



# DREAM BIG

ANNUAL  
REPORT  
2014

SRI LANKA SAVINGS BANK





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CORPORATE  
PHILOSOPHY

# CORPORATE INFORMATION

## Registered Name

Sri Lanka Savings Bank Limited

## Legal Status

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

## Registered Office

No: 265, Ward Place, Colombo 07.

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

Facsimile : 0112674704 /5 /6

E mail : slsbl@sltnet.lk

## Date of Incorporation

7th July 2006.

## Company Secretary

Mrs. R. Kularatne ,  
Attorney-at Law,  
Notary Public.

## Auditors

SJMS Associates & Company  
Chartered Accountants  
No: 2, Castle Lane, Colombo 4.

## Bankers

Bank of Ceylon  
Peoples Bank

## Board of Directors

Mr. K. Amarasinghe - Working Director & Acting Chairman  
Mrs. S.A.C. Kulatillake  
Mr. Sunil Witharanage  
Mr. A. Sashimal Madapatha  
Mr. Shanthilal Condegamage  
Mr. Hiran vichakshana  
Mr. Prasanga N Perera  
Ms. Dushyanthi Wickramarachchi  
Mr. Sam Samarasinghe  
Mr. Y.G.P. Dayananda  
Mr. S. Lankeshwara

VISION  
MISSION &  
VALUES

## OUR VISION

To be the leading banker in Micro Finance

## OUR MISSION

Whilst inculcating the savings habit, providing financial and non financial resources to different sectors of economy with micro-enterprise sector in particular.

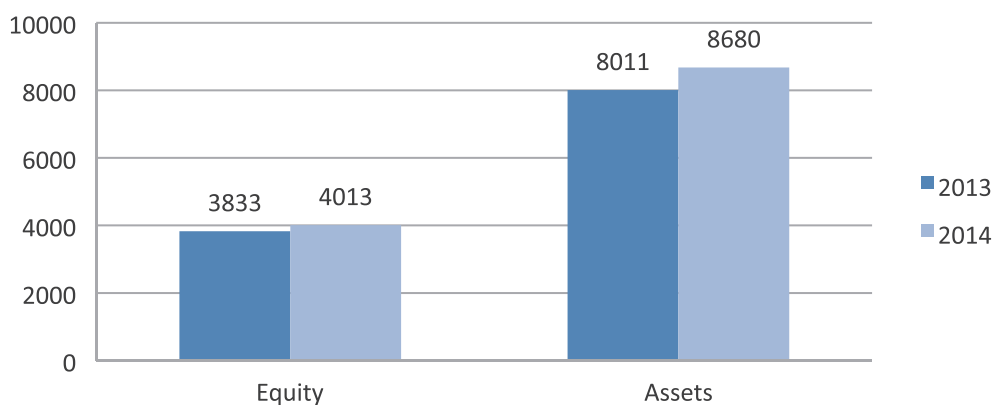
## OUR VALUES

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

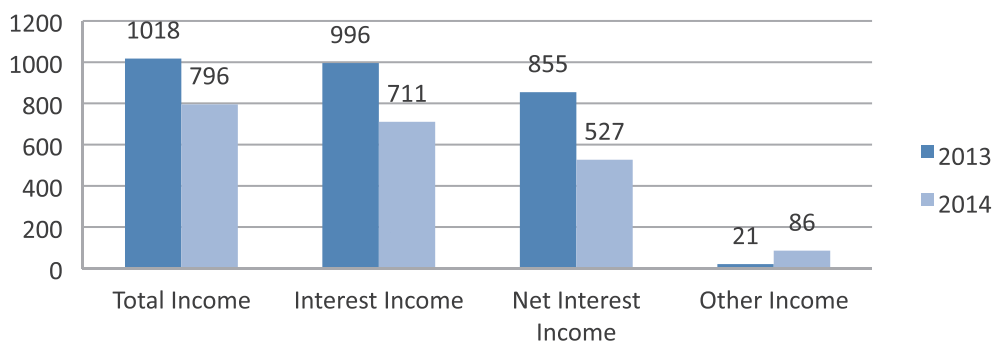
- Professionalism
- Integrity
- Efficiency
- Trust
- Openness
- Social Responsibility

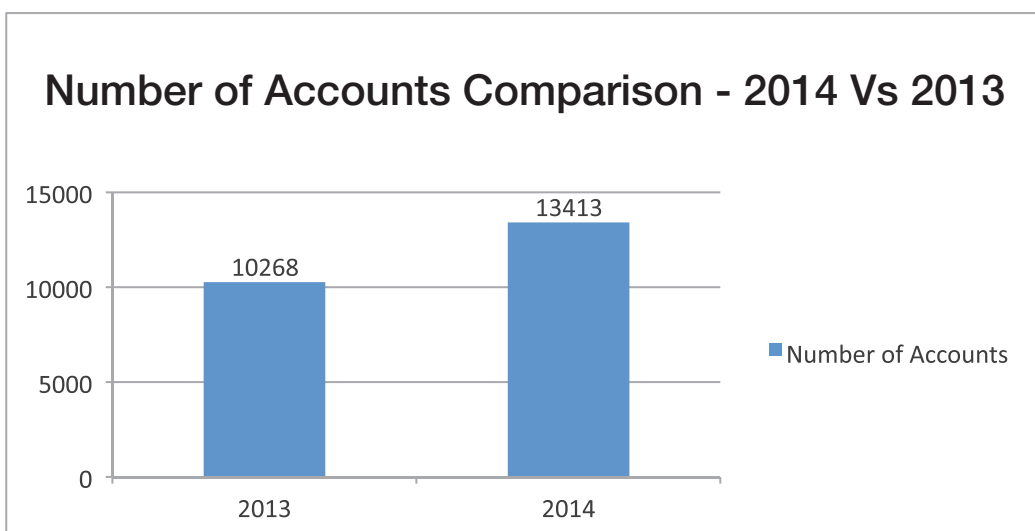
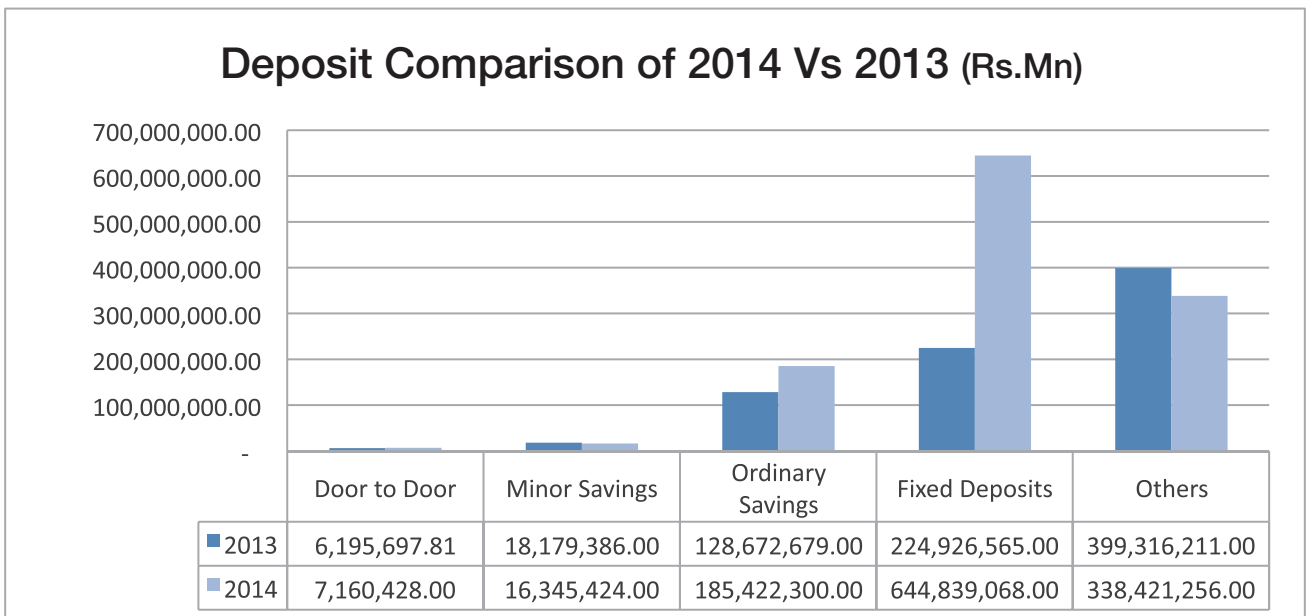
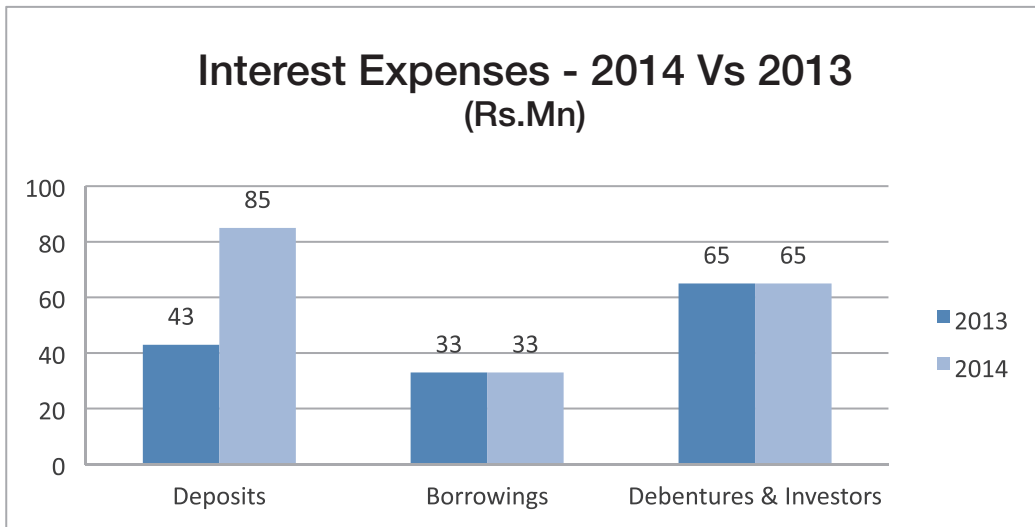
**FINANCIAL  
HIGHLIGHTS**

**Total Equity and Assets 2014 Vs 2013 (Rs.Mn)**



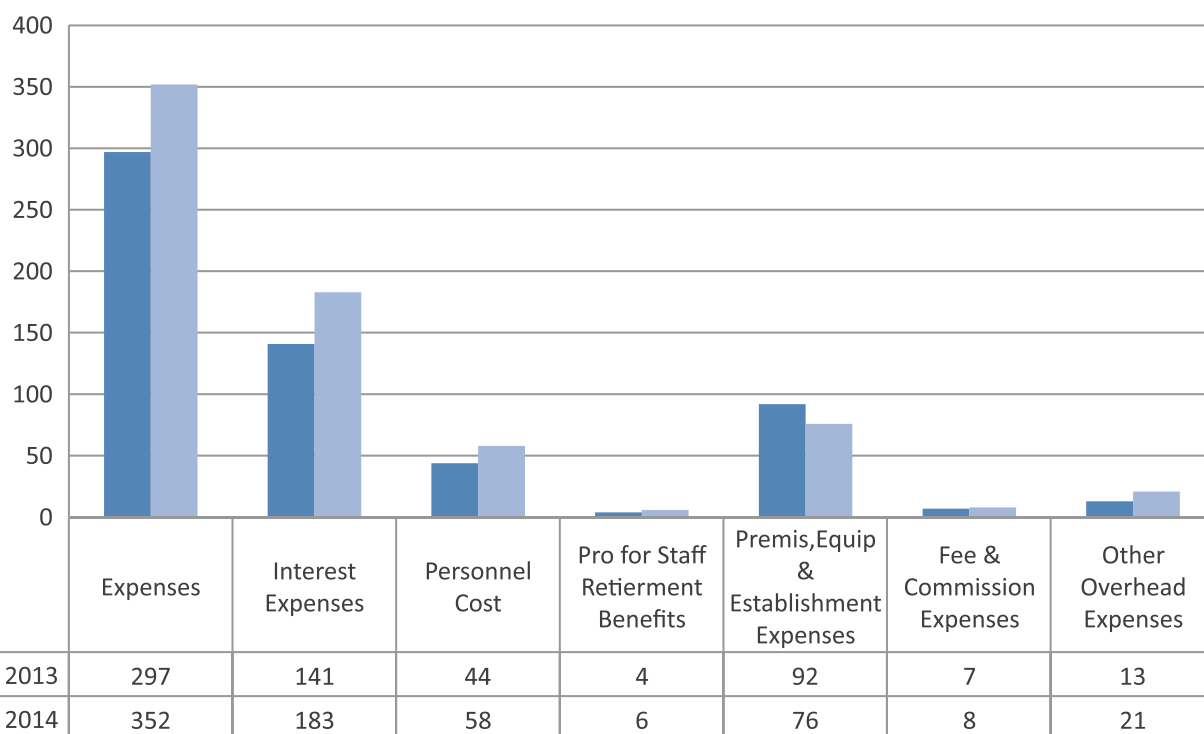
**Comparison of Income - 2014 Vs 2013  
(Rs.Mn)**



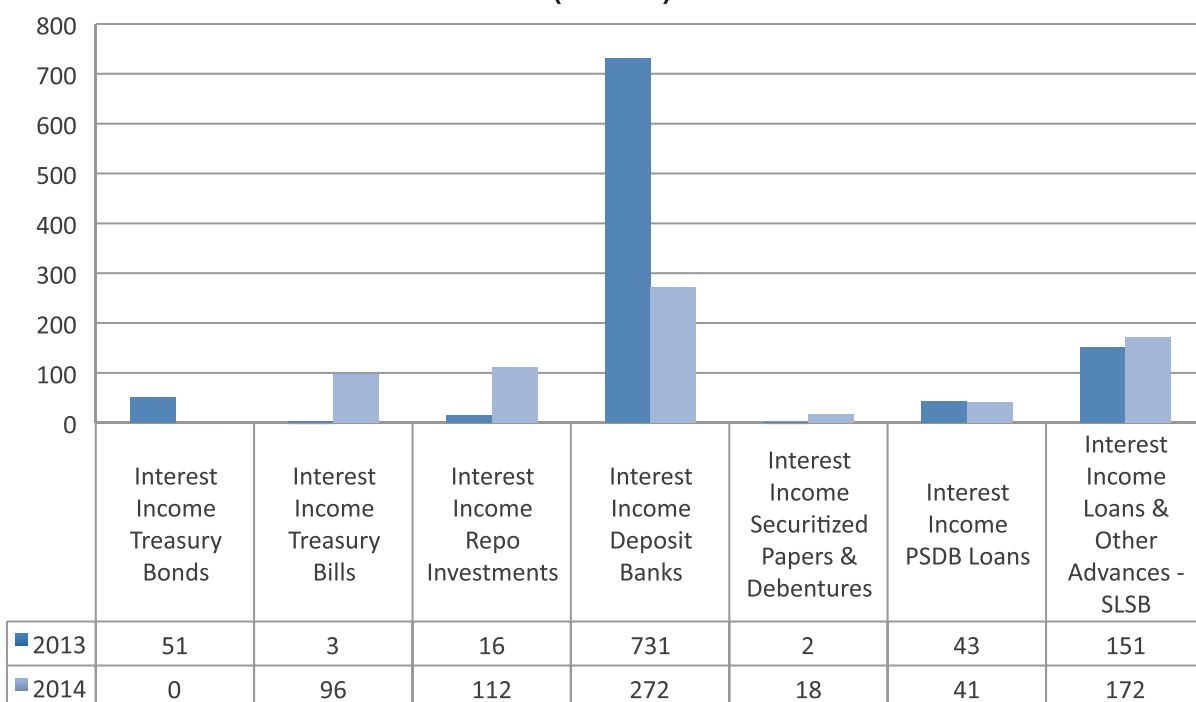




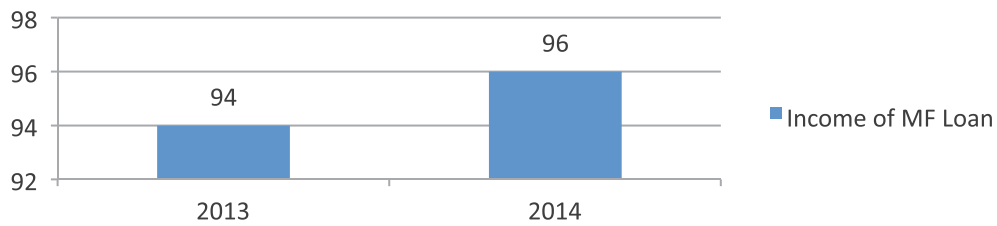
### Comparison of Expenses 2014 Vs 2013 (Rs.Mn)



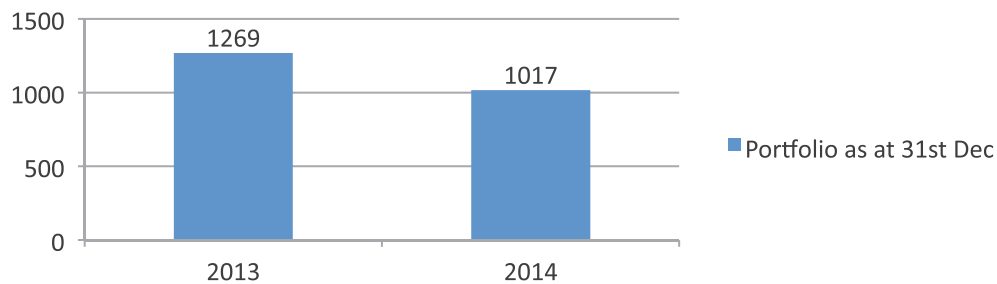
### Interest Income - 2014 Vs 2013 (Rs.Mn)



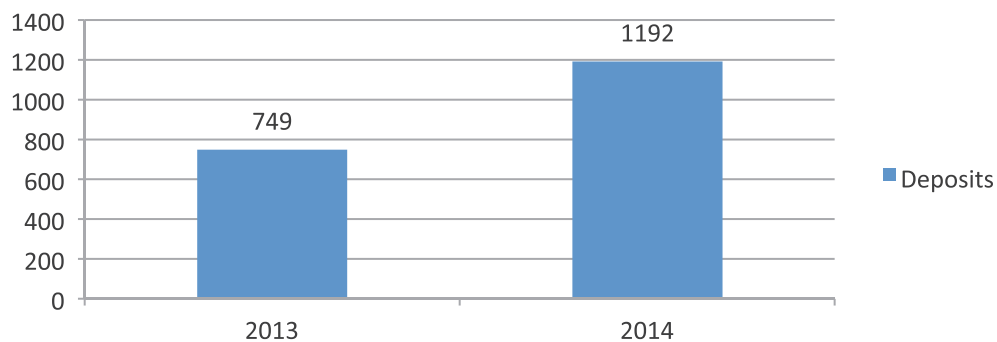
**Micro Finance Interest  
Income Comparison - 2014 Vs 2013  
(Rs.Mn)**



**Micro Finance Loans and Advances  
witnessed in the year 2014 Vs 2013  
(Rs.Mn)**



**Total Deposits - 2014 Vs 2013  
(Rs.Mn)**



EXECUTIVE  
INFORMATION

## CHAIRMAN'S MESSAGE

It is with great pleasure that I present the Annual Report and Accounts of Sri Lanka Savings Bank Limited for the year ending 31st December 2014 on behalf of the new Board of Directors who have assumed office in the month of February 2015.

We have taken number of steps to widen the Micro Finance Sector of the Bank in eliminating poverty among the rural folks. In fact Non Performing rate of Micro Finance Loans are at a minimal compared to other loan facilities granted by the Bank. Though the Bank is operating with minimum facilities, we are fortunate to have a dedicated staff.

As an important priority of the government we have setup a mechanism to settle Pramuka Bank Depositors whose payments which are outstanding for many years.

The Board has focused the attention of the Senior Management to minimize Central Bank concerns expressed in their Statutory Examination.

We are in the process of re-structuring the Treasury Department installing new computer software and other necessary accessories for Inter Bank transferring of funds to accounts, issue of debit cards, widening of number of fund collection points and introducing a new managerial structure to face the challenges in the coming years.

We are also setting up a mechanism to effectively monitor the cash flow of the Bank with sensitive analysis to properly focus the attention of Management in key areas of the Bank.

I wish the Sri Lanka Savings Bank many fruitful years in the banking sector.

**Mr. K. Amarasinghe**  
Working Director/ Acting Chairman

# GENERAL MANAGER'S MESSAGE

It is with a great pleasure for me to have this opportunity to present the Operational as well as the financial review of Sri Lanka savings Bank for the year ended 31st December 2014.

## History

Sri Lanka Savings Bank (SLS Bank) commenced operations on 10th March 2008. The main objective was to provide relief to depositors and investors of defaulted Pramuka Savings and Development Bank Limited (PSDB) where Assets and Liabilities vested by the Monetary Board of Central Bank of Sri Lanka (CBSL). Subsequently to meet bank minimum capital requirement, the National Development Trust Fund (NDTF), which was a Government owned Microfinance Institution amalgamated on 30th September 2010. Further Bank started Commercial lending activities in the year 2011 and expanded other lending products such as Leasing & Pawning in the year 2012 & 2013. In the year 2013 Bank expanded with the new branch opening in Mannar, Matara & Anuradhapura.

## Bank performance

### **Total Income, Operational Expenses and profitability**

The Bank showed a significant growth in deposit mobilization, settlement of liabilities of failed PSDB, Loans granted (Microfinance/commercial credit/Leasing & HP). The profit after tax for the year ended 2014 was Rs.234.8 million. The gross income of the Bank for the same period was Rs.796.4 million. The interest income which was Rs.710.5 million represented 89% of the total income. The interest payments and the personal



expenses at the end of year 2014 were Rs. 183.3million and Rs.63.8 million respectively.

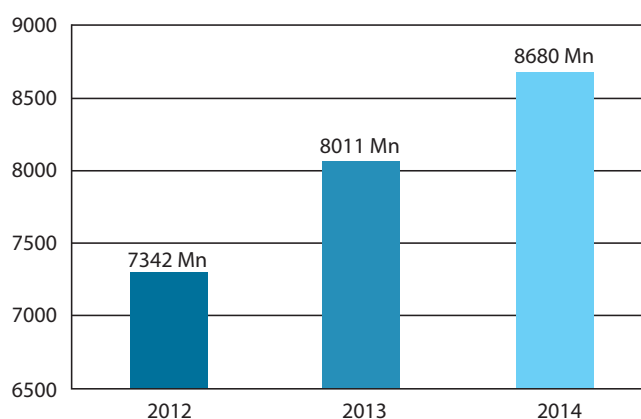
Deposits From customers were Rs.749.2 million as at December, 31, 2013. The deposit base reached 1.2 Bn in the year 2014 was a remarkable achievement of the bank. The bank has selected it's target market as middle and lower level income sector of the population. A range of deposit products with convenience and flexibility for the needs of the target market has been developed.

(Infants –“Buhuti” savings A/c, Ladies –“Manavi” savings A/c, Adults – “Sandewa” savings A/c) Further the bank commenced to leverage microfinance institutions for mobilization of deposits from their members. The bank has started deposit mobilization for rural population named “Praja Diriya” combined with group loan scheme.

The Borrowings amounted to Rs. 3,111million as at December 31, 2014, which represents funds borrowed by NDTF from international funding agencies through the Government of Sri Lanka (Amounting to Rs.1, 377.5 million) and balance represented PSDB borrowings that converted to unsecured subordinate debentures amounting to Rs.1,635.8 million.

The total assets of the Bank were Rs.8,680 million for the year end of 2014. The total liquid assets were Rs.5,948.3 million. The liquid assets represented 68.53% of the total assets. The liquid funds are in the form of cash, placement with banks and government securities.

## Total Assets



## Loans & Advances and Recoveries

Total gross loans as at year end of 2014 was Rs.3,458Mn of which Rs.1,014 Mn was the outstanding balance of loans granted to microfinance institutions for on-lending to micro entrepreneurs for income generating activities. Out of the total gross loan portfolio 35.6% of Rs.1,230.73Mn accounted for non-performing loans transferred from PSDB for which full provisioning has been made and balance represented commercial credit, Leasing, HP & pawning advances.

## Micro Finance

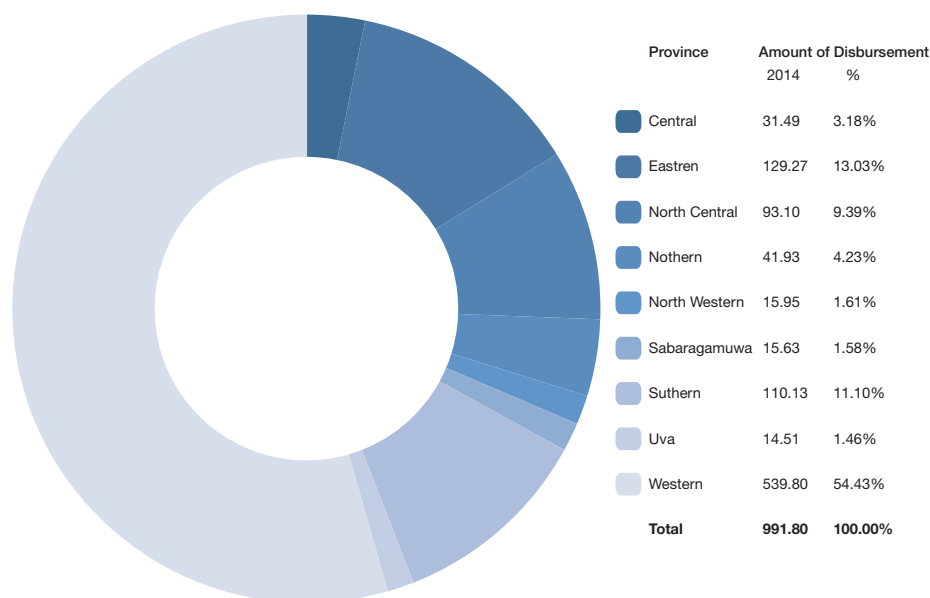
Micro finance is known as an effective tool for poverty alleviation and is defined as a credit provided to the “poor”with free of collateral through institutionalized mechanism. The bank provides financial assistance below the prevailing market interest rates and the bank spends considerable sum of money for facilitating infrastructure development for CBOs and monitoring micro-entrepreneur income generating activities.

The Bank has disbursed Rupees one billion worth of facilities to Community Based Organizations (CBOs), Corporative societies, Sanasa societies and guaranteed companies for on lending to micro-enterprises at the end of year 2014. These loans have contributed for, uplifting the living standard of under-privileged community of the country. Further loans have been granted

for small agricultural projects, animal husbandry, cottage industries, small business enterprises etc to start up the projects as well as for improving the the income generating activities. These credit facilities have been caused to generate more than 15,000 micro-enterprises creating a remarkable number of employment opportunities. The most outstanding feature was 45% of the loans have been granted in the under developed areas in outside of the western province and further 40% of the loans were granted for agriculture and agriculture related activities.

The Bank has initiated granting loans for creating other sectors of the economy as well. The target beneficiaries of SLSB are predominantly rural. Therefore, beneficiaries' awareness programmers were conducted in rural areas to promote micro finance.

### Province wise Micro finance Disbursement - For the year 2014 Rs.Million



### Commercial Credit

The bank commenced it's lending activities in August 2011 and showed significant growth up to December 2014. There are eight types of commercial loan products implemented at present. Namely Door to door entrepreneur development loans, micro entrepreneur development loans, personal loans for private & public sector employees, individual loans and corporate entrepreneur loan, Education loan, professional loan, and SME loan etc... Bank has started new loan scheme namely "Praja Diriya" especially designed for rural and urban self employed people and alternative loan product to protect those people in higher interest trap.

Total portfolio as at end of 2014 was Rs. 812 million of which Rs 225.8Mn was the outstanding balance of loan granted by SME category (Individual and Corporate) loans.

### Leasing & Hire Purchase

The bank obtained leasing license and commenced it's leasing and HP activities in February 2012. The leasing and HP portfolio was Rs 129.67Mn up to 31st December, 2014 and shows a significant growth this year.

### PSDB Recoveries & Settlement of Liabilities of PSDB Depositors

The Bank continued its' recovery activities on the recovery of non-performing advances of PSDB. At the time business of PSDB was vested, the total gross non-performing portfolio was Rs.2034 million. Since it was a difficult task to recover from the

hard core defaulters the remaining non-performing advances of PSDB, we have initiated firm legal action against such borrowers giving priority.

The Bank makes a concerted effort to grant relief to depositors of the collapsed Pramuka Savings & Development Bank Ltd. As a special task to settle customers due liabilities by the year 2017 in terms of Liability Settlement Scheme. The Bank has been able to settle deposit liabilities and Money Market borrowings amounting to Rs.1,139 million to PSDB customers since June 3rd 2008 to December 31st 2014.

## Human Resource Development

During the year number of employees of the bank has increased to 96, compared to 89 in 2013. As in the case of any organization, we consider that the human capital is our greatest asset and we have been providing continues training and development opportunities to all our staff. Hence, we continued to invest in human capital by training staff at in-house as well as outside training programmers. We also encourage our employees to obtain professional qualifications as we believe our skill base act as a competitive advantage in the face of future challenges.

## Corporate social responsibility Programs

One of the major objectives of the bank is alleviation of poverty by empowering the poor towards their own development through social mobilization and financial assistance without granting them charitable donations. The microfinance division of the bank conducted a number of programmers in rural areas to promote awareness of financial discipline of the rural population.

## SLS Bank's future plans & Commitments

While fulfilling it's initial objectives, the Bank has steered to become most preferred Microfinance & Small Medium Enterprises (MSME) Bank in Sri Lanka. The bank has identified that the organic growth inadequately support to achieve the mission of Sri Lanka. The bank needs to grow aggressive market positioning by adapting strategies of business growth with branches & other suitable expansion activities with required innovative product developments. to satisfy the expectations of the target market.

The business need to expand at higher rate to capture opportunities that one arising. It is imperative to expand our services with new tecknowledge developments to new line of business and compete with superior standard of services.

## In Appreciation

I would like to extend my appreciations to outgoing Chairman, the Board of Directors & Former General Manager /CEO for their valuable contribution, support & years of dedicated service. I also take this opportunity to warmly welcome the new Chairman, Working Director & other members of the New Board who will provide new leadership to the bank.

Appreciations also extend to our valuable customers & valued business partners specially Micro Finance Institutions. I hope we will continue to enjoy their support and confidence as we embark on this journey of growth. I would also like to thank our senior & middle Management, as well as each & every member of our staff for their devotion to the Bank.

We also offer our debt of gratitude to Hon. Minister of Public Enterprises Development, Hon. Minister of Finance, the Secretary to the Ministry of Public Enterprises Development, the Secretary to the Treasury, Director General of Public Enterprises and other Officials of Ministry of Public Enterprises Development and Ministry of Finance.

Further we wish to offer our sincere thanks to the Hon. Governor, Director Bank supervision and their officials of Central Bank of Sri Lanka for their support & Guidance towards to us.

W. A. U. Bandara  
General Manager/CEO

BOARD OF  
DIRECTORS

*Seated L to R*

Mrs. S.A.C. Kulathilake  
Mr. K. Amarasinghe  
Ms. Dushyanthi Wickramarachchi

*Standing L to R*

Mr. Sashimal Madapatha  
Mr. Sam Samarasinghe  
Mr. Hiran Vichakshana  
Mr. Shanthilal Condegamage  
Mr. Y.G.P. Dayananda  
Mr. Sunil Witharanage  
Mr. S. Lankeshwara (Absent)  
Mr. Prasanga N. Perera (Absent)







## BOARD OF DIRECTORS



**Mr. K. Amarasinghe**  
Joined date: 12.02.2015



**Mrs. S.A.C. Kulathilake**  
Joined date: 24.02.2015



**Mr. ShanthiLal Condegamage**  
Joined date: 12.02.2015



**Ms. Dushyanthi Wickramarachchi**  
Joined date: 12.02.2015



**Mr. S. Lankeshwara**  
Joined date: 13.07.2015

## BOARD OF DIRECTORS



**Mr. Sunil Witharanage**  
Joined date: 12.02.2015



**Mr. Sashimal Madapatha**  
Joined date: 12.02.2015



**Mr. Y. G. P. Dayananda**  
Joined date: 12.02.2015



**Mr. Sam Samarasinghe**  
Joined date: 12.02.2015



**Mr. Hiran Vichakshana**  
Joined date: 12.02.2015

CORPORATE  
MANAGEMENT

# SENIOR MANAGEMENT



*Sitting L-R*

**Mr. W A U Bandara**  
GM / CEO

**Mr. Kapila Keerawella**  
Senior Manager – Operations & Business Development

**Ms. M T V R Kularatne**  
Senior Manager – Legal cum Company Secretary

*Standing L-R*

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

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

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

**Ms. S R Wikramasinghe**  
Senior Manager - Finance & Planning

**Mr. R A A Wijesundara**  
Compliance Officer

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

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

## MANAGEMENT TEAM



*Sitting L- R*

Ms. S J Sally  
Manager - Head Office Branch  
Mr. H K E Padmakumara  
Acting Manager  
Ms. K H S H Abeywikrama  
Assistant Manager - Legal

*Standing L- R*

Ms. D S Rajakaruna  
Deputy Manager  
Ms. P B N Sajeewani  
Deputy Manager  
Mr. A D B C Athapaththu  
Assistant Manager - Treasury Management  
Mr. B J H Perera  
Assistant Manager - IT  
Mr. G D K S Yapa  
Assistant Manager

Mr. K A N Rasikapriya  
Manager - Internal Audit  
Mr. K S D Fernando  
Assistant Manager  
Ms. C J Ambepitiya  
Assistant Manager - Legal  
Ms. S P P L Wanniarachchi  
Manager - Procurement

CSR

## CSR Programme's conducted by Sri Lanka Savings Bank

Anuradhapura Branch, during April 2014.

Vidyadeepa Maha Vidyalaya is a less privileged rural school located at Katukeliyawa, Anuradhapura. The teacher in charge sports requested us to provide T-shirts to the school cricket team, since the school or the parents cannot afford to such.

This cricket team is the champions of district level and was selected to participate the provincial level. They were looking for a sponsor of uniforms to participate the provincial tournament and Sri Lanka Savings Bank offered them with t-shirts to their satisfaction.



This picture is a project distributing school bags, books and other stationery items to school children of WP/HO/ Weherawatta junior school Anguruwathota. SLS Bank gave a strength to less privilege children on their education.



Picture shows our Manager - micro finance presenting a school bag to a child.

This is a another CSR project implemented by Sri Lanka Savings Bank in Polonnaruwa District, Madirigiriya Divisional secretariat Division. We have identified 100 families who were suffered without drinking water for years.

Our staff visit house to house to identify needy families to offer water tanks. Sri Lanka Savings Bank distributed 20 (500 liter) water tanks to their families. Sri Lanka Savings Bank treated this project as their prime duty towards develop the society in Sri Lanka.

This picture shows a presenting a tank to a family by our former chairman Mr. Sanath Weeratunga with the participation of staff.



DIRECTORS  
REPORT

The Directors of the Sri Lanka Savings Bank Limited have pleasure in presenting their Annual Report together with the Audited Financial Statements for the Financial Year ended 31st December 2014.

## REVIEW OF BUSINESS

The Chairman's Message and the Review of Operations by the General Manager/CEO gives a detailed Report on the operations of the Sri Lanka Savings Bank Limited., for the financial year ended 31.12.2014. In addition to this a full account of operations can be found in the Audit Report presented by Chartered Accountants Messrs. SJMS Associates.

## LEGAL STATUS OF THE BANK

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

## BOARD OF DIRECTORS

The Board of Directors of Sri Lanka Savings Bank Limited comprised of Ten Directors during the year under review. The entire Board of Directors in compliance with the Articles of Association of the Bank has been appointed by the Secretary to the Treasury, Ministry of Finance & Planning. The Board meets at least once a month and met 13 times during the year 2014. The Directors of the Bank during the year 2014 were as follows;

- *Mr. Ariyatilake Dahanayake (Chairman) retired on 19.03.2014*
- *Mr. Priyanga Algama (Treasury Representative)*
- *Mr. Kosala Ratnaweera*
- *Mr. Thilak Wannigama (Appointment had revoked on 01.04.2014)*
- *Mr. Uduwage Don Sumith Parakrama Perera*
- *Mr. Indigahawela Gamage Palitha*
- *Mr. Sanath Weeratunga (Working Director) Appointed as the Chairman w.e.f. 20.04.2014)*
- *Mr. H.G.Sumanasinghe*
- *Mr. W.Ambawatte (Appointed w.e.f. 03.03.2014)*
- *Mr. N.G. Dayaratne (Appointed w.e.f. 29.08.2014)*



## PARTICIPATION AT BOARD MEETINGS

Name	No of Meetings Held	No of Meetings attended
Mr. Ariyatilake Dahanayake ( <i>Retired on 19.03.2014</i> )	13	2
Mr. Priyanga Algama ( <i>Treasury Representative</i> )	13	10
Mr. Kosala Ratnaweera	13	12
Mr. Thilak Wannigama ( <i>Appointment had revoked on 01.04.2014</i> )	13	2
Mr.Uduwage Don Sumith Parakrama Perera	13	11
Mr.Indigahawela Gamage Palitha	13	13
Mr. Sanath Weeratunga ( <i>Appointed as the Chairman w.e.f. 20.04.2014</i> )	13	13
Mr. H.G.Sumanasinghe	13	9
Mr. W.Ambawatte ( <i>Appointed w.e.f. 03.03.2014</i> )	13	11
Mr. N.G.Dayaratne ( <i>Appointed w.e.f. 29.08.2014</i> )	13	4

## DIRECTORS INTEREST IN CONTRACTS

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

## DIRECTOR'S RESPONSIBILITY

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

## SYSTEMS OF INTERNAL CONTROLS

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

## CORPORATE GOVERNANCE

Systems and procedures are in place to ensure that Corporate Governance is followed. Specific measures taken in this regard are elaborated on page No. 25 of this Report.

## AUDIT COMMITTEE

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

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

- Mr.Priyanga Algama - *(Chairman of the Audit Committee)*
- Mr.Kosala Ratnaweera - *(Member of the Audit Committee)*
- Mr.H.G. Sumanasinghe - *(Member of the Audit Committee)*
- Mr.A.H.W. Ambawatta - *(Member of the Audit Committee)*

Mr.A.H.W. Ambawatta was appointed to the Audit Committee with effect from April 4, 2014.

## VISION, MISSION AND CORPORATE CONDUCT

The Bank's Vision and Mission are given in page No. 02 of this Report. The business activities of the Bank were conducted adhering to the highest level of ethical standards in order to achieve the Vision and Mission of the Bank.

## AUDITORS

The Financial Statements for the year have been audited by Messrs. SJMS Chartered Accountants. A resolution pertaining to ratification of appointment of Auditors has been proposed at the Annual General Meeting.

## STAFF

As at 31st December 2014 there were Ninety Six (96) members employed by the Bank. The composition of this number is as follows:-

<b>Designation</b>	<b>No. of Employees</b>
General Manager /CEO	1
Senior Manager	8
Manager	4
Branch Manager	2
Deputy Manager	4
Assistant Manager	6
Officer	3
Credit Officer	7
Recovery Officer	1
Management Trainee	2
Senior Bank Assistant	17
Secretary (Grade I)	2
Bank Assistant	22

Legal Assistant	1
Receptionist Cum Telephone Operator	1
Care Taker	3
Senior Driver	5
Driver	1
Senior Office Assistant	3
Office Assistant	1
Labourer	1
Trainee	1
<b>Total</b>	<b>96</b>

## GENERAL MANAGER/CHIEF EXECUTIVE OFFICER (CEO)

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

## GOING CONCERN

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

## FINANCIAL STATEMENTS

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

## PROFIT AND APPROPRIATIONS (IN MILION)

Year ended	31.12.2013	31.12.2014
Profit before taxation	551	268
Taxation	12	(33)
Profit after Taxation	563	235
Retained Profit/(loss) broughtForward	1,767	2,284
Profit available for Appropriation	563	235
Directors have made the Following appropriations: to Reserve	(46)	(34)
Retained Profit carriedForward	2,284	2,485

## REVENUE

The total gross income of the Bank for the financial year ended 31st December 2014 was Rs.796.4 Million.

## CAPITAL EXPENDITURE

The total expenditure on the acquisition of Property, Plant & Equipment during the year amounted to Rs.20.4 Million. Details of which are shown in Cashflow statement.

## STATUTORY PAYMENTS

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

## POST BALANCE SHEET EVENTS

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

By order of the Board

R Kularatne

Secretary to the Board

Sri Lanka Savings Bank Ltd.

Date: 30th June 2015

Colombo.



**CORPORATE  
GOVERNANCE**

*The following rules of Corporate Governance shall be complied by all licensed specialized banks in Sri Lanka and such compliance shall be as provided for in Direction 3(9)(i) hereof. We also obtain factual findings report from SJMS as well.*

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

Corporate Governance Section and Rule	Level of Compliance
<p>i) Periodically assess 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>	Complied
<p>j) Ensure that the bank has an appropriate succession plan for key management personnel;</p>	Suitable personnel had been identified for most of key positions and the process of formulating a succession plan
<p>k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;</p>	Complied
<p>l) Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators;</p>	Complied
<p>m) Exercise due diligence in the hiring and oversight of external auditors (as per the compliance officer's opinion above level of compliance status are correct.</p>	Complied
<p>3(1)(ii) The board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with Direction 3(5) of these Directions.</p>	The Secretary to Treasury appoints the chairman. The Board appoints the CEO
<p>3(1)(iii) The board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.</p>	Regular monthly Board Meetings are held & special meetings are scheduled as and when the need arises. The Board met on 13 occasions during 2014.

<b>Corporate Governance Section and Rule</b>	<b>Level of Compliance</b>
3(1)(iv) The board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Monthly meeting are scheduled & informed to the Board at beginning of each calendar year to enable submission of proposals in the Agenda for regular meetings
3(1)(v) The board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given.	Notice of meetings is given one week prior to the meeting via email .The agenda & Board Papers for the Board meetings are circulated to the Directors 05 days prior to the meeting giving directors time to attend & submit any urgent proposals.
3(1)(vi) The board procedures shall ensure that a director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	The Directors are apprised of their attendance in accordance with the Corporate Governance Code. No Director has been absent for 03 consecutive meetings & all Directors have attended more than 2/3 of the meetings for the year.
3(1)(vii) The board shall appoint a company secretary who satisfies the provisions of Section 43 read with Section 76H of the Banking Act, No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	The Board has appointed a Board Secretary who satisfies the provision of Section 43 of the Banking Act No.30 of 1988 & whose primary responsibilities are to handle the secretarial services to the Board.
3(1)(viii) All directors shall have access to advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed.	All Directors have access to advise & service of the Board Secretary who is responsible to the Board for follow up on Board procedures, compliance with rules & regulations & maintaining minutes & relevant records of the Bank.

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



<b>Corporate Governance Section and Rule</b>	<b>Level of Compliance</b>
<p>3(1)(xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a director has a conflict of interest in a matter to be considered by the board, which the board has determined to be material, the matter should be dealt with at a board meeting, where independent non-executive directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the board meeting.</p>	<p>The Directors are conscious of their obligations to deal with solutions where there is a conflict of interest in accordance with Corporate Governance Direction No.11 of 2007.</p>
<p>3(1)(xiii) The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.</p>	<p>The Board has a schedule of matters specially reserved for its decision to ensure that direction &amp; control of the Bank is within its authority in line with regulatory codes, guidelines &amp; international Best Practice.</p>
<p>3(1)(xiv) The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.</p>	<p>The Board is aware of the need to inform the Director of Bank Supervision prior to taking any decision or action the Bank is become insolvent.</p>
<p>3(1)(xv) The board shall ensure that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.</p>	<p>The Board monitors capital adequacy &amp; other prudential regulatory requirements on a monthly basis. The Bank is in compliance with the minimum capital requirement.</p>

<b>Corporate Governance Section and Rule</b>	<b>Level of Compliance</b>
3(1)(xvi) The board shall publish in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	The Board publishes the Corporate Governance Report in the Bank's Annual Report.
3(1)(xvii) The board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	The Board has adopted a scheme of self assessment to be undertaken by each director annually & records are maintained with the Board Secretary.
3(2) The Board's Composition 3(2)(i) The number of directors on the board shall not be less than 7 and not more than 13.	As per CBSL direction the Board comprised of 10 Directors during the year 2014. One Director has been revoked the appointment by the Secretary Treasury .The Chairman retired and the working director has been appointed as Chairman. A new director has been appointed in lieu of the vacancy created with the removal of a director by the secretary Treasury thus making the total No. of Directors 07 .
3(2)(ii) (A) The total period of service of a director other than a director who holds the position of chief executive officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such director up to 01 January 2008.	There are no directors whose tenure of service has exceeded 09 in the Board.

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



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

<b>Corporate Governance Section and Rule</b>	<b>Level of Compliance</b>
<p>3 (3) Criteria to assess the fitness and propriety of directors In addition to provisions of Section 42 read with Section 76H of the Banking Act, No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a director or to continue as a director.</p>	
<p>3(3)(i) The age of a person who serves as director shall not exceed 70 years. (A) Where a director who is currently serving at a bank is over 70 years of age as at 01 January 2008, the following transitional provisions shall apply, subject, however, to the provisions as set out in Direction 3(2)(ii) hereof. a) If a director is over 75 years of age as at 01 January 2008, such director may continue to serve as a director for a further period that shall not extend beyond 31 December 2008, and shall be deemed to have vacated office on 31 December 2008; b) If a director is between 70 and 75 years of age as at 01 January 2008, such director may continue to serve as a director for a further period that shall not extend beyond 31 December 2009, and shall be deemed to have vacated office on 31 December 2009.  (B) Where a director who is currently serving at a bank reaches the age of 70 years, between 01 January 2008 and 31 December 2009, such director may, subject to the provisions as set out in Direction 3(2)(ii) hereof, continue to serve as a director for a further period that shall not extend beyond 31 December 2010 and shall be deemed to have vacated office on 31 December 2010.</p>	<p>There were no directors who were over 70 years of age as at 31st December 2014..</p>
<p>3(3)(ii) A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank. Of such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.</p>	<p>None of the directors hold office as a director of more than 20 entities.</p>
<p>3(4) Management functions delegated by the Board 3(4)(i) The directors shall carefully study and clearly understand the delegation arrangements in place.</p>	<p>The Board periodically reviews and approves the delegation arrangements &amp; ensures that the extent of delegation addresses the needs of the Bank.</p>

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

RISK  
MANAGEMENT

“Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted”.

- Albert Einstein -

## Overview

Risk management department of the Bank is entrusted to identification, assessment, and prioritization of risks; followed by coordinating and economical application of resources to minimize, monitor, and control the probability and/or impact of undesirable events or to maximize the realization of opportunities. The objective of risk management is to assure uncertainty does not deviate the endeavor from the business goals. Risks can come from different ways e.g. uncertainty in financial markets, threats from project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. There are two types of events i.e. negative events can be classified as risks while positive events are classified as opportunities.

Risk Management division of the Bank strengthened with proper formation with appointing a head with Key Management Person during the last quarter of 2014 and the initiative of department will start to spread its reach to all concerns areas of risk management gradually & according risk management plan put in place.

*The Risk Management process of the department encompass the following procedure,*

- Identification of risk in a selected domain of interest such Credit, Market, Liquidity, Operations and Strategic Risk etc.,
- Planning the remainder of the process
- mapping out the following:
- the organizational scope of risk management



- *the identity and objectives/risk appetites of stakeholders*
- *the basis upon which risks will be evaluated, constraints.*
- *defining a framework for the activity and an agenda for identification and comply with regulatory and compliance with directions and guidelines by Board approval policies*
- *developing an analysis of risks involved in the process*
- *mitigation or solution of risks using available technological, human and organizational resources*

## RISK IDENTIFICATION PROCESS - SLS BANK

Risk identification process of the SLS Bank comprises a composite of techniques when it appropriates to individual risk category as below,

- *Objectives-based risk identification - the Bank and project teams have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk i.e Strategic Objectives and IT System implementation.*
- *Stress Testing & Scenario-based risk identification - In scenario analysis different scenarios are created. The scenarios may be the alternative ways to achieve an objective, or an analysis of the interaction of forces in downfall of Credit, Market & Liquidity Scenarios which have outline by the Bank Stress Test policy in place*
- *Taxonomy-based risk identification - The taxonomy in taxonomy-based risk identification is a breakdown of possible risk sources. Based on the taxonomy and knowledge of best practices, a questionnaire is compiled. The answers to the questions reveal risks i.e Risk & Compliance Questionnaires*
- *Common-risk checking- The lists with known risks are available. Each risk in the list can be checked for application to a particular situation applicable Risk Registrar that Maintain by the Bank for each category of risk.*
- *Risk charting – This method is more suitable to apply on operational risk management where quantification of risk very difficult due to nature of operational risk events arise due to People, Process, system and external event. This technique tie up with the above techniques by listing resources at risk, threats to those resources, modifying factors which may increase or decrease the risk and consequences it is wished to avoid. Creating a matrix under these headings enables a variety of approaches. Begin with resources and consider the threats they are exposed to and the consequences of each. Alternatively one can start with the threats and examine which resources they would affect, or begin with the consequences and determine which combination of threats and resources would be involved to bring them about.*

## RISK ASSESSMENT PROCESS - SLS BANK

Heretofore risks have been identified; The Risks must then be assessed as to their potential severity of impact generally a negative impact, such as damage or loss and to the probability of occurrence. Quantification can be either straightforward to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring. In consequence, in the assessment process it is exacting to make the best enlightened decisions in order to decorously prioritize the implementation of the risk management plan. Even a short-term positive improvement can have long-term negative impact i.e lending portfolio growth may surge with immediate augmentation in earnings level, while poor credit management leading to downfall of profit with increased provisioning over the time of deterioration of lending portfolio.

The fundamental difficulty in risk assessment is determining the rate of occurrence since statistical information is not available on all kinds of past incidents. Furthermore, evaluating the severity of the consequences (impact) is often quite difficult for intangible assets. Asset valuation is another question that needs to be addressed. Thus, best educated opinions and

available statistics are the primary sources of information. Nevertheless, risk assessment should produce such information for the management of the organization that the primary risks are easy to understand and that the risk management decisions may be prioritized. Thus, there have been several theories and attempts to quantify risks. Numerous different risk formulae exist, but perhaps the most widely accepted formula for risk quantification is Rate (or probability) of occurrence multiplied by the impact of the event equals risk magnitude. SLS Bank currently has not employed Automated Risk System that are capable to generate such statistical data, BIRMC and the Board have approved to proceed with automated risk management system. This process is complementary to live running of core-banking system & data base management system and the Bank in its final stage of implementing of new core banking system at present.

## EXECUTION OF RISK OPTIONS AT SLS BANK

Risk management strategies of the Bank formulated according to one or more of the following key risk options, which are:

- *Reduction/Mitigate by changing probability and consequences e.g. designs a new business process with adequate built-in risk control and containment measures from the start i.e. the start of pawning business.*
- *Periodically re-assess risks that are accepted in ongoing processes as a normal feature of business operations and modify mitigation measures i.e. Review of Risk Policies & ask for additional collateral etc.,*
- *Transfer/Sharing risks to an external agency (transfer–outsource or insure)*
- *Avoid risks altogether e.g. by not allowing to do high high-risk business area*
- *Retention (accept and budget) i.e. expected loss from credit is charged to Price and budgeted accordingly*

The Bank has viewed that the financial benefits of risk management are less dependent on the formula used but are more dependent on the frequency and how risk assessment is performed. Paradigmatic use of these strategies may not be possible. Some of them may involve trade-offs that are not acceptable to the organization or person making the risk management decisions.

## BIRMC

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

- *Effective risk management at the Bank creates value in the business and is a crucial that is a part of any decision making process of the Bank. The Bank has identified risk management as a distinctive capability that is pivotal enabling and sustaining long –term profitability.*

## MEMBERS OF THE COMMITTEE

*The following directors were members of the committee during the year 2014,*

- *Mr. H G Sumanasinghe (Chairman of the committee)*
- *Mr. Kosala Rathnaweera (Attorney at Law)*
- *Mr Palitha Gamage*
- *Chairman of the Bank and the Working Director are attended the meetings by invitation. General Manager, Compliance Officer and Senior Manager Legal are attending meetings as members. Senior Manager Risk is secretary to the committee.*

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

<b>Board of Directors</b>	<b>Board Appointed Committees for Risk Management</b>	<b>Management Level Committees</b>
Involves in adopting policies and procedures of risk management.	Monitor risk management goals directed by the committee and Board of Directors	Separately monitor the impact which could have on credit, Market and Operational risks.
Ensure implementation of prudent concepts and methods in risk management	Review the policies and methodology adopted in risk management process in the Bank	Carries out risk identification assessment and mitigating activities
Evaluation of the progress of the risk management policies of the Bank.	Update the Board of Directors on the outcome of monitoring and submits risk commentaries from time to time to review the policies of the Board.	

- Board Integrated Risk Management Committee (IRMC) looks into the overall Risk Management aspects of the Bank. IRMC implement Risk strategies, framework and policies and responsible for implementation of these strategies and policies.



## OBJECTIVES OF THE RISK MANAGEMENT

The objective of the Bank's integrated risk management framework is to manage the extent of risk exposure; to understand what drivers it, to allocate capital against it and identify trends internally & externally that would help predict the possible losses from the Bank's risk exposure.

The IRMC is responsible for reviewing and/or recommending the following which are identified in its Charter.

- *Making recommendation to the Board concerning the risk appetite and particular risks or risk management practices.*
- *Oversight of the implementation & review of risk management and internal compliance & control systems.*

Independent integrated Risk Management Division functions as a separate department headed by Senior Manager Risk, which is independent from the operational functions of the bank.

## MEETINGS

The Committee held four meetings, on a quarterly basis, during the year under review to discuss the normal scope of work.

The Committee also assesses all key risks of the Bank such as Credit, Market, Liquidity, Operational Risks and the Key Risk Indicators of all branches on a monthly basis.

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for their information and necessary action. Key members of the staff participate at the meetings as appropriate.

## SCOPE OF DUTIES

The main responsibility of the Committee is to assess risks faced by the Bank covering mainly credit, market, liquidity, operational and strategy. Following area will be covered by the committee.

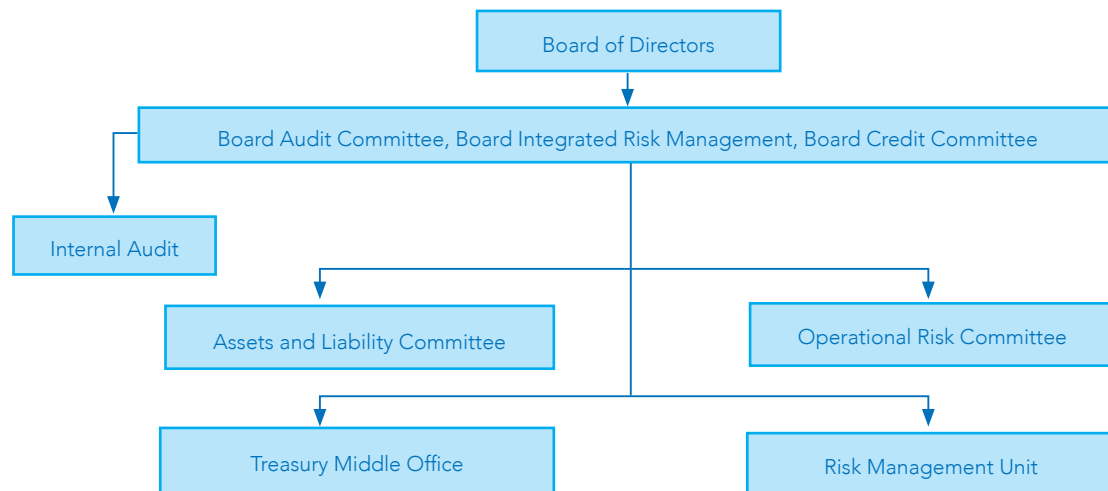
- *Review liquidity position, impact on volatility*
- *Review the quality of the portfolio on a business line basis, product, groups, sectors, trend in NPL, Capital adequacy and stress tests on capital adequacy.*
- *Review progress on Operational Risk Roll-out throughout the organization.*
- *Assess adequacy and effectiveness of all Executive Credit Committees, Assets and Liability Management Committees, Operational Risk Management Committees*
- *Propose appropriate corrective action to mitigate specific risks in case such risks are beyond levels agreed upon based on internal and regulatory requirements.*
- *Review and approve Policies relating to the risk categories.*

## UNCERTAINTIES AND RISK MANAGEMENT

We are in the business of taking selected risks to generate customer value, and we seek to contain and mitigate these risks to ensure they remain within our risk appetite and are adequately compensated.

The risk indicators/uncertainties that may arise in the future and our initiatives to manage them are set out below.

<b>Risk</b>	<b>Risk Level</b>	<b>Description</b>	<b>Mitigants</b>
Risk of Fraud	Moderate	The risk of fraud and other criminal activities is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology	We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures.
Regulatory changes and compliance	Low	The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets and more generally the way conduct business and manage capital and liquidity.	We review key regulatory developments in order to anticipate changes and their potential impact on our performance.
Risk of Natural Disasters	Moderate	Natural disasters can have an impact on the performance of the customers' operations and the ability to meet debt obligations. It can also have an impact on the Bank's operations and inability to continue business of the bank.	Formulize Business Continuity plan is in place
Risk arising from inability to meet maturing deposit liabilities	Low	The Bank's liquidity position can affect the ability to meet liability requirements as they fall due.	The Bank monitors number of prudential liquidity ratios as per CBSL risk directions which are discussed at ALCO, BIRMC, Credit Committees. Adherence to the Liquid Asset Ratio above the statutory requirement.



Committee	Key Objectives	Represented by
Integrated Risk Management Committee (IRMC)	Review the Bank's risk management policies, regulatory framework and compliance, IRMC also reviews the Bank's risk profile against the agreed risk appetite, business continuity and disaster recovery plans.	Three members of the Board of Directors, CEO, CRO, Compliance Officer, Senior Manager Legal
Board Audit Committee	Ensuring the Bank's compliance to its internal and external regulatory guidelines.	Five members of the Board of Directors, CEO and Heads of relevant departments.
Assets and Liabilities Committee (ALCO)	Reviews all Market and Liquidity related exposures on a monthly basis and decisions are made to facilitate the business requirements and make investment/policy decisions.	CEO, CFO, CRO, Heads of the Departments and Treasury
Operational Risk Committee	Provide a forum for the discussion and management of all aspects of operational risks and control lapses identified through the risk reporting process ensuring all significant issues raised in internal and regulatory reviews are resolved . Assist the Bank in the management of corporate governance related to operational risk on an ongoing basis.	CEO, CRO and Heads of Business Units.

## CREDIT RISK MANAGEMENT

The Credit risk defines as loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise issuers of debt inability to meet a contractual obligation as when due. Credit risk arises due to failure of client/ counter parties to meet their obligations towards the Bank..

The Bank has implemented credit policy approved by the Board of Directors. It spells out the credit culture of the Bank. The policy is implemented through the credit process, which is set out with clear guidelines and procedures.

## GENERAL AREA OF CREDIT RISK

The Bank was entrusted the task of providing relief to depositors and investors of Defaulted Pramuka Savings and Development Bank Ltd. (PSDB) by vesting the business with

Sri Lanka Savings Bank Ltd (SLSB) on 01 August, 2007. The activities of National Development Trust Fund (NDTF) was vested with effect from 30thSeptember, 2010.

Responsibility of activities in respect of the conduct that exposes the Bank to Credit risk rests with the Executive Credit Committee & Board Credit Committee.

The Credit risk of the Bank is part & parcel of the vision and objective of the Bank. During the year Microfinance sector in particular is emphasized when lending whilst minimizing the risk for the Bank adhering to guidelines issued by regulatory authorities. As the vision of the Bank "to be lending bank in providing Small Medium & Micro-finance" the credit facilities are granted for micro-enterprise development to the micro-finance institutions (MFI) for on lending to end borrower for alleviation of poverty and to reduce unemployment.

## CREDIT RISK MANAGEMENT AT THE BANK

Credit risk management reviews and manages the credit process from origination to collection. The bank has a Credit Policy approved by the Board of Directors.

- *Delegation of Authority-Final authority and responsibility for all credit facilities to the Board of Directors and the Board of Directors has delegated approval authority to the CEO, with authority to re-delegate limits to the Executive Credit Committees and the Business Lines.*
- *A post sanction review and monitoring mechanism is in place by Risk Department to ensure quality of credit is not compromised.*
- *Stress Testing-specific forward looking scenarios are generated to analyze how the Bank's capital adequacy would be affected by adverse changes in the operating environment.*

### **Main Objectives of the Executive Credit Committee**

- *Establish steady earning growth*
- *Ensuring credit discipline and documentation with sound risk management*
- *Ability to increase deposit base by matching deposit scheme with loan schemes.*
- *Promote business as well as image of the Bank*
- *Contribution to the national development.*

### **Main Strategy of the Credit Committee is to mitigate risks by**

- *Limiting appetite of the Bank's willingness to sanction loans based on high returns.*

- *Identifications of target markets.*
- *Monitoring preferred level of diversification and concentration.*
- *Analyzing the cost of capital in lending to minimize non performing advances*
- *Concentrate on the cyclical aspects and the resulting shifts in the composition and quality of the loan portfolio.*
- *Introduction of sector caps*
- *Thresholds to curtail exposures to vulnerable customer groups*
- *Enforcing security deposit/margin to many limit over borrowing*

**Reporting Responsibilities of the Credit Committee**

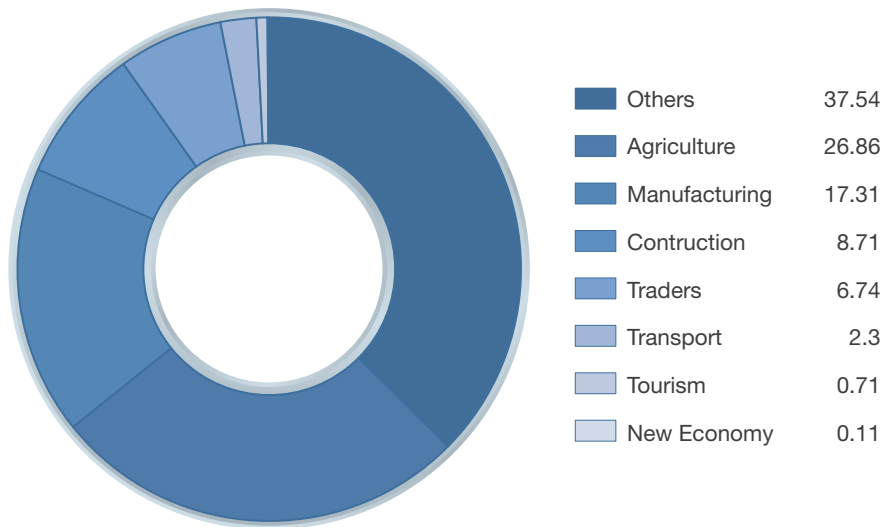
- *The Committee Chairman shall report formally to the Credit Committee on its proceedings after each Committee meeting.*
- *In the light of its other duties, the Committee shall make whatever recommendations to the Board Credit Committee it deems appropriate.*
- *The Committee shall ,on an annual basis ,review its own performance constitution and terms of reference to ensure that it is operating at maximum effectiveness, and make appropriate recommendations to the Board.*

Risk mitigating factors will ensure the optimum rewards out of the lending exposure of Bank with through evaluation process. Risk department will also review the selected loan files independently.

Bank commenced granting loans since 2011 and new Net loans and advances granted by the Head office branch, Mannar branch, Matara branch and Anuradhapura branch amounted to Rs. 3458 million (gross total) as at 31.12.2014 including PSDB and diversified across different products.

Credit risk mitigating function	Evaluation of all credit granting processes independently to suggest improvements or additional mitigating factors as per risk policy of the Bank. Periodic evaluation of portfolios for impact on future risks. Follow up and prevention of new NPLs getting in to the Bank's books by timely follow up on predictions on weakening credit.
Review of credit facilities	Evaluate the position of pending reviews and ensure timely update on same To do a periodic review independently on performance of the newly granted facilities
Portfolio management in risk	New product review and position of same in the Bank's book The impact on particular portfolio depending on the external environment.





## MANAGING CREDIT CONCENTRATION RISK

The Bank measures credit concentration risk using economic sector groups. The economic sector concentration risk is monitored against Board approved limits and stress test are done using the HHI (HerfindhalHirshman Index) method.

Stress Test on NPL and impact on Capital Adequacy Ratio (CAR) - As at 31.12.2014

Stress Test-Magnitude of shock	5%	10%	20%
Net impact on CAR %	91.32	89.17	85.25

## MARKET RISK MANAGEMENT

Market Risk relates to the impact of fluctuations in market rates on Bank's assets and liabilities.

Special emphasis is placed on its effect on investments in fixed income securities.

The ALCO comprising Senior-Management coordinates and perform daily risk management activities. ALCO reviews the following, among others on a monthly basis.

- *Interest rates*
- *Liquidity Ratio*
- *Bank's view on interest rates via competitor rates.*

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis.

The Senior Manager Finance monitor frequently and report the movement in interest rates for decision making on need basis and are reviewed at regular ALCO meetings.

**INVESTMENT PORTFOLIO AS AT 31.12.2014**

<b>Type of Investment</b>	<b>Total Capital Invested In Rs Million</b>	<b>Weight</b>
Treasury Bills	2,245.2	34.16%
Repo	1,712.6	26.06%
Fixed Deposits	2,048.6	31.17%
Other Investment	565.5	8.60%
<b>Total</b>	<b>6,571.90</b>	<b>100%</b>

**MARKET RISK MONITORING**

Treasury Bills, Bonds and other Investments are invested in the Banking Book. These are monitored by the ALCO

**MANAGING EQUITY PORTFOLIO**

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

<b>Name of the Investment Company</b>	<b>Total Cost Rs</b>	<b>Market Value</b>	<b>Marked to Market Gain/Loss</b>	<b>No Share</b>
National Development Bank	970,956.00	3,450,000	2,479,044	13800
Commercial Bank	7,135.00	33,345.00	26,210	195
LOLC	855.00	17,600.00	16,745	200
Sampath Bank	83,221.00	660,222.20	577,001	2794
Watawala Plantation	20,288.00	75,200.00	54,912	4000

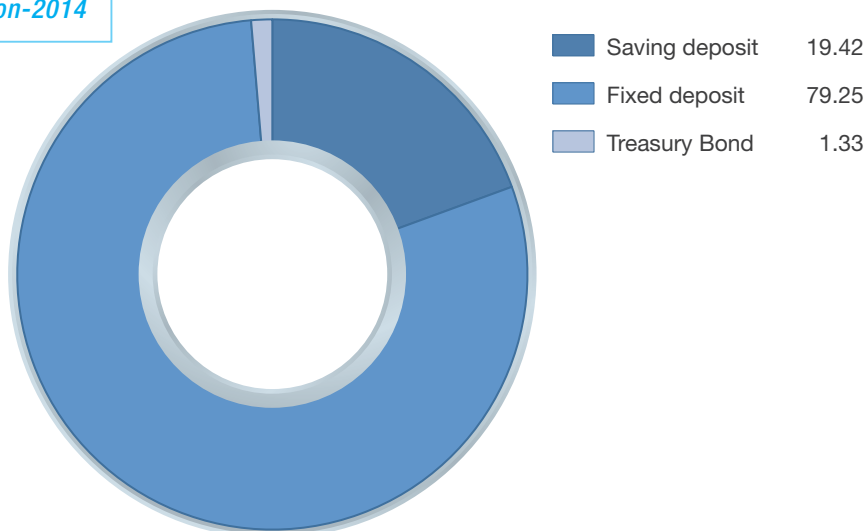
Name of the Investment Company	Total Cost Rs	Market Value	Marked to Market Gain/ Loss	No Share
Lanka Ceramics	128,334.00	600,500.00	472,166	5000
Cinamon Lakeside	34,983.00	368,400.00	333,417	4000
Kelani Valley Plantation	198,121.00	407,000.00	208,879	5500
Hapugastanna Plantation	2,666.00	3,740.00	1,074	100
Aitken Spence	160,364.00	1,863,000.00	1,702,636	18000
PABC Bank	47,952,793.00	177,820,749.40	129,867,956	6865666
<b>Total</b>	<b>49,559,716.00</b>	<b>185,299,757.00</b>	<b>135,740,040</b>	<b>-</b>

## MANAGING INTEREST RATE RISK IN BANKING BOOK

Interest Rate Risk in Banking Book refers to the risk of loss in earnings or economic value of equity as a consequence to movement in interest rates. Since the Banking Book is not marked to market similar to the Trading Book. Interest Rate Risk arises due to the difference in re-pricing of Rate Sensitive Asset (RSA) and Rate Sensitive Liabilities(RSL). Which will have an impact on the future income and expense.

Through the deposit concentration policy requirements we ensure that the Bank is not relying on a limited number of depositors or funding sources.

*Product-wise Deposit Concentration-2014*



ALCO is the governing body for the market risk. Market and liquidity risks are addressed at ALCO on a monthly basis and at the Board Integrated Risk Management Committee level on a quarterly basis.

## LIQUIDITY RISK MANAGEMENT

Liquidity is the ability of a Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits in to long-term loans makes bank inherently vulnerable to liquidity risk, both of a business nature and that which affects markets as a whole.

The Bank's liquidity risk management framework has been an important factor in maintaining confidence of depositors and counterparties.

The management's ability to anticipate market trends and plan to meet these challenges has been a particular success factor in maintaining confidence in the Bank.

The ALCO is mandated to execute Board approval liquidity policy provide direction to ALCO and review liquidity management policies, procedures and practices approved by the Board.

Bank need to identify alternative sources of funding that strengthen its capacity to withstand a variety and severe yet plausible Business specific and market – wide liquidity shocks. Depending on the nature and duration of the liquidity shock, potential sources of funding include the following.

- *Deposit growth*
- *The lengthening of maturities of liabilities.*
- *New issues of short and long term debt instruments.*
- *Asset securitization*
- *The sale or repo of unencumbered, highly liquid assets*
- *Borrowing from the other government bank's marginal lending facilities.*
- *The liquidity position is monitored by relevant officers and committees as follows.*
- *The Senior Manager Finance monitors the liquidity position of the Bank.*
- *ALCO monitors the liquidity ratio, reviewing the liquidity gaps.*
- *Developed and accept deposit products with varying maturity periods.*
- *Loans have been granted varying repayment periods.*

Contingency Planning : The Bank has set up many funding channels through correspondent banks and always maintains high quality liquid assets such as government Treasury Bills to meet liquidity requirements.

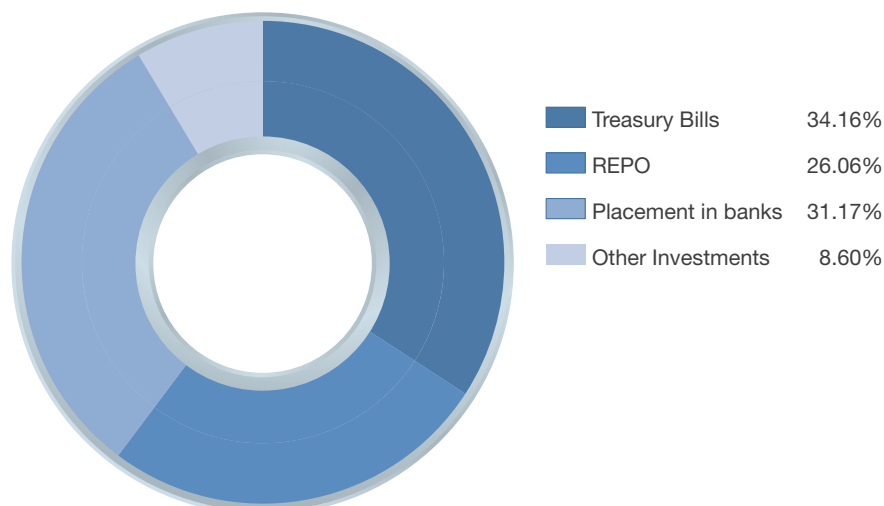
The range of supervisory responses to a Bank with liquidity risk management weaknesses or excessive liquidity risk included the following.

- *Actions taken by the Bank to strengthen its management of liquidity risk through centralized data base, improvements in internal policies, controls or reporting to senior management and the Board of Directors.*
- *Action taken by the Bank to lower its liquidity risk, for example by reducing funding gap in one or more time bands or holding a larger cushion of unencumbered ,high quality liquid assets.*

Senior Manager Finance monitors frequently the liquidity position of the Bank. The management of the Bank has recognized that Bank does not face liquidity in the short run as the Bank has sufficient liquidity.

Bank's Investment portfolio as at 31. 12.2014 reported as follows.

**Bank Investment Portfolio - 2014**



## OPERATIONAL RISK MANAGEMENT

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

Operational Risk is inherent in all products, activities process and systems` and the effective management of operational risk has always been a fundamental element of bank risk management program. As a result sound operational management is a reflection of the effectiveness of the Board and Senior Management in administering people, its portfolio of products, activities process and systems.

### ***Objectives of the Operational Risk Management***

- *Ensure better control of operations*
- *Reduce losses arising from operational risk management in the Bank is to reduce losses from operational failures and in particular avoid potentially losses.*
- *Raise awareness of operational risk in the Bank from top to bottom through implementation of an self risk assessments for operational risks.*

In order to meet its operational risk management objectives ,each business functions within the Bank is required to identify ,assess ,measure and control its operational risk in line with the policy set by the bank.

Sri Lanka Savings Bank has introduced business resiliency and continuity plan in place to ensure an ability to operate on an ongoing basis and limit losses in the event of business disruption.

## MANAGEMENT OVERSIGHT

Director Board of the Bank has recognized that operational risk is distinct and controllable, and has put in place appropriate Risk Management policies, procedures and practices and independent audit and review mechanism.

## OPERATIONAL RISK MEASUREMENT

All staff members are responsible to report risks as soon as they incur or perceived.

## RISK & CONTROL SELF ASSESSMENT (RCSA)

In a RCSA program, branches and departments takes the ownership of its own risks & controls and assess the risks that may exit in its area. RCSA programs are planned annually or more frequently to assess the risky areas of the Bank .Information are gathered using Self Risk Assessment Register .

Operational Risk Committees have been set up at the Bank level, as well as business levels and function levels.

## RISK AND SELF – ASSESSMENT (RCSA)

*The objectives are as follows*

- *Assessing the quality of major risk prevention and mitigation measures, including their existence and effectiveness in detecting and preventing major risks and /or their capacity to reduce their financial impact.*
- *Assessing the major risk exposure of each business unit or support function that remains once the risk prevention and mitigation measures are taken into account.*
- *Correcting any deficiencies in risk prevention and mitigation measures and implementing corrective action plans.*

## INSURANCE COVER IN OPERATIONAL RISK MANAGEMENT

The Bank has a comprehensive insurance policy as a measure to mitigate risks .

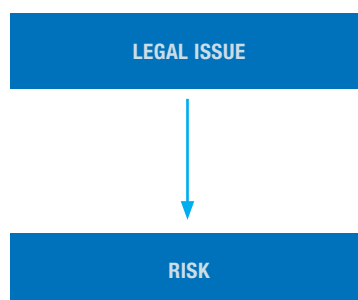
## OPERATIONAL RISK REPORTING

Significant risk exposures are reported to senior management through the self risk assessment report. These include Operational and fraudulent loss incidents, significant control breakdown rectified during the period. Also other issues with operational risk implications are reported on a regular basis.

## LEGAL RISK MANAGEMENT

Legal risk arises from uncertainty due to legal action or uncertainty in the applicability or interpretation of contracts laws or regulations.

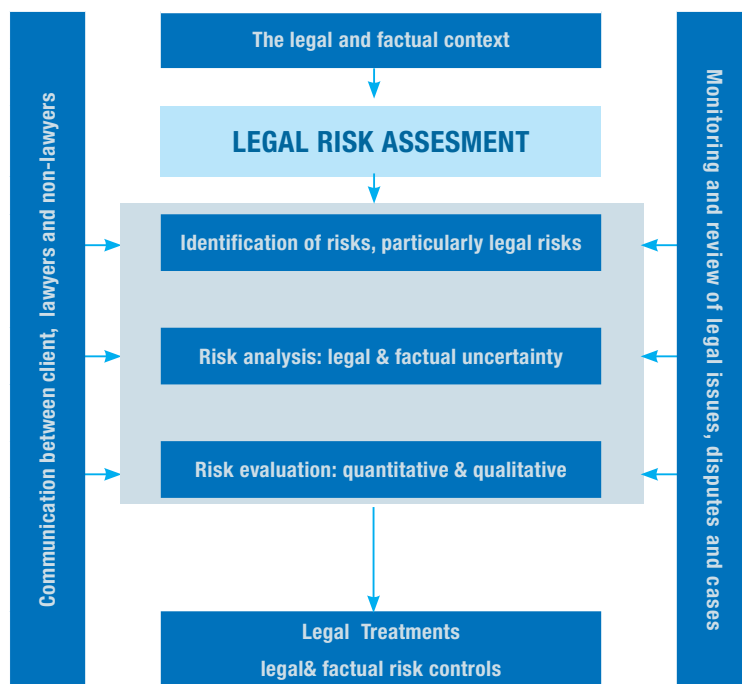
- *A legal risk is a risk that has a legal issue as its Source*



- A legal issue is a set of facts that are assessed under a set of legal norm



## LEGAL RISK MANAGEMENT PROCESS



In the normal courses of business the Bank is involved in various types of litigation including litigation with borrower who are in default under the terms of their agreement. In certain circumstances the Borrowers have asserted counter claims. There could be ex-employees of the Bank who submit LT applications, citing the Bank as a respondent claiming compensation.

Legal Risk managed by the Legal Department. The Head of departments for each business unit is responsible for management and reporting of legal risk.

## COMPLIANCE AND REGULATORY RISK MANAGEMENT

The compliance risk is defined as "the risk of legal or regulatory sanctions, material financial loss to reputation on a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self regulatory organization standards and codes of conduct applicable to its banking activities.

- The Bank has Board Approved Compliance Policy.

- *The compliance function policy has reviewed annually by BIRMC covering the following aspects.*
- *Compliance failures if any during the preceding year and consequent losses and regulatory action as also steps taken to avoid recurrence of the same.*
- *Independence of compliance function.*
- *List of all major regulatory guidelines issued during the preceding year and steps taken for implementation.*
- *Progress in rectification of significant deficiencies pointed out in the internal audit, statutory audit and CBSL examination reports and position of implementation of recommendations made there in.*

## INFORMATION TECHNOLOGY RISK MANAGEMENT

This risk arises from Breakdown of Computer System due to disaster, viruses using of pirated software, substandard application software etc. It is the responsibility of the Senior Manager IT and technical committee to attend promptly to these matters and periodic review of IT policies to overcome the implications.

## STRATEGIC RISK MANAGEMENT

Strategic Risk Management is a process for identifying, assessing and managing risks and uncertainties, affected by internal and external events or scenarios, that could inhibit bank's ability to achieve its strategy and strategic objectives with the protecting Depositors and stakeholder value.

The Bank's strategic direction is well articulated in the corporate plan the corporate budget.

## REPUTATION RISK MANAGEMENT

Reputation has also become a measure of extra financial value and business successes.

While the impact of traditional risk events are substantial, the impact from a reputation risk event can be even more damaging and it can take companies years to rebuild deteriorated reputations.

All employees are responsible for day-to-day identification and management of reputational risk. These responsibilities form part of the Bank's Code of Conduct.

For a bank which deals with public money, reputation is a source of strength. Reputational risk management can be a matter of corporate trust and also serves as a tool in crisis prevention.

Actively involved Boards of Directors that see the connection between strategy and its impact on both reputation and value and also demonstrate to the customers and management teams in business units the impact of their actions on reputation.

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

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



COMPLIANCE  
REPORT

Conformity to New Regulation imposed in 2014

Date	Regulatory / Directions / Determinations	Standard
07/01/2014	Sri Lanka Deposit Insurance and liquidity support scheme operating instructions	Complied
31/03/2014	Implementation of the Standardised Approach on Computation of Risk-Weighted Amount for Operational Risk Under Basel II Capital Adequacy framework Schedule I – Revised guidelines on computation of risk-weighted amount for operational risk Schedule II – Park V(a) computation of risk-weighted Amount for operation risk	Complied
05/06/2014	Banking Act. Directions No.1 of 2014-Regulatory Framework on valuation of Immovable property of Licensed Commercial bank and Licensed Specialised bank's	Complied
26/06/2014	Banking Act. Direction No.3 of 2014 – Amendment to banking Act. Directions No8 of 2007 on maximum Amount of Accommodation LSBS	Complied
26/06/2014	Banking Act. Directions No.4 of 2014 – Amendment to directions on Integrated risk management Framework for Licensed Bank's. Attachment 4 - Baseline Security Stand for Information Security Management.	Complied
31/07/2014	Investment fund Account	Complied
22/08/2014	Introduction of New Returns under the Web Based Off-site Surveillance system.	Complied
26/09/2014	Investment fund Account – Revised	Complied
26/09/2014	Guidelines on stress testing of Licensed Commercial Banks and Licensed Specialised bank's.	Complied
18/12/2014	Banking Act. Determination No.1 of 2014 on Annual Licensed Commercial Banks and Licensed Specialised bank's.	Complied
23/12/2014	Enhancement of minimum Capital Requirement of Banks - LSB's.	Complied
02/12/2014	Sri Lanka Deposit Insurance and Liquidity Support Scheme regulations	Complied

**HRD  
&  
ESTABLISHMENT**

## 1. HR and Remuneration Committee (HRRC)

### 1.1 SCOPE OF THE COMMITTEE

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

### 1.2 MEMBERS

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

Mr. Priyanga Algama, Director

Mr. Palitha I Gamage, Director

Mr. S Parakrama Perera, Director

Mr. Priyanga Algama headed the Committee as its Chairman and Senior Manager - HRD & Establishment functioned as Secretary.

### 1.3 MEETINGS

After eight successful meetings during the year 2014 almost all recommendations to the Board of Directors were adopted and such decisions were implemented during the year.

Name of Director	No. of meetings	
	Held	Attended
Mr. Priyanga Algama	08	07
Mr. Palitha I Gamage	08	08
Mr. S Parakrama Perera	08	08

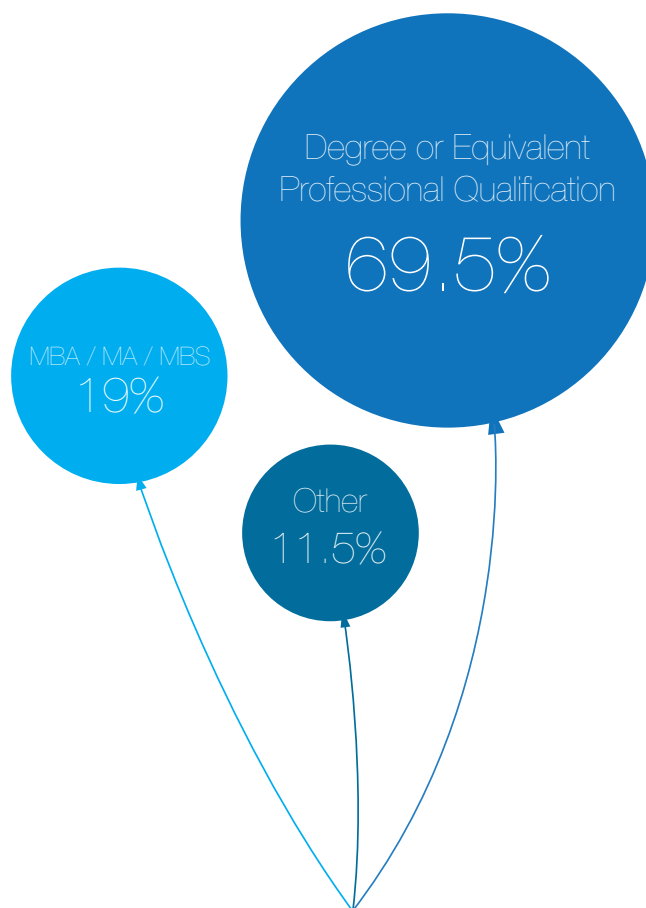
## 2. MAIN FUNCTIONS

a) Main emphasis for year 2014 was to recruit the best fit to cater to the increasing demand for banking facilities and to support the expansion in the branch network.

Senior Manager - Risk Management and Senior Manager Legal cum Company Secretary joined the Bank during the year.

The total number of staff as at 01st January 2014 was 73 and by the end of the year increased to 96.

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



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

	<b>Hours</b>	<b>No. of Participants</b>
Credits	335.00	54
Financial Management & Auditing	77.30	55
Banking Operations	263.00	96
HR & General Management	45.30	7
IT	-	-
Legal	353.00	61
Risk management	34.00	04

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

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

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

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

d) Establishment of the Risk Management, fulfilling a long felt vacuum

e) Introduction of Rules in Disciplinary Management in 2014

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

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

AUDIT COMMITTEE  
REPORT

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

During the financial year ended December 31, 2014, four (04) Audit Committee Meetings were held. The Head of Internal Audit Division of the Bank acted as the Secretary of the Audit Committee and he recorded and maintained minutes of the Audit Committee Meetings. The proceedings of the Audit Committee Meetings are regularly reported to the Board of Directors in accordance with the Terms of Reference of the Audit Committee approved by the Board. Following are the Audit Committee Members participated for the financial year ended December 31, 2014.

- Mr.Priyanga Algama - *(Chairman of the Audit Committee)*
- Mr.Kosala Ratnaweera - *(Member of the Audit Committee)*
- Mr.H.G. Sumanasinghe - *(Member of the Audit Committee)*
- Mr.A.H.W. Ambawatta - *(Member of the Audit Committee)*

(Mr.A.H.W. Ambawatta was appointed to the Audit Committee with effect from April 4, 2014.)

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

The Audit Committee reviewed the financial and non-financial information contained in the internal and external audit reports, attention focused on facts highlighted in the

Management Letter of External Auditors and followed up on the responses made thereto by the Bank management. Heads of Departments are called in when their reports are discussed. Therefore, the Audit Committee provides a forum for the review of internal and external auditors' reports and record findings and review recommendations and corrective action taken by management to overcome the noted deficiencies with a view to managing significant business risks and improving controls.

***The Audit Committee is responsible for:***

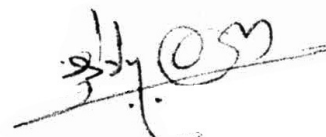
- *Review of the financial information of the Bank in order to monitor the integrity of the financial statements, annual report, monthly accounts and quarterly reports prepared for disclosure.*
- *Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices.*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

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

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

The Committee is of the view that adequate internal controls and procedures are in place and improvements are being followed up to provide reasonable assurance to the Directors that the Bank's assets are safeguarded and financial position and the results disclosed in the financial statements are free from any material misrepresentations.

On behalf of the Audit Committee



Mrs. Chandrika Kulatilake  
Chairperson of the Audit Committee

Colombo, Sri Lanka

July 15, 2015

**DIRECTORS'  
STATEMENT  
ON INTERNAL  
CONTROL**

## RESPONSIBILITY

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

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

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

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

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

## KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

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

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

● The Internal Audit Division (IAD) of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.

● The Board Audit Committee (BAC) of the Bank Reviews periodically the internal control issues identified by the respective Internal Audit Department of the Bank, regulatory authorities and management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Committee Meetings are forwarded to the Board of the Bank on a periodic basis. Further, the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 57 to 58.

● In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. The Bank has adopted the Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with requirements of recognition, measurement, classification and disclosure.

● The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Board has also established an independent Compliance Unit which ensures that Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issue of non-compliance are reported to BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.

● Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day to day business operations.


## CONFIRMATION

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

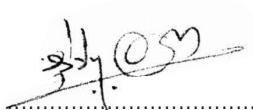
## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended December 31, 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 adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank.

By order of the Board



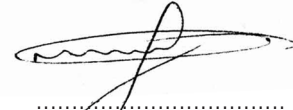
Mr. K. Amarasinghe  
Acting Chairman



Mrs. C. Kulatilake  
Chairperson - Board Audit Committee



Mr. Sunil Witharanage  
Director



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





**AUDITOR'S  
REPORT**

**SJMS.**

ASSOCIATES  
Independent Correspondent Firm to  
Deloitte Touche Tohmatsu

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
SRI LANKA SAVINGS BANK LIMITED**

**Report on the Financial Statements**

We have audited the accompanying financial statements of Sri Lanka Savings Bank Limited, which comprise the statement of financial position as at December 31, 2014, and statement of profit and loss and other 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.

**Management's Responsibility for the Financial Statements**

Management 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 Management 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 Management, 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 qualified audit opinion.

**Basis for Qualified Opinion**

1. Sufficient details were not available to verify the un-posted debit and credit balances appearing in the following bank reconciliations. In effect, assets and liabilities are overstated. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.



Bank Account	Un-posted Debits Rs.	Un-posted Credits Rs.	Unidentified deposits Rs. Dr/ (Cr)	Error posting Rs.	Posting twice on Debit side Rs.
Peoples bank – 078-1-00-3-38517396	1,900,000	850,000	464,103		
Peoples bank – 078-100-158517396	1,407,108	1,518,825			
Peoples bank – 309-1-00172536876	23,675,450	55,045,062		52,712,856	54,660,875
Peoples bank- 078-1-00-170000683		4,298,617		5,215,110	
Peoples Bank – 309-100-258517396	2,989,130	8,171,173			

- Even though People's Bank account (No- 078- 100-248517396) was closed in April 2014, the bank has passed journal entries debiting this account amounting to Rs. 1,076,158 during the current financial year. Further, a credit balance of Rs. 710,342 is appearing in this account as of the reporting date for which no supporting documents are available to prove the existence of this balance.
- There are differences between the inter-branch current accounts and head office current accounts amounting to a net difference of Rs. 6,857,559. This net difference is arrived after considering debit and credit balances in the inter branch current accounts amounting Rs. 1,113,430,101 and Rs 1,120,287,660 respectively. Even though these differences have been reconciled, the related correction entries have not been incorporated in the financial statements due to non-availability of supporting documents.
- The values of land and buildings are not shown separately in the financial statements. This leads to non-compliance with the Sri Lanka Accounting Standards 16-Property Plant & Equipment. Further, no depreciation has been provided on buildings and the profit for the year is overstated to that extent. Separate valuations are not available separately for land and building.
- There are unreconciled differences in PSDB borrowings & deposits balances between the financial records and our independent calculation, based on the supporting documents provided to us as at the reporting date. Details are as follows.

Description	As per financial records	As per audit verification	Difference
PSDB Borrowings	97,644,658	99,949,565	(2,304,907)
PSDB Deposits	155,884,224	170,943,717	(15,059,493)

We were not provided with a reconciliation for the said difference. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

- We noted a unreconciled difference amounting to Rs 124,540,103 in PSDB loan balance between the general ledger and loan sub ledger balance. Details are as follows.

Description	Balance (Rs)
Balance as per general ledger	1,231,208,901
Balance as per loan sub ledger	1,355,749,003
Difference	124,540,103

We were not provided with a reconciliation for the said difference. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. Therefore completeness and accuracy of the general ledger balance and loan-sub-ledger balance is doubtful.



7. The fair value of investment properties have not been valued by an independent valuer. This leads to a non-compliance with Sri Lanka Accounting Standard (LKAS) 40 Investment Property.
8. We were not provided with adequate information relating to the pending legal cases filed against the bank. Consequently, we were unable to determine whether any additional disclosures required in relation to contingent liabilities.
9. Adjustments amounting to Rs. 29,695,404 for the year 2011, have been incorporated into the statement of changes in equity, resulting in a reduction of revenue reserves by Rs.29,695,404. We have not received any valid explanations for the said adjustments.
10. Unreconciled debit and credit differences are noted in the financial statements. We were not provided with any justifiable explanation for the said differences. Refer note number 31.2 in the financial statements for details of such differences.
11. Unreconciled difference between ledger balance and independent calculation related to PSDB loan interest income amounts to Rs.11,504,997. We were not provided with any justifiable reasons for the said difference.
12. The bank has not disclosed the information on the credit quality of financial assets that are neither past due or impaired, as required by paragraph 36 (c ) of Sri Lanka Accounting Standards (SLFRS) 7 “Financial Instruments Disclosures”
13. Even though the bank has disclosed following transactions with directors of the bank, we have not received declarations from following directors. Details are as follows.

<b>Related party</b>	<b>Nature of the relationship</b>	<b>Nature of the transaction</b>	<b>Outstanding balance as at the reporting date (Rs)</b>	<b>Status of directorship</b>
Mr. A Dahanayaka	Director	Loan given to Cooperative Insurance Company. In which Mr. Dahanayaka is a director	162,500,000	Resigned on 17 <sup>th</sup> March 2014
	Chairman - Belco Printers	Printing of official calendars from Belco Printers	500,000	
	Director- Beliatta Muli Purpose Co-operative	Details not provided	11,177,003	
Mr. T. Wannigama	Director	Legal action	25,943,740	Suspended on 1 <sup>st</sup> April 2014

Further, we are unable to ensure the completeness and accuracy of the transaction with key managerial persons. Figure disclosed in 33.1 (ii).



14. We requested for confirmations from the entire category of loans granted to customers, which amounted to a total of Rs. 1,713,141,706. However, we have not received confirmations amounting to Rs. 1,381,752,727 which represent 81% of the total loan confirmation called. Further, we could not perform any other alternative audit procedures to confirm the accuracy of the outstanding balance.
15. The loan receivable from Rehabilitation of Persons Property and Investment Authority (REPIA) is appearing as a credit balance, after offsetting against the performing loans of NTDF. As a result, performing NTDF loans are understated by Rs. 40,592,786. Hence, we cannot ensure the accuracy of such credit balance under loans and receivables.
16. The following NTDF loans amounting to Rs. 24.4Mn were re-scheduled during the year. Settlements amounting to Rs. 4.3Mn have not been updated in the system. Therefore, the loan values are overstated.

PO No	PO Name	As per schedule 31.12.2014 (Rs.)	As per Ledger 31.12.2014 (Rs.)
C-024	Small & Medium Industry Owner's Co-op Society	1,733,998	4,444,604
N-014	People Progressive Development Society (PPDS)	-	704,333
N-006	Sareeram Sri Lanka National Foundation	15,026,287	15,986,116
C-014	Mannar Multipurpose Co-op Society Ltd	1,072,558	1,016,896
N-042	Sri Lanka Grama Shakthi Development Foundation	2,256,542	2,298,542
N-042	Sri Lanka Grama Shakthi Development Foundation	16,625	
<b>Total</b>		<b>20,106,010</b>	<b>24,450,491</b>

17. We were not provided with any supporting for the income tax receivable (PSDB) balance amounting to Rs.37.5Mn. This is included in note number 21 in these financial statements. Recoverability of the value of this amount is doubtful.

#### Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraphs 1 to 17 above, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Emphasis Matter Paragraph

Without qualifying our opinion, following concerns are emphasized:

- The capital adequacy ratio is 94%, which is more than The Central Bank requirement of 10%. Even though there is a settlement to be made to PSDB depositors in 2017, we have not received any justifiable reasons for maintaining such a high ratio.
- From 1<sup>st</sup> January 2013 the bank is exempted from income tax. Although the bank claims that the withholding tax accumulated balance of 96 Mn is claimable. We have not seen any documentary evidence to support the claim.

#### 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:

- The basis of opinion and scope and limitations of the audit are as stated above
- 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 company,
  - the financial statements of the Company, comply with the requirements of Section 151 of the Companies Act.

*SJMS Associates*

**SJMS ASSOCIATES**

Chartered Accountants

Colombo

27<sup>th</sup> November 2015

FINANCIAL  
STATEMENTS

**SRI LANKA SAVINGS BANK LIMITED.**  
INCOME STATEMENT  
FOR THE YEAR ENDED 31 ST DECEMBER 2014

	NOTE	2014 LKR	2013 LKR (Restated)
Interest income		710,501,691	996,419,833
Interest expenses		(183,376,492)	(141,289,063)
<b>Net interest income</b>	<b>5</b>	<b>527,125,199</b>	<b>855,130,769</b>
Fee and commission income		1,847,405	1,281,863
Fee and commission expenses		(8,101,481)	(6,854,458)
<b>Net fee and commission income</b>	<b>6</b>	<b>(6,254,076)</b>	<b>(5,572,595)</b>
Other operating income (net)	7	84,049,886	19,810,424
<b>Total operating income</b>		<b>604,921,009</b>	<b>869,368,598</b>
Impairment (charges)/reversal for loans and other losses	8	(167,167,519)	(104,708,881)
<b>Net operating income</b>		<b>437,753,490</b>	<b>764,659,717</b>
Personnel expenses	9	(63,862,170)	(44,043,194)
Other expenses	10	(96,278,446)	(104,501,911)
<b>Operating profit before value added tax (VAT)</b>		<b>277,612,874</b>	<b>616,114,612</b>
Value added tax (VAT) on financial services		(9,927,169)	(64,974,293)
<b>Operating profit after Value Added Tax (VAT)</b>		<b>267,685,705</b>	<b>551,140,319</b>
Income Tax expenses	11	(32,830,793)	12,088,392
<b>Profit for the year</b>		<b>234,854,912</b>	<b>563,228,710</b>
Basic Earning per share	12	51	123

The accounting policies and notes from 1 to 41 form an integral part of these financial statements.

**SRI LANKA SAVINGS BANK LIMITED**  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST DECEMBER 2014

	<b>2014 LKR</b>	<b>2013 LKR (Restated)</b>
<b>Profit for the year</b>	<b>234,854,912</b>	<b>563,228,710</b>
<b>Other comprehensive income/(expense) net of tax</b>		
Gain/(loss) arising on re-measuring available for sales financial assets	73,251,561	(23,601,435)
Actuarial loss on defined benefit plan	(247,233)	(4,243,336)
<b>Other comprehensive income for the year</b>	<b>73,004,328</b>	<b>(27,844,772)</b>
<b>Total comprehensive income for the year</b>	<b>307,859,240</b>	<b>535,383,938</b>
The accounting policies and notes from 1 to 41 form an integral part of these financial statements.		

**SRI LANKA SAVINGS BANK LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
AS AT 31ST DECEMBER 2014

	NOTE	31.12.2014 LKR	31.12.2013 LKR (Restated)
<b>Assets</b>			
Cash and cash equivalents	14	17,059,329	109,981,171
Sri Lanka government securities	15	3,957,895,768	780,267,712
Loans and receivables from bank	16	2,048,619,529	4,748,996,983
Loans and receivables to other customers	17	2,042,343,113	1,895,627,772
Financial investments – Available-for-sale	18	185,125,289	111,893,728
Property, plant and equipment	19	118,677,420	120,132,164
Intangible assets	19.2	4,370,000	-
Investment property	20	83,274,936	83,274,936
Current tax assets	21	60,756,483	60,756,483
Other assets	22	161,716,475	100,429,601
<b>Total assets</b>		<b>8,679,838,343</b>	<b>8,011,360,549</b>
<b>Liabilities</b>			
Due to banks	23	21,799,902	65,148,691
Due to other customers	24	1,192,188,476	749,211,486
Debt securities issued and other borrowings	25	3,111,104,464	3,083,640,505
Current tax liability	26	22,830,793	-
Other liabilities	27	318,463,646	280,022,954
<b>Total liabilities</b>		<b>4,666,387,281</b>	<b>4,178,023,636</b>
<b>Equity</b>			
Stated capital/assigned capital	28	3,440,679,279	3,440,679,279
Statutory reserve fund	29	118,257,093	106,514,347
Investment fund account	30	-	106,226,336
Retained earnings	31	2,485,118,287	2,283,772,110
Other reserves	32	(2,030,603,597)	(2,103,855,158)
<b>Total equity</b>		<b>4,013,451,062</b>	<b>3,833,336,913</b>
<b>Total equity and liabilities</b>		<b>8,679,838,343</b>	<b>8,011,360,550</b>
Commitments and contingencies		5,500,000	5,500,000

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



Ms.S.R. Wikramasingha  
Senior Manager- Finance and Planning

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

Signed for and on behalf of the Board.



Mr.K.Amarasingha  
Acting -Chairman (Working Director)  
27.11.2015



Mr. W.A.U Bandara  
General Manager/CEO  
27.11.2015

The accounting policies and notes from 1 to 41 form an integral part of these financial statements.



**SRI LANKA SAVINGS BANK LIMITED**  
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2014

**ANNUAL  
REPORT  
2014**

	Stated capital/Assigned capital			Reserves					Total LKR
	Ordinary shares LKR	Capital Pending Allotment LKR	Revenue Deficit Before vesting LKR	Statutory Reserve Fund LKR	Investment Fund LKR	Available for Sales Reserve Fund LKR	Revenue reserve LKR		
Balance as at 01.01.2013 - Previously reported	458,446,600	2,982,232,679	(2,166,190,408)	78,352,911	68,784,990	(41,218,299)	1,893,717,112	3,274,125,585	
Restatement adjustment	-	-	-	-	-	127,154,984	(127,154,984)	-	
Balance as at 01.01.2013 - Restated	458,446,600	2,982,232,679	(2,166,190,408)	78,352,911	68,784,990	85,936,685	1,766,562,128	3,274,125,585	
Prior year adjustment	-	-	-	-	-	-	225,954	225,954	
Profit for the year	-	-	-	-	-	-	563,228,710	563,228,710	
Restated Fair value changes	-	-	-	-	-	(23,601,435)	23,601,435	-	
Fair value changes	-	-	-	-	-	62,355,250	-	62,355,250	
Removed Fair value changes	-	-	-	-	-	(62,355,250)	-	(62,355,250)	
Actual gain on defined benefit plan	-	-	-	-	-	-	(4,243,336)	(4,243,336)	
Transferred to investment fund account	-	-	-	-	37,441,346	-	(37,441,346)	-	
Transferred to statutory reserve fund	-	-	-	28,161,436	-	-	(28,161,436)	-	
<b>Balance as at 31.12.2013</b>	<b>458,446,600</b>	<b>2,982,232,679</b>	<b>(2,166,190,408)</b>	<b>106,514,347</b>	<b>106,226,336</b>	<b>62,335,250</b>	<b>2,283,772,109</b>	<b>3,833,336,912</b>	
<b>Balance as at 01.01.2014</b>	<b>458,446,600</b>	<b>2,982,232,679</b>	<b>(2,166,190,408)</b>	<b>106,514,347</b>	<b>106,226,336</b>	<b>62,335,250</b>	<b>2,283,772,109</b>	<b>3,833,336,912</b>	
Unreconciled difference	-	-	-	-	-	-	(27,745,091)	(27,745,091)	
Profit for the year	-	-	-	-	-	-	234,854,912	234,854,912	
Other comprehensive income	-	-	-	-	-	-	-	-	
Transferred to investment fund account	-	-	-	-	(106,226,336)	-	106,226,336	-	
Actual loss on defined benefit plan	-	-	-	-	-	-	(247,233)	(247,233)	
Fair value changes	-	-	-	-	-	73,251,561	-	73,251,561	
Transferred to statutory reserve fund	-	-	-	11,742,746	-	-	(11,742,746)	-	
Staff Housing loan reserve	-	-	-	-	-	-	(100,000,000)	(100,000,000)	
<b>Balance as at 31.12.2014</b>	<b>458,446,600</b>	<b>2,982,232,679</b>	<b>(2,166,190,408)</b>	<b>118,257,092</b>	<b>-</b>	<b>135,586,811</b>	<b>2,485,118,287</b>	<b>4,013,451,061</b>	

The accounting policies and notes from 1 to 41 form an integral part of these financial statements.

**SRI LANKA SAVINGS BANK LIMITED**  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

	NOTE	31.12.2014 LKR	31.12.2013 LKR (Restated)
<b>Cash flows from operating activities</b>			
Profit before tax		267,685,705	551,140,319
Adjustment for:			
Prior year adjustment		(27,745,091)	225,954
Error correction		-	(62,355,250)
Changes in the accounting policies.			
Non-cash items included in profits before tax	36	158,718,046	102,014,917
Change in operating assets	37	(925,651,898)	(726,195,062)
Change in operating liabilities	38	508,452,413	194,474,611
Contribution paid to defined benefit plans		(821,957)	(368,330)
Tax paid		(10,000,000)	(7,575,975)
<b>Net cash generated from operating activities</b>		<b>(29,362,781)</b>	<b>51,361,183</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(20,391,485)	(23,112,178)
Proceeds from the sale of property, plant and equipment		181,215	22,765,000
<b>Net cash (used in)/from investing activities</b>		<b>(20,210,270)</b>	<b>(347,178)</b>
Net increase/(decrease) in cash & cash equivalents		(49,573,052)	51,014,005
Cash and cash equivalents at the beginning of the year		44,832,479	(6,181,526)
<b>Cash and cash equivalents at the end of the year</b>	<b>39</b>	<b>(4,740,572)</b>	<b>44,832,479</b>
The accounting policies and notes from 1 to 41 form an integral part of these financial statements.			

# Sri Lanka Savings Bank Limited

## Summary Of Significant Accounting Policies

For The Year Ended 31st December 2014

### 1. CORPORATE INFORMATION

#### 1.1 GENERAL

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

#### 1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

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

#### 1.3 DATE OF AUTHORIZATION FOR ISSUE

The Financial Statements of the bank for the year ended 31st December 2014 were authorized for issue on 27th November 2015.

### 2. BASIS OF PREPARATION

#### 2.1 STATEMENT OF COMPLIANCE

The financial statements of the Bank (statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows together with accounting policies and notes) are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of the Banking Act No. 30 of 1988 except for matters referred in noncompliance with note 3.6 of Property, Plant and Equipment.

#### 2.2 BASIS OF MEASUREMENT

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

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

#### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

## **2.4 PRESENTATION OF FINANCIAL STATEMENTS**

The items in statement of financial position of the Bank are presented broadly in order of liquidity. 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 41 to these financial statements.

## **2.5 MATERIALITY & AGGREGATION**

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

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

## **2.6 COMPARATIVE INFORMATION**

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

## **2.7 USE OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

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

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

### **I. USEFUL LIFE-TIME OF THE PROPERTY AND EQUIPMENT**

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

### **II. GOING CONCERN**

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

### **III. IMPAIRMENT LOSSES ON LOANS AND ADVANCES**

The Bank assesses at each reporting date or more frequently, to determine whether there is any objective evidence whether an impairment loss should be recorded in the statement of comprehensive income. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually

significant. Management judgment is required for classification of assets and the estimation of impairment losses. Estimation methodologies are based on assumptions concerning a number of factors though actual results may differ, resulting in future changes to the impairment losses so made.

#### **IV. IMPAIRMENT OF AVAILABLE - FOR - SALE INVESTMENTS**

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

#### **V. DEFINED BENEFIT PLANS**

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

#### **3.1 CASH AND CASH EQUIVALENTS**

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

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

#### **3.2 FINANCIAL ASSETS – RECOGNITION AND MEASUREMENT**

##### **3.2.1 DATE OF RECOGNITION**

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

##### **3.2.2 INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS**

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

##### **3.2.3 NON-DERIVATIVE FINANCIAL ASSETS**

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

## **I. HELD-TO-MATURITY FINANCIAL INVESTMENTS**

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

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

## **II. LOANS AND RECEIVABLES FROM CUSTOMERS**

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

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

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

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

## **III. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS**

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

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

### **3.2.4 RECLASSIFICATION OF FINANCIAL ASSETS**

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

certain circumstances:

- out of the held-for-trading category and into the available for sale, loans and receivables, or held-to-maturity categories.
- out of the 'available-for-sale' category and into the 'loans and receivables', 'held for trading category' or 'held-to-maturity'. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

- out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

### 3.2.5 DE-RECOGNITION OF FINANCIAL ASSETS

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

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

Or

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

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

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

### 3.2.6 IMPAIRMENT OF FINANCIAL ASSETS

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

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

#### **Impairment of financial assets carried at amortized cost**

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment charges for loans and other losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

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

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



## **IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS**

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

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

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

### **3.2.7 COLLATERAL VALUATION**

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

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

## **3.3. NON-FINANCIAL ASSETS**

### **3.3.1. PROPERTY 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**

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

## DEPRECIATION

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

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

<b>Computer hardware and software</b>	<b>04 years</b>
<b>Furniture &amp; fittings</b>	<b>05 years</b>
<b>Motor vehicles</b>	<b>05 years</b>
<b>Office equipment and other fixed assets</b>	<b>05 years</b>

## DE-RECOGNITION

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

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

### 3.3.2. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

### 3.3.3. INVESTMENT PROPERTY

Investment on land or a building or part of a building or both, held to earn rentals or capital appreciation or both, are classified as investment property. Investment properties are measured (initially and subsequently) at cost, including transaction costs. Fair value of Investment Properties is measured by the management on annual basis and is disclosed separately in notes to the financial statement. Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognizing rental income on this basis.

### 3.3.4. INVENTORIES

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

### 3.3.5. BORROWING COSTS

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

## 3.4. FINANCIAL LIABILITIES

### 3.4.1. 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.

### **3.4.2. 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.

## **3.5. RETIREMENT BENEFIT OBLIGATIONS**

### **3.5.1. DEFINED BENEFIT PLAN**

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

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

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

### **3.5.2. CONTRIBUTION PLANS**

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

### **EMPLOYEES' PROVIDENT FUND**

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

### **EMPLOYEES' TRUST FUND**

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

## **3.6. 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 statement of income net of any reimbursement.

## **3.7. 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 statement of income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the statement of income in 'Interest expense'. The premium received is recognized in the statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

## **3.8. TAXATION**

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

### **3.8.1 CURRENT TAX**

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

### **3.8.2. THE VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES**

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

### **3.9. RECOGNITION OF INCOME AND EXPENSES**

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

#### **3.9.1 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 Income Statement include interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis.

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

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

#### **3.9.2. FEE AND COMMISSION INCOME**

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

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

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

#### **3.9.3 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.

### **3.10 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.

### **3.11. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS - Regulatory Deferral Accounts

SLFRS - Revenue from Contracts

## **4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT**

### **4.1 RISK MANAGEMENT STRUCTURE**

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

The Board Integrated Risk Management Committee (BIRMC) is responsible to provide a direction on the risk management process and formulations of policies and procedures for the ratification by the Board of Directors and the implementation of such policies and procedures and ensuring that all operations are within the guidelines and policies set by the Board.

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

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

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

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

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

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

## 5 . Net Interest Income

	2014 LKR	2013 LKR
<b>Interest income</b>		
Interest income-treasury bonds	-	50,514,493
Interest income-treasury bills	95,754,911	3,268,098
Interest income- REPO investments	111,998,721	15,516,145
Interest income- debenture HDFC	5,692,678	780,938
Interest income- deposit banks	271,656,175	731,279,349
Interest income- securitized papers	12,263,036	1,626,930
Interest income- PSDB loans	41,497,962	43,311,670
Interest income- leasing	8,030,261	11,279,749
Interest income- Loans against deposit balances	622,566	48,737
Interest income- Hire purchases	5,920,344	3,839,452
Interest income- Loans to partner organizations	95,819,106	94,260,648
Interest income- Door to Door Loans	1,492,067	1,105,987
Interest income- Staff loans	1,593,296	1,290,140
Interest income- Personal loans	16,504,930	7,528,405
Interest income- Individual & corporate loans	35,756,328	19,024,888
Interest income- MFD Loans	4,422,231	11,365,712
Interest income- Pawning advances	160,025	2,799
Interest income- Praja Diriya Loans	180,758	-
Interest income- Vehicle loans	1,136,295	375,694
<b>Total interest income</b>	<b>710,501,691</b>	<b>996,419,833</b>
Due to other customers	75,094,687	33,634,175
Due to PSDB depositors	10,145,685	9,368,373
Debenture issued	65,015,173	65,022,619
Other borrowing	33,120,946	33,263,897
<b>Total interest expenses</b>	<b>183,376,492</b>	<b>141,289,063</b>
<b>Net interest income</b>	<b>527,125,199</b>	<b>855,130,769</b>

### 5.1 . Net Interest Income from Sri Lanka Government Securities

	2014 LKR	2013 LKR
Interest income	207,753,632	69,298,736
<b>Net interest income</b>	<b>207,753,632</b>	<b>69,298,736</b>

## 6 . Net Fee and Commission Income

	2014 LKR	2013 LKR
Fee and commission income	1,847,405	1,281,863
Fee and commission expenses	(8,101,481)	(6,854,458)
<b>Net Fee and commission income</b>	<b>(6,254,076)</b>	<b>(5,572,595)</b>
<b>Comprising</b>		
Commission on savings accounts	20,210	5,338
Documentation charges	74,500	72,679
Documentation charges-MFD	1,000	70,200
Documentation charges-leasing	174,000	208,500
Commission on bills purchased	33,693	23,096
Commission on guarantees	-	77,083
Commission post-dated cheques	-	3,230
Documentation charges-Personal loans	4,050	135,175
Documentation charges-Individual and corporate loans	750	162,550
Processing charges-Hire purchase	-	6,000
Processing fees loans	795,480	10,000
Inspection charges	266,186	226,855
Commission insurance general	98,536	174,157
Non-refundable deposit income	379,000	107,000
<b>Total Fee and commission income</b>	<b>1,847,405</b>	<b>1,281,863</b>
<b>Fee and Commission Expenses</b>		
Consultancy fee	1,321,975	1,004,579
Professional fee	399,747	1,081,285
Legal fee	2,958,130	2,165,846
Title fee	2,500,000	2,250,000
Title search charges	8,000	16,160
Bank charges	735,848	180,154
CRIB charges	177,781	156,434
<b>Total Fee and commission expenses</b>	<b>8,101,481</b>	<b>6,854,458</b>



## 7 . Other Operating Income (net)

	2014 LKR	2013 LKR
Gain on sale of property, plant and equipment	161,882	11,890,000
Dividend income	296,068	7,233,063
Sundry income	56,330	252,769
Income- Nuwara Eliya bungalow	436,510	129,700
Income- Anuradhapura bungalow	20,000	13,000
Income- bus hire	358,810	114,530
Cultivation income	-	40,000
Provision recovered for other receivable	80,756,906	-
Penalty interest	129,294	136,862
Leasing Repossession Proceed A/C	1,796,310	-
Termination income	29,376	-
Legal charges recovered	8,400	500
<b>Other Operating Income (net)</b>	<b>84,049,886</b>	<b>19,810,424</b>

## 8 . Impairment for Financial assets

	2014 LKR	2013 LKR
Loans and receivables-To other customers (Note 17.5)	167,167,519	104,546,297
Available for sale financial assets	-	162,584
<b>Total</b>	<b>167,167,519</b>	<b>104,708,881</b>

## 9 . Personnel Expenses

	2014 LKR	2013 LKR (Restated)
Salary and bonus	40,882,721	31,121,018
Contributions to defined contribution/benefit plans	5,530,874	4,111,821
Other allowance and staff related expenses	16,444,624	7,157,407
Gratuity	1,003,952	1,652,948
<b>Total</b>	<b>63,862,170</b>	<b>44,043,194</b>

### Restatement of the financial statements- Classification changes

Last year the bank included the other allowances and staff related expenses in Salaries and bonus. However during the year for better presentation purpose classified as other allowances and staff related expenses.

	Effect on 31.12.2013
Risk Allowance	25,142
Overtime Expenses	2,142,428
Staff Welfare	368,494
Staff Insurance	1,226,306
Out of pocket money Allowances	1,459,233
Leave Encashment	736,266
	<b>5,957,868</b>

## 10 . Other Expenses

	2014 LKR	2013 LKR
Directors' emoluments	3,518,197	3,012,453
Audit related fees	539,425	286,875
Professional fee	159,936	285,714
Depreciation of property, plant and equipment	17,954,644	7,542,971
Office administration and establishment expenses	19,732,863	14,405,936
Compensation for legal cases	-	32,158,940
Repairs and maintenance	6,223,079	3,992,569
Advertisements	20,688,042	13,115,407
CSR Activities	54,850	52,325
Entertainment	84,566	685,728
Labour outsourcing expenses	227,218	1,101,569
Security charges	6,735,619	5,146,437
Insurance	2,759,893	807,375
Printing and stationery	4,396,775	5,693,832
Rates and taxes	3,040,699	119,933
Donation	132,412	195,500
National Insurance Trust Fund Levy	4,053,950	4,617,690
Transport and fuel expenses	3,666,062	8,644,236
Subsistence and lodging expenses	863,525	830,020
Share investment written off	-	22,954
Miscellaneous	1,446,694	1,783,447
<b>Total</b>	<b>96,278,446</b>	<b>104,501,911</b>

## 11 . Tax Expenses

	2014 LKR	2013 LKR
Current tax expense		
Reversal over provision in respect of previous year	-	(12,088,392)
Income tax Assessment for 2009/2010	32,830,793	
<b>Total</b>	<b>32,830,793</b>	<b>(12,088,392)</b>

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

## 12 . Earning per share

	2014 LKR	2013 LKR
Net profit attributable to ordinary equity holders	234,854,912	563,228,710
Weighted average number of ordinary shares for basic earning per share	4,584,466	4,584,466
<b>Basic earnings per ordinary share</b>	<b>51</b>	<b>123</b>

Capital Pending Allotment Account amounting to Rs 2,982,232,678.97 represents the amounts of shares to be issued to the Treasury of the Sri Lankan Government. Unallotted shares have not been considered in the above computation.

### 13 . Analysis of Financial Instruments by Measurement Basis

Financial instruments are measured on an ongoing basis either at fair value or at amortized 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.

#### 13.1 Analysis of Financial Instruments by Measurement Basis - as at 31.12.2014

Financial Assets	Held for trading	Held to maturity	Amortized cost	Available for sale	Total
Cash and cash equivalents	-	-	109,981,171	-	109,981,171
Sri Lanka government securities	-	-	780,267,712	-	780,267,712
Loans and receivables to banks	-	-	4,748,996,983	-	4,748,996,983
Loans and receivables to other customers	-	-	1,895,627,772	-	1,895,627,772
Loans and receivables - investments	-	-	28,490,000	-	28,490,000
Financial investments-Available for sales	-	-	-	111,893,728	111,893,728
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>7,563,363,637</b>	<b>111,893,728</b>	<b>7,675,257,365</b>
<b>Financial Liabilities</b>					
Due to banks	-	-	65,148,691	-	65,148,691
Due to other customers	-	-	749,211,486	-	749,211,486
Debt securities issued and other borrowings	-	-	3,083,640,505	-	3,083,640,505
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>3,898,000,682</b>	<b>-</b>	<b>3,898,000,682</b>

#### 13.2 Analysis of Financial Instruments by Measurement Basis - as at 31.12.2013

Financial Assets	Held for trading	Held to maturity	Amortized cost	Available for sale	Total
Cash and cash equivalents	-	-	149,282,062	-	149,282,062
Sri Lanka government securities	-	-	610,743,079	-	610,743,079
Loans and receivables to banks	-	-	4,936,317,559	-	4,936,317,559
Loans and receivables to other customers	-	-	1,285,504,432	-	1,285,504,432
Financial investments-Available for sales	-	-	-	135,661,047	135,661,047
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>6,981,847,131</b>	<b>135,661,047</b>	<b>7,117,508,178</b>
<b>Financial Liabilities</b>					
Due to banks	-	-	155,463,588	-	155,463,588
Due to other customers	-	-	663,753,822	-	663,753,822
Debt securities issued and other borrowings	-	-	3,098,294,568	-	3,098,294,568
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>3,917,511,978</b>	<b>-</b>	<b>3,917,511,978</b>

## 14 . Cash and Cash Equivalents

	31.12.2014 LKR	31.12.2013 LKR
Cash in hand	4,386,237	2,588,732
Balances with banks (Note 15.1)	12,673,092	107,392,438
<b>Total</b>	<b>17,059,329</b>	<b>109,981,171</b>

### 14.1 . Balances with banks

People's Bank - collection account leasing	3,527,521	5,020,809
People's Bank - Liberty plaza old	75,373	75,373
Bank of Ceylon - Borella	574,852	2,572,364
Bank of Ceylon - Mannar	25,000	-
People's Bank- 1001-52536877	32,165	32,165
People's Bank-1001-32536878	30,375	30,375
People's Bank-1001-72536882	29,867	30,669
People's Bank-1001-52536881	30,669	29,867
People's Bank-1001-32536883	34,963	71,076
People's Bank-1001-6002189	71,076	34,963
People's Bank-1001-6002212	101,688	101,688
People's Bank-1001-6002235	30,652	30,652
People's Bank - Mannar	-	2,415,685
People's Bank - Matara	2,628,870	70,165
People's Bank - Anuradhapura	1,533,990	209,274
Cash at bank NDTF 046-1001-20000683	665,025	665,025
Cash at Bank - NDTF 309-1001-72536876	3,281,004	89,002,288
People's Bank-Call deposit	-	7,000,000
<b>Total</b>	<b>12,673,092</b>	<b>107,392,438</b>

## 15 . Sri Lanka Government Securities

	31.12.2014 LKR	31.12.2013 LKR
Treasury bills	2,245,227,722	93,699,831
Treasury bonds	-	5,649,556
Repo investment	1,712,668,047	680,918,325
<b>Total</b>	<b>3,957,895,768</b>	<b>780,267,712</b>

## 16 . Loans and Receivables from Bank

Fixed deposits- People's Bank	70,000,000	1,129,558,541
Fixed deposits- Bank of Ceylon	69,930,151	1,289,471,310
Fixed deposits- National Saving Bank	72,600,241	1,379,885,468
Fixed deposits- Regional Development Bank	384,041,573	354,011,258
Fixed deposits- HDFC	967,355,228	333,601,000
Fixed deposits- NDB	440,506,604	-
Interest receivable	44,185,732	262,469,406
<b>Total</b>	<b>2,048,619,529</b>	<b>4,748,996,983</b>

The bank has appealed against a VAT assessment from the Inland Revenue Department for approximately Rs. 58 Million for assessment period 2009/10 . In order to make the appeal SLNB was required to obtain bank guaranty in favor of the "Tax Appeal Commission" Accordingly the fixed deposits of National Savings Bank (No 200610960691000) for Rs. 28,595,041 was kept as bank guarantee in favor of the "Tax Appeal Commission"

Peoples bank fixed deposits certificate (No- 786001000065577) Rs. 70,000,000 has been pledged against an overdraft facility.

## 17 . Loans and Receivables to Other Customers

Gross loans and receivables	3,458,177,005	3,255,984,810
(Less): Individual impairment	(1,342,831,704)	(1,290,843,625)
Collective impairment	(73,002,189)	(69,513,413)
<b>Net loans and receivables</b>	<b>2,042,343,113</b>	<b>1,895,627,772</b>

## 17.1 . Analysis

	31.12.2014 LKR	31.12.2013 LKR
<b>By product</b>		
<b>Loans and advances</b>		
Performing loans-NDTF	796,483,019	1,203,110,115
Performing loans - PSDB	125,198,441	139,864,040
Staff loans	4,979,445	319,344
Special loans-staff	2,107,275	926,809
Loans against deposit balances	6,042,115	4,630,497
Loans - Door to door	11,413,523	4,849,602
Loans against PSDB balances	6,089,263	4,171,000
Loans -Public and private employment	142,898,855	65,654,555
Loans - Individual & corporate Loans	225,875,584	196,894,153
Loans - Staff multipurpose loan	13,803,278	13,807,904
Pawning advances	3,282,384	98,000
Loans - Vehicle loan	6,295,350	5,593,939
Praja Diriya Loans	15,825,454	83,066,596
Overdue loans	41,864,228	-
Substandard loans	101,061,246	100,217,416
Doubtful loans	49,157,121	54,885,634
Loss category	191,378,835	40,706,689
PSDB loans	1,067,164,308	1,147,495,836
Loan receivable- Staff ledger PSDB	3,844,679	3,898,079
Rescheduled loans - PSDB	10,216,349	29,597,791
Lease receivable	96,540,249	88,930,611
Hire purchases receivable	33,131,965	25,677,426
Debenture investment	117,064,879	28,490,000
Other investments	380,439,568	10,000,000
Loan Control	6,019,593	-
Interest receivable	-	3,098,774
<b>Gross Total</b>	<b>3,458,177,005</b>	<b>3,255,984,810</b>
<b>By industry</b>		
Agriculture and fishing	928,720,000	847,140,000
Manufacturing	598,551,000	593,389,000
Tourism	24,398,000	238,607,000
Transport	70,330,000	87,954,000
Construction	301,128,000	238,802,000
Traders	233,004,000	747,287,000
New economy	3,964,000	5,259,000
Others	1,298,082,005	497,546,810
<b>Gross total</b>	<b>3,458,177,005</b>	<b>3,255,984,810</b>

### 17.2 . Lease rental receivable

	31.12.2014 LKR	31.12.2013 LKR
Lease rental receivable	50,026,721	116,839,580
Overdue loans	7,258,494	-
Substandard loans	5,931,060	-
Doubtful loans	12,676,055	-
Loss category	20,667,257	-
(Less) Unearned interest	(19,338)	(27,908,969)
<b>Sub total</b>	<b>96,540,249</b>	<b>88,930,611</b>

### 17.3 . Hire Purchase receivable

	31.12.2014 LKR	31.12.2013 LKR
Hire purchase receivable	30,418,768	34,974,203
Overdue Loans	2,548,961	-
Substandard Loans	426,263	-
(Less) Unearned interest	(262,028)	(9,296,777)
<b>Sub total</b>	<b>33,131,965</b>	<b>25,677,426</b>

### 17.4 . Other investments

	31.12.2014 LKR	31.12.2013 LKR
Commercial papers	16,000,000	16,000,000
Asset Backed Trust Certificates	370,439,568	
Other investments	165,594,500	165,594,500
(Less) Impairment chargers	(171,594,500)	(171,594,500)
<b>Net Other Investments</b>	<b>380,439,568</b>	<b>10,000,000</b>

### 17.5 . Movements in Individual and Collective Impairment during the Year

	31.12.2014 LKR	31.12.2013 LKR
<b>Individual impairment</b>		
Balance at the beginning of the year	1,290,843,625	1,251,353,658
Charge/ (write back) to income statement	163,678,744	39,489,967
Recoveries	(111,690,665)	-
<b>Balance at the end of the year</b>	<b>1,342,831,704</b>	<b>1,290,843,625</b>
<b>Collective impairment</b>		
Balance at the beginning of the year	69,513,413	4,457,083
Charge/(write back) to income statement	3,488,775	65,056,330
<b>Balance at the end of the year</b>	<b>73,002,189</b>	<b>69,513,413</b>
<b>Total</b>	<b>1,415,833,892</b>	<b>1,360,357,038</b>

## 18 . Financial Investments-Available-for-Sale

	31.12.2014 LKR	31.12.2013 LKR
Equity securities	227,764,057	154,532,496
(Less) Impairment chargers	(42,638,768)	(42,638,768)
<b>Net Available-for-sale Investments</b>	<b>185,125,289</b>	<b>111,893,728</b>

The above balances comprise of Investments in equity securities made by Pramuka Savings and Development Bank and the Bank. During the current financial year there were no trading activities.

### 18.1 . Quoted equity security

Investment company	31.12.2014 LKR			31.12.2013 LKR		
	No of shares	Cost of shares	Market Value	No of shares	Cost of shares	Market Value
National Development Bank	13,800	970,956	3,450,000	13,800	970,956	2,214,900
Commercial Bank Limited	195	7,135	33,345	198	7,135	23,839
Lanka Orix Leasing Company	200	855	17,600	200	855	14,520
Sampath Bank Limited	2,794	83,221	660,222	2,878	83,221	504,513
Vanik Incorporation	17,000	176,184	-	10,000	176,184	103,600
Watawala Plantation	4,000	20,288	75,200			-
Lanka Ceramic PLC	5,000	128,334	600,500	2,500	128,334	263,750
Cinnamon Lakeside	4,000	34,983	368,400	4,000	34,983	319,600
Kelani Valley Plantation	5,500	198,121	407,000	3,500	198,121	274,050
Hapugastenna Plantation	100	2,666	3,740			-
Aitken Spence	18,000	160,364	1,863,000	18,000	160,364	1,911,600
Pan Asia Bank Limited	6,865,666	47,952,793	177,820,749	6,865,666	47,952,793	106,417,823
		<b>49,735,900</b>	<b>185,299,757</b>		<b>49,712,946</b>	<b>112,048,196</b>



### 18.2 . Unquoted Equity Securities

	31.12.2014 LKR			31.12.2013 LKR		
	No of shares	Cost of shares	Management valuation	No of shares	Cost of shares	Management valuation
Pramuka Merchant Corporation	500,000	5,000,000	-	500,000	5,000,000	-
Prime Development & Constructions	230,000	2,300,000	-	230,000	2,300,000	-
Janashkthi Life	2,500,000	25,000,000	-	2,500,000	25,000,000	-
Janashkthi Holding	1,000,000	10,000,000	-	1,000,000	10,000,000	-
CRIB	1,643	164,300	-	1,643	164,300	-
(Less) Impairment for shares		(42,464,300)			(42,464,300)	
<b>Net investment in unquoted shares</b>		<b>-</b>			<b>-</b>	

### 18.3 . Movements in impairment during the Year

	31.12.2014 LKR	31.12.2013 LKR
Balance at the beginning of the year	42,638,768	42,476,184
Charge/ (write back) to income statement	-	162,584
<b>Balance at the end of the year</b>	<b>42,638,768</b>	<b>42,638,768</b>

### 19 . Property, Plant and Equipment

	31.12.2014 LKR	31.12.2013 LKR
Cost	183,291,876	170,650,391
Accumulated depreciation	(64,614,455)	(50,518,227)
	<b>118,677,420</b>	<b>120,132,164</b>

## 19.1 . Property, Plant and Equipment

	Land and Buildings	Motor Vehicles	Computer Equipment	Office Equipment	Telephone Equipments	Furniture & Fittings	Total
<b>Cost/fair value</b>							
Balance at the beginning of the year 2013	99,985,479	30,416,267	12,051,097	8,979,395	270,099	6,710,876	158,413,213
Additions	-	8,083,700	6,004,285	2,002,521	-	7,021,673	23,112,178
Disposals	(10,875,000)	-	-	-	-	-	(10,875,000)
<b>Balance at the end of the year 2013</b>	<b>89,110,479</b>	<b>38,499,967</b>	<b>18,055,382</b>	<b>10,981,916</b>	<b>270,099</b>	<b>13,732,549</b>	<b>170,650,391</b>
<b>Balance at the beginning of the year 2014 - Previously Reported</b>	<b>89,110,479</b>	<b>38,499,967</b>	<b>18,055,382</b>	<b>10,981,916</b>	<b>270,099</b>	<b>13,732,549</b>	<b>170,650,391</b>
Restatement				2,662,282		1,493,338	4,155,620
Balance at the beginning of the year 2014 - Previously Reported	89,110,479	38,499,967	18,055,382	13,644,198	270,099	15,225,887	174,806,011
Additions	-	9,598,640	2,411,837	7,773,834	4,715	2,928,421	22,717,447
Disposals	-	(290,000)	-	-	-	-	(290,000)
Transfers during the year	(15,000,000)	-	-	-	-	-	(15,000,000)
Unreconciled difference	0	-	-	815,652	-	242,766	1,058,418
<b>Balance at the end of the year 2014</b>	<b>74,110,479</b>	<b>47,808,607</b>	<b>20,467,219</b>	<b>22,233,684</b>	<b>274,814</b>	<b>18,397,074</b>	<b>183,291,876</b>
<b>Accumulated depreciation</b>							
Balance at the beginning of the year 2013	-	24,456,848	7,216,587	6,163,042	239,288	4,899,373	42,975,138
Charge for the year	-	3,156,329	2,411,874	844,267	14,932	1,115,686	7,543,089
Disposals	-	-	-	-	-	-	-
<b>Balance at the end of the year 2013</b>	<b>-</b>	<b>27,613,177</b>	<b>9,628,461</b>	<b>7,007,309</b>	<b>254,220</b>	<b>6,015,059</b>	<b>50,518,227</b>
Restated the opening balance				256,258		848,529	1,104,787
Unreconciled Opening balance difference			606,203				606,203
<b>Balance at the beginning of the year 2014</b>	<b>-</b>	<b>27,613,177</b>	<b>10,234,664</b>	<b>7,263,567</b>	<b>254,220</b>	<b>6,863,588</b>	<b>52,229,217</b>
Charge for the year	-	5,560,553	3,421,475	2,963,106	5,320	2,914,190	14,864,644
Disposals	-	(270,667)	-	-	-	-	(270,667)
Unreconciled difference		23,175	(1,605,051)	(626,862)	-	-	(2,208,738)
<b>Balance at the end of the year 2014</b>	<b>-</b>	<b>32,926,238</b>	<b>12,051,088</b>	<b>9,599,812</b>	<b>259,540</b>	<b>9,777,778</b>	<b>64,614,456</b>
<b>Net book value at 31.12.2014</b>	<b>74,110,479</b>	<b>14,882,368</b>	<b>8,416,131</b>	<b>12,633,872</b>	<b>15,274</b>	<b>8,619,296</b>	<b>118,677,420</b>
<b>Net book value at 31.12.2013</b>	<b>89,110,479</b>	<b>10,886,789</b>	<b>8,426,921</b>	<b>3,974,606</b>	<b>15,879</b>	<b>7,717,490</b>	<b>120,132,164</b>

### 19.1.1 . Restatement of the financial statements- Prior year adjustments

Some of fixed assets not classified as fixed assets in the previous year, have been included under current year additions. This error has been corrected by restating the opening balance of 2014.

	Effect on 31.12.2014	Effect on 31.12.2013
(Decrease )/ Increase office equipment	(2,406,024)	2,406,024
(Decrease )/ Increase furniture and fittings	(644,809)	644,809
	(2,406,024)	2,406,024

### 19.2 . Intangible assets

	31.12.2014 LKR	31.12.2013 LKR
Computer Software and Licenses	4,370,000	-

#### 19.2.1 . Cost

Opening balance	-	-
Addition	7,460,000	-
Closing balance	7,460,000	-
<b>Accumulated Deperciation</b>		
Opening balance	-	-
Charge for the year	3,090,000	-
Closing balance	3,090,000	-
<b>Net book value at 31.12.2014</b>	<b>4,370,000</b>	<b>-</b>
<b>Net book value at 31.12.2013</b>	<b>-</b>	<b>-</b>

During the year the bank introduced enterprise resource planning system to core banking activities.

### 20. Investment Properties

	31.12.2014 LKR	31.12.2013 LKR
<b>Cost</b>		
Balance at the beginning of the year	83,559,936	83,559,936
<b>Balance at the end of the year</b>	<b>83,559,936</b>	<b>83,559,936</b>
<b>Accumulated depreciation</b>		
Balance at the beginning of the year	(285,000)	(285,000)
<b>Balance at the end of the year</b>	<b>(285,000)</b>	<b>(285,000)</b>
<b>Net balance as at 31st December 2014</b>	<b>83,274,936</b>	<b>83,274,936</b>

Investment properties were valued at Rs.152,457,500 by a professional valuer in the previous year. However the management has not considered any changes to the fair value of such properties in the current year.

## 21 . Current Tax Assets

	31.12.2014 LKR	31.12.2013 LKR (Restated )
Balance at the beginning of the year	(60,756,483)	(3,506,190)
Income tax receivable from PSDB	-	(37,585,927)
Reversal of over provision	-	(12,088,391)
	(60,756,483)	(53,180,508)
Payments made during the year		
Income tax	-	(5,000,000)
Notional tax credit	-	(2,575,975)
<b>Balance at the end of the year</b>	<b>(60,756,483)</b>	<b>(60,756,483)</b>

Income tax receivable relating to PSDB was classified under other receivable in the year 2013 and reclassified as income tax receivable in the current year.

## 22 . Other Assets

	31.12.2014 LKR	31.12.2013 LKR
Assets vested from PSDB	29,023,520	23,045,579
Receivables	135,284,632	64,387,025
Advances	8,617,276	14,740,682
Refundable deposits	724,551	728,051
Bank opening expenses	4,793,766	4,728,704
Other advance	1,781,165	2,601,382
Sundry debtors	87,587	4,479,659
Inventory	1,806,863	1,312,936
Receivable-Crib Charges staff	450	-
Deposits & prepayments	1,723,523	7,025,393
Total	183,843,332	123,049,411
Less: Impairment charges	(22,126,857)	(22,619,809)
<b>Total</b>	<b>161,716,475</b>	<b>100,429,601</b>

### Other Assets vested from PSDB

Recoverable Deposits	25,065,000	25,065,000
Advance Payment	29,283,467	27,187,655
Advance Payment - MED	11,134,000	11,134,000
Advance payment - Admin	38,000	38,000
Expenditure Pending Settlements	3,672,000	3,672,000
Rec. Exp O/A Property	786,000	786,000
Discount Paid in Advance	17,463,853	17,973,724
Due from Head Office	24,622,000	24,622,000
Deferred Expenditure	12,214,000	12,214,000
Others	9,106,000	9,106,000
Deposit fund on behalf of PSDB L/T Case	7,098,200	7,098,200
	140,482,520	138,896,579
Less: Impairment Charges	(111,459,000)	(115,851,000)
<b>Total</b>	<b>29,023,520</b>	<b>23,045,579</b>

## 23 . Due to bank

	31.12.2014 LKR	31.12.2013 LKR
People's Bank - Borella No. 1	12,908,993	19,977,683
People's Bank - Borella No. 2	4,323,843	17,447,669
People's Bank - Mannar (078-1-002-4-8517396) - old	710,342	-
People's Bank -Borella (Matara-Old) (078-1-002-6-0000683)	600,000	-
People's Bank - Mannar	1,165,499	-
People's Bank - Liberty Plaza - new	2,091,224	27,723,340
<b>Total</b>	<b>21,799,902</b>	<b>65,148,691</b>

## 24 . Due to Other Customers

	31.12.2014 LKR	31.12.2013 LKR
Total amount due to other customers	1,192,188,476	749,211,486
<b>Total</b>	<b>1,192,188,476</b>	<b>749,211,486</b>

### 24.1 . Analysis

	31.12.2014 LKR	31.12.2013 LKR (Restated)
<b>By product</b>		
Normal savings	157,052,805	106,359,231
Normal savings Co-Operative	15,912,210	9,957,411
Minor savings	15,729,131	14,987,268
Ladies savings	3,877,807	3,103,455
Senior citizen's savings	5,481,606	4,470,067
Normal savings - staff	3,021,831	4,652,933
Door to door savings	7,160,428	6,195,698
Divisevana- regular deposit	94,000	94,000
Savings-deceased	1,645	1,627
Fixed deposits	644,839,068	224,926,565
Dormant savings	42,509	42,033
Pramuka Savings and Development bank - deposits	338,327,256	360,824,808
Janasewana Swashakthi minor savings	616,292	538,578
Janasewana Swashakthi ordinary savings	31,886	35,582
Interest payable	-	13,022,232
<b>Sub Total</b>	<b>1,192,188,476</b>	<b>749,211,486</b>

### 24.1.1 . Restatement of the financial statements- Classification changes

Last year the bank presented the fixed deposits based on product wise in the financial statement. During the year fixed deposits have been presented based on interest rate for better presentation.

	Effect on 31.12.2013	LKR
Fixed deposits - monthly		1,820,000
Fixed deposits - maturity		127,569,788
Fixed deposits - monthly - senior citizen		6,091,455
Fixed deposits - maturity - senior citizen		13,504,957
Fixed deposits - maturity - Co-Op		47,911,653
Shakthi- deposit certificate		19,800
Divisevana - deposit certificate		64,500
Deposit certificate-shakthi dual		8,000
Treasury bond backed deposit certificate		14,263,310
Ascharyaye Arunalu saving certificate		10,910,852
Matured minor savings		2,653,540
Unclaimed balances-minors		4,455
Unclaimed balances-others		104,254
		<b>224,926,565</b>

## 25 . Debentures and other borrowings

	31.12.2014 LKR	31.12.2013 LKR
Debentures	1,635,861,557	1,565,335,108
Other borrowings	1,475,242,907	1,518,305,397
<b>Total</b>	<b>3,111,104,464</b>	<b>3,083,640,505</b>

### 25.1 . Debentures

	31.12.2014 LKR	31.12.2013 LKR
Unsecured Subordinate Debentures	881,233,500	915,162,400
Unsecured Subordinate Debentures pending allotment	419,219,300	385,290,400
Interest payable	335,408,757	264,882,308
<b>Sub Total</b>	<b>1,635,861,557</b>	<b>1,565,335,108</b>

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

### 25.2 . Other borrowings

	31.12.2014 LKR	31.12.2013 LKR
PSDB - Borrowing	97,644,658	119,163,849
NDTF Loan GOSL-IDA credit	6,424,382	12,848,766
NDTF Loan GOSL-KFW loan	38,430,561	48,038,201
Micro finance loans to ADB	1,332,743,305	1,338,254,581
<b>Sub Total</b>	<b>1,475,242,907</b>	<b>1,518,305,397</b>

## 26 . Current Tax Liability

	31.12.2014 LKR	31.12.2013 LKR
Income tax Assessment for the year of 2009/2010	32,830,793	-
Payments made during the year	(10,000,000)	-
<b>Balance at the end of the year</b>	<b>22,830,793</b>	<b>-</b>

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

## 27 . Other liabilities

	31.12.2014 LKR	31.12.2013 LKR
Interest payable (Note 27.1)	49,444,184	43,805,587
Payable -expense creditors (Note 27.2)	230,263,702	128,441,630
PSDB liabilities (Note 27.3)	17,071,958	23,267,036
Inter branch accounts (Note 27.4)	6,857,559	75,367,777
Sundry creditors (Note 27.5)	9,549,622	2,477,378
Retirement benefit obligation (Note 27.6)	5,276,621	6,663,547
<b>Total</b>	<b>318,463,646</b>	<b>280,022,954</b>

### 27.1 . Interest Payable

	31.12.2014 LKR	31.12.2013 LKR
Treasury bond backed deposit certificate	780,105	780,105
Interest payable - Investors	48,178,448	42,539,851
Bonus interest payable	485,631	485,631
<b>Sub Total</b>	<b>49,444,184</b>	<b>43,805,587</b>

### 27.2 . Payable -Expense Creditors

	31.12.2014 LKR	31.12.2013 LKR
Accrued expenses	60,545,384	61,879,168
Other payables	169,718,319	66,562,461
<b>Sub Total</b>	<b>230,263,702</b>	<b>128,441,630</b>

### 27.3 . PSDB liabilities

	31.12.2014 LKR	31.12.2013 LKR
Margin account loans	9,973,758	16,168,836
Provision for PSDB LT case	7,098,200	7,098,200
<b>Sub Total</b>	<b>17,071,958</b>	<b>23,267,036</b>

## 27.4 . Interbranch accounts

	31.12.2014 LKR	31.12.2013 LKR
Borella branch	105,771,364	95,845,091
PSDB current account	110,080,248	(6,894,223)
SLSB current account	(1,044,161,843)	(107,402,035)
Matara current account	29,802,066	2,958,006
National Development Trust Fund current account	834,159,070	61,022,014
Branch Account - Anuradhapura	40,474,913	(325,235)
Branch Account - Mannar	(69,268,258)	30,164,158
<b>Sub Total</b>	<b>6,857,559</b>	<b>75,367,777</b>

## 27.5 . Sundry creditors

	31.12.2014 LKR	31.12.2013 LKR
WW/OP Contribution collected from employees	35,109	35,109
Refundable deposit- others	55,749	45,749
Staff security deposit	139,500	85,000
Staff critical illness fund	247,100	174,325
Undisbursed loans	6,019,593	100,000
Payable - CRIB charges	-	114,491
Payable VAT leasing	2,187,997	1,107,531
Insurance premium - collection account	6,006	6,006
Union Collection Account	49,400	-
Provision for incentives	809,167	809,167
<b>Sub Total</b>	<b>9,549,622</b>	<b>2,477,378</b>

## 27.6 . Retirement benefit obligation

	31.12.2014 LKR	31.12.2013 LKR (Restated )
Balance at the beginning of the year	6,663,547	1,135,593
Add: Gratuity charge for the period	1,003,952	1,652,948
( Gain)/loss arising from changes in actuarial assumptions	247,233	4,243,336
Less: Payments made during the year	(821,957)	(368,330)
Unreconciled opening balance difference	(1,816,154)	
<b>Balance at the end of the year</b>	<b>5,276,621</b>	<b>6,663,547</b>

The actuarial valuation of the gratuity liability of the bank was carried out as at 31.12.2014 by Actuarial & Management Consultants (Pvt) Ltd. The valuation method used by the actuaries to value the fund is the 'Project unit credit method' permitted by the Sri Lanka Accounting Standard No: 19 'Employee benefits'. The bank does not fund the gratuity liability externally.

During the previous year the valuation was based on gratuity formula method but during the year only permitted to follow the actuarial valuation method by the Sri Lanka Accounting Standard No: 19 'Employee benefits in 'Project unit credit method'

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

	2014	2013
Retirement age	55	55
Rate of interest	9.65%	11%
Salary increment	25%	16%



## 27.6.2 . Sensitivity of Assumption used in Actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with the all other variables held constant in the employment benefit liability measurement for the company

The sensitivity of the comprehensive income statement and statement of financial position is the effect of assumed changes in discount rate and salary escalation rate on the profit or loss and employment benefit obligation for the year ended.

### +/- 1% on discount rate and salary escalation - effects on PVDBO at 31.12.2014

#### Present value of the defined benefit obligation (PVDBO)

Changes in discount rate	8.65%	9.65%	10.65%
Total PVDBO (Rs.)	6,012,630	5,276,621	4,657,989

#### Present value of the defined benefit obligation (PVDBO)

Changes in salary	24%	25%	26%
Total PVDBO (Rs.)	5,062,750	5,276,621	5,499,983

## 28 . Stated Capital/Assigned Capital

	31.12.2014 LKR	31.12.2013 LKR
Ordinary shares	458,445,900	458,445,900
Ordinary shares application	700	700
Capital pending allotment	2,982,232,679	2,982,232,679
<b>Total</b>	<b>3,440,679,279</b>	<b>3,440,679,279</b>

## 29 . Statutory Reserve Fund

	31.12.2014 LKR	31.12.2013 LKR
Balance at the beginning of the year	106,514,347	78,352,911
Transfer during the period	11,742,746	28,161,436
<b>Balance at the end of the year</b>	<b>118,257,093</b>	<b>106,514,347</b>

The Reserve Fund was created to comply with the Directions No 33 of 1998 issued by the Central Bank under Banking Act, No. 30 of 1988. During the year 2013, the bank has transferred Rs.12,347,200 a sum equal to 5% of the Net Profits for the year ended 31st December 2013 to Reserve Fund.

## 30 . Investment Fund Account

	31.12.2014 LKR	31.12.2013 LKR
Balance at the beginning of the year	106,226,336	68,784,990
Transfer during the period	(106,226,336)	37,441,346
<b>Balance at the end of the year</b>	<b>-</b>	<b>106,226,336</b>

Operation of Investment Fund Account ceased with effects from 1 October 2014 as per circular issued by the Central Bank of Sri Lanka for Licensed Specialized Banks. The adjustment in relation to cession of the fund has been transferred to the Revenue Reserve Account.

## 31 . Retained Earnings

	31.12.2014 LKR	31.12.2013 LKR (Restated )
Balance at the beginning of the year as previously stated	2,283,772,109	1,893,717,112
Restatement of financial statement	-	(127,154,984)
Prior year adjustment	(27,745,091)	225,954
Restatement of fair value changes	-	23,601,435
Profit for the year- restated	234,854,912	563,228,710
Staff housing loan fund	(100,000,000)	-
Actual gain on defined benefit plan	(247,233)	(4,243,336)
Transferred to statutory reserve fund	(11,742,746)	-
Transfers to other reserves	106,226,336	(65,602,782)
<b>Balance at the end of the year</b>	<b>2,485,118,287</b>	<b>2,283,772,109</b>

### 31.1 . Restatement of the financial statements- Prior year adjustments

Fair value movements related to available for sale investments which were not recognised correctly under available for sales reserve inline with SLFRS requirements in the financial statements as at 31.12.2011, 31.12.2012 have been incorporated in the restated financial statements. Further an error in accounting for fair value movements related to available for sale investments have been corrected in the restated financial statements as of 31.12.2013.

	Effect on 31.12.2013	Effect on 31.12.2012	Effect on 31.12.2011
<b>Available for sales reserve</b>			
Previously reported balance	21,136,951	(41,218,299)	-
Restatement adjustment	41,198,299	127,154,984	113,073,725
Restated balance	62,335,250	85,936,685	113,073,725
<b>Revenue reserve</b>			
Previously reported balance	2,324,970,408	1,893,717,112	1,493,552,987
Restatement adjustment	(41,198,299)	(127,154,984)	(113,073,725)
Restated balance	2,283,772,109	1,766,562,128	1,380,479,262

### 31.2 . Un reconciled differences

Following unreconciled balances are appearing in the financial statements as of 31st December 2014. Details are as follows.

	Effect on 31.12.2014	Effect on 31.12.2013
<b>Unreconciled debit balances</b>		
Retained earnings	27,745,091	-
Cost of Property Plant and equipment	1,058,418	-
Accumulated Depreciation Property Plant and equipment	2,208,738	-
Retirement benefit obligation	-	1,816,154
<b>Unreconciled credit balances</b>		
Accumulated Depreciation Property Plant and equipment	-	606,203

### 32 . Other Reserves

	Balance at the beginning of the year as at 01.01.2014 LKR	Movement/ transfers LKR	Balance at the end of the year 31.12.2014 LKR
Available-for-sale reserve	62,335,250	73,251,561	135,586,811
Revenue Deficit Before Vesting	(2,166,190,408)	-	(2,166,190,408)
<b>Total</b>	<b>(2,103,855,158)</b>	<b>73,251,561</b>	<b>(2,030,603,597)</b>

### 33 . Related party transactions

The bank carries out transactions in the ordinary course of business with parties who are defined as related parties in Sri Lanka Accounting Standard No. 24

Following related party transactions have been noted during the period.

Related party	Nature of the relationship	Nature of the transaction	Transaction value (Rs)	Outstanding balance as at the reporting date (Rs)
Mr. A Dahanayaka	Director	Loan given to Cooperative Insurance Company. In which Mr. Dahanayaka is a director	180,000,000	162,500,000
	Chairman - Belco Printers	Printing of official calenders from Belco Printers	500,000	500,000
	Director- Beliatta Muli Purpose Co- operative	Not provid the details	20,000,000	11,177,003
Mr. T. Wannigama	Director	Legal action	25,943,740	25,943,740

#### 33.1 . Transactions with directors and other key managerial persons

Related parties include key managerial defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company and it's related companies.

such key managerial persons include the Board of Directors of the company, key employees who are holding directorship in other related companies of the company and other key executives who meet the criteria described above.

Mr. Ariyatilaka Dahanayaka (Chairman -Retired on 17th March 2014) Mr.S.Weerathunga (Appointed as Chairman on 20.04.2014), Mr. H.G Sumanasinghe, Mr. K. Rathnaweera, Mr. A.H.W Ambawatte (Appointed on 03.03.2014), Mr. P. Algama (Treasury Representative), Mr. N. G Dayarathna(Appointed on 29.08.2014), Mr. U.D.S. Parakrama Perera,Mr. Tilak Wannigama (Suspended on 01.04.2014) and Mr. I. G .Palitha were the directors of the bank during the period.

#### Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the year was as follows.

	2014 LKR	2013 LKR
Short term benefits	10,205,244	1,260,000

Mr. K A N Rasikapriya ,Mr. M T V R Kularathna ,Mr. R A A Wijesundara ,Ms. S R Wickramasinghe ,Mr. G I R Withanage,Mr. S A K A K Sooriyaarachchi,Mr. K K K S Kumara, Mr. G M S N K M Gurusinghe, Mr. K M W C Perera, Mr. G S Perera and Ms. M Fernando were the key Management Personnel other than Directors of the bank during the year.

## 34 . Capital commitments

The value of bank guarantees outstanding as at the reporting date amounts to Rs. 5.5 Mn.

## 35 . Contingent liabilities

### 35.1 . Disputed tax assessments

As per the received assessments, Sri Lanka Savings Bank is liable to pay Rs.388,538,918 to The Department of Inland Revenue for the period 2007 to 2011. Summary as follows.

VAT YEAR OF ASSESSMENT	PAYABLE AMOUNT	
2007/2008	6,870,394	
2008/2009	30,269,922	
2009/2010	58,499,997	
2011/2012	33,253,454	128,893,767
<b>Income Tax</b>		
VAT YEAR OF ASSESSMENT	PAYABLE AMOUNT	
2010/2011	157,645,241	
2011/2012	101,094,150	258,739,391
<b>Penalty payable for ESC for the year 2013</b>		905,760
<b>TOTAL PAYABLE TAX</b>		<b>388,538,918</b>

## 36 . Events after the reporting period

Board of Directors has been changed in January 2015 including Treasury representatives (Mr. A Somaratne (Appointed as chairman 09.02.2015 and retired by operation on 08.06.2015), Mr. Amarasinghe (Appointed as working director on 12.02.2015 and now acting Chairman for the Board) Mr. S. Condagama, Mr. H Vichakshana, Mr.P N Perera, Mr. S Madapatha, Ms. D Wickramarachchi, Mr. S Samarasinghe, Mrs. C Kulatilake and Mr.S Witharange

The General Manager Mr. H.J.A. Weerasekara resigned on 10th of August 2014 and Mr. Kapila Keerawella was appointed Acting General Manager from 11/07/2014 to 10/08/2014, Mr. G.S Perera appointed as General Manager upto 10/08/2015 but he resigned on 30/04/2015 thereafter Mr. Kapila Keerawella was appointed Acting General Manager from 06/04/2015 to 30/09/2015 and Mr. W A U Bandara with effective on 1st of October 2015.

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

## 37 . Non-Cash Items Included in Profit Before Tax

	2014 LKR	2013 LKR (Restated)
Depreciation of property, plant and equipment	17,954,644	7,543,089
(Gain)/loss of disposal of property, plant and equipment	(161,882)	(11,890,000)
Impairment of loans and receivables	167,167,519	104,708,881
Charge for defined benefit plans	1,003,952	1,652,948
Fair value changes	73,251,561	-
Staff housing loan reserve	(100,000,000)	-
Restated Property, plant and equipment	(497,748)	-
<b>Total</b>	<b>158,718,046</b>	<b>102,014,917</b>

### 38 . Change in Operating Assets

	2014 LKR	2013 LKR
Sri Lanka Government securities	(3,177,628,057)	(169,524,633)
Loans and receivables from bank	2,700,377,453	187,320,576
Loans and receivables to other customers	(313,882,860)	(714,669,637)
Financial investments – Available-for-sale	(73,231,561)	85,959,985
Other assets	(61,286,874)	(115,281,354)
<b>Total</b>	<b>(925,651,898)</b>	<b>(726,195,062)</b>

### 39 . Change in Operating Liabilities

	2014 LKR	2013 LKR
Due to other customers	442,976,991	85,457,664
Debt securities issued and other borrowings	27,463,958	(14,654,062)
Other liabilities	38,011,464	123,671,009
<b>Total</b>	<b>508,452,413</b>	<b>194,474,611</b>

### 40 . Cash and cash equivalent

	2014 LKR	2013 LKR
Cash in hand and cash at bank	17,059,329	109,981,171
Due to bank	(21,799,902)	(65,148,691)
<b>Total</b>	<b>(4,740,573)</b>	<b>44,832,479</b>

**Maturity GAP Analysis**

In Rupees	Less than 7 days	7-30 Days	1-3 Months	4-6 Months	7-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Cash and cash equivalents	17,059,329	-	-	-	-	-	-	-	17,059,329
Sri Lanka Government securities	66,239,427	-	626,475,692	1,797,545,473	1,467,635,177	-	-	-	3,957,895,769
Loans and Receivables from bank	-	238,759,521	-	394,930,151	1,414,929,857	-	-	-	2,048,619,529
Loans and receivables to other customers	-	582,106,846	76,470,891	33,073,741	70,111,866	917,117,769	277,490,000	85,972,000	2,042,343,113
Loans and receivables - Investments	-	-	-	-	-	-	-	-	-
Financial investments - Held to Maturity	-	-	-	-	-	-	-	-	-
Financial investments - Available-for-sale	-	-	-	-	-	-	-	185,125,289	185,125,289
Property, plant and equipment	-	-	-	-	-	-	-	118,677,420	118,677,420
Intangible assets	-	-	-	-	4,370,000	-	-	-	4,370,000
Investment property	-	-	-	-	-	-	-	83,274,936	83,274,936
Current tax assets	-	-	-	-	-	60,756,483	-	-	60,756,483
Other assets	-	1,606,779	13,549,906	278,500	26,514,613	45,013,842	74,752,835	-	161,716,475
<b>Total</b>	<b>83,298,756</b>	<b>822,473,146</b>	<b>716,496,489</b>	<b>2,225,827,866</b>	<b>2,983,561,513</b>	<b>1,022,888,094</b>	<b>352,242,835</b>	<b>473,049,645</b>	<b>8,679,838,343</b>
Total Capital Fund	-	-	-	-	-	-	-	4,013,451,062	4,013,451,062
Due to bank	21,799,902	-	-	-	-	-	-	-	21,799,902
Financial liabilities at FVTPL	-	-	-	-	-	-	-	-	-
Due to other customers	279,003,649	21,450,715	171,072,872	421,401,656	105,211,204	193,936,407	111,975	-	1,192,188,477
Debt securities issued and other borrowed funds	-	-	-	-	-	1,733,506,216	-	1,377,598,248	3,111,104,464
Current tax liabilities	-	-	-	-	-	22,830,792	-	-	22,830,792
Other Liabilities	-	62,310,788	-	-	8,397,029	109,020,939	-	138,734,890	318,463,646
<b>Total</b>	<b>300,803,551</b>	<b>21,450,715</b>	<b>233,383,660</b>	<b>421,401,656</b>	<b>113,608,233</b>	<b>2,059,294,354</b>	<b>111,975</b>	<b>5,529,784,200</b>	<b>8,679,838,343</b>
<b>Maturity GAP</b>	<b>(217,504,795)</b>	<b>801,022,432</b>	<b>483,112,829</b>	<b>1,804,426,210</b>	<b>2,869,953,280</b>	<b>(1,036,406,260)</b>	<b>352,130,860</b>	<b>(5,056,734,555)</b>	<b>-</b>

## SRI LANKA SAVINGS BANK LIMITED

### DETAILED NOTES

FOR THE YEAR ENDED 31ST DECEMBER 2014

#### 1 . Receivables

	31.12.2014 LKR	31.12.2013 LKR (Restated)
Cash shortages - pending settlement	5,025	4,500
Payable-Paye	-	8,478
Receivable-CRIB charges	41,142	50,567
Suspense account debtors	-	7,261,600
Financial payable cost-shakthi dual	1,593	1,593
Loan protection policy payable account	499,711	221,312
Receivable - Withholding tax	96,486,308	54,149,707
Insurance Receivable	1,051,452	-
Loan-termination proceed receivable	2,981,339	-
Documentation chargers receivables	2,765	-
Receivable-NBT	3,134,280	-
Leasing- Seizing Charges Receivable	13,000	-
Receivable legal charges	6,797,649	-
Sundry receivables	700	-
Processing charges receivable	24,550	-
Inspection charges receivable	3,000	-
Valuation charges receivable	15,500	-
Lease VAT receivables	3,451,254	2,689,268
Notional Tax	20,775,363	-
<b>Total</b>	<b>135,284,632</b>	<b>64,387,025</b>

The profit and income of the bank is exempted from income tax as per section 07 B of Inland Revenue (Amendment) Act 13 of 2014 therefore the recovery of withholding tax & Notional tax amounting to Rs. 96Mn & 20.7Mn respectively are doubtful.

#### 2 . Advances

	31.12.2014 LKR	31.12.2013 LKR
Advance head office & PSDB pending settlement	7,360	235,766
Festival advance	278,500	219,500
Advance on rent	8,228,000	9,908,000
Advance & Receivable-NDTF	97,416	97,416
Advance payment for fixed assets	6,000	4,280,000
<b>Total</b>	<b>8,617,276</b>	<b>14,740,682</b>

### 3 . Accrued Expenses

	31.12.2014 LKR	31.12.2013 LKR
EPF	634,079	565,180
ETF	92,862	84,777
PAYE Tax	45,514	-
Water	68,074	45,584
Security expenses	1,179,593	427,207
Electricity expenses	477,835	368,198
Building up keep	96,000	48,000
Telephone general	145,384	78,220
Email & internet	323,061	123,061
Telephone mobile	182,000	91,000
Stamp duty	84,080	70,982
Postage and Telegrams	4,000	-
W H Tax	341,837	68,137
Processing charges	23,041	-
Sundry creditors	602,000	600,000
Economic service charges	3,074,653	-
Audit fees	500,313	219,063
Suppliers	3,965,527	4,551,967
Financial services VAT	45,674,772	51,967,546
News papers & periodicals	490	-
Valuation charges payable	18,800	-
Insurance	370,720	15,830
Title search charges payable	2,500	-
CRIB charges	189,000	114,414
Tax consultants	440,000	440,000
Saving standing order control account	4,747	-
NITF levy	2,000,000	2,000,000
Service charges	4,500	-
<b>Sub Total</b>	<b>60,545,384</b>	<b>61,879,168</b>



<b>4 . Other Payables</b>		
	<b>31.12.2014 LKR</b>	<b>31.12.2013 LKR</b>
Unidentified deposits	308,150	308,150
Margin accounts	7,889,775	2,788,000
Suspense customers	6,977,169	6,977,169
Other accrued expenses	3,305,406	3,239,406
Suspense account clearing	4,007,405	2,417,402
Suspense account creditors	14,500	4,814
Suspense account migration creditors	38,634	4,520,707
Creditors for HP equipment	721,372	-
Staff Housing Loan Fund	100,000,000	-
Cash excess - pending settlement	15,709	12,390
Suspense loan creditors	9,260,243	12,078,182
Error Correction-Savings accouts	2,863,423	-
Payable-pension fund	1,765,404	1,765,404
Financial payable cost-shakthi dual	563	563
Unidentified foreign currency	62,523	62,522
Receivable - Staff	123,737	122,636
Receivable-CRIB charges MFD	54,675	54,675
Receivable-CRIB charges personal loans	34,275	38,250
Bills Purchase A/C	114,414	-
Receivable-CRIB charges individual & corporate	-	13,250
Provision for contingencies	32,158,940	32,158,940
Unclaim balance account	2,000	-
<b>Sub Total</b>	<b>169,718,319</b>	<b>66,562,461</b>

SRI LANKA SAVINGS BANK LIMITED

# Notice of ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE EIGHTTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE SRI LANKA SAVINGS BANK LIMITED WILL BE HELD ON 30th JUNE 2015 AT 10.00.A.M. AT ORGANIZATION OF PROFESSIONALS ASSOCIATION, BAUDDHALOKA MAWATHA , COLOMBO 07.

AGENDA

1. *To receive and to consider the Report of the Directors, Statement of Accounts and the Balance sheet of the Company for the year ended 31st December 2014 and the Report of the Auditors thereon.*
2. *To ratify the appointment of Messrs. SJMS Associates & Company as Auditors for the year ended 31st December 2015 on the terms of remuneration previously determined.*

By Order of the Board ,

R. Kularatne  
Company Secretary

Colombo

..... 2015.

Notes:

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

# Form of Proxy

SRI LANKA SAVINGS BANK LIMITED

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

- |                             |                           |
|-----------------------------|---------------------------|
| Mr. Asoka Somaratne         | of Colombo or failing him |
| Mr.Karunarathna Amarasinghe | of Colombo or failing him |
| Mr.Sashimal Madapatha       | of Colombo or failing him |
| Mr. Shanthilal Condegama    | of Colombo or failing him |
| Mr. P.N.Perera              | of Colombo or failing him |
| Mrs.D.C.Wickramarachchi     | of Colombo or failing him |
| Mrs. C.Kulatillake          | of Colombo or failing him |
| Mr. Sunil Witharanage       | of Colombo or failing him |
| Mr. Sam Samarasinghe        | of Colombo or failing him |
| Mr. Hiran Vichakshana       |                           |

.....of .....  
 .....as my /our proxy to represent me/us and vote for me/us on my/our behalf at the  
 Annual General Meeting of the Company to be held on the ..... day of ..... 2015.

and at any adjournment thereof. Signed this ...th day of ..... 2015.

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


For

Against

.....  
 Signature

In witness my/or\* hands this .....day of .....Two Thousand and Fifteen.

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

INSTRUCTIONS AS TO COMPLETION

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