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இலங்கை மக்களின் இதயத்துடிப்பு
THE HEARTBEAT OF SRI LANKA



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லங்காபுத்ர அபிவிருத்தி வங்கி
LANKAPUTHRA DEVELOPMENT BANK

ANNUAL REPORT 2014



THEIR STORY **OUR SUCCESS**



Lankaputhra
Development Bank stands
with our partners and customers no
matter what. That's why We organise and
strategise daily to meet all their requirements. We do
this, not out of necessity but through our continuous
pursuit for excellence, and because we strive to
satisfy our customers beyond their expectations. Our
bank's processes and people are driven toward that
goal of "ultimate customers satisfaction". Don't just
take our word for it. Listen to the stories of all the
partners, customers and friends that we made along
the way.

Lankaputhra Development Bank - Their story,
Our success

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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.

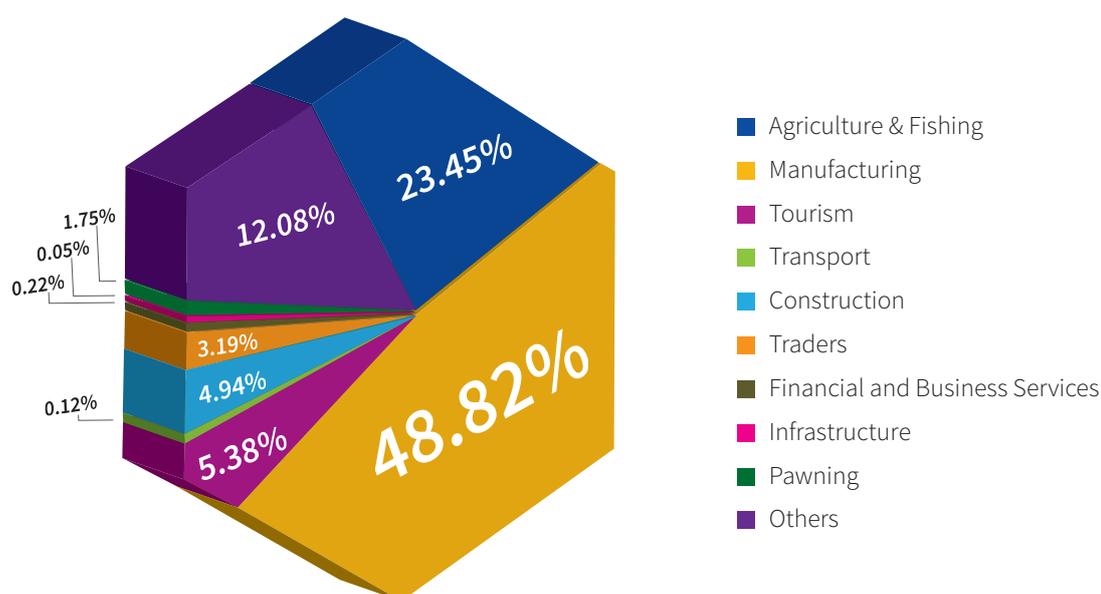
OUR VALUES

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.

Financial Highlights

	2014	2013
Total Income (Rs. Mn)	610.7	757.0
Profit for the Year (Rs. Mn)	178.7	345.8
Earnings Per Share (Rs.)	4.95	9.59
Return on Total Assets (before Tax) (%)	2.4%	5.8
Return on Equity (%)	4.0%	7.9
Capital Adequacy Ratio - Tier 1 (%)	74.3%	74.0
- Tier 2 (%)	74.7%	74.3
Total Assets (Rs. Mn)	7,914.3	7,593.4
Loans & Advances (Gross) (Rs. Mn)	3,197.2	2,786.7
Deposit Base (Rs. Mn)	357.2	228.7

Credit Exposure by Sectors - As at 31.12.2014



History & Milestones

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.

- 09th June** - Relocation of Batticaloa Branch
- 1st January** - Commencement of "Laksetha" Senior Citizen scheme

2014

- 29th March** - Opening of Trincomalee Branch by Hon. Susantha PUNCHINILAME, Deputy Minister of Economic Development
- 14th March** - Relocation of Kandy Branch

2013

- 1st December** - Commencement of "Laksahana" Pawning Advance Scheme
- 14th January** - Relocation of Head Office premises to Nawala Road, Nugegoda

2011

- 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

2009

- 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 Siyambalapitiya, 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

2008

- 12th October** - Opening of Kegalle Branch by Hon. Ranjith Siyambalapitiya, 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

2007

- 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

2006



Chairman's Statement



Chairman's Statement



“Several new strategies were commenced during the year further enhancing our reputation as a Bank that listens to the evolving needs of different customer segments.”

I am pleased to present the Annual Report of Lankaputhra Development Bank (LDB) for the year ended 31st December 2014. Looking back at the performance of the Bank during this period, I can confidently state that it has been another year of positive results and performance, amidst many challenges that we had to overcome. Your bank has yet again demonstrated resilience and with dedicated management and a commitment to excellence, I am certain an even brighter future awaits the Bank in the coming months and years.

Global Economy at a Glance

During 2014, the global economy portrayed varying signs of improvement. The leading Asian economies showed strong

growth while recovery in the US economy accelerated. However, in contrast, there was weak growth in the Eurozone. Interest rates continued to remain at historically low levels while regulation increased in the financial industry, especially when it came to capital and leverage. The year also saw an upsurge in geopolitical uncertainties, led by conflicts in the Middle East and Ukraine.

The outcome of the World Economic Outlook of the IMF showed us that global growth during the year was lower than initially anticipated, with clear divergence across the larger economies as well as lower growth momentum in emerging economies. Global inflation remained relatively passive in 2014 as excess capacity resulted in substantial output gaps in advanced

economies and constant deflationary price levels supported by improved global supply of commodities as well as weakened demand.

Global crude oil prices reduced in 2014. During the same period, currencies of several advanced and emerging economies depreciated against the US Dollar, as a result of the strong economic outlook in the US economy.

The IMF predicts global growth to remain at moderate levels, brought down by high debt and unemployment and low investment. Challenges are expected from the anticipated interest hike in the US and the low inflation in a few of the advanced economies. However, global growth is expected to edge upwards to 3.5% in 2015 and 3.8% the following year, boosted by steady recovery in advanced economies, reducing domestic headwinds in developing nations and the continued decline in global oil prices.

Sri Lanka's Economic Overview

The Sri Lankan economy is expected to show growth in the medium term, with a real GDP growth of 7% in 2015 and an average growth of 7.8% over the three year period from 2016-2018. The economy should reach middle upper income levels and continue to display a favourable high growth and low inflation link in the medium term, buoyed by sound economic policies.

Objectives of Lankaputhra Development Bank

The objectives of Lankaputhra Development Bank is on the uplifting of the Small and Medium-scale Entrepreneurs of the country to international standards, to a level where they can create an impact on the Sri Lankan economy in a significant manner.

Being a bank that is fully-owned by the Government of Sri Lanka, Lankaputhra Development Bank has been able to take this vision forward into the different parts of the island by focusing on rural economic development, especially in the outstation areas where we have 8 branches in 7 provinces. Over the years, we have in fact showed a preference to operate in outstation areas as we believe that it is in these areas that we can find the entrepreneurial potential that can boost the national economy.

The core function of the Bank is to grant credit facilities to entrepreneurs. Prior to the granting of such facilities, the Credit Officers of the Bank conduct a detailed evaluation of the project or the business proposal presented by the entrepreneur. Projects that show good potential are given a wide range of facilities by the Bank.

As a development bank, we emphasize on the growth potential of the project together with its security and we ensure that we make available all necessary resources in a timely manner, giving the project the maximum chance of achieving success. This systematic approach has helped the Bank to identify the right entrepreneurs and projects, provide them with the necessary financial support and create dynamic entrepreneurs who will one day become the future business leaders of the country.

Financial Performance

During the financial year we have been able to reach very close to the Rs.8Bn mark in our asset base and I am confident that the momentum will continue. The low interest regime prevailed reduced the net income of the bank as the Bank's main source of income derived from interest income of the loans and advance and investments in financial instruments. Due to the trend of declining intent, the bank was compelled to reduce the rates to pass the benefit of the government policy to the customer. Return on Equity declined to 4% from the 7.9% recorded in the previous financial year. The liquidity ratios of the bank managed well above the required minimum giving the comfort and sense of safety to the depositors.

New Strategies Implemented in 2014

Several new strategies were commenced during the year further enhancing our reputation as a Bank that listens to the evolving needs of different customer segments.

The Bank took forward an initiative of the Government of Sri Lanka by joining hands with Regional Development Bank (RDB) to develop 3,000 women entrepreneurs across the island. These women will receive interest-free loans as part of the Credit Guarantee Scheme of the Government. The post-war rehabilitation process is a painstaking one which the Bank feels strongly about and towards the latter parts of the year. The Bank commenced distribution of pledge loans through the Polonnaruwa and Wennappuwa branches. We have received a very positive response from the paddy farmers for this loan scheme.

Looking Ahead

Building on the progress made during 2014, the Bank has already mapped out areas that need to be enhanced in 2015. There will be a concerted effort to focus more on our customers' rural way of life while taking necessary action to boost self-employment.

We have laid out plans to extend the branch network by adding two new branches - Tambuttegama and Bandarawela – during 2015. This will enable the Bank spread its reach to two areas that we've identified as showing a lot of future promise in terms of entrepreneurial potential. There are also plans to conduct impactful promotional campaigns in the areas that the Bank operates in to keep customers abreast of the products and services offered by the Bank. The Bank also intends to improve recoveries through parole rights after properly communicating about it to the customer base. This should help us to bring down our NPA to industry standards.

As in the past, training and development of the staff will be given special attention so that they are able to upgrade their skills and knowledge to efficiently carry out their day-to-day responsibilities. More training programmes will be initiated with a special focus on team building activities which we believe will boost internal team synergies and also help to motivate the staff. One of the key elements of this training would be to change the attitudes of every staff member to one that is dynamic and

Chairman's Statement Contd.

more customer-oriented. As every staff member is a brand ambassador for the Bank both inside and outside office hours, it is vital that they are armed with the qualities that we want the Bank to portray, especially when they interact with the existing and potential customers. This, we believe, will impact positively on the customers' experience with the Bank and in the long run will lead to a more positive public perception of the Bank, an area that we have identified as one that needs substantial improvement.

Furthermore, the current Co-Banking System implemented at the Bank will be further upgraded and enhanced to support the growing needs within the existing branches and also to cater to the requirements of the new branches to be opened in 2015.

Acknowledgements

I thank Prime Minister Hon. Ranil Wickramasinghe MP and Minister of Finance Hon. Ravi Karunanayake MP, for their far-reaching vision for this bank. I thank the Secretary to the Ministry of Finance, Governor of the Central Bank of Sri Lanka, and the respective officials of the Central Bank for their valuable guidance and support.

I would like to take this opportunity to convey my gratitude to my colleagues on the Board for their committed support and cooperation in discharging my duties as Chairman during the year. Their contributions have been of immense value to me in helping the Bank achieve its objectives during the financial year.

I would like to express my appreciation to the General Manager/CEO for his outstanding efforts towards the progress and development of the Bank during the year as well as to the dedicated Senior Management and the wonderful Staff at the Bank, all of whom contributed immeasurably to achieve the Bank's goals during the year.

Last but not least, I would like to say a "Thank You" to all our customers for their loyalty and patronage during the year. As your chosen bank, we will do everything within our power to serve you even better in the months and years ahead.



K.H. Lasantha Goonewardena

Chairman

28 May 2015



GM/CEO's Statement



GM/CEO's Statement



“The year 2014 has been a year of positive results, where in the face of significant challenges we were able to achieve substantial progress.”

It gives me great pleasure to present the Annual Report and Audited Accounts of Lankaputhra Development Bank for the year 2014. The year 2014 has been a year of positive results, where in the face of significant challenges we were able to achieve substantial progress. There is ample evidence to show that we are moving forward on the course we set three years ago to transform our Bank under the corporate plan we introduced. Through this report, I would like to give an overall picture of the performance, activities and developments of the Bank during the year 2014.

Snapshot of Sri Lankan financial market

The Sri Lankan economy continued to demonstrate resilience in 2014 despite the numerous domestic and global challenges encountered. Real GDP grew by 7.4% in 2014, a trifle higher

than the 7.2% achieved in 2013. In line with this, the GDP per capita increased from US\$ 3,280 recorded in 2013 to US\$ 3,625 in the year under review. As Sri Lanka moves up to the upper middle income status in terms of per capita GDP, it is expected that this would place the country in a new group of peers, boosting its financing ability. Additionally, the improvement in the investment climate and the newly developed infrastructure facilities should result in more investment flowing into the country. During the year, interest rates in most market segments dropped to historically low levels with the relaxed monetary policy stance of the Central Bank and high excess liquidity in the domestic money market backed by low inflation expectations.

The Sri Lankan financial sector continued to perform in a solid manner in 2014 and was devoid of any significant macro-prudential issues or indications.

Through the Participating Financial Institutions (PFIs), the Central Bank of Sri Lanka continued to execute concessionary development lending programmes during the year. Continuing the trend of the past few years, Agriculture and Livestock sector continued to receive a bulk of the concessionary lending facilities as achieving the objectives of food security requirements of the country and uplifting the living standards of the farming community was given priority.

A Positive Performance

Despite the current declining trend in interest income, the Bank was able to demonstrate satisfactory performance. The interest rates of the Bank declined to Rs. 606.9 in year 2014 compared to the income of Rs. 714.3Mn in 2013. The Bank's other operating income of Rs. 47.5Mn reported in the year 2013, was mainly due to the exceptional gain of Rs. 35.4Mn from the Foreign Currency Revaluation, and had since dropped to Rs. 2.5Mn in the year 2014.

The External environment predominantly remained as the deciding factor of the Bank's income which affected negatively and the same is reflected in net operating income of the Bank which has come down by 152.2Mn compared to the previous year and same has been cascaded down to the bottom line net profit.

Despite of the deceleration of income growth, the total asset base of the Bank increased by Rs. 321Mn to Rs. 7.9Bn mainly due to the growth in lending and advance portfolio.

Return on assets stood at 2.4% against 5.8% in the year 2013. Earning per share was Rs. 4.55 against the Rs. 9.59 in year 2013. Even though the income side shows declining trend which was mainly due to the low interest rate regime, the bank was able to manage its main concern of high NPA rate in a positive way. The NPA of the bank at the end of year 2014 was 44.6% against the 46.7% report in year 2013 which reflects a continues progress over the period and reflects the stringent credit management policies of the bank.

New Developments

During the financial year, the Bank appointed a consultant to develop a Business Continuity Plan for the Bank. This was a vital aspect that was not properly addressed in the previous years. With the completion of this Plan, the Bank will be in a better position to face the challenges of the future.

Two new recruitments were made in the senior management categories in order to strengthen the Bank's senior cadre. The two included the Senior Manager - HR & Administration and Senior Manager - Finance. The Board also approved recruitments to boost the Risk and Compliance Departments by taking on suitable recruitments.

Enhancing human resources

One of our objectives is to add value to our employees by creating a positive working environment, supporting professionalism and thereby encouraging our people to be the best they can be.

Whilst delivering our services to the customer to the best of our ability, we would dedicate our time and resources to build the best professionals in the development banking arena. Keeping in line with this, the Bank conducted several training programmes with a special focus on enhancing customer service skills among all employees. During the year, we were also able to introduce the "Customer Charter". In order to disseminate information about the Customer Charter, the Bank conducted a series of training sessions for all branches.

Social Responsibility

Our commitment to being a bank that is socially responsible was portrayed through the many projects that we successfully completed during the year. As always, our dynamic Bank staff went out of their way, contributing their time, money and efforts to ensure that each and every project met the objectives set out at inception.

Sri Lanka's battle with Chronic Kidney Disease (CKD) is well documented in the media and has become a challenge not only to the people of the North-Central Province, but also to the entire country. To aid in the fight against this deadly disease by providing good quality water, the Bank donated a much-needed water filter to a CKD-affected village in the Polonnaruwa.

The bank, together with National Enterprise Development Authority (NEDA), continued last year's series of training programmes for entry level customers to get an understanding of how to manage the various aspects of a business. These programmes were held in the Colombo, Kandy, Hambantota, Batticaloa and Trincomalee branches.

We also continued to assist the Leprosy Hospital at Hekiththa, Wattala during the course of this year. The Bank staff played an active role in organizing and contributing medicines and other essential items to the patients of the hospital.

A blood donation camp was held at the Head Office in October. Hundreds of staff members turned up to help out with the camp and also donate blood. There was a very positive response from the general public who made this event a huge success. As a bank that genuinely believes in celebrating the religious harmony and ethnic diversity of all Sri Lankans, we conducted "Deepavali" programmes in predominantly Tamil areas in the Batticaloa and Trincomalee branches.

Technology upgrade

During the year, the Bank made further advances on the Technology front as we continued to streamline IT operational efficiency. The Technology Policy Review Committee was renamed and reorganized as the IT Steering Committee, with the authority to appoint sub committees for various IT-related tasks. Along with this, we also reviewed the current Co-Banking System implemented at LDB and upgraded it to meet the required changes in the Banking and IT Sector. We are also looking at the possibility of upgrading the current Banking System in the near future.

GM/CEO's Statement **Contd.**

Future Plans

The Bank faced some unfortunate employee unrest during the last quarter of the year. This was triggered by the delay in the Collective Agreement, which we are working towards reaching at an equal settlement. As always, prudent measures are being taken by the management to ensure that the matter be resolved in a fair manner to all parties concerned. We are hopeful that the matter will be resolved in 2015.

Acknowledgements

We end 2014 in a positive way of having being stronger and better equipped to serve our customers. It is clear that we can do more for people, companies, and new entrepreneurs than any other financial institution in this country. As can be seen day after day, we continue to show evidence of this in the marketplace. As a stronger, more straightforward bank better organized to serve SMEs, we have the ability to build deeper relationships with them, earn the profits and make the positive impact to the society which our shareholders expect and restore confidence among the stakeholders to be the best development bank for SMEs in Sri Lanka.

On that note, I would like to express my sincere appreciation to the valuable support 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 thankful for the continued support and patronage of all

our valued customers. Their confidence in us is what drives us to aim even higher and we promise to continue to deliver value to them into the future.

As always, each and every member of our dedicated staff portrayed sincere commitment and worked tirelessly towards achieving our corporate goals this year. I would like to say a big "Thank You" to all of them for their wonderful efforts throughout the year.

I would also like to take this opportunity to convey my sincere gratitude and appreciation to the out going Chairman Mr. H. S. Dharmasiri whilst welcoming the new Chairman Mr. Lasantha Goonewardena. My appreciation also goes to the members and ex-members of the Board of Directors for the pivotal role they have played throughout the year. I also gratefully acknowledge the contribution of the Board sub-committees.

In conclusion, I would like to convey my appreciation 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

28th May 2015



**Board of
Directors**



Board of Directors



MR. H.S. DHARMASIRI

Independent Non-Executive Director
Appointed - w.e.f. 3rd October 2012
Appointed as the Acting Chairman:
w.e.f. 21st January 2014
Resigned - w.e.f. 20th January 2015

*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*

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.



DESHABANDU K.H. LASANTHA GOONEWARDENA

Chairman / Independent Non-Executive Director
Appointed - w.e.f. 11th February 2015

Mr. Goonewardena is a highly experienced individual with years of experience across several industries during his illustrious career. He is a Software Engineer by profession and is an outstanding Old Boy of Royal College, Colombo 7. He pursued Computer Science in Singapore and the United Kingdom where he obtained an Honours Diploma.

Having joined the Lions Club of Colombo Mid City in 1993, he rose through the ranks in a short period of time and was appointed as the District Governor of the Lion Club District 306 C2, in the process becoming the youngest Lion in the world to reach such a position. During his time as a member of the Lions community he has toured several countries and gained international exposure.

He continues to play an active role in community service while also being the Managing Director of Raytronics Computer Systems.



MR. M.M.M. MOWJOOD

Independent Non-Executive Director
 Appointed - w.e.f. 17th May 2010
 Resigned - w.e.f. 16th January 2014
 Re appointed - w.e.f. 30th January 2014
 Resigned - w.e.f. 20th January 2015

B.Com. Special (Hons) Degree (University of Sri Jayawardenapura)
MBA (American University of Asia)
ACMA (Sri Lanka), ACMA (UK)
Pgd Dip 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. T.K.H. HEMACHANDRA

Independent Non-Executive Director
 Appointed - w.e.f. 12th August 2011
 Resigned - w.e.f. 16th January 2014
 Re appointed - w.e.f. 30th January 2014
 Resigned - w.e.f. 20th January 2015

Master of Arts in Regional Development Planning (1985)
Institute of Social Studies, 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. He 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 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.

Board of Directors Contd.



MR. S.K. PATHIRANA

Independent Non-Executive Director
Appointed - w.e.f. 17th May 2010
Resigned - w.e.f. 16th January 2014
Re appointed - w.e.f. 30th January 2014
Resigned - w.e.f. 20th January 2015

*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.



MR. M.K. NANDASIRI

Independent Non-Executive Director
Appointed - w.e.f. 30th January 2014
Resigned - w.e.f. 20th January 2015

*First Class Hons (Econ) University of Colombo
Bachelor of Philosophy in Economics
Associate Member of the institute of Bankers of Sri Lanka.*

Mr. Nandasiri is having obtained a First Class Honours in Economics from the University of Colombo, Sri Lanka in 1974 together with a Bachelor of Philosophy in Economics in 1975, entered the Bank BOC in 1975. He served as the Deputy General Manager (Supports Services) of Bank of Ceylon at the time of retirement. He is an Associate Member of the institute of Bankers of Sri Lanka



DR. NIHAL RANJITH JAYATHILAKE

Independent Non-Executive Director
 Appointed - w.e.f. 18th August 2014
 Resigned - w.e.f. 20th January 2015

Dr. Jayathilake served as the Deputy General Manager - Retail Banking of Peoples Bank. After graduating in Economics and Anthropology, he obtained MA and PhD Degrees in Mass Communication from Sri Jayewardenepura University. He is member of Professional Bankers Association and several Academic Bodies. He was the pioneer Editor of “Bankuwai Obai”, “Bankupuwath” and “Videshika”. He wrote “Yuga Mehwara” on the history of the peoples Bank and has authored several novels, short-story books and text books.



MS. VISHAKA WANASINGHE

Independent Non-Executive Director
 Appointed - w.e.f. 29th January 2014
 Resigned - w.e.f. 20th January 2015

*Attorney-at-Law
 LL.M - Staffordshire University, (United Kingdom)
 M.A in Labour Studies - University of Colombo
 National Diploma in Human Resource Management - Institute of
 Personnel Management of Sri Lanka*

Ms. Wanasinghe is currently the Director, Legal Affairs Department of the Ministry of Finance and presently serving as a member of the Board of Directors of Sri Lanka Inventors Commission.

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*

Mr. Amarasekara 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.



Mr. Ranjith Dissanayake

Assistant General Manager - Credit

*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 26 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. P.S. Edirisuriya

Chief Financial Officer /
Compliance Officer

*B.Sc (Business Admin.) Special Degree - University of Sri Jaywardenepura
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 24 years of experience in the fields at Auditing, Accounting Taxation, Management Consultancy and Banking and Finance in leading organizations including NDB and Seylan Bank.



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

*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. 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. 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.

Senior Management Team Contd.



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.



Ms. C. Udugalage
Senior Manager - HR & Admin

*B.Sc Human Resource Management (Special) 2nd Class
University of Sri Jayewardenepura
NDHRM - IPM
ICASL - L II*

Ms. Udugalage Possesses 17 years of experience in HRM & Admin Field in well established Organizations.



Mr. I.S. Kumar
Senior Manager - Finance

*Bachelor of Science - Business Administration (Special) – University of Sri Jayewardenepura
Master of Business Administration - University of Colombo
Fellow Member of the Institute of Chartered Accountants of Sri Lanka
Fellow Member of the Association of Accounting Technicians of Sri Lanka*

Mr. Kumar has 14 years of work experience in the fields at Auditing, Accounting, Taxation and Management Consultancy. He joined Kreston MNS & Company, Chartered Accountants (corresponding firm of the Grant Thornton International) as an audit trainee in 2001. Since then he has worked in several organizations including, Keells Business Systems Ltd, Vision Fund Lanka (Gte) Ltd, KPMG Ford Rhodes Thornton & Company, WNS Customer Solutions (Pvt) Ltd, and at the Ministry of Health; Global Fund (Donor) Projects.

Head of Divisions



Ms. Dulmini Jayasekara

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.(Mkt.Mgt.)Sp.Hons - 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



Mr. Asoka Fernando
Manager
Colombo Branch



Mr. U. M. Ranathunga
Manager
Wennappuwa Branch



Mr. Rahula Senanayake
Manager
Polonnaruwa Branch



Mr. Manjula Sanjeewa
Manager
Kegalle Branch



Mr. Udula Bandara
Manager
Kandy Branch



Mr. S. Keshanth
Manager
Batticaloa Branch



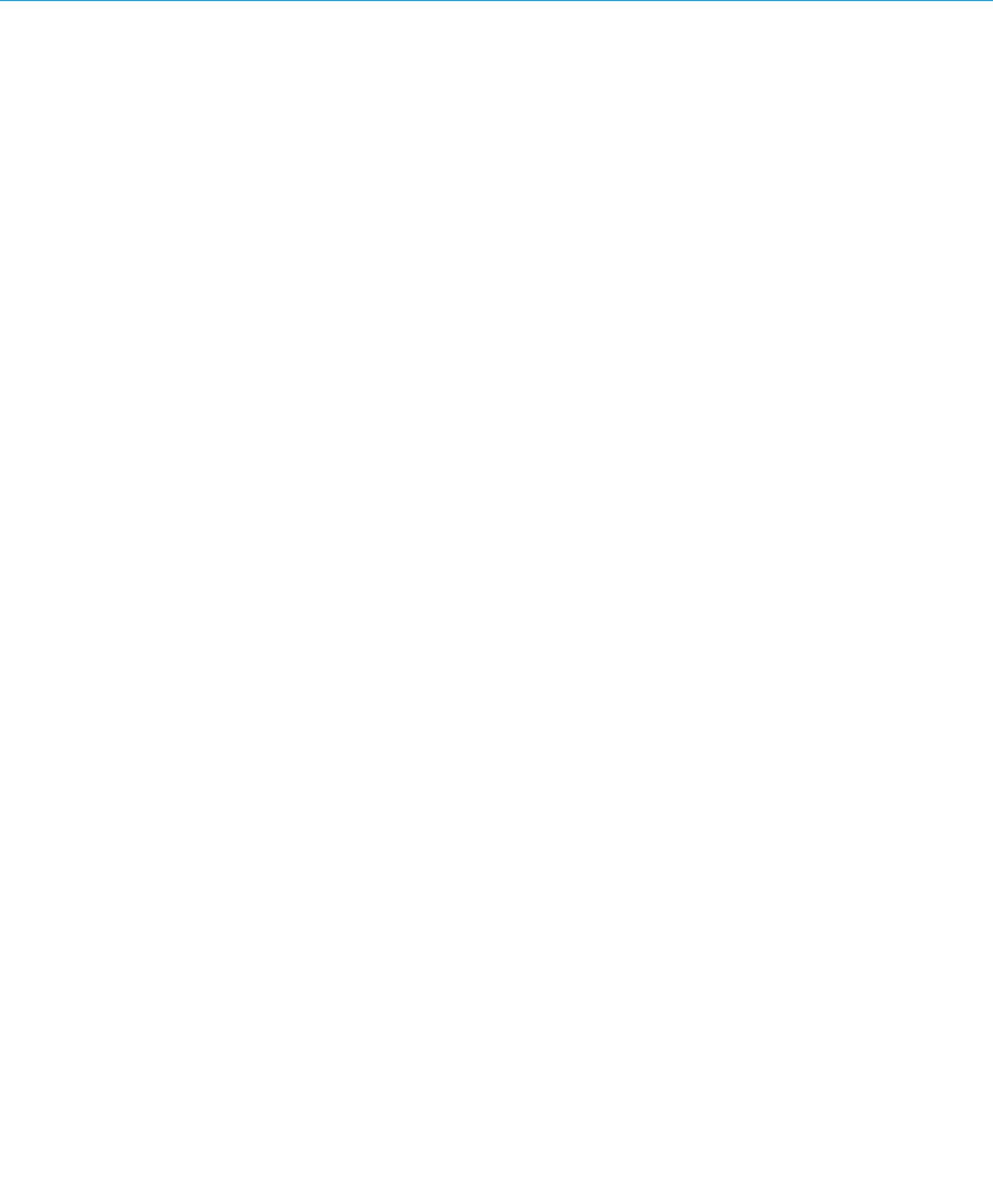
Mr. Ruwan Rukman
Manager
Trincomalee Branch



Mr. Sarath Ranathunga
Acting Manager
Hambantota Branch

Branch Offices







**MANAGEMENT
DISCUSSION
&
ANALYSIS**

Operational Review

2014 turned out to be another year that brought numerous challenges to LDB. The Bank was able to successfully overcome them and record a solid performance that gives confidence for the future.

With the Bank's core business being aimed at providing finance for development purposes, we continued our approach of focusing on granting facilities to develop each of the regions based on the resources available in the area while always ensuring that we accommodate the demand of the entrepreneurs.

Loan Allocations

In 2014, the Bank made several key changes with a special focus on protecting the small and medium paddy millers in Wennappuwa and Polonnaruwa areas. It was identified that one of the biggest challenges faced by small and medium-scale paddy millers is the attempts by large-scale paddy millers from outside these areas to monopolize the market. To assist these small and medium-scale paddy millers to face this challenge head-on, we granted pledge loan facilities to them for the first time ever.

Having identified the huge potential for paddy farmers in the Batticaloa area, the Bank increased the number of cultivation loans disbursed for paddy farmers in this area while in the Polonnaruwa area, the same level of loan portfolio for paddy farmers as in the previous year was maintained. There was also a notable increase in dairy farming loans especially in Wennappuwa, Hambantota, Batticaloa and Kegalle regions. The increase in Wennappuwa was driven by the Bank's efforts in increasing the loan facilities provided to the organized Co-operative Societies, which in turn granted facilities to the individual members. This was done in a carefully-planned manner, with the relevant LDB branch officer visiting the individual members in order to observe the status of the farming activities prior to releasing the funds. Subsequently, the Co-operative Society was given the responsibility of monitoring and recovering the loan from the member.

Similarly, enhanced credit facilities were provided to the Fisheries Sector through our Wennappuwa and Trincomalee branches. This was provided, not through Co-operative Societies, but through other small-scale societies by directly approaching the individual members. However, the society bears the responsibility for monitoring, follow-ups and recoveries from these individual members.

During 2014, the Bank concentrated on the consolidations of the possessions. Based on the loans granted in the past, the Bank conducted a grading of branches in order to closely monitor each sector of the loan portfolio of each branch. Subsequently, it was revealed that 3 branches – Wennappuwa, Trincomalee and Batticaloa – reached profit-making levels by the end of the year.

Recoveries

The Bank was able to achieve an improvement in the recovery rate during the financial year by continuing the methods used in the previous year. The recovery of new loans granted is within acceptable levels stipulated by the Bank and well within the industry average.

Regular visits by the branch staff to the customer business locations, coupled with the conducting of recovery camps by the Head Office staff in different areas closer to customers, contributed positively towards achieving a healthy recovery rate. As the customers are unable to take time away from their businesses in order to visit the branches, the recovery camps which were held at closer locations to their businesses, was warmly welcomed by them. As always, the Bank was able to connect closely with the customers and depending on their legitimate reasons for loan payment defaults, their repayment periods were extended or rescheduled while requests for additional facilities were also taken into account.

During the year under review, the Bank's non-performing ratios are above industry average. One reason for this is that the Bank did not have parate rights in the previous years which was rectified in the year under review after having obtained an opinion from the Attorney General's Department. With the Bank's Recovery Policy amended during the latter parts of 2014, all arrangements have been made for recovering through parate action in 2015.

In the past, Bank branches used their discretion in disbursing facilities. However, in the year under review, the disbursement of facilities was monitored by the Head Office due to the increasing level of non-performing loans. A comprehensive monitoring mechanism was drafted whereby even after loans have been approved from the Head Office and the funds disbursed, branches had to regularly submit reports to the Head Office.

Non-performing loans continued to be monitored by the Head Office under two categories:

- Overdue for under 3 months – In this category, a list is obtained from the IT System at the Head Office based on a pre-defined format which allows the branch to fill out only the reason for the default, the action initiated for recovery and the expected date of recovery. This reduces the workload of the branch staff and provides them with more time to interact with the customers, which is their key function.
- Overdue for over 3 months – This list, also generated from the IT System at the Head Office, provides more in-depth information on the action plan of the branch and their recommendations on how to take further recovery action.

Micro Financing

Although the Bank continued to focus on micro financing, due to the transaction costs there was a limit in the command area. While the loans granted to the farmers and entrepreneurs from these areas were relatively small-scale, it must be noted that the recovery rate was very good. The Bank was able to accommodate loan requests from various farmers - including dairy farmers, banana farmers, paddy farmers and similar other crops – through the societies of which they were members of.

During the year under review, the Bank disbursed a total of 3436 loans amounting to a total of Rs. 1158 million. The above figure is inclusive of 1964 microfinance loans with cumulative value of Rs. 334 million.

Managing and Growing the Loan Portfolio

During the year under review, the Bank focused more on the small and medium enterprises sector and less on micro finance primarily due to the fact that SME sector loans have an immediate impact on the economy of the area courtesy of job opportunities and increased products and services. On the other hand, micro financing, while being a catalyst for self-employment, offers benefits to an individual but does not provide additional product demand. In addition to this, with several financial institutions offering micro finance, potential customers have a wider variety of options to choose from.

The “Lankaputhra Vyavasayake Athwela” training programme for entrepreneurs, which the Bank introduced the previous year with the support of the National Enterprise Development Authority (NEDA), was continued in the year under review. The Bank continued to receive positive feedback from the entrepreneurs regarding this programme and plans are afoot to continue it in 2015 as well.

Sector Exposures

The Bank continues to maintain the sector exposures based on the figures recommended in the Credit Policy. One sector in particular – Food & Beverages – shows a gradual increase due to the facilities granted to paddy mills but is still within the Credit Policy limits.

The loan portfolio is well-diversified across five broad sectors with special emphasis given to the Agriculture Sector (23%) as in previous years. 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.

Loan Approvals

There are no significant changes in the loan approval process of the Bank. The Bank’s branch managers have the authority to fast-track 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 expedited in order to give the best service to the customer.

Branch Network

Due to the increased focus on mergers within the industry in 2014, the Bank did not expand its network. However, the Batticaloa branch was re-located to a larger, more convenient location with ample parking at No. 28, New Kalmunai Raod, Batticaloa.

IT Infrastructure

With the possibility of both a merger and plans for a new IT in the pipeline, the Bank refrained from making significant investments in IT infrastructure during the year under review, apart from the regular maintenance that was attended to promptly.

Products & Services

The products and services offered by the Bank did not differ from what was available in the previous year mainly due to the fact that every customer request was accommodated by the existing product portfolio of the Bank. Towards the end of the year, a special senior citizen deposit account, named Laksetha 60 Plus and offering 12.5% interest, was added to the portfolio.

Customer Charter

During the year, we were also able to introduce the Customer Charter of the Bank. This Customer Charter laid out the Bank’s commitment to deliver the highest standard of customer service to the valued customers, outlining the types of services offered and the various channels for customers to share feedback to improve the Bank’s service.

Looking Back

In general, the year 2014 was another positive year for the Bank. The Bank has been able to continuously streamline operations, keeping the valued customers in mind, while also maintaining steady growth momentum. Having overcome several hurdles during the year, the Bank can confidently look ahead to the challenges of 2015 and beyond.

Human Capital Review

The fast-paced and highly-competitive economic environment that we operate in has shown us that there are several elements that are critical to an organization's continued success. While we acknowledge that this is today's reality, at LDB, it is undoubtedly the human capital that is known to be the most valuable asset of the bank. The value placed on all our employees is well-reflected in our investment in training and development, monetary and non-monetary benefits and in the accolades received for our human resources practices. In short, their well-being and development are given top priority at all times.

Lankaputhra Development Bank provides employment to 140 individuals through its network of branches strategically located around the island. As a State Bank, our objective is to make work enjoyable, rewarding and productive, while creating a work environment that is both enriching and innovative. A cornerstone of the Bank's success has been the dynamism of its people – a key attribute that we have been able to achieve by focusing on recruiting, developing and retaining the best talent available in the market.

During 2014, we further strengthened our team and the organizational structure by bringing in more professionals to head key management functions of strategic importance. Having identified HR/Admin and Finance as two key areas that needed a boost in experience and knowledge, we recruited a Senior HR & Admin Manager as well as a Senior Manager – Finance. This clearly demonstrates the visionary thinking of the top management to achieve its operational goals in the forthcoming year.

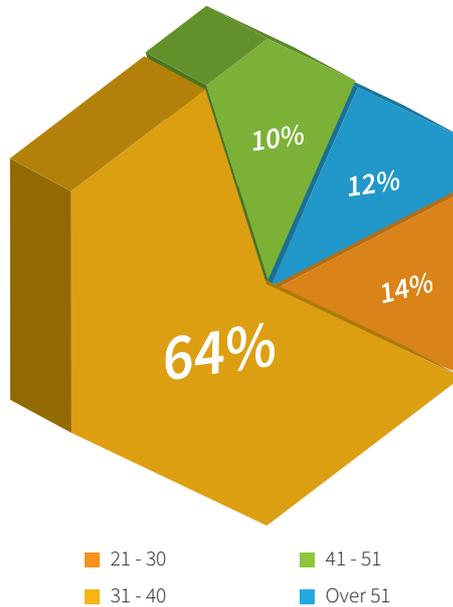
Employee Diversity

Our total workforce as at 31st December 2014 is 147. Some pertinent figures, which show the diversity of our employees in terms of age and gender, are given below.

The enormous increase in labour participation of married women is the most important labour force change at LDB during the recent years. The Bank is proud to provide equal opportunities for male & female employees. A quick glance at the organizational structure at LDB will reveal that a fairly even number of female employees are present in the organizational structure. From top to bottom, the percentage female cadre stands at around 42%, which is an outstanding achievement by the Bank and a statistic that clearly demonstrates that the Bank is an equal opportunity employer. In fact, it can be stated this is the sort of figure that is unheard of in any other bank in Sri Lanka. Since inception, female employees across all levels and departments have made vast contributions to the development of the Bank.

Age Group	AGM		Middle Management		Executive		Clerical staff		Office Aide / Driver		Total
	M	F	M	F	M	F	M	F	M	F	
Below 20 Yrs	0	0	0	0	0	0	0	0	0	0	0
21 - 30	0	0	0	0	1	0	8	11	1	0	21
31 - 40	1	0	9	5	4	9	25	28	12	0	94
41 - 50	1	1	2	2	1	1	3	1	5	0	18
Over 51	1	0	1	0	0	3	1	2	3	0	14
Total	3	1	12	7	6	13	37	42	21	0	147

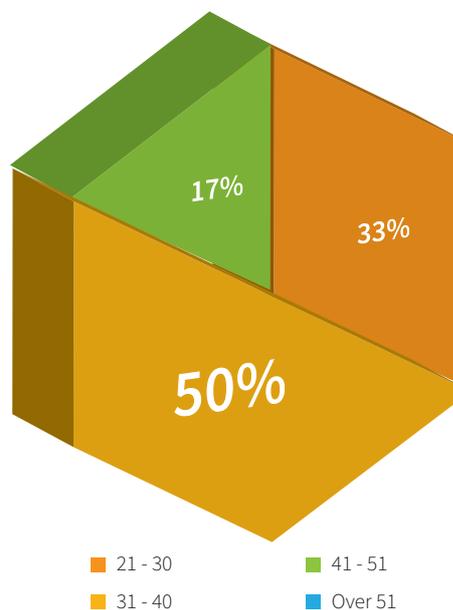
Age Group Contribution at LDB



Employee Turnover in year under review by gender, age group and position is illustrated below.

Age Group	AGM		Middle Management		Executive		Clerical staff		Office Aide / Driver		Total
	M	F	M	F	M	F	M	F	M	F	
Below 20 Yrs	0	0	0	0	0	0	0	0	0	0	0
21 - 30	0	0	0	0	0	0	2	0	0	0	2
31 - 40	0	0	1	0	0	0	1	1	0	0	3
41 - 50	0	0	0	0	0	0	1	0	0	0	1
Over 51	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	1	0	0	0	4	1	0	0	6

Labour Turnover at LDB - 2015



Training & Education

To most people, capital means a bank account, stock shares or any other form of tangible assets. At LDB, we believe that education, training and health are the most important investments in human capital. Economic growth closely depends on the synergies between new knowledge and human capital, which is why large increases in training and education have accompanied major advances in non-technical knowledge in all countries that have achieved significant economic growth.

During the course of the year, the Bank took several measures to strengthen the human capital in order to optimize their contribution towards the achievement of corporate objectives. The management focuses on developing both the intellectual and analytical skills of employees by providing them with ample opportunities to attend various relevant training programmes. The training & development initiatives include continuous training as well as need-based training which is most specialized in financial Credit Appraisals. A knowledge-sharing culture is nurtured and supported throughout the organization while a performance-driven culture has resulted in employee recognition & remuneration being based on the individual's performance over a sustained period of time.

Training programmes are conducted by in-house as well as external trainers. This is an important element of our HR Strategy as it provides a balance of knowledge and experience. With an in-house trainer, we get the benefit of an individual who understands the intricacies of the Bank and the banking industry while through an external trainer we are able to learn from an expert who has experience from outside LDB and possibly even the banking industry.

The Bank allocated Rs. 2 million as the training budget for 2014. As a bank that is still in the first decade of operations, this can be considered to be a substantial figure that underscores our commitment to training and development.

Employee Benefits

As a bank that believes in hiring and nurturing the best talent, LDB has put in place an approach that guarantees success across all levels. All employees are given a competitive remuneration package that is on par with the industry rates. On top of this, employees are given a host of benefits by the Bank which includes fuel allowances, transport allowances, Surgical & Hospitalization Insurance Scheme (SHIS) and Group Term Life Assurance Policy (GTLA), quick loans up to Rs.20,000, housing loans and other loans at concessionary rates, laptop loans, funeral donations and gifts for new-born babies. An increased EPF contribution of 15% from the Bank and 10% from the employee gives the employee a substantial 25% per month in total, laying the foundation for the employee to receive a larger sum of money on retirement. In addition to this, significant rewards have been made available for Branch Managers who are able to achieve high performance in their given targets.

Human Rights – Management Approach

The Bank understands that today's society is far more evolved than a generation ago and in keeping with the times, the Bank has taken every possible step to follow globally-accepted Human Resources standards stringently. The Bank does not tolerate any form of discrimination based on gender, race, religion or caste while controversial matters such as sexual harassment physical & other forms of unethical harassments are taken very seriously.

Society – Management Approach

We strongly believe that financial entities have a responsibility towards the people of this country at all times. At LDB, the projects that we carry out always help the less fortunate elements of society. These projects are not ad-hoc measures of charity but carefully planned out efforts that integrate into our business and the way we do business. With an overall aim of adding value to lives, lifestyles and economic well-being, our engagements with the community encompass healthcare, education, religious and cultural activities. Each project is a concerted and continuous effort by the Bank and its passionate staff as they strive to fulfil their responsibility.

IT Review

The Information Technology (IT) Department of the Bank bears the sole responsibility for the efficient management of the Bank's information systems while spearheading the strategic use of information, communication and network technology. The focus of the Department is to streamline existing business processes of the Bank by maximizing the use of the fully-fledged integrated IT System equipped with modern banking facilities.

In any environment that relies on IT infrastructure, providing security and integrity of information is of paramount importance. The IT Department of the Bank takes a complete backup of the Bank's IT system on a regular basis with a secondary backup maintained in a safe, off-site location.

In the year under review, the Bank successfully completed the Disaster Recovery (DR) Site - currently hosted at the Internet Data Centre of Sri Lanka Telecom (SLT) - enhancing the DR Center's replication.

With a view of reducing the operational risk due to a system failure, a Business Continuity Plan (BCP) has been initiated to allow the Bank to continue to manage business operations under adverse, unforeseen circumstances that may occur, irrespective of its duration or scope. The Business Impact Analysis (BIA) and the Risk Assessment (RA) - two key aspects of the Analysis stage of the BCP planning process - have been already completed.

The Bank incurs significant costs for licensing of expensive proprietary software such as Microsoft Office for use at the Head Office and all branches. In order to minimize the costs, a gradual shift towards OpenOffice - an open-source office suite that is used by millions across the globe as a replacement for Microsoft Office - has been initiated.

During the year, the Bank obtained the membership of the Bank Computer Security Incident Response Team (Bank CSIRT). The Bank CSIRT is a specialized service unit in Sri Lanka that is responsible for receiving, reviewing, processing and responding to computer security alerts and incidents affecting the Banks and other Licensed Financial Institutions across the island. This centralized body, steered and funded by the Banks, coordinates security efforts within the banking and financial sector.

Marketing & Business Development Review

Lankaputhra Development Bank had a reasonably successful 2014 in the face of some trying economic conditions in the country. The Bank continued to head in the right direction with numerous marketing strategies being implemented to consolidate the existing customer base while also reaching out to new customers in an effective manner. Progress was made in several areas and augurs well for continued progress in the coming years.

The year commenced on a positive note as the Bank rolled out the “Laksetha” Senior Citizens Fixed Deposits & savings schemes that focuses on senior citizens of our nation with attractive rate and more value added service

Customer Charter

Providing exceptional customer service is one of the key goals of the Bank. With this in mind, in 2013 we commenced development of a Customer Charter & Code of Conduct. This Customer Charter and Code of Conduct set out the Bank's commitment to deliver the highest standard of customer service to our valued customers while outlining the types of services the Bank will always strive to provide as well as the various channels for customers to share feedback to improve the Bank's customer service and code of conduct. In 2014, we were able to successfully carry out the implementation of the Customer Charter & Code of Conduct. Customer Charter Training programmes were conducted at the Head Office and across all branches in order to effectively communicate all aspects of the Customer Charter & Code of Conduct to the Bank staff.

Promotion Campaigns

LDB is a bank that focuses on connecting meaningfully with the customer base on a 1-to-1 basis rather than advertising aggressively in traditional media such as press, TV and radio. In keeping with this approach, all Bank branches conducted regular door-to-door street promotion campaigns throughout the year. These promotions were effective in reaching out, educating and informing the rural segments of the Bank's various products and services. The only form of mass advertising that was carried out was a strategically planned, corporate image building advertising campaign that was carried out in several major radio stations and drew positive feedback.

Value added to Products

The “Lakmuthu” Children's Savings account, a rewarding way to save and build a secure future for children, was relaunched with a new range of attractive gift items that includes tills, caps, dictionaries, school bags and valuable gift vouchers to purchase books.

Exhibitions

This year's “Deyata Kirula” Exhibition was held at Kuliypatiya with thousands of visitors gathering to catch a glimpse of the vast array of stalls on display. Spearheaded by the Wennappuwa and Kegalle branches, the Bank too participated at the exhibition in order to engage with the visitors. The Bank arranged special loans that were in line with the exhibition while several of the Bank's other products and services also generated a lot of interest amongst the visitors.

Lankaputhra Bancassurance Scheme

The Bank signed a Memorandum of Understanding (MoU) with Sri Lanka Insurance Corporation (SLIC) to commence a service window of SLIC at the LDB Head Office providing our valued customers the convenience of attending to their insurance needs when visiting the Bank. Under this MoU, our customers are able to get life, fire, ownership title, vehicle as well as other insurance covers at affordable premiums.

Branch Relocation

The LDB Batticaloa branch was relocated to their new premises at No.28, New kalmunai Road, Batticaloa. This larger facility provides more space and convenience to the people in the Eastern Province. Along with this relocation, we also carried out a successful door-to-door promotion campaign informing prospective customers of the latest developments, products and services at LDB.

Laksaviya Leasing Promotion

The Bank promoted leasing at the lowest interest rates through the “Laksaviya” leasing product that focused on entrepreneurs, businessmen, professionals and self-employed individuals. Under the “Laksaviya” leasing scheme a lease can be obtained to purchase a registered or unregistered vehicle as well as plant and machinery. Leases can be also obtained to purchase three wheelers, buses or luxury coaches for tourism purposes and for agriculture or construction projects.

Entrepreneur training programmes

A series of training programmes titled “Lankaputhra Viyavasayake Athwela” was held in partnership with the National Enterprise Development Authority (NEDA), an organization that supports the development, growth and competitiveness of Sri Lankan enterprises. These productive training programmes focused on providing expertise and advisory services to existing and growing entrepreneurs. The necessary financial assistance and guidance was provided by NEDA to enable the Bank to carry out successful entrepreneurship development programmes.

Entrepreneur forums

Entrepreneur forums were also conducted in Batticaloa with the support of chambers and trade associations in the area. These well-attended forums provided the entrepreneurs with the opportunity to discuss their business problems and get immediate solutions.

Highlights of the Year



- 1. Batticaloa Branch Relocation
- 2,3. 2014 Entrepreneur Forum Batticaloa Branch
- 4,5. Customer Charter Training Program at Polonnaruwa Branch

- 6. CSR 2014 Blood Donation at Head office
- 7. Launching of Senior Citizen Savings Scheme
- 8. Deyata Kirula Exhibition at Kuliyaipitiya



9. Signing Mou with NEDA

10. Signing Mou with SLIC

11. Entrepreneur Training at Batticaloa

12. Entrepreneur Training at Head Office

13. Entrepreneur Training at Kandy

14,15. CSR Project Renovation of Laprosy Hospital at Hekiththa, Wattala.

16. Entrepreneur Training at Kandy

Lankaputhra Development Bank offers Laksaviya leasing with affordable instalments

NOW anyone can fulfil their dreams by taking a lease from Lankaputhra Development Bank who offers the lowest interest rates. Entrepreneurs, businessmen, professionals as well as self employed individuals can fulfil their dreams by obtaining a lease. Under this scheme a leasing can be obtained to purchase a registered or unregistered vehicles and plant and machinery.

The repayment period for Laksaviya leasing is up to five years and it can be taken to purchase three wheelers, buses or to purchase luxury coaches used for

tourism. In addition, Laksaviya leasing can be taken for those who engaged in agricultural projects, construction. Professionals, employees who are working in government or semi government sectors and the private sector can also obtain a leasing facility to purchase vehicles.

Fast and speedy service, flexible/low instalment payment schemes, least amount of documents are some of the features of Laksaviya Leasing by Lankaputhra Development Bank.

As a fully fledged government bank

Lankaputhra development Bank was started to support the people engaged in building the local economy. The bank has initiated many projects for the benefit of the SME sector. To cater to the needs of children as well as young adults the bank has initiated many savings schemes with attractive interest rates. In addition the bank is also engaged in pawning.

Lankaputhra Development Bank has branches in Colombo, Hambantota, Polonnaruwa, Kegalle, Kandy, Wannappuwa, Batticaloa and Trincomalee.



CHAIRMAN OF THE LANKAPUTHRA DEVELOPMENT BANK H.S. DHARMSIRI HANDING OVER THE KEY OF A THREE WHEELER TO AN ENTREPRENEUR IN THE AREA. NIMAL LANKA, WESTERN PROVINCE, MINISTER OF SPORTS, TRANSPORT AND FISHERIES AND UDAI RANATUNGA, WENNAPUWA BRANCH MANAGER LOOK ON

Lankaputhra supports Negombo entrepreneurs

Lankaputhra Development Bank has implemented a special loan project under flexible terms and concessionary interest rates to promote self-employment in the Western Province.

Under this special loan scheme facilities have already been granted to purchase boat engines for the fishing industry as well as for three wheelers to provide basic transport for the tourists in the Negombo area.

Further, loans were also granted to buy sewing machines and agricultural implements to commence self-employment projects in the area and these were handed over at a ceremony held recently at the Negombo Town Hall Auditorium.

Present on the occasion were Basil Rajapaksa, Minister of Economic Development, Nimal Lanka, Minister of Sports, Transport and Fisheries, H.S. Dharmasiri, Chairman of Lankaputhra Development Bank and Udai Ranatunga, Manager, Wannappuwa branch.

Provincial Ministry will support the bank in the follow-up of the projects as well as get involved in loan recoveries. This particular project was implemented with the objective of developing self-employment opportunities in

Lankaputhra Development Bank has a network of branch offices situated in Colombo, Hambantota, Polonnaruwa, Kandy, Wannappuwa, batticaloa and Trincomalee

the Negombo area and will under the direct supervision of Wannappuwa Branch Manager Udai Ranatunga.

Lankaputhra Development Bank is owned by the government and was established to strengthen the national economy supporting the small and medium entrepreneurs. So far the bank has initiated many projects for benefit of the small and medium entrepreneurs. In addition, bank offers leasing and pawn facilities together with other financial services such as fixed deposits, normal savings, mutual savings, etc.

Lankaputhra Development Bank has a network of branch offices situated in Colombo, Hambantota, Polonnaruwa, Kandy, Wannappuwa, Batticaloa and Trincomalee.

Top STORY Lankaputhra gets RAM ratings at A-/P1

Lankaputhra gets RAM ratings at A-/P1

RAM Ratings Lanka has reaffirmed the respective long and short-term financial institution ratings of Lankaputhra Development Bank (LDB or the Bank) at A- and P1; the long-term rating carries a stable outlook.

The ratings are supported by the Bank's strong capitalisation, funding and liquidity positions and the financial flexibility derived from its sole shareholder, the Government of Sri Lanka (GOSL).

On the other hand, the ratings are weighed down by the Bank's weak loan quality and average performance.

LDB is a licensed specialised bank (LSB), incorporated in 2006 which falls under the purview of the Central Bank of Sri Lanka (CBSL).

The Bank's was set up primarily with the objective of implementing the Government's policy of facilitating small and medium enterprises (SME) which are usually side-lined by other banks which perceive them as carrying a high level of risk.

In addition to extending SMEs with working capital and project loans, the Bank also funds GOSL-based development projects. LDB is fully-owned by the GOSL, through the Ministry of Finance. As such it derives financial flexibility from the GOSL and we opine that the state support would be forthcoming should the need arise.

Along with the branch opened during the review period, LDB's branches increased to 8. However, it remains to be a relatively small sized player in the LSB industry, accounting for 0.94% of industry assets as at end-FY Dec 2012.

The Bank's asset base continues to be dominated by investments in government securities and deposits in state-owned financial institutions.

These low-risk investments balance its highly risky loan assets. Although it's credit assets have expanded at a relatively moderate pace of 12.53% y-o-y in FY Dec 2012; primarily driven by micro finance loans and pawning, the loan base remained relatively stagnant with a 2.83% (annualised) growth in 9M FY Dec 2013, reflecting the management's inclination to lending.

Overall, the Company's gross non-performing loan (NPL) ratio weakened to 44.63% as at end-9M FY Dec 2013 (end-FY Dec 2011: 41.46%) and continued to remain high against similar rated peers.



Lankaputhra Development Bank marks Children's Day and Elders' Day

THE Chairman and the management of Lankaputhra Development Bank are ready to celebrate World Children's day and Elder's Day, which fall today.

The bank has introduced the Laksetha Savings account and the Laksetha Fixed Deposit for senior citizens with many attractive benefits. The Laksetha Savings Account offers an attractive interest rate and depending on the balance in the account there is a possibility to get vouchers for health benefits.

In addition the account holder can issue standing orders to elders' homes and charitable organisations free of charge.

A Laksetha Fixed Deposit can be opened by depositing a minimum of Rs. 100,000. An attractive high interest rate and 90% of the deposit value could be obtained as instant loan. Their deposits are fully-protected under the shelter of Lankaputhra Development Bank as the bank is fully Government-owned development bank.

Lakmuthu Diriya Udana and Lakmuthu Children savings accounts were started by the bank for the benefit of the children of this country and an account can be opened by depositing a minimum of Rs. 200 to Rs. 500. According to the balance in the account the children get attractive gifts. In addition account holders can get discount cards to purchase books from Sarasavi and Godage Bookshops.

Lankaputhra Development Bank Batticaloa branch shifts to spacious premises



Lankaputhra Development Bank Chairman handing over a key to the leasing contractor. Also present are GM/CEO Lakshana Anuradharma, AGM/Credit and Operation Respon-Dissanayake and Manager of Batticaloa Branch Keshan Sundarasingam

To serve its customers effectively, Lankaputhra Development Bank (LDB) Batticaloa branch relocated to a spacious and convenient location at No. 2, New Kalmatal Road, Batticaloa.

Lankaputhra Development Bank Chairman H.S. Dharmasiri and senior management of the bank on the occasion. The branch is planning to offer many new services to cater to the needs of its valued customers in the east.

The Batticaloa Branch was opened in 2008 with the aim of boosting the national economy and some of the loan schemes the Mahinda Chittinawa was launched in 2008 with the aim of boosting the national economy. The bank is implementing

Several provisions in keeping with the vision of the Mahinda Chittinawa. The bank is moving forward as a strong

Products & Services

Loans and Advances

“Sarusara” New Comprehensive Rural Credit Scheme (NCRCS) - “SARUSARA”
“Jayadiri” New Entrepreneur Development Credit Programme
Commercial Scale Dairy Development Loan Scheme
“Shasthree” Higher Educational Loan Scheme
“Saubagya” Prosperity Credit Scheme
“E-Top” Computer loan scheme
“Laksahana” Pawning Facility
“Laksaviya” Leasing Facility
“Ayasaviya” loan scheme
Working Capital Loans
Special Project Loans
Micro Finance Loans
Project Loans

Deposits Products

“Suruviru” Term Deposits
“Sandaliya” Savings Account
“Deshabhimani” Savings Account
“Lakmuthu” Children’s Savings Account
“Laksetha” Senior Citizens Savings Scheme
“Lakmuthu Diriya Udana” Children’s Savings Account

Other Services

“Jathika Viyavasayaka Athwela” – Entrepreneurship Development Training Programme
“Lankaputhra Bancassurance” Facility



**Products
&
Services**

Deposit Products



Financial Review

The LDB recognising the necessity for establishing a Government owned Development bank in order to move forward into the hitherto neglected sectors of the economy and bring them into the mainstream of the development process. During the year Central Bank of Sri Lanka has followed relaxed monetary policy which results reduction in market interest rates. The total financial sector performance in 2014 showed a momentum moderately higher than that in 2013.

We are pleased to present financial results of the Lankaputhra Development Bank for the year 2014. 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.178.7 million for the year 2014 with decrease in profit compared to year 2013. This is mainly due to the Government's relaxed monetary policy which reduces market interest rate. As LDB transfers this benefit to the small and medium entrepreneurs, which results negative growth of profitability. 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.

Further it is worthwhile to note that current year's profit is after contributing Rs.42.9 million to government's revenue by way of taxes. In comparison to previous year's contribution it has decreased by 30.8 million in the current year. The impairment loss on financial assets for the year 2014 has been estimated at Rs. 53.3 million

In Comparison to the mandatory requirement of 20% of Statutory Liquid Asset Ratio (SLAR), the Bank has maintained its SLAR at 1,146.2% as at 31/12/2014. which has reaffirmed the strong liquidity position of the bank.

Following table shows pre and post tax profits from year 2006 to 2014 (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
2014	186	179

DEPOSIT BASE

At the end of year bank's deposit base stood at 357 Mn which represents a increase of 56% compared to previous year. Savings deposits represent nearly 74% of Bank's deposit base while the balance 26% represents time deposits. During the

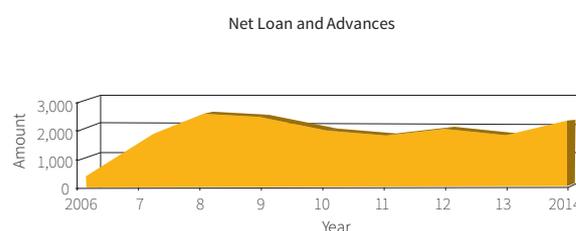
financial year under review bank regularly monitored its interest rates on deposits and revised when necessary to be in line with market conditions which in turn resulted low interest cost on the deposit base. However the bank draw much attention in increasing the deposit base in order to maintain bank's liquidity position.

LOANS AND ADVANCES

Net loans and advance portfolio of the bank has increased by Rs.257Mn from Rs.1812 Mn in year 2013 to Rs.2,069 Mn in year 2014 that represents a increase of 14%. Net non-performing loan (NPL) ratio dropped down to 21.6% as at 31/12/2014 from 22.8% of same which stood as at 31/12/2013.

This favourable position resulted in making adequate provisions for impairment losses during the year under review. Gross non-performing ration of the bank stood at 44.6% as at 31/12/2014 which had improved than the same which stood at 46.7% as at 31/12/2013. 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.

Year	Loans & Advances Net (Rs. Mn)
2006	427
2007	1,656
2008	2,430
2009	2,301
2010	1,910
2011	1,722
2012	1,932
2013	1,812
2014	2,069

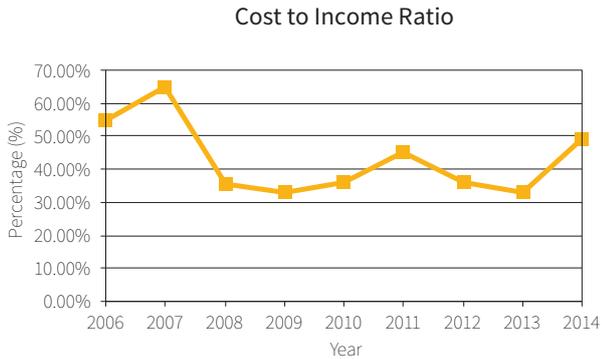


CAPITAL ADEQUACY AND LIQUIDITY

LDB'S capital adequacy ratios are recorded at 74.3 % at Tire I level and 74.7% at the Total Capital level, as at 31st December 2014. 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 1,146.2% as at 31st December 2014.

KEY PERFORMANCE INDICATORS

The banks cost-to-income ratio has been maintained at 49% in the year 2014 which increased from 33% in the previous year. This change is mainly due to substantial increase in the personnel expenses and decrease in interest income over last year.



Year	Cost to Income Ratio
2006	55.00%
2007	65.10%
2008	35.40%
2009	32.84%
2010	36.00%
2011	45.00%
2012	36.00%
2013	33.00%
2014	49.00%

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

KPI	2014	2013
Interest Margin (%)	6.93%	8.90%
Return on Assets (%)	2.37%	5.80%
Return on Equity (%)	4.00%	7.90%
Earning per Share-Basic (Rs)	4.95	9.59
Core Capital Adequacy Ratio	74.29%	74.00%
Total Capital Adequacy Ratio	74.72%	74.30%
Statutory Liquid Assets Ratio	1,146.20%	1,341.48%

The exceptionally healthy position in above Capital Adequacy Ratios in comparison to year 2013 is mainly due to increase in core capital over risk weighted amount. Statutory liquid asset ratios continue to be strong in year 2014 as well. Earning related ratios shown downward trend due to decrease in interest income.

Risk Management Review

Overview

In today's increasingly complex and dynamic environment, financial institutions are exposed to numerous risks which though diverse, are interdependent. All too often, assessments of risks are crudely made while the consequences of getting things wrong can be very serious. Risk exists in all aspects of the banking business and the environment in which it operates.

Under the Basel II framework, the major categories of risks are credit, market and operational risks. However, banks are also facing other risks such as liquidity, interest rate, foreign exchange rate, legal, regulatory and reputational.

A strong risk culture and a well-articulated risk appetite increase performance in today's competitive market while they focus more than ever on ways to implement effective risk management.

Managing Risk at Lankaputhra Development Bank

Our business is subject to risks that can adversely impact our business, financial performance, financial condition and future performance and if any of the following risks occur, those four areas could be adversely affected. The risks and uncertainties described below are not the only ones we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem to be immaterial, may also become important factors that affect us.

Lankaputhra Development Bank (LDB) manages the risks that affect our business as they influence our performance, reputation and future success. Effective risk management involves taking an integrated approach to risk and reward, and enables us to both increase financial growth opportunities and mitigate potential loss or damage. The Board ensures that the Bank has established a robust and pervasive risk culture and clear policies that define risk management as the responsibility of the Bank's senior management, subject to the oversight of the Board. The Bank maintains a strong risk governance and oversight framework that originates at the Board level and cascades down through the Bank.

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

Board Subcommittees

- Board Audit Subcommittee
- Board Human Resource & Remuneration Subcommittee
- Board Credit Subcommittee
- Board Integrated Risk Management Subcommittee

Key Management Committees

- Asset & Liability Committee (ALCO)
- Corporate Management Committee
- Internal Management Credit Committee (IMCC)

- IT Steering Committee
- Staff Committee
- Publicity and Promotions Committee
- Procurement Committee
- Staff Transfer Committee

Types of Risks

There are a number of risks which arise directly from the operations of the Bank as it participates in the banking and financial services industry. As per the Central Bank of Sri Lanka Integrated Risk Management (IRM) framework guidelines, it broadly mentioned the risks of credit, market, operational, liquidity and interest rate risks.

Credit Risk

The credit risk is the risk of financial loss where a customer or counterpart fails to meet their financial obligations to LDB. Bank lending activities account for most of the Bank's credit risk. However, other sources of credit risk also exists, including the extension of commitments and guarantees and the settlement of transactions.

To measure our credit risk we use quantitative measurements such as Non-Performing Loans (NPL) ratio, Number of NPL loans, large credit exposure and single borrowing limits.

The LDB credit policy covers the areas of credit culture, target market, prohibited lending, acceptable risk parameters and remedial/recovery action and which guides to mitigate and control credit risks. The Bank regularly monitors credit risks through daily, weekly and monthly management reports. This strengthens controls witnesses drop in NPL ratio by 2.1% compared to year 2013 and it has reached to 44.6% as at 31st December 2014.

Concentration Risk

Concentration risk is the probability of loss arising from heavily lopsided exposures to a particular group of counter parties which threaten a financial institution's health or ability to maintain its core operations.

Risk concentrations can arise in financial assets, liabilities or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. The potential for loss reflects the size of the position and the extent of loss, given a particular adverse circumstance.

Risk concentrations can take many forms, including exposures to:

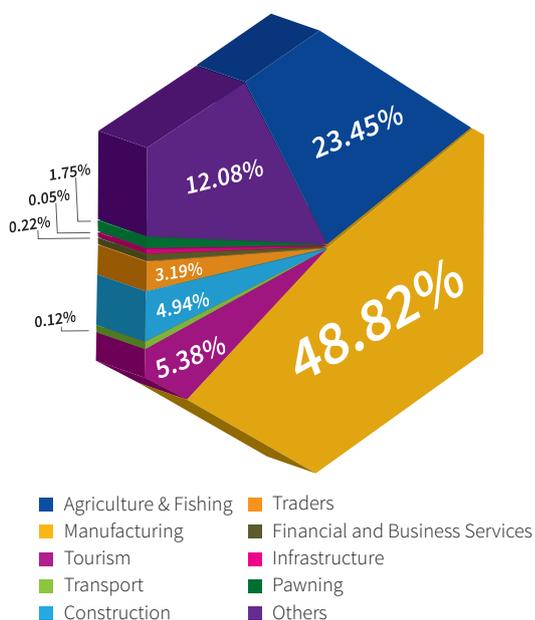
- (a) individual counterparties;
- (b) groups of individual counterparties or related entities;
- (c) counterparties in specific geographical locations;

- (d) industry sectors;
- (e) specific products;
- (f) service providers; e.g. back office services, and
- (g) natural disasters or catastrophes.

The Bank's loan and advances breakdown (excluding SLFRS and provisions adjustments) as at 31.12.2014 by sector is presented below,

Sector	Mn	%
Agriculture & Fishing	649.15	23.45
Manufacturing	1,351.35	48.82
Tourism	148.81	5.38
Transport	3.42	0.12
Construction	136.77	4.94
Traders	88.21	3.19
Financial and Business Services	6.22	0.22
Infrastructure	1.52	0.05
Pawning	48.37	1.75
Others	334.10	12.08
Total	2,767.91	100.00

Credit Exposure by Sectors - As at 31.12.2014



Market Risk

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios. This includes interest rate risk in the banking book, the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

There were no material changes to our policies and practices for the management of market risk in 2014

Interest Rate Risk

Interest rate risk is the risk to the Bank's financial performance and position caused by changes in interest rates. As interest rates and yield curves change over time, the Bank may be exposed to loss in earnings and economic value due to the interest rate profile of its balance sheet. In the banking industry, this commonly arises from the mismatch between the maturity profile of the Bank's lending portfolio compared to its deposit portfolio.

Interest rate risk also includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles. It is also possible that both short and long-term interest rates may change in a way that the Bank has not correctly anticipated, and this may have an adverse impact on the Bank's financial performance and position.

The Bank's Asset and Liability Committee (ALCO) gives direction periodically in order to realign the exposure with the current assessment of the market.

Foreign Exchange Rate Risk

Exchange rate risk relates to the effect of unexpected exchange rate changes on the value of the Bank and its possible direct loss or indirect loss in the cash flows, assets and liabilities, net profit from an exchange rate move.

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

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operational expenses and taxes.

As the Bank's statutory liquid asset ratio reaches 1,146.2% with statutory liquid assets of Rs.3,465 million as at 31st December 2014, it shows that the Bank has a healthy liquidity position.

Operational Risk

Operational risk is relevant to every aspect of our business and covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

Responsibility for minimising operational risk lies with LDB management and staff. Each business unit and functional head is required to maintain oversight over the operational risks and internal controls of the business and operational activities for which they are responsible.

Risk Management Review **Contd.**

Operational risk management forms part of the day-to-day responsibilities of management of all levels. A 'three lines of defence' model is used for the management of risk, as described below:

First line of defence	Every employee at LDB is responsible for the risks that are a part of their day-to-day jobs. The first line of defence ensures all key risks within their operations are identified, mitigated and monitored by appropriate internal controls within an overall control environment.
Second line of defence	Consists of the functions such as Risk, Finance, HR and Administration, who are responsible for providing assurance, challenge and oversight of the activities conducted by the first line.
Third line of defence	Internal Audit provides independent assurance over the first and second lines of defence.

Legal Risk

Legal risk falls within the definition of operational risk and includes:

- contractual risk, which is the risk of a member of LDB suffering financial loss, legal or regulatory action or reputational damage because its rights and/or obligations under a contract to which it is a party are technically defective;
- dispute risk, which is the risk of a member of LDB suffering financial loss or reputational damage due to an adverse dispute environment or a failure to take appropriate steps to defend, prosecute and/or resolve actual or threatened legal claims brought against or by a Bank member;
- legislative risk, which is the risk that LDB fails to adhere to the laws of the jurisdictions in which it operates; and
- non-contractual rights risk, which is the risk that a Bank member's assets are not properly owned or protected or are infringed by others or the infringement by a Bank member of another party's rights.

Our Legal Department ensures conformity with applicable laws and regulations. External legal expert services are obtained when required.

Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion resulting from the loss of reputation or public trust and standing. Reputation Risk Management and mitigations aspects are embedded in the Bank's policies, procedures and training programme.

Insurance Risk

Insurance risk is the risk of mis-estimation of the expected cost of insured events and volatility in the number or severity of insured events.

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.

Capital Adequacy

The capital adequacy ratio prescribed by the Central Bank of Sri Lanka (CBSL) under the Pillar – I of the Basel II framework is the regulatory minimum level, which addresses only credit, market and operational risks on an average basis. Thus, the need for banks to have their own assessment of various integrated risk exposures and maintain adequate capital as a cushion for such risks has become an urgent necessity.

The Bank continued to maintain a strong capital base position under simplest approaches of Basel II. Bank maintains Core Capital (Tier 1 capital) of Rs.4,661.6 million and total capital base of Rs.4,688.6 million as at 31st December 2014. Regulatory capital adequacy % as at 31st December 2014 is given below:

Indicator	Actual (%)	Minimum requirement (%)
Core capital adequacy ratio as a % of risk weighted assets	74.3	5
Total capital adequacy ratio as a % of risk weighted asset	74.7	10

Way forward

The LDB is strongly committed to establishing and maintaining a culture that encourages and supports the highest standards. Controls put in place to manage the Bank's risk environment are carefully assessed to ensure they are well-developed and implemented effectively. This process is supported through the development and maintenance of an active risk management culture, which acknowledges the need for careful analysis and management of risk in all business processes.

The Bank has been relying on practicing constantly evolving policies, organisational structure, committee approaches and processes to manage various risks.

Social Responsibility

Today's world maybe a fast-changing one but with the rapid modernization that takes place in a developing country such as Sri Lanka, there are always segments of society and various aspects of the environment that need to be taken care of by the organizations and individuals with the ways and means to do so. This awareness of and concern for society and the environment is something that can be readily found in all the staff of Lankaputhra Development Bank (LDB). The Bank staff clearly understands the significant role it has to play when dealing with customers, suppliers and other entities. With this understanding, springs a sense of compassion that helps fuel their drive to make a difference in the lives of others less fortunate than them.

Although the LDB is a young bank, we have never shied away from fulfilling our responsibility to the community and the nation. We continue to look beyond the pursuit of profit by passionately working towards the upliftment of the living standards of the community. The staff at all our branches maintains close ties not only with our customers in each area, but also with the organizations, social bodies and community leaders of each region. This helps us to understand the aspirations of the people and also the hardships that they face in their daily lives, allowing us to come up with projects that ease their suffering.

As a bank that is socially responsible, we earmarked several projects where we felt we could contribute meaningfully and make a genuine difference. This was clearly portrayed in the varying scopes of the different projects we undertook throughout the year. As always, our staff played a key role in each and every one of the projects. Their enthusiasm was contagious as they came out in numbers, taking time away from their busy family lives during weekends and holidays to support all the projects. Such passion for serving the less fortunate was the driving force behind the success of all the projects throughout the year.

Sri Lanka is faced with a deadly disease named Chronic Kidney Disease (CKD) that has primarily affected the people of the North-Central Province and is a threat to the well-being of individuals across other parts of the country as well. One of the causes of CKD is known to be drinking water polluted with various contaminants. Therefore, in order to provide clean drinking water, the Bank donated a much-needed water filter to a CKD-affected village in the Polonnaruwa District, Hingurakgoda Divisional Secretariat Unagalawehera area.

The Bank, together with National Enterprise Development Authority (NEDA), continued last year's series of "Viyavasayaka Athwela" 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. They were conducted in the Colombo, Kandy, Hambantota, Batticaloa and Trincomalee branch areas.

Natural disasters brought numerous hardships to the people of the country during the year. While the authorities responded quickly to most of them, the Bank too played a role in bringing relief to the people during these moments of crisis. In December, we distributed large amounts of dry rations to the people affected by the floods in the Trincomalee District.

Our close bonds with the Leprosy Hospital at Hekiththa, Wattala grew during the course of this year. The Bank picked the hospital as a part of the approach of picking projects that are not generally selected, or sometimes neglected, by other organizations. The Bank staff was instrumental in liaising regularly with the hospital in order to find out their essential requirements, collecting all items and distributing them among the patients of the hospital.

A highly-successful blood donation camp was held at the Bank's Head Office in October. Hundreds of the Bank's staff members turned up to help out with the camp and also donate blood. There was a very positive response from the enthusiastic general public who attended the camp.

Celebrating the religious harmony and ethnic diversity of the staff is a vital aspect of the Bank. This year, too, we were able to light up the lives of those living in predominantly Tamil areas in the Batticaloa and Trincomalee branches by conducting "Deepavali" programmes. The events were well attended by our valued customers in those areas as well as by our own staff.

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 statutes, regulations and social codes of best practices, with regard to the Area of Corporate Governance.

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

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

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

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

.SJMS.

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REPORT ON FACTUAL FINDINGS FOR THE YEAR ENDED 31ST DECEMBER 2014

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 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

28th May 2015

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
	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

3(1)	The responsibilities of the board	Complied status as per management	Findings
	<p>i) Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including:</p> <p>(i) the selection, nomination and election of directors and key management personnel;</p> <p>(ii) the management of conflicts of interests; and</p> <p>(iii) the determination of weaknesses and implementation of changes where necessary.</p>	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.	Yes	None
	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)	<p>Check that the board has appointed the chairman and the Chief Executive Officer (CEO).</p> <p>Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.</p>	<p>The Board has appointed CEO and the position of Chairman is appointed by the Ministry of Finance and Planning.</p> <p>Yes</p>	<p>The CEO is appointed by the Board and the Chairman is appointed by the Ministry of Finance and Planning.</p> <p>None</p>
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

Corporate Governance Contd.

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

3(1)	The responsibilities of the board	Complied status as per management	Findings
Board Meetings Contd.			
3(1)(xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	Yes	None
3(1)(xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	Not arisen yet	None
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	All Directors are appointed to the bank by the Ministry of Finance and Planning. The Bank had developed Director's self-assessment forms to be completed by all Directors annually. However, the completed forms were not available at the time of our inspection.
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

Corporate Governance Contd.

3(2)	The board's Composition	Complied status as per management	Findings
	b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	Yes	None
	c) has been employed by the bank during the two year period immediately preceding the appointment as director.	Yes	None
	d) has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)	Yes	None
	e) represents a specific stakeholder of the bank	Yes	None
	f) is an employee or a director or a material shareholder in a company or business organization: <ul style="list-style-type: none"> 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

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

Corporate Governance Contd.

3(4)	Management functions delegated by the board	Complied status as per management	Findings
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
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.	No such relationship at present. The Management has developed procedure manual that should be followed by the directors to disclose any relationship with the bank.	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 2014 only two board committees have operated - HR & remuneration committee and Board audit committee.</p>	<p>During the financial year 2014 only two board committees have operated - HR & remuneration committee and Board audit committee.</p>
3(6)(ii)	Audit Committee:		
	a) Check that the Chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Yes	None
	b) Check that all members of the committee are non-executive directors.	Yes	None
	c) Check that the committee has made recommendations on matters in connection with: <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	Yes	None
	d) Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	Yes	None
	e) Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	Yes	None
	f) Check that the committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Yes	None

Corporate Governance Contd.

3(6)	Board appointed committees	Complied status as per management	Findings
3(6)(ii)	Audit Committee: Contd.		
	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; 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;	Yes Yes Yes Yes	None None None None

3(6)	Board appointed committees	Complied status as per management	Findings
3(6)(ii)	Audit Committee: Contd.		
	VI. Check that the internal audit function is independent of the activities it audits.	Yes	None
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Yes	None
	l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Yes	None
	m) Check the terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Yes	None
	n) Check that the committee has met, at least four times and maintained minutes.	Yes	None
	o) Check that the board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	Yes	None
	p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Yes	None
	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

Corporate Governance Contd.

3(6)	Board appointed committees	Complied status as per management	Findings
3(6)(ii)	Audit Committee: Contd.		
	b) Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Yes	None
	c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Yes	None
	d) Check that the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Yes	None
3(6)(iv)	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 the Board Human Resources and Remuneration Committee. The Nomination Committee has been formed. However no meeting were held during the year 2014.	None
3(6)(v)	Do the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	No. However, all risk aspects are closely monitored by the board, Board sub committees and management committees.	The Management has established a risk management committee and a Chief Risk Officer was appointed in 2015.
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: <ul style="list-style-type: none"> 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

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

Corporate Governance Contd.

3(7)	Related party transactions	Complied status as per management	Findings
3(7)(iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	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
	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)	Related party transactions	Complied status as per management	Findings
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:		
	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

Corporate Governance Contd.

3(8)	Disclosures	Complied status as per management	Findings
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
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.	Refer integrated risk management note in the Director's Report.	None

Attendance for Board Meetings - 2014

Names	Directorship Status as at 31/12/2014	Number of Meetings held - 2014	Number of Meetings Entitled	Number of Meetings participated
Mr. H. S. Dharmasiri	Non-executive/ Independent Director (Chairman)	12	12	12
Mr. M. M. M. Mowjood	Non-executive/ Independent Director	12	12	12
Mr. S K Pathirana	Non-executive/ Independent Director	12	12	10
Mrs. Visaka Wanasinghe	Non-executive/ Independent Director	12	12	12
Mr. Hector Hemachandra	Non-executive/ Independent Director	12	12	9
Mr. M. K. Nandasiri	Non-executive/ Independent Director	12	12	12
Dr. N. R. Jayathilaka	Non-executive/ Independent Director	12	5	5

Human Resource/ Remuneration Committee Meetings - 2014

Names	Directorship Status as at 31/12/2014	Number of Meetings held - 2014	Number of Meetings Entitled	Number of Meetings participated
Mrs. K. Kulathunga	Non-executive/ Independent Director (Chairman)	08	01	01
Mr. Hector Hemachandra	Non-executive/ Independent Director	08	08	06
Mr. H. S. Dharmasiri	Non-executive/ Independent Director	08	08	08
Mr. A. M. P. M. B. Atapattu	Non-executive/ Independent Director	08	01	0
Mr. M. K. Nandasiri	Non-executive/ Independent Director	08	07	07
Dr. N. R. Jayathilaka	Non-executive/ Independent Director	08	02	02
Mrs. Vishaka Wanasinghe	Non-executive/ Independent Director	08	07	07

Board Audit Committee Meetings - 2014

Names	Directorship Status as at 31/12/2014	Number of Meetings held - 2014	Number of Meetings Entitled	Number of Meetings Participated
Mr. M. M. M. Mowjood	Non-executive/ Independent Director (Chairman)	04	04	04
Mrs. Vishaka Wanasinghe	Non-executive/ Independent Director	04	04	04
Mr. M. K. Nandasiri	Non-executive/ Independent Director	04	04	04

Board Credit Committee Meetings - 2014

Names	Directorship Status as at 31/12/2014	Number of Meetings held - 2014	Number of Meetings Entitled	Number of Meetings Participated
Mr. M. K. Nandasiri	Non-executive/ Independent Director (Chairman)	15	15	15
Mr. M. M. M. Mowjood	Non-executive/ Independent Director	15	15	15
Mrs. Vishaka Wanasinghe	Non-executive/ Independent Director	15	15	12
Dr. N. R. Jayathilaka	Non-executive/ Independent Director	15	08	07

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 development sector are in line with principal activities 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 (CSDDL) with marginal interest rates are much popular among rural community. Bank extends leasing facilities, especially for project oriented purposes. Gold jewellery pawning business is also available targeting small scale income generating activities. In order to inculcate savings habits among entrepreneurs, it is encouraged to gradually build up deposits by customers when they commence banking relationship with us.

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 2014. There are seven shareholders holding ordinary voting shares.

Profits and Appropriations

KPI	2014
Profit for the year ended 31st December before taxation after charging all expenses including depreciation etc.	185,558,739
Provision for Taxation	6,903,018
Profit for the year ended 31st December after taxation.	178,655,721
Transferred to Mandatory Reserves	8,932,786
Dividends paid	36,071,028
Retained profit at the beginning of the year	703,501,585
Retained profit to be carried forward	938,309,575

Human Resources

There were 147 employees serving the Bank as at 31st December 2014.

Grade	2014
General Manager	1
Asst. General Manager	2
Senior Manager	6
Manager	6
Assistant Manager	14
Executive Staff	18
Non-Executive Staff	68
Secretaries and other support staff	32

The staff cadre is 147, 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 and increasing the ability to serve the rural sector of the country. 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 2014 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

- Mrs. Kumuduni Kulatunge, Chairperson, resigned w.e.f. 21st January 2014
- Mr. M. M. M. Moowjood, Director, resigned w.e.f. 16th January 2014
- Mr. T. K. H. Hemachandra, Director, resigned w.e.f. 16th January 2014
- Mr. S. K. Pathirana, Director, resigned w.e.f. 16th January 2014
- Mr. W. A. D. S. Gunasinghe, Director, resigned w.e.f. 21st January 2014
- Mr. A. M. P. M. B. Atapattu, resigned w.e.f. 21st January 2014

Appointment and Reappointment of Directors

Secretary to the Ministry of Finance and Planning appointed/reappointed the following Board members.

- Mr. M. M. M. Moowjood, Director, reappointed w.e.f 30th January 2014
- Mr. T. K. H. Hemachandra, Director, reappointed w.e.f. 30th January 2014
- Mr. S. K. Pathirana, Director, reappointed w.e.f. 30th January 2014
- Ms. W. M. V. Wanasinghe, Director, appointed w.e.f 29th January 2014
- Mr. M. K. Nandasiri, Director, appointed w.e.f 30th January 2014
- Dr. N. R. Jayathilaka, Director, appointed w.e.f 18th August 2014

Composition of Share Holding as at 31st December 2014

KPI	2014
Secretary to the Treasury	36,071,022
Mr. A. de Vass Gunawardena	1
Mr. M.P.T. Cooray	1
Mr. S.R. Attygalle	1
Mr. S.B. Divaratne	1
Mr. R.A. Jayatissa	1
Mr. Sumith Abeysinghe	1
Total	36,071,028

Directors' Interests in Contracts

During the financial year under review directors did not have direct or indirect interest in any contract or proposed contract with the bank. An interest register in terms of the companies act No 07 of 2007 is being maintained.

Directors' Remuneration and Other Benefits

Directors' remuneration for the financial year ended 31st December 2014 is Rs. 1,518,000/=.

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 2014.

Integrated Risk Management

The Risk Management of the Bank was overlooked by the various management/board committees in the absence of an independent risk management function. As recommend by the Statutory Examination Report of Central bank of Sri Lanka, the bank has taken initiatives in February 2015 to establish an Integrated Risk Management function under an Assistant General Manager.

Post Balance Sheet Events

The post balance sheet events are 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 2014 is Rs 636,862.50 (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 reappointment 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


Shivanthi Indrakumar
 Company Secretary
 Colombo

Date: 28th May 2015





**FINANCIAL
INFORMATION**

Audit Committee Report

This report of the Board Audit Committee is prepared and presented in conformity with the directions set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance of 2008 jointly issued by the Security and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The Board Audit Committee was constituted with the overall objective of assisting the Board to fulfill its responsibilities for the financial reporting process, its systems of internal controls, the audit process and the process for monitoring compliance with laws, regulations and code of conduct.

The Committee reviewed and recommended the annual audit coverage, audit scope and follow-up audits and ensured that the functions of the Audit Department were carried out independently and effectively.

The Committee mainly focused on the effectiveness of the Bank's internal controls relating to core areas such as operations, credits and administration and ensures the compliance to the Bank's regulatory requirement.

The division provided 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 were as follows,

- Mr. M.M.M. Mowjood** - Chairman (Audit Committee)
Mr. M.K. Nandasiri - Member
Mrs. W.M.V. Wanasingha - Member

The Committee met regularly during the year with due notice of issues to be discussed and the related papers being provided to them in advance. The Committee held four meetings during the year 2014. The GM/CEO, CFO and Head of Audit and representatives of External Auditors also attended all the meetings.

- The Committee reviewed the progress of the risk-based internal audits and inspections carried out in accordance with the Internal Audit Plan for 2014.
- Reviewed the existing systems and procedures of the Bank periodically and suggested additional controls where necessary.
- Reviewed the Internal Audit findings rated as high risk with a view to take timely action.
- Reviewed the draft annual financial statements during the year focusing on the quality and the relevance of accounting policies and practices.



W.W.R.N. Fernando

Chairman Audit Committee

Appointed w.e.f 25/02/2015

Colombo

28th May 2015

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 statement.
- All documentary requirements imposed by the companies Act. No 07 of 2007 with regard to filing of various returns and documents with registrar of Companies have been duly completed and compliance has been made with all other legal requirements in connection with the said Companies Act.

- Comply with capital measurement and standard of banking regulations and supervisory practices committee. (BASEL Committee). The Central Bank of Sri Lanka has made in mandatory for all licensed 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 74.3 % for Tier 1 and 74.7 % for Tier 2 as at 31 December 2014. These ratios are well above the minimum requirements of the Central Bank of Sri Lanka.
- In maintaining sound operational Banking Practice, the Bank adheres to the recent introduced Anti Money Laundering related legislations such as the Prevention of Money Laundering Act, No.05 of 2006 (PMLA) Convention on the Suppression of Terrorist Financing Act, No.25 of 2005 (CSTFA), Financial Transactions Reporting Act, No.06 of 2006 (FTRA) and rules and regulations stipulated by the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka from time to time. Further the Bank has the following Internal Committees as part of complying with the regulations. The Committees are Corporate Management Committee, Staff Committee, Asset and Liability Committee, Procurement Committee, Internal Management Credit Committee, Technology Policy and Review Committee, Publicity and Promotion Committee and Human Resources and Remuneration Committee.



P.S. Edirisuriya

Compliance Officer

Colombo

28th May 2015

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 72 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



S. Indrakumar

Company Secretary

Colombo

Date: 28th May 2015

.SJMS.

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

SJMS Associates
Chartered Accountants
No. 11, Castle Lane,
Colombo 04, Sri Lanka.
Tel: + 94(11) 2580409, 2503262
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Restructure & Corporate Recovery
Tel: 5364293, 5444420 Fax: 2504008

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

Independent Assurance Report To the Board of Directors of Lankaputhra Development Bank

Introduction

We were engaged by the Board of Directors of Lankaputhra Development Bank (the “Bank”) to provide assurance on the Directors’ Statement of Internal Control (the “Statement”) included in the annual report for the year ended 31st December 2014.

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

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for the Directors: and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 does not require 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 consistent 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

28th May 2015

P.E.A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, 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 the Bank's Internal Control System

RESPONSIBILITY

In line with the Banking Act Direction No. 12 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on internal 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 authorities and management, 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, 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 and 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 identified. 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 31 December 2014 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process and adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

By order of the Board.



K.H.L. Goonewardena
Chairman



S. Indrakumar
Company Secretary



W.W.R.N. Fernando
Director
Chairman – Board Audit Committee

28th May 2015

INDEPENDENT AUDITOR'S REPORT

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 ("the Bank"), which comprise the statement of financial position as at 31st December 2014, 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 information.

Board's responsibility for the financial statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, so far as appears from our examination, the financial statements give a true and fair view of the financial position of the Bank as at 31st December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other legal and regulatory requirements

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

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
 - The financial statements of the Bank, comply with the requirements of section 151 of the Companies Act.



SJMS ASSOCIATES

Chartered Accountants

28th May 2015

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

Statement of Comprehensive Income

For the year ended 31st December 2014

	Note	2014 Rs.	2013 Rs.
Interest income		606,956,903	714,303,873
Interest expense		(64,212,992)	(63,958,036)
Net interest income	4	542,743,911	650,345,837
Fee and commission income	5	1,239,768	1,464,589
Other operating income (net)	6	2,527,214	41,262,358
Total operating income		546,510,893	693,072,785
Impairment loss on financial assets		(53,305,301)	(47,592,532)
Net operating income		493,205,592	645,480,253
Personnel expenses	7	(129,269,722)	(102,818,798)
Premises, equipment and establishment expenses		(115,106,326)	(112,568,437)
Other operating expenses		(27,227,656)	(10,513,597)
Profit before VAT on financial services and income tax		221,601,888	419,579,421
VAT on financial services		(36,043,149)	(48,334,015)
Profit before income tax	8	185,558,739	371,245,406
Income tax expense	9	(6,903,018)	(25,357,338)
Profit for the year		178,655,721	345,888,068
Other comprehensive income		-	-
Total comprehensive income for the year		178,655,721	345,888,068
Earnings per share - basic	10	4.95	9.59

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 2014

	Note	2014 Rs.	2013 Rs.
Assets			
Cash and cash equivalents	12	32,151,146	56,630,028
Financial assets - held-to-maturity	13	138,641,769	137,931,644
Investment in REPOs	14	2,123,030,403	2,225,603,132
Investment in fixed deposits	15	3,342,355,647	3,135,679,291
Investment in unquoted securities	16	2,229,919	2,229,919
Loans and receivables to customers	17	2,068,900,402	1,812,262,410
Intangible assets	18	1,714,626	4,178,909
Property and equipment	19	90,269,146	89,943,262
Other assets	20	111,640,688	128,948,220
Due from branches	22	3,420,514	-
Total assets		7,914,354,260	7,593,406,815
Liabilities			
Deposits from customers	21	379,546,648	228,721,709
Due to branches	22	-	7,623,865
Refinance borrowings	23	2,637,545,570	2,610,661,277
Other liabilities	24	227,978,507	220,409,897
Retirement benefit obligations	25	7,706,508	6,997,733
Total liabilities		3,252,777,233	3,074,414,481
Shareholder's funds			
Stated capital	26	3,671,972,223	3,671,972,223
Statutory reserve fund	27	51,295,229	42,362,443
Investment fund	28	-	101,156,084
Retained earnings		938,309,575	703,501,585
Total shareholders' funds		4,661,577,027	4,518,992,335
Total liabilities and equity		7,914,354,260	7,593,406,815
Commitments and contingencies	30	22,423,067	16,368,593

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 28th May 2015.



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 2014

	Stated capital Rs.	Reserve fund Rs.	Investment fund account Rs.	Retained earnings Rs.	Total Rs.
Balance as at 31st December 2012	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	101,156,084	703,501,585	4,518,992,334
Profit for the year	-	-	-	178,655,721	178,655,721
Transfers during the year	-	8,932,786	19,279,197	(28,211,983)	-
Transfer to retained earnings	-	-	(120,435,281)	120,435,281	-
Dividends paid	-	-	-	(36,071,028)	(36,071,028)
Balance as at 31st December 2014	3,671,972,223	51,295,229	-	938,309,575	4,661,577,027

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. According to the guidelines on the operations of the Investment Fund Account (IFA) issued by the Central Bank of Sri Lanka, the operations of IFA was ceased with effect from 1st October 2014. Accordingly, the Company transferred the remaining balance in IFA to retained earnings through the Statement of Changes in Equity.

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 2014

	2014 Rs.	2013 Rs.
Cash flows from operating activities		
Profit before tax	185,558,739	371,245,406
Adjustment for:		
Non-cash items included in profits before tax (A)	70,423,328	65,034,992
Change in operating assets (B)	(388,897,229)	(646,663,705)
Change in operating liabilities (C)	200,672,145	277,508,006
Dividend income	(488,400)	(244,200)
Contribution paid to defined benefit plans	(491,225)	(346,050)
Tax paid	(41,893,983)	(2,339,158)
Net cash generated from/ (used in) operating activities	24,883,375	64,195,291
Cash flows from investing activities		
Purchase of property, plant and equipment	(13,779,629)	(6,737,770)
Dividends received from investment	488,400	244,200
Net cash generated from/ (used in) investing activities	(13,291,229)	(6,493,570)
Cash flows from financing activities		
Dividend paid to the owners of the parent company	(36,071,028)	(36,071,028)
Net cash (used in) financing activities	(36,071,028)	(36,071,028)
Net increase/(decrease) in cash & cash equivalents	(24,478,882)	21,630,693
Cash and cash equivalents at the beginning of the year	56,630,028	34,999,335
Cash and cash equivalents at the end of the year (D)	32,151,146	56,630,028
(A) Non-cash items included in profit before tax		
Depreciation of property, plant and equipment	13,453,744	13,291,851
Amortisation of intangible assets	2,464,283	2,443,271
Impairment losses on loans and advances	53,305,301	47,592,532
Charge for defined benefit plans	1,200,000	1,200,000
Loss on disposal of PPE	-	507,338
	70,423,328	65,034,992

<i>For the year ended 31st December 2014</i>	2014 Rs.	2013 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	(104,813,752)	(662,773,170)
Net increase in leases	(111,620,126)	(2,357,637)
Net (increase)/ decrease in loans and advances to customers	(198,323,169)	74,693,072
Due from branches	(3,420,514)	-
Change in pre-payments and accrued income	29,280,331	(56,225,970)
	(388,897,229)	(646,663,705)
(C) Change in operating liabilities		
Change in deposits from banks, customers and debt securities issued	177,709,233	272,229,463
Due to branches	(7,623,865)	7,623,865
Change in accruals and deferred income	30,586,777	(2,345,322)
	200,672,145	277,508,006
(D) Reconciliation of cash & cash equivalents		
Cash in hand	11,918,566	14,975,425
Banks balances	20,232,580	41,654,603
	32,151,146	56,630,028

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 2014

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 2014 were authorised for issue in accordance with the resolution of the Board of Directors on 28th May 2015.

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.

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 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

Summary of Significant Accounting Policies Contd.

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

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

3.2 Cash and cash equivalents

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

3.3 Financial assets – recognition and measurement

3.3.1 Date of recognition

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

3.3.2 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 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.

Summary of Significant Accounting Policies Contd.

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 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.

Summary of Significant Accounting Policies Contd.

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 5 years

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 3.3.6.

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 in to financial liabilities at fair value through profit or loss (FVTPL) or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

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

i. Financial liability at FVTPL

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

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

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

ii. Other financial liabilities

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

3.6.2 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.

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.

3.7.2 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.

Summary of Significant Accounting Policies Contd.

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.

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 Adoption of new Sri Lanka Accounting standards

3.15.1 The following Sri Lanka Accounting Standard was issued by the Institute of Chartered Accountants of Sri Lanka and was effective for the periods commencing on or after 01st January 2014.

SLFRS 13-Fair Value Measurement

SLFRS 13 establishes a single source of guidance for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides the guidance how to measure fair value under other standards when fair value is required or permitted. The Bank did not have any material impact from the implementation of SLFRS 13 and necessary disclosures required by the new standard have been included in the notes to the financial statements.

3.15.2 The following Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, which was effective for the periods commencing on or after 01st January 2014 did not have any impact on the Bank's financial statements

- SLFRS 10-Consolidated Financial Statements
- SLFRS 11-Interests in Joint Arrangements
- SLFRS 12-Disclosure of Interests in Other Entities

3.16 New Accounting Standards issued but not yet effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new Accounting Standards that have an effective date in the future and have not yet been applied in preparing the financial statements for the year ended 31st December 2014. 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 14 – Regulatory Deferral Accounts
- SLFRS 15 – Revenue from Contracts with Customers

Notes to the Financial Statements

For the year ended 31st December 2014

4. Net interest income

	2014 Rs.	2013 Rs.
Interest income		
Financial assets - held-to-maturity	10,559,316	26,244,953
Investment in REPOs	170,888,456	218,416,096
Investment in fixed deposits	213,366,024	184,664,892
Investment in other debt instruments	-	30,564,248
Income from leases	17,494,900	14,836,972
Loans and advances to customers	194,287,424	234,298,513
Other loans & receivables	360,783	5,278,199
	606,956,903	714,303,873
Interest expense		
Deposits from customers	16,686,949	13,603,321
Refinance borrowings	47,526,043	50,354,715
	64,212,992	63,958,036
Net Interest Income	542,743,911	650,345,837

5. Fee & commission income

Commission income - guarantees	140,422	141,461
Commission income - letters of credit	37,926	-
Registration fees	(10,481)	146,500
Legal fees income	1,004,790	1,146,159
Commission income - miscellaneous	48,895	10,722
Commission income - Western Union	18,216	19,748
	1,239,768	1,464,589

6. Other Income

	2014 Rs.	2013 Rs.
Rent income	1,635,000	1,448,000
Gain on foreign currency revaluation	-	39,416,143
Sundry income	403,814	661,352
Dividend income	488,400	244,200
Profit / (loss) on sale of fixed assets	-	(507,337)
	2,527,214	41,262,358

7. Personnel Expenses

Salary and allowance	101,464,770	72,383,848
Contributions to defined contribution/benefit plans	10,236,436	10,299,344
Provision for staff retirement benefits	1,200,000	1,200,000
Others	16,368,517	18,935,606
	129,269,722	102,818,798

8. Profit before Income Tax

	2014 Rs.	2013 Rs.
The profit before income tax is stated after charging all expenses including the following:		
Directors' emoluments	1,518,000	1,489,500
Salary and allowance	101,464,770	72,383,848
Employees' Provident Fund contributions	8,530,213	8,582,787
Employees' Trust Fund contributions	1,706,223	1,716,557
Legal expenses	3,676,554	1,988,427
Depreciation	13,450,619	13,291,852
Amortization of intangible assets	2,464,283	2,443,271
Auditor's remuneration - audit services	636,862	600,000
Auditor's remuneration - non audit services	301,507	-
Donations	1,008,030	523,500

9. Income tax Expenses

Income tax expense	-	25,357,338
Under provision of previous year's taxes	6,903,018	-
	6,903,018	25,357,338

Notes to the Financial Statements Contd.

For the year ended 31st December 2014

9.1 Reconciliation of the total tax charge

A reconciliation between the tax expense and the accounting profit for the years ended 31st December 2014 and 2013 are as follows:

	2014 Rs.	2013 Rs.
Tax effect on profit before tax	-	93,115,667
Tax effect on disallowable expenses	-	40,100,189
Tax effect on deductible expenses	-	(29,688,206)
Tax effect on adjusted profit for tax purposes	-	103,527,651
Tax effect on income from other sources	-	-
Tax effect of assessable income	-	103,527,651
Less: Tax effect on qualifying payments	-	(129,080)
Tax for the year	-	103,398,571
Income tax on current year's profit @ 28% - 1st January 2013 to 31st March 2013 apportioned based on the interest income	-	25,357,338

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.

	2014 Rs.	2013 Rs.
Profit attributable to equity holders	178,655,721	345,888,068
Number of shares used as denominator	36,071,028	36,071,028
Basic earnings per share (Rs.)	4.95	9.59

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 31.12.2014

	Held for trading	Amortised cost	Held to maturity	Available for sale	Total
Financial Assets					
Cash and cash equivalents	32,151,146	-	-	-	32,151,146
Financial assets - Held-to-maturity	-	-	138,641,769	-	138,641,769
Investment in REPOs	-	2,123,030,403	-	-	2,123,030,403
Investment in fixed deposits	-	3,342,355,647	-	-	3,342,355,647
Investment in unquoted securities	-	-	-	2,229,919	2,229,919
Loans and receivables to customers	-	2,068,900,402	-	-	2,068,900,402
Due to branches	-	3,420,514	-	-	3,420,514
Total Financial Assets	32,151,146	7,537,706,966	138,641,769	2,229,919	7,710,729,800
Financial Liabilities					
Deposits from customers	-	379,546,648	-	-	379,546,648
Refinance borrowings	-	2,637,545,570	-	-	2,637,545,570
Total Financial Liabilities	-	3,017,092,218	-	-	3,017,092,218

11.2 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 branches	-	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

12. Cash and cash equivalents

	31.12.2014 Rs.	31.12.2013 Rs.
Cash in hand	11,918,566	14,975,425
Bank balances	20,232,580	41,654,603
	32,151,146	56,630,028

Notes to the Financial Statements Contd.

For the year ended 31st December 2014

13. Financial assets - held-to-maturity

	31.12.2014 Rs.	31.12.2013 Rs.
Treasury bills held to maturity	138,641,769	137,931,644
	138,641,769	137,931,644

14. Investment in REPOs

Treasury bills under repurchase agreement	2,123,030,403	2,225,603,132
	2,123,030,403	2,225,603,132

15. Investment in fixed deposits

Bank of Ceylon USD	2,422,419,788	2,270,891,728
Bank of Ceylon LKR	919,935,858	864,787,563
	3,342,355,647	3,135,679,291

16. Investment in unquoted securities

	No of shares	Cost 31.12.2014	Director's valuation 31.12.2014	No. of shares	Cost 31.12.2013	Director's valuation 31.12.2013
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	2,229,919
Net carrying amount of unquoted investment securities		<u>2,229,919</u>			<u>2,229,919</u>	

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

17. Loans and receivables to customers

		31.12.2014 Rs.	31.12.2013 Rs.
Loans and advances	17.1	2,901,470,835	2,631,568,256
Leases	17.2	219,818,187	108,198,062
Staff loans		4,636,306	6,010,318
Staff housing loans		70,892,022	41,001,977
Staff computer loan		410,010	-
		3,197,227,360	2,786,778,613
Interest in suspense		(465,364,692)	(364,859,240)
Allowance for impairment losses	17.3	(662,962,265)	(609,656,964)
		2,068,900,402	1,812,262,410

17.1 Loans and receivables to customers

Working capital loans	204,092,348	173,093,592
Project loan	1,663,211,479	1,784,878,019
Short term loans	272,259,463	67,858,472
Krusha Nawodaya loans	4,491,248	5,021,763
Micro Credit Finance loans	420,173,717	326,211,540
Kapruka Ayojana loans	1,030,339	1,902,746
Agro Livestock Development loans	17,692,132	33,642,164
Special loans	1,473,819	1,534,559
Anturium loans	3,286,930	4,279,812
Big onion loans	398,883	897,722
Mahaweli loans	15,487,216	17,990,981
New Comprehensive Rural credit scheme (NCRS)	74,097,309	21,969,642
Lakkam loan	255,671	773,968
Saubagya loan - Micro, Small & Medium Enterprises (MSME)	478,506	681,027
Saubagya loan - affected Micro, Small & Medium Enterprises (A-SME)	21,801,476	11,207,217
Poverty Alleviation Micro Finance Project loan (PAMP II)	2,720,381	4,318,098
Kadurata Navodaya loan	98,880	257,867
Shastree loan	9,791,671	11,019,671
Viskam loan	45,059,406	58,394,728
Pawning	51,629,743	83,641,501
Computer loan scheme	7,132,601	9,606,972
Aya Saviya	13,510,491	12,386,196
CSDD loan	71,244,129	-
Gurantee claims	53,000	-
	2,901,470,835	2,631,568,256

17.2 Leases

Gross rentals receivable	277,182,715	135,809,845
Unearned income	(57,364,528)	(27,611,783)
	219,818,187	108,198,062

Notes to the Financial Statements Contd.

For the year ended 31st December 2014

17.2.1 Rentals receivable on leased assets

	31.12.2014 Rs.	31.12.2013 Rs.
Not later than one year		
Gross investment in leases	96,878,241	75,432,798
Unearned interest income	(30,659,563)	(11,015,557)
	66,218,678	64,417,241
Later than one year and not later than five years		
Gross investment in leases	180,304,474	60,377,047
Unearned interest income	(26,704,965)	(16,596,226)
	153,599,509	43,780,821

17.3 Movement in impairment allowance for loans and receivable

	2014 Rs.	2013 Rs.
As at 1st January	609,656,964	562,064,432
Charge for the year	53,305,301	47,592,532
As at 31st December	662,962,265	609,656,964

18. Intangible Assets

Computer Software

Cost		
As at 1st January	26,162,456	26,162,456
Additions	-	-
As at 31st December	26,162,456	26,162,456
Accumulated amortisation		
As at 1st January	21,983,547	19,540,276
Amortisation during the year	2,464,283	2,443,271
As at 31st December	24,447,830	21,983,547
Net book value	1,714,626	4,178,909

19. Property plant and equipment

	31.12.2014 Rs.	31.12.2013 Rs.
Cost	226,255,900	212,476,271
Accumulated depreciation	(135,986,753)	(122,533,010)
	90,269,146	89,943,261

19.1

	As at 01.01.2013 Rs.	Additions Rs.	Disposals during the year Rs.	As at 31.12.2013 Rs.	Additions Rs.	Disposals during the year Rs.	As at 31.12.2014 Rs.
Cost							
Land	15,000,000	-	-	15,000,000	-	-	15,000,000
Building	18,034,049	-	-	18,034,049	-	-	18,034,049
Referishment	17,580,596	1,595,470	930,569	18,245,497	464,760	-	18,710,257
Motor vehicles	30,645,160	190,400	-	30,835,560	9,680,000	-	40,515,560
Office & electrical equipment	53,554,454	1,618,371	-	55,172,825	548,371	-	55,721,196
Computer equipment	52,457,014	576,899	-	53,033,913	2,433,852	-	55,467,765
Furniture & fittings	18,823,273	2,546,730	35,000	21,335,003	652,646	-	21,987,649
Other assets	609,524	209,900	-	819,424	-	-	819,424
Total	206,704,070	6,737,770	965,569	212,476,271	13,779,629	-	226,255,900
Accumulated depreciation							
Building	6,670,445	1,202,871	-	7,873,316	1,202,871	-	9,076,187
Lease hold improvements	3,120,461	1,205,197	430,524	3,895,134	1,225,758	-	5,120,892
Motor vehicles	29,834,962	460,397	-	30,295,359	885,038	-	31,180,397
Office & electrical equipment	18,608,811	5,420,895	-	24,029,706	5,533,243	-	29,562,949
Computer equipment	43,061,676	2,979,297	-	46,040,973	2,428,987	-	48,469,959
Furniture & fittings	8,403,035	2,023,195	27,708	10,398,522	2,177,847	-	12,576,369
Other assets	-	-	-	-	-	-	-
Total	109,699,390	13,291,852	458,232	122,533,010	13,453,744	-	135,986,753
Written down value	97,004,680			89,943,261			90,269,146

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 2014

19.2 Fully depreciated property, plant & equipment

	31.12.2014 Rs.	31.12.2013 Rs.
Motor vehicles	30,137,320	28,043,075
Computer equipment	40,613,898	40,686,149
Furniture & Fittings	162,231	
	70,913,448	68,729,224

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 2014

20. Other assets

	2014 Rs.	2013 Rs.
Deposits and prepayments	62,767,660	85,264,660
Tax receivable	15,168,142	3,195,342
Staff advance receivable	268,250	235,250
Prepaid staff cost	33,436,636	40,252,967
	111,640,688	128,948,220

20.1 Pre-paid staff cost

As at 1st January	40,252,967	32,918,698
SLFRS adjustment - new grants and settlements	7,831,109	11,404,517
SLFRS adjustment - charge to staff cost	(14,647,439)	(4,070,248)
As at 31st December	33,436,636	40,252,967

21. Deposits from customers

	31.12.2014 Rs.	31.12.2013 Rs.
Savings deposits	264,992,289	183,268,200
Time deposits	92,252,860	45,453,509
Margin accounts	22,301,500	
	379,546,648	228,721,709

22. Due from/(to) branches

Due from/(to) branches	3,420,514	(7,623,865)
	3,420,514	(7,623,865)

23. Refinance borrowings

	31.12.2014	31.12.2013
	Rs.	Rs.
GOSL loan -SLR	203,180,520	213,827,788
Mahaweli loan	60,196,760	58,196,760
GOSL loan - USD	2,092,613,162	2,046,404,379
Modernization of Small and Medium Garment Enterprises loan	5,455,200	10,909,600
Saubhagya loan	38,324,908	37,312,939
Poverty Alleviation Micro Finance Project loan	334,750	5,457,650
Viskam loan	22,940,270	31,052,161
Treasury fund for credit guarantee	214,500,000	207,500,000
	2,637,545,570	2,610,661,277

24. Other liabilities

	31.12.2014	31.12.2013
	Rs.	Rs.
Accrued expenditure	50,962,066	14,361,769
Other payable	24.1 174,134,631	173,634,631
Financial services VAT payable	2,881,810	9,395,317
Tax payable	-	23,018,180
	227,978,507	220,409,897

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)	(555,865,369)	(556,365,369)
	174,134,631	173,634,631

“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 2014

25. Retirement benefit plan

	31.12.2014 Rs.	31.12.2013 Rs.
Opening defined benefit obligation	6,997,733	6,143,783
Current service cost	1,200,000	1,200,000
Benefits paid	(491,225)	(346,050)
Closing defined benefit obligation	7,706,508	6,997,733

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. The latest actuarial valuation of the gratuity liabilities has been carried out by Actuarial & Management Consultants (Pvt) Ltd as at 31st December 2012. The actuarial liability as at 31st December 2013 was Rs.5,337,1156/-. A discount rate and future salary increment rate of 11% and 3% respectively were used in the actuarial valuation of gratuity liability.

26. Stated capital

	31.12.2014 Rs.	31.12.2013 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	42,362,443	25,068,040
Transferred during the year	8,932,786	17,294,403
As at the end of the year	51,295,229	42,362,443

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

	31.12.2014 Rs.	31.12.2013 Rs.
Balance as at the beginning of the year	101,156,084	69,775,757
Transferred during the year	19,279,197	31,380,327
Transferred to retained earnings	(120,435,281)	-
Balance as at the end of the year	-	101,156,084

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

According to the guidelines on the operations of the Investment Fund Account (IFA) issued by the Central Bank of Sri Lanka, the operations of IFA was ceased with effect from 1st October 2014. Accordingly, the Company transferred the remaining balance in IFA to retained earnings through the Statement of Changes in Equity.

Notes to the Financial Statements Contd.

For the year ended 31st December 2014

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	138,641,769	-	-	-	-	138,641,769
Repurchase agreements	2,123,030,403	-	-	-	-	2,123,030,403
Due from banks	-	-	-	-	-	-
Investment securities	-	-	-	-	2,229,919	2,229,919
Investment fixed deposits	621,158,795	2,721,196,852	-	-	-	3,342,355,647
Loans & advances	262,090,479	347,822,700	616,013,114	571,199,947	271,774,161	2,068,900,402
	3,144,921,446	3,069,019,552	616,013,114	571,199,947	274,004,080	7,675,158,140
Non-interest bearing assets						
Cash & short term funds	32,151,146	-	-	-	-	32,151,146
Other assets	58,739,511	7,334,165	11,604,150	-	37,383,374	115,061,200
Property, plant & equipment	-	-	-	-	90,269,149	90,269,149
Intangible asset	-	-	-	-	1,714,626	1,714,626
	90,890,657	7,334,165	11,604,150	-	129,367,149	239,196,121
Total assets	3,235,812,103	3,076,353,717	627,617,264	571,199,947	403,371,229	7,914,354,260
Liabilities						
Interest bearing liabilities						
Deposits	69,529,870	44,927,046	29,013	-	265,060,719	379,546,648
Refinance borrowings	18,047,145	32,983,445	79,359,795	44,665,780	2,462,489,406	2,637,545,571
	87,577,015	77,910,490	79,388,808	44,665,780	2,727,550,125	3,017,092,219
Non-Interest bearing liabilities						
Other liabilities	53,843,876	25,000,000	25,000,000	-	131,841,139	235,685,015
Stated capital	-	-	-	-	3,671,972,223	3,671,972,223
Reserves	-	-	-	-	989,604,804	989,604,804
	53,843,876	25,000,000	25,000,000	-	4,793,418,166	4,897,262,042
Total liabilities	141,420,891	102,910,490	104,388,808	44,665,780	7,520,968,290	7,914,354,260

30. Commitments and contingencies

Capital commitments

Commitments on direct advances

	31.12.2014 Rs.	31.12.2013 Rs.
Undrawn credit facilities	13,700,000	8,467,700

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	8,723,067	7,900,893
	22,423,067	16,368,593

Litigation against the bank

There is no material litigation against the bank except pending appeal of labour tribunal matter by former Chief Legal Officer as at the reporting date.

The bank has deposited Rs.3,000,000/- on account of the said appeal matter and however, the financial implications of the above matter cannot be determined at the movement based on the circumstances.

31. Assets pledged

The following assets have been pledged as security for liabilities.

	31.12.2014 Rs.	31.12.2013 Rs.
Treasury bills held to maturity	140,000,000	140,000,000
Fixed deposits	432,000,000	432,000,000
	572,000,000	572,000,000

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.	2013 Rs.
Compensation paid to key management personnel	1,518,000	1,489,500

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	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Balance Sheet				
Assets				
Money at short notice	-	-	185,980	183,296
Due from banks	-	-	20,232,580	-
Loans and advances	-	-	-	-
Investments in Government treasury bills	-	-	135,810,220	133,619,640
Repurchase agreements	-	-	2,111,209,087	2,203,513,877
Investments in securities	-	-	-	-
Investment in fixed deposits	-	-	3,241,252,229	3,074,389,165
Other assets-prepaid interest on GOSL loan-USD	44,692,466	61,560,248	-	-
Liabilities				
Deposits	-	-	7,000,000	7,022,072
Refinance loans	-	-	111,599,928	73,822,750
Other liabilities	2,440,269,768	392,044,231	-	-
Off balance sheet items				
Guarantees/ collateral given	-	-	-	-
Income statement				
Interest Income earned from Related Parties	-	-	395,174,579	455,948,169
Interest Paid to Related Parties	36,086,355	46,348,765	3,551,965	44,848,367
Expenses relating to Services Obtained/ Taxes	-	-	48,982,299	180,826,835

Entities either controlled or in which significant influence is held by the state include Bank of Ceylon, Regional Development Bank, Central Bank of Sri Lanka, Employees Provident Fund, Department of Inland Revenue, Employees Trust Fund Board, Land Reform Commission.

Notes to the Financial Statements **Contd.**

For the year ended 31st December 2014

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.

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

Computation of Capital Adequacy Ratio

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.

<i>as at 31st December</i>	2014		2013	
	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	135,810	-	133,620	-
Claims on Foreign sovereigns and their Central Banks	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-
Claims on official entities and Multilateral Development Banks(MDBs)	-	-	-	-
Claims on Banks Exposures	3,296,401	689,847	5,318,084	2,814,178
Claims on Finance Companies and Primary dealers	2,076,209	2,076,209	-	-
Claims on Corporates	113,299	113,299	665,566	673,661
Retail claims	1,395,415	1,395,415	646,805	646,805
Claims Secured by Residential Property	-	-	-	-
Claims Secured by Commercial Real Estate	-	-	-	-
Non Performing Assets(NPAs)	599,029	767,222	562,039	776,981
Non Performing Assets Secured by Residential Property	-	-	-	-
Higher Risk Categories	-	-	-	-
Cash Items	11,919	-	14,975	-
Other Assets	311,506	311,506	336,812	336,812
	7,939,588	5,353,498	7,677,901	5,248,427

Capital Adequacy Contd.

	Credit Conversion Factor %	2014		2013	
		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	3,771	3,771	4,901	4,901
Documentary Letters of Credit	100	1,952	1,952	-	-
Undrawn Term Loans	20	13,700	2,740	8,468	1,694
Others (Other Commitments with an Original Maturity of over one year)	50	3,000	1,500	3,000	1,500
		22,423	9,963	16,369	8,095

	2014	2013
Risk-Weighted Amount for Operational Risk		
Average Net Income for Last Three Financial Years	614,082	572,988
Less: Realized profits from the sale of securities in the banking book Extraordinary / irregular item of income		-
Gross Income	614,082	572,988
Total Capital Charge for Operational Risk = (Gross Income*15%)	92,112	85,948
Total Risk-Weighted Amount for Operational Risk (Total Capital Charge for Operational Risk x 10)	921,123	859,482
Calculation of Total Risk-Weighted Amount		
Risk-Weighted Amount for Credit Risk	5,353,498	5,248,437
Risk-Weighted Amount for Market Risk	-	-
Risk-Weighted Amount for Operational Risk	921,123	859,482
	6,274,621	6,107,919

Calculation of Total Capital Base

	31.12.2014	31.12.2013
	Rs.	Rs.
Core Capital (Tier I)		
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	51,295	42,362
Published Retained Profits / (Accumulated Losses)	938,310	703,502
General and Other Reserves	-	101,156
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	-	-
	4,661,577	4,518,992
Supplementary Capital (Tier II)		
Revaluation Reserves (as approved by CBSL)	-	-
General Provisions	27,066	21,533
Hybrid (debt/equity) Capital Instruments	-	-
Approved Subordinated Term Debt	-	-
Actual Amount of Approved Subordinated Term Debt	-	-
	27,066	21,533
Capital Base (Tier I + Tier II)	4,688,643	4,540,525
Core Capital Ratio (Minimum Ratio – 5%)	74.3%	73.99%
$\frac{\text{Core Capital (Tier I)} \times 100}{\text{Total Risk Weighted Assets}}$		
Total Capital Ratio (Minimum Ratio – 10%)	74.7%	74.34%
$\frac{\text{Capital Base} \times 100}{\text{Total Risk Weighted Assets}}$		

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

For the year ended 31st December	31.12.2014 Rs.	31.12.2013 Rs.
Shareholders' Fund	4,661,577,042	4,518,992,334
Accumulated Provision for Credit Losses	1,128,326,957	974,516,204
	5,789,903,999	5,493,508,538
Profit Attributable to Shareholders	178,655,721	345,888,068
Provision for Credit Losses	53,305,301	47,592,532
Less: Actual Credit Loss Written Off		-
	231,961,022	393,480,600
Economic Cost % (**)	9.30%	12.63%
Economic Cost %	538,461,072	693,830,128
Economic Value Addition	(306,500,050)	(300,349,528)

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

	2014 Rs.	%	2013 Rs.	%
Value Added				
Income Earned	610,723,885		757,030,820	
Cost of Services	198,420,734		173,748,215	
Value Added by Banking Services	412,303,152		583,282,605	
Less: Provision for Loan Losses	(53,305,301)		(47,592,532)	
Provision for Impairment of Investments			-	
	358,997,850		535,690,073	
Distribution of Value Added				
To Employees				
Salaries, Wages and Other Benefits	123,945,341		102,818,798	
	123,945,341	34.5%	102,818,798	19.2%
To Providers of Capital				
Dividends to Shareholders	36,071,028		36,071,028	
	36,071,028	10.0%	36,071,028	6.7%
To Government				
Income Tax	6,903,018		25,357,338	
Value Added Tax on Financial Services	36,043,149		48,334,015	
	42,946,167	12.0%	73,691,353	13.8%
For Expansion and Growth Retained in the Bank				
Retained Income	142,584,693		309,817,040	
Depreciation/Amortization	13,450,619		13,291,852	
	156,035,312	43.5%	323,108,892	60.3%
	358,997,850		535,690,073	100.0%

Sources and Distribution of Income

Calculation of Total Capital Base

	31.12.2014 Rs.	31.12.2013 Rs.
Sources of Income		
Interest Income	606,956,903	714,303,873
Fees, Commission and other Income	3,766,982	42,726,947
	610,723,885	757,030,820
Distribution of Income		
To Depositors and to providers of Loans as Interest	64,212,992	63,958,036
To Employees as Emoluments	123,945,341	102,818,798
Depreciation set aside	13,450,619	13,291,852
Provision for Possible Loan Losses	53,305,301	47,592,532
To providers of supplies and Services	134,207,742	109,790,179
To Government as Taxation	42,946,167	73,691,353
- Income Tax (Including Deferred Tax)	6,903,018	25,357,338
- Financial Services VAT	36,043,149	48,334,015
To Shareholders as Dividends	36,071,028	36,071,028
To Reserves	142,584,693	309,817,040
	610,723,885	757,030,820

Three Year Summary

Description	2014 Rs.	2013 Rs.	2012 Rs.
PROFIT & LOSS			
Total Income	610,723,885	757,030,820	664,935,462
Interest Income	606,956,903	714,303,873	603,081,970
Interest Expenses	(64,212,992)	(63,958,036)	(59,478,303)
Net Interest Income	542,743,911	650,345,837	543,603,667
Other Income	3,766,982	42,726,947	61,853,492
Total operating income	546,510,893	693,072,784	605,457,159
Impairment loss on financial assets	(53,305,301)	(47,592,532)	(47,897,826)
Net operating income	493,205,592	645,480,252	557,559,333
Personal expenses	(129,269,722)	(102,818,798)	(100,517,656)
Premises, equipment and establishment expenses	(115,106,326)	(112,568,437)	(108,528,185)
Other operating expenses	(27,227,656)	(10,513,597)	(10,436,613)
	221,601,887	419,579,420	338,076,879
VAT on Financial Services	(36,043,149)	(48,334,015)	(44,027,771)
Profit Before Taxation	185,558,738	371,245,405	294,049,108
Tax on Profit	(6,903,018)	(25,357,338)	(75,839,007)
Profit After Taxation	178,655,721	345,888,067	218,210,101
ASSETS			
Cash and Cash Equivalents	32,151,146	56,630,028	37,207,216
Financial assets-held-to-maturity	138,641,769	137,931,644	471,221,627
Investment in REPO's	2,123,030,403	2,225,603,132	1,062,129,727
Investment in Fixed Deposits	3,342,355,647	3,135,679,291	1,818,854,593
Investment in other debt instruments	0	0	1,484,234,950
Investment in unquoted securities	2,229,919	2,229,919	2,229,919
Loans and receivables to customers	2,068,900,402	1,812,262,409	1,932,190,376
Intangible assets	1,714,626	4,178,909	6,622,180
Property, Plant & Equipment	90,269,146	89,943,261	97,004,680
Due from branches	3,420,514	-	-
Other Assets	111,640,687	128,948,220	72,722,250
Total Assets	7,914,354,260	7,593,406,814	6,984,417,519
LIABILITIES			
Deposits	379,546,648	228,721,709	241,611,539
Amounts Due to Banks	-	7,623,865	2,207,881
Refinance Borrowings	2,637,545,570	2,610,661,277	2,325,541,984
Other Liabilities	227,978,507	220,409,897	199,737,039
Retirement benefit obligation	7,706,508	6,997,733	6,143,783
Total Liabilities	3,252,777,233	3,074,414,481	2,775,242,226
SHAREHOLDERS' FUNDS			
Stated Capital	3,671,972,223	3,671,972,223	3,671,972,223
Statutory reserve fund	51,295,229	42,362,443	25,068,040
Investment fund	-	101,156,083	69,775,756
Retained earning	938,309,590	703,501,585	442,359,274
Total Shareholders' Fund	4,661,577,027	4,518,992,334	4,209,175,293
Total Liabilities and Shareholders' Fund	7,914,354,260	7,593,406,815	6,984,417,519
Liquid Assets Ratio	1146.20%	1341.48%	793.20%
Capital Adequacy Ratio - Tier 1	74.29%	73.99%	86.06%
- Tier 2	74.72%	74.34%	86.40%

The Annual General Meeting

The 9th Annual General Meeting of Lankaputhra Development Bank Ltd. will be held on Tuesday 30th June 2015 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 30th June 2015 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 2014 and the Report of the Auditors.	In favour / Against *
To appoint Auditors for the year 2015 and to authorize the Board of Directors to determine their remuneration.	In favour / Against *

* Please select whatever is required and delete others.

Signed on this day of2015

.....
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

S. Indrakumar

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 இயைந்தமரப்பு
THE HEARTBEAT OF SRI LANKA



ලංකාපුත්‍ර සංවර්ධන බැංකුව
லங்காபுத்தர் அபிவிருத்தி வங்கி
LANKAPUTHRA DEVELOPMENT BANK

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