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THE HEARTBEAT OF SRI LANKA



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லங்காபுத்தர் அபிவிருத்தி வங்கி
LANKAPUTHRA DEVELOPMENT BANK



LESSONS LEARNT AND BEST PRACTICES

ANNUAL REPORT 2013





Lessons Learnt and Best Practices

“Looking back at the past is never a waste of time. Understanding past actions and gained experiences holds the key to success and future growth. Taking the time to reflect helps us to understand the lessons learnt and identify the best practices that have resulted in the best outcomes. Doing so facilitates the process of risk identification and minimization while identifying and maximizing our strengths and increasing efficiency in bringing about the most effective financial solutions to our client. Our client is our nation and we are dedicated to its development.”

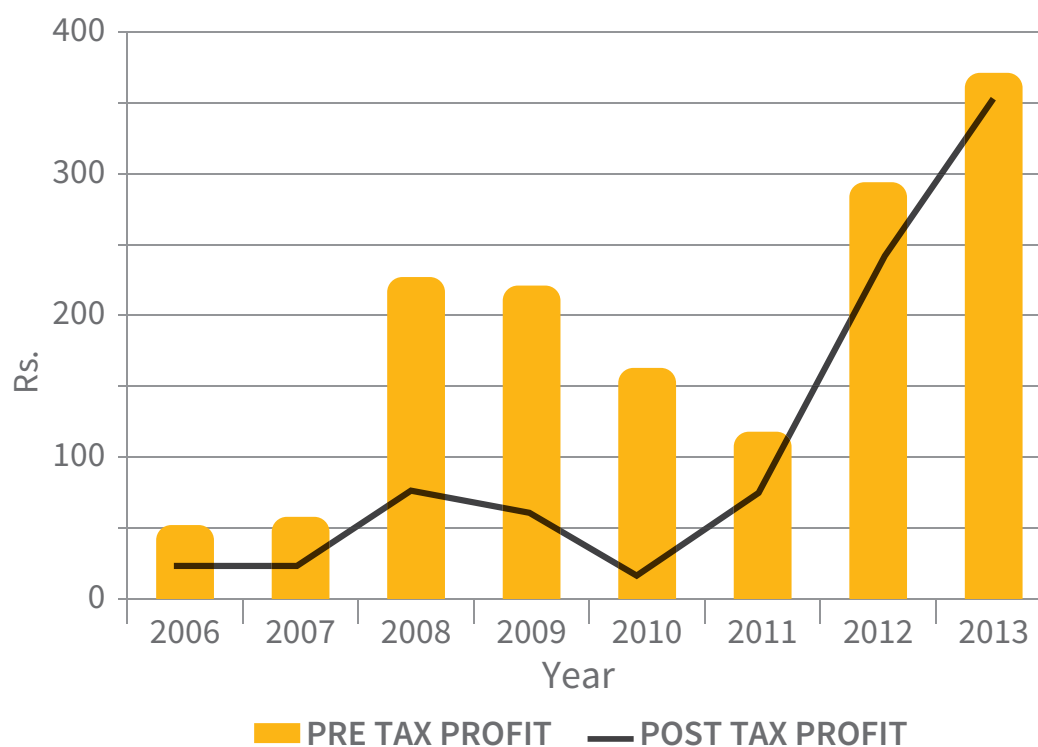
TABLE OF CONTENTS

Financial Highlights	3
Vision, Mission & Values	4
History & Milestones	5
Chairman’s Statement	6
CEO’s Statement	10
Board of Directors	14
Senior Management Team	18
Head of Divisions & Branch Managers	20
Branch Offices	21
Management Discussion & Analysis	
Operational Review	23
Human Capital Review	26
IT Review	28
Marketing & Business Development Review	29
Highlights of the Year	30
Product & Services	32
Financial Review	36
Risk Management Review	38
Social Responsibility	44
Corporate Governance	48
Directors’ Report	70
Financial Information	
Audit Committee Report	73
Compliance Report	74
Statement of the Directors’ Responsibility for the Preparation of Financial Statements	75
Independent Assurance Report	76
Directors’ Report on Bank’s Internal Control System	77
Independent Auditors’ Report	79
Statement of Comprehensive Income	80
Statement of Financial Position	81
Statement of Changes in Equity	82
Statement of Cash Flow	83
Summary of Significant Accounting Policies	85
Notes on the Financial Statements	95
Capital Adequacy	113
Statement of Value Added	116
Sources and Distribution of Income	118
Three Year Summary	119
Annual General Meeting	120
Form of Proxy	121
Corporate Information	Inner Back Cover

FINANCIAL HIGHLIGHTS

	2013	2012
Total Income (Rs. Mn)	757.0	664.9
Profit for the Year (Rs. Mn)	345.8	218.2
Earnings Per Share (Rs.)	9.59	6.05
Return on Total Assets (before Tax) (%)	5.8	4.3
Return on Equity (%)	7.9	5.3
Capital Adequacy Ratio - Tier 1 (%)	74.0	86.1
- Tier 2 (%)	74.3	86.4
Total Assets (Rs. Mn)	7593.4	6984.4
Loans & Advances (Gross) (Rs. Mn)	2786.7	2859.4
Deposit Base (Rs. Mn)	228.7	241.6

Analysis of Growth of Profits-Rs.Mn.





Our Vision

To be the vibrant facilitator of economic and social development in Sri Lanka.

Our Mission

To be the core development bank in Sri Lanka, significantly strengthening entrepreneurship at regional, national and international levels.

To add value to our employees by creating a positive working environment and supporting professionalism, thereby developing our people to be the best they can be.

To aid in the development of rural economy of Sri Lanka, thereby reducing disparity and helping to uplift the lives of the less fortunate.

Caring for our customers & consistently benchmarking excellent customer service standards to be the best in the industry.

Our Values

We are Accountable

We are Customer Focused

We uphold the highest levels of Integrity

We value Team work

We are committed to Transparency in all our activities

We promote Opportunity

We maintain Simplicity in our product & services

HISTORY & MILESTONES

We are...

...the Lankaputhra Development Bank Limited, a Licensed Specialized Bank fully-owned by the Government of Sri Lanka.

...established under the Banking Act No. 30 of 1988, incorporated in Sri Lanka under the provisions of the Companies Act No. 17 of 1982.

...catering to the development of the hitherto neglected sectors of the rural economy.

...instrumental in spearheading this renewed emphasis on the rural economy and have carefully mapped out a strategy primarily to contribute to the achievement of national development priorities, thereby complementing government efforts to accelerate the growth of the nation.

...truly tied up with the grass roots level needs of the rural sector and have a perfect understanding of the business and personal needs of our customer base.

...in the forefront when it comes to helping the construction, agriculture and industrial sectors of the rural folk by channeling finances, providing advice and guidance.

...on a mission to fulfill the long awaited national development through the advancement of the rural economy, which is the backbone of the country's economy.

2013

29th March - Opening of Trincomalee Branch by Hon. Susantha Punchinilame, Deputy Minister of Economic Development

14th March - Relocation of Kandy Branch

2011

1st December - Commencement of "Laksahana" Pawning Advance Scheme

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

2009

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

15th March - Commencement of "Laksaviya" Leasing Scheme

2008

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

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

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

1st January - Merger of SME Bank Limited

2007

12th October - Opening of Kegalle Branch by Hon. Ranjith Siyambalapatiya, M.P. Minister of Finance & State Revenue

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

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

2006

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

27th June - Launching of Lankaputhra Development Bank by His Excellency President Mahinda Rajapaksha

CHAIRMAN'S STATEMENT

"An analysis of the numbers will show that although we are a development bank that provides development-oriented loans, we were almost on par with some of the commercial banks operating in Sri Lanka"



I have great pleasure in presenting the Annual Report of your company for the year ended 31st December 2013. The performance of the Bank in 2013, in retrospect, can be deemed as one of continued consolidation.

Over the course of the past few years, the Bank has undergone several challenges and experiences – mostly positive but a few negative - when conducting operations in an increasingly challenging business environment. This year we have taken time to carefully analyse the key learnings of each of these challenges and experiences in order to help us focus more intensely on developing the inherent strengths of the Bank. As a result of this effort, we are able to put into effect a set of best practices that I am confident will leave the Bank on a sound, stable footing today and tomorrow.

Global Economy at a Glance

Across the past 12 months, the global economy has shown a gradual improvement, especially in the case of the United States. However, this has not been backed up by economic progress across the European countries during the same period and the structural imbalances between the North and South of the globe continue to be a challenge. Looking at China, it has come to light that growth has been driven by consumption rather than being infrastructure-lead as it has been in the past, resulting in slightly lower figures than in the previous years. This combination of economic scenarios in the global powerhouses has not resulted in a favourable outcome in the Australian economy where consumer and corporate confidence has not improved, resulting in a marginal credit growth over the year.

Sri Lanka's Economy Remains Resilient

In 2013, the budget deficit remained steady at 5.9%, showing a significant improvement from the 6.5% recorded in 2012 and only a minor deviation from the 5.8% target set out for the year 2013. The government's approach towards the fiscal policy strategy in 2013 was to further consolidate through the reduction in the budget deficit to 5.8% of GDP courtesy of better management of public expenditures and higher revenue mobilization. Recent tax reforms introduced to simplify and broad base the tax regime was envisaged to favourably impact government revenue while expenditure was expected to be kept at a moderate level via rationalisation of recurrent expenditure and maintenance of public investment at the desired level.

With more emphasis placed on domestic resources to finance the fiscal deficit in 2013, borrowing from foreign sources showed a decline. The banking sector was the main source of government borrowings while the non-bank sector borrowings were notably lesser than initially estimated.

During the year, Statutory Reserve Ratio (SRR) was reduced with the objective of improving the reduction in the policy rates and also to enable a reduction in the spread between commercial bank deposit and lending rates. As a result of these revisions, the interest rate structure moved slightly downwards and credit obtained by the private sector increased towards the latter part of the year. The money market continued to remain liquid throughout the year and the monetary aggregates moved towards the projected path as the year progressed.

Another development in the year was the Monetary Board deciding to establish a Standing Rate Corridor in place of the current policy rate corridor from January 2014. While maintaining inflation at single digits remained the focus of monetary policy, the framework for the conduct of monetary policy was based on monetary targeting with reserve money as the operating target and broad money as the intermediate target.

Objectives of Lankaputhra Development Bank

The objectives of Lankaputhra Development Bank are based on His Excellency President Mahinda Rajapaksa's vision of "Mahinda Chinthana" where the emphasis is to uplift the Small and Medium-scale Entrepreneurs of the country to international standards, to a level where they can provide a boost to the Sri Lankan economy in a significant manner. As a bank that is fully-owned by the Government of Sri Lanka, Lankaputhra Development Bank has been able to drive forward this vision throughout the country by focusing on rural economic development, especially in the outstation areas where we have 8 branches in 7 provinces. In fact, the Bank prefers to operate in the outstation areas as we believe that this is where the greatest potential lies to create great entrepreneurs who can make a difference in the country's economy.

Based on this approach, the core function of the Bank is the granting of credit to the entrepreneurs once the project officers have done a thorough evaluation of the project or

Chairman's Statement Contd.

business proposal. Projects with good potential are offered a host of related facilities by the Bank. Being a development bank, our emphasis is on the potential of the project coupled with its security and we deploy all the resources at our disposal to ensure that the projects that are given credit have the best chance of success. Through this methodology, the Bank is able to introduce, support and develop dynamic entrepreneurs who will one day be the business leaders in the country.

Financial Performance

Looking back at the year, I am pleased to state that we have been able to maintain an above-average performance. An analysis of the numbers will show that although we are a development bank that provides development-oriented loans, we were almost on par with some of the commercial banks operating in Sri Lanka. We were able to achieve a Net Profit after Tax of Rs. 345.9 million, a 58% increase from the Rs. 218.2 million in the year 2012. Our asset base has risen to Rs. 7.6 billion while as at 31st December 2013, the total credit portfolio stood at Rs. 2.46 billion. Our total shareholders' funds stood at Rs. 4.5 billion and earnings per share was reported at Rs. 9.59 while we recorded a return on assets of 5.8% for the financial year under review compared to 4.3% in 2012, we recorded a return on equity of 7.9% compared to 5.3% reported in the previous year. With the cost to income ratio at a healthy 32.6%, overall we were able to improve ratios in comparison to 2012.

Corporate Governance

As a licensed specialized bank incorporated under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007, the corporate governance of Lankaputhra Development Bank is guided by the mandatory codes of Corporate Governance issued by the Central Bank of Sri Lanka, and in compliance with relevant laws under the Banking Act. The directions provided are strictly followed by the Board of Directors, Senior Management and all operational staff. The Board of Directors and the corporate governance sub committees meet regularly to discuss matters, ensuring that the expected practices and regulations are in place and that all matters of the Bank are conducted in accordance to the corporate governance guidelines. In addition to this, the circulations of the Public Entrepreneur Department of the Ministry of Finance and Planning are also looked into, with any proceedings attended to accordingly.

The annual audit plan, which is reviewed and approved by the Board Audit Committee, was redone for the current year in order to keep it in line with policies and procedures and to maximize effectiveness of the Internal Control Systems. Internal audits were conducted on all units and branches after which the findings were submitted to the Board Audit Committee.

New Strategies Implemented in 2013

The Bank was able to take significant steps to streamline operations by reviewing the existing Credit Policy and introducing a new Recovery Policy. Further boosting our operational efforts was the development of the Customer Charter which outlined the key aspects of providing an outstanding service to the customer. This Customer Charter will be implemented in 2014.

The Bank introduced several new products and services to cater to the changing needs of today's customers. Commercial Scale Dairy Development Loan Scheme (CSDDL) is a new product that was introduced by the Central Bank this year to encourage medium-scale entrepreneurs and plantation companies to engage in commercial scale dairy farming activities from farming to processing. Following this initiative, Lankaputhra Development Bank has also taken the steps to introduce this product to our valued customers.

As a part of the government initiative of the "Divi Neguma" programme, the "Aya Saviya" Loan Scheme for government employees was introduced with the objective of promoting home garden cultivation and self-employment activities amongst family members of Government employees.

Looking Ahead

Building on the positive progress that we were able to achieve in 2013, we have laid out several significant plans for the year 2014, one of which is to come up with a new model for the Bank, where we have already envisaged several strategic structural changes.

One of the key objectives in 2014 will be to take the brand "Lankaputhra Development Bank" closer to the hearts and minds of the people by offering them innovative, practical and customer-oriented products and services for

all their needs. With the Ministry of Finance and Planning spearheading the government's accelerated development programmes throughout the country, our task of reaching out to the people and being a part of their lives has been made somewhat easier. We believe that with the accelerated development being witnessed in the country, there will be new requirements for new banking services from the existing customers while the new customers will also be on the lookout for loans, savings and deposit products that cater to their growing needs.

Another key objective to be achieved in 2014 is the finalizing of a new strategic business plan that will consolidate the Bank's position in the market and give us a solid foundation to meet the challenges of the future. We have outlined and handed over responsibility of several action points to be followed up by key departments in the Head Office and the branch offices. Majority of the focus will be on development-oriented loans and recovery, out of which recoveries have to be given special attention and carefully managed due to the increase in the non-performing recovery ratio in the market. Steps will be taken to implement the 2014 budget proposal where it states that a grant of Rs.250,000 for women via the Regional Development Bank will be guaranteed by Lankaputhra Development Bank.

Acknowledgements

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

I also take this opportunity to thank former Chairperson Mrs. Kumudiniy Kulathunga, the Directors Mr. K.S.M. de Silva and Ms. J.M.S.D. Rathnayaka, who have resigned from the Board, for their continued contributions at the Board meetings during their tenure. I also warmly welcome Mr. P.M.D. Attapaththu to the Board of Lankaputhra Development Bank.

I thank the General Manager/CEO for his undivided efforts towards the progress made during the year under reference and the Senior Management and Staff of the Bank, who have dedicated themselves to achieve the set targets. My thanks to the Trade Union for the cooperation extended

to achieve a significant growth in the Bank's operations. If not for the industrial peace that prevailed throughout the year, the Bank would not have been able to achieve these significant improvements in its performance in 2013.

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

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



H. Sunil Dharmasiri
Acting Chairman

Colombo
Date: 29th May 2014

CEO'S STATEMENT

"As we complete another operational year at Lankaputhra Development Bank, I can state that 2013 was a year where we built on the success we achieved in 2012. We were able to achieve an 18% increase in the total income when compared to 2012...."



While another financial year draws to a close, I am pleased to present to you the Annual Report and Audited Accounts of Lankaputhra Development Bank for the year 2013. It has been another challenging yet eventful year where your bank made significant progress in a number of key areas.

Snapshot of Sri Lankan Financial Market

Although uncertainties in major advanced economies and tensions in global financial markets persisted, resilience was the key feature of the Sri Lankan financial sector as the financial system stability was sustained for another year. As market interest rates moved downwards during the year, driven by the easing of the Central Bank's monetary policy stance, financial markets remained liquid for most parts of the year. The banking sector continued to remain strong due to healthy levels of capital being maintained, coupled with sufficient liquidity buffers.

During the course of the year, the regulatory and supervisory aspects were further bolstered and disclosure requirements made more stringent bringing them in line with international standards and best practices. This move puts the financial system on a better footing, enabling it to respond to potential risks in a timely manner.

Looking ahead, Sri Lanka's financial sector is expected to perform a key role in driving investment and financing needs of the domestic economy, enabling the economy to reach greater heights in a challenging global environment.

A Solid Performance

As we complete another operational year at Lankaputhra Development Bank, I can state that 2013 was a year where we built on the success we achieved in 2012. We were able to achieve an 18% increase in the total income when compared to 2012, while showing a considerable growth in the income generated for our core banking business. The interest income from loans and advances to customers has increased to Rs. 254.2 million from Rs. 191.2 million in the previous year. One of the key highlights of the year's financial performance was that the Bank was able to achieve a net profit of Rs. 345.9 million against last year's net profit of Rs. 218.2 million, which represents a significant 58% increase. This incidentally is the highest-ever profit achieved by the Bank, although it must be noted that this was mainly due to the special concession on tax received by the Bank as

per the budget proposals of 2013. The profit before tax too increased from Rs. 294 million in 2012 to Rs. 371.2 million in 2013. With the strong performance in 2013, earning per share has increased by 58% to 9.59 from 6.05. Despite the improvement in the profitability, the non-performing ratio of the Bank has slightly deteriorated as the NPA ratio of 45.8% recorded last year increased to 46.7%, mainly due to declining loans and advances portfolio of the Bank as a result of the prevailing market conditions. ROE and ROA of the Bank has improved to 7.9% and 5.8% respectively, when compared to last year's figures of 5.3% and 4.3%.

Exciting New Developments

A notable achievement of this year was the opening of a new branch - Trincomalee - after a lapse of three years since the last branch opening. This decision to expand was made after evaluation of the potential for SME customers in the region and with the objective of taking the Bank's dynamic range of products and services to the people of Trincomalee thereby providing them with new opportunities.

In 2013, utilizing funds allocated to the Bank by the Treasury in order to establish a credit guarantee scheme, we commenced a new product named "Laksetha". As a pilot project, we commenced this credit guarantee scheme together with the Regional Development Bank (RDB) where Rs.100 million worth of guarantees were issued during the year as part of the government's initiative to assist small and medium-scale entrepreneurs.

At Lankaputhra Development Bank, we are constantly looking at ways to introduce innovative products and services to our customer base. One such product that we launched this year was the "Aya Saviya" Loan Scheme for single income earning families of state sector employees. The main objective of this loan scheme is to help an unemployed family member of these single income families to start up self-employment activities that would eventually provide the family with an additional income.

Having identified the need to improve the business skills of potential entrepreneurs as part of our approach to accelerate the growth of the business of customers who intend to borrow from our Bank, we initiated and financed training programmes together with the National Enterprise Development Authority (NEDA). These programmes, which

CEO's Statement Contd.

included training on business idea generation and expansion of existing businesses, covered a wide variety of useful business topics that imparted much-needed knowledge to the enthusiastic participants.

Innovative Strategies

During the year, we conducted several street campaigns and door-to-door promotions that focused on educating potential borrowers and depositors on the host of products and services offered by the Bank. We specifically avoided using mass media during these campaigns, primarily due to the reason that our branch network is not as expansive as a commercial bank, but also to emphasize on using direct marketing in the areas where we have a presence thereby enabling us to connect on a more personal level with potential and even existing customers of the Bank. Another positive outcome of breaking the trend and staying away from the often cluttered mass media was that we were able to make a significant saving on our advertising spending – a benefit which was passed on to the customers by way of lower interest rates on borrowings and higher interest rates on deposits.

Enhancing Human Resources

The challenging, highly-competitive market scenario and ever-changing economic environment means that we have to invest in new, outstanding talent while continuously upgrading the knowledge and skill levels of our existing staff. To strengthen the corporate management and spearhead our efforts in three key areas – Human Resources, Audit and Recoveries – we hired a 3 new Senior Managers for each of the three areas.

Another key Objective that we were able to achieve was the streamlining of promotion procedures within the Bank which included several Executives climbing up the ladder to the Assistant Manager positions and Junior Executives being promoted to Executive positions. During the year, we regularly conducted numerous training programmes to enhance the skills of employees across all departments and branches. In conjunction with the IBSL, we also carried out a comprehensive training programme on lending for employees across the Bank.

Social Responsibility

We continued to play an active role in contributing to the less fortunate segments of society. Elders and children from homes in the Polonnaruwa district were taken to pay homage to the "Somawathi Chethiya" while the Leprosy Hospital at Hekiththa, Wattala was renovated and provided with necessary assistance to improve the lives of the hospital staff and patients. Various "Deepavali" programmes in predominantly Tamil areas in the Batticaloa and Trincomalee branches were conducted to promote religious harmony and ethnic diversity. Throughout the year, we also regularly helped out children from several special needs schools such as the School for the Deaf and Blind in Ratmalana.

Demonstrating our commitment to encouraging the entrepreneurial talent of Sri Lankans and giving their creations the best possible chance of success, we introduced a new loan scheme named "Jaya Diri", a unique product for young, innovative inventors with entrepreneurial skills. "Jaya Diri" allows these young minds to borrow up to Rs. 1 million with flexible collateral prior to which we ensure that they are able to meet the main criteria which is the feasibility of the project and their willingness, commitment and vision to develop as an entrepreneur.

Technology Upgrade

Today's high-tech world provides us with technology to take almost every aspect of our business online, giving organizations and individuals the power to do business with extreme speed and efficiency. But implementing such technology means that we have to prepare ourselves for a scenario where the systems go offline due to happenings in the internal or external environment. Keeping this in mind, we commenced a fully-fledged Disaster Recovery solution that will provide a "safety net" should the IT systems go down, even for a short period of time.

Future Plans

One of the main objectives in the year 2014 is to implement a project proposal introduced in the 2014 budget proposals where we are to grant an interest-free and collateral-free loan for the purpose of empowering women

entrepreneurs by working closely with the Regional Development Bank (RDB).

On the human capital front, we intend to continue to place an emphasis on strengthening our team by regularly upgrading the knowledge and skill levels of our staff, identifying and grooming individuals with potential to become the next generation of leaders within the bank, retaining our best talent in the face of a competitive job market and hiring top talent from outside the Bank whenever we deem it necessary.

Acknowledgements

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

We are grateful for the continued support and patronage of all our valued customers. We promise to continue to deliver value to them into the future. All members of our dedicated staff demonstrated their loyalty by working tirelessly towards our corporate goals this year, and appreciations go out to each and every one of them for their wonderful services throughout the year.

I would also like to take this opportunity to convey my sincere gratitude and appreciation to the Chairman and the members of the Board of Directors for their visionary guidance at all times. I also gratefully acknowledge the contribution of the Board sub-committees.

Last but not least, a big thank you goes out to our shareholders and all other stakeholders. I look forward to their continued support as we move with dedication towards the promise of greater prosperity in the years ahead.



Lasantha Amarasekara
General Manager / CEO

Colombo
Date: 29th May 2014

BOARD OF DIRECTORS



MRS. KUMUDINIY KULATHUNGA

Chairperson: Appointed - 04th January 2012. Resigned - 21st January 2014
Independent Non-Executive Director

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

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

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



MR. H.S. DHARMASIRI

Appointed as the Acting Chairman: w.e.f. from 21st January 2014
Independent Non-Executive Director

*B.A. (Hons) (1973) - University of Colombo
B.Phil (1975) - University of Colombo
F.I.B. (2009) - Institute of Bankers of Sri Lanka
Diploma in Bank Management - IBSL
Designation held last - GM/CEO (People's Bank)*

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

Before becoming the GM/CEO of the People's Bank, he held many senior positions of the Bank, as the DGM/Credit, DGM/Branch operations and also as the DGM/Senior DGM Human Resources. He has gathered a wide experience in all major functions of a large commercial bank in Sri Lanka.

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



MR. M.M.M. MOWJOOD

Appointed - w.e.f. 17th May 2010
Independent Non-Executive Director

*B.Com. Special (Hons) Degree (University of Sri Jayawardenapura)
MBA (American University of Asia)
ACMA (Sri Lanka), ACMA (UK)
Masters in Business Administration (PgDip in International Relations)*

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



MR. W.A.D.S. GUNASINGHE

Appointed - 12th August 2011. Resigned - 21st January 2014
Independent Non-Executive Director

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

Mr. Gunasinghe is currently the Additional Director General - Department of National Planning at the Ministry of Finance & Planning.

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

He was also the Assistant Director, North Central Province Rural Development Project and the Assistant Director, Divisional Secretariat, Ella and Divisional Officer, Department of Agrarian Service.

Mr. Gunasinghe has been a Member of the Board of Directors of State Printing Corporation from 2007-2009 and is presently a Member of the Board of Directors of Sri Lanka Institute of Textile and Apparel.

Board of Directors Contd.



MR. T.K.H. HEMACHANDRA

Appointed - 12th August 2011
Independent Non-Executive Director

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

Mr. Hemachandra currently serves as a Director of Multitech Solutions (Pvt) Ltd. Mr. Hemachandra served as the Project Director - Technical Education Development Project funded by the Asian Development Bank under the Ministry of Youth Affairs & Skills Development. He also served as a Director in Technology at Development Guarantee Limited and in the Center for Technology Education Promotion & Training (Guarantee) Ltd, Kandy.

For the past 30 years he has served as the Project Director in a number of technical assistance projects funded by ADB, UNDP, NORAD, OPEC JAICA, European Union, GTZ, IFAD, Netherlands and Switzerland in the sectors of Technical Education and Vocational Training, Natural Resources Development, Disaster Management and Prevention, Pollution Prevention and Management, Fisheries and Fisheries Training, Irrigation, Rural and Social Infrastructure Development etc. Therein he was involved from the inception to successful completion on startup, planning and implementation management, monitoring, evaluation ensuring quality management to achieve expected outcomes. He has also served in the Ministry of Policy Planning, as the Director of Regional Development and the Head of Monitoring Unit of the Regional Development Division and the Director General of National Institute of Fisheries and Nautical Engineering in the Ministry of Fisheries and Aquatic Resources.



MR. A.M.P.M.B. ATAPATTU

Appointed - 23rd April 2013. Resigned - 21st January 2014
Independent Non-Executive Director

*Master's Degree in International Development
- University of Flinders, Australia
Post Graduate Diploma in Economic Development
- University of Colombo
Post Graduate Diploma in Development Economies
- Institute of Development Economies, Japan
B.Sc. Management Degree - University of Sri Jayawardenapura*

Mr. Atapattu is currently a Director General in the Department of Development Finance of General Treasury.



MR. S. K. PATHIRANA

Appointed - w.e.f. 17th May 2010
Independent Non-Executive Director

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

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

SENIOR MANAGEMENT TEAM



Mr. L. Amarasekara
General Manager / Chief Executive Officer

Bachelor of Business Management (BBM) - Bangalore University
Master of Business Administration (MBA) - Deakin University
Master of Commercial Law (MCL) - Deakin University
Dip in Financial Services (Financial Planning) - Australia

Having commenced his career at NDB as a Management Trainee, Mr Amarasekara moved to the Colombo Stock Exchange (CSE) where he served at the CDS of the Exchange. Mr Amarasekara later moved to Australia where he served as a Financial Consultant at Medallion Finance Concepts P/L., a boutique mortgage management and brokering company and as an Assistant Financial Planner at Epacris Securities a Financial Planning Company operates under the franchise of AXA Group. Subsequently he returned to Sri Lanka where he served at the Strategic Enterprise Management Agency (SEMA) as a Consultant - Banking and Finance Cluster.

Bachelor of Commerce, 2nd Class (Upper Division), University of Colombo
Associate Member of the Institute of Bankers of Sri Lanka
Licentiate Examination of the Institute of Chartered Accountants of Sri Lanka

Mr. Dissanayake has over 25 years experience in the Banking Industry having served in Senior Management positions in Private Sector and State Banks including People's Bank, National Savings Bank, Seylan Bank and PABC Bank. He has also served in the Auditor General's Department.

Mr. Dissanayake also possesses experience in Accounting and Taxation having worked in TNT Logistics Australia (Pvt) Ltd and Sellys Chemical Industries (Pvt) Ltd in Australia.



Mr. Ranjith Dissanayake
Assistant General Manager - Credit



Mr. P.S. Edirisuriya
Chief Financial Officer / Compliance Officer

B.Sc (Business Admin.) Special Degree - University of Sri Jayewardenepura
Master of Business Administration Degree - University of Colombo
Associate Member of the Institute of Chartered Accountants of Sri Lanka
Associate Member of the Institute of Certified Management Accountants of Sri Lanka
Certified Member of the Institute of Certified Management Accountants of Australia

Mr. Edirisuriya counts over 23 years of experience in the fields at Auditing, Accounting Taxation, Management Consultancy and Banking and Finance in leading organizations including NDB and Seylan Bank.

LLB (University of Colombo)
Indian Federal System (Hamdard University of New Delhi)

Mr. Pandittesekere has been a Legal Consultant at Strategic Enterprise Management Agency (SEMA) and also served in the Ministry of Constitutional Affairs and National Integration as an Assistant Director and a Conflict Resolution Officer. He has also 2 years of experience as an Executive Assistant at the Prime Minister's Office and 3 years as a Director at the National Paper Company Ltd.

Mr. Pandittesekere is also currently a Director at Lanka Mineral Sand Ltd., a position he has been holding since 2009.



Mr. R.S. Pandittesekere
Senior Manager – Legal / Company Secretary



Mr. Shelton Fernando
Senior Manager - IT

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

Mr. Fernando has been a part of the Board of Investment of Sri Lanka (BOI) from 1986 to 2005 where he held various positions in IT and left the organization as the Manager-IT.



Mr. M. Sumith Fernando
Senior Manager - Audit

Associate of Institute of Bankers, Sri Lanka and Diploma in Business Administration (ICFAI University, India)

Mr. Fernando possesses 31 years of experience in the banking industry, having served in Seylan Bank PLC and Hatton National Bank PLC. During the Service of 22 years at Seylan Bank PLC he has served in different managerial capacities including as an Assistant General Manager.



Mr. B.D. Yasarathna
Senior Manager - Recovery

B.Com (Special) – University of Colombo

Mr. Yasarathna has extensive experience in handling affected Credit Portfolios, Restructuring of Credit Facilities, Recovery and related practices of SME recovery. He has also served for 23 years at Sampath Bank PLC.

Mr. Wickramasekara holds over 26 years of valuable experience in the field of Human Resources which he has gathered both in the local and international arenas. He has served as a member of the Senior Management team in many leading private sector organizations prior to joining Lankaputhra Development Bank as the Senior Manager for Human Resources and Administration in October 2013. Mr. Wickramasekara served the Institute of Personnel Management of Sri Lanka as an HR Consultant.



Mr. Christus Wickramasekara
Senior Manager – HR & Admin

MBA in Human Resources (PIM SL)

Member of the Institute of Personnel Management SL Inc. (IPM)

HEADS OF DIVISIONS



Ms. Dulmani Jayasekera
 Manager - Special Projects / Credit
 Administration & Operations

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



Ms. Deepika Navarathne
 Manager - Leasing & Pawning
 / Marketing & Business Development

B.Sc. Marketing (Special) - University of Sri Jayewardenepura
Masters of Business Administration (MBA) - University of Rajarata
Member of the Chartered Institute of Marketing (MCIM) - UK
Member of the Sri Lanka Institute of Marketing (MSLIM)

BRANCH MANAGERS



Left to Right

- | | |
|---|---|
| 1. Mr. Ruwan Rukman - Acting Manager - Trincomalee Branch | 2. Mr. Udula Bandara - Manager - Kandy Branch |
| 3. Mr. Asoka Fernando - Manager Colombo Branch | 4. Mr. U. M. Ranathunga - Manager - Wennappuwa Branch |
| 5. Mr. S. Keshanth - Manager - Batticaloa Branch | 6. Mr. Sarath Ranathunga - Acting Manager - Hambantota Branch |
| 7. Mr. Manjula Sanjeeva - Acting Manager - Kegalle Branch | 8. Mr. Rahula Senanayake - Manager - Polonnaruwa Branch |

BRANCH OFFICES

Polonnaruwa Branch

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

Trincomalee Branch

No. 02, Kandy Road,
Trincomalee
Tel : 026-3205006-7
Fax : 026-2225664
E-mail : ruwanr@lankaputhra.lk

Wennappuwa Branch

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

Batticaloa Branch

No.28, New Kalmunai Road,
Batticaloa.
Tel : 065-2227834-6
Fax : 065-2227816
E-mail : keshanths@lankaputhra.lk

Colombo Branch

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

Kandy Branch

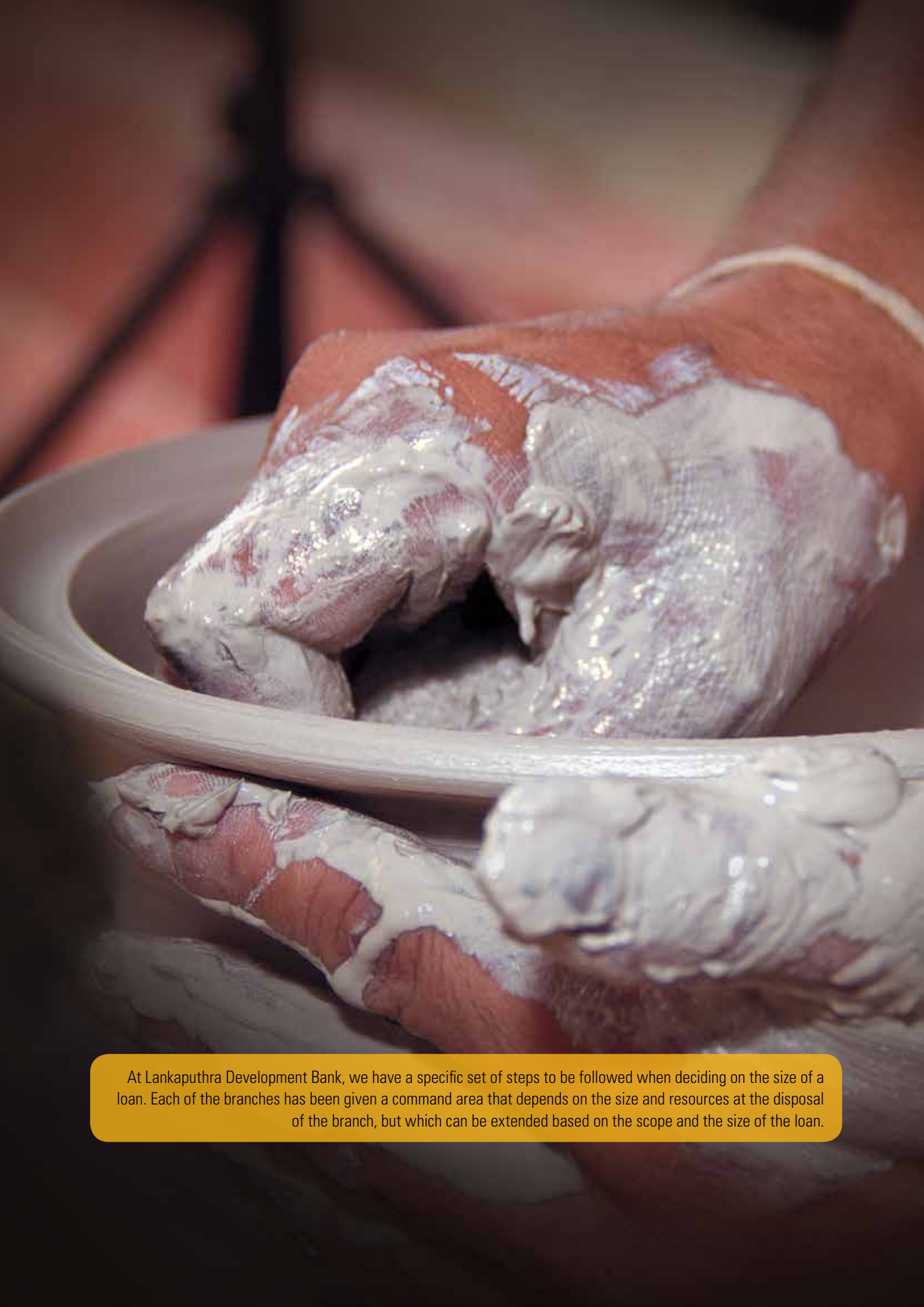
No.831-B, Sirimavo Bandaranaike Mawatha,
Kandy.
Tel : 081-2222467-9
Fax : 081-2222459
E-mail : udulab@lankaputhra.lk

Kegalle Branch

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

Hambantota Branch

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



At Lankaputhra Development Bank, we have a specific set of steps to be followed when deciding on the size of a loan. Each of the branches has been given a command area that depends on the size and resources at the disposal of the branch, but which can be extended based on the scope and the size of the loan.

MANAGEMENT DISCUSSION & ANALYSIS

Operational Review

2013 turned out to be a year where the Bank has made steady progress on several fronts. In retrospect, it can be stated that it's been a pleasing performance where the Bank continued to maintain its unwavering commitment to sound financial principles and best practices, despite trying economic conditions.

As the Bank's core business is focused on providing finance for development purposes, we continue to concentrate on granting facilities to develop each of the regions based on the resources available in the area while, as always, taking into account the valuable lessons learnt in dealing with customers of each area. For instance, in the Wennappuwa area the available resources are centered around fisheries, coir, cashew, paddy and poultry – industries for which we cater to from our Wennappuwa branch. In a similar manner, Polonnaruwa is mainly about paddy cultivation while Trincomalee is a mix of paddy cultivation and fisheries. Both these regions, together with Batticaloa, also have the potential for dairy farming.

With such a diverse number of industries depending on the expertise of the Bank, the onus is on the Bank to provide products and services tailor-made for each industry so that we can inspire new entrepreneurs and encourage existing entrepreneurs to develop their skills, their knowledge and ultimately their trade to the next level.

Loan Allocation & Recoveries

At Lankaputhra Development Bank, we have a specific set of steps to be followed when deciding on the size of a loan. Each of the branches has been given a command area that depends on the size and resources at the disposal of the branch, but which can be extended based on the scope and the size of the loan.

If the loan or project is fairly large, then the focus is more on the viability factor, together with the social benefits the project will bring to the relevant region, and to a lesser extent on the operational cost. Similarly, if the loan or project is a relatively small then they have to operate within the command area mainly due to the fact that if not, the operational cost will tend to rise resulting in lesser profits or even losses to the Bank and the borrower.

To overcome the issue arising from the operational cost, when the Bank considers smaller loans such as micro financing and similar loans below Rs. 500,000/-, the facilities are granted either through community societies or social groups. Further streamlining this procedure, the Bank has trained Branch Managers to advise and assist these groups and entrepreneurs to form societies depending on their capabilities and command areas and hold the office bearers as well as the members of the societies responsible for the timely recovery of the loans. Some of the societies where this methodical approach has reaped rewards are: 24 societies in Wennappuwa area, 32 societies in Polonnaruwa and Kanthale area and 3 societies in Batticaloa area.

While the recovery rate has been impressive in the Wennappuwa and Batticaloa area, in the Kanthale area the recovery rate has been below expectations mainly due to the unfortunate natural disasters that affected the harvest in those areas. Despite these obstacles, the Bank's micro finance portfolio has demonstrated a reasonable recovery rate throughout the year.

Along with the close monitoring of all loans that takes place at each branch, the Head Office monitors the quantum of loans granted to each sector on a quarterly basis. For efficient monitoring and management of the loan portfolio, the Bank's Credit Policy clearly states the percentages for each of these sectors, ensuring that the Bank does not over-commit to a particular sector.

Given the testing economic scenario, there is always the possibility of bad loans; an issue that is addressed by the stringent monitoring mechanisms put forward by the Bank's Head Office. Towards the end of each month, the online IT system is utilized to monitor the operations of the branches and get vital information such as how many accounts have gone to the non-performing category and how many clients have migrated back from the non-performing category to the regular category. Based on these findings, the Branch Managers are given time till the 15th day of the following month to follow-up and rectify the issues with these non-performing loan accounts.

Management Discussion & Analysis Contd.

Operational Review Contd.

Loan Approvals

The Bank's branch managers have been empowered to expedite the loan approval process up to a certain threshold, beyond which the loan approval is passed on to the Head Office. Head Office has a set of standards for loan approvals which ensure that it is fast-tracked in order to give the best service to the customer. Lease facilities are approved within the same day.

Branch Network

The Bank opened a new branch, the eighth overall, in Trincomalee in April. This was a much-needed expansion due to the fact that until the opening, all requirements of the communities in the Trincomalee area were catered to and managed by the Polonnaruwa branch. With the growing customer base in the Trincomalee area, operational costs were on the rise and close monitoring was becoming increasingly difficult. Therefore, operating from the Polonnaruwa branch was not an arrangement that was sustainable in the long run, making the Trincomalee branch a necessary expansion by the Bank. This year also saw the relocation of the Bank's Kandy branch to a more convenient, centrally-located office at No. 831-B, Sirimavo Bandaranaike Mawatha, Kandy, where customers have easy access and larger parking facilities.

IT Infrastructure

With the expansion of our branch network, the Bank will be migrating to a new IT system. However, with the possibility of the merge in the pipeline, there were no major investments or changes in the IT infrastructure in 2013.

Products and Services

Having come to understand that there is a demand in the country but lesser borrowing opportunities for industries such as construction and for individuals such as plumbers, electricians, hotel staff, beauticians and quantity surveyors, the Bank expanded the scope of the existing "Shasthree" loan scheme to cater to this wider group. Previously, "Shasthree" loan scheme was designed only for the benefit of students interested in pursuing higher education including Post Graduate, Academic and Professional. In addition, the "Siyapath" loan scheme was rebranded as "Jayadiri". The focus of "Jayadiri" will be to identify new entrepreneurs and

to look beyond simply financing them to supporting them in various ways and improving their ventures. "Lakmuthu" children's savings account was expanded as "Lakmuthu Diriya Udana", giving more emphasis to school students with more facilities that are in tune with their needs to face the challenges of a competitive world.

Micro Financing

The Bank continued to focus on micro financing by providing grant and expand micro financing facilities across all regions where the Bank's branches were present. During the financial year under review, the Bank disbursed a total of 1,991 loans amounting to a total of LKR 800 million. The above figure is inclusive of 1,400 microfinance loans with cumulative value of LKR 237 million. The loan portfolio is well-diversified across five broad sectors with special emphasis given to the Agriculture Sector (21%) in line with the Government's vision. All sub-sector exposures are within our single sub-sector exposure of 15% which is monitored quarterly against the internal exposure limits set by the Banks' Board Credit Committee.

Managing and Growing the Loan Portfolio

The Bank's mission is to build the loan portfolio, at both corporate and micro financing level, to three different levels – firstly, the regional level; secondly, from the regional to the national level and thirdly, from the national level to the international level. As the Bank grants micro financing loans depending on the entrepreneurial skills of the individual concerned and the potential of the business to grow, we continue to disburse funds to help them grow the business to the next level.

The Bank, together with National Enterprise Development Authority (NEDA), also arranged a series of highly-useful training programmes for entry level customers to get an understanding of how to manage the various aspects of a business. These programmes focused on giving an all-round education to these individuals about a variety of topics such as the market scope for their products, how to develop a sound business plan, how to keep books of accounts properly, understanding and managing taxation, improving their leadership skills as well as how to prepare information when requesting for a bank loan.

Looking Back

In reflection, the year 2013 can be noted down as a year of consolidation for the Bank where the Bank maintained its growth momentum. The Bank has been able to put into practice the positive lessons learnt in recent years to streamline operations and reinforce its commitment to entrepreneurs at both regional and national level. All this points to a positive outlook as the Bank looks ahead to the challenges of the coming years.

Management Discussion & Analysis Contd.

Human Capital Review

Introduction

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

The present staff cadre at LDB has grown up to 153, having started with 45 professionals in 2006. Out of these 153 individuals, more than 60% is the younger generation. This is a significant asset to the Bank when compared to other State Banks in the country. The 100% Government-owned Specialized Development Bank (LDB), merged with Private Sector Infrastructure Development Company (PSIDC) and Small and Medium Enterprises Bank (SME Bank) in 2007 and 2008 respectively, thereby strengthening its capital base, in order to serve the rural sector of the country, as envisioned by His Excellency the President of Sri Lanka Mahinda Rajapaksa in his Government Policy "Mahinda Chinthana". The Bank today has spread its wings to the Southern, Eastern, Western, Central, North Central, Sabaragamuwa & North Western Provinces with 8 branches in total.

Innovating the Talent Brand

In a knowledge-based economy, skilled talent may be what most differentiates Lankaputhra Development Bank (LDB) from the rest. Skilled talent that can help drive innovation and customer value; create growth opportunities and mitigate a growing river of risk is what we strongly believe in. We do manage our talent and do create an opportunity to set themselves apart – in both the talent arena and in the broader marketplace.

Increasing Shareholder Expectations for Innovation and Value Creation

A bit harder to quantify, but nonetheless integral to our business model, is the innovation value skilled talent

produces. We have promoted 09 employees in the past year from their present grade to the next grade. This includes one employee reaching up to the "Senior Manager" category. Many knowledge & skill development programmes have been conducted through various professional institutions to uplift the quality of our employees.

Seeking the right talent for the right job at the right time has been the key focus in reaching our Bank's goals. We adopt a strategic orientation to the recruitment process which is designed to identify, develop and retain people with outstanding talent considering the long-term needs of the Bank. Being an equal opportunity employer that thrives on a culture of meritocracy, priority is given to internal candidates in filling positions, thereby extending our employees the opportunity to climb their career ladders.

The infusion of fresh blood has received much deliberation at LDB. The new performance-based reward structure recognizes people not only with operational excellence but also with entrenched values. The performance appraisal process was revisited in 2013 and developed into a more goal-oriented system.



Nurturing Unity and Family Spirit



Camaraderie, togetherness and team spirit are fostered through the events organized by the Staff Welfare Society and LDB HR emphasizing on the physical, mental and emotional well-being of employees. In keeping with the local traditions, the family unit has been extended pride of place in our social activities. Therefore, most of our social events are open to families.

LDB HR will continue to introduce and implement better initiatives to create a fulfilling and contented work environment for our employees.

Management Discussion & Analysis Contd.

IT Review

The Information Technology (IT) Department of the Bank has taken the sole responsibility for the governance of the Bank's information systems and spearheading the strategic use of information, communication and network technology.

Throughout the year, the IT Department continued to leverage Information Technology to produce useful, up-to-date and timely information across all branches, departments and levels of the Bank, ensuring a consistent, efficient and effective flow of information to all relevant parties and resulting in smooth functions and operations.

A vital aspect of the Bank's operations - security and integrity of information - is efficiently managed by the IT Department by providing safe, reliable and modern hardware, software and networking infrastructure to all the branches. One of the key achievements of the year was the successful implementation of a Disaster Recovery Site at the Internet Data Centre of Sri Lanka Telecom providing a high degree of data security, availability and recovery of the systems.

The website of the Bank was successfully revamped this year giving it a more modern, vibrant look and feel. The website was conceptualized, designed and developed in such a way where it can be used as an effective marketing and operations tool.

Identifying the need to keep the branch staff up-to-date on the systems deployed by the Bank. The IT Department regularly conducted training programmes to upgrade the knowledge and skill levels of branch staff, ensuring a smooth operation of the system at all times.

The IT Department continued to facilitate the Help Desk for the end users of the Bank while the dedicated and talented IT staff was able to attend to any IT requests from any branch of department in a speedy and efficient manner.

Marketing & Business Development Review

The year 2013 was a challenging year for Lankaputhra Development Bank in the face of economic conditions in the country. Nevertheless, the Bank was able to demonstrate resilience and persisted with numerous marketing campaigns while also introducing new products and services.

The year kicked off with the Bank expanding its branch network to 8 branches with the opening of the Trincomalee branch in March. In order to better connect with the people of the area, door-to-door deposit mobilization campaigns and street promotion campaigns were carried out, where we informed them of the array of benefits and advantages they could obtain by banking with LDB. Throughout the year, the Bank conducted regular street promotional campaigns across all branches, promoting deposit and loan products among the rural community of each region.

The Bank made its presence felt at the “Deyata Kirula” Exhibition held in Ampara setting up an elaborate stall that helped the Bank staff engage with the thousands of visitors who flocked to this annual event. The key products and services were successfully communicated to the visitors, who hailed mostly from the surrounding towns of Trincomalee, Polonnaruwa and Batticaloa, all of which are covered by the Bank’s branch network.

The Bank launched a special loan scheme named “Aya Saviya” which targeted state sector employees as a part of the government initiative of the “Divi Neguma” programme. The loan scheme provides loans for an unemployed family member of a single-income family to commence home garden cultivation or develop self-employment opportunities, thereby providing the family with a second income.

In keeping with the demands of the evolving customer, the Bank relaunched the “Shasthree” loan scheme to cater to new target groups. The loan scheme has thus expanded from the existing group of those pursuing higher education such as Post Graduate, Academic and Professional, to cater to skilled individuals such as plumbers, electricians, hotel staff, beauticians and quantity surveyors.

The Bank marked two significant days of the global calendar - World Children’s Day and World Thrift Day - by organizing special promotional activities that were in direct alignment to the needs of the customer. A special savings account for school children - “Lakmuthu Diriya Udana” - was launched with a host of value added features during this period.

The website of the Bank was further refined to enhance the corporate image of the Bank and to reach out to a wider audience, with the key feature enabling the latter being the availability of the content in English, Sinhala and Tamil, underscoring the Bank’s commitment to communicating with the customers in their preferred language.

The Bank’s focus on providing an even better customer service was highlighted with the development of the Customer Charter which outlined the key aspects of providing an outstanding service to the customer. The Customer Charter includes a code of conduct for the Bank employee when serving the customer as well as how to provide the best service, how to maintain consistently high quality of work and how to improve service and resolve issues. Implementation of the Customer Charter will be carried out in 2014.

Management Discussion & Analysis Contd.

Highlights of the Year



1. Deyata Kirula Stall - Ampara
2. Relocation of Kandy Branch
3. Opening of Trincomalee Branch (8th branch)
4. New Year celebrations by Wennappuwa Branch
5. Street promotion campaign - Kegalle Branch
6. Polonnaruwa Branch took elders & children to pay homage to Somawathi Vihara
7. Street promotion campaign - Wennappuwa Branch
8. Opening of school unit at Mamathiya Vidyalaya Polhengoda
9. Special contribution to the Leprosy Hospital as a part of the CSR Project.



9 . Entrepreneurship Training Program by Kandy Branch
10. Entrepreneurship Training Program by Kegalle Branch
11. Entrepreneurship Training Program by Wennappuwa Branch
12. Partnership with Metropolitan

13. Partnership with NEDA to provide training programmes for entrepreneurs
14. Entrepreneurship Training Program by Polonnaruwa Branch

Management Discussion & Analysis Contd.

Product & Services

Loans and Advances

- Project Loans
- Micro Finance Loans
- Special Project Loans
- Working Capital Loans
- “Laksaviya” Leasing Facility
- “Laksahana” Pawning Facility
- “Saubagya” Prosperity Credit Scheme
- “Shasthree” Higher Educational Loan Scheme
- Commercial Scale Dairy Development Loan Scheme
- “Jayadiri” New Entrepreneur Development Credit Programme
- “Sarusara” New Comprehensive Rural Credit Scheme (NCRCS) - “SARUSARA”
- “E Top” Computer Loan Scheme for government and private sector employees to purchase laptops
- “Aya Saviya” Loan Scheme for family members of government employees to increase their family income

Products & Services

Deposit Products

- “Suruviru” Term Deposit
- “Sandaliya” Savings Account
- “Deshabhimani” Savings Accounts
- “Lakmuthu” Children’s Savings Account
- “Lakmuthu Diriya Udana” Children’s Savings Account

Others

- “Jathika Viyavsayaka Athwela” – Entrepreneurship Development Training Programme



DESHABHIMANI Savings Account

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

Benefits / Features

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



SURUVIRU Term Deposit

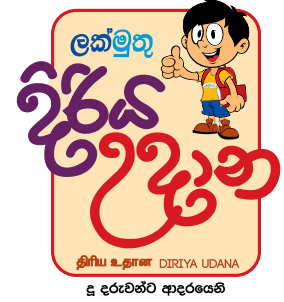
LDB's Suruviru Term Deposit is a risk - free investment opportunity which gives the highest rate of interest on money deposited for a fixed period of time. Suruviru Term Deposit can be opened for periods of 3, 6 or 12 months. Interest thereon is payable annually or monthly.

Benefits / Features

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

Management Discussion & Analysis Contd.

Product & Services Contd.



LAKMUTHU Children's Savings Accounts

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

Benefits / Features

- High interest rate
- Ability to open an Account with LKR 100 - LKR 500/-
- Attractive rewards



SANDALIYA Savings Account

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

Benefits / Features

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



FINANCIAL REVIEW

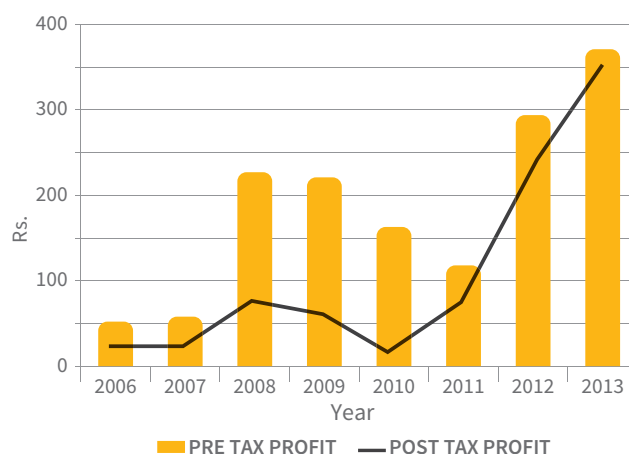
We are pleased to present the financial results of the Lankaputhra Development Bank for the year 2013 as follows. As a part of the implementation of the Government's budget proposal for 2007, LDB merged with the former SME Bank Limited, effective from 1st January 2008 and one month down the line from there LDB acquired the assets and liabilities of the Private Sector Infrastructure Development Company Limited (PSIDC). This report mainly describes the key areas such as profitability, liquidity, asset base and key performance indicators of the Bank.

PROFITABILITY

LDB recorded a profit after taxation of Rs.345.8 million for the year 2013 with a substantial increase in profit compared to year 2012. Further, it is worthwhile to note that the current year's profit is after contributing Rs.73.6 million to the Government's revenue by way of taxes. In comparison to previous year's contribution it has decreased by Rs.46.2 million in the current year, which resulted mainly due to income tax exemption applicable to the Bank with effect from 01/4/2013. Interest income of the Bank derived from interest income earned through the core business of lending as well as from investments in fixed deposits and government securities. The impairment loss on financial assets for the year 2013 has been estimated at Rs.47.6 million which is slightly less than the estimated impairment loss of Rs.47.9 million for the year 2012.

During the year 2013, total turnover has improved substantially as a result of increased interest income from lending as well as interest bearing investments whilst having closely monitored NPA position. Bank's loan portfolio did not grow in line with the budgeted targets mainly due to unexpected facility settlements and extremely cautious facility screening process on new lending. Total operating expenses including provisioning have been maintained at minimum levels in the year 2013. As a result of substantial increase in profit in 2013, Earnings per Share has raised from Rs.6.05 in 2012 to Rs.9.59 in 2013. In comparison to the mandatory requirement of 20% of Statutory Liquid Asset Ratio (SLAR), the Bank has maintained its SLAR at 1341.48% as at 31/12/2013 which has reaffirmed the strong liquidity position of the Bank.

Analysis of Growth of Profits-Rs.Mn.



Year	Pre Tax Profit	Post Tax Profit
2006	52	23
2007	58	23
2008	227	76
2009	221	63
2010	163	21
2011	118	79
2012	294	218
2013	371	345

DEPOSIT BASE

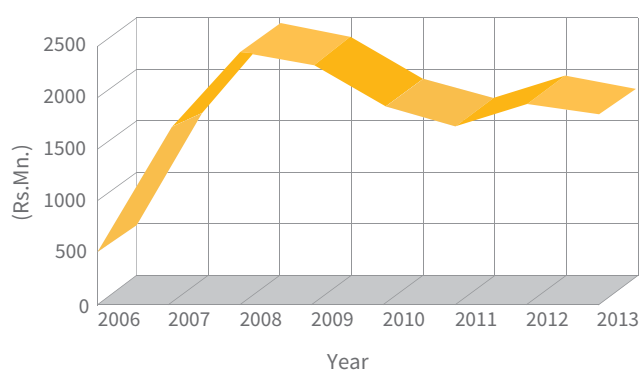
At the end of the year, the Bank's deposit base stood at Rs. 228 million which represents a decrease of 5% compared to the previous year. Savings deposits represent nearly 80% of Bank's deposit base while the balance 20% represents time deposits. During the financial year under review, the Bank regularly monitored its interest rates on deposits and revised when necessary to be in line with market conditions, which in turn resulted in low interest cost on the deposit base. However, the Bank did not draw much attention in increasing the deposit base in view of the Bank's strong liquidity position.

LOANS AND ADVANCES

Net loans and advance portfolio of the Bank has declined by Rs.120 million from Rs. 1,932 million in year 2012 to Rs.1,812 million in year 2013, that represents a decrease of 6.2%. Net Non-Performing Loan (NPL) ratio dropped down to 22.8% as at 31/12/2013 from 24.2% of same which stood as at 31/12/2012.

This favourable position resulted in making adequate provisions for impairment losses during the year under review. However gross non-performing ratio of the Bank stood at 46.7% as at 31/12/2013 which is slightly higher than the same which stood at 45.8% as at 31/12/2012. Gross NPL ratio of the Bank remains above the industry average which has been identified as the most crucial issue of the Bank and therefore being monitored very closely and continuously.

Movement in Net Loans & Advances



Year	Loans & Advances
	Net (Rs.Mn)
2006	427
2007	1656
2008	2430
2009	2301
2010	1910
2011	1711
2012	1932
2013	1812

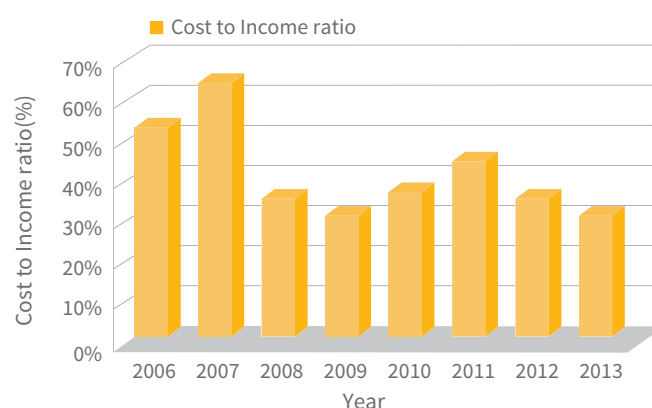
CAPITAL ADEQUACY AND LIQUIDITY

LDB's capital adequacy ratios are recorded at 73.99% at Tier I level and 74.34% at the Total Capital level, as at 31st December 2013. This computation is in accordance with the standardized approach on credit risk and the basic indicator approach on the operational risk, under the terms of Basel II. These ratios are well above the minimum levels mandated by the Central Bank of Sri Lanka. Meanwhile, the Bank continued to maintain its liquidity position also at a higher level. The statutory liquid Asset Ratio computed in accordance with the Central Bank guidelines stood at 1341.48% as at 31st December 2013.

KEY PERFORMANCE INDICATORS

The Bank's cost-to-income ratio has been maintained at 33% in the year 2013 which can be treated as a little improvement compared 36% of the same in the previous year. This favorable change is mainly due to substantial increase in the interest income whilst maintaining operating expenditure at an affordable level.

Cost to Income Ratio



Year	Cost to Income ratio
2006	55.00%
2007	65.10%
2008	35.40%
2009	32.84%
2010	36.00%
2011	45.00%
2012	36.00%
2013	33.00%

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

KPI	2013	2012
Interest Margin(%)	8.90%	8.60%
Return On Assets(%)	5.80%	4.30%
Return On Equity(%)	7.90%	5.30%
Earning Per Share-Basic(Rs.)	9.59	6.05
Core Capital Adequacy Ratio	73.99%	86.06%
Total Capital Adequacy Ratio	74.34%	86.40%
Statutory Liquid Asset Ratio	1341.48%	793.20%

The exceptionally healthy position in above ratios in comparison to year 2012 is mainly due to substantial increase in profit derived from core business activities & treasury operations together with the strong liquidity position. In view of these in the main sources of income of the Bank, we were in a position to record a growth of 58% in the profit after tax for the year 2013.

RISK MANAGEMENT REVIEW

“Risk Management plays an important role in our business planning process and is strongly supported by Senior Management and the Board of Directors”

Overview

Risk exists in all aspects of the banking business and the environment in which the Bank operates. All of the Bank’s activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or a combination of risks. As the business of banking is about assuming appropriately priced risk and prudent management of risk portfolios, there is a renewed focus on risk management that is inevitable given the current global and local operating environment. As such, one of the key challenges faced by the financial sector today is to strike a balance between risk and return. The ability of a Bank to take strategic initiatives within pre-defined and consistent risk framework can be considered as a speciality that can make a distinction for a bank and ensure safety for all the stakeholders in today’s competitive market. Thus risk management is an integral part of the banking business.

Managing Risk at Lankaputhra Development Bank

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

Management Committees

The following Executive Committees are in operation in managing the various risks that the Bank is exposed to:

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

- Staff Committee
- Staff Transfer Committee

The Committees meet regularly to review the Bank’s risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

Staff Awareness

To ensure that all staff are aware of the inherent risks in their areas of responsibility and their role in managing and mitigating risk, the Bank facilitates ongoing training at all levels and maintains effective dialogue across functional units. In addition, the Head Office issues Circulars to the staff on Risk Management and Compliance.

Identified major risks to the Lankaputhra Development Bank based on origin and nature are:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Legal Risk
- Regulatory and Compliance Risk
- Reputational Risk

All these risks are highly interdependent.

Credit Risk

Credit Risk is the risk of potential financial loss stemming from the failure of borrowers or counterparties to meet their debt or contractual obligations to pay in accordance with agreed terms and conditions resulting in an economic loss to the Bank. It includes failures in repayment of capital or interest in full within the agreed time period, at the agreed rate of interest and in the agreed currency. It arises principally from direct lending and leasing business and also from off - Balance Sheet products such as letters of credit and guarantees. Since granting of credit is the main line of business of the Bank, it is the highest contributor to overall risk exposure. Hence, it has been identified that effective management of credit risk is an essential component of the risk management process and critical to the long-term

success of the Bank. The Bank manages the credit risk in the entire portfolio as well as individual credits or transactions with a view to minimize the non-performing loans and also to manage any concentrations as well as to maximize returns.

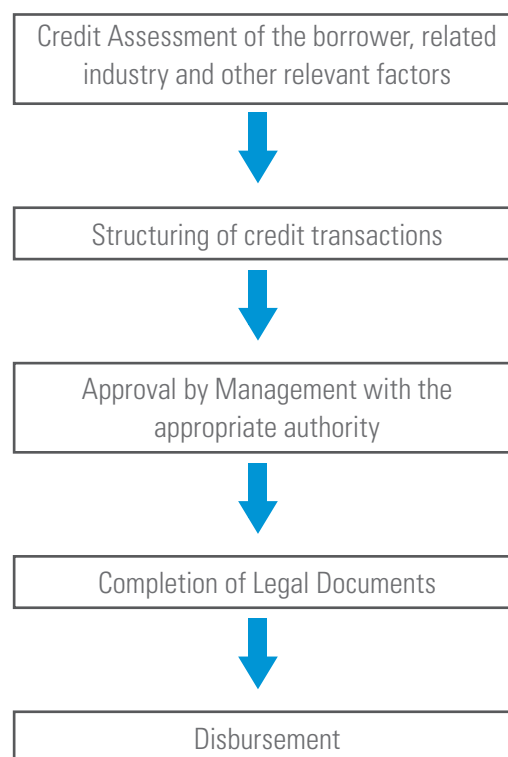
Credit Risk Management

The Bank believes that a key component of a disciplined credit culture is adherence to internal policies and procedures. Hence, comprehensive Credit Policies and Guidelines have been established in the Bank to ensure quality and transparency in lending decisions at all times. Overall responsibility of Credit Risk Management lies with the Board of Directors and Board approved credit risk management policies and procedures are in place for managing credit risk at both the individual credit and portfolio levels. The Credit Policy of the Bank outline the principles by which the Bank conducts its Credit Risk Management activities. These policies ensure consistency in credit sanctioning across the Bank and provide guidance in formulation of business specific credit risk analysis to reflect different credit environments and portfolio specific risks. The Credit Policy therefore, broadly reinforce prudent and effective Credit Risk Management practices in order to ensure at all times quality, consistency and transparency in the credit risk approvals while promoting a disciplined credit culture in the Bank.

Credit Risk Management reviews and manages the credit process from origination to collection. The Credit Policy of the Lankaputhra Development Bank defines the following:

- credit culture of the Bank
- target markets for lending
- prohibited lending which the Bank under no circumstances will entertain due to either the very high risks involved in such proposals and / or its negative social/ethical consideration.
- acceptable risk parameters
- remedial and recovery actions

The Bank has a structured and standardized credit approval process which encompasses the following elements.



Credit Risk Mitigation and Control

The Bank believes that a key component of a disciplined credit culture is adherence to internal policies and procedures.

As a guiding principle, the Bank considers “Collateral” as the ultimate source on recovery of credit exposure in an extreme situation rather than a factor which enhances the credit quality of a borrower in taking a credit decision. As a result, risk profile of the borrower and the repayment capacity are always given prominent over collateral. However, Lending Officers are encouraged to obtain suitable collaterals against loans and advances wherever possible to mitigate potential credit risks. The common types of collaterals include mortgage over properties, lien over deposits, mortgage over other assets and, guarantees etc. The Bank always insists on ascertaining the realistic values of the fixed assets mortgaged to the Bank by obtaining valuations by qualified, independent valuers.

In addition to collaterals, stipulation of covenants and special conditions in the loan agreements too assist the Bank in mitigating the credit risk.

Risk Management Review Contd.

The diversified nature of the Bank's credit portfolios across different economic sectors, borrowers, regions, product categories etc., also naturally mitigate the overall risk.

The credit risk of the Bank is regularly monitored through daily, weekly and monthly management reports. This process is complemented by the Executive Committees which meet regularly to review and direct various aspects of the lending activities of the Bank.

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

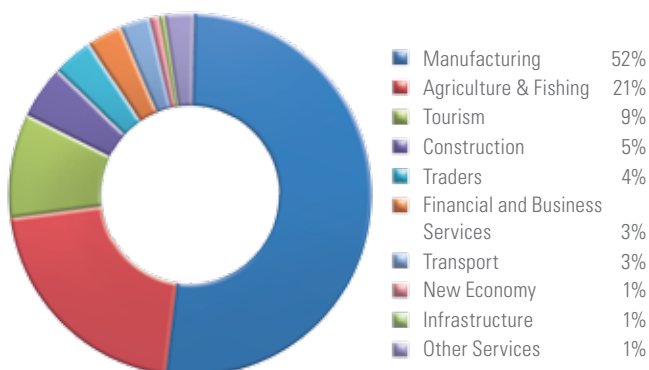
Concentration Risk

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

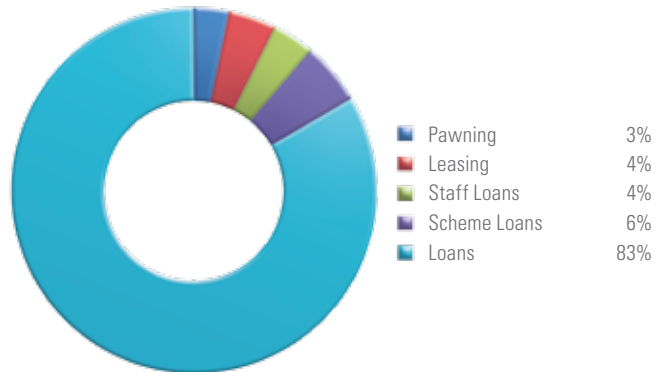
Loans and advances of the Bank as at 31st December 2013 totaling to Rs.2,460.6 million and the Bank has also classified its portfolio into various sectors and sub-sectors.

The graphical presentations below depict the analysis of the Bank's overall credit risk exposure as at 31st December 2013.

Credit Exposures by Sectors



Credit Exposure by Product Type



Provision for Credit Losses

Provision for Credit Losses is the incremental amount added to the cumulative specific and general provisions for credit losses during the year to bring it up to a level that the management considers adequate to absorb all probable credit related losses in the Bank's loan portfolio. The provision for the year 2013 amounted to Rs. 609.6 million, which is an increase of Rs. 47.6 million as against the previous year.

Provisioning is implemented in three categories:

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

Provision for non-performing loans and advances is made in accordance with the applicable Accounting Standards and the regulations imposed by the Central Bank of Sri Lanka. The provisioning policy of the Bank is given under the Accounting Policies on Page 89.

Market Risk

Market Risk is the likelihood of the Bank incurring losses as a result of values of assets and liabilities or revenues being adversely affected by changes in financial market conditions such as movements in interest rates, exchange rates, equity

prices, or commodity prices. The main objective of Market Risk Management is to optimize the risk reward relationship without exposing the Bank to unacceptable losses outside our risk appetite.

Market Risk Management is an independent function that works in close partnership with the business segments to identify and monitor market risks throughout the Bank and to define market risk policies and procedures. Our objective is to manage and control market risk exposures in order to optimize return on risk whilst ensuring that the Bank is not exposed to unexpected losses. The Assets and Liabilities Committee (ALCO) is chaired by the General Manager comprising Senior Management staff from Finance and the relevant business units of the Bank responsible for the supervision and management of market risk. The ALCO meets on a monthly basis and whenever circumstances demand. Main responsibilities of ALCO are:

- to decide on the required maturity profile and mix of incremental assets and liabilities:
- to monitor the structure and composition of the Bank's assets and liabilities and decide on product pricing for deposits and advances:
- to articulate the interest rate view of the Bank and decide on future business strategy:
- to review and articulate funding policy:
- to decide the transfer pricing policy of the Bank:
- to evaluate risks involved in launching new products.

Interest Rate Risk

Interest Rate Risk is the likelihood that changes in the level of market interest rates will adversely affect the Bank's net interest income and the value of any financial instruments. It is also the possibility of loss which arises within portfolios through mismatches between the future yield on assets and the funding cost as a result of future interest rate changes. Interest Rate Risk is a major component of the market risk exposure of the Bank which arises from banking activities such as granting of credit facilities and accepting deposits etc. Bank's overall goal is to manage interest rate sensitivity

so that movements in interest rates do not adversely affect net interest income. The Bank understands the importance of managing Interest Rate Risk from the earnings perspective so that interest rate movements will not adversely impact the Net Interest Income (NII) of the Bank. The Bank's interest rate sensitive portfolio consists mainly of government securities.

Foreign Exchange Risk

Foreign Exchange Risk is the current of prospective risk to earnings and capital that arises from adverse movements in foreign exchange rates which affect the value of Bank's foreign exchange positions. This exposure is created when the Bank transacts in a currency other than the base currency - i.e. Sri Lankan Rupee (LKR).

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

Liquidity Risk

Liquidity Risk is the potential vulnerability of a financial institution for not being able to fund increases in assets and meet contractual and contingent financial obligations. On-or Off-Balance Sheet, as they fall due without incurring unacceptable losses. Banks in the business of financial intermediation are by nature vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. Thus, the Bank's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress whilst maintaining our business profile. The Bank's liquidity risk management process is designed to ensure that its liquidity position is optimised to support its business requirements while maintaining healthy earnings.

Statutory Liquid Asset Ratio (SLAR)

Liquidity being of paramount importance in a financial institution, several measures are in place to monitor and control the risk associated with liquidity inadequacies. The Bank continued to maintain a healthy liquid position and

Risk Management Review Contd.

Statutory Liquid Asset Ratio (SLAR) stood at 1341.48% as at 31st December 2013.

Operational Risk

Operational Risk is the risk of losses as a consequence of inadequate/failed/incomplete internal processes, people issues, systems issues, or from external events. Basel Guidelines also incorporate Legal Risks under Operational Risk but exclude Strategic and Reputational Risks.

We manage Operational Risk through a comprehensive set of internal controls and management processes that drive risk identification, assessment, control and monitoring as an ongoing activity. Broad objectives of the Operational Risk Management function of the Bank are to:

- Minimize the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering large extreme (unexpected) losses.
- Regulatory review and improve the business processes and controls from a risk mitigation perspective in order to preserve/enhance the shareholder value.

Operational risk management forms part of the day-to-day responsibilities of management at all levels.

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

Outsourcing

After comprehensive evaluation of service providers, the Bank outsources certain functions to reduce cost and to compensate for a lack of expertise or resources. The outsourcing functions are covered through robust contracts or service level agreements that ensure a clear allocation of responsibilities between external service providers and the Bank. The Bank is concerned and committed in ensuring that the outsourced parties continue to uphold and extend the high standard of customer care and service excellence.

Insurance

The Bank uses transfer strategy to mitigate high severity risk from non - controllable sources. Risk transfer is a means of exchanging unknown financial impact of specified events for a known financial cost.

The Bank uses insurance as a risk transfer strategy. The Bank assesses the risk involved in various banking operations and obtains insurance covers from state, owned insurance service providers.

The Bank's indemnity policy provides a comprehensive cover against risks arising from banking operations. In addition, the Bank uses fire and electronic all risk insurance to transfer the risk of damages to physical assets from natural disasters and other hazards.

Legal Risk

Legal Risk, an integral part of Operational Risk, arises out of the legal implications of failed systems, people, processes or external events. All legal documents executed on behalf of the Bank are initially vetted by the Legal Department which consists of experienced and competent in-house Legal Officers. Whenever required, services of the external lawyers are obtained. Legal actions filed against the Bank are handled by the internal Legal Officers or by the external lawyers under the close scrutiny of the Legal Department. The external lawyers are selected carefully by studying their track records and capabilities on relevant subjects.

Compliance and Regulatory Risk

Banking business is highly regulated and the Bank could be adversely affected by failure to comply with existing laws and regulations or by failing to adopt changes in laws, regulations and regulatory policy. The Bank is also supervised by a number of different regulatory authorities which have broad administrative power over the Bank's businesses. The Board of Directors is responsible for ensuring that the Bank complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which the Bank operates or obtains funding, as well as meeting the Bank's ethical standards.

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

Reputation Risk

According to the definition under Basel 11 Guidelines, Reputational Risk has been excluded in the definition of Operational Risk under Pillar 1. Reputational Risk is multidimensional and it exists in the overall business model of the Bank. Further, it refers to the potential adverse effects, which can arise from the Bank's reputation being tarnished due to a wide array of actions, including failure to comply with regulatory or legal obligations, failure to deliver expected standards of service and product, unethical practices, failure to achieve financial performance targets, labour unrest and environmental breaches etc. Reputational Risk could also arise from external factors such as the actions of a competitor that cast a cloud over the entire sector.

Reputation risk management and mitigation aspects are embedded in the Bank's policies, procedures and training programmes.

Risk Based Capital Adequacy

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

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

Way Forward

Rapid economic development and change of business in both local and global economies provide opportunities but at the same time is a challenging task under risky economic environment. Identifying the dearth of finances for the development of the SME sector in the rural areas, the Bank

supported them to fulfill their expectations in the past. The Bank will continue to focus on the growth in the SME sector of the economy through strategic portfolio planning supported by sound risk identification, measurement, control, monitoring and reporting.

SOCIAL RESPONSIBILITY

Service to the society encompasses many aspects. Awareness of and the concern for the society amongst the staff, its responsibility towards customers, suppliers, workers and those connected with the organization as well as the things we do with responsibility towards the public and the environment are identified as "service to the society".

Lankaputhra Development Bank, while being a bank that enjoys the security offered as one of the state banks, has never shied away from fulfilling social obligations. As a Bank, during our relatively short lifespan, we have moved beyond the pursuit of profit to become a Bank that has been able to contribute in every possible manner towards the upliftment of the community at large. This drive and positive outlook towards society's wellbeing aligns seamlessly with the Bank's Mission of being the vibrant facilitator of economic and social development in Sri Lanka and also with the Vision of being the leading development bank in the country providing encouragement to entrepreneurs and lending its hand towards eradication of poverty with dedication to overcoming social disparity.

The Bank has unequivocally focused its attention on untapped segments of society through programmes that have been able to make significant impacts in the community and set an example to both the state sector as well as the private sector. Needless to say, such a sincere drive and commitment to these communities has received the support and cooperation of the entire Bank staff who willingly participate in projects that contribute to the welfare of the society. The staff at our branches in Polonnaruwa, Hambantota, Kegalle, Kandy, Wennappuwa and Batticaloa organized and carried out major social service programmes planned according to the needs of the respective regions.

Within a short period of just seven years, the Bank has been able to contribute significantly towards the implementation of the major social service programmes of the country. A notable feature in the Bank's social welfare programme is the loans given to entrepreneurs at low interest rates without traditional collateral. These loans have provided a boost to these small and medium scale entrepreneurs, changing their attitudes and perceptions and driving them towards national-level growth. Despite the growing number of

entrepreneurs in the country, there is still no provision in this country to obtain project loans at concessionary interest rates. In comparison to other financial institutes, the Lankaputhra Development Bank stands out as an organization that provides the lowest interest rates.

Social Welfare Service

As a community project, the Bank took elders and children from homes in the Polonnaruwa district to pay homage to the "Somawathi Chethiya". These elders and children, who live in homes without the support of their loved ones, were able to spend the day in worship and were also provided food, drinks and gifts by the Bank. The staff of the Bank together with the management participated to make it a joyous occasion for them. The event was organized by the Polonnaruwa branch of the Bank and was coordinated by the Polonnaruwa Branch Manager.



Continuing the approach of not picking projects that are commonly selected by other organizations, the management of LDB renovated the Leprosy Hospital at Hekiththa, Wattala and provided necessary assistance to improve the lives of the hospital staff and patients. During the year, the Bank's staff attended to various repairs and maintenance of the hospital including the colour washing of wards, repairing of the broken ceiling fans, providing of cupboards for patients and renovating of the hospital nameboard.

The Bank launched the “Jayadiri” New Entrepreneur Development Credit Programme for young entrepreneurs, offering them financial assistance without traditional collateral. The innovative loan scheme also provides these entrepreneurs with knowledge and guidance on how to start and develop a business in a successful, methodical manner. As a Government bank, the mechanisms of the loan scheme was mapped out in a way where it caters to the needs of the young entrepreneur who has the business acumen but lacks the financial resources to get the venture off the ground.



In order to support entrepreneurs LDB introduced the “Viyavasayaka Athwela” training programme with the support of the National Enterprise Development Authority (NEDA). The key objective of this free training programme was to develop their skills, expand their knowledge about the business world and address the difficulties faced by small and medium entrepreneurs when starting a business.

The programme, a long term solution by the Bank, guides the entrepreneurs on how to identify a business, prepare a business plan, address legal issues when establishing a business, find a market, keep accounts as well as numerous related aspects which have to be considered when establishing and running the day-to-day operations of a business. The unique aspect evident in this programme was the continuous monitoring and guidance offered to the participants even after the completion of the programme. This empowered and motivated the participants to stay

focused on their business and get the maximum out of the knowledge and skills that they have acquired.



Continuing the tradition of giving priority to schoolchildren, the Bank commenced a project to assist schools in districts where the Bank branches are located. The main objective of this activity was to nurture the deposit habit amongst schoolchildren while also conducting certain skill development activities. The Bank will provide loans for students’ higher studies at concessionary interest rates and will encourage them to start new self-employment, providing them with training programmes to develop their entrepreneurial skills at a young age.



Social Responsibility Contd.

As a Bank that promotes religious harmony and ethnic diversity, LDB conducted various “Deepavali” programmes in predominantly Tamil areas in the Batticaloa and Trincomalee branches. These events have been instrumental in celebrating the diversity within the Bank and the community while also bringing all parties closer together.

LDB played an active role in the “Deyata Kirula” National Exhibition held at Ampara as thousands thronged the successful annual event. During this period, loans were granted for micro, small and medium scale entrepreneurs in the region to uplift their income level. These loans were disbursed to entrepreneurs who found it difficult to obtain credit from other banking and financial institutions due to the various constraints set upon them by these organizations. As an entity that spearheads development and eradicates poverty by empowering entrepreneurs and communities, LDB loans were able to provide hope and optimism to these individuals to kick-start their ventures.

LDB has always known to be a bank that contributes meaningfully to society, especially when it comes to the welfare of children. The Bank continued this tradition towards the betterment of those less fortunate children in society by regularly contributing towards children from several special needs schools such as the School for the Deaf and Blind in Ratmalana.



CORPORATE GOVERNANCE

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

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

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

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

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

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

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

.SJMS.

A S S O C I A T E S
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

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REPORT OF FACTUAL FINDINGS

To the Board of Directors of Lankaputhra Development Bank

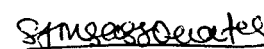
We have performed the procedures agreed with you and enumerated in an Appendix to this report, with respect to the corporate governance direction issued by the Central Bank of Sri Lanka (CBSL). Our engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Service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

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

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

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

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



SJMS Associates
Chartered Accountants

Colombo

Date: 28th May 2014

Corporate Governance Contd.

Appendix to the report on factual finding

NOTE: The below mentioned numbering is used to coincide with the "section 3" of the Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka, the sections 1 & 2 are not applicable for this document

3(1)	The responsibilities of the board	Complied status as per management	Findings
3(1) (i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.		
	a. Check the board approval of the bank's strategic objectives and corporate values Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Yes	None
	b. Check the board approval of the overall business strategy of the bank Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. Check that the overall business strategy contains measurable goals, for at least the next three years.	The Board has not maintained a separate risk policy and documented risk management procedures and mechanisms. However, the Board sub committees and management committees overlooks the risk aspects of lending and operations of the Bank.	None
	c. Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	The Board has not identified systems to manage risks. However the decisions taken by the board, sub committees and management committees are referred to relevant departments for implementation.	None
	d. Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers.	Yes	None
	e. Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems.	Yes	None
	f. Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	Yes	None

3(1)	The responsibilities of the board	Complied status as per management	Findings
	g. Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel.	Yes	None
	h. Check that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy.	Yes	None
	i. Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	The Board of Directors is of the opinion that this Section is not applicable since all directors are appointed to the Bank by the Ministry of Finance & Planning.	All directors are appointed to the bank by the Ministry of Finance & Planning.
	j. Check that the board has a succession plan for key management personnel.	This has not been complied with. However, the Bank is in the process of developing suitable succession plan.	The Bank has not developed a suitable succession plan.
	k. Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Yes	None
	l. Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	Yes	None
	m. Check that the board has a process in place for hiring and oversight of external auditors.	Yes	None
3(1)(ii)	Check that the board has appointed the chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	The Board has appointed CEO and the position of Chairman is appointed by the Ministry of Finance and Planning. Yes	The CEO is appointed by the Board and the Chairman is appointed by the Ministry of Finance and Planning. None

Corporate Governance Contd.

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

3(1)	The responsibilities of the board	Complied status as per management	Findings
3(1)(x)	<p>Check that the minutes of a board meeting contain or refer to the following:</p> <ul style="list-style-type: none"> a. a summary of data and information used by the board in its deliberations b. the matters considered by the board c. the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; d. the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; e. the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and f. the decisions and board resolutions. 	Yes	None
3(1)(xi)	<p>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.</p>	Yes	None
3(1)(xii)	<p>Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors to avoid conflicts of interests, or the appearance of conflicts of interest. Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest/is interested. Check that he/she has not been counted in the quorum for the relevant agenda item at the board meeting in such instance.</p>	Yes	None
3(1)(xiii)	<p>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.</p>	Yes	None
3(1)(xiv)	<p>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.</p>	Not arisen yet	None

Corporate Governance Contd.

3(1)	The responsibilities of the board	Complied status as per management	Findings
3(1)(xv)	Check that the board has the bank capitalized at levels as required by the Monetary board.	Yes	None
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.	Yes	None
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.	Yes	None
3(2)	The board's Composition	Complied status as per management	Findings
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.	Yes	None
3(2)(ii)	A. Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Yes	None
	B. In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Yes	None
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Yes	None
3(2)(iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	Yes	None
	a. Holds a direct and indirect shareholdings of more than 1 percent of the bank.	Yes	None
	b. currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	Yes	None
	c. has been employed by the bank during the two year period immediately preceding the appointment as director.	Yes	None

3(2)	The board's Composition	Complied status as per management	Findings
	d. has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)	Yes	None
	e. represents a specific stakeholder of the bank	Yes	None
	f. is an employee or a director or a material shareholder in a company or business organization: (i) which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or (ii) in which any of the other directors of the bank are employed or are directors or are material shareholders; or (iii) in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.	Yes	None
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.	Yes	None
3(2)(vi)	Check that the bank has a process for appointing independent directors.	The Board of Directors is of the opinion that this section is not applicable since all directors are appointed to the Bank by the Ministry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.	All Directors are appointed to the Bank by the Ministry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.
3(2)(vii)	Check that although the number of directors required to constitute the quorum of the bank at a meeting is present, unless more than one half of the number of directors present at such meeting are non-executive directors.	Yes	None

Corporate Governance Contd.

3(2)	The board's Composition	Complied status as per management	Findings
3(2)(viii)	Check that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Yes	None
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	The Board of Directors is of the opinion that this section is not applicable since all directors are appointed to the Bank by the Ministry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.	All Directors are appointed to the Bank by the Ministry of Finance and Planning. Therefore, the bank does not have a separate process for appointing independent directors.
3(2)(x)	Check that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	The Board of Directors is of the opinion that this section is not applicable since all directors are appointed to the Bank by the Ministry of Finance and Planning.	All directors are appointed to the bank by the Ministry of Finance and Planning
3(2)(xi)	Check if a director resigns or is removed from office, the board: a. announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and b. issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	The Board of Directors is of the opinion that this section is not applicable since all directors are appointed and removed by the Ministry of Finance and Planning.	All directors are appointed and removed by the Ministry of Finance and Planning.
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank.	Yes	None

3.3	Criteria to assess the fitness and propriety of directors	Complied status as per management	Findings
3(3)(i)	Check that the age of a person who serves as director does not exceed 70 years.	Yes	None
	A. Check that the transitional provisions have been complied with.	Yes	None
	B. Check that the transitional provisions have been complied with.	Yes	None
3(3)(ii)	Check if there is a Process to identify whether a director holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank	Yes	None
3(4)	Management functions delegated by the board	Complied status as per management	Findings
3(4)(i)	Check that the delegation arrangements have been approved by the board.	Yes	None
3(4)(ii)	Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Yes	None
3(4)(iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Yes	None
3(5)	The Chairman and CEO	Complied status as per management	Findings
3(5)(i)	Check that the roles of Chairman and CEO are separate and not performed by the same individual.	Yes	None
3(5)(ii)	Check that the chairman is a non-executive director and preferably an independent director as well. In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference. Check that the designation of the senior director be disclosed in the bank's Annual Report.	Yes	None

Corporate Governance Contd.

3(5)	The Chairman and CEO	Complied status as per management	Findings
3(5)(iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Yes	None
3(5)(iv)	Check that the board has a self-evaluation process where the chairman: a. provides leadership to the board; b. ensures that the board works effectively and discharges its responsibilities; and c. ensures that all key and appropriate issues are discussed by the board in a timely manner.	Yes	None
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	Yes	None
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Yes	None
3(5)(vii)	Check that the board has a self-evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	Yes	None
3(5)(viii)	Check that the board has a self-evaluation process that assesses the contribution of non-executive directors.	Yes	None
3(5)(ix)	Check that the chairman shall not engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Yes	None
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Yes	None
3(5)(xi)	Check that the CEO functions as the apex executive-in charge of the day-to-day management of the bank's operations and business.	Yes	None

3(6)	Board appointed committees	Complied status as per management	Findings
3(6)(i)	<p>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.</p> <p>Check that each board committee report is addressed directly to the board.</p> <p>Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.</p>	<p>The bank has complied with except for Integrated Risk Management Committee. During the financial year 2013 only two board committees have operated - HR & remuneration committee and Board audit committee.</p>	<p>During the financial year 2013 only two board committees have operated - HR & remuneration committee and Board audit committee.</p>
3(6)(ii)	<p>a. Check that the Chairman of the committee is an independent non-executive director and possesses qualifications and related experience.</p>	Yes	None
	<p>b. Check that all members of the committee are non-executive directors.</p>	Yes	None
	<p>c. Check that the committee has made recommendations on matters in connection with:</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>	Yes	None
	<p>d. Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.</p>	Yes	None

Corporate Governance Contd.

3(6)	Board appointed committees	Complied status as per management	Findings
	e. Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	Yes	None
	f. Check that the committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Yes	None
	g. Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	Yes	None
	h. Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	Yes	None
	i. Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Yes	None
	j. Check that the committee shall take the following steps with regard to the internal audit function of the bank: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	Yes	None

3(6)	Board appointed committees	Complied status as per management	Findings
	(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; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (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; (vi) Check that the internal audit function is independent of the activities it audits.	Yes Yes Yes Yes Yes	None None None None None
	k. Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Yes	None
	l. Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Yes	None
	m. Check the terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Yes	None
	n. Check that the committee has met, at least four times and maintained minutes.	Yes	None

Corporate Governance Contd.

3(6)	Board appointed committees	Complied status as per management	Findings
	o. Check that the board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	Yes	None
	p. Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Yes	None
	q. Check that the “whistle blower” policy covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters. (ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and (iii) Appropriate follow-up action.	Yes	None
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:		
	a. Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.	Yes	None
	b. Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Yes	None
	c. Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Yes	None
	d. Check that the “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Yes	None

3(6)	Board appointed committees	Complied status as per management	Findings
3(6)(iv)	Do the relevant rules apply in relation to the Nomination committee.	All directors are appointed to the bank by the Ministry of Finance and Planning. Matters in relation to key management personnel are monitored by Board Human Resources and Remuneration Committee.	No nomination committee has been formed in the bank as all directors are appointed by the Ministry of Finance and Planning.
3(6)(v)	Do the relevant rules apply in relation to the Integrated Risk Management Committee (IRMC):	No. However, all risk aspects are closely monitored by the board, Board sub committees and management committees.	None
3(7)	Related party transactions	Complied status as per management	Findings
3(7)(i)	Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a. Any of the bank's subsidiary companies; b. Any of the bank's associate companies; c. Any of the directors of the bank; d. Any of the bank's key management personnel; e. A close relation of any of the bank's directors or key management personnel; f. A shareholder owning a material interest in the bank; g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.	Yes	None
3(7)(ii)	Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.	Yes	None
	(a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.	Yes	None

Corporate Governance Contd.

3(7)	Related party transactions	Complied status as per management	Findings
	(b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.	Yes	None
	(c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.	Yes	None
	(d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Yes	None
3(7)(iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties “more favorable treatment” than that accorded to other constituents of the bank carrying on the same business.	Yes	None
	a. Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction: (i) “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. (ii) The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of 5 years or more.	Yes	None
	b. Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.	Yes	None
	c. Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	Yes	None
	d. Providing services to or receiving services from a related-party without an evaluation procedure;	Yes	None

3(7)	Related party transactions	Complied status as per management	Findings
	e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	Yes	None
3(7)(iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	Yes	None
3(7)(v)	a. Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.	Yes	None
	b. Check where such security is not provided by the period as provided in Direction 3(7) (v) (a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	Yes	None
	c. Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public.	Not arisen yet	None

Corporate Governance Contd.

3(7)	Related party transactions	Complied status as per management	Findings
	d. Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank	Not arisen yet	None
3(7)(vi)	Check that there is a process in place to identify when the bank grants any accommodation or “more favorable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.	Not arisen yet	None
3(7)(vii)	Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7) (v) and 3(7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.	Not arisen yet	None
3(8)	Disclosures	Complied status as per management	Findings
3(8)(i)	Check that the board has disclosed: a. Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Yes	None
	b. Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Yes	None
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report:		

3(8)	Disclosures	Complied status as per management	Findings
	a. The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Yes	None
	b. The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Yes	None
	c. Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8) (ii) (b) above.	Yes	None
	d. Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/ remuneration paid by the bank.	Yes	None
	e. Total net accommodation as defined in 3(7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Not arisen yet	None
	f. The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Yes	None
	g. Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions	Yes	None
	h. A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Yes	None

Corporate Governance Contd.

3(8)	Disclosures	Complied status as per management	Findings
	i. A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or noncompliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	Observed	None

Attendance for Board Meetings - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mrs. K. Kulathunga	Non-executive/ Independent Director (Chairperson)	15	15	15
Mr. M. M. M. Mowjood	Non-executive/ Independent Director	15	15	15
Mr. S K Pathirana	Non-executive/ Independent Director	15	15	15
Mr. W. A. D. S. Gunasinghe	Non-executive/ Independent Director	15	15	09
Mr. Hector Hemachandra	Non-executive/ Independent Director	15	15	14
Mr. H. S. Darmasiri	Non-executive/ Independent Director	15	15	15
Mrs. J. M. S. D. Rathnayake	Non-executive/ Independent Director	15	03	03
Mr. A. M. P. M. B. Atapattu	Non-executive/ Independent Director	15	11	07

Human Resource / Remuneration Committee Meetings - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mr. Hector Hemachandra	Non-executive/ Independent Director (Chairman)	08	08	08
Mrs. K. Kulathunga	Non-executive/ Independent Director	08	08	08
Mr. H. S. Darmasiri	Non-executive/ Independent Director	08	08	08
Mr. A. M. P. M. B. Atapattu	Non-executive/ Independent Director	08	04	04

Board Audit Committee Meetings - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mr. M. M. M. Mowjood	Non-executive/ Independent Director (Chairman)	04	04	04
Mr. W. A. D. S. Gunasinghe	Non-executive/ Independent Director	04	04	01
Mr. H. S. Dharmasiri	Non-executive/ Independent Director	04	04	04

Board Credit Committee Meetings - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mr. H. S. Dharmasiri	Non-executive/ Independent Director (Chairman)	10	10	10
Mr. M. M. M. Mowjood	Non-executive/ Independent Director	10	10	10
Mrs. J. M. S. D. Rathnayake	Non-executive/ Independent Director	10	01	01
Mr. A. M. P. M. B. Atapattu	Non-executive/ Independent Director	10	04	04

DIRECTORS' REPORT

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

Principal Activities

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

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

New Comprehensive Rural Credit Scheme (NCRCS) - Sarusara, Saubagya & Commercial Scale Dairy Development Loan Scheme (CSDDLs) with marginal interest rates are much popular among rural community.

Bank extends leasing facilities, especially for project oriented purposes. Gold jewellery pawning business was also commenced targeting small scale income generating activities. In order to inculcate savings habits among entrepreneurs, it is encouraged to gradually build up deposits. Our expectation is to mobilize a reasonable quantum of deposits in borrower's saving accounts when the loan is fully settled.

Capital Expenditure

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

Share Capital

The issued and paid up Share Capital of the Company is LKR 3,671,972,223 consisting of 36,071,028 ordinary shares as at 31st December 2013. There are seven shareholders holding ordinary voting shares.

Profits and Appropriations

	2013 LKR
Profit for the year ended 31st December before taxation after charging all expenses including depreciation etc.	371,245,406
Provision for Taxation	25,357,338
Profit for the year ended 31st December after taxation.	345,888,068
Transferred to Mandatory Reserves	48,674,730
Dividends paid	36,071,028
Retained profit at the beginning of the year	442,359,274
Retained profit to be carried forward	703,501,585

Human Resources

There were 154 employees serving the Bank as at 31st December 2013.

Grade	No. of Staff
General Manager	1
Asst. General Manager	2
Senior Manager	5
Manager	6
Assistant Manager	16
Executive Staff	19
Non-Executive Staff	73
Secretaries and other support staff	32

The staff cadre is 154, from 45 staff members at the commencement in 2006. The 100% Government owned Specialized Development Bank LDB, merged with PSIDC and SME Bank in the year 2008 thereby strengthening its capital base, increasing the ability to serve the rural sector of the country, as envisioned by the President of Sri Lanka Hon. Mahinda Rajapaksha under the Mahinda Chinthanaya Policy. The Bank today has spread its wings to the Southern, Central, North Central, North Western, Eastern and Western with 8 Branches.

In order to achieve its objectives, the Bank has categorically emphasized the need for employee motivation and career development. The Bank believes in the development of staff capabilities to take up higher positions rather than external

professional injections. Relevant guidelines are documented as policy documents such as recruitment, transfer, promotion, grievance handling & disciplinary action.

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

Directorate

As of January 2013 the Board of Directors of Lankaputhra Development Bank Ltd was comprised of the Chairperson and six directors. All Directors are appointed by the Secretary to the Ministry of Finance and Planning.

Resignation of Directors

Mr. K. M. S. De Silva , director resigned on 01st January , 2013

Ms. J. M. S. D. Rathnayaka , director resigned on 23th April , 2013

Appointment of Directors

Secretary to the Ministry of Finance and Planning appointed the following Board members on 18th February , 2013

- Ms. J. M. S. D. Rathnayaka Director on 23rd April, 2013
- Mr. A. M. P. M. B. Athapaththu, Director

Composition of Share Holding as at 31st December 2013

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

Directors' Remuneration and other Benefits

Directors' remuneration for the financial year ended 31st December 2013 is Rs. 1,489,500/=.

Remuneration - Key Management Personnel

The Bank has paid a sum of Rs. 6,297,500/- being remuneration to key management personnel for the year ended 31st December 2013

Post Balance Sheet Events

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

Re-Appointment of Auditors

The financial statements for the year ended 31st December 2013 have been audited by Messrs. SJMS Associates who offer themselves for re-appointment. Amount payable by the bank to Messrs. SJMS Associates as audit fees and expenses for the year 2013 is Rs.583,480.80 (including taxes) As far as the Directors are aware, the auditors do not have any relationship or interest in the bank other than those disclosed above. The audit committee and directors of the bank recommended their re-appointment in accordance with the Companies Act No 07 of 2007. A resolution will be proposed at the forthcoming Annual General Meeting.

By the Order of the Board



R. S. Pandittesekere
Company Secretary

Colombo
Date: 29th May 2014



disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It evaluates the effectiveness and efficiency of the action taken against identified business risks,

FINANCIAL INFORMATION

Audit Committee Report

The Audit Committee is mainly focused on adequacy and effectiveness of the Bank's internal control systems, compliance to the Bank's regulatory requirements, Internal Audit Reports and follow up action for the same.

Internal Audit supports the Bank in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It evaluates the effectiveness and efficiency of the action taken against identified business risks, policies, procedures, systems and various banking products and activities that aim at mitigating or reducing the adverse effects within the acceptable risk level.

The division provides recommendations to improve control environment and support the management in protecting and safeguarding the Bank's assets against losses resulting from waste, inefficiency, negligence, errors and frauds.

Composition of the Committee

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

Mr. M.M.M. Mowjood	- Chairman (Audit Committee)
Mr. W.A.D.S. Gunasinghe	- Member
Mr. H.S. Dharmasiri	- Member

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

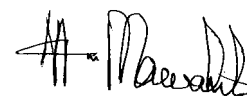
Meeting and Activities

During the financial year, the Committee met four times and carried out the following activities:

- Reviewed the performance of the year 2012 and focused on strategically important areas comprising of management responses and collective measures taken by the Bank to achieve the Bank's objectives.

- Reviewed the existing systems and procedures of the Bank periodically and suggested additional controls where necessary.
- Reviewed the significant Internal Audit findings with a view to take timely corrective action.
- Reviewed current position of Non-Performing Loan portfolio of the Bank and suggested necessary follow up action to be taken.

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



M.M.M.M. Mowjood
Chairman Audit Committee

Colombo
Date: 29th May 2014

Compliance Report

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

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

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

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

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

- The Bank has submitted all reports required and requested by Central Bank of Sri Lanka.
- The Directors confirm that to the best of their knowledge that all statutory payments, taxes on behalf of the Bank and in relation to the employees have been made by the Bank or provided for in the financial statements.
- All documentary requirements imposed by the companies Act No. 07 of 2007 with regard to filing of various returns and documents with Registrar of Companies have been duly completed and compliance has been made with all other legal requirements in connection with the said Companies Act.
- Comply with capital measurement and standard of banking regulations and supervisory practices committee. (BASEL Committee). The Central Bank of Sri Lanka has

made it mandatory for all licensed specialized banks to maintain an amount of minimum capital that could be invested by the shareholders of the bank. In keeping with current international practices, and the requirements as per the Central Bank of Sri Lanka, the minimum capital adequacy standard to be achieved is the risk weighted asset ratio of 10% with core capital constituting not less than 5%. The Bank's capital adequacy ratios are 73.99% for Tier 1 and 74.34% for Tier 2 as at 31st December 2013. These ratios are well above the minimum requirements of the Central Bank of Sri Lanka.

- In maintaining sound operational Banking Practice, the Bank adheres to the Anti-Money Laundering related legislations such as the Prevention of Money Laundering Act No.05 of 2006 (PMLA) Convention on the Suppression of Terrorist Financing Act, No.25 of 2005 (CSTFA), Financial Transactions Reporting Act No.06 of 2006 (FTRA) and rules and regulations stipulated by the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka from time to time. Further, the Bank has the following Internal Committees as part of complying with the regulations. The Committees are Corporate Management Committee, Staff Committee, Asset and Liability Committee, Procurement Committee, Internal Management Credit Committee, Technology Policy and Review Committee, Publicity and Promotion Committee and Human Resources and Remuneration Committee.



P.S. Edirisuriya
Compliance Officer

Colombo
Date: 29th May 2014

Statement of the Directors' Responsibility for the Preparation of Financial Statements

This statement sets out the responsibilities of the Directors relating to the Financial Statements of the Bank. The responsibilities of the Auditors in relation to the financial statements are set out in the Report of the Auditors on page 79 of the Annual Report.

1) The provisions of the Companies Act No. 7 of 2007 require the Directors to prepare Financial Statements for each financial year giving a true and fair view of:

- The state of affairs of the Bank as at the end of the financial year, together with
- The profit or loss of the Bank for the financial year and to place them before a general meeting.

The Directors are also responsible for ensuring that proper accounting records are kept to disclose, with reasonable accuracy, the financial position and to enable the preparation of the Bank's Financial Statements.

2) In preparing these Financial Statements, the Directors are required to:

- Select appropriate accounting policies and apply them consistently (material departures, if any, have been disclosed and explained);
- Make judgments and estimates that are prudent and reasonable and
- Ensure that all applicable accounting standards have been followed.

3) The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparation of these Financial Statements.

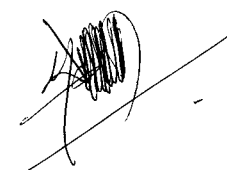
4) Further, the Directors have a responsibility to ensure that the Financial Statements presented comply with the requirements of Companies Act No. 7 of 2007 and the Banking Act.

5) The Directors have to institute effective and comprehensive systems of Internal Control. This comprises internal checks, internal audit and the whole system of financial and other controls required to carry on the business in an orderly manner, safeguard the Bank's assets and secure as far as practicable, the accuracy and reliability of the records.

6) The Directors are responsible for providing the Auditors with every opportunity to carry out the necessary audit work in enabling them to present their audit report.

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

By the Order of the Board



R.S. Pandittesekere
Company Secretary

Colombo
Date: 29th May 2014

INDEPENDENT ASSURANCE REPORT

.SJMS.

ASSOCIATES
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates

Chartered Accountants

No. 02, Castle Lane,

Colombo 04, Sri Lanka.

Tel: + 94(11) 2580409, 2503262

Fax: +94(11) 2582452

Restructure & Corporate Recovery

Tel: 5364293, 5444420 Fax: 5364295

E-mail: sjmsa@sjmsassociates.com

Website: www.sjmsassociates.lk

To the Board of Directors of Lankaputhra Development Bank

Introduction

We were engaged by the Board of Directors of Lankaputhra Development Bank ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 2013.

Management's responsibility for the Statement on Internal Control

Management is responsible for the sufficiency and reliability of internal controls in place at the Bank as specified in the Banking Act (Corporate Governance) Direction, No. 12 of 2007 ("direction") and to prepare and present the statement as required by paragraph 3 (8) (ii) (b) in accordance with the direction.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement based on the Sri Lanka Standard on Assurance Engagements 3050 - Assurance Report for Banks on Directors' Statement on Internal Control (SLSAE 3050), issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

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

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

- (a) Enquire the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and

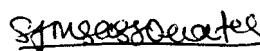
compared their understanding to the Statement made by the directors in the annual report.

- (b) Reviewed the documentation prepared by the directors to support their Statement.
- (c) Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.
- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- (f) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (g) Obtained written representations from directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

Our conclusion

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



SJMS Associates

Chartered Accountants

Colombo

Date: 29th May 2014

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

Directors' Report on Bank's Internal Control System

Responsibility

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

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of Internal Controls as and when there are changes to business environment or regulatory guidelines.

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

The Board is of the view that the system of Internal Controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purpose and is in accordance with relevant accounting principles and regulatory requirements.

Key Internal Control Processes

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

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and the business directions that have been approved.
- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the Internal Control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit are submitted to the Board Audit Committee for review at the periodic meetings.
- The Board Audit Committee of the Bank reviews Internal Control issues identified by the Internal Audit Division, regulatory and authorities the management to look in to and evaluate the adequacy and effectiveness of the Internal Control systems. They also review the Internal Audit function with particular emphasis on the quality of audits performed. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on page 73. The Internal Audit Division checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their Audit Process.
- As and when determined to be necessary, members of the Senior Management provide necessary amendments to Internal Control systems in their respective areas to increase the efficiency and effectiveness. Any instances of control breakdowns, control weaknesses in IT driven systems and processes which may result in losses and any instances of conflicts of interest involving management are reported to the Board Audit Committee by the Internal Auditors.

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

Confirmation

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

Review of the Statement by External Auditors

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

By the Order of the Board



H. S. Dharmasiri
Chairman



Rajitha Pandittesekere
Company Secretary



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

Date: 29th May 2014

INDEPENDENT AUDITOR'S REPORT

.SJMS.

A S S O C I A T E S
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates
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Website: www.sjmsassociates.lk

TO THE SHAREHOLDERS OF LANKAPUTHRA DEVELOPMENT BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Lankaputhra Development Bank Limited, which comprise the statement of financial position as at 31st December 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

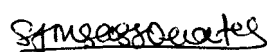
We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the bank maintained proper accounting records for the year ended 31st December 2013 and the financial statements give a true and fair view of the bank's financial position as at 31st December 2013 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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



SJMS Associates
Chartered Accountants

Colombo
Date: 29th May 2014

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

Statement of Comprehensive Income

<i>For the year ended 31st December 2013</i>	Note	2013 Rs.	2012 Rs.
Interest income		714,303,873	603,081,970
Interest expense		(63,958,036)	(59,478,303)
Net interest income	4	650,345,837	543,603,666
Fee and commission income	5	1,464,589	2,567,267
Other operating income (net)	6	41,262,358	59,286,225
Total operating income		693,072,785	605,457,158
Impairment loss on financial assets		(47,592,532)	(47,897,826)
Net operating income		645,480,253	557,559,331
Personnel expenses	7	(102,818,798)	(100,517,656)
Premises, equipment and establishment expenses		(112,568,437)	(108,528,185)
Other operating expenses		(10,513,597)	(10,436,613)
Profit before VAT on financial services and income tax		419,579,421	338,076,877
VAT on financial services		(48,334,015)	(44,027,771)
"Profit before income tax	8	371,245,406	294,049,106
"Income tax expense	9	(25,357,338)	(75,839,007)
"Profit for the year		345,888,068	218,210,099
Other comprehensive income		-	-
Total comprehensive income for the year		345,888,068	218,210,099
Earnings per share - basic	10	9.59	6.05

The accounting policies and notes from 01 to 34 form an integral part of these financial statements.

Statement of Financial Position

As at 31st December 2013

	Note	2013 Rs.	2012 Rs.
Assets			
Cash and cash equivalents	12	56,630,028	37,207,216
Financial assets - held-to-maturity	13	137,931,644	471,221,627
Investment in REPOs	14	2,225,603,132	1,062,129,727
Investment in fixed deposits	15	3,135,679,291	1,818,854,593
Investment in other debt instruments		-	1,484,234,950
Investment in unquoted securities	16	2,229,919	2,229,919
Loans and receivables to customers	17	1,812,262,409	1,932,190,376
Intangible assets	18	4,178,909	6,622,180
Property and equipment	19	89,943,261	97,004,680
Other assets	20	128,948,220	72,722,250
Total assets		7,593,406,815	6,984,417,519
Liabilities			
Deposits from customers	21	228,721,709	241,611,539
Due to banks	22	7,623,865	2,207,881
Refinance borrowings	23	2,610,661,277	2,325,541,984
Other liabilities	24	220,409,897	199,737,039
Retirement benefit obligations	25	6,997,733	6,143,783
Total liabilities		3,074,414,481	2,775,242,225
Shareholder's funds			
Stated capital	26	3,671,972,223	3,671,972,223
Statutory reserve fund	27	42,362,443	25,068,040
Investment fund	28	101,156,083	69,775,756
Retained earnings		703,501,585	442,359,274
Total shareholders' funds		4,518,992,334	4,209,175,294
Total liabilities and equity		7,593,406,815	6,984,417,519
Commitments and contingencies	30	16,368,593	59,585,000

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



Chief Financial Officer

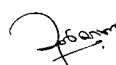
The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board of Directors by the following on 29th May 2014.



Chairman



Director



General Manager/CEO

The accounting policies and notes from 01 to 34 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31st December 2013

	Stated capital Rs.	Reserve fund Rs.	Investment fund account Rs.	Retained earnings Rs.	Total Rs.
Balance as at 31st December 2011	3,671,972,223	14,157,535	29,936,454	292,934,497	4,147,396,701
Profit for the year	-	-	-	218,210,099	218,210,099
Other comprehensive income for the year	-	-	-	-	-
Transfers during the year	-	10,910,505	39,839,303	(50,749,808)	-
Dividends paid	-	-	-	(18,035,514)	(18,035,514)
Balance as at 31st December 2012					
IFRS reversal by the client	3,671,972,223	25,068,040	69,775,757	442,359,274	4,209,175,294
Profit for the year	-	-	-	345,888,068	345,888,068
Other comprehensive income for the year	-	-	-	-	-
Transfers during the year	-	17,294,403	31,380,327	(48,674,730)	-
Dividends paid	-	-	-	(36,071,028)	(36,071,028)
Balance as at 31st December 2013	3,671,972,223	42,362,443	101,156,083	703,501,585	4,518,992,334

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

Investment fund account consists of 8% of the profits calculated for the payment of value added tax and 5% of the profit before tax calculated for payment of income tax purposes during the year.

The accounting policies and notes from 01 to 34 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31st December 2013

	2013 Rs.	2012 Rs.
Cash flows from operating activities		
Profit before tax	371,245,406	294,049,106
Adjustment for:		
Non-cash items included in profits before tax (A)	65,034,992	(2,129,405)
Change in operating assets (B)	(646,663,705)	(602,677,475)
Change in operating liabilities (C)	269,884,141	294,799,783
Dividend income	(244,200)	(244,200)
Contribution paid to defined benefit plans	(346,050)	(1,144,191)
Tax paid	(2,339,158)	(7,034,081)
Net cash generated from/(used in) operating activities	56,571,426	(24,380,463)
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,737,770)	(13,981,907)
Proceeds from the sale and maturity of financial investments	-	70,000,000
Net purchase of intangible assets	-	(2,421,320)
Dividends received from investment	244,200	244,200
Net cash generated from/(used in) investing activities	(6,493,570)	53,840,973
Cash flows from financing activities		
Dividend paid to the owners of the parent company	(36,071,028)	(18,035,514)
Net cash (used in) financing activities	(36,071,028)	(18,035,514)
Net increase/(decrease) in cash & cash equivalents	14,006,828	11,424,996
Cash and cash equivalents at the beginning of the year	34,999,335	23,574,339
Cash and cash equivalents at the end of the year (D)	49,006,163	34,999,335
		34,999,335
(A) Non-cash items included in profit before tax		
Depreciation of property, plant and equipment	13,291,852	15,173,947
Amortisation of intangible assets	2,443,271	3,598,822
Impairment losses on loans and advances	47,592,532	47,897,826
Charge for defined benefit plans	1,200,000	1,200,000
Reversal of provision for investment	-	(70,000,000)
Loss on disposal of PPE	507,338	-
	65,034,992	(2,129,405)

Statement of Cash Flow Contd.

	2013 Rs.	2012 Rs.
(B) Change in operating assets		
Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit or loss	(662,773,170)	(282,481,904)
Net increase in leases	(2,357,637)	(16,595,742)
Net (increase)/decrease in loans and advances to customers	74,693,072	(252,270,178)
Change in pre-payments and accrued income	(56,225,970)	(51,329,651)
	(646,663,705)	(602,677,475)
(C) Change in operating liabilities		
Change in deposits from banks, customers and debt securities issued	272,229,463	277,977,678
Change in accruals and deferred income	(2,345,322)	16,822,105
	269,884,141	294,799,783
(D) Reconciliation of cash & cash equivalents		
Cash in hand	14,975,425	14,640,005
Banks balances	41,654,603	22,561,863
Due to banks	(7,623,865)	(2,207,881)
Money at short notice	-	5,348
	49,006,163	34,999,335

The accounting policies and notes from 01 to 34 form an integral part of these financial statements.

Summary of Significant Accounting Policies

For the year ended 31st December 2013

1. Corporate information

1.1 General

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

1.2 Principal activities and nature of operations

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

1.3 Date of authorization for issue

The financial statements of Lankaputhra Development Bank Ltd. for the year ended 31st December 2013 were authorised for issue in accordance with the resolution of the Board of Directors on 29th May 2014.

2. Basis of preparation

2.1 Statement of compliance

The financial statements of the Bank (statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement together with accounting policies and notes) are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No.07 of 2007 and provide appropriate information as required by the Banking Act No. 30 of 1988.

2.2 Basis of measurement

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

- available for sale financial assets are measured at fair value

- liability of defined benefit obligation is recognized as the present value of the defined benefit obligation

2.3 Functional and presentation currency

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

2.4 Presentation of financial statements

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

2.5 Materiality & aggregation

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

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

2.6 Comparative information

The accounting policies have been consistently applied by the Bank with those of the previous financial year in accordance with LKAS 01 - presentation of financial statements.

2.7 Use of significant accounting judgments, estimates and assumptions

The preparation of financial statements requires the application of certain critical accounting assumptions

Summary of Significant Accounting Policies Contd.

relating to the future. Further, it requires the management of the Bank to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods. Hence, actual experience and results may differ from these judgments and estimates.

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

i. Useful life-time of the property and equipment

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

ii. Going concern

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

iii. Impairment losses on loans and advances

The Company assesses at each reporting date or more frequently to determine whether there is any objective evidence whether an impairment loss should be recorded in the statement of comprehensive income. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. Management judgment is required for classification of assets and the estimation of impairment losses. Estimation methodologies are based

on assumptions concerning a number of factors though actual results may differ, resulting in future changes to the impairment losses so made.

iv. Impairment of available-for-sale investments

The Bank records impairment changes on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

v. Defined benefit plans

The cost of defined benefit plans, viz: gratuity obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The service of a qualified actuary is obtained once in every 3 years to determine the valuation of the defined benefit obligation for the Bank.

3. Significant accounting policies

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

3.1 Foreign currency transactions and balances

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

currency that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items in foreign currency measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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

3.2 Cash and cash equivalents

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

3.3 Financial assets - recognition and measurement

3.3.1 Date of recognition

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

3.3.2 Initial measurement of financial instruments

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

3.3.3 Non-derivative financial assets

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

i. Financial assets at fair value through profit or loss

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

ii. Held-to-maturity financial investments

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

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

iii. Loans and receivables from customers

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

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available for sale
- Those for which the Bank may not recover substantially

Summary of Significant Accounting Policies Contd.

all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables from customers' are subsequently measured at amortised cost using the EIR method less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the income statement in 'impairment gain/(loss) on loans and receivables'. The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

iv. Available-for-sale financial investments

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the "available-for-sale reserve". When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognised in the income statement in "other operating income".

Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method. Dividend earned

whilst holding available for sale financial investments are recognised in the income statement as "other operating income" when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement and removed from the "available-for-sale reserve".

3.3.4 Reclassification of financial assets

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

- out of the held-for-trading category and into the available for sale, loans and receivables, or held-to-maturity categories.
- out of the 'available-for-sale' category and into the 'loans and receivables', 'held for trading category' or 'held-to-maturity'. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.
- out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

3.3.5 De-recognition of financial assets

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

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

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

3.3.6 Identification, measurement and assessment of impairment

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

has an impact on the future cash flows of the asset(s) that can be estimated reliably.

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

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans

Summary of Significant Accounting Policies Contd.

and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

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

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

3.3.7 Collateral valuation

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

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

3.3.8 Collateral repossessed

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

3.3.9 Investment in reverse re-purchase agreements

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

3.4 Non-financial assets

3.4.1 Property and equipment

Recognition and Measurement

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

Cost model

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

Subsequent cost

Subsequent expenditure incurred for the purpose of acquiring, extending, or improving assets of a permanent

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

Depreciation

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

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

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

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

De-recognition

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

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

3.4.2 Intangible assets

The intangible assets include the value of computer software cost of purchased licenses. An intangible asset is

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

Amortisation

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

Computer software	05 years
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3.4.3 Impairment of non-financial assets

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

3.5 Finance leases

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

3.5.1 Identification and measurement of impairment for lease receivables

Lease receivables are assessed for impairment as stated above in note 3.5.6.

3.6 Financial liabilities

3.6.1 Initial recognition and measurement

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

The Bank classifies financial liabilities into financial liabilities at Fair Value Through Profit or Loss (FVTPL) or other financial

Summary of Significant Accounting Policies Contd.

liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

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

i. Financial liability at FVTPL

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

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

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

ii. Other financial liabilities

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

3.6.2 De-recognition of financial liabilities

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

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

3.7 Retirement benefit obligations

3.7.1 Defined benefit plan

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

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

3.7.2 Defined contribution plans

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

Employees' Provident Fund

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

Employees' Trust Fund

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

3.8 Provisions

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

3.9 Financial guarantees

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

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

3.10 Commitments and contingencies

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

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

3.11 Taxation

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

3.11.1 Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

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

3.11.2 Deferred tax

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

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

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

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

3.11.3 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.

Summary of Significant Accounting Policies Contd.

3.12 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.

3.12.1 Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

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

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.12.2 Fee and commission income

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

Fees and commission income, including account servicing fees, legal fees, loan facility arrangement fees, guarantee fees and syndication fees are recognised as the related services are performed.

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

3.12.3 Dividend income

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

3.13 Dividend on ordinary shares

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

3.14 Cash flow statement

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

3.15 Standards issued but not yet effective

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

SLFRS 9 - Financial instruments: classification and measurement

SLFRS 10 - Consolidated financial statements

SLFRS 11 - Joint arrangements

SLFRS 12 - Disclosure of interests in other entities

SLFRS 13 - Fair value measurement

Notes to the Financial Statements

For the year ended 31st December 2013

4. Net interest income

	2013 Rs.	2012 Rs.
Interest income		
Financial assets - held-to-maturity	26,244,953	79,913,403
Investment in REPOs	218,416,096	223,173,957
Investment in fixed deposits	184,664,892	81,181,381
Investment in other debt instruments	30,564,248	27,440,332
Income from leases	14,836,972	13,341,429
Loans and advances to customers	234,298,513	169,892,155
Other loans & receivables	5,278,199	8,139,313
	714,303,873	603,081,970
Interest expense		
Deposits from customers	13,603,321	12,869,086
Refinance borrowings	50,354,715	46,609,217
	63,958,036	59,478,303
Net interest income	650,345,837	543,603,666

4.1 The company previously recognised interest on non performing loans as income and also as impairment provision. From 2013, management has decided to change this policy as the recoverability of such interest income is not certain. Changes have been applied retrospectively in accordance with LKAS 8, Accounting Policies, Changes in Estimates and Errors. For the year 2012 both interest income and impairment provision were decreased by Rs. 49,614,395 and there was no impact on the retained earnings as at 31st December 2012.

5. Fee & commission income

Commission income - guarantees	141,461	123,696
Commission income - letters of credit	-	11,480
Registration fees	146,500	231,500
Legal fees income	1,146,159	1,779,985
Commission income - miscellaneous	10,722	387,092
Commission income - Western Union	19,748	33,514
	1,464,589	2,567,267

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

6. Other income

	2013 Rs.	2012 Rs.
Rent income	1,448,000	300,000
Gain/ (loss) on foreign currency revaluation	39,416,143	(14,708,740)
Reversal of provision of investment in preference shares	-	70,000,000
Sundry income	661,352	3,450,764
Dividend income	244,200	244,200
Profit on sales of fixed assets	(507,337)	-
	41,262,358	59,286,225

7. Personnel expenses

Salary and bonus	72,383,848	72,654,324
Contributions to defined contribution/benefit plans	10,299,344	10,326,552
Provision for staff retirement benefits	1,200,000	1,200,000
Others	18,935,606	16,336,780
	102,818,798	100,517,656

8. Operating expenses

Operating expenses include the following:

	2013 Rs.	2012 Rs.
Directors' emoluments	1,489,500	1,308,000
Employee benefit	82,683,192	80,970,357
Legal expenses	1,988,427	2,748,117
Depreciation	13,291,852	19,153,239
Amortization of intangible assets	2,443,271	3,598,822
Auditor's remuneration	600,000	473,344
Donations	523,500	1,058,000
Employees' Provident Fund contributions	8,582,787	8,605,460
Employees' Trust Fund contributions	1,716,557	1,721,092

9. Income tax expense

Deferred tax reversal	-	(6,974,995)
Income tax expense	25,357,338	82,814,002
	25,357,338	75,839,007

9.1 Reconciliation of the total tax charge

A reconciliation between the tax expense and the accounting profit for the years ended 31st December 2013 and 2012 are as follows:

	2013 Rs.	2012 Rs.
Tax effect on profit before tax	93,115,667	83,311,392
Tax effect on disallowable expenses	40,100,189	45,934,373
Tax effect on deductible expenses	(29,688,206)	(46,431,764)
Tax effect on adjusted profit for tax purposes	103,527,651	82,814,002
Tax effect on income from other sources	-	-
Tax effect of assessable income	103,527,651	82,814,002
Less: Tax effect on qualifying payments	(129,080)	-
Tax for the year	103,398,571	82,814,002
Income tax on current year's profit @ 28% - 1st January 2013 to 31st March 2013 apportioned based on the interest income	25,357,338	82,814,002

With effect from 1st April 2013 the Bank is not liable for income taxation according to the provision in the 2013 budget proposal.

10. Earnings per share - basic

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

	2013 Rs.	2012 Rs.
Profit attributable to equity holders	345,888,068	218,210,099
Number of shares used as denominator	36,071,028	36,071,028
Basic earnings per share (Rs.)	9.59	6.05

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

11. Analysis of financial instruments by measurement basis

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

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

11.1 Analysis of financial instruments by measurement basis - as at 31.12.2013

	Held for trading	Amortised cost	Held to maturity	Available for sale	Total
Financial Assets					
Cash and cash equivalents	56,630,028	-	-	-	56,630,028
Financial assets - Held-to-maturity	-	-	137,931,644	-	137,931,644
Investment in REPOs	-	2,225,603,132	-	-	2,225,603,132
Investment in fixed deposits	-	3,135,679,291	-	-	3,135,679,291
Investment in other debt instruments	-	-	-	-	-
Investment in unquoted securities	-	-	-	2,229,919	2,229,919
Loans and receivables to customers	-	1,812,262,409	-	-	1,812,262,409
Total Financial Assets	56,630,028	7,173,544,832	137,931,644	2,229,919	7,370,336,424
Financial Liabilities					
Deposits from customers	-	228,721,709	-	-	228,721,709
Due to banks	-	7,623,865	-	-	7,623,865
Refinance borrowings	-	2,610,661,277	-	-	2,610,661,277
Total Financial Liabilities	-	2,847,006,851	-	-	2,847,006,851

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

	Held for trading	Amortised cost	Held to maturity	Available for sale	Total
Financial Assets					
Cash and cash equivalents	37,207,216	-	-	-	37,207,216
Financial assets - Held-to-maturity	-	-	471,221,627	-	471,221,627
Investment in REPOs	-	1,062,129,727	-	-	1,062,129,727
Investment in fixed deposits	-	1,818,854,593	-	-	1,818,854,593
Investment in other debt instruments	-	1,484,234,950	-	-	1,484,234,950
Investment in unquoted securities	-	-	-	2,229,919	2,229,919
Loans and receivables to customers	-	1,932,190,376	-	-	1,932,190,376
Total Financial Assets	37,207,216	6,297,409,647	471,221,627	2,229,919	6,808,068,409
Financial Liabilities					
Deposits from customers	-	241,611,539	-	-	241,611,539
Due to banks	-	2,207,881	-	-	2,207,881
Refinance borrowings	-	2,325,541,984	-	-	2,325,541,984
Total Financial Liabilities	-	2,569,361,404	-	-	2,569,361,404

12. Cash and cash equivalents

	31.12.2013 Rs.	31.12.2012 Rs.
Cash in hand	14,975,425	14,640,005
Bank balances	41,654,603	22,561,863
Money at short notice	-	5,348
	56,630,028	37,207,216

13. Financial assets - held-to-maturity

Treasury bills held to maturity	137,931,644	471,221,627
	137,931,644	471,221,627

14. Investment in REPOs

Treasury bills under repurchase agreement	2,225,603,132	1,062,129,727
	2,225,603,132	1,062,129,727

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

15. Investment in fixed deposits

	31.12.2013 Rs.	31.12.2012 Rs.
Bank of Ceylon USD	2,270,891,728	1,818,854,593
Bank of Ceylon LKR	864,787,563	-
	3,135,679,291	1,818,854,593

16. Investment in unquoted securities

	No of shares	Cost 31.12.2013	Director's valuation 31.12.2013	No. of shares	Cost 31.12.2013	Director's valuation 31.12.2012
Credit Information Bureau of Sri Lanka - ordinary shares	2,229,919	2,229,919	2,229,919	2,229,919	2,229,919	2,229,919
		2,229,919	2,229,919		2,229,919	2,229,919
Net carrying amount of unquoted investment securities		2,229,919			2,229,919	

16.1

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

17. Loans and receivables to customers

		31.12.2013 Rs.	31.12.2012 Rs.
Loans and advances	17.1	2,631,568,256	2,717,191,049
Leases	17.2	108,198,062	105,840,424
Staff loans		6,010,318	4,941,123
Staff housing loans		41,001,977	31,407,599
		2,786,778,613	2,859,380,195
Interest in suspense		(364,859,240)	(365,125,387)
Allowance for impairment losses	17.3	(609,656,964)	(562,064,432)
		1,812,262,409	1,932,190,376

17.1 Loans and advances

	31.12.2013 Rs.	31.12.2012 Rs.
Working capital loans	173,093,592	233,575,437
Project loans	1,784,878,019	1,823,108,450
Short term loans	67,858,472	87,750,396
Krushi Nawodaya loans	5,021,763	6,043,175
Micro Credit Finance loans	326,211,540	253,152,528
Kapruka Ayojana loans	1,902,746	3,828,988
Agro Livestock Development loans	33,642,164	54,537,084
Special loans	1,534,559.21	1,826,758
Anturium loans	4,279,812	4,358,402
Big onion loans	897,722	959,198
Mahaweli loans	17,990,981	25,086,225
New Comprehensive Rural Credit Scheme (NCRS)	21,969,642	34,918,022
Lakkam loan	773,968	1,785,813
Saubagya loan - Micro, Small & Medium Enterprises (MSME)	681,027	6,533,810
Saubagya loan - affected Micro, Small & Medium Enterprises (A-SME)	11,207,217	852,104
Poverty Alleviation Micro Finance Project loan (PAMP II)	4,318,098	9,787,293
Kadurata Navodaya loan	257,867	1,081,403
Shasthree loan	11,019,671	20,661,378
Viskam loan	58,394,728	70,459,207
Pawning	83,641,501	73,953,802
Computer loan scheme	9,606,972	2,931,576
Aya Saviya	12,386,196	-
	2,631,568,256	2,717,191,050

17.2 Leases

Gross rentals receivable	135,809,845	132,311,941
Unearned income	(27,611,783)	(26,471,517)
	108,198,062	105,840,424

17.2.1 Rentals receivable on leased assets not later than one year

Gross investment in leases	75,432,798	87,427,810
Unearned interest income	(11,015,557)	(17,562,944)
	64,417,241	69,864,866

Later than one year and not later than five years

Gross investment in leases	60,377,047	44,884,132
Unearned interest income	(16,596,226)	(8,908,573)
	43,780,821	35,975,558

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

17.3 Movement in impairment allowance for loans and receivable

	2013 Rs.	2012 Rs.
As at 1st January	562,064,432	514,166,606
Charge for the year	47,592,532	47,897,826
As at 31st December	609,656,964	562,064,432

18. Intangible assets

Computer software

Cost

As at 1st January	26,162,456	23,741,136
Additions	-	2,421,320
As at 31st December	26,162,456	26,162,456

Accumulated amortisation

As at 1st January	2,443,271	3,598,822
Amortisation during the year	21,983,547	19,540,276
As at 31st December	4,178,909	6,622,180

Net book value

19. Property plant and equipment

	31.12.2013 Rs.	31.12.2012 Rs.
Cost	212,476,271	206,704,070
Accumulated depreciation	122,533,010	109,699,390
	89,943,261	97,004,680

19.1

	As at 01.01.2012 Rs.	Additions Rs.	Disposals during the year Rs.	As at 31.12.2012 Rs.	Additions Rs.	Disposals during the year Rs.	As at 31.12.2013 Rs.
Cost							
Land	15,000,000	-	-	15,000,000	-	-	15,000,000
Building	18,034,049	-	-	18,034,049	-	-	18,034,049
Lease hold improvements	17,062,271	518,325	-	17,580,596	1,595,470	930,569	18,245,497
Motor vehicles	30,645,160	-	-	30,645,160	190,400	-	30,835,560
Office & electrical equipment	44,146,688	9,407,766	-	53,554,454	1,618,371	-	55,172,825
Computer equipment	49,619,863	2,837,151	-	52,457,014	576,899	-	53,033,913
Furniture & fittings	17,604,608	1,218,665	-	18,823,273	2,546,730	35,000	21,335,003
Other assets	609,524	-	-	609,524	209,900	-	819,424
Total	192,722,163	13,981,907	-	206,704,070	6,737,770	965,569	212,476,271
Accumulated depreciation							
Building	5,467,574	1,202,871	-	6,670,445	1,202,871	-	7,873,316
Lease hold improvements	1,947,978	1,172,483	-	3,120,461	1,205,197	430,524	3,895,134
Motor vehicles	29,123,343	711,619	-	29,834,962	460,397	-	30,295,359
Office & electrical equipment	13,422,056	5,186,755	-	18,608,811	5,420,895	-	24,029,706
Computer equipment	37,988,297	5,073,379	-	43,061,676	2,979,297	-	46,040,973
Furniture & fittings	6,576,195	1,826,840	-	8,403,035	2,023,195	27,708	10,398,522
Other assets	-	-	-	-	-	-	-
Total	94,525,443	15,173,947	-	109,699,390	13,291,852	458,232	122,533,010
Written down value	98,196,720			97,004,680	15,735,123		89,943,261

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

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

19.2 Fully depreciated property, plant & equipment

	31.12.2013 Rs.	31.12.2012 Rs.
Motor vehicles	28,043,075	28,043,075
Computer equipment	40,686,149	32,952,772
	68,729,224	60,995,847

19.3 Title restriction on property, plant and equipment

There were no restrictions on the title of property, plant and equipment as at 31st December 2013

20. Other assets

	2013 Rs.	2012 Rs.
Deposits and prepayments	85,264,660	37,044,412
Tax receivable	3,195,342	2,759,140
Staff advance receivable	235,250	-
Prepaid staff cost	40,252,967	32,918,698
	128,948,220	72,722,250

20.1 Pre-paid staff cost

As at 1st January	32,918,698	11,047,953
SLFRS adjustment - new grants and settlements	11,404,517	25,819,692
SLFRS adjustment - charge to staff cost	(4,070,248)	(3,948,946)
As at 31st December	40,252,967	32,918,698

21. Deposits from customers

	31.12.2013 Rs.	31.12.2012 Rs.
Savings deposits	183,268,200	184,393,754
Time deposits	45,453,509	57,217,785
	228,721,709	241,611,539

22. Due to banks

Bank overdraft	7,623,865	2,207,881
	7,623,865	2,207,881

23. Refinance borrowings

	31.12.2013 Rs.	31.12.2012 Rs.
GOSL loan -SLR	213,827,788	222,487,608
Perennial crop loan	-	2,281,579
Mahaweli loan	58,196,760	56,196,760
GOSL loan - USD	2,046,404,379	1,973,249,588
Modernization of Small and Medium Garment Enterprises loan	10,909,600	16,261,169
Saubhagya loan	37,312,939	7,062,281
Poverty Alleviation Micro Finance Project loan	5,457,650	11,318,234
Viskam loan	31,052,161	36,684,765
Treasury fund for credit guarantee	207,500,000	-
	2,610,661,277	2,325,541,984

24. Other liabilities

		31.12.2013 Rs.	31.12.2012 Rs.
Accrued expenditure		14,361,769	14,222,069
Other payable	24.1	173,634,631	169,134,631
Financial services VAT payable		9,395,317	8,885,639
Tax payable		23,018,180	-
Suspense account		-	7,494,700
		220,409,897	199,737,039

24.1 Other payable

GOSL financial assistance for re-opening of closed down garment factories

Funds received		730,000,000	730,000,000
Amount disbursed (credit risk is not held by the Bank)		(556,365,369)	(560,865,369)
		173,634,631	169,134,631

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

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

25. Retirement benefit plan

	31.12.2013 Rs.	31.12.2012 Rs.
Opening defined benefit obligation	6,143,783	6,087,974
Current service cost	1,200,000	1,200,000
Benefits paid	(346,050)	(1,144,191)
Closing defined benefit obligation	6,997,733	6,143,783

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

	2013	2012
Discount rate	11%	11%
Future salary increases	3%	3%

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

26. Stated capital

	31.12.2013 Rs.	31.12.2012 Rs.
No of fully paid ordinary shares	36,071,028	36,071,028
Stated capital	3,671,972,223	3,671,972,223

27. Statutory reserve fund

As at the beginning of the year	25,068,040	14,157,535
Transferred during the year	17,294,403	10,910,505
As at the end of the year	42,362,443	25,068,040

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

28. Investment fund account

	31.12.2013 Rs.	31.12.2012 Rs.
As at the beginning of the year	69,775,756	29,936,454
Transferred during the year	31,380,327	39,839,303
As at the end of the year	101,156,083	69,775,756

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

Details of investments in government securities and credit facilities granted utilizing the proceeds of this fund as at 31.12.2013 are given below.

Instrument	Customer	Rate of interest	Maturity	Amount invested (Rs.)
Loans and advances	Nature's Beauty Creations Ltd	11.00%	25/12/2017	50,000,000
Loans and advances	Sharp Graphic House (Pvt) Ltd	14.72%	25/10/2018	15,000,000
Treasury Bills	GOSL	9.55%	28/02/2014	36,156,083
				101,156,083

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

29. Maturity analysis

	upto 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Assets						
Interest bearing assets						
Treasury bills held to maturity	137,931,644	-	-	-	-	137,931,644
Repurchase agreements	2,225,603,132	-	-	-	-	2,225,603,132
Due from banks	41,669,153	-	-	-	-	41,669,153
Investment securities	-	-	-	-	2,229,919	2,229,919
Investment fixed deposits	2,032,201,789	1,103,477,502	-	-	-	3,135,679,292
Loans & advances	127,564,832	343,404,854	630,762,020	496,507,858	214,022,845	1,812,262,409
Lease rentals receivables	-	-	-	-	-	-
	4,564,970,551	1,446,882,355	630,762,020	496,507,858	216,252,764	7,355,375,549
Non-interest bearing assets						
Cash & short term funds	14,960,875	-	-	-	-	14,960,875
Other assets	98,401,971	11,590,160	12,065,850	-	6,890,238	128,948,220
Property, plant & equipment	-	-	-	-	89,943,262	89,943,262
Intangible asset	-	-	-	-	4,178,909	4,178,909
	113,362,846	11,590,160	12,065,850	-	101,012,408	238,031,266
Total assets	4,678,333,397	1,458,472,516	642,827,870	496,507,858	317,265,172	7,593,406,815
Liabilities						
Interest bearing liabilities						
Deposits	6,196,154	39,086,173	58,238	-	183,381,144	228,721,709
Due to banks	7,623,865	-	-	-	-	7,623,865
Refinance borrowings	17,815,770	46,136,543	76,353,918	52,195,780	2,418,159,265	2,610,661,277
	31,635,789	85,222,716	76,412,156	52,195,780	2,601,540,409	2,847,006,851
Non-Interest bearing liabilities						
Other liabilities	46,775,266	12,500,000	25,000,000	12,500,000	130,632,364	227,407,630
Stated capital	-	-	-	-	3,671,972,223	3,671,972,223
Reserves	-	-	-	-	847,020,111	847,020,111
	46,775,266	12,500,000	25,000,000	12,500,000	4,649,624,698	4,746,399,964
Total Liabilities	78,411,055	97,722,716	101,412,156	64,695,780	7,251,165,107	7,593,406,815

30. Commitments and contingencies

Capital commitments

Commitments on direct advances

	31.12.2013 Rs.	31.12.2012 Rs.
Undrawn credit facilities	8,467,700	17,860,000

Contingencies

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

Contingent liabilities	7,900,893	41,725,000
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Litigation against the bank

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

31. Assets pledged

The following assets have been pledged as security for liabilities.

Treasury bills held to maturity	140,000,000	455,372,404
Fixed deposits	432,000,000	126,000,000
	581,372,404	779,176,346

32. Related Party disclosures

32.1 Key management personnel compensation

Related parties include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company. Key management personnel include members of the Board of Directors of the company.

	2014 Rs.	2012 Rs.
Compensation paid to key management personnel	1,489,500	1,308,000

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

32.2 Transactions with related entities

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

	State		Entities either controlled or in which significant influence is held by the state	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Balance Sheet				
Assets				
Money at short notice	-	-	183,296	5,348
Due from banks	-	-	-	22,561,863
Loans and advances	-	-	-	850,000,000
Investments in Government treasury bills	-	-	133,619,640	455,372,404
Repurchase agreements	-	-	2,203,513,877	1,024,042,215
Investments in securities	-	-	-	630,029,919
Investment in fixed deposits	-	-	3,074,389,165	1,778,721,841
Other assets-prepaid interest on GOSL loan-USD	61,560,248	78,995,864	-	-
Liabilities				
Deposits				
Refinance loans	-	-	7,022,072	7,010,650
Other liabilities	-	-	73,822,750	56,882,698
	392,044,231	185,498,631	-	-
Off balance sheet items				
Guarantees/ collateral given	-	-	-	40,225,000
Income statement				
Interest Income earned from Related Parties	-	-	455,948,169	413,002,241
Interest Paid to Related Parties	-	-	44,848,367	21,604,284
Expenses relating to Services Obtained/Taxes	-	-	180,826,835	141,720,105

Entities either controlled or in which significant influence is held by the state include Bank of Ceylon, People's Bank, Regional Development Bank, Central Bank of Sri Lanka, Employees Provident Fund, Department of Inland Revenue, National Savings Bank, Employees' Trust Fund Board, Land Reform Commission, Mihin Lanka (Pvt)Ltd.

32. Related party disclosures - (Continued)

	State		Entities either controlled or in which significant influence is held by the state	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Off Balance Sheet Items				
Guarantees/collateral given	-	-	-	40,225,000
Income Statement				
Interest income earned from related parties	-	-	455,948,169	413,002,241
Interest paid to related parties	-	-	44,848,367	21,604,284
Other income earned from related parties	-	-	-	-
Expenses relating to services obtained/ taxes	-	-	180,826,835	141,720,105

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

33. Events after the reporting date

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

34. Risk management

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

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

Credit risk

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

Notes to the Financial Statements Contd.

For the year ended 31st December 2013

Liquidity risk and funding management

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

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

Market risk

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

Capital Adequacy

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

Basis of Computation

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

Computation of Capital Adequacy Ratio

<i>as at 31st December</i>	2013		2012	
	Assets Rs.'000	Risk-Weighted Assets Amount Rs.'000	Assets Rs.'000	Risk-Weighted Assets Amount Rs.'000
Risk-Weighted Amount for Credit Risk				
Claims on Central Government and CBSL	133,620	-	455,372	-
Claims on foreign sovereigns and their Central Banks	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-
Claims on official entities and Multilateral Development Banks (MDBs)	-	-	-	-
Claims on Bank's Exposures	5,318,084	2,814,178	3,099,496	1,419,337
Claims on Finance Companies and Specialized Leasing Companies				
Claims on Corporates	665,566	673,661	361,167	361,167
Retail claims	646,805	646,805	1,049,841	1,049,841
Claims Secured by Residential Property	-	-	-	-
Claims Secured by Commercial Real Estate	-	-	-	-
Non-Performing Assets (NPAs)	562,039	776,981	612,638	860,244
Non-Performing Assets Secured by Residential Property	-	-	-	-
Higher Risk Categories	-	-	-	-
Cash Items	14,975		14,640	
Other Assets	336,812	336,812	348,436	348,436
	7,677,901	5,248,437	5,941,590	4,039,025

Capital Adequacy Contd.

as at 31st December

	Credit Conversion Factor %	2013		2012	
		Principal amount of Off Balance Sheet Items Rs.'000	Credit equivalent of Off Balance Sheet Items Rs.'000	Principal amount of Off Balance Sheet Items Rs.'000	Credit equivalent of Off-Balance Sheet Items Rs.'000
Off-Balance Sheet Items					
General Guarantees of Indebtedness	100	4,901	4,901	41,725	41,725
Documentary Letters of Credit	20	-	-	-	-
Undrawn Term Loans	20	8,468	1,694	17,860	8,930
Others (Other Commitments with an Original Maturity of over one year)	50	3,000	1,500	-	-
		16,369	8,095	59,585	50,655

	2013 Rs.'000	2012 Rs.'000
Risk-Weighted Amount for Operational Risk		
Average Net Income for Last Three Financial Years	572,988	567,940
Less: Realized profits from the sale of securities in the banking book	-	-
Extraordinary / irregular item of income	-	-
Gross Income	572,988	567,940
Total Capital Charge for Operational Risk = (Gross Income*15%)	85,948	85,191
Total Risk-Weighted Amount for Operational Risk (Total Capital Charge for Operational Risk x 10)	859,482	851,910
Calculation of Total Risk-Weighted Amount		
Risk-Weighted Amount for Credit Risk	5,248,437	4,047,954
Risk-Weighted Amount for Market Risk	-	-
Risk-Weighted Amount for Operational Risk	859,482	851,910
	6,107,919	4,899,864

Calculation of Total Capital Base

as at 31st December

	2013 Rs.'000	2012 Rs.'000
Core Capital (Tier 1)		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	3,671,972	3,671,972
Non-cumulative, Non-redeemable Preference Shares	-	-
Share Premium	-	-
Statutory Reserve Fund	42,362	25,068
Published Retained Profits / (Accumulated Losses)	703,502	442,359
General and Other Reserves	101,156	69,776
Surplus/Loss after tax arising from the sale of fixed and long-term investments	-	-
Unpublished Current Year's Profit / Losses	-	-
Approved perpetual debt capital instruments	-	-
	4,518,992	4,209,175
Supplementary Capital (Tier II)		
Revaluation Reserves (as approved by CBSL)	-	-
General Provisions	21,533	16,799
Hybrid (debt/equity) Capital Instruments	-	-
Approved Subordinated Term Debt	-	-
Actual Amount of Approved Subordinated Term Debt	-	-
	21,533	16,799
Capital Base (Tier I + Tier II)	4,540,525	4,225,974
Core Capital Ratio (Minimum Ratio – 5%)	73.99%	86.06%
$\frac{\text{Core Capital (Tier I)} \times 100}{\text{Total Risk Weighted Assets}}$		
Total Capital Ratio (Minimum Ratio – 10%)	74.34%	86.40%
$\frac{\text{Capital Base} \times 100}{\text{Total Risk Weighted Assets}}$		

Limits

(I) The total of Tier II supplementary elements should not exceed a maximum of 100% of Tier I elements

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

Statement of Value Added

Economic Value Addition

For the year ended 31st December

	2013 Rs.	2012 Rs.
Shareholders' Fund	4,518,992,334	4,209,175,294
Accumulated Provision for Credit Losses	974,516,204	927,189,819
	5,493,508,538	5,136,365,113
Profit Attributable to Shareholders	345,888,068	218,210,099
Provision for Credit Losses	47,592,532	47,897,826
Less: Actual Credit Loss Written Off	-	-
	393,480,600	266,107,925
Economic Cost % (**)	12.63%	13.38%
Economic Cost %	693,830,128	687,245,652
Economic Value Addition	-300,349,528	-421,137,727

The Economic Value created by the Bank to its Shareholders' credit during the period is reflected in the above analysis.

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

Financial Value Addition

For the year ended 31st December

	2013 Rs.	%	2012 Rs.	%
Value Added				
Income Earned	757,030,820		664,935,462	
Cost of Services	173,748,215		159,289,862	
Value Added by Banking Services	583,282,605		505,645,600	
Less: Provision for Loan Losses	-47,592,532		-47,897,826	
Provision for Impairment of Investments	-		-	
	535,690,073		457,747,774	
Distribution of Value Added				
To Employees				
Salaries, Wages and Other Benefits	102,818,798		100,517,656	
	102,818,798	19.2%	100,517,656	22.0%
To Providers of Capital				
Dividends to Shareholders	36,071,028		18,035,514	
	36,071,028	6.7%	18,035,514	3.9%
To Government				
Income Tax	25,357,338		75,839,007	
Value Added Tax on Financial Services	48,334,015		44,027,771	
	73,691,353	13.8%	119,866,778	26.2%
For Expansion and Growth Retained in the Bank				
Retained Income	309,817,040		200,174,585	
Depreciation/Amortization	13,291,852		19,153,239	
	323,108,892	60.3%	219,327,824	47.9%
	535,690,073	100.0%	457,747,774	100.0%

Sources and Distribution of Income

For the year ended 31st December

	2013 Rs.	2012 Rs.
Sources of Income		
Interest Income	714,303,873	603,081,970
Fees, Commission and other Income	42,726,947	61,853,492
	757,030,820	664,935,462
Distribution of Income		
To Depositors and to providers of Loans as Interest	63,958,036	59,478,303
To Employees as Emoluments	102,818,798	100,517,656
Depreciation set aside	13,291,852	19,153,239
Provision for Possible Loan Losses	47,592,532	47,897,826
To providers of supplies and Services	109,790,179	99,811,559
To Government as Taxation	73,691,353	119,866,778
- Income Tax (Including Deferred Tax)	25,357,338	75,839,007
- Financial Services VAT	48,334,015	44,027,771
To Shareholders as Dividends	36,071,028	18,035,514
To Reserves	309,817,040	200,174,585
	757,030,820	664,935,462

THREE YEAR SUMMARY

Description	2013 Rs.	2012 Rs.	2011 Rs.
PROFIT & LOSS			
Total Income	757,030,820	664,935,462	560,213,536
Interest Income	714,303,873	603,081,970	556,553,097
Interest Expenses	-63,958,036	-59,478,303	-53,228,434
Net Interest Income	650,345,837	543,603,667	503,324,663
Other Income	42,726,947	61,853,492	3,660,439
Total operating income	693,072,784	605,457,159	506,985,102
Impairment loss on financial assets	-47,592,532	-47,897,826	-126,984,825
Net operating income	645,480,252	557,559,333	380,000,277
Personal expenses	-102,818,798	-100,517,656	-99,773,861
Premises, equipment and establishment expenses	-112,568,437	-108,528,185	-121,037,739
Other operating expenses	-10,513,597	-10,436,613	-7,521,741
	419,579,420	338,076,879	151,666,936
VAT on Financial Services	-48,334,015	-44,027,771	-24,776,551
Profit Before Taxation	371,245,405	294,049,108	126,890,385
Tax on Profit	-	-75,839,007	-47,076,278
Profit After Taxation	345,888,067	218,210,101	79,814,107
ASSETS			
Cash and Cash Equivalents	56,630,028	37,207,216	36,185,158
Financial assets-held-to-maturity	137,931,644	471,221,627	779,176,346
Investment in REPO's	2,225,603,132	1,062,129,727	2,001,136,436
Investment in Fixed Deposits	3,135,679,291	1,818,854,593	1,203,991,118
Investment in other debt instruments	0	1,484,234,950	569,655,094
Investment in unquoted securities	2,229,919	2,229,919	2,229,919
Loans and receivables to customers	1,812,262,409	1,932,190,376	1,711,222,280
Intangible assets	4,178,909	6,622,180	7,799,682
Property, Plant & Equipment	89,943,261	97,004,680	98,196,720
Capital work in progress			
Other Assets	128,948,220	72,722,250	97,172,521
Total Assets	7,593,406,814	6,984,417,519	6,506,765,274
LIABILITIES			
Deposits	228,721,709	241,611,539	207,764,456
Amounts Due to Banks	7,623,865	2,207,881	12,610,818
Refinance Borrowings	2,610,661,277	2,325,541,984	2,081,411,388
Other Liabilities	220,409,897	199,737,039	182,914,933
Retirement benefit obligation	6,997,733	6,143,783	6,087,974
Differed tax Liabilities			6,974,995
Total Liabilities	3,074,414,481	2,775,242,226	2,497,764,564
SHAREHOLDERS' FUNDS			
Stated Capital	3,671,972,223	3,671,972,223	3,671,972,223
Statutory reserve fund	42,362,443	25,068,040	14,157,535
Investment fund	101,156,083	69,775,756	29,936,454
Retained earning	703,501,585	442,359,274	292,934,497
Total Shareholders' Fund	4,518,992,334	4,209,175,293	4,009,000,709
Total Liabilities and Shareholders' Fund	7,593,406,815	6,984,417,519	6,506,765,274
Liquid Assets Ratio	1341.48%	793.20%	1085.1%
Capital Adequacy Ratio - Tier 1	73.99%	86.06%	70.0%
- Tier 2	74.34%	86.40%	70.2%

THE ANNUAL GENERAL MEETING

The 8th Annual General Meeting of Lankaputhra Development Bank Ltd. will be held on 27 June 2014 at 2.30 pm at No. 80, Nawala Road, Nugegoda.

FORM OF PROXY

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

I/We.....
.....of.....
.....being a shareholder/shareholders of, Lankaputhra Development Bank Ltd,
hereby appoint :
of.....of.....
.....

as my/our proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of LDB to be held on 27th June 2014 at 2.30 p.m. and at any adjournment thereof, and at every poll which may be taken in consequent there of.

To receive and to consider the Report of the Directors and Audited Financial Statements for the year ended 31st December 2013 and the Report of the Auditors.	In favour / Against *
To appoint Auditors for the year 2014 and to authorize the Board of Directors to determine their remuneration.	In favour / Against *

* Please select whatever is required and delete others.

Signed on thisday of2014

.....
Signature of Shareholder

CORPORATE INFORMATION

REGISTERED NAME

Lankaputhra Development Bank Ltd

LEGAL STATUS

A public limited liability company incorporated in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and licensed as a specialized bank under the provisions of Banking Act No. 30 of 1988. (New Registration number as per the Companies Act No. 7 of 2007 – PB 52)

DATE OF INCORPORATION

24th February 2006

COMPANY SECRETARY

R. S. Pandittesekere

REGISTERED OFFICE

No. 80, Nawala Road, Nugegoda.

Telephone : (+94) 011 2821030-5, 2821040

Fax : (+94) 011 2821031

E-mail : info@lankaputhra.lk

Website : www.lankaputhra.lk

AUDITORS

SJMS ASSOCIATES

Chartered Accountants

No. 02, Castle Lane

Colombo 04.

BANKERS

Bank of Ceylon

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இலங்கை மக்களின் இதயத்துடிப்பு
THE HEARTBEAT OF SRI LANKA



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லங்காபுத்ர அபிவிருத்தி வங்கி
LANKAPUTHRA DEVELOPMENT BANK

www.lankaputhra.lk