning interest which has contributed to the adverse results achieved this year. As a result bank's NPL ratio has increased to 7% in 2013 compare to 4% in 2012.

Four new branches in Kalawanchikudi and Kokkadichole in North and Muttur Branch in East and Kelaniya branch in Western province have been opened during this year to expand the branch network.

DEPOSIT BASE

Deposit Base of the bank increased to Rs: 62.6 billion and it represents a 15% growth over the previous year. Bank was able to increase the savings deposit by Rs 3.6 billion during the year. We have been able to increase the saving deposits ratio against time deposit from 38% in 2012 to 39% this year while reducing the Fixed Deposit ratio from 62% to 61%. Bank has achieved this as a result of the implementation of special program called 'Eturum wasana' and 'Divineguma' launched during the year. Divineguma Savings increased to Rs 2120 million by 408% during the year. Divineguma Accounts Holders increased by 184% to 591,666 accounts.

PROFITABILITY

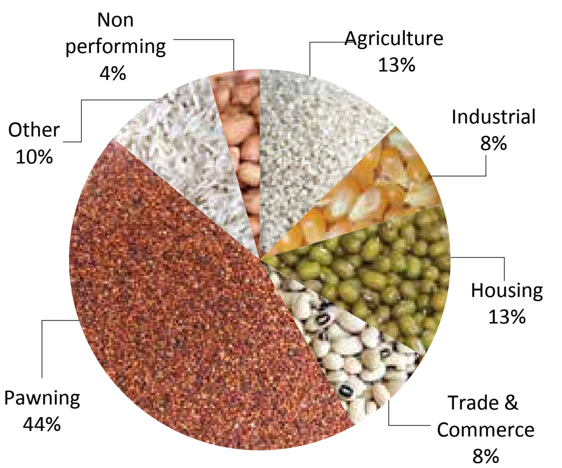
Bank recorded Rs: 10,995 million total income compared to the previous year figure of Rs: 9,515 million which is a 16% growth over the previous year. However profit before tax of the Bank has come down to Rs: 687 million due to the special provision of Rs 792 million made to the accounts which comprised of the Special Loan Loss provision of Rs:348 million done specially for none performing Pawning advances and also pawning interest income relevant to pawning advances more than 12 months which have not been taken as a income this year amounting to Rs: 444 million.

LOANS

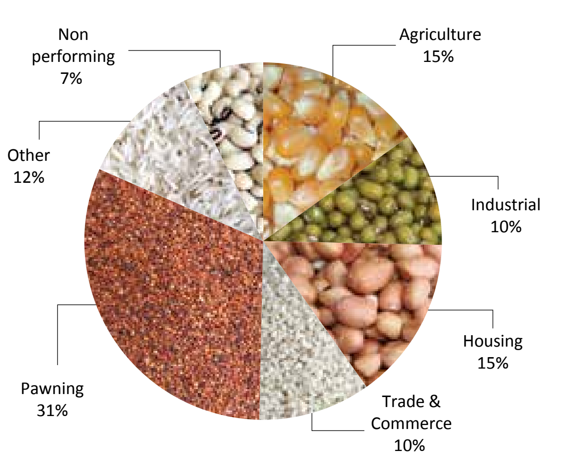
The loan schemes offered by RDB are in line with empowering Sri Lankans. An array of small scale loans are on offer to priority sectors such as Agriculture, Fisheries, and Small Industries, which are usually not available in many financial institutions. The country which is rapidly moving forward with a vibrant economy means, it is necessary that due support is rendered to targeted sectors. Pradeshiya Sanwardhana Bank has always been assisting all needy sectors, such as Agriculture, Fisheries, Animal husbandry, Small scale Industrialists, entrepreneurs and self employed individuals etc. These facilities are available on soft securities at concessionary interest rates, convenient repayment periods with reasonable grace period. The bank based on the credit discipline cultured among its borrowers has been able to reduce the dependency on the security requirements. Further the bank has been able to maintain the health of the portfolio by providing credit plus service such as entrepreneurship development, marketing assistance training etc.

The loans and advances of the bank increased to Rs 60 billion by 12% compared with the previous year. The bank has given special effort to diversify the sector vise exposure and as a result of this effort bank has been able to increase the Agriculture loans to 15% in 2013 from 13% in 2012, Industrial loans to 10% from 8%, Commercial loans to 10%, from 8%, Housing loans to 15% from 13% and Pawning Loans to 31% from 44% out of total loans in 2012. This situation is shown in the table given below.

ADVANCE MIX 2012



ADVANCE MIX 2013



Further analysis of the loan portfolio clearly reflects the Banks focus on development oriented lending activities. A purpose wise breakdown of the lending during 2013 is set out in the table below;

Table 01 **Purpose classification of loans granted – 2013**

Sector	No. of Loans	%	Value Rs. Mn.	%
Agriculture	663,942	51.9	19,092.90	34.9
Animal Husbandry	22,334	1.7	1,371.00	2.5
Fisheries	16,626	1.3	703.9	1.3
Industries	96,305	7.5	5,885.40	10.7
Trade & Commerce	122,621	9.6	7,645.60	14.0
Housing	65,618	5.1	6,338.70	11.6
Consumption	221,252	17.3	7,447.80	13.6
Others	72,409	5.6	6,224.80	11.4
Total	1,281,107	100	54,710.10	100

Approximately 72% of the number of loans and 63.4% of the total loan amount were given to productive purposes such as Agriculture, Animal Husbandry, Fisheries, Industries and Trade & Commerce which contribute for the economic development.

Significantly the above discussed developments have been taken place in outstations as shown in the table below.

Table 02 **Geographical distribution of loans granted – 2013**

Sector	No. of Loans	%	Value Rs. Mn.	%
Sabaragamuwa	218,152	17.1	6,462.8	11.8
Uva	197,670	15.5	7,061.0	12.9
Central	218,783	17.1	7,872.2	14.4
Southern	210,584	16.5	10,345.3	18.9
North Central	207,278	16.2	8,269.5	15.1
North Western	151,550	11.8	9,602.9	17.6
Western	74,090	5.8	5,096.4	9.3
Total	**1,278,107**	**100.0**	**54,710.1**	**100.0**

Only 5.8% of the number of loans and 9.3 % of the volume of loans have been given in the Western province. Rest i.e. 94.2% of the number of loans and 90.7% of the volume of loans have been given in the outstations which contribute to the regional development.

A noteworthy feature of the Bank's lending activities is the high participation of women as its borrowers. A gender analysis as given in the table below indicates that approximately 677,396 are females out of the 1,278,107 borrowers for the year 2013. Women participation represents nearly 53% of the total borrowers. Total loan amount borrowed by female borrowers was Rs. 24,072.40 Million as compared to Rs. 30, 637.70 Million to male borrowers.

Table 03	Gender distribution of loans granted – 2013			
	No. of Loans	%	Value Rs. Mn.	%
Male	600,710	47	30,637.70	56
Female	677,396	53	24,072.40	44
Total	**1,278,107**	**100**	**54,710.10**	**100**

The Bank as in the case of past several years mobilized funds for its lending activities through refinancing schemes which is an effective alternative to use of funds mobilized as savings deposits. Accordingly the Bank participates in 31 refinancing schemes implemented by the Government, Central Bank of Sri Lanka and, NDB Bank. Accordingly the bank received refinance facilities amount in to Rs 5,139.60 million against 57,616 number of loans given during 2013. This is an increase of 54.71% over the refinance facilities obtained during 2012. During the year the Bank was selected as a participating bank for the Commercial Scale Dairy Development loan scheme and implemented by the Central Bank of Sri Lanka and the second phase of SMEDef project implemented by the Treasury. In addition the Bank has been selected as a participation bank for a refinancing scheme for financing of SME and Green energy projects. This project is implemented by DFCC with the funding assistance of European Investment Bank.

As discussed in our 2012 annual report the Bank wants to be a major financier to the Small and Medium Enterprise sector. With a view towards this objective the bank commenced setting up dedicated SME centers attached to district offices of the Bank Accordingly during the year under review 09 SME centers were established. The bank will make all necessary arrangements to setup SME centers in the remaining 16 districts in 2014.

It is necessary to allocate specially trained officers to man these SME centers. This requirement has been taken care of and 14 days residential training was given to 90 officers of the Bank during 2013. Training was concentrated on all aspects of SME project evaluation and financing. The trained officers have been attached to the SME centers in the districts.

HUMAN RESOURCE MANAGEMENT

In RDB our staff has been a resource to the bank with their knowledge, skills and attitudes which drives towards achieving the bank's vision, mission and objectives while contributing to the national development of the country.

Our team RDB forfeited with over 3000 staff members including,

Permanent Staff	2,331
Contract Basis Staff	104
Trainees	704
Total	**3,139**

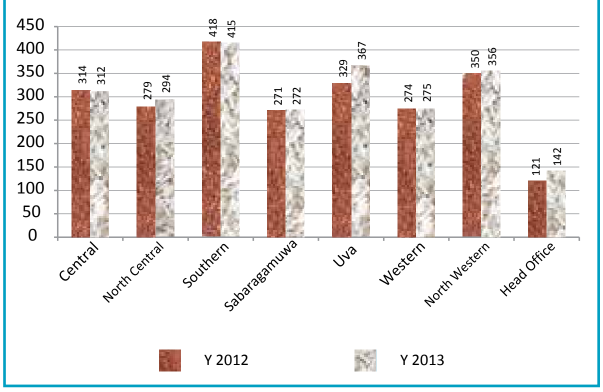
RDB has always believed that a well trained human resource as the key to holding its place in an increasingly challenging and changing financial landscape. In such a competitive environment the winning edge belongs to the finance institution that has in place, the highest quality Human Resource Team. Mindful of this reality, RDB recruits only those with the right mindset and skills to its cadre. Further during the year under review many training and development initiatives focussed on developing the human talent that can deliver the most demanding expectations thereby propel the Bank to even greater heights were carried out by RDB.

Before the amalgamation of six regional level banks and formation of RDB, the regional banks had employed trainees to handle bank operations. This not only hampered the growth of the banks but also affected the development of employees. Therefore, the Bank embarked on a crusade to source the staff with the required set of skills and mindset to fulfill immediate functional requirements.

RDB had to modify its outlook and style of operations many a times. The latest being the transformation from a regional level bank to a national level bank in 2010 and this has necessitated a well trained human resources team equipped with the necessary skills, knowledge, expertise and the right mindset to handle and adopt to change. This has been achieved by implementing a well planned and focussed staff training strategy, providing staff with relevant and cost effective training both in and out of the country. During the year 2013 the bank conducted 5 overseas training programmes attended by 114 participants and 46 local training programmes attended by 1900 participants.

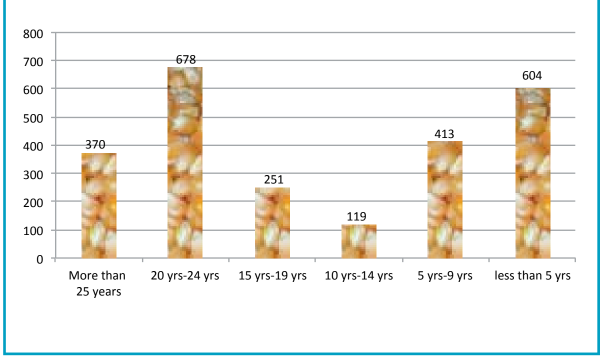
The ongoing process of improving HR procedures and practices that would expand the scope and depth of HR operations to suit the shifting internal dynamics of the Bank continued during FY 2013.

Year wise Staff Analysis

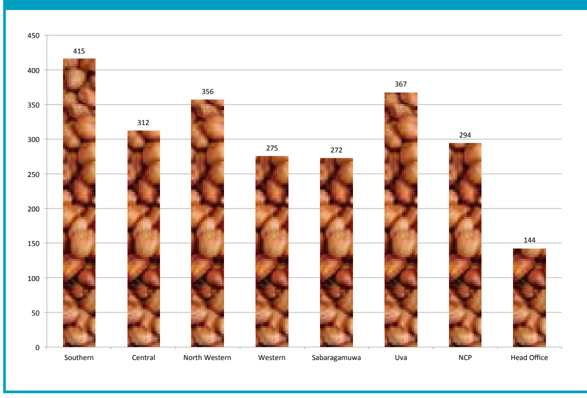


Permanent and Contract Basis Staff Analysis by Gender

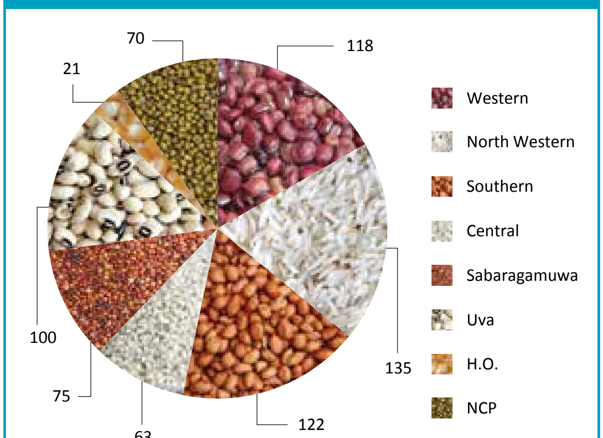
Service Analysis of Permanent and Contract Basis Staff



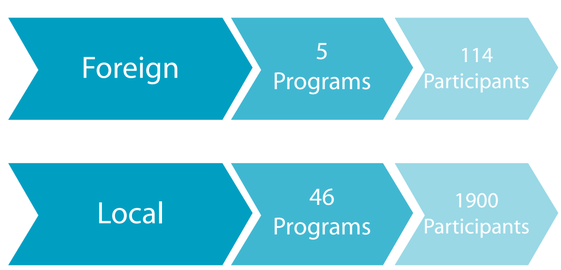
Province Vice Number of Permanent and Contract Basis Staff



Analysis of Trainees



Staff Training



Special Events

Distributing Certified Seeds

Growing high Quality seeds

For many years Sri Lankan farmers had difficulties in getting a good crop after toiling the entire season. One of the main reasons for this was the poor quality seeds they had been cultivating.

The bank launched a special programme with the Agriculture Department to distribute certified seeds free of charge to farmers in order to reap a bumper harvest. large number of people attended these seed distribution events.

Special Events

10,000 Community Meetings

10,000 Community Meetings (Jana Hamu)

At the beginning of the year 2013, Bank set a target to conduct 10,000 community meetings covering each and every village within the command areas of the bank branches. This target was surpassed by the enthusiastic staff in August and the results were very encouraging. At the end of the year, a total of sixteen thousand and twenty six community meetings were held. Four hundred and ninety eight thousand eight hundred people participated, Three hundred and thirty four thousand seven hundred and eighty four new accounts were opened, More than one Billion of rupee deposits were mobilized and similar amount of advances were granted thanks to this special project.

Special Events

Celebrating World Childrens day 2013

Growing knowledge and good habits

Special events were organized at RDB branches to celebrate the World children's day 2013. These events were patronized by large crowds consisting not only children, but their parents and relatives creating and strengthening stronger bonds with the bank. Every child was given a gift from the bank and many children won prizes for educative as well as fun filled games.

Special Events

Hela Osu Saviya

Growing indigenous medicinal plants (Hela Osu Saviya)

Every year Sri Lanka spends a huge amount of money to import herbal medicines, whilst there is tremendous potential to grow them locally. In fact there were large and famous herbal gardens in ancient Sri Lanka at Roomassala, Sinharaja and Haldummulla, and many other locations.

Regional Development Bank having identified these opportunities launched a special programme in collaboration with Uva Provincial Council and Uva Province Ayurvedic Department to promote planting herbs.

More than 400 native doctors and rural entrepreneurs attended this programme. It was lot more than providing loan facilities for the purpose, as the package included, training, guidance and ensuring the market as well as guaranteed prices for the crops.

Special Events

Ranaviru Kantha Entrepreneur programme & "Subawitha Geethaya"

Gratitude to our brave hearts.

Much have been spoken of the real heros of our motherland who made tremendous sacrifices to eradicate ruthless terrorism after 30 year long battle to make a peaceful Sri Lanka. RDB continues to associate with these brave hearts fondly and respectfully called as ***"Ranviruwan"***

RDB together with Ranawiru Authority launched a very special programme to provide loans at concessional interest rates and soft securities to widows of many heroes to make them successful entrepreneurs. Bank also sponsored "*Subawitha Geethaya*" musical show staged by a group consisting "Ranaviruwan".

Special Events

Yaaya Programme

Growing in large scale - 'Yaaya Programme'

"***Yaaya*** programme" was introduced by the bank to help farmer communities to reap maximum benefits of cultivating in large scale.

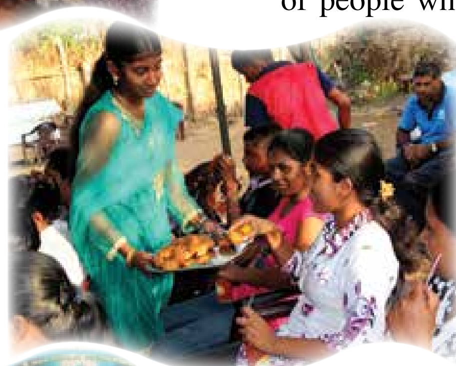
This special agricultural programme commence from the selection of most suitable crop to cultivate in a particular area. And then the farmers are called for a meeting/workshop to discuss the project, it's methodology and the implementation. The bank arranges the certified seeds and the capital. Bank will also arrange, Forward Sales Agreements with definite buyers ensuring the cultivation become a profitable venture for the farmer who was earlier at the receiving end of many vulnerable risks. This scheme also generated many new job opportunities too.

Special Events

Sinhala and Tamil new year 2013

Growing in Harmony

Sinhala and Tamil New Year in Sri Lanka is traditionally celebrated by Sri Lankans with the participation of all members of their families. Parents and grandparents of people who live far away from their beloved sons, daughters and grand children, anxiously await this precious occasion to share the joy of the celebrations together.



Regional Development Bank introduced a novel concept to celebrate Sinhala and Tamil New Year in 2013. Two bus loads of RDB customers from Kandy district were taken to *Mallawi*, a hamlet in Northern Province to share the joy of the customary celebrations as one family, making it truly "A Sinhala and Tamil New Year".

New Branch Openings

Date	Branch Name	Address
2013.01.30	Head Quarters.	No 933, Wedamulla, Kelaniya.
2013.03.14	Kaluwanchikudy	Main Street, Kaluwanchikudy
2013.05.16	Kokkaddicholai	Main Street, Kokkaddicholai
2013.08.15	Muttur	85/A Maha Veediya, Muttur
2013.09.12	Bogaswewa	24, Bogaswewa- 02

KOKKADDICHOLAI BRANCH

Kokkaddicholai Branch Was opened by deputy minister of re-settlement, Honorable Vinayaga Moorthi Muralitharan

KELANIYA BRANCH

The Head office and the Head quarters branch of RDB was opened by Minister of Economic Development, Honorable Basil Rohana Rajapaksa.

MUTTUR BRANCH

Muttur Branch Was opened by, Chief Minister of Eastern Province, Honorable Najeeb Abdul Majeed

KALUWANCHIKUDY BRANCH

Kaluwanchikudy Branch was opened by Deputy Minister of re-settlement, Honorable Vinayaga Moorthi Muralitharan

BOGASWEWA BRANCH

Bogaswewa Branch Was opened by, Member of Parliament, Honorable Uditha Lokubandara

Branch Re-locations

Date	Program	Location & Province
2013.01.07	Thambuttegama	No 35, Kurunegala Road, Thambuttegama.
2013.02.01	Hikkaduwa	No 35, Baddegama Road, Hikkaduwa.
2013.03.27	Kekirawa	No 65/3, Maradankadawala Road, Kekirawa
2013.04.02	Mathale	No 62, Rajaweediya, Mathale
2013.04.08	Pothupitiya	Kalawana Road, Pothupitiya Juntion.
2013.04.11	Morenthuduwa	No 65, Wadduwa Road, Morenthuduwa
2013.06.03	Agalawaththa	No 05, Kaluthara Road, Agalawattha
2013.06.06	Menikhinna	No 35/1, Kandy Road, Menikhinna
2013.07.15	Kotiyakumbura	No 9/1, Main Street, Kotiyakumbura
2013.07.29	Bulathkohupitiya	Kegalle Road, Bulathkohupitiya
2013.08.19	Minuwangoda	No 74, Veyangoda Road, Minuwangoda
2013.09.16	Anamaduwa	No 43, Nawagatthegama Road, Anamaduwa
2013.10.01	Nivithigala	No 19 " Kalawana Road, Nivithigala
2013.10.08	Morayaya	No 551, Morayaya, Minipe
2013.10.14	Haputhale	Municipal Building, Station Road, Haputhale
2013.10.17	Moragahahena	No 647, Horana Road, Moragahahena
2013.10.28	Gonapathirawa	Senapura Road, Gonapathirawa
2013.11.25	Polpithigama	Kurunegala Road, Polpithigama

THAMBUTHTHEGAMA BRANCH
Chief Guest, General Manager / CEO.
Rathnasiri Siriwardhana

MORAYAYA BRANCH
Chief Guest, Governor Central Province
Honorable,Tikiri Kobbekaduwa

SME CENTER OPENING
Western Province office

Corporate Social Responsibility

Promoting Fresh milk consumption

Fresh milk promotion

RDB bank in 2013 too continued promoting fresh milk usage by helping dairy farmers to open outlets, finding markets, and providing special training to maximize incomes. This programme is aimed at providing fresh and nutritious milk to Sri Lankan citizens as well as saving billions of rupees for the country.

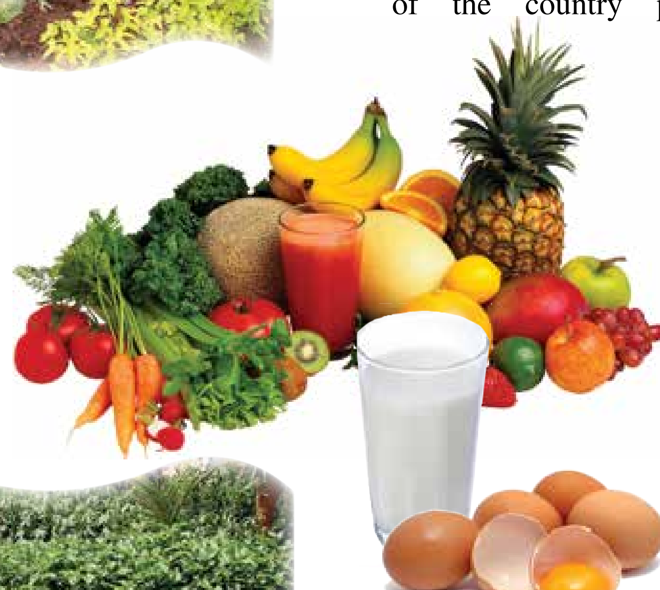
Corporate Social Responsibility

Home Gardening (RDB Gewathu Waga Programme)

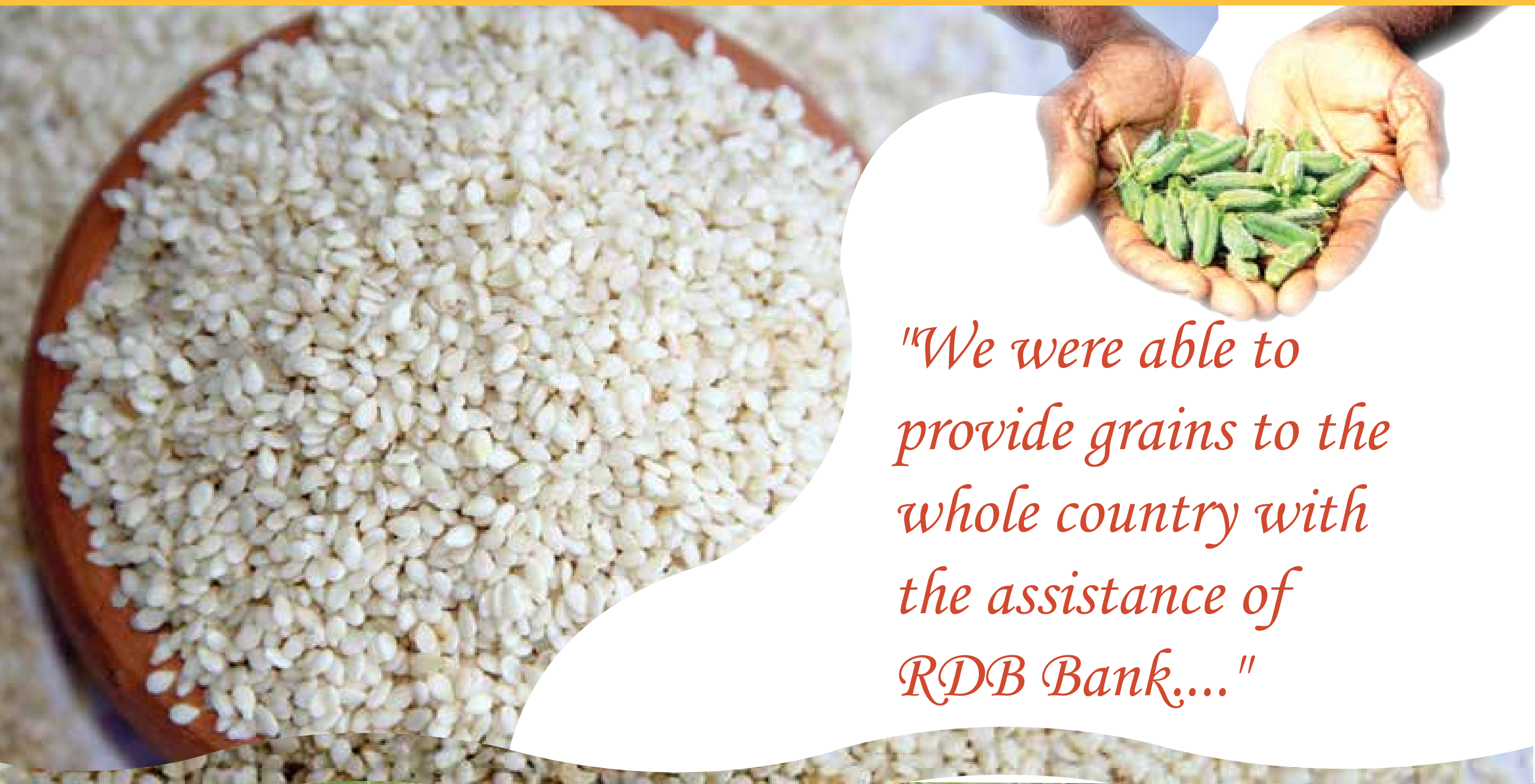
Home Gardening programme

Regional Development Bank launched a special project branded "RDB Gewathu Waga Programme" to popularize home gardening throughout the nation.

More than ten thousand Sri Lankans representing all parts of the country participated at special training programmes conducted jointly by RDB and the Agriculture Department to learn how to establish a successful home garden that would provide them their daily fresh food needs as well as additional incomes.The ideal home garden should contain not only varieties of vegetable and fruit plantations, but one or few jack trees, coconut trees,few other economically useful trees, live fence, a small poultry and a cowshed.



Eight thousand nine hundred and eighty six new home gardens were created, and the best 25 gardeners will be taken abroad for a special experience sharing programme.



"We were able to provide grains to the whole country with the assistance of RDB Bank...."

Products & Services

Products & Services

Saving Accounts / Investment

RDB KEKULU (MINOR SAVINGS ACCOUNT)

This savings scheme is exclusively designed for children under 12 years of age. The initial deposit to open a "RDB Kekulu" account is Rs 100.This enables every child in our motherland to save with RDB for a bright future. RDB's offer of a new savings till for every new account is an attraction. There is also a wide range of gifts offered under this scheme such as pens, mugs, water bottles, school bags, wrist watches, mountain bicycles and gift vouchers at different levels of the balances in the accounts. The design of the account is based on three objectives. They are inculcating the habit of savings among the children for a better future, assisting children's education through educational seminars and rewarding them on examination success and helping them to become good citizens. A higher rate of interest than the other normal savings interest rate is paid for "RDB Kekulu" accounts.

RDB YOVUN (SAVINGS ACCOUNT)

This account is specially designed for those between 12 and 17 years of age. The minimum balance needed to open this account is Rs 500. A higher interest rate more than the normal savings interest rate is applicable for this account. Under this scheme the account holder will receive many gifts when they reach different account balances. Further Regional Development Bank conducts special seminars and motivational programmes for "RDB Yovun' account holders who will sit for the G.C.E (O.L.) examination.

RDB SUBHA MANGALAM

This is a unique savings account for those who wish to invest money either in lump sum or in small amounts in a regular manner for a long period for an important purpose of his or her life like getting married.

In such instances the "Suba Mangalam account holders get capital with higher interest plus a special bonus of 7% on the interest earned.

RDB LIYA SAVIYA

"RDB Liya Saviya' was introduced targeting courageous women in Sri Lanka. It provides not only financial facilities but also consultancy services for women who contribute to the country's economy through self employment. The special characteristics in the account are higher rate of interest, bonus interest, and advances on competitive interest rates etc.,

RDB DIVINEGUMA

Launched only in February 2012, "RDB Divineguma" savings account is one of the fastest growing savings accounts in the country as more than six hundred thousand individuals became our valued customers within a short period of two years.

The attractive interest rate offered for this product plus the loan schemes linked to the "RDB Divineguma" account is an inducement for those who desire to earn and save.

RDB DORIN DORA

This is the flagship product/service of RDB. It is a daily collection system that operates through a dedicated set of agents, who visit the premises of customers as a daily routine.

These regular visits provides a great relief to the target segment and saves their opportunity cost as otherwise they would have to sacrifice their time visiting the branches repeatedly for their banking transactions. 'RDB Dorin Dora' service also helps customers to obtain loans for development projects, service the loan accounts paying installments and interest charges on loans other than depositing cash to savings accounts. This service has encouraged many small scale entrepreneurs and individuals to build up their account balances over considerable periods of time without a hassle. This unique services has paved the way to fulfill the vision of the bank "Empowering Sri Lankans"

RDB ITHURUM WASANA

A new savings scheme branded as RDB Ithurum Wasana was launched in August 2013 offering a brand new motor vehicle for existing and prospective account holders who could maintain a minimum balance of Rs 2,500 in a savings account for a period of 3 months.

Stage one of this scheme ended on September 30th very successfully. And stage two was launched immediately for the last quarter of the year with more prizes.

RDB ADULT SENIOR CITIZENS SAVINGS ACCOUNT

Regional Development Bank offers competitive interest rates in the market. With an initial deposit of Rs 500, any individual above 18 years of age is eligible to open an adult savings account. Senior citizens are given higher interest rates for their investments.

RDB FIXED DEPOSITS

This popular mode of investment available at the RDB for period 1,2,3 and 6 months as well as 1 to 5 years. Very attractive interest rates are provided by RDB for fixed deposits with maturity period of 1 year and above.

WESTERN UNION MONEY TRANSFER SERVICES

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

"Because RDB Bank was with us all the time, we could get the maximum for our tireless efforts...."

Risk Management

Risk Management

The Bank has formulated a risk management framework in later part of 2011 and during last two years the Bank has been improving and strengthening its scope and capacities to establish comprehensive risk management framework within the Bank. At present an independent risk management framework is available for the Bank which functionally reports to the Integrated Risk Management Committee (IRMC).

Our entire risk management process is based on 3 lines of defense concepts covering, operational mechanism, internal control system of the Bank and rectification of the limitations in the system through both internal and external audit and compliance functions. Moreover, bank has established several committees to monitor/measure and manage the Bank's inherent risk in an effective manner.

Following board and management level committees have been established to identify, measure and manage risk that would be experienced by the Bank during its business process.

- Integrated Risk Management Committee (IRMC)
- Audit Committee (AC)
- Assets and Liability Committee (ALCO)
- Operational Risk Management Sub-Committee
- Executive Risk Management Committee (ERMC)
- Credit Risk Management Committee (CRC)

Risk reporting system of the bank

The Bank has already established policies and procedures to measure, monitor and manage risks of its business operations. During last year with the approval of the Board of Directors (BOD) the Risk Management Department (RMD) has reviewed the policies and procedures. RMD has also commenced to adopt best practices followed by other banks in the industry as guided by the regulator, such as submitting monthly Key Risk Indicators (KRIs) to the BOD, carrying out stress tests on capital adequacy, measuring concentration risk and portfolio risk, reporting same to IRMC etc.

Monthly KRIs submitted to the BOD covers possible risk areas related to credit, operation, interest rate and liquidity. RDB risk management team based on the available resources and data, submits comprehensive risk assessment report to the IRMC on quarterly basis. IRMC report contains profound analysis on bank's total business.

CREDIT RISK MANAGEMENT

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

As a leading development bank in Sri Lanka we directly involved in lending business, as a result we expose ourselves to credit risks such as default risk, concentration risk, declining collateral value etc. Hence our credit risk management techniques are parallel with the expansion of our credit portfolio.

For sound credit risk management, RDB has followed structured credit appraisal process of identifying, monitoring, measuring and mitigating credit risk in each business transaction involved in credit. In order to mitigate credit risk that generated through counterparties RDB have always maintained quality collaterals and time to time credit committee evaluates the fair value of the collaterals which are namely mortgages, charges over real estate and residential properties, inventory and trade receivables and personnel guarantees.

In year 2013 total credit exposure of the Bank is 74.24% of banks total assets base. Hence the credit risk is major type of risk that the Bank has to face within its normal course of business. RDB focus on credit risk which is arising from lending to its customers who are mainly individuals from rural population with relatively less exposure to genuine structured financial practices.

Sector wise credit exposure

Bank's Credit Risk Policy approved by the BOD permits a maximum sectorial exposure to each sector of the portfolio. According to the sectorial exposure (sector defined as per CBSL guidelines) of the Bank's credit portfolio as at the end of December 2013, comparison of sectorial concentration against permissible limits is detailed below.

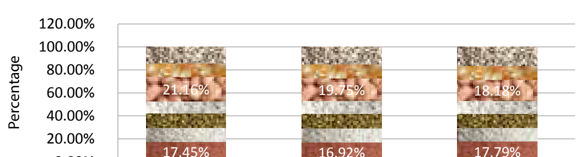
Sector	2012-Dec			2013-Dec		
	Actual ratio	Approved limit	variance	Actual ratio	Approved limit	variance
Agriculture	25.15	30	(4.85)	24.09	30	(5.91)
Animal husbandry	1.76	20	(18.24)	2.29	20	(17.71)
Industrial (SME)	16.79	15	1.79	21.70	15	6.70
Trading and services	0.49	10	(9.51)	0.33	10	(9.67)
Housing	13.9	10	3.9	16.00	10	6.00
Consumption	31.83	5	26.83	23.60	5	18.60
Other priority	8.12	7	1.12	10.13	7	3.13
Staff	1.96	3	(1.04)	1.86	3	(1.14)

All figures are in percentages

According to the above comparison, it can be observed that there is a decreasing trend in variance of pawning advance during year 2013.

RDB's main objective is regional development of the country and focuses mainly on agriculture and SME sectors. Further, Sri Lanka being a developing economy with the government focus on agriculture and SME sector developments the concentrations in these sectors are inevitable. In view of the concentration risk the Bank has taken appropriate steps to mitigate/minimize concentration risk in those sectors by, transferring portion of our risk on those sectors through insurance policies and obtaining tangible securities with adequate margins.

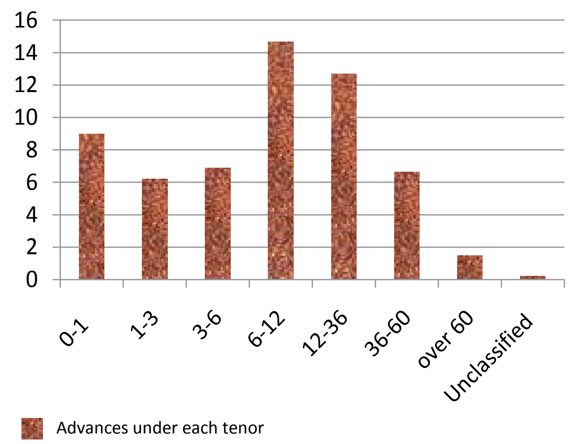
Region wise concentration of advance portfolio



	2011	2012	2013
western	14.25%	14.97%	16.45%
Central	11.75%	12.22%	12.01%
Southern	21.16%	19.75%	18.18%
Uva	10.77%	11.37%	11.54%
Sabaragamuwa	12.49%	12.67%	12.20%
North Central	12.14%	12.10%	11.83%
North western	17.45%	16.92%	17.79%

The analysis on the distribution of the loans and advances portfolio among regions represents that the highest contribution has come from Southern Region followed by North Western Region.

Tenor wise breakdown of advance portfolio as at end of 2013



Concentration Risk

Concentration of credit is a main technique used to identify portfolio risk. We use Herfindahl Harschnam Index (HHI) to measure sector wise and product wise concentration. HHI is a commonly accepted statistical measure of calculating concentration. The method of calculation is by summing the squares of the each value of portfolio contributor.

Normally a well diversified portfolio with large number of contributors will have a HHI value closer to zero, whereas heavily concentrated portfolio indicates considerably higher HHI value.

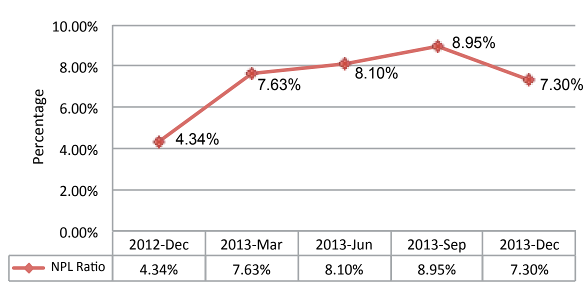
The index illustrates a decrease in concentration risk on sector wise Loans and Advances portfolio of the Bank from 2012 to 2013.The total HHI reduction is mainly due to drop of concentration in pawning advances.

Sectors	HHI	
	2012-Dec	2013-Dec
Agriculture & Fishing	0.018	0.026
Manufacturing	0.028	0.047
Transport	0.000	0.000
Construction	0.022	0.029
Other Customers *	0.298	0.200
Total	0.366	0.303
*Inclusive of pawning advances		

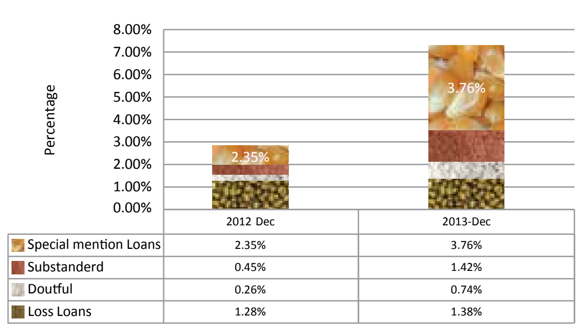
Credit Quality

At the end of 2013, non performing advances (NPA) ratio of the Bank was 7.30 % and the ratio has increased in a growing trend during the year due to increase in non performing pawning portfolio of the Bank. In absolute terms the NPA aggregate for December 2013 was Rs.4.387 bn. against previous year figure of Rs. 2.330 bn. which is an increase of Rs.2.057 bn. out of which non performing pawning advances amounted to Rs. 1.874 bn.

NPA Ratio



Composition of NPA as st December 2013



STRESS TESTING

In accordance with the direction issued by the regulator, stress testing on bank's NPL portfolio for the year end was done by the RMD. Calibration of shocks to the NPL portfolio for the stress testing was assigned in accordance with the Board approved stress testing policy.

Non performing advance portfolio	Original CAR	Scenario 01	Scenario 02	Scenario 03
Magnitude of the shock	-	4%	5%	6%
Directly to loss category	9.21%	6.27%	6.17%	6.08%
Shift of shock within all categories	9.21%	6.57%	6.55%	6.53%

The test was done on following assumptions.

- The Bank's NPL portfolio is static for the given period.
- Realization values of securities are not considered.

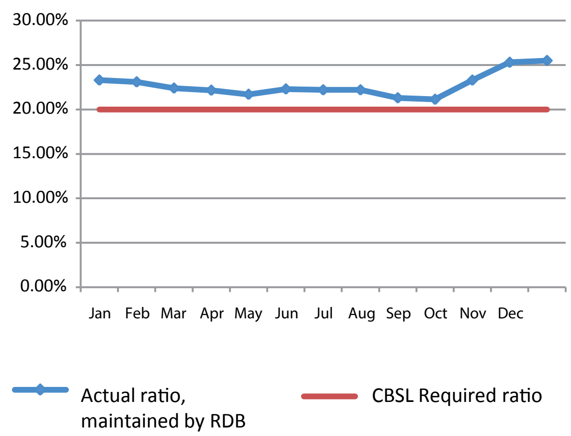
The Bank's present original Capital Adequacy Ratio (CAR) is 9.21% which is just below the required level by the regulator this is mainly due to increasing pawning NPA portfolio of the Bank. Since, all possible actions and provisions are made to curtail the increase in pawning NPA, further deterioration on original CAR could be considered as minimum. Further the Bank has initiated measures to increase the capital by capital augmentation plan Therefore occurrence of adverse scenarios of 1, 2 and 3 is remote.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

RDB balance its concentration on liquid assets and liabilities to maintain excellent liquidity ratio. However the Bank tolerate its liquidity ratio with in statutory regulatory requirement (20%)

Required Vs actual liquid assets ratio of the Bank as at end of 2013



OPERATIONAL RISK

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

COLLECTION OF OPERATIONAL LOSS DATA

Risk Management Department has commenced to collect loss data of the Bank from losses incured due fraudulent activity cases of the Bank and we continue to report these data to CBSL on quarterly basis as per their directions. There were 17 loss events that have been reported within the Bank during year 2013.

Although our present "loss data" collection is based only on the information of the investigations, in the coming year the Bank is planning to expand this scope to collect all such data from other sources as well.

INTEREST RATE RISK

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

According to Interest Rate Risk Management Policy approved by the Board, ALCO is responsible to determine interest rates based on gap and duration analysis of the Bank. Based on these analysis Risk Management department will carry out risk assessment on the interest rate fluctuations. However, at present ALCO determines interest rates for both lending and deposits based on market conditions and credit deposit ratio due to the present system limitations.

*"Thanks to RDB Bank
we are
not indebted
any more...."*

Corporate Governance

Auditor General's Report

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. FB/M/RDB/CG/2013 — ඔබේ අංකය / உமது இல. / Your No. — දිනය / திகதி / Date 21 March 2014

The Chairman,
Pradeshiya Sanwardhana Bank.

AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS OF PRADESHIYA SANWARDHANA BANK TO THE BOARD OF DIRECTORS OF THE PRADESHIYA SANWARDHANA BANK ON THE COMPLIANCE REQUIREMENT OF THE CORPORATE GOVERNANCE DIRECTION ISSUED BY THE CENTRAL BANK OF SRI LANKA.

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

I report my finding in the attached Annexure to this report.

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

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

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

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

H.A.S. Samareweera.
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 oaggov@sltnet.lk www.auditorgeneral.gov.lk

Corporate Governance

RDB compliance statement with the provisions of the Banking Act Direction No. 11 of 2007 and subsequent amendments there to, of the Central Bank of Sri Lanka on Corporate Governance shall be complied by all licensed specialized banks in Sri Lanka and such compliance shall be as provided for in Direction 3(g) (i).

3(1)	**Agreed upon procedures carried out to ensure the board has strengthened the safety and soundness of the bank.**	
3(1)(i)	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.	**Complied with** Objective of the Bank is determined by the Pradeshiya Sanwardana Bank Act, No. 41 of 2008. Approving and overseeing the Bank strategic objectives and corporate values are preformed via monthly and special Board meetings. The decisions made at the board levels are communicated across the Bank through circulars, awareness programs and through the key resource personnel wherever necessary.
	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.	**Complied with** Board approved the corporate plan for five years commencing year 2011 is available. Annual budgets and targets are structured and approved by the Board and that are conveyed to Regional offices and Branches through Regional General Managers. Operational manual for internal controls and procedures is formulated and followed.
	c) Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	**Complied with** Identifying and implementing the principal risk are performed by the Board through Integrated Risk Management Committee (IRMC). There were four meetings held during the year 2013. Policy documents are structured and circulars, guidelines are issued.
	d) Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	The Board approved communication policy is in place and the Board ensures effective two way communications with all stakeholders of the Bank via key movement personnel and corporate management personnel.

Section	Rule	Level of Compliance
	e) Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	**Complied with** Board has approved the operational manual which consists of documented internal controls procedures.
	f) Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) Significantly influence policy; (ii) Direct activities; and (iii) Exercise control over business activities, operations and risk management;	Refer the comment made in 3(7)
	g) Check that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	**Complied with** Board approved policies are communicated through the circulars to Key Management Personnel.
	h) Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	**Complied with** Areas of authority and key responsibility of the Key Management personnel are according to Pradeshiya Sanwardhana Bank Act., and included in the job description.
	i) Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary.	**Not applicable**. Nominated Directors are appointed by the Ministry in consultation with the Secretary to the Treasury.
	j) Check that the board has a succession plan for key management personnel.	**Complied with**. A Board approved succession plan is in place.
	k) Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	**Complied with** Review meetings have been scheduled monthly with key management personnel with the participation of Executive Directors and the corporate management. The matters discussed at this meeting are subsequently referred to the Board. Chairperson also attends the review meetings as an observer. Nine management committee meetings and twelve RGM review meetings were held in the year 2013.

Section	Rule	Level of Compliance
	l) Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	**Complied with** The Bank maintains relationship with regulatory through Assistant General Manager Compliance with the Bank Supervision Department of CBSL.
	m) Check that the board has a process in place for hiring and oversight of external auditors.	**Complied with** By Act (Section 33 of Part V) the Auditor General represents as the external auditor.
3(1)(ii)	Check that the board has appointed the chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	**Complied with** Functions and the responsibilities of the Chairperson and Chief Executive Officer (CEO) are documented in the Act, Chairperson is appointed by the Hon. Minister of Finance. CEO is appointed by the Board in consultation with the Secretary to the Treasury.
3(1)(iii)	Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	**Complied with** Board of Directors meets monthly and as and when necessary, special Board meetings also called for. Twelve Board meetings were held during the year 2013.
3(1)(iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	**Complied with** Equal opportunity is given to all Directors to present their proposal to the Board relating to promotion of business and management of the Bank.
3(1)(v)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	**Complied with** Notice of monthly Board meetings, agenda and Board papers are circulated to the Directors seven days prior to the meeting.
3(1)(vi)	Check that the board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	**Complied with** Attendance registry of Directors maintained and no such situation has been taken place.
3(1)(vii)	Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	**Complied with** The Board has appointed a secretary. Board secretary's primary responsibility is to handle the secretarial functions to the Board and the shareholder meetings as per statute and other regulations.

Section	Rule	Level of Compliance
3(1)(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	**Complied with** All Directors to have access to advice and service of the company secretary.
3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	**Complied with** Minutes of the Board meetings are opened to any Director for inspection and are maintained in sufficient detail by the Board secretary.
3(1)(x)	Check that the minutes of a board meeting contain or refer to the following: (a) A summary of data and information used by the board in its deliberations (b) The matters considered by the board (c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; (d) The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) The understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) The decisions and board resolutions.	**Complied with** Minutes of the Board meetings are maintained in sufficient detail by the Board Secretary.
3(1)(xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	**Complied with** The Board of directors seeks professional advice as and when necessary by making a decision at the Board meeting.
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest. Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting	**Complied with** The Board was conscious of its obligations to ensure the Directors avoid conflicts of interest between their duty to the Bank and their other interest. Directors also declared this on their declaration.

Section	Rule	Level of Compliance
3(1)(xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	**Complied with** The Board operates on a formal pre-set agenda which covers areas directly coming under its responsibility. However, in urgency, Board papers are circulated for approval with the consent of Chairperson, CEO and the members of the Board.
3(1)(xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	**Complied with** The Board informs the Director of Bank supervision of CBSL if the Bank is unable to meet any of its obligations or is about to become insolvent. The decisions made in ALCO meetings are reported to the Board. The compliance officer also sends monthly reports to CBSL. The board is aware of the above requirement and such situation have not taken place.
3(1)(xv)	Check that the board has the bank capitalized at levels as required by the Monetary board.	**Complied with** Capital adequacy ratio has been met as prescribed by the regulator.
3(1)(xvi)	Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	**Complied with** Annual cooperate governance report addresses status of compliance.
3(1) (xvii)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Self assessment was not carried out since the Board of Directors is nominated by the Finance Ministry and the Shareholder Banks in consultation with the Secretary to the Treasury.
3(2)	THE BOARD'S COMPOSITION	
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.	**Complied with** Board comprises of 9 Directors.
3(2)(ii)	a) Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	**Complied with** None of the Directors have completed nine years as describe in the direction. The present Board was appointed in 2010 and one director was appointed in 2013.
	b) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	**Not applicable**.

Section	Rule	Level of Compliance
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	**Complied with**
3(2)(iv)	Check that the board has at least three independent nonexecutive 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:	The Board comprises nine Directors out of which seven are Non – Executive Directors. Two Non – Executive Directors and the Chairperson of the Board are designated as Independent Non-Executive Directors. However, the Chairperson participates in the management committee as an observer.
	a) Holds a direct and indirect shareholdings of more than 1 per cent of the bank;	Directors of the Bank are representing the Treasury, Bank of Ceylon, National Saving Bank and Peoples Bank.
	b) Currently has or had during the period of two years immediately preceding his/ her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	Refer 3(2)(iv) a)
	c) Has been employed by the bank during the two year period immediately preceding the appointment as director.	Refer 3(2)(iv) a)
	d) Has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a “close relation” means the spouse or a financially dependent child)	Refer 3(2)(iv) a)
	e) Represents a specific stakeholder of the bank	Refer 3(2)(iv) a)
	f) Is an employee or a director or a material shareholder in a company or business organization: i. Which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or ii. In which any of the other directors of the bank are employed or are directors or are material shareholders; or iii. In which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.	Refer 3(2)(iv) a)

Section	Rule	Level of Compliance
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.	The Directors of the Bank are appointed by the Ministry in consultation with Secretary to the Treasury. No alternate directors have been appointed.
3(2)(vi)	Check that the bank has a process for appointing independent directors.	The Directors are appointed by the Ministry in consultation with Secretary to the Treasury.
3(2)(vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	**Complied with**
3(2)(viii)	Check that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	**Complied with** Annual report carries the details of the Board of Directors.
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	**Complied with.** The Directors of the Bank are appointed by the Ministry in consultation with Secretary to the Treasury.
3(2)(x)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	**Complied with.** The Directors are appointed by the Ministry in consultation with the Secretary to Treasury.
3(2)(xi)	Check if a director resigns or is removed from office, the board: a. Announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and b. Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	**Complied with** All resignation and new appointments are disclosed in the annual report. All appointments and removal of Directors are done by the Ministry in consultation with the secretary to the Treasury.
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank	None of the present Directors act as a Director of any other bank/s. However, three Directors are employees of the banks who are shareholder banks.
3(3)	**CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS**	
3(3)(i)	Check that the age of a person who serves as director does not exceed 70 years.	**Complied with**

Section	Rule	Level of Compliance
	a) Check that the transitional provisions have been complied with.	**Not applicable**
3(3)(ii)	Check if a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	**Not applicable**
3(4)	**Management Functions Delegated By The Board**	
3(4)(i)	Check that the delegation arrangements have been approved by the board.	**Complied with** All delegated authorities are approved by the Board in accordance with the Pradeshiya Sanwardhana Bank Act.
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.	**Complied with** No such instances have occurred.
3(4)(iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	**Complied with** Board reviews on a timely basis the delegation process to ensure that such delegations meet the business requirement of the Bank
3(5)	**The Chairman and CEO**	
3(5)(i)	The roles of chairman and CEO are separate and not performed by the same individual	**Complied with**
3(5)(ii)	Check that the chairman is a non-executive director. In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference. Check that the designation of the senior director be disclosed in the bank's Annual Report.	Chairperson is a Non-Executive Director and no senior Directors is designated in the Bank.
3(5)(iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	The related party transactions are disclosed in the annual report. The directors have disclosed this through their annual declarations.
3(5)(iv)	Check that the board has a self-evaluation process where the chairman: Provides leadership to the board; Ensures that the board works effectively and discharges its responsibilities; and Ensures that all key and appropriate issues are discussed by the board in a timely manner.	**Complied with.** The Board meetings are chaired by the Chairperson who provides the leadership to the board and all key issues are discussed and resolved.

Section	Rule	Level of Compliance
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	**Complied with.** The agenda for each Board meeting is prepared by the Board Secretary in consultation with Chairperson and CEO.
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	**Complied with.** The agenda and the relevant papers for the Board meeting are circulated seven days prior to the meeting.
3(5)(vii)	Check that the board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	The Directors are appointed by the Ministry in consultation with the Secretary to the Treasury.
3(5)(viii)	Check that the board has a self evaluation process that assesses the contribution of Non-Executive Directors.	Refer 3(5)(vii)
3(5)(ix)	Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	**Complied with** Chairperson is a non executive director and does not get directly involved with supervision of Key management personnel. Chairperson participates in the management committee as an observer.
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	**Complied with.** Adequate time is allocated to the shareholders to raise any question at the annual general meeting. All queries are answered by the Chairperson, CEO or any other key management personnel of the Bank. All share holders are represented by a Director in the Board.
3(5)(xi)	Check that CEO functions as the apex executive incharge of the day-to-day management of the bank's operations and business.	**Complied with.** CEO is in-charge of the day to day management of the bank's operations and supported by the cooperate management.
3(6)	**BOARD APPOINTED COMMITTEES**	
3(6)(i)	Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Check that each board committee report is addressed directly to the board. Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.	**Complied with.** The Board has implemented the following four committees which report to Board directly. a. Audit Committee. b. Integrated Risk Management Committee (IRMC) c. Credit Committee. d. Assets and Liability Committee (ALCO)

Section	Rule	Level of Compliance
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.	The Board appointed Non-Executive Directors who has also posses experience in banking and audit.
	b) Check that all members of the committee are Non-Executive Directors.	**Complied with**
	c) Check that the committee has made recommendations on matters in connection with: a. The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; b. The implementation of the Central Bank guidelines issued to auditors from time to time; c. The application of the relevant accounting standards; and d. 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.	**Complied with** Auditor General is the external auditor for the Bank.
	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 SLAS.	Refer 3(6)(ii)(c)
	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.	**Complied with** Board approval obtained as and when necessary to obtain non audit services from any External Auditors.
	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.	Refer. 3(6)(ii) c)

Section	Rule	Level of Compliance
	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.	**Complied with.** Quarterly and annual financial statements and report prepared for disclosures are reviewed by the committee.
	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.	**Complied with.** The representative of the Auditor General is also present in the Audit Committee Meetings.
	i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	**Complied with.**
	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;	Complied with
	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;	**Complied with** Internal audit program is reviewed at the Audit Committee Meetings (quarterly).
	iii. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	**Complied with** The assessment of the operational function and performance is done by the Audit Committee.
	iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	**Not applicable.** Such situation has not taken place.

Section	Rule	Level of Compliance
	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;	**Not applicable.** Such situation has not taken place.
	vi. Check that the internal audit function is independent of the activities it audits.	**Complied with** Internal audit function is an Independent Unit and the functions are reported to the audit committee.
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	**Complied with** The major Internal Audit findings and the management responses were discussed by the audit committee and the necessary recommendation were made.
	l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	**Complied with** The committee has met the external auditors. Representative of Auditor General Department is also presenting the committee meeting
	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.	Complied with
	n) Check that the committee has met, at least four times and maintained minutes.	**Complied with.** Four meetings were held in year 2013.
	o) Check that the board has disclosed in the annual report,	
	i. details of the activities of the audit committee;	**Complied with.**
	ii. the number of audit committee meetings held in the year; and	**Complied with.** Four audit committee meetings are held in year 2013.

Section	Rule	Level of Compliance
	iii. details of attendance of each individual director at such meetings	**Not published**
	p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.	**Complied with** Secretary of committee is the Head of audit.
	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.	**Complied with**
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.	**Not Complied with** The Board has approved Human Resources Remuneration Committee Charter in year 2012. However, the committee has not been implemented the remuneration policy for the key management personnel since the Board has decided the remuneration for key management personnel up to year 2015. Two committee meetings were held in the year 2013.
	b) Check that the goals and targets for the directors, CEO and the key management personnel are documented.	**Not Complied with**
	c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	**Not Complied with**
	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.	Refer 3(6)(iii)a)
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee:	
	a) Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	**Not applicable** Nominated Directors are appointed by the Ministry in consultation with the Secretary to the Treasury.

Section	Rule	Level of Compliance
	b) Check that the committee has considered and recommended (or not recommended) the re-election of current directors.	Refer 3(6)(iv) a)
	c) Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	Refer 3(6)(iv) a)
	d) Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	**Complied with** The declaration has been obtained by the Human Resource division of the Bank from the CEO and key management personnel.
	e) Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Refer 3(6)(iv)a)
	f) Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Refer 3(6)(iv)a)
3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	a) The committee shall consist of at least three nonexecutive directors, CEO and key management personnel supervising broad risk categories, *i.e.*, credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	**Complied with** The committee consists of three Non-Executive Directors. Four meetings were held during the year 2013.
	b) Check that the committee has a process to assess all risks, *i.e.*, credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	**Complied with.** Report on risk profile of the bank is submitted by the Committee.
	c) Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	**Complied with.** Committee reviews the quantitative risk limits of other management committees.

Section	Rule	Level of Compliance
	d) Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	**Complied with.** Reviewed in the risk profile report.
	e) Check how many times the committee has met at least quarterly.	Committee has met four times during the year 2013 out of which two meetings in last quarter.
	f) Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Such situation has not taken place.
	g) Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	**Complied with.**
	h) Check that the committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	**Complied with.** A monthly / quarterly report on statuary and mandatory requirements and statements of compliance to Central Bank of Sri Lanka is submitted by the finance department and the compliance officer. Compliance officer also submitted a report to IRMC to assess compliance risk of the Bank.
3(7)	**RELATED PARTY TRANSACTIONS**	
3(7)(i)	Check that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:	The Bank did not formulate documented a policy on related party transactions and conflict of interest. The transactions of the directors representing the shareholder banks are disclosed in the financial statements.
	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	Transactions related to the directors have been identified through the Director's declaration submitted to CBSL.

Section	Rule	Level of Compliance
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.	Refer 3(7)(i)
	a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.	Refer 3(7)(i)
	b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.	Refer 3(7)(i)
	c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank.	Refer 3(7)(i)
	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.	Refer 3(7)(i)
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.	Refer 3(7)(i)
	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.	Refer 3(7)(i)
	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.	Refer 3(7)(i)

Section	Rule	Level of Compliance
	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;	Refer 3(7)(i)
	d) Providing services to or receiving services from a related-party without an evaluation procedure;	Refer 3(7)(i)
	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.	Refer 3(7)(i)
3(7)(iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that. Such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	Refer 3(7)(i)
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.	Refer 3(7)(i)
	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.	Refer 3(7)(i)
	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	Refer 3(7)(i)

Section	Rule	Level of Compliance
	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	Refer 3(7)(i)
3(7)(vi)	Check that there is a process in place to identify when the bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.	Refer 3(7)(i)
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.	Refer 3(7)(i)
3(8)	**DISCLOSURES**	
3(8)(i)	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. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	**Complied with** Audited financial statements are disclosed in the Annual Report and quarterly financial statements are published in the newspapers in all three languages. **Complied with**
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report: a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	**Complied with**

Section	Rule	Level of Compliance
	b) The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	**Complied with**
	c) Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	**Complied with**
	d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	**Complied with**
	e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Refer 3(7)(i)
	f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	**Complied with** The disclosures have been made in the financial statement.
	g) Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	**Complied with**
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material noncompliance	**Complied with** Relevant disclosures are made in Chairperson's, CEO's review and the Directors' report.
	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	**Complied with**

Attendance of Board and the Committees

The number of the meetings of the Board, Board appointed Sub - Committees and individual attendance by members is shown below

Names	Directorship Status	Board	Audit Committee	Integrated Risk Management Committee	HR & Remuneration Committee	Credit Commitee
Ms . Keshala Jayawardana	Non Executive Independent Chairperson	13/13	01/03	02/03		
Mr. Rathnasiri Siriwardana	General Manager / CEO	13/13	04/04	04/04		
Mr. T.A. Ariyapala	Non Executive Director	11/13				01/01
Mr. B. M. S. Batagoda	Non Executive Director	08/13	02/04			
Mr. P. V. Pathirana	Independent Non Executive Director	09/09	02/02			
Mr. Dammika Perera	Non Executive Director	05/13	03/04	04/04		
Ms. C. K. Nanayakkara	Independent Non Executive Director	13/13			01/01	
Ms. Dayani Fernando	Non Executive Director	02/04		00/01		
Ms. J.M.S.D. Rathnayaka	Independent Non Executive Director	02/03	00/02			
Mr. Russell De Mel	Independent Non Executive Director	01/02				
Mr. Sarath De Alwis	Executive Director	12/13				
Ms. Madavie Herath	Executive Director	06/13				
Total Number of Meetings		13	04	04	01	01

Internal Control Report

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. FB/M/RDB/IC/2013   ඔබේ අංකය / உமது இல. / Your No.   දිනය / திகதி / Date 24 March 2014

The Chairman,
Pradeshiya Sanwardhana Bank

ASSURANCE REPORT OF THE AUDITOR GENERAL TO THE BOARD OF DIRECTORS ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL OF PRADESHIYA SANWARDHANA BANK

INTRODUCTION

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of Pradeshiya Sanwardhana Bank included in the annual report for the year ended 31 December 2013. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in Public practice.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

MY RESPONSIBILITY AND COMPLIANCE WITH SLSAE 3050

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

SUMMARY OF WORK PERFORMED

My engagement has been conducted to assess whether the Statement is 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.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34   +94-11-2887223   oaggov@sltnet.lk   www.auditorgeneral.gov.lk

To achieve this objective, following procedures were performed to obtain appropriate evidence:

Enquired the management 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 accompanying statement made by the Directors.

Reviewed the documentation prepared by Directors to support their Statement made.

Obtained written representation from Directors on matters material to the Statement on internal control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

MY CONCLUSION

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

H.A.S. Samaraweera
Auditor General

Directors' Statement on Internal Control

REQUIREMENT

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

RESPONSIBILITY

The Board of Directors is responsible for Internal Control in Regional Development Bank and for reviewing its effectiveness. However, such a system is designed to manage the Bank's key areas of risk within and acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objective of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records of against financial losses or fraud.

BOARD REVIEW PROCESS

The process was reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

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

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

KEY FEATURES OF THE PROCESS

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

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

The Board has approved an Operational Manual in related to the Financial and other controls of the Bank in its all transactions. The procedures laid down in the manual has been communicated to all members of the staff.

The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance.

Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Audit Committee. Findings of the Internal Audit are submitted to the Audit Committee for review at their periodic meetings.

The Audit Committees of the Bank review internal control issues identified by the respective Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

The Bank has prepared year ending Financial Statements in manual process where management information system (MIS) team at Head Office and Regional Offices who involved in preparation and presentation. At present Bank is in the process of implementing a centralized software core- banking platform.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' statement on internal control for the year ended 31 December 2013 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board review of the design and effectiveness of the internal control system of the Bank.

R. Siriwardhane
General Manager/ CEO

S. D. N. Perera
Chairman of the Audit Committee

Keshala Jayawardana
Chairperson

Directors' Report

GENERAL

The Directors of the Pradeshiya Sanwardhana Bank (RDB) pleasure in presenting their Annual Report on the affairs of the Bank together with the audited Financial Statements of the bank for the year ended 31st December 2013. The audited Financial Statements were authorized to be issued on or before 31st March 2014. The Report also includes certain disclosures required to be made under the Banking Act Direction on Corporate Governance. The Annual Report and Accounts Together with the Auditor General's Report will be submitted to the Minister of Finance, on or before 31st May 2014 as per Circular No. PED/27 of 27th January 2005, Issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

PRINCIPAL ACTIVITIES

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

VISION, MISSION

The bank's Vision & Mission are given on page front inner cover of this Annual Report; The Bank maintains high ethical standards in its activities whiles pursuing the objectives stated under 'Vision' and 'Mission'

GOING CONCERN

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

FINANCIAL STATEMENTS

The Financial Statement of the Bank has been prepared accordance with these Sri Lanka accounting Standards (SLFRS's) laid down by Institute of Charted Accountants of Sri Lanka and complied with Banking Act No. 30 of 1988. The Financial Statements of the Bank for the year ended 31st December 2013 duly signed by the Head of Finance & Planning, Chief Executive Officer and two Directors of the Bank are given on page 90 which form an integral part of the Annual report of the Board of Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments. The Directors' Responsibility Statement appearing on page 77 of this Annual Report describes in detail the Directors' responsibilities in relation to Financial Statements, which forms an integral part of the Annual Report of Directors.

AUDITOR'S REPORT

The Auditor General carried out the audit of the Bank. In 2013, the audit was carried out throughout the year. Issues identified in their report were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 86 on this Annual Report. As a regulatory supervisory body the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the required level so that the interests of the stakeholders, particularly depositors are safeguarded.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of Financial Statements are given on pages 93 to 105.

DIRECTORS' REMUNERATION

Details of Directors' emoluments paid during the year are given in Note 6 to the Financial Statements

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the Message from the Chairman (pages 7 to 10) the Message from the General Manager/CEO (pages 11 to 13) and Management Discussions and Analysis (page 27 to 30)

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2013 is contained in the Message from the Chairman (Pages 7 to 10), the Message from the General Manager/ CEO (Page 11 to 13) and Management Discussions and Analysis (Page 27 to 30). These reports form an integral part of the Annual Report.

FINANCIAL RESULTS

The Bank Financial and Operational Performance is given on the General Manager's CEO's Review on pages 12 and financial highlights on pages 02

STATED CAPITAL

The total share holders fund as at 31.12.2013 is Rs. 4.1 billion which is very much higher than the minimum capital requirement of Rs. 1.5 Billion imposed by the Central Bank of Sri Lanka. The stated Capital contributed by share holders at the end of year is Rs. 1.09 Billion and there percentage of shares shareholding is as follows.

1.	Government Treasury Rs. 877,446,711	79.81%
2.	Bank of Ceylon Rs. 74,184,480	6.75%
3.	Peoples Bank Rs. 74,184,480	6.75%
4.	National Savings Bank Rs. 73,584,480	6.69%
	Total Rs. 1,099,400,151	**100%**

INCOME

The income of the Bank for 2013 was Rs. 11 billion details of the income is given in page 105.

CONTRIBUTION TO THE GOVERNMENT

The Bank contributed Rs. 843 million by way of taxes and levies to the Government in 2013. This consisted of Rs.156 million of Income Tax Rs. 687 million of value Added Tax. The Income Tax Rate applicable on the Bank's operations is 28%. It is the bank's policy to provide for deferred taxation on all known temporary differences under the liability method. The Bank is also liable for Financial VAT at 12%

PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment,

Leasehold property and intangible assets during the year amounted to Rs. 313.5 million (2012 Rs. 352mn) their details of which are given in Notes 21 to the Financial Statements on pages 112 to 114 of this Annual report.

EVENTS AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in, the account

OUTSTANDING LITIGATION

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 31 of the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

BOARD OF DIRECTORS

The Board of Directors comprises Nine Directors including the Chairperson and two Deputy General Managers from People's Bank and National Savings Bank, Deputy Secretary to the Treasury nominated by the secretary to the treasury and Ministry of finance consultation with the secretary to the treasury appoints chairperson and the other five Directors which include two Executive Directors who works as chairman of Previous Regional Banks. The following were the Directors during the year and whose brief profiles appear on pages 15 to 19 of this Annual Report.

Ms. Keshala Jayawardana

Mr. Sarath de Alwis

Ms. A.V.K. Madhavie Herath

Dr. B.M.S. Batagoda

Mrs. C.K. Nanayakkara

Mr. S.D.N. Perera

Mr. T.A. Ariyapala

Mrs. J.M.S.D.Rathnayake

Mr. Russell De Mel

RESIGNATION OF DIRECTOR

Mr. P.V. Pathirana and Ms. Dayani Fernando, Directors were resigned from the board with effect from 04/09/2013 and 22/05/2013 respectively.

NEW APPOINTMENT OF DIRECTOR

Mrs. J.M.S.D.Rathnayake and Mr. Russell De Mel, were appointed to the board as Directors with effect from 16/09/2013 and 22/10/2013 respectively.

BOARD COMMITTEES

The Board while assuming the overall responsibility and accountability has also appointed the following Board Sub Committees to ensure conformity with Corporate Governess Standards of the Central Bank and other statutory compliances. The composition of mandatory Sub Committees as at 31st December 2013 was as follows

AUDIT COMMITTEE

1. Mr. S.D.N. Perera (Chairman of the Committee)
2. Dr. B.M.S. Batagoda
3. Mrs. J.M.S.D. Rathnayake
4. Mr. P.V.S. Pathirana
5. Mrs. Manojika Herath (Secretary to the Committee)

Report of the Audit committee is given on page 81 to Page 82 which forms part of the Directors report of the Board.

INTEGRATED RISK MANAGEMENT COMMITTEE

1. Mr. Dammika Perera-(Committee Chairman)
2. Mrs. Keshala Jayawardana
3. Mrs. Dayani Fernando
4. Mr. R. Siriwardane
5. Mr. T. Kuhan Chief Risk - Officer
6. Mr. Sumanadasa – Compliance Officer

Report of the Integrated Risk Management Committee is given on page 83 which forms part of the Directors report of the Board.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

1. Ms. Keshala Jayawardana
2. Mrs. Nanayakkara
3. Dr. Batagoda
4. Mr. R. Siriwardane
5. DGM HRD and Administration

CREDIT COMMITTEE

1. Dr. Batagoda
2. Mr. T.A. Ariyapala
3. Mr. R. Siriwardane
4. Mrs. Dayani Fernando
5. Mr. T. Kuhan

DIRECTORS' MEETINGS

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

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts with the bank both direct and indirect are referred to in Note 34 to the Financial Statements. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

RELATED PARTY TRANSACTIONS

The Directors have also disclosed the transactions if any. That could classify as related party transactions in terms of Sri Lanka Accounting Standard (LKAS 24) Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 34 to the Financial Statements forming part of the Annual Report of the Board.

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER (GM/CEO)

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

HUMAN RESOURCES

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value though hive quality service.

ENVIRONMENTAL PROTECTION

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

STATUTORY PAYMENTS

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

RISK MANAGEMENT INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system, of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the bank is exposed. To provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 47 to 50.

Directors' Statement on Internal Control

The Board has confirmed that the financial reporting system has been design to provide reasonable assurance regarding the reliability of the financial reporting, that the preparation of financial statement for external purposes has been done accordance with relevant accounting principal and regulatory requirement. The above report which form and integral part of the annual report of the board of director is given on page 75 to 76 Board has obtain an assurance report from Auditor General on Directors' statement on Internal Control which is given on pages 73 to 76 in Annual Report.

CORPORATE GOVERNANCE

In the management of the Bank, the directors have placed emphasis on conforming with, the best Corporate governance practices and procedures. Accordingly, systems and structures have been Introduced/improved from time to time to enhance risk management measures and to improve accountability and transparency. A separate report on corporate governance is given on pages 53 to 71 which Board has obtained an assurance report from the Auditor General.

COMPLIANCE WITH LAWS REGULATIONS AND PRUDENTIAL REQUIREMENTS

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

AUDITORS

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31st December 2013.

Keshala Jayawardana

Keshala Jayawardana
Chairperson

Audit Committee Report

THE COMPOSITION OF THE AUDIT COMMITEE

The Board appointed Audit Committee comprises of the following Non- Executive Directors of the Bank;

Mr. Dammika Perera	-	Chairman
Dr. B.M.S.Batagoda	-	Director
Ms. J. M. S. D. Rathnayaka	-	Director
Mr.P.V.S.Pathirana	-	Director (Resigned on 4.9.2013)

Audit Committee comprises of three Non-Executive Directors of the Board. The Director who represents the National Savings Bank function as the Chairman of the Committee. General Manager/CEO attended the Committee meetings by invitation. The Chief Internal Auditor normally attends the meetings. The Superintendent of Government Audit is invited to attend the Committee Meetings as an observer.

FUNCTIONS

The main functions of the committee are to review and monitor internal controls and compliance of the Bank and assist the Board of Directors by;

- Reviewing the form and content and monitoring the integrity of the Bank's financial statements and financial reporting system.
- Monitoring and reviewing the arrangements for ensuring the objectivity and effectiveness of the external and internal audit function.
- Reviewing the adequacy and effectiveness of the Bank's internal controls and risk management systems and make recommendations.
- Reviewing the internal audit reports, external audit management letters and subsequent follow up audits, thereon.
- Reviewing and make recommendations on the Bank's ethical standards, procedures for ensuring compliance with regulatory and financial reporting requirements and relationship with the relevant regulatory authorities.

MEETINGS

The Committee meets on a quarterly basis.

In accordance with the provisions of the Public Enterprise Guidelines for Good Governance issued by the Department of Public Enterprises of General Treasury the Audit Committee held four meetings during the financial year ended 31st December 2013. Attendance by the Committee members at each of these meetings is given in the table on page 72 of the Annual Report. The Committee has submitted its comments on these deficiencies and remedial measures were taken by the Management accordingly.

During the year under review the Committee attended to the following matters to achieve the above objectives

- Maintained the Internal Audit Function with the employment of qualified Chief Internal Auditor and assigned competent staff to the internal Audit Division.
- Review the internal controls and recommended improvements where necessary.
- Review and approve internal audit plan and the internal audit charter for year 2013.
- The Committee reviewed the internal audit reports during the year 2013
- Review and approve Rating system for the Branches on Internal Audit findings
- Review and made recommendations on the External Auditors Management letter for the year 2012
- Review External Auditors' Audit findings and made required recommendations.

Under the guidance of the Board Audit Committee, approved Internal Audit work plan has been carried out by the Internal Audit Division of the Bank during the year under review. Further the Internal Audit division conducted system audits to eliminate inefficient procedures, improve the internal controls, checks and controls and minimize possible instances of fraud and errors.

Audit Committee of the Bank evaluates the sustainability, Profitability and Going Concern of the Bank, in addition to reviewing Checks and Controls of the Bank.

Therefore the Audit Committee is of the view that adequate controls and compliance of the Bank's are in place and maintain highest standards of integrity, financial reporting and risk management.

PROFESSIONAL ADVICE

The committee has the authority to seek external professional advice on matters within its purview.

Chairman,
Audit Committee
S. D. N. Perera

Integrated Risk Management Committee (IRMC) Report

Risk management has become an important function in banks with the BASELL accords. Accordingly, Regional Development Bank (RDB) is also aims at improved shareholder value delivery by striking a balance between risks and returns. During the year 2013 RDB has strengthened and taken steps to further improve the risk management framework of the Bank to ensure that its operations are falls in line with the best practices described by CBSL and BASELL II accords.

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

1. Mr. S.D.N. Perera - Chairman of the Committee / Director (NED)
2. Ms. Keshala Jayawardhana - Member of the Committee /Chairperson of the Bank(IND/NED)
3. Ms D. Fernando- Member of the Committee/Director (IND/NED)
4. Mr. R. Siriwardhane- Member of the Committee/ GM/ CEO of the Bank
5. Mr. T. Kuhan- Member of the Committee/ CRO of the Bank
6. Mr. W. Sumanadasa - Member of the Committee/ AGM – Compliance of the Bank

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

DGM Credit and SAGM Operations are usually attending the meeting by invitation.

Brief profiles of the Directors representing the Committee are given in pages 15 to 19 of the Annual Report.

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

1. To ensure that the Bank has a comprehensive risk management framework, appropriate compliance and systems in place.
2. To assess all risk types, including but not limited to: credit, liquidity, operational and strategic reputational risks to the Bank through appropriate risk indicators and management information.
3. To ensure risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risks taken beyond the risk tolerance set by the Committee, on the basis of Bank's policies and regulatory and supervisory requirements
4. To monitor and assess the effectiveness of the Bank's Risk Management System and the robustness of the risk management function
5. To periodically assess performance against internally defined risk appetite.
6. To review the Bank's compliance report and action taken in relation to report
7. To review issues related to integrated Risk Management framework
8. To review progress on Basel II Roadmap implementation and regulator guidelines.

We draw your attention to the Risk Management Section of the report (pages 47 to 50) which extensively covers level of adherence against the terms of reference, achievements during the year and actions taken to mitigate key risks.

The Committee has met four times during the year 2013 and the attendance at the meetings are given in table in page 72 of the Annual Report

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

Mr. S.D.N. Perera
Chairman

"It was RDB Bank that gave strength to all of us to do well in life..."

Financial Information

Auditor General's Report

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. } FB/M/RDB/FA/2013

ඔබේ අංකය / உமது இல. / Your No. }

දිනය / திகதி / Date } 21 March 2014

The Chairman,
Pradeshiya Sanwardhana Bank.

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PRADESHIYA SANWARDHANA BANK FOR THE YEAR ENDED 31 DECEMBER 2013 IN TERMS OF SECTION 14(2)(C) OF THE FINANCE ACT, NO. 38 OF 1971.

The audit of financial statements of the Pradeshiya Sanwardhana Bank for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of income, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of l97l and Section 33 of the Pradeshiya Sanwardhana Bank Act, No 41 of 2008. My comments and observations which I consider should be published with the Annual Report of the Bank in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be issued in due course.

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

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 oaggov@sltnet.lk www.auditorgeneral.gov.lk

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

OPINION

In my opinion, the financial statements give a true and fair view of the financial position of the Pradeshiya Sanwardhana Bank as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

H.A.S. Samaraweera
Auditor General

INCOME STATEMENT

For the Year ended 31st December	Note	Bank 2013 Rs.	Bank 2012 Rs.
Gross income	**4**	**10,994,634,547**	**9,514,802,623**
Interest income		10,440,932,854	9,049,146,825
Interest expenses		(5,938,776,452)	(4,612,377,985)
Net interest income	**5**	**4,502,156,402**	**4,436,768,840**
Fee and commission income		546,761,928	464,645,217
Fee and commission expenses		(73,847,088)	(46,524,259)
Net fee and commission income	**6**	**472,914,840**	**418,120,958**
"Net gain/(loss) from financial instruments at fair value through profit or loss"	7	69,859	(194,255)
Other operating income (net)	8	6,939,765	1,010,581
Total operating income		**4,982,080,866**	**4,855,124,123**
"Impairment chargers for loans and other losses"	9	(547,183,528)	(9,452,351)
Net operating income		**4,434,897,338**	**4,846,253,772**
Less-Operating expenses			
Personal cost	10	2,699,189,913	2,488,611,791
Amortization of intangible assets		32,839,594	4,731,869
Other expenses	11	1,016,077,938	860,483,857
Operating profit before value added tax (VAT)		**686,789,893**	**1,492,426,255**
Value added tax (VAT) on financial services		(289,777,903)	(425,673,865)
Operating profit after value added tax (VAT) before tax		**397,011,990**	**1,066,752,390**
Profit before tax		**397,011,990**	**1,066,752,390**
Tax expenses	12	(156,218,084)	(521,261,660)
Profit for the year		**240,793,906**	**545,490,730**
Earnings per share			
Earnings per share : Basic		2.19	4.96

STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December	Note	Bank	
		2013	2012
		Rs.	Rs.
Profit for the year		**240,793,906**	**545,490,730**
Comprehensive income/(expenses)			
Actuarial gains and losses on defined benefit plans	26	(694,854)	-
Deferred tax effect on above	22	194,559	-
Comprehensive income for the year, net of taxes		**(500,295)**	**-**
Total comprehensive income for the year		**240,293,611**	**545,490,730**
Attributable to:			
Equity holders of the parent		240,293,611	545,490,730
Non-controlling interest		-	-
		240,293,611	**545,490,730**

STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	Bank 2013 Rs.	Bank 2012 Rs.
Assets			
Cash and cash equivalents	15	226,501,435	202,978,066
Balances with banks	16	15,620,210,767	11,972,103,907
Financial assets held for trading	17	698,759	628,900
Loans and receivables from banks	18	-	12,108,219
Loans and receivables from other customers	19	60,490,634,208	54,734,881,685
Goodwill and intangible assets	20	72,013,872	55,441,895
Property and equipment	21	745,631,756	614,955,873
Deferred Tax assets	22	183,619,028	94,639,347
Other assets	23	1,444,541,379	1,156,254,595
Total assets		**78,783,851,205**	**68,843,992,487**
Liabilities			
Due to banks	24	8,484,636,687	6,078,629,948
Due to other customers	25	62,628,060,626	54,669,870,235
Retirement benefit obligation	26	806,724,857	697,674,934
Other liabilities	27	2,744,047,313	3,002,800,227
Total liabilities		**74,663,469,483**	**64,448,975,345**
Equity			
Stated capital/Assigned capital	28	1,099,400,151	1,099,400,151
Statutory reserve fund	29	506,153,956	506,153,956
Retained earnings	30	(58,932,243)	(75,428,565)
Other reserves	31	2,573,759,857	2,864,891,600
Total shareholders' equity		**4,120,381,722**	**4,395,017,142**
Total equity		**4,120,381,722**	**4,395,017,142**
Total equity and liabilities		**78,783,851,205**	**68,843,992,487**
Contingent liabilities and commitments	**33**	**146,618,951**	**163,182,094**

The Significant accounting policies on pages 93 to 105 and accompanying notes on pages 106 to 132 form an integral part of these financial statements. These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

C.Kalupahana
Head of Finance & Planning

R.Siriwardena
CEO/General Manager

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

Ms Keshala Jayawardana.
Chairperson

Ms. Madhavi Herath
Director

CASH FLOW STATEMENT

For the Year ended 31 December	Note	Bank	
		2013 Rs.	2012 Rs.
Cash flow from operating activities			
Profit before tax		686,789,893	1,492,426,255
Adjustment for:			
Non cash items included in profit before tax	37	857,135,015	395,817,656
Changes in operating assets	38	(6,662,680,214)	(7,522,470,104)
Changes in operating liabilities	39	10,093,755,223	9,243,041,509
Contribution paid to defined benefit plans		(9,934,129)	(7,288,495)
Tax paid		(1,048,628,249)	(937,630,765)
Net cash generated from operating activities		**3,916,437,539**	**2,663,896,055**
Cash flows from investing activities			
Purchase of Property, plant and equipment		(202,168,393)	(280,165,530)
Net purchase of intangible assets		(49,911,156)	(57,943,730)
Proceeds from the sale of property, plant and equipment		7,272,239	160,076
Net cash (used in)/from investing activities		**(244,807,310)**	**(337,949,184)**
Cash flows from financing activities			
Net cash from financing activities		**-**	**-**
Net increase/(decrease) in cash & cash equivalents		**3,671,630,229**	**2,325,946,871**
Cash & cash equivalents at the beginning of the year		12,175,081,973	9,849,135,102
Cash and cash at the end of the year		**15,846,712,202**	**12,175,081,973**
Reconciliation of Cash & Cash Equivalents			
Cash and balances with central bank		226,501,435	202,978,066
Balances with banks		15,620,210,767	11,972,103,907
		15,846,712,202	**12,175,081,973**

Statement of Changes in Equity

For the Year ended 31 December	Bank						
	Stated capital Rs.	Statutory Reserve Fund Rs.	Special Reserve Fund Rs.	Genaral Reserve Fund Rs.	Investment Fund Rs.	Retained earnings Rs.	Total Rs.
Balance as at 01/01/2012	1,099,400,151	504,066,435	358,456,763	2,026,650,476	360,652,351	(126,875,295)	4,222,350,881
Total Comprehensive Income for the Year	-	-	-	-	-	545,490,730	545,490,730
Transferred to Statutory Reserve Fund	-	2,087,521	-	-	-	(2,087,521)	-
Transferred to Special Reserve Fund	-	-	2,087,521	-	-	(2,087,521)	-
Transferred to General Reserve Fund	-	-	-	8,350,083	-	(8,350,083)	-
Transferred to Investment Fund	-	-	-	-	376,865,016	(376,865,016)	-
Transferred to Staff Welfare Fund	-	-	-	22,300,000	-	-	22,300,000
Transferred to Staff Medical Fund	-	-	-	40,166,261	-	-	40,166,261
Transferred to Staff Loan Assurance Fund	-	-	-	5,808,739	-	-	5,808,739
Transferred from Dividend Payable	-	-	-	109,940,015	-	-	109,940,015
Transferred from Investment Fund	-	-	-	-	(446,385,625)	-	(446,385,625)
Dividend	-	-	-	-	-	(104,653,859)	(104,653,859)
Balance as at 31/12/2012	**1,099,400,151**	**506,153,956**	**360,544,284**	**2,213,215,574**	**291,131,742**	**(75,428,565)**	**4,395,017,142**
Total Comprehensive Income for the Year	-	-	-	-	-	240,293,611	240,293,611
Transferred to Investment Fund	-	-	-	-	223,797,289	(223,797,289)	-
Transferred from Investment Fund	-	-	-	-	(514,929,031)	-	(514,929,031)
Balance as at 31/12/2013	**1,099,400,151**	**506,153,956**	**360,544,284**	**2,213,215,574**	**-**	**(58,932,243)**	**4,120,381,722**

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

1. Corporate Information

1.1. General

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

Permanent, training and contract staff strength of the bank as at 31 December 2013 was 3,139. (2,973 as at 31 December 2012).

1.2. Principal Activities and Nature of Operations

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

2. Accounting Polices

2.1. Statement of Compliance

The Income Statement, the Statement of Comprehensive Income, Statement of Financial Position, Cash Flow Statement, Statement of Changes in Equity, together with the Significant Accounting Policies and Notes, ('Financial Statements') , as at 31 December 2013 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS'S/LKAS'S), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto.

2.2. Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for available –for-sale investments, other financial assets and liabilities held for trading and liabilities for defined benefit obligations all of which have been measured at fair value. The financial statements are presented in Sri Lanka Rupees and all values are rounded to the nearest Rupee, except when otherwise indicated.

2.3. Approval of Financial Statements by Directors

The Financial Statements of the Bank for the year ended 31st December 2013 were authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 28th February 2014.

2.4. Functional and Presentation Currency

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

2.5. Presentation of Financial Statements

The items of the Bank presented in their Statements of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within

12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note no 41.

2.6. Materiality & Aggregation

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

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

2.7. Comparative Information

The comparative information is re-classified wherever necessary to conform to the current year's presentation. The details of such re-classification have been provided in Note 32

2.8. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

2.8.1. Going Concern

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

2.8.2. Impairment Losses on Loans and Advances

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

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

The impairment loss on loans and advances is disclosed in more detail in Note 19 and further described under the Note 42.

2.8.3. Deferred Tax Assets

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

2.8.4. Defined Benefit Plans

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

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

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

2.8.5. Useful Life-Time of the Property and Equipment

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

2.8.6. Commitments and Contingencies

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

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

3. Summary of Significant Accounting Policies

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

3.1. Cash and Cash Equivalents

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

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

Details of cash and cash equivalents are given in Note 15 and Note 16 to Financial Statements.

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

3.2. Financial Instruments - Initial Recognition and Subsequent Measurement

3.2.1. Date of Recognition

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

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

3.2.2. Classification and Initial Measurement of Financial Instruments

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

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

3.2.3. Classification and Subsequent Measurement of Financial Assets

The subsequent measurement of financial assets depends on their classification.

3.2.3.1. Financial Assets at Fair Value Through Profit or Loss

The subsequent measurement of financial assets depends on their classification.

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

3.2.3.2. Financial Assets Held for Trading

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

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

3.2.3.3. Held-To-Maturity Financial Investments

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

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

3.2.3.4. Due from Banks and Loans and Receivables from Customers

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

3.2.3.5. Available-for-Sale Financial Investments

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

3.2.4. Debt Issued and Other Borrowed Funds

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

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

3.2.5. Reclassification of Financial Assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

3.3. De-recognition of Financial Assets and Financial Liabilities

3.3.1. Financial Assets

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

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

Or

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

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

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

3.3.2. Financial Liabilities

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

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

3.4. Determination of Fair Value

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 40.

3.5. Impairment of Financial Assets

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

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

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

3.5.1. Foreclosed Properties

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

3.5.2. Offsetting Financial Instruments

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

3.6. Leasing

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

3.6.1. Leases -Bank as a lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

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

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

3.7. Cash and Cash Equivalents

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

3.8. Property and Equipment

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

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

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

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

3.9. Intangible Assets

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

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

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

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

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

Computer software	3 years

3.10. Impairment of Non–financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

3.11. Financial Guarantees

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

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

3.12. Pension Benefits

3.12.1. Defined Benefit Pension Plan-Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan' as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits). Please refer Note 3.12.2 for the definition of defined contribution plan.

3.12.1.1. Gratuity

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

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31st December 2013 by M/s. Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary.

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

Funding Arrangements: The Gratuity liability is not externally funded.

3.12.2. Defined Contribution Pension Plan

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

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

1. Employees' Provident Fund

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

2. Employees' Trust Fund

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

3.13. 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.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

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 and Similar Income and Expense

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

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

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

3.14.2. Fee and Commission Income

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

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

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

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

3.14.3. Dividend Income

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

3.14.4. SIGNIFICANT ACCOUNTING POLICIES - TAX EXPENSE

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

3.14.4.1. Current Tax

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

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

3.14.4.2. Deferred Tax

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

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

3.14.4.3. VAT on Financial Services

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

3.14.4.4. Withholding Tax (WHT) on Dividends

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

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

3.15. Dividends on Ordinary Shares

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

3.16. Other

3.16.1. Earnings per Share (EPS)

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

3.16.2. Cash Flow Statement

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

3.16.3. Standards issued but not yet effective

The following Sri Lanka Accounting Standards were issued by the institute of Charted Accountants of Sri Lanka and is effective for the periods commencing on or after of 1st January 2014.

SLFRS 9 -Financial Instruments:

Classification and Measurement SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities as defined in LKAS 39.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

SLFRS 9 was issued in 2012 and effective date of this standard has been deferred until notified

SLFRS 10 - Consolidated Financial Statements

SLFRS 10 replaces the portion of LKAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements it also issues raised in SIC 12 Consolidation – Special Purpose Entities.

SLFRS 10 establishes a single control module that applies to all entities including special purposes entities. The changes introduced by SLFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in LKAS 27

The impact on the impimentation above standard was assessed as at the reporting date and concluded that there is no impact on the Bank's Financial Statements.

SLFRS 11 - Joint Arrangements

SLFRS 11 replaces LKAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities.

SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint ventured must be accounted for using the equity method.

The impact on the implementation of the above standard was assessed as at the reporting date and concluded that there is no impact on the Bank's Financial Statements.

SLFRS 12 - Disclosure of Interests in Other Entities

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to consolidated financial statements, as well as all the disclosures that were previously included in LKAS 31 and LKAS 28. These disclosures relate to an entity's interest in subsidiaries, joint arrangement, associate and structured entities.

The impact on the implementation of the above standard was assessed as at the reporting date and concluded that there is no impact on the Bank's Financial Statements.

SLFRS 13 -Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use the fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. Use of principles of measurement in this standard is currently encouraged.

Pending the completion of full study of these standards, the financial impact is not yet known and reasonably estimable.

NOTES TO THE FINANCIAL STATEMENT

4 Gross Income

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Total interest income	10,440,932,854	9,049,146,825
Fee and commission income	546,761,928	464,645,217
Other operating income	6,939,765	1,010,581
Total gross income	**10,994,634,547**	**9,514,802,623**

5 Net Interest Income

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Interest Income		
Sri Lankan government securities	38,022,869	37,344,775
Financial assets designated at fair value through profit or loss	129,947	143,474
Loans and receivables to banks	1,824,792,984	1,157,600,201
Loans and receivables to other customers	8,577,987,055	7,854,058,375
Total interest income	**10,440,932,854**	**9,049,146,825**
Interest expenses		
Due to banks	(430,281,689)	(351,325,756)
Due to other customers	(5,508,494,763)	(4,261,052,229)
Total interest expenses	**(5,938,776,452)**	**(4,612,377,985)**
Net interest income	**4,502,156,402**	**4,436,768,840**

6 Net Fee and Commission Income

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Fee and commission income	546,761,928	464,645,217
Fee and commission expenses	(73,847,088)	(46,524,259)
Net fee and commission income	**472,914,840**	**418,120,958**
Comprising		
Loans	428,892,045	265,478,143
Trade and remittances	7,076,593	6,619,163
Deposits	(65,597,907)	(37,726,619)
Others	102,544,110	183,750,271
Net fee and commission income	**472,914,840**	**418,120,958**

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

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Financial assets designated at fair value through profit or loss	69,859	(194,255)
Total	**69,859**	**(194,255)**

NOTES TO THE FINANCIAL STATEMENT

8 Other Operating Income (net)

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Gain on sale of property, plant and equipment	7,231,897	95,998
(Less):		
Loss on sale of property, plant and equipment	(732,333)	(19,595)
Recoveries of NPL loans (Note 19(b))	434,277	934,178
Amortization of grant	5,924	-
Other operating income (net)	**6,939,765**	**1,010,581**

9 Impairment Charges for Loans and Other Losses

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Loans and receivables		
To other customers (Note 19(b))	547,183,528	9,452,351
Total	**547,183,528**	**9,452,351**

10 Personal Costs

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Salary and bonus	1,606,271,892	1,513,385,300
Contributions to defined contribution plans	120,564,526	114,407,687
Others	972,353,495	860,818,804
Total	**2,699,189,913**	**2,488,611,791**

11 Other Expenses

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Directors’ emoluments	2,812,440	3,076,885
Auditors’ remunerations	1,428,126	610,793
Professional and legal expenses	9,142,467	10,194,327
Depreciation of property, plant and equipment	131,947,959	112,268,023
Office administration and establishment expenses	781,063,097	665,902,120
Computerization expenses	33,537,339	3,517,488
Business tax expenses	443,192	390,815
Other commission paid	1,177,493	880,751
Savings insurance fund	52,084,392	63,642,654
Crop insurance levy	2,441,432	-
Total	**1,016,077,938**	**860,483,857**

12 Tax Expenses

For the Year ended 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Income taxation		
Taxation based on profits for the year (Note 12(a))	238,113,707	458,668,298
(over)/ under provision in respect of previous year	6,889,495	(25,808,571)
Deferred taxation		
Transfers to / (from) deferred taxation (Note 12(b))	(88,785,119)	88,401,933
Total	**156,218,084**	**521,261,660**

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

12 Tax Expenses (Contd....)

a. Reconciliation of tax expenses

For the Year ended 31 December	Bank	
	2013	2012
	Rs.	Rs.
Profit/(loss) before tax	**397,011,990**	**1,066,752,390**
IFRS adjustments	-	-
Add: Tax effect of expenses that are not deductible for tax purposes	691,168,237	718,506,002
(Less): Tax effect of expenses that are deductible for tax purposes	(237,774,131)	(147,157,326)
Taxable profit	**850,406,096**	**1,638,101,066**
Income tax for the period (taxable profit @ applicable tax rate)	28%	28%
Tax expense for the period	**238,113,707**	**458,668,298**

b. The deferred tax (credit)/charge in the income statement comprise of the following.

For the Year ended 31 December	Bank	
	2013	2012
	Rs.	Rs.
Deferred tax assets	(57,377,534)	(32,565,130)
Deferred tax liabilities	(31,407,584)	120,967,063
Deferred tax (credit)/charge to income statement (Note 22)	**(88,785,119)**	**88,401,933**

13 Earnings Per Share

For the Year ended 31 December	Bank	
	2013	2012
	Rs.	Rs.
Net profit attributable to ordinary equity holders	240,793,906	545,490,730
Net profit attributable to ordinary equity holders	**240,793,906**	**545,490,730**
Weighted average number of ordinary shares for basic earnings per share	109,940,015	109,940,015
Basic earnings per ordinary share	2.19	4.96

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

14 Measurement of Financial Instruments

a. Bank - Current year (2013)

As at 31 December	FVTPL Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Total Rs.
ASSETS					
Cash and Cash Equivalents	-	-	226,501,435	-	226,501,435
Balances with banks	-	-	15,620,210,767	-	15,620,210,767
Financial assets held for trading	698,759	-	-	-	698,759
Loans and receivables from other customers	-	-	60,490,634,208	-	60,490,634,208
Other assets	-	-	469,883,749	-	469,883,749
Total financial assets	**698,759**	**-**	**76,807,230,160**	**-**	**76,807,928,919**

Measurement of Financial Instruments

b. Bank - Current year (2013)

As at 31 December	Amortised cost Rs.	Other Financial Liabilities Rs.	Total Rs.
LIABILITIES			
Due to banks	8,484,636,687	-	8,484,636,687
Due to other customers	62,628,060,626	-	62,628,060,626
Total financial liabilities	**71,112,697,313**	**-**	**71,112,697,313**
Other liabilities2	-	2,744,047,313	2,744,047,313
Total other liabilities	**-**	**2,744,047,313**	**2,744,047,313**
Total liabilities	**71,112,697,313**	**2,744,047,313**	**73,856,744,626**

Measurement of Financia Instruments

Bank - Previous year (2012)

As at 31 December	FVTPL Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Total Rs.
ASSETS					
Cash and Cash Equivalents	-	-	202,978,066	-	202,978,066
Balances with banks	-	-	11,972,103,907	-	11,972,103,907
Financial assets held for trading	628,900	-	-	-	628,900
Loans and receivables to banks	-	-	12,108,219	-	12,108,219
Loans and receivables from other customers	-	-	54,734,881,685	-	54,734,881,685
Other assets	-	-	575,355,126	-	575,355,126
Total financial assets	**628,900**	**-**	**67,497,427,002**	**-**	**67,498,055,903**

As at 31 December	Amortised cost Rs.	Other Financial Liabilities Rs.	Total Rs.
LIABILITIES			
Due to banks	6,078,629,948	-	6,078,629,948
Due to other customers	54,669,870,235	-	54,669,870,235
Total financial liabilities	**60,748,500,183**	**-**	**60,748,500,183**
Other liabilities2	-	3,002,800,227	3,002,800,227
Total other liabilities	**-**	**3,002,800,227**	**3,002,800,227**
Total liabilities	**60,748,500,183**	**3,002,800,227**	**63,751,300,410**

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

15 Cash and Cash Equivalents

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Cash in hand	226,501,435	202,978,066
Total	**226,501,435**	**202,978,066**

16 Balances with Banks

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Fixed deposit	14,896,194,378	11,296,217,045
Money market placement	563,071,816	460,731,457
Other bank balances	160,944,574	215,155,405
Total	**15,620,210,767**	**11,972,103,907**

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

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Held for trading		
Equity securities (17.1)	628,900	823,155
Less: Devaluation	-	(194,255)
Add: Capital gain	69,859	-
Sub total	**698,759**	**628,900**
Designated at fair value through profit or loss		
Equity securities	-	-
Total	**698,759**	**628,900**

17.1 Equity Securities

	2013 No. of Shares	2013 Cost of Investment Rs.	2013 Market Value Rs.	2012 No. of Shares	2012 Cost of Investment Rs.	2012 Market Value Rs.
D.F.C.C. Bank	722	14,580	93,138	722	14,580	81,514
Lanka Walltiles PLC	1,890	45,000	101,871	1,890	45,000	114,912
Merchant Bank of Sri Lanka PLC	3,461	274,665	47,070	3,461	274,665	68,874
People's Merchant Bank PLC	1,400	28,000	15,680	1,400	28,000	21,000
Kelani Tyres PLC	6,000	175,000	297,000	6,000	175,000	201,600
Ceylinco Seylan Development Ltd	10,000	150,000	94,000	10,000	150,000	91,000
CRIB	50,000	50,000	50,000	50,000	50,000	50,000
		737,245	698,759		737,245	628,900
Provision for shares - devaluation		(38,486)	-		(108,345)	-
		698,759	**698,759**		**628,900**	**628,900**

18 Loans and Receivables from Banks

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Gross loans and receivables	-	12,108,219
Net loans and receivables	**-**	**12,108,219**

a. Analysis

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Debenture	-	12,108,219
Gross total	-	12,108,219
By currency		
Sri Lankan rupee	-	12,108,219
Gross total	**-**	**12,108,219**

Notes to the Financial Statement

For the Year ended 31 December 2013

19 Loans and Receivables from Other Customers

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Gross loans and receivables	62,187,153,216	56,052,581,101
(Less): Individual impairment charges		
Collective impairment charges	(1,696,519,008)	(1,317,699,416)
Net loans and receivables	**60,490,634,208**	**54,734,881,685**

a. Analysis

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
By product		
Pawning	18,784,211,582	23,743,351,832
Staff loans	1,036,230,031	940,873,099
Short-term	21,515,145,216	9,489,189,883
Long-term	18,757,879,629	19,493,756,684
Interest receivable on loans & advances	2,093,686,758	2,385,409,604
Gross total	**62,187,153,216**	**56,052,581,101**
By currency		
Sri Lankan rupee	62,187,153,216	56,052,581,101
Gross total	**62,187,153,216**	**56,052,581,101**
By industry		
Agriculture and fishing	20,208,859,426	20,927,906,366
Manufacturing	8,259,116,797	5,779,965,510
Transport	223,416,653	243,671,453
Construction /housing	10,321,047,798	9,154,822,442
Traders	8,323,810,990	7,818,665,860
Others (consumptions/against deposit/staff)	12,757,214,794	9,742,139,865
Interest receivable on loans & advances	2,093,686,758	2,385,409,604
Gross total	**62,187,153,216**	**56,052,581,101**

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

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Collective impairment charges		
Opening balance at 01/01/ 2013	1,317,699,417	1,293,036,689
Charge/(write back) to income statement (8)	547,183,528	9,452,351
Recoveries during the year (7)	(434,277)	(934,177)
Other movements	(167,929,659)	16,144,554
Closing balance at 31/12/2013	**1,696,519,008**	**1,317,699,417**

20 Goodwill and Intangible Assets

As at 31December	Bank 2013	Bank 2012
Computer Software		
Opening balance at 01/01/ 2013	77,497,461	26,558,727
Additions	50,574,797	57,555,819
Written off	(15,194,876)	(6,569,742)
Reclassify	(698,374)	(47,344)
(Less): Impairment charges	-	-
Closing balance at 31/12/2013	**112,179,008**	**77,497,461**
(Less): Amortisation		
Opening balance at 01/01/ 2013	22,055,565	24,328,694
Charge for the year	32,839,594	4,731,869
Written off	(14,695,291)	(6,458,307)
Reclassify	(34,733)	(546,691)
Closing balance at 31/12/2013	**40,165,135**	**22,055,565**
(Less): Impairment charges	-	-
Net book value	**72,013,872**	**55,441,895**

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2013

21 Property, Plant and Equipment

Property and Equipment
Bank 2013

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

21 Property, Plant and Equipment (Contd....)

Property and Equipment
Bank 2012

	Land and Buildings	Computer Hardware	Office,Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2012 (Previous year) Cost/fair value						
Opening balance at 01/01/2012	111,813,985	229,997,186	478,923,465	150,379,336	31,345,789	1,002,459,762
Additions	159,149,282	37,496,800	71,423,876	6,017,455	20,451,130	294,538,543
Disposals	-	-	(834,079)	-	-	(834,079)
Transfers during the Year	-	-	-	-	(12,792,721)	(12,792,721)
Reclassify	-	422,265	(334,722)	-	-	87,543
Closing balance at 31/12/2012	**270,963,267**	**267,916,251**	**549,178,540**	**156,396,791**	**39,004,199**	**1,283,459,048**
Finance Lease						
Opening balance at 01/01/2012	-	-	-	-	-	-
Additions	-	-	-	6,940,000	-	6,940,000
Disposals	-	-	-	-	-	-
Closing balance at 31/12/2012	**-**	**-**	**-**	**6,940,000**	**-**	**6,940,000**
Total Closing balance at 31/12/2012	**270,963,267**	**267,916,251**	**549,178,540**	**163,336,791**	**39,004,199**	**1,290,399,048**
(Less): Accumulated depreciation						
Opening balance at 01/01/2012	28,943,830	144,994,909	288,284,996	100,033,987	-	562,257,722
Charge for the year	7,811,694	30,977,030	57,646,400	15,764,451	-	112,199,574
Disposals	-	-	(750,406)	-	-	(750,406)
Reclassify	(7,623)	1,007,789	667,619	50	-	1,667,836
Closing balance at 31/12/2012	**36,747,901**	**176,979,727**	**345,848,610**	**115,798,488**	**-**	**675,374,726**
Finance Lease						
Opening balance at 01/01/2012	-	-	-	-	-	-
Additions	-	-	-	68,449	-	68,449
Closing balance at 31/12/2012	**-**	**-**	**-**	**68,449**	**-**	**68,449**
Total Closing balance at 31/12/2012	**36,747,901**	**176,979,728**	**345,848,610**	**115,866,937**	**-**	**675,443,175**
(Less): Impairment charges	-	-	-	-	-	-
Net book value at 31/12/2012	**234,215,366**	**90,936,524**	**203,329,930**	**47,469,853**	**39,004,199**	**614,955,873**

Notes to the Financial Statement

For the Year ended 31 December 2013

22 Deferred Tax Assets/Liabilities	Bank Balance Sheet as at 31-12-2013 Rs.	Balance Sheet as at 31-12-2012 Rs.	Income Statement for the Year Ended 31-12-2013 Rs.	Income Statement for the Year Ended 31-12-2012 Rs.
Deferred Tax Liability				
Capital allowances for tax purposes	105,801,832	137,209,417	31,407,584	(120,967,063)
	105,801,832	**132,209,417**	**31,407,584**	**(120,967,063)**
Deferred Tax Assets				
Defined Benefit Plans - income statement	225,688,401	195,348,982	30,339,419	29,993,373
Defined benefit plans - comprehensive income	194,559	-	194,559	-
General provision for performing Loans and advances	48,328,722	36,499,782	11,828,940	2,571,757
Unclaimed bad debt provision - specific provision	15,209,175	-	15,209,175	-
	289,420,857	**231,848,764**	**57,572,093**	**32,565,130**
Deferred income tax income / (expense) - Income statement	-	-	88,785,119	(88,401,933)
Deferred income tax income / (expense) - Statement of comprehensive income	-	-	194,559	-

As at 31 December	Bank 2013 Rs.	2012 Rs.
Reflected in the balance sheet as follows		
Deferred tax assets	289,420,857	231,848,764
Deferred tax liabilities	105,801,832	137,209,417
Deferred tax assets (net)	**183,619,025**	**94,639,347**

23 Other Assets

As at 31 December	Bank 2013 Rs.	2012 Rs.
Receivables	114,682,207	252,069,726
Deposits and prepayments	974,657,630	580,899,469
Sundry debtors	107,209,738	113,241,696

Notes to the Financial Statement

For the Year ended 31 December 2013

Others	247,129,125	210,043,704
Inter bank transaction in transit	862,679	-
Total	**1,444,541,379**	**1,156,254,595**

24 Due to Banks

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
Borrowings	1,066,640,000	1,600,901,118
Leasing	79,937,449	8,981,887
Refinance	7,338,059,238	4,468,746,943
Total	**8,484,636,687**	**6,078,629,948**

25 Due to Other Customers

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
At amortised cost	62,628,060,626	54,669,870,235
Total	**62,628,060,626**	**54,669,870,235**

a. Analysis

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
By product		
Savings deposits	16,556,186,394	12,887,172,039
Fixed deposits	38,478,728,998	33,834,835,714
Other deposits / long tern savings	7,593,145,234	7,947,862,483
Total	**62,628,060,626**	**54,669,870,235**
By currency		
Sri Lanka rupee	62,628,060,626	54,669,870,235
Total	**62,628,060,626**	**54,669,870,235**
The Maturity analysis of borrowings is given in Note No 42.3.3		

26 Retirement Benefit Obligation

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
Provision for retiring gratuity (Note 26.1)	806,724,857	697,674,934
	806,724,857	**697,674,934**

Notes to the Financial Statement

For the Year ended 31 December 2013

26.1 Provisions for Retiring Gratuity

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

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
Opening balance at 01/01/2013	697,674,934	590,555,742
Provision made during the year (Note 26.1.2)	116,503,302	114,407,687
	814,178,236	704,963,429
Benefits paid by the plan	(7,453,379)	(7,288,495)
	806,724,857	**697,674,934**

26.1.2 Amount Recognised in Income Statement

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
Service cost	42,552,580	37,038,947
Net interest on the net defined benefit liability(asset)	73,255,868	77,368,740
Total amount recognised in income statement	**115,808,448**	**114,407,687**

26.1.3 Amount Recognised in Statement of Comprehensive Income

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
Liability experience (gains) losses arising during the year	694,854	-
Total amount recognised in income statement	**694,854**	**-**

26.1.4 Defined Benefit Obligation Reconciliation

As at 31 December	Bank	
	2013 Rs.	2012 Rs.
Benefit obligation at end of prior year	697,674,934	590,555,742
Company service cost	42,552,580	37,038,947
Interest cost	73,255,868	77,368,740
Actual benefit paid from plan	(7,453,379)	(7,288,495)
(Gain)/loss due to changers in assumptions	694,854	-
Total amount recognised in income statement	**806,724,857**	**697,674,934**

An actuarial valuation of the gratuity fund was carried out as at 31st December 2013 by Ms M/s. Actuarial & Management Consultants (Pvt) Ltd a firm of professional actuaries.

Notes to the Financial Statement
For the Year ended 31 December 2013

Actuarial assumptions	Bank 2013 Rs.	Bank 2012 Rs.
Discount rate as at 31st December	10.50%	10.50%
Future salary increment rate	7%	7%

27 Other Liabilities

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Sundry creditors	85,642,452	133,779,502
Interest payable	1,391,247,905	1,242,611,197
Other payables	1,267,156,953	1,516,289,767
Inter bank transaction in transit	-	110,119,761
Total	**2,744,047,311**	**3,002,800,227**

28 Stated Capital

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Ordinary shares	1,099,400,151	1,099,400,151
Total	**1,099,400,151**	**1,099,400,151**

29 Statutory Reserve Fund

As at 31December	Bank 2013 Rs.	Bank 2012 Rs.
Opening balance at 01/01/2013	506,153,956	504,066,435
Transfer during the period	-	2,087,521
Closing balance at 31/12/2013	**506,153,956**	**506,153,956**

Notes to the Financial Statement

For the Year ended 31 December 2013

30 Retained Earnings

As at 31December	Bank 2013 Rs.	2012 Rs.
Opening balance at 01/01/2013	(75,428,565)	(126,875,295)
Profit for the year	240,293,611	545,490,730
Transfers to other reserves	(223,797,289)	(389,390,141)
Dividend	-	(104,653,859)
Closing balance at 31/12/2013	**(58,932,243)**	**(75,428,565)**

31 Other Reserves

a. Bank - Current year (2013)	Opening balance as at 01/01/2013 Rs.	Movement/ transfers Rs.	Closing balance as at 31/12/2013 Rs.
General reserve	2,213,215,574	-	2,213,215,574
Investment Fund	291,131,742	(291,131,742)	-
Special Reserve Fund	360,544,284	-	360,544,284
Total	**2,864,891,600**	**(291,131,742)**	**2,573,759,857**

b. Bank – Previous year (2012)	Opening balance as at 01/01/2012 Rs.	Movement/ transfers Rs.	Closing balance as at 31/12/2012 Rs.
General reserve	2,026,650,475	186,565,099	2,213,215,574
Investment Fund	360,652,351	(69,520,609)	291,131,742
Special Reserve Fund	358,456,764	2,087,521	360,544,284
Total	**2,745,759,589**	**119,132,011**	**2,864,891,600**

32 Comparative Information

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

	2012 Rs.
As reported previously:	
Other operating income (net) (Note-7)	
Recoveries of NPL loans (a)	130,881,151
Impairment Chargers for loans and other losses (Note-8)	
To other customers (a)	139,399,324

Notes to the Financial Statement

For the Year ended 31 December 2013

Cash Flow Statement (b)		
Purchase of property, plant and equipment		(281,745,822)
Net purchase of intangible assets		(57,555,819)
Property, plant and equipment net adjustment		1,580,292
Intangible assets net adjustment		(387,911)
Other Liabilities (c)& (d)		
Other payables (c) & (d)		2,485,780,866
Branch advice (d)		618,684,070
Other Assets (d)		
Claim voucher		780,380,474

Current Presentation:	**2013 Rs.**	**2012 Rs.**
Other operating income (net) (Note-7)		
Recoveries of NPL loans (a)	434,277	934,178
Impairment Chargers for loans and other losses (Note-8)		
To other customers (a)	547,183,528	9,452,351
Cash Flow Statement (b)		
Cash flows from investing activities		
Purchase of property, plant and equipment	(202,168,393)	(280 ,165,530)
Net purchase of intangible assets	(49,911,156)	(57,943,730)
Other provision (c)		
Provisions for retiring gratuity	806,724,857	697,674,934
Other Liabilities (c) & (d)		
Other payables (c) & (d)	1,267,156,953	1,516,289,767
Inter bank transaction in transit (d)	-	110,119,761
Other Assets (d)		
Inter bank transaction in transit (d)	862,679	-

Reasons for change in the presentation and classification:

a) During the year the bank has decided to net off reversal of loan loss provision with relevant provision during the relevant year for better presentation.

b) The Adjustment of Property, plant and equipment and Intangible assets presented under Purchase of Property, plant and equipment and Net purchase of intangible assets has been amanded for better presentation.

c) The retiring gratuity liability which was presented under other liability in Previous year has been disclosed separately for better presentation

d) The claim voucher which was presented under other assets, branch advice and branch accounts which was presented under other liability in Previous year has been netted off for better presentation

Notes to the Financial Statement

For the Year ended 31 December 2013

33 Contingent Liabilities and Commitments

As at 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Guarantees performance bonds	59,171,150	53,311,000
Other contingent items	87,447,801	109,871,094
Total	**146,618,951**	**163,182,094**

NORTH CENTRAL PROVINCE

Case No.SC/HC/CALA : 247/2011 — Supreme Court

NCP/HCCA/ARP/675/09

D.C. Polonnaruwa Case No.DR 417/2003

Mr Kushan De Alwis, Presidents Counsel appears on behalf of the Bank.

The Bank filed action in the District Court of Polonnaruwa to recover a sum of Rs.210,387/62 against the 15t Defendant (deceased) who was a customer of the Bank and after ””Decree Nisi”” was entered the Defendant — Respondent- Respondents sought to set aside the ””Decree Nisi”” and defend the action. The Bank appealed to the Provincial High Court of Civil Appeal of the North Central Province against the judgment of the District Court and said appeal was dismissed. Thereafter the Bank sought leave to appeal to the Supreme Court to hear the appeal and set aside the judgment of the Provincial High Court of Civil Appeal. The case is fixed on 20th June 2014.

SOUTHERN PROVINCE

Case No.DMR/2230/2011 — District Court Colombo

K.K.G.D.R.S. Wijethileke

Mr. Ravindra Pathirana, Senior State Counsel appears on behalf of the Bank in this matter.

This is a claim for damages for Rs.20,000,000/= and the Action has been filed by the Plaintiff K.K.G.D.R.S. Wijethileke who had been an account holder at the Imaduwa branch and had obtained a loan of Rs.25,000/= which had been later settled. However, her account at the branch had not been closed and the branch had failed to remove her details from the. CRIB and in the CRIB information sheet the Plaintiffs name has appeared with her Identity Card Number, with regard to a loan of Rs.75,000/= obtained by another account holder, P.G. Nadeesha Priyangani. The plaintiff alleges that when she attempted to obtain loans from other banks, her requests had been rejected as her details had not been removed from the CRIB, and is claiming damages of Rs.20,000,000/= against the Bank in this regard. Trial has commenced and next date of trial is 20th March 2014.

Case No LT/M/26/86/09 — Labour Tribunal Mathara

Mr. Ramya Chandra Gunasekara, Attorney-at-Law appears on behalf of the Bank.

Mr. T. G. Wimalarathne Former General Manager of the Ruhunu Development Bank has filed a case against the bank in case of dismissed him for the offence of made Investment in Vanik In Corporation. He has demanded re employment in the Bank and compensation from interdicted date or as a alternative step 5 years salary as compensation. Next date of inquiry fixed on 24th January 2014.

Notes to the Financial Statement

For the Year ended 31 December 2013

33 Contingent Liabilities and Commitments (contd...)

NORTH WESTERN PROVINCE

Case No.2895/M – District Court Puttalam

Mr. M.A.T.A. Marasinghe, Attorney-at-Law appears on behalf of the Bank.

The case has been filed against the bank by N.I.Mallawarchchi. By executing, parate rights bank has sold the subject land to the plaintiff by an auction dated 29/12/2004. The Plaintiff has now pleaded Rs.2500000/- as damages from the bank for the failure to execute the transfer deed in due course. Case is fixed on 6th March 2014.

Negombo Labour Tribunal – Case Number 21/Athi/306/2004

Mr. Sunil Dheeradooriy, Attorney-at-Law appears on behalf of the Bank.

The case has been filed against the Bank by Mr. Harshana Kumarasinghe, the branch manager of Negambo ranch who has interdicted on August 28, 2001 as per disciplinary action taken against him. He has demanded the re-employment and claimed a fair compensation. Case is fixed for arguments on 4th March 2014. The layer's opinion is that the case might be decided in favor of the accuser.

Case No.1663/L – District Court Marawila

Mr. M.A.T.A. Marasinghe, Attorney-at-Law appears on behalf of the Bank.

1st Defendant (our customer) has mortgaged a land to the Bank which was bought by him under a transfer deed from the plaintiff. Plaintiff's position was that, the transfer deed is a fraudulently executed deed by the 1st defendant. Plaintiff has filed the case against 1st Defendant – the customer and the Bank as the 2nd defendant and pleaded Rs.800,000/- as damages. Bank is in the position that, respective panel lawyer has duly checked the title and there were no discrepancies on the title. Next trial date fixed on 11th March 2014.

Case No.L.T. 01/57/2011 — Labor Tribunal Colombo

Mr Dhananjaya Jayakody, Attorney-at-Law and Senior Industrial Relations Advisor, of the Employers Federation of Ceylon, appears on behalf of the Bank.

The Ceylon Bank Employees Union, on behalf of the Applicant, U.B. Ranjith, filed action in the Labour Tribunal and is seeking the relief prayed for in the application, whilst the Bank is maintaining that the termination of the applicant's services were on just and equitable grounds as he had been found guilty of charges of serious misconduct, whilst serving as the acting manager of a branch of the Wayamba Development Bank. Trial is continuing in this matter. Next date of inquiry is fixed on 12th March 2014.

Case No 376L 2013.01.02 Kuliyapitiya District Court

Mrs. I.M.N.K.Ilangathilaka, Attorney-at-Law appears on behalf of the Bank

Building owner of present Narammala Branch premises filed the case against the bank to remove the branch from this building. He claim up to maximum limit of Rs 150,000 per month and the case fee from 1st January until hand over the possession of the property. Next trial date is 22nd April 2014.

Case No CT46/KU03/2013 - Labour Tribunal Case - Kuliyapitiya–D.M.P.R.Dasanayake

Mr. I.R.D. de Silva, Attorney-at-Law appears on behalf of the Bank

An employee of the bank has filed a case against dismissed from the bank.

Notes to the Financial Statement

For the Year ended 31 December 2013

33 Contingent Liabilities and Commitments (contd...)

SABARAGAMUWA PROVINCE

Case No 6R/6463/7 High Court Rathnapura

Mrs. Padma Gamlath - Attorney-at-Law appears on behalf of the Bank

Mr. M S D Jayathilake has filed two separate cases against the Bank at Ratnapura High Court and Labour Tribunal of Ratnapura. Labour Tribunal case has been postponed until High Court case finalized.

Case No HCR/LTA/57/2012 – Mrs.Dushanthi Kandanaarachchi – Provincial High Court - Rathnapura

Mr. Ambagahavita, Attorney-at-Law appears on behalf of the Bank.

Mrs .Dushanthi Kandanaarachchi has appealed against the decision given by the labour tribunal on case no 6335 labour tribunal. Fixed for written submission on 13th January 2013.

Case No HCR/LTA/15/2012 – K.K. Meegahawatte – Provincial High Court - Rathnapura

Mr. Parackrama Agalawatte, Attorney-at-Law appears on behalf of the Bank.

K.K. Meegahawatte has appealed against the decision given by the labour tribunal on case no LT 5091 labour tribunal. Arguments were fixed for 22nd July 2014.

UVA PROVINCE

Mr. H A D Chandrasiri – Case Number 3392

Mr. S Shanmugam Attorney-at-Law appears on behalf of the Bank

The above person has filed a case against the Bank at Industrial Court of Kandy and prayed that the letter send by the respondent on 27th April 2007 to be withdrawn by the respondent and to obtain one year increment. If the court grant any relief bank will have to pay the increment. Next trial date is on 26th February 2014.

Labor Tribunal Colombo

Ms. M P T Gothami (Ex Employee)

She has resigned on August 20, 2010 and filed a complaint at Assistant Labour Commissioner's Office of Badulla claiming surcharges for delay in payment of gratuity.

Case Number 19711 Labor Tribunal Badulla

Mr. Vishvanatha R Kulatunga - Attorney-at-Law appears on behalf of the Bank

Mr. W K Wisidagama, an employee of the Bank has interdicted from the Bank and he has filed a case against the Bank at Labour Tribunal of Badulla. Next trial date is on 06/01/2014.

Mrs. W M Suwendra Kumarihami – High Court Case Number -64/2012/Appeal

The above employee has interdicted and paid compensation of Rs. 290,000/- as per the decision of case number 05/19493/2006 at the Labour Tribunal of Badulla. She has filed an appeal at High Court of Badulla challenging the decision made by Labour Tribunal. Mr. Shantha Imbulana appears on behalf of the Bank.

Mr. Mohommad Seiyadu – Case Number 34/9/F

He has filed an appeal at Uva Provincial High Court after ruling out the case filed under 62/6 at High Court Badulla. Mr. Ravi Molligoda and Mr. Upali Nishshanka appear on behalf of the Bank. The decision has been made in favor of the Bank. Pradeshiya Sanwardana Bank.

Notes to the Financial Statement

For the Year ended 31 December 2013

33 Contingent Liabilities and Commitments (contd...)

CENTRAL PROVINCE

Case No 39/16/06- P.P.H.Ariyawansa- Labour Tribunal Palapathwala

Mrs. Kamaragoda, Attorney-at-Law appears on behalf of the Bank

P.P.H. Ariyawansha an employee of the bank has filed this case against the bank. He has demanded reemployment of the bank with salary arias and arias allowances. Layer's opinion is that this case might be decided in favor of the bank. Next date is 23rd January 2014.

Case No 03/311/08 – Asela Liyanarachchi Labour Tribunal- Kandy

Mrs.Kamaragoda , Attorney-at-Law appears on behalf of the Bank

Asela Liyanarachchi an employee of the bank has filed this case against the bank. He has demanded reemployment of the bank with salary arias and arias allowances. Taking main evidence from the accuse have been completed. Layer's opinion is that this case might be decided in favor of the bank. Next date is 21st January 2014.

Case No 03/248/08- K.B.M.Kapila Deeptha- Labour Tribunal- Kandy

Mrs.Kamaragoda , Attorney-at-Law appears on behalf of the Bank

K.B.M.Kapila Deeptha an employee of the bank has filed this case against the bank. He has demanded reemployment of the bank with salary arias and arias allowances. Taking main evidence from the accuse have been completed. Layer's opinion is that this case might be decided in favor of the bank.

Case No 03/2008- K.B.S.Wasantha Kumara- Labour Tribunal- Nuwara Eliya

Mrs.Nalin Thilaka Herath , Attorney-at-Law appears on behalf of the Bank

K.B.S.Wasantha Kumara an employee of the bank has filed this case against the bank. He has demanded reemployment of the bank with salary arias and arias allowances. Layer's opinion is that this case might be decided in favor of the bank. Next date is on 03rd February 2014.

Case No K/V/S/39/03/2011 – Mrs.G.Y.M.W.G.K.Jayasri - Labour Tribunal,Palapathwala

Mrs.Kamaragoda , Attorney-at-Law appears on behalf of the Bank

An employee of the bank appealed against the decision given by the labour tribunal

NORTH CENTRAL PROVINCE

Case No LA/09/2011 (21814M) K.G.P.M. Nirmalatha - Appeal Court Anuradhapura

Mr. Jefery Alagarathnam , Attorney-at-Law appears on behalf of the Bank.

Bank has appeal against the order given by the court on the case filed by Mrs. K.G.P.M.Nirmalatha an employee of the bank claiming disentitled rights when she was employed in the Rajarata Development Bank. Debate fixed on the next date on 27th January 2014.

Case No 21814 /M - K.G.P.M. Nirmalatha – District Court Anuradhapura

Mr. Jefery Alagarathnam , Attorney-at-Law appears on behalf of the Bank.

Mrs. K.G.P.M.Nirmalatha an employee of the bank has filed a case against the bank claiming disentitled rights when she was employed in the Rajarata Development Bank. This case is taken to examine after get the decision of the case no LA/09/2011.

Notes to the Financial Statement

For the Year ended 31 December 2013

33 Contingent Liabilities and Commitments (contd...)

Case No 20324/M - N.G.Ranasinghe – District Court Anuradhapura

Mr. Jefery Alagarathnam, Attorney-at-Law appears on behalf of the Bank.

A Customer of Pulastigama branch of north central province has filed a case against the bank to acquire a Tractor bought from a bank loan which has not been repaid to the bank. Next trial date is on 16th January 2014.

WESTERN PROVINCE

Case No KT/LT/18/323 Mr.D.N.G.Silva,Kaluthara- Labour Tribunal - Kaluthara

Mr. Ambagahavita, Attorney-at-Law appears on behalf of the Bank.

An employee of the bank has filed a case against the bank for wrongful termination is continuing. Loyer's openion is that the bank can justify the decision if dismissal. This case was laid by until the M.C.Trial decides as the case is sub judies layers cannot give any opinion.

Case No KT/LT18/322 Mr. D.R.P.Wedisinghe- Labour Tribunal - Kaluthara

Mr. Ambagahavita, Attorney-at-Law appears on behalf of the Bank.

An employee of the bank has filed a case against the bank for wrongful termination is continuing. Loyer's openion is that the bank can justify the decision if dismissal. This case was laid by until the M.C.Trial decides as the case is sub judies layers cannot give any opinion.

Case No /LT18/KT/351/10 H.A.R.Silva- Labour Tribunal - Kaluthara

Mr. Ambagahavita, Attorney-at-Law appears on behalf of the Bank.

An employee of the bank has filed a case against dismissed from the bank.This case was laid by until the M.C.Trial decides as the case is sub judies layers cannot give any opinion.

34 Related party disclosures Compensation of key management personnel of the Bank

As at 31 December	Bank 2013 Rs.	Bank 2012 Rs.
Short–term employee benefits	6,414,871	6,019,731
Total	**6,414,871**	**6,019,731**

35 Events Occurring After the Reporting Date

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

36 Assets Pledged

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

	Type of Facility	Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31-12-2013 Rs. Mn
1	Over draft -BOC	1,564	FD-70963965	600 With interest	-
			FD-74353124	130 With interest	-
			FD-74361333	175 With interest	-
			FD-74817306	161.22 With interest	-
			FD-74588793	150 With interest	-
			FD-74619066	150 With interest	-
			FD-74041168	376.49 With interest	-

Notes to the Financial Statement

For the Year ended 31 December 2013

2	Over draft (PB)	200	FD-014-60-01-0000-9136-8	232.94 With interest	-
3	Borrowings (term loan) - BOC	1,000	Clean	-	1,000
4	Borrowings (short term loan) Public Bank	100	Pledge agriculture loan	-	66.64

37 Non- Cash items included in Profit Before Tax

For the Year ended 31 December		Bank	
		2013 Rs.	2012 Rs.
Depreciation of property, plant and equipment	11	131,947,959	112,268,023
Amortisation of intangible assets	20	32,839,594	4,731,869
EIR adjustment		21,222,027	4,977,218
Impairment losses on loans and advances	9	547,183,528	139,399,324
Capital loss on investment	7	-	194,255
Capital gain on investment	7	(69,859)	-
Charge for defined benefit plans	10	120,564,526	114,407,687
Movements of other funds		9,946,804	19,915,681
(Profit) / loss on sale of fixed assets	8	(6,499,564)	(76,403)
Total		**857,135,015**	**395,817,656**

38 Change in Operating Assets

For the Year ended 31 December		Bank	
		2013 Rs.	2012 Rs.
Net change in Sri Lankan government securities		-	173,697,739
Net change in loans and receivables from banks	18	12,108,219	100,724,932
Net change in loans and receivables from other customers	19	(6,302,977,404)	(7,808,623,813)
Change in other assets (please specify)	23	(371,811,029)	11,731,038
Total		**(6,662,680,214)**	**(7,522,470,104)**

39 Change in Operating Liabilities

For the Year ended 31 December		Bank	
		2013 Rs.	2012 Rs.
Net change in due to banks	24	2,406,006,739	941,212,931
Net change in due to other customers	25	7,936,968,364	8,556,030,990
Net change in other liabilities	27	(249,219,880)	(254,202,411)
Total		**10,093,755,223**	**9,243,041,509**

40. Fair Value of Financial Instruments

Financial instruments recorded at fair value

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

Trading assets and other assets measured at fair value

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

Notes to the Financial Statement

For the Year ended 31 December 2013

Determination of fair value and fair value hierarchy

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

Fair values are determined according to the following hierarchy:

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

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

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

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

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

Determination of fair value and fair value hierarchy

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

	2013		2012	
	Carrying amount Rs.	Fair value Rs.	Carrying amount Rs.	Fair value Rs.
Financial assets				
Cash and cash equivalents	226,501,435	226,501,435	202,978,066	202,978,066
Balances with banks	15,620,210,767	15,620,210,767	11,972,103,907	11,972,103,907
Loans and receivables from banks	-	-	12,108,219	12,108,219
Loans and receivables from other customers - without impairment				
Pawning	18,784,211,582	18,784,211,582	23,743,351,832	23,743,351,832
Staff loans	1,036,230,031	1,036,230,031	940,873,099	940,873,099
Short-term	21,515,145,216	21,515,145,216	9,489,189,883	9,489,189,883
Long-term	18,757,879,629	18,757,879,629	19,493,756,684	19,493,756,684
Interest Receivable on Loans & Advances	2,093,686,758	2,093,686,758	2,385,409,604	2,385,409,604
Other assets	469,883,749	469,883,749	575,355,126	575,355,126
	78,503,749,168	**78,503,749,168**	**68,815,126,419**	**68,815,126,419**
Financial liabilities				
Due to banks	8,484,636,687	8,484,636,687	6,078,629,948	6,078,629,948
Other liabilities	2,744,047,313	2,744,047,313	3,002,800,227	3,002,800,227
Due to other customers	62,628,060,626	62,628,060,626	54,669,870,235	54,669,870,235
	73,856,744,626	**73,856,744,626**	**63,751,300,411**	**63,751,300,411**

Notes to the Financial Statement

For the Year ended 31 December 2013

41. Maturity Analysis

41.1 As at 31/12/2013

Assets	Bank Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalents	226,501,435	-	226,501,435
Balances with banks	15,620,210,767	-	15,620,210,767
Financial assets held for trading	-	698,759	698,759
Loans and receivables from other customers	36,727,218,749	23,763,415,460	60,490,634,208
Goodwill and intangible assets	-	72,013,872	72,013,872
Property and equipment	-	745,631,756	745,631,756
Deferred Tax assets	-	183,619,028	183,619,028
Other assets	1,419,148,762	25,392,617	1,444,541,379
Total assets	**53,993,079,713**	**24,790,771,492**	**78,783,851,205**
Liabilities			
Due to banks	2,966,535,765	5,518,100,922	8,484,636,687
Due to other customers	39,575,847,899	23,052,212,728	62,628,060,626
Retirement benefit obligation	-	806,724,857	806,724,857
Other liabilities	2,195,610,745	548,436,567	2,744,047,313
Total liabilities	**44,737,994,409**	**29,925,475,074**	**74,663,469,482**
Maturity Gap	9,255,085,304	(5,134,703,582)	4,120,381,722
Cumulative Gap	**9,255,085,304**	**4,120,381,722**	**-**

41.2 As at 31/12/2012

Assets	Bank Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalents	202,978,066	-	202,978,066
Balances with banks	11,972,103,907	-	11,972,103,907
Fianacial assets held for trading	-	628,900	628,900
Loans and receivables from banks	12,108,219	-	12,108,219
Loans and receivables from other customers	37,562,467,287	17,172,414,398	54,734,881,685
Goodwill and intangible assets	-	55,441,895	55,441,895
Property and equipment	-	614,955,873	614,955,873
Deferred Tax assets	-	94,639,347	94,639,347
Other assets	1,148,600,656	7,653,939	1,156,254,595
Total assets	**50,898,258,135**	**17,945,734,352**	**68,843,992,487**
Liabilities			
Due to banks	1,653,270,018	4,425,359,930	6,078,629,948
Due to other customers	32,537,787,040	22,132,083,195	54,669,870,235
Retirement benefit obligation	-	697,674,934	697,674,934
Other liabilities	2,632,098,776	370,701,451	3,002,800,227
Total liabilities	**36,823,155,834**	**27,625,819,510**	**64,448,975,344**
Maturity Gap	14,075,102,301	(9,680,085,158)	4,395,017,142
Cumulative Gap	**14,075,102,301**	**4,395,017,142**	**-**

42. Risk Management

42.1 Introduction

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

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

Risk Management Framework

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

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

ALCO Committee

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

Risk Measurement & Reporting

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

Risk Mitigation

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

42.2 Credit Risk

Credit risk is the risk of financial loss to the Bank if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers/ other banks and investments in debt securities. In addition to the credit risk from direct funding exposure,

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For the Year ended 31 December 2013

the bank would also be exposed to indirect liabilities such as guarantees etc, which would carry credit risk. The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

42.2.1 Impairment Assessment

The methodology of the impairment assessment has explained in the Note 3.5 under Accounting Policies.

For all financial assets recognized in bank's financial statement, the maximum exposure to the credit risk is equivalent to the respective carrying amount.

	2013 Rs.	2012 Rs.
Agriculture	20,208,859,426	20,927,906,366
Industrial	8,259,116,797	5,779,965,510
Trade & Business	8,323,810,990	7,818,665,860
Transport Service	223,416,653	243,671,453
Housing	10,321,047,798	9,154,822,442
Consumption	8,847,432,719	6,144,242,403
Loans Against Deposit	2,756,763,696	2,533,621,981
Leasing	15,090,581	24,904,522
Staff	1,137,927,798	1,039,370,959
Interest Receivable on Loans & Advances	2,093,686,758	2,385,409,604
	62,187,153,216	**56,052,581,101**

42.2.2 Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

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

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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

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

Definition of Past Due

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

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42.2.3 Credit Quality of Financial Assets

	Neither past due nor impaired Rs.	Past due but not impaired individually Rs.	Individually impaired Rs.	Total Rs.
Cash and balances with central bank	226,501,435	-	-	226,501,435
Balances with banks	15,620,210,767	-	-	15,620,210,767
Fianacial assets held for trading	698,759	-	-	698,759
Loans and receivables from other customers - without impairment	52,413,802,840	9,773,350,376	-	62,187,153,216
Other assets	469,883,749	-	-	1,444,541,379
Total	**68,731,097,550**	**9,773,350,376**	**-**	**79,479,105,557**

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

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

42.2.5 Analysis of Risk Concentration

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

42.2.6 Commitments and Contingencies

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

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

Commitments and Contingent Liabilities	Rs.
Contingent Liabilities	
Bank Guarantee	59,171,150
Bills Send for Collection	87,447,801
Total Contingent Liabilities and Commitments	**146,618,951**

42.3 Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a

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daily basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The most important of these is to maintain the minimum 20% liquid assets ratio to meet the regulatory requirement. Liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale. Further the Statutory Liquid Assets Ratio of the Bank for the month of December 2012 is as follows.

42.3.1 Statutory Liquid Assets Ratio

For the month of December 2013	25.51%

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

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

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

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

As at 31 December 2013	95.92%

42.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2013. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Contractual maturities of undiscounted cash flows of financial assets and liabilities.

Assets	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Cash and balances with central bank	226,501,435	-	-	-	-	226,501,435
Balances with banks	10,918,990,363	4,701,220,405	-	-	-	15,620,210,767
Fianacial assets held for trading	-	-	-	-	698,759	698,759
Loans and receivables from other customers	15,211,349,211	21,515,869,538	12,694,777,099	6,644,513,063	4,424,125,297	60,490,634,208
Other assets	329,083,419	1,090,065,343	17,655,810	2,901,303	4,835,505	1,444,541,379
Total assets	**26,685,924,427**	**27,307,155,286**	**12,712,432,909**	**6,647,414,366**	**4,429,659,561**	**77,782,586,548**
Liabilities						
Due to banks	526,838,382	2,439,697,383	3,638,650,255	1,879,450,667	-	8,484,636,687
Due to other customers	18,981,797,379	20,594,050,519	5,528,189,022	5,998,708,450	11,525,315,257	62,628,060,626
Retirement benefit obligation	-	-	-	-	806,724,857	806,724,857
Other liabilities	1,847,708,223	347,902,523	39,741,115	116,907,065	391,788,388	2,744,047,313
Total liabilities	**21,356,343,984**	**23,381,650,425**	**9,206,580,391**	**7,995,066,182**	**12,723,828,501**	**74,663,469,483**
Total net Asset/(Liability)	**5,329,580,444**	**3,925,504,860**	**3,505,852,518**	**(1,347,651,816)**	**(8,294,168,941)**	**3,119,117,065**

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42.3.4 Contractual Maturities of Commitments & Contingencies

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

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

42.4 Interest Rate Risk

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

Below table explain the changers to income statement if market rate change by 1%.

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

42.5 Currency Risk

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

42.6 Equity Price

If bank holding any equity interest which is classing as held to trading if the market price increase by 10% the profit and equity will increase by Rs. 73,725/- and vice versa.

BRANCH NETWORK

1 North Central Province

- Anuradhapura City
- Anuradhapura New City
- Aralaganvila
- Bakamuna
- Chunnakam
- Galamuna
- Galenbidunuwewa
- Galnewa
- Gonapathirawa
- Hingurakgoda
- Jaffna
- Kaduruwela
- Muttur
- Pulasthigama
- Rambawa
- Sewanapitiya
- Siripura
- Thalawa
- Thambuththegama
- Thambuththegama E/C
- Thirappane
- Trincomalee
- Vauniya
- Bogaswewa
- Kahatagasdigiliya
- Kanagarayankulam
- Kanthale
- Kekirawa
- Kilinochchi
- Manampitiya
- Mannar
- Medawachchiya
- Medirigiriya
- Mihinthale
- Polonnaruwa

2 North-Western Province

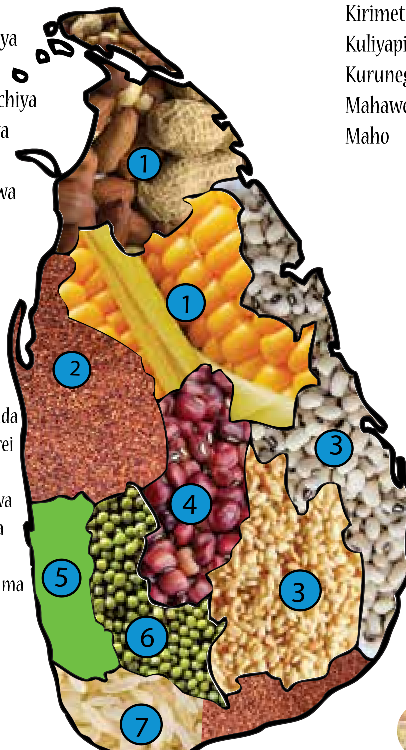
- Alawwa
- Ambanpola
- Anamaduwa
- Bowaththa
- Chilaw
- Dummalasuriya
- Galgamuwa
- Giriulla
- Headquarters Branch
- Ibbagamuwa
- Kirimetiyana
- Kuliyapitiya
- Kurunegala
- Mahawewa
- Maho
- Mampuri
- Mawathagama
- Melsiripura
- Mundel
- Narammala
- Naththandiya
- Nawagaththegama
- Nikaweratiya
- Palakuda
- Panduwasnuwara
- Pannala
- Polpithigama
- Pothuhera
- Puttalam
- Rideegama
- St:Anapura
- Wariyapola

3 Uva Province

- Akkareipaththu
- Ampara
- Badalkumbura
- Badulla
- Bandarawela
- Baticoloa
- Bibila
- Bogahakumbura
- Buttala
- Chenkaladi
- Damana
- Dehiaththakandiya
- Diyathalawa
- Eravur
- Girandurukotte
- Haldummulla
- Haputhale
- Kalawanchikudi
- Kalmunai
- Kandaketiya
- Kaththankudi
- Kokadicholei
- Lunugala
- Madulla
- Mahaoya
- Mahiyanganaya
- Maligathanne
- Medagama
- Meegahakiula
- Monaragala
- Nintavur
- Passara
- Pothuvil
- Rideemaliyadda
- Sammanthurei
- Sevanagala
- Siyabalanduwa
- Thanamalvila
- Uhana
- Uva Paranagama
- Valachchanai
- Welimada
- Wellawaya

4 Central Province

- Agarapathana
- Dambulla
- Danthure
- Daulagala
- Galewela
- Gampola
- Ginigathhena
- Hanguranketha
- Hatharaliyadda
- Hedeniya
- Kandy
- Katugastota
- Kotagala
- Laggala
- Manikhinna
- Marassana
- Marketing Information Centre
- Matale
- Morayaya
- Naula
- Nawalapitiya
- Nildandahinna
- Nuwara Eliya
- Peradeniya
- Pujapitiya
- Pundaluoya
- Raththota
- Rikillagaskada
- Theldeniya
- Udawela
- Ududumbara
- Wattegama
- Wilgamuwa



5 Western Province

- Agalawaththa
- Awissawella
- Baduraliya
- Beruwala
- Bulathsinghala
- Divulapitiya
- Dodangoda
- Gampaha
- Gonapola
- Head Office Branch
- Homagama
- Horana
- Ingiriya
- Je-ela
- Kalutara
- Kiridiwela
- Kolonnawa
- Mathugama
- Mawaramandiya
- Meegahathanna
- Millaniya
- Minuwangoda
- Mirigama
- Miriswattha
- Moragahahena
- Moronthuduwa
- Negombo
- Nittambuwa
- Panadura
- Piliyandala
- Ragama
- Wadduwa
- Walagedara
- Warakagoda

6 Sabaragamuawa Province

- Aranayake
- Balangoda
- Bulathkohupitiya
- Dehiowita
- Deraniyagala
- Dewalegama
- Eheliyagoda
- Embilipitiya
- Erathna
- Godakawela
- Hemmathagama
- Kahawatta
- Kalawana
- Kegalle
- Kiriella
- Kithulgala
- Kolonna
- Kotiyakumbura
- Kuruwita
- Mawanella
- Nelundeniya
- Nivithigala
- Pelmadulla
- Pitagaldeniya
- Pothupitiya
- Pulingupitiya
- Rakwana
- Rambukkana
- Ratnapura
- Ruwanwella
- Sri Palabaddala
- Warakapola
- Weligepola
- Yatiyanthota

7 Sourthern Province

- Agunakolapelassa
- Ahangama
- Akmeemana
- Akurassa
- Ambalantota
- Baddegama
- Balapitiya
- Barawakumbuka
- Batapola
- Beliatta
- City Branch
- Deiyandara
- Deniyaya
- Devinuwara
- Dikwella
- Elpitiya
- Galle
- Gandara
- Gonagalpura
- Hakmana
- Hambanthota
- Hikkaduwa
- Imaduwa
- Kakenadura
- Kaluwella
- Kamburugamuwa
- Kamburupitiya
- Karandeniya
- Karapitiya
- Katuwana
- Kirinda
- Lunugamwehera
- Mawarala
- Middeniya
- Mirissa
- Morawaka
- Neluwa
- Pamburana
- Pitabaddara
- Pitigala
- Ranna
- Sooriyawewa
- Tangalle
- Thalgaswala
- Thissamaharamaya
- Tihagoda
- Udugama
- Uragasmanhandiya
- Urubokka
- Walasmulla
- Warapitiya
- Weeraketiya
- Weligama
- Yakkalamulla

Corporate Information

REGISTERD NAME OF THE BANK

Pradeshiya Sanwardhana Bank

LEGAL STATUS

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

BOARD OF DIRECTORS

Ms . Keshala Jayawardana (Chairperson)
Mr. Sarath De Alwis (ED)
Ms. A.V.K. Madhavie Herath (ED)
Mr. S.D.N. Perera (NED)
Mr. T.A. Ariyapala (NED)
Ms. C.K . Nanayakkara (NED)
Mr. Russell De Mel (NED)
Dr. B.M.S. Batagoda (NED)
Ms. J.M.S.D. Rathnayake (NED)

GENERAL MANAGER /CEO

Mr. R .Siriwardhane

HEAD OFFICE

No. 933, Kandy Road,
Wedamulla,
Kelaniya
Tel: 011 2035454/ 011 2035455-9
Fax: 011 2035467
Email: Info@rdb.lk
Website: www.rdb.lk
VAT Registration No. 409272339-7000

AUDITORS

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

SECRETARY TO THE BORD OF DIRECTORS

Ms. Kasuni Pinnawele (Chief Legal Officer)

PROVINCIAL OFFICES

North Central Povincial Office,
No. 65 D,4th Lane, Abaya place,
Anuradhapura.

Sabaragamuwa Provincial Office,
No. 28, Bandaranayaka Mawatha,
Rathnapura.

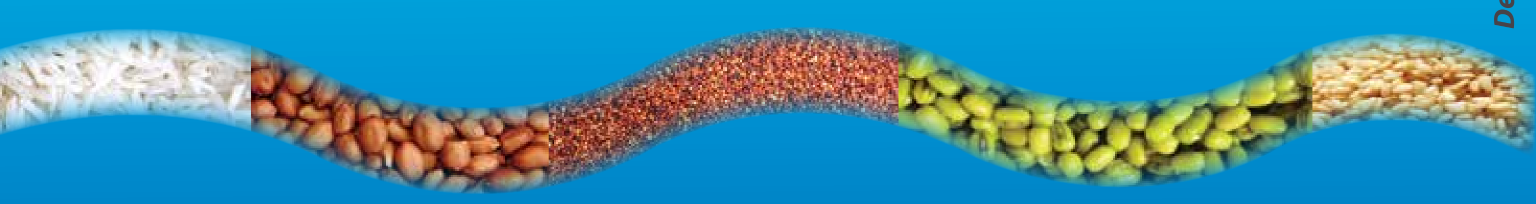
Central Provincial office,
No. 15, Dharmashoka Mawatha,
Kandy,

North Western Provincial office,
No. 155, Negombo Road,
Kurunegala.

Uva Provincial Office,
No. 26, Bank Road, Badulla.

Southern Provincial office,
No.382 A, Anagarika, Dharmapala Mawatha,
Pamburana, Matara.

Western Provincial Office,
No. 36, Kandy Road, Miriswaththa,
Gampaha.



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