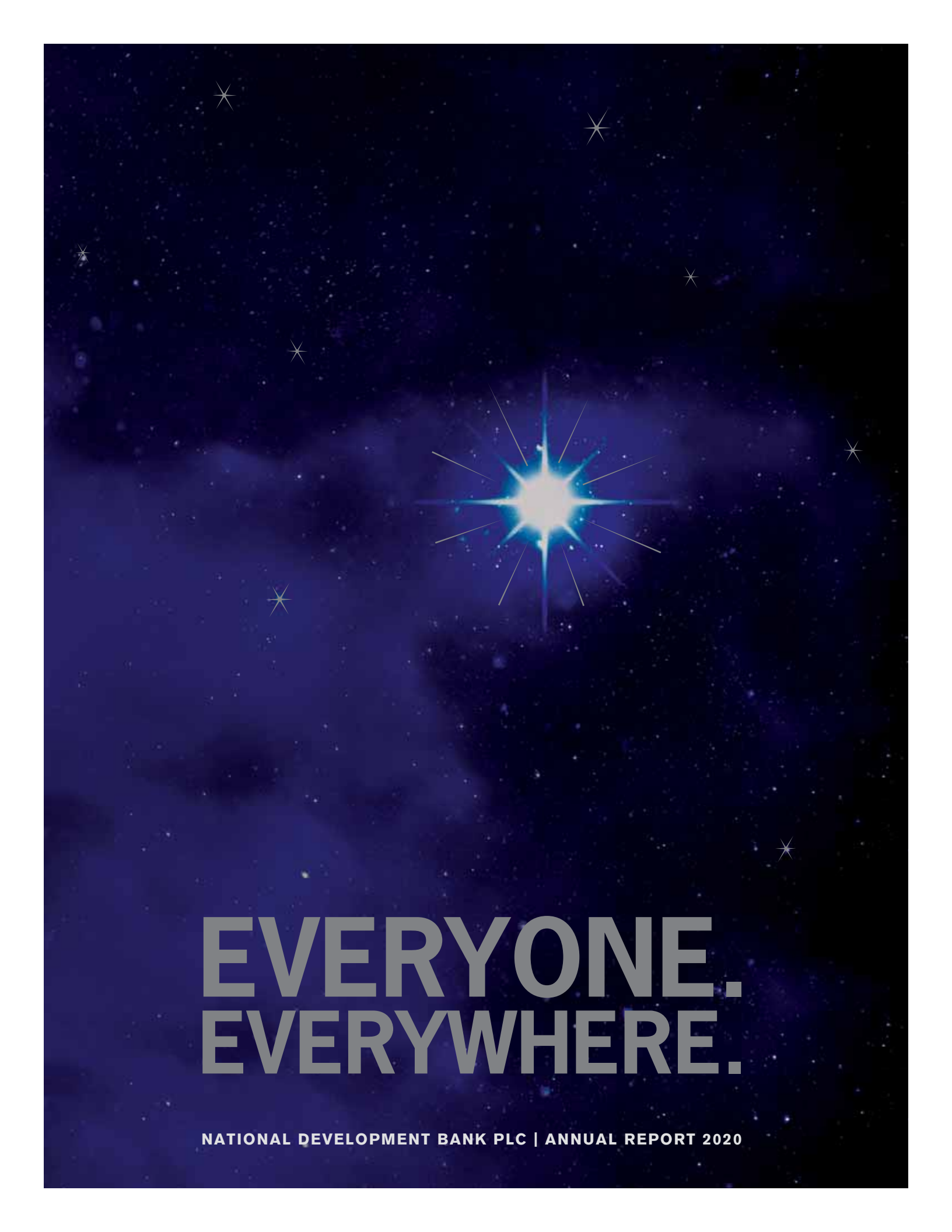
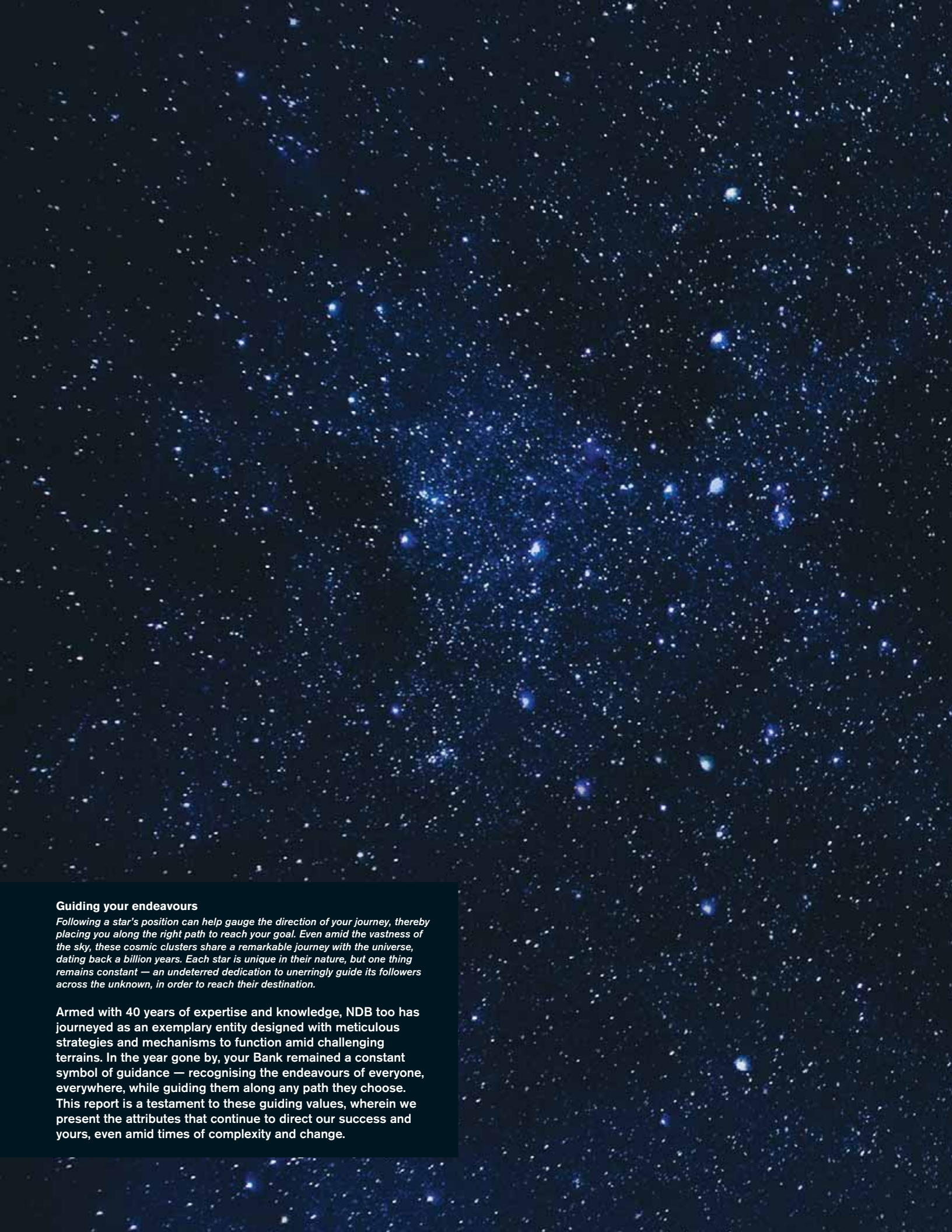




EVERYONE. EVERYWHERE.

NATIONAL DEVELOPMENT BANK PLC | ANNUAL REPORT 2020



Guiding your endeavours

Following a star's position can help gauge the direction of your journey, thereby placing you along the right path to reach your goal. Even amid the vastness of the sky, these cosmic clusters share a remarkable journey with the universe, dating back a billion years. Each star is unique in their nature, but one thing remains constant — an undeterred dedication to unerringly guide its followers across the unknown, in order to reach their destination.

Armed with 40 years of expertise and knowledge, NDB too has journeyed as an exemplary entity designed with meticulous strategies and mechanisms to function amid challenging terrains. In the year gone by, your Bank remained a constant symbol of guidance — recognising the endeavours of everyone, everywhere, while guiding them along any path they choose. This report is a testament to these guiding values, wherein we present the attributes that continue to direct our success and yours, even amid times of complexity and change.



Our Vision

To be the driving force for a financially empowered Sri Lanka.

Our Mission

To be the catalyst in the financial services industry by creating superior shareholder value and contributing to the national development through the empowerment of individuals with innovative financial solutions delivered by an inspired and dedicated team committed to excellence.

Values

Integrity

Creativity

Excellence

Sincerity

Accountability

Dependability



Scan the QR Code to read this Report on
<https://www.ndbbank.com/investor-relations/reports>

National Development Bank PLC

PQ 27

A+ (Ika) Stable Outlook –
Fitch Ratings Lanka Limited

EVERYONE. EVERYWHERE.

Throughout human civilisation, stars have served as a powerful and constant presence – a source of light, guidance and perspective; navigating everyone, everywhere as they journeyed forth to conquer even the most challenging of terrains, and the darkest of nights.

Today, NDB has established itself as a similarly powerful, omnipresent force in the Sri Lankan economy. We are an all-round banking and financial services group built to last and committed to offer our customers a range of streamlined, accessible and inclusive financial solutions designed to support every stage of their life's journey.

For over forty years, we have played our role in transforming Sri Lanka's economy and remain a steadfast partner in its growth trajectory. As our nation evolves, so do we, with our core function remaining the same: to serve the expanding financial needs of the people. Today, we're well equipped to keep pace with a fast-changing world; well-balanced, customer-centric and solid, yet versatile, innovative and agile.

And so, from Colombo to Batticaloa, Galle to Jaffna and even beyond our shores, we will continue to reach out and deliver the power and precision of our unique banking proposition to all our customers; whoever they are, whatever they do, wherever they're from.

NDB. Everyone. Everywhere.



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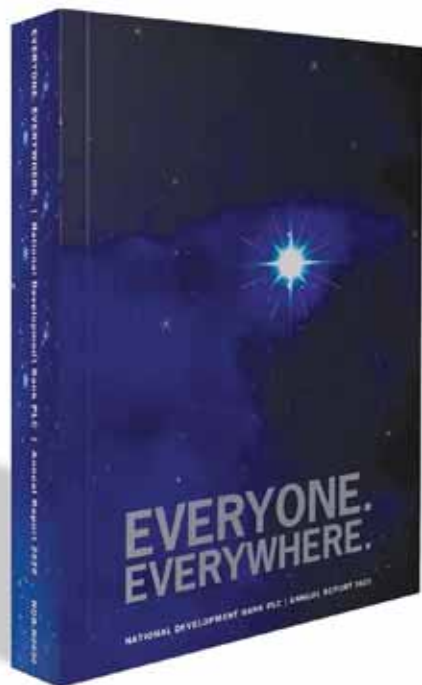
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Our Approach to Reporting



NATIONAL DEVELOPMENT BANK PLC

Everyone. Everywhere.

Annual Report 2020

WELCOME TO OUR INTEGRATED REPORT

Our 8th Integrated Annual Report, “Everyone. Everywhere.” aims to provide our stakeholders with a concise and holistic assessment of how we leverage our expertise in banking and capital market operations to create sustainable and shared value. The Report has been prepared in line with the Integrated Reporting <IR> Framework of the International Integrated Reporting Council and includes information on our strategy, operating environment, corporate governance, performance, and outlook. Given the unprecedented challenges that our stakeholders faced during the year, the Group placed strategic emphasis on fulfilling their needs and supporting them throughout the crisis; in aligning our reporting with this approach to broad-based value creation, the Report places increased emphasis on stakeholder value delivery.

The Report has also been prepared in accordance with the GRI Standards- Core option.

REPORTING SCOPE AND BOUNDARY

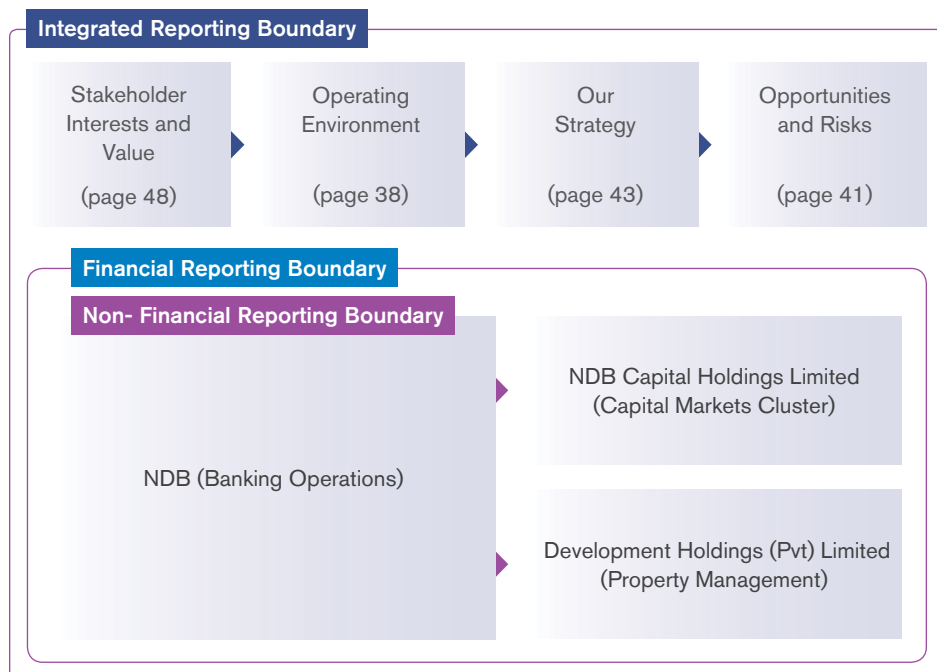
Reporting Entities: This Report covers the activities of National Development Bank PLC (“Bank”) and its’ Group companies (collectively referred to as the “Group”) in Sri Lanka which accounts for the majority of its operations. The Group also has investment banking and private equity management operations in Bangladesh and Mauritius respectively.

Reporting Period: We adopt an annual reporting cycle, and this Report relates to our operations from 01 January 2020 to 31 December 2020. Any material events after this date and up to the Board approval date of 18 February 2021 have also been included. Our previous report covering the financial year ended 31 December 2019 is available for download at www.ndbbank.com.

Restatement of Information: There were no significant changes in the size, structure, ownership, or supply chain of the organisation compared to 2019. There are also no material restatements of information provided in the previous report, unless otherwise mentioned.

Materiality: We have applied the principle of materiality in determining and prioritising the information to be included in this Report. Our material topics represent the issues, opportunities and challenges that could materially impact the Group’s ability to consistently deliver value to our stakeholders. The Group’s primary focus during the year was responding to the COVID-19 pandemic and this had a significant impact on our material matters during the year and in 2021. This is discussed on pages 50 to 51 in which we highlight our views of the pandemic’s implications on our material matters and our response.

Financial and Non-Financial Reporting: The Financial information presented in this Report represents consolidated information unless otherwise stated. The non-financial information relates only to the Bank given its dominance in the Group’s profile. As illustrated below, the boundary for the Integrated Report extends to broader aspects and relationships which are implicit in the Group’s value creation.



Our Approach to Reporting

FRAMEWORKS AND ASSURANCE

The content presented in this Report is prepared and guided by several mandatory and voluntary reporting frameworks, as presented below. We also adopt a combined assurance model to assess and assure the information provided, which includes internal mechanisms and external assurance. This year, Messrs. Ernst and Young have been engaged to provide external assurance on our Financial Statements, sustainability reporting and Director's Statement of Internal Controls; apart from this engagement as independent assurance providers, the Bank, Board of Directors and Leadership Team do not have any other relationship with Messrs. Ernst and Young.

	Financial Statements	Narrative Report	Sustainability Reporting	Corporate Governance
Standards and Principles	→ Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka → Banking Act No. 30 of 1988 and amendments thereto → Relevant circulars issued on reporting format by the Central Bank of Sri Lanka → Companies Act No. 7 of 2007 → Inland Revenue Act No. 24 of 2017 and amendments thereto → Guidelines for Presentation of Annual Reports 2021 - Issued by the Institute of Chartered Accountants of Sri Lanka	→ Integrated Reporting Framework of the International Integrated Reporting Council (including Revisions to the Framework published in January 2021) → Guidelines for Presentation of Annual Reports 2021 - Issued by the Institute of the Chartered Accountants of Sri Lanka	→ GRI standards - In Accordance (Core) → Sustainable Development Goals (SDG) Reporting → Gender Parity Reporting Framework issued by the Institute of Chartered Accountants of Sri Lanka → Guide on Communicating Sustainability - Colombo Stock Exchange	→ Banking Act Direction No. 11 of 2007 (as amended) → Listing Requirements of the Colombo Stock Exchange → Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (2017)
Internal Assurance Mechanism	→ Internal Audit → Robust framework of internal controls → Reporting to Audit Committee and Board of Directors	Board review	→ Assessment of non-financial information by the Corporate Sustainability function → Environmental and Social Governance on responsible lending	Robust governance framework which embeds regulations and best practices → Internal Code of Corporate Governance for Directors → Compliance Policy and Code of Conduct for employees and other governance-related policies of the Bank → Bank's compliance with the Corporate Governance Directions issued by CBSL and Code of Best practices on Corporate Governance available on page 308 of this Report → Reporting to the Integrated Risk Management Committee and Board of Directors
External Assurance Mechanism	Messrs. Ernst and Young		Messrs. Ernst and Young	Messrs. Ernst and Young Factual Finding Report submitted by the External Auditors in relation to compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended)

REPORTING IMPROVEMENTS

- ➔ Given the Group's strategic thrust towards deploying digital capabilities as a key enabler, we have introduced a dedicated chapter to discuss the transformation of the Group's Digital Capital
- ➔ Adoption of new GRI Standard - GRI 207 Tax
- ➔ We have clearly demonstrated the implications of COVID-19 on strategy execution in the respective areas of the Report
- ➔ More concise reporting with 26 pages reduced in the overall Report and 16 pages reduced in the main section of the Report in comparison to the 2019 Annual Report
- ➔ Increased focus and disclosure on stakeholder considerations and value generation

FORWARD LOOKING STATEMENTS

Forward-looking statements and forecasts pertaining to the Group's financial performance, position and operations have been derived through careful assessment and analysis of possible scenarios by the Management Team and duly approved by the Board. However, these statements involve an element of uncertainty given the exposure to external conditions; this could lead to actual results differing from the stated projections. These forward-looking statements have not been reviewed by the Group's auditors.

Board Responsibility

NDB's Board of Directors is ultimately responsible for ensuring the integrity of this Report. We hereby confirm that the 2020 Report addresses all relevant material matters and fairly represents the Group's integrated performance. The Board also confirms that the Report has been prepared in accordance with the requirements of the <IR> Framework. The Report is approved and authorised for publication.

Signed on behalf of the Board,



Ms. Shehani Ranasinghe
Vice President – Company Secretary

18 February 2021

Navigation Icons

Capitals as defined the <IR> Framework

-  Financial Capital
-  Human Capital
-  Manufactured Capital
-  Digital Capital
-  Intellectual Capital
-  Social and Relationship Capital
-  Natural Capital

Strategic Priorities

-  Business Focus
-  Operational Excellence
-  Digital as an Enabler
-  Customer Experience
-  Best in Class Staff
-  Group Synergy

Other references

-  Page Reference
-  Implications of COVID-19

FEEDBACK

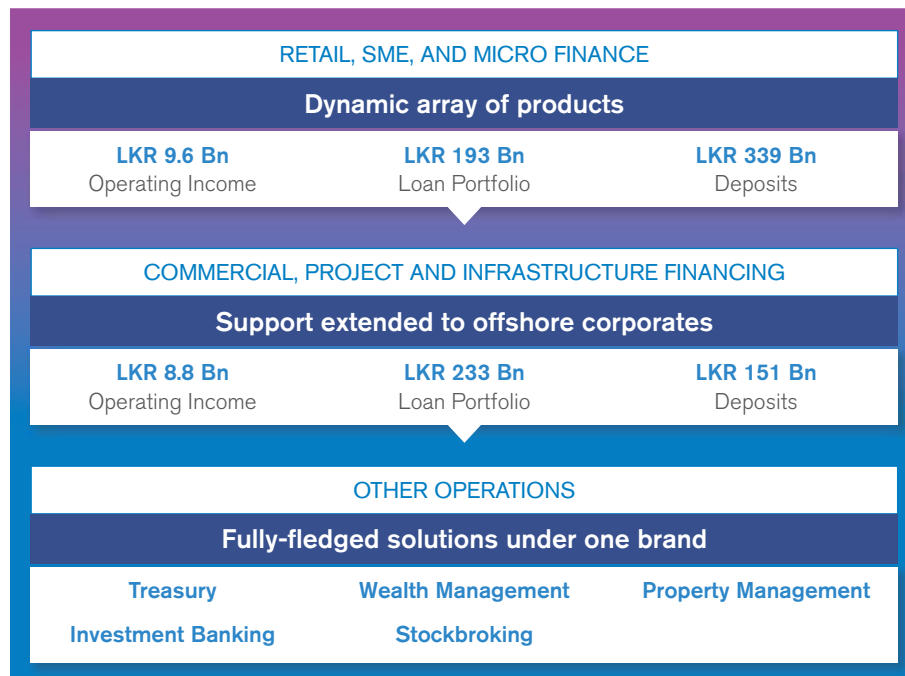
We welcome your suggestions and comments on further improving the readability and relevance of our Report. Kindly direct your feedback to Vice President - Company Secretary and/or Vice President - Finance (page 415).

Organisational Overview

About NDB

We are one of Sri Lanka's leading integrated financial services groups, offering an array of retail, SME, commercial, project and infrastructure financing and capital market solutions to every Sri Lankan, with a developmental orientation, through 274 touchpoints in 22 districts. Concerted efforts to pursue accelerated growth in targeted segments and a digital strategy which has driven customer-centric innovation and operational agility have resulted in strong growth in recent years, enabling the Group to emerge as one of Sri Lanka's fastest growing banks. A host of national and international awards garnered in recent years, including the coveted 'Bank of the Year 2020 - Sri Lanka' by The Banker Magazine, UK bears testimony to the soundness of NDB's transformational strategy, which has aptly positioned it to capture emerging growth opportunities.

BUSINESS VERTICALS



Financial Position	
LKR 632 Bn	Group Assets
LKR 45 Bn	Equity
LKR 490 Bn	Deposits
14.32 %	Total CAR
Connectivity	
113	Branches
161 ATMs	(including CRMs)
60 localities	with Branchless Banking
2	Phygital Branches
NEOS	Digital Platform
People & Partnerships	
2,892	Employees
+380	Suppliers
Board Strength	
9 Directors	With Diverse Skills
5	Independent Directors
2	Female Board Members

WHAT SETS US APART

1	2	3	4	5	6
Clearly defined, holistic strategy to drive sustainable growth	Integrated financial services provider offering banking and capital market solutions	Transformational digital strategy driving operational excellence and customer-centric solutions	Competent, dynamic team and unique organisational culture	Strong governance practices and sound risk management	Commitment to driving multi-stakeholder value through responsible business
 43	 56	 96	 85	 119 - 139	 135

Socio-Economic Impact

The Group directly and indirectly contributes towards Sri Lanka's socio-economic progress through its lending decisions, facilitating of transactions and capital market solutions. In 2020, our role as a financial intermediary was critical in ensuring continued support to businesses and individuals who grappled with the economic toll of the pandemic and contributing towards the revival of the broader economy. A brief overview of this contribution is given below and is addressed in detail in other areas of this Report.

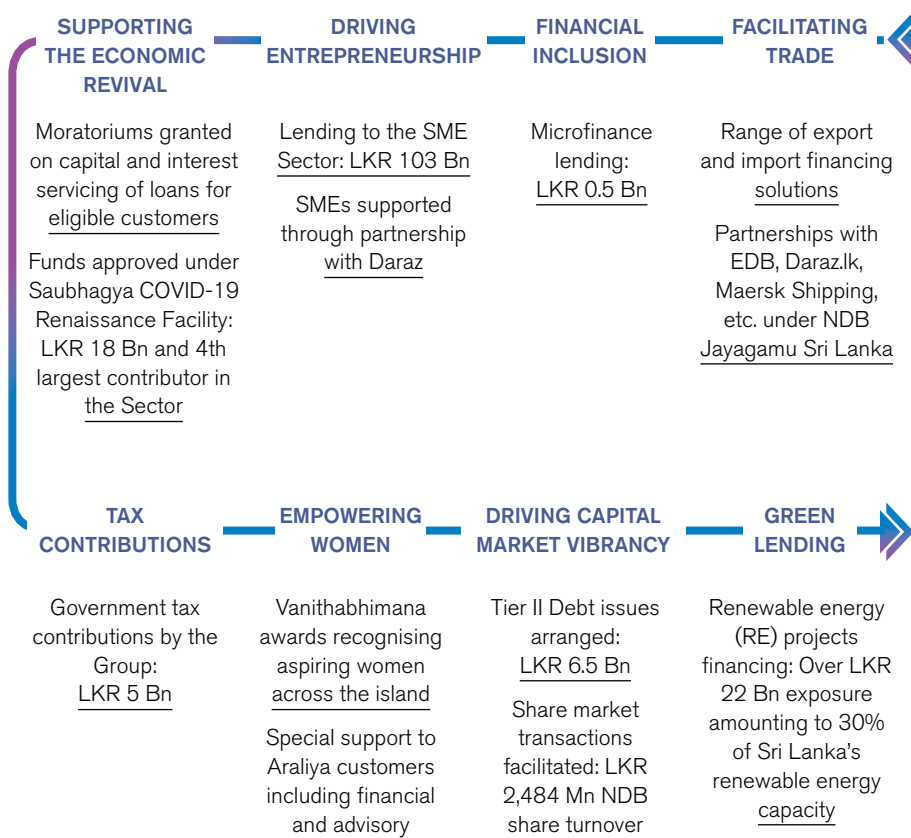
Supporting the economic revival: Moratoriums were granted to eligible customers who were affected by the pandemic, in both interest and capital servicing as our focus during the year shifted from collections to supporting customers during the crisis and ensuring their resilience and commercial sustainability.

Driving entrepreneurship: The Group plays a vital role in developing the country's MSME sector through providing funding for growth as well as building capacity and facilitating knowledge sharing through MSME workshops and corporate advisory. During the year, a new initiative was launched to facilitate onboarding entrepreneurs and SMEs to Daraz - a leading e-commerce platform thereby providing access to markets during the lockdown period and beyond.

Facilitating trade: As driving growth in exports emerged as a key national priority, the Bank launched NDB Jayagamu Sri Lanka - a multifaceted initiative aimed at facilitating market linkages, providing administrative, legal, technological and financial support to emerging exporters.

Empowering women: The Banking on Women initiative aims to drive socio-economic empowerment of women through offering both financial and non-financial support to develop their entrepreneurial skills and business ventures. The NDB Vanithabhimana awards sought to recognise over 700 women across the island who excelled in numerous avenues including entrepreneurship, education, and social services, among others.

Green lending: NDB is one of the largest lenders to the renewable energy sector a strategic focus area which allows it to combine both commercial and environmental objectives. Through its Project and Infrastructure Financing arm, the Bank has provided funding for around 30% of Sri Lanka's renewable energy projects in hydro, wind and solar.



ECONOMIC VALUE ADDITION AND DISTRIBUTION

For the year ended 31 December	2020 LKR Mn	2019 LKR Mn	2018 LKR Mn	2017 LKR Mn	2016 LKR Mn
Direct economic value generated	17,657	18,353	16,725	13,903	11,516
Economic value distributed					
Employees wages and benefits	5,172	4,957	4,444	3,611	3,435
Payments to providers of capital	3,935	4,180	3,460	3,920	2,909
Payments to Government	4,682	5,245	5,180	3,146	2,081
Community investments	11	25	22	20	27
Economic value retained	3,859	3,945	3,619	3,206	3,065

Investment Case

Track record of growth: A clear and targeted growth strategy in recent years has enabled the NDB Group to surpass industry growth in assets and profitability. NDB's assets have increased at a CAGR of 15% in the past 5 years, compared to the industry average of 9% while profit has nearly doubled during the period. Resultantly, NDB has emerged as the 4th largest private commercial bank in the country with increased penetration across the retail and SME segments, which has enabled it to build a more diverse and balanced business model.

Consistent shareholder returns: EPS and Net Assets Value per Share (NAVPS) have recorded consistent growth in line with the Group's strong profit performance. Although the share price underperformed in 2020, reflecting uncertainty and weaker sentiments in the wake of the pandemic. The price recorded an uptick since then increasing by 6% in the first two months of 2021.

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Strengthening competitive position: Strategic focus on enhancing the customer experience through innovative digital offerings, superior customer service and customised solutions has allowed the Group to strengthen its competitive position. This is evident in increased penetration across key segments, which has led to considerable growth in customers over the last five years. The Group's competitive position is also supported by its expertise in development banking and project financing as well as capital market services. NDB's brand visibility and value have also recorded consistent growth in recent years and it is frequently featured among the country's top brands.

Strength in investor relations: The Group has a strong track record in maintaining best-in-class investor relationships which comprises a robust shareholder communication strategy (which includes quarterly investor webinars, presentations, and transcripts) and a dedicated Investor Relations page in the corporate website. NDB has also won the coveted Gold award for Best Investor Relations at the annual CFA Sri Lanka Capital Market Awards for multiple years.

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Strong ESG practices: NDB adopts a holistic approach towards environmental and social sustainability, strategic focus on aspects such as gender equality, fair working practices, financial inclusion, capacity building, and green lending, among others. Strong governance practices are ensured through robust policy frameworks, structures which ensure judicious responsibility and balance of power and a culture which values transparency and integrity.

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Fast facts

15% Asset
5 year CAGR in Total Assets

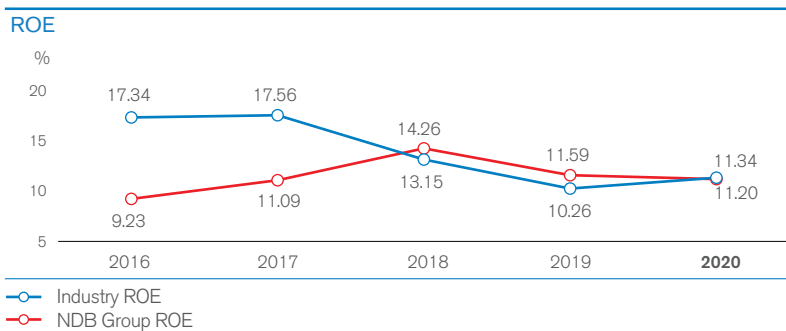
LKR 206.23
NAVPS (2019: LKR 195.60)

LKR 21.99
EPS (2019: LKR 20.53)

3.55
P/E ratio (2019: 4.87)

LKR 1.50
(as an interim dividend)
DPS (2019: LKR 7.00)

0.4
Price-to-book-value (2019: 0.5)



Awards and Recognition



We are proud to frequently be recognised as a leading performer in the banking industry as well as for our innovation, employee practices, investor relations and corporate reporting. Despite 2020 being an extremely challenging year, the Bank continued to earn recognition both domestically and internationally, attesting to the spirit of its people and its relentless pursuit of excellence across all spheres of operations.



The Banker Magazine UK -
The Bank of the Year
Sri Lanka 2020
[For the second year]



Global Finance's World's
Best Digital Bank Awards
2020 - The World's Best
Consumer Digital Banks -
Winner - Sri Lanka [For the
second consecutive year]



AsiaMoney Magazine - Country Best
Bank Awards - Best Domestic Bank
Sri Lanka [For the second
consecutive year]



Global Banking & Finance
Review UK - Best Financial
Services Group Sri Lanka
2020 [For the third
consecutive year]

ICCSL, Daily FT and CIMA
Top 10 Most Admired
Companies 2020 - Winner

Business Today Top 30
2019/2020 - Ranked 9th
[Defended the ranking
from 2019]



Finance Derivatives -
The Netherlands -
Best Domestic Bank
Sri Lanka 2020

Awards and Recognition



Overall Excellence

- The Banker Magazine UK - The Bank of the Year Sri Lanka 2020 [For the second year]
- Global Finance's World's Best Digital Bank Awards 2020 - The World's Best Consumer Digital Banks - Winner - Sri Lanka [For the second consecutive year]
- AsiaMoney Magazine - Country Best Bank Awards - Best Domestic Bank Sri Lanka [For the second consecutive year]
- Global Banking & Finance Review UK - Best financial services Group Sri Lanka 2020 [For the third consecutive year]
- ICCSL, Daily FT and CIMA Top 10 Most Admired Companies 2020 - Winner
- Business Today Top 30 2019/2020 - Ranked 9th [Defended the ranking from 2019]
- Finance Derivatives - The Netherlands - Best Domestic Bank Sri Lanka 2020

Excellence in Retail Banking products/services

- Global Banking & Finance Review UK - Best Retail Bank Sri Lanka 2020
- Global Private Banking Innovation Awards - Best Private Bank Sri Lanka [Global Award]
- Asian Banking & Finance Magazine Singapore - Retail Banking Awards 2020
 - Best Domestic Retail Bank of the Year [For the eighth consecutive year]
 - Banking for Women Initiative of the Year - Sri Lanka
 - Branch Innovation of the Year - [Regional award] Bronze
- Global Business Outlook - UK - Best Domestic Retail Bank - Sri Lanka 2020
- International Business Magazine - UAE - Best Retail Bank Sri Lanka 2020
- Global Economics Awards - UK 2020 - Best Credit Card Offerings - Sri Lanka
- International Finance - UK - Best Credit Card Sri Lanka - 2020 [For the second consecutive year]
- Cosmopolitan The Daily - UK - Best Bank for Auto-Financing - Sri Lanka 2020
- Finance Derivatives - The Netherlands - Best Bank For Empowering Women Customers Sri Lanka 2020

Excellence in SME Banking

- Global Banking & Finance Review UK - Best SME Bank Sri Lanka 2020 [For the fourth consecutive year]

Excellence in Corporate Banking

- Asian Banking & Finance Magazine Singapore - Wholesale Banking Awards 2020 - Best Domestic Cash Management Bank of the Year Sri Lanka [For the fourth year]
- Cosmopolitan The Daily - UK - Best Corporate Bank - Sri Lanka 2020
- Finance Derivatives - The Netherlands - Best Corporate Bank Sri Lanka 2020

Project Finance - Excellence in Project Financing

- Global Banking & Finance Review UK
 - Best Bank for Project Financing Sri Lanka 2020 [For the third consecutive year]
- Global Economics Awards - UK 2020 - Best Bank for Project Financing - Sri Lanka

- The Karlsruhe Sustainable Finance Awards 2020 - Certificate of Merit for Outstanding Sustainable Project Financing [For the second consecutive year]
- Asian Banking & Finance Magazine Singapore - Wholesale Banking Awards 2020
 - Best Domestic Project Finance Bank of the Year Sri Lanka [For the sixth consecutive year]
 - Innovative Deal of the Year - Sri Lanka
- Finance Derivatives - The Netherlands - Best Bank for Project and Infrastructure Financing Sri Lanka 2020
- Sri Lanka Islamic Banking & Finance Industry Awards 2020 - Gold award for the Deal of the Year 2019
- Islamic Finance Forum of South Asia 2020 - Bronze Award for the Deal of the Year 2019

Excellence in Digital Financial Services

- Global Banking & Finance Review UK - Best Bank Transformation Sri Lanka 2020 [For the second consecutive year]
- Asian Banking & Finance Magazine Singapore - Retail Banking Awards 2020 - Sri Lanka Domestic Initiative of the Year for Mobile Banking
- Global Retail Banking Innovation Awards 2020 - Best Robotic Process Automation Initiative 2020
- Sri Lanka Association for Software Services Companies (SLASSCOM) RPA Conference 2020 Awards - Runner-up - Best Post - COVID-19 Innovation for Business Continuity Category
- Finance Derivatives - The Netherlands - Best Bank For Digital Financial Channels Sri Lanka 2020

Excellence in Islamic Banking

- Sri Lanka Islamic Banking & Finance Industry Awards 2020 - Bronze Award for Islamic Banking Unit of the Year 2019
- Sri Lanka Islamic Banking & Finance Industry Awards 2020 - Bronze Award for Islamic Banking Unit of the Year 2019

Excellence in Corporate Sustainability

- Ceylon Chamber of Commerce - Best Corporate Citizen Sustainability Award 2020
 - Top Ten Corporate Citizen Award
 - Certificate for Consistent Commitment and Continuous Improvement on Governance

Excellence in Human Resource Management

- The Colombo Leadership Academy for Leadership Excellence recognition - Organisation with Great Managers [For the second consecutive year]
- AIA Healthiest Workplace Survey Awards conducted by AIA Vitality- Winner - Healthiest Employees (Large Organisations Category)
- AIA Healthiest Workplace Survey Awards conducted by AIA Vitality- Winner - amongst New Entrants (Large Organisations Category)
- Sri Lanka Best Employer Brand Awards 2020 - Winner
- CIMA Sri Lanka Top Employer Ranking - 9th place

Excellence in Marketing & Sales

- Finance Derivatives - The Netherlands - Best Bank For Marketing Campaign (NDB Araliya) Sri Lanka 2020
- Sri Lanka Institute of Marketing Digis 2.0 Awards
 - Grand Prix Award for the Best Digital Marketing Campaign - NDB Balance Transfer 'Hirawelada'
 - Gold Award in the Banking & Finance Sector for the NDB Balance Transfer 'Hirawelada' Campaign
 - Gold Award in Best Performance Marketing campaign was for the NDB NEOS Mobile Banking Launch Campaign
 - Finalist Award in the Banking & Finance category was awarded for the NDB Credit Card "Seethala Season Ekata Hot Offers"

Excellence in annual reports presentation

- 2019 NDB Annual Report - Our Voyage Beyond
 - CMA Excellence in Integrated Reporting Awards 2020
 - Winner - Silver Award across all sectors
 - Special Award for Best Disclosures on Capitals
 - Winner - Ten Best Integrated Reports
 - Best Integrated Report - Banking Sector [For the second consecutive year]
- SAFA Best Presented Annual Report Awards, Integrated Reporting Award & SAARC Anniversary Award for Corporate Governance Disclosures 2019 - Certificate of Merit - Private Sector Banks [including Co-operative Banks]

Leadership awards

- International Business Magazine - UAE - Dimantha Seneviratne - Best Banking CEO Of The Year 2020 Sri Lanka

Excellence in Investor relations

- International Business Magazine - UAE - Best Investor Relations Bank Sri Lanka 2020

AWARDS WON BY GROUP COMPANIES

NDB Investment Bank Limited

- Euromoney Magazine Awards for Excellence 2020 - Sri Lanka's Best Investment Bank [For the Ninth consecutive year]
- AsiaMoney Banking Awards 2020 - Best Corporate and Investment Bank Sri Lanka 2020 [For the fourth consecutive year]
- Global Brands Magazine - 2020 - Most Trusted Investment Banking Brand, Sri Lanka [For the sixth consecutive year]
- FinanceAsia's Annual Country Awards - 2020 - Best Investment Bank in Sri Lanka [For the fourth consecutive year]
- Asian Banking & Finance Magazine Singapore - Corporate & Investment Banking Awards 2020 - Corporate & Investment Bank of the Year - Sri Lanka [For the second consecutive year]
- Global Business Outlook - UK - Best Investment Bank - Sri Lanka 2020
- The Global Economics Awards 2020 - Most Innovative Investment Bank - Sri Lanka

Performance Highlights

For the year ended 31 December	BANK			GROUP		
	2020 LKR Mn	2019 LKR Mn	Change %	2020 LKR Mn	2019 LKR Mn	Change %
Results for the Year						
Gross income	60,658	59,114	3	61,632	60,237	2
Operating profit before tax on financial services	9,206	10,054	(8)	9,209	9,992	(8)
Taxation	3,676	4,943	(26)	3,992	5,107	(22)
Profit for the year	5,530	5,112	8	5,217	4,885	7
Profit attributable to equity holders of the parent	5,530	5,112	8	5,117	4,776	7
Gross dividends for the year (Interim-2020/Final-2019)	349	1,553	(78)	349	1,553	(78)
Assets and Liabilities						
Deposits for customers	490,278	405,048	21	489,659	404,668	21
Gross loans and receivables	443,537	409,221	8	443,613	409,245	8
Total assets	626,837	529,594	18	632,132	535,600	18
Total equity (stated capital and reserves)	44,781	39,484	13	47,976	43,383	11
Profitability (%)						
Net interest margin	3.07	3.53	(13)	3.07	3.54	(13)
Non-performing loans ratio	5.35	4.77	12	5.35	4.77	12
Total impairment provision as a % of gross loans and advances (%)	4.04	3.07	32	4.04	3.07	32
Return on assets (before taxes)	1.59	2.01	(21)	1.58	1.97	(20)
Return on equity	13.13	13.73	(4)	11.20	11.59	(3)
Total leverage (times)	14.00	13.41	4	13.18	12.34	7
Cost to income ratio	37.00	39.90	(7)	39.39	41.96	(6)
Investor Information (LKR)						
Net asset value per share	192.49	178.02	8	206.23	195.60	5
Market value per share - as at 31 December	78.10	100.00	(22)	N/A	N/A	-
Earnings per share - basic/diluted	23.77	21.97	8	21.99	20.53	7
Price earnings (times)	3.29	4.55	(28)	N/A	N/A	-
Dividend per share (Interim - 2020/Final - 2019) *	1.50	7.00	(79)	N/A	N/A	-
Dividend cover (times) *	-	3.14	-	N/A	N/A	-
Dividend yield (%) *	-	7.00	-	N/A	N/A	-
Market capitalisation (LKR Mn)	18,169	22,180	(18)	N/A	N/A	-
Regulatory Ratios (%)						
Statutory liquid assets ratio:						
Domestic Banking Unit (DBU) (Minimum Requirement - 20%)	28.84	20.93	38	N/A	N/A	-
Offshore Banking Unit (FCBU) (Minimum Requirement - 20%)	26.88	24.78	8	N/A	N/A	-
Capital Adequacy Ratios (under Basel III Standards)						
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.5% (2019 - 7.0%))	9.17	9.18	(0)	9.73	10.15	(4)
Tier 1 Capital Ratio (Minimum Requirement - 8.0% (2019 - 8.5%))	9.17	9.18	(0)	9.73	10.15	(4)
Total Capital Ratio (Minimum Requirement - 12.0% (2019 - 12.5%))	14.32	13.43	7	14.75	14.20	4
Liquidity Ratios (under Basel III Liquidity Standards)						
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 90% (2019 - 100%))	161.97	162.42	(0)	N/A	N/A	-
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 90% (2019 - 100%))	157.12	153.26	3	N/A	N/A	-
Leverage ratio (Minimum requirement - 3%)	5.56	6.09	(9)	5.97	6.81	(12)
Net Stable Funding Ratio (%) (Minimum Requirement - 90%) (2019 - 100%)	112.52	108.92	3	N/A	N/A	-

* The Board of Directors approved and declared an interim cash dividend of LKR 1.50 per share for the year ended 31 December 2020. Therefore the Dividend Cover and Dividend Yield for the year 2020 are not disclosed.

FINANCIAL GOALS AND ACHIEVEMENTS

	GOALS	ACHIEVEMENTS				
		2020	2019	2018	2017	2016
Financial Indicators - Bank						
Return on assets (before taxes) (%)	Over 1.5%	1.59	2.01	2.22	2.10	1.66
Return on equity (%)	Over 15%	13.13	13.73	17.41	16.27	13.36
Growth in total operating income (%)	Over 20%	7.00	10.00	33.44	22.82	7.71
Cost to income ratio	Below 45%	37.00	39.99	39.34	45.48	49.04
Growth in profit after tax (%)	Over 20%	8.00	(8.00)	27.5	37.26	(9.72)
Growth in total assets (%)	Over 15%	18.00	12.00	23.45	14.51	8.21
Capital Adequacy Ratios - Bank						
Common Equity Tier 1 Capital Ratio - (Minimum requirement - 6.5% in 2020)	Over 9%	9.17	9.18	9.17	8.85	N/A
Total Tier 1 Capital Ratio - (Minimum requirement - 8.0% in 2020)	Over 9%	9.17	9.18	9.17	8.85	9.31
Total Capital Ratio - (Minimum requirement - 12.0% in 2020)	Over 13%	14.32	13.43	12.63	13.89	12.95

Stakeholder Value Creation

SHAREHOLDERS

- Attributable profit **LKR 5,117 Mn** (2019: LKR 4,776 Mn)
- Return on Equity **11.20%** (2019: 11.59%)
- Earnings per Share **LKR 21.99** (2019: LKR 20.53)
- Net Asset Value per Share **LKR 206.23** (2019: LKR 195.60)

ENVIRONMENT

- Electricity consumption - **5,490,407 kWh** (2019: 5,597,696 kWh)
- Paper consumption - **40,087 Kg** (2019: 57,055 Kg)
- Carbon footprint - **2,515 tCO₂e** (2019: 2,594 tCO₂e)
- Emission intensity (tCO₂e per LKR Mn Revenue) - **0.04** (2019: 0.04)

EMPLOYEES

- Total employees **2,892** (2019: 2,936)
- Employee expenses **LKR 5,172 Mn** (2019: LKR 4,957 Mn)
- Value addition per employee **LKR 1.8 Mn** (2019: LKR 1.7 Mn)
- Investment in training **LKR 18.67 Mn** (2019: LKR 50 Mn)
- Total training hours **63,518** (2019: 117,188)
- Female representation - Overall **39%** (2019: 40%)
- Female representation - Senior Management **33%** (2019: 35%)
- Number of promotions **110** (2019: 286)
- Return to work after parental leave - **98%**

SUPPLIERS AND BUSINESS PARTNERS

- Number of suppliers: **+ 380**
- Countries with Correspondent Relationships: **92**

COMMUNITIES

- Investment in CSR: **LKR 11.4 Mn** (2019: LKR 25 Mn)
- Number of beneficiaries: **+143,000** (2019: 764,221)
- Volunteer hours: **+1,100** (2019: 8,571)

CUSTOMER VALUE

- Customer contact points **274** (2019: 266)
- New branches added **1** (2019: 4)
- Interest Expenses **LKR 29,029 Mn** (2019: LKR 28,848 Mn)
- Digitally active clients **55%** (2019: 35%)
- Digital transactions **80%** (2019: 71%)
- Customer feedback score: **9 out of 10** (2019: 9)

REGULATORS/GOVERNMENT

- Revenue to Government by the Group: **LKR 5 Bn**
- **4th** highest Bank in the industry to approve Funds under the Saubhagya COVID-19 Renaissance Facility: **12%** of total CBSL scheme
- Lending portfolio outside the Western Province: **16%**

Operating Environment

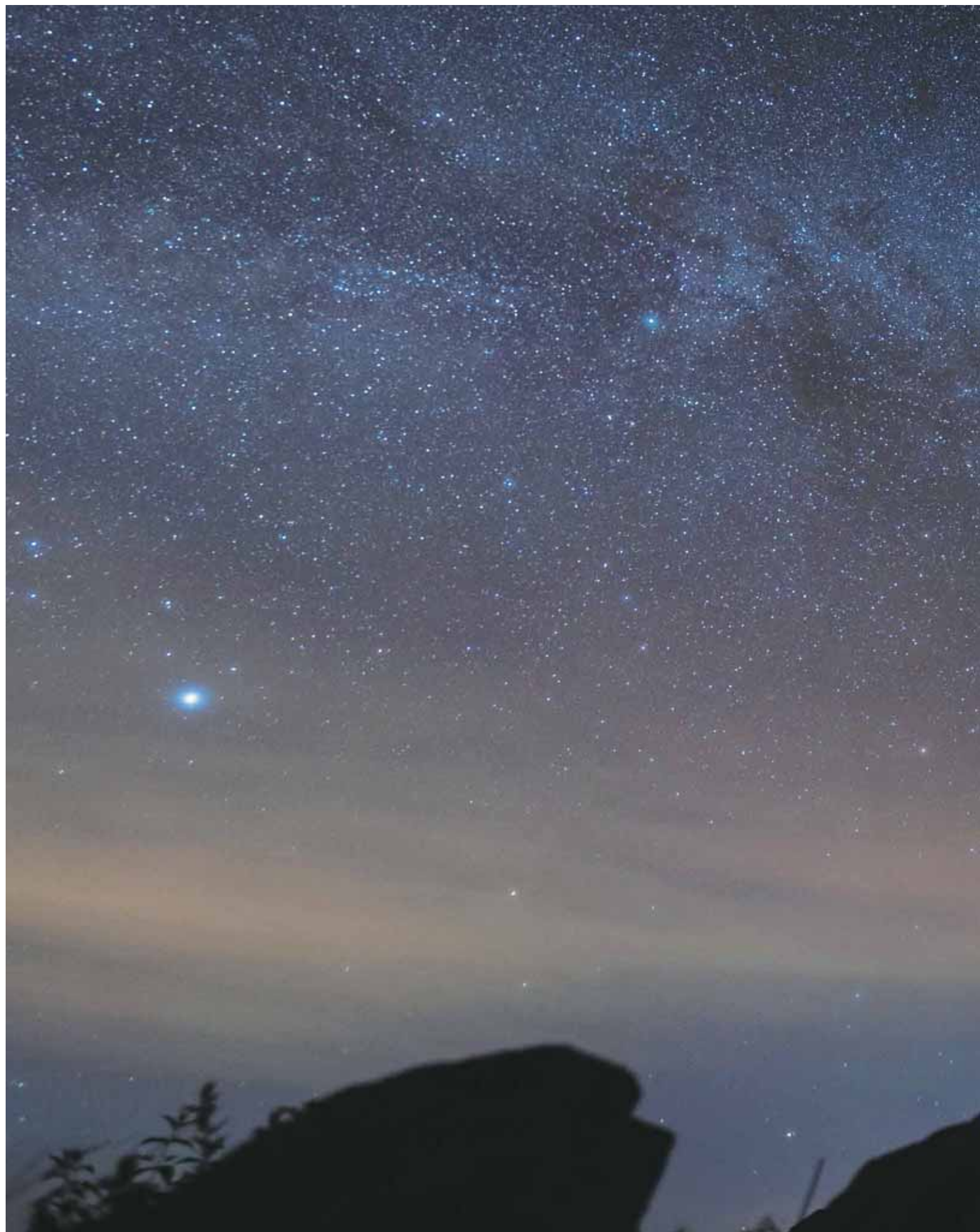
- Unprecedented operating challenges stemming from the outbreak of COVID-19
- Slowdown in credit demand
- Accommodative monetary policy and stimulus to drive economic activity
- Debt moratoriums and relief measures announced
- Persistently low interest rate environment

Strategic Priorities

- Ensuring safety of employees and customers
- Supporting customers through the crisis by offering debt relief, restructuring and access to concessionary funding
- Enhance transactional banking footprint
- Drive increased digital penetration
- Process efficiencies and productivity improvement initiatives

Way Forward

- Support the economic revival through pursuing growth in selected sectors
- Embrace the new realities of the workplace in further improving efficiency
- Accelerate digital capabilities from an 'enabling' role to a 'transformational' role
- Leverage Group synergies to drive holistic, customer-centric solutions



LEADERSHIP

The North Star or the Polaris is the anchor of the northern sky — a landmark that determines the northern direction, and is considered to be the brightest star in the Ursa Minor constellation, guiding and leading its followers towards a purposeful destination.

At NDB we continued to position ourselves as a beacon of inspiration and hope, leading and positioning our stakeholders on a journey towards progress. As a powerful entity responsible for the economic growth of the nation, the following pages reflect on the strong leadership and apt strategies which enabled NDB to emerge as a remarkable and constant star of hope.

Chairman's Message



Mr. Eshana de Silva
Chairman

It was a defining year for National Development Bank PLC, as it forged ahead in its journey of transformation and value creation despite innumerable challenges that prevailed in an extraordinary year. It is therefore my pleasure to present to you the Integrated Annual Report and financial statements for the financial year ended 31st December 2020.

Needless to say, the economic and social impacts of COVID-19 is unlike anything seen before, with deep and wide-ranging ramifications on communities, organisations and economies. The pandemic also accelerated fundamental changes in customer behaviour, operating models and work practices, dynamics which NDB was quick to identify and respond to, through strategically flexing its approach to value creation. Accordingly, the Bank continued to deliver on its shareholder commitments while sharpening its competitive edge and strengthening its brand as a formidable force in the banking industry.

OPERATING ENVIRONMENT

As nations struggled to contain rising infections, the inevitable economic fallout of extended lockdowns and border closures has been devastating. Resultantly, the global economy entered a recession during the year, with global output contracting by 3.5% and millions facing unemployment following business closures. Understandably, Sri Lanka's economic conditions moderated and the external sector was impacted by capital outflows and the sharp drop in tourism earnings. The timely import restrictions imposed helped manage the downside and preserve the exchange rate. Also the Government's efforts to curtail the spread of the pandemic have been commendable, as early lockdowns during the initial outbreak in March 2020 prevented an escalation of infections.

Meanwhile, the regulator and Government took proactive and timely measures to revive the economy through debt moratoriums and concessionary loan schemes for impacted individuals and businesses. An accommodative monetary policy aimed at stimulating the economy through multiple reductions in the Policy Rates and Statutory Reserves Ratio, led to sustained reductions in market interest rates. The Government also provided policy stimulus to the export and local manufacturing sectors, with the aim of bolstering foreign exchange income and preserving forex outflows on non-essential items. These measures augured well with the economy picking up speed and expanding by 1.5% in the 3rd quarter, (compared to a sharp contraction in the 2nd quarter) although the surge in infections from October 2020 is likely to have hampered growth in the last quarter.

SUPPORTING THE ECONOMIC REVIVAL

NDB was quick to recognise the banking sectors' vital role in supporting the country's economic revival and the critical interdependencies in ensuring the sustainability of our customers, the broader economy, and the Bank. We accordingly embraced our role as change agents, adopting a shared approach to value creation while balancing stakeholder interests. In addition to proactively responding to customers' essential banking needs through the deployment of mobile ATMs and increased digital penetration, the Bank launched unique initiatives such as NDB Jayagamu Sri Lanka, which aimed to support export

oriented organisations through a holistic value proposition. Further details of this initiative are available in the Group Chief Executive Officer's review on page 20 of this Report. The Bank also exceeded regulator requirements by offering a 2-month moratorium to customers. Meanwhile, with approvals of LKR 18 Bn, the Bank was the fourth largest lender under the Saubagya COVID-19 Renaissance Facility introduced by the Central Bank of Sri Lanka.

DELIVERING PERFORMANCE

The Bank's performance during the year was defined by continued growth across business verticals, relentless focus on preserving portfolio quality and significant cost savings generated through process efficiencies and new ways of working. Despite the slowdown in credit demand, NDB recorded credit growth of 8% during the year, which in turn led to a 3% increase in Gross Income. A holistic Organisational Efficiency and Effectiveness improvement (OEE) programme resulted in the Bank's cost to income ratio declining further to 37% and ranking among the lowest in the industry. Understandably, impairments escalated although the Bank's proactive monitoring and close customer engagement enabled it to stem the increase in the average NPA ratio to 5.35%. Despite a slight moderation at operating profit level, the Bank's pre-tax and post-tax profit increased by 6% and 8% during the year supported by the removal of the Debt Repayment Levy and Nation Building Tax which led to a decrease in the effective tax rate. From a strategy perspective, the Bank focused on leveraging digital capabilities to transform the customer experience, driving growth in fee-based income, and achieving operational excellence through automation and productivity enhancements.

EMBEDDING SUSTAINABILITY

Despite the challenges that prevailed the Bank continued to drive efforts in integrating sustainability into its core strategy and operations. We successfully launched the Sri Lanka Vanithabhimana award scheme, the first-of-its kind to recognise and empower women across various disciplines. The Banking on Women initiative aims to empower women through knowledge forums, tailor-made products, and access to affordable funding avenues. The Bank also made progress in its environmental initiatives including reforestation, conservation through education and a home agriculture programme for employees.

Chairman's Message

Implications of COVID-19 on NDB

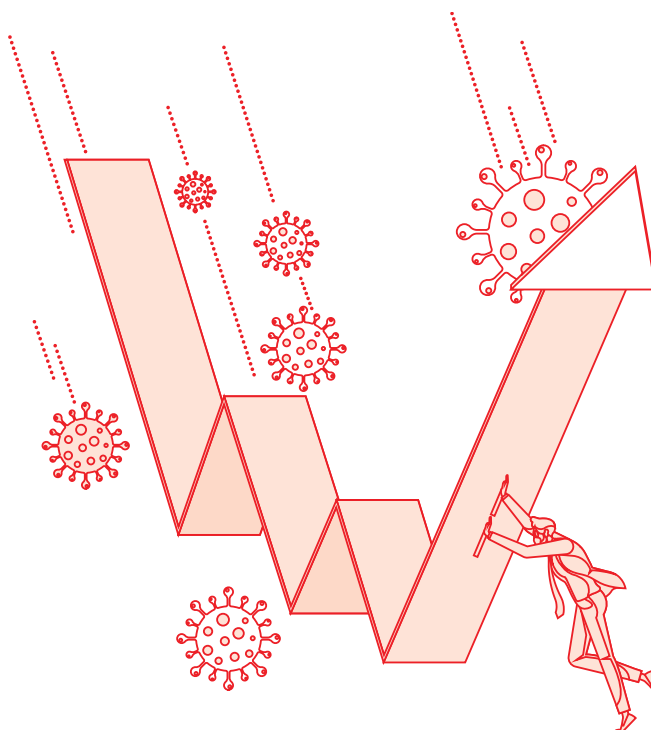
Disruptions to traditional working models

Increased vulnerability to employee health and safety risk

Moderation in portfolio quality and increased risk of defaults

Impact of low interest rate environment on the Bank's NIMs

Heightened IT and cybersecurity risk



NDB's response

Adapting to new work practices and ways of working

Implementation of stringent health and safety measures across the Bank.

Supporting customers through the crisis by offering debt relief and access to concessionary funding

Strategic focus in driving growth in fee-based income and organisation-wide operational efficiency and effectiveness initiative

Strengthened IT and cybersecurity infrastructure

LEADING WITH INTEGRITY

The corporate governance landscape is evolving rapidly, reflecting regulatory changes, a dynamic external environment, ubiquity of digitisation and increased focus on environmental and social aspects. The NDB Board continues to adapt to these changes, with ongoing efforts to strengthen the governance framework, nurture a values-driven organisational culture and enhance the effectiveness of employee engagement platforms. In addition to my appointment as Chairman, 4 new directors were appointed to the Board, bringing in fresh perspectives and industry insights which have enhanced the skill composition on the Board. I take this opportunity to welcome Mr. Sujeewa Mudalige, Ms. Hiransa Kaluthantri, Mr. Hiran Perera, and Mr. Kushan D'Alwis, PC to the Board. Board priorities for 2020 included monitoring the implications of COVID-19 on our portfolio and operations, implementing measures to ensure safety of employees, approval of the strategic plan for 2021-2025, delivering the Bank's digital strategy and exploring avenues for raising capital.

EXTERNAL RECOGNITION

Ambitious efforts to transform NDB through repositioning its business model, enhancing client centricity, and achieving operational excellence are frequently recognised through numerous domestic and international awards. During the year, the Bank won over 50 awards for multiple aspects including overall excellence, digital solutions, business verticals, people management and corporate reporting, among others. Key achievements in 2020 included winning the coveted 'Bank of the Year 2020' by the Banker Magazine UK for the second year, 'The Best Consumer Digital Bank in Sri Lanka' by Global Finance's World's Best Digital Bank Awards 2020 for the second consecutive year and 'Best Financial Services Group in Sri Lanka 2020' by Global Banking & Finance Review UK for the third consecutive year.

ADAPTING TO THE NEW NORMAL

At the time of concluding this review, Sri Lanka has commenced its vaccination drive and despite the recent surge in infections, sentiments remain upbeat. The sustained reduction in market interest rates, policy stimulus towards the export sector and the opening of borders for tourist arrivals are expected to gradually revive economic activity. From a macro-economic perspective, managing the country's short-to-medium term foreign debt settlements remains a key priority. While being cognizant of these challenges, the Bank is optimistic regarding the country's growth trajectory and will continue to support businesses in driving economic activity. Our agile and responsive business model has enabled the Bank to quickly adapt to the new normal and embrace the new realities of a changed world. The Voyage 2025 strategy will position NDB to achieve its next phase of growth, focusing on customer-centricity, lifecycle banking and digital as a transformer. The Bank's recent Rights Issue which was announced in October 2020 will net LKR 8 Bn, enhancing its capital position and providing a solid platform to pursue organic and inorganic growth. We are also currently pursuing further

funding opportunities with several multi-lateral funding agencies and are confident of facilitating the inflow of much-needed foreign currency to the country, through the combined expertise of the Bank and its capital markets cluster subsidiary companies.

APPRECIATION

I take this opportunity to thank my predecessor, Mr. Kavan Ratnayake and the outgoing Directors for their valuable contributions over the years. I join the Board in expressing my congratulations and thanks to the Group Chief Executive Officer Mr. Dimantha Seneviratne and the Leadership Team for successfully steering the Bank in these unprecedented times. Team NDB's spirit and resilience has been the driving force behind the Bank's success and I remain deeply grateful to each and every employee of the Group for their untiring efforts in a challenging year. I wish to also thank my fellow Directors for their valuable counsel during the year and look forward to working with them in the coming year. I would also like to take this opportunity to extend my gratitude and appreciation to the Governor and officials of the Central Bank of Sri Lanka, our valuable customers, business partners and all other stakeholders who have been an integral part of the Bank's success story.



Mr. Eshana de Silva
Chairman

18 February 2021
Colombo

Group Chief Executive Officer's Review



Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer

Disruption creates opportunity to reinvent, rethink, even pivot, and for NDB Group, 2020 was a year which together with its extraordinary challenges, presented opportunities for invaluable learnings. Despite the challenging operating conditions that prevailed we maintained focus on our strategic growth targets, however, pursuing different ways of achieving our aspirations in a dramatically different world. Against this backdrop, I am pleased to report that in addition to significant strategic, operational, and financial progress, the Group's responsive approach in driving multi-stakeholder value enabled it to deepen its socio-economic relevance, positioning it for long term, sustainable growth. While we continued to receive widespread domestic and international recognition for our achievements, the Group's true victory in 2020 has been its ability to strengthen relationships with its stakeholders through a holistic and sustainable value-accretive strategy.

EMBEDDING RESILIENCE

As the first wave of COVID-19 infections hit Sri Lanka in March 2020, our key priority was to ensure the physical and mental well-being of our employees and catering to the immediate banking transaction needs of our customers. With banking being classified as an essential service, we activated our pandemic response plan and implemented stringent safety and hygiene measures to ensure the safety of our team and customers. The Leadership Team also made it a priority to maintain continuous and open engagement with the team, as we understood the vital importance of sustaining employee morale given the uncertainty that prevailed. With the support of the Board, a definitive decision was made to retain all employees at full remuneration. We promptly identified and responded to the public's essential banking needs such as cash withdrawals, deposits, and bill payments through the deployment of mobile ATMs-emerging as the first bank to do so during the lockdown. As the Group quickly adapted to the new realities of the operating environment, strategic emphasis was placed on accelerating our digital journey, enabling the Group to effectively capitalise on customers' rapid and likely-permanent shift to digital platforms. Internally, we strategised relentlessly and persistently, exploring innovative and unique propositions and delivery platforms which would ensure agility and resilience in the short-term while driving sustainability and economic-value creation in the post-pandemic environment.

STRATEGIC AND OPERATIONAL PROGRESS

While the broader aspirations set out by Transformation 2020 remained unchanged, we sought a strategic re-alignment given the conditions that prevailed, which in turn tested the Group's adaptability and responsiveness. I am delighted to report that the Group has successfully achieved the objectives set out by Transformation 2020, which was conceptualised and launched in 2017, even reaching key goals prior to targeted timelines, and placing it on a solid platform to drive the next phase of growth.

From a business perspective, our key priority during the year was aiding our customers through the crisis by offering debt moratoriums, customised repayment plans and access to concessionary funding. We also enhanced our support role by establishing a dedicated unit within the credit function to proactively

engage with SME customers. In addition to the moratoriums prescribed by the regulator, the Bank offered a blanket 2-month moratorium for customers across business verticals. NDB also emerged as the fourth largest lender under the Saubhagya COVID-19 Renaissance Facility which aimed to support the working capital requirements of affected businesses across selected sectors at concessionary rates.

Given economic and industry challenges during the year, the Group strategised on launching propositions that would address the Bank's own challenges including pressure on interest margins, forgone fee based income and rising impairments, while directly contributing to the revival of the broader economy through driving export income. Against this backdrop, NDB Jayagamu Sri Lanka (Bringing Victory to Sri Lanka) was launched in mid-2020 in the aftermath of the first lockdown, with the timely objective of supporting exporters and emerging entrepreneurs through a holistic value proposition offering multi-faceted capacity development, market access, and financial support. We also leveraged relationships with the Bank's wider eco-system partnering government authorities, e-commerce and IT-solution providers and logistic and shipping operators to provide better solutions for customers. The initiative has supported customer acquisition, while driving considerable growth in our transactional banking footprint and fee-based income. By end-December 2020, we reached out to many new and existing customers through NDB Jayagamu Sri Lanka, with exporters directed to the Export Development Board's Export Development Programme.

The Group also made significant progress in its digital drive. Value added features to the NEOS app including the launch of interoperable QR payments dubbed as NEOS PAY, launch of NEOS online baking for a true omni-channel experience and increased functionality have positioned it as a robust and effective platform in driving the shift towards cashless banking. Digital transactions accounted for 80% of the Group's total transactions during the year, with digitally active customers increasing to 55% of our total customer base. In the aftermath of the pandemic, transaction values routed via the NEOS platform increased by over 400% compared to 2019. We also leveraged our digital capabilities to drive increased process automation while strengthening data visualisation and analytical capabilities to drive better decision making.

Group Chief Executive Officer's Review

We launched an organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE), which involved a deep dive analysis of revenue, costs, and profitability. The widely successful initiative has led to sustainable reductions in overhead costs, revealing new and more effective ways of working. Resultantly, the Bank's controllable costs reduced by 8% during the year, while the cost to income ratio was trimmed to 37%, currently among the best in the industry.

OUR PERFORMANCE

As credit demand slowed, we continued to drive growth in selected sectors which led to an 8% gross portfolio growth. At the Bank level, net interest income (NII) remained relatively unchanged, reflecting considerable pressure on interest margins. This was somewhat offset by 9% growth in net fee and commission income as we proactively sought to strengthen the transactional banking footprint. Total operating income increased by 7% to LKR 25.4 Bn, a commendable achievement given the operating conditions that prevailed.

As expected, the banking industry recorded a weakening of portfolio quality. Accordingly, impairment charges increased by 63% during the year while the Gross NPL ratio amounted to 5.35%. Prudent provisioning resulted in the net NPL ratio clocking in at 3.23%.

Operating profit (after tax on financial services) recorded an increase of 6% to LKR 7.4 Bn supported by income growth, cost efficiencies as well as a decline in tax expenses, while Profit after Tax increased by 8% to LKR 5.5 Bn during the year. Profit attributable to shareholders grew by 7% to LKR 5.1 Bn.

The Group continued to drive Balance Sheet growth, with total assets expanding by 18% to LKR 632 Bn. This was funded by deposit growth of LKR 21%, as the Group leveraged its strengthening franchise and branch network to garner deposits. Despite the low interest rate environment that prevailed the CASA base increased by 53%.

The expertise and the market leader positions of the Group's capital market cluster subsidiary companies also contributed towards the Group's enhanced performance over the year. The Group's efforts in providing a holistic value proposition to the customer through the synergies NDB enjoys as a unique financial services group benefitted the Group and its customers alike.

Over the past four years, as we pursued Balance Sheet expansion, we placed parallel importance and focus on strengthening our capital base, which increased from LKR 31 Bn in 2016 to LKR 49 Bn in 2020, clocking in an impressive CAGR of 12%. Capital will be further strengthened following a minimum of LKR 8 Bn injection through a Rights Issue which is expected to be completed during the first half of 2021, affording a strong platform for further growth.

STAKEHOLDER VALUE CREATION

I firmly believe that the Group's resilience in 2020 was underpinned by its overarching focus on stakeholder value creation during the year, as key decisions were centred on how we could support stakeholders through the pandemic.

Customers: We leveraged our branchless banking proposition to provide access to cash and essential banking transactions from the outset of the pandemic, thereby leading the industry response. As described earlier, considerable time and resources were spent on formulating customised debt relief schemes to customers, which enabled them to weather the crisis and enhance resilience supporting the gradual recovery of businesses. These efforts coming to fruition was reflected in the fact that a considerably lesser percentage of the Bank's loan book was seeking the second tranche of the moratorium, which was announced in response to the second wave of infections, compared to 40% in April 2020 when the first tranche of the moratorium was announced. Meanwhile unique initiatives such as NDB Jayagamu Sri Lanka have placed customers on an effective platform to drive sustainable growth in their businesses through accessing the right resources, partnerships, and knowledge.

Shareholders: Effective implementation of a timely and proactive strategy enabled the Group to deliver its shareholder commitments despite the myriad challenges that prevailed. Earnings per Share and Net Assets per Share recorded growth while the Group's Return on Equity clocked in at 11.2% during the year.

Employees: We facilitated remote working arrangements to employees in critical support functions and always maintained transparent and proactive engagement to ensure employees were aware of emerging developments. The Group also offered transport facilities for employees in critical functions given the pandemic situation while training and engagement initiatives continued through digital platforms.

Customers

LKR 18 Bn approvals under Saubhagya COVID-19 Renaissance Facility

Moratoriums granted to eligible customers

Facilitated LKR 2 Tn digital transactions

Shareholders

8% growth in Bank post tax profitability

EPS: LKR 21.99

NAVPS: LKR 206.23

Employees

LKR 1.8 Mn Remuneration per employee

Communities

LKR 11.4 Mn investment in community engagement

Facilitated access to essential banking services during the lockdown

Government

LKR 5 Bn tax contribution by the Group

Supporting the Government's national economic recovery agenda

Women and Communities: Driving the socio-economic empowerment of women is both a commercial and sustainability objective for the Group. We launched the Sri Lanka Vanithabhimana (Pride of Women) recognition programme during the year, through which we recognised the efforts of 79 top women excelling in multiple disciplines across the country, and created a platform for over 8,000 women to showcase their talents. The programme, which was initially held physically, converted to virtual programmes, undaunted by the restrictions brought by the pandemic. Through the Banking on Women initiative the Bank continued to invest in capacity building of women entrepreneurs through workshops and digital platforms. We also continued to invest in numerous CSR initiatives aimed at addressing critical societal and environmental issues including education, climate change and deforestation.

OUR WINNING TEAM

It was a year which truly tested the mettle of our team and I am extremely proud of the passion and agility they demonstrated during the year. We ensured that all employees received regular updates on the Bank's objectives and action plans and that their needs were given due consideration when implementing new work practices. Over the last few years, we have focused on nurturing a strong pipeline of talent and these efforts came to fruition during the year as several key positions including vacancies in the Leadership Team were filled internally. In addition to ongoing opportunities for enhancing technical and soft skills, our development proposition included lateral moves, which over the medium-term will enable the creation of a multi-skilled workforce. An organisational change management programme, aligned to the aspirations of Voyage 2025 is currently underway with focus on hardwiring the learnings obtained from 2020 while transforming our team to become more customer-centric, agile, and competitive.

WAY FORWARD

The beginning of 2021 has brought with it a sense of renewed optimism and we are excited about the opportunities presented by the country's expected economic recovery. Following the successful culmination of Transformation 2020 the Group is now geared to embark on its next phase of growth through

Voyage 2025 - our strategic agenda for 2021-2025. Voyage 2025 aims to leverage on NDB's combined strengths in banking and capital markets, a distinct advantage which will enable it to offer holistic and seamless solutions across business verticals. Customer centricity will be central to this agenda as we expand beyond traditional solutions to offer innovative and competitive offerings which would drive increased wallet share. Strengthening our transactional banking footprint will also be a key priority as we leverage our market-leading digital capabilities and branch network to drive customer acquisition and deeper relationships with existing customers. As the Banking sector will be compelled to adjust to the low-interest rate environment, we will seek to drive increased operational efficiencies to build a leaner, more responsive organisation while increasing contributions from fee-based income. The Group's improved capital strength has aptly positioned it to drive its ambitious targets, as we pursue organic and inorganic growth to solidify our position as a leader in Sri Lanka's financial services sector.

APPRECIATION

As we look forward to an exciting year for NDB, I would like to take this opportunity to extend my gratitude to the Chairman and Board of Directors for their valuable counsel and continued confidence placed in me and my Leadership Team. The year 2020 has reinforced my belief that team NDB is the Group's greatest asset and I thank each and every employee for their remarkable efforts in delivering results in an extraordinarily difficult year. I would also like to thank the Governor and officials of the Central Bank of Sri Lanka as well as the Sri Lanka Banks' Association, of which I had the privilege of being the Chairman for year 2020, for their continued support and partnerships. Finally, I would like to place on record my deepest appreciation to our valued customers, shareholders, business partners and other stakeholders for their continued loyalty and support.



Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer

18 February 2021
Colombo

Board of Directors



Mr. Sujeewa Mudalige
Non-Executive
Independent Director

Ms. Hiransa Kaluthantri
Non-Executive
Non-Independent Director

Mr. Kushan D'Alwis, PC
Non-Executive
Independent Director

Ms. Shehani Ranasinghe
Company Secretary

Mr. Eshana de Silva
Chairman
Non-Executive
Independent Director



Mr. Dimantha Seneviratne
Group Chief
Executive Officer
Non-Independent Director

Mr. Sriyan Cooray
Non-Executive
Independent Director

Mr. Bernard Sinniah
Non-Executive
Non-Independent Director

Dr. Dinusha Panditaratne
Non-Executive
Independent Director

Mr. Hiran Perera
Non-Executive
Non-Independent Director

Board of Directors

MR. ESHANA DE SILVA

Chairman

Non-Executive Independent Director

Date of appointment:

14 May 2020

Date of Last Re-election/Re-appointment as a Director:

25 June 2020

Length of Service as a Director:

7 months

Skills and experience

Mr. Eshana de Silva was appointed as Director and Chairman of the Bank on 14 May 2020. Having built his career in the business world, Mr. de Silva has previously played a pivotal role in Pan Asia Banking Corporation PLC (PABC) as its Director, Deputy Chairman and Chairman respectively in 2008, 2012 and 2016. He retired as Chairman of PABC in 2017 after 9 years of service. Whilst with PABC, Mr. de Silva was also Chairman of the Board Credit Committee and the Board Related Party Review Committee. Mr de Silva also bags experience from his services rendered as a Director of the Board of Investment (BOI) from 2007-2013 where he also served as Chairman of the BOI Audit Committee. He has also served as a Board Member of the Sri Lanka Ports Authority from 2008-2013. His experience and expertise spans over 20 years.

Concurrent appointments

Chairman of many companies including the Esna Group of companies, Hanjin Shipping Lanka, Shermans Logistic (Pvt) Limited, Star Leisure (Pvt) Limited, Esna Holidays (Pvt) Limited and Director of several other companies in the InterOcean Group and the Sherman Sons Group. Mr. de Silva is also a Director of Fortress Resorts PLC and is the Honorary Consul for the Republic of Kazakhstan since 2011 to date.

MR. DIMANTHA SENEVIRATNE

Group Chief Executive Officer

Executive Non-Independent Director

Date of appointment:

01 January 2017

Date of Last Re-election/Re-appointment as a Director:

N/A

Length of Service as a Director:

4 years

Skills and experience

Mr. Dimantha Seneviratne, Group Chief Executive Officer (GCEO) of the Bank, counts 31 years in the banking industry. Prior to joining the Bank he was the Director/CEO of Pan Asia Banking Corporation PLC (PABC) and prior to that, he spent 15 years with the HSBC Group, where he held key senior management positions including Chief Risk Officer Post for Sri Lanka and Maldives, Bangladesh and Thailand where he was also responsible for business growth, strategy and governance in those respective geographies as a member of the Country Leadership Team.

Mr. Seneviratne commenced his banking career with Sampath Bank and has also served in Overseas Trust Bank, Colombo Branch and Saudi British Bank prior to joining HSBC.

Mr. Seneviratne holds a MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura, and BSc, from the same University. He is a Senior Fellow Member (SFIB) of the Institute of Bankers, Sri Lanka and a Post Graduate Diploma Holder in computer system design from NIBM. He successfully completed the High Potential Leadership Programme at the Harvard Business School, Boston, USA, in 2016.

He was the former Chairman of Sri Lanka Banks' Association (Guarantee) Limited and a Past President of The Association of Professional Bankers (APB) Sri Lanka, having held various positions in the Executive Council of the APB for over a decade.

Concurrent appointments

Chairman, Development Holdings (Pvt) Limited, Director Credit Information Bureau - Sri Lanka, Lanka Clear (Pvt) Limited and several subsidiaries of the Bank.

MR. SRIYAN COORAY

Non-Executive Independent Director

Date of appointment:

10 August 2018

Date of Last Re-election/Re-appointment as a Director:

28 March 2019

Length of Service as a Director:

2 years 4 months

Skills and experience

An accomplished banker with 28 years of experience at HSBC, Mr. Cooray has served in a wide range of areas ranging from Finance, Operations, Compliance, Administration and Retail Banking at HSBC and retired from HSBC - Sri Lanka and Maldives as the Chief Operating Officer in May 2018. He also functioned in the position of Acting CEO over the last 10 years at HSBC.

Prior to joining HSBC, Mr. Cooray was Financial Controller of Speville M & W Limited (1987 -1990) and prior to that engaged with KPMG Ford Rhodes Thornton & Company, Chartered Accountants.

Mr. Cooray is a fellow of the Chartered Institute of Management Accountants.

Concurrent appointments

Director - Orient Finance PLC

MR. BERNARD SINNIAH

Non-Executive Non-Independent Director

Date of appointment:
28 March 2019

Date of Last Re-election/Re-appointment as
a Director:
25 June 2020

Length of Service as a Director:
1 year 9 months

Skills and experience

A veteran banker, Mr. Sinniah retired in 2018 as Managing Director of Citibank and Global Head of FX Corporate Sales and e-FX Solutions after 38 illustrious years of service, having started his career at Citibank Colombo, then moving to Citibank Australia, and ending his career based out of London.

Mr. Sinniah holds a Masters in Applied Finance (Macquarie University, Australia)

Concurrent appointments

Director Transact Lanka, Codevus (Pvt) Limited, Youcan (UK), Knightsbridge eCommerce, SenzAgro, Arogya (US) and several subsidiaries of the Bank.

DR. DINUSHA PANDITARATNE

Non-Executive Independent Director

Date of appointment:
24 July 2019

Date of Last Re-election/Re-appointment as
a Director:
25 June 2020

Length of Service as a Director:
1 year 5 months

Skills and experience

Dr. Dinusha Panditaratne is an (honorary) Nonresident Fellow of Lakshman Kadirgamar Institute (LKI). She previously served as Executive Director of LKI for three years, was an Assistant Professor at the Faculty of Law at the Chinese University of Hong Kong and a Visiting Fellow at the University of Hong Kong. As an attorney admitted to practice in the State of New York, she also previously worked at the Corporate Finance Department of Milbank LLP.

Dr. Panditaratne is an Advisor to Verité Research, Sri Lanka and has served on the International Advisory Board of the Asian University for Women in Bangladesh.

Dr. Panditaratne is a first class honours graduate from the University of Oxford. She received her Master's and Doctorate from Yale University, USA.

Concurrent appointments

Non-Executive Director - Centre for Equality and Justice (Guarantee) Limited and Centre for Policy Alternatives (Guarantee) Limited

MR. SUJEEWA MUDALIGE

Non-Executive Independent Director

Date of appointment:
06 January 2020

Date of Last Re-election/Re-appointment as
a Director:
25 June 2020

Length of Service as a Director:
11 months

Skills and experience

Mr. Mudalige counts over 31 years of experience as a Chartered Accountant. His qualifications are FCA (ICA - SL), FCMA (CIMA - UK), FCCA (ACCA - UK) and FCPA (CPA - Australia).

Mr. Mudalige has vast experience as the Audit Committee Chair in both public and private sector organisations. He is a past President of ICASL and has been a member of the Council of ICASL and of the Governing Board of CIMA UK, Sri Lanka Division, a Commission member of the Securities and Exchange Commission of Sri Lanka and held several such other positions locally and globally during the span of his career.

Mr. Mudalige was an Independent Non-Executive Director of Hatton National Bank PLC (HNB) from 2012 to 2019 and was a Chair and member of several of its Board subcommittees during his tenure with HNB. He was also the Deputy Chairman of the Financial System Stability Consultative Committee of the CBSL.

Concurrent appointments

He is the Managing Partner of PwC, Sri Lanka and a Director of its related companies and Non-Executive Chairman of Mercantile Services Provident Society. He is also an Independent Non-Executive Director at CIC Holdings PLC, CIC Feeds group, NSBM Green University, Link Natural Products Limited and Alethea School. He also serves as a committee member of the Ceylon Chamber of Commerce.

Board of Directors

MS. HIRANSA KALUTHANTRI

Non-Executive Non-Independent Director

Date of appointment:
24 February 2020

Date of Last Re-election/Re-appointment as a Director:
N/A

Length of Service as a Director:
10 months

Skills and experience

Ms. Kaluthantri, possesses over 20 years of experience as a public officer of the Sri Lanka Administrative Service (SLAS) and has previously functioned in the capacity of Director at the Department of Management Services and the Department of Trade and Investment Policy. She has also functioned in the capacity of Assistant Director at the Department of National Budget, General Treasury for over 10 years.

Ms. Kaluthantri holds a Master's Degree in Economics from the James Cook University, Australia, a Bachelor's Degree in Economics from the University of Sri Jayawardanapura, Sri Lanka.

Concurrent appointments

Director General of the Department of Management Services, General Treasury.

MR. HIRAN PERERA

Non-Executive Non-Independent Director

Date of appointment:
23 April 2020

Date of Last Re-election/Re-appointment as a Director:
25 June 2020

Length of Service as a Director:
8 months

Skills and experience

Counting a period of 28 years as a Corporate Banker, Mr Perera has held various senior management positions in HSBC and also gained experience in overseas banking. He was the Acting Chief Risk Officer and Head of Wholesale Risk, Sri Lanka and Maldives. He was a member of the management committee and was identified for HSBC's talent pool. He was also a former corporate trainer in the Middle East for international trade and corporate lending.

Mr. Perera joined Softlogic in 2013 to head its treasury function excluding the two regulated companies of the Group. He was also a Director of the Board of Softlogic Finance PLC.

Concurrent appointments

None

MR. KUSHAN D'ALWIS, PRESIDENT'S COUNSEL

Non-Executive Independent Director

Date of appointment:
6 July 2020

Date of Last Re-election/Re-appointment as a Director:
N/A

Length of Service as a Director:
5 months

Skills and experience

Mr. Kushan D'Alwis, an Attorney at Law was appointed as President's Counsel in 2012. He possesses over 35 years of experience in the legal fraternity extensively practicing in the fields of civil, corporate, commercial and administrative law before the Supreme Court, Court of Appeal, Civil Appellate High Court, Commercial High Court and District Courts within Sri Lanka. He also has experience in alternate dispute resolution mechanisms such as arbitration, advising on corporate legal matters, regulatory frameworks, compliance requirements and legal due diligence.

Mr. D'Alwis has served as a Member of the Law Commission of Sri Lanka, Member of the Public Representations Committee on Constitutional Reforms, Member of the Panel of Legal Advisors to the Tax Appeals Commission, Member of the National Council for Economic Development (NCED) of the Ministry of Finance and Planning, Vice Chairman of the Rent Board of Review, Member of the Executive Committee of the Bar Association of Sri Lanka, Representative of the Sri Lanka Bar Association to the Business Recovery and Insolvency Practitioners' Association of Sri Lanka (BRIPASL), Vice President of the Colombo Law Society and Vice Chairman of the Civil Aviation Authority of Sri Lanka.

Concurrent appointments

Chairman, Office of National Unity and Reconciliation and Director, Lanka Hospitals Corporation PLC and Vurthiya Lanka (Pvt) Limited

MS. SHEHANI RANASINGHE

Company Secretary

Ms. Shehani Ranasinghe was appointed as the Company Secretary of the Bank in 2012. She was formerly attached to the Legal Department of the Bank where she gained experience in corporate banking and financial law, investment banking and legal advisory services during her career spanning over 27 years with the Bank. She has also functioned as the Company Secretary of several subsidiary companies of the Bank prior to her appointment as the Company Secretary of the Bank. She is an Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka, a Notary Public, Commissioner for Oaths, Qualified Company Secretary and earned her Bachelor of Arts (Hons) degree from the University of Colombo.

Concurrent appointments

None

The Leadership Team



01 Mr. Dimantha Seneviratne

Director/Group Chief Executive Officer

02 Mr. Buwaneka Perera

Senior Vice President - Corporate Banking

03 Mr. Sanjaya Perera

Senior Vice President - Personal Banking, Marketing & Customer Experience

04 Mr. Deepal Akuretiyagama

Chief Operating Officer

05 Mr. Niran Mahawatte

Vice President - Treasury

06 Mr. Indika Ranaweera

Vice President - SME Middle Market and Business Banking

07 Ms. Ishani Palliyaguru

Vice President - Project Finance & Corporate Credit Control

08 Mr. K V Vinoj

Vice President - Wholesale Banking

09 Mr. Zeyan Hameed

Vice President - Branch Network Management & Product Development



10 Ms. Shanti Gnanapragasam
Vice President/Chief Risk Officer

11 Ms. Suvendrini Muthukumarana
Vice President – Finance

12 Ms. Ruwani De Silva
Vice President - Group Audit

13 Ms. Shehani Ranasinghe
Vice President/Company Secretary

14 Ms. Melody Wickramanayake
Vice President - Legal

15 Mr. Rajeev Munasinghe
Vice President/Chief Information Officer

16 Mr. Lasantha Dasanayaka
Vice President - Group Human Resources

17 Ms. Manique Kiriella Bandara
Assistant Vice President/
Compliance Officer

18 Mr. Damitha Silva
Assistant Vice President - Digital Financial
Services

19 Mr. Shanka Abeywardene
Assistant Vice President -
Corporate Planning & Business Intelligence

The Leadership Team

01 Mr. Dimantha Seneviratne

Director/Group Chief Executive Officer

Please refer page 26 for the profile

02 Mr. Buwaneka Perera

Senior Vice President - Corporate Banking

Bachelor's Degree in Financial Services (University of Manchester - UK), PG Dip. in Bank Financial Management (University of Sri Jayewardenepura), Associate Member (Chartered Institute of Bankers - UK)

41 years of experience, including 22 years with NDB

03 Mr. Sanjaya Perera

Senior Vice President - Personal Banking, Marketing & Customer Experience

MBA (PIM - University of Sri Jayewardenepura), Fellow Member (IBSL), Passed Finalist AAT (UK)

30 years of experience, including 05 years with NDB

04 Mr. Deepal Akuretiyagama

Chief Operating Officer

FCMA (UK), CGMA, Fellow Member of British Computer Society - Chartered Institute for IT (UK), M.Sc. in IT - First Class (Keele University - UK), Passed Finalist (Australian Computer Society Examinations), Green Belt - Six Sigma Certification - HSBC Hyderabad, Project Management Certification (CICC - Japan), Leadership Skills Certification (Asian Institute of Management)

27 years of banking experience, including 2.5 years with NDB

05 Mr. Niran Mahawatte

Vice President - Treasury

B.Sc. (University of Colombo), FCMA (UK), CGMA

28 years of experience, including 19 years with NDB

06 Mr. Indika Ranaweera

Vice President - SME, Middle Market & Business Banking

MBA - Merit (University of Colombo), MFE - Merit (University of Colombo), B.Sc. Engineering (Hons) (University of Moratuwa), PGDBM (University of Colombo)

25 years of experience, including 22 years with NDB

07 Ms. Ishani Palliyaguru

Vice President - Project Finance & Corporate Credit Control

B.Sc. - First Class (University of Colombo), MBA - Merit (PIM - University of Sri Jayewardenepura), FCMA (UK), CGMA, ACMA (SL), AIB (SL)

24 years of experience, including 21 years with NDB

08 Mr. K V Vinoj

Vice President - Wholesale Banking

MBA (University of Southern Queensland), MFE - Merit (University of Colombo), PGDBF (Cranfield University School of Management UK/CA SL), NDHRM (IPM SL), CMA (Australia), ACSI (UK)

28 years of banking experience, including 15 years with NDB

09 Mr. Zeyan Hameed

Vice President - Branch Network Management & Product Development

ACMA (UK), CGMA

28 years of banking experience, including 3.5 years with NDB

10 Ms. Shanti Gnanapragasam

Vice President/Chief Risk Officer

B.Sc. (University of Madras), FCMA (UK), CGMA

38 years of banking experience, including 05 years with NDB

11 Ms. Suvendrini Muthukumarana

Vice President - Finance

FCA (SL), B.Sc. (University of Colombo)

26 years of experience, including 20 years with NDB

12 Ms. Ruwani De Silva

Vice President - Group Audit

FCA (SL), FCMA (UK), CGMA

25 years of experience, including 19 years with NDB

13 Ms. Shehani Ranasinghe

Vice President/Company Secretary

Please refer page 29 for the profile

14 Ms. Melody Wickramanayake

Vice President - Legal

Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka, Commissioner for Oaths and Qualified Company Secretary

29 years of experience, including 27 years with NDB

15 Mr. Rajeev Munasinghe

Vice President/Chief Information Officer

M.Sc. in IT (Keele University - UK), Dip. in Computer System Design (NIBM)

22 years of experience, including 2.5 years with NDB

16 Mr. Lasantha Dasanayaka

Vice President - Group Human Resources

BBA (UNEM), Certified HR Manager & Fellow Member of the Cambridge Association of Managers (UK)

22 years of experience, including 1.5 years with NDB

17 Ms. Manique Kiriella Bandara

Assistant Vice President/ Compliance Officer

LLB (University of Colombo), Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka

24 years of experience with NDB

18 Mr. Damitha Silva

Assistant Vice President - Digital Financial Services

MBA - Merit (PIM - University of Sri Jayewardenepura), Associate Member (IBSL)

22 years of experience, including 03 years with NDB

19 Mr. Shanka Abeywardene

Assistant Vice President - Corporate Planning & Business Intelligence

FCMA (UK), M.Sc. in Auditing, Management Accounting and Information Systems (SKEMA - France), Member of the Chartered Institute of Securities and Investment (UK)

21 years of experience, including 02 years with NDB

Senior Management



Mr. Priyantha Gamage

Assistant Vice President -
Branch Operations

MBA (University of Southern Queensland),
PG Dip. in Business & Finance (ICASL),
CISSP (ISC2-USA), CISI (UK) - Risk in
Financial Services

26 years of experience in banking



Mr. Gihan Punchihewa

Assistant Vice President -
Privilege Select Banking

LLM Master of Laws (Business with
Finance) (Cardiff Metropolitan University -
UK), MBA (Anglia Ruskin University - UK),
BA (Hons) - First Class - (University of
Wales), PG Dip. in Business Strategy (ABP -
UK), PQHRM (CIPM - SL), ADBM (NIBM)

15 years of experience in banking



Mr. Rivindu Nanayakkara

Assistant Vice President - Operations
- Trade Services, Payments &
Settlements

40 years of experience in banking



Ms. Ganga Wanigaratne

Assistant Vice President - Operations
- Account Services &
Credit Administration

35 years of experience in banking



Mr. Indika Tennakoon

Assistant Vice President - Retail Credit

MBA - Merit (University of Colombo),
MFE - Merit (University of Colombo), B.Sc.
Physical Science (University of Colombo)

28 years of experience in banking



Mr. Vijitha Wettimuny

Assistant Vice President -
Administration

Graduated as Commissioned Officer of
Sri Lanka Air Force

10 years of experience with 1.5 years in
banking



Mr. Sunil Karunaratne

Assistant Vice President - Treasury

MBA (University of Western Sydney)

35 years of experience in banking



Mr. Damitha Samaranayake

Assistant Vice President - Treasury

Associate Member (IBSL), ACI Dealing
Certificate - Paris

29 years of experience in banking



Mr. Gehan Biyanwila

Assistant Vice President -
Asset and Liability Management

CFA Charterholder, ACI Dip.,
ACI Dealing Certificate - Paris

24 years of experience with 23 years in
banking



Mr. Indika Kudagamage

Assistant Vice President -
Business Banking, SME, Micro
Finance & Liabilities

Bachelor of Engineering - First Class (Birla
Institute of Technology - India), MAFE - Merit
(University of Colombo), MIISE (USA)

24 years of experience in banking



Mr. Amal Yapa

Assistant Vice President -
Wholesale Banking

BBA (University of Houston - Texas)

27 years of experience in banking



Ms. Camy Somasunderam

Assistant Vice President -
Corporate Deposits &
Chinese Segment

MBA (University of Wales - UK),
CIM Dip. (UK)

26 years of experience in banking



Mr. Ajith Senadheera

Assistant Vice President - Leasing

MBA (University of Colombo),
B.Sc. Business Administration
(University of Sri Jayewardenepura),

33 years of experience in banking



Ms. Shareen Jayasuriya

Assistant Vice President - Credit

FCMA (UK), CGMA, CIM Dip. (UK), ACSI

27 years of experience with 25 years in
banking



Ms. Anushca Saranapala

Assistant Vice President -
Group Risk Management

38 years of experience in banking



Mr. Nilanga Gajaba

Assistant Vice President -
Centralised Recoveries

MBA (Cardiff Metropolitan University - UK),
PG Dip. (IBSL), CISI (UK) - Risk in Financial
Services

28 years of experience in banking

Senior Management



Mr. Sanjeev Kulendran
Assistant Vice President -
Internal Audit

B.Sc. (University of Madras), Associate Member - Financial Services Institute of Australasia, Associate Member (IBSL)

28 years of experience in banking



Ms. Vidisha Jayawardena
Assistant Vice President - Legal

Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka, Notary Public, Commissioner for Oaths, Qualified Company Secretary

28 years of experience in banking



Mr. Lasantha Mathupala
Assistant Vice President -
Information Technology

MBCS, PMI, ISACA, PCI Implementer, B.Sc. (Hons), PG Dip. in Computer Science (University of Sri Jayewardenepura)

30 years of experience with 20 years in banking



Mr. Indika Gunawardena
Assistant Vice President -
Information Technology

MBA (University of Mahatma Gandhi), M.Sc. InfoSec (Asia e University), FBCS (UK), CITP (UK), FCPM (SL), MCS (SL), OCP, VCP, ITIL V3, ISO27001 Lead Auditor

22 years of experience with 1 year in banking



Ms. Dayani Algama
Assistant Vice President -
Human Resources

BA (Hons) (University of New Delhi), Masters in Development Studies (University of Colombo)

29 years of experience with 22 years in banking



Mr. Chandima Alwis
Regional Manager -
Greater Colombo Region
FCA (SL)

29 years of experience with 23 years in banking



Mr. Romesh Tissera
Regional Manager -
North Western Region

29 years of experience in banking



Mr. Sydney Downall
Regional Manager - Colombo Region

MBA (University of Southern Queensland), Dip.M (CIM - UK)

27 years of experience in banking



Mr. Sanath Susantha
Chief Manager - Leasing

MBA (University of Ruhuna), B.Sc. in Physical Science (University of Colombo)

31 years of experience in banking



Ms. Nadie Samarasekera
Chief Manager - Product Development

MBA (PIM - University of Sri Jayewardenepura), ACMA (UK), CGMA, B.Sc. - First Class (University of Colombo)

22 years of experience in banking



Ms. Lanka Averiawatte
Chief Manager - Marketing and
Communication

(Resigned w.e.f. 31 January 2021)

MBA (University of Southern Queensland), PG Dip. in Marketing (CIM), Dip.M ACIM (UK)

17 years of experience in banking



Mr. Sameera Senerath
Chief Manager - Sales

Dip.M (CIM - UK), Dip in Banking and Finance (AIB)

20 years of experience in banking



Mr. Thusitha Boyagoda
Chief Manager Business banking

B.Sc. (Hons) in Agriculture, Second Class Upper (University of Peradeniya), PG Dip. in Business Administration (University of Peradeniya)

26 years of experience with 24 years in banking



Ms. Rasika Dassanayake
Chief Manager - Mid Corporate and
Credit Structuring

B.Sc. in Accountancy (Sp.) - First Class (University of Sri Jayewardenepura), ACA (SL)

20 years of experience in banking



Mr. Supun Perera
Chief Manager - Project Finance

B.Sc. in Engineering (Hons) (University of Moratuwa), (IESL), CFA Charterholder (CFA), ACMA (UK), CGMA, BIT (University of Colombo)

11 years of experience with 10 years in banking



Ms. Ronali Kumarasinghe
Chief Manager - Wholesale Banking

MBA (University of Colombo), B. Com (University of Colombo), MCIM (UK)

25 years of experience in banking



Ms. Darine Fernando
Chief Manager - Wholesale Banking
MBA (Edith Cowen University - Australia),
Dip. in Corporate Banking (IBSL)
30 years of experience in banking



Mr. Malake Herath
Chief Manager - Wholesale Banking
FCA (SL), MBA (PIM - University of Sri
Jayawardenepura), B.Sc in Accountancy
(Sp.) - Second Class Upper (University of
Sri Jayawardenepura)
19 years of experience with 16 years in
banking



Mr. Ramesh Perera
Chief Manager - Transaction Banking
ACMA (UK), CGMA
31 years of experience in banking



Ms. Medhini Senathirajasegaram
Chief Manager -
Credit Risk Management
B.Sc. (Hons) in Computer Science (University
of Colombo), MBA (University of Colombo),
ACMA (UK), CGMA
18 years of experience with 17 years in
banking



Mr. Ruwan Jayamaha
Chief Manager - Credit
MBA (University of Colombo),
B.Sc. - First Class (University of Colombo)
25 years of experience with 24 years
in banking



Mr. Sameera Wijegunawardena
Chief Manager - Credit
MBA (University of Wolverhampton - UK),
Dip. in Credit Management (IBSL)
26 years of experience in banking



Mr. Nishantha Amunugama
Chief Manager - Centralised Recoveries
MBA (University of Southern Queensland),
PG Dip. in Business & Finance (ICASL)
24 years of experience with 22 years in
banking



Ms. Madara Ariyaratne
Chief Manager - Legal
Attorney-at-Law (Hons) of the Supreme
Court of Sri Lanka, Notary Public,
Commissioner for Oaths and Qualified
Company Secretary, BA (Hons) (University
of Sri Jayawardenepura)
27 years of experience in banking



Ms. Anushi Vithanage
Chief Manager - Legal
LLM-Master of Laws (with Company Law
and Banking Law) (University of Colombo),
Post Attorney Diploma in Banking Law and
Insurance Law - Merit (Sri Lanka Law College),
Attorney-at-Law (Hons) of the Supreme Court
of Sri Lanka, Notary Public, Commissioner for
Oaths, Qualified Company Secretary
26 years of experience in banking



Ms. Lilanthi Delgoda
Chief Manager - Human Resources
M.Sc. in HRM&D (University of Salford -
UK), IPMA - HR (USA), Senior Certified
Professional, Attorney-at-Law of the
Supreme Court of Sri Lanka, Notary
Public, Commissioner for Oaths, Qualified
Company Secretary
20 years of experience with 14 years in
banking



Mr. Ranisha Perera
Chief Manager - Human Resources
BBA (Business University of Costa
Rica), G Dip. in Management (Cambridge
Academy of Management), Adv. Dip. in
Teaching, Training & Assessing (City &
Guilds), Adv. Dip. in HRM (EIPE)
16 years of experience with 14 years in
banking



Mr. Chandima Kannangara
Chief Manager - Compliance
MBA (University of Honolulu - USA),
Dip. in Banking and Finance (IBSL), Dip.
in Compliance (IBSL), PG Dip. in Bank
Management (IBSL), CAMS (Association
of Certified Anti Money Laundering
Specialists)
28 years of experience in banking



Ms. Dilhani Piyasena
Chief Manager - Solution Delivery, Digital
Financial Services
MBA (PIM - University of Sri
Jayawardenepura), B.Sc. - First Class
(Nagarjuna University - India)
27 years of experience in banking



Ms. Aloka Ekanayake
Chief Manager - Corporate Planning and
Business Intelligence
ACA (SL), ACMA (UK), CGMA, MBA
(University of Leicester)
26 years of experience in banking

Group Subsidiary Leadership Team



01 Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer

Please refer page 26 for the profile

02 Mr. Senaka Kakiriaragodage
Chief Executive Officer -
NDB Capital Holdings Limited

MBA (University of Manchester - UK), B.Sc. in Computer Science and Engineering (University of Moratuwa), CFA, FCMA (UK), CGMA

18 years of experience, including 16 years with the NDB Group

03 Mr. Darshan Perera
Chief Executive Officer -
NDB Investment Bank Limited

MBA (University of Colombo), BSc. in Physical Science (University of Colombo), Associate Member (IBSL), Associate Member (CIM - UK), Passed Finalist (CIMA), Passed Level 2 (CFA - USA)

27 years of experience, including 19 years with the NDB Group

04 Mr. Prabodha Samarasekara
Chief Executive Officer -
NDB Wealth Management Limited

MBA in International Finance (University of Southern California - USA), B.S in Management Information Systems (Louisiana State University - USA)

31 years of experience, including 12 years with the NDB Group

05 Mr. Gihan R. Cooray
Chief Executive Officer -
NDB Securities (Pvt) Limited

MBA in Finance (Cardiff Metropolitan University (UK), High Potentials Leadership Programme, (Harvard Business School - USA), Certificate in Capital Markets by Securities and Exchange Commission (SL)

19 years of experience, including 17 years with the NDB Group

06 Mr. Girish Patil
Managing Director - NDB Zephyr Partners
Lanka (Pvt) Limited

PG Dip. in Management (SDM IMD - India)

18.5 years of experience, including 5 years with the NDB Group

OPERATING LANDSCAPE & STRATEGY

Pulsars radiate two steady beams of light in opposite directions — similar to a lighthouse appearing as a navigating indicator for sailors who sail across the ocean. These marvellous objects have also been used to study extreme states of matter, and measure cosmic distances.

At NDB we have explored and studied in great detail the context in which we operate. As we journey amid uncertainty, our strategies are a reflection of all we have learnt over the years of our existence. Today we are built to thrive through any eventuality, based on the vast stores of knowledge we have gathered to create avenues for progress.

Operating Environment

ECONOMIC ENVIRONMENT

GLOBAL ECONOMY

The devastating human and economic toll of COVID-19 saw global economic growth contracting by 3.5% in 2020. The approval of several vaccines and roll-out programmes have raised optimism of an eventual end to the pandemic, although ensuring universal access remains a challenge.

Impacts on NDB

- Direct impacts on customers in tourism-related supply chains
- Decline in workers' remittances

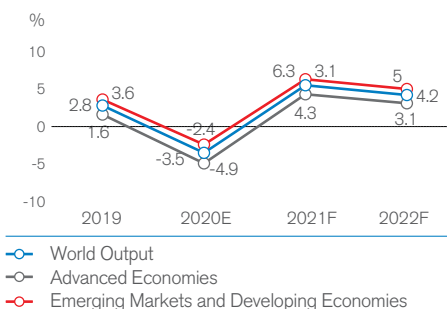
SRI LANKAN ECONOMY

Sri Lanka's GDP recorded a contraction of 5.3% in the first 9 months of 2020 reflecting the broad-based economic toll of the COVID-19 pandemic including lockdowns in the 2nd quarter, subdued demand, and an increase in unemployment. The economy posted slow but positive growth in the 3rd quarter, as businesses adapted to the new normal and economy activity resumed some level of normalcy. While the surge of infections in October 2020 is likely to have impeded growth in the 4th quarter, the gradual roll-out of the vaccine from end-January 2021, improving business sentiments and policy stimuli is expected to support medium-term recovery.

Impacts on NDB

- Credit demand is expected to post gradual recovery by 2Q 2021
- Growth opportunities in export-oriented and import-substitution businesses
- Repayment pressure and an escalation in credit risk-particularly following the end of the moratoriums

World Output



Source: World Economic Outlook (Jan 2021), IMF

IMF growth projections:

- 5.5% in 2021
- 4.2% in 2022

POLICY DEVELOPMENTS

The CBSL launched a series of monetary policy easing measures while the Government implemented broad-based relief to individuals and businesses impacted by the pandemic.

- Multiple reductions in the policy rate, collectively amounting to a 250bps decrease
- Statutory Reserve Ratio (SRR) revised downward twice to 2% by June 2020
- Debt moratoria for individuals and businesses affected by the pandemic
- Concessionary loan schemes targeting the SME sector and selected industries
- Interest rate caps on pawning advances and selected lending products
- Import restrictions to stem the outflow of foreign currency

Impacts on NDB

- Pressure on net interest margins
- Sharp decline in funding costs
- Opportunities for trading gains on government securities

EXCHANGE RATES AND EXTERNAL SECTOR

The country's external sector experienced significant pressure although proactive measures taken by the Government to curtail non-essential imports, together with the unexpected recovery of workers' remittances from June 2020 onwards cushioned these pressures to a certain extent.

	Jan-Dec 2020 (USD Mn)	Jan-Dec 2019 (USD Mn)
Trade balance	-5,978	-7,997
Tourism earnings	957	3,607
Remittances	7,104	6,717
Government inflows	2,002	6,570
Overall balance	-2,327	377

Source: Central Bank of Sri Lanka

The Sri Lankan Rupee experienced much volatility during the year, as capital outflows and limited foreign currency inflows led to significant depreciation pressure. The LKR/USD closed at 185.46 by end December 2020, depreciating by 2.26% from 2019.

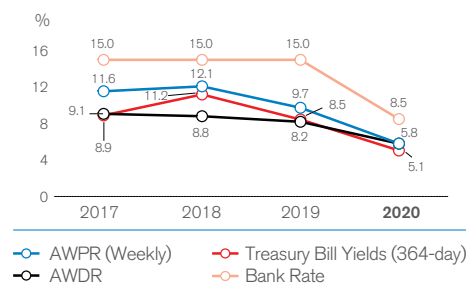
Impacts on NDB

- Escalated exposure to exchange rate risk
- Sharp decline in import related revenue
- Adverse impact on customer foreign exchange income

INTEREST RATES

Steady decline in market interest rates

Interest Rate Trends



Source: Central Bank of Sri Lanka

BANKING SECTOR

The pandemic's impact on the banking sector is expected to be relatively long-drawn given the prolonged impacts on businesses and resultant credit losses. The resilience of banks will depend on their ability to reinvent business models, drive productivity and efficiency improvements, and demonstrate agility and responsiveness to changing market dynamics. Digital delivery, adapting to low interest rate environments, robust risk management and embracing the opportunities presented by the new normal would be vital factors in ensuring continued commercial and social sustainability.

An overview of Sri Lanka's banking sector in 2020 is presented below:

PERFORMANCE

- Despite a gross loan growth of 12%, the contraction in NIMs to 3.1% resulted in the Sector's NII declining by 1% in 2020
- Operating expenses declined by 5% reflecting disruptions to operations and focus on productivity improvement
- Impairment costs increased by 38% due to customers' repayment pressures.
- While PBT increased by 10%, the reduction in tax rates supported overall profitability, with PAT increasing by 22% in the of 2020

3.1% NIM (2019: 3.6%)

75.0% NII to Gross Income (2019: 76.5%)

51.9% Efficiency Ratio (2019: 52.7%)

11.3% ROE (2019: 10.3%)

1.4% ROA (Before Tax) (2019: 1.4%)

ASSET QUALITY

Increase in NPAs and impairments reflecting broad-based pressure on customer repayments. Banks adopted prudent provisioning in expectation of credit quality deterioration.

- NPA ratio of 4.9% (2019: 4.7%)
- 17% increase in gross non-performing-advances
- Specific provision coverage of 51.7% (2019: 42.4%)
- Total provision coverage of 61.3% (2019: 52.3%)

CAPITALISATION AND LIQUIDITY

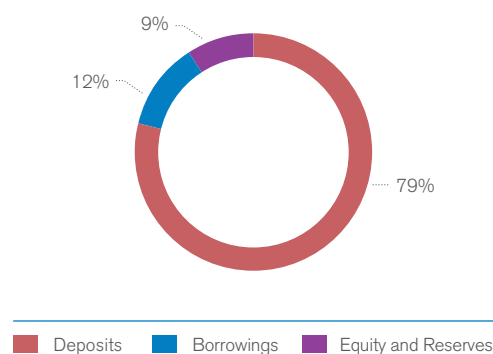
In facilitating the injection of credit flows and encouraging the banking sector to provide relief for COVID-19 affected businesses, the CBSL allowed Domestic Systemically Important Banks (D-SIBs) and non D-SIBs to draw-down their capital conservation buffers by 100 bps and 50 bps, respectively during the year.

- 11% increase in capital funds supported by improved profitability at PAT level
- Marginal decline in capital adequacy levels
 - Tier 1 capital ratio 13.0% (2019: 13.0%)
 - Common Equity Tier 1 ratio 12.8% (2019: 13.0%)
 - NPLs to capital funds 35.7% (2019: 33.8%)
- Increased liquidity levels given the reduction in SRR and relatively lacklustre credit demand for most part of the year
 - Liquid assets to total assets 33.7% (2019: 28.9%)
 - Statutory liquid asset ratio - DBU 37.3% (2019: 31.0%)

FUNDING AND LIQUIDITY

- 22% increase in deposits supported by 15% growth in time deposits and 34% increase in CASA
- Increased reliance on deposits- which funded 76% of total assets
- 1% increase in borrowings

Industry Funding Profile



Response to the COVID-19 Pandemic

The outbreak of the COVID-19 pandemic in Sri Lanka during the first quarter of 2020 had rippling effects across the economy, businesses, and individuals as the Government mandated strict lockdowns to contain the spread of the virus. At NDB, we implemented a range of precautionary and proactive measures to safeguard our employees, customers and other stakeholders while ensuring business continuity and uninterrupted service to our customers.

The Command Centre

The Command Centre (TCC) was established under the direct purview of the Group Chief Executive Officer (GCEO) and represented by a cross-functional team including several members of the Leadership Team; TCC was established to centrally monitor and effectively respond to any critical incidents relating to the pandemic. The scope of TCC included determining risks of incidents, implementing timely corrective action, managing internal and external communication, and ensuring compliance to all health and regulatory guidelines.

The following actions were implemented in response to the pandemic:

EMPLOYEES

Activated the Bank's pandemic plan, tailored for the COVID-19 pandemic
Facilitated work-from-home arrangements for 800 employees through enabling technology
Implemented stringent health and hygiene guidelines
Introduced flexible hours and roster systems
Provided transport facilities to employees thereby minimising the risk of infection
Split up working areas to ensure social distancing
Shifted training and engagement initiatives to digital platforms

CUSTOMERS

Offered debt relief to impacted customers in line with government mandated moratoriums and the Bank's own relief scheme
The first Bank to deploy mobile ATM machines offering a range of essential banking services
Proactive customer engagement to support customers with personalised solutions to manage cashflow pressures
NDB was the 4th largest utiliser of the Saubhagya COVID-19 facility, through which we channelled concessionary funding to businesses
Encouraged digital adoption among through online and mobile platforms
Ensured safety at branches through stringent health and hygiene measures and incident response plans

SHAREHOLDERS

Consistent monitoring of emerging risks and portfolio exposures in line with ongoing market dynamics
Proactive management of liquidity position
Organisation-wide productivity and efficiency drive
Actioning plans to enhance capital levels
Continued stress testing and scenario analysis to understand impact on Bank

IMPLICATIONS ON STRATEGY

Business Focus

- Requirement to provide debt relief to customers
- Weaker investor sentiments impacted opportunities in Project Financing
- Impact on interest rate margins

Operational excellence

- Leveraged digital capabilities to drive improved productivity, operational efficiencies and sustained reductions in costs
- Prevalent conditions provided an opportunity for the Bank to streamline its process and eliminate identified inefficiencies

Digital as an enabler

- Increased focus on driving digital adoption among customers
- Implemented Windows Remote Desktop Services and Global Protection solutions to facilitate safe and effective work-from-home practices

Customer experience

- Provide customised solutions, moratoriums and debt restructuring to support customers
- Accelerated customers' digital adoption

Best in class staff

- Facilitated work-from-home solutions
- Considerable investments in implementing stringent hygiene and safety practices.

Opportunities and Risks

Our operating landscape changed dramatically during the year, presenting risks to value creation as well as opportunities to embrace new ways of working and driving increased stakeholder value. The analysis below provides a high-level overview of these opportunities and risks (in the context of a PESTEL analysis) demonstrates how the Bank has aligned its strategy to respond to these dynamics.

PESTEL Factor	Key developments	Opportunities presented	Potential risks	Strategic response
Macro-economic uncertainty	The pandemic has compounded Sri Lanka's economic challenges, including persistently low growth in recent years, dwindling foreign currency reserves, high public debt and debt servicing burden and large fiscal deficits. Foreign debt repayments average USD 4 Bn per year in 2020-2023 and the Government's ability to settle these dues will depend on its ability to attract foreign investments and obtain debt relief.	→ Anticipated policy stability → Policy thrust towards strengthening export-oriented businesses → Improvements in domestic credit demand → Opportunities presented by the inflow of foreign investments to the country → Raising long term domestic debt → MSME focus to bolster economic resilience	→ Potential difficulties in servicing debt → Increased exchange rate volatility → Possible impact on trade financing → Increase in import costs due to supply chain disruptions	 Increased focus on supporting the country's export sector through the NDB Jayagamu Sri Lanka initiative Pursuing regional growth opportunities through PIF
Economic costs of COVID-19	The pandemic has reversed gains made in poverty alleviation in recent years, thereby widening inequalities and income disparities.	→ Opportunity to support the grassroots of the economy through micro-financing and refinance operations and strengthen local communities → Reduction in transaction costs through the adaptation of technology → Improving social reliance through the empowerment of women → Helping MSME's reach new markets through ecommerce platforms	→ Increased pressure on customer repayment → Employment and livelihood crises → Increased risk of social displacement due to increased reliance on technology	 Increased penetration at grassroot level  Women empowerment programme Aggressive drive to promote mobile payment and e-commerce platforms Increase access to capital via last mile financing solutions
Technological disruption	Technology emerged as a key differentiator during the pandemic, as traditional ways of customer interaction were disrupted due to restrictions on mobility. The operating landscape is also being reshaped by technologies such as AI, block-chain and digital currencies which are likely to have wide-ranging implications for financial services in future.	→ Enhancing client convenience and ensuring safety through omni-channel banking → Automation to drive reduced complexity and operating costs → Opportunities to drive increased digital literacy and financial inclusivity → Increase financial inclusivity → Increase speed of commerce and hence the turnover	→ Issues related to data privacy and cyber crime → Competitive pressure from new entrants → High cost of initial investments and pressure on financial resources	 Ongoing investments in enhancing digital solutions to customers  Investments in workflows, systems and upgrading the Bank's IT infrastructure Partnering with other members of the financial eco system to provide value added services to clients

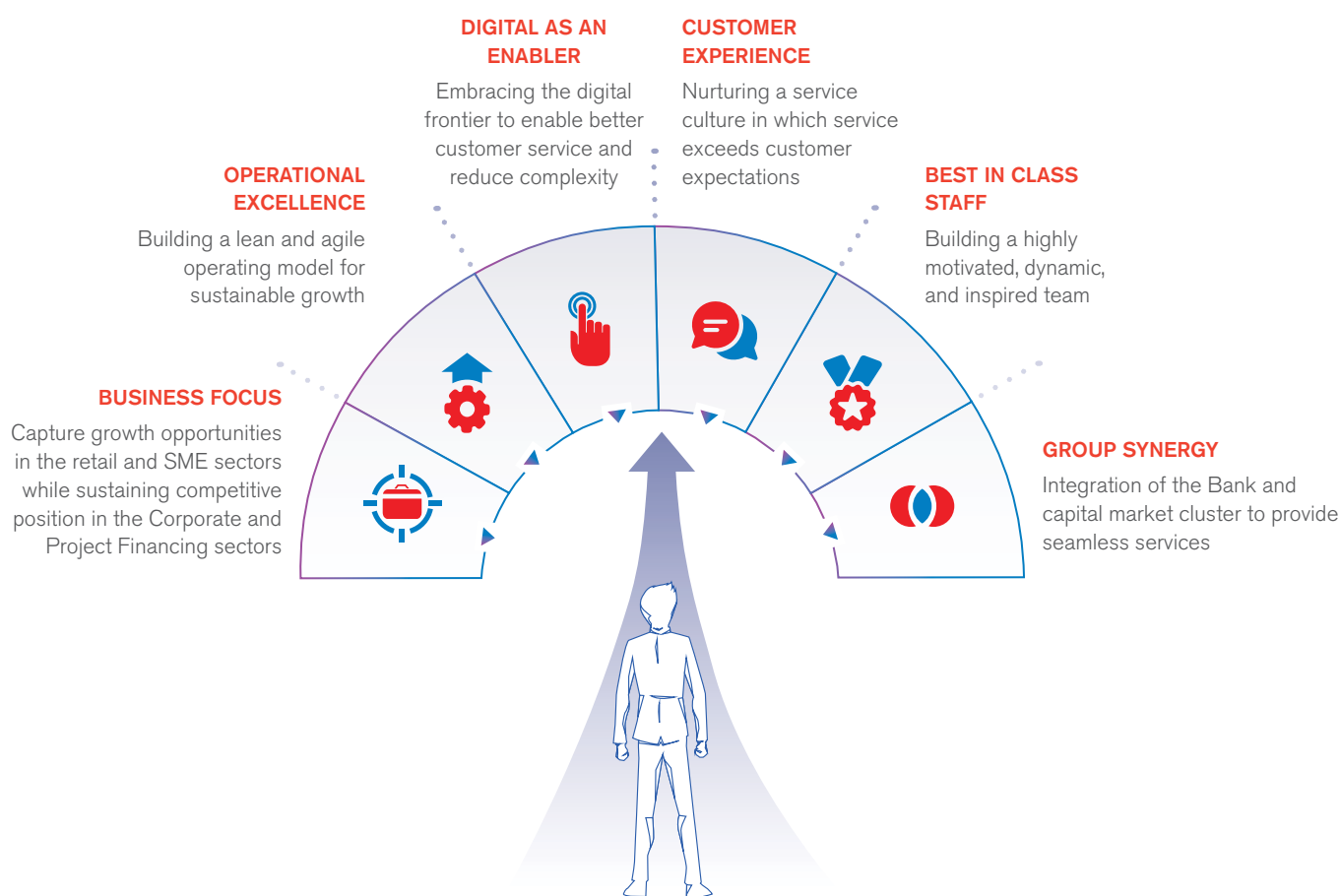
Opportunities and Risks

PESTEL Factor	Key developments	Opportunities presented	Potential risks	Strategic response
Digital inequality	The World Economic Forum lists Digital inequality as a key risk for 2021, as barriers to accessing digital infrastructure and connectivity and inadequacies in digital skills could widen disparities in education, employment, and ultimately economic prosperity. Internet usage in Sri Lanka 34% of the population Source: World Bank	→ Facilitate digital literacy among grass-root customers → Enhance the affordability and accessibility of the Bank's digital offerings	→ Increased investments in digital infrastructure → Risks relating to data and cyber security	 Enhance digital proposition to customers  Drive digital literacy
Customer sophistication	Customer needs are changing at an unprecedented rate, driven by increased sophistication, ubiquity of technology and demographic patterns. Convenience, personalised solutions, and excellent service are emerging as key differentiators and banks as niche digital banks offer more attractive value propositions.	→ Opportunity to retain customers and build loyalty through supporting their revival → Improve competitive edge by strengthening digital propositions → Design convenient, cost effective platforms for interacting with customers	→ Increased cost of fulfilling changing customer needs → Increased investments in digital infrastructure → New skills requirements	 Customer centric solutions including customised repayment plans and relief measures  Strengthening the digital proposition through launch of new platforms and Solutions
Attracting and retaining the right talent	The conditions that prevailed in 2020 highlighted the need of building an agile and dynamic team, which in turn requires nurturing of a specific set of related skills. The banking industry therefore should seek to identify skill gaps and implement comprehensive training programmes to upskill employees for new roles and competencies.	→ Developing a dynamic and multi-skilled workforce → Reskilling and upskilling employees to improving employee agility and responsiveness → Attracting the right talent for emerging roles due to changing environment	→ High cost of labour arising from increased labour turnover due pandemic related social mobility factors → Ongoing investments required in training and development	 Ongoing investment in enhancing employee competencies Embracing new working models through adapting to the 'new normal' Investments into enabling new working models.
Climate risks	Extreme weather and climate action failure continue to rank among the top risks in terms of likelihood and impact in the World Economic Forum's Global Report for 2020. Addressing these risks through pragmatic solutions have emerged as a global priority in driving sustainable economic, social, and environmental progress. Sri Lanka has been identified as one of the high risk countries to be impacted due to climate change.	→ Formulating innovative financial solutions through integrating sustainability considerations into product design and strategy → Propagating our sustainability agenda → Encouraging adaptation of technology in new farming techniques → Encouraging renewable energy models for large scale projects and households	→ Impacts of natural disasters and its impact on key sectors such as tourism and agriculture → Increased risks of new pandemics	 Integrate social and environmental considerations to lending decisions through the ESMS framework Commitment to supporting the renewable energy sector Encouraging new entrepreneurs and innovators
Evolving regulatory landscape	The increase in regulations have placed new demands on banks, at times resulting in greater complexity and higher costs. On the other hand, these measures are anticipated to contribute to the long term sustainability of the industry due to the implementation of robust governance and risk management measures and stronger capital buffers.	→ Building a strong Balance Sheet and improve resilience of operations → Ability to attract foreign investors through the adaptation of global standards	→ High cost of compliance and → Regulatory sanctions → Increased complexity of operations	Investment in banking systems to enable rapid adaptation of evolving regulations Use of data and robotics to reduce manual intervention in meeting these requirements

Our Strategy and Resource allocation

The Group's Transformation 2020 strategic agenda reached a successful culmination during the year, following 3 years of smart execution which sought to transform NDB's business focus, processes, organisational structure, employee mindset and culture. The Strategy centred on 6 key areas of focus, which has led to a repositioning of the business model, increased client-centricity across business verticals and significant process improvements. Resultantly, the Group has delivered impressive growth in assets, revenue, and profitability, surpassing the LKR 500 Bn asset target a year ahead and emerging as the 4th largest listed licensed commercial bank in the country.

Transformation 2020 has established a strong foundation for the Group to pursue its next phase of growth as it embarks on Voyage 2025 the new strategic agenda for 2021-2025 which provides a blueprint for driving towards LKR 1 Tn assets, achieve regional growth and deliver a giant leap in digital adoption.



Voyage 2025 Strategy (2021-2025)

2017-2020 Goals	Achievement	Medium term goals	Long term goals
Achieved LKR 500 Bn in Assets	☑	Achieving LKR 1 Tn in Total Assets	To fortify NDB's position as an impactful constituent in the country's banking and financial services sector whilst generating solid value to stakeholders and be in step with PESTEL developments
Process improvement initiatives aimed at increasing throughput in process	☑	Deploying digital technology to transform customer experience through innovation	
Reposition the business model to align with major customer segments	☑	Reposition the branch network as a universal customer touch point	
Integrated customer solutions and data analytics	☑	Harnessing Group expertise and specialisation to provide tailored solutions to deliver a superior customer value proposition	
Empowering women through launching 'Banking on Women'	☑	Becoming the "Banking Group of choice" of all Sri Lankans with focus on improving financial inclusivity and social resilience	

Strategy Execution

The outbreak of the pandemic and the unprecedented challenges that resulted necessitated a reset and refinement of the Group's priorities during the year, although our broader strategic aspirations remained unchanged. This showcases the responsiveness and agility of the Group's strategy as well as the team's ability to adapt to rapid changes in the operating landscape. The following section presents key highlights of our strategy execution in 2020, with further details presented in the Business Line Reviews and Capital Management Reports.

Business Focus



Highlights in 2020

- The key priority during the year was supporting customers to weather the crisis through offering moratoriums and restructuring/rescheduling facilities.
- Emphasis on managing credit quality through establishing dedicated remedial units
- Pursued deposit growth through a dedicated team
- Supporting the economy through a holistic value proposition to entrepreneurs, SMEs, and exporters through NDB Jayagamu Sri Lanka
- Focused growth in trade and transactional banking

Resources Allocated



LKR 18 Bn approved under the Saubhagya COVID-19 Renaissance Facility



Deployed increased human resources towards preserving portfolio quality



Leveraged our partnerships to offer innovative solutions to customers

Way Forward

- Extension of broader value propositions to customers
- Driving financial inclusion and access to finance
- Strengthening the transactional banking footprint

Digital as an Enabler



Highlights in 2020

- Implemented a new card management system enabling new capabilities and improved customer service
- Launch of new internet banking platform for retail customers, aligned to the NEOS app
- Increased functionality of the NEOS app with interoperable QR
- Upgraded SWIFT to latest version to be compatible with the current standards
- Deployment of data visualisation tools to drive improved decision making
- Launch of new Salesmate app for improved efficiencies
- Deployment of 3 mobile CRMs during the lockdown period and expansion of the digital footprint with the addition of 9 CRMs and 5 ATMs
- Continued automation of processes
- Live streaming CCTV installation for 20 selected branches

Resources Allocated



Investments in IT infrastructure



Highly skilled and experienced IT department



Agile and responsive organisational culture

Way Forward

- Driving continued enhancements of our digital infrastructure in pursuing digital excellence and customer-centric solutions
- Digital capabilities to accelerate from an 'enabler' role to a 'transformer' role
- Upgrade the core banking system, introducing a digital layer to the system to support both internal and external digitalised user journeys

Operational Excellence



Highlights in 2020

- Implemented an organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE) which led to substantial cost savings through (among others),
 - Deep dive data analysis of cost components
 - Optimising security staff
 - Deploying technology to minimise staff movements, thereby rationalising transport costs
 - Archiving documents which led to a reduction in paper use
- Continued employee training on Lean initiatives and Six sigma
- Ensured employee related costs were not rationalised, thereby providing full remuneration to all employees
- Successful deployment of RPA technology
- Automation of several key HR functions and credit processes

Resources Allocated



Dedicated team to lead the OEE project



Leveraging the Bank's data analytics capabilities

Way Forward

- Build on the learnings obtained through the deep dive cost analysis conducted in 2020 to drive sustainable improvements in efficiency and effectiveness
- Continue new work practices adopted during the pandemic in embracing new realities post COVID-19
- Focus on speed and innovation in services which will entail introspection of many processes

Customer Experience



Highlights in 2020

- Provided moratoriums, concessionary facilities, and customised solutions to customers to ensure continued commercial viability
- Fulfilled essential customer requirements during the pandemic through deploying mobile ATMs and banking on wheels offering cash withdrawal/deposit and bill payment solutions as well as essential food items
- Ensured selected branches were operational and adequately manned during the lockdown
- Investments in an advanced call centre
- Supported SME customers to pursue opportunities in export markets and facilitated onboarding to e-commerce platforms
- Offered enhanced digital solutions including NEOS PAY, upgraded internet banking platform and single log-in access
- Conducted service audits across branches to ensure adherence to customer service SOPs
- Offered an attractive and holistic value proposition to PIF customers

Resources Allocated



Moratoriums granted for eligible customers



Personnel trained on service leap strategy



Innovative digital capabilities to provide better customer solutions

Way Forward

- Customer centricity will be the overarching goal of Voyage 2025, as we drive multifaceted initiatives aimed at putting clients at the centre of everything we do across the Group
- Align reward mechanisms to promote client-centricity

Strategy Execution

Best in Class Staff



Highlights in 2020

- Ensured the safety of our employees by proactively implementing stringent hygiene and safety measures
- Facilitated work-from-home arrangements for staff engaged in critical support service functions
- Continued training and development programmes through shifting to e-learning platforms
- Retained the entire workforce at full salaries while providing annual increments and bonuses despite the challenging conditions that prevailed
- Several key positions including vacancies in the Leadership Team were filled internally while 110 employees were promoted during the year
- Lateral moves were offered to 356 employees, with the aim of creating a multiskilled workforce
- Ongoing focus on building a diverse and inclusive workforce
- Obtained the recertification of ISO 9001

Resources Allocated



Total payments to employees LKR 5.2 Bn



Investment in training LKR 18.67 Mn

Way Forward

- Focus on nurturing the behavioural changes required to deliver customer-centricity
- Competency development will also be a key priority as we reskill and upskill employees
- Alignment of HRIS to support the structures, performance management and succession planning required to successfully drive the Group's strategy to 2025

Group Synergies



Highlights in 2020

- The Retail Banking segment pursued cross sell opportunities through nurturing relationships with the employees of Corporate clientele
- Ongoing focus on driving synergies between NDB capital markets cluster and the Project Financing Unit, Corporate Banking and Retail Banking
- Providing client-centric solutions using the Group's diversified domain expertise
- NEOS provides access to the NDB One Account - a holistic solution which combines banking and wealth management accounts
- Increased emphasis on unifying Group-wide support functions, such as Human Resources through nurturing the 'One NDB' culture

Resources Allocated



Financial incentives to promote cross selling within the Group



Aligning employees towards the One NDB culture

Way Forward

- Under Voyage 2025, the Group will work towards a "One NDB, one experience" objective as it aspires to be the Banking Group of Choice for its clients
- Leverage on the expert centres across the Group to provide customer-centric, solution-driven offerings

Strategic Pillar	KPI	2020	2019	Link to Value Creation
Business Focus 	Growth in Loans and Advances (%)	8	16	Driver of revenue growth
	Approvals under the Saubhagya COVID-19 Renaissance Facility (LKR Bn)	18	NA	Supports long term customer viability and stronger relationships
	Deposit growth (%)	21	17	Source of funding
	CASA growth (%)	53	6	Attractive funding avenue
	Gross NPA ratio (%)	5.35	4.77	Ensures preservation of portfolio quality and thereby continued revenue growth
Operational Excellence 	Sustainable cost savings generated through organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE) (LKR Mn)	500	NA	Driver of profitability
	Cost to Income ratio (%)	37.0	39.9	Driver of profitability
	Front office staff to Support service staff ratio (%)	2.1:1	1.71:1	Improved profitability through better utilisation of human resources
	Profit before taxes per employee (LKR Mn)	3.2	3.4	Improved employee productivity and driver of profitability
Digital as an Enabler 	Digital transactions as a % of total transactions (%)	80	71	Increased customer convenience and cost effective delivery channels
	Growth in volume of transactions through NEOS platform (%)	210	17	Increased customer convenience and cost effective delivery channels
	Network of CRMs (Number)	61	54	Avenue of driving CASA growth and increased customer convenience
Customer Experience 	Customer feedback score/ net promoter score (out of 10)	9	9	Better customer retention and increased market share
	Customer touchpoints (Number)	274	266	Improved customer accessibility and transaction volumes/ values
Best in class Staff 	Female representation - overall (%)	39	40	Increased diversity leads to wider perspectives and enriches decision making
	Female representation - Senior Management (%)	33	35	
	Employee retention rate (%)	95	93	Builds organisational tacit knowledge
	Promotions (Number)	110	286	Drives employee satisfaction through opportunities for progressions
	Average training hours per employee (Hours)	22.0	47.5	Improved productivity and skills
Group Synergy 	Intra-Group values cross sold (LKR Bn)	17.5	18.5	Sustainable and diversified revenue creation

Stakeholder Relationships

The continued success of our business is dependent on our ability to generate stakeholder value. This requires us to identify and understand the diverse needs of our stakeholders and address these requirements through alignment of our strategy. While the unprecedented operating environment that prevailed during the year necessitated an enhancement of our stakeholder engagement, it also provided the Bank an opportunity to proactively fulfill the needs of our stakeholders, thereby contributing towards nurturing long term relationships. We engage with the stakeholders who potentially have the most significant impact on our ability to create value.

Customers



Expectations and Concerns

- Convenience and omnichannel solutions
- Debt relief
- Competitive and transparent pricing
- Professional customer service at all contact points
- Innovative solutions
- Responsible banking practices
- Product knowledge and attitude of employees

Engagement Channel

- Periodic customer satisfaction surveys and feedback tabs deployed in branches
- Ongoing customer interaction at branches
- Ongoing online and social media interactions
- Print and electronic media publications as and when required
- Online and mobile banking portals
- Trade fairs and exhibitions (potential customers)

Our Response

- In 2020 emphasis was placed on supporting our customers throughout the crisis by providing debt relief in the form of moratorium, restructuring facilities and loans at concessionary terms. We also enhanced our digital offering and proactively sought to enable digital adoption among our customers.



Social and Relationship Capital (page 102)

Value Delivered

- Moratoriums granted to eligible customers
- LKR 18 Bn loans approved under Saubhagya COVID-19 Renaissance Facility
- Interest expenses to depositors - LKR 29 Bn
- 80% of total transactions routed via NEOS platforms
- Facilitated online trading for 810 customers listed through our partnership with Daraz

Quality of Relationship: Strong

Net Promoter Score: 9

Employees



Topics and concerns

- Ensuring health and safety at work
- Effective performance management and attractive remuneration schemes
- Enabling new ways of working
- Opportunities for talent, skill, and development
- Simplification of processes to drive productivity
- Work-life balance
- Maintain open and two-way communication

Engagement Channel

- Annual employee surveys including satisfaction, HR ISO and department surveys
- Periodic staff meetings (Town halls, weekly Leadership Team meetings, monthly Regional Manager and business review meetings, quarterly Branch Manager meetings)
- Continuous development through virtual learning
- Quarterly induction programmes
- Year-round work life balance initiatives such as Recreation and Toastmasters' Club
- Annual Retail Banking Awards
- Ongoing employee volunteerism programmes

Our Response

- Our key people priority in 2020 was to focus on building psychological and physical safety of our employees to deliver at their best and facilitating work from home arrangements. We also retained our full workforce and paid full remuneration to all employees.



Human Capital (page 85)

Value Delivered

- Integrated COVID-19 response to ensure the safety of all employees
- Enhancing employee experience through service automations
- Total payments to employees amounting to LKR 5,172 Mn
- LKR 18.67 Mn investment in training and development

Quality of Relationship: Strong

Retention: 95%

Shareholders and Providers of Capital



Expectations and Concerns

- Sustainable returns commensurate with the risk undertaken
- Relevance of the Group's strategy given prevailing conditions
- Strength of Leadership Team
- Integrity and high standards of corporate conduct and governance
- Effective risk management practices
- Macroeconomic environment and potential impacts on the Group

Engagement Channel

- Annual General Meeting
- Quarterly investor webinars and on publication of quarter financial results
- Investor road shows when required
- Year-round meetings with investment analysts, stockbrokers, and media
- Numerous publications including Annual Report, Quarterly performance updates, ongoing investor presentations and announcements to the CSE
- Dedicated investor relations page on our website www.ndbbank.com

Our Response

- The Group refined its strategy in view of the prevalent conditions, ensuring the generation of shared stakeholder value. The Voyage 2025 strategic plan was also formulated, setting the Group's blueprint for its next phase of growth from 2020-2025



Financial Capital (page 58)



Investor Relations (page 380)

Value Delivered

- Profit after tax of LKR 5.5 Bn (+8%)
- Gross dividends paid during the year 2020 - LKR 1.6 Bn

Quality of Relationship: Strong

Return on Equity: 13.13%

Suppliers and Business Partners



Expectations and Concerns

- Fair and transparent pricing
- Ease of transacting
- Continuity of relationship
- For correspondent banks - secure and stable platform for transacting

Engagement Channel

- Periodic supplier reviews and assessments
- Periodic meetings and written communication
 - Press releases, invitation for bids and tenders and information on the website

Our Response

- The Board approved procurement policy ensures that we maintain a continuous and open dialogue with all suppliers and business partners. We also propagate our sustainability practices to our suppliers through regular social and environmental screening.



Social and Relationship Capital
(page 102)

Value Delivered

- Value injection to over 380 suppliers through consistent demand for products and services

Quality of Relationship: Good

Mutually beneficial relationships and equitable, transparent procurement terms

Government and Regulators



Expectations and Concerns

- Compliance to all relevant regulations, directions, and guidelines
- Contribution towards stimulating economic activity
- Maintain regular and transparent communications
- Control direct and indirect impact on stakeholders, the society and the environment.

Engagement Channel

- Periodic supplier reviews and assessments
- Periodic meetings and written communication
 - Press releases, invitation for bids and tenders and information on the website

Our Response

- A dedicated Compliance Department independently monitors adherence to all relevant regulatory and statutory requirements. We also maintain a transparent and ongoing dialogue with relevant regulators. The Bank contributes to the development of policy, legislation and regulation through submissions of our comments and views on proposals and discussion papers.

Value Delivered

- Tax contributions to Government: LKR 5 Bn

Quality of Relationship: Good

Fully compliant with all relevant laws, regulations and guidelines

Communities



Expectations and Concerns

- To partner common social and environmental issues
- Employment creation within communities
- To develop products and provide guidance on achieving desired results.

Engagement Channel

- Meetings with beneficiaries of Sustainability initiatives and capacity building programmes as and when required
- Ongoing publications including the Bank's sustainability reporting and other press releases
- Ongoing sustainability projects, press releases and engagement on social media

Our Response

- In line with our long term approach towards sustainability we strive to create value for the communities we operate in through strategic Sustainability projects, developing products and solutions facilitating socio-economic empowerment and delivering positive environmental impacts.



Social and Relationship Capital
(page 102)

Value Delivered

- Investment in community engagement initiatives: LKR 11.4 Mn
- Beneficiaries of community projects: Over 143,000 direct beneficiaries while the entire nation benefits from the funds donated to the President's Fund for COVID-19 relief, the PCR testing machine and the re-forestation projects.
- Employee volunteer hours: Over 1,100
- Reviving the coastal ecosystem through reforestation of mangrove forests by planting 4,000+ mangrove plants to date.

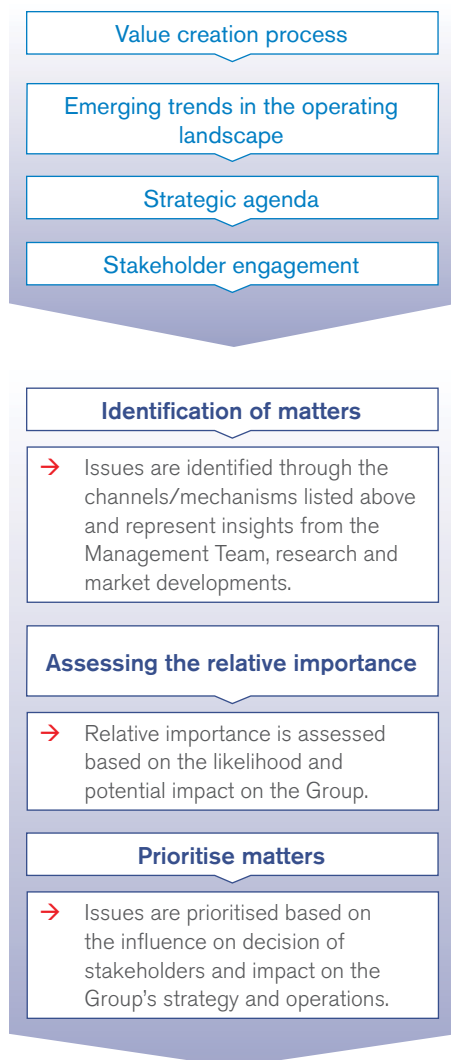
Quality of Relationship: Good

On-going investments in strategic and impactful CSR initiatives

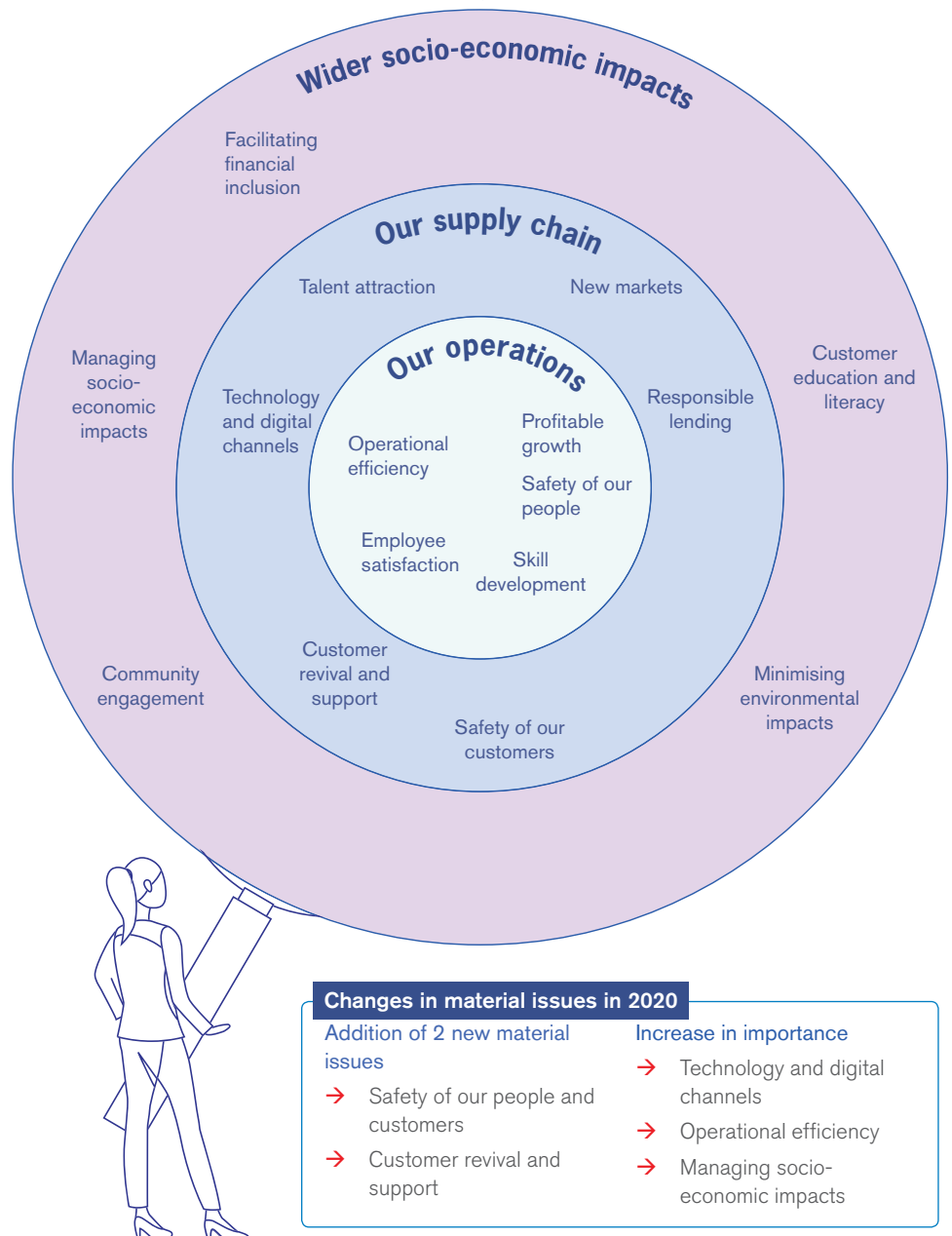
Materiality

The Group considers an issue to be material if it can potentially impact our financial performance and/or position, our social sustainability and our ability to generate stakeholder value. Material issues are informed by the feedback received from our stakeholders, changes in the operating landscape which present opportunities and threats and the Group's strategic priorities. The outbreak of the COVID-19 pandemic in 2020 and the unprecedented challenges that stemmed from it, had considerable implications on several of the Group's material issues, as discussed below. The Bank's material issues represent internal and external factors and are also guided by the topics prescribed in the GRI Standards. Both internal and external factors are guided by the topics prescribed in the GRI Standards. The topic boundaries remain unchanged from the previous year.

The process for determining material issues is as follows:



The material issues for 2020 are presented below: The required GRI disclosures on materiality are presented on Appendix A (page 118) of this Report.



Material topic	Prioritisation		Changes in materiality compared to last year	Stakeholder group impacted	Relevance to our Strategy	Page reference for further information
	Stakeholder impacts	Impact on organisation				
Profitable growth	H	H	-	Shareholders		Financial Capital (page 58) Strategic progress (page 43)
Ensuring safety of employees and customers	H	H	New topic given the outbreak of the COVID-19 pandemic	Employees Customers		Response to COVID-19 (page 40) Human Capital (page 85)
Customer support and revival	H	H	New topic given the economic fallout of the pandemic and customers' repayment pressure	Customers		Response to COVID-19 (page 40) Business line reviews (page 66)
Operational efficiency	M	H	Strategic emphasis on driving sustained improvements in efficiencies and cost rationalisation 	Employees Customers		Intellectual Capital (page 99) Strategic progress (page 43)
New markets	M	H		Customers Business partners		Business line reviews (page 66)
Talent attraction	M	H		Employees		Human Capital (page 85)
Employee satisfaction	H	H		Employees		Human Capital (page 85)
Employee skills development	H	H		Employees		Human Capital (page 85)
Facilitating financial inclusion	H	M		Government Communities		Social and Relationship Capital (page 102)
Customer education and financial literacy	H	M		Customers Communities		Business line reviews (page 66) Social and Relationship Capital (page 102)
Technology and digital channels	H	H	Increased focus on digital channels given limited mobility and restrictions on physical interactions 	Customers Employees		Manufactured Capital (page 93) Digital Capital (page 96) Social and Relationship Capital (page 102)
Responsible lending	H	H	-	Customers		Social and Relationship Capital (page 102)
Customer privacy	H	H	-	Customers		Social and Relationship Capital (page 102)
Managing socio-economic impacts	H	H	-	Customers Employees Communities Government		Social and Relationship Capital (page 102)
Minimising environmental impacts	H	M	-	Communities		Natural Capital (page 111)
Community engagement	H	M	-	Communities		Natural Capital (page 111)

Approach to Sustainability

A holistic Sustainability Policy clearly articulates the Bank's approach to triple bottom line value creation, providing guidance on the sustainability philosophy, goals, and strategy. Centred on the 3 pillars of economic, social, and environmental responsibility, the Policy is actioned by all functions and business lines, demonstrating the Bank's commitment to embed sustainability across all decisions and operations. A dedicated Sustainability Manager is responsible for ensuring the effective implementation and monitoring of the Policy.

ECONOMIC SUSTAINABILITY

Ensuring the creation of shared value through focusing on,

- Responsible lending practices
- Ethical business
- Prudent risk management
- Robust systems and processes
- Customer and supplier relations

ENVIRONMENTAL SUSTAINABILITY

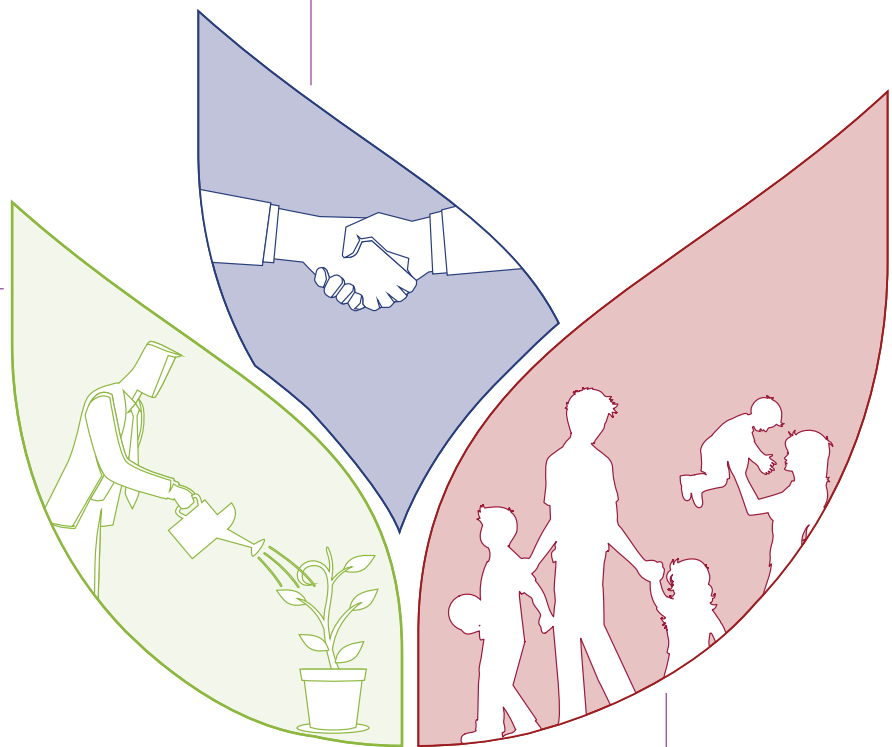
Minimise the adverse environmental impacts of our operations and contribute towards preserving Natural Capital through,

- Minimising carbon footprint
- Promoting renewable energy
- Environmental literacy
- Sustainability projects aimed at preserving the environment

SOCIAL SUSTAINABILITY

Nurturing of long term stakeholder relationships and community value creation through,

- Employee relations
- Community relations



The Group's sustainability initiatives are discussed in detail in the business line reviews (pages 66 to 79) and capital management sections (pages 58 to 115) of this Report.

COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS

The United Nation's SDGs provide universal agreement for development priorities aimed towards ending poverty, protecting the planet, and ensuring prosperity for all as part of a new sustainable development agenda. As a financial intermediary, the Bank can contribute to the achievement of the SDGs in numerous direct and indirect ways. We have reported on both the positive and negative impacts of our operations on SDGs, by classifying the relevance and application to 3 main categories as demonstrated below:

OPERATIONS

Goal #10: Reduced Inequalities

We provide equal opportunities for all employees and strive to create a diverse and inclusive workplace

- Female representation rate: 39%

Goal #8: Decent Work and Economic Growth

We offer our employees attractive remuneration and opportunities for skill and career development in a dynamic and safe working environment

- Number of permanent employees: 2,157
- Retention rate: 95%

Goal #4: Quality Education

We offer ongoing opportunities for skills development while supporting lifelong learning

- Average training hours per employee: 22.0
- Investment in training and development: LKR 18.67 Mn

Goal #5: Gender Equality

The EDGE certification for Gender Equality, and our unique Banking on Women initiative demonstrates our commitment to support the empowerment of women

- Female representation in management roles: 33%
- Ratio between men and women's remuneration: 1: 0.82 (The Bank does not compute this information for employee categories")

Goal #13: Climate Action

Ongoing efforts to drive energy efficiency in our operations and facilitating renewable energy projects

- Carbon footprint: 2,515 tCO₂e
- Cumulative capacity of renewable energy projects funded: 261 MW

Goal #16: Peace, Justice and Strong Institutions

The Bank's corporate governance frameworks embody the highest standards of accountability, integrity, and transparency. Board-approved anti-corruption and whistleblowing policies are also in place.

SUSTAINABLE FINANCE

Goal #1: No Poverty

The Bank's microfinancing facilities are aimed at empowering the country's most underprivileged communities, facilitating job creation and poverty alleviation.

- Microfinancing lending: LKR 0.5 Bn
- Lending outside the Western Province: 16%

Goal #9: Industry, Innovation, and Infrastructure

SME and PIF lending support expansion of small businesses and inclusive industrialisation

- SME lending: LKR 103 Bn
- PIF lending: LKR 102 Bn

Goal #4: Quality Education

Knowledge sharing and capacity building sessions for customers

- Sessions conducted: 08
- Total participants: + 110,000

Goal #7: Clean Energy

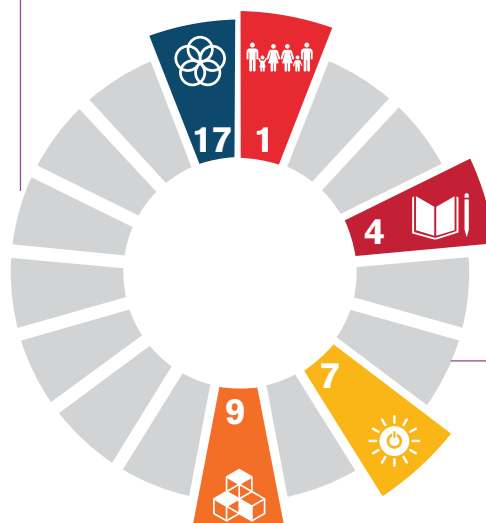
PIF Unit is a key lender to the country's renewable energy sector

- 30% of private sector energy projects financed.

Goal #17: Partnerships for the goals

The Refinancing Unit partners with the Government and multi-lateral agencies to channel credit lines to end-users.

- Refinance disbursements: LKR 17.9 Bn



Approach to Sustainability

STRATEGIC SUSTAINABILITY PROJECTS

Goal #1: No Poverty

As part of an on-going sustainability initiative, the Bank's 'Financial Inclusion & Women Empowerment Project' empowered and equipped women entrepreneurs to successfully manage their business ventures, supporting the socio-economic empowerment of women and contributing to poverty alleviation.

→ Over 110,000 women entrepreneurs trained

Goal #3: Good Health & Well-being

The Bank responded to the COVID-19 crisis in the country and contributed substantially to assist the brave frontline medical staff and the general public.

→ Over 20 hospitals island-wide and the general public

Goal #4: Quality Education

The Bank upgraded the facilities of the 'Veheragalayaya Kanishta Vidyalaya, Matale' by upgrading the computer lab, donating the required stationary for the students in the entire school as they embarked on their new scholastic year and supporting 10 students by granting them scholarships.

→ 191 students benefitted

Goal #6: Clean Water & Sanitation

A Water Purification System donated to the 'Veheragalayaya Kanishta Vidyalaya, Matale' ensuring the students and teachers have access to clean water.

→ Students and Teachers benefitted: 211

Goal #13: Climate Action

Action taken to combat climate change through reforestation by planting 3,000 trees at the Hibiliyakada Forest in Matale, covering an area of 05 hectares and planting over 4,000 mangrove plants at Puttalam.

→ Trees planted: Over 7,000

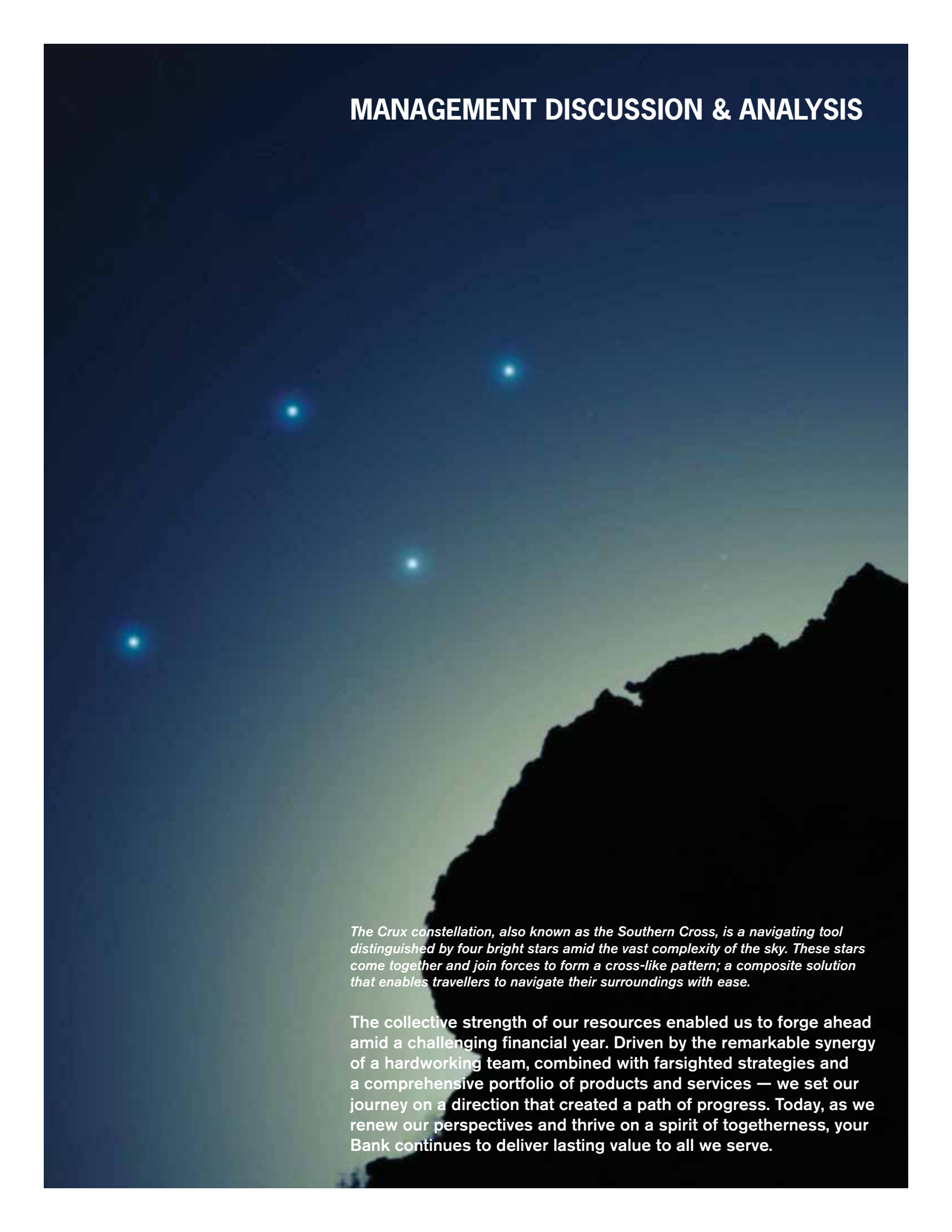
Goal #15: Life on land

The Bank has partnered the Wildlife & Nature Protection Society in creating awareness on environmental conservation among school children across the country.

→ Students trained: Over 16,000



MANAGEMENT DISCUSSION & ANALYSIS



The Crux constellation, also known as the Southern Cross, is a navigating tool distinguished by four bright stars amid the vast complexity of the sky. These stars come together and join forces to form a cross-like pattern; a composite solution that enables travellers to navigate their surroundings with ease.

The collective strength of our resources enabled us to forge ahead amid a challenging financial year. Driven by the remarkable synergy of a hardworking team, combined with farsighted strategies and a comprehensive portfolio of products and services — we set our journey on a direction that created a path of progress. Today, as we renew our perspectives and thrive on a spirit of togetherness, your Bank continues to deliver lasting value to all we serve.

Value Creation Model

CAPITAL INPUTS



Financial Capital (page 58)

Shareholders' funds: LKR 45 Bn
Deposits: LKR 490 Bn
Other borrowings: LKR 80 Bn
Capital ratio of 14.32%



Human Capital (page 85)

Diverse Board of Directors
2,892 employees who are,
→ Performance oriented
→ Customer centric
→ Agile and responsive



Manufactured Capital (page 93)

113 branches
100 ATMs and 61 CRMs
2 Phygital branches



Digital Capital (page 96)

Integrated IT systems and market leading digital services
IT Investment infrastructure



Intellectual Capital (page 99)

LKR 9 Bn of brand value (Brand Finance Sri Lanka 100)
Expertise in development banking and project financing



Social and Relationship Capital (page 102)

Wide range of beneficiaries including customers and communities
92 correspondent relationships
Sustainable approach to value creation



Natural Capital (page 111)

Electricity consumption: 5,490,407 kWh
Fuel consumption: 95,949 litres
Natural eco system

VALUE CREATION

Business Verticals

Banking cluster

Retail Banking including Private Banking (page 67)
SME Banking and Micro Financing (page 70)
Wholesale Banking (page 75)
Project and Infrastructure Financing (page 77)
Treasury (page 79)

Capital market cluster

Investment Banking (page 80)
Wealth Management (page 82)
Securities Trading and Investment Advisory (page 82)
Private Equity (page 83)
Property Management (page 84)

Strategic focus areas (page 43)



Business focus



Operational excellence



Digital as an enabler



Customer experience



World-class team



Group synergy

Business Activities

Disbursement of credit
Mobilising deposits
Facilitating transactions and payments
Wealth management
Investment management

Vision To be the driving force for a financially empowered Sri Lanka

Mission To be the catalyst in the financial services industry by creating superior shareholder value and contributing to the national development through the empowerment of individuals with innovative financial solutions delivered by an inspired and dedicated team committed to excellence

Values Integrity, Creativity, Excellence, Sincerity, Accountability, Dependability

Key risk exposures (page 342)

Credit risk

Gross NPA Ratio: 5.35%

Operational risk

Gross Operational Risk losses: 0.57% of capital charge for Operational Risk

Market risk

Mark to Market value of the debt securities: LKR 301Mn

Regulatory risk

No material incidents of non-compliance with laws and regulations

Funding and liquidity risk

Net Stable Funding Ratio: 112.52%

Liquidity Coverage Ratio: (All currency): 157.12%

Drivers of Change

Macro-economic developments

Technological disruption

OUTPUTS

Quantum of growth in Gross Loans and Advances to our diverse customers:

LKR 34 Bn (+8%) ▲

Debt moratoriums granted to eligible customers on capital and interest servicing

Growth in volume of transactions processed via NDB NEOS platform:
210% ▲

Deposits mobilised:

LKR 490 Mn (+21%) ▲

Investment and wealth management services

Invest in the training and development of employees

Invest in Government securities and debentures

Capacity building initiatives targeting underprivileged segments

Strengthening digital infrastructure and optimising process efficiencies

Carbon footprint of **2,515 tCO₂e**

OUTCOMES



Shareholders (page 65)

Return on equity: 13.13%

Gross dividends paid during the year 2020:
LKR 1.6 Bn

Net profit: LKR 5.5 Bn

Earnings per share: LKR 23.77



Customers (page 102)

Access to finance ▲

Relief during the COVID-19 pandemic ▲

Digital offerings ▲

Excellent customer service ▲



Employees (page 85)

Value created: LKR 5 Bn

Investment in training: LKR 19 Mn

Opportunities for career progression ▲

Diverse and inclusive work environment



Government and Regulators (page 58)

Revenue to Government: LKR 5 Bn

Compliance to all regulatory requirements



Communities (page 102)

Investment in CSR: LKR 11.4 Mn

Over 143,000 beneficiaries



Environmental impacts (page 111)

Lending towards renewable energy, agriculture and other green initiatives

Adverse environmental impacts of our operations ▼



Customer sophistication

Attracting and retaining the right talent

Climate change



Positive outcomes



Negative outcomes

Financial Capital



Effective management of financial capital is essential in ensuring that the Group implements its strategy while adequately nurturing other forms of capital, which are essential for long term value creation.



Capital Connectivity and Trade-offs



Human Capital

- ⊕ Employee remuneration
- ⊕ Ongoing investment in training enhances the value of human capital



Digital Capital

- ⊕ Investments directed towards enhancing the Group's digital capabilities



Intellectual Capital

- ⊕ Organisational efficiency drive has contributed towards enhancing financial capital through cost controls



Social & Relationship Capital

- ⊕ Stronger relationships lead to increased wallet share
- ⊕ Over 60% of CSR funds directed towards assistance for COVID-19 crisis relief



Natural Capital

- ⊖ Increased business volumes can lead to the increased consumption of resources
- ⊕ Direct resources towards environmental preservation

Value Delivered In 2020

Growth

- 18% growth in Assets to LKR 632 Bn
- 21% growth in Deposit base to LKR 490 Bn
- 8% growth in Loans and Advances
- 12% growth in Fee and Commission Income

Cost Efficiencies

- 8% reduction in Other Expenses supported by the organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE)
- Bank Cost to income ratio of 37% among the lowest in the industry

Profitability

- 8% growth in Bank Post-Tax Profit
- 7% growth in Profit Attributable to Shareholders
- 5% increase in Net Asset Value per Share

Financial Stability

- 11% growth in Total Equity
- Issue of LKR 6.5 Bn Tier 2 Debenture - oversubscribed
- Capital Adequacy Ratios well above the minimum requirements

Way Forward

- Deepen transactional banking footprint and drive increased contributions from fee based income
- Strong platform for growth stemming from LKR 8 Bn Rights Issue

FINANCIAL PERFORMANCE

For the year ended 31 December	BANK			GROUP		
	2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000	%
Gross income	60,657,705	59,113,537	3	61,632,070	60,237,165	2
Interest income	53,003,875	53,174,791	-	53,153,100	53,401,614	-
Less: Interest expenses	35,255,426	35,467,033	(1)	35,228,223	35,430,833	(1)
Net interest income	17,748,449	17,707,758	-	17,924,877	17,970,781	-
Fee and commission income	4,268,945	3,915,005	9	5,452,706	4,874,720	12
Less: Fee and commission expenses	18,661	5,776	223	18,661	5,776	223
Net Fee and commission income	4,250,284	3,909,229	9	5,434,045	4,868,944	12
Net gains/(losses) from trading	967,284	990,160	(2)	967,284	990,160	(2)
Net gains/(losses) from financial assets at fair value through profit or loss	96,353	23,437	311	113,683	79,072	44
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	1,486,023	686,461	116	1,486,023	686,461	116
Net gains/(losses) from derecognition of financial assets measured at amortised cost	-	9,086	(100)	277	9,086	(97)
Other operating income	853,886	320,373	167	477,658	201,828	137
Total operating income	25,402,279	23,646,504	7	26,403,847	24,806,332	6

Net Interest Income

Net Interest Income:

Interest Income Received on lending products and investments minus the Interest Paid on deposits and other borrowings.

Drivers: Credit demand, economic and business activity, interest rates, competition, client reach, competitive position, attractiveness of products

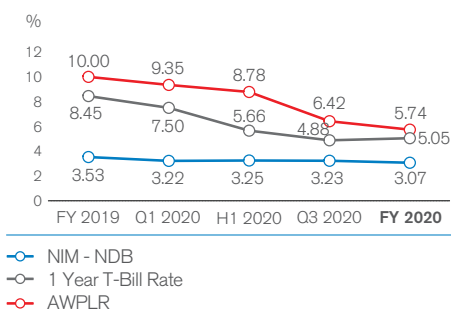
Despite a gross loan portfolio expansion of 8%, the Bank's interest income of LKR 53.0 Bn was relatively unchanged in comparison to the previous year. This was predominantly attributable to reduced business volumes, impact of interest rates concessions and moratoriums granted on loan interest servicing - phenomena experienced across the industry due to the effects of the pandemic.

Interest expenses too recorded a marginal decline during the year as funding costs gradually decreased in line with interest rate trends. Resultantly, the Bank's Net Interest Income (NII) growth was marginal compared to the previous year, amounting to LKR 17.7 Bn. At a consolidated level, the Group's NII

amounted to LKR 17.9 Bn, marginal reduction in comparison to the previous year. The NII is also inclusive of the modification losses the Bank accounted for, on moratoriums where significant interest concessions were given, as prescribed by SLFRS 09 Financial Instruments.

In line with overall industry trends, the Bank's Net Interest Margin (NIM) narrowed to 3.07% from 3.53% in 2019.

Movement in Market Rates and Bank NIM



Fee and Commission Income

Non-fund based income: Comprises Net fee and commission income, trading gains/losses and other operating income

Drivers: Volume of banking transactions, client reach, digital transactions, interest rates, foreign exchange rate fluctuations, capital market activity.

Adverse impacts on NII were partially offset by 9% growth in Net Fee and Commission income to LKR 4.3 Bn as the Bank placed strategic emphasis on expanding its transactional banking footprint, through new client acquisition and deepening relationships with existing customers. Fee and Commission income growth was also supported by the exponential growth in digital financial services, as the Bank continued to drive digital penetration among its customers. Resultantly, contributions from the Bank's non-fund based income sources increased to 21% (excluding other operating income) from 19% the previous year. With interest rates expected to remain at the current levels over the short term, the Bank will continue to pursue growth in fee based income thereby partially off-setting the impacts of the low interest margin environment.

Financial Capital

Total Operating Income

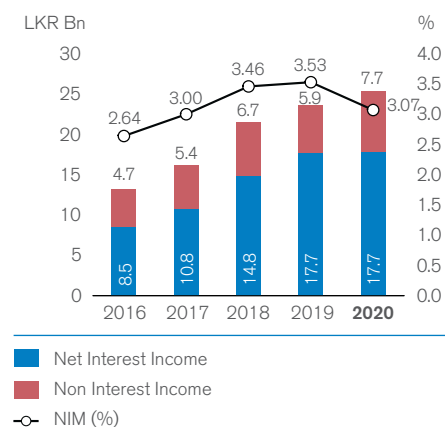
The Bank's Total Operating Income increased by 7% to LKR 25.4 Bn, a commendable achievement given the numerous challenges that prevailed during the year. In addition to growth in fee based income, this was supported by LKR 1.5 Bn Net gains from the derecognition of financial assets, stemming primarily from debt securities. Meanwhile Net gains from trading amounted to LKR 967.3 Mn, mainly from foreign exchange gains from spot and forward contracts. Other operating income increased by 167% to LKR 853.9 Mn during the year, due to dividend income from Group investments and translation gains on the valuation of retained profits held in foreign currency. Overall non interest income recorded an increase of 29%, thereby offsetting the deceleration of NII growth and driving Operating Income growth. Meanwhile at consolidated level, total operating income increased by 6% to LKR 26.4 Bn.

Impairment

Impairment charges: Provisions/losses arising from customers' inability to fulfil their debt obligations

Drivers: Macroeconomic conditions and business activity, customers' ability and willingness to pay, interest rates

NII Trend



For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000

Loans and receivables to other customers

Impairment on individually significant loans	3,840,595	2,721,578	3,840,595	2,721,578
Impairment on collective loan portfolio	1,999,847	925,616	1,999,847	925,616
Impairment on contingent liabilities and commitments	390,699	198,363	390,699	198,363
Total impairment charges for loan and receivables to other customers	6,231,141	3,845,557	6,231,141	3,845,557
Impairment on financial assets	562,506	290,284	562,506	559,919
Charges/(reversals) of impairment on investments in subsidiaries	2,689	21,940	-	-
Total	6,796,336	4,157,781	6,793,647	4,405,476

Impairment charges for loans and other losses increased by 63% to LKR 6.8 Bn during the year, reflecting an industry wide moderation in portfolio quality amid the inevitable economic toll of the pandemic. Collective and individual provisions recorded an increase, driven by the elevated risks stemming from the pandemic and moderation in macroeconomic conditions. Meanwhile, other provisions under impairment also increased during the year, reflecting prudential provisioning for financial investments in view of the weakened economic conditions. The Bank has taken proactive steps to stem the increase in impairments through establishing dedicated remedial units and maintaining continuous engagement with customers. At a consolidated level, impairment charges increased by 54% to LKR 6.8 Bn.

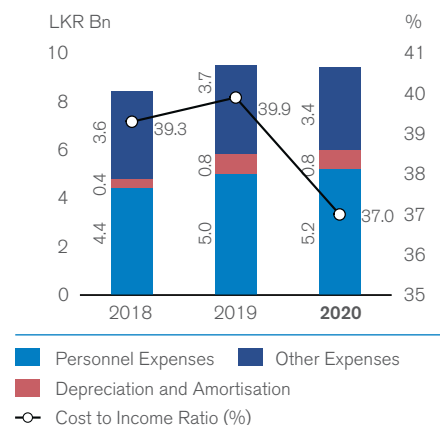
Cost Management

Operating expenses: Overhead costs that are incurred in generating business volumes

Drivers: Number of employees, productivity, business volumes, digital capabilities, efficiency, inflation, network

For the year ended 31 December	BANK			GROUP		
	2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000	%
Less: Operating expenses						
Personnel expenses	5,171,547	4,957,146	4	5,748,453	5,459,822	5
Depreciation and amortisation expenses	818,582	761,019	8	931,599	883,323	5
Other expenses	3,409,324	3,716,314	(8)	3,720,998	4,065,345	(8)
Total operating expenses	9,399,453	9,434,479	(0)	10,401,050	10,408,490	(0)

Cost Management



A key achievement during the year was the Bank's ability to drive increased cost efficiencies through enhancing productivity and sustained reductions in controllable costs. Despite increased activity levels and numerous operating challenges, the Bank's total operating expenses were maintained at the same levels of last year at LKR 9.4 Bn. This was driven by an 8% reduction in other expenses, reflecting the success of an organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE), increased automation through RPA, process reengineering and workflow systems and accelerated migration of transactions to digital platforms. It is noteworthy that Bank's cost reductions did not reflect any rationalisation of employee remuneration related expenses with personnel expenses increasing by 4% during the year under review. Overall the Bank's cost to income ratio declined further to 37.0% (39.9% the previous year) and is one of the lowest in the industry.

Taxation

Taxation: Tax on financial services and income tax expenses

Drivers: Profitability levels, tax rate, non tax deductible costs

The Bank's total tax expenses (Tax on Financial Services and Income Tax expenses) decreased by 26% to LKR 3.7 Bn during the year due to changes in the tax regime with the removal of Nation Building Tax (NBT) on Financial Services and Debt Repayment Levy. VAT on Financial Services and Income Tax declined by 1% during the year. Resultantly, the Bank's overall effective tax rate on operating profit before tax on financial services reduced to 39.9% from 49.2% in 2019.

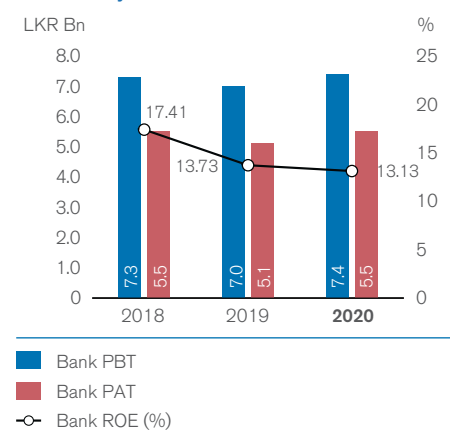
Tax Management: The Bank's tax strategy is driven by a dedicated Tax Management Unit, headed by a team of highly skilled finance professionals. A tax consultant has been engaged to compute the income tax liability and handle the administrative functions relating to filing of income tax returns. Tax compliance is consistently monitored by Internal Audit, Compliance Unit, and the external auditors. The Senior Manager in charge of the Tax Management Unit liaises with the tax authorities on a regular basis, while engagement is also supported by the tax consultant.

Profitability

The Bank's operating profit before tax recorded a decline of 8% to LKR 9.2 Bn reflecting the escalation in impairment charges and pressure on interest margins. However, pre-tax, and post-tax profits recorded respective increases of 6% and 8% to LKR 7.4 Bn and LKR 5.5 Bn supported by the reduction in the tax liability. Meanwhile, at a consolidated level, profit after tax increased by 7% to LKR 5.2 Bn. The Bank's timely and proactive approach in responding to the challenges presented by the pandemic and capitalising on emerging opportunities enabled it to be resilient in a year of extraordinary challenges, thereby continuing to deliver on its shareholder commitments.

Accordingly, the Group's profit attributable to shareholders (PAS) increased by 7% to LKR 5.1 Bn mainly due to the stronger performance of the Bank, while the Group companies were adversely impacted by the volatilities in the debt and equity market during the year.

Profitability



For the year ended 31 December	BANK			GROUP		
	2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000	%
Operating profit before tax on financial services	9,206,490	10,054,244	(8)	9,209,150	9,992,366	(8)
Less: Tax on financial services	1,818,832	3,071,440	(41)	1,818,832	3,071,440	(41)
Operating profit after tax on financial services	7,387,658	6,982,804	6	7,390,318	6,920,926	7
Share of associate companies' profits/(losses)	-	-	-	-	-	-
Profit before taxation	7,387,658	6,982,804	6	7,390,318	6,920,926	7
Less: Income tax expenses	1,857,182	1,871,204	(1)	2,172,970	2,035,915	7
Profit for the year	5,530,476	5,111,600	8	5,217,348	4,885,011	7
Profit attributable to equity holders of the parent	5,530,476	5,111,600	8	5,116,806	4,775,932	7
Non-controlling interests	-	-	-	100,542	109,079	(8)
Profit for the year	5,530,476	5,111,600	8	5,217,348	4,885,011	7

Profitability against industry

	Industry	NDB
NIM	3.1%	3.1%
Cost to Income	44.4%	37.0%
ROE	11.3%	13.1%

The Bank's cost to income ratio is amongst the best in the industry, reflecting its relentless focus on driving efficiencies

Financial Capital

FINANCIAL POSITION AND STABILITY

Loans and advances: Lending to customers across our business verticals

Drivers: Number of clients, credit demand, product offerings, economic activity

Investments: Represents the Bank's investments in government securities, debt securities, quoted and unquoted equity investments

Drivers: Rates of return offered on investments, capital market activities, investment appetite, market volatility

PPE: Physical infrastructure which enables business activities including buildings, vehicles, IT equipment and others

Drivers: Number of customer contact points, geographical expansion strategy, digital strategy, business volumes

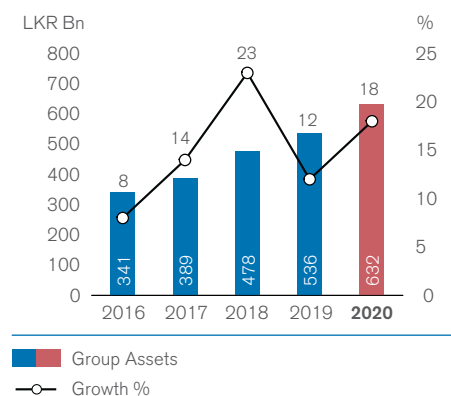
As at 31 December	BANK			GROUP		
	2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000	%
Total assets	626,836,698	529,594,428	18	632,131,618	535,599,626	18
Gross loans and receivables to other customers	443,536,977	409,221,432	8	443,613,301	409,244,643	8
Investments	158,878,998	95,436,392	66	161,187,834	99,404,951	62
Customer deposits	490,278,126	405,048,024	21	489,658,746	404,667,529	21
Debt securities issued and other borrowed funds	79,838,325	72,229,185	11	79,838,325	72,229,185	11
Shareholders' Funds	44,781,023	39,483,836	13	47,976,237	43,383,350	11

Asset growth

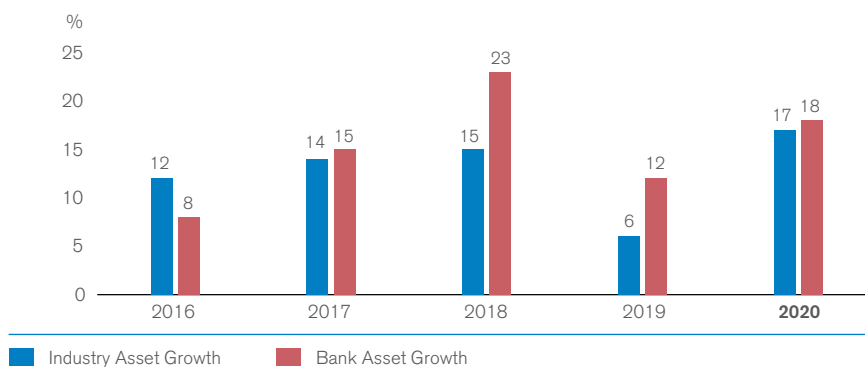
The Bank's total assets increased by 18% to LKR 626.8 Bn, driven by moderate loan growth and an enhanced liquidity position as the Bank sought to build up its liquidity buffer. Given the conditions that prevailed during the year, the Bank sought cautious growth in selected sectors across business verticals, resulting in gross loans increasing by 8%. Loan expansion was driven primarily by the Retail and SME segments which grew by 16% while growth in Wholesale Banking and PIF slowed to 2%. As credit demand slowed the Bank directed funds towards Government securities resulting in financial assets (held at fair value and amortised cost) increasing by 66% to LKR 158.9 Bn during the year. Given the conditions that prevailed, these investments offered a strong liquidity buffer, providing a cushion against any possible liquidity stresses. Meanwhile the Group's consolidated assets increased by 18% to LKR 632.1 Bn during the year.

The Bank has consistently outperformed the industry growth in terms of assets, enabling it to emerge as the 4th largest private sector bank in terms of assets.

Asset Growth



Asset Growth vs Industry



Asset Quality

Credit quality moderated in line with the broader industry trends, as customers faced inevitable repayment pressures following the onset of the pandemic. The Bank took proactive measures to engage with customers, offering flexible repayment schemes and facility restructuring. The Gross NPL ratio increased to 5.35% from 4.77%, the previous year while prudent regulatory provisioning led to a net NPL ratio of 3.23%.

Capital and Funding

Deposits and borrowings:

Funding obtained from customers and lenders to drive business growth

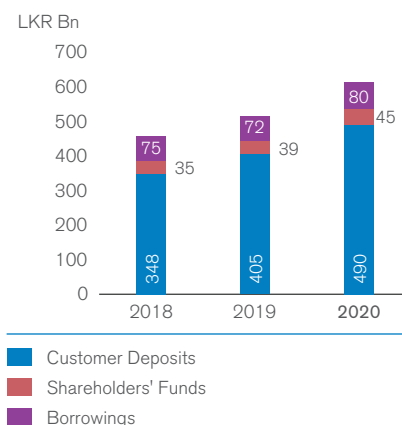
Drivers: Customer reach, deposit franchise, investor confidence, profitability levels, returns offered

Equity: The Bank's ordinary share capital, retained profits and other reserves.

Drivers: Profitability and profit retention, regulatory capital requirements

As at 31 December	BANK		GROUP	
	2020	2019	2020	2019
Regulatory Capital (LKR '000)				
Common Equity Tier 1 Capital	37,588,780	34,909,032	40,697,560	39,563,816
Tier 1 Capital	37,588,780	34,909,032	40,697,560	39,563,816
Total Capital	58,724,327	51,090,130	61,715,675	55,320,388
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.5% (2019 - 7%))	9.17	9.18	9.73	10.15
Tier 1 Capital Ratio (Minimum Requirement - 8.0% (2019 - 8.5%))	9.17	9.18	9.73	10.15
Total Capital Ratio (Minimum Requirement - 12.0% (2019 - 12.5%))	14.32	13.43	14.75	14.20

Funding Profile



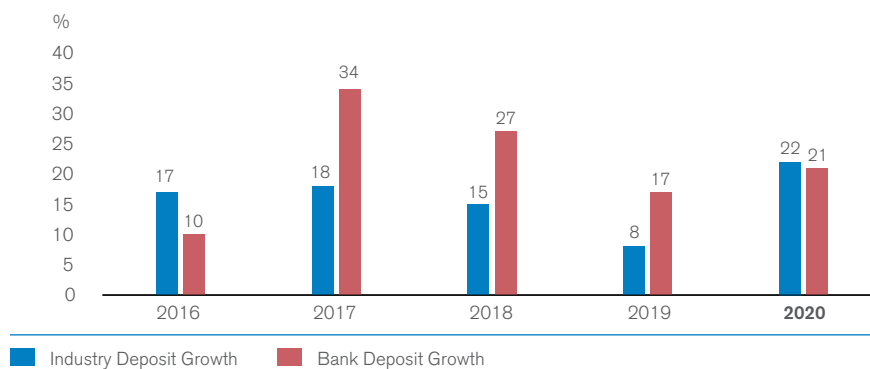
The Bank's funding profile is dominated by deposits, with a share of 80% as at end December 2020. The deposit base increased by 21% to LKR 490.3 Bn reflecting proactive efforts by the branch network to mobilise deposits and NDB's strengthening deposit franchise. Despite the low interest rate scenario that prevailed during the year, the Bank increased its CASA base by 53% attesting to the increasing visibility of its brand.

Exposure to borrowings increased by 11% to LKR 79.8 Bn; the Bank successfully issued LKR 6.5 Bn of BASEL III compliant, tier 2, subordinated debentures during the year, which were oversubscribed upon issue, thereby attesting to investor confidence regarding the Bank's upside potential. Borrowings accounted for 13% of the Bank's funding profile during the year.

Good profit retention during the year resulted in the Bank's equity base increasing by 13% to LKR 44.8 Bn. The Bank's total capital ratio increased to 14.32%, comfortably above the regulatory requirement of 12%. The capital base will be further strengthened following a Rights Issue of LKR 8 Bn which will be completed in the first half of 2021.

In recent years, deposit growth has outperformed the industry reflecting the Bank's increasing retail penetration, brand strength and deposit franchise.

Deposit Growth vs Industry



Financial Capital

Liquidity

The liquidity position was enhanced during the year, and the Bank's high quality liquid assets were well above the minimum regulatory requirement of 90% (2019 - 100%). The Bank's liquidity ratios are given below;

As at 31 December	BANK	
	2020	2019
Regulatory Liquidity		
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	28.84	20.93
Offshore Banking Unit (%)	26.88	24.78
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 90% (2019 - 100%))	161.97	162.42
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90% (2019 - 100%))	157.12	153.26
Net Stable Funding Ratio (%) (Minimum Requirement - 90% (2019 -100%))	112.52	108.92

FINANCIAL VALUE ADDED

For the year ended 31 December	2020 LKR Mn	2019 LKR Mn	2018 LKR Mn	2017 LKR Mn	2016 LKR Mn
Invested Equity					
Total equity	44,781	39,484	34,998	28,738	24,745
Add: Allowance for impairment charges for loans and receivables and other losses	18,965	13,075	9,373	4,892	6,134
Total	63,746	52,559	44,371	33,630	30,879
Earnings					
Profit after tax	5,530	5,112	5,548	4,352	3,170
Add: Impairment for loans and receivables and other losses	6,796	4,158	3,581	1,259	1,367
Less: Loan losses written off	-	-	-	(246)	14
Total	12,327	9,270	9,129	5,364	4,551
Cost of equity (Based on 12 months weighted average T-bond rate plus 2% for risk premium)	7.05%	10.45%	13.20%	12.07%	11.94%
Cost of average equity	4,100	5,065	5,148	3,893	3,528
Economic value added	8,227	4,205	3,981	1,471	1,023

Performance of Group Companies

The Bank has six subsidiaries engaged in capital market activities such as Stock Broking, Wealth Management, Investment Banking and Management of Private Equity Funds. The subdued conditions in the equity and debt market had a direct impact on the performance of the capital market cluster during the year. The Bank also has a subsidiary company engaged in property management.

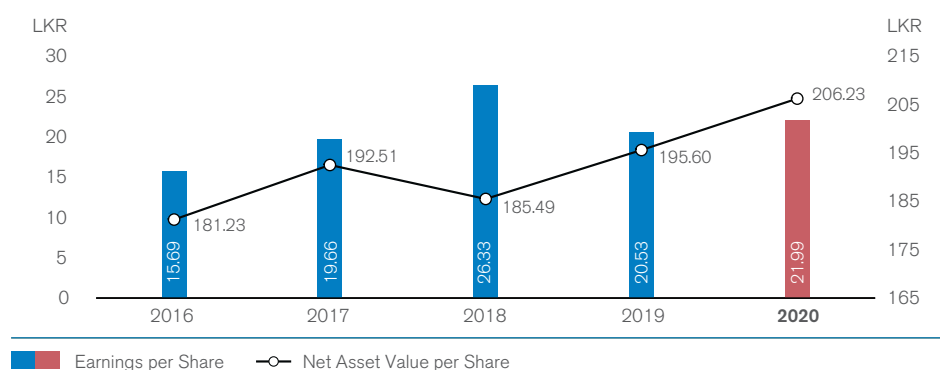
Please refer page 80 for further information.

Shareholder Value Creation

SHAREHOLDER RETURN

Earnings per Share increased by 7% to LKR 21.99 reflecting the Group's improved profitability while Net Asset Value per Share also grew by 5% to LKR 206.23 as the Group continued to record Balance Sheet growth. Total Shareholder Return, measured as the change in share price and dividends received during the year was a negative 14.9%, mainly due to the fall in the share price in line with the broad market decline. The Board of Directors have approved and declared an interim cash dividend of LKR 1.50 per share for the year 2020. Upon completion of the Rights Issue that has been announced, the Board of Directors may consider a declaration of a final dividend to its shareholders.

Shareholder Return



SHAREHOLDING STRUCTURE

Individual shareholders marginally increased their ownership, accounting for 95.12% of the total shareholding while institutional shareholders held 4.88%. The share remained relatively liquid with 11,359 public shareholders holding 81.12% of the shares. The shareholding held by the top 20 shareholders declined to 70.60% from 72.42% the previous year.

SHARE PRICE MOVEMENTS

NDB's share price mirrored the broad performance of the banking sector stocks reflecting macroeconomic concerns and resultant stresses on banks. Resultantly, NDB's share price declined by 22% to close the year at LKR 78.10 (adjusted for scrip dividends).

Share Trading Summary in 2020

Turnover:

LKR 2,484 Mn
(+105%)

Average daily turnover:

LKR 12 Mn

Number of shares traded ('000):

31,710



What shareholders want to know

How the Bank executed strategy
(page 43)

The Bank's performance
(page 56)

How the Bank managed risks
(page 342)

Way Forward
(page 116)



Performance Overview of Business Lines

RETAIL & SME delivered through our network of 113 branches

► page 67

43% of Group Loans
36% of Operating Income
69% of Group Deposits

Our Edge

Strong sales force
Seamless experience
Inherent capabilities in
development banking

Wholesale Banking

► page 75

30% of Group Loans
22% of Operating Income
29% of Group Deposits

Our Edge

Personalised, customer-centric
solutions

Project & Infrastructure Financing

► page 77

23% of Group Loans
11% of Operating Income

Our Edge

Financing renewable energy
projects
Cross-border financing
Lead arranger for syndicated
facilities

Treasury

► page 79

Our Edge

Multi-faceted product portfolio
catering to evolving customer
needs

Skilled and dynamic Treasury
team

Group Companies

► page 80

Our Edge

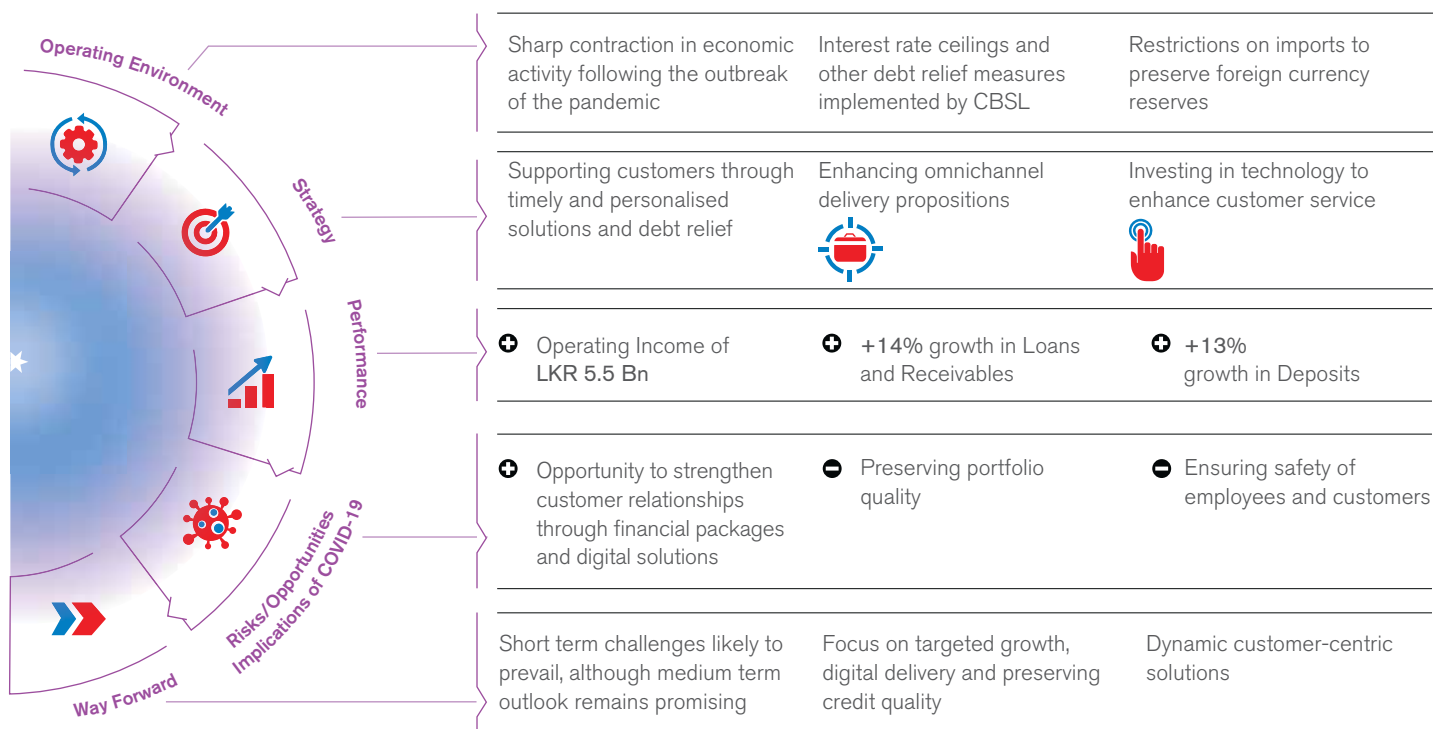
Unique financial services power
house

Full spectrum of investment and
wealth management products

Delivered by a competent and
qualified team of professionals

Retail Banking

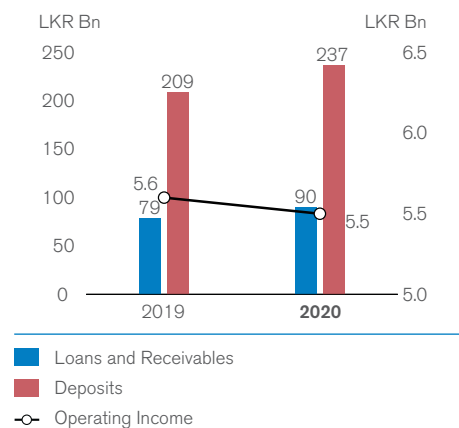
With the effective implementation of Transformation 2020, NDB has driven increased penetration in the Retail segment thereby strengthening brand visibility and building a more diverse and stable portfolio. The Retail segment's growth has been underpinned by a value proposition centring on customer service, personalised solutions, a strong sales force, and convenient delivery channels.



STRATEGY AND PERFORMANCE REVIEW

Performance Review: The segment continued to deliver commendable growth with loans and receivables increasing by 14% and deposits growing by 13% during the year. Loan growth was upheld by our targeted penetration strategy, strong sales force and focus on pursuing cross-sell opportunities, which collectively enabled strong expansion in personal loans, housing loans, credit cards and pawning. We maintained our competitive position in the market for personal loans and recorded the highest monthly disbursements for personal loans in the industry during the year. Operating income marginally reduced by 1%, whilst profitability was affected by margin pressure and an increase in impairment costs. Meanwhile, the Bank continued to drive deposit growth supported by proactive customer engagement and attesting to NDB's improving brand visibility and deposit franchise. Preserving credit quality was a key imperative during the year and despite the challenges that prevailed, the Unit's gross NPL ratio amounted to 4.4% (compared to 3.5% the previous year).

Retail Banking Performance



- Loan expansion driven by targeted growth in personal and housing loans, credit cards and pawning
- Deposit growth driven through proactive customer engagement

Retail Banking



Strengthening Customer Relationships:

While 2020 was rife with numerous operating challenges, it also presented an opportunity to deepen customer relationships. We ensured that customer requirements were fulfilled in a timely manner through innovative delivery channels and personalised solutions. NDB was one of the first banks to deploy mobile ATMs during the lockdown, facilitating a range of essential financial services such as cash deposits, withdrawals, and bill payments. The Unit placed strategic emphasis on supporting customers during the crisis through debt moratoriums, concessionary loans and flexible repayment schemes. The Bank went beyond the Government stipulated concessions offering customised solutions and debt relief to those affected by the pandemic. We also made considerable progress in delivering superior customer interactions through driving committed execution of the service credo "We Go Beyond" and Standard Operating Procedures, which were launched in 2019.

Digital Delivery: The prevalent conditions offered an opportunity to drive increased digital adoption and the Unit successfully enabled digital delivery to its customers, through the NDB NEOS platform. The launch of a new online banking platform and upgrades to the mobile app with the best-in-class features resulted in considerable increase in digital transaction volumes and value during the year. Other digital developments include the launch of a new card management system, enhancements to the Bank2U Platform and increased migration to e-statements. (page 96 - Digital Capital)

Product Strategy: A selective growth strategy enabled us to achieve industry best absolute portfolio growth in credit cards throughout the year. While we continued to offer a range of exciting offers and merchant benefits, credit criteria were tightened to ensure preservation of portfolio quality. Understandably, the Leasing Unit was significantly impacted by restrictions on vehicle imports; that said we leveraged on the reach of our 10 dedicated leasing centres and focused on offering convenient, door-step service for second-hand vehicles and commercial vehicles through our partnerships with vehicle providers. The Unit also pursued aggressive growth in pawning, which saw advances increasing by 155% in 2020.



**පිවිහේ Pleasing,
Season for NDB ලීසිං!**

Banking on Women: Despite the prevalent conditions, the Bank made considerable progress in its Banking on Women initiative through its NDB Araliya proposition and the successful launch of 'Vanithabhimana' - an island-wide women's award programme dedicated to recognising excelling females across eight categories, including entrepreneurship. (page 102 – Social and Relationship Capital).



NDB's Retail Banking network provides vital advisory support and assistance on complex products to a wide range of customers, including individual customers and SMEs

Capital Utilisation, Value Creation and Erosion

Inputs



14% growth in Loans and Receivables and 13% growth in Deposits



9 Average employees per branch



Training for Retail employees on products and processes



Investments in digital platforms



Ongoing investments in 'Banking on Women'



Operating Income of LKR 5.5 Bn



Debt relief granted to eligible Retail customers



Improved brand visibility



Revamped NDB NEOS digital platform



Deeper customer relationships

Outputs/Outcomes

Privilege Banking

With the effective implementation of Transformation 2020, NDB has driven increased penetration in the Retail segment thereby strengthening brand visibility and building a more diverse and stable portfolio. NDB Privilege Banking maintained its market leadership in the private banking segment, further sharpening its competitive edge through exceptional service standards, innovative and personalised solutions, and digital delivery. NDB continues to account for the largest customer base and deposit portfolio in the private banking space, attesting to the strength of its brand and the relationships it has nurtured with its customers.

Resilient Performance: The Privilege Banking segment demonstrated resilience in a challenging year to record broad based growth as demonstrated in its deposits growth. All three sub segments of Privilege Select, Privilege and Elevate catering to ultra-high net worth, high net worth and emerging high net worth customers recorded growth rates of 7%, 14% and 39% respectively. Accordingly, the Unit's overall deposits growth was 11%, attesting to the success of its deeper segmentation and geographical expansion strategies.

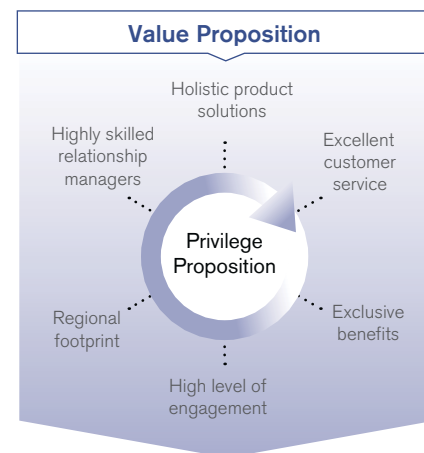
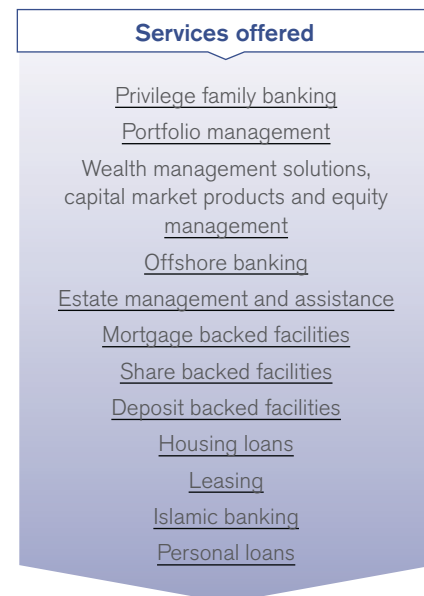
Growth through Segmentation: In recent years, the Unit's growth has been supported by continued geographical expansion. In 2020, three new Privilege Banking centres were opened in Kandana, Kollupitiya and Kohuwala bringing the total network to 15. Privilege Banking Relationship Managers have also been appointed to overlook relationships maintained through all branches, which paid rich dividends through increased customer penetration during the year. Meanwhile, the recently launched Elevate segment, continues to record strong growth supported by a dedicated, specially trained team of Elevate Officers.

Deeper Customer Relationships: Given the conditions that prevailed in 2020, the Unit focused on deepening customer relationships through offering customised solutions for their sudden cash requirements and superior service. Each customer was allocated a primary and back-up relationship manager, ensuring uninterrupted service during the pandemic. Meticulous client profiling was exercised to obtain important insights and nurture more holistic and personalised relationships.

Upgrades to the NEOS app enabled customers to manage both banking and capital market relationships they maintain with the NDB Group on a single platform, a holistic solution offered only by NDB. We leveraged these digital capabilities to offer increased customer convenience during the year. Meanwhile, the sustained decline in market interest rates has necessitated a proactive and personalised approach to wealth management, and the Unit continued to offer innovative capital market and banking solutions. In 2020, Privilege Banking launched a special deposit product for foreign currency, offering attractive interest rates. Understandably physical client engagement and networking was limited in 2020.

WAY FORWARD

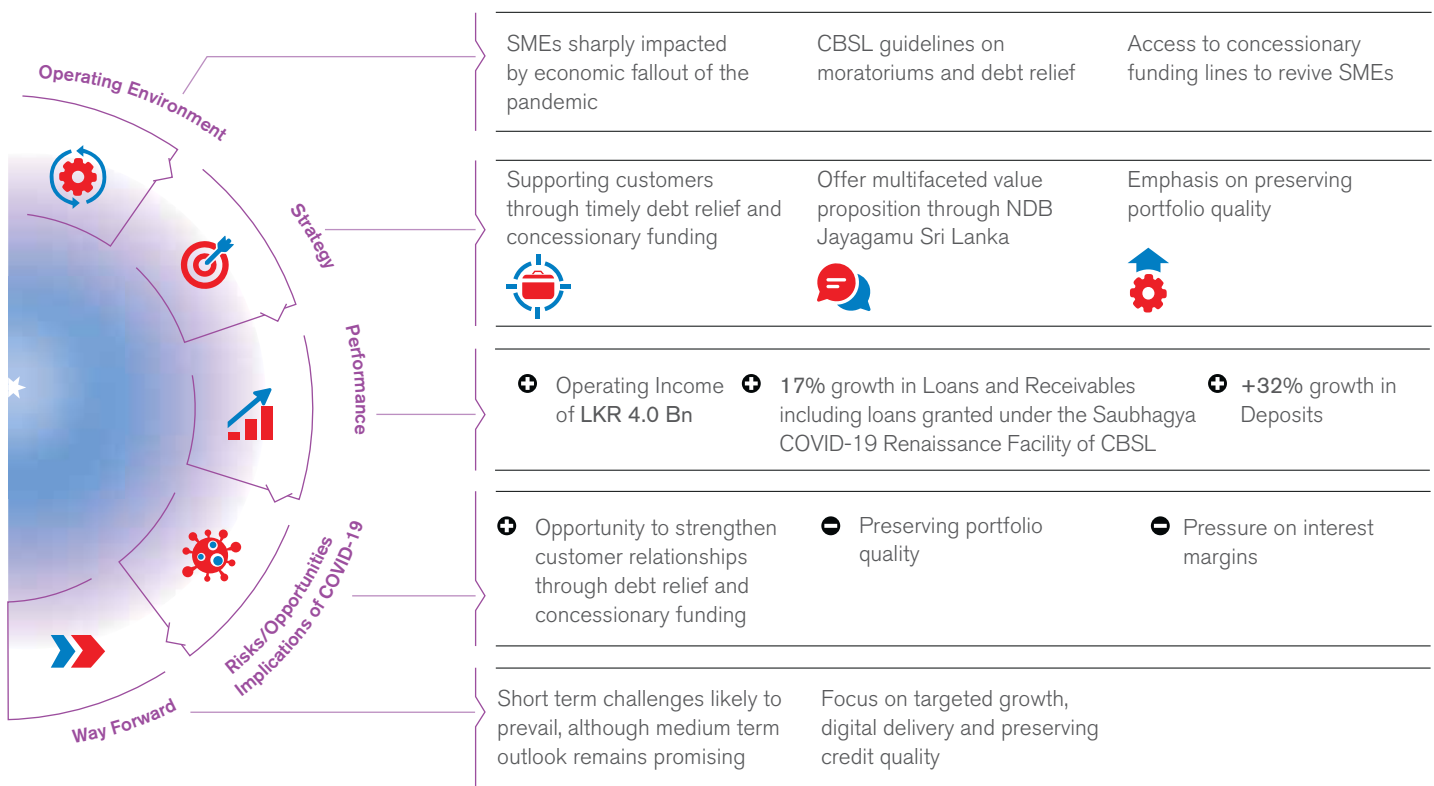
While cognisant of the challenges that are likely to prevail in the short term, we are optimistic that the economy would post strong revival in the medium term following the anticipated roll-out of the vaccination programme as well as monetary relaxing and economic stimulus. The Retail Banking unit will continue to focus on delivering customer-centric solutions through personalised offerings, superior service, and digital delivery channels. In Privilege Banking we will continue to pursue geographical expansion and consistently refine our offering to drive increased customer acquisition, gain higher wallet share and consolidate our market position as the preferred partner in this segment.



Our iconic offering of Privilege Banking to high net worth customers is carefully curated, ensuring precision in meeting their demands

Business Banking

NDB has pursued aggressive penetration in the SME sector, with the segment now making significant contribution to the Group's total loans and receivables and also deposits. The Bank leverages its inherent capabilities in development banking to drive sustainable growth in the SME segment, offering a broad value proposition which often extends beyond financial support to include non-financial value addition.



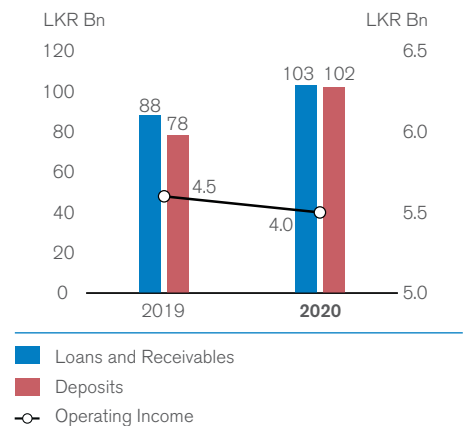
STRATEGY AND PERFORMANCE REVIEW

Performance Review: Despite the inevitable toll of the pandemic's economic fallout, the Bank's SME segment delivered growth in loans and receivables (+17%) and deposits (+32%) whilst strengthening customer relationships through debt relief and innovative, customer-centric solutions. Access to credit lines at concessionary rates enabled the Bank to channel much-needed funds to revive businesses; for instance, NDB approved LKR 18 Bn through the Saubhagya COVID-19 Renaissance Facility of CBSL, utilising 12% of CBSL's total concessions and emerging as the fourth largest lender of the scheme. Deposit growth was driven by a dedicated unit led by a senior team member, which resulted CASA growth of 61%, a commendable achievement given the low interest scenario that prevailed. Conversely, the Unit's overall income and profitability were challenged given the macro economic conditions and due to the increase in impairments, as the Unit adopted a prudent approach to loan loss provisioning.

Customer Support: As our customers faced escalating repayment pressure following the outbreak of the pandemic, we sought to assist them in weathering the crisis through an array of solutions aimed at offering debt relief and ensuring commercial viability. Key initiatives included,

- Discretionary concessions to nearly 56% of our portfolio, prior to the issuance of CBSL guidelines on moratoriums. While 60% of the clientele requested concessions, proactive engagement and customised solutions resulted in 20% of these clients settling outstanding facilities.
- Extension of moratoriums to 62% of the Business Banking portfolio in line with the CBSL guidelines

Business Banking Performance



- Loan expansion supported by disbursements under concessionary schemes to revive businesses
- Commendable CASA growth driven by a dedicated team and targeted marketing approach

Launch of NDB Jayagamu Sri Lanka:

This unique initiative aims to drive business revival through offering a multi-faceted value proposition to exporters, innovators, and entrepreneurs. The Bank leveraged the relationships in its eco system to offer both financial and non-financial assistance to businesses who typically lack access to market, advisory services and logistical solutions. Through this initiative, NDB supported SMEs thereby ensuring their commercial viability during this period of crisis. Key services offered include,



Value proposition of NDB Jayagamu Sri Lanka

Access to Markets

Provide access to markets through establishing presence in e-commerce platforms such as Daraz and Code360.com as well as logistical support through Maersk Shipping and value chain management through CodeVUS (Pvt) Limited

Facilitating Industry Partnerships

Facilitating partnerships between prospective exporters and relevant stakeholders and authorities such as EDB, Ceylon Chamber of Commerce, Sri Lanka Insurance Corporation

Management Support

ERP solutions through a third-party vendor offering inventory control, supply chain, invoicing, payments, and finance management and establishment of a trade desk to facilitate trade transactions and processing

Advisory Services

Training sessions on product development, women entrepreneurship, innovator assistance for obtaining patents, etc.

Leveraging Industry Partnerships: Through NDB Jayagamu Sri Lanka, NDB also partnered with Export Development Board (EDB) of Sri Lanka, thereby directing its customers to the '2000 New Export Development Programme' through which SMEs will obtain a host of non-financial advisory including capacity development, access to markets and product development. The holistic services offered by the EDB under this programme include provision of market information, facilitating partnerships with trade support services, skills development, technology support, professional services, brand promotion and trade facilitation, among others. The Bank also supported its customers through providing access to training programmes facilitated by ADB and EDB. (page 102 – Social and Relationship Capital)

Preserving Portfolio Quality: As customers faced repayment pressure, maintaining portfolio quality emerged as a key priority. The Remedial Unit played a vital role in assessing client's requirements and proactively offering personalised solutions, which in turn enabled the segment to mitigate its credit risk and maintain the NPL ratio at relatively unchanged levels.

Capital Utilisation, Value Creation and Erosion

Inputs

- Loan book growth of 17%
- Moratoriums granted: 62% of the SME Loan Book
- Training and advisory services to SME customers
- Partnerships with industry stakeholders and e-commerce platforms
- Automation of processes through workflows

- Operating Income of LKR 4.0 Bn
- New customer acquisitions
- Improved brand visibility
- Customers onboarded to e-commerce platforms
- Positive environmental impacts of climate smart lending decisions

Outputs/Outcomes



NDB's support to SMEs is far reaching and impactful, and the picture depicts one of its beneficiaries, Cocomate – NDC Exporters which exports tropical essence to the world, thorough coconut-based products

Business Banking

Islamic Banking

NDB Shareek continued to gain ground as one of Sri Lanka's leading Islamic Banking propositions, gradually strengthening its market position through an expanding geographical reach, innovative products, and good customer service. The Unit marked a major milestone in 2020, as it was recognised as the 'Islamic Bank of the Year - Sri Lanka 2020' at the coveted The Banker Magazine - UK awards despite stiff competition from domestic competitors.

Performance Review: The Unit's performance in 2020 reflected the challenging market conditions and sharp slowdown in credit growth, which resulted in negative growth of 5%. Deposit growth, was however strong at 132% supported by attractive returns offered on the Mudarabah and Wakala deposits and launch of new deposit products including a senior citizens' account and Araliya for women.

The Unit continued to support the extensive network of SME, middle market enterprises, local/foreign corporates, Privilege Banking Select and Project Financing clients. It also continued to gain market share, notching up 2 ranks to emerge as the second largest Islamic Banking window in the country. The Unit also received numerous domestic and international awards during the year, attesting to its superior customer value proposition and improving market position.

As the demand for alternative financial services are growing rapidly in the global arena, the outlook for NDB Islamic Banking Unit remains positive with numerous local and global opportunities to be pursued. The Bank will continue to leverage on its Islamic Banking network of 11 branches together with dedicated Islamic Banking representatives to seek increased penetration while striving to create more visibility to enhance the NDB Shareek brand.



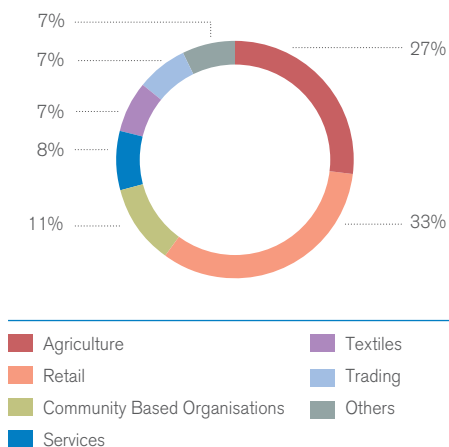
Micro Financing

The Bank's foray into micro financing has enabled it to directly contribute to the socio-economic empowerment of the country's most underserved segments through providing access to affordable finance while enhancing the Bank's presence and visibility at grassroot levels.

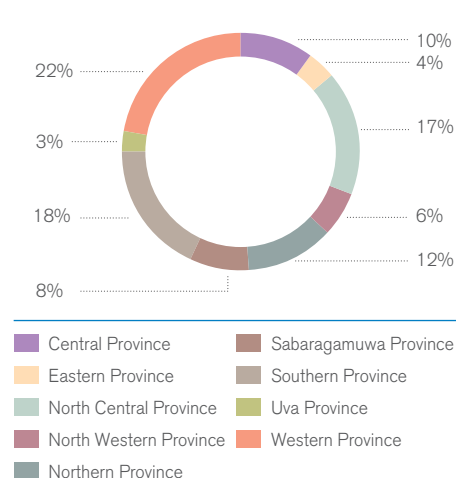
STRATEGY AND PERFORMANCE

The operating conditions that prevailed in 2020 presented innumerable difficulties to the micro finance sector including difficulties in disbursements, pursuing collections, and engaging with clients. Amidst these challenges, the Bank continued its support to the micro finance customers in assisting them maintain resilience and ensure business continuity. The Bank's field officers extended advisory support and curated financial solutions to meet the Segment's specific needs. The Bank2U branchless banking digital proposition supported this drive in taking banking services to the customer door step.

Sector-wise Composition of the Micro Financing Loan Portfolio



Province-wise Composition of the Micro Financing Loan Portfolio



NDB's Support to Microfinancing Customers - Case Studies

Facilitating irrigation for farmers

/// The Bank disbursed LKR 10 Mn to Pragathisewa Padanama under the Divi Aruna Community Based Organisations category, with the aim of constructing cultivation wells in Madawachchiya and Galenbindunuwewa in the Anuradhapura district. Challenges in sourcing water had previously had a direct impact on farmer income levels during the drought season. Through this facility, 40 wells were constructed, benefitting over 75 families, and resulting in the additional cultivation of 50 acres which were previously unutilised. As part of its CSR contributions, the Unit also constructed 17 toilets in this area to improve the health and wellbeing of farmers. ///



Ensuring business continuity in challenging times



/// P.D.C Sampath is the sole proprietor of Sampath Plastic Crushers, an enterprise in Adiambalama in the Gampaha district, which supplies recycled plastic pellet to leading plastic products manufacturing company. Commencing with a monthly manufacturing capacity of 10MT, the business has now expanded its capacity to 15 MT with the support of a LKR 1 Mn facility disbursed under the Saubhagya Refinance scheme. While the business was impacted by the lockdown in 2020, the Bank also granted a concessionary loan at 4% under the Saubhagya COVID-19 Renaissance Facility, which has allowed Sampath to recommence operations. ///

Supporting the fisheries sector

/// The Bank continues to engage with fishing communities in the areas of Nelliady, Chavakachcheri and Manipay in the Northern peninsula, providing funding for boats, engines, and fishing nets, among others. This has directly contributed towards enhancing their livelihoods, financial inclusion nurturing savings habits, and improving financial literacy. ///



Business Banking

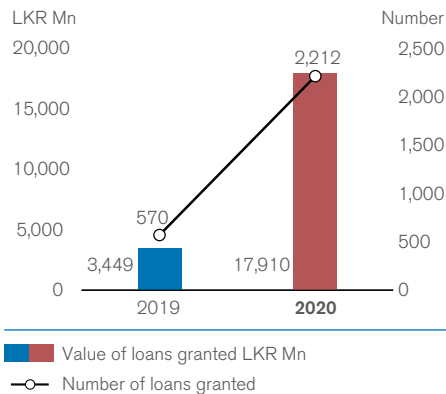
Refinance Operations

NDB's Refinancing Unit has leveraged the Bank's over four decade legacy in development banking to drive economic empowerment through partnering the Government of Sri Lanka (GoSL) and global multilateral funding agencies to channel funding at concessionary rates, grants and offer financial advisory to selected industry sectors.

Operational Highlights

- 2,049 Saubhagya COVID-19 Renaissance Facility loans disbursed
- 15 start-ups financed
- Total disbursements of LKR 17.91 Bn

Refinance



The Unit disbursed concessionary funding of LKR 17.9 Bn during the year, the bulk of which reflected lending under the Saubhagya COVID-19 Renaissance Facility which aimed to support businesses in the COVID-19 pandemic and ensure their commercial sustainability. Through granting over 2,000 Saubhagya COVID-19 Renaissance Facility loans the Unit has directly contributed towards reviving businesses and sectors which were in imperative need of working capital funding. The Unit also placed emphasis on green lending initiatives during the year, with considerable funds directed towards waste-water purification, waste recovery, pollution control and roof-top solar systems.

The Bank's core competencies in development banking, widespread geographical reach and holistic customer value proposition have enabled it to effectively channel funds to the most deserving segments of the economy. Accordingly, the Bank has been accredited by GoSL and other donor agencies as one of the top performers among the Participating Financial Institutions for several loan schemes including SMELoC, SMILE 111 Revolving and E Friends 11 Revolving Fund, loans under the Enterprise Sri Lanka scheme and the International Finance Corporation (IFC) Smart Agri scheme.

In addition to driving profitability, the Bank's role as a Participating Financial Institution enables it to fulfil its social and environmental aspirations through propagating sustainable practices among its clientele. For instance, most lending schemes require strict adherence to eligibility standards and responsible business practices. Meanwhile, funding lines aimed at empowering women entrepreneurs, generating renewable energy, and mitigating environmental pollution, have enabled the Bank to drive towards fulfilling its sustainability agenda and contribute towards achieving the UN Sustainable Development Goals.

WAY FORWARD – BUSINESS BANKING

We are acutely aware of the banking sector's responsibility in supporting economic revival, and the Business Banking unit is committed to do its part in contributing to rebuilding businesses through NDB Jayagamu Sri Lanka Initiative, trade financing, providing end-to-end offerings across the value chain and utilising available credit lines to channel funding to the country's SME sector. Customer-centricity is a key pillar of our Voyage 2025 strategy and we hope to offer innovative and agile propositions which will enable our customers to navigate the uncertainties which are likely to prevail in 2021.

A Success Story

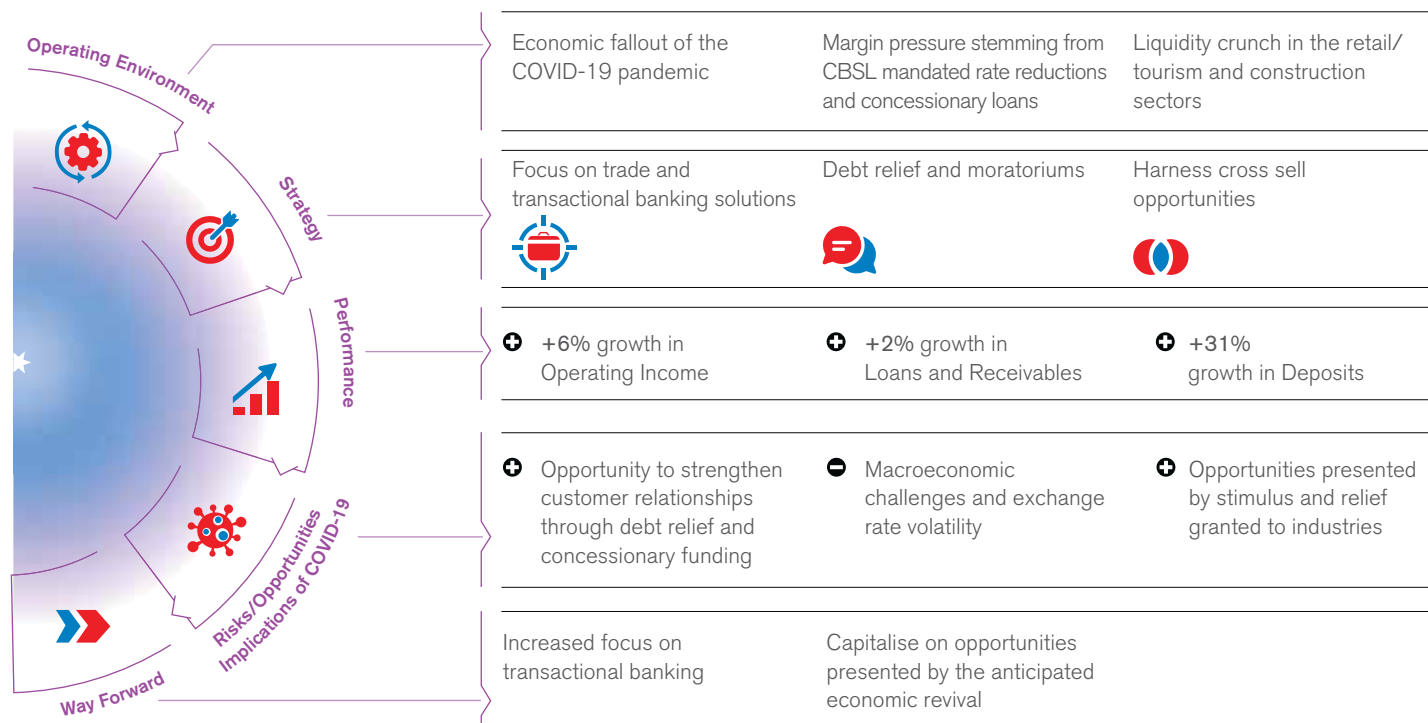


I am a 23 year old undergraduate student pursuing a B.Sc. (Hons) Degree in Mineral Resources and Technology from the Uva Wellassa University of Sri Lanka. My special area of interest is water science and in order to practically apply my academic learnings I decided to commence a greenhouse business. I was able to secure a loan from NDB Bank towards this purpose. The Bank aptly offered me the most suitable solution by granting an Asian Development Bank sponsored Women Entrepreneurs Finance Initiative (We-Fi) Grant amounting to LKR 1 Mn, of which LKR 0.25 Mn was in form of a grant. The Bank was extremely helpful in offering me a manageable repayment plan as well. Now, I employ several people in my business and hope to further expand my operations. I am very grateful to NDB for supporting me in achieving my goals.

Ms. Veenavi Deshangalie
Diyathalawa – Badulla District

Wholesale Banking

Wholesale Banking continues to be NDB's mainstay, contributing 30% and 29% to the Group's loans and receivables and deposits, respectively. The division offers the entire gamut of Corporate Banking solutions including Commercial, Transactional and Cash Management among others. The divisions cohesively worked to achieve these results based on the strong business module and the enduring relationships constructed on.

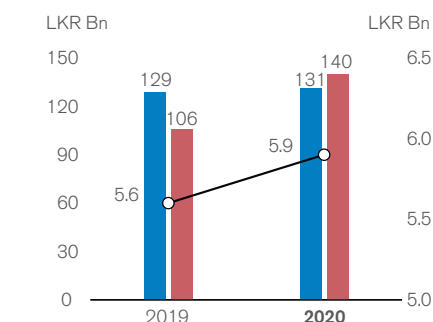


STRATEGY AND PERFORMANCE REVIEW

Performance Review: Wholesale Banking delivered a creditable year of performance and consolidation, achieving a moderate growth in loans and receivables while preserving portfolio quality and recording deposit growth of 31%. Operating income also recorded a growth of 6% to LKR 5.9 Bn despite pressure on income sources of both fund and non-fund based, due to various concessions given during the year. Amidst seismic conditions, strategic emphasis on Trade and Transactional Banking and focusing on the premium segment with timely efforts to capitalise on opportunities offered by the country's economic direction enabled the Unit to record consistent revenue and liability growth. Pressure on margins had an unpropitious impact on profitability and is likely to remain challenging over the short term. Ongoing focus on internal efficiencies and sustained rationalisation of costs led to the Unit's cost to income ratio declining further to 20.6% during the year.

Repositioning of the Division: During the year, the division was rebranded as Wholesale Banking and repositioned to offer an array of services including; Commercial Banking, Transaction Banking and Correspondent Banking, Cash Management and Supply Chain Financing. Meanwhile, the Cash Management Unit was segregated into Corporate Deposits and Chinese Segment while Electronic Banking was moved within the Transactional Banking during the year. The Wholesale Banking concept centres on customer-centric value additions, service excellence, strong relationships management and deep industry insights, which have contributed towards sharpening its edge in this competitive space.

Wholesale Banking Performance



Loans and Receivables
Deposits
Operating Income

Loan growth supported by deeper relationships with existing customers

Deposit growth driven through proactive customer engagement and focus on Trade and Transactional Banking

Wholesale Banking

Debt Relief and Business Revival:

Implications of the COVID-19 pandemic coupled with the prolonged impacts of the Easter attacks rendered it an extremely challenging year for Sri Lankan corporates. In line with the Bank's overall strategy of supporting customers to ensure their commercial viability, the Wholesale Banking unit proactively offered timely remedial actions, moratorium facilities and other advisory services to affected businesses. We also continued to monitor the working capital cycles of customers and provided additional funding when required. Total moratoriums granted amounted to LKR 72 Bn of the Division's outstanding loans and receivables. In supporting customers who were impacted by import controls, the Transaction and Correspondent Banking units developed a hybrid UPAS (Usance Payable At Sight) structure, enabling clients to negotiate SIGHT pricing with their suppliers, while the Import Letter of Credit (LC) converted to an Usance LC with the allowed tenor (90/180 days).

Focus on Trade and Transactional Banking:

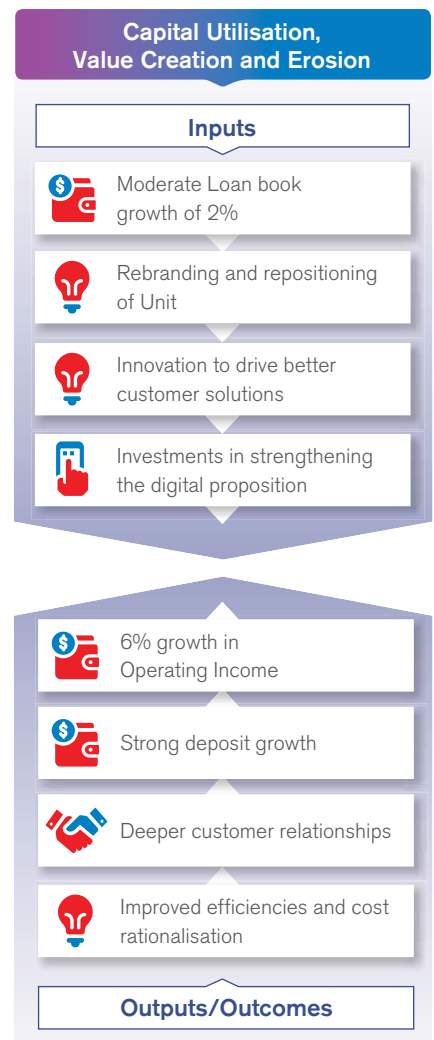
During the year, the Units attention was to increase penetration in Transactional Banking, forming a dedicated unit to manage customer liquidity, payments and collections and facilitate international trade and working capital needs. Wholesale Banking sought to deepen its relationships with existing clients by offering innovative, personalised working-capital solutions across Cash Management and Trade Finance. Essentially, the Supply chain financing unit was also revamped to offer exclusive working capital solutions for selected Corporates including distributor and supplier financing.

Digital Proposition: With the addition of NEOS PAY to the Bank's Mobile app, Corporate customers engaged in retail businesses were able to advance their payment mechanism through the QR code. This process enhanced convenience while ensuring safety during the pandemic. The Division also sought to proactively onboard Corporate customers to the online banking platform, thereby offering uninterrupted and accessible banking services.

Chinese Segment: Understandably, the Chinese business segment was significantly impacted by the pandemic and macroeconomic developments as new investments were halted and/or deferred. Our Chinese portfolio comprises mainly of construction project clients, followed by trading, tourism, and manufacturing. Despite the conditions that prevailed, the Unit successfully acquired 16 new Chinese corporate clients.

WAY FORWARD

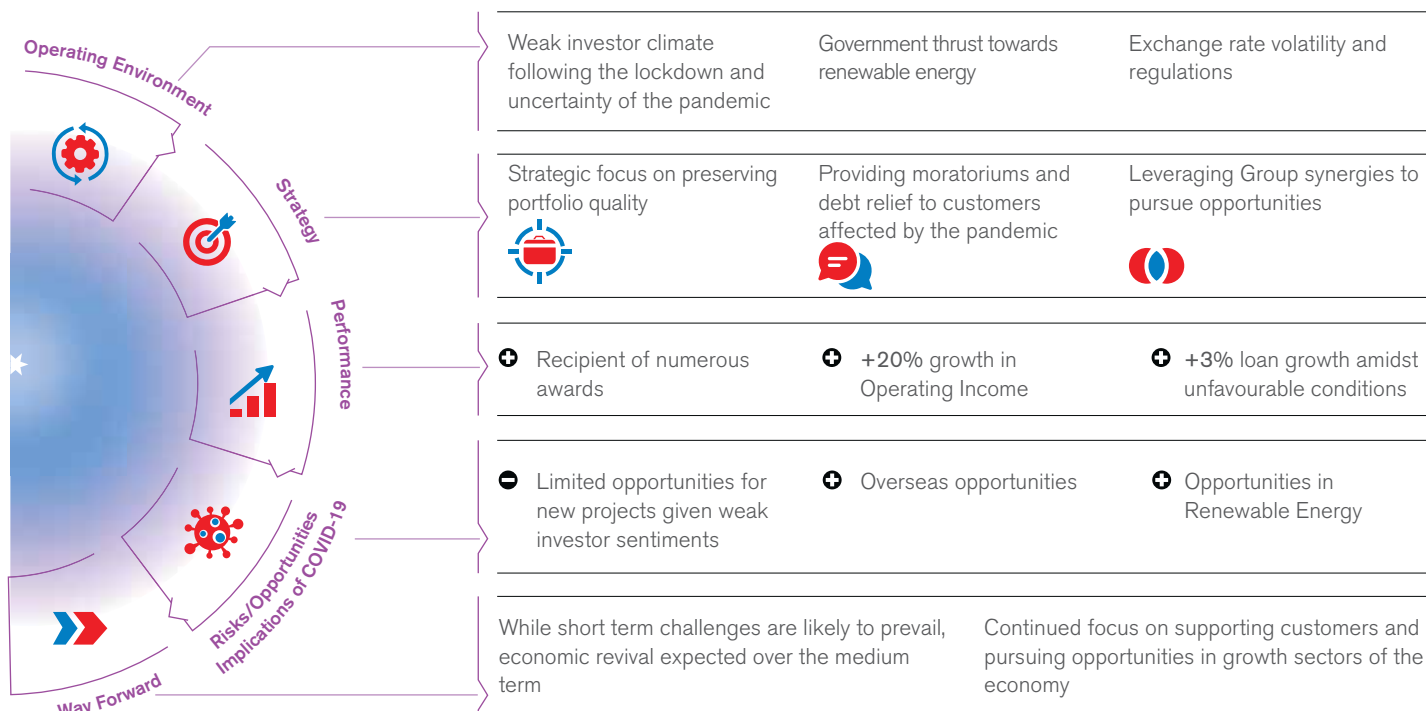
While we expect an onerous short term environment, the division is optimistic that the economy will revitalise by mid 2021 with Corporate customers gaining positive momentum. Wholesale Banking is positioned to capitalise on the ever-changing business opportunities that will arise due to this revival. Powerful propositions are in place to attract, achieve and advance specially in Transaction Banking, process efficiencies, relationship management, and customer acquisition in selected industry sectors which are earmarked with sustainable business growth.



Wholesale Banking has throughout been a significant financier of the country's leading exporters- including being a main banking partner to one of the leading apparel manufacturer and exporters in the country, Hela Clothing (Pvt) Limited

Project and Infrastructure Financing (PIF)

A unique base of domain knowledge garnered over an established track record of four decades together with a holistic value proposition to customers has enabled the Bank's PIF unit to build a strong competitive position and unparalleled reputation in Sri Lanka's project financing segment.



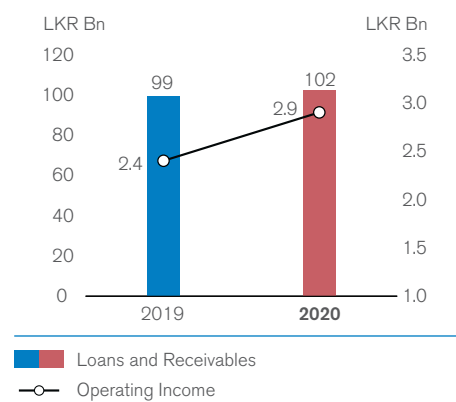
STRATEGY AND PERFORMANCE REVIEW

Performance Review: The PIF Unit leveraged its strong customer relationships and unique base of organisational capital to deliver a healthy performance in a challenging year. Performance was supported by a 3% cautious growth in the loan portfolio despite unfavourable market conditions as the Unit pursued proactive customer acquisition including actively participating in the Saubhagya COVID-19 Renaissance Facility of CBSL. The Unit also continued to maintain a healthy and quality portfolio with an industry leading NPL ratio of just 0.3%, supported by superior competencies in project evaluation and monitoring. Operating income recorded an impressive growth of 20% demonstrating the Unit's resilience and ability to navigate the challenging macroeconomic landscape. Adapting to new ways of working and ongoing focus on cost efficiencies allowed the Unit to achieve a record low cost to income ratio of 13% during the year compared to 17% in the previous year.

The Unit played its part in supporting the revival of businesses following the economic fallout of COVID-19; moratoriums were offered to companies which were affected by the crisis while concessionary loans of over LKR 1 Bn was disbursed through the Saubhagya COVID-19 Renaissance Facility of CBSL. The Unit also indirectly assisted the growth of local industries through disbursements of over LKR 5 Bn to financial intermediaries including the NBFi Sector.

With over four decades of project financing experience and in-house engineering and legal expertise, NDB's role extends beyond that of a financial partner to that of a project partner, offering advice on project management and legal aspects. Our competitive edge stems from our ability to offer a holistic value proposition to customers, thereby providing the complete range of services required for project financing. These capabilities are frequently recognised through the receipt of numerous local and international awards during the year, the Unit won the Gold Award for Deal of

PIF Performance



Project and Infrastructure Financing (PIF)



Two wind power projects (10 Mw each) in Jaffna peninsula funded by NDB PIF, started their successful commercial operations in 2020

the Year at the Sri Lanka Islamic Banking and Finance Industry awards (SLIBFI) as well as the Bronze Award at the Islamic Finance Forum of South Asia (IFFSA) for its role as the lead Bank in an Islamic finance syndication for a hydro power project in Uganda.

The Bank has placed strategic focus on supporting the generation of renewable energy, thereby allowing it to meet both its commercial and environmental objectives. The Unit maintains its position as the leading Bank in financing renewable energy projects and is estimated to have contributed to nearly 30% of such private sector projects through various forms of financial support. Power generation through mini-hydro, solar and wind power projects allow the avoidance of harmful emission of gases such as Carbon Dioxide (CO₂), Sulphur Dioxide (SO₂) and Nitrogen Oxide (NOx) thereby contributing towards addressing the escalating impacts of climate change. Our capabilities in this sector have led to the creation of a unique base of tacit knowledge, which has allowed our employees to be recognised as experts in this field.

The Unit continued to pursue overseas opportunities, engaging in international debt syndication in Asia and East African Region. We are also exploring more opportunities in markets such as Cambodia and Maldives which will enable the Unit to diversify its geographical reach and strengthen its regional presence.

WAY FORWARD

It is anticipated that 2021 will remain challenging, since the year is likely to see lingering effects of weaker investor sentiments seen for most part of 2020. As economic conditions are expected to gradually return to normalcy during 2021, the Unit would be able to proactively seek ways to support customers enabling them to move out of the current crisis and thrive in the future. The Unit will also align its growth plans with the country's national development agenda, thereby capitalising on the opportunities presented by the economic revival.

Capital Utilisation, Value Creation and Erosion

Inputs

-  Moderate Loan book growth of 3%
-  Investments in renewable energy projects
-  Strong customer relationship management
-  Skills and expertise of 15 employees
-  Unique base of organisational knowledge

-  20% growth in Operating Income
-  Improved Cost to Income ratio of 13%
-  Acquired 63 new customers
-  Offsetting of emission of harmful gases

Outputs/Outcomes

Treasury

The Treasury Unit is a market maker in the foreign exchange and debt markets and plays a vital role in managing the Bank's market risks such as interest rate and liquidity risk through the Asset Liability Management (ALM) desk. The Unit's competitive edge stems from its highly-skilled and experienced Treasury team and wide array of products which have allowed the Unit to cater to the evolving needs of a dynamic market.

OPERATING ENVIRONMENT

The devastating economic consequences of the COVID-19 pandemic prompted many governments including Sri Lanka to introduce stimulus packages and policy easing measures to support the economic revival. Accordingly, the CBSL adopted an accommodative monetary policy stance with the following policy measures taken to drive growth:

- 250 bps of monetary policy easing
- 200 bps reduction in the statutory reserve requirement
- Stimulus in the form of debt moratoriums and subsidised loans including housing loans to salaried employees at 7% fixed for 5 years

As the impacts of COVID-19 intensified across the world, emerging market investors withdrew funds as they sought safe haven investments resulting in a significant outflow of foreign funds from the debt and equity markets. Sri Lanka's economic challenges were compounded by sovereign rating downgrades from all three major rating agencies. Resultantly, sovereign bond prices crashed with short term and long term bond yields increasing to 60% and 20% respectively. The LKR yield curve also witnessed historical lows reflecting surplus rupee liquidity while deposit rates recorded a steep decline. The continuous outflow of foreign investments exerted significant pressure on the exchange rate reserves, with the Rupee falling to LKR 185.45 against the USD and reserves declined to USD 5.66 Bn by December 2020. This prompted the Government to implement a host of import and capital transaction restrictions to stem the outflow of foreign currency.

The drought of foreign currency in the domestic market owing to withdrawal of foreign investments, lack of new inflows saw local market participants scrambling to source US Dollars. The prevalent Rupee liquidity surplus in the domestic market saw participants engaging in foreign currency (FCY) swaps thereby creating an excessive demand for foreign currency. Resultantly, for the first time in history, the rupee traded at a premium in the forward market.

STRATEGY AND PERFORMANCE

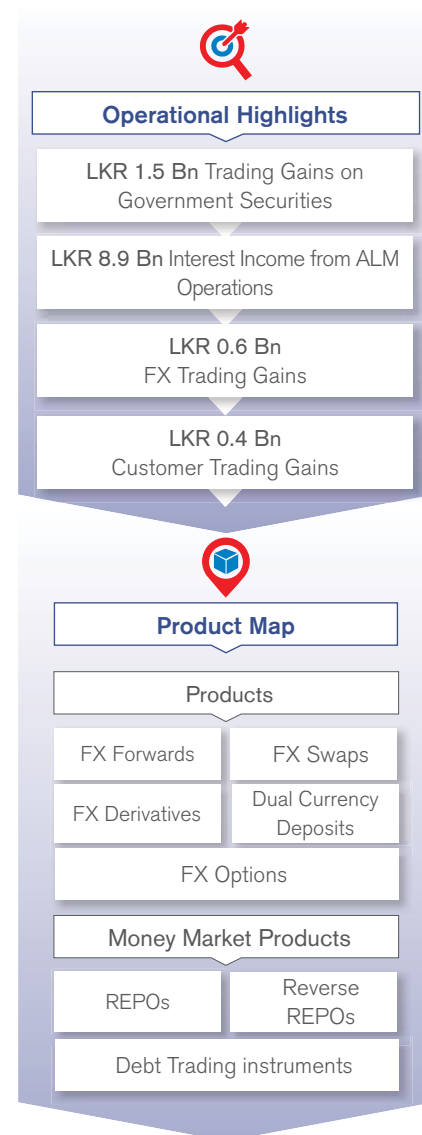
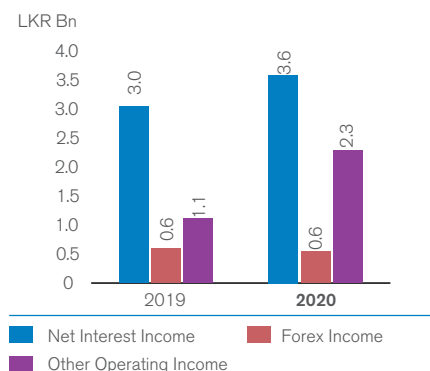
ALM Desk: The declining yield curve offered an opportunity for significant trading gains and strategic positions acquired in late 2019 and early 2020 enabled the Bank to capitalise on this opportunity. Accordingly, trading gains from government securities reached a 10-year high of LKR 1.5 Bn during the year. Meanwhile, the declining cost of funds led to improved Balance Sheet margins and strategic Balance Sheet management positions yielded a net interest income of LKR 3.6 Bn in 2020.

Foreign Exchange (FX) Desk: The drastic drop in import volumes adversely impacted performance, and we focused on consolidating the customer base acquired from previous years; customer trading gains amounted to LKR 416 Mn. We also sought to exploit the volatility in the exchange and swap markets, which resulted in FX trading gains of LKR 551 Mn.

WAY FORWARD

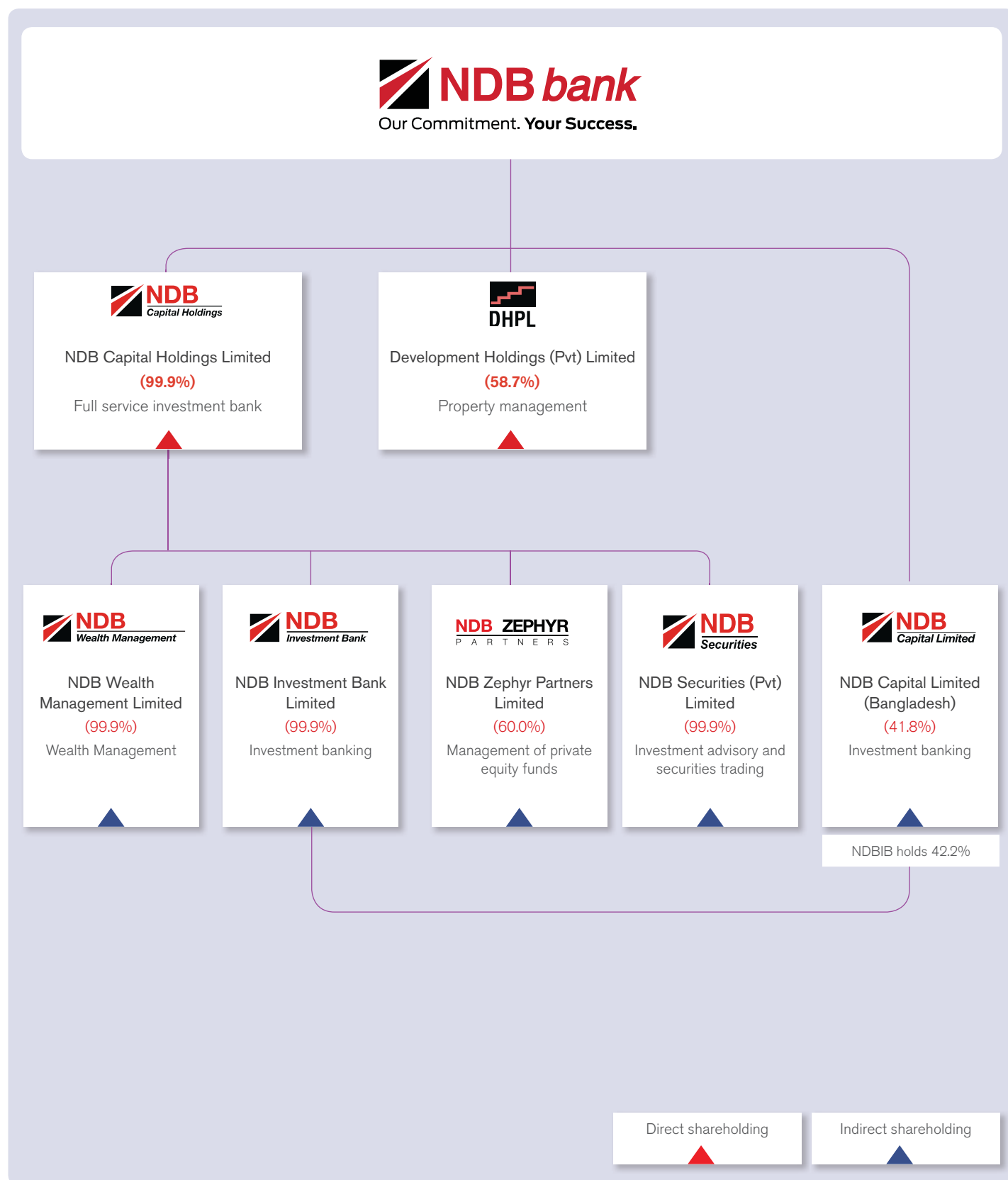
As vaccinations programmes are rolled out globally and in Sri Lanka, we expect markets to gradually revive in 2021 with sectors such as tourism, construction and services anticipated to post recovery towards the second half of the year. The LKR yield curve is also expected to edge upwards during the year, although the accommodative monetary policy stance is expected to be maintained thereby providing impetus for accelerate growth. The exchange rate is expected to be volatile although recent measures taken by the regulator to prevent banks from buying/selling foreign exchange in the forward market is expected to support the appreciation of the Rupee in the near term.

Treasury Performance



Exchange Rate Movement





	NDB Capital Holdings Limited	NDB Investment Bank Limited
Profile and Business Activities	→ NDB Capital Holdings Limited (NCAP) is the fund-based investment banking arm of the NDB Group and the parent entity of the Capital Market Cluster → Directly engages in fund-based activities including investing in listed equities, private equity, fixed income securities, Government bonds, structured debt, underwriting and acquisition funding and other Balance Sheet based activities	→ NDB Investment Bank Limited (NDBIB) is the market leader in the Investment Banking arena, being crowned as 'Best Investment Bank in Sri Lanka' for the 9th consecutive year by Euromoney Magazine. → Competitive edge underpinned by innovative, market-leading solutions, highly skilled team, and strong stakeholder relationships
Operating Environment in 2020	→ Impacted by subdued conditions in the CSE which saw a sharp decline upon recommencement of trading post opening of markets after lockdowns → However, the market showed signs of recovery in the 2nd half of 2020 with the All Share Price Index (ASPI) increasing 11% overall for the year 2020	→ Unprecedented challenges stemming from the Easter Sunday attacks in 2019 and the outbreak of the pandemic in 2020 → Weak investor sentiments reflecting the uncertainty that prevailed
Strategic Priorities	→ NDBIB concluded several landmark transactions during the year ended 2020 → NDBWM maintained market leadership reaching its highest ever Assets Under Management. → NDBS improved its performance in-line with the market revival → NCAP continued its contribution to the NDB Capital Scholarship Trust which aids deserving undergraduates across disciplines → Return of LKR 1.5 Bn to shareholders through a capital restructuring	→ Completed several landmark transactions raising over LKR 37.4 Bn. 1. Financial Advisor to (1) Shareholders of Daintee Limited in their divestiture (2) George Steuart & Company in their acquisition of HVA Foods (3) Carsons Group on the divestiture of Guardian Capital Partners PLC 2. Managed Sanasa Development Bank's Rights Issue of LKR 1.5 Bn, the first-ever fully digitalised capital raising in the CSE 3. Financial Advisor and arranger for the LKR 600 Mn funding for Serenia Residences 4. Managed BASEL III Compliant Tier II listed debentures of LKR 13.8 Bn
Performance Highlights	→ Net Operating Income - LKR 1,166.5 Mn (+56.7%) → Pre-Tax Profit - LKR 280.3 Mn (2019: loss of LKR 130.4 Mn) → Net Profit of LKR 48.2 Mn due to one-off taxation arising from capital restructuring	→ Pre Tax Profit – LKR (5.4 Mn) (2019: 78.8 Mn) Funds Raised LKR Bn 70 60 50 40 30 20 10 0 60 62 37 2018 2019 2020
Opportunities/ Risks	→ Policy impetus and tax concessions for new listings on the CSE → Potential launch of Real Estate Investment Trusts (REIT) → Macroeconomic uncertainty and volatility	→ Expansionary monetary policy and stimulus to drive economic and capital market activity → Macroeconomic uncertainty
Way Forward	The recent buoyancy in capital market sentiment will result in increased investment opportunities with superior return and fee potential to NCAP Group	With economic conditions anticipated to record gradual recovery by mid-2021 and push for new company listings i.e. IPOs, we will leverage our organisational capabilities and strong relationships to pursue emerging opportunities

Our Group Companies

	NDB Wealth Management Limited		NDB Securities (Pvt) Limited													
Profile and Business Activities	→ NDB Wealth Management Limited (NDBWM) is the largest private sector wealth management institution in Sri Lanka, with LKR 174.5 Bn funds under Management, catering to over 17,500 clients → Market leader in the Unit Trust industry with a market share of over 40% → Over 25 years of experience in fund management, operations and customer relations → Fully seasoned team of investment, operational and marketing professionals		→ NDB Securities (Pvt) Limited (NDBS) is a leading stockbroker with a strong retail and institutional client base → Its' competitive edge underpins a superior customer proposition centred on strong relationship management, a state-of-the-art online trading facility, and market-leading research capabilities → NDBS has contributed towards enhancing the vibrancy of the stock market through introducing both foreign and local institutions and individuals to the Sri Lankan capital market													
Operating Environment in 2020	→ Low interest rate environment resulting from the expansionary monetary policy measures adopted by the regulator → Increased investor appetite towards higher yielding financial assets including the stock market and unit trust investments, given low returns on traditional fixed-income opportunities		→ The CSE was closed for 51 days following the outbreak of the first wave of COVID-19 in March 2020 → Despite a sell-off in the first 3 days of opening in May, the second half of 2020 saw improved investor sentiment driven by the low-interest rate regime and better-than-expected corporate earnings. The market also saw a near 270% increase in local individual participation. The market gained 10.5% in 2020 and by 59% from the pandemic lows in May 2020 → Foreign investors continued to exit the market, with net outflows reaching a record high of LKR 51.2 Bn													
Strategic Priorities	→ Sought increased penetration in the retail segment, offering varying risk-return product propositions to suit individual investors' risk appetites and market dynamics → Prudent and timely asset allocation decisions supported strong returns, exceptional performance upheld by three-pronged approach to client-servicing, investment and operations → Focused on streamlining the growth in the high-networth and discretionary portfolio segment → Personalised service offerings and synergies through NDB's "Private Wealth Centre" → Partnered with NDB Bank to offer an improved overdraft facility at attractive interest rates against the Unit Trust Funds of NDBWM customers		→ NDBS pursued active client acquisition, and together with improved retail market sentiment led to a significant increase in the active client base → The Company continued to adopt robust risk management and compliance strategies which increased its resilience in navigating the uncertainties of the year → In line with NDB's strategic focus on leveraging Group synergies for incremental value creation, NDBS introduced one of its clients to NDBIB for an M&A transaction. This in turn strengthened NDBS's non-core revenue streams while attesting to the strength of Group collaborations													
Performance Highlights	→ Increased Assets Under Management by 58% to reach a record-high of LKR 174.5 Bn → Expanded customer base by 22% to 17,500 institutional and individual clients → Profit After Tax of LKR 161.90 Mn (+220%) → Return on Equity of 32.68% (2019: 7.28%)		NDBWM - AUM and Market Share <table><thead><tr><th>Year</th><th>AUM - Inclusive of Unit Trusts and Discretionary Portfolios (LHS)</th><th>Market share in Unit Trust Industry (RHS)</th></tr></thead><tbody><tr><td>2018</td><td>94</td><td>27</td></tr><tr><td>2019</td><td>110</td><td>34</td></tr><tr><td>2020</td><td>174.5</td><td>42</td></tr></tbody></table> → Fee income of LKR 216.8 Mn (+80%) → Market share declined to 4.2% from 8% the previous year mainly due to the deferment of several strategic transactions		Year	AUM - Inclusive of Unit Trusts and Discretionary Portfolios (LHS)	Market share in Unit Trust Industry (RHS)	2018	94	27	2019	110	34	2020	174.5	42
Year	AUM - Inclusive of Unit Trusts and Discretionary Portfolios (LHS)	Market share in Unit Trust Industry (RHS)														
2018	94	27														
2019	110	34														
2020	174.5	42														
Opportunities/Risks	→ Positive investor sentiment and upturn in CSE → Increased investor acceptance towards Unit Trust Investments → Macroeconomic uncertainty and its impact on borrowers' repayment capacity		→ Economic activity expected to gradually return to normalcy following vaccine roll-out plans → Macroeconomic uncertainties due to the country's weak external position and high debt servicing burden → Industry-wide technological developments such as Delivery versus payment (DVP) and improved risk management provide opportunities for market transformation													
Way Forward	While cognisant of the challenges presented by the uncertain macroeconomic landscape, we are optimistic that sustained low interest rates will drive share market performance and backed by our vigorous and in-depth research process, NDBWM stands poised to take advantage of the potential returns on behalf of its clients		Strategic focus will be placed on expanding high-net-worth and foreign investor segments while driving retail penetration through existing networks. Our positioning as a total financial services provider (on the back of our Group's strengths) gives us a unique edge over the competition. Developing a strong sell-side equity research team will also be a priority as we seek to deliver increased value addition to customers. Recruiting and developing the right talent will also be a priority for 2021													

NDB Capital Limited (Bangladesh)	NDB Zephyr Partners Limited (Mauritius)												
→ NDB Capital Limited - Bangladesh) Offers a wide array of investment banking services in Bangladesh including M&A, Advisory, IPO, Portfolio management, Fund raising, Bond and preference shares, Project finance and working capital, among others	→ NDB Zephyr Partners Limited (Mauritius) (NDB Zephyr) is the Fund Manager of Emerald Sri Lanka Fund, a pioneering private equity fund dedicated to investing in small and mid-sized businesses seeking expansion capital in Sri Lanka. NDB Zephyr is jointly owned by NDB Capital Holdings Limited (NCAP) (60%) and Zephyr Management, LP (Zephyr) (40%), a New York-based global emerging markets investment firm												
→ Expansionary monetary policy led to increased market liquidity → Growth in direct lending from banks/NBFI led to a slowdown in mandate procurement for advisory intermediaries → Sharp drop in the stock market following the outbreak of COVID-19 with the Dhaka Stock Exchange falling to its lowest level since 2013, then regaining the lost ground in the latter half of 2020 to end the year with a 21% gain.	→ Challenges stemming from weak investor/consumer sentiments and operational difficulties following the outbreak of the pandemic												
→ Pursued client acquisition among leading corporates thereby securing several mandates including a World Bank funded project → Recalibration of sector risk appetites → Leveraged strong relationships with existing clients while strengthening partnerships with DFIs and foreign currency lenders → Strategic focus on operating efficiencies and cost rationalisation → Emphasis on completing mandated transactions in a timely manner	→ NDB Zephyr manages six portfolio companies - Arimac Lanka (Pvt) Limited, Panasian Power PLC, Consolidated Business Systems Limited, Idea Group Limited, JAT Holdings (Pvt) Limited and Cleanline Linen Management (Pvt) Limited. The Company did not add any new investments to its portfolio during the year → Given the challenges that prevailed during the year, NDB Zephyr supported its portfolio companies in improving access to working capital, rationalising costs, ensuring safety of employees, preserving liquidity, and pursuing export markets. → Exit processes have been initiated for some companies												
→ Loss After Tax of BDT 6.24 Mn (2019: BDT 19.66 Mn) → Several milestone transactions including BDT 3.95 Bn World Bank infrastructure financing, acting as a Placement Agent for BDT 3.4 Bn Tier-II subordinated bond issue, and arranged BDT 1 Bn short term financing for an automobile manufacturer	→ Revenue declined by 30% in USD terms reflecting the expiry of the investment period of Emerald Fund and the resultant reduction in management fees → Profit After Tax of USD 93,508 (+5%) → Return on Equity 13% (2019: 14%) NDBZ Highlights 2020 In USD '000' <table><thead><tr><th>Metric</th><th>2020</th><th>2019</th></tr></thead><tbody><tr><td>Turnover</td><td>506</td><td>723</td></tr><tr><td>PBT</td><td>111</td><td>101</td></tr><tr><td>PAT</td><td>94</td><td>89</td></tr></tbody></table>	Metric	2020	2019	Turnover	506	723	PBT	111	101	PAT	94	89
Metric	2020	2019											
Turnover	506	723											
PBT	111	101											
PAT	94	89											
→ Increased participation of institutional investors → Promising prospects following investor-friendly policy stimuli which is expected to result in increased IPOs and economic recovery	→ Government thrust towards the SME, export, and domestic manufacturing sectors												
The company will place strategic emphasis on securing increasing mandates in the advisory and M&A space, by will pursuing selective growth opportunities in sectors which were relatively unaffected by the pandemic	The company will continue to focus on improving performance and governance in portfolio companies. We have also initiated exit processes in some companies												

Our Group Companies

Development Holdings (Pvt) Limited	
Profile and Business Activities	→ Development Holdings (Pvt) Limited (DHPL) owns and maintains the DHPL building (also known as NDB-EDB Tower), the 16-storeyed commercial property located at No. 42, Nawam Mawatha, Colombo 02. The building houses Sri Lanka Export Development Board (EDB), several departments of the NDB Bank, International Finance Corporation (IFC), Sri Lanka Export Credit Insurance Corporation (SLECIC) and many other reputed global and local corporate and multi-lateral agencies
Operating Environment in 2020	Recent investments in developing the property include: → Newly refurbished staff cafeteria named 'Lounge 42' which can be availed by all tenants, corporate customers of NDB and as a private space for luncheons/dinners → DHPL Training Arena incorporates modern technology which facilitated collaborative training and multi purpose functions, ideal for small scale customised training initiatives
Strategic Priorities	To maintain the state-of-the-art facilities that are offered by continuous investments in property and its amenities
Performance Highlights	→ Profit After Tax of LKR 238 Mn supported by revaluation gains of LKR 129 Mn → The continuous increase in value reflects the Management's ongoing efforts to develop the property
Opportunities/Risks	➕ Leverage on the strategic location and state-of-the-art facilities to attract prospective investors ➖ Increased competition from emerging large scale mixed market developments in the city
Way Forward	Sections of the DHPL building, including the Auditorium are presently under renovation, to improve its amenities for a greater experience to its occupants and visitors



DHPL Training Arena and Lounge 42 cafeteria are the newest additions to DHPL, which enhances its value as a corporate centre

BOARD OF DIRECTORS OF SUBSIDIARY COMPANIES

Subsidiary companies as at 31 December 2020

NDB Capital Holdings Limited - 99.9%

Mr. Ashok Pathirage - Chairman
 Mr. Sarath Wikramanayake
 Mr. Ananda Atukorala
 Mr. Dimantha Seneviratne
 Mr. Arjun Fernando
 Mr. Bernard Sinniah
 Mr. Senaka Kakiriwaragodage

NDB Wealth Management Limited - 99.9%

Mr. Sarath Wikramanayake - Chairman
 Mr. Dimantha Seneviratne
 Mr. Shanka Abeywardene
 Mr. Bernard Sinniah
 Mr. Sanjaya Perera

NDB Investment Bank Limited - 99.9%

Mr. Sarath Wikramanayake - Chairman
 Mr. Buwaneka Perera
 Mr. Darshan Perera
 Mr. Shanka Abeywardene
 Mr. Dimantha Seneviratne
 Mr. Bernard Sinniah

NDB Securities (Pvt) Limited - 99.9%

Mr. Arjun Fernando - Chairman
 Mr. Ananda Atukorala
 Mr. Dimantha Seneviratne
 Mr. Deepal Akuretiyagama
 Mr. Bernard Sinniah

NDB Capital Limited (Bangladesh) - 84.2%

Mr. Sarath Wikramanayake - Chairman
 Mrs. Zakia Chowdhury
 Mr. Mohammed Al Maruf Khan
 Mr. Hafiz Firoz Choudhury
 Mr. Chaklader Mansurul Alam
 Mr. Dimantha Seneviratne
 Mr. Darshan Perera
 Mr. Kanti Kumar Saha
 Mr. Bernard Sinniah

NDB Zephyr Partners Limited (Mauritius) - 60%

Mr. Thomas Barry
 Mr. Mukul Gulati
 Ms. Dilshaad Rajabalee
 Mr. Arunagirinatha Rungchien
 Mr. Arjun Fernando
 Mr. Ananda Atukorala

NDB Zephyr Partners Lanka (Pvt) Limited - 60%

Mr. Sarath Wikramanayake - Chairman
 Mr. Thomas Barry
 Mr. Mukul Gulati
 Mr. Dimantha Seneviratne

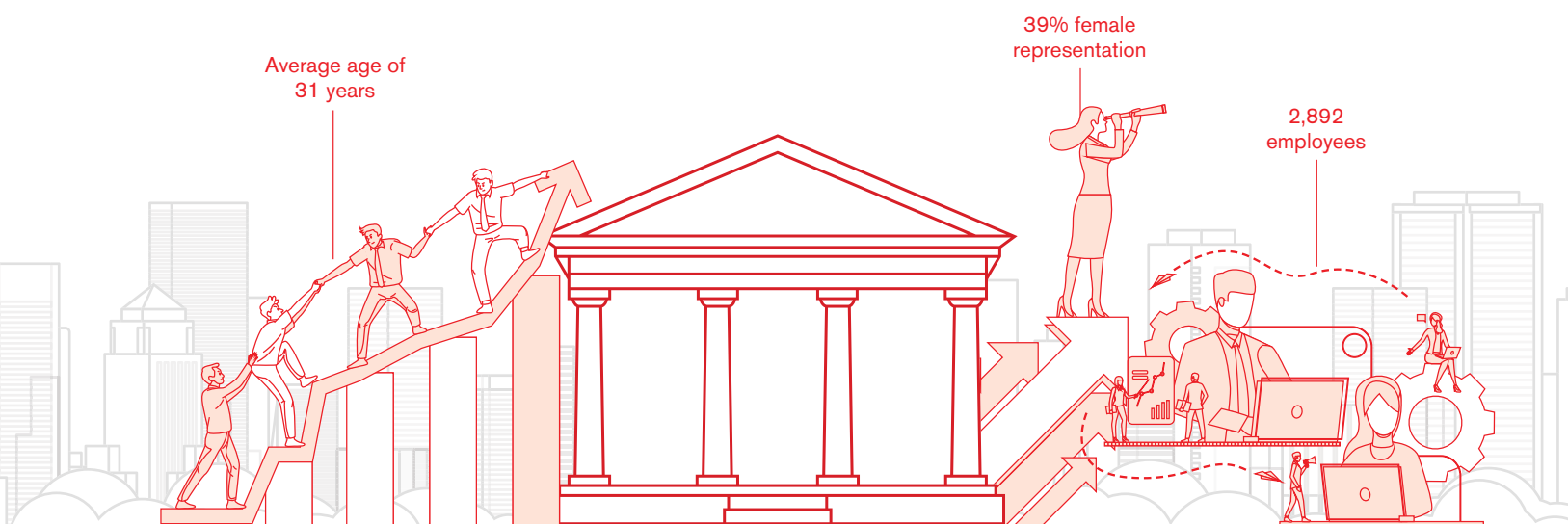
Development Holdings (Pvt) Limited - 58.7%

Mr. Dimantha Seneviratne - Chairman
 Mr. Ruwan Kannangara
 Ms. Thakshila Wijayaratne
 Ms. Gayathri Herath
 Mr. Deepal Akuretiyagama
 Ms. Suvendrini Muthukumarana
 Ms. Chitrnanjali Dissanayake

Human Capital



The agility, competencies, and attitudes of the 2,892 strong NDB Team enabled the Group to be resilient in an extremely challenging year, ensuring customer needs were fulfilled and business objectives were met despite the lockdown and numerous operational challenges that prevailed.



Capital Connectivity and Trade-offs



Financial Capital

- + Drivers of business growth
- Employee payments
- Investments in training



Digital Capital

- + Increased employee productivity and time freed for value adding activities
- + Ensured employee safety through facilitating remote working



Intellectual Capital

- + Strengthen the Bank's organisational capital and tacit knowledge



Social and Relationship Capital

- + Facilitate the customer experience
- + Drive improved stakeholder relationships
- + Contribution to the Bank's CSR activities



Natural Capital

- + Drive the Bank's environmental initiatives
- Impacts on the consumption of natural resources

Value Delivered In 2020

Rewards and Recognition

- LKR 5,172 Mn payments as salaries and benefits
- 110 promotions
- 356 lateral movements

Ensuring Safety of Our People

- Stringent health and safety guidelines across all operations
- Facilitate remote working arrangements
- Adapting to new ways of working through digital solutions

Development Opportunities

- 63,518 training hours
- LKR 18.67 Mn investment in training
- 2,252 employees trained
- Shift to digital training platforms

Culture and Engagement

- Open door culture
- Focus on virtual engagements during the year

Way Forward

- Align with Voyage 2025 strategy in enhancing competencies required to drive strategic aspirations
- Drive further developments in the Human Resources Information System (HRIS) system to align with Voyage 2025

Human Capital

HR GOVERNANCE AND MANAGEMENT APPROACH

The Group is a preferred employer in the banking industry and the corporate sector, as attested by its ability to recruit and retain top talent, employee satisfaction levels and external recognition received for leading HR practices (refer to page 11 for list of HR awards obtained during the year). A comprehensive policy framework provides a solid foundation for the equitable and effective management of all people related aspects. This is further supported by compliance to the ISO 9001:2015 Standard which sets out guidelines for a range of HR operations including recruitment, customer related processes, and staff awareness. The employee Code of Conduct sets out the professional and ethical conduct expected from all employees, setting the tone for a culture which values integrity and transparency.

In 2020, the Bank introduced the Work from Home Policy, which was launched as a pilot programme even prior to the COVID-19 lockdown. This timely and proactive intervention aptly positioned the Bank to continue its operations uninterrupted, amid the restrictions imposed due to the pandemic.



We at NDB practised Work from Home before COVID-19 which supported us to continue interrupted service during lockdowns

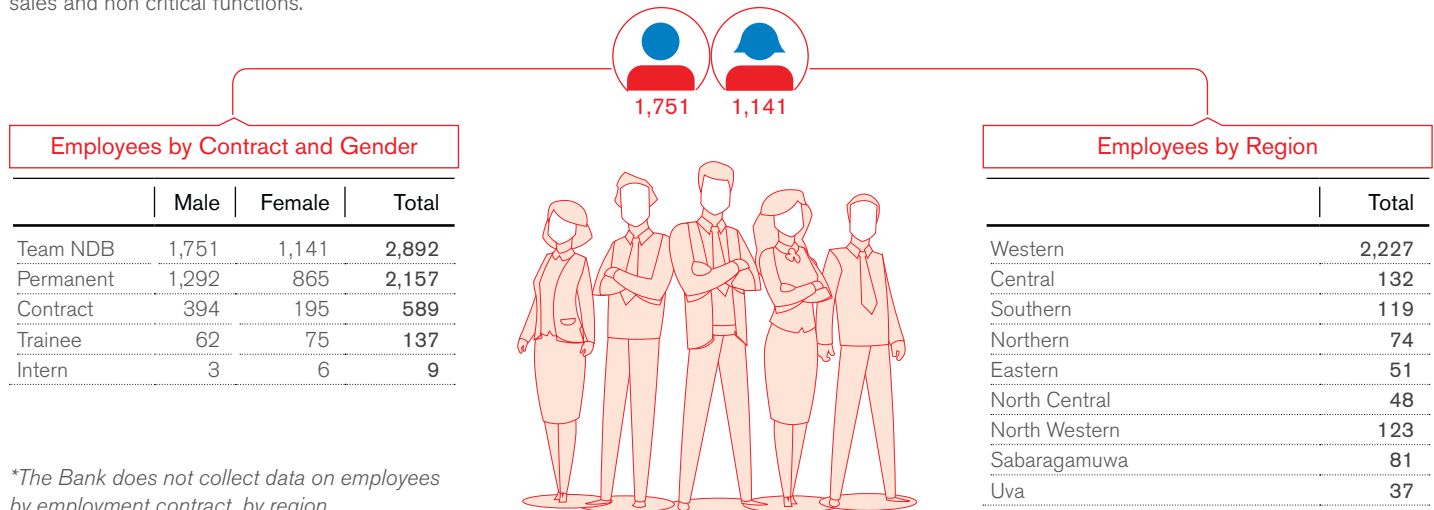
Key policy changes in 2020

- Implementation of the Work from Home policy
- Revisions to the Staff Account monitoring policy
- Introduction of Risk Severity Matrix and Consequence Management Framework

/// The Bank also successfully obtained the recertification of ISO 9001: 2015 despite the numerous challenges that prevailed ///

TEAM NDB

The NDB team comprises 2,892 dynamic and highly skilled employees who are a key source of the Bank's competitive edge. All employees are engaged on a full time basis while permanent staff accounts for 74% of the total talent pool; the remaining portions are recruited on contract basis for sales and non critical functions.



**The Bank does not collect data on employees by employment contract, by region.*

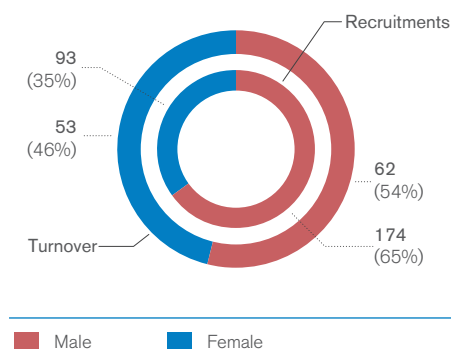
STAFF POOL MOVEMENTS IN 2020

Talent Acquisition: Given the challenges that prevailed during the year and the successful achievement of the Transformation 2020 strategy, recruitment was strictly needs driven in 2020. The Bank recruited 267 new employees, mainly for key identified positions which were a combination of new positions and replacements for vacant positions. In line with the Group's approach towards offering opportunities for progression, 110 employees were promoted during the year and several vacant positions in the Leadership Team were also filled internally, having conducted the relevant competitive recruitment processes. Meanwhile in promoting regional economic empowerment, nearly 10% of the Bank's Senior Management personnel are recruited from local communities.

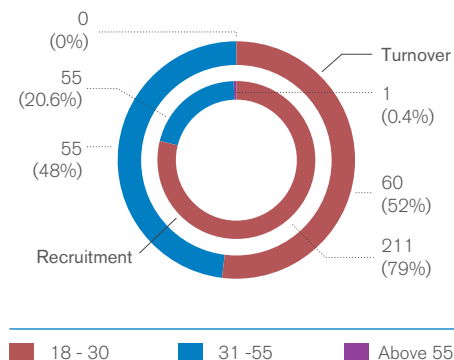
Talent Retention: We maintain healthy retention levels, attesting to the strength of the value proposition we offer to our employees. During the year NDB maintained an overall retention rate of 95% while just 115 employees leaving employment; highest turnover was recorded from the sales force, which is a common occurrence for the banking industry. Exit interviews are carried out by the HR Department at the point of resignation.

Process efficiencies achieved through deployment of technology enabled the Bank to optimise its human resources thereby continue operations at uncompromised productivity levels.

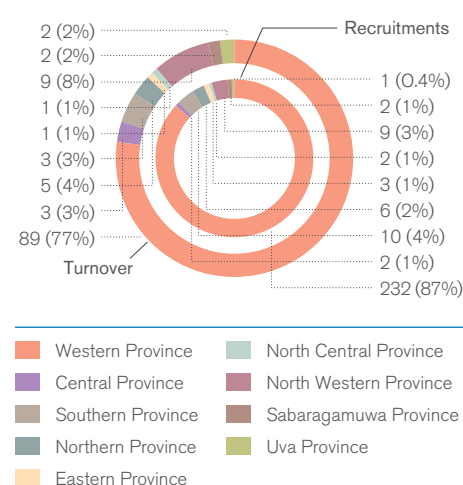
Recruitment and Turnover - by Gender



Recruitment and Turnover - by Age



Recruitment and Turnover - by Province



HR STRATEGY

The Group's HR Strategy is closely aligned to its overall corporate strategy and having successfully achieved the goals set out under Transformation 2020, we sought to refine our HR strategy to reflect the aspirations of Voyage 2025 from 2021 onwards.

Areas of Strategic Focus

- Bank's Overall Strategy and leadership
- Service and Standard Operating Procedures
- Sales Competency Development
- Products and Services
- Operational and Technical Skills

Key priorities in 2020

- Enabling and facilitating Bank's overall strategy
- Implementing service standards and sustaining the service culture
- Enhance product knowledge and operational efficiency
- Develop leaders
- Competency mapping for first service line
- Management trainee development
- Organisation culture development



Human Capital

KEY DEVELOPMENTS AND FOCUS IN 2020

Adapting to new ways of working

Following the outbreak of the pandemic in March 2020, the Bank activated its Pandemic Response plan, which was refined to suit the prevalent conditions, enabling the Bank to respond to the emerging challenges in a proactive, rather than a reactive manner. In addition to introducing a range of health and safety measures (refer page 40 for further information) we quickly adapted to the new realities of work through introducing

roster-based, Work from Home arrangements, split shifts, split locations and flexible shift-based arrangements. As far as practically possible all training and employee engagement initiatives were shifted to digital platforms. The Bank's agility in responding to and embracing new ways of working enabled it to continue its operations relatively smoothly while ensuring the safety of its employees and offering uninterrupted banking services to its clientele.



The staff has resorted to virtual modes for meetings

Ensuring Employee Health and Safety

Ensuring our employees were safe with minimal risk of infection was a key HR priority during the year, especially in the backdrop of the banking industry being declared as an essential service by the Government. In addition to the guidelines issued by the Health Authorities and providing all necessary protective equipment, the Bank implemented the DREAM guidelines (D – Physical Distance, RE – Respiratory Etiquette, A – Hand Washing, M – Face Masks) for all employees. Meanwhile, special transport facilities were arranged for all critical employees to report to work while PCR testing was facilitated for all identified 1st level contacts.

All departments and units were also required to ensure social distancing in their locations by limiting the staff at a given time to 50% of the full cadre.



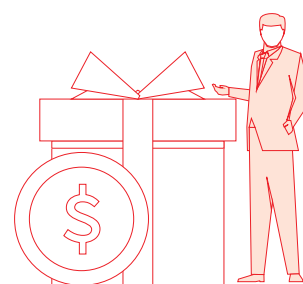
The Bank ensured the safety of its staff members through a numbers of measures, including providing transportation to staff in critical functions and Work from Home option



Rewards and Recognition

The Bank's reward schemes are transparent, unbiased and nurtures a performance driven culture. Rewards schemes comprise guaranteed pay, variable pay, statutory benefits along with other attractive rewards. Salary surveys are conducted periodically to ensure that the Bank's reward structures are aligned to industry practice. Performance appraisals are used as an effective tool to provide feedback and identify areas for further improvement.

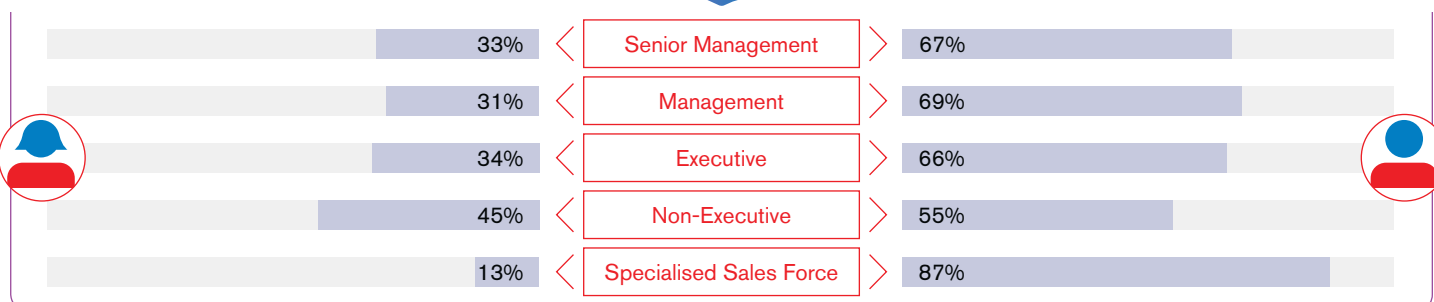
Despite the difficulties that prevailed during the year, we ensured that all employees received full remuneration, with zero pay cuts or redundancies. Annual increments and bonuses were also given to all eligible employees, emerging as one of the first banks to do so during the year. Changes to the Group's Rewards Management during the year included concessionary rates on staff credit cards, introduction of a provident fund loan scheme and laptop loan scheme and rationalisation of selected allowances.



LKR 5.2 Bn (+4%)

Total expenses to employees

Employees Receiving Regular Performance Appraisals



Benefits to Employees

Guaranteed Pay and Allowances

- Fuel/travelling allowance
- Leave pay/holiday allowance
- Job specific allowance
- Accommodation assistance
- Weekend/holiday banking allowance

Variable Pay

- Performance bonus
- Sales incentives and overtime
- Employee share ownership plans

Reimbursable Expenses

- Professional and club subscriptions
- Education assistance for Master of Business Administration (MBAs)

Other Prerequisites

- Holiday bungalow/annual trip
- Medical insurance scheme
- Parental leave
- Toastmasters club
- Recreational club

Subsidised Loan Schemes

- Housing, vehicles and sundry loans

Retirement Benefits

- EPF/ETF, Gratuity (Higher contribution to EPF than what is stipulated by statute)

Of the above, holiday allowances, accommodation assistance, weekday/holiday banking allowance, performance bonus, subscriptions and educational assistance are not provided to contract employees whilst different schemes/conditions are applicable for medical insurance.

Human Capital

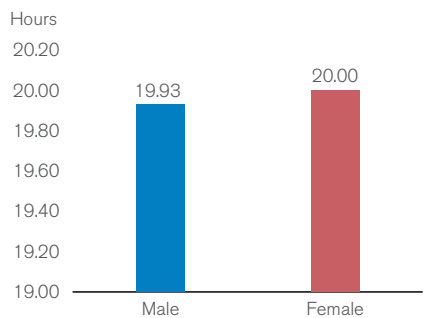
Learning and Development

The learning agenda is aligned to the Group's Business aspirations, with the aim of equipping employees with the skills required to drive strategic objectives. Training needs are identified through performance appraisals and annual and monthly training calendars are prepared and shared among the employees.

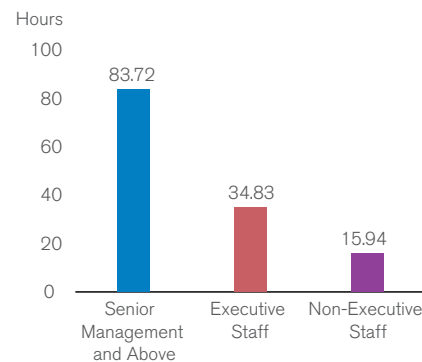
Given the need for social distancing in 2020, training programmes were moved to virtual platforms as far as reasonably possible. This ensured that employees were engaged in continuous learning even amidst the lockdown and while working from home. Trainers were identified for digital training and up-skilled to adapt to the new advancements in digital training techniques. Consequently, the Bank introduced the tech based blended learning platform NDB V-Learn Studio, allowing staff members to learn at their own pace at home using their own device.

The Group also pursued staff redeployment and lateral moves as means of up-skilling and re-skilling employees. A staff redeployment pool was created with 356 lateral moves occurring within and between identified Departments during the year. The total investment in Training and Development for the year amounted to LKR 18.67 Mn, covering 63,518 training hours and 2,252 employees.

Average Training Hours - by Gender



Average Training Hours - per Category

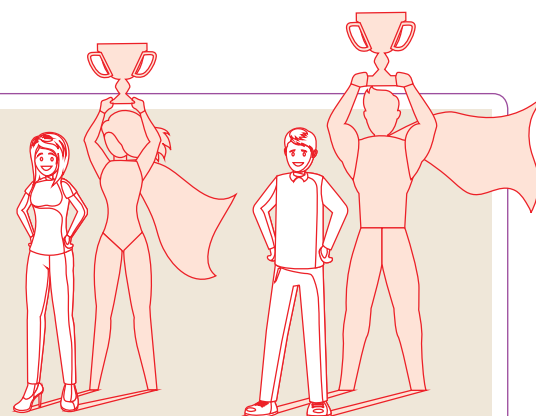


Learning and Development is a critical element in an NDB employee's career. It empowers employees with necessary technical skills and enhances their value as a key element in the Group's value creation process.

Programme and Objectives	Details	Target Employees
Professional Development Affiliation with Sri Lanka Institute of Marketing to encourage career progression	Scholarships are offered to top sales performers to follow the SLIM qualification	Sales force
Sales Structured Development	SLIM preliminary certification to enhance sales skills. Basic and Advanced programmes were conducted online during the year	Sales force
Forensic Signature Analysis Verification	Conducted as a webinar covering 115 locations	900 Operational staff
Elevate Upskill identified for relationship managers in developing client management skills	Client Relationship Officer Certification Programme was introduced to develop relationship managers in the branch network to service high-net worth customers	Relationship Managers
Internal Trainer Academy Established Internal Trainer Academy with 32 internationally accredited trainers.	Accreditation of trainers through internationally recognised Trainer certifications	19 new internationally accredited trainers from City and Guilds
Front Line Competency Mapping	Identification of critical skills to be developed and training programmes were designed to suit the competency requirements	Front line staff
Management Trainee Programme Completion of phase 5 of the 24-month training programme	Trainees were attached for real business simulation projects and given the required exposure to perform under senior leaders in the Bank. A special management coach has been assigned to them and enrolled in continuous coaching development programme named "Corporate Athlete"	Management Trainees

An Inclusive Workplace

The Group firmly believes that a diverse and inclusive workplace enriches decision making through combining varying skills, ideas, and perspectives. Driving gender equality continues to be a key pillar of our HR agenda and we are committed to building a workplace in which women can thrive while maintaining a good work life balance. This commitment is a thread that runs through our policy framework, HR practices and organisational culture.



Policy Framework and Standards

NDB was the first and only organisation to obtain the prestigious EDGE (Economic Dividends for Gender Equality) certification, the only global standard for gender equality at the workplace. The certification followed a rigorous evaluation process and demonstrates the Bank's commitment towards promoting gender balance at all levels within the organisation.

Policies ensuring gender parity

Diversity and inclusion	Gender pay equity	Sexual harassment
Equal opportunity employer	No gender based discrimination on remuneration	Policy covering all forms of harassment

HR Practices

- Flexi hours and Work from Home arrangements
- 'Dignity at work' mailbox

Partnerships

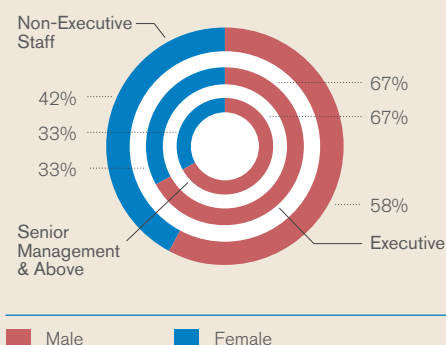
She Works Sri Lanka Private Sector Partnership - Committed to advance women's employment opportunities in Sri Lanka and closing the gender gap in the private sector.

Women in Management – Committed to empower Sri Lankan career women and women entrepreneurs by providing leadership and guidance to nurture their knowledge and skills to achieve their goals, inspiring them to act as a conduit to the transformation of the role of women in career and business into a dynamic and economically empowered force and as a major contributor to the economy and connecting and bonding them by providing a platform in networking to be united and uplift each other.

Female Representation

39% overall female representation level

Gender Representation - by Grade



Return to Work after Parental Leave

Parental Leave - 2020	Male	Female
Employees entitled to parental leave	64	54
Employees on parental leave	57	54
Employees who returned after parental leave	57	53
Employees still in employment 12 months after returning on parental leave	56	62

Human Capital

Culture and Engagement

The Bank has successfully nurtured an open organisational culture which values diversity, innovation, and agility. An open-door policy encourages employees to present their grievances/suggestions while numerous formal and informal engagement mechanisms are in place to build fellowship. Employees are given adequate notice of any significant operational changes depending on the circumstances. The Bank does not have any collective agreements in place.

Dignity at Work

NDB is committed to creating a workplace in which all our employees feel safe, valued and respected. We have zero tolerance for any form of harassment and the Bank's comprehensive harassment policy together with frequent awareness sessions ensure that all employees are aware of this stance. We understand that preserving the dignity of labour will create an organisational culture in which employees can engage openly and thrive, and during the year, the Bank launched an informative campaign titled #DignityAtWorkplace. Through this initiative, a series of insightful communications were shared with all employees highlighting the particulars of the policy, what constitutes harassment and myths on harassment among others.



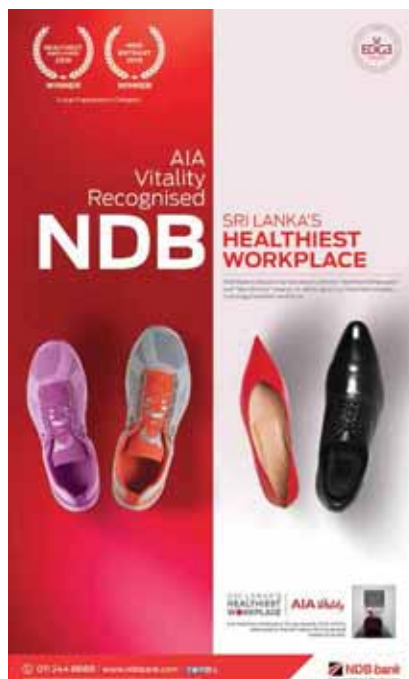
Due to the conditions that prevailed during the year, several planned engagement initiatives were moved to digital platforms. This includes Virtual Bhakthee Gee during Vesak, Christmas carols and several wellness sessions.

One NDB Culture: The One NDB culture aims to drive congruence across the Group, with numerous interventions since its launch in 2018 leading to attitudinal and behavioural changes. Following full coverage since its launch, it is now conducted primarily to new recruits during the induction programme. The One NDB culture identity continues to be driven by the 4Cs of Communication, Collaboration, Creativity and Critical Thinking. The Employee Innovation hub was launched in parallel, presenting a platform for employees to provide their ideas on improving business processes and address other Bank related challenges.

Recognition

NDB's human resources practices are widely recognised for efficiency and the conducive and empowering work environment the Bank creates for its employees.

Being recognised as Sri Lanka's Healthiest Workplace under AIA Vitality Awards in 2020 is a highlight.



Automation of HR processes

In line with the Bank's overall digitisation agenda, the HR Department continued to accelerate the automation of HR processes thereby enabling greater efficiency cost rationalisation and optimisation of resources. These efforts have enabled the Department to function effectively with a lower headcount, despite an increase in the Bank's overall headcount and business volumes. Developments in 2020 include the following:

- Automation of several processes including cashier risk allowance, branch holiday banking allowance, introduction of prior overtime approval and introduction of payroll mobile app/self-service portal
- Introduction of the 'HCM geo location setup' which enables employees to mark attendance through a mobile app when working remotely
- Introduction of pay slips on HCM mobile app/self-service portal thereby discontinuing the issuance of manual pay slips. Subsequently a dedicated online application was launched enabling employees to access their salary particulars through mobile/PC devices

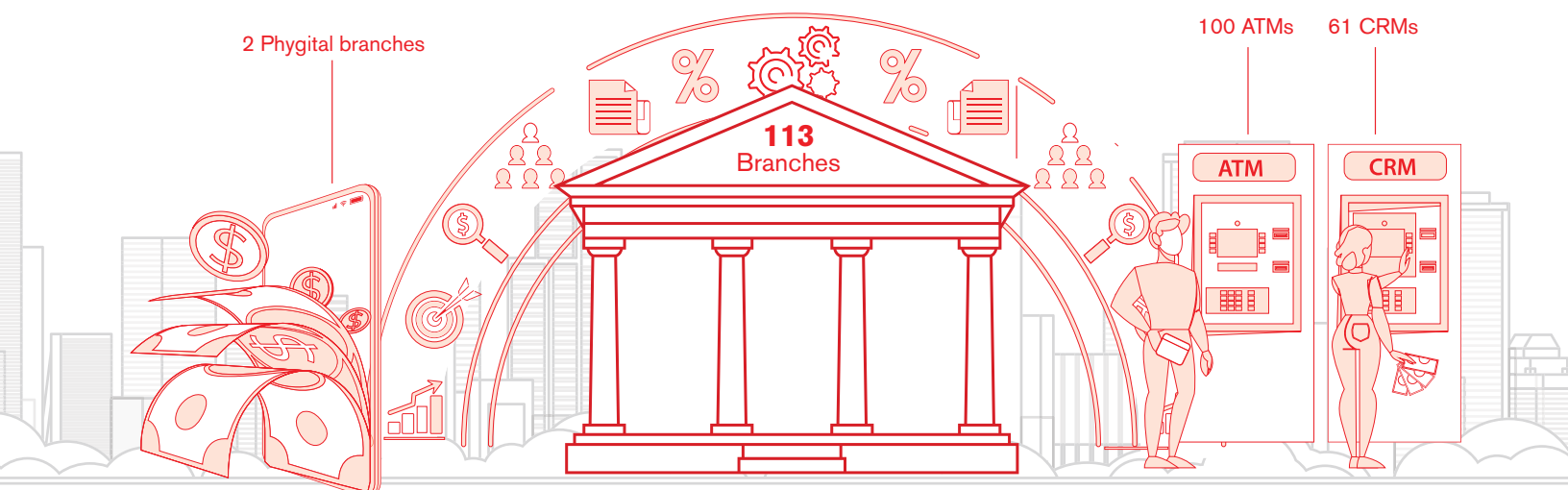
OUTLOOK

The Group's HR strategy will be directly aligned with Voyage 2025, ensuring that the requisite competencies, behaviours, and attitudes are in place to drive the strategic ambitions. As customer-centricity will be a key differentiator for the Group, we hope to drive behavioural changes that will achieve this objective through behaviour assessment scales and linking behaviour with the performance management system. Other areas of focus will be competency gap analysis and aligning the HRIS to enable strategy through manpower planning and support matrix structures.

Manufactured Capital



The Group's Manufactured Capital comprises its island-wide network of branches, IT infrastructure, plant and equipment and other physical infrastructure which is utilised in its value creation process. In reflecting NDB's strategic emphasis on digital investments and its vital importance in the Voyage 2025 strategy, Digital Capital is presented as a separate chapter in this year's Report.



Capital Connectivity and Trade-offs



Financial Capital

- ➖ Expenses in branch maintenance and upgrade
- ➖ Rent expenses
- ➕ Driving loan and deposit growth



Human Capital

Island-wide employment generation with branches across the country



Intellectual Capital

- ➕ Increased brand visibility



Customer Relationships

- ➕ Facilitates increased customer penetration and stronger relationships
- ➕ Enhanced customer experience



Natural Capital

- ➖ Impacts on environment through,
 - ➔ Energy consumption and emissions in branch operations
 - ➔ Generation of waste

Value Delivered In 2020

Business growth

- ➔ 21% growth in deposits including 53% CASA growth
- ➔ 18% expansion in loans and advances granted through branches
- ➔ LKR 2.5 Bn deposits garnered through 80 Bank2U units

Customer connectivity and branding

- ➔ Uninterrupted service through the opening of branches and deployment of 2 mobile ATM units during the lockdown
- ➔ 16% of transactions conducted using ATMs and CRMs
- ➔ Potential to reach 99.04% of population through at least one physical touch point

Operational efficiency

- ➔ 8% reduction in other expenses supported by organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE) improvement initiatives
- ➔ Cost to income ratio declined to 37.00% (2019: 39.90%)

Way Forward

- ➔ Complement the Bank's digital drive by optimising the physical network to enhance engagement and strengthen customer relationships

Manufactured Capital

DELIVERING VALUE THROUGH OUR BRANCH NETWORK

NDB operates a network of 113 branches in 22 districts across all 9 provinces in the country. While digital expansion has taken priority, the Bank's physical infrastructure plays a vital role in driving business growth through facilitating customer reach, enhancing brand visibility while being an effective platform to deliver product/service innovations and advisory support. Offerings such as Privilege Banking and Islamic Finance are also made available to customers island-wide through the branch network, facilitating deeper penetration of these propositions.

The launch of 10 dedicated leasing centres in 2019 has also paid dividends, enabling the Segment to remain resilient during 2020 despite external challenges.

NEW BRANCH OPENINGS AND BRANCH RELOCATIONS

During 2020, NDB opened one branch in Hikkaduwa of Southern Sri Lanka, whilst 4 branches were relocated to new, spacious premises. NDB strives to present a truly welcoming and delightful experience to the customer, away from the conventional set-up seen in branches in the country, through its new branch opening and relocations.



NDB's Colombo 03 branch, which was recently relocated to new premises

OPERATIONS IN 2020

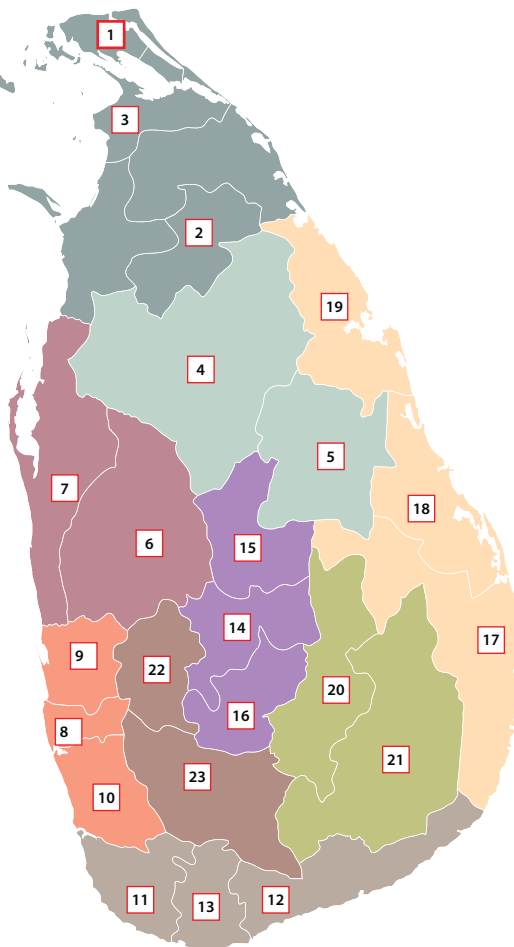
As banking was declared an essential service, the Bank ensured that selected branches remained operational during the lockdown period ensuring uninterrupted service. The Bank2U proposition facilitated a range of transactions during the pandemic, enabling customers to avail essential banking services from the safety of their homes. The Bank did not seek geographical expansion during the year, instead focusing on consolidating the existing network and expanding its CRM and ATM network. Several popular marketing campaigns including the Santa Promotion, Credit Card, NEOS, Pawning and Western Union promotions were held through branches, which allowed the engagement of a larger customer base. The Bank's latest QR-based initiative NEOS PAY, is being implemented across the island, enabling the reach of a larger base of customers.

OUTLOOK

We will continue to leverage our strategically located network of branches to drive business growth through increased penetration of the Retail and SME segments, whilst servicing customers across all segments of the Bank. This is expected to complement the Bank's digital drive while providing the human interaction that is essential in driving engagement, trust, and loyalty.

Branch Network of the Bank

	Branches	ATMs	CRMs
Northern Province	7	6	2
1. Jaffna District	6	5	1
2. Vavuniya District	1	0	1
3. Kilinochchi	-	1	-
North Central Province	5	5	1
4. Anuradhapura District	3	3	1
5. Polonnaruwa District	2	2	-
North Western Province	11	11	4
6. Kurunegala District	6	8	1
7. Puttalam District	5	3	3
Western Province	52	39	41
8. Colombo District	33	23	32
9. Gampaha District	14	13	7
10. Kalutara District	5	3	2
Southern Province	11	9	5
11. Galle District	5	4	2
12. Hambantota District	4	4	2
13. Matara District	2	1	1



	Branches	ATMs	CRMs
Central Province	10	11	4
14. Kandy District	7	6	3
15. Matale District	2	4	-
16. Nuwara Eliya District	1	1	1
Eastern Province	6	6	1
17. Ampara District	3	3	-
18. Batticaloa District	2	2	1
19. Trincomalee District	1	1	-
Uva Province	4	5	0
20. Badulla District	3	4	-
21. Monaragala District	1	1	-
Sabaragamuwa Province	7	8	3
22. Kegalle District	2	2	1
23. Ratnapura District	5	6	2

Vintage

Vintage	Number of Branches
< 5 years	15
5 - 10 years	50
10-20 years	48
Grand Total	113

Number of Branches in Economically Disadvantaged Areas

District	Number of Branches
Ampara	3
Batticaloa	2
Trincomalee	1
Jaffna	6
Vavuniya	1
Grand Total	13

Branches Offering 365 Days Banking

District	Number of Branches
Colombo	3
Kandy	1
Grand Total	4

Total Number of Branches **113**

Automated Teller Machines

Onsite 73
Offsite 27

Cash Recycle Machines

Onsite 39
Offsite 22

Digital Capital



At NDB, the role of digital capital has evolved from an enabler to a transformer, providing opportunities for driving efficiency improvements, delivering market-leading customer experiences, optimising resources, and collaborating with our ecosystem of diverse stakeholders.



Capital Connectivity and Trade-offs



Financial Capital

- ⊕ Increased digital infrastructure
- ⊕ Increase in digital transactions
- ⊕ Process efficiencies and cost rationalisation



Human Capital

- ⊕ Freed up employee time for more value adding activities through process automations
- ⊕ Increased focus on digital skills



Intellectual Capital

- ⊕ Develop a digitally savvy workforce driving unique base of tacit knowledge



Stakeholder Relationships

- ⊕ Enhancing the customer experience through innovative, accessible solutions
- ⊕ Partnering with eco-system to drive customer solutions



Natural Capital

- ⊕ Impacts on environment through,
 - Reduced paper consumption
 - Decreases in emissions through reducing the need to travel

Value Delivered In 2020

Customer Experience

- 80% of total transaction value routed via digital modes
- 55% digitally active clients
- 300% increase in transaction value conducted through the NEOS platform

Process Efficiencies

- Processes automated through workflow solutions
- Processes automated through RPA
- 22% improvement in turnaround time for credit card management

Stability and Security

- Zero instances of data breaches
- Integration of 06 systems
- Facilitated remote working for employees

Positive Environmental Impacts

- 4% increase in e-statements, estimated to save 3.6 Mn A4 papers
- Increased use of video conferencing reducing the need to travel, thereby reducing the carbon footprint

Way Forward

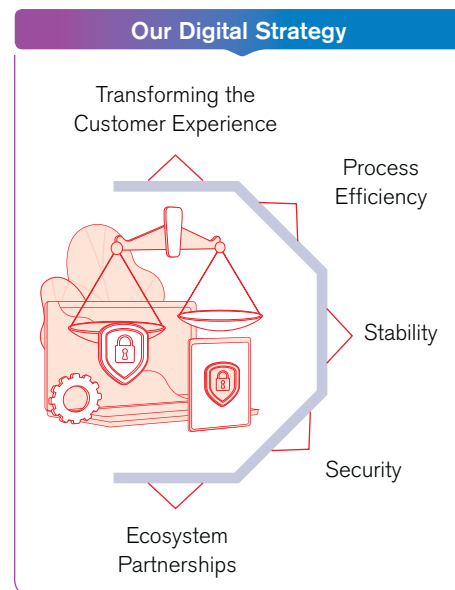
- Leverage on the deep customer insights offered by our digital capabilities to drive customer-centric solutions
- Investments in upgrading the Core Banking platform and strengthening the IT security infrastructure

DRIVING OUR DIGITAL STRATEGY

Given NDB's size and adaptability, it is ideally placed to embrace digital transformation across all its operations. While the Group's Transformation 2020 strategy emphasised the role of digital as an enabler, Voyage 2025 seeks to elevate its role to a transformational one, with the digital strategy being closely aligned to the corporate strategy. The Group's digital strategy ensures that a solid foundation is in place to support scaling up of business volumes, as the Group drives its strategic growth aspirations.



IT Governance and Security: As digital investments have increased in both priority and value the Bank has also strengthened its IT governance; with an IT Steering Committee established at Executive Leadership level to formulate and drive the Group's digital strategy. A framework of robust IT policies, clear demarcation of responsibilities through the three lines of defense governance model and a highly skilled IT team ensures that IT risks and vulnerabilities are managed in a holistic and consistent manner (refer to page 360 for further information). Strengthening employee IT capabilities also remain a priority, with 546 employees having undergone digital-related training during the year.



CUSTOMER EXPERIENCE

The Bank's digitally active clients increased by 199% during the year, as NDB capitalised on the opportunity presented by the pandemic to drive increased digital adoption among its clientele. Digital transactions increased exponentially, accounting for 80% of total transactions. Initiatives launched during the year to strengthen digital offerings to customers include:

- Lanka QR implementation supporting QR code-based payments and transfers through the NEOS app: With this value addition, NEOS emerged as the first mobile banking app in the country offering both banking solutions and a payment platform through a single app. NEOS PAY is also the only payment app which enables real-time bill payments to many utility and telecommunication service providers
- Interoperability in the NEOS app means non-NDB Bank customers can also on-board the App using other bank account details of LankaPay member banks and perform transactions
- Launched the new internet banking platform for retail customers, aligning it with the services offered through NEOS
- Upgraded the Bank2U platform to offer an improved customer experience
- Registration of customers for SMS alerts



NEOS PAY complements Central Bank of Sri Lanka's LankaQR initiative in promoting a cashless society, and provides customers a fun and easy way to make payments

- Seamless On-boarding process to NEOS by using NDB debit/credit card details or account details of NDB or any other LankaPay member bank
- NEOS offers many unique, first in the country features such as QR based payments to individuals and merchants, scheduled payments, ability to view Group portfolio including Wealth and Stocks, etc.

Digital Capital

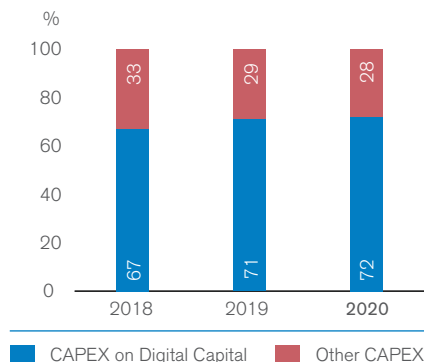


Given the user-friendly features, and the wide range of transaction options available, and also due to the effects of the pandemic, NDB NEOS app recorded impressive growth in 2020.

Up by 210%
Volume of transactions

Up by 311%
Value of transactions

CAPEX Composition



PROCESS EFFICIENCIES

We continue to invest in workflow systems, robotic process automation and new systems to drive internal efficiencies and process improvements. Key investments in 2020 include:

- ➔ New credit card management system which offers advanced capabilities and flexibility
- ➔ Implemented new workflow systems for Credit appraisal with offer letter processing and excess monitoring for corporate. This increased total workflows to 16

- ➔ Automation of the excess monitoring process to streamline the recognition of excess revenue generation
- ➔ Implementation of a new app (Salesmate) that enables faster document submission for personal loans and credit card processing

STABILITY AND SECURITY

The upgrade of the Bank's Temenos Core Banking Platform which commenced in 2019 aims to provide a stable and integrated platform which offers a seamless experience for users while enabling the deployment of new products. Additional improvements during the year include the upgrade of the ATM Switch to enhance the efficiency of card-related transactions and upgrade of SWIFT to latest version. Meanwhile IT security measures introduced during the year include the implementation of Kaspersky embedded Security solution for ATMs and CRMs, Global Protect implementation for faster remote access and vulnerability assessment for the new Internet Banking platform, among others.

Ensuring continuity of service during the pandemic:

The Bank's ability to demonstrate resilience amidst unprecedented operating challenges is partly attributed to the strength of its digital capabilities. With the outbreak of the first wave of COVID-19, employees were granted Work from Home facilities through Citrix Remote Access while security and faster accessibility were ensured through Global Protect solutions. As the lockdown was extended, the Bank also activated Windows Remote Desktop Services, effectively catering to the increased demand for Work from Home functionality, in ensuring uncompromised productivity in performance.

OUTLOOK

The Bank's digital strategy will play a central role in achieving the objectives set out under Voyage 2025, offering rich insights into customer behaviour which will in turn allow us to entrench customer-centricity into all frontline operations. Key investments planned for over the short to medium term include upgrading the Temenos Core Banking platform, including the introduction of a digital layer and implementation of the POS Acquiring solution to support direct payments through merchants. Enhancing cyber security and information security solutions will also be a priority as we proactively seek to mitigate IT-related risks.

Intellectual Capital



The Group's Intellectual Capital is a key source of competitive edge and determines its capacity for innovation, its resilience and agility and its commercial and social viability over the long term. Brand value is strengthened through branding initiatives to targeted segments while organisational capital is built internally through a culture of sharing and learning.



Capital Connectivity and Trade-offs



Financial Capital

- + Leverage on a strengthening brand to drive business growth
- Investments in marketing and brand building
- + Cost rationalisation through OEE initiative



Human Capital

- + Culture of learning and mentoring strengthens the quality of human capital



Digital Capital

- + Increased investments in digital capabilities have led to the creation of an agile, responsive and digitally savvy culture



Customer Relationships

- + Facilitates faster turnaround times for customers, supporting overall satisfaction levels



Natural Capital

- + Organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE) initiative has led to,
 - Substantial paper savings
 - Reduced energy consumption and GHG emissions

Value Delivered In 2020

Brand strength

- Listed among Sri Lanka's top 20 brands with a value of LKR 8.9 Bn
- Increased brand visibility and awareness
- Increased presence on social media

Operational efficiency

- Organisation-wide efforts to drive efficiencies and rationalise costs
- Overhead costs managed at levels similar to 2019 amidst 7% increase in operating income
- 37% cost to income ratio among the best in the industry

Culture and innovation

- An engaged workforce, which is a critical factor in the Bank's resilience and agility
- Digital offerings, unique product propositions and innovative delivery have sharpened the Bank's competitive edge

Way Forward

- Build on the learnings obtained in 2020 in embracing new and more effective ways of working
- Strengthen the One NDB Culture to leverage Group synergies in line with the aspirations of Voyage 2025
- Nurture a mindset of customer-centricity among employees

Intellectual Capital

Brand



The Bank's successful transformation over the last few years, coupled with targeted penetration of the Retail and SME segments and targeted customer engagement has enabled the Bank to drive increased brand visibility and strengthen its brand value. Its focus on enhancing digital offerings to customers has also allowed the Bank to build a strong reputation as a digitally savvy, future-ready bank. During the year, the Bank capitalised on opportunities to further increase brand visibility through mass advertising, sponsorships, outdoor branding and targeted customer engagement. Key initiatives include:

- Launch of unique product and service propositions including Bank on Wheels, NDB Jayagamu Sri Lanka and online/mobile banking platforms to support customers during the pandemic in ensuring their commercial sustainability
- Active presence across print and electronic media emphasising NDB's unique strength as a financial services conglomerate. During the year, NDB ranked 3rd on average in the Banking and Finance industry in print media, maintaining a steady growth in public relations.
- Sponsorships of several major sporting events including the West Indies Tour of Sri Lanka, the MCA "C" division 50 over League Tournament and the 76th Bradby Shield
- Multiple campaigns including Avurudu Ganu Denu Online, Santa's Sleigh and Don't Stop
- NDB Vanithabhimana awards with the aim of recognising and rewarding women for their contributions across many spheres of society including entrepreneurship, sports, education and environmental management among others (Refer to page 102 for further information)
- Strengthening our online presence, particularly during the lockdown through meaningfully engaging with the tech savvy, young demographic using social media platforms

Brand achievements

#20

Sri Lanka's most valuable brands
Brand Finance Sri Lanka 100

LKR 8,913 Mn

Brand value
Brand Finance Sri Lanka 100

#9

Business Today Top 30

Among Top 10 Most Admired Companies in Sri Lanka

(CIMA, ICCSL & Daily FT)

Social media presence

70 Mn

impressions

+35 Mn

reach

+5 Mn

social media engagement

+500,000

fans on social media

 **465,661**
followers on Facebook

 **6,282**
followers on Instagram

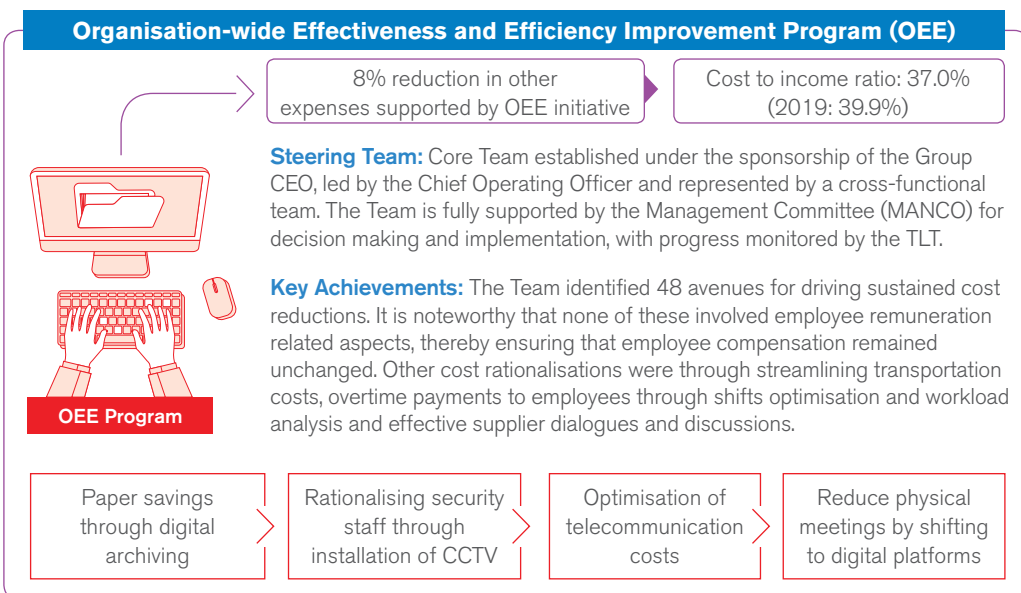
 **32,884**
followers on LinkedIn

 **1,947**
followers on Twitter

Align with Voyage 2025 in driving brand value, leveraging data analytics to obtain richer and deeper insights on customer behaviour and ongoing focus on driving efficiencies, reducing waste and rationalising costs.

SYSTEMS AND PROCESSES

Recent investments in process automation, workflow systems and process reengineering have enabled the Bank to generate considerable cost efficiencies. These processes and systems have sharpened our competitive edge through faster service delivery to customers while supporting increased profitability through cost rationalisations. During the year, the Group made substantial savings through an organisation-wide Operational Efficiency and Effectiveness improvement drive (OEE); this holistic programme involved a deep dive analysis into the Bank's costs and processes thereby proactively identifying new ways of working which would lead to sustainable cost savings. Key highlights of the initiative are as depicted here.



ORGANISATIONAL TACIT KNOWLEDGE

The Bank's strong learning propositions coupled with a culture of knowledge sharing and mentoring have enabled NDB to develop a strong base of organisational capital. The Bank also has good intergenerational diversity and a healthy mix of fresh and experienced talent, which have collectively enriched the Bank's organisational knowledge and contributing towards its resilience and agility in challenging years such as 2020.

Management Committees

The Bank has in place several committees which assist in effective and efficient functioning of specific areas. These committees are often made up of cross-functional representation, bringing in to one platform, the expertise, dynamic views and thought contributions of the Bank's key talent, which also serves as an effective tool in enhancing the Bank's tacit knowledge and intellectual capital. These committees also enhance the Bank's governance process through attributes such as transparent and fair practices. Discussed succinctly below are some such committees that are in operation at the Bank.

Management Committee (MANCO) - The MANCO has been formed to develop the Bank's second tier staff's management and leadership skills. This dedicated team supports the Executive Leadership in the implementation of key strategic initiatives of the Bank in an effective and efficient manner. The MANCO is thereby driving value added solutions across the Bank. Chaired by the Chief

Operating Officer the MANCO also makes valid contribution through sharing of ideas and generation of solutions to any operational issues that may arise, including problems related to products and services, systems, customer issues and staff-related issues among others.

Procurement Committee - Facilitates the procurement of all goods and services obtained by the Bank to ensure fairness, transparency and consistency is maintained when assessing suppliers, whilst an acceptable equilibrium is maintained in the costs incurred and quality.

Outsourcing Committee - Regularly assess, approve, monitor and review all the outsourcing arrangements pertaining to the Bank which are in line with the regulatory provisions.

Data Analytics: We have placed strategic emphasis on fostering a data-driven culture where data is strategically used to derive key insights into the business. The Bank's dedicated Data Analytics Team play a key role in achieving this goal, by engaging in data mining, behavioural data analysis, predictive analysis and providing valuable insights to the business units. The Team is expected to play an even more crucial role in future as the Bank pursues its Voyage 2025 strategy, where Data Analytics is identified as a key pillar in the journey towards customer-centricity. The Team will also support in business intelligence where their finding will be imperative in drawing important strategic decisions on new product solutions, enhancing delivery channels, etc.

Legal Expertise: Our legal team comprises of 28 skilled and experienced legal professionals assisted by support staff lawyers who provided their legal expertise to all business units, functional units and branches of the Bank and the NDB Group companies by providing legal opinions and advice, drafting and execution of legal documentation including security documents and safeguarding the Bank from legal risk exposures. NDB's legal team has built a strong reputation for industry-leading expertise in specialised areas including project financing and SME lending. The Legal Department also appraises and updates the Board and the Management on the latest laws and regulations applicable to banking. The Senior Officers of the Legal Department also conduct training sessions for branch officers on various relevant legal services. During the year the department took a lead role in being the legal advisor for the Bank's investor/credit related agreements and also in strengthening the Corporate Governance Code and actively took part in Bank's initiative to reduce paper usage by restructuring the existing documentation of the Bank.

OUTLOOK

Our brand building strategy will be aligned to Voyage 2025 as we focus on customer journeys, centricity and digital as a transformer. We will also leverage the learnings obtained from the Bank's organisation-wide Operational Efficiency and Effectiveness improvement programme (OEE) initiative to achieve further improvements in efficiency and cost rationalisation.

Social and Relationship Capital



As an organisation with deep-rooted relationships across customer segments and communities, we understand that consistently enhancing the quality of these relationships is critical in ensuring our social license to operate. The Group continues to invest in strengthening stakeholder relationships through delivering unique value propositions which are aligned to our overall Mission and Strategy.



Capital Connectivity and Trade-offs



Financial Capital

- ⊕ Improved customer satisfaction and retention
- ⊖ Impacts of moratoriums on Financial Capital
- ⊖ CSR investments will adversely impact financial capital in the short term, but support commercial sustainability in long term



Digital Capital

- ⊕ Supports enhanced customer experience
- ⊕ Social media platforms used to drive CSR projects during the year



Human Capital

- ⊕ Employees facilitate the customer experience
- ⊕ Engaging employees in community engagement



Natural Capital

- ⊕ Engaging customers and communities in our environmental preservation initiatives

Value Delivered In 2020

Supporting customers through the crisis

- LKR 18 Bn approved under the Saubhagya COVID-19 Renaissance Facility
- Deployment of mobile ATMs
- Strengthening digital propositions

Industry engagement

- Strong collaboration with industry counterparts in ensuring continued service and value creation during the pandemic
- Proactive collaborations across industry to grant debt relief and ensure access to continued services

Community value creation

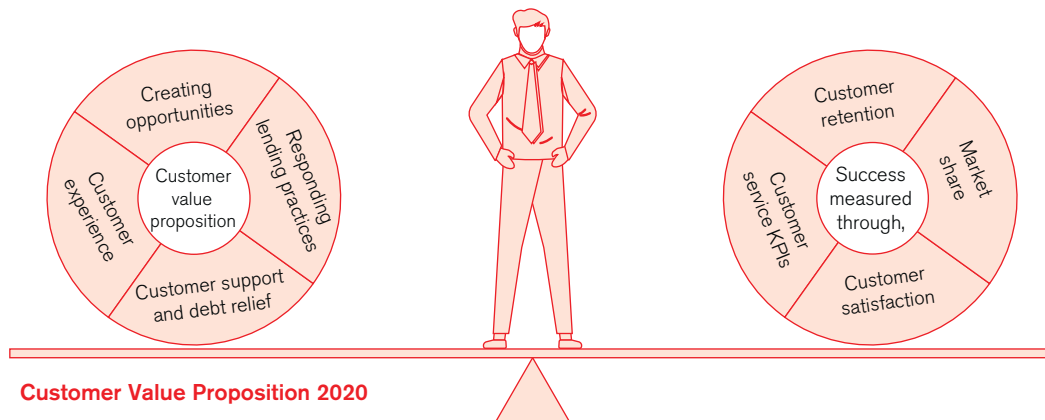
- Progress made on educational, environmental and entrepreneurial ventures
- LKR 6.9 Mn in COVID-19 related donations
- Over 143,000 CSR beneficiaries

Way Forward

- Strategic focus on customer-centricity with the aim of developing solutions catering to customers' journey, which will in turn drive increased satisfaction and wallet share
- Ongoing investments in strategic CSR activities

CUSTOMER RELATIONSHIPS

Ensuring the commercial sustainability and survival of our customers was of critical importance in 2020 and numerous measures were implemented to provide debt relief, access to funding and capacity building. In a unique approach towards customer value creation, the Bank also leveraged its partnerships with relevant industry stakeholders to create market opportunities for customers.



CREATING OPPORTUNITIES

NDB Jayagamu Sri Lanka was launched in 2020 with the long term aspiration of empowering and providing growth impetus to current and emerging exporters, entrepreneurs, and inventors through a holistic value proposition. The unique model sought to leverage the Bank's partnerships with nearly 10 non-financial service and solution partners to drive improved solutions for customers.

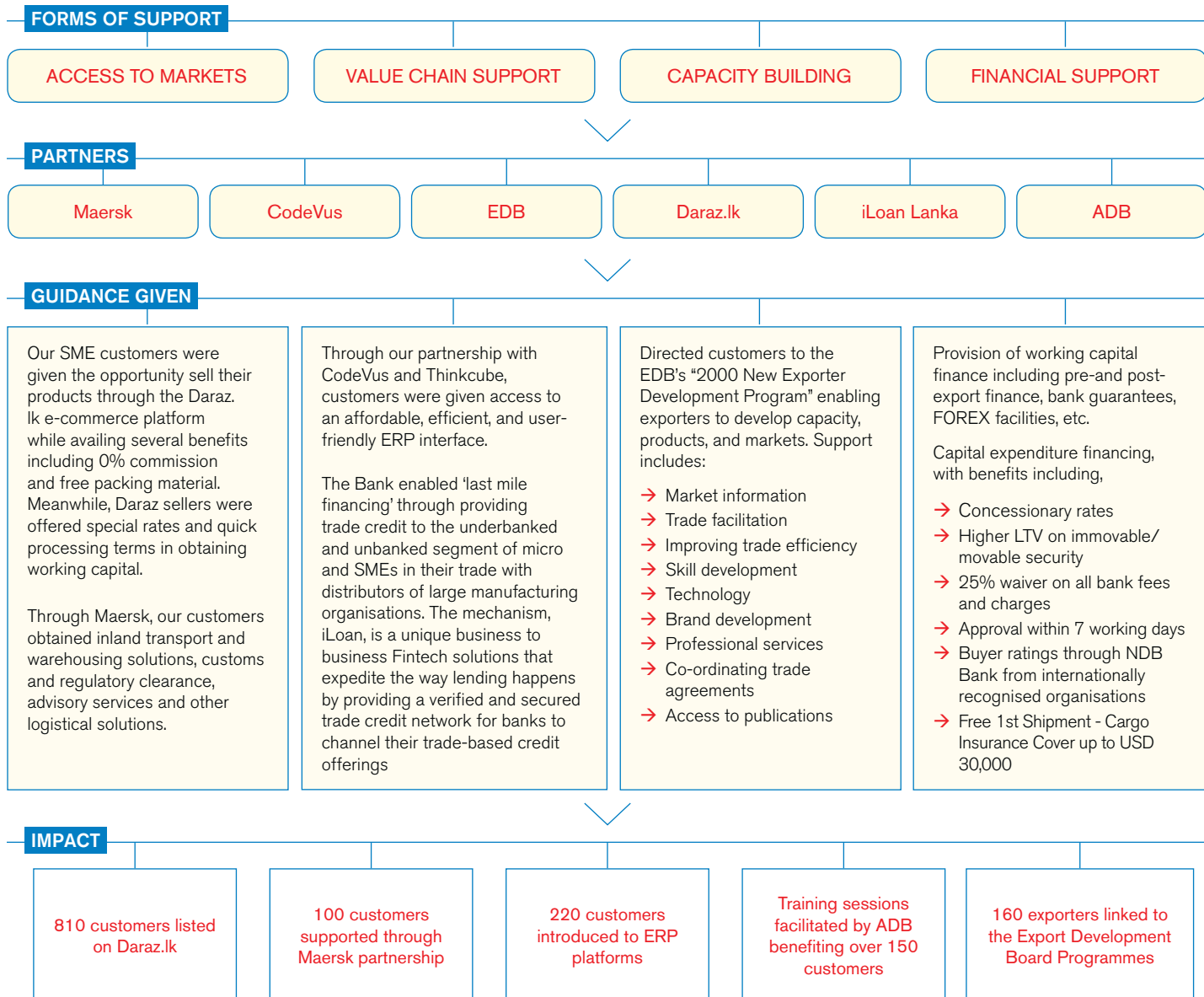
The programme has successfully addressed numerous obstacles faced by SMEs in accessing markets, technology, efficient logistics and funding, thereby providing critical support in ensuring their survival and growth. The initiative is expected to drive wide-ranging socio-economic benefits across several key stakeholder groups as illustrated alongside:

Stakeholder Value Creation through NDB Jayagamu Sri Lanka	
Customers	
→	Access to financial support
→	Facilitating market access
→	Logistical and value chain support
→	Wide-ranging advisory and capacity building services
Government and broader economy	
→	Support economic revival post COVID-19
→	Supporting the SME sector-the economic growth engine
→	Drive export growth which results in inflows of much-needed foreign currency
Value chain stakeholders	
→	Bridge trade credit gap
→	Increase liquidity across value chains
NDB	
→	Customer acquisition and increased wallet share of existing customers
→	Avenue of widening fee based income



Social and Relationship Capital

Key elements of the programme are listed below:



CUSTOMER SUPPORT AND DEBT RELIEF

During the early onset of the pandemic and resultant lockdown, the Bank was quick to recognise the practical challenges faced by the masses in accessing cash, obtaining essential items, and engaging in banking transactions. Accordingly NDB was the first to deploy 2 mobile trucks offering a range of services including cash withdrawal through ATMs, deposits, bill payments as well as essential items through partnering with other suppliers. (Refer to page 40 for further information). Meanwhile NDB leveraged its Bank2U technology to reach customers who were unable to access online and mobile platforms, including senior citizens (NDB Aachara). As described in further detail in the Business line reviews on page 66 the Bank also implemented numerous debt relief measures and offered loans at concessionary rates to ensure the survival of businesses during the pandemic.



CUSTOMER EXPERIENCE

The Bank strengthened its service proposition following the successful launch of Service LEAP, the Service SOPs, CREDO and 'We go beyond' over the past few years, which has provided a blueprint for driving excellence in customer service and experience. A dedicated customer centre inclusive of a 24x7 Customer Service Centre, Telemarketing Unit and Transaction Monitoring Unit are in place to facilitate enhanced customer engagement. During the year, given the conditions that prevailed, we placed increased emphasis on enhancing the digital experience.

Physical Engagement	Digital Engagement
→ Ensuring branches and contact centres remained operational during the lockdown → Conducted service audits to ensure implementation of service agenda → Digital training for front line staff including refresher on service SOPs and training for all service leaders → Customer satisfaction scoring system through tabs	→ Value addition to NDB NEOS app → Launch of new internet banking portal for retail customers → Registration of customers for SMS alerts → QR-based customer satisfaction scoring (Refer to page 96 for further information on our digital offerings)

RESPONSIBLE LENDING

Our lending practices are governed by the Customer Charter, relevant policies and credit manual which ensure that the relevant terms and conditions applicable are clearly understood by all customers. Relevant information such as interest rates on deposits, loans and exchange rates are clearly communicated to customers and product brochures/leaflets in English, Sinhalese, and Tamil. During the year under review, there were no instances of non-compliance to any relevant product and service information and labelling or marketing communication related guidelines or regulations.

Our Product Map

	Retail	Commercial	SME/Micro	PIF
Investment products	→ Savings accounts (including women's, minor) → Investment Planners → Certificate of deposit → Current accounts → Fixed deposits → Foreign currency deposits	→ Current accounts → Foreign currency deposits → Fixed deposits → Savings and Call deposits	→ Savings → Time deposits → Current accounts → Foreign currency deposits	→ Savings accounts → Fixed deposits → Foreign currency deposits
Lending products	→ Personal → Housing → Education → Leasing → NDB Good Life Credit Card → Salary advances → Solar → Pawning → Vishmitha	→ Term loans → Working capital finance → Trade services → Leasing → Cash management → Trade card services → Distributor/Supplier financing	→ CAPEX funding → Leasing → Trade Services → Cash management → Revolving and structured working capital funding → Channel finance for Distributors → Industry specific working capital solutions.	→ Term loans → Islamic banking solutions for long term financing → Financing of leveraged buyouts → Lease facilities → Securitisations → Trade services → Investment in listed securities
Other	→ NDB Debit cards → NDB Travel Pal → Privilege banking → Safe deposit lockers → Remittances → Bancassurance	→ Digital Financial Solutions	→ Credit cards → Debit cards → Bancassurance	→ Services on debt syndications such as lead arranger function, facility agent function and escrow agent function.
Customer value propositions	→ NDB Araliya for the women's market segment → NDB Aachara for senior citizens → NDB Jayagamu Sri Lanka for exporters, innovators and SMEs			

Social and Relationship Capital

Powering Sri Lankan Women

NDB's multi-pronged female empowerment agenda aims to create a more conducive work environment for its female employees and drive socio-economic progress among its female customers and broader communities. Through its multi-faceted 'Banking on Women' platform, NDB seeks to equip female entrepreneurs with the skills required to expand their businesses, thereby ensuring continued commercial sustainability.

Progress made in 2020 is as follows:

Products and Services

The Bank operates the NDB Araliya brand under which females can obtain a range of exclusive banking solutions including Araliya Business Loans, credit cards, savings accounts and working capital facilities which offer preferential interest rates and insurance covers.

During the year, the Bank also launched a special loan facility for beauticians and salons affected by the pandemic.

Leveraging Partnerships

NDB partnered with Daraz to provide a dedicated landing page for its female business owners, thereby providing better visibility and greater selling potential.

NDB is also a member of the Financial Alliance for Women (FAW), a leading global members' network of financial organisations dedicated to championing the female economy — the world's largest, fastest-growing market, and yet one that remains untapped.

Advisory and Capacity Building

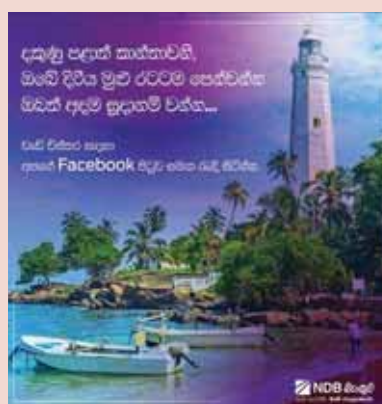
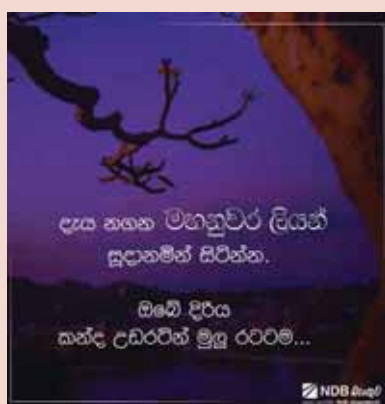
The Bank conducts Araliya knowledge sharing forums and third-party advisory services on administration of enterprises, book-keeping, and financial discipline, among others. Networking and mentoring sessions are also conducted while a special Certification programme has been introduced for small business management.

During the year, advisory services were conducted through digital platforms and topics covered included onboarding digital platforms, continuing salon operations under the prescribed health and safety guidelines, preparation of business plans and support on legal aspects for successful business.

Rewards through NDB Vanithabhimana

NDB successfully conducted a unique initiative to recognise and reward women, NDB Vanithabhimana in partnership with News 1st media. The programme comprised a national level contest for women, across eight categories of Sports, Entrepreneur (small), Entrepreneur (micro) entrepreneur (upcoming), Young Leader, Environmental Management, Social Worker and Education.

The initial rounds were held provincially with the winners then contesting at a national level. Winners were selected by an independent panel representing esteemed judges from various disciplines. Given the outbreak of the pandemic, several provincial level programmes were held virtually, and the grand final is expected to be held in March 2021.



CUSTOMER PRIVACY

With the Bank's increased thrust towards digital platforms, confidentiality of customer data has gained critical importance. We continue to invest in strengthening the Bank's IT and cybersecurity frameworks (refer to page 342 for further information) while "customer privacy" has been included as an element of employee code of conduct to ensure the value of protecting customers privacy is reinforced at all levels. There were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data in 2020.

SUPPLIER RELATIONSHIPS

Our supply chain is represented by numerous business partners which include correspondent banks and over 380 suppliers who support our value creation and ensure the smooth continuity of operations. The Bank procures a range of IT, office equipment and consumables from a network of suppliers with the bulk of these being local corporates and SMEs.

During the year, the Bank formulated a Sustainable Procurement and Supplier Policy which sets out ethical and sustainability criteria to be adopted when screening suppliers. This criteria includes economic, social and environmental factors, enabling NDB to propagate its sustainability agenda across the supply chain.

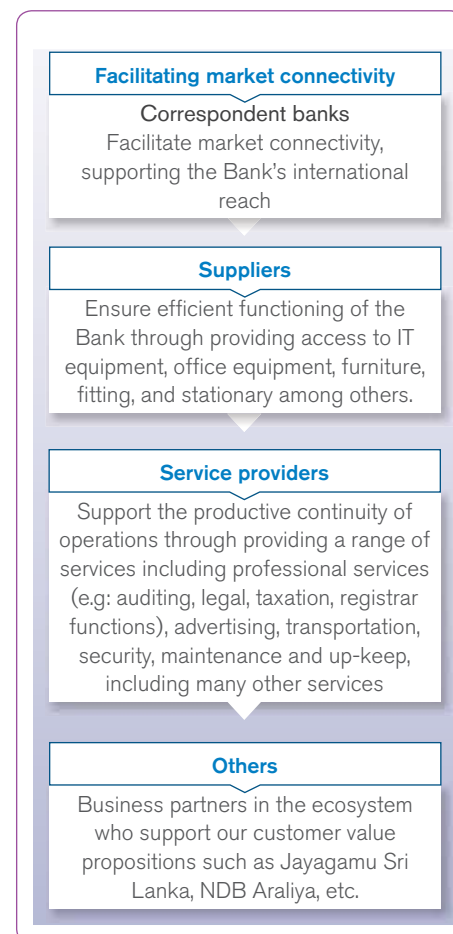
INDUSTRY COLLABORATIONS

The unprecedented conditions that prevailed during the year necessitated proactive collaborations across industry stakeholders, as banks were called upon to play their part in reviving the economy and ensuring continued value creation to stakeholders. Against this backdrop, the Bank took a leading role in promoting industry collaboration, particularly given that NDB's Group CEO, was at the time functioning as the Chairman of the Sri Lanka Banks' Association.

In addition, our employees are actively involved in numerous such forums and contribute their ideas and perceptions to the betterment of the overall industry. The Bank's employees hold memberships in associations across a myriad of disciplines relevant to banking and financial services such as risk management, compliance, integrated reporting, payments and cards, trade financing, employee relations, IT security, leasing, auditing, company secretarial and legal. Some examples are as follows.

- ➔ Institute of Bankers Sri Lanka (IBSL)
- ➔ Association of Professional Bankers Sri Lanka (APB)
- ➔ Sri Lanka Banks' Association

Furthermore, the Bank's Assistant Vice President – Digital Financial Services is the Chairman of the committee appointed by the Central Bank of Sri Lanka to oversee the implementation of the National Road Map for Digitalisation of Payments Services 2020 – 2022.



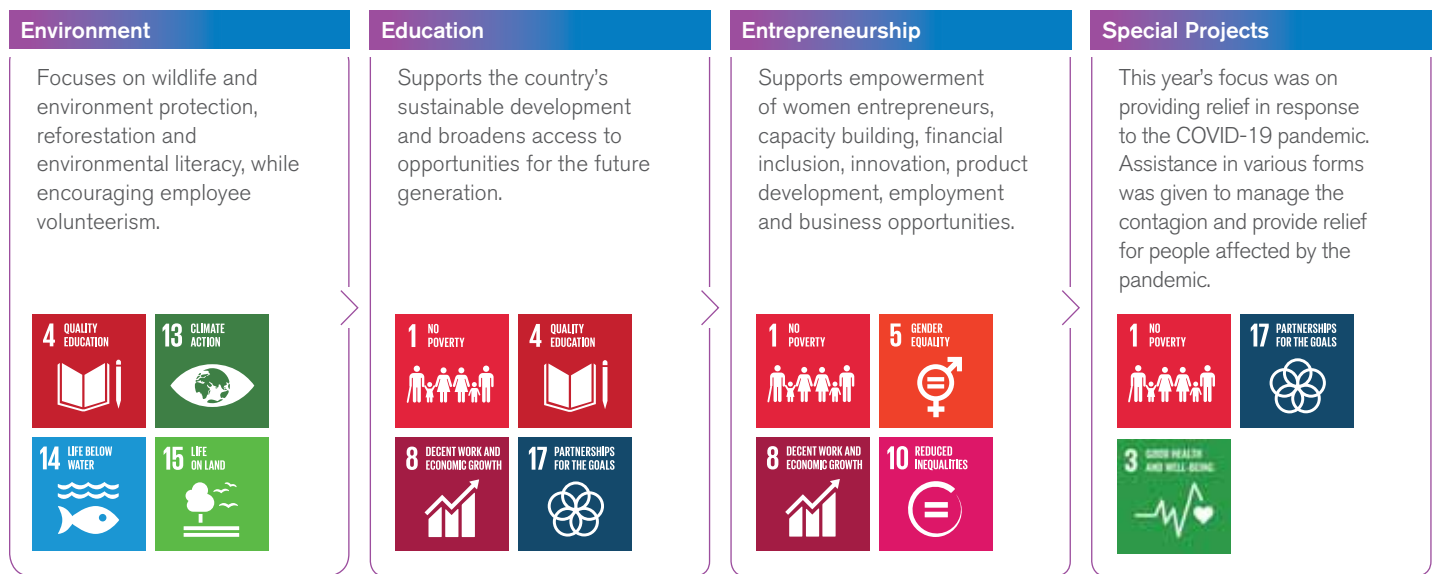
Export Development Board and Daraz.lk are two examples from the many business partnerships the Bank has entered into, towards delivering enhanced value and support to our customers

Social and Relationship Capital

Corporate Social Responsibility (CSR)

OUR APPROACH

The Group's approach to community engagement and CSR is aligned to its Mission of 'empowering individuals' through engaging in meaningful and sustainable CS initiatives that aim to uplift the society's most vulnerable segments. Projects are also guided by the Bank's sustainability vision of 'Creating Sustainable Shared Value by Delivering Economic, Environmental and Social Benefits' and reflect development based on national priorities, expectations of stakeholders, and the Bank's own social, environmental, and economic objectives. Accordingly, key pillars of the Group's CSR agenda are as follows:



CSR Highlights in 2020

+143,000 Total Beneficiaries

17 Projects Implemented

NDB Employees, Customers, Dept. of Forest Conservation, Wildlife & Nature Protection Society, Small Fishers Federation of Lanka (SUDEESA) and Communities.

Partnered Stakeholders



CSR GOVERNANCE AND MANAGEMENT INVOLVEMENT

All sustainability and CSR initiatives come under the purview of the Bank's "Corporate Sustainability Committee". The members of the CS Committee play a role as champions of sustainability within the Bank. The Committee consists of a cross-functional team including Top Management, Senior Executives and Non-Executives; driving engagement on sustainability issues amongst stakeholders of the Bank.

In 2020, representation of the Committee was broadened through engaging passionate individuals from across the Bank to partake in its activities.

Given the operating conditions that prevailed during the year and regulatory restrictions on discretionary expenses, the Group moderated its CSR activities yet continued to generate value to beneficiaries creating a significant positive impact. Meanwhile resources were directed towards supporting vulnerable communities impacted by COVID-19 through several special projects. Progress made on selected projects are as follows:

Entrepreneurship	Environment	Education
Empowering Women Objectives: Driving the empowerment of women is both a commercial and social aspiration of NDB and its holistic programme 'Banking on Women' seeks to support women's entrepreneurial ventures through access to financial and non-financial support. Progress in 2020: Successfully launched the Vanithabhimana rewards for women Capacity building programmes through physical workshops and digital platforms Facilitating financial inclusion through access to affordable financing (refer page 70 for further information) Stakeholder participation: Employees and external resource persons engaged in workshops and awards scheme Impact + 100,000 women entrepreneurs reached through webinars + 1900 women entrepreneurs reached through physical workshops	Re-forestation Project at 'Hibiliyakada Forest' Objectives: Preserve biodiversity and natural habitats while offsetting carbon emissions through reforestation. The Project commenced in October 2020 and will be implemented over a period of 5 years. Progress in 2020: Planted 3,000 plants native to the natural eco system in the region. Removal of invasive plants in the Pitawala Pathana area in Matala Stakeholder participation: Partnered with the Department of Forest Conservation and supported by volunteers across the Bank including the Group CEO and members of The Leadership Team. Education for Conservation Objectives: Create environmental consciousness among the younger generations through sensitising, creating awareness, empowerment and investing in environmental capacity building. Progress: Raised awareness on 'Wildlife & Environmental Conservation' through online webinars, with over 16,000 views Field visits to National Parks for over 500 students in rural and urban schools Stakeholder participation: Ongoing partnership with the Wildlife and Nature Protection Society Impact Raised awareness on vital aspects of environmental conservation including biodiversity, human elephant conflict, deforestation, climate change, marine and land conservation, recycling and pollution control among others. NDB Haritha Wiplawaya (Green Revolution) Social Media Campaign Objectives: Social media campaign to raise awareness on environmental issues, mitigation methods and to engage the public in conserving the environment. NDB committed to planting a tree for each social media impression. Progress in 2020: Total impressions of 37,392 including 21,468 likes and 1,033 comments for the content, 9,964 likes for the page and 4,927 shares. The Bank committed to plant 40,000 mangroves in Puttalam and Mannar which commenced after the lockdown and will be completed in 2021. Stakeholder participation: Reached a broad base of customers and broader community through social media. Impact Mangroves are pivotal coastal ecosystems and play a key role in weathering climate change impacts Carbon sequestration in Mangroves is higher than terrestrial forests Expected to sequester 480 MT of Carbon Creates livelihoods for surrounding communities Home Agri Project for employees Objectives: Promote home gardening among the employees of the Bank. Progress in 2020: Videos shared on gardening in small spaces, preparing soil and guidance on fruits, vegetables and flowers that can be easily grown. Stakeholder participation: Reached over 2,900 NDB employees through this initiative	Investments in Veheragalayaya Kanishta Vidyalaya, Matala Objectives: Supporting the infrastructure of the school as well as supporting the educational requirements of students from Grade 1 to 11. Progress in 2020: School book project: Donated the entire book list for students from Grade 1 to 11 Scholarships: 10 scholarships were granted in consideration of students' academic achievements and financial circumstances of the family. Donation of a Water Purification System to prevent the students and teachers from contracting kidney disease by drinking contaminated water. Refurbishment of the school computer lab including donation of 9 used computers and computer tables. Stakeholder participation: Members of the Group's Senior Management team contributed personal funds in addition to the funding provided by NDB. Meanwhile, our own IT team assisted in refurbishing the computer lab and installing the computers. Impact Entire Stationary requirement for the school year donated to 191 students Scholarships granted to 10 students

Social and Relationship Capital



Education for Conservation Project – Programme Conducted for Students of Abhayapura Junior School, Lunugamvehera



NDB Home Agri Project - The project comprised informative videos featuring the Bank's own employees, imparting essential knowledge on home gardening



Mangrove Planting Project - Mangrove planting in Puttalam with community engagement



Reforestation Project - The reforestation project Let's Grow saw the volunteerism and active participation of NDB employees

In addition to the above, the Bank's focus was on providing relief and assistance to the community in response to the COVID-19 pandemic.

- ➔ Donation of LKR 7 Mn to the 'President's Fund' - the 'COVID-19 Healthcare & Social Security Fund'
- ➔ Donation of LKR 1 Mn to the Rotary Club for the purchase of a PCR Testing Machine
- ➔ Donation of an 'Air Disinfectant Machine' to the National Hospital
- ➔ Personal Protective Equipment to frontliners consisting of N95 Face Masks, Protective hooded coveralls, 3 ply & 4 ply protection masks, face shields, cotton bed sheets and infrared thermometers were donated to over 20 hospitals in the Colombo, North Western, Greater Colombo, Central, North Central, North East, Uva, Sabaragamuwa and Southern Regions.



Crisis response in COVID-19 - NDB donated personal protection equipment to frontline healthcare workers

OUTLOOK

Customer centricity and fulfilling lifecycle needs through customer journeys are a key pillar of the Group's Voyage 2025 agenda and we will seek to leverage our data analytics, deep insights into customer behaviour and strong relationships to drive this aspiration. We are passionate about driving meaningful change in the communities we operate in and will continue to invest in strategic CSR initiatives which are in line with the Bank's overall Corporate Sustainability agenda.

Natural Capital



The Group impacts Natural Capital through the consumption of energy and water and the discharge of emissions and waste. As a service organisation, the Group's environmental impacts are limited; however, we see significant opportunities in driving environmental consciousness and propagating sustainable businesses through responsible lending practices.



Capital Connectivity and Trade-offs



Financial Capital

- ➖ Investments in environmental initiatives have an impact on Financial Capital
- ➕ Pursue opportunities in green lending
- ➕ Effective management of climate and environmental related risks



Human Capital

- ➕ Engage employees in environmental conservation through volunteerism



Digital Capital

- ➕ Increased digitalisation has supported,
 - ➔ Reduction in paper consumption
 - ➔ Reduced emissions through reduced need to travel



Manufactured Capital

- ➖ Expansion of physical network will impact environment through increased resource usage, waste, and emissions



Customer Relationships

- ➕ Propagate sustainable practices through ESMS

Value Delivered In 2020

Responsible Lending

- ➔ 236 facilities screened for environmental and social criteria
- ➔ Exclusion list prohibiting lending to environmentally adverse sectors

Resource Efficiencies

- ➔ Increased digitisation and automation led to 40% decrease in paper consumption
- ➔ 66,501 KGs of paper recycled
- ➔ 2% decline in energy consumption

Combatting Climate Change

- ➔ LKR 22.5 Bn lending to the renewable energy sector
- ➔ 3% decline in carbon footprint
- ➔ 66,501 tCO₂e avoidance due to paper recycling

Way Forward

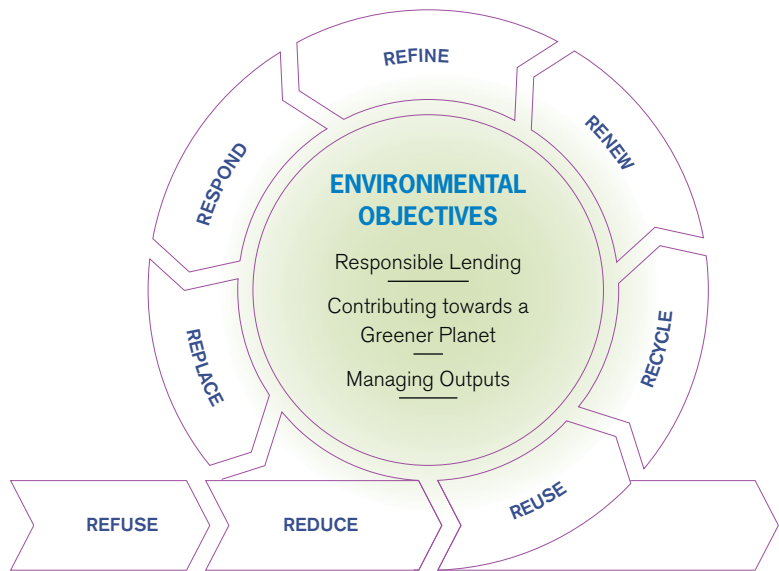
- ➔ Continued focus on lending to the renewable energy sector.
- ➔ Continued employee volunteerism activities centering on environmental preservation

Natural Capital

MANAGING OUR ENVIRONMENTAL IMPACTS

The Bank's approach to managing its environmental footprint as well as mitigating its environmental risks have been formalised through an organisation wide 'Environmental and Social Management System'. The Bank is also a founder signatory to the 'Sustainable Banking Principles for Sri Lanka' by the Sri Lanka Banks' Association in collaboration with donor agencies such as DEG, PROPARCO and FMO, which set out guidelines on environmental and social considerations in decision making. Although the Bank has not formally adopted the precautionary principle, environmental and social impacts are given due considerations when evaluating key investments. The Bank adopts the 8R approach in minimising the environmental footprint of its operations and contributes positively towards nurturing natural capital as graphically illustrated here.

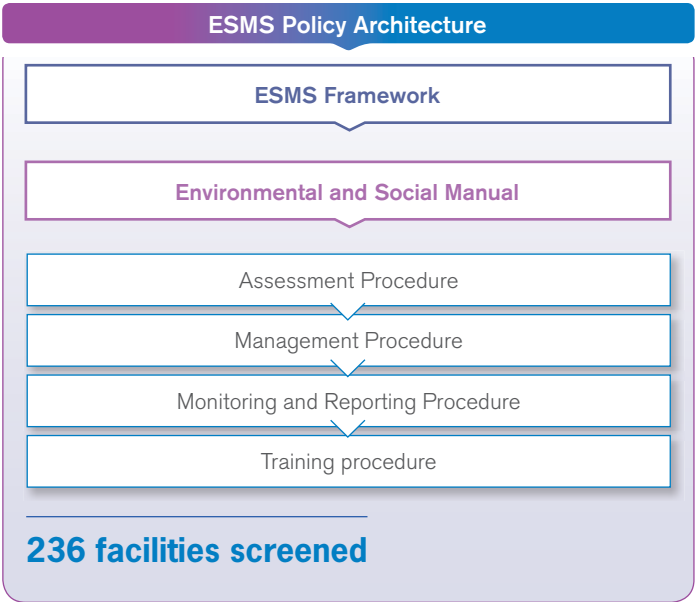
Given the conditions that prevailed during the year, the Bank's environmental strategy focused on optimising resource consumption through leveraging its digital capabilities with increased thrust towards automation.



RESPONSIBLE LENDING

As a financial intermediary, we firmly believe that our most significant environmental contribution is through propagating environmental consciousness beyond our organisational boundaries to our customers and communities by engaging in responsible lending practices. This is actioned through the Bank's Environmental and Social Management System, which forms part of the Bank's credit evaluation policy and enables the identification of environmental and social risks in projects that are financed by the Bank. The framework requires clients to comply with all regulations and specific criteria in relation to environmental and social aspects. Issues identified are discussed with the borrower, mitigation mechanisms are formulated jointly and incorporated to the terms and conditions of the facility as per the requirement.

Compliance with the framework is monitored by a dedicated cross functional team which includes an Environmental & Social Coordinator, Technical Champion and Coordinators for Business Lines. In addition, Relationship Managers and Credit Officers in the Business Lines who have been trained in the day-to-day operations of the ESMS, will follow up on the required E&S regulatory approvals for the clients businesses.



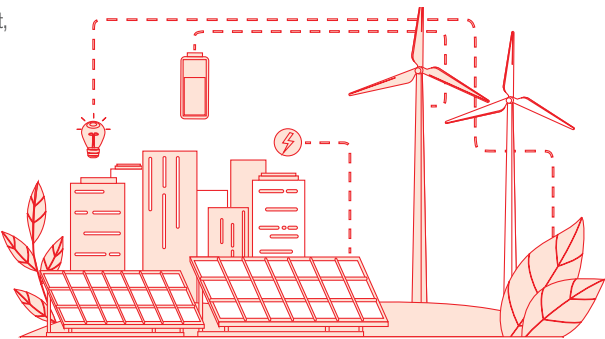
Green Lending: The Bank is a leading lender to the country's renewable energy sector and since 2017 has funded nearly 30% of the country's total installed capacity of renewable energy. Renewable energy is a key contributor in driving reductions in the carbon footprint, through avoidance of harmful emissions of gases such as Carbon Dioxide (CO₂), Sulphur Dioxide (SO₂) and Nitrogen Oxide (NOx).

Renewable Energy

Lending to hydro, solar, waste to energy and biomass projects have eliminated CO₂ emissions.

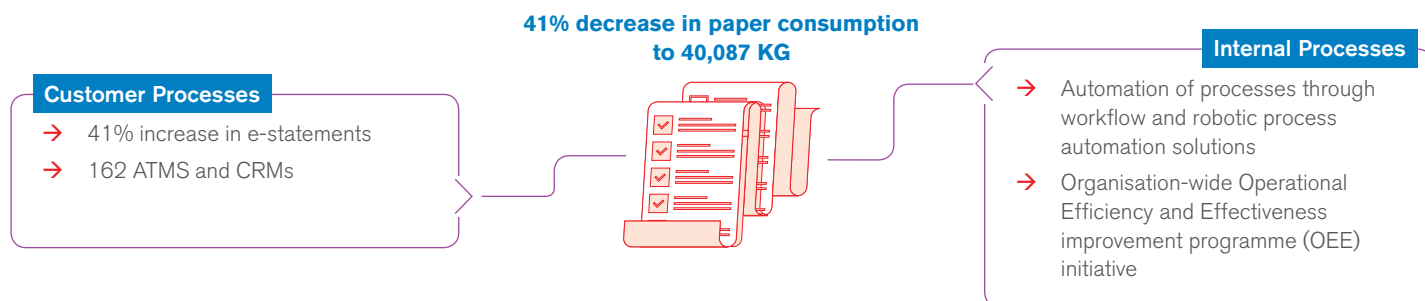
Rooftop Solar

Funds approved for roof-top solar loans - LKR 135 Mn



AUTOMATION AND DIGITISATION

In recent years, the Bank's increased thrust towards digitalisation and automation has resulted in considerable paper savings. This has been achieved through both customer driven processes and internal operations as depicted below:



ENVIRONMENTAL INTEGRATION

Progress made on the Group's 8R framework during the year is given below:

01 REFUSE



The Bank's comprehensive ESMS framework in place ensures that projects with harmful social and environmental implications are avoided. The framework also comprises of an exclusion list consisting of certain activities and/or industries (harmful to the environment), which the Bank refrains from funding.

Impact:
236 facilities screened for ESMS

02 REDUCE



Reduce the consumption of resources through driving digital adoption, virtual employee engagement and tracking and driving reductions in energy consumption.

	2020	2019	Change %
Purchased Electricity (kWh)	5,490,407	5,597,696	-2
Fuel consumption			
Petrol (litres)	31,071	47,273	-34
Diesel (litres)	35,031	18,988	84
Diesel consumption in generators	29,847	43,677	-32

03 REUSE



Reuse waste material without processing.

- Organisation-wide efforts to minimise the use of paper
- Reusing stationery items such as files, A4 papers and envelopes
- Longer term assets such as computers and furniture are donated to deserving institutions

04 RECYCLE



The Bank has collaborated with Neptune Papers to recycle waste paper that is generated from its daily operations. In 2020, 66,501 kgs of waste paper was sent for recycling which translated to savings of,



1,131
trees



116,709
Litres of Oil



266,004
kWh of Electricity



2,113,402
Litres of Water



200
Cubic Metres
of Land Fill



66,501
kg of Carbon equivalent reduction
of green-house gas emissions

Natural Capital

05 RENEW



The Bank has funded many eco-friendly projects such as, effluent treatment plants, resource efficient plant and equipment, compost manufacturing plants, solar panels, water purification plants, sewage treatment plants, eco-friendly machinery and eco paper packaging.

Impact: Funded 30% of Sri Lanka's renewable energy installed capacity

06 REFINE

Propagate environmental best practice through Environmental Literacy Programmes for schools - Educate and encourage environmental conservation & value addition.

Impact: 09 online programmes conducted, benefiting over 16,000

07 REPLACE



Replacing resources that have been used through tree planting projects with employee volunteerism.

Impact: +7,000 trees planted

08 RESPOND

Respond to the environmental needs of our nation through,

- Developing responsible products to address critical environmental issues.
- Adopting a Sustainable Procurement and Supplier Policy which sets out economic, social, and environmental screening criteria when evaluating suppliers.
- Continuous product and process innovation through automation.

COMBATING CLIMATE CHANGE

Organisations and communities are increasingly feeling the implications of climate change and environmental risks continue to rank among the most significant threats faced by the world, both in terms of likelihood and impacts. The Bank's lending portfolio is spread across a wide range of industries, some of which (such as agriculture and plantations) are vulnerable to climate related risks, thereby impacting the repayment capability of borrowers and the Bank's portfolio quality.

In its efforts to reduce its impact on the environment, the Bank has actively sought to increase lending to the renewable energy sector. Ongoing efforts are also in place to drive improvements in energy and fuel efficiency through automation, reducing travel between branches, use of energy efficient cooling and lighting solutions and raising employee awareness.

In measuring the carbon impact of our operations, the Bank continues to use the most recent version of the WBCSD/WRI Greenhouse Gas Protocol Accounting and Reporting Standard (2004) and calculation tools (2015) to compute its carbon footprint. The boundary of the computation is limited to the Bank and its core operations. Reporting under Scope 3 (which is optional) is limited to sources that are material and measurable.

	2020 (tCO ₂ e)	2019 (tCO ₂ e)	Change Y-o-Y
Scope 1- Combustion in mobile sources Stationary combustion	179.08	174.34	+3%
Stationary combustion	85.29	124.81	-32%
Scope 2- Purchased electricity	2,251.07	2,295.06	-2%
Scope 3- Employee business travel	0.33	56.24	NA
Total	2,515.44	2,594.26	-3%

PARTNERING STAKEHOLDERS

Given the extensive relationships the Group has nurtured with its universe of stakeholders, it is aptly positioned to drive environmental awareness and conservation through leveraging on employee, industry, and community partnerships. The progress made through such initiatives are given below:

Employees



- Digital adoption for engagement and training purposes.
- Community projects that sustain the environment and society carried out through employees on a limited scale with safety precautions.

Customers



- Migration to e-statements.
- Attitudinal and behavioural changes through NDB Ithuru Karana Maga- a unique initiative which aims to nurture savings habits, not only in financial resources but by optimising all types of consumption.

Communities/Government



- Partnered with 'Small Fishers Federation of Lanka' to plant 40,000 mangrove plants which will sequester 480 tonnes of carbon.
- Partnered with the 'Department of Forest Conservation' to reforest 05 Hectares in the Hibiliyakada Forest planting 3,000 plants.
- Partnered with the community and Department of Forest Conservation to remove the invasive plants threatening the biodiversity of Pitawala Pathana – a protected area in the Matale District.

Students



- Nurturing green champions through our partnership with Wildlife & Nature Protection Society.
- Raised awareness on wildlife and environmental conservation through online webinars, with over 16,000 views.
- Field visits to national parks for over 500 students.

CONTRIBUTION TOWARDS A GREENER PLANET

'Let's Grow' NDB Reforestation Project

Increasing deforestation has threatened Sri Lanka's rich biodiversity, natural habitats, and the balance of the ecosystem, and is among the most pressing environmental challenges faced by the country today. The country's forest cover has dropped drastically between 1990 and 2000, in which annual deforestation has amounted to a rate of 1.14%, an average of 26,800 ha of forests per year. Given increasing implications of climate change and soil erosion, the Department of Forest Conservation (DFC) has rolled out an ambitious project to reverse this trend with a goal to increase the country's forest cover to 40%, from the current 16.5%.

In line with our environmental aspirations, the Bank partnered with the DFC in this initiative, embarking on a 5-year plan to reforest 5 Hectares in the Hibiliyakada forest in the Matale District. The initial planting commenced in October 2020, with 3000 plants being planted to date under the leadership of our GCEO, joined by members of the TLT, the CS Committee and staff volunteers from the Head Office and the Central and North Central Regions.

Anticipated Outcomes

Carbon sequestration, thereby offsetting the Bank's carbon emissions to a certain extent

Soil preservation

Preserve natural habitats and biodiversity

Engage employees in environmental preservation



There is commitment from the apex leadership of the Bank towards a greener planet and a better future for the generations to come



The expansive Pitawala Pathana in the Knuckles Conservation Forest in Matale, Sri Lanka and NDB employees engaged in the removal of invasive plants

Removal of invasive plants in Pitawala Pathana

The Bank identified an issue that is degrading the plains at Pitawala Pathana, where invasive species are growing rampantly. Invasive species are detrimental to a forest and they change the character of the forest, threatening its biodiversity, overwhelming endemic species, and impacting soil quality among other concerns. Therefore the Bank has also volunteered to assist the DFC to remove the invasive plants.



Encouraging our staff and their families in tree planting

NDB staff were given mango trees to be planted in celebration of the 72nd National Independence Day celebrations under the theme "Plant a Tree this Independence Day and help Mother Lanka with a Breath of Fresh Air".

Way Forward

ECONOMIC OUTLOOK

While we are cognisant of the challenges that are likely to prevail over the short-to-medium term, we are confident of economic recovery by 2021, given the roll out of vaccinations, opening of borders for international tourists and policy impetus towards selected sectors. We expect interest rates to remain at current levels over the short-to-medium term reflecting the Government's accommodative monetary policy stance in stimulating economic activity. Despite persistent challenges in certain industry segments, credit growth is expected to record gradual pick-up given improving investor and consumer sentiments.

VOYAGE 2025

Following the successful achievement of the goals set out under Transformation 2020, the Group is positioned to pursue its next phase of growth as it embarks on Voyage 2025 - the new strategic agenda for 2021-2025 which provides a blueprint for driving towards LKR 1 Tn assets while achieving regional growth and delivering a giant leap in digital adoption. Key priorities under Voyage 2025 will include:

- Customer centricity will be the overarching goal of Voyage 2025, as we drive multi-faceted initiatives aimed at putting clients at the centre of everything we do across the Group
- Extension of a broader value proposition to our customers thereby supporting their commercial sustainability in a world with emerging opportunities and possibilities
- Accelerate digital capabilities transiting from an 'enabling' role to a 'transformer' role to take the lead in providing tailored digital solutions powered by the Bank's investments in data analytics and digital platforms
- Fostering a deeper engagement with key clients and clients in key industries and segments by having dedicated resources to serve the strategic interest of these clients, industries and segments
- Embrace new realities post-COVID-19, offering more flexible working practices to employees while optimising our resources and rationalising costs. We will continue to focus heavily on further improving operational efficiencies focusing, not merely on costs, but also the speed and innovation in services
- Focusing on nurturing the behavioural changes required to deliver customer-centricity and aligning the Human Resources Information System (HRIS) to support the structures, performance management and succession planning required to successfully drive the Group's strategy to 2025
- People and knowledge to succeed in a rapidly evolving environment which demands agility and adaptability. Human Resources Information System (HRIS) will also be aligned to support the structures, performance management and succession planning required to successfully drive the Group's strategy to 2025
- Group synergies will also play a key role as the Group migrates to a client-centric, solution driven approach

Assurance Report



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Independent Assurance Report to National Development Bank PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report - 2020

Introduction and scope of the engagement

The Management of National Development Bank PLC ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2020 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 7 of this Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' – Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would

become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Bank's responsibility for the Report

The Management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 26 January 2021. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Bank on a sample basis through recalculation.

- Reconciling and agreeing the data on financial performance are properly derived from the Bank's audited financial statements for the year ended 31 December 2020.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 7 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2020.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

Ernst & Young
Chartered Accountants

18 February 2021
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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Appendix A: Material matters

Material topic and why it is material to us	Correspondent GRI topic and disclosures
Profitable growth Sustainable and profitable growth is essential in driving shareholder value and serving the Bank's purpose	
Ensuring safety of employees and customers Health and safety gained centre stage in the outbreak of the COVID-19 pandemic with strategic importance being placed on minimising the risk of infection	
Customer support and revival The economic toll of COVID-19 and its inevitable impact on our customers have necessitated a proactive approach in supporting and reviving businesses.	
Operational efficiency Driving efficiencies and increased productivity through automation leads to effective cost management, transforming the experience of both internal and external customers.	
New markets Entering new markets and deeper penetration in existing markets is a key aspect of the Group's growth aspirations.	
Talent attraction Attracting employees with the right skills and attitudes to drive our strategic aspirations is critical to the continued creation of shared value	→ Employment (401) → Diversity and equal opportunity (405)
Employee satisfaction Motivating our employees and nurturing a culture of in which they can thrive is vital in meeting our people objectives.	→ Labour management relations (402)
Employee skill development The Bank's strategic aspirations compels the NDB team to be innovative, analytical and work towards a cohesive plan and upskilling employees to achieve this is a critical area of focus.	→ Training and education(404)
Facilitating financial inclusion Providing access to affordable financing across the country enables the Bank to meet both its financial and sustainability objective	
Customer education and financial literacy In nurturing mutually-beneficial customer relationships we strive to provide a holistic proposition that extends beyond mere financial support.	
Technology and digital channels With digitalisation transforming the way financial institutions interact with customers, banks which are unable to respond to this dynamic are likely to see an erosion in competitive edge.	
Responsible lending We are committed to preserving the rights of our customers and ensuring compliance to all relevant product and marketing regulations.	→ Marketing and labelling (417)
Customer privacy As risks related to cybersecurity and information systems intensity, preserving confidential customer data is a key priority for most banks.	→ Customer privacy (418)
Managing socio-economic impacts We are committed to contributing positively to the socio-economic progress of our customers and communities while mitigating any negative impacts	→ Economic performance (201) → Market presence (202)
Minimising environmental impacts Although the Bank's negative environmental impacts are limited, we are committed to contributing positively to the environment through our lending portfolio and screening criteria.	→ Materials (301) → Energy (302) → Emissions (305) → Effluents and waste (306)
Community engagement The Bank's CSR initiatives are targeted towards driving meaningful change in the communities in which are operate. This facilitates our social license to operate while achieving the Bank's social objectives.	→ Local communities (413)

RISK MANAGEMENT & CORPORATE GOVERNANCE

The rightmost star on Orion's belt is Mintaka — a star located very close to the celestial equator and always rises and sets within one degree of True East or True West, proving to be much more accurate than the rising and setting sun. Its intrinsic brightness makes it easily visible to the naked eye in a vast sky full of stars.

As we forge ahead into an uncertain future, at NDB we view adversity as an opportunity to rise above; creating stability amid times of turbulence. This section pays tribute to every strategy your Bank implemented to minimise uncertainty, ensuring we are governed by the highest standards and stringent mechanisms, to ensure a reputation of excellence in all we do.

Risk Management Overview

NDB's pursuit of its ambitious strategic aspirations involves embracing emerging opportunities, taking risks, and managing these risks effectively. The Group's approach to risk management has evolved in line with its transformational growth in recent years, underpinned by a strong risk culture which is aligned to its strategy and risk appetite. The Bank has implemented a comprehensive Integrated Risk Management (IRM) Framework, which clearly defines the governance structures, policies, processes, and procedures for managing risks in a manner that balances profitability and financial stability. This framework served us well during the unprecedented conditions that prevailed in 2020, with the Group's risk governance culture ensuring that we remained responsive and agile in responding to developing dynamics.

Risk Governance: The Bank's Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. The Board is supported by the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) in discharging its risk-related duties, which are actioned by several Executive level committees. Risk management is underpinned by the Three Lines of Defense Governance model, which drives accountability and ownership while facilitating an appropriate level of independence and segregation of duties.

RISK LANDSCAPE IN 2020

The outbreak of the COVID-19 pandemic during the year presented an array of challenges to the banking sector and the overall economy. The Banking sector was also called upon to play a leading role in reviving the economy and supporting businesses through the crisis which in turn compelled banks to strengthen risk management capabilities to ensure stability and resilience. The industry credit growth was at 11.9% in year 2020, while increasing pressure on repayment capabilities led to an escalation of impairment. The Central Bank of Sri Lanka sought to stimulate economic growth through an accommodative monetary policy stance, which in turn led to a sustained decline in market interest rates, thereby inserting pressure on interest margins. The conditions that prevailed provided an opportunity for banks to promote digital adoption among its customers, which in turn has increased the sector's vulnerability to cyber and IT risks, underscoring the importance of maintaining robust IT Risk Management Frameworks.

Implications of COVID-19 on the risk landscape

Increased pressure on credit quality

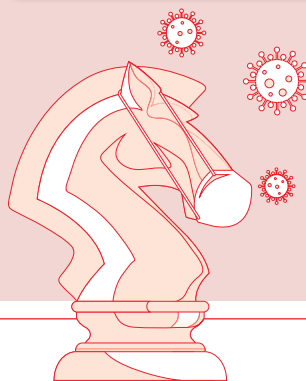
NIMs under pressure due to sustained decline in interest rates

Debt relief and moratoriums granted

Sharp decline in funding costs

Measures taken to strengthen risk management in 2020

- Implementation of stringent health and safety guidelines to prevent spread of COVID-19 and ensuring business continuity
- Detailed analysis of sectors based on severity of impact stemming from COVID-19 and ability to recover/estimated time to recovery
- Proactive monitoring of stressed clients and offering debt relief
- Collection strategy revisited to fit to the current condition
- Proactive monitoring of market and liquidity risk KPIs and early warning signals
- Prudential measures to minimise the adverse impacts of the exchange rate depreciation
- Review and revision of several risk-related policies including credit, counterparty limits, market risk, liquidity risk, operational risk, and loan review, among others
- ICAAP and Risk Appetite of the Bank reviewed considering the effect of the pandemic
- Stress Testing policy and Framework reviewed and changes made to assumptions and shock levels considering changes in operating environment



TOP RISKS FOR 2020

Key Risk	Developments	Response and mitigating action
Credit Risk	→ Despite an increase from the previous year, maintained gross NPA ratio at 5.35% in line with peers in the industry → Diversified portfolio across customer and industry segments → Impairment coverage increased from 3.1% to 4.0%	→ Categorisation of customers based on level of stress resulting from the pandemic and proactive monitoring → Review/curtail drawdown of undrawn facilities → Selective lending opportunities across business verticals
Domestic economic outlook	→ Economic revival expected to be driven by policy stimulus, accommodative monetary policy and thrust towards exports → The outlook is moderated by high public debt and debt servicing burdens, large fiscal deficits and dwindling foreign currency reserves which could further impact the country's sovereign rating	→ Continuous monitoring of the landscape to capitalise on emerging opportunities such as exports and local manufacturing → Proactive assessment of impacted portfolios and comprehensive stress testing analysis
Government policy	→ Monetary and fiscal policy implications such as changes to the tax regime, policy rates, import restrictions and concessionary loan schemes among others have a direct impact on the Bank's operation and are monitored on a continuous basis	→ Support the country's economic revival through aligning with the Government's thrust sectors
Market & Liquidity Risk	→ Net interest margin decreased to 3.07% → Consolidated foreign exchange position and the exposure held against the Bank's capital base was managed well within the regulatory limit of 30% → Limited exposure to equity risk → The ADR ratio improved to 90% → Bank maintained a surplus liquidity position	→ Proactive monitoring of interest rate trends and maturity mismatches and timely repricing decisions → Cautious monitoring of debt instrument positions given the impact of high market volatilities → Forex Open positions were monitored and managed within the internal prudential levels
Capital and funding Risk	→ Tier 1 Capital ratio of 9.17% (Minimum: 8.5%) → Total Capital ratio of 14.32% (Minimum: 12.5%) → Monetary Board allowed banks to drawdown on capital conservation buffers considering the economic conditions. Bank opted not to drawdown on capital buffers on prudent basis	→ Proactively exploring avenues for capital enhancement → LKR 6.5 Bn raised via Basel III Compliant Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non-Viability Conversion (2020-2025) → Announced a Rights Issue to strengthen the Tier 1 Capital
Operational Risk	→ Gross Operational Risk losses amounted to 0.57% of the Capital Charge allocated for Operational Risk → 75% of the individual loss events were less than LKR 50,000/- → Zero instances of significant data breaches and minimum disruptions to the system availability	→ Stringent review of operational procedures and processes to tighten loopholes/operational lapses and strengthen the processes → Constant monitoring of the cyber security controls and strengthening the Bank's cyber defensive mechanisms
Strategic Risk	→ Successful achievements of the targets set out under the Transformation 2020 strategy	→ Formulation of Voyage 2025 strategy for 2021-2025 → Proactive stakeholder engagement → Strengthened competitive edge through innovation, digital proposition and aggressive growth in selected segments
Implications of climate change	→ Implications of climate change and failure to address these dynamics can impact the Bank's lending portfolio particularly with natural disasters and erratic weather conditions affecting sectors across the economy	→ Industry diversification in lending portfolio → Further strengthening of Environmental and Social Management System (ESMS) process which enables identification and management of environmental risks → Contributing towards reducing greenhouse gas emissions through lending to renewable energy projects

Please refer page 342 to 377 for detailed information on the Bank's Risk Management Approach.

Corporate Governance

CHAIRMAN'S MESSAGE



Mr. Eshana de Silva
Chairman

Dear Shareholders,

2020 was a year in which an organisations' agility and responsiveness was put to test as businesses grappled with unprecedented challenges following the outbreak of COVID-19. Against this backdrop, NDB demonstrated strong resilience, quickly adapting to changing dynamics and new ways of working to ensure continued value creation to its stakeholders. The Group's ability to successfully navigate complexities stemming from the operating environment reflected the spirit of the NDB team as well as the robust corporate governance and risk management practices which provided a solid foundation in driving effective leadership, ensuring accountability, and setting the right tone at the top.

IMPLICATIONS OF COVID-19 ON BOARD ACTIVITIES

Despite lockdowns and restrictions on physical interactions, Board activities continued uninterrupted as meetings were shifted to digital platforms. The Board convened 16 times during the year, of which many were held virtually. Meanwhile the AGM was also held as a hybrid meeting whereby shareholders participated both physically and virtually, with good attendance levels and active shareholder participation in conforming to the prevailing health guidelines. The Board proactively monitored ongoing developments related to the pandemic to ensure agility of strategy and business continuity.

KEY AREAS OF FOCUS

One of the Board's primary focus's during the year was monitoring and assessing the implications of COVID-19 on the Group; these included measures to ensure the safety of employees and customers, remedial measures to support customers and the launch of initiatives to drive economic revival. A key achievement in 2020 was the approval of the Group's strategic plan for 2021-2025, 'Voyage 2025' following active deliberation and engagement. The Board also spent significant time deliberating the Group's digital strategy, exploring avenues for raising capital and reviewing and revising the policy framework to reflect prevalent conditions.

BOARD AND COMMITTEE CHANGES

The Board was refreshed in 2020, with the appointment of 5 new Directors while 1 Director retired and 3 resigned. I join the Board in extending my gratitude to the outgoing Chairman and Directors for their invaluable contributions in propelling the Group forward. The appointment of Mr. Sujeewa Mudalige as an Independent, Non-Executive Director, Ms. Hiransa Kaluthantri and Mr. Hiran Perera as Non-Independent Non-Executive Directors and Mr. Kushan D'Alwis, PC as an Independent Non-Executive Director, have brought in diverse perspectives, fresh thinking and valuable skills to the Board. Mr. Mudalige also joined the Integrated Risk Management Committee, Board Audit Committee, the Strategic Issues Committee and the Related Party Transactions Review Committee while Ms. Kaluthantri was appointed to the Integrated Risk Management Committee and the Board Audit Committee. Mr. Perera was appointed to the Integrated Risk Management Committee and the Board Credit Committee while Mr. D'Alwis PC, was appointed to Related Party Transactions Review Committee and Board Credit Committee.

CULTURE AND VALUES

Shaping organisational culture to reflect the Group's values of Integrity, Excellence, Creativity, Accountability, Sincerity and Dependability are important prerequisites in driving the creation of shared value. The Bank's Internal Code of Corporate Governance which is applicable to Directors and Key Management Personnel and the Compliance

Policy and Code of Conduct, which is applicable to all other employees, clearly sets out the Group's expectations on personal conduct when interacting with internal and external stakeholders. The Board continued to provide direction and oversight in shaping the Group's culture through regular updates on employee welfare and initiatives and close engagement with the Leadership Team.

COMPLIANCE

This Report details the "Factual Finding Report" submitted by the External Auditors in relation to the compliance with the Banking Act Direction No. 11 of 2007 (as amended) on Corporate Governance issued by the Central Bank of Sri Lanka. Further as stipulated by the revised Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2017, I affirm that I am not aware of any material violations of any provisions of the internal Code of Corporate Governance for Directors and Key Management Personnel and the Bank's Compliance Policy and Code of Conduct for employees.

Mr. Eshana de Silva
Chairman

18 February 2021

Corporate Governance reporting:

The subsequent discussion provides a high-level overview of how the Board created value to the Organisation during the year, including its key area of focus, operations and deliverables during the year. Detailed information regarding the Bank's compliance to the disclosure requirements of the CBSL and Code of Best Practice on Corporate Governance are available on pages 308 to 341 of this Report.

CORPORATE GOVERNANCE HIGHLIGHTS 2020

What sets NDB apart

- Internal Code of Corporate Governance applicable to Board of Directors and Key Management Personnel
- Unique organisational culture centering on sincerity, innovation, and agility
- Highly skilled and diverse Board
- Persistent and proactive monitoring of governance-related developments by the Board

Board Contribution to Value Creation in 2020

Areas of focus	Deliberations
 Strategy, IT/ Digital and Capital Planning	→ Deliberations and launch of strategic plan for 2021-2025 'Voyage 2025' → Review of Tier 1 and Tier 2 capital requirements in line with prevalent regulations and proactively exploring avenues to raise capital → Approval for Basel III Compliant Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non-Viability Conversion (2020-2025). → Deliberations on a Rights Issue to strengthen Tier 1 capital → Reviewing the marketing, retail, digital and wholesale banking strategy → Deliberations on core banking upgrade
 Performance/ financial review	→ Revisiting and evaluating the continued relevance of the Budget given prevalent conditions → Proactive monitoring of performance and providing advise → Monitoring the effects of COVID-19 to ensure strategic agility
 Risk management	→ Introducing new policies/reviewing all major policy documents to strengthen the Bank's governance structure → Continued focus on IT and Cyber Security framework → Ongoing review of risk exposures- particularly, credit risk vulnerabilities
 Governance, compliance, and succession planning	→ Approval to amend the Bank's Articles of Association to enable conducting of shareholder meetings virtually → Assessing the fitness of Directors and KMPs of the Bank → Setting goals and targets for the Board for the year in line with the overall strategy and direction of the Bank → Discussion of self-assessments to identify gaps and areas for improvement → Identify suitable Board replacements as appropriate → Review and approval of Board Subcommittee deliberations and recommendations
 Shaping Organisational Culture	→ Approval of significant HR initiatives with a view to strengthening the organisational structure, talent management, retention and succession needs of the Bank → Setting the right tone centering on the Group's organisational values.
 Internal and external communication and branding	→ Strengthening the brand through promotional activities and significant sponsorship programmes
 Stakeholder interests, and Sustainability	→ Conducted the AGM in a hybrid form with active shareholder participation → Supporting the Bank's CSR venture in partnering with the Department of Forest Conservation for the reforestation of the 'Hibiliyakada Forest' in the Matala district. → Supporting the Bank's environmental preservation and community engagement

Corporate Governance

BOARD OF DIRECTORS 2020

● ● ● ● ● ● ● ● ● ● **Mr. Eshana de Silva**

Independent/Non-Executive Director - Chairman

Extensive Leadership experience in Business, Management and Administration

Appointed in May 2020

Mr. Dimantha Seneviratne ● ● ● ● ● ● ● ● ● ●

Non-Independent Executive Director/GCEO

Expertise in Banking, Finance and Management

Appointed in January 2017

● ● ● ● ● ● ● ● ● ● **Mr. Kushan D'Alwis, PC**

Independent/Non-Executive Director

Expertise in Law (Litigation/ Banking, Corporate, Commercial and Administrative Law)

Appointed in July 2020

Mr. Sriyan Cooray ● ● ● ● ● ● ● ● ● ●

Independent/Non-Executive Director

Expertise in Banking, Finance and Management

Appointed in August 2018

● ● ● ● ● ● ● ● ● ● **Mr. Hiran Perera**

Non-Independent/ Non-Executive Director

Expertise in Banking, Credit and Risk Management, Treasury and Corporate Finance

Appointed in April 2020

Mr. Bernard Sinniah ● ● ● ● ● ● ● ● ● ●

Non-Independent/Non- Executive Director

Expertise in Banking, Sales and Management

Appointed in March 2019

● ● ● ● ● ● ● ● ● ● **Ms. Hiransa Kaluthantri**

Non-Independent/ Non-Executive Director

Expertise in Economics, Management and Policy

Appointed in February 2020

Dr. Dinusha Panditaratne ● ● ● ● ● ● ● ● ● ●

Independent/Non-Executive Director

Expertise in Law (International/ Business Law)

Appointed in July 2019

● ● ● ● ● ● ● ● ● ● **Mr. Sujeewa Mudalige**

Independent/Non-Executive Director

Expertise in Accounting, Auditing, Financial Analysis and Management

Appointed in January 2020

● Board Audit Committee	● Integrated Risk Management Committee	● Nominations Committee
● Human Resources and Remuneration Committee	● Strategic Issues Committee	
● Related Party Transactions Review Committee	● Board Credit Committee	

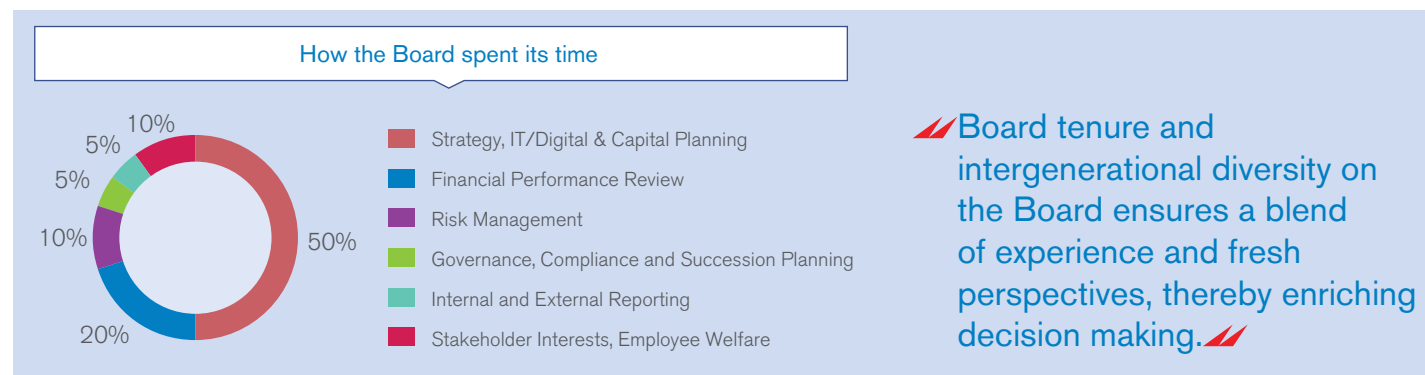
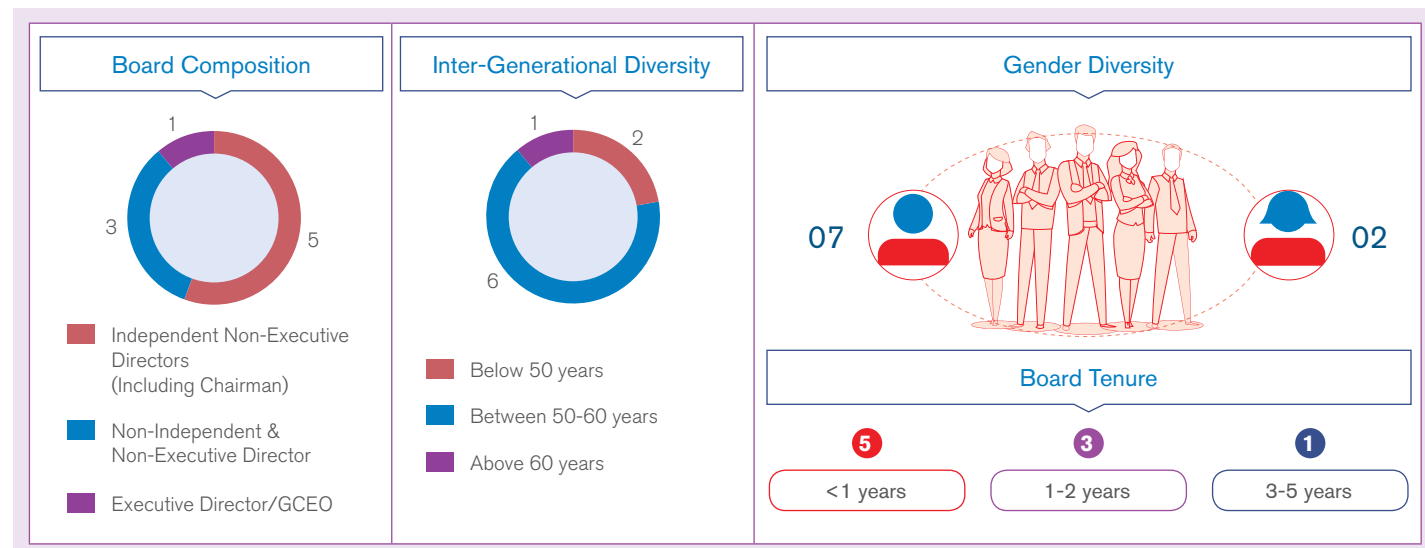
BOARD CHANGES

Appointments to the Board	Mr. Sujeewa Mudalige	Ms. Hiransa Kaluthantri	Mr. Hiran Perera	Mr. Eshana de Silva	Mr. Kushan D' Alwis, PC
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New skills brought in	Economics	Finance and Auditing	Legal	Treasury Management
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Retirements	Mr. Ashok Pathirage (w.e.f. 18.02.2020)
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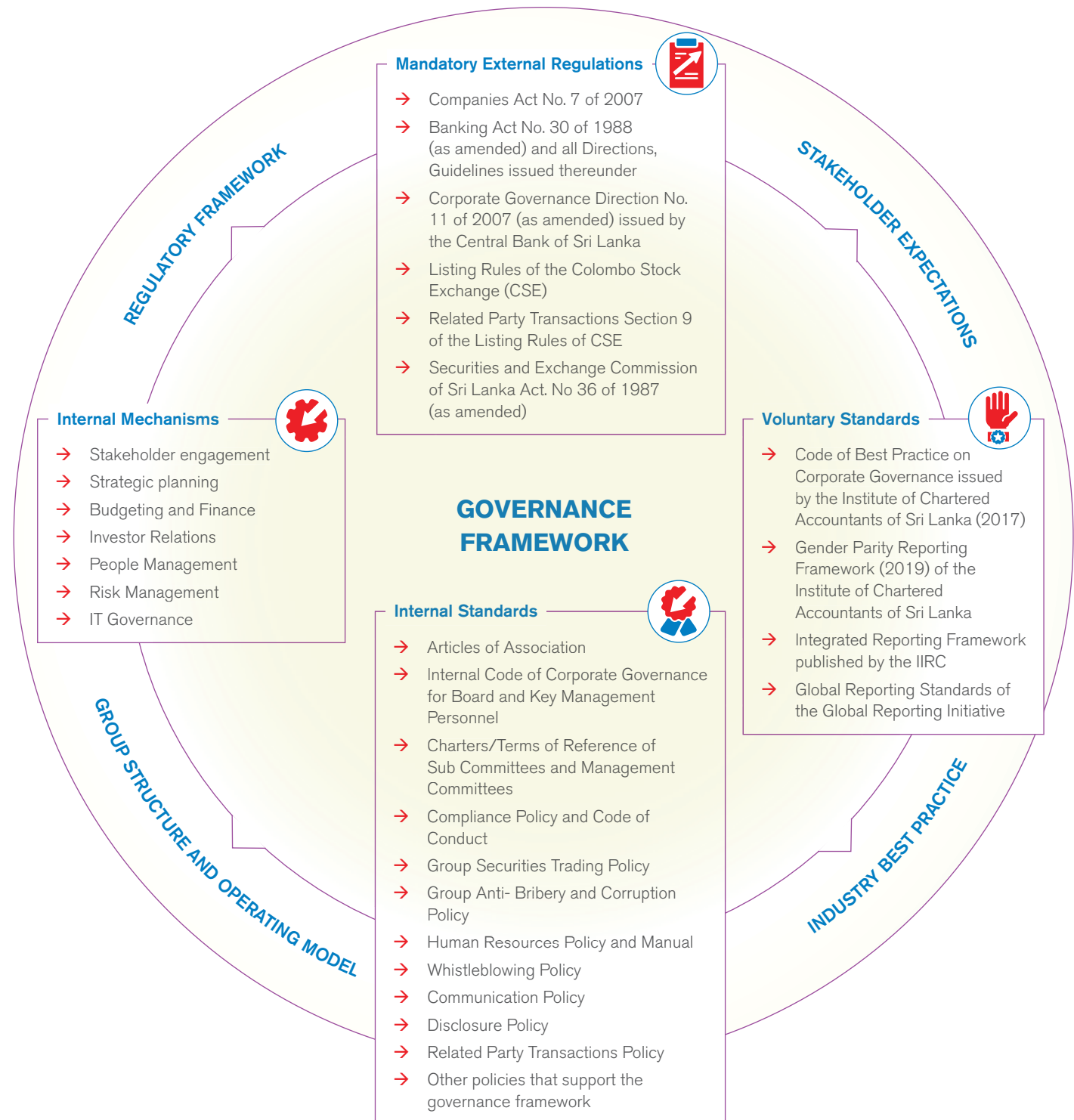
Resignations	Mr. Kavan Ratnayaka (w.e.f. 30.04.2020)	Mr. E.A. Rathnaseela (w.e.f. 20.01.2020)	Mr. Dinal Phillips, PC (w.e.f. 25.06.2020)
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Corporate Governance

OUR APPROACH TO CORPORATE GOVERNANCE

NDB's approach and framework to Corporate Governance has been designed in line with regulatory requirements, stakeholder expectations and the Bank's governance best practices and the Group's organisational structure and operating model. The Governance framework ensures an appropriate balance of authority and decision-making power, driving accountability, transparency, and integrity across the organisation. Factors impacting the Group's governance practices and the steering instruments on which it is built on are listed below:



GOVERNANCE PHILOSOPHY

The environment we operate in is changing rapidly, requiring banks to adapt quickly to regulatory changes, digital trends, data security requirements and changes in the workplace among others. The Bank's governance framework has been designed to retain flexibility to adapt to these changes while ensuring that the banking services we offer remain secure and stable. We constantly review our practices and frameworks to ensure that we act in the best interests of our stakeholders through integrity, enhanced accountability, robust risk management and effective performance management.

POLICY FRAMEWORK

The Bank's comprehensive and robust policy framework is reviewed and revised regularly to ensure relevance and applicability to changing external and internal dynamics. Key policies revised during the year are also presented alongside.

Human Resources

- HR Manual including
 - Diversity and Inclusion Policy
 - Harassment Policy and the Harassment Redressal Policy
 - Health and Safety Policy
 - Staff Account Operations and Monitoring Policy
- Consequent Management Framework and Risk Severity Matrix

Technology/Digital

- Information Security Policy
- Information Security Compliance Policy
- Data Classification Policy
- Acceptable Usage Policy
- Electronic Data Retention and Destruction Policy

Investments

- Investment Policy
- Bank's exposure to Stock Market Activities

Ethics and Integrity

- Compliance Policy and Code of Conduct
- Group Securities Trading Policy
- Group Anti-bribery and Corruption policy
- Whistleblowing Policy
- Disclosure Policy
- HR Manual
- Fraud Risk Management Policy
- Procurement Policy
- Corporate Social Responsibility Policy
- Related Party Transactions Policy

Risk Management

- Credit Risk Related Governance Policy
- Impairment Policy
- Market Risk Management Policy
- Operational Risk Management Policy
- Fraud Risk Management Policy
- Foreign Exchange Risk Management Policy
- Liquidity Risk Management Policy
- Stress Testing Policy and Framework
- Internal Capital Adequacy Assessment Process Document
- Risk Model Validation Policy

Communication

- Communication Policy
- Disclosure Policy
- Complaints Handling Policy

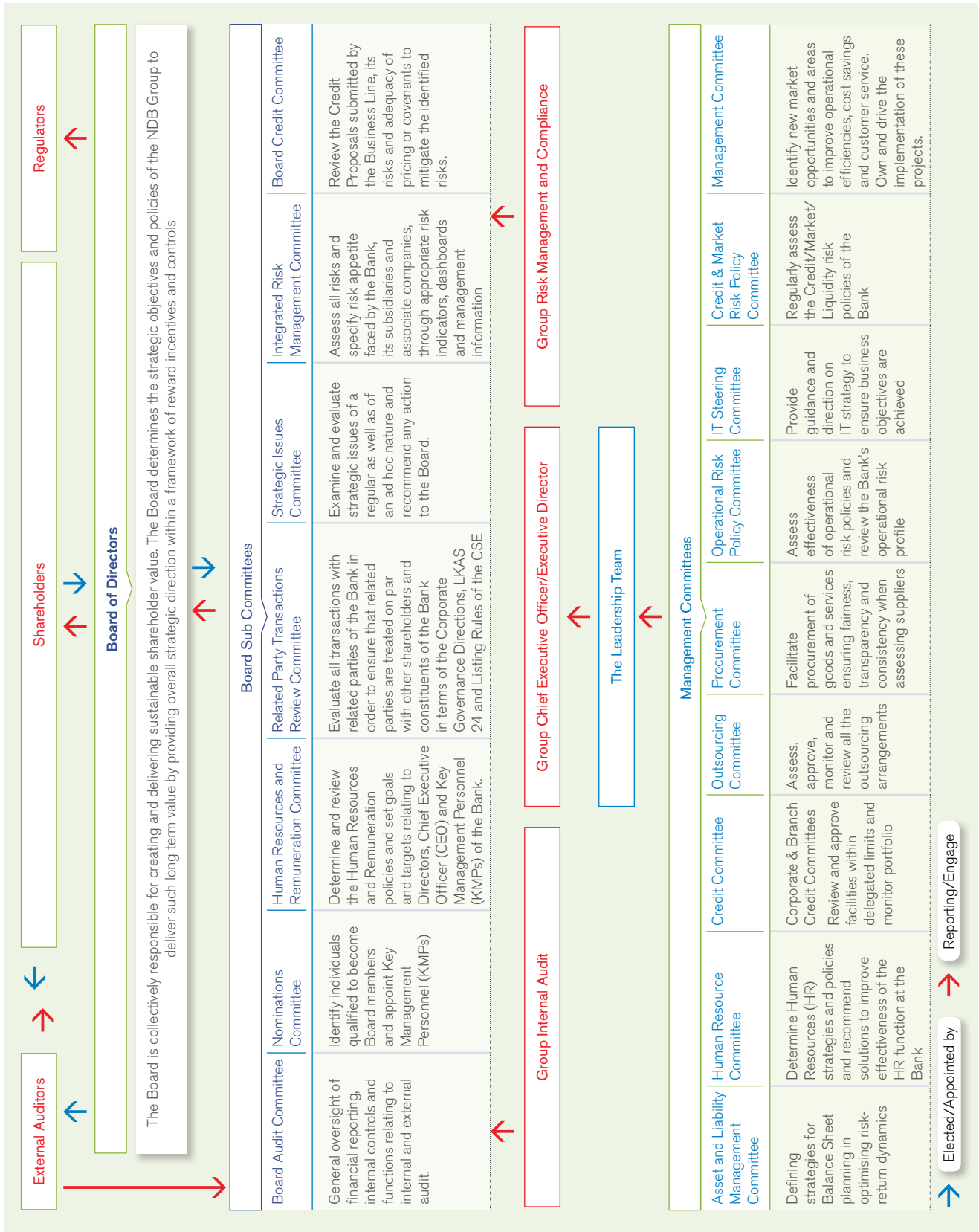
Key Policies revised in 2020

- + Credit Policy
- + Impairment Policy
- + Policy on counterparty limit assessments
- + Anti-Money Laundering Suppression of Terrorist Financing & Sanctions Policy & Procedures
- + Codes of Ethics & Standard of Conduct for Treasury Front Office, Treasury Operations and Treasury Middle Office
- + Information Security Compliance Policy
- + Data Classification Policy
- + Outsourcing Policy
- + Medium Term Funding Policy
- + Deposit Concentration Policy
- + Loan Review Policy and Framework
- + Agent Selection Policy and Risk Management Framework
- + Policy on Bank's indirect exposure to Stock Market Activities
- + Expense Management Policy

Corporate Governance

CORPORATE GOVERNANCE STRUCTURE

The Board is empowered to delegate authority and responsibilities pertaining to specific functions to any committee or committees as it deems fit. The roles and objectives of each of these Board Committees are clearly set out in Terms of References, thereby providing specific levels of discretion within which they can operate.

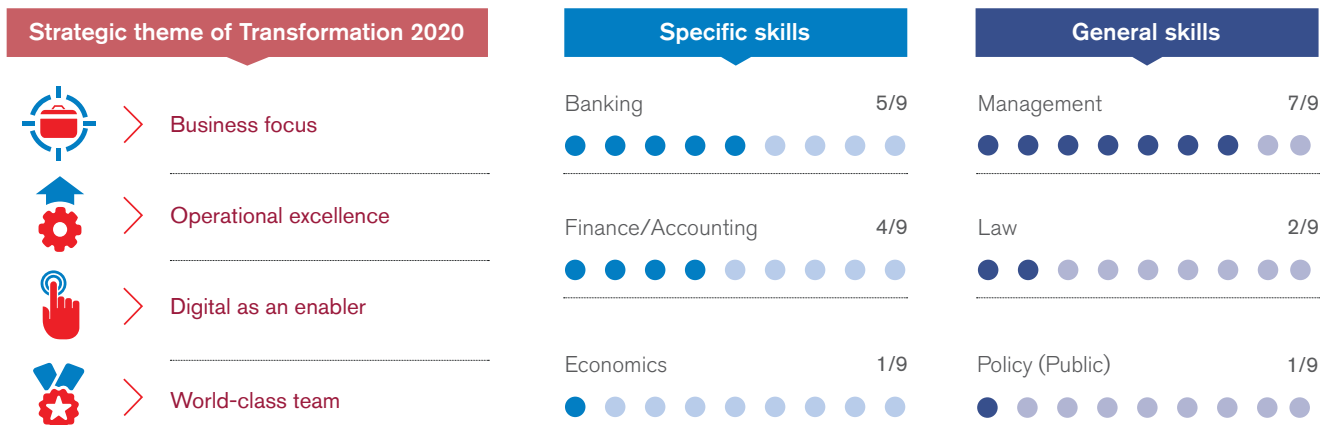


Competent leadership and Organisational purpose

As the apex governing authority, the Board Directors are responsible for ensuring the long term sustainability of the Group, consistent value generation to shareholders and other stakeholders and contribution to wider society. The Board also ensures that the Group's strategy, business activities and values are aligned to its Mission and Values and that necessary resources are in place for the Group to meet its objectives and measure performance against them. The Group ensures that the Board is adequately skilled and that appropriate structures are in place, allowing the Board to perform its role effectively.

Board composition

The Board brings together a diverse set of skills, industry experience and perspectives. Additionally, Directors' competencies and skills are also aligned to the Group's strategic aspirations which have enabled a deeper understanding of the business and our long term objectives. This in turn has allowed the Board to proactively identify opportunities and risks that could affect the Group's ability to create value and effectively steer strategic direction. The new appointments to the Board in 2020 have added expertise in Banking, Finance, Accounting, Auditing, Treasury management and Law, among others.



Board refreshment

As per the Articles of Association, 1/3rd of the Directors (except the CEO, any Director appointed to fill a casual vacancy and any Nominee Director of the Ministry of Finance) should retire at each AGM and be subject to re-election. Such Directors are those who held office for the longest time period since the election/re-appointment. Further refer to page 125 for information on resignations/retirements and new appointments to the Board.

The Board of Directors and the Nominations Committee (NC) are responsible for Board renewal and ensuring effective succession. Key considerations include Board diversity and ensuring that new Directors can replace and/or supplement the collective skill sets thereby bringing fresh thinking and perspectives to the Board. When appointing Non-Executive Directors, the NC evaluates potential candidates and makes recommendations to the

Board. Criteria considered includes fitness and propriety aligned to the NDB culture, expertise and industry insights and fulfilment of regulatory requirements. The NC also considers a candidate's ability to commit sufficient time to fulfil the duties of a Director. The Board appointment process is presented below:



Corporate Governance

Induction

Upon joining the Board all Directors undergo a structured induction, which serves to provide an overview of the Bank's operations. Where appropriate business awareness briefing sessions and updates on issues identified in consultation with the Chairman and Directors will be arranged by the Company Secretary. The new Board members are provided with a Board Pack with required information on past Board meetings, ensuring they have access to all information required to carry out their duties effectively. Circulars, directions, and guidelines issued by the regulators are circulated to the Directors on a quarterly basis for their information.

Induction pack

- Articles of Association
- Board Charters and Sub-Committee TORs
- Director's duties under the Companies Act No. 7 of 2007
- Internal Code of Corporate Governance
- Banking Act Directions on Corporate Governance
- Annual Reports
- Information on past Board meetings

Access to information and Professional advice

Directors have access to timely, accurate and clear information, which enables them to discharge their duties effectively. The Company Secretary, under the direction of the Chairman, is responsible for ensuring that the Board and its sub-committees receive such information for review in sufficient time ahead of each meeting. An electronic board paper system provides convenient and secure access to board papers and relevant materials and board packs are circulated via this system. Directors can also seek professional advice on relevant topics, coordinated by the Company Secretary. There is a process for Board members to obtain independent professional advice at the expense of the Bank. The Board has obtained professional advice during the year.

Director Training

Directors are expected to consistently refresh their knowledge, which will enrich discussions and contribute towards the overall effectiveness of decision making. Directors have access to the Management Team through regular updates

and reporting to the Board and attend external training programmes, with the cost borne by the Group. Directors are also kept abreast of emerging market dynamics including regulatory changes, sector developments and other socio, political and economic factors that could affect the Group and its operations. Directors on a need basis attended external training programmes during 2020 which included training recommended by the Central Bank for Directors of licensed commercial banks.

Company Secretary

The Bank has appointed the Company Secretary as prescribed by applicable laws and regulations and in accordance with the Bank's Articles of Association. The Company Secretary plays a proactive and central role in implementing the Corporate Governance framework and ensuring that proper Board procedures are followed in line with applicable laws, rules, and regulations.

All Directors have access to the advice and services of the Company Secretary, and she assists the Chairman and GCEO in setting the agenda for the Board meetings and is responsible for maintaining proper Board minutes as approved by the Chairman. The Board minutes contain sufficient detail so that it is possible for regulatory bodies to assess the depth of deliberations at the Board meetings. Board minutes are circulated to the Board well before the next monthly meeting providing adequate time for consideration.

Board Minutes

- Summary of information used for Board deliberations
- Matters considered by the Board
- Fact finding discussions and issues of content or dissident
- Testimonies and confirmations from the Senior Management
- Board knowledge and understanding of risks to which the Bank is exposed
- Decisions and Board resolutions.

Board performance and Evaluation

Board effectiveness is assessed annually through a self-assessment undertaken by each Director. The assessment covers a broad range of topics relating to the efficiency, effectiveness, and quality of the Board. The evaluation findings focus on the Board as a whole and the performance of individual

Directors. Further all subcommittees and management committees also carried out a self-evaluation process in 2020 to determine the effectiveness of their performance in 2020 and to identify areas for improvement which are also tabled at the Integrated Risk Management Committee. The process of evaluation is set out below for a better understanding.

- Self-assessment questionnaires filled in by each Director
- Review of responses by Chairman
- Report feedback to the Board
- Formulation of remedial action plan and review of progress against plan

Structures and balance of power

Composition of the Board, effective segregation of responsibilities and judicious governance structures facilitate an appropriate balance of power, ensuring that no single person or group of persons have unfettered powers in the decision-making process.

Board responsibilities

The Board serves as the custodian of the Group's corporate governance and is ultimately responsible ensuring sustainable shareholder value. The Board determines the Group's strategic direction, overseeing risk management, performance and resource allocation while ensuring accountability and transparency. The key responsibilities of the Board are set out in the Board Charter:

- Determining the strategic objectives and policies of the Group to deliver longterm value and providing overall strategic directions.
- Making decisions on matters that have a significant strategic, financial, or reputational impact on the Group.
- Providing effective leadership within a framework of prudent and effective controls aligned with the collective vision of NDB's purpose, values, culture, and behaviour.
- Ensuring that the Management strikes a balance between promoting long term growth and delivering short term objectives.

- Ensuring that accurate, timely, clear and pertinent information are obtained, and clarification is sought where necessary.
- Presenting a balanced and understandable assessment of the Bank's position and satisfying itself on the integrity of the Bank's Financial Statements.
- Engaging with and considering the opinions of shareholders and other stakeholders.
- Assessing the Board's effectiveness through a comprehensive self-assessment

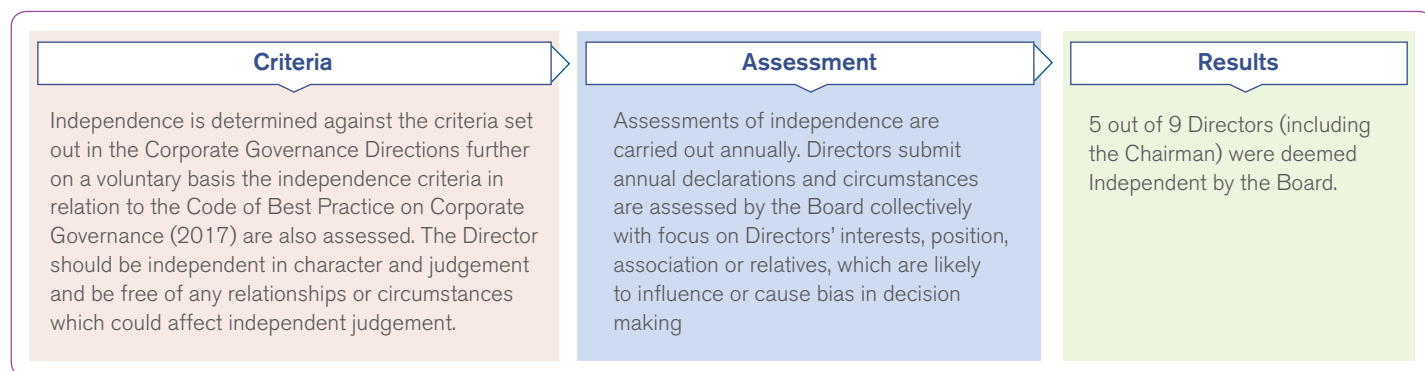
Segregation of Duties

There is a clear division of responsibilities between the Board and the Executive Leadership. These responsibilities are clearly set out in writing and agreed by the Board.



Independence

All Directors submit annual declarations of independence or non-independence in accordance with the Corporate Governance Directions, the stipulations of the Listing Rules of the Colombo Stock Exchange and the guidelines of the Code of Best Practice.



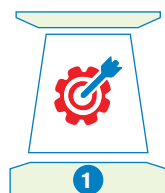
Corporate Governance

Managing conflicts of interest

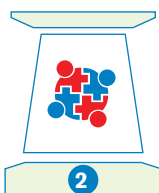
Directors have an obligation to disclose situations in which conflicts of interest could arise in accordance with the Articles of Association of the Bank and the Corporate Governance Direction No 11 of 2007 (as amended). The internal Code of Corporate Governance adopted by the Board requires each Board member to determine whether he/she has a potential or actual conflict of interest. The process and channels available for Directors to disclose potential conflicts of interest are as follows:

- Upon on boarding, Directors are required to provide details of their interests as well as the interest of their close relatives.
- Annual update of these disclosures based on which, the Company Secretary maintains an updated interest register.
- At the beginning of each quarter to capture the Bank's related parties the Directors are required to disclose details of their close relatives and concerns in which they or their close relatives have substantial interests.
- The internal Code of Corporate Governance also specifies the process to be adopted in the event that such conflicts are disclosed.
- Matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present. The relevant Director refrains from participating in the discussion and steps out.
- The relevant Directors abstain from voting on Board resolutions in relation to which such Directors or any of their close relation/s or a concern in which such Directors or their close relation/s have substantial interest, and/or are interested in. Their votes are not counted in the quorum for the relevant agenda item at the Board meeting.
- When initiating new business, the Directors maintain strict arm's length basis and ensure that they do not exert duress or undue influence and that they do not circumvent normal procedures when introducing new business to the Bank.
- Considers whether Directors' interests, position, association, or relatives, were likely to influence unduly or cause bias in decision making when judged from the perspective of a reasonable and informed third-party.

GOVERNANCE OUTCOMES AND CONTRIBUTION TO VALUE CREATION



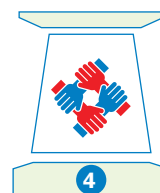
1
Drive strategy and performance



2
Shape organisational culture



3
Effective control and functional governance



4
Stakeholder relationships and sustainability

1 Drive Strategy and Performance

In setting strategy and overseeing its delivery, the Board gives due consideration to trends in the operating environment including opportunities and risks, mega trends in the operating landscape and the Group's operating model. The unprecedented operating conditions that stemmed from the outbreak of the COVID-19 pandemic during the year, necessitated proactive monitoring of the landscape and timely action to ensure business continuity while implementing measures to ensure the safety of stakeholders.

In addition to addressing the impacts of COVID-19, key achievements made in 2020 include approving Voyage 2025 strategy, reviewing the strategies for the key business lines as well as digital, HR and marketing strategies.

In addition to the standard agenda items, the Board focused on the following special aspects in 2020:

Monitoring the effects of COVID-19

Assessing remedial measures including moratoriums, concessionary loans, and new initiatives

Recommending proactive measures to ensure the safety of employees

Board engagement with the business

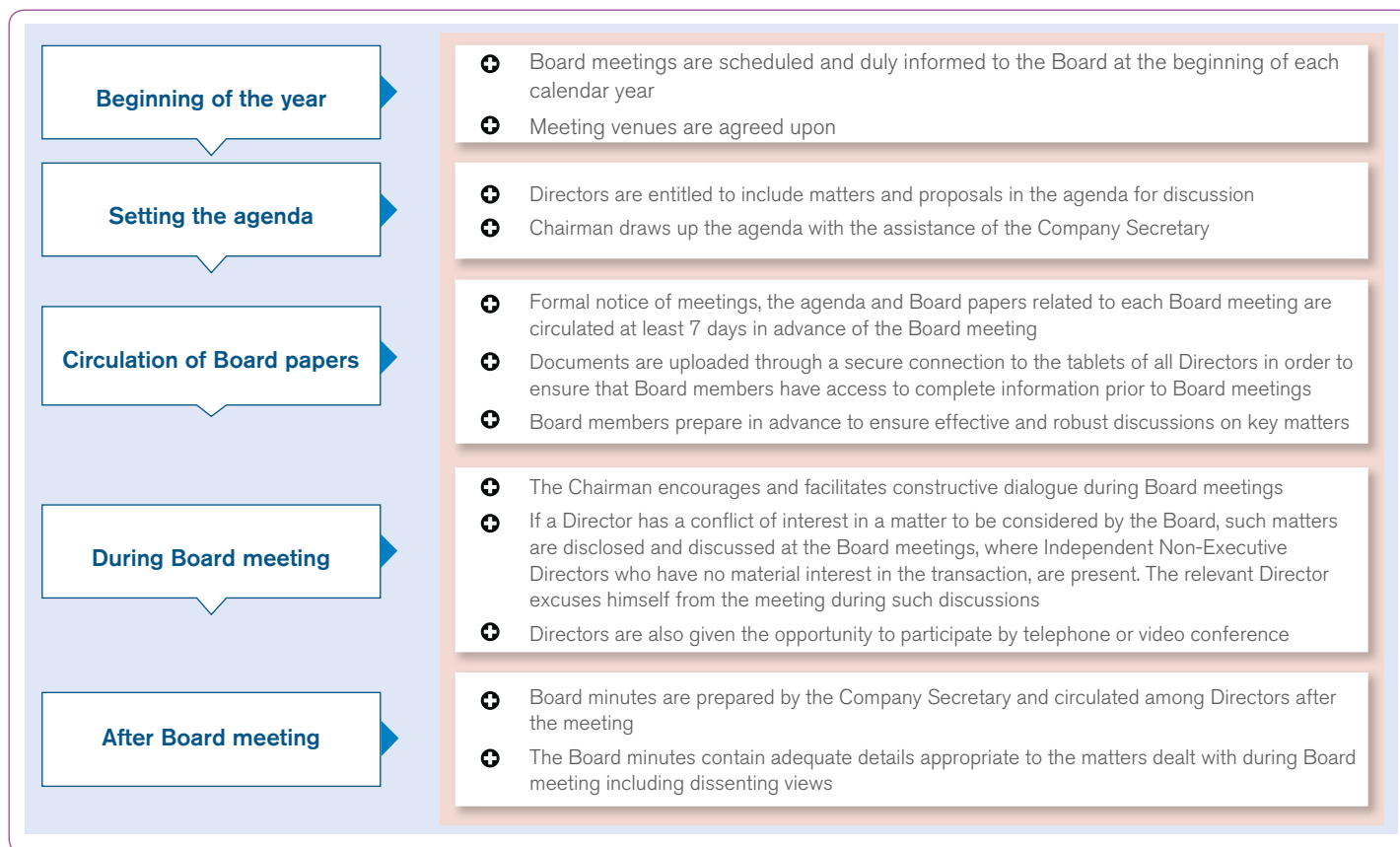
While Directors maintain their independence, they also have ongoing interactions across various functions and levels in the organisation, enabling a deep understanding of the business. The Directors also have various opportunities to interact with The Leadership Team (TLT) including during strategy sessions and Board/Sub-Committee meetings where KMPs attend by invitation.

- All Directors serve on Board Sub-Committees enabling engagement with KMPs on specific matters
- Debate and approval of the Bank's strategic framework
- The Board has access to first-hand insights on the activities of the subsidiaries given common Directors
- Attendance at investor forums and roadshows
- Onsite visits to various bank operations and business units
- Assessment of regular performance reports
- Digital engagement

Board Meetings

Despite the challenges that prevailed during the year and restrictions on physical interactions, the Board convened 16 times, quickly leveraging on its technological capabilities to shift to digital interactions. Accordingly, of the total 16 meetings, many were held digitally in 2020.

Clearly defined guidelines and processes ensure the effectiveness of Board meetings:



Meetings held

Main Board 16

Sub-Committees		Management Committee meetings	
Nominations Committee	5	Asset and Liability Committee	19
Human Resources and Remuneration Committee	6	Credit and Market Risk Policy Committee	4
Integrated Risk Management Committee	5	Operational Risk Policy Committee	5
Board Audit Committee	7	Credit Committees	91
Related Party Transactions Review Committee	4	Procurement Committee	75
Strategic Issues Committee	2	IT Steering Committee	8
Board Credit Committee	14	Human Resources Committee	2
		Outsourcing Committee	5
		Management Committee	11

Corporate Governance

THE STRUCTURE, COMPOSITION AND ATTENDANCE OF THE BOARD AS AT 31 DECEMBER 2020

Name of Director	Areas of Expertise	Independent/Non Independent under CBSL Direction	Independent/Non Independent under ICASL	Date of Appointment	Number of Board Meetings Eligible to Attend	Number of Meetings Attended
Mr. Eshana de Silva	Business, Management and Administration	Independent	Independent	14.05.2020	10	10
Mr. Dimantha Seneviratne (GCEO)	Banking, Finance and Management	Non-Independent	Non-Independent	01.01.2017	16	16
Mr. Sriyan Cooray	Banking, Finance and Management	Independent	Independent	10.08.2018	16	16
Mr. Bernard Sinniah	Banking, Sales and Management	Non-Independent	Independent	28.03.2019	16	16
Dr. Dinusha Panditaratne	Law (International and Business Law)	Independent	Independent	24.07.2019	16	16
Mr. Sujeewa Mudalige	Accounting, Auditing, Financial Analysis and Management	Independent	Independent	06.01.2020	16	16
Ms. Hiransa Kaluthantri	Economics, Management and Policy	Non-Independent	Independent	24.02.2020	13	13
Mr. Hiran Perera	Banking, Credit and Risk Management, Treasury and Corporate Finance	Non-Independent	Non-Independent	23.04.2020	12	12
Mr. Kushan D'Alwis, PC	Law (Litigation/Banking, Corporate, Commercial and Administrative Law)	Independent	Independent	06.07.2020	7	7
Mr. Kavan Ratnayaka (resigned w.e.f. 30.04.2020)	Management, IT and Media	Independent	Independent	13.05.2015	5	5
Mr. Ashok Pathirage (retired w.e.f. 18.02.2020)	Retail Trade, Insurance, Entrepreneurship	Non-Independent	Non-Independent	18.02.2011	2	2
Mr. Dinal Phillips, PC (resigned w.e.f. 25.06.2020)	Law (Litigation)	Independent	Independent	22.04.2015	9	9
Mr. E A Rathnaseela (resigned w.e.f. 20.01.2020)	Public Policy, Management and Finance	Non-Independent	Independent	18.06.2019	-	-

Sub-Committees

The Board has established 7 sub-committees to provide additional focus on specific areas including Audit, Risk Management, Credit and Related Party Transactions (among others) in line with regulatory requirements. These sub-committees ensure that members dedicate additional time and resources in understanding and addressing relevant topics. Sub-committee Terms of Reference (TOR) defines the responsibilities and scope of each Committee. Please refer to the Reports of the sub-committees from page 148 to page 160 of this Report for further information.

DETAILS OF MEMBERS OF THE BOARD SUBCOMMITTEES DURING 2020

Name of Committee	Board Nominations Committee		Board Human Resources and Remuneration Committee		Board Integrated Risk Management Committee		Board Audit Committee		Board Related Party Transactions Review Committee		Board Strategic Issues Committee		Board Credit Committee	
Name of Director	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
Mr. Eshana de Silva	C	20.05.2020	M	20.05.2020					C	14.05.2020	C	14.05.2020	C	20.05.2020
Mr. Dimantha Seneviratne					M	01.07.2017					M	23.07.2019	M	01.06.2017
Mr. Sriyan Cooray					C	01.09.2018	M	01.09.2018	M	01.05.2019	M	01.05.2019		
Mr. Bernard Sinniah *	M	19.02.2020	M	19.02.2020	M	01.05.2019	M	01.05.2019			M	19.02.2020	M	01.05.2019
Dr. Dinusha Panditaratne **	M	24.07.2019	C	24.07.2019	M	19.02.2020	M	20.05.2020	M	19.02.2020				
Mr. Sujeewa Mudalige					M	19.02.2020	C	06.01.2020	M	19.02.2020	M	19.02.2020		
Ms. Hiransa Kaluthantri					M	24.02.2020	M	24.02.2020						
Mr. Hiran Perera ***					M	20.05.2020	M	23.04.2020					M	23.04.2020
Mr. Kushan D'Alwis, PC									M	22.07.2020			M	22.07.2020
Mr. Ashok Pathirage (retired w.e.f. 18.02.2020)	M	11.08.2011	M	01.01.2014							M	18.02.2011	C	01.06.2017
Mr. Kavan Ratnayaka (resigned w.e.f. 30.04.2020)	C	01.05.2019	M	15.03.2016					C	01.05.2019	C	01.05.2019	C	01.09.2018
Mr. Dinal Phillips, PC (resigned w.e.f. 25.06.2020)	M	01.05.2019	M	01.01.2017	M	01.06.2017					M	19.02.2020	M	01.06.2017
Mr. E A Rathnaseela (resigned w.e.f. 20.01.2020)					M	18.02.2019	M	18.02.2019	M	18.02.2019				

DOA - Date of Appointment Status - C - Chairman/M - Member

NUMBER OF MEETINGS HELD AND ATTENDANCE OF THE BOARD SUBCOMMITTEES DURING 2020

Name of Committee	Board Nominations Committee		Board Human Resources and Remuneration Committee		Board Integrated Risk Management Committee		Board Audit Committee		Board Related Party Transactions Review Committee		Board Strategic Issues Committee		Board Credit Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr. Eshana de Silva	3	3	4	4					4	3	2	2	9	9
Mr. Dimantha Seneviratne					5	5					2	2	14	14
Mr. Sriyan Cooray					5	5	7	7	4	4	2	2		
Mr. Bernard Sinniah*	4	4	5	5	1	1	2	2			2	2	14	13
Dr. Dinusha Panditaratne**	5	5	6	6	1	1	4	4	4	4				
Mr. Sujeewa Mudalige					4	4	7	7	4	4	2	2		
Ms. Hiransa Kaluthantri					4	2	5	5						
Mr. Hiran Perera***					3	3	1	1					10	10
Mr. Kushan D'Alwis, PC									2	2			6	6
Mr. Ashok Pathirage (retired w.e.f. 18.02.2020)	1	0	1	0							-	-	2	2
Mr. Kavan Ratnayaka (resigned w.e.f. 30.04.2020)	2	2	2	2					-	-	-	-	2	2
Mr. Dinal Phillips, PC (resigned w.e.f. 25.06.2020)	3	3	2	2	1	1					-	-	7	7
Mr. E A Rathnaseela (resigned w.e.f. 20.01.2020)					-	-	-	-	-	-				

* Mr. Bernard Sinniah resigned from the BAC and IRMC w.e.f. 19 February 2020

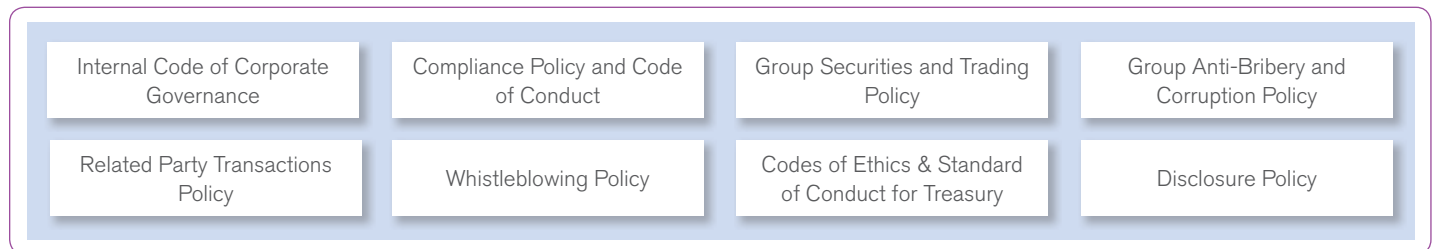
** Dr. Dinusha Panditaratne resigned from IRMC w.e.f. 20 May 2020

*** Mr. Hiran Perera resigned from the BAC w.e.f. 20 May 2020

Corporate Governance

2 Shaping organisational culture

The Board of Directors play a vital role in setting the right tone at the top, contributing towards the nurturing of an organisational culture which is aligned to our core values of Integrity, Excellence, Creativity, Accountability Sincerity and Dependability. The Group's organisational culture provides a solid foundation for understanding what is expected in both internal and external stakeholder interactions and we are committed to continually evolving our culture in the context of our strategic growth plans. The Group has in place several tools which contribute towards shaping a values-driven culture.



These frameworks ensure that Directors, KMP and all employees adopt the highest standards of integrity in their personal conduct, market conduct and in engagements with the wider community.

Personal Conduct: For Directors and Key Management personnel, this is guided by the *Internal Code of Corporate Governance*, which ensures the highest standards of corporate conduct, in addition to the regulatory obligations required by laws, regulations, and best practices. All other employees are bound by the *Compliance Policy and Code of Conduct* which sets out how organisational values should be put into practice, providing a roadmap aligning the values to behavioural, ethical, and practical compliance aspects of our business.

Market Conduct: The *Group Anti-bribery and Corruption Policy* sets out the minimum standards expected by all Directors, employees and third-party service providers engaged by the NDB Group. It clearly articulates the Group's zero tolerance for bribery and corruption and its firm commitment to act with integrity, professionalism, and fairness in all its business dealings and relationships. This Policy also explicitly prohibits facilitations payments. It also provides examples of relationships and events that could lead to a higher risk of Bribery and Corruption and covers prohibitions on political contributions. It makes cross reference to all policies which cover principles on corruption and bribery.

Codes of Ethics & Standard of Conduct for Treasury Front Office, Treasury Operations and Treasury Middle Office were introduced during year in line with the prevailing regulations to further improve market conduct and practices for treasury operations and to strengthen market risk management systems.

Societal Conduct: The Bank's *Environmental and Social Sustainability Framework* provides guidance on contributing to the wider community through meaningful and impactful engagements. Meanwhile the Board-approved *Disclosure Policy* provides guidance on promoting good governance, transparency, and accountability by ensuring access to information, safeguarding the deliberative process, and providing clear guidelines on availing information to the public.

These policies are reviewed and approved by the Board on a periodic basis to ensure that they stay relevant with the regulatory changes and best practises.

The Board's responsibility for providing direction and oversight in shaping the organisation's culture during the year was actioned through the following:

- Regular updates on employee initiatives, including engagement, wellness, and satisfaction scores
- Implementation of a Change Management strategy aligned to the Group's Voyage 2025 Strategy

- Frequent updates by the Group CEO regarding the expectations and objectives of Voyage 2025

3 Effective control and Functional governance

The Board holds apex responsibility for ensuring the robustness of the Group's risk management and internal control systems, thereby ensuring compliance to all legal and voluntary requirements, smooth functioning of operations and the quality of internal and external reporting. The conditions that prevailed during the year necessitated strategic focus on proactively identifying, measuring, and mitigating emerging risks and the Board placed increased emphasis on consistently monitoring the emerging risk landscape.

Risk Management

The Board's risk-related duties are discharged through the Board Audit Committee and Board Integrated Risk Management Committee and comprise of a robust framework including policies risk strategies, procedures, limits, and exposures, among others. The Committees have been formed in compliance with the CBSL Direction No. 11 of 2007 on Corporate Governance. Meanwhile, several Executive Level committees including the Asset Liability Committee, Credit and Market Risk Policy Committee and Operational Risk Policy Committee also engage in risk management related responsibilities. The Bank's risk management framework has been designed to achieve an optimal risk-reward balance, emphasise accountability and facilitate the effective segregation of duties. The structure is

based on the three lines of defence and defines the lines of authority, roles, and responsibilities to efficiently manage risk across the Bank.

(Please refer to pages 342 to 377 for the Risk Management Review and pages 152 to 154 for the IRM committee Report for further information)

Accountability and Audit

Audit Committee: The Board Audit Committee is responsible for ensuring the integrity of the Company's Financial Statements as well as internal controls and compliance. Chaired by an Independent Non-Executive Director and comprising solely of Non-Executive Directors, the BAC represents extensive experience in finance, accounting and auditing. The Terms of Reference of the Audit Committee complies with the recommendations of the CBSL Directions on Corporate Governance, Code of Best Practice on Board Audit Committees issued by ICASL and guidelines stipulated by the CSE (Please refer to the Report of the Board Audit Committee on pages 155 to 157 of this Report for further information)

External Auditors and Auditor Independence Policy: The Group's external auditors are Messrs. Ernst and Young and the principal/ consolidator auditor has not engaged in any services which are in the restricted category as stipulated by the CSE for external auditors. Measures are in place to ensure the independence and objectivity of the external auditors is discussed furthermore in the Board Audit Committee Report on pages 155 to 157.

HR Governance

HR governance policy framework provides a solid foundation for the equitable and effective management of all people related aspects. This is further supported by compliance to the ISO9001:2015 Standard which sets out guidelines for a range of HR operations. In 2020 the HR department introduced a Risk Severity Matrix and Consequence Management Framework approved by the Human Resources and Remuneration Committee to determine the degree of consequences to be applied based on a Risk Severity Matrix. This framework brings more transparency since the degree of consequences to be applied will be based on a uniform matrix and does not differ from individual to individual. Also in 2020, the Bank introduced the Work from Home Policy, which was launched as a pilot programme even prior to the COVID-19 lockdown. This timely and

proactive intervention aptly positioned the Bank to continue its operations uninterrupted, amid the restrictions imposed due to the pandemic.

Ensuring our employee safety with minimal risk of infection was a key HR priority during the year. Guidelines were issued by the Health Authorities and providing all necessary protective equipment, the Bank implemented the DREAM guidelines ((D – Physical Distance, RE – Respiratory Etiquette, A – Hand Washing, M – Face Masks) for all employees. Meanwhile, special transport facilities were arranged for all critical employees to report to work while PCR testing was facilitated for all identified 1st level contacts. All departments and units were also required to ensure social distancing in their locations by limiting the staff at a given time to 50% of the full cadre. Please refer the Human Capital section on pages 85 to 92 of this report for more initiatives carried out by the HR Department.

IT and Cybersecurity Risk

The quantum of IT related investments and the higher number of digitalisation projects have increased the Group's exposure to IT and Cybersecurity risks. A framework of robust IT policies, clear demarcation of responsibilities through the three lines of defence governance model and a highly skilled IT team ensure that IT risks and vulnerabilities are managed in a holistic and consistent manner. The Bank's comprehensive IT and Cyber Security policy complies with the Baseline Security Guidelines issued by the Central Bank of Sri Lanka. Key developments in the management of IT and Cybersecurity Risks are as follows:

- Investments in strengthening the Bank's IT infrastructure deploying technical controls to mitigate cyber risks such as multi-layer firewalls, network separation, intrusion prevention systems, gateway level content filtering, anti-malware solutions.
- Implementation of Kaspersky embedded Security solution for CRMs
- The Bank has also subscribed to the services provided by Financial Sector Computer Security Incident Response Team (FINCSIRT), where intelligence on the latest threats to the Banking industry is provided to the IT security team.
- Internal and external penetration tests by employing external service providers from time to time to ensure the systems are resilient to such attacks.

- Dedicated IT coordinator who regularly reviews the IT risks of the business lines
- Global Protect implementation for faster remote access and vulnerability assessments for the new Internet Banking platform

Subsidiary Governance

The consistent application of governance and risk management practices across the Bank's subsidiaries is ensured through commonalities in policy frameworks, common Directors and reporting lines to the parent entity. Several of our subsidiaries are regulated entities and therefore operate within stringent governance and risk management frameworks with operations conducted with high standards of integrity and transparency.

4 Stakeholder Relationships and Sustainability

Shareholder s' rights and engagement

We are committed to preserving the rights of our shareholders and ensure that all ordinary shareholders of the same class of shares issued by the Bank are treated equitably. The Group confirms to the principle of one share, one vote and one dividend and currently there are no non-voting shares in issue. We also adopt an array of measures to ensure that shareholder views are heard and fully considered.

- **Annual General Meeting:** The AGM provides shareholders the opportunity to contribute their views and engage with the Board of Directors, including the Chairpersons of certain Sub-Committees and members of the Senior Management. The Bank's AGMs are generally well attended, and we encourage shareholders to participate in fostering a constructive dialogue. Resolutions requiring shareholder approval are tabled separately for adoption at the AGM. Given restrictions on physical gathering during the year, the Bank held its AGM in a hybrid form on the 25 June 2020 with nearly 60% of shareholding being represented.

Corporate Governance

→ **Dissemination of information:** The Bank provides shareholders with timely information on performance and any other material developments. Numerous platforms are in place to disseminate information amongst shareholders

and analysts; these include investor presentations, press releases, email notifications, online investor webinar, road shows and the investor relations webpage within the Bank's corporate website.

→ **Investor Relations:** A dedicated Investor Relations function ensures that shareholders are kept aware of emerging developments.

Engagement with other stakeholders

As the Group expands in size and customer reach, the importance of nurturing mutually beneficially, long-lasting relationships with other stakeholders becomes increasingly critical in preserving the Group's social license to operate. In addition to shareholders the Group's stakeholder universe extends to shareholders, employees, customers, creditors, partners, the public, and regulators. Numerous formal and informal engagement channels enable the Group to understand and proactively respond to the expectations of stakeholders as described on pages 48 to 49 of this Report. Communication with stakeholders is governed through the following frameworks and processes:

Disclosure Policy

→ Supports the dissemination of timely, accurate and balanced regulatory disclosures based on applicable laws and regulations.

Communication Policy

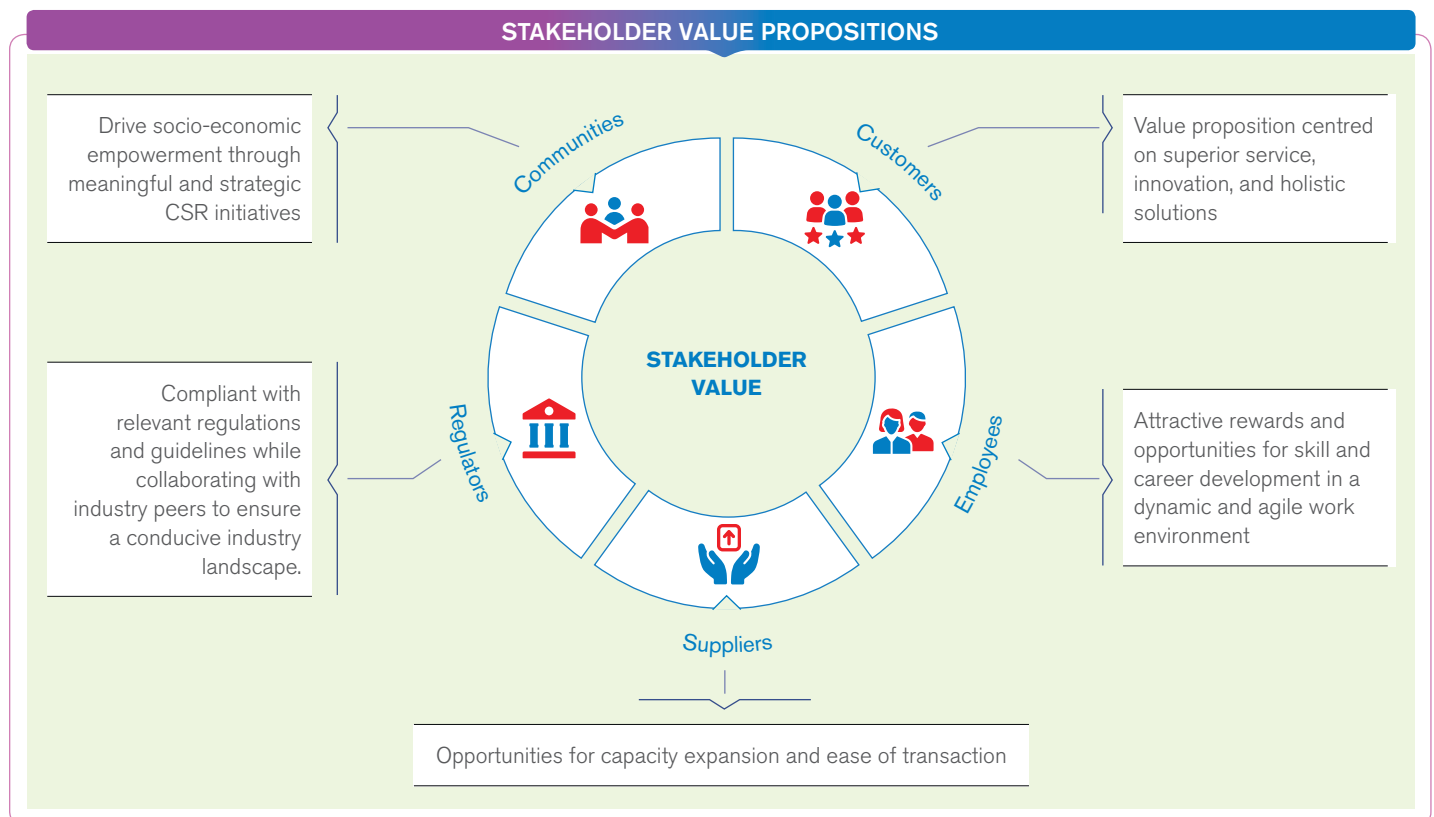
→ Ensures the effective and consistent communication of internal and external communication of corporate information.

Grievance Mechanisms

→ **Customer complaints handling:** Outlines the complaints handling policy of the Bank and governs the procedure through which complaints are tracked, monitored and resolved.

→ **Employee grievance handling:** Transparent mechanism encouraging employees to bring forward any grievances

Unique value propositions and a focus on long term value creation has enabled the Group to nurture high-quality relationships with its stakeholders. The quality of relationships is measured through employee and customer satisfaction surveys and retention levels among others.



Sustainability

The Corporate Sustainability Committee is responsible for formulating the Bank's Sustainability Agenda and ensuring its effective implementation. The Bank's Sustainability Policy provides clear guidance on the sustainability philosophy, strategy and objectives and centres on the 3 pillars of economic, social and environmental responsibility. In recent years, the Bank has sought to embed sustainability considerations to its strategy, business decisions, operations, and processes, thereby reflecting the Bank's triple bottom line approach to value creation. (Please refer to the Business Line Reviews and Value Creation Report on page 66 and 56 of this Report for further information)

Sustainability Reporting: NDB has focused on evolving its sustainability reporting practices in line with increasing stakeholder interest and best practices in corporate reporting. In recent years, the Group's corporate reporting has received local and international recognition, attesting to the quality and meaningfulness of the information provided. Key aspects of the Group's Sustainability Reporting are as follows:

- Adoption of the Integrated Reporting Framework of the International Integrated- Reporting Council
- Global Reporting Standards (GRI) for Sustainability Reporting
- Comprehensive list of material topics covering economic, social and environmental factors
- External assurance on the sustainability reporting

REMUNERATION REVIEW

Our employees are our greatest asset and successful delivery of our strategic aspirations is underpinned on their efforts. Our remuneration structures are designed to reward and motivate our employees, while being consistent with regulatory requirements and industry best practices.

Our Approach to Remuneration

The Group's Remuneration Framework is designed to attract, motivate, and retain high-performing employees who can drive business performance aligned to NDB's strategic aspirations.

Remuneration is linked to individual and collective value creation objectives which are aligned to the Group's overall strategy and is based on clearly defined performance targets. The Bank's Compensation Policy is structured based on job evaluation using the compensable factors such as know how/job complexity, communication and coordination/customer interaction, supervision exercised and risk impact/consequences. Key principles of our Remuneration Framework are,

- Recognising sustainable financial performance and business results
- As an equal opportunity employer, we do not discriminate between ethnicity, gender or other form of diversity when determining remuneration
- Balance between fixed and variable components
- Performance appraisals enable the identification of talent at all levels thereby resulting in fair remuneration

Role of the HRRC

The Bank's Human Resources and Remuneration Committee plays a pivotal role in determining the Human Resource and Remuneration policies (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank. The committee comprises exclusively of Non-Executive Directors who also meet Independent criteria, and processes in place ensure that no Director is involved in determining his or her own remuneration.

The Committee's responsibilities include,

- Recommending to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors including the Chairman out of the total sum determined for the purpose by the shareholders in terms of the Bank's articles.

- Evaluating the performance of the GCEO and KMPs against the set goals and targets periodically and determining the basis for revising remuneration, benefits and other payments of performance-based incentives.
- Discussing and assessing with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank.

(Please refer to pages 148 to 149 for HRR Committee Report)

SUMMARY OF COMPENSATION SCHEMES

Total employee remuneration includes salaries and bonus, terminal benefit charges, share - based payments, and other related expenses. Further details on each of these elements are available on pages 200 and 201 - Note Nos. 12 and 14 to the Financial Statements.

A summary of the Group's remuneration/ personnel expenses during the year are given below;

	2020 LKR' 000
Director's emoluments	38,580
Personnel expenses	
Salary and bonus	4,672,452
Contribution to EPF and ETF	500,577
Contribution to defined benefit plan	180,590
Others	394,834

Annual Report of The Board of Directors on the Affairs of the National Development Bank PLC

The Directors of National Development Bank PLC (the Bank) have pleasure in presenting to the Shareholders this Report together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31 December 2020 of the Bank and the Group and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 7 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder, the Listing Rules of the Colombo Stock Exchange and the recommended best practices.

The Report was approved by the Board of Directors on 18 February 2021. The requisite number of copies of the Annual Report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

The Bank's Annual Report for the year ended 31 December 2020 is presented in line with the integrated reporting guidelines issued by the Institute of Chartered Accountants of Sri Lanka. Integrated reporting brings together material information about the Bank's strategy, governance, performance and prospects in a way that reflect the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the Bank demonstrates stewardship and how it creates and sustains value.

The Bank, originally established by an Act of Parliament in 1979 as the National Development Bank of Sri Lanka, was incorporated under the Companies Act No. 17 of 1982 as National Development Bank Limited in 2005 pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provision) Act No. 1 of 2005. National Development Bank Limited was thereafter re-registered under the Companies Act No. 7 of 2007 as National Development Bank PLC and was accorded with the registration No. PQ 27. The registered office of the Bank is at No. 40, Nawam Mawatha, Colombo 02.

The ordinary shares of the Bank are quoted on the Main Board of the Colombo Stock Exchange since 1993. The rated, unsecured, subordinated, redeemable debentures issued by the Bank are listed on the Colombo Stock Exchange.

The Bank's national long term rating issued by Fitch Ratings Lanka Limited was affirmed at A+(lka) whilst the outlook remains Stable. The Bank's Basel II compliant subordinated debentures and Basel III compliant subordinated debentures were affirmed at A-[lka].

THE BANK'S RESPONSE TO THE COVID-19 PANDEMIC

The pandemic caused by COVID-19 has affected the banking industry, predominantly via the debt serviceability of the customers and the envisaged growth prospects. The Bank has also been impacted by the pandemic on these aspects. The

Bank continued its business operations to the maximum possible extent during the lockdown period, with the aid of its digital channels, deployment of three mobile ATMs and by functioning branches in selected localities.

All functions up to date and beyond are carried out within the highest standards of health guidelines ensuring the protection and wellbeing of our customers and staff members.

The impact of the pandemic on the business operations of the Bank and prospects are strategically addressed by the Bank's leadership at the Board level as well as the Executive level. The Bank's business plans have been duly reviewed and revised to ensure that the Bank extends maximum support to the affected customers, supports wider economic growth of the country and well manages the impact of the pandemic on the Bank's overall performance.

More details on how the Bank responded to the pandemic and created value to various stakeholders are found in the Operating Landscape & Strategy in page 43 and Management Discussion & Analysis in page 56 of this Report.

As required by Section 168 of the Companies Act No. 7 of 2007, the following information is disclosed in this Annual Report prepared for the year ended 31 December 2020.

	Information required to be mandatorily disclosed as per section 168 of the Companies Act No. 7 of 2007	Reference to the Companies Act	Disclosure reference for compliance	Pages
1	The nature of the business of the Bank and the Group together with any change thereof during the accounting period.	Section 168 (1) (a)	About the Bank	182
2	Signed Financial Statements of the Bank and the Group for the accounting period completed.	Section 168 (1) (b)	The Financial Statements of the Bank and the Group for the year ended 31 December 2019	177
3	Auditor's Report on Financial Statements of the Bank and the Group.	Section 168 (1) (c)	Independent Auditor's Report	170 to 172
4	Accounting Policies and any changes therein (Group also included).	Section 168 (1) (d)	Notes to the Financial Statements: Accounting Policies adopted in the preparation of the Financial Statements of the Bank and the Group	182 to 302

	Information required to be mandatorily disclosed as per section 168 of the Companies Act No. 7 of 2007	Reference to the Companies Act	Disclosure reference for compliance	Pages
5	Particulars of the entries made in the Interest Registers of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (e)	All Directors have made declarations as required by Section 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interest Register during the year under review. Director's Dealing in shares and Debentures The Interest Register is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 7 of 2007. Note 62 to the Financial Statements: Related Party Disclosures	382 and 388 263
6	Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Note 14 to the Financial Statements – Other Expenses	201
7	Total amount of donations made by the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (g)	Note 14 to the Financial Statements – Other Expenses	201
8	Names of persons holding office as Directors as at the end of accounting period and names of persons who ceased to hold office.	Section 168 (1) (h)	List of Board of Directors of the Bank New Appointments and Resignations List of Directors of Subsidiaries of the Bank	134 134 84
9	Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries.	Section 168 (1) (i)	Note 14 to the Financial Statements – Other Expenses	201
10	Auditor's relationship or any interest with the Bank and its Subsidiaries.	Section 168 (1) (j)	The Financial Statements of the Bank for the year ended 31 December 2020 have been audited by Messrs Ernst & Young, Chartered Accountants. They also function as the auditors of the Bank's subsidiary companies namely, NDB Capital Holdings Limited, NDB Wealth Management Limited, NDB Securities (Pvt) Limited, NDB Investment Bank Limited, Development Holdings (Pvt) Limited, NDB Capital Limited (Bangladesh) and NDB Zephyr Lanka (Pvt) Limited. Based on the declaration provided by Messrs Ernst & Young, Chartered Accountants, and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Bank that in our judgement may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report. The Auditors have indicated their willingness to offer themselves for reappointment. The Board Audit Committee and the Board of Directors have recommended the reappointment of the Auditors. A resolution appointing Messrs Ernst & Young as Auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.	
11	Acknowledgement of the Contents of this Report/ Signatures on behalf of the Board	Section 168 (1) (k)	Complied with as stipulated below.	

Annual Report of The Board of Directors on the Affairs of the National Development Bank PLC

As required in terms of Section 168 (k) of the Companies Act No. 7 of 2007, the Board of Directors does hereby acknowledge the contents of the Annual Report.

For ease of reference and recording purposes, set out below are Other Disclosures as required by the Listing Rules (LR) of the Colombo Stock Exchange, Central Bank Directions (CBSL Direction) and other disclosures/ good governance principles as followed by the Bank including the Code of Best Practice on Corporate Governance 2017 (ICASL Code) issued by the Institute of Chartered Accountants of Sri Lanka.

In complying with the good governance practices, the Annual Report of the Bank is dispatched as soon as possible after the end of the financial year and completion of the audit. In compliance with the Colombo Stock Exchange Listing Rules, the Annual Reports have been distributed by way of a link shared with all shareholders and debenture holders (a soft copy) as well as in the form of a Printed Report as and when required.

Accordingly the Sixteenth (16) Annual General Meeting of the Bank will be held virtually from the Board Room of National Development Bank PLC located at the 14th Floor, Development Holdings (Pvt) Limited, No. 42, Nawam Mawatha, Colombo 02 on a date and time to be decided by the Board of Directors and convened, which will be reflected in the Notice of Meeting sent to the shareholders. The Notice of Meeting is reflected on page 413 signed in accordance with a resolution adopted by the Directors.



Mr. Eshana de Silva
Chairman



Mr. Sriyan Cooray
Director



Dr. D Panditaratne
Director



Ms. Hiransa Kaluthantri
Director



Mr. Kushan D'Alwis, PC
Independent/Non-Executive Director



Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer



Mr. Bernard Sinniah
Director



Mr. Sujeewa Mudalige
Director



Mr. Hiran Perera
Director



Ms. Shehani Ranasinghe
Company Secretary

Colombo
18 February 2021

Other Disclosures as required by the Listing Rules (LR) of the Colombo Stock Exchange, Central Bank Directions (CBSL Direction) and other disclosures/good governance principles as followed by the Bank including the Code of Best Practice on Corporate Governance 2017 (ICASL Code) issued by the Institute of Chartered Accountants of Sri Lanka.

	Other Disclosures	Reference to the Companies Act	Disclosure reference for compliance	Pages
CBSL DIRECTIONS				
12	Disclosures required to be made by the Board in terms of the Corporate Governance Directions	CBSL Direction No 11 of 2007 (as amended)	The Board has ensured that the required disclosures have been made.	308 to 327
			The classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2020 is provided.	134
13	Annual Corporate Governance Reports	3 (1) (xvi)	An annual corporate governance report setting out the compliance with Direction 3 of these Directions.	308 to 327
14	Audited Financial Statements	3 (8) (ii) (a)	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	161 to 162
15	Internal Control Mechanisms	3 (8) (ii) (b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	163 to 164
16	Factual Findings Report	3 (8) (ii) (g)	A confirmation that all the findings of the 'Factual Findings Reports' of Auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the Annual Corporate Governance Report.	122
17	Compliance with Laws	3 (8) (ii) (h)	A report setting out the details of compliance with prudential requirements, regulations, laws and internal controls that affected the Bank.	327
18	Regulatory Supervisory Process	3 (8) (ii) (i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of the CBSL.	327
LISTING RULES				
19	Contents of the Annual Report as required under the Listing Rules of the Colombo Stock Exchange	LR 7.5	Disclosed as required in the Annual Report.	161 to 162
		LR 7.6		396 to 397
20	Statement confirming compliance with Corporate Governance Rules in terms of the Listing Rules of the Colombo Stock Exchange	LR 7.10a	The Board has ensured that the required Corporate Governance disclosures have been made. In terms of an approval received from the Board of Directors of the Colombo Stock Exchange on 30 March 2010, Licensed Commercial Banks have been granted a total exemption from the requirement to comply with Section 7.10 (Corporate Governance) of the Continuing Listing Requirements under the CSE Listing Rules with effect from 01 January 2010.	

Annual Report of The Board of Directors on the Affairs of the National Development Bank PLC

	Other Disclosures	Reference to the Companies Act	Disclosure reference for compliance	Pages
21	Disclosure on Related Party Transactions in terms of the Listing Rules of the Colombo Stock Exchange	LR 9.32	Required disclosures have been made by the Related Party Review Committee. Also see Note 52 to the Financial Statements: Related Party Disclosures.	158 to 159 263 to 267
CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017 (ICASL Code)				
22	Statement of Compliance with the Code of Best Practise on Corporate Governance 2017	ICASL Code	All required disclosures have been made and status of compliance has been detailed. The classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2020 is provided for purposes of good governance, however, the Bank mandatorily adheres to Direction No. 11 of 2007 on Corporate Governance in this regard.	328 to 341 134
23	Compliance with Laws	ICASL Code D.1.4	Statement of compliance with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations.	161 to 162
24	Material Interests in contracts	ICASL Code D.1.4	Declaration of all material interests by Directors in contracts involving the Bank and refrained from voting on matters in which they were materially interested.	132
25	Internal Controls	ICASL Code D.1.4	A confirmation that the Board has conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.	122 to 164
26	Financial Statements	ICASL Code D.1.5	A statement of responsibility for the preparation and presentation of Financial Statements have been made together with the external auditors confirmation on their reporting responsibility.	161 to 162
27	Plant and Property	ICASL Code D.1.4	The Bank has reported Property plant and equipment at fair value, where it differs from fair value adequate disclosures are made.	230
28	Related Party Transactions	ICASL Code D.1.8.	The Board should disclose the related parties and related party transactions as specified by SEC/Accounting Standards/Auditing Standards and similar regulations	263 to 267 and 158 to 159
29	Cyber Security	ICASL Code G. 5	The Board should disclose in the Annual Report the process to identify and manage cyber security risks	137
30	Equitable treatment to shareholders	ICASL Code D.1.4	Statement of Directors' Responsibility	161 to 162
31	Going Concern	ICASL Code D.1.4	The Board of Directors is satisfied that the Bank has adequate resources to continue the business activities in the foreseeable future. Therefore, the Bank has adopted a 'going concern' basis in preparing these Financial Statements. Note 2.11.1 to the Financial Statements.	161 to 162 185

	Other Disclosures	Reference to the Companies Act	Disclosure reference for compliance	Pages
OTHER LAWS AND REGULATIONS				
32	Dividends on Ordinary Shares	S 56 of the CA No. 07 of 2007	Note 19 and 53 to the Financial Statements – Dividends and Events after the Reporting period Item 8 of the Section on “Investor Relations”	206 and 267 385
33	Insurance and Indemnity	S 218 of the CA No. 07 of 2007	Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' liability. The Bank has accordingly paid an insurance premium in respect of the said insurance policy for the benefit of the Bank and the Directors and certain employees of the Bank and related body corporates as defined in the insurance policy.	161 to 162
34	Own share purchases	S 64 of the CA No. 07 of 2007	The Bank has not purchased its own shares	
35	Taxation	Laws related to taxation	Note 15 and 17 to the Financial Statements	202 to 205
36	Statutory payments	Laws and regulations related to all statutory payments	The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.	161 to 162
GOOD GOVERNANCE DISCLOSURES (GGD)				
37	Vision, Mission and Corporate Conduct	GGD	The Bank and the Group practices high ethical standards in carrying out their business activities in line with the vision of the Bank. All employees of the Bank abide by the Bank's Code of Conduct and the Directors and the Key Management Personnel of the Bank additionally abide by the Code of Corporate Governance of the Bank.	56
38	Review on Operations of the Group and the Bank and future developments	GGD	A review of the operations of the Bank and the Group are discussed in the Chairman's Message, Group Chief Executive Officer's Review and the Management Discussion and Analysis. Note 51 to the Financial Statements: Segmental Analysis – Group	16 to 23 and 58 to 115 262
39	Changes to the Group structure	GGD	There were no changes to the Group structure during the year.	
40	Gross Income	GGD	Note 4 to the Financial Statements – Gross Income	188
41	Performance of the Bank and the Group	GGD	Statement of Profit or Loss	175
42	Reserves & appropriations	GGD	Statement of Changes in Equity Note 44 to 46 of the Financial Statements – Statutory Reserves, Retained Earnings and Other reserves	178 to 179 253 to 254

Annual Report of The Board of Directors on the Affairs of the National Development Bank PLC

	Other Disclosures	Reference to the Companies Act	Disclosure reference for compliance	Pages
43	Investment Property	GGD	Note 31 to the Financial Statements – Investment Property	228
44	Capital Commitments	GGD	The Bank has a Capital commitment totalling approximately LKR 638 Mn over the next 24 months consisting principally of an upgrade to the Banks Core Banking system.	257
45	Issue of Shares and Debentures by the Subsidiaries and Associates during the year	GGD	Note 29 and 30 to the Financial Statements.	226 to 228
46	Disclosure of Director's Dealing in shares and Debentures	GGD	Number 6 and Number 14 of the Section on "Investor Relations".	378 to 388
47	Environmental Protection	GGD	The Bank and the Group have not engaged in any activity that is detrimental to the environment, and have complied with the environmental laws and regulations at all times. Specific activities carried out during the year to protect the environment are detailed in the Management Discussion and Analysis.	42
48	Events Occurring after the Date of the Statement of Financial Position	GGD	There have been no events that require adjustment to the Financial Statements or disclosure in the Financial Statements that has occurred subsequent to the date of the Statement of the Financial Position of the Bank. Note 53 to the Financial Statements.	267
49	Human Resources	GGD	The Human Resources activities carried out during the year to focus on the strategic objective are detailed in the Human Resources and Remuneration Committee report and Management Discussion and Analysis.	85 to 92 and 148 to 149
50	Operational Excellence	GGD	Operational Excellence is also a key Strategic Objective of the Bank and focusses on increasing efficiency and managing operational costs. The Bank has on going initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.	93 to 101
51	Outstanding Litigations	GGD	In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in the Financial Statements will not have a material impact on the financial position of the Bank or its future operations. Note 48 to the Financial Statements.	255 to 257

Directors' Interests in contracts with the National Development Bank PLC

	Relationship	Company	Accommodation Granted, Deposits & Investments	Balance Outstanding as at 31 December 2020 LKR '000	Balance Outstanding as at 31 December 2019 LKR '000
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Mr. Eshana de Silva

Director	Interocean Energy (Pvt) Limited	Deposits & Investments	2,539	-
		Loans & Receivables	692,900	-
Director	Esna Allied Enterprises (Pvt) Limited	Deposits & Investments	1,053	-
		Off - Balance Sheet Accommodations	926	-

Mr. Dimantha Seneviratne

Director	NDB Capital Holdings Limited	Deposits & Investments	2,808	3,168
		Off - Balance Sheet Accommodations	45,951	30
Director	NDB Wealth Management Limited	Deposits & Investments	478	5,856
Director	NDB Investment Bank Limited	Deposits & Investments	7,814	4,879
		Loans & Receivables	1	1
Chairman	Development Holdings (Pvt) Limited	Deposits & Investments	373,531	386,793
		Loans & Receivables	1	1
Director	NDB Securities (Pvt) Limited	Deposits & Investments	174,811	1
		Loans & Receivables	53,197	2,435
Director	NDB Zephyr Partners Lanka (Pvt) Limited	Deposits & Investments	13,853	5,657
Director	Credit Information Bureau of Sri Lanka	Deposits & Investments	800,007	900,004

Mr. Sriyan Cooray

Director	Orient Finance PLC	Loans & Receivables	301,980	42,400
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Mr. Sujeewa Mudalige

Committee Member	The Ceylon Chamber of Commerce	Deposits & Investments	2,443,088	-
Non Executive Chairman	Mercantile Services Provident Society (MSPS)	Deposits & Investments	979,605	-
Independent Director	Link Natural Products Limited	Deposits & Investments	356,241	-
Independent Director	CIC Holdings PLC	Deposits & Investments	43,307	-

Mr. Hiran Perera

Director (Non-Board)	Softlogic Holdings PLC	Deposits & Investments	4,629	-
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Human Resources and Remuneration Committee Report



Dr. Dinusha Panditaratne
Chairperson

COMPOSITION OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

The Board appointed Human Resources & Remuneration Committee comprised of 03 Non-Executive Directors inclusive of the Chairperson who is an Independent Director as set out below. The Group Chief Executive Officer (GCEO) has been present at meetings subsequent to being invited by the Committee, other than in instances where matters relating to the GCEO have been discussed.

As at 31 December 2020 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Dr. Dinusha Panditaratne	Independent	C
Mr. Eshana de Silva	Independent	M
Mr. Bernard Sinniah	Non-Independent	M
Mr. Dimantha Seneviratne	Non-Independent	I
Secretary to the Committee		
Ms. Shehani Ranasinghe – (Vice President - Company Secretary)		
C – Chairperson	M – Member	I – by invitation

CHARTER OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

The Human Resources & Remuneration Committee was formed in compliance with Section 3 (6) of Direction No. 11 of 2007, on the subject "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction. The Charter of the Human Resources & Remuneration Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Charter in July 2020. As per the Charter, the scope of work includes the following:

- Determining and periodically reviewing the Remuneration Policy (salaries, allowances and other financial payments and perquisites) and remuneration payable relating to Executive and/or Non-Executive Directors, the GCEO and Key Management Personnel (KMP/s) of the Bank in terms of the Remuneration Policy/ Bank's Articles etc.
- Recommending to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors including the Chairman out of the total sum determined for the purpose by the shareholders in terms of the Bank's articles
- Reviewing and recommending to the Board in consultation with the Nomination Committee, personnel considered fit and proper for appointment to KMP positions of the Bank
- Responsibility of setting and reviewing goals and targets for Directors, GCEO and KMPs and determining their periodic revision
- Evaluating the performance of the GCEO and KMPs against the set goals and targets periodically and determining the basis for revising remuneration, benefits and other payments of performance based incentives
- Considering the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and making necessary recommendations for the approval of the Board
- Discussing and assessing with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank
- Receiving information on the role and activities of the Human Resources Department and making recommendations for the strengthening of the role of the said department if necessary
- Reviewing the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs, including the review/ recommendation of share option schemes for employees of the Bank
- Reviewing and recommending to the Board any termination payments that are proposed to be paid to Directors, the GCEO and/or KMPs in the event the same are deemed necessary and ensuring that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations

COMMITTEE MEETINGS

Despite the pandemic situation in the Country, the Committee held six (06) meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (03) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee acknowledges rewards as one of the essential components in influencing employee behaviour, thus impacting business results. Therefore, the reward programmes are designed to attract, retain and to motivate employees to deliver results by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the GCEO and KMPs against the pre-agreed targets and goals that balance short and long term financial and strategic objectives.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the overall performance of the Bank, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets. In this regard and as and when needed, the Committee can seek external independent professional advice on matters falling within its purview.

The Committee has as a practice ensured that the Bank organises and takes part in compensation surveys every 2-3 years and has utilised such feedback to ascertain that compensation practices are benchmarked to the "best practices" and are relevant and current as far as possible.

SUMMARY OF ACTIVITIES IN 2020

The Committee was apprised of and duly followed up on the impact of the Coronavirus pandemic to the staff, workplaces and customers of the Bank, advising the Management on timely action as and when needed.

During the year, the Committee comprehensively reviewed the performance of the KMPs of the Bank for the year 2019 against the set goals and targets, using the Balanced Scorecard methodology and recommended to the Board of Directors of the Bank, the increments, bonuses and promotions for the staff members in general and individually, for the KMPs in 2020 in line with current strategy and direction of the Bank. Staff benefits and schemes were also reviewed during the year with a view of improving staff satisfaction in line with market standards with focus on the Bank's strategic journey and the prevailing environment.

The Committee also advised and set goals and targets for the KMPs for 2020 in line with the strategic vision and direction of the Bank in 2020, whilst also noting and agreeing upon goals and targets of the Board of Directors for the year 2020.

The Committee was further called upon to consider, together with the Nominations Committee the qualifications, experience and suitability of several persons to fill some KMP positions that fell vacant during the year and recommended regarding appointments, extensions and role/designation changes of several KMPs of the Bank in line with and to support the Bank's strategic direction.

The revision of the Succession Plan of the Bank which was recommended by the Nominations Committee together with the Committee was submitted to and approved by the Board.

The Committee also received information on the role and activities of the Human Resources Department and made recommendations to strengthen governance and management practices.

The Committee further approved and recommended a Risk Severity Matrix and consequence Management Framework which was introduced by the Management to manage consequences of disciplinary cases and related matters of the Bank which will be implemented across the Bank in 2021.



Dr. Dinusha Panditaratne
Chairperson
Human Resources & Remuneration Committee

18 February 2021
Colombo

Nominations Committee Report



Mr. Eshana de Silva
Chairperson

CHARTER OF THE NOMINATIONS COMMITTEE

The Nominations Committee was formed in compliance with the Section 3 (6) of Direction No. 11 of 2007, "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction. The Charter of the Nominations Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Charter in July 2020. The Committee carries out the following duties and responsibilities:-

- Implements procedures to select/appoint new Directors, GCEO and Key Management Personnel (KMPs)
- Considers and recommends the reelection of current Directors, taking into account the performance and contribution made by the Director/s concerned towards the overall discharge of the Board's responsibilities
- Sets out the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of GCEO and KMPs
- Ensures that Directors, GCEO and KMPs are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks
- Sets the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment to select/appoint fit and proper persons as the Nominee Directors to the Boards of the Bank's Group Companies

COMPOSITION OF THE NOMINATIONS COMMITTEE

The Board appointed Nominations Committee comprised of 03 Non-Executive Directors inclusive of the Chairman who is an Independent Director as set out below. The Group Chief Executive Officer (GCEO) and other Directors have been present at meetings only if invited by the Committee.

As at 31 December 2020 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Eshana de Silva	Independent	C
Dr. Dinusha Panditaratne	Independent	M
Mr. Bernard Sinniah	Non-Independent	M
Mr. Dimantha Seneviratne	Non-Independent	I

Secretary to the Committee

Ms. Shehani Ranasinghe
(Vice President - Company Secretary)

C – Chairperson | M – Member | I – by invitation

- Considers and recommends from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and KMPs

COMMITTEE MEETINGS

The Committee held five (05) meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (03) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee meets as and when necessary in order to assess the suitability of individuals for appointment as Directors and KMPs in the manner aforementioned as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

SUMMARY OF ACTIVITIES IN 2020

During the year, the Committee considered the suitability of several candidates and recommended the appointment of four Directors to the Board of Directors of the Bank and further reviewed and recommended the appointments of three Directors to the Boards of subsidiary companies of the Bank. In the process, the Committee assessed the qualifications, experience, skills and competencies of the Directors vis à vis the gaps and needs of the Boards in line with any applicable regulatory requirements. The Committee was conscious of the overall composition of the Boards and striking the ideal balance in terms of expertise and experience on the Boards.

The Committee also assessed the fitness and propriety of the continuing Directors and affidavits and declarations submitted by Directors were forwarded to the Regulator for approval as required by the regulations. The Committee further recommended to the Board the re-election of Directors retiring by rotation and offering themselves for re-election at the Annual General Meeting in line with the Articles of Association of the Bank and applicable regulations, having reviewed the fitness and propriety of the Directors.

The Committee, with a view to strengthening the organisational structure of the Bank, also reviewed the expertise, skills and talents of potential candidates both internally and externally in line with internal policies and applicable rules and regulations, in order to fill senior managerial positions of the Bank and further deliberated and recommended regarding appointments/extensions and role/designation changes of several key management personnel of the Bank in line with the strategic vision and direction of the Bank, together with the Human Resources and Remuneration Committee.

The revised/updated Succession Plan of the Bank which was recommended by the Committee in 2020 has been submitted to and approved by the Board.

Mr. Eshana de Silva
Chairperson
Nominations Committee

18 February 2021
Colombo

Strategic Issues Committee Report



Mr. Eshana de Silva
Chairperson

CHARTER OF THE STRATEGIC ISSUES COMMITTEE REPORT

With the formation of the Strategic Issues Committee as a Board sub-committee, its Charter has been approved by the Board and is reviewed annually. Accordingly, the Committee reviewed the Charter in December 2020 with amendments being made with regard to strategic processes and duties and responsibilities of the Committee.

The Committee carries out the following duties and responsibilities:

- Providing the strategic direction and strategic thinking of the Board to the Management in the development and implementation of the Bank's strategic plan
- Developing the Bank's strategy and its implementation together with the Management
- Reviewing and assessing the formulation and implementation of strategic plans developed by the Management and approved by the Board
- Guiding and assisting the Management in implementing strategic decisions taken by the Board
- Making recommendations regarding strategic capital allocation and reviewing proposals for raising of funds as submitted by the Management and making recommendations/suggestions in that respect to the Board
- Reviewing and evaluating strategic issues and plans of subsidiary companies of the NDB Group to ensure that the same are in line with the strategic initiatives and strategic direction of the Bank with a view to optimising the NDB Group's operational effectiveness

COMPOSITION OF THE STRATEGIC ISSUES COMMITTEE

The Board appointed Strategic Issues Committee comprised of 04 Non-Executive Directors inclusive of the Chairman who is an Independent Director and the Group Chief Executive Officer (GCEO). Other Directors and Members of the Management Team attend meetings upon invitation by the Committee.

As at 31 December 2020 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Eshana de Silva	Independent	C
Mr. Bernard Sinniah	Non-Independent	M
Mr. Sriyan Cooray	Independent	M
Mr. Sujeewa Mudalige	Independent	M
Mr. Dimantha Seneviratne	Non-Independent	M
Secretary to the Committee		
Ms. Shehani Ranasinghe – (Vice President - Company Secretary)		
C – Chairperson	M – Member	I – by invitation

The Committee is responsible for determining the following decisions:

- Approving of all strategic investments and divestments and recommending the same to the Board (i.e - assess new business proposals including acquisitions/ joint ventures and make appropriate recommendations)
- Approving the periodical Strategic Plan (covering 3-5 years or more) and recommending the same to the Board
- Approving any significant amendments to the existing Strategic Plan and recommending the same to the Board
- Reviewing and recommending the annual business plan, budget and capital structure of the Bank and the NDB Group before onward submission to the Board for approval

COMMITTEE MEETINGS

The Committee held Two (02) meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (03) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee meets as and when necessary in order to, inter alia; deliberate in detail on matters of strategic importance to the Bank and the NDB Group so as to advise the Board

in a timely manner. The Committee meets to examine and evaluate any strategic issues that may arise and further to evaluate any changes to strategic plans/decisions already in place, as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

SUMMARY OF ACTIVITIES IN 2020

The Committee engaged in in-depth consideration of the Budget for the year 2021 in line with the revised Strategic plan of the Bank 2021-2025 and recommended the same to the Board for approval. Inorganic as well as alternate investment avenues were other aspects on which the Committee deliberated and apprised the Board in 2020. The Committee also deliberated on Tier 1 and Tier 2 Capital requirements for the Bank in line with current regulations in a volatile market to ensure that the Bank is compliant with same and adequately funded to support its growth aspirations and plans and several recommendations were made with regard to raising Tier 1 and Tier 2 capital as and when needed.

Mr. Eshana de Silva
Chairperson
Strategic Issues Committee

18 February 2021
Colombo

Integrated Risk Management Committee Report



Mr. Sriyan Cooray
Chairperson

COMPOSITION OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Board appointed Integrated Risk Management Committee comprised of four Non-Executive Directors inclusive of the Chairman of the Committee who is an Independent Director as set out below.

As at 31 December 2020 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sriyan Cooray	Independent	C
Mr. Sujeewa Mudalige	Independent	M
Ms. Hiransa Kaluthanthri	Non Independent	M
Mr. Hiran Perera	Non Independent	M
Mr. Dimantha Seneviratne	Non Independent	M
Ms. Melody Wikramanayake (Vice President - Legal)	Non Director	M
Ms. Manique Kiriella Bandara (Compliance Officer)	Non Director	M
Secretary to the Committee		
Ms. Shanti Gnanapragasam (Vice President - Group Risk Management)	Non Director	M
*C – Chairman M – Member		

CHARTER OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007 (as amended), on the subject "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the IRMC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee last reviewed the charter in February 2020. As per the Charter, the scope of work includes the following:

- Work closely with Key Management Personnel (as defined by the Management from time to time) and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee
- Assess all risks of the Bank and Group on a monthly basis through appropriate risk indicators and management information
- Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions
- Review the adequacy and effectiveness of all management level committees such as the Credit Committees, Credit and Market Risk Policy Committee, Operational Risk Policy Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee/Board
- Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee/Board on the basis of the Bank's policies and regulatory and supervisory requirements
- Inform the Human Resources Department to take appropriate action against the officers who fail to identify specific risks, and/or take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision. The course of action to be taken against staff would be governed by the HR disciplinary action procedure in force
- Review and discuss the scope of work of the Group Risk Management Department
- Receive copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto

- Ensured staff are trained adequately on compliance related laws, regulations, policies and procedures as a tool in mitigating Bank's compliance risk by educating employees and maintaining their ongoing awareness. The programmes include both formal training courses and ongoing communications

COMMITTEE MEETINGS

The Committee held four meetings, during the year under review to discuss the normal scope of work and one special IRMC meeting to review the ICAAP & Stress Testing Framework of the Bank which was held in June 2020. The attendance of committee members at meetings is stated in the table on page 135. Key members of the staff participate at the meetings as appropriate. The quorum for a meeting is four members of which two shall be Non-Executive Directors.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

SUMMARY OF ACTIVITIES IN 2020

The Country and the World collectively faced a year of extraordinary and unprecedented challenges in the midst of the COVID-19 Pandemic. The Committee, thus, in addition to carrying out its duties under the normal scope of work devoted special attention to reviewing the risks and mitigants associated with the impact of COVID-19 on various activities of the Bank. The key areas of focus in this regard are detailed under each category below:

Credit Risk

- Reviewed and approved policies and operating guidelines related to Credit Policy Manual, Impairment Policy, Policy on Bank's Indirect Exposure to Stock Market Activities, Cross Border Exposure Limits and Policy on Loan Review Mechanism
- Reviewed the portfolio quality of the Bank, Rapid risk reviews on stressed sectors and Country Risk reports
- Reviewed the key implications of COVID-19, key areas of impact, assessment of categorising industries/ sectors based on the severity of impact

- Reviewed the impact of regulatory relief measures such as loan moratoriums under the COVID-19 Relief scheme and proactive measures taken by the Bank to mitigate risk of future defaults
- Reviewed the update on Collections & Recoveries
- Reviewed the update on the Loan Review Mechanism
- Reviewed work carried out by the Credit Committees, Credit and Market Risk Policy Committee by reviewing the decisions taken by each committee

Operational Risk

- Reviewed and approved the Operational Risk Policy and the Fraud Risk Management Policy
- Reviewed Operational Risk reports, including but not limited to:
 - Significant Operational Risks, Incidents and Losses
 - Key Risk Indicators related to Human Resources, Information Technology, Finance, Compliance and Business lines
 - Process changes initiated by Operational Risk as fraud prevention measures
 - Impact on COVID-19 - Timely actions taken against the major concerns identified due to COVID-19 by implementing initiatives to safeguard health and safety of staff and customers, tightening measures against potential cyber risk/threats and arranging shift, split, roster and work from home options for critical and non-critical functions ensuring the business continuity
- Reviewed the proceedings of the Operational Risk Policy Committee including the decisions taken by the Committee

Market and Liquidity Risk

- Reviewed and approved the Bank's policy framework, procedure guidelines, terms of references (TOR's) for the management of Market and Liquidity Risk, to ensure the same is designed to facilitate the identification and assessment of the above risks and adequacy of controls

- Reviewed and approved the Market and Liquidity Risk limit framework based on the Strategic Initiatives, Balance Sheet structure and the risk profile of the Bank to optimise business potential, particularly focusing on liquidity risk forecasts in view of the pandemic
- Reviewed exposures/information and monitored the effectiveness of the management of Market and Asset Liability Risk Management, including
 - Strategies and other relevant issues related to financial market activities and business environment
 - Financial position, forecasts and business performance
 - Market/Liquidity risk analysis & stress testing
 - Analysis of Asset Liability Committee (ALCO) reports and decisions taken by each committee and assessment of the effectiveness of the committees in line with TOR
 - Review of Treasury Dealing Room and Liquidity exposures/compliance and exceptions
- Reviewed and forecasted the Bank's liquidity position taking in to account the Central Bank's accommodative monetary policy stance and its effects under different scenarios

Compliance

- Compliance function ensures that the compliance framework, policies and processes are designed to manage, monitor and report non compliances and to minimise potential for breaches, fines or penalties and to ensure that appropriate remedial action is taken to address instances of non-compliance
- Keeps abreast of any emerging regulatory developments and assessed the implications of the new regulations
- Assessed the Bank's compliance with laws, regulations and regulatory obligations based on the Quarterly Compliance Report submitted to the Committee
- Reviewed and approved the Compliance Risk Management Policy and Framework which enables the Bank to identify, prioritise, and assign accountability for managing existing or potential compliance risks that could lead to fines, penalties or reputational damage

Integrated Risk Management Committee Report

- Ensured effective implementation of governance related policies at the Bank. Reviewed and approved the three governance related policies namely, Compliance Policy and Code of Conduct, Group Securities Trading Policy and the Group Anti-Bribery and Corruption Policy
- Reviewed and approved the Annual Compliance Program work carried out
- Tracked the progress of action to be taken for supervisory concerns identified by CBSL and ensure timely completion of same
- Support the compliance and governance framework of the NDB subsidiaries by ensuring that policies, processes and procedures of the subsidiaries are aligned to that of the Bank and that compliance risks of the subsidiaries are effectively being managed
- A Quarterly Report on the compliance status is submitted to Board through the Committee
- Bank is aware of the new risks that emerged amidst the global pandemic. The Regulatory Compliance programme of the Bank has aligned itself to staying on top of key regulatory changes that have taken place during these unprecedented times. In the area of anti-money laundering compliance the Bank has intensified vigilance against new risks that emerged with the increase in non face-to-face activity and the use of digital banking channels

Legal Affairs

- Reviewed and monitored in detail the cases filed against the Bank in order to assess the risk. A detailed update of the cases filed against the Bank and other cases were discussed with the IRMC committee whilst updating the Committee on the probable outcome of such cases
- Reviewed and monitored the court cases filed by the Bank
- Reviewed and monitored other cases where the Bank is made a party such as partition, testamentary and winding up etc.
- Reviewed and monitored the progress on court cases below LKR 5 Mn outsourced to two instructing law firms namely Shiranthi Gunawardene Associates and Sudath Perera Associates. It may be noted that the outsourced cases do not include

the cases handled by the Recoveries and Collection Department which are cases on Personal Loans, Credit Cards, Pawning and Housing

- Reviewed and monitored the progress on parate actions and any issues faced
- Reviewed and monitored any other matters pertaining to the legal policy such as the title policy of the Bank
- Reviewed, discussed and updated on the latest laws relevant to litigation
- Reviewed and monitored any other assistance that is required by the Legal Department to effectively carry out its litigation/recovery activities
- Reviewed the different functions, focus areas and progress of the Legal Department relating to mainly SME (covering 115 Branches), Corporate Banking, Project Finance, Housing, Special Assignments and Litigation

Others

- The Committee reviewed the Key Risk Indicators of the Bank and Group Companies on a monthly basis through the monthly KRI Statements and quarterly Risk Assessment Reports
- Reviewed and approved Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2020 considering the long term strategy of the Bank which was revisited during the second quarter of 2020 considering the impact of COVID-19 on the operating environment of the Bank. The Risk Appetite framework and Risk Tolerance limits were reviewed and adjusted by the Committee considering the challenges in the operating environment. The COVID-19 impact on risk levels of each material risk of the Bank and the mitigants in place were critically reviewed as part of the ICAAP review
- Reviewed/approved the Stress Testing Policy and Framework. Considering the changes in operating environment, a comprehensive review of its stress testing policy and framework was carried out where the adequacy of stress tests, frequency, shock levels and assumptions were critically reviewed and changes were incorporated to policy and framework as required. Reverse stress testing was introduced to the stress testing policy

and framework to further strengthen the framework to overcome a false sense of security that might arise from regular stress testing in which the Bank may identify manageable impacts

- Reviewed and approved the Integrated Risk Management Framework and Policy on Valuation of Immovable Properties
- Reviewed update on Technology Risk Resilience and Cyber Risk/IT Security
- Environment & Social Risk Management (ESRM)
 - Reviewed overall Environment & Social assessments carried out by each business line at portfolio level and submitted quarterly updates to the IRMC
 - Reviewed/comprehensive comparison carried out in order to evaluate if any improvements need to be made to the NDB's ESRM framework/policy based on Environment & Social Governance policies of two other foreign banks



Mr. Sriyan Cooray
Chairperson
Integrated Risk Management Committee

18 February 2021
Colombo

Audit Committee Report



Mr. Sujeewa Mudalige
Chairperson

COMPOSITION OF THE AUDIT COMMITTEE

The Board appointed Audit Committee comprised of four Non- Executive Directors inclusive of the Chairman who is an Independent Director as set out below. As at 31 December 2020 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sujeewa Mudalige	Independent	C
Mr. Sriyan Cooray	Independent	M
Dr. Dinusha Panditaratne	Independent	M
MS. Hiransa Kaluthantri	Non Independent	M

Secretary to the Committee

Ms. Ruwani de Silva
(Vice President - Group Audit)

C – Chairperson | M – Member | I – by invitation

CHARTER OF THE AUDIT COMMITTEE

The Charter of the Committee approved by the Board, clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments relating to the Committee's functions and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in the First quarter of 2020.

Audit Committee assists the Board in the discharge of its responsibilities by exercising oversight over the Bank's financial reporting, internal controls, internal audit and external audit practices.

COMMITTEE MEETINGS

The Committee held seven (07) meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (03) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Vice President Group Audit, Group Chief Executive Officer [GCEO], VP Finance and the Bank's External Auditors attended all meetings. The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time on a need basis.

METHODOLOGY USED BY THE COMMITTEE

The Committee functions are structured and regulated in accordance with the guidelines issued in the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments (hereinafter referred to as the Direction), "Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange" and "Code of Best Practice on Corporate Governance" issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The committee is empowered by the Board to:

- Review the Interim Financial Statements and the Bank's annual Financial Statements in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors

- Examine any matter relating to the financial and other connected affairs of the Bank
- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and Other Stakeholders
- Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practice
- Review the quality and the appropriateness of Accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards
- Review the outcome of the annual Risk Assessment Process and Internal audit plan assessing independence and performance of the Internal Audit function
- Review internal audit reports and liaising with Management in taking precautionary measures to minimise control weaknesses, procedure violations, frauds and errors
- Review External Audit Management Letter and Statutory inspection reports in relation to matters under Audit Committee purview and follow up on their findings and recommendations

Audit Committee Report

SUMMARY OF ACTIVITIES IN 2020

Response to COVID-19

As businesses confront the profound operational, financial and workforce disruption brought on by the COVID-19 pandemic, there's no such thing as business as usual.

In its role overseeing financial reporting risk, audit committee had discussions with Senior Management to understand how the Bank is evaluating the effects of COVID-19 on the business operations including the impact due to moratoriums and concessions granted to lenders and the way people work including working from home, and whether those effects trigger an event-driven reassessment of business risk, control risk and the effectiveness of the related controls.

The Audit Committee made it a priority to understand if the impact of the disruptions caused by the pandemic discussed with Management the changes required to their internal audit annual plan and determined if it is still fit for purpose. The committee also focussed on ways to optimise internal audit's contributions in this new environment.

While the current environment has changed the way in which the external auditor is conducting its planning, interim reviews and audit procedures, as well as the way in which they engage with the Management, the audit committee's responsibility for oversight of the external auditor has not changed. The committee had discussions to understand the external auditor's perspective regarding potential changes in audit risk, management's process for developing significant estimates related to the impact of COVID-19 and the related impacts on internal control over financial reporting.

Reporting of Financial Position and Performance

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that evidence a true and fair view on the financial position and performance in accordance with the Bank's accounting records and as per the stipulated requirements of the Sri Lanka Accounting Standards and other regulatory requirements. In fulfilling its oversight responsibilities, the Committee reviews;

- The adequacy and effectiveness of the Internal Controls, Systems and Procedures over Financial Reporting
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders
- The Bank's Financial Statements, Accounting Policies and practices and reasonableness of the underlying assumptions for estimates and judgments made in preparing the Financial Statements
- The Tax Assessments outstanding and action initiated for resolution through regular reports submitted by VP - Finance
- The processes by which compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured
- The Annual Report and Accounts, and the Interim Financial Statements prepared for publication together with the press releases prior to submission to the Board

Compliance with the Revised Sri Lanka Accounting Standards

The Committee continuously monitored the progress/improvements done to the models used for Impairment computation through discussion with Management and review of Internal Auditors reports and noted the action taken by the Management to strengthen the process.

Mechanism of Internal Controls

During the year, the Committee reviewed the effectiveness of the Bank's Internal Control System and the GCEO's quarterly confirmation on the internal control environment, derived through the Operational Risk process which supports strengthening the Second Line of Defence of the Bank.

Additionally, the Committee assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2020, as required by the Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka, Subsection 3(8) (ii) (b), based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by The Institute of Chartered Accountants of Sri

Lanka. The result of the assessment is given on pages 163 to 164, in the "Directors' Statement on Internal Controls" in the Annual Report. The External Auditors have also issued an Assurance Report on the Directors' Statement on Internal Controls. The report is given on page 166 of the Annual Report.

The Committee also regularly reviews the Internal Control Procedures in place to ensure that necessary control and mitigating measures are available in respect of newly identified risks.

Group Audit

The Committee ensures that the Internal Audit Function is independent of the activities it audits and that the audits are performed with impartiality, proficiency and due professional care.

The Vice President Group Audit reports directly to the Board Audit Committee.

The Bank has adopted a risk-based audit methodology and audit approach. The Audit universe consists of all Auditable Areas/processes of the banking Group, which are audited annually based on a risk based audit plan approved by the BAC.

A risk grading matrix has been adopted for assessing and measuring the risks identified during audit assignments carried out by the Group Audit.

The Audit Committee reviewed the findings along with the management action plans of the audits completed and their evaluation of the Bank's internal control systems. The Committee also reviewed the coverage including the action plans given to address the issues and the implementation status.

Due to the COVID-19 global pandemic situation, time to time disruptions on continuous operations were experienced. Despite the pandemic situation the Group Audit managed to complete the audit plan for the year with minimal changes as agreed with the Audit Committee. During the lockdown period Group Audit concentrated on high risk areas through offsite audits to ensure the Bank's internal controls, Policies and procedures are adhered to and the findings were discussed with the Audit Committee.

Major findings of internal investigations with recommendations of the Management were discussed by the Committee in detail.

The Audit Committee reviewed the independence, objectivity & performance of the Group Audit function and the adequacy of its resources. The Audit Committee also evaluated the performance of Vice President Group Audit and reviewed the performance of the senior staff members of the Group Audit function.

Group Audit Charter and Audit Manual

The Group Audit function is governed by the Group Audit Charter which defines the mission, authority, responsibility, independence, reporting, commitment and access in order to assist Group Audit to discharge its function independently. The Group Audit Charter and the Audit Manual were revised and approved in May 2020 and June 2020 respectively, by the Board.

External Audit

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.

During the audit, the External Auditor presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence.

The Committee reviewed the audited Financial Statements with the External Auditor responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards and discussed in detail the action taken by the Management with regard to the Key Audit Matters raised by the Auditors.

The Committee also reviewed the Management Letter issued by the External Auditor and the Management responses thereto.

The Audit Committee met the External Auditors twice (2) during the year, without the presence of GCEO and the Corporate Management, to ensure that the Auditors had the independence to discuss any concerns and express their opinions on any matter and also for the Committee to have the assurance that the Management provided all information and explanations requested by the Auditors.

The Audit Committee was of the view that the Non-Audit Services provided by the External Auditor were not within the category of services identified as prohibited under;

- The guidelines issued by the Central Bank of Sri Lanka for External Auditors, relating to their statutory duties in terms of Section 39 of Banking Act No. 30 of 1988 and amendments thereto
- The guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka

In carrying out the overseeing responsibilities, the Committee adopted the overview principles of the Basel Committee on Banking Supervision on External Audits of the Banks, issued in March 2014.

Re-appointment of External Auditor

The Audit Committee performed an evaluation of the External Auditor based on certain defined criteria and recommended to the Board of Directors that Messrs. Ernst and Young, Chartered Accountants, to be re-appointed for the financial year ending 31 December 2021 subject to the approval of the shareholders at the next Annual General Meeting.

Oversight on Regulatory Compliance

The Group Audit performed verifications covering mandatory banking and other statutory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

Good Governance and Whistle Blowing

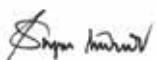
The Bank's Whistle blowing Policy was reviewed and amended in October 2019 in order to strengthen the policy. The Policy is intended to serve as a channel of corporate fraud risk management. The policy will educate and encourage any team member who has a legitimate concern on an existing or potential "wrong doing", done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. All appropriate procedures were in place to conduct independent investigations into incidents

reported through whistle-blowing. The Whistle blowing Policy guarantees the maintenance of strict confidentiality of the identity of the whistle- blowers.

During the year Group Audit conducted a virtual training session on the Whistle Blowing Policy and its requirements to the staff members of the Bank. Also Group Audit together with Group Human Resource department conducted an Awareness Campaign on the Whistle Blowing Policy.

EVALUATION OF THE AUDIT COMMITTEE

The Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee and reported the results of the same to the other members of the Board. The Board concurred that the Committee had carried out its responsibilities in an effective and satisfactory manner.



Mr. Sujeewa Mudalige
Chairperson
Audit Committee

18 February 2021
Colombo

Related Party Transactions Review Committee Report



Mr. Eshana de Silva
Chairperson

COMPOSITION OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

The Board appointed Related Party Transaction Review Committee comprised of 05 Non-Executive Directors inclusive of the Chairman who is an Independent Director as set out below. The Group Chief Executive Officer (GCEO) has been present at meetings only if invited by the Committee.

As at 31 December 2020 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Eshana de Silva	Independent	C
Mr. Sriyan Cooray	Independent	M
Dr. Dinusha Panditaratne	Independent	M
Mr. Sujeewa Mudalige	Independent	M
Mr. Kushan D'Alwis, PC	Independent	M
Mr. Dimantha Seneviratne	Non-Independent	I

Secretary to the Committee

Ms. Shehani Ranasinghe –
(Vice President - Company Secretary)

C – Chairperson | M – Member | I – by invitation

CHARTER OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Board of Directors of the Bank constituted a Related Party Transactions Review Committee voluntarily in December 2014 further to the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) so as to ensure compliance with the Rules pertaining to Related Party Transactions as set out in the Listing Rules of the CSE, which required mandatory compliance from 01 January 2016. The composition and the scope of work of the Committee are in conformity with no amendments being made thereto.

The Terms of Reference (TOR) of the Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the TOR in July 2020 and no changes were effected.

The primary objective of the Committee is to assess and consider all transactions with related parties of the Bank, except such transactions that may be exempted from its purview in line with Rule 9.5 of the CSE Listing Rules, in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

The Committee carries out the following duties and responsibilities:

- Reviewing to evaluate and to determine the advisability of any Related Party Transaction except for transactions set out in Rule 9.5 of the CSE Listing Rules, that require consideration by the Committee under the Related Party Policy of the Bank
- Approving or rejecting Related Party Transactions upon the required internal approvals being obtained
- Determining whether the relevant Related Party Transaction is fair to, and in the best interests of the Bank and its stakeholders; and
- Recommending to the full Board what action, if any, should be taken by the Board with respect to any Related Party Transaction
- Recommending to the full Board where necessary that the approval of the shareholders of the Bank be obtained by way of a Special Resolution prior to the concerned transaction being entered into as specified in Section 9.1 and 9.4 of the Listing Rules, where necessary

COMMITTEE MEETINGS

Despite the pandemic situation in the Country, the Committee held four (04) meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (03) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors. The Board of Directors take due consideration of the comments/observations made by the Committee and the approvals granted by the Committee for Related Party Transactions.

METHODOLOGY USED BY THE COMMITTEE

In carrying out the duties of the Committee, the Committee avoids 'conflicts of interest' which may arise from any transaction of the Bank with any person particularly with related parties and ensures arm's length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which requires the Bank to avoid engaging in transactions with related parties in a manner that would grant such parties 'more favourable treatment' than accorded to other constituents of the Bank carrying on the same business.

The Committee is also guided by the Listing Rules of the CSE pertaining to Related Party Transactions, the Board approved Related Party Transaction Policy and the TOR of the Committee and when reviewing the transactions takes into consideration the Related Party's relationship to the Bank and interest in the transaction, the material facts of the proposed transaction including the aggregate value of the same, the benefits to the Bank of the proposed transaction, the availability of other sources of comparable products or services and further carries out an assessment of whether the proposed Related Party Transaction is on terms generally available to an unaffiliated third party under the same or similar circumstances.

SUMMARY OF ACTIVITIES IN 2020

During the year the Committee approved/ratified transactions relating to the procurement of goods and services carried out by the Bank with various related parties on an 'arms-length' basis. This included in depth deliberations to ensure that where transactions with related parties were approved, same did not take place on more favourable terms. Some of the transactions reviewed included obtaining expert services from Group companies and other related parties of the Bank on an arm's length basis. Recommendations were also made by the Committee to improve/strengthen processes when transactions with related parties are contemplated.

The Committee participated in a presentation and discussion held internally on the regulatory overview of related party transactions in order to be abreast with the requirements of the law and comprehend/review the controls maintained by the Bank. Following same, the Committee advised on procedural improvements at the Bank which will assist in identifying related party transactions so that due process can be followed.

The Committee reviewed Related Party Transactions of the Bank during the period of 01 January 2020 to 31 December 2020 and has thus complied with the rules pertaining to Related Party Transactions as set out in Section 9 of the Listing Rules of the CSE. The Bank has not entered into any transactions as contemplated in Section 9.1.1 and 9.1.2 of the

Listing Rules of the CSE and accordingly there are no disclosures to be made in this regard in accordance with Section 9.3.2 (a) and 9.3.2 (b) of the Listing Rules of the CSE.



Mr. Eshana de Silva
Chairperson
Related Party Transactions Review Committee

18 February 2021
Colombo

Credit Committee Report



Mr. Eshana de Silva
Chairperson

CHARTER OF THE CREDIT COMMITTEE

The Board Credit Committee (BCC) was formed in June 2017 and the Charter of the Committee was approved by the Board of Directors in July 2017 and was last reviewed in June 2020. As per the Charter, the scope of work includes the following:

- Review and approve credit proposals including excess ratifications coming under the Committee's Delegated Lending Authority
- Review and approve facilities of Retail Banking (under Product Program Guides) which currently require Board approval
- Review and approve any material changes in respect of credits approved by the Committee (including changes in security/facility terms and conditions/interest margins/pricing and waivers)
- Pre-clearances of proposals (if Business Lines deem it necessary) of any Board level approvals
- Approve all Counterparty (bank) limits falling within the policy guidelines approved by the Board
- Review a summary of the Watch list clients classified as "Worry" on a Quarterly basis and/or when required
- Review summary of Overdue Annual Reviews on a monthly basis
- Review Covenant compliance status of Corporate Clients
- Review Summary details of exceptions to Delegated Authority on a Quarterly basis
- Review and recommend to Integrated Risk Management Committee on any changes to credit policy

COMPOSITION OF THE CREDIT COMMITTEE

The Board appointed Credit Committee comprised of four Non-Executive Directors inclusive of the Chairman who is an Independent Director and the Group Chief Executive Officer (GCEO) as set out below.

As at 31 December 2020 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Eshana de Silva	Independent Director	C
Mr. Bernard Sinnaiah	Independent Director	M
Mr. Hiran Perera	Independent Director	M
Mr. Kushan D'Alwis, PC	Independent Director	M
Mr. Dimantha Seneviratne (Group CEO)	Executive Non-Independent Director	M

Secretary to the Committee

Ms. Shareen Jayasuriya
(Assistant Vice President - Credit)

C – Chairperson | M – Member | I – by invitation

COMMITTEE MEETINGS

The Committee held fourteen (14) meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (03) members inclusive of two Non-Executive Director Members. Presence of GCEO or his designate is mandatory.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee reviews the Credit Proposals submitted by the Business Line, its risks and adequacy of pricing or covenants to mitigate the identified risks. Proposals are recommended to the Committee by GCEO and the Corporate Credit Committee. Key staff members are required to present the proposals and answer any queries as and when required.

SUMMARY OF ACTIVITIES IN 2020

During the meetings held in 2020 the Committee carried out the following activities:

- Reviewed and agreed on the revised Terms of Reference of the Committee and proposed for approval of the Board of Directors

- Reviewed and recommended seventy nine credit proposals for the approval of the Board of Directors
- Reviewed and approved thirty six credit proposals comprising of new facilities, annual review of revolving facilities, reschedulements, changes to terms and conditions of facilities already approved and pre clearance of proposals
- Reviewed and approved renewal of Bank Counter Party limits
- Reviewed status of facility annual reviews and account strategies of watch listed clients categorised as "Worry" and the top ten NPL accounts
- Reviewed impact and measures taken to manage risk aspects of COVID-19

APPRECIATIONS

The Committee wishes to convey its gratitude to former members Mr. Ashok Pathirage, Mr. Kavan Ratnayake and Mr. Dinal Phillips for their valuable contribution to the Committee.

Mr. Eshana de Silva
Chairperson
Credit Committee

18 February 2021
Colombo

Statement of Directors' Responsibilities for Financial Reporting

This statement sets out the responsibility of the Directors in relation to the Financial Statements of National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group). The Directors are required by relevant statutory provisions to prepare and table at a General Meeting of the Bank, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of the Bank and the Group.

It is also the responsibility of the Directors to ensure that the Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS), the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange. Changes in the Accounting Policies where applicable and the rationale for the changes have been disclosed in the 'Notes to the Financial Statements'.

Accordingly the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of:

- (a) the financial position of the Bank and the Group as at the reporting date; and
- (b) the financial performance of the Bank and the Group for the financial year ended on the reporting date.

The Financial Statements of the Bank and the Group have been certified by the Vice President - Finance of the Bank, the officer responsible for their preparation, as required by the Companies Act. In addition, the Financial Statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on 18 February 2021 as required by the Companies Act and other regulatory requirements. The Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's transactions are maintained and that the Bank's financial position, with reasonable accuracy, at any point of time is determined by the Bank, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2020, prepared and presented in this Annual Report have been prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC). The Group has also complied with the Directions/Guidelines issued by the Central Bank of Sri Lanka for COVID-19 impact.

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka on 18 January 2019 for the publication of annual and quarterly Financial Statements and other disclosures by the licensed banks.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the NDB Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them. The Directors' Statement on Internal Control over Financial Reporting is given on pages 163 and 164 of this Annual Report. The Board has been provided additional assurance on the reliability of the Financial Statements through a process of independent and objective review performed by the Board Audit Committee. Please refer the Board Audit Committee Report on pages 155 to 157 of this Report.

Messrs Ernst & Young, Chartered Accountants, who were appointed in terms of the Companies Act No. 7 of 2007 and in accordance with a resolution passed at the last Annual General Meeting, have been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate, all of which they have examined and have expressed their opinion which appears as reported by them on page 170 of this Report.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 167 to 305 including, appropriate Accounting Policies selected and applied based on the new financial Reporting framework on a consistent basis, while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

The Board of Directors wishes to confirm that, as required by the Section 56 (2) of the Companies Act No. 7 of 2007, they have authorised distribution of the dividends paid upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act No. 7 of 2007 and have obtained in respect of dividends paid, necessary certificates of solvency from the External Auditors.

The Board of Directors also wishes to confirm that, as required by Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every Shareholder and Debenture holder of the Bank, who have expressed desire to receive a printed copy or to other Shareholders and Debenture holders a soft copy each shared by way of a link containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) of Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all Shareholders have been treated equitably in accordance with the original terms of issue.

Further, the Board of Directors wishes to confirm that the Bank has met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange and other regulations, laws and internal controls and there were no material non-compliances.

Statement of Directors' Responsibilities for Financial Reporting

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Bank and the Group, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group, and all other known statutory dues as were due and payable by the Bank and the Group as at the reporting date have been paid or, where relevant, provided for, except as specified in Note 48.3 to the Financial Statements on 'Litigation Against the Bank' on page 257. The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC), the Directors have a reasonable expectation that the Bank and the Group possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the Financial Statements. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board



Ms. Shehani Ranasinghe
Company Secretary

18 February 2021
Colombo

Directors' Statement on Internal Control over Financial Reporting

RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at National Development Bank PLC ('the Bank'). In considering such adequacy and effectiveness, the Board recognises 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 the Group 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 in line with the 'Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking in to account principles for the assessment of the internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting 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 AND 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 the 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.
- Policies/Procedures are developed covering all areas, which are approved by the relevant Board Sub Committees and the Board. These Policies/Procedures are reviewed periodically and the Compliance department follows up on the review of Policies to ensure that they are reviewed timely.
- Internal Audit Department checks compliance with policies and procedures and the effectiveness of internal control systems on an ongoing basis during their process audits. The Internal Audit department uses a top down risk based auditing approach enhancing the Risk Based Auditing Process. The entire audit universe is audited annually, at determined intensities based on the risk assessment covering the entire Group. The Audit Committee reviews the findings of the internal audits completed and their evaluation of the Bank's internal control systems. The Committee also reviews updates on audit activities and the scope and adequacy of coverage of the approved audit plan and any improvements thereto, and has detailed discussions on any unsatisfactory audits, reviewing the action plans to address these areas and the implementation status.
- The Board Audit Committee of the Bank also reviews internal control issues identified by the External Auditor, regulatory authorities and the Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the internal audit functions with particular emphasis on risk assessment, scope of audits and quality of internal audit. The minutes of the Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the 'Board Audit Committee Report' on pages 155 to 157.
- 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 assessment did not include subsidiaries of the Bank. The comments/recommendations made by the External Auditors in connection with the internal control system over financial reporting during the year will be taken into consideration to further strengthen the internal control system over financial reporting process.
- Due to the COVID-19 pandemic situation time to time disruption on continuous operations were experienced. The Bank implemented a staff roster process to safe guard the staff from the pandemic and remote system access was given to ensure continuous operations of the Bank.
- Internal Audit Department conducted verifications on high risk areas through offsite audits using MIS to ensure that Banks internal controls, Policies and procedures are adhered to, during the pandemic situation and the findings were discussed with the Audit Committee. A risk assessment of remote working arrangements was also carried out and areas for improvement were suggested to Management to further strengthen the Technology layer.
- Further a Phishing simulation was conducted by the IS auditors covering all departments to measure the employees' security awareness and to measure the adequacy of controls to prevent phishing attacks. In addition, the IT department from time to time provides necessary information relating to possible threats of information security to increase awareness of staff.

Directors' Statement on Internal Control over Financial Reporting

- The Bank took necessary steps to further improve the models used for Impairment computation under the Sri Lanka Accounting Standard – SLFRS 9 on 'Financial Instruments' in consultation with the External Auditors. The required processes and controls have been designed to be in line with SLFRS - 9 and Regulatory requirements. Also adequate training and awareness sessions have been conducted for all stakeholders. The Board will continuously strengthen the processes and controls around management information systems and reports required for validation and compliance in line with SLFRS 9; and Financial Statement disclosures related to risk management.
- The Bank also engaged an External Consultant to support the automation of the Impairment Model in line with SLFRS 9, with the upgrade of the Core Banking system which is in the process currently.

CONFIRMATION

No one can predict the full impact of COVID-19 on the economic environment. The Bank is continuing to adapt and learn how to effectively operate while ensuring the safety of their employees, customers and other key stakeholders. That means understanding the particular importance of internal controls during COVID-19.

The effect of COVID-19 has created an unprecedented level of business interruption around the world. The Bank as in the case of many organisations have had to shift to working remotely and adjust operations to ensure the safety of their employees, customers and other key stakeholders.

The Board of Directors and the Management re-evaluated Financial and other operational risks and assessed the impact of any noted changes on internal controls.

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.

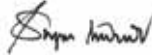
REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs.' Ernst & Young have reviewed the above Directors' Statement on internal control over financial reporting included in the Annual Report of the Bank for the year ended 31 December 2020 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. Their independent assurance report on the Directors' Statement on Internal Control is given on the page 166 of this Annual Report.

By order of the Board,



Mr. Eshana de Silva
Chairman



Mr. Sujeewa Mudalige
Chairperson Audit Committee



Mr. Dimantha Seneviratne
Group Chief Executive Officer

18 February 2021
Colombo

Responsibility Statement of the Group Chief Executive Officer and Vice President Finance

The Financial Statements of the National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Group Companies (the Group) as at 31 December 2020 are prepared and presented in compliance with the following regulatory requirements:

- i. Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
- ii. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- iii. Companies Act No. 7 of 2007
- iv. Banking Act No. 30 of 1988 and amendments thereto
- v. Directions, circulars and guidelines issued to licensed commercial banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka on corporate governance
- vi. Directions/Guidelines issued by the Central Bank of Sri Lanka for COVID-19 impact
- viii. Listing Rules of the Colombo Stock Exchange
- ix. The Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (2017)

These Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka on 18 January 2019 for the publication of annual and quarterly Financial Statements and other disclosures by the licensed banks.

The Accounting Policies of the Bank and the Group are in compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka.

Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Board Audit Committee and the External Auditors. Comparative information has been reclassified wherever necessary to comply with the current year's presentation. All significant items have been disclosed and explained by way of Notes to the Financial Statements. We confirm to

the best of our knowledge, that the Financial Statements presented herewith give a true and fair view of the financial position, Statement of Profit or Loss and the cash flows of the Bank and the Group for the year. We also believe that the Bank and the Group have adequate resources to continue its operations in the foreseeable future and accordingly adopt the going concern basis for the preparation of the Financial Statements.

The Board of Directors and the Management of the Bank and the Group accept responsibility for the integrity and the objectivity of the Financial Statements. The estimates and judgments relating to the Financial Statements were made on a reasonable and prudent basis; in order that the Financial Statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Bank and the Group is reasonably presented. To ensure this, the Bank and the Group have taken proper and sufficient care in implementing internal control systems, with the use of a comprehensive core banking system, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Internal Auditor of the Bank and the Group has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank and the Group are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

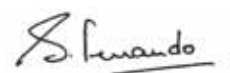
The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its Group Companies were audited by Messrs Ernst & Young, Chartered Accountants. The Report issued by them is available on page 170 of Annual Report. The audit and non-audit services provided by Messrs Ernst & Young are approved by the Board Audit Committee, to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka or impair Messrs Ernst & Young's independence.

The Board Audit Committee reviews the adequacy and the effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all

transactions are accurately and completely recorded in the books of account and the processes by which compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 155 to 157. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

We confirm to the best of our knowledge that

- The Bank and the Group have complied with all applicable laws, rules, regulations and guidelines;
- There is no material non-compliance;
- There is no material litigation against the Bank and the Group other than those disclosed in Note 48.3 on page 257 of the Financial Statements section of Annual Report;
- All taxes, duties, levies and all statutory payments by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at the reporting date have been paid, or where relevant provided for.



Ms. Suvendrini Muthukumarana
Vice President – Finance



Mr. Dimantha Seneviratne
Group Chief Executive Officer

18 February 2021
Colombo

Independent Assurance Report



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eysl@lk.ey.com
ey.com

ADeS/PATR

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of National Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2020.

Management's responsibility

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

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

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

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

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

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

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

Our conclusion

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

18 February 2021
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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FINANCIAL STATEMENTS

The Orion Nebula is one of the most photographed and intensely studied marvels of the night sky. Many studies revealed the process of how stars and planetary systems are formed from collapsing clouds of gas and dust — and this vast stellar nursery is where billions of new stars are being formed.

Since our inception, NDB has evolved into a complex, intricately structured entity constantly brimming with a multitude of capabilities, responsibilities and functions. As we consolidate our strengths with new partnerships and innovative ideas, this section pays tribute to the constant and consistent results we delivered amid a turbulent year — an exceptional performance which illustrated our true potential.

Integrated Approach to Financial Reporting

In our commitment to enhance the quality of financial reporting within the overall annual reporting framework, we have continued to adopt the integrated reporting concepts in the presentation of Financial Statements for 2020. Accordingly, we have presented the Financial Statements and relevant Notes to the Financial Statements on a comprehensive and integrated manner. This approach serves as reader-friendly and effective in referencing and analysis.

The presentation of the 2020 Financial Statements are in accordance with the Sri Lanka Financial Reporting Standards and all other applicable guidelines as detailed in page 4 of this Report.

For the purpose of reporting financial performance, the Bank represents National Development Bank PLC, separate Financial Statements and the Group represents the Bank and its subsidiary companies.

Financial Calendar 2020/2021

Annual General Meetings	Date
16th Annual General Meeting	09 April 2021
15th Annual General Meeting	25 June 2020

Dividends	Amount – LKR	Date dividends announced	Date dividends paid/to be paid
Interim dividend for 2020	LKR 1.50 (Cash)	18 February 2021	23 March 2021 (Cash)
First and final dividend for 2019	LKR 2.00 (Cash)	18 February 2020	10 March 2020 (Cash)
	LKR 5.00 (Scrip)		11 March 2020 (Scrip)

Interim Financial Statements	Date released to the CSE	Date published in newspapers
Q4/For the twelve months ended 31 December 2020	18 February 2021	-
Q3/For the nine months ended 30 September 2020	12 November 2020	20 November 2020
Q2/For the six months ended 30 June 2020	13 August 2020	27 August 2020
Q1/For the three months ended 31 March 2020	20 May 2020	17 June 2020
Q4/For the twelve months ended 31 December 2019	18 February 2020	-

Annual Financial Statements	Date released to the CSE	Date published in newspapers
Annual Financial Statements for 2020	15 March 2021	20 March 2021
Annual Financial Statements for 2019	04 March 2020	18 March 2020

Investor engagements on quarterly financial results	On-line Webinar
Q4 2020	19 February 2021
Q3 2020	13 November 2020
Q2 2020	14 August 2020
Q1 2020	21 May 2020
Q4 2019	19 February 2020

Proposed Financial Calendar 2021 (Tentative)

Interim Financial Statements

Interim Financial Statements will be released to the Colombo Stock Exchange (CSE) and published in newspapers in all three languages of Sinhala, Tamil and English within the regulator stipulated deadlines. Investor Webinars will be held per each quarter, within a maximum of five working days from releasing the Financial Statements to the CSE.

Annual Financial Statements	Date to be released to the CSE	Date to be published in newspapers (in Sinhala, English & Tamil)
Annual Financial Statements for 2021	March 2022	

As per Rule 7.4 of the Listing Rules of the Colombo Stock Exchange (CSE), quarterly Financial Statements (un-audited) for the first three quarters should be released to the CSE as soon as the said Statements are approved by the Board of Directors and in any event not later than 45 days from the end of each quarter and in respect of the final quarter, within two months from the end of the final quarter. According to Rule 7.5 of the Listing Rules of the CSE, the audited Financial Statements should be published in accordance with the Sri Lanka Accounting Standards and the annual report should be sent to the shareholders and the CSE within five months from the close of the financial year.

As per the Banking Act Direction No. 11 of 2007 - Corporate Governance for Licensed Commercial Banks, the annual audited Financial Statements and quarterly Financial Statements should be prepared and published in accordance with the requirements of supervisory and regulatory authorities and applicable accounting standards and such Statements must be published in the newspapers in an abridged form in Sinhala, Tamil and English.

All of the dates above are/ will be updated in the Events Calendar in the Events section of the Investor Relations page of the Bank's corporate web site on www.ndbbank.com.

Independent Auditors' Report



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Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of National Development Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the Statement of Financial Position as at 31 December 2020, Statement of Profit or Loss and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How our audit addressed the key audit matter
Provision for credit impairment on loans and advances carried at amortised cost As described in Note 26, provision for credit impairment on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9). This was a key audit matter due to: ➤ materiality of the reported provision for credit impairment which involved complex manual calculations; and	We assessed the alignment of the Bank's expected credit loss model computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following: • We evaluated the design, implementation and operating effectiveness of controls (where relevant) over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management • We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the Bank • We checked the underlying manual calculations

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Key Audit Matter	How our audit addressed the key audit matter
➤ the degree of assumptions, judgements and estimation uncertainty associated with the calculations. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; - the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Bank); - the determination on whether or not customer contracts have been substantially modified due to such COVID-19 related stimulus and relief measures granted and related effects on the amount of interest revenue recognised on affected loans and advances and - forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.	• In addition to the above, the following procedures were performed: ▪ For a sample of loans and advances assessed on an individual basis for impairment: - Assessing the reasonableness and timeliness of internal credit assessments based on the borrower's particular circumstances determined by management; and - Evaluating the associated reasonability of the provisions made with particular focus on the impact of COVID-19 on high risk industries, work our strategies, collateral values, and the value and timing of recoveries ▪ For loans and advances assessed on a collective basis for impairment: - Assessing the reasonability of assumptions and estimates used by Management including the reasonableness of forward-looking information and scenarios - As relevant, the basis for and data used by Management to determine overlays in consideration of the probable effects of the COVID-19 pandemic ▪ For loans and advances affected by government stimulus and debt moratorium relief measures granted - Assessing the reasonableness of judgements, calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; including - Evaluating and test checking the reasonability of the interest income recognised on such affected loans and advances • We assessed the adequacy of the related financial statement disclosures set out in notes 11, 26.5 & 56.3.
IT systems and controls relevant to financial reporting The Bank uses multiple IT systems in its operations. The COVID -19 pandemic necessitated the Bank to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks. IT systems and controls relevant to financial reporting was a key audit matter due to: • A changed working environment of increased remote access • The Bank's financial reporting process being heavily dependent on information derived from its IT systems and • Key financial statement disclosures involving the use of multiple system – generated reports, collation and spreadsheet – based calculations	Our audit procedures included the following, • Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access • Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information in calculating the significant information for financial statements disclosures • Checking the source data of the reports used to generate significant disclosures for accuracy and completeness • Assessing the reasonability of Management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant

Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of 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.

Independent Auditors' Report

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal controls of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

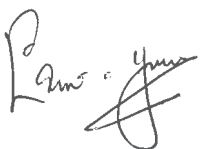
We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 7 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2097.



18 February 2021

Colombo

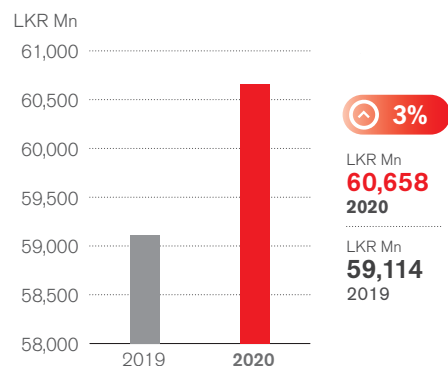
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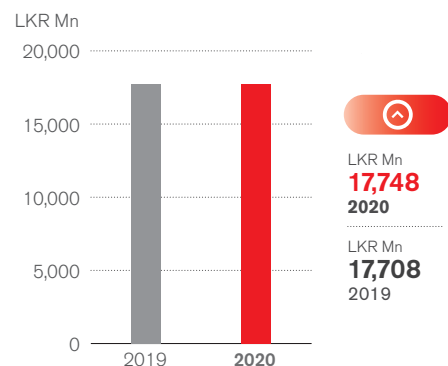
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Financial Performance

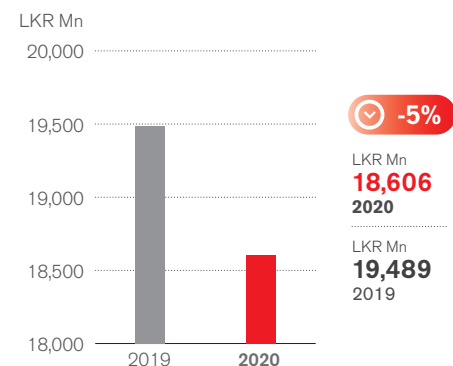
Gross Income



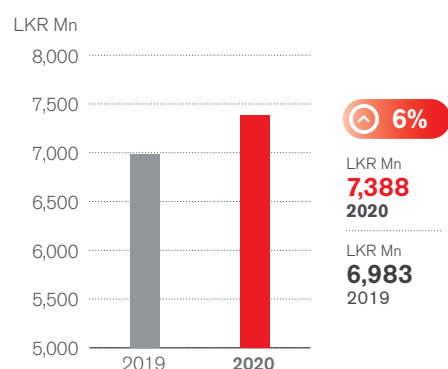
Net Interest Income



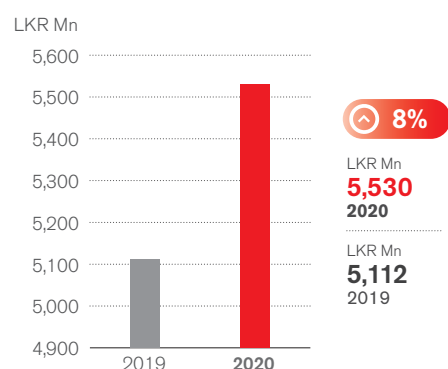
Net Operating Income



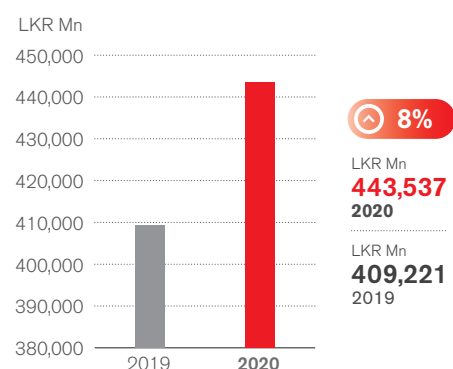
Profit before Taxation



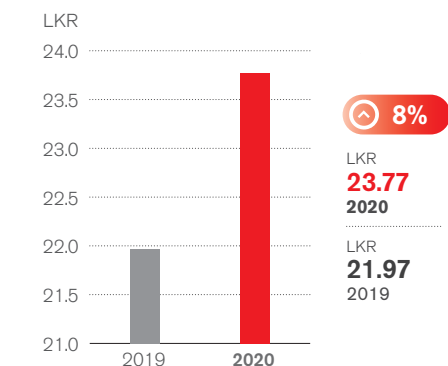
Profit for the Year



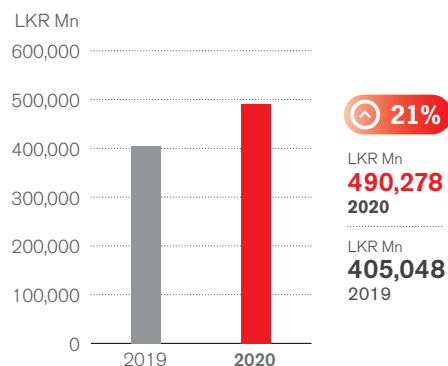
Gross Loans and Receivables to Other Customers



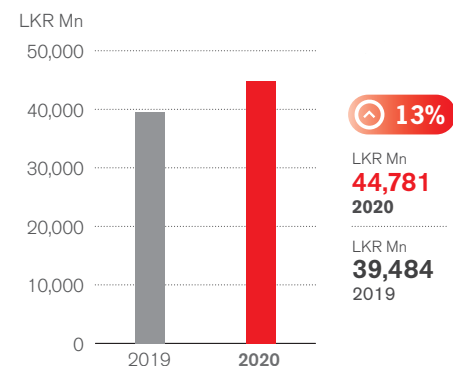
Earnings per Share



Due to Depositors



Equity



Statement of Profit or Loss

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000	%
Gross income	4	188	60,657,705	59,113,537	3	61,632,070	60,237,165	2
Interest income	5.1	189	53,003,875	53,174,791	-	53,153,100	53,401,614	-
Less: Interest expenses	5.2	189	35,255,426	35,467,033	(1)	35,228,223	35,430,833	(1)
Net interest income	5		17,748,449	17,707,758	-	17,924,877	17,970,781	-
Fee and commission income	6.1	191	4,268,945	3,915,005	9	5,452,706	4,874,720	12
Less: Fee and commission expenses	6.2	191	18,661	5,776	223	18,661	5,776	223
Net Fee and commission income	6	191	4,250,284	3,909,229	9	5,434,045	4,868,944	12
Net gains/(losses) from trading	7	191	967,284	990,160	(2)	967,284	990,160	(2)
Net gains/(losses) from financial assets at fair value through profit or loss	8	192	96,353	23,437	311	113,683	79,072	44
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	9.1	192	1,486,023	686,461	116	1,486,023	686,461	116
Net gains/(losses) from derecognition of financial assets measured at amortised cost	9.2	192	-	9,086	(100)	277	9,086	(97)
Other operating income	10	192	853,886	320,373	167	477,658	201,828	137
Total operating income			25,402,279	23,646,504	7	26,403,847	24,806,332	6
Less: Impairment charges	11	193	6,796,336	4,157,781	63	6,793,647	4,405,476	54
Net operating income			18,605,943	19,488,723	(5)	19,610,200	20,400,856	(4)
Less: Operating expenses								
Personnel expenses	12	199	5,171,547	4,957,146	4	5,748,453	5,459,822	5
Depreciation and amortisation expenses	13	200	818,582	761,019	8	931,599	883,323	5
Other expenses	14	201	3,409,324	3,716,314	(8)	3,720,998	4,065,345	(8)
Total operating expenses			9,399,453	9,434,479	-	10,401,050	10,408,490	-
Operating profit before tax on financial services			9,206,490	10,054,244	(8)	9,209,150	9,992,366	(8)
Less: Tax on financial services	15	202	1,818,832	3,071,440	(41)	1,818,832	3,071,440	(41)
Operating profit after tax on financial services			7,387,658	6,982,804	6	7,390,318	6,920,926	7
Share of associate companies' profits/(losses)	16	202	-	-	-	-	-	-
Profit before taxation			7,387,658	6,982,804	6	7,390,318	6,920,926	7
Less: Income tax expenses	17	202	1,857,182	1,871,204	(1)	2,172,970	2,035,915	7
Profit for the year			5,530,476	5,111,600	8	5,217,348	4,885,011	7
Profit attributable to equity holders of the parent			5,530,476	5,111,600	8	5,116,806	4,775,932	7
Non-controlling interests			-	-	-	100,542	109,079	(8)
Profit for the year			5,530,476	5,111,600	8	5,217,348	4,885,011	7
Basic/Diluted Earning per share (LKR)	18	205	23.77	21.97	8	21.99	20.53	7
Dividend per share (Interim-2020/Final-2019) (LKR)	19	206	1.50	7.00				

The Notes to the Financial Statements disclosed on pages 182 to 302 form an integral part of these Financial Statements.

Statement of Comprehensive Income

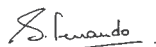
For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000	%
Profit for the year			5,530,476	5,111,600	8	5,217,348	4,885,011	7
Other comprehensive income								
Items that will be reclassified to the Statement of Profit or Loss								
Exchange differences on translation of foreign operations			-	-	-	10,880	(7,052)	254
Gains/(losses) on investments in debt instruments - fair value through other comprehensive income								
Net change in fair value during the year			8,188	1,227,304	(99)	5,866	1,219,194	(100)
Changes in allowance for expected credit losses	28.1 (c)	225	(4,193)	33,469	(113)	(311,450)	264,848	(218)
Deferred tax effect on gains/(losses) in above financial instruments			340,178	(668,675)	151	332,575	(619,856)	154
Net gains/(losses) on investments			344,173	592,098	(42)	26,991	864,186	(97)
Gains/(losses) on cash flow hedges	24.1 (b)	213	1,613	(102,924)	102	1,613	(102,924)	102
Net other comprehensive income that will be reclassified to the Statement of Profit or Loss (a)			345,786	489,174	(29)	39,484	754,210	(95)
Items that will not be reclassified to the Statement of Profit or Loss								
Net gains/(losses) on investments in equity instruments - fair value through other comprehensive income	28.2	225	(143,533)	(376,829)	62	(143,533)	(376,829)	62
Revaluation of freehold land and buildings	46.1	254	68,804	307,211	(78)	90,499	320,991	(72)
Deferred tax effect on revaluation gains/(losses)			(19,265)	(86,019)	78	(25,339)	(89,876)	72
Net gains/(losses) on revaluation of freehold land and buildings			49,539	221,192	(78)	65,160	231,115	(72)
Actuarial gains/(losses) on defined benefit plans	41.2 (g)	249	(58,565)	(287,717)	80	(53,822)	(307,371)	82
Deferred tax effect on actuarial gains/(losses)			8,245	38,096	(78)	5,935	48,561	(88)
Net actuarial gains/(losses) on defined benefit plans			(50,320)	(249,621)	80	(47,887)	(258,810)	81
Net other comprehensive income that will not be reclassified to the Statement of Profit or Loss (b)			(144,314)	(405,258)	64	(126,260)	(404,524)	69
Total other comprehensive income for the year, net of taxes (a +b)			201,472	83,916	140	(86,776)	349,686	(125)
Total comprehensive income for the year			5,731,948	5,195,516	10	5,130,572	5,234,697	(2)
Attributable to:								
Equity holders of the parent			5,731,948	5,195,516	10	5,027,648	5,125,737	(2)
Non-controlling interests			-	-	-	102,924	108,960	(6)
Total comprehensive income for the year			5,731,948	5,195,516	10	5,130,572	5,234,697	(2)

The Notes to the Financial Statements disclosed on pages 182 to 302 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Page No.	BANK			GROUP		
			2020 LKR '000	2019 LKR '000	%	2020 LKR '000	2019 LKR '000	%
Assets								
Cash and cash equivalents	21	209	10,487,608	5,703,468	84	10,778,947	6,081,359	77
Balances with the Central Bank of Sri Lanka	22	210	6,812,099	13,886,575	(51)	6,812,099	13,886,575	(51)
Placements with banks	23	210	12,401,533	6,291,047	97	12,401,533	6,291,047	97
Derivative financial instruments	24	211	1,429,470	1,596,359	(10)	1,429,470	1,596,359	(10)
Financial assets recognised through profit or loss - measured at fair value	25	213	5,574,175	932,253	498	7,713,222	3,488,735	121
Financial assets at amortised cost - loans and receivables to other customers	26	214	425,605,508	396,648,811	7	425,681,832	396,672,022	7
Financial assets at amortised cost - debt and other instruments	27	221	44,711,640	27,485,885	63	44,711,640	27,485,885	63
Financial assets measured at fair value through other comprehensive income	28	223	108,593,183	67,018,254	62	108,762,972	68,430,331	59
Investments in subsidiary companies	29	226	1,142,884	2,144,774	(47)	-	-	-
Investments in associate companies	30	228	-	-	-	-	-	-
Investment property	31	228	-	-	-	2,361,535	2,272,881	4
Property, plant & equipment	32	230	2,968,993	3,012,213	(1)	3,541,018	3,565,166	(1)
Right of use assets	33	234	1,060,843	960,849	10	1,289,749	1,229,414	5
Intangible assets	34	235	1,048,326	687,785	52	1,061,673	700,908	51
Current tax receivables	39	243	-	-	-	45,098	23,396	93
Deferred tax assets	40	243	1,875,720	599,215	213	1,945,730	647,444	201
Other assets	35	237	3,124,716	2,626,940	19	3,595,100	3,228,104	11
Total assets			626,836,698	529,594,428	18	632,131,618	535,599,626	18
Liabilities								
Due to banks	36	238	24,173,318	18,380,356	32	24,173,318	18,380,356	32
Derivative financial instruments	24	211	1,016,787	728,873	40	1,016,787	728,873	40
Financial liabilities at amortised cost								
Due to depositors	37.1	239	490,278,126	405,048,024	21	489,658,746	404,667,529	21
Due to debt securities holders	37.2	240	1,500,007	1,398,068	7	1,500,007	1,398,068	7
Due to other borrowers	37.3	241	34,284,109	29,342,027	17	34,284,109	29,342,027	17
Debt securities issued	38	242	19,880,891	23,108,734	(14)	19,880,891	23,108,734	(14)
Current tax liabilities	39	243	2,297,296	2,247,997	2	2,563,345	2,342,373	9
Deferred tax liabilities	40	243	-	-	-	596,112	566,983	5
Retirement benefit obligations	41.1	245	709,294	583,933	21	820,109	718,983	14
Other liabilities	42	250	7,915,847	9,272,580	(15)	8,434,802	9,807,070	(14)
Total liabilities			582,055,675	490,110,592	19	582,928,226	491,060,996	19
Equity								
Stated capital	43	252	8,794,333	7,685,334	14	8,794,333	7,685,334	14
Statutory reserve fund	44	253	2,196,479	1,896,479	16	2,196,479	1,896,479	16
Retained earnings	45	253	33,126,579	29,495,550	12	36,143,348	33,230,404	9
Other reserves	46	254	663,632	406,473	63	842,077	571,133	47
Total equity to equity holders of the Bank			44,781,023	39,483,836	13	47,976,237	43,383,350	11
Non-controlling interests	47	255	-	-	-	1,227,155	1,155,280	6
Total equity			44,781,023	39,483,836	13	49,203,392	44,538,630	10
Total liabilities and equity			626,836,698	529,594,428	18	632,131,618	535,599,626	18
Contingent liabilities and commitments	48	255	343,949,526	293,145,821	17	344,053,658	293,267,959	17
Net asset value per share (LKR)	49	257	192.49	178.02	8	206.23	195.60	5

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 7 of 2007.



Mrs. Suvendrini Muthukumarana
Vice President - Finance

The Board of Directors is responsible for these Financial Statements. Approved and signed for and on behalf of the Board.



Mr. Eshana de Silva
Director/Chairman



Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer



Mrs. Shehani Ranasinghe
Company Secretary

18 February 2021

The Notes to the Financial Statements disclosed on pages 182 to 302 form an integral part of these Financial Statements.

Statement of Changes in Equity

		BANK						
	Stated Capital	Statutory Reserve Fund	Fair Value through Other Comprehensive Income Reserve	Revaluation Reserve	General Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
For the year ended 31 December	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
BANK								
Balance as at 01 January 2019	6,469,323	1,636,479	(1,022,229)	1,041,261	5,805,707	101,311	20,966,190	34,998,042
Transition impact on adoption of SLFRS 16	-	-	-	-	-	-	(259,925)	(259,925)
Restated opening balance under SLFRS 16	6,469,323	1,636,479	(1,022,229)	1,041,261	5,805,707	101,311	20,706,265	34,738,117
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	5,111,600	5,111,600
Other comprehensive income before tax	-	-	850,475	307,211	-	(102,924)	(254,248)	800,514
Tax on other comprehensive income	-	-	(682,613)	(86,019)	-	-	52,034	(716,598)
Total comprehensive income for the year	-	-	167,862	221,192	-	(102,924)	4,909,386	5,195,516
Transactions with equity holders, recognised directly in equity								
Transfer to the statutory reserve fund (Note 44)	-	260,000	-	-	-	-	(260,000)	-
Final dividend for 2018: Scrip (Note 19)	1,216,011	-	-	-	-	-	(1,367,061)	(151,050)
Final dividend for 2018: Cash (Note 19)	-	-	-	-	-	-	(298,747)	(298,747)
Balance as at 31 December 2019	7,685,334	1,896,479	(854,367)	1,262,453	5,805,707	(1,613)	23,689,843	39,483,836
Balance as at 01 January 2020	7,685,334	1,896,479	(854,367)	1,262,453	5,805,707	(1,613)	23,689,843	39,483,836
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	5,530,476	5,530,476
Other comprehensive income before tax	-	-	(135,345)	68,804	-	1,613	(62,758)	(127,686)
Tax on other comprehensive income	-	-	341,352	(19,265)	-	-	7,071	329,158
Total comprehensive income for the year	-	-	206,007	49,539	-	1,613	5,474,789	5,731,948
Transactions with equity holders, recognised directly in equity								
Transfer to the statutory reserve fund (Note 44)	-	300,000	-	-	-	-	(300,000)	-
Transfer to retained earnings (Note 45)	-	-	-	-	(5,805,707)	-	5,805,707	-
Final dividend for 2019: Scrip (Note 19)	1,108,999	-	-	-	-	-	(1,108,999)	-
Final dividend for 2019: Cash (Note 19)	-	-	-	-	-	-	(434,761)	(434,761)
Balance as at 31 December 2020	8,794,333	2,196,479	(648,360)	1,311,992	-	-	33,126,579	44,781,023

Statement of Changes in Equity

	GROUP									
	Stated Capital	Statutory Reserve Fund	Fair Value through Other Comprehensive Income Reserve	Revaluation Reserve	General Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total	Non-Controlling Interests	Total Equity
For the year ended 31 December	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
GROUP										
Balance as at 01 January 2019	6,469,323	1,636,479	(1,029,596)	1,166,840	5,805,707	101,311	24,862,382	39,012,446	1,099,042	40,111,488
Transition impact on adoption of SLFRS 16	-	-	-	-	-	-	(305,036)	(305,036)	(37)	(305,073)
Restated opening balance under SLFRS 16	6,469,323	1,636,479	(1,029,596)	1,166,840	5,805,707	101,311	24,557,346	38,707,410	1,099,005	39,806,415
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	4,775,932	4,775,932	109,079	4,885,011
Other comprehensive income before tax	-	-	842,365	320,991	-	(102,924)	(49,456)	1,010,976	(119)	1,010,857
Tax on other comprehensive income	-	-	(637,978)	(89,876)	-	-	66,683	(661,171)	-	(661,171)
Total comprehensive income for the year	-	-	204,387	231,115	-	(102,924)	4,793,159	5,125,737	108,960	5,234,697
Transactions with equity holders, recognised directly in equity										
Transfer to the statutory reserve fund (Note 44)	-	260,000	-	-	-	-	(260,000)	-	-	-
Dividend attributable to non controlling interests	-	-	-	-	-	-	-	-	(52,685)	(52,685)
Final dividend for 2018: Scrip (Note 19)	1,216,011	-	-	-	-	-	(1,367,061)	(151,050)	-	(151,050)
Final dividend for 2018: Cash (Note 19)	-	-	-	-	-	-	(298,747)	(298,747)	-	(298,747)
Balance as at 31 December 2019	7,685,334	1,896,479	(825,209)	1,397,955	5,805,707	(1,613)	27,424,697	43,383,350	1,155,280	44,538,630
Balance as at 01 January 2020	7,685,334	1,896,479	(825,209)	1,397,955	5,805,707	(1,613)	27,424,697	43,383,350	1,155,280	44,538,630
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	5,116,806	5,116,806	100,542	5,217,348
Other comprehensive income before tax	-	-	(137,667)	90,499	-	1,613	(356,774)	(402,329)	2,382	(399,947)
Tax on other comprehensive income	-	-	341,838	(25,339)	-	-	(3,328)	313,171	-	313,171
Total comprehensive income for the year	-	-	204,171	65,160	-	1,613	4,756,704	5,027,648	102,924	5,130,572
Transactions with equity holders, recognised directly in equity										
Transfer to the statutory reserve fund (Note 44)	-	300,000	-	-	-	-	(300,000)	-	-	-
Transfer to retained earnings (Note 45)	-	-	-	-	(5,805,707)	-	5,805,707	-	-	-
Dividend attributable to non controlling interests	-	-	-	-	-	-	-	-	(28,667)	(28,667)
Adjustments to non controlling interests	-	-	-	-	-	-	-	-	(2,382)	(2,382)
Final dividend for 2019: Scrip (Note 19)	1,108,999	-	-	-	-	-	(1,108,999)	-	-	-
Final dividend for 2019: Cash (Note 19)	-	-	-	-	-	-	(434,761)	(434,761)	-	(434,761)
Balance as at 31 December 2020	8,794,333	2,196,479	(621,038)	1,463,115	-	-	36,143,348	47,976,237	1,227,155	49,203,392

Statement of Cash Flows

ACCOUNTING POLICY

The Statement of Cash Flows has been prepared by using 'The Direct Method' of preparing cash flow in accordance with Sri Lanka accounting standard LKAS 7 on "Statement of Cash Flows", whereby gross cash receipts and gross cash payments of operating, investing and financing activities have been recognised. For the purpose of the preparation of the Statement of Cash Flows, cash and cash equivalents include cash and cash equivalents, balances of Nostro accounts, balances with the Central Bank of Sri Lanka and placements with banks, as presented in the Statement of Financial Position.

For the year ended 31 December	Note	Page No.	BANK		GROUP	
			2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash flows from operating activities						
Interest received			50,953,861	48,177,253	51,107,977	48,357,057
Fee and commission income received			4,257,929	3,927,886	5,443,759	4,716,160
Dividend income received			572,267	419,938	97,941	76,462
Other operating income received			2,738,510	1,562,829	2,761,515	1,569,068
Interest paid			(35,090,639)	(32,959,532)	(35,092,828)	(32,965,191)
Personnel costs paid			(5,016,210)	(4,867,086)	(5,591,500)	(5,226,060)
Other expenses paid			(3,659,444)	(4,223,990)	(4,022,492)	(4,568,109)
Operating profit before changes in operating assets and liabilities (a)			14,756,274	12,037,298	14,704,372	11,959,387
Increase/decrease in operating assets						
Deposits held for regulatory or monetary control purposes			7,074,476	1,659,812	7,074,476	1,659,812
Financial assets at amortised cost - loans and receivables to other customers			(33,757,683)	(50,965,915)	(33,757,688)	(50,966,827)
Net (increase)/decrease in operating assets			(286,208)	898,225	(155,786)	848,053
Increase/decrease in operating liabilities						
Financial liabilities at amortised cost - due to depositors			84,678,922	55,691,828	84,678,922	55,691,828
Financial liabilities at amortised cost - due to debt securities holders			49,383	(5,613,250)	49,383	(5,613,250)
Financial liabilities at amortised cost - due to banks/other borrowers			11,746,713	(1,924,850)	11,746,713	(1,924,850)
Repayment of principal portion of lease liabilities	42.1.2	250	(366,601)	(344,416)	(427,069)	(403,516)
Net increase/(decrease) in other liabilities			(646,463)	(1,942,493)	(152,338)	(1,888,487)
Net cash inflow/(outflow) from operating activities before taxation			83,248,813	9,496,238	83,760,985	9,362,150
Tax on financial services paid			(1,618,514)	(1,906,762)	(1,618,516)	(1,906,763)
Income taxes paid	39.2	243	(2,755,230)	(2,956,686)	(2,929,685)	(3,017,590)
Net cash from/(used in) operating activities			78,875,069	4,632,790	76,212,784	4,437,797
Cash flows from investing activities						
Net changes in financial investments			(62,103,594)	(16,792,449)	(62,440,207)	(16,657,445)
Purchase of intangible assets			(525,167)	(477,826)	(525,437)	(479,066)
Purchase of property plant and equipment			(426,776)	(650,538)	(485,320)	(698,430)
Proceeds from sale of property & plant and equipment			2,762	994	2,921	3,050
Net cash (used in)/from investing activities			(63,052,775)	(17,919,819)	(63,448,043)	(17,831,891)
Cash flows from financing activities						
Repayment of debt securities issued			(10,000,000)	-	(10,000,000)	-
Interest paid on debt securities issued			(1,004,127)	(1,750,930)	(1,004,127)	(1,750,930)
Proceeds from debt securities issued			6,500,000	5,561,200	6,500,000	5,561,200
Dividends paid to non-controlling interests			-	-	(28,999)	(48,902)
Dividends paid to shareholders of the Bank	42.1.1	250	(423,212)	(302,077)	(423,212)	(302,077)
Net cash (used in)/from financing activities			(4,927,339)	3,508,193	(4,956,338)	3,459,291

For the year ended 31 December	Note	Page No.	BANK		GROUP	
			2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Net increase/(decrease) in cash and cash equivalents			10,894,955	(9,778,835)	10,808,403	(9,934,803)
Cash and cash equivalents at the beginning of the year			11,994,515	21,774,885	12,372,406	22,308,744
Cash and cash equivalents at the end of the year			22,889,470	11,996,050	23,180,809	12,373,941
Reconciliation of cash and cash equivalents						
Cash and cash equivalents	21	209	10,487,608	5,703,468	10,778,947	6,081,359
Placements with banks	23	210	12,401,862	6,292,582	12,401,862	6,292,582
Cash and cash equivalents at the end of the year (Gross)			22,889,470	11,996,050	23,180,809	12,373,941
Less : Impairment allowance	23.1	211	(329)	(1,535)	(329)	(1,535)
Cash and cash equivalents at the end of the year (Net)			22,889,141	11,994,515	23,180,480	12,372,406

(a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

For the year ended 31 December	Note	Page No.	BANK		GROUP	
			2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Operating profit before tax on financial services			9,206,490	10,054,244	9,209,150	9,992,366
Gains on sale of property, plant & equipment			(1,758)	(280)	(1,864)	(4,773)
Accruals for interest/other income			(2,050,015)	(4,973,102)	(2,165,877)	(5,003,445)
Accruals for interest expenses			164,788	2,507,501	164,788	2,507,501
Accruals for general expenses			(111,409)	(409,612)	(196,163)	(543,954)
Unrealised revaluation gains/(losses) from investments			(61,424)	(24,437)	82,521	(79,071)
Contribution made to the pension fund			16,625	(8,188)	16,625	(8,188)
Depreciation of property, plant & equipment	13	200	407,741	402,844	481,941	481,819
Amortisation of intangible assets	13	200	133,075	122,241	133,956	127,204
Depreciation of Right of use assets	13	200	277,766	235,934	315,702	274,300
Impairment charges for financial assets and investments in subsidiaries	11.1	198	6,796,336	4,157,781	6,793,647	4,405,476
Scrip dividend received from investments			(21,941)	(27,628)	(21,941)	(27,628)
Fair value adjustments on investment property	10	192	-	-	(108,113)	(162,220)
Operating profit before changes in operating assets and liabilities			14,756,274	12,037,298	14,704,372	11,959,387

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 1 of 2005, a company by the name of 'National Development Bank Limited' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Limited was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 7 of 2007, the name of the Bank was changed as 'National Development Bank PLC' ('The Bank'). The Bank was re-registered in terms of the new Companies Act, on 04 July 2007 and was assigned with PQ 27 as the new Registration Number. The Bank is listed on the Colombo Stock Exchange. The Registered Office of the Bank and its principle place of business are situated at No. 40, Nawam Mawatha, Colombo 02. The number of branches of the Bank as at 31 December 2020 was 113 (2019 - 112) and the number of staff employed as at 31 December 2020 was 2,892 (2019 - 2,936).

1.2 Principle Activities of the Bank and the Group

The principal activities of the Bank and its Group companies are summarised below:

Entity	Principal place of business	Country of Incorporation	Principal Activity	Holding % - 2020		Holding % - 2019	
				Direct	Indirect	Direct	Indirect
National Development Bank PLC	40, Nawam Mawatha, Colombo 02	Sri Lanka	Retail banking, small and medium enterprise (SME) banking, corporate banking, project and infrastructure financing, trade finance, investment banking, leasing, housing finance, credit cards, cash management, correspondent banking, remittance services, margin trading, pawning, treasury and investment services and bancassurance.	PARENT COMPANY			
Subsidiaries							
NDB Capital Holdings Limited	Level 1, 135, Baudhaloka Mawatha, Colombo 04	Sri Lanka	Full service investment banking	99.9	-	99.9	-
NDB Investment Bank Limited	Level 1, 135, Baudhaloka Mawatha, Colombo 04	Sri Lanka	Investment banking	-	99.9	-	99.9
NDB Wealth Management Limited	Level G, 135, Baudhaloka Mawatha, Colombo 04	Sri Lanka	Wealth management	-	99.9	-	99.9
NDB Securities (Pvt) Limited	Level 2, 135, Baudhaloka Mawatha, Colombo 04	Sri Lanka	Investment advisory and securities trading	-	99.9	-	99.9
Development Holdings (Pvt) Limited	42, NDB EDB Tower (2nd Floor), Nawam Mawatha, Colombo 02.	Sri Lanka	Property management	58.7	-	58.7	-
NDB Capital Limited	Bilquis Tower (5th Floor), Plot 6, Gulshan 2, Dhaka 1212, Bangladesh.	Bangladesh	Investment banking	41.76	84.18	41.76	84.18
NDB Zephyr Partners Limited	IFS Court, Bank Street, Twenty-Eight Cybercity, Ebene 72201, Republic of Mauritius.	Mauritius	Management of private equity funds	-	60.0	-	60.0
NDB Zephyr Partners Lanka (Pvt) Limited	48/5/1 (West Wing), Parkway Building, Park Street, Colombo 02	Sri Lanka	Management of private equity funds	-	60.0	-	60.0
Associate Companies							
Ayojana Fund (Pvt) Limited (Under liquidation)		Sri Lanka	Venture capital	50.0	-	50.0	-

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2020 comprise of the Bank (parent company) and the subsidiaries and associate companies, together referred as the Group.

The Bank does not have an identifiable parent company and is the ultimate parent of the NDB Group.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2020 comprises of –

- The Statement of Profit or Loss and Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 175 and 176).
- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 177).
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group (Refer pages 178 - 179).
- Statement of Cash Flow providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilise those cash flows (Refer page 180);

→ Notes to the Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 182 to 302).

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange and the guidelines for the presentation of annual reports 2021 issued by the Institute of Chartered Accountants of Sri Lanka. The Group has also complied with directions/guidelines issued by the Central Bank of Sri Lanka for COVID-19 impact.

These Financial Statements, except for information on cash flows, have been prepared following the accrual basis of accounting. The Group did not adopt any inappropriate accounting treatment, which are not in compliance with the requirements of the SLFRSs and LKASs and regulations governing the preparation and presentation of the Financial Statements.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka

(CBSL) in the Circular No. 02 of 2019 dated 18 January 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

2.2 Functional and Presentation Currency

The Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees (LKR) which is the currency of the primary economic environment in which the Bank and the Group operates. Financial information presented in Sri Lankan Rupees (LKR) has been rounded to the nearest thousand unless indicated otherwise.

2.3 Responsibility for the Financial Statements

The Board of Directors is responsible for these Financial Statements of the Group, in compliance with the Sri Lanka Accounting Standards (SLFRS and LKAS) and provisions of the Companies Act No. 7 of 2007 and listing rules of the Colombo Stock Exchange. The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors' on the affairs of the Bank, 'Statement of Directors Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 140, 161 and page 177 respectively.

2.4 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2020 (including the comparative figures) have been approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 18 February 2021.

2.5 Basis of measurement

The Financial Statements of the Group have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Item	Basis of Measurement	Note Number	Pages
Derivative financial instruments	Fair value	24	211
Financial assets recognised through profit or loss - measured at fair value	Fair value	25	213
Financial assets measured at fair value through other comprehensive income	Fair value	28	223
Investment property	Fair value	31	228
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently measured at revalued amounts, which represented the fair value at the date of revaluation.	32	230
Retirement benefit obligations	Recognised at the present value of the defined benefit obligations less the fair value of the assets of the plan.	41	245
Employee Share Option Scheme	Fair value on grant date	43.2	252

Notes to the Financial Statements

2.6 Presentation of Financial Statements

The Group present their Statement of Financial Position broadly in order of liquidity. An analysis regarding the recoveries and settlements within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 50 to the Financial Statements.

2.6.1 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousand, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 1 on "Presentation of Financial Statements".

2.6.2 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when it is permitted under SLFRSs, or for gains and losses arising from a group or similar transactions such as in the Group's trading activity.

2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards - 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 are presented separately, unless they are immaterial.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's presentation and the details of which are given in Note 54 to the Financial Statements.

2.9 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December 2020. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent Accounting Policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Subsidiaries are fully-consolidated from the date on which, control is transferred to the Bank. Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity.

2.10 Foreign Currency Translation

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the exchange rates prevailing at the dates, the transactions were affected. Monetary assets and liabilities denominated in foreign currencies are retranslated at the middle exchange rate of the functional currency ruling, at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Statement of Profit or Loss.

- (a) Non-monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

- (b) Transactions of the Foreign Currency Banking Unit have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Statement of Profit or Loss.
- (c) Forward exchange contracts are valued at the forward market rates prevailing at the date of the Statement of Financial Position. Profits or losses on such transactions are dealt within the Statement of Profit or Loss.
- (d) As at the reporting date, the assets and liabilities of overseas subsidiaries/ associates are translated into the Bank's presentation currency at the rate of exchange ruling at the date of the Statement of Financial Position and their profits and losses are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.
- (e) On disposal of a foreign subsidiary/ associate, the deferred cumulative amount recognised in equity relating to that particular foreign subsidiary/ associate is recognised in the Statement of Profit or Loss in 'other operating expenses' or 'other operating income', respectively.

2.11 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Group, the Management is required to make judgments, which may have significant effects on the amounts recognised in the Financial Statements. Further, the Management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, specific accounting policies, estimates and assumptions for each type of assets, liabilities, income and expenses along with the respective carrying amounts of

such items are given in the Notes to the Financial Statements, on pages 182 to 302.

2.11.1 Going Concern-basis of accounting

The Board of Directors of the Bank and its Group companies have made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Group to continue as a going concern. The Management has assessed the existing and anticipated effects of COVID-19 on the Bank and the Group companies and the appropriateness of the use of the going concern basis. During the year 2020, the Bank and its Group companies evaluated each customer segment of its businesses considering a wide range of factors under multiple stress tested scenarios, such as expected losses on moratoriums including the impact on Non-Performing Loans (NPL), which indicates increase stresses compared to 2019 and expected revenue streams, cost management, profitability, the ability to defer non-essential capital expenditure and the ability to continue providing services to ensure business is continued as least impacted as possible.

In determining the above significant management judgements, estimates and assumptions, the impact of the COVID-19 pandemic has been considered as of the reporting date and specific considerations have been disclosed under the relevant Notes. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

3. ACCOUNTING POLICIES

Given below is the general accounting policies adopted in the presentation of Financial Statements. The specific accounting policies and the basis of measurement adopted by the Group for each item in the Statement of Profit or Loss and each class of assets and liabilities in the Statement of Financial

Position are presented along with the Notes to the Financial Statements on pages 182 to 302.

3.1 Financial Instruments - SLFRS 9

The Group applies the requirements under SLFRS 9 - Financial Instruments in classifying, measuring, re-classifying and de-recognition of financial instruments. The Bank also elected, as a policy choice permitted under SLFRS 9, to continue to apply hedge accounting in accordance with LKAS 39.

3.1.1 Classification of financial assets and financial liabilities

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

Accordingly, all financial assets are classified as follows.

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at fair value through profit or loss (FVPL)

Financial liabilities other than loan commitments and financial guarantees are classified in line with the requirements of SLFRS 9 as follows.

- Financial liabilities - fair value through profit or loss (when they are held for trading).
- Financial liabilities at amortised cost.

3.1.2 Date of Recognition

Financial assets and liabilities, with the exception of loans and receivables to other customers and balances due to depositors, are initially recognised on the trade date,

i.e, the date that the Bank becomes a party to the contractual provisions of the depositors. 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. Loans and receivables to other customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to depositors when funds are transferred to the Bank.

3.1.3 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 3.1.6.(a) and (b). Financial instruments are initially measured at their fair value (as defined in Note 55), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables of subsidiaries are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

Subsequent measurement of financial assets depends on their classification.

3.1.4 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the Statement of Profit or Loss over the tenor of the financial instrument using effective interest method. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in the Statement of Profit or Loss when the inputs become observable, or when the instrument is derecognised.

Notes to the Financial Statements

3.1.5 Measurement of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measures at either:

- Amortised cost, as explained in Note 3.1.6.
- Fair Value through Other Comprehensive Income (FVOCI), as explained in Note 28.
- Fair Value through profit or loss (FVPL)

The Bank measures its derivative and trading portfolio at FVPL as explained in Notes 24 and 25.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading.

3.1.6 Measurement of financial assets at amortised cost

Placements with banks, loans and receivables to other customers, financial assets at amortised cost

The Group only measures placements with banks, loans and receivables to other customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

3.1.6 (a) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The business model of the Group is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

If cash flows after initial recognition are realised in a way that is different from the original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.1.6. (b) The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

An entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset

(for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

3.1.7 Reclassification of financial assets and liabilities

As per SLFRS 9, financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line (Note 28).

Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.1.8 Derecognition of financial assets and financial liabilities other than for substantial modification

3.1.8 (a) 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 financial asset have expired.

3.1.8 (b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

3.2 Borrowing costs

As per the Sri Lanka Accounting Standard –LKAS 23 on "Borrowing Costs", the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

3.3 Taxation

3.3.1 Current Tax and Deferred Tax

Details of "Income tax expense" and "Deferred tax assets and liabilities" are given in Note 17.

3.3.2 Tax on Financial Services

Details of "VAT on Financial Services", "NBT on Financial Services" and "Debt Repayment Levy" are given in Note 15.

3.3.3 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 01 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.3.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006 and amendments thereto the ESC was payable at 0.5% of the total turnover and was deductible from the income tax payments. However, as per the Economic Service Charge (Amendment) Act No. 4 of 2020, ESC was abolished with effect from 01 January 2020.

3.4 Bank's Risk management framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Risk Management Policy of the Bank translates overall risk appetite on business activities in a holistic approach to provide the guidance required for convergence of strategic and risk perspectives of the Bank.

A detailed disclosure on how the risk management is carried out within the Bank's Risk Management Framework with due consideration given to Credit risk, Market risk and Liquidity Risk are given in the Notes to the Financial Statements Section on "Risk Management disclosures" on pages 279 to 302.

3.5 Amended accounting standards and interpretations issued but not yet effective 31 December 2020

The following amendments to the Sri Lanka Accounting Standards have been issued by The Institute of Chartered Accountant of Sri Lanka which are not yet effective as at 31 December 2020.

- a) Interest rate benchmark reform:
Amendments to SLFRS 9, LKAS 39, SLFRS 4 & SLFRS 16 [Interest Rate Benchmark Reform – phase 1 and 2] effective for annual reporting periods beginning on or after 01 January 2021 as adopted in a Sri Lankan context.
- b) Insurance contracts: SLFRS 17 Insurance Contracts effective for periods beginning on or after 01 January 2023 [cursory mention only would suffice].
- c) Amendment to SLFRS 16 Leases: COVID-19 related rent concessions effective for reporting periods beginning on or after June 2020.

Notes to the Financial Statements

4 GROSS INCOME

ACCOUNTING POLICY

The Gross Income represents the Interest Income and the Non-Interest Income earned by the Group during the year.

Gross Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of Gross Income are given under the respective notes.

For the year ended 31 December	Note	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Interest income	5.1	53,003,875	53,174,791	53,153,100	53,401,614
Fee and commission income	6	4,250,284	3,909,229	5,434,045	4,868,944
Net gains/(losses) from trading	7	967,284	990,160	967,284	990,160
Net gains/(losses) from financial assets at fair value through profit or loss	8	96,353	23,437	113,683	79,072
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	9.1	1,486,023	686,461	1,486,023	686,461
Net gains/(losses) from derecognition of financial assets measured at amortised cost	9.2	-	9,086	277	9,086
Other operating income	10	853,886	320,373	477,658	201,828
Total		60,657,705	59,113,537	61,632,070	60,237,165

5 NET INTEREST INCOME

ACCOUNTING POLICY

Recognition of Interest Income and Interest Expenses

The Group uses the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 9 - Financial Instruments.

Effective Interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or the financial liability.

The carrying amount of financial assets or financial liabilities is adjusted if the Group revises their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The amortised cost is calculated by taking into account any discount or premium on an acquisition, fees and costs that are an integral part of the EIR. The change in the carrying amount is recorded as 'interest income' for financial assets and 'Interest expenses' for financial liabilities.

Income recognition under COVID-19 moratoriums

In accordance with the circular issued by the Central Bank of Sri Lanka [CBSL] on the "Relief measures to assist COVID-19 affected businesses and individuals", (dated 24 March 2020) the Bank provided moratorium facilities to customers affected by the pandemic and reduced its lending rates for the Equated Monthly Instalment (EMI) loans and extended the tenor of the loans as specified in the circulars.

The Bank assessed the impact of the modification loss (Day 01 impact) for the Equated Monthly Instalment loans (EMI) considered for the moratoriums phase 1 as per the guidance notes issued by the CA Sri Lanka and in line with the requirement of the SLFRS 09. Accordingly, as the modification loss is not substantial based on the judgements of the management, it was charged to the Statement of Profit or Loss immediately, in line with the requirements of SLFRS 09.

Further, the Bank has also complied with the circular issued by the Central Bank of Sri Lanka on the "Debt moratorium for Cover-19 affected business and individuals" (dated 09 November 2020) to extend the debt moratorium to a COVID-19 affected business and individuals for a further period of six months commencing from 01 October 2020.

5.1 Interest Income

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Placements with banks	316,857	633,391	335,885	635,430
Financial assets at fair value through profit or loss	127,824	78,177	127,824	78,177
Financial assets measured at fair value through other comprehensive income	6,107,654	5,313,093	6,207,247	5,486,348
Financial assets at amortised cost - loans and receivables to other customers	43,910,508	44,916,145	43,810,916	44,916,145
Financial assets at amortised cost - debt and other instruments	2,539,672	2,229,782	2,639,265	2,229,782
Other interest income	1,360	4,203	31,963	55,732
Total interest income (a)	53,003,875	53,174,791	53,153,100	53,401,614

5.2 Interest Expenses

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Due to banks	1,735,859	1,708,561	1,708,656	1,708,561
Financial liabilities at amortised cost				
Due to depositors	29,029,302	28,848,923	29,029,302	28,812,723
Due to debt securities holders	115,220	424,282	115,220	424,282
Due to other borrowers	1,982,964	1,970,939	1,982,964	1,970,939
Debt securities issued	2,392,081	2,514,328	2,392,081	2,514,328
Total interest expenses (b)	35,255,426	35,467,033	35,228,223	35,430,833
Net interest income (a)-(b)	17,748,449	17,707,758	17,924,877	17,970,781

5.3 Net Interest Income from Sri Lanka Government Securities

Interest income and interest expenses on Government Securities given below have been extracted from interest income and interest expenses given in Notes 5.1 and 5.2 respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Interest income		
Financial assets at fair value through profit or loss	127,824	78,177
Financial assets measured at fair value through other comprehensive income	6,107,654	5,313,093
Financial assets measured at amortised cost - debt and other instruments	2,262,509	1,814,355
	8,497,987	7,205,625
Less : Interest expenses		
Financial liabilities at amortised cost - Due to debt securities holders	114,838	360,957
Net interest income from Sri Lanka Government Securities	8,383,149	6,844,668

5.4 Interest Income on Impaired Financial Assets

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Interest income on impaired loans and receivables to other customers	775,663	744,445

Notes to the Financial Statements

6 NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Income from Fee-based Activities

Fee and Commission Income

The Group recognises the fee and commission earned from depositors and the loans and receivables to other customers as per the requirements of SLFRS 9 : Financial Instruments and all other fee and commission income are recognised based on the SLFRS 15: Revenue from contracts with customers.

The fee and commission income are recognised by the Group within the scope of SLFRS 15 (Revenue from contracts with customers) only when all of the following criteria are met:

- (i) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) obligations; and are committed to perform their respective obligations;
- (ii) The entity can identify each party's rights regarding the services to be transferred;
- (iii) The entity can identify the payment terms for the services to be transferred;
- (iv) The contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- (v) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

Fees and commission income that are earned from financial assets and financial liabilities, are recognised at the EIR and is accounted in the Statement of Profit or Loss over the life of the instrument.

Other fees and commission income on account servicing fees, investment management, fees for underwriting, advisory work, loan syndication and all other fees and commissions earned during the normal course of the business of the Group, are recognised as the related services are performed on an accrual basis. If a loan commitment is not expected to result in the draw- down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Income from Financial Guarantees

The Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances, in the normal course of its business activities. Financial guarantees are initially recognised in the Statement of Financial Position as a contingent liability at the guarantee value.

The premium received is recognised in the Statement of Profit or Loss on a straight-line basis over the life time of the guarantee and the balance amount to be amortised to the Statement of Profit or Loss after the reporting date, is recognised in the Statement of Financial Position, as Other Liabilities.

Rental Income

The Group recognises the rental income arising from operating leases including the investment property on an accrual basis by equalising the rental income over the tenure of the rent agreement in line with the requirement of SLFRS 16-Leases.

Fee and Commission Expenses

Fee and commission expenses mainly relates to transactions of Loans and receivables to other customers and service fees, which are paid when the services are received. Fee and commission expenses are recognised on an accrual basis.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fee and commission income (Note 6.1)	4,268,945	3,915,005	5,452,706	4,874,720
Less: Fee and commission expenses (Note 6.2)	18,661	5,776	18,661	5,776
Net Fee and commission income	4,250,284	3,909,229	5,434,045	4,868,944

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000

6.1 Fee and commission income on

Cards	893,379	746,040	893,379	746,040
Due to depositors	300,419	517,367	300,419	517,367
Guarantees	602,117	540,272	602,117	540,272
Loans and receivables to other customers	1,336,597	1,017,080	1,336,597	1,017,080
Remittances	264,066	253,856	264,066	253,856
Trade finance	592,413	653,380	592,413	653,380
Other financial services	162,757	103,398	316,649	281,332
Bancassurance	113,884	80,133	113,884	80,133
Investment banking and wealth management	-	-	615,893	516,227
Brokerage	-	-	214,054	85,892
Rental income	3,313	3,479	203,235	183,141
Total (a)	4,268,945	3,915,005	5,452,706	4,874,720

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000

6.2 Fee and commission expenses on

Loans and receivables to other customers	11,522	5,776	11,522	5,776
Other financial services	7,139	-	7,139	-
Total (b)	18,661	5,776	18,661	5,776
Net Fee and commission income (a)-(b)	4,250,284	3,909,229	5,434,045	4,868,944

7 NET GAINS/(LOSSES) FROM TRADING



ACCOUNTING POLICY

Net gains/(losses) from trading represents income from foreign exchange and include gains and losses from the revaluation of forex spot and forward contracts and other currency derivatives.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Income from foreign exchange				
With banks	551,190	594,121	551,190	594,121
With other customers	416,094	396,039	416,094	396,039
Total	967,284	990,160	967,284	990,160

Notes to the Financial Statements

8 NET GAINS/(LOSSES) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICY

All gains and losses from changes in fair value of financial assets recognised through profit or loss are included under the Net gains/(losses) from financial assets at fair value through profit or loss.

Income from equities - includes the changes in the fair value of equity securities.

Income from debt securities - includes the realised and unrealised gains of debt securities.

Income from unit trusts - includes the changes in the fair value of unit trust investments.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Financial assets recognised at fair value through profit or loss				
Realised/unrealised revaluation gains/(losses);				
Sri Lanka Government securities - Treasury bills/bonds	34,929	23,437	34,929	23,437
Equity securities	-	-	(92,875)	(68,314)
Investment in unit trusts	61,424	-	171,629	123,949
Total	96,353	23,437	113,683	79,072

9 NET GAINS/(LOSSES) FROM DERECOGNITION OF FINANCIAL ASSETS

ACCOUNTING POLICY

All realised gains and losses from derecognition of financial assets classified as financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income are given below.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
9.1 Financial assets - Measured at Fair Value through Other Comprehensive Income				
Debt securities	1,486,023	686,461	1,486,023	686,461
Total	1,486,023	686,461	1,486,023	686,461
9.2 Financial assets - Measured at Amortised Cost				
Debt securities	-	9,086	277	9,086
Total	-	9,086	277	9,086

10 OTHER OPERATING INCOME

ACCOUNTING POLICY

Other Operating income includes capital gains/(losses), dividend income, foreign exchange gains, disposal gains/(losses) from property, plant & equipment and gains from investment properties.

Dividend Income

Dividend income from group investments in subsidiary companies and associate companies and other investments in quoted and non quoted shares are recognised when the Group's right to receive the payment is established.

Foreign Exchange Gains

The change in exchange rate differences arising from the valuation of the retained profits held in foreign currency is included under 'foreign exchange gains'.

 ACCOUNTING POLICY
Gains/(Losses) on Sale of Property, Plant & Equipment

Gains/(losses) on sale of property, plant & equipment represent the difference between the sales proceeds and the net book value of property, plant & equipment that are disposed during the year.

Gains/(Losses) on Investment Properties

Gains/(losses) from investment properties arise from the changes in the fair values of investment properties and are included in the Statement of Profit or Loss, in the year in which they arise. The valuation methodology and the basis of valuation adopted by the Group is explained in detail in Note 31 on page 228.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Dividend income from securities				
- Quoted investments	43,882	35,267	52,882	48,477
- Non-quoted investments	49,584	37,951	66,703	40,899
Dividend income from group investments				
- Non-quoted investments	500,742	374,349	-	-
Foreign exchange gains/(losses)	252,033	(145,850)	251,394	(145,946)
Gains/(losses) on sale of property, plant & equipment	1,758	280	1,864	4,773
Gains on investment properties (Note 31)	-	-	108,113	162,220
Others	5,887	18,376	(3,298)	91,405
Total	853,886	320,373	477,658	201,828

11 IMPAIRMENT CHARGES
 ACCOUNTING POLICY

The Group recognises the impairment (Expected Credit Losses) on financial instruments assessed as per SLFRS 9 - "Financial Instruments" in its Financial Statements. Further, the Group also recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

Overview of the Expected Credit Loss (ECL)

The Group records the allowance for expected credit losses for all loans and advances and other financial assets not held at Fair Value through Profit or Loss (FVPL), together with loan commitments and financial guarantee contracts, which are referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The Expected Credit Loss (ECL) allowance is based on the credit losses expected to arise over the life of the asset [the life time expected credit loss (LTECL)], unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 m ECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 56.3.3.5.

The 12 months ECL is the portion of Life time ECLs that represent the ECLs that result from default events on a financial instruments that are possible within the 12 months after the reporting date.

Both Life time ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, based on a predetermined threshold of customer exposures. If a particular loan is credit impaired under individual impairment the amount of loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows. If the individually assessed asset is determined that it is not credit impaired under individual impairment, such financial assets are then collectively assessed for any impairment along with other portfolios having similar risk characteristics under collective impairment. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 56.3.3.6.

Notes to the Financial Statements

11 IMPAIRMENT CHARGES (CONTD.)



ACCOUNTING POLICY

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 56.3.3.5.

Based on the above process the Group categorised its financial assets into Stage 1, Stage 2 and Stage 3.

Stage 1

When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2

When a loan has shown a significant increase in credit risk since origination the Bank records an allowance for the Life Time ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3

Loans considered credit-impaired (as outlined in Note 56.3.3.1). The Bank records an allowance for the Life Time ECLs with the probability of Default of 100%.

The calculation of Expected Credit Loss (ECL)

The Group calculates ECLs under three staging approach to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements, Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) under collective impairment assessment are as follows:

PD

The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio. The concept of PDs is further explained in Note 56.3.3.2.

EAD

The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 56.3.3.3.

LGD

The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 56.3.3.4.

The above parameters are generally derived from internally developed statistical models and historical data and then adjusted to reflect forward looking information.

When estimating the ECLs, the Group considers three scenarios (a base case, best case and worse case) of EFA. When relevant, the assessment of multiple scenarios are also incorporated to assess how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of Credit cards and other revolving facilities, for which the treatment is separately set out below under "Credit cards and other revolving facilities", the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

Provisions for ECLs for undrawn loan commitments are assessed as set out below under "Loan commitments and letters of credit". The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below under "Credit cards and other revolving facilities".

The mechanics of the ECL method are summarised below:

 ACCOUNTING POLICY
STAGE 1

The 12 months ECL is calculated as the portion of Life Time ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

STAGE 2

When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

STAGE 3

For loans considered credit-impaired (as defined in Note 56.3.3.1), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis or on a collective basis as per the Group's impairment policy. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Forward looking information

The Group incorporates forward looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating the ECLs, the Group considers three economic scenarios (base case, best case and worse case). Quantitative economic factors are based on economic data and forecasts published by CBSL and other reliable sources.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment
- Inflation
- Interest rate
- Exchange rate
- Average Loan To Value (LTV)

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. Detailed information about these inputs and sensitivity analysis are provided in Note 56.3.3.7.

Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities within a short period of time. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year for corporate and one year for retail products. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's number of days past due, as explained in Note 56.3.3.5, but greater emphasis is also given to qualitative factors also.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

Notes to the Financial Statements

11 IMPAIRMENT CHARGES (CONTD.)



ACCOUNTING POLICY

Loan commitments and letters of credit:

When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR of the loan. For loan commitments and letters of credit, the ECL is recognised within.

Financial guarantee contracts

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit or Loss and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holders for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

Impairment of financial assets carried at Fair value through Other Comprehensive Income/Debt and other instruments at amortised cost.

Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost.

The Group does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. Thus the Group considers PDs published by the external sources (i.e. Bloomberg).

LGD for debt securities issued by the Government of Sri Lanka in LKR is considered as 0%, LGD for foreign currency denominated securities issued by the Government [Sri Lanka Development Bonds (SLDBSs) and Sri Lanka Sovereign Bonds (SLSBs)] is considered as 20% and for all other instruments LGD is considered as 45% in accordance with the guideline issued by the Central Bank of Sri Lanka. EAD of a debt instrument is its gross carrying amount.

Recognition of impairment on debt instruments at Fair Value through Other Comprehensive Income (FVOCI)

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the Statement of Profit or Loss. The accumulated loss recognised in OCI is recycled to the Statement of Profit or Loss upon derecognition of the assets.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at inception and re-assessed on a regular basis. Details of the impact of the Bank's various credit enhancements are disclosed in Note 56.3.3.11.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists.

Collateral repossessed

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, assets under legal repossession processes are not recorded on the Statement of Financial Position.

The Bank's policy is to sell the repossessed assets at the earliest possible opportunity. Such collaterals repossessed are held on a memorandum basis without derecognising the underlying receivable.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the Statement of Profit or Loss.

 ACCOUNTING POLICY
Forborne and modified loans (restructured/rescheduled loans)

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. Accordingly, all rescheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period as specified in the Direction on 'Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments' issued by the Central Bank of Sri Lanka. Further loans which have been restructured are classified as stage 2 or 3 based on the number of times restructured unless upgraded due to satisfactory performing period as specified in the said Guidelines.

Significant Accounting Judgements, Estimates and Assumptions on Impairment losses on financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include;

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models.

Management overlays on impairment provisions due to COVID-19 pandemic

Given the degree of uncertainty surrounding the economic impact of coronavirus and the lack of reliable data to model the impact, as well as operational and timing challenges in incorporating the latest available macroeconomic inputs into the ECL models, the Group considered the following management overlays to the model in computing expected credit loss provisions at the end of the period.

- The economic assumptions applied as of 31 December 2020 in respect of forward-looking information were adjusted significantly to reflect the development of the pandemic by increasing the weightage given to worst case scenario and adjusting the other factors as required.
- Staging of the facilities included in the identified risk elevated industries were moved to a higher stage where necessary to capture the significant increase in credit risk due to COVID-19.

Notes to the Financial Statements

11.1 Impairment Charges During the Year

	Note	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Charges/(reversals) to the Statement of Profit or Loss;					
Loans and receivables to other customers					
- Impairment on individually significant loans		3,840,595	2,721,578	3,840,595	2,721,578
- Impairment on collective loan portfolio		1,999,847	925,616	1,999,847	925,616
Impairment on contingent liabilities and commitments		390,699	198,363	390,699	198,363
Total impairment charges for loan and receivables to other customers and contingent liabilities and commitments	26.5 (a)	6,231,141	3,845,557	6,231,141	3,845,557
Total impairment charges on financial assets	11.2	562,506	290,284	562,506	559,919
Impairment charges on investments in subsidiaries	11.2	2,689	21,940	-	-
Total		6,796,336	4,157,781	6,793,647	4,405,476

11.2 Analysis of Impairment Charges - Stagewise Impairment

A further analysis of the impairment charges on Financial Instruments for the year are given below.

	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Current Year 2020								
Impairment on loans and receivables								
Financial assets at amortised cost								
- loans and receivables to other customers	502,913	961,147	4,376,382	5,840,442	502,913	961,147	4,376,382	5,840,442
Individual impairment	-	731,419	3,109,176	3,840,595	-	731,419	3,109,176	3,840,595
Collective impairment	502,913	229,728	1,267,206	1,999,847	502,913	229,728	1,267,206	1,999,847
Contingent liabilities and commitments [Note 48.1 (b)]	287,237	108,391	(4,929)	390,699	287,237	108,391	(4,929)	390,699
Total impairment charges on loans and receivables to other customers and contingent liabilities and commitments [Note 26.5 (a)]	790,150	1,069,538	4,371,453	6,231,141	790,150	1,069,538	4,371,453	6,231,141
Impairment on financial assets								
Cash and cash equivalents	682	-	-	682	682	-	-	682
Placements with banks (Note 23.1)	(1,206)	-	-	(1,206)	(1,206)	-	-	(1,206)
Financial assets at amortised cost - debt and other instruments [Note 27.1 (d)]	547,905	-	19,318	567,223	547,905	-	19,318	567,223
Financial assets measured at fair value through other comprehensive income	(4,193)	-	-	(4,193)	(4,193)	-	-	(4,193)
Total impairment charges on financial assets	543,188	-	19,318	562,506	543,188	-	19,318	562,506
Impairment charges on investments in subsidiaries (Note 29.3)	2,689	-	-	2,689	-	-	-	-
Total impairment charges	1,336,027	1,069,538	4,390,771	6,796,336	1,333,338	1,069,538	4,390,771	6,793,647

	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Previous Year 2019								
Impairment on loans and receivables								
Financial assets at amortised cost								
- loans and receivables to other customers	653,662	(420,357)	3,413,889	3,647,194	653,662	(420,357)	3,413,889	3,647,194
Individual impairment	-	452,901	2,268,677	2,721,578	-	452,901	2,268,677	2,721,578
Collective impairment	653,662	(873,258)	1,145,212	925,616	653,662	(873,258)	1,145,212	925,616
Contingent liabilities and commitments [Note 48.1 (b)]	227,460	(26,863)	(2,234)	198,363	227,460	(26,863)	(2,234)	198,363
Total impairment charges on loans and receivables to other customers and contingent liabilities and commitments [Note 26.5 (a)]	881,122	(447,220)	3,411,655	3,845,557	881,122	(447,220)	3,411,655	3,845,557
Impairment on financial assets								
Cash and cash equivalents	(125)	-	-	(125)	(125)	-	-	(125)
Placements with banks (Note 23.1)	(2,929)	-	-	(2,929)	(2,929)	-	-	(2,929)
Financial assets at amortised cost - debt and other instruments [Note 27.1 (d)]	75,223	-	184,646	259,869	120,338	-	184,646	304,984
Financial assets measured at fair value through other comprehensive income	33,469	-	-	33,469	33,469	-	224,520	257,989
Total impairment charges on financial assets	105,638	-	184,646	290,284	150,753	-	409,166	559,919
Impairment charges on investments in subsidiaries (Note 29.3)	21,940	-	-	21,940	-	-	-	-
Total impairment charges	1,008,700	(447,220)	3,596,301	4,157,781	1,031,875	(447,220)	3,820,821	4,405,476

12 PERSONNEL EXPENSES



ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefit charges, share-based payments and other related expenses. The provisions for bonus is recognised when 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 on the amount of the obligation.

Defined Contribution Plans

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

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions, in accordance with the respective statutes and regulations. The Bank contributes 15% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. Group companies contribute 12% and 3% of gross salaries of employees to the Employees' Provident Fund of Central Bank of Sri Lanka and Employees' Trust Fund respectively.

The above expenses are identified as contributions to 'Defined Contribution Plans' as defined in the Sri Lanka Accounting Standard - LKAS 19.

Notes to the Financial Statements

12 PERSONNEL EXPENSES (CONTD.)

ACCOUNTING POLICY

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, the pension fund and staff gratuity were considered as defined benefit plans as per Sri Lanka Accounting Standard - LKAS 19, Employee Benefits.

The contributions to the defined benefit plans are recognised in the Statement of Profit or Loss, based on an actuarial valuation carried out for the gratuity liability and the pension fund of the Group in accordance with LKAS 19.

The basis of measurement, assumptions used in actuarial valuations are given in detail in Note 41 to these Financial Statements.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Salary and bonus	4,190,779	4,003,672	4,672,452	4,469,497
Contribution to Employees' Provident Fund	377,473	343,477	414,502	355,966
Contribution to Employees' Trust Fund	75,495	68,695	86,075	71,429
Contribution to defined benefit plan				
- Pension Fund [Note 41.2 (a)]	16,625	(8,188)	16,625	(8,188)
- Gratuity [Note 41.1 (a)]	138,712	98,853	163,965	127,349
Others	372,463	450,637	394,834	443,769
Total	5,171,547	4,957,146	5,748,453	5,459,822

Remuneration paid to Executive Directors are included under salary and bonus as they are not entitled to emoluments as Non-Executive Directors.

13 DEPRECIATION AND AMORTISATION EXPENSES

ACCOUNTING POLICY

Useful Life Time of Property, Plant & Equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from the date when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. No depreciation is charged in the month of disposal of the asset and the Group do not charge depreciation on freehold land. The depreciation rates are determined separately for each significant part of the assets.

The Group reviews the residual values, useful lives and methods of depreciation of property, plant & equipment 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.

The estimated useful lives of the assets for the year ended 31 December 2020 and 2019, are as follows:

	Period (Years)	% per Annum
Freehold buildings	50	2.00
Leasehold buildings	5	20.00
Motor vehicles	4	25.00
Office equipment and furniture	5	20.00
Computer equipment - ATMs *	8	12.50
Computer equipment - Servers *	6	16.67
Computer equipment - iPads *	3	33.33
Computer equipment - Others	5	20.00
Mobile Phones	2	50.00
Sundry fittings	4	25.00

Amortisation of Intangible Assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the years ended 31 December 2020 and 2019 are given as follows:

Class of Assets	Period (Years)	% per Annum
Computer software - Application software	6	16.67
Computer software - Data Base Software	8	12.50
Computer software - Operating System software	8	12.50
Computer software - Utility Software	6	16.67
Computer software - Others	5-10	20.00-10.00

* With effect from 01 January 2019, computer software were segregated according to their useful life based on technical assessment.

Depreciation of Right of Use Assets

Depreciation is calculated using the straight-line method over the tenor of the lease agreements and it is recognised in the Statement of Profit or Loss.

An analysis of depreciation and amortisation expenses are given below.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Own assets				
Depreciation of property, plant & equipment (Note 32.1 & 32.4)	407,741	402,844	481,941	481,819
Amortisation of intangible assets (Note 34.1)	133,075	122,241	133,956	127,204
Assets under operating leases				
Depreciation of right of use assets (Note 33)	277,766	235,934	315,702	274,300
Total	818,582	761,019	931,599	883,323

14 OTHER EXPENSES**ACCOUNTING POLICY**

Other expenses include operating expenses of the Group which are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income and are recognised on an accrual basis.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Directors' emoluments	31,560	37,753	38,580	45,116
Auditors' remuneration				
Audit fees and expenses	9,714	9,714	15,325	15,202
Fees for other audit services	8,023	6,828	8,711	7,590
Non-audit fees to auditors	3,333	4,116	6,673	8,094
Professional and legal expenses	37,622	94,360	62,957	138,958
Donations	11,370	24,557	15,370	28,557
Office administration and establishment expenses	1,721,213	1,550,150	1,972,881	1,820,874
Deposit insurance expenses	456,288	373,643	456,288	373,643
Others	1,130,201	1,615,193	1,144,213	1,628,994
Total	3,409,324	3,716,314	3,720,998	4,065,345

Directors' emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under salary and bonus in Note 12.

Notes to the Financial Statements

15 TAX ON FINANCIAL SERVICES

ACCOUNTING POLICY

Tax on Financial Services include Value Added Tax and Nation Building Tax on Financial Services and Debt Repayment Levy.

Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on financial services is the accounting profit before income tax and emoluments payable to employees, which is adjusted for the depreciation of property, plant & equipment computed at the prescribed rates. The emoluments payable include aggregate of both benefits in money and benefits not in money payable to the employees and any contribution or provision in relating to terminal benefits. The regulatory tax rate applicable for the current year was 15%. (2019- 15%).

Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax Act No. 9 of 2009 and subsequent amendments thereto. The base applicable for Value Added Tax on financial services is also applied for the computation of the Nation Building Tax on financial services. However, the NBT on financial services was abolished with effect from 01 December 2019 as per the Nation Building Tax (Amendment) Act No. 3 of 2020 and the regulatory tax rate applicable for the period from 01 January 2019 to 30 November 2019 was 2%.

Debt Repayment Levy (DRL)

Debt Repayment Levy has been imposed by the Finance Act No. 35 of 2018 commencing from 01 October 2018. The base for the computation of Debt Repayment Levy is the value addition attributable to the supply of financial services computed for VAT on financial services before deducting for VAT and NBT on financial services and DRL. The DRL was abolished with effect from 01 January 2020 as per the Finance (Amendment) Act No. 2 of 2020. The regulatory tax rate applicable for the year 2019 was 7%.

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Value Added Tax on financial services	1,818,832	1,837,750
Nation Building Tax on financial services	-	230,710
Debt Repayment Levy	-	1,002,980
Total	1,818,832	3,071,440

16 SHARE OF ASSOCIATE COMPANIES' PROFITS/(LOSSES)

The Group's share of profits/(losses) of an investment in an associate company which is recognised as per the equity method, is shown on the face of the Statement of Profit or Loss outside operating profits. This represents Group's share of the profits/(losses) from operations of the associate.

The Bank has not recognised profits/(losses) from its associate company, Ayojana Fund (Pvt) Limited, as the company is under liquidation. Please refer Note 30 to these Financial Statements.

17 INCOME TAX EXPENSES

ACCOUNTING POLICY

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

Current tax

Current tax consists of the expected tax payable to or receivable from the taxation authorities for the year and any adjustment to the tax payable or receivable in respect of previous years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date. Current tax also includes any tax arising from dividends.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 (w.e.f. 01 April 2018) and amendments there to, at the rates specified in Note 17.2 of these Financial Statements..

 ACCOUNTING POLICY

Provision for taxation of the foreign subsidiaries is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant statutes in those countries, using the tax rates enacted or substantively enacted as at the reporting date.

Deferred Tax

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of deferred tax liabilities/(assets) are given in Note 40 to the Financial Statements.

Withholding tax on dividend distributed by Group companies

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in the Statement of Profit or Loss.

Dividend distributed out of taxable profits by the local subsidiaries attracts 14% withholding tax at source upto 31 December 2019. Thus, the WHT deducted at source, on the dividends distributed by the subsidiaries is charged to the consolidated Statement of Profit or Loss as a consolidation adjustment.

As per the Notice dated 08 April 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective from 01 January 2020.

IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

Notes to the Financial Statements

17 INCOME TAX EXPENSES (CONTD.)

ACCOUNTING POLICY

The Group applies IFRIC Interpretation 23, "Uncertainty Over Income Tax Treatment" in determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over the income tax treatment. The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. It assessed whether the Interpretation had an impact on its consolidated Financial Statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions.

Accordingly the Group has already estimated and recorded the probable effect of uncertainty over income tax treatment in its consolidated Financial Statements.

Significant Accounting Estimates & Assumptions

The amount of current tax receivable or payable is the best estimate of the tax amount expected to be received or paid that reflects uncertainty related to income taxes, if any.

Management periodically evaluates the positions taken in the tax returns, with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The components of the income tax expenses for the years ended 31 December 2020 and 2019 are:

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current tax expense				
Taxation based on the profit for the year	3,059,137	2,558,683	3,373,775	2,623,173
Under/(over) provision in respect of previous years	(254,608)	(431,151)	(244,820)	(433,830)
Total current tax expense	2,804,529	2,127,532	3,128,955	2,189,343
Deferred tax expense				
Origination and reversal of temporary differences (Note 40.2)	(947,347)	(256,328)	(955,985)	(153,428)
Total income tax charged to the Statement of Profit or Loss (Note 17.1)	1,857,182	1,871,204	2,172,970	2,035,915
Effective tax rate (including deferred tax) (%)	25	27	29	29
Effective tax rate (excluding deferred tax) (%)	38	30	42	32

17.1 Reconciliation of the Accounting Profit to Income Tax Expenses

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Profit before taxation	7,387,658	6,982,804	7,390,318	6,920,926
Income tax expenses for the year (accounting profit @ applicable tax rate)	1,902,166	1,955,184	2,184,007	2,015,885
Income tax expenses for the year (dividend @ applicable tax rate)	83,189	-	246,289	-
Tax effect on				
Disallowable expenses	3,328,149	3,489,634	3,426,519	3,498,007
Tax deductible expenses	(1,844,992)	(2,488,965)	(2,073,665)	(2,493,549)
Exempt income	(409,375)	(397,170)	(409,375)	(397,170)
Taxation based on the profits for the year	3,059,137	2,558,683	3,373,775	2,623,173
Under/(over) provision in respect of previous years	(254,608)	(431,151)	(244,820)	(433,830)
Total current tax expense	2,804,529	2,127,532	3,128,955	2,189,343
Origination and reversal of temporary difference (Note 40.2)	(947,347)	(256,328)	(955,985)	(153,428)
Total income tax charged to the Statement of Profit or Loss	1,857,182	1,871,204	2,172,970	2,035,915

17.2 Applicable Income Tax Rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2020 and 2019 are as follows:

Dividend received out of taxable profits are liable to income tax at 14%.

	2020 %	2019 %
National Development Bank PLC	28	28
NDB Capital Holdings Limited	28	28
Development Holdings (Pvt) Limited	28	28
NDB Investment Bank Limited	28	28
NDB Securities (Pvt) Limited	28	28
NDB Wealth Management Limited	28	28
NDB Zephyr Partners Lanka (Pvt) Limited	14	14
NDB Zephyr Partners Limited (Mauritius)*	15	15
NDB Capital Limited (Bangladesh)	0.6	0.6

*The Company is, however, entitled to a tax credit equivalent to the higher of actual foreign tax suffered or 80% of the Mauritius tax chargeable on its foreign source income.

17.3 The Deferred Tax (Credit)/Charge in the Statement of Profit or Loss Comprise the Following:

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deferred tax assets	10,301	(180,504)	29,009	(63,801)
Deferred tax liabilities	(957,648)	(75,824)	(984,994)	(89,627)
Deferred tax (credit)/charge to the Statement of Profit or Loss	(947,347)	(256,328)	(955,985)	(153,428)

18 BASIC/DILUTED EARNING PER SHARE ACCOUNTING POLICY

The Group present the Basic and Diluted Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity holders of the parent by the weighted average number of ordinary shares considering the shares issued as scrip dividend and right issue outstanding during the period.

18.1 Earnings per Share: Basic/Diluted

	BANK		GROUP	
	2020	2019	2020	2019
Amount used as the numerator				
Profit attributable to equity holders of the parent (LKR '000)	5,530,476	5,111,600	5,116,806	4,775,932
Amount used as the denominator				
Weighted average number of ordinary shares [Note 18.1 (a)]	232,637,231	232,637,231	232,637,231	232,637,231
Basic/diluted earnings per share (LKR)	23.77	21.97	21.99	20.53

Notes to the Financial Statements

18.1 (a) Weighted Average Number of Ordinary Shares for Basic/Diluted EPS

	BANK & GROUP	
	2020	2019
Number of shares held as at 01 January as per stated capital	221,799,756	210,317,117
Add: Number of shares issued due to final scrip dividend for the year 2018	-	11,482,639
Add: Number of shares issued due to final scrip dividend for the year 2019	10,837,475	10,837,475
Weighted average number of shares held as at 31 December used as the denominator for EPS	232,637,231	232,637,231

19 DIVIDEND PER SHARE

ACCOUNTING POLICY

Interim and final dividends are recognised and accrued when the dividends are recommended and declared by the Board of Directors in accordance with the Companies Act No. 7 of 2007.

The Board of Directors have approved and declared an interim cash dividend of LKR 1.50 per share for the year 2020. Upon completion of the Right issue that has been announced, the Board of Directors may consider a declaration of a final dividend to its shareholders. The Bank paid a total dividend of LKR 7.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 5.00 per share for the year 2019.

	BANK & GROUP	
	2020 LKR	2019 LKR
Interim dividend per share - Cash	1.50	-
Final dividend per share - Cash	-	2.00
Final dividend per share - Scrip	-	5.00
Total dividend per share (Interim - 2020 / Final - 2019)	1.50	7.00

Dividend Paid during the Year	BANK & GROUP			
	Dividend per Share LKR	2020 LKR '000	Dividend per Share LKR	2019 LKR '000
Final scrip dividend declared for the prior year	5.00	1,108,999	6.50	1,367,061
Final cash dividend declared for the prior year	2.00	443,600	1.50	315,476
Gross dividends declared during the year with respect of prior year	7.00	1,552,599	8.00	1,682,537
Reversal of dividends declared in prior years		(8,839)		(16,729)
Dividends to equity holders		1,543,760		1,665,808

20 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

ACCOUNTING POLICY

Financial instruments in the Statement of Financial Position are measured on an ongoing basis either at fair value or at amortised cost. The Accounting Policies describe how each category of financial instrument is measured and how income and expenses, including fair value gains and losses are recognised. The following tables analyse the carrying amount of the financial instruments by category as defined in Sri Lanka Accounting Standard SLFRS 9 - 'Financial Instruments' under headings of the Statement of Financial Position:

	BANK			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR '000	LKR '000	LKR '000	LKR '000
As at 31 December 2020				
Assets				
Cash and cash equivalents	-	10,487,608	-	10,487,608
Balances with the Central Bank of Sri Lanka	-	6,812,099	-	6,812,099
Placements with banks	-	12,401,533	-	12,401,533
Derivative financial instruments	1,429,470	-	-	1,429,470
Financial assets recognised through profit or loss - measured at fair value	5,574,175	-	-	5,574,175
Financial assets at amortised cost - loans and receivables to other customers	-	425,605,508	-	425,605,508
Financial assets at amortised cost - debt and other instruments	-	44,711,640	-	44,711,640
Financial assets measured at fair value through other comprehensive income	-	-	108,593,183	108,593,183
Other financial assets	-	129,469	-	129,469
Total financial assets	7,003,645	500,147,857	108,593,183	615,744,685

	BANK		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
As at 31 December 2020			
Liabilities			
Due to banks	-	24,173,318	24,173,318
Derivative financial instruments	1,016,787	-	1,016,787
Financial liabilities at amortised cost - due to depositors	-	490,278,126	490,278,126
Financial liabilities at amortised cost - due to debt securities holders	-	1,500,007	1,500,007
Financial liabilities at amortised cost - due to other borrowers	-	34,284,109	34,284,109
Debt securities issued	-	19,880,891	19,880,891
Other financial liabilities	-	3,117,943	3,117,943
Total financial liabilities	1,016,787	573,234,394	574,251,181

	GROUP			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR '000	LKR '000	LKR '000	LKR '000
As at 31 December 2020				
Assets				
Cash and cash equivalents	-	10,778,947	-	10,778,947
Balances with the Central Bank of Sri Lanka	-	6,812,099	-	6,812,099
Placements with banks	-	12,401,533	-	12,401,533
Derivative financial instruments	1,429,470	-	-	1,429,470
Financial assets recognised through profit or loss - measured at fair value	7,713,222	-	-	7,713,222
Financial assets at amortised cost - loans and receivables to other customers	-	425,681,832	-	425,681,832
Financial assets at amortised cost - debt and other instruments	-	44,711,640	-	44,711,640
Financial assets measured at fair value through other comprehensive income	-	-	108,762,972	108,762,972
Other financial assets	-	441,488	-	441,488
Total financial assets	9,142,692	500,827,539	108,762,972	618,733,203

Notes to the Financial Statements

20 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

	GROUP		
	Fair value through profit or loss LKR '000	Amortised cost LKR '000	Total LKR '000
As at 31 December 2020			
Liabilities			
Due to banks	-	24,173,318	24,173,318
Derivative financial instruments	1,016,787	-	1,016,787
Financial liabilities at amortised cost - due to depositors	-	489,658,746	489,658,746
Financial liabilities at amortised cost - due to debt securities holders	-	1,500,007	1,500,007
Financial liabilities amortised cost - due to other borrowers	-	34,284,109	34,284,109
Debt securities issued	-	19,880,891	19,880,891
Other financial liabilities	-	3,458,397	3,458,397
Total financial liabilities	1,016,787	572,955,468	573,972,255

	BANK			
	Fair value through profit or loss LKR '000	Amortised cost LKR '000	Fair value through other comprehensive income LKR '000	Total LKR '000
As at 31 December 2019				
Assets				
Cash and cash equivalents	-	5,703,468	-	5,703,468
Balances with the Central Bank of Sri Lanka	-	13,886,575	-	13,886,575
Placements with banks	-	6,291,047	-	6,291,047
Derivative financial instruments	1,596,359	-	-	1,596,359
Financial assets recognised through profit or loss - measured at fair value	932,253	-	-	932,253
Financial assets at amortised cost - loans and receivables to other customers	-	396,648,811	-	396,648,811
Financial assets at amortised cost - debt and other instruments	-	27,485,885	-	27,485,885
Financial assets measured at fair value through other comprehensive income	-	-	67,018,254	67,018,254
Other financial assets	-	39,716	-	39,716
Total financial assets	2,528,612	450,055,502	67,018,254	519,602,368

	BANK		
	Fair value through profit or loss LKR '000	Amortised cost LKR '000	Total LKR '000
As at 31 December 2019			
Liabilities			
Due to banks	-	18,380,356	18,380,356
Derivative financial instruments	728,873	-	728,873
Financial liabilities at amortised cost - due to depositors	-	405,048,024	405,048,024
Financial liabilities at amortised cost - due to debt securities holders	-	1,398,068	1,398,068
Financial liabilities at amortised cost - due to other borrowers	-	29,342,027	29,342,027
Debt securities issued	-	23,108,734	23,108,734
Other financial liabilities	-	3,997,731	3,997,731
Total financial liabilities	728,873	481,274,940	482,003,813

	GROUP			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
As at 31 December 2019	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Cash and cash equivalents	-	6,081,359	-	6,081,359
Balances with the Central Bank of Sri Lanka	-	13,886,575	-	13,886,575
Placements with banks	-	6,291,047	-	6,291,047
Derivative financial instruments	1,596,359	-	-	1,596,359
Financial assets recognised through profit or loss - measured at fair value	3,488,735	-	-	3,488,735
Financial assets at amortised cost - loans and receivables to other customers	-	396,672,022	-	396,672,022
Financial assets at amortised cost - debt and other instruments	-	27,485,885	-	27,485,885
Financial assets measured at fair value through other comprehensive income	-	-	68,430,331	68,430,331
Other financial assets	-	424,808	-	424,808
Total financial assets	5,085,094	450,841,696	68,430,331	524,357,121

	GROUP		
	Fair value through profit or loss	Amortised cost	Total
As at 31 December 2019	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	18,380,356	18,380,356
Derivative financial instruments	728,873	-	728,873
Financial liabilities at amortised cost - due to depositors	-	404,667,529	404,667,529
Financial liabilities at amortised cost - due to debt securities holders	-	1,398,068	1,398,068
Financial liabilities amortised cost - due to other borrowers	-	29,342,027	29,342,027
Debt securities issued	-	23,108,734	23,108,734
Other financial liabilities	-	4,362,575	4,362,575
Total financial liabilities	728,873	481,259,289	481,988,162

21 CASH AND CASH EQUIVALENTS



ACCOUNTING POLICY

For the purpose of reporting in the Statement of Financial Position, cash and cash equivalents comprise of cash in hand and balances with banks. The cash in hand comprises of both local currency and foreign currency. Balances with banks represent local and foreign Nostro accounts.

The balances of cash in hand are recorded at book value and the balances with banks are carried at amortised cost in the Statement of Financial Position. For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash in hand and balances with banks as defined above.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Local currency in hand	5,556,795	3,577,676	5,556,938	3,577,781
Foreign currency in hand	106,375	119,019	106,375	119,022
Balances with banks	4,824,438	2,006,773	5,115,634	2,384,556
Total	10,487,608	5,703,468	10,778,947	6,081,359

Notes to the Financial Statements

22 BALANCES WITH THE CENTRAL BANK OF SRI LANKA

ACCOUNTING POLICY

Balances with the Central Bank of Sri Lanka include the cash balance that is required to be maintained with the Central Bank of Sri Lanka as per the provisions of the Monetary Law Act. Balances with the Central Bank of Sri Lanka is carried at amortised cost in the Statement of Financial Position.

The minimum cash reserve requirement to be maintained by the Bank during the year was as follows.

Deposit type	Period	Reserve Requirement (SRR)
All Rupee deposit liabilities	01.01.2020 - 15.03.2020	5.0%
	16.03.2020 - 15.06.2020	4.0%
	16.06.2020 - 31.12.2020	2.0%

The reserve requirement for the previous year was as follows.

Deposit type	Period	Reserve Requirement (SRR)
Margin against letter of credits for importation of specified motor vehicles, specified nonessential consumer goods and specified imports on document against acceptance (DA) terms	01.01.2019 - 31.12.2019	100.0%
All Rupee deposit liabilities other than margin deposits referred above	01.01.2019 - 28.02.2019	6.0%
	01.03.2019 - 31.12.2019	5.0%

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Statutory balances with the Central Bank of Sri Lanka	6,812,099	13,886,575	6,812,099	13,886,575
Total	6,812,099	13,886,575	6,812,099	13,886,575

23 PLACEMENTS WITH BANKS

ACCOUNTING POLICY

Placements with Banks include short-term deposits placed in banks and are subjected to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate, net of impairment charges.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Placements - in Sri Lanka	12,401,862	6,292,582	12,401,862	6,292,582
Less : Impairment allowance (Note 23.1)	(329)	(1,535)	(329)	(1,535)
Total	12,401,533	6,291,047	12,401,533	6,291,047

23.1 Movement in impairment allowance during the year

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Stage 1				
Balance as at 01 January	1,535	4,464	1,535	4,464
Charges/(reversals) for the year	(1,206)	(2,929)	(1,206)	(2,929)
Balance as at 31 December	329	1,535	329	1,535

24 DERIVATIVE FINANCIAL INSTRUMENTS **ACCOUNTING POLICY**

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include, cross-currency swaps, forward foreign exchange contracts and currency options. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The changes in the fair value of derivatives are included in 'Net gains/(losses) from trading' except the currency SWAP entered with the Central Bank of Sri Lanka.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).

Hedge Accounting

The Group elected to continue to apply hedge accounting in accordance with LKAS 39, under a policy choice permitted under SLFRS 9.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception, the Group document the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also document their assessment, both at the inception of the hedge and on an ongoing basis, if the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss.

The amounts accumulated in Equity are reclassified to the Statement of Profit or Loss in the periods in which the hedged items, affect, profit or loss. When a hedging instrument is expired or is sold, or when a hedge no longer meets the criteria for hedge accounting. Any cumulative gain or loss existing in Equity at that time remains in Equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were reported in Equity are immediately transferred to the Statement of Profit or Loss.

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24 DERIVATIVE FINANCIAL INSTRUMENTS (CONTD.)

The changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognised immediately in the Statement of Profit or Loss.

	BANK & GROUP			
	Financial Assets 2020 LKR '000	Financial Liabilities 2020 LKR '000	Financial Assets 2019 LKR '000	Financial Liabilities 2019 LKR '000
Forward foreign exchange contracts	1,429,470	1,016,787	1,354,807	728,873
Currency SWAP (Note 24.1)	-	-	241,552	-
Total	1,429,470	1,016,787	1,596,359	728,873

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding as at 31 December 2020 and are indicative of neither the market risk nor the credit risk.

	BANK & GROUP					
	Assets 2020 LKR '000	Liabilities 2020 LKR '000	Notional Amount 2020 LKR '000	Assets 2019 LKR '000	Liabilities 2019 LKR '000	Notional Amount 2019 LKR '000
Forward foreign exchange contracts - Sales	312,929	679,997	127,080,925	1,075,956	67,869	105,798,295
- Purchases	1,116,541	336,790	127,620,251	278,851	661,004	106,344,268
Currency SWAP - Purchases	-	-	-	241,552	-	3,085,500
Total	1,429,470	1,016,787	254,701,176	1,596,359	728,873	215,228,063

24.1 CURRENCY SWAP

The currency SWAP arrangement was effective upto 16 December 2020.

The Bank entered in to a SWAP arrangement with the Central Bank of Sri Lanka against 50 percent of the outstanding amount of the foreign borrowing value of USD 75 Mn which has a tenure of eight years. The SWAP arrangement was renewed annually over the tenure of the borrowings. As per Sri Lanka Accounting Standard - LKAS 39- Financial Instruments: Recognition and Measurement, and as permitted under SLFRS 9 - Financial Instruments, the Bank identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship. However, the Bank discontinued the renewal of the said SWAP arrangement with the Central Bank of Sri Lanka with effect from 16 December 2020 as 50% of the outstanding balance of the hedge item (underline borrowing facility) was not significant to enter into a SWAP arrangement.

A brief description of the cash flow hedge which was in place up to 16 December 2020 is given below:

24.1 (a) SWAP Agreement (effective upto 16 December 2020.)

Details	Description of the Hedge
Hedged instrument	SWAP contract - Renewable every year Counterparty - Central Bank of Sri Lanka Notional amount - USD 17 Mn which is 50% of the total outstanding borrowings that is hedged.
Hedged item	USD denominated borrowing - USD 75 Mn with a tenure of 8 years and grace period of 2 years. Repayment periods commenced from October 2016 and equal instalments are paid semi-annually. The hedge item represents the six instalments payable after 01 January 2020.
The periods when the cash flows are expected to occur	As given above
The amount recognised in other comprehensive income up to 16 December 2020	LKR 98.8 Mn debit to the cash flow hedge reserve
Fair value of the hedged item as at 16 December 2020	LKR 4,371 Mn
Fair value of the hedged instrument as at 16 December 2020	LKR 63 Mn
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None

24.1 (b) Total Amount Recognised in the Statement of Comprehensive Income Relating to the Cash Flow Hedge

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Gains/(losses) on adjustment of fair value [Note 55(b)]	81,908	598,372
Amortisation adjustment of day one difference on the SWAP transaction	(83,521)	(701,296)
Total	(1,613)	(102,924)

25 FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE**ACCOUNTING POLICY**

The Group classifies financial assets as financial assets recognised through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Financial assets recognised through profit or loss are recorded and measured in the Statement of Financial Position at fair value. The Changes in fair value are recognised in the Statement of Profit or Loss under Net gains/(losses) from financial assets at fair value through profit or loss.

Financial assets recognised through profit or loss consist of quoted equity securities, Unit Trust Investments and Sri Lanka Government Debt Securities, that have been acquired principally for the purpose of selling or repurchasing in the near term, and are recorded at fair values using assumptions that a market participant would make, when valuing such instruments. The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange. Sri Lanka Government Securities are valued based on the market rates publish by the money brokers. Investment in private equity funds are measured at fair value based on the change in the net asset value of the funds and is recognised through profit or loss. The unit trust investments are valued at unit prices available in the market.

Notes to the Financial Statements

25.1 Financial assets recognised through profit or loss

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Government Securities - treasury bonds	316,865	932,253	316,865	932,253
Sri Lanka Government Securities - treasury bills	2,195,886	-	2,195,886	-
Quoted ordinary shares	-	-	164,449	480,541
Non-quoted ordinary shares	-	-	150,000	150,000
Investment in private equity fund	-	-	907,833	966,780
Investment in unit trusts	3,061,424	-	3,978,189	959,161
Total	5,574,175	932,253	7,713,222	3,488,735

25.1 (a) Analysis of financial assets recognised through profit or loss

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
By collateralisation				
Unencumbered	5,574,175	932,253	7,713,222	3,488,735
Gross total	5,574,175	932,253	7,713,222	3,488,735
By currency				
Sri Lanka Rupee	5,574,175	932,253	6,805,389	2,521,955
United States Dollar	-	-	907,833	966,780
Gross total	5,574,175	932,253	7,713,222	3,488,735

26 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS

ACCOUNTING POLICY

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

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

After initial measurement, 'loans and receivables to other customers' are subsequently measured at amortised cost using the EIR, less impairment allowance. The amortisation is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss as 'impairment charges for loans and receivables to other customers'.

The accounting policy applied by the Group for impairment, collateral valuations, write-off of loans and receivables to other customers and restructured/rescheduled loan facilities are described in Note 11, impairment charges.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Gross loans and receivables to other customers	443,536,977	409,221,432	443,613,301	409,244,643
Less: Impairment allowance for loans and receivables to other customers [Note 26.5 (a)]	17,931,469	12,572,621	17,931,469	12,572,621
Net loans and receivables to other customers	425,605,508	396,648,811	425,681,832	396,672,022

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Gross loans and receivables to other customers				
Stage 1	352,542,313	312,394,875	352,618,637	312,418,086
Stage 2	54,239,045	68,763,426	54,239,045	68,763,426
Stage 3	36,755,619	28,063,131	36,755,619	28,063,131
Table (a)	443,536,977	409,221,432	443,613,301	409,244,643
Less: Impairment allowance under:				
Stage 1	3,472,657	2,682,508	3,472,657	2,682,508
Stage 2	2,743,989	1,674,451	2,743,989	1,674,451
Stage 3	11,714,823	8,215,662	11,714,823	8,215,662
Total (b)	17,931,469	12,572,621	17,931,469	12,572,621
Net loans and receivables to other customers (a) - (b)	425,605,508	396,648,811	425,681,832	396,672,022

Loans and Receivables to Other Customers - Based on the Exposure to Credit Risk (Stage wise Analysis)

	BANK							
	2020				2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Individually impaired loans	-	19,141,523	23,678,808	42,820,331	-	22,215,929	17,988,064	40,203,993
Collectively impaired loans	352,542,313	35,097,522	13,076,811	400,716,646	312,394,875	46,547,497	10,075,067	369,017,439
Gross loans and receivables to other customers (a)	352,542,313	54,239,045	36,755,619	443,536,977	312,394,875	68,763,426	28,063,131	409,221,432
Individual impairment	-	1,184,320	7,773,991	8,958,311	-	452,901	5,064,567	5,517,468
Collective impairment	3,472,657	1,559,669	3,940,832	8,973,158	2,682,508	1,221,550	3,151,095	7,055,153
Total impairment allowance (b)	3,472,657	2,743,989	11,714,823	17,931,469	2,682,508	1,674,451	8,215,662	12,572,621
Net loans and receivables to other customers (a)-(b)	349,069,656	51,495,056	25,040,796	425,605,508	309,712,367	67,088,975	19,847,469	396,648,811

	GROUP							
	2020				2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Individually impaired loans	-	19,141,523	23,678,808	42,820,331	-	22,215,929	17,988,064	40,203,993
Collectively impaired loans	352,618,637	35,097,522	13,076,811	400,792,970	312,418,086	46,547,497	10,075,067	369,040,650
Gross loans and receivables to other customers (a)	352,618,637	54,239,045	36,755,619	443,613,301	312,418,086	68,763,426	28,063,131	409,244,643
Individual impairment	-	1,184,320	7,773,991	8,958,311	-	452,901	5,064,567	5,517,468
Collective impairment	3,472,657	1,559,669	3,940,832	8,973,158	2,682,508	1,221,550	3,151,095	7,055,153
Total impairment allowance (b)	3,472,657	2,743,989	11,714,823	17,931,469	2,682,508	1,674,451	8,215,662	12,572,621
Net loans and receivables to other customers (a)-(b)	349,145,980	51,495,056	25,040,796	425,681,832	309,735,578	67,088,975	19,847,469	396,672,022

Notes to the Financial Statements

26.1 Loans and Receivables to Other Customers - By Product

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Long-term loans	140,369,507	120,486,339	140,369,507	120,486,339
Medium and short-term loans	95,726,639	86,666,980	95,726,639	86,666,980
Overdrafts	48,460,128	53,503,513	48,453,127	53,434,779
Consumer loans	46,455,852	37,915,878	46,455,852	37,915,878
Trade finance loans	39,102,450	43,357,354	39,102,450	43,357,354
Leasing and hire purchases (Note 26.6)	28,866,243	25,855,197	28,866,243	25,855,197
Housing loans	17,333,010	15,890,796	17,333,010	15,890,796
Islamic loans	11,833,360	12,484,399	11,833,360	12,484,399
Credit Cards	6,834,834	6,212,728	6,834,834	6,212,728
Auto finance loans	3,470,062	3,760,515	3,470,062	3,760,515
Pawning	2,848,203	1,117,274	2,848,203	1,117,274
Staff loans	2,236,689	1,970,459	2,320,014	2,062,404
Total	443,536,977	409,221,432	443,613,301	409,244,643

26.2 Loans and Receivables to Other Customers - By Currency

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Rupee	366,063,792	327,744,940	366,140,116	327,768,151
United States Dollar	74,851,903	80,620,229	74,851,903	80,620,229
Euro	2,453,071	748,131	2,453,071	748,131
Great Britain Pound	107,919	103,708	107,919	103,708
Others	60,292	4,424	60,292	4,424
Total	443,536,977	409,221,432	443,613,301	409,244,643

26.3 Loans and Receivables to Other Customers - By Industry

	BANK			
	2020 LKR '000	%	2019 LKR '000	%
Services	96,160,579	22	94,907,534	23
Consumer	60,770,894	14	41,117,024	10
Agriculture, agro-business and fisheries	50,888,424	11	44,276,690	11
Trading	44,347,759	10	36,532,518	9
Constructions and housing finance	40,748,178	10	42,220,365	10
Utilities	37,362,891	8	26,541,853	6
Metals, chemicals and engineering	36,802,851	8	35,905,515	9
Textiles and garments	25,778,549	6	24,927,256	6
Hotels and tourism	19,381,844	4	20,267,915	5
Food, beverages and tobacco	15,753,827	4	19,325,260	5
Transport	9,132,624	2	13,179,529	3
Wood and paper products	4,544,971	1	6,338,906	2
Leather and plastic products	1,825,065	-	3,599,001	1
Others	38,521	-	82,066	-
Total	443,536,977	100	409,221,432	100

26.4 Loans and Receivables to Other Customers - By Province

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Western Province	374,401,143	353,099,870	374,477,467	353,123,081
Southern Province	14,719,125	12,108,057	14,719,125	12,108,057
North-Western Province	13,883,261	11,596,618	13,883,261	11,596,618
Central Province	12,347,965	10,353,783	12,347,965	10,353,783
Sabaragamuwa Province	8,930,423	7,206,294	8,930,423	7,206,294
North-Central Province	5,408,716	4,267,234	5,408,716	4,267,234
Eastern Province	4,955,997	3,530,675	4,955,997	3,530,675
Northern Province	4,671,020	3,623,897	4,671,020	3,623,897
Uva Province	4,219,327	3,435,004	4,219,327	3,435,004
Total	443,536,977	409,221,432	443,613,301	409,244,643

The province-wise disclosure is made based on the location of the branch from which the facilities have been disbursed.

26.5 Impairment Allowance for Loans and Receivables to Other Customers

26.5 (a) Movement in impairment allowance during the year

	BANK & GROUP							Total
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	LKR '000
Balance as at 01 January 2020	2,682,507	1,221,550	3,151,096	7,055,153	452,901	5,064,567	5,517,468	12,572,621
Charges/(reversals) for the year	790,150	338,119	1,262,277	2,390,546	731,419	3,109,176	3,840,595	6,231,141
Amount written off	-	-	(472,541)	(472,541)	-	(399,752)	(399,752)	(872,293)
Balance as at 31 December 2020	3,472,657	1,559,669	3,940,832	8,973,158	1,184,320	7,773,991	8,958,311	17,931,469

	BANK & GROUP							Total LKR '000
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	
Balance as at 01 January 2019	1,801,385	2,121,671	2,177,131	6,100,187	-	3,066,173	3,066,173	9,166,360
Charges/(reversals) for the year	881,122	(900,121)	1,142,978	1,123,979	452,901	2,268,677	2,721,578	3,845,557
Amount written off	-	-	(169,013)	(169,013)	-	(395,605)	(395,605)	(564,618)
Other Movement	-	-	-	-	-	125,322	125,322	125,322
Balance as at 31 December 2019	2,682,507	1,221,550	3,151,096	7,055,153	452,901	5,064,567	5,517,468	12,572,621

26.5 (b) Sensitivity Analysis of impairment allowance for loans and receivables to other customers

Changed criteria	Changed factor	BANK & GROUP	
		Sensitivity effect on impairment allowance increase 2020 LKR '000	Sensitivity effect on impairment allowance increase 2019 LKR '000
Loss given default (LGD)	Increase by 2%	179,447	139,139
Credit conversion factor (CCF)	Increase by 5% (where applicable)	41,814	30,714
Probability of default (PD) in each stage	Increase by 1%	50,320	28,114
Economic Factor Adjustment	Worst case degrades by 5%	38,734	6,976
Property realisation timing	Delay by 1 year	711,154	343,462

Notes to the Financial Statements

26.5 (c) Impairment allowance for Loans and Receivables to other customers - By Product

	BANK & GROUP											Total
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing & Hire Purchase Rental Receivables LKR '000	Housing Loans LKR '000	Credit Cards LKR '000	Pawning LKR '000	Islamic Banking LKR '000	Staff Loans LKR '000	
As at 01 January 2020	2959,655	2,672,174	3,053,884	987,170	1,285,965	755,999	308,825	295,173	1,625	251,333	818	12,572,621
Charges/(Reversals) for the year	948,745	2,128,373	347,012	(36,237)	1,217,785	651,063	254,936	701,854	5,980	11,630	-	6,231,141
Amount written off	(5,361)	(47,710)	(100)	-	(251,063)	(139,335)	-	(428,724)	-	-	-	(872,293)
As at 31 December 2020	3,903,039	4,752,837	3,400,796	950,933	2,252,687	1,267,727	563,761	568,303	7,605	262,963	818	17,931,469
Individual impairment	2,623,115	4,224,420	1,090,697	547,121	5,004	265,464	27,502	4,273	2,259	168,456	-	8,958,311
Collective impairment	1,279,924	528,417	2,310,099	403,812	2,247,683	1,002,263	536,259	564,030	5,346	94,507	818	8,973,158
As at 31 December 2020	3,903,039	4,752,837	3,400,796	950,933	2,252,687	1,267,727	563,761	568,303	7,605	262,963	818	17,931,469
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	42,688,189	25,494,540	5,833,111	5,973,502	59,885	1,650,823	322,511	7,537	10,335	647,383	818	82,688,634
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances.	14,537,896	18,743,475	3,914,334	3,724,214	15,067	927,541	292,898	7,188	10,335	647,383	818	42,821,149
Gross amount of loans individually impaired after deduction of individually assessed impairment allowances	11,914,782	14,519,055	2,823,637	3,177,093	10,062	662,077	265,396	2,915	8,076	478,927	818	33,862,838

26.5 (d) Impairment allowance for Loans and Receivables to Other Customers - By Product

	BANK & GROUP											Total
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchase Rental Receivables	Housing Loans	Credit Cards	Pawning	Islamic Banking	Staff Loans	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2019	2,077,137	1,925,805	2,399,114	919,351	888,205	663,948	100,367	159,856	1,976	29,254	1,347	9,166,360
Charges/(Reversals) for the year	915,293	976,042	676,584	67,819	514,853	141,124	208,458	249,506	(351)	96,758	(529)	3,845,557
Amount written off	(32,775)	(229,673)	(21,814)	-	(117,092)	(49,073)	-	(114,191)	-	-	-	(564,618)
Other Movement	-	-	-	-	-	-	-	-	-	125,322	-	125,322
As at 31 December 2019	2,959,655	2,672,174	3,053,884	987,170	1,285,966	755,999	308,825	295,171	1,625	251,334	818	12,572,621
Individual impairment	1,651,336	2,065,753	1,020,818	441,987	4,500	171,765	2,727	5,536	-	153,046	-	5,517,468
Collective impairment	1,308,319	606,421	2,033,066	545,183	1,281,466	584,234	306,098	289,636	1,625	98,287	818	7,055,153
As at 31 December 2019	2,959,655	2,672,174	3,053,884	987,170	1,285,966	755,999	308,825	295,172	1,625	251,333	818	12,572,621
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	31,023,781	28,788,531	9,820,491	15,762,119	49,197	1,608,568	212,996	19,448	15,063	652,403	818	87,953,415
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances.	11,463,493	16,446,887	4,319,184	7,054,587	4,500	551,322	39,446	11,006	-	313,567	818	40,204,810
Gross amount of loans individually impaired after deduction of individually assessed impairment allowances	9,812,157	14,381,134	3,298,366	6,612,600	-	379,557	36,719	5,470	-	160,521	818	34,687,342

Notes to the Financial Statements

26.6 Leasing and Hire Purchases

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Gross lease and hire purchase rental receivables	35,360,393	32,887,893
Less: Unearned income	6,494,150	7,032,696
Total lease and hire purchase rental receivables (Note 26.1)	28,866,243	25,855,197
Less: Impairment allowance [Note 26.6(a)]	1,267,727	755,999
Total	27,598,516	25,099,198

26.6 (a) Impairment allowance

	BANK & GROUP							Total
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	LKR '000
Balance as at 01 January 2020	105,527	103,431	375,276	584,234	7,576	164,189	171,765	755,999
Charges/(reversals) for the year	87,155	10,777	410,877	508,809	3,885	138,369	142,254	651,063
Amount written off	-	-	(90,781)	(90,781)		(48,554)	(48,554)	(139,335)
Balance as at 31 December 2020	192,682	114,208	695,372	1,002,262	11,461	254,004	265,465	1,267,727

Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	1,650,823
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	927,541
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	662,077

	BANK & GROUP							Total
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	LKR '000
Balance as at 01 January 2019	94,668	269,795	243,364	607,827	-	56,121	56,121	663,948
Charges/(reversals) for the year	10,859	(166,364)	148,307	(7,198)	7,576	140,746	148,322	141,124
Amount written off	-	-	(16,395)	(16,395)	-	(32,678)	(32,678)	(49,073)
Balance as at 31 December 2019	105,527	103,431	375,276	584,234	7,576	164,189	171,765	755,999

Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	1,608,568
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	551,322
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	379,557

26.7 Maturity of Leasing and Hire Purchases

	BANK & GROUP			
	2020			
	Less than 1 Year LKR '000	1-5 Years LKR '000	More than 5 Years LKR '000	Total LKR '000
Gross lease and hire purchase rentals receivables				
Total rental receivables	682,842	34,493,287	184,264	35,360,393
Less : Impairment allowance	125,740	1,139,108	2,879	1,267,727
Unearned income	40,677	6,395,634	57,839	6,494,150
Net rentals receivables	516,425	26,958,545	123,546	27,598,516

	BANK & GROUP			
	2019			
	Less than 1 Year LKR '000	1-5 Years LKR '000	More than 5 Years LKR '000	Total LKR '000
Gross lease and hire purchase rentals receivables				
Total rental receivables	1,127,563	31,613,857	146,473	32,887,893
Less : Impairment allowance	59,314	695,974	711	755,999
Unearned income	41,194	6,937,504	53,998	7,032,696
Net rentals receivables	1,027,055	23,980,379	91,764	25,099,198

27 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

ACCOUNTING POLICY

In line with the requirements of the SLFRS 9, the Group applies the amortised cost method to measure the Financial instruments for which an entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

- Principle is the fair value of the instrument at initial recognition.
- Interest is the return within a basic lending arrangement and typically consists of consideration for the time value of money, and credit risk. It may also include consideration for other basic lending risks such as liquidity risk as well as a profit margin.

The Group determines its business model at the level that best reflect how it manages groups of Financial Assets to achieve its business objective.

The details of the accounting policy on financial assets at amortised cost - Debt and other instruments and impairment are described in Notes 3.1 and 11.

27.1 Financial assets at amortised cost - Debt and other instruments

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Government Securities - treasury bonds	3,989,470	4,388,506	3,989,470	4,388,506
Sri Lanka Development Bonds	16,584,386	16,639,927	16,584,386	16,639,927
Sovereign Bonds	24,174,240	4,024,607	24,174,240	4,024,607
Quoted debentures	861,487	1,518,305	861,487	1,518,305
Securities purchased under resale agreements	60,779	1,306,039	60,779	1,306,039
Sub Total	45,670,362	27,877,384	45,670,362	27,877,384
Less: Impairment allowance for investments [Note 27.1 (d)]	(958,722)	(391,499)	(958,722)	(391,499)
Total	44,711,640	27,485,885	44,711,640	27,485,885

Notes to the Financial Statements

27.1 (a) Analysis of financial assets at amortised cost - Debt and other instruments

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
By collateralisation				
Pledged as collateral	1,349,876	1,338,571	1,349,876	1,338,571
Unencumbered	44,320,486	26,538,813	44,320,486	26,538,813
Gross total	45,670,362	27,877,384	45,670,362	27,877,384
By currency				
Sri Lanka Rupee	4,911,736	7,212,849	4,911,736	7,212,849
United States Dollar	40,758,626	20,664,535	40,758,626	20,664,535
Gross total	45,670,362	27,877,384	45,670,362	27,877,384

27.1 (b) Financial assets at amortised cost - Debt and other instruments - stage wise analysis

	BANK & GROUP							
	2020				2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government securities - treasury bonds	3,989,470	-	-	3,989,470	4,388,506	-	-	4,388,506
Sri Lanka Development Bonds	16,584,386	-	-	16,584,386	16,639,927	-	-	16,639,927
Sovereign Bonds	24,174,240	-	-	24,174,240	4,024,607	-	-	4,024,607
Quoted debentures	616,487	-	245,000	861,487	1,292,623	-	225,682	1,518,305
Securities purchased under resale agreements (Note 27.1 (c))	60,779	-	-	60,779	1,306,039	-	-	1,306,039
Sub Total	45,425,362	-	245,000	45,670,362	27,651,702	-	225,682	27,877,384
Less: Impairment allowance for investments [Note 27.1 (d)]	(713,722)	-	(245,000)	(958,722)	(165,817)	-	(225,682)	(391,499)
Total	44,711,640	-	-	44,711,640	27,485,885	-	-	27,485,885

27.1 (c) Disclosure as per the Direction No. 01 of 2019 dated 20.12.2019 on Repurchase and Reverse Repurchase transactions of dealer direct participants in Scripless Treasury Bonds and Scripless Treasury Bills.

	BANK & GROUP			
	Carrying Value of Securities purchased under resale agreements	Market Value of Securities received for Securities purchased under resale agreements	Carrying Value of Securities purchased under resale agreements	Market Value of Securities received for Securities purchased under resale agreements
	2020 LKR '000	2020 LKR '000	2019 LKR '000	2019 LKR '000
Securities purchased under resale agreements	60,779	75,163	1,306,039	1,450,774
Total	60,779	75,163	1,306,039	1,450,774

Banks policy on haircuts for repurchase and reverse repo transactions are explained below.

The Bank's Board approved Policy Guideline outlines the allocation of Securities and Haircut rules for Repurchase and Reverse Re-purchase agreements and valuation process. The Policy has been formulated in line with Central Bank Direction No. 01 of 2019 and considering the market practice. Securities are allocated/obtained as per the set guidelines and the Bank was not exposed to any penalties due to non-compliance.

The Bank was not liable to any penalties imposed for the noncompliance with the direction No 01 of 2019 on Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance dated 20 December 2019 issued by the Monetary Board of the Central Bank of Sri Lanka.

27.1 (d) Movements in impairment during the year

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Stage 1				
Balance as at 01 January	165,817	90,594	165,817	90,594
Charges/(reversals) to Statement of Profit or Loss	547,905	75,223	547,905	75,223
Balance as at 31 December	713,722	165,817	713,722	165,817
Stage 2				
Balance as at 01 January	-	41,036	-	41,036
Charges/(reversals) to Statement of Profit or Loss	-	-	-	-
Transfer to stage 3	-	(41,036)	-	(41,036)
Balance as at 31 December	-	-	-	-
Stage 3				
Balance as at 01 January	225,682	-	225,682	-
Transfer from stage 2	-	41,036	-	41,036
Charges/(reversals) to Statement of Profit or Loss	19,318	184,646	19,318	184,646
Balance as at 31 December	245,000	225,682	245,000	225,682
Total	958,722	391,499	958,722	391,499

28 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

 ACCOUNTING POLICY**Debt Instruments at Fair Value through Other Comprehensive Income (FVOCI)**

The Group applies the new category debt instruments measured at FVOCI under SLFRS 9 of when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset are solely payments of the principle amount and the interest (SPPI).

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in Statement of Profit or Loss in the same manner as for financial assets measured at amortised cost as explained in Note 27. The ECL calculation for debt instruments at FVOCI is explained in Note 11, impairment charges. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to Statement of Profit or Loss.

Equity Instruments at Fair Value through Other Comprehensive Income (FVOCI)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under SLFRS 9, Financial Instruments: are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in the Statement of Profit or Loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Reclassification of investment in Sovereign Bonds previously measured at Fair Value Through Other Comprehensive Income to measured at Amortised cost category

The Bank re-classified its Sovereign Bonds Portfolio consequent to the changes in the business model of managing the assets with effect from 30 September 2020 as per the Guidance Notes issued by CA Sri Lanka on Accounting Consideration of the COVID-19 Outbreak (updated on 11 May 2020). Accordingly, Sovereign Bond investments amounting to LKR 9 Bn which were previously classified as Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI) were re-classified as Amortised Cost in line with paragraph 5.6.6 of SLFRS 9-Financial Instruments. There was no change to the effective interest rate used and interest income recognised for the reclassified assets for the year ended 31 December 2020.

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28 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTD.) ACCOUNTING POLICY

The accounting policy applied by the Group for the Debt Instruments at Fair Value through Other Comprehensive Income (FVOCI) and impairment is described in Notes 3.1 and 11.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Government Securities - treasury bonds	47,815,829	16,190,146	47,815,829	16,190,146
Sri Lanka Government Securities - treasury bills	58,022,081	42,565,696	58,022,081	42,565,696
Sovereign bonds	1,718,732	7,106,329	1,718,732	7,106,329
Quoted ordinary shares (Note 28.2)	1,030,317	1,151,908	1,030,317	1,151,908
Non-quoted ordinary shares (Note 28.3)	16,568	14,519	16,568	14,519
Quoted debentures	-	-	169,789	1,412,077
Sub total	108,603,527	67,028,598	108,773,316	68,440,675
Less: Impairment allowance	(10,344)	(10,344)	(10,344)	(10,344)
Total	108,593,183	67,018,254	108,762,972	68,430,331

28.1 (a) Analysis of financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
By collateralisation				
Pledged as collateral	1,079,163	44,000	1,079,163	44,000
Unencumbered	107,524,364	66,984,598	107,694,153	68,396,675
Gross total	108,603,527	67,028,598	108,773,316	68,440,675
By currency				
Sri Lanka Rupee	106,884,795	59,922,269	107,054,584	61,334,346
United States Dollar	1,718,732	7,106,329	1,718,732	7,106,329
Gross total	108,603,527	67,028,598	108,773,316	68,440,675

28.1 (b) Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI) - stage wise analysis

	BANK							
	2020				2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities - treasury bonds	47,815,829	-	-	47,815,829	16,190,146	-	-	16,190,146
Sri Lanka Government Securities - treasury bills	58,022,081	-	-	58,022,081	42,565,696	-	-	42,565,696
Sovereign bonds	1,718,732	-	-	1,718,732	7,106,329	-	-	7,106,329
Quoted ordinary shares	1,030,317	-	-	1,030,317	1,151,908	-	-	1,151,908
Non-quoted ordinary shares	6,224	-	10,344	16,568	4,175	-	10,344	14,519
Sub Total	108,593,183	-	10,344	108,603,527	67,018,254	-	10,344	67,028,598
Less: Impairment allowance for investments	-	-	(10,344)	(10,344)	-	-	(10,344)	(10,344)
Total	108,593,183	-	-	108,593,183	67,018,254	-	-	67,018,254

	GROUP							
	2020				2019			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities - treasury bonds	47,815,829	-	-	47,815,829	16,190,146	-	-	16,190,146
Sri Lanka Government Securities - treasury bills	58,022,081	-	-	58,022,081	42,565,696	-	-	42,565,696
Sovereign bonds	1,718,732	-	-	1,718,732	7,106,329	-	-	7,106,329
Quoted ordinary shares (Note 28.2)	1,030,317	-	-	1,030,317	1,151,908	-	-	1,151,908
Non-quoted ordinary shares (Note 28.3)	6,224	-	10,344	16,568	4,175	-	10,344	14,519
Quoted debentures	169,789	-	-	169,789	1,109,507	-	302,570	1,412,077
Sub Total	108,762,972	-	10,344	108,773,316	68,127,761	-	312,914	68,440,675
Less: Impairment allowance for investments	-	-	(10,344)	(10,344)	-	-	(10,344)	(10,344)
Total	108,762,972	-	-	108,762,972	68,127,761	-	302,570	68,430,331

28.1 (c) Movements in impairment during the year

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Stage 1				
Balance as at 01 January	49,776	16,307	367,545	102,697
Impairment charges (debited)/credited to other comprehensive income	(4,193)	33,469	(311,450)	264,848
Balance as at 31 December	45,583	49,776	56,095	367,545
Stage 3				
Balance as at 01 January	10,344	10,344	10,344	10,344
Impairment charges	-	-	-	-
Balance as at 31 December	10,344	10,344	10,344	10,344

28.2 Quoted ordinary shares

	BANK & GROUP			
	2020		2019	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of Investments as at 01 January	21,941,094	1,955,656	16,062,819	1,679,819
Scrip dividend received during the year	457,106	21,942	393,002	27,628
Rights Issue	-	-	5,485,273	248,209
Cost of the Investments as at 31 December	22,398,200	1,977,598	21,941,094	1,955,656
Gains/(losses) from Mark to Market valuations as at 01 January		(803,748)		(426,919)
Unrealised gains/(losses) during the year		(143,533)		(376,829)
Gains/(losses) from Mark to Market as at 31 December		(947,281)		(803,748)
Market Value		1,030,317		1,151,908

Notes to the Financial Statements

28.2 (a) Details of quoted ordinary shares - 31 December 2020

Name of the Company	BANK & GROUP			
	No of Shares	Market price	Cost of Investments	Market value
		LKR	LKR '000	LKR '000
Seylan Bank PLC	22,398,200	46.00	1,977,597	1,030,317

Details of quoted ordinary shares - 31 December 2019

Name of the Company	BANK & GROUP			
	No of Shares	Market price	Cost of Investments	Market value
		LKR	LKR '000	LKR '000
Seylan Bank PLC	21,941,094	52.50	1,955,656	1,151,908

28.3 Non-quoted ordinary shares

The majority of non-quoted ordinary shares of the Bank include share investments that have been made primarily for regulatory purposes. Such investments are recorded at cost due to unavailability of information to value such investments at fair value.

29 INVESTMENTS IN SUBSIDIARY COMPANIES



ACCOUNTING POLICY

Investments in subsidiary companies are accounted at cost less impairment allowance in the Financial Statements of the Bank. The net assets of each subsidiary company are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

	Corporate Status	2020		2019	
		Percentage Holding	Cost	Percentage Holding	Cost
		%	LKR '000	%	LKR '000
NDB Capital Holdings Limited (Note 29.1)	Non-quoted	99.9	802,888	99.9	1,802,089
Development Holdings (Pvt) Limited	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Limited (Bangladesh) (Note 29.2)	Non-quoted	41.8	180,552	41.8	180,552
Sub total			1,211,590		2,210,791
Less: Impairment allowance for investments (Note 29.3)			(68,706)		(66,017)
Total			1,142,884		2,144,774

29.1 In order to strengthen the capital position of National Development Bank PLC, NDB Group has been restructured to manage its funds within the Group more efficiently. Accordingly, NDB Capital Holdings Limited (NCAP) has reduced its stated capital from LKR 1 Bn by way of a capital reduction, in compliance with the requirements of the Companies Act No. 7 of 2007. This transaction did not result in any changes to the percentage holding of the Group companies.

29.2 NDB Capital Limited is a fully fledged merchant bank based in Bangladesh and was a 77.8% owned subsidiary of the Bank. As per the Bangladesh SEC (BSEC) regulations, the Company issued 117,904 ordinary shares by way of rights, in October 2018 to meet the minimum capital requirements of the company. However as per the restructuring plan of the NDB Group which facilitate optimising synergies within the investment banking cluster by way of effective utilisation of resources within the NDB Group, the Bank decided to renounce its rights entitlement for 90,600 ordinary shares in favour of NDB Investment Bank Limited (NDBIB).

Accordingly NDB Investment Bank Limited applied for the rights renounced by the Bank and after the rights issue, the shareholding of the Bank decreased up to 41.8% and NDBIB and minority holding percentages are 42.4% and 15.8% respectively, as a result, the final stake of NDB Group in NDB Capital Bangladesh increased up to 84.2%.

29.3 Movement in the impairment allowance for investments in subsidiary companies

	2020 LKR '000	2019 LKR '000
As at 01 January	66,017	44,077
Charges/(reversals) to the Statement of Profit or Loss (Note 29.4)	2,689	21,940
As at 31 December	68,706	66,017

29.4 During the annual review of impairment allowance of investment in subsidiary companies, it was noted that the net assets position of NDB Capital Limited as at 31 December 2020 had decreased from LKR 274.3 Mn to LKR 260.2 Mn as disclosed in Note 29.5 summarised Financial Information of the Group's Investments in Subsidiaries. Accordingly, an impairment allowance of LKR 2.7 Mn was charged during the year 2020 to reflect the Bank's share of the net assets position of the Company as at 31 December 2020. The Bank assumed that the net book value of the company is best approximate to the fair value less cost to sale.

29.5 Summarised Financial Information of the NDB Group's Investments in Subsidiaries

	Total	Development Holdings (Pvt) Limited	NDB Capital Limited (Bangladesh)	NDB Capital Holdings Limited (NCAP)	NDB Investment Bank Limited (Held through NCAP)	NDB Wealth Management Limited (Held through NCAP)	NDB Securities (Pvt) Limited (Held through NCAP)	NDB Zephyr Partners Limited (Group) (Held through NCAP)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
2020								
Total assets	8,257,526	3,400,626	270,917	2,572,529	416,905	543,829	893,231	159,489
Total liabilities	2,030,080	684,148	10,697	268,630	111,654	267,891	675,554	11,506
Net assets	6,227,446	2,716,478	260,220	2,303,899	305,251	275,938	217,677	147,983
Gross income	1,997,184	384,935	60,528	680,119	9,007	579,482	189,172	93,941
Profits/(losses)	871,123	237,769	(12,805)	416,908	(1,046)	161,082	52,081	17,134
Cash Flow								
Cash flows from operating activities	287,597	125,264	(13,622)	(177,010)	(80,454)	204,349	253,596	(24,526)
Cash flows from investing activities	1,451,779	(62,899)	-	473,695	646,084	395,139	(240)	-
Cash flows from financing activities	(1,529,753)	(68,117)	-	(296,638)	(564,999)	(599,999)	-	-

	Total	Development Holdings (Pvt) Limited	NDB Capital Limited (Bangladesh)	NDB Capital Holdings Limited (NCAP)	NDB Investment Bank Limited (Held through NCAP)	NDB Wealth Management Limited (Held through NCAP)	NDB Securities (Pvt) Limited (Held through NCAP)	NDB Zephyr Partners Limited (Group) (Held through NCAP)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000

2019

Total assets	9,799,706	3,193,182	298,872	3,785,293	1,022,613	878,937	470,177	150,632
Total liabilities	1,402,254	649,520	24,599	83,340	152,069	172,559	304,194	15,973
Net assets	8,397,452	2,543,662	274,273	3,701,954	870,544	706,378	165,983	134,659
Gross income	1,514,165	421,062	68,766	126,280	311,898	356,763	113,982	115,414
Profits/(losses)	147,088	260,522	(39,985)	(183,104)	83,245	47,591	(41,416)	20,235

Cash Flow

Cash flows from operating activities	8,074	128,161	14,595	(17,369)	(134,787)	11,465	(7,653)	13,662
Cash flows from investing activities	318,132	(1,742)	(5,492)	56,449	167,767	(5,744)	100,816	6,078
Cash flows from financing activities	(426,269)	(126,502)	-	(294,767)	-	(5,000)	-	-

Notes to the Financial Statements

30 INVESTMENTS IN ASSOCIATE COMPANIES

ACCOUNTING POLICY

An associate is an entity in which the Group has significant influence, but not control, over the variable returns through its power over the investee. An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group's investments in its associate companies are accounted for by using the equity method. Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The carrying value of the investment in associates is reviewed for the impairment at each reporting period. Accordingly, as the company is under liquidation impairment provision has been made for the total value of the investment as given below.

30.1 Bank

	Corporate Status	2020		2019	
		Percentage Holding %	Cost LKR '000	Percentage Holding %	Cost LKR '000
Ayojana Fund (Pvt) Limited	Under liquidation	50	100	50	100
Less: Impairment allowance for investments			100		100
Total			-		-

31 INVESTMENT PROPERTY

ACCOUNTING POLICY

Basis of Recognition

An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property is reliably measured.

Distinction Between Investment Properties and Owner-Occupied Properties

The Group determines whether a property qualifies as an investment property by considering whether the property generates cash flows largely independently of the other assets held by the entity. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Group considers each property separately in making its judgment.

Measurement

The Land and Building of Development Holdings (Pvt) Limited, which is held to earn rental income and for capital appreciation has been classified as an 'investment property', and is reflected at fair value in accordance with LKAS 40, Investment Property.

Investment properties are initially recognised at cost. Subsequent to the initial recognition, the investment properties are stated at fair values. In estimating the fair values, the Independent Valuer considers current market prices of similar assets, so as to reflect market conditions at the reporting date. Gains or losses arising from changes in the fair values are included in the Statement of Profit or Loss, in the year in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials, direct labour and any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Owner-occupied portion of an Investment property is recognised and measured in line with the accounting policy used for property, plant & equipment of the Group and are presented under property, plant & equipment in the Financial Statements.

De-Recognition

Investment properties are derecognised when disposed or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

 ACCOUNTING POLICY
Basis of Valuation

As at 31 December 2020, the fair value of the property was based on the valuation performed by an Independent Professional Valuer, A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka who is having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, to determine the fair value of land and buildings.

The income approach using the current market rent including passing rents has been used as the methodology by the valuer to value the investment property as recommended by SLFRS 13 - 'Fair Value Measurements'.

Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent (2019 - 40%)
- Capitalise YP at 16% (2019 - 16%)

	GROUP	
	2020 LKR '000	2019 LKR '000
As at 01 January	2,272,881	2,110,661
Additions during the year	2,192	-
Change in the fair value during the year	129,808	176,000
Less: Fair value of the owner-occupied portion	21,695	13,780
Sub total (Note 10)	108,113	162,220
Less: Change in the owner occupied portion	21,651	-
As at 31 December	2,361,535	2,272,881

31.1 Statement of Income and Expenditure of the Investment Property

	GROUP	
	2020 LKR '000	2019 LKR '000
Rental income derived from investment properties	228,582	208,970
Direct operating expenses (including repair and maintenance) generating rental income	(30,059)	(39,374)
Direct operating expenses (including repair and maintenance) that did not generate rental income	(21,166)	(13,856)
Profit arising from investment properties carried at fair value	177,357	155,740

31.2 Valuation details of Investment Properties - Group

	Fair Value as at 31 December 2020					Fair Value as at 31 December 2019 LKR '000
	Business location of the premises	Number of Buildings	Land Extent (Perches)	Building Sq ft.	Land & Building LKR '000	
Through the subsidiary company of Development Holding (Pvt) Limited (DHPL)	No:42 Nawam Mawatha, Colombo 02	1	71.27	175,190	2,814,000	2,682,000

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancement.

Fair value hierarchy disclosures for investment properties are given in Note 55 (a), to these Financial Statements.

Notes to the Financial Statements

32 PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

Basis of Recognition

Property, plant & equipment are recognised, if it is probable that future economic benefits associated with the asset will flow to the Group and the cost or the fair value of the asset can be reliably measured.

Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring the site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

Cost Model

The Group applies the 'Cost Model' to all property, plant & equipment other than freehold land and buildings and record at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Group applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at revalued amounts, being their fair value at the Reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Group are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

The Group engaged an Independent Professional Valuer, A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considered current market prices of similar assets.

A letter of confirmation is obtained from the Independent Professional Valuer annually, except the year in which full valuation is carried out by the Group, to ensure that the fair values of the freehold land and building at the reporting date do not significantly vary from their carrying amounts.

Accordingly the Group obtained a certification from the valuer affirming the fair value of the freehold land and buildings reflected in these Financial Statements.

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 Group and it can be reliably measured.

Ongoing repairs and maintenance are expensed as incurred.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, which will be capitalised with the completion of the project and when the asset is ready to be used. These are stated in the Statement of Financial Position at cost. Capital work-in-progress is transferred to the relevant asset when it is completed and converted into a usable condition as expected by the Management of the Group.

Derecognition

An item of property, plant & equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year, in which the asset is derecognised.

Depreciation and amortisation

The accounting policy and the judgement and estimates used in the computation of depreciation and amortisation of property, plant & equipment are explained in detail in Note 13 on page 200.

32.1 The Movement in Property, Plant & Equipment - Bank

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work- in-Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
(a) Cost or Valuation								
As at 01 January 2019	737,000	1,086,673	430,000	1,318,029	127,694	964,679	38,928	4,703,003
Additions during the year	-	19,867	91,235	270,912	-	138,264	130,260	650,538
Disposals during the year	-	-	(15,246)	(1,115)	-	(13,248)	-	(29,609)
Revaluation adjustment during the year	182,305	124,906	-	-	-	-	-	307,211
Transfers/adjustments	-	-	-	-	-	-	(112,036)	(112,036)
As at 31 December 2019	919,305	1,231,446	505,989	1,587,826	127,694	1,089,695	57,152	5,519,107
Additions during the year	-	28,696	59,062	93,610	3,100	112,656	129,652	426,776
Disposals during the year	-	(877)	(7,652)	(41,872)	-	(37,577)	-	(87,978)
Revaluation adjustment during the year	-	68,804	-	-	-	-	-	68,804
Transfers/adjustments	-	-	-	(1,673)	-	(14)	(128,456)	(130,143)
As at 31 December 2020	919,305	1,328,069	557,399	1,637,891	130,794	1,164,760	58,348	5,796,566
(b) Depreciation/Amortisation								
As at 01 January 2019	-	184,749	326,567	789,932	89,412	742,470	-	2,133,130
Charge for the year (Note 13)	-	51,013	46,160	180,492	24,435	100,744	-	402,844
On disposals	-	-	(15,007)	(962)	-	(13,111)	-	(29,080)
Transfers/Adjustments	-	-	-	-	-	-	-	-
As at 31 December 2019	-	235,762	357,720	969,462	113,847	830,103	-	2,506,894
Charge for the year (Note 13)	-	58,184	54,408	175,598	9,433	110,118	-	407,741
On disposals	-	(561)	(7,504)	(41,867)	-	(37,041)	-	(86,973)
Transfers/Adjustments	-	(11)	-	(346)	-	268	-	(89)
As at 31 December 2020	-	293,374	404,624	1,102,847	123,280	903,448	-	2,827,573
Net book value as at 31 December 2020	919,305	1,034,695	152,775	535,044	7,514	261,312	58,348	2,968,993
Net book value as at 31 December 2019	919,305	995,684	148,269	618,364	13,847	259,592	57,152	3,012,213

32.2 Details of Revalued Freehold Land and Buildings - Bank

As at 31 December 2020

The Bank obtained a certificate from the independent professional Valuer A A M Fathihu, B.Sc (Hons) EMV, FIV Sri Lanka, affirming the fair value reflected in these Financial Statements. Accordingly gains/(losses) on revaluation of land and building has been recognised during the year.

Date of valuation - 31 December 2020

Freehold Land	Extent	Revaluation of Land	Book Value before Revaluation	Revaluation Gains/(Losses) Recognised on Land
Location	(Perches)	LKR '000	LKR '000	LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colomb 07	20.00	900,000	900,000	-
Head Office No. 40, Nawam Mawatha, Colombo 02	1.43	19,305	19,305	-
Sub Total (a)	21.43	919,305	919,305	-

Notes to the Financial Statements

32.2 Details of Revalued Freehold Land and Buildings - Bank (Contd.)

Freehold Buildings	Buildings	Revaluation of Buildings	Net Book Value before Revaluation	Revaluation Gains/(Losses) Recognised on Buildings
Location	(Square Feet)	LKR '000	LKR '000	LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 07	41,143	328,000	361,806	(33,806)
Head Office No. 40, Nawam Mawatha, Colombo 02	95,343	706,695	604,085	102,610
Sub Total (b)	136,486	1,034,695	965,891	68,804
Total (a)+(b)		1,954,000	1,885,196	68,804

32.3 Freehold Land and Buildings on Cost Basis - Bank

The carrying amount of Bank's revalued freehold land and buildings that would have been included in the Financial Statements at cost less accumulated depreciation is as follows:

	2020			2019		
	Cost LKR '000	Accumulated Depreciation LKR '000	Net book value LKR '000	Cost LKR '000	Accumulated Depreciation LKR '000	Net book value LKR '000
Class of assets						
Freehold land	165,016	-	165,016	165,016	-	165,016
Freehold buildings	558,912	470,839	88,073	530,216	459,661	70,555
Total	723,928	470,839	253,089	695,232	459,661	235,571

32.4 The Movement in Property, Plant & Equipment - Group

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work- in- Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
(a) Cost or Valuation								
As at 01 January 2019	737,000	1,553,657	460,426	1,381,082	217,825	1,202,535	41,630	5,594,155
Additions during the year	-	19,867	91,235	275,775	857	180,435	130,261	698,430
Disposals during the year	-	-	(15,246)	(4,110)	(47,566)	(14,972)	-	(81,894)
Revaluation adjustment during the year	182,305	138,686	-	-	-	-	-	320,991
Transfers/adjustments	-	-	-	-	-	-	(112,036)	(112,036)
As at 31 December 2019	919,305	1,712,210	536,415	1,652,747	171,116	1,367,998	59,855	6,419,646
Additions during the year	-	28,696	59,062	109,707	3,836	154,367	129,652	485,320
Disposals during the year	-	(877)	(7,652)	(42,012)	(334)	(37,580)	-	(88,455)
Revaluation adjustment during the year	-	90,499	-	-	-	-	-	90,499
Transfers/adjustments	-	-	-	(1,633)	-	11,973	(128,454)	(118,114)
As at 31 December 2020	919,305	1,830,528	587,825	1,718,809	174,618	1,496,758	61,053	6,788,896
(b) Depreciation/Amortisation								
As at 01 January 2019	-	210,749	331,204	839,264	163,275	905,304	-	2,449,796
Charge for the year (Note 13)	-	51,013	48,283	186,543	34,915	161,065	-	481,819
On disposals	-	-	(15,007)	(4,618)	(39,967)	(17,543)	-	(77,135)
Transfers/Adjustments	-	-	-	-	-	-	-	-
As at 31 December 2019	-	261,762	364,480	1,021,189	158,223	1,048,826	-	2,854,480
Charge for the year (Note 13)	-	58,184	55,191	182,533	14,749	171,284	-	481,941
On disposals	-	(877)	(7,652)	(42,012)	(334)	(37,579)	-	(88,454)
Transfers/Adjustments	-	(11)	-	(346)	-	268	-	(89)
As at 31 December 2020	-	319,058	412,019	1,161,364	172,638	1,182,799	-	3,247,878
Net book value as at 31 December 2020	919,305	1,511,470	175,806	557,445	1,980	313,959	61,053	3,541,018
Net book value as at 31 December 2019	919,305	1,450,448	171,935	631,558	12,893	319,172	59,855	3,565,166

32.5 Cost of Fully Depreciated Property, Plant & Equipment and Intangible Assets

The initial cost of fully depreciated property, plant & equipment and intangible assets which are still in use are as follows:

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Freehold buildings	26,307	1,337	26,307	1,337
Leasehold building	283,127	258,157	283,127	258,157
Motor vehicles	94,124	80,824	115,489	80,824
Office equipment and furniture	666,459	607,840	732,587	607,840
Computer equipment	702,552	540,290	750,250	540,290
Computer software	607,716	565,391	698,726	565,391
Total	2,380,285	2,053,839	2,606,486	2,053,839

32.6 Information on freehold land and buildings of the Bank - Extent and locations

As required by the Rule No.7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange.

Date of valuation - 31 December 2020

Location	No of buildings	Extent (Perches)	Buildings (Square)	Revalued amounts land LKR '000	Revalued amounts buildings LKR '000	Total revalued amount LKR '000	Net Book Value before Revaluation LKR '000	Revaluation Gains/ (Losses) Recognised on Land LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 07	1	20	41,143	900,000	328,000	1,228,000	1,261,806	(33,806)
Head Office No. 40, Nawam Mawatha, Colombo 02	1	1	95,343	19,305	706,695	726,000	623,390	102,610
Total				919,305	1,034,695	1,954,000	1,885,196	68,804

Title restriction on property, plant and equipment

There were no restrictions on the title of the property, plant and equipment of the Group as at the reporting date.

Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment of the Group that have been pledged as securities for liabilities as at the reporting date.

Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2020 (2019 - Nil).

Notes to the Financial Statements

33 RIGHT OF USE ASSETS

ACCOUNTING POLICY

Basis of Recognition

The Group applies Sri Lanka Accounting Standard SLFRS 16 "Leases" in accounting for all lease hold rights except for short term leases, which are held for use in the provision for services.

Basis of Measurement

The Group recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right of use assets are amortised on the straight line basis over the lease term.

Lease Liability

At the commencement date of the lease, the bank recognises lease liabilities, measured at present value of lease payments to be made over the lease term. The present value of lease commitments as at 01 January 2019 has been calculated using weighted average incremental borrowing rate of 13.39%. The Group applied modified retrospective approach in accordance with SLFRS 16 when accounting for right-of-use assets and operating lease liabilities.

The interest expense on the lease liabilities and the depreciation expense on the right-of-use asset are recognised separately in the Statement of Profit or Loss in line with the requirements of SLFRS 16-Leases.

Further the lease liabilities will be remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Group will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to SLFRS 16

In order to recognise the impact on the transition, the Group adopted the modified retrospective approach in line with paragraph C5, C7 of Appendix C, "Effective date and transition", of SLFRS 16 - Leases. The transitional impact on the adoption of SLFRS 16 was incorporated to Equity as at 01 January 2019 in the presentation of Financial Statements. The Group uses the exemptions proposed by the accounting standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered as low value.

Significant Accounting Estimates and Assumptions

In estimating the borrowing cost of lease liabilities, the Group uses the interest rate applicable to loans given for housing purposes, based on a similar tenor, collateral and economic environment.

The present value of operating lease commitments has been calculated using weighted average incremental borrowing rates at which the Group opts to borrow such assets.

The incremental borrowing rates used for the year ended 31 December 2020 and 2019, are as follows:

Class of Assets	BANK & GROUP	
	2020 %	2019 %
Buildings	10-12	12
Land	14	14
Vehicles	15	15

Impact of COVID-19 pandemic on right of use assets

The Group reassessed the terms of the operating lease agreements and have concluded that, there is no requirement to change the terms and conditions of the lease agreements due to the impact of the COVID-19 pandemic. Therefore, no changes were made to the carrying amount of the Right of use assets and the lease liabilities as at the reporting date and accordingly, there was no impact on the amount of depreciation and the interest expense recognised during the year and going forward.

	BANK			GROUP		
	Land and Building LKR '000	Vehicle LKR '000	Total LKR '000	Land and Building LKR '000	Vehicle LKR '000	Total LKR '000
As at 01 January 2020	1,095,291	101,492	1,196,783	1,402,222	101,492	1,503,714
Additions during the year	377,291	-	377,291	377,291	-	377,291
Transfers/adjustments	469	-	469	(1,254)	-	(1,254)
As at 31 December 2020	1,473,051	101,492	1,574,543	1,778,259	101,492	1,879,751
Depreciation/Amortisation						
As at 01 January 2020	214,327	21,607	235,934	252,693	21,607	274,300
Charge for the year (Note 13)	256,161	21,605	277,766	294,097	21,605	315,702
As at 31 December 2020	470,488	43,212	513,700	546,790	43,212	590,002
Net book value as at 31 December 2020	1,002,563	58,280	1,060,843	1,231,469	58,280	1,289,749

	BANK			GROUP		
	Land and Building LKR '000	Vehicle LKR '000	Total LKR '000	Land and Building LKR '000	Vehicle LKR '000	Total LKR '000
As at 01 January 2019	844,734	101,492	946,226	1,151,665	101,492	1,253,157
Additions during the year	248,110	-	248,110	248,110	-	248,110
Transfers/adjustments	2,447	-	2,447	2,447	-	2,447
As at 31 December 2019	1,095,291	101,492	1,196,783	1,402,222	101,492	1,503,714
Depreciation/Amortisation						
As at 01 January 2019	-	-	-	-	-	-
Charge for the year (Note 13)	214,327	21,607	235,934	252,693	21,607	274,300
As at 31 December 2019	214,327	21,607	235,934	252,693	21,607	274,300
Net book value as at 31 December 2019	880,964	79,885	960,849	1,149,529	79,885	1,229,414

34 INTANGIBLE ASSETS**ACCOUNTING POLICY**

Intangible assets of the Group include the value of computer software and software under development.

Basis of Recognition

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

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Notes to the Financial Statements

34 INTANGIBLE ASSETS (CONTD.)

ACCOUNTING POLICY

Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relate. All other expenditure is expensed as incurred.

Computer Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Software Under Development

Software under development mainly includes the cost incurred for the core banking upgrade.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the Statement of Profit or Loss in the year in which the asset is derecognised.

Research and Development Costs

Research costs are expensed as incurred. Development expenditure on an individual project are recognised as an intangible asset when the Group can demonstrate:

- Its intention to complete and its ability to use or sell the asset.
- The asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.
- The ability to use the intangible asset generated.
- Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

As at the reporting date, the Group did not have development costs that were capitalised as an internally-generated intangible asset.

Assessment for impairment

Irrespective of whether there is any indication of impairment, the Bank assess an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amounts. However, if such an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period and recognised in the Statement of Profit or Loss if there is any provision for impairment.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Computer Software [Note 34.1]	389,926	405,521	403,273	418,644
Software Under Development [Note 34.2]	658,400	282,264	658,400	282,264
	1,048,326	687,785	1,061,673	700,908

34.1 Computer Software

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost				
As at 01 January	1,291,525	1,109,387	1,405,488	1,222,110
Additions during the year	117,711	184,161	117,979	185,401
Transfers/Adjustments	(1,324)	(2,023)	(1,324)	(2,023)
As at 31 December	1,407,912	1,291,525	1,522,143	1,405,488
Depreciation/Amortisation				
As at 01 January	886,005	763,763	986,844	859,640
Charge for the year (Note 13)	133,075	122,241	133,956	127,204
Transfers/Adjustments	(1,094)	-	(1,930)	-
As at 31 December	1,017,986	886,004	1,118,870	986,844
Net book value as at 31 December (a)	389,926	405,521	403,273	418,644

34.2 Software Under Development

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost				
As at 01 January	282,264	34,272	282,264	34,272
Additions during the year	407,458	293,665	407,458	293,665
Transfer to computer software during the year	(31,322)	(45,673)	(31,322)	(45,673)
As at 31 December (b)	658,400	282,264	658,400	282,264
Net book value of total intangible assets (a) + (b)	1,048,326	687,785	1,061,673	700,908

35 OTHER ASSETS



ACCOUNTING POLICY

The Group classifies other assets as 'other financial assets' and 'other non-financial assets'. Other assets mainly comprise of deposits and prepayments, unamortised staff costs and sundry receivables. Deposits are carried at historical cost less provision for impairment. Prepayments are amortised during the period in which they are utilised and are carried at historical cost less provision for impairment.

As all staff loans granted at below market interest rates are recognised at fair value, the difference between the fair value and the amount disbursed was treated as a Day 1 difference. The Day 1 difference is classified as 'unamortised staff cost' and is amortised over the loan period by using the EIR. The staff loans are subsequently measured at amortised costs.

Other financial assets and other non-financial assets included under other assets are summarised below:

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Other financial assets	129,469	39,716	441,488	424,808
Other non-financial assets (Note 35.1)	2,995,247	2,587,224	3,153,612	2,803,296
Total	3,124,716	2,626,940	3,595,100	3,228,104

Notes to the Financial Statements

35.1 Other Non-Financial Assets

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sundry receivables	1,560,760	1,230,443	1,612,112	1,312,960
Deposits and prepayments	145,231	133,304	226,315	235,677
Unamortised staff cost (Note 35.2)	1,289,256	1,223,477	1,315,185	1,254,659
Total	2,995,247	2,587,224	3,153,612	2,803,296

35.2 Unamortised Staff Cost

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	1,223,477	1,075,463	1,254,659	1,105,767
Add: Adjustment for new grants and settlements	217,335	288,030	216,683	291,572
Charged to personnel expenses	(151,556)	(140,016)	(156,157)	(142,680)
As at 31 December	1,289,256	1,223,477	1,315,185	1,254,659

36 DUE TO BANKS

ACCOUNTING POLICY

Due to banks, include call money borrowings and credit balances in Nostro accounts. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Interest paid/payable on these dues are recognised in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Borrowings from local banks	5,297,050	9,880,786	5,297,050	9,880,786
Borrowings from foreign banks	18,876,268	8,499,570	18,876,268	8,499,570
Total	24,173,318	18,380,356	24,173,318	18,380,356

36.1 Due to Banks - By Currency

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Local currency	3,633,203	9,880,786	3,633,203	9,880,786
Foreign currency	20,540,115	8,499,570	20,540,115	8,499,570
Total	24,173,318	18,380,356	24,173,318	18,380,356

37 FINANCIAL LIABILITIES AT AMORTISED COST

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Due to depositors (Note 37.1)	490,278,126	405,048,024	489,658,746	404,667,529
Due to debt securities holders (Note 37.2)	1,500,007	1,398,068	1,500,007	1,398,068
Due to other borrowers (Note 37.3)	34,284,109	29,342,027	34,284,109	29,342,027
Total	526,062,242	435,788,119	525,442,862	435,407,624

37.1 Due to Depositors

ACCOUNTING POLICY

Due to depositors include non-interest bearing deposits, savings deposits, term deposits, margins and other deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the EIR method. Interest paid/payable on deposits are recognised in the Statement of Profit or Loss under 'Interest Expenses'.

Analysis of Amounts due to Depositors

37.1 (a) Due to Depositors - By Product

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Savings deposits	96,026,821	55,297,824	96,026,821	55,297,824
Time deposits	366,465,138	323,656,859	365,845,758	323,276,364
Demand deposits	26,892,064	25,257,221	26,892,064	25,257,221
Margin deposits	583,518	625,093	583,518	625,093
Other deposits	310,585	211,027	310,585	211,027
Total	490,278,126	405,048,024	489,658,746	404,667,529

37.1 (b) Due to Depositors - By Deposit Composition

	BANK				GROUP			
	2020 LKR '000	%	2019 LKR '000	%	2020 LKR '000	%	2019 LKR '000	%
Local currency deposits								
Savings deposits	70,850,478	14	39,849,785	10	70,850,478	14	39,849,785	10
Time deposits	290,082,237	59	257,722,766	64	289,462,857	59	257,342,271	64
Demand deposits	21,522,345	5	20,674,586	5	21,522,345	5	20,674,586	5
Margin deposits	542,210	-	571,914	-	542,210	-	571,914	-
Other deposits	129,955	-	80,347	-	129,955	-	80,347	-
Sub total	383,127,225	78	318,899,398	79	382,507,845	78	318,518,903	79
Foreign currency deposits								
Savings deposits	25,176,343	5	15,448,039	4	25,176,343	5	15,448,039	4
Time deposits	76,382,901	16	65,934,093	16	76,382,901	16	65,934,093	16
Demand deposits	5,369,719	1	4,582,635	1	5,369,719	1	4,582,635	1
Margin deposits	41,308	-	53,179	-	41,308	-	53,179	-
Other deposits	180,630	-	130,680	-	180,630	-	130,680	-
Sub total	107,150,901	22	86,148,626	21	107,150,901	22	86,148,626	21
Total	490,278,126	100	405,048,024	100	489,658,746	100	404,667,529	100

Notes to the Financial Statements

37.1 (c) Due to Depositors - By Currency

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Rupee	383,127,224	318,899,398	382,507,844	318,518,903
United States Dollar	91,446,946	74,656,393	91,446,946	74,656,393
Australian Dollar	5,117,144	3,744,007	5,117,144	3,744,007
Euro	4,734,582	3,297,027	4,734,582	3,297,027
Great Britain Pound	4,622,147	3,553,041	4,622,147	3,553,041
Other currencies	1,230,083	898,158	1,230,083	898,158
Total	490,278,126	405,048,024	489,658,746	404,667,529

37.1 (d) Due to Depositors - By Institutions/Customers

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deposits from banks	28,518,457	20,890,835	28,518,457	20,890,835
Deposits from finance companies	13,453,679	14,217,125	13,453,679	14,217,125
Deposits from other customers	448,305,990	369,940,064	447,686,610	369,559,569
Total	490,278,126	405,048,024	489,658,746	404,667,529

37.1 (e) Due to Depositors - By Province

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Western Province	441,888,999	362,128,602	441,269,619	361,748,107
Central Province	9,541,522	9,576,905	9,541,522	9,576,905
North-Western Province	9,286,968	9,105,100	9,286,968	9,105,100
Southern Province	8,889,935	6,993,634	8,889,935	6,993,634
Sabaragamuwa Province	7,327,569	6,167,644	7,327,569	6,167,644
Northern Province	5,611,873	4,290,682	5,611,873	4,290,682
Eastern Province	3,049,288	2,300,973	3,049,288	2,300,973
North-Central Province	2,461,584	2,536,265	2,461,584	2,536,265
Uva Province	2,220,388	1,948,219	2,220,388	1,948,219
Total	490,278,126	405,048,024	489,658,746	404,667,529

37.2 Due to Debt Securities Holders



ACCOUNTING POLICY

Due to Debt Securities Holders consists of securities sold under repurchase agreements. The Group sells financial assets and simultaneously enter into an agreement to repurchase the asset (or similar asset) at a fixed price at a future date. Such an arrangement is accounted for as a financial liability and the underlying asset continues to be recognised in the Financial Statements of the Group, as the Group retain substantially all risks and rewards of ownership. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method with the corresponding interest paid/payable being recognised in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Securities sold under repurchase agreements	1,500,007	1,398,068	1,500,007	1,398,068
	1,500,007	1,398,068	1,500,007	1,398,068

37.3 Due to Other Borrowers



ACCOUNTING POLICY

Due to other borrowers represents the funds borrowed by the Group for long-term and short-term liquidity funding requirements and include borrowings from concessionary credit lines, institutional borrowings and funds received from the Central Bank of Sri Lanka including the funds received under the Saubagya COVID-19 Renaissance facilities. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Interest paid/payable on "Due to Other Borrowers" are recognised in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Concessionary credit lines	6,927,223	4,754,153	6,927,223	4,754,153
Saubagya COVID-19 borrowings	10,296,977	-	10,296,977	-
Refinance borrowings	4,017,992	3,846,308	4,017,992	3,846,308
Foreign borrowings	13,041,917	20,741,566	13,041,917	20,741,566
Total	34,284,109	29,342,027	34,284,109	29,342,027

37.4 Maturity Analysis of Debt Securities holders and due to other borrowers - Based on the contractual maturity

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Payable within 12 Months				
Concessionary credit lines	1,104,884	93,232	1,104,884	93,232
Saubagya COVID-19 borrowings	9,869,215	-	9,869,215	-
Refinance borrowings	588,969	587,558	588,969	587,558
Foreign borrowings	8,259,461	8,132,081	8,259,461	8,132,081
Securities sold under repurchase agreements	1,500,007	1,398,068	1,500,007	1,398,068
Sub total	21,322,536	10,210,939	21,322,536	10,210,939
Payable after 12 Months				
Concessionary credit lines	5,822,339	4,660,921	5,822,339	4,660,921
Saubagya COVID-19 borrowings	427,762	-	427,762	-
Refinance borrowings	3,429,023	3,258,750	3,429,023	3,258,750
Foreign borrowings	4,782,456	12,609,485	4,782,456	12,609,485
Sub total	14,461,580	20,529,156	14,461,580	20,529,156
Total (Note 37.2 & Note 37.3)	35,784,116	30,740,095	35,784,116	30,740,095

Notes to the Financial Statements

38 DEBT SECURITIES ISSUED

ACCOUNTING POLICY

Debt securities issued includes the funds borrowed by the Group for long-term and short-term funding requirements by way of quoted debentures. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Interest paid/payable on debt securities issued are recognised in the Statement of Profit or Loss. The direct costs attributable to these term debts are amortised over the term of the debt and are offset, in the presentation of debt securities issued in the Statement of Financial Position.

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
As at 01 January	23,108,734	16,811,808
Additions during the year	6,500,000	5,561,200
Redemptions	(10,316,415)	-
Net effect on amortised interest payable	588,572	735,726
As at 31 December (Note 38.1)	19,880,891	23,108,734

38.1 Debentures

	Interest Payable Frequency	Issued Date	Maturity Date	Effective Annual Yield %	BANK & GROUP	
					2020 LKR '000	2019 LKR '000
Fixed Rate Debenture Issuance - December 2013						
Type C - 13.90% - (120 Months)	Annually	19-Dec-2013	19-Dec-2023	13.17	3,629,961	3,627,916
Type D - 14.00% - (144 Months)	Annually	19-Dec-2013	19-Dec-2025	13.26	3,578,937	3,577,293
Total (a)					7,208,898	7,205,209
Fixed Rate Debenture Issuance - June 2015						
Type A - 9.40% - (60 Months)	Annually	24-Jun-2015	24-Jun-2020	9.19	-	7,001,162
Type B - Zero coupon - (60 Months)	9.40% Annual compounding on the Issue Price of LKR 63.8136 payable on the Date of Redemption	24-Jun-2015	24-Jun-2020	9.18	-	2,871,648
Total (b)					-	9,872,810
Fixed Rate Debenture Issuance - March 2019						
Type A - 13.50% - (60 Months)	Semi-annually	30-Mar-2019	30-Mar-2024	13.16	1,280,970	1,280,111
Type B - 13.95% - (60 Months)	Annually	30-Mar-2019	30-Mar-2024	13.15	4,753,628	4,750,604
Total (c)					6,034,598	6,030,715
Fixed Rate Debenture Issuance - September 2020						
9.50% - (60 Months)	Annually	24-Sep-2020	24-Sep-2025	9.16	6,637,395	-
Total (d)					6,637,395	-
Debt securities issued (a)+(b)+(c)+(d)					19,880,891	23,108,734
The maturity of the debt securities issued are given below:						
Due within one year					2,396,033	10,353,999
Due after one year					17,484,858	12,754,735
					19,880,891	23,108,734

39 CURRENT TAX (RECEIVABLES)/LIABILITIES

ACCOUNTING POLICY

Please refer Note 17 on page 202 for the accounting policy of the current tax (receivables)/liabilities for the Group.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
39.1 Summary of net current tax liabilities				
As at 31 December				
Current tax liabilities	2,297,296	2,247,997	2,563,345	2,342,373
Current tax receivables	-	-	(45,098)	(23,396)
Net current tax liability	2,297,296	2,247,997	2,518,247	2,318,977
39.2 Movement in net current tax liabilities				
Balance as at 01 January	2,247,997	3,077,151	2,318,977	3,147,224
Current tax based on profit for the year	3,059,137	2,558,683	3,373,775	2,623,173
Under/(over) provision in respect of previous years	(254,608)	(431,151)	(244,820)	(433,830)
Payment of tax	(2,755,230)	(2,956,686)	(2,929,685)	(3,017,590)
Balance as at 31 December	2,297,296	2,247,997	2,518,247	2,318,977

40 DEFERRED TAX (ASSETS)/LIABILITIES

ACCOUNTING POLICY

Please refer Note 17 on page 202 for the accounting policy of the deferred tax (assets)/liabilities for the Group.

40.1 Summary of Net Deferred Tax (Assets)/Liabilities

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 31 December				
Recognised under assets	(1,875,720)	(599,215)	(1,945,730)	(647,444)
Recognised under liabilities	-	-	596,112	566,983
Net deferred tax assets (Note 40.2)	(1,875,720)	(599,215)	(1,349,618)	(80,461)

40.2 Movement in Net Deferred Tax (Asset)/Liability

	BANK				GROUP			
	2020		2019		2020		2019	
	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000
Balance as at 01 January	(2,140,053)	(599,215)	(3,783,875)	(1,059,485)	(287,356)	(80,461)	(2,100,727)	(588,204)
Amount originating/(reversing) to Statement of Profit or Loss	(3,383,382)	(947,347)	(915,457)	(256,328)	(3,414,232)	(955,985)	(547,954)	(153,428)
Amount originating/(reversing) to Other Comprehensive Income	(1,175,564)	(329,158)	2,559,279	716,598	(1,118,471)	(313,172)	2,361,325	661,171
Balance as at 31 December	(6,698,999)	(1,875,720)	(2,140,053)	(599,215)	(4,820,059)	(1,349,618)	(287,356)	(80,461)

Notes to the Financial Statements

40.3 Reconciliation of Net Deferred Tax (Assets)/Liabilities

	BANK					
	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	56,439	84,804	(28,365)	1,012	-	-
Revaluation gains on freehold land and buildings	510,157	490,892	-	-	19,265	86,019
Finance leases	534,685	496,019	38,666	(181,516)	-	-
Gains on fair value adjustment of investments	2,293	343,645	-	-	(341,352)	343,645
Total	1,103,574	1,415,360	10,301	(180,504)	(322,087)	429,664
Deferred tax assets						
Defined benefit plans	198,602	163,501	(26,857)	(11,080)	(8,245)	(38,096)
Losses on fair value adjustment of investments	-	-	-	-	-	338,968
Operating Lease	80,055	-	(80,055)	-	-	-
Impairment allowances						
On loans and receivables to other customers	2,419,058	1,726,998	(692,060)	2,598	-	-
On other financial assets	281,579	124,076	(158,676)	(67,342)	1,174	(13,938)
Total	2,979,294	2,014,575	(957,648)	(75,824)	(7,071)	286,934
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year	-	-	(947,347)	(256,328)	(329,158)	716,598
Net deferred tax (assets)/liabilities as at 31 December	(1,875,720)	(599,215)	-	-	-	-

40.4 Reconciliation of Net Deferred Tax (Assets)/Liabilities

	GROUP					
	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	70,487	101,389	(30,902)	8,548	-	-
Revaluation gains on freehold land and buildings	557,186	531,847	-	-	25,339	89,876
Revaluation gains on investment property	557,172	518,447	38,725	45,422	-	-
Finance leases	534,685	496,019	38,666	(181,516)	-	-
Gains on fair value adjustment of investments	-	359,467	(17,480)	63,745	(341,988)	294,500
Total	1,719,530	2,007,169	29,009	(63,801)	(316,649)	384,376
Deferred tax assets						
Defined benefit plans	224,726	193,815	(24,976)	(15,316)	(5,935)	(48,561)
Losses on other operations	16,895	-	(16,895)	6,006	-	-
Losses on fair value adjustment of investments	24,135	18,148	(6,136)	(18,148)	150	343,477
Operating Lease	97,820	-	(97,820)	-	-	-
Impairment allowances						
On loans and receivables to other customers	2,419,058	1,726,998	(692,060)	2,598	-	-
On other financial assets	286,514	148,669	(147,107)	(64,767)	9,262	(18,121)
Total	3,069,148	2,087,630	(984,994)	(89,627)	3,477	276,795
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year	-	-	(955,985)	(153,428)	(313,172)	661,171
Net deferred tax (assets)/liabilities as at 31 December	(1,349,618)	(80,461)	-	-	-	-

40.5 Applicable Corporate Tax Rates

The Cabinet has approved to reduce the income tax rate applicable to corporates by 4% from the tax rate of 28% with effect from 01 January 2020. However, the said amendment is yet to be legalised. As such the Group continued using 28% in calculating the income tax and deferred tax (assets)/liabilities as at 31 December 2020 as this amendment is not substantively enacted at the end of the reporting period. The Bank has a cumulative net deferred tax asset of LKR 1618 Mn recognised through Statement of Profit or Loss and net deferred tax asset of LKR 257 Mn recognised through OCI. Had the Bank applied the reduce income tax rate of 24% to calculate the deferred tax (assets)/liabilities as at 31 December 2020, an additional deferred tax charge of LKR 231 Mn and LKR 37 Mn would have got charged to the Statement of Profit or Loss and OCI respectively, for the year ended 31 December 2020.

41 RETIREMENT BENEFIT OBLIGATIONS ACCOUNTING POLICY

Retirement benefit obligations include the provisions made for retirement gratuity and the pension fund.

Retirement Gratuity

In compliance with the Gratuity Act No.12 of 1983, provisions are made on behalf of the employees from the first year of service for employees who joined the Bank on or after 1999, as they are not in pensionable service of the Bank and for employees of the Group companies. The costs of retirement gratuities are determined by a qualified Actuary using the projected unit credit method. Actuarial gains and losses are recognised as income or expense in the Statement of Comprehensive Income, during the financial year in which it arose.

Pension Fund

The Bank operates an approved employee non-contributory pension fund for the payment of pensions to members of its permanent staff, who qualify for such payments when retiring. Employees who joined after 1999, are not covered under the said pension scheme. These employees are entitled to retirement gratuity. Up to 31 December 2002, annual contributions to the pension fund was payable by the Bank, based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation carried out each year.

Basis of Measurement

The cost of the defined benefit plans (retirement gratuity and the pension fund) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions, which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the Long-term nature of these plans, such estimates are subject to significant uncertainties. All assumptions are reviewed at each reporting date. The assumptions used to arrive at the value of defined benefit obligation is given in Note 41.1 (b) and 41.2 (d).

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities, corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the policy on salary revisions, of the Group.

41.1 Provision for Retirement Gratuity

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	583,933	408,308	718,983	501,531
Provision made during the year				
Statement of Profit or Loss [Note 41.1 (a)]	138,712	98,853	163,965	127,349
Other Comprehensive Income [Note 41.1 (a)]	29,445	136,058	24,702	155,712
Contribution made for retirement gratuity	168,157	234,911	188,667	283,061
Benefits paid by the plan	(42,796)	(59,286)	(87,541)	(65,609)
As at 31 December	709,294	583,933	820,109	718,983

Notes to the Financial Statements

41.1 (a) Contribution made for Retirement Gratuity

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current service cost	79,735	49,979	94,213	78,475
Interest cost	58,977	48,874	69,752	48,874
Amount recognised in the Statement of Profit or Loss	138,712	98,853	163,965	127,349
Liability experience loss/(gain)	33,810	50,053	24,231	50,052
Liability loss/(gain) due to changes in;				
Financial assumptions	22,047	86,005	26,883	105,660
Demographic assumptions	(26,412)	-	(26,412)	-
Amount recognised in the Other Comprehensive Income	29,445	136,058	24,702	155,712

41.1 (b) Assumptions and the Sensitivity of the Assumptions used for the Provision of Retirement Gratuity - Bank

The actuarial valuations of the retirement gratuity liability were carried out as at 31 December 2020 and 31 December 2019 by Messrs. Piya S Goonetilleke and Associates, a professional Actuary.

The valuation method used by the Actuary to value the liability is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

Assumptions and the sensitivity of the assumptions used for the Gratuity plan

Type of assumption	Criteria	Description
Demographic	Mortality	UP 1984 Mortality Table
	Retirement age	Normal retirement age or age on valuation date, if greater
	Rate of discount	The estimated yield rate of a Sri Lanka Government Bond with a term equaling to gratuity benefit is the rate of 7.93% p.a. (2019 – 10.10% p.a.) has been used to discount future liabilities.
Financial	Salary increases	A salary increment of 6.5% p.a. (2019 – 9.00% p.a.) has been used in respect of the active employees

The above assumptions except salary increment rate have been used by the Group companies, in arriving at the provision for retirement gratuity.

Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the provision for retirement gratuity and Other Comprehensive Income by the amounts shown below.

Increase/ (Decrease) in Discount Rate %	Increase/ (Decrease) in Salary Increment Rate %	BANK			
		2020		2019	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR Mn	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR Mn
1		71.65	(71.65)	48.77	(48.77)
(-1)		(85.06)	85.06	(56.33)	56.33
	1	(83.36)	83.36	(54.53)	54.53
	(-1)	71.59	(71.59)	48.12	(48.12)

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	GROUP			
		2020		2019	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR Mn	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR Mn
1		82.50	(82.50)	55.40	(55.40)
(-1)		(97.95)	97.95	(63.98)	63.98
	1	(95.91)	95.91	(61.95)	61.95
	(-1)	82.38	(82.38)	54.69	(54.69)

41.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	BANK	
	2020 LKR '000	2019 LKR '000
Within next 12 months	29,248	68,108
Between 2 and 5 years	227,133	345,024
Beyond 5 years	731,861	862,790

The expected benefits are estimated, based on the same assumptions used to measure the retirement benefit obligation of the Bank at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 12.2 years (2019 - 10.1 years).

41.2 Pension Fund

The amount recognised in the Statement of Financial Position is as follows:

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Present value of the funded obligation as at 31 December	1,052,450	992,746
Fair value of plan assets as at 31 December	(1,195,582)	(1,177,587)
Retirement Benefit (Asset)/Liability*	(143,132)	(184,841)

*The over payment is recognised as prepaid expenses in Other Assets.

41.2 (a) Contribution made to the Pension Fund

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Current service cost	27,875	22,444
Interest cost	(11,250)	(30,632)
Amount recognised in the Statement of Profit or Loss	16,625	(8,188)
Assets loss/(gain) arising during the year	27,412	25,546
Liability experience loss/(gain)	23,129	(18,597)
Actuarial (gain)/loss due to changes in;		
Financial assumptions	(21,421)	144,710
Demographic assumptions	-	-
Amount recognised in the Other Comprehensive Income	29,120	151,659

Notes to the Financial Statements

41.2 (b) Defined Benefit Obligation Reconciliation

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Defined Benefit Obligation as at 01 January	992,746	799,296
Current service cost	27,875	22,444
Interest cost	102,748	96,713
Actual benefits paid from plan	(72,627)	(51,820)
Actuarial (gain)/loss due to changes in assumptions	(21,421)	144,710
Actuarial (gain)/loss due to experience adjustments	23,129	(18,597)
Defined Benefit Obligation as at 31 December	1,052,450	992,746

41.2 (c) Fair Value of Plan Assets Reconciliation

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Fair value of plan assets as at 01 January	1,177,587	1,090,802
Expected return on assets	113,999	127,347
Actual employer contributions	4,035	36,804
Actual benefit paid from plan	(72,627)	(51,820)
Actuarial (loss)/gain from plan assets	(27,412)	(25,546)
Fair Value of plan assets as at 31 December	1,195,582	1,177,587

41.2 (d) Assumptions and the sensitivity of the assumptions used for the Pension Fund

An actuarial valuation of the Pension Fund was carried out as at 31 December 2020 and 31 December 2019 by Messrs Piyal S Goonetilleke Associates, a professional Actuary.

The valuation method used by the Actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

Assumptions and the sensitivity of the assumptions used for the Pension Fund

Type of assumption	Criteria	Description
Demographic	Mortality	UP 1984 Mortality Table
	Retirement age	Normal retirement age
Financial	Rate of discount	The estimated yield rate of a Sri Lanka Government Bond with a term equaling to Pension benefits is the rate of 7.91% p.a. (2019 – 10.35% p.a.) has been used to discount future liabilities.
	Salary increases	A salary increment of 6.5% p.a. (2019 – 9.00% p.a.) has been used.

Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the pension liability and Other Comprehensive Income by the amounts shown below:

Increase/ (Decrease) in Discount Rate %	Increase/ (Decrease) in Salary Increment Rate %	BANK & GROUP			
		2020		2019	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn
1		103.34	(103.34)	77.16	(77.16)
(-1)		(122.17)	122.17	(89.07)	89.07
	1	(39.75)	39.75	(20.27)	20.27
	(-1)	36.96	(36.96)	19.53	(19.53)

Increase/ (Decrease) in Life expectancy %	BANK & GROUP			
	2020		2019	
	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn
+ 1 Year	(19.26)	19.26	(12.62)	12.62
- 1 Year	19.71	(19.71)	13.09	(13.09)

41.2 (e) Fair value of total plan assets

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Investments in Government Securities	576,921	548,995
Investments in Time Deposits	484,597	512,561
Total	1,061,518	1,061,556

41.2 (f) The Expected Benefit Payout from the Pension Fund in Future Years

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Within next 12 months	80,549	56,835
Between 2 and 5 years	452,249	342,997
Beyond 5 years	641,616	737,749

The expected benefits are based on the same assumptions used to measure the Bank's retirement benefit obligation at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 18.95 years as at 31 December 2020 (2019 – 19.74 years).

41.2 (g) The total amount recognised in the Other Comprehensive Income relating to retirement benefit obligations

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Retirement Gratuity [Note 41.1 (a)]	29,445	136,058	24,702	155,712
Pension Fund [Note 41.2 (a)]	29,120	151,659	29,120	151,659
Total	58,565	287,717	53,822	307,371

Notes to the Financial Statements

42 OTHER LIABILITIES

Other liabilities include other financial liabilities and other non-financial liabilities. Other non-financial liabilities include fees, expenses and other amounts payable for deposit insurance, dividend payable and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognised when the Group have a present obligation (legal or constructive) as a result of a past event, 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.

Dividends on ordinary shares are recognised as a liability and deducted from equity, when they are approved by the Board of Directors.

Other financial liabilities and other non-financial liabilities included under other liabilities are summarised below:

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Other financial liabilities (Note 42.1)	3,117,943	3,997,731	3,458,397	4,362,575
Other non-financial liabilities (Note 42.2)	4,797,904	5,274,849	4,976,405	5,444,495
Total	7,915,847	9,272,580	8,434,802	9,807,070

42.1 Other Financial Liabilities

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Unpresented cheques/pay orders	1,814,431	2,791,017	1,814,431	2,795,748
Unpresented cheques - Dividend Payable (Note 42.1.1)	86,354	74,804	86,354	74,804
Lease liabilities (Note 42.1.2)	1,204,896	1,123,255	1,525,282	1,467,005
Others	12,262	8,655	32,330	25,018
Total	3,117,943	3,997,731	3,458,397	4,362,575

42.1.1 Unpresented cheques - Dividend Payable

	BANK & GROUP	
	2020 LKR '000	2019 LKR '000
Balance as at 01 January	74,804	78,133
Final cash dividend declared for the prior year	443,600	315,476
Reversal of dividends declared in prior years [Note 42.1.1 (a)]	(8,838)	(16,729)
Dividend paid	(423,212)	(302,076)
Balance as at 31 December	86,354	74,804

42.1.1 (a) Reversal of Dividends declared in Prior Years

Reversal of dividends declared in previous years represents unclaimed dividends which are written back to equity after six years.

42.1.2 Lease liabilities

Set out below are the carrying amount of lease liabilities recognised on adoption of SLFRS 16 - Leases with effect from 01 January 2019.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance as at 01 January	1,123,255	1,113,237	1,467,005	1,497,001
Additions	322,317	212,251	321,696	212,251
Accretion of interest	125,925	142,183	163,650	161,269
Payments	(366,601)	(344,416)	(427,069)	(403,516)
Balance as at 31 December	1,204,896	1,123,255	1,525,282	1,467,005

42.1.2 (a) Maturity Analysis of Lease Liabilities

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Less than 1 year	257,155	253,101	291,401	330,557
1 to 5 years	705,708	709,934	966,799	927,196
More than 5 years	242,033	160,220	267,082	209,252
	1,204,896	1,123,255	1,525,282	1,467,005

42.1.2 (b) Sensitivity Analysis of Lease liabilities

BANK			
Asset Class	Increase/ (Decrease) in Interest Rate 2020 %	Sensitivity Effect on the Profit or loss Increase/(Decrease) for the Year 2020 LKR Mn	Sensitivity Effect on the Financial position Increase/(Decrease) in Lease Liabilities 2020 LKR Mn
Building	1	7.54	(27.20)
	(-1)	(7.93)	28.34
Land	1	0.00	(0.02)
	(-1)	(0.00)	0.03
Vehicles	1	0.60	(0.87)
	(-1)	(0.62)	0.89

BANK			
Asset Class	Increase/(Decrease) in Interest Rate 2019 %	Sensitivity Effect on the Profit or loss Increase/(Decrease) for the Year 2019 LKR Mn	Sensitivity Effect on the Financial position Increase/(Decrease) in Lease Liabilities 2019 LKR Mn
Building	1	7.29	(23.80)
	(-1)	(7.69)	24.73
Land	1	-	(0.02)
	(-1)	-	0.03
Vehicles	1	0.67	(1.47)
	(-1)	(0.70)	1.50

42.2 Other Non-Financial Liabilities

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Accrued expenses	915,439	923,145	995,588	974,622
Provision for deposit insurance	125,308	102,181	125,308	102,181
Other liabilities	3,757,157	4,249,523	3,855,509	4,367,692
Total	4,797,904	5,274,849	4,976,405	5,444,495

Notes to the Financial Statements

43 STATED CAPITAL

	BANK & GROUP			
	2020 Number of Shares	2020 LKR '000	2019 Number of Shares	2019 LKR '000
Issued and fully paid	221,799,756	7,685,334	210,317,117	6,469,323
Shares issued due to scrip dividends (Note 43.1)	10,837,475	1,108,999	11,482,639	1,216,011
Total	232,637,231	8,794,333	221,799,756	7,685,334

43.1 Scrip Issue

On 18 February 2020, the Bank paid a first and final dividend of LKR 7.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 5.00 per share, for the financial year 2019. As per the Notice dated 18 February 2020, published by the Department of Inland Revenue, the above dividend payment was not subject to withholding tax. Accordingly, the stated capital of the Bank as at 31 December 2020 increased to LKR 8,794 Mn (LKR 7,685 Mn as at 31 December 2019), as a result of the scrip dividends declared for the year ended 31 December 2019.

43.2 Employee Share Option Scheme (ESOS)

An Employee Share Option Scheme (ESOS 2016) was approved by the shareholders of the Bank at an Extraordinary General Meeting (EGM) held in March 2016 in order to, enable the management staff in the rank of Senior Manager and above of the Bank and the respective Chief Executive Officers of NDB Capital Holdings Limited, NDB Wealth Management Limited, NDB Investment Bank (Pvt) Limited and NDB Securities (Pvt) Limited to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions.

As per the ESOS 2016, the Bank will offer Share Options relating to voting shares to the eligible employees up to a maximum of 5% of the total number of shares issued by the Bank. The shares under the said scheme shall be issued during a period of five years from the year 2017 (performance year 2016) subject to the performance criteria set out in the Circular to Shareholders dated 01 March 2016, and each year the Share Options will be limited to 1.25% of the total number of shares then issued by the Bank.

Although the scheme commenced in the year 2017, the Bank did not meet the 'Qualifying Performance Criteria' set out in the Circular to Shareholders dated 01 March 2016 for the years 2016, 2017 and 2019. The Bank was able to meet the performance criteria in the year 2018 and the approved management staff are eligible to exercise their share options during the period from 01 July 2020 to 30 June 2023. However, no share options were exercised by any approved management staff up to 31 December 2020.

Furthermore, the valuation of the ESOS Tranche 3 (performance year 2018) was carried out by the Bank in line with the requirements of the SLFRS 02-Share Base payments and the Bank applied the Binomial Options Pricing Model to value the option scheme.

Accordingly, the value of the share options was dependent on the following factors:

- Exercise price of the share options
- Market price of a share
- Risk-free rate
- Exercise period
- Volatility of the share price

However, the fair value of the said option plan was not material to be accounted for in the Financial Statements given the historical trend of the share price movements and the volatility in the expected share price movements.

44 STATUTORY RESERVE FUND

The Statutory Reserve Fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of the said reserve fund is equal to the stated capital of the Bank.

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	1,896,479	1,636,479	1,896,479	1,636,479
Transferred from retained earnings (Note 45)	300,000	260,000	300,000	260,000
As at 31 December	2,196,479	1,896,479	2,196,479	1,896,479

45 RETAINED EARNINGS

	BANK					
	2020			2019		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 01 January	5,805,707	23,689,843	29,495,550	5,805,707	20,966,190	26,771,897
Transition impact on adoption of SLFRS 16	-	-	-	-	(259,925)	(259,925)
Transfer to retained earnings	(5,805,707)	5,805,707	-	-	-	-
Total comprehensive income for the year	-	5,474,789	5,474,789	-	4,909,386	4,909,386
Transferred to the statutory reserve fund	-	(300,000)	(300,000)	-	(260,000)	(260,000)
Dividends to equity holders	-	(1,543,760)	(1,543,760)	-	(1,665,808)	(1,665,808)
As at 31 December	-	33,126,579	33,126,579	5,805,707	23,689,843	29,495,550

	GROUP					
	2020			2019		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 01 January	5,805,707	27,424,697	33,230,404	5,805,707	24,862,382	30,668,089
Transition impact on adoption of SLFRS 16	-	-	-	-	(305,036)	(305,036)
Transfer to retained earnings	(5,805,707)	5,805,707	-	-	-	-
Total comprehensive income for the year	-	4,756,704	4,756,704	-	4,793,159	4,793,159
Transferred to statutory reserve fund	-	(300,000)	(300,000)	-	(260,000)	(260,000)
Dividends paid to equity holders	-	(1,543,760)	(1,543,760)	-	(1,665,808)	(1,665,808)
As at 31 December	-	36,143,348	36,143,348	5,805,707	27,424,697	33,230,404

Notes to the Financial Statements

46 OTHER RESERVES

	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000
Current Year 2020						
Revaluation reserve (Note 46.1)	1,262,453	49,539	1,311,992	1,397,955	65,160	1,463,115
Fair Value through Other Comprehensive Income reserve [Note 46.2]	(854,367)	206,007	(648,360)	(825,209)	204,171	(621,038)
Cash flow hedge reserve [Note 24.1 (b)]	(1,613)	1,613	-	(1,613)	1,613	-
Total	406,473	257,159	663,632	571,133	270,944	842,077

	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000
Prior Year 2019						
Revaluation reserve (Note 46.1)	1,041,261	221,192	1,262,453	1,166,840	231,115	1,397,955
Fair Value through Other Comprehensive Income reserve [Note 46.2]	(1,022,229)	167,862	(854,367)	(1,029,596)	204,387	(825,209)
Cash flow hedge reserve [Note 24.1 (b)]	101,311	(102,924)	(1,613)	101,311	(102,924)	(1,613)
Total	120,343	286,130	406,473	238,555	332,578	571,133

46.1 Revaluation Reserve

Revaluation reserve represents the fair value changes of freehold land and buildings net of deferred tax effect on revaluation surplus as at the date of revaluation.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	1,262,453	1,041,261	1,397,955	1,166,840
Revaluation of freehold land and building	68,804	307,211	68,804	307,211
Adjustment for revaluation of owner occupied portion of Investment Property	-	-	21,695	13,780
Deferred tax effect on revaluation gains/(losses)	(19,265)	(86,019)	(25,339)	(89,876)
Net impact during the year	49,539	221,192	65,160	231,115
As at 31 December	1,311,992	1,262,453	1,463,115	1,397,955

46.2 Fair Value through Other Comprehensive Income Reserve

The fair value through Other Comprehensive Income reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through Other Comprehensive Income until they are derecognised or impaired.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	(854,367)	(1,022,229)	(825,209)	(1,029,596)
Net change in fair value during the year in debt instruments	8,188	1,227,304	5,866	1,219,194
Net change in fair value during the year in equity instruments	(143,533)	(376,829)	(143,533)	(376,829)
Tax effect on fair value through Other Comprehensive Income reserve	341,352	(682,613)	341,838	(637,978)
Net impact during the year	206,007	167,862	204,171	204,387
As at 31 December	(648,360)	(854,367)	(621,038)	(825,209)

47 NON-CONTROLLING INTERESTS ACCOUNTING POLICY

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if it is a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognised as equity. Therefore no goodwill is recognised as a result of such transactions.

	GROUP	
	2020 LKR '000	2019 LKR '000
Balance as at 01 January	1,155,280	1,099,042
Transition impact on adoption of SLFRS 16	-	(37)
Profit for the year	100,542	109,079
Other comprehensive income, net of tax	2,382	(119)
Adjustments to non controlling interests	(2,382)	-
Dividends to equity holders	(28,667)	(52,685)
Balance as at 31 December	1,227,155	1,155,280

48 CONTINGENT LIABILITIES AND COMMITMENTS ACCOUNTING POLICY

All discernible risks are accounted for in determining the amount of all known liabilities. Commitments and contingencies represent possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured, as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Group enter into various irrevocable commitments and contingent liabilities. These consist of the financial guarantees, letters of credit and forward foreign exchange contracts and other undrawn commitments to lend. The letters of credit and guarantees commit the Group to make payments on behalf of customers in the event of a specific act, generally related to import or export of goods. The guarantees and standby letters of credit carry a similar credit risk of that loans/ contingent liabilities and are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

48.1 Business Commitments and contingencies

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Contingencies				
Guarantees	45,095,689	40,561,409	45,049,738	40,515,458
Performance Bonds	16,893,389	15,289,376	16,893,389	15,289,376
Documentary Credits	18,316,091	10,875,348	18,316,091	10,875,348
Other Contingencies [Note 48 .1 (a)]	141,851,870	115,332,880	141,851,870	115,332,880
Commitments				
Undrawn commitments	121,792,487	111,086,808	121,942,570	111,254,897
Total	343,949,526	293,145,821	344,053,658	293,267,959
Less: Impairment allowance [Note 48 .1 (b)]	1,165,958	775,259	1,165,958	775,259
Net of impairment	342,783,568	292,370,562	342,887,700	292,492,700

The maturity analysis of the commitments and contingencies is disclosed in Note 56.4 (g).

Notes to the Financial Statements

48.1 (a) Other Contingencies

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Forward Exchange Contracts	127,080,925	103,498,298	127,080,925	103,498,298
Currency Swap Agreement	-	3,074,620	-	3,074,620
Acceptances	14,770,945	8,759,962	14,770,945	8,759,962
Total	141,851,870	115,332,880	141,851,870	115,332,880

48.1 (b) Impairment allowance for commitments and contingencies

	BANK & GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Movement in impairment allowance				
Balance as at 01 January 2020	617,422	114,017	43,820	775,259
Charges/(reversals) during the year	287,237	108,391	(4,929)	390,699
Balance as at 31 December 2020	904,659	222,408	38,891	1,165,958
Balance as at 01 January 2019	389,962	140,880	46,054	576,896
Charges/(reversals) during the year	227,460	(26,863)	(2,234)	198,363
Balance as at 31 December 2019	617,422	114,017	43,820	775,259

48.1 (c) Analysis of Commitments and contingencies (before impairment allowance)

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Domestic Currency				
Guarantees	31,618,678	29,728,454	31,572,727	29,682,503
Performance Bonds	10,748,931	8,860,859	10,748,931	8,860,859
Documentary Credits	1,106,267	191,484	1,106,267	191,484
Forward Exchange Contracts	64,294,126	43,497,609	64,294,126	43,497,609
Acceptances	76,573	100,110	76,573	100,110
Undrawn commitments	120,787,881	109,734,382	120,937,965	109,902,471
Sub Total	228,632,456	192,112,898	228,736,589	192,235,036
Foreign Currency				
Guarantees	13,477,010	10,832,955	13,477,010	10,832,955
Performance Bonds	6,144,458	6,428,518	6,144,458	6,428,518
Documentary Credits	17,209,824	10,683,864	17,209,824	10,683,864
Forward Exchange Contracts	62,786,800	60,000,689	62,786,800	60,000,689
Currency Swap Agreement	-	3,074,620	-	3,074,620
Acceptances	14,694,372	8,659,851	14,694,372	8,659,851
Undrawn commitments	1,004,606	1,352,426	1,004,606	1,352,426
Sub Total	115,317,070	101,032,923	115,317,070	101,032,923
Total	343,949,526	293,145,821	344,053,659	293,267,959

48.2 Capital Commitments

The capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	GROUP	
	2020 LKR '000	2019 LKR '000
Commitments in relation to intangible assets		
Approved and contracted for	683,237	850,000
Total	683,237	850,000

The Bank has a capital commitments totalling approximately LKR 683 Mn over the next 12 months in relation to the upgrade of the Core Banking system.

48.3 Litigation Against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their facility agreements. As of the date of the Statement of Financial Position, thirty nine clients have filed cases against the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

48.4 Tax Assessments Against the Bank and Group Companies

The following tax assessments are outstanding, against which the Bank and Group companies have duly appealed.

1. The VAT on financial services assessments received by the Bank for the years 2012 and 2013 amounting to LKR 302.6 Mn, which were determined by the Commissioner General of Inland Revenue as payable have been forwarded to the Tax Appeals Commission for their determinations.
2. The VAT assessments received by the Bank for the period 2016-2018 amounting to LKR 33 Mn is pending hearing by the Appeal Branch of the Department of Inland Revenue.
3. The assessments on VAT on financial services issued to NDB Capital Holdings Limited for the years 2012 and 2013 amounting to LKR 183.8 Mn which were determined by the Commissioner General of Inland Revenue as payable have been forwarded to the Tax Appeals Commission for their determinations. The Company has taken up the position that does not carry on the business of provision of loans, as charged in the assessments/ determinations.
4. The income tax assessment received by NDB Capital Holdings Limited for the Year of Assessment 2015/2016 amounting to LKR 44.5 Mn is pending hearing by the Appeal Branch of the Department of Inland Revenue.

The Group is of the view that the above assessments will not have any material adverse impact on the Financial Statements.

49 NET ASSETS VALUE PER ORDINARY SHARE

	BANK		GROUP	
	2020	2019	2020	2019
Amount used as the Numerator:				
Total equity attributable to equity holders of the Bank (LKR '000)	44,781,023	39,483,836	47,976,237	43,383,350
Number of Ordinary Shares used as the Denominator:				
Total number of shares	232,637,231	221,799,756	232,637,231	221,799,756
Net Assets value per share (LKR)	192.49	178.02	206.23	195.60

Notes to the Financial Statements

50 MATURITY ANALYSIS

An analysis of the assets and liabilities, based on the remaining period as at the date of the Statement of Financial Position to the respective contractual maturity dates, are as follows:

	BANK		
	Within 12 Months	After 12 Months	Total
As at 31 December 2020	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	10,487,608	-	10,487,608
Balances with the Central Bank of Sri Lanka	6,400,395	411,704	6,812,099
Placements with banks	12,401,533	-	12,401,533
Derivative financial instruments	1,429,470	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	5,574,175	-	5,574,175
Financial assets at amortised cost - loans and receivables to other customers	251,686,766	173,918,742	425,605,508
Financial assets at amortised cost - debt and other instruments	2,151,542	42,560,098	44,711,640
Financial assets measured at fair value through other comprehensive income	108,593,183	-	108,593,183
Investments in subsidiary companies	-	1,142,884	1,142,884
Property, plant & equipment	-	2,968,993	2,968,993
Right of use assets	-	1,060,843	1,060,843
Intangible assets	-	1,048,326	1,048,326
Deferred tax assets	-	1,875,720	1,875,720
Other assets	2,204,288	920,428	3,124,716
Total Assets	400,928,960	225,907,738	626,836,698
Liabilities			
Due to banks	24,173,318	-	24,173,318
Derivative financial instruments	1,016,787	-	1,016,787
Financial Liabilities at amortised cost			
Due to depositors	460,647,096	29,631,030	490,278,126
Due to debt securities holders	1,500,007	-	1,500,007
Due to other borrowers	27,200,204	7,083,905	34,284,109
Debt securities issued	641,887	19,239,004	19,880,891
Current tax liabilities	2,059,365	237,931	2,297,296
Retirement benefit obligations	29,248	680,046	709,294
Other liabilities	7,915,847	-	7,915,847
Total liabilities	525,183,759	56,871,916	582,055,675
Maturity GAP	(124,254,799)	169,035,822	44,781,023

The Bank classified LKR 11.4 Bn of its total debt securities and other borrowed funds within 12 months in the maturity disclosures as there were few financial covenants that were not met due to the economic conditions that prevailed with the emergence of the pandemic crisis during the year. The Bank has intimated the reasons for the covenant breaches to the lenders which are not entirely within the control of the Banking operations but is also due to the subdued economic conditions that prevailed during 2020.

An analysis of the assets and liabilities, based on the remaining period as at the date of the Statement of Financial Position to the respective contractual maturity dates, are as follows:

	BANK		
	Within 12 Months	After 12 Months	Total
As at 31 December 2019	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	5,703,468	-	5,703,468
Balances with the Central Bank of Sri Lanka	13,338,138	548,437	13,886,575
Placements with banks	6,291,047	-	6,291,047
Derivative financial instruments	1,596,359	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	932,253	-	932,253
Financial assets at amortised cost - loans and receivables to other customers	239,237,373	157,411,438	396,648,811
Financial assets at amortised cost - debt and other instruments	4,377,540	23,108,345	27,485,885
Financial assets measured at fair value through other comprehensive income	67,018,254	-	67,018,254
Investments in subsidiary companies	-	2,144,774	2,144,774
Property, plant & equipment	-	3,012,213	3,012,213
Right of use assets	-	960,849	960,849
Intangible assets	-	687,785	687,785
Deferred tax assets	-	599,215	599,215
Other assets	2,274,807	352,133	2,626,940
Total Assets	340,769,239	188,825,189	529,594,428
Liabilities			
Due to banks	18,380,356	-	18,380,356
Derivative financial instruments	728,873	-	728,873
Financial liabilities at amortised cost			
Due to depositors	389,051,045	15,996,979	405,048,024
Due to debt securities holders	1,398,068	-	1,398,068
Due to other borrowers	23,448,837	5,893,190	29,342,027
Debt securities issued	10,353,999	12,754,735	23,108,734
Current tax liabilities	1,465,331	782,666	2,247,997
Retirement benefit obligations	68,108	515,825	583,933
Other liabilities	9,272,580	-	9,272,580
Total liabilities	454,167,197	35,943,395	490,110,592
Maturity GAP	(113,397,958)	152,881,794	39,483,836

The Bank classified LKR 22.9 Bn of its total debt securities and other borrowed funds within 12 months in the maturity disclosure as there were few financial covenants that were not met due to the economic conditions that prevailed during the year.

Notes to the Financial Statements

50 MATURITY ANALYSIS (CONTD.)

	GROUP		
	Within 12 Months	After 12 Months	Total
As at 31 December 2020	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	10,778,947	-	10,778,947
Balances with the Central Bank of Sri Lanka	6,400,395	411,704	6,812,099
Placements with banks	12,401,533	-	12,401,533
Derivative financial instruments	1,429,470	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	7,713,222	-	7,713,222
Financial assets at amortised cost - loans and receivables to other customers	251,690,580	173,991,252	425,681,832
Financial assets at amortised cost - debt and other instruments	2,151,542	42,560,098	44,711,640
Financial assets measured at fair value through other comprehensive income	108,762,972	-	108,762,972
Investment property	-	2,361,535	2,361,535
Property, plant & equipment	-	3,541,018	3,541,018
Right of use assets	-	1,289,749	1,289,749
Intangible assets	-	1,061,673	1,061,673
Current tax receivables	45,098	-	45,098
Deferred tax assets	-	1,945,730	1,945,730
Other assets	2,674,672	920,428	3,595,100
Total Assets	404,048,431	228,083,187	632,131,618
Liabilities			
Due to banks	24,173,318	-	24,173,318
Derivative financial instruments	1,016,787	-	1,016,787
Financial liabilities at amortised cost			
Due to depositors	460,027,716	29,631,030	489,658,746
Due to debt securities holders	1,500,007	-	1,500,007
Due to other borrowers	27,200,205	7,083,904	34,284,109
Debt securities issued	641,886	19,239,005	19,880,891
Current tax Liabilities	2,343,884	219,461	2,563,345
Deferred tax liabilities	-	596,112	596,112
Retirement benefit obligations	29,248	790,861	820,109
Other liabilities	8,434,802	-	8,434,802
Total liabilities	525,367,853	57,560,373	582,928,226
Maturity GAP	(121,319,422)	170,522,814	49,203,392

	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
As at 31 December 2019			
Assets			
Cash and cash equivalents	6,081,359	-	6,081,359
Balances with the Central Bank of Sri Lanka	13,338,138	548,437	13,886,575
Placements with banks	6,291,047	-	6,291,047
Derivative financial instruments	1,596,359	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	3,488,735	-	3,488,735
Financial assets at amortised cost - loans and receivables to other customers	239,185,566	157,486,456	396,672,022
Financial assets at amortised cost - debt and other instruments	4,377,540	23,108,345	27,485,885
Financial assets measured at fair value through other comprehensive income	68,430,331	-	68,430,331
Investment property	-	2,272,881	2,272,881
Property, plant & equipment	-	3,565,166	3,565,166
Right of use assets	-	1,229,414	1,229,414
Intangible assets	-	700,908	700,908
Current tax receivables	23,396	-	23,396
Deferred tax assets	-	647,444	647,444
Other assets	3,193,814	34,290	3,228,104
Total Assets	346,006,285	189,593,341	535,599,626
Liabilities			
Due to banks	18,380,356	-	18,380,356
Derivative financial instruments	728,873	-	728,873
Financial liabilities at amortised cost			
Due to depositors	388,670,550	15,996,979	404,667,529
Due to debt securities holders	1,398,068	-	1,398,068
Due to other borrowers	23,448,837	5,893,190	29,342,027
Debt securities issued	10,353,999	12,754,735	23,108,734
Current tax Liabilities	1,529,821	812,552	2,342,373
Deferred tax liabilities	-	566,983	566,983
Retirement benefit obligations	68,108	650,875	718,983
Other liabilities	9,807,070	-	9,807,070
Total liabilities	454,385,682	36,675,314	491,060,996
Maturity GAP	(108,379,397)	152,918,027	44,538,630

51 SEGMENTAL ANALYSIS - GROUP

ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Senior Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group has identified four operating segments based on products and services, as follows:

- Banking
- Capital Markets
- Property Investment
- Others

Income taxes are managed on a Group basis and are not allocated to operating segments. Interest income is reported net, as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2020 or 2019.

Notes to the Financial Statements

51 SEGMENTAL ANALYSIS - GROUP (CONTD.)

For the year ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Revenue										
Interest income	53,003,875	53,174,791	122,022	190,623	-	-	-	-	53,125,897	53,365,414
Net fee and commission income	4,250,284	3,905,229	838,043	610,601	212,735	179,744	93,609	129,171	5,394,671	4,828,745
Net gains/(losses) from trading	967,284	990,160	-	-	-	-	-	-	967,284	990,160
Net gain/(loss) from financial investments at fair value through Profit or Loss	96,353	23,437	17,330	55,635	-	-	-	-	113,683	79,072
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	1,486,023	695,547	277	-	-	-	-	-	1,486,300	695,547
Other operating income	353,144	(53,976)	16,401	93,584	108,113	162,220	-	-	477,658	201,828
Total revenue from external customers	60,156,963	58,739,188	994,073	950,443	320,848	341,964	93,609	129,171	61,565,493	60,160,766
Inter-segment revenue	-	-	2,474	11,109	64,103	65,290	-	-	66,577	76,399
Total Revenue	60,156,963	58,739,188	996,547	961,552	384,951	407,254	93,609	129,171	61,632,070	60,237,165
Impairment (charge)/reversal	(6,793,647)	(4,157,781)	-	(247,695)	-	-	-	-	(6,793,647)	(4,405,476)
Segment expenses	(44,630,365)	(44,865,316)	(884,061)	(837,799)	(33,059)	(28,359)	(81,788)	(107,849)	(45,629,273)	(45,839,323)
Total segment expenses	(51,424,012)	(49,023,097)	(884,061)	(1,085,494)	(33,059)	(28,359)	(81,788)	(107,849)	(52,422,920)	(50,244,799)
Segment results	8,732,951	9,716,091	112,486	(123,942)	351,892	378,895	11,821	21,322	9,209,150	9,992,366
Income tax expense	-	-	-	-	-	-	-	-	2,172,970	2,035,915
Tax on financial services	-	-	-	-	-	-	-	-	1,818,832	3,071,440
Profit after taxation	-	-	-	-	-	-	-	-	5,217,348	4,885,011
Other information										
Segment assets	626,834,254	529,587,542	2,372,457	3,311,447	2,803,497	2,580,015	121,410	120,622	632,131,618	535,599,626
Segment liabilities	581,410,252	489,706,787	848,177	715,045	673,597	630,425	(3,800)	8,739	582,928,226	491,060,996
Segmental cash flows										
Cash flows from operating activities	78,875,069	14,869,405	31,470	(277,668)	70,475	128,161	(47,230)	13,613	79,212,784	14,733,511
Cash flows from investing activities	(63,052,775)	(17,919,819)	(386,354)	83,512	(8,110)	(1,742)	(804)	6,158	(63,448,043)	(17,831,891)
Cash flows from financing activities	(4,927,339)	(6,728,421)	39,117	18,500	(68,117)	(126,502)	-	-	(4,956,338)	(6,836,423)

52 RELATED PARTY DISCLOSURES

52.1 Parent and ultimate controlling party

The Bank does not have an identifiable Parent of its own.

52.2 Terms and Conditions

The Bank carries out transactions with Key Management Personnel and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates as per the Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures' except, loans that the key management have availed under the loan schemes which are uniformly applicable to all the staff.

There are no preferential treatments given by the Group to related parties during the year.

52.3 Key Management Personnel (KMP) of the Group

KMP of the Bank

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key Management Personnel include the members of the Board of Directors of the Bank (including Executive and Non-Executive), Chief Operating Officer and the Group Chief Financial Officer.

KMP of the Group

The Bank is the ultimate parent of the subsidiaries listed out on page 226. The KMP of the Bank has the authority and responsibility for planning directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (including the Executive and Non-Executive), Chief Operating Officer and the Group Chief Financial Officer represent the KMP of the Group.

52.3 (a) Compensation to KMP - Bank

	2020 LKR '000	2019 LKR '000
Short-term employee benefits	91,901	83,868
Directors' emoluments	31,560	37,753
Post-employment benefits	9,889	10,168
	133,350	131,789

Compensation to KMP - Group

	2020 LKR '000	2019 LKR '000
Short-term employee benefits	91,901	83,868
Directors' emoluments	32,725	39,893
Post-employment benefits	9,889	10,168
	134,515	133,929

The amounts disclosed above are the amounts recognised as expenses during the reporting period relating to KMP.

In addition to the remuneration, the Bank has also provided non cash benefits to eligible KMP in line with the approved benefit plans of the Bank.

Notes to the Financial Statements

52.3 (b) KMP and their Close Family Members had the following related party transactions during the year.

	Limit		Outstanding Balance		Average Balance	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Items in the Statement of Financial Position						
Assets						
Financial assets at amortised cost - loans and receivables to other customers	78,296	35,652	60,615	30,795	40,162	32,711
	78,296	35,652	60,615	30,795	40,162	32,711
Liabilities						
Financial liabilities at amortised cost						
Due to depositors			200,128	118,501	217,166	161,986
Due to debt securities holders			-	-	-	2,904
			200,128	118,501	217,166	164,890
					During the year	
					2020 LKR '000	2019 LKR '000
Items in the Statement of Profit or Loss excluding compensation to KMP						
Interest income					4,616	3,002
Interest expenses					14,787	10,736
Fee and commission income					172	231

Share investments in the Bank and dividends paid to the KMPs and their Close Family Members are given below.

	2020	2019
Investments in ordinary shares (Number of shares) as at 31 December	18,408	5,782,582
Scrip dividends paid (Number of shares) during the year	282,546	299,363
Cash dividends paid (LKR '000) during the year	11,565	8,225

52.3 (c) Transactions involving entities which are controlled/ jointly controlled by the KMP and their Close Family Members.

	Limit		Outstanding Balance		Average Balance	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Items in the Statement of Financial Position						
Assets						
Financial assets at amortised cost - loans and receivables to other customers	1,546,226	150,000	711,704	151,154	1,050,203	146,892
	1,546,226	150,000	711,704	151,154	1,050,203	146,892
Liabilities						
Financial liabilities at amortised cost						
Due to depositors			4,083	22,050	139,690	269,406
			4,083	22,050	139,690	269,406
Commitment & Contingencies						
Guarantees	926	-	926	-	1,564	-
	926	-	926	-	1,564	-

	During the year	
	2020 LKR '000	2019 LKR '000
Items in the Statement of Profit or Loss		
Interest income	31,990	22,125
Interest expenses	239	4,029
Fee and commission income	1,956	289
Other expenses	2,266	4,282

Share investments in the Bank and dividends paid to the entities which are controlled/ jointly controlled by the KMP and their Close Family Members are given below.

	2020	2019
Investments in ordinary shares (Number of shares) as at 31 December	-	16,415,483
Scrip dividends paid (Number of shares) during the year	802,086	849,831
Cash dividends paid (LKR '000) during the year	32,831	23,348

52.4 Transactions with the Government of Sri Lanka and its Related Entities

The Group enter into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities.

52.4 (a) The transactions entered with the Government of Sri Lanka and its related entities on a collective basis is as follows.

	Outstanding Balance		Average Balance	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Items in the Statement of Financial Position				
Assets				
Financial assets at amortised cost - loans and receivables to other customers (gross)	26,176,231	22,241,309	21,881,158	22,070,892
Financial assets measured at fair value through other comprehensive income	6,224	4,175	5,468	4,175
	26,182,455	22,245,484	21,886,626	22,075,067
Liabilities				
Financial liabilities at amortised cost				
Due to depositors	29,311,504	26,282,778	29,298,246	24,927,230
Due to debt securities holders	-	10,169	1,303,644	5,409,843
Due to other borrowers	21,242,192	8,688,321	12,649,967	8,704,351
Debt securities issued	7,325,000	7,978,800	10,933,800	7,291,300
	57,878,696	42,960,068	54,185,657	46,332,724
Contingent liabilities and commitments				
Forward exchange contracts	24,842,910	4,817,806	13,600,980	7,113,628
Other Contingencies	15,738	8,144	11,577	4,924
Undrawn commitments	5,952,361	9,095,539	7,360,147	3,625,034
	30,811,009	13,921,489	20,972,704	10,743,586

Notes to the Financial Statements

52.4 (a) The transactions entered with the Government of Sri Lanka and its related entities on a collective basis is as follows. (Contd.)

	During the year	
	2020 LKR '000	2019 LKR '000
Items in the Statement of Profit or Loss		
Interest income	2,794,127	2,844,298
Interest expenses	3,726,215	4,082,381
Fee and commission income	3,691	3,171
Net gains/(losses) from trading	15,427	5,295
Other operating income	49,584	37,951
Scrip dividends paid (Number of shares) during the year	3,686,848	3,962,745
Cash dividends paid (LKR '000) during the year	150,910	108,873

52.4 (b) Further transactions detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities;

- Statutory balances with the Central Bank of Sri Lanka
- Investments in Treasury Bills, Treasury, Sovereign and Development Bonds and money market placements
- Payment of statutory rates, taxes and deposit insurance premium
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - ETF

52.4 (c) Individually Significant Transactions

The Bank uses an internal assessment methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities in accordance with the disclosure requirements of LKAS 24. Accordingly there are no individually significant transactions that require disclosure during the year.

52.5 Transactions with Related Entities

52.5 (a) The transactions entered by the Bank with the Subsidiaries and Associates.

	Limit		Subsidiaries of the Bank				Associates of the Bank			
			Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Items in the Statement of Financial Position										
Assets										
Financial assets at amortised cost - loans and receivables to other customers	250,000	300,000	115,209	9,950	38,226	25,647	-	-	-	-
Other assets			1,423	3,427	602,024	78,764	-	-	-	-
Investments in subsidiary companies			1,142,884	2,144,774	1,805,160	2,157,320	-	-	-	-
Liabilities										
Financial liabilities at amortised cost										
Due to depositors			576,276	410,985	473,156	448,604	-	-	-	-
Due to debt securities holders			-	-	15,960	169,000	-	-	-	-
Other liabilities			-	-	1	448	-	-	-	-
Contingent liabilities and Commitments										
Guarantees	300,000	108,100	45,951	45,951	45,951	45,951	-	-	-	-

	During the year	
	2020 LKR '000	2019 LKR '000
Items in the Statement of Profit or Loss in relation to transactions with subsidiaries and associates of the Bank		
Interest income	2,195	2,358
Interest expense	28,755	37,177
Fee and commission income	24,370	18,530
Net gains/(losses) from trading	115	591
Other expenses	43,929	35,146
Other operating income	500,742	374,349
Charges/(reversals) on impairment	2,689	21,940

Investments in subsidiary companies are stated net of impairment allowance amounting to LKR 68.7 Mn for the year ended 31 December 2020 and LKR 66 Mn for the year ended 31 December 2019.

Refer Note 29 and note 30 for details of subsidiary and associate companies.

52.5 (b) The contribution made by the Bank and the employees, for EPF is managed as a separate fund by the Bank.

The Bank had the under-mentioned financial dealings during the year with the NDB Provident Fund.

	2020 LKR '000	2019 LKR '000
Financial liabilities at amortised cost		
Due to depositors	104,976	127,727
Interest paid	5,074	9,818
Contribution by the Bank	383,280	342,532

52.5 (c) NDB Wealth Management Limited, a subsidiary of the Bank, had the under mentioned financial dealings with the NDB Provident Fund.

	2020 LKR '000	2019 LKR '000
Portfolio under management	2,706,887	2,297,586

52.5 (d) The Bank had the under-mentioned financial dealings with the NDB Pension Fund during the year.

	2020 LKR '000	2019 LKR '000
Financial liabilities at amortised cost		
Due to depositors	484,597	512,561
Interest paid	53,826	70,156
Contribution by the Bank	4,035	36,804

53 EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Non Adjusting Events

- 53.1** On 18 February 2021, the Board of Directors approved and declared an interim dividend of LKR 1.50 per share. Upon completion of the right issue that has been announced, the Board of Directors may consider a declaration of a final dividend to its shareholders. (2019 - A first and final dividend of LKR 7.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 5.00 per share).

Notes to the Financial Statements

54 COMPARATIVE INFORMATION

No changes have been made to the information/balances published in the Annual Report for the year 2019 which have been given as comparatives in the Annual Report for year 2020.

55 FAIR VALUE OF FINANCIAL INSTRUMENTS AND NON FINANCIAL INSTRUMENTS



ACCOUNTING POLICY

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

Significant Accounting Estimates and Assumptions

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from an active market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

FINANCIAL INSTRUMENTS

Derivatives Financial Instruments

Derivative products are foreign exchange contracts and foreign exchange options which are valued using market observable inputs.

Financial assets recognised through profit or loss- measured at fair value

The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange. Sri Lanka Government Securities are valued based on the market rates publish by the money brokers. Investment in private equity funds are measured at fair value based on the change in the net asset value of the funds and is recognised through profit or loss. The unit trust investments are valued at unit prices available in the market.

Financial assets measured at fair value through Other comprehensive income

Financial assets measured at fair value through other comprehensive income, consist of quoted debentures, non-quoted ordinary shares, quoted ordinary shares and Sri Lanka Government Securities. The Sri Lanka Government securities are valued based on the market rates of the money brokers as at the reporting date and quoted debentures and non-quoted ordinary shares are valued using Internal valuation techniques.

NON-FINANCIAL INSTRUMENTS

Property, Plant & Equipment / Investment Property

Valuation Model

The fair value of the freehold land and buildings presented in the Financial Statements are provided by an independent valuer based on the valuations carried out at the reporting date.

Freehold land - valuations performed by the valuer are based on the market approach (direct comparison method), for similar properties in the same location and conditions. (Note 32)

Freehold buildings - valuations are performed by an independent the valuer based on the cost approach (current replacement cost - Note 32).

Investment Property - valuations are performed based on the income approach using the current market rent by an independent valuer to value the Investment Property (Income approach - Note 31).

Valuation Framework

Fair Values of Financial Instruments and Non-Financial Instruments are determined according to the following hierarchy:

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

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

Level 3 - valuation techniques with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

ACCOUNTING POLICY

The free hold land and buildings of the Group are valued in every three years or more frequently if the fair value are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from fair values at the reporting date.

Also a letter of confirmation is obtained from the Independent Professional Valuer annually except the year in which full valuation is carried out by the Bank, to ensure that the fair values of the freehold land and buildings, at the reporting date does not significantly vary from their carrying amounts.

55 (a) Determination of Fair Value of Financial Instruments and Non Financial Instruments by Hierarchy

The following table shows the analysis of financial instruments and non financial instruments recorded at fair value in the Statement of Financial Position by the level of the fair value hierarchy in accordance with disclosure requirements as per LKAS 13, Fair Value Measurements.

31 December 2020	BANK			
	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	1,429,470	-	1,429,470
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value				
Sri Lanka Government Securities - Treasury bonds	316,865	-	-	316,865
Sri Lanka Government Securities - Treasury Bills	2,195,886	-	-	2,195,886
Investment in Unit Trusts	3,061,424	-	-	3,061,424
Financial Assets measured at Fair Value Through Other Comprehensive Income				
Sri Lanka Government Securities - Treasury bills	58,022,081	-	-	58,022,081
Sri Lanka Government Securities - Treasury bonds	47,815,829	-	-	47,815,829
Sovereign bonds	1,718,732	-	-	1,718,732
Quoted ordinary shares	1,030,317	-	-	1,030,317
Total Financial Assets	114,161,134	1,429,470	-	115,590,604
Non-Financial Assets				
Freehold land	-	-	919,305	919,305
Freehold buildings	-	-	1,328,069	1,328,069
Total Non-Financial Assets	-	-	2,247,374	2,247,374
Financial Liabilities				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	1,016,787	-	1,016,787
Total Financial Liabilities	-	1,016,787	-	1,016,787

Notes to the Financial Statements

55 (a) Determination of Fair Value of Financial Instruments and Non Financial Instruments by Hierarchy (Contd.)

31 December 2019	BANK			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	Total LKR '000
Financial Assets				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	1,354,807	-	1,354,807
Currency SWAP	-	-	241,552	241,552
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value				
Sri Lanka Government Securities - Treasury bonds	932,253	-	-	932,253
Financial Assets measured at Fair Value Through Other Comprehensive Income				
Sri Lanka Government Securities - Treasury bills	42,565,696	-	-	42,565,696
Sri Lanka Government Securities - Treasury bonds	16,190,146	-	-	16,190,146
Sovereign bonds	7,106,329	-	-	7,106,329
Quoted ordinary shares	1,151,908	-	-	1,151,908
Total Financial Assets	67,946,332	1,354,807	241,552	69,542,691
Non-Financial Assets				
Freehold land	-	-	919,305	919,305
Freehold buildings	-	-	1,231,447	1,231,447
Total Non-Financial Assets	-	-	2,150,752	2,150,752
Financial Liabilities				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	728,873	-	728,873
Total Financial Liabilities	-	728,873	-	728,873

31 December 2020	GROUP			
	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	1,429,470	-	1,429,470
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value				
Sri Lanka Government Securities - Treasury Bonds	316,864	-	-	316,864
Sri Lanka Government Securities - Treasury Bills	2,195,886	-	-	2,195,886
Equity Securities	164,449	-	-	164,449
Private equity Fund	-	-	907,834	907,834
Non-quoted ordinary shares	-	-	150,000	150,000
Investment in Unit Trusts	3,978,189	-	-	3,978,189
Financial Assets measured at Fair Value Through Other Comprehensive Income				
Sri Lanka Government Securities - Treasury Bills	58,022,081	-	-	58,022,081
Sri Lanka Government Securities - Treasury Bonds	47,815,830	-	-	47,815,830
Sovereign bonds	1,718,732	-	-	1,718,732
Quoted ordinary shares	1,030,317	-	-	1,030,317
Quoted Debentures	-	169,789	-	169,789
Total Financial Assets	115,242,348	1,599,259	1,057,834	117,899,441
Non-Financial Assets				
Freehold land	-	-	919,305	919,305
Freehold buildings	-	-	1,830,528	1,830,528
Investment Property	-	-	2,361,535	2,361,535
Total Non-Financial Assets	-	-	5,111,368	5,111,368
Financial Liabilities				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	1,016,787	-	1,016,787
Total Financial Liabilities	-	1,016,787	-	1,016,787

Notes to the Financial Statements

55 (a) Determination of Fair Value of Financial Instruments and Non Financial Instruments by Hierarchy (Contd.)

31 December 2019	GROUP			
	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	1,354,807	-	1,354,807
Currency SWAP	-	-	241,552	241,552
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value				
Sri Lanka Government Securities - Treasury Bonds	932,253	-	-	932,253
Equity Securities	480,541	-	-	480,541
Private equity Fund	-	-	966,780	966,780
Non-quoted ordinary shares	-	-	150,000	150,000
Investment in Unit Trusts	959,161	-	-	959,161
Financial Assets measured at Fair Value Through Other Comprehensive Income				
Sri Lanka Government Securities - Treasury Bills	42,565,696	-	-	42,565,696
Sri Lanka Government Securities - Treasury Bonds	16,190,146	-	-	16,190,146
Sovereign bonds	7,106,329	-	-	7,106,329
Quoted ordinary shares	1,151,908	-	-	1,151,908
Quoted Debentures	-	1,412,077	-	1,412,077
Total Financial Assets	69,386,034	2,766,884	1,358,332	73,511,250
Non-Financial Assets				
Freehold land	-	-	919,305	919,305
Freehold buildings	-	-	1,712,210	1,712,210
Investment Property	-	-	2,272,881	2,272,881
Total Non-Financial Assets	-	-	4,904,396	4,904,396
Financial Liabilities				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	728,873	-	728,873
Total Financial Liabilities	-	728,873	-	728,873

55 (b) Movements in Level 3 Financial Instruments and Non-Financial Instruments Measured at Fair Value

The level of the fair value hierarchy of financial instruments and non-financial instruments is determined at the beginning of each reporting period. The following table shows the reconciliation of the opening and closing amounts of Level 3 financial instruments and non-financial instruments which are recorded at fair value.

31 December 2020	Included in	BANK				
		As at 01 January 2020	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2020
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 24.1 (a)]	Derivative financial instruments	241,552	(323,460)	-	81,908	-
Non-Financial Assets						
Freehold land [Note 32]	Property, plant & equipment	919,305	-	-	-	919,305
Freehold buildings [Note 32]	Property, plant & equipment	1,231,446	27,819	-	68,804	1,328,069
31 December 2020	Included in	GROUP				
		As at 01 January 2020	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2020
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 24.1 (a)]	Derivative financial instruments	241,552	(323,460)	-	81,908	-
Non-quoted ordinary shares	Financial assets measured at fair value through other comprehensive income	150,000	-	-	-	150,000
Private equity fund	Financial assets recognised through profit or loss measured at fair value	966,780	-	(58,946)	-	907,834
Non-Financial Assets						
Freehold land [Note 32]	Property, plant & equipment	919,305	-	-	-	919,305
Freehold buildings [Note 32]	Property, plant & equipment	1,712,210	27,819	-	90,499	1,830,528
Investment property [Note 31]	Investment property	2,272,881	(19,459)	108,113	-	2,361,535

Notes to the Financial Statements

55 (b) Movements in Level 3 Financial Instruments and Non-Financial Instruments Measured at Fair Value (Contd.)

31 December 2019	Included in	BANK				
		As at 01 January 2019	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2019
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 24.1 (a)]	Derivative financial instruments	1,045,774	(1,402,594)	-	598,372	241,552
Non-Financial Assets						
Freehold land [Note 32]	Property, plant & equipment	737,000	-	182,305	-	919,305
Freehold buildings [Note 32]	Property, plant & equipment	901,924	(31,146)	-	124,906	995,684
31 December 2019	Included in	GROUP				
		As at 01 January 2019	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2019
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 24.1 (a)]	Derivative financial instruments	1,045,774	(1,402,594)	-	598,372	241,552
Non-quoted ordinary shares	Financial assets measured at fair value through other comprehensive income	150,000	-	-	-	150,000
Private equity fund	Financial assets recognised through profit or loss measured at fair value	605,684	361,096	-	-	966,780
Non-Financial Assets						
Freehold land [Note 32]	Property, plant & equipment	737,000	-	182,305	-	919,305
Freehold buildings [Note 32]	Property, plant & equipment	901,924	(31,146)	-	124,906	995,684
Investment property [Note 31]	Investment property	2,110,661	-	162,220	-	2,272,881

55 (c) Unobservable Inputs used in measuring the Fair Value of financial and non financial instruments

The tables below sets out information about significant unobservable inputs used as at 31 December 2020 and as at 31 December 2019 in measuring non-financial instruments categorised as Level 2 and Level 3 in the fair value hierarchy:

As at 31 December 2020

Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2020	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Derivative financial assets - Forward Exchange Contracts	LKR 1,429 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Derivative financial Liabilities - Forward Exchange Contracts	LKR 1,017 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value

Non Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2020	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 19 Mn	Direct comparison method	Per perch value	Per perch - LKR 13.5 Mn	Positive impact to the fair value
Building	LKR 707 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 17,250 per square feet and discount factor- 0.425	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 900 Mn	Direct comparison method	Per perch value	Per perch - LKR 15 Mn	Positive impact to the fair value
Building	LKR 328 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,600 per square feet and discount factor- 0.5	Positive impact to the fair value from both factors

Financial Assets

GROUP					
Type of Instrument	Fair Values as at 31 December 2020	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Derivative financial assets - Forward Exchange Contracts	LKR 1,429 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Derivative financial Liabilities - Forward Exchange Contracts	LKR 1,017 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value					
Private equity fund	LKR 908 Mn	Net Assets Basis	Net Assets Value of the Fund	-	Positive impact to the fair value
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Quoted Debentures	LKR 169 Mn	Forecasted cash flow valuation method	Average yields of the debt market	Yields applicable for the bonds with same tenure	Negative impact to the fair value

Notes to the Financial Statements

55 (c) Unobservable Inputs used in measuring the Fair Value of financial and non financial instruments (Contd.)

Non Financial Assets

GROUP					
Type of Instrument	Fair Values as at 31 December 2020	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 19 Mn	Direct comparison method	Per perch value	Per perch - LKR 13.5 Mn	Positive impact to the fair value
Building	LKR 707 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 17,250 per square feet and discount factor- 0.425	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 900 Mn	Direct comparison method	Per perch value	Per perch - LKR 15 Mn	Positive impact to the fair value
Building	LKR 328 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,600 per square feet and discount factor- 0.5	Positive impact to the fair value from both factors
Nawam Mawatha					
Investment Property	LKR 2,814 Mn (Including the fair value of owner occupied portion of LKR 452 Mn)	Income Approach	Rent per square feet	Average Rate of LKR 215	Positive impact to the fair value from both factors

As at 31 December 2019

Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2019	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Assets					
Currency SWAP	LKR 241 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value

Non Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2019	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 19 Mn	Direct comparison method	Per perch value	Per perch - LKR 13.5 Mn	Positive impact to the fair value
Building	LKR 668 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,000 per square feet and discount factor- 0.42	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 900 Mn	Direct comparison method	Per perch value	Per perch - LKR 15 Mn	Positive impact to the fair value
Building	LKR 328 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 14,000 per square feet and discount factor- 0.56	Positive impact to the fair value from both factors

Financial Assets

GROUP					
Type of Instrument	Fair Values as at 31 December 2019	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Assets					
Currency SWAP	LKR 241 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Financial Assets recognised through Profit or Loss - measured at Fair Value					
Private equity fund	LKR 966 Mn	Net Assets Basis	Net Assets Value of the Fund	-	Positive impact to the fair value
Financial Assets measured at Fair Value through Other Comprehensive Income					
Quoted Debentures	LKR 1,412 Mn	Forecasted cash flow valuation method	Average yields of the debt market	Yields applicable for the bonds with same tenure	Negative impact to the fair value

Non Financial Assets

GROUP					
Type of Instrument	Fair Values as at 31 December 2019	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 19 Mn	Direct comparison method	Per perch value	Per perch - LKR 13.5 Mn	Positive impact to the fair value
Building	LKR 668 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,000 per square feet and discount factor - 0.42	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 900 Mn	Direct comparison method	Per perch value	Per perch - LKR 15 Mn	Positive impact to the fair value
Building	LKR 328 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 14,000 per square feet and discount factor - 0.56	Positive impact to the fair value from both factors
Nawam Mawatha					
Investment Property	LKR 2,682 Mn (Including the fair value of owner occupied portion of LKR 321 Mn)	Income Approach	Rent per square feet	Average Rate of LKR 215	Positive impact to the fair value from both factors

Notes to the Financial Statements

55 (d) Fair Value of the Financial Assets and Financial Liabilities that are not carried at Fair Value in the Financial Statements

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank & the Group financial assets and financial liabilities that are not carried at fair value in the Statement of Financial Position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Fair Value Classification	BANK			
		2020		2019	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	10,487,608	10,487,608	5,703,468	5,703,468
Balances with the Central Bank of Sri Lanka	Note 55 (e)	6,812,099	6,812,099	13,886,575	13,886,575
Placements with banks	Note 55 (e)	12,401,533	12,401,533	6,291,047	6,291,047
Financial assets at amortised cost -loans and receivables to other customers	Level 2	425,605,508	438,122,899	396,648,811	393,454,253
Financial assets at amortised cost - debt and other instruments	Level 2	44,711,640	36,487,232	27,485,885	28,140,271
Other financial assets	Note 55 (e)	129,469	129,469	39,716	39,716
Total Financial Assets		500,147,857	504,440,840	450,055,502	447,515,330
Financial Liabilities					
Due to banks	Note 55 (e)	24,173,318	24,173,318	18,380,356	18,380,356
Financial Liabilities at amortised cost					
- due to depositors	Level 2	490,278,126	491,624,525	405,048,024	405,267,830
- due to debt securities holders	Note 55 (e)	1,500,007	1,500,007	1,398,068	1,398,068
- due to other borrowers	Note 55 (e)	34,284,109	34,284,109	29,342,027	29,342,027
Debt securities issued	Level 2	19,880,891	20,868,412	23,108,734	22,859,319
Other financial liabilities	Note 55 (e)	3,117,943	3,117,943	3,997,731	3,997,731
Total Financial Liabilities		573,234,394	575,568,314	481,274,940	481,245,331
	Fair Value Classification	GROUP			
		2020		2019	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	10,778,947	10,778,947	6,081,359	6,081,359
Balances with the Central Bank of Sri Lanka	Note 55 (e)	6,812,099	6,812,099	13,886,575	13,886,575
Placements with banks	Note 55 (e)	12,401,533	12,401,533	6,291,047	6,291,047
Financial assets at amortised cost - loans and receivables to other customers	Level 2	425,681,832	438,193,136	396,672,022	393,471,074
Financial assets at amortised cost - debt and other instruments	Level 2	44,711,640	36,487,232	27,485,885	28,140,271
Other financial assets	Note 55 (e)	441,488	441,488	424,808	424,808
Total Financial Assets		500,827,539	505,114,435	450,841,696	448,295,134
Financial Liabilities					
Due to banks	Note 55 (e)	24,173,318	24,173,318	18,380,356	18,380,356
Financial Liabilities at amortised cost					
- due to depositors	Level 2	489,658,746	491,009,701	404,667,529	405,640,279
- due to debt securities holders	Note 55 (e)	1,500,007	1,500,007	1,398,068	1,398,068
- due to other borrowers	Note 55 (e)	34,284,109	34,284,109	29,342,027	29,342,027
Debt securities issued	Level 2	19,880,891	20,868,412	23,108,734	22,859,319
Other financial liabilities	Note 55 (e)	3,458,397	3,458,397	4,362,575	4,362,575
Total Financial Liabilities		572,955,468	575,293,944	481,259,289	481,982,624

55 (e) Basis of Measurement for the Fair Value of Financial Assets and Financial Liabilities Not Carried at Fair Value

Given below are the methodologies and assumptions used to determine the fair values for financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fixed rate financial instruments include financial assets at amortised cost - loans and receivable to other customers, financial assets at amortised cost - debt and other instruments, financial liabilities at amortised cost - due to depositors, due to other borrowers and debt securities issued.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments issued, the fair values are determined based on quoted market prices. For instruments issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in the required credit spread since the instrument was first recognised.

56 RISK MANAGEMENT DISCLOSURES

56.1 Introduction

Taking risks is inherent in any bank's strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to

risk limits and other controls. Bank's risk strategy focuses on managing principal risks faced by the Bank while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures.

The Bank is mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank's strategic planning process.

Given the current changes in the operating environment resulting from the unprecedented impact on economy and financial services sector due to COVID-19, a robust and forward looking approach in management of risk is considered as of paramount importance by the Bank.

56.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall Risk Management approach and for approving the risk management strategies and principles. IRMC meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank/Group to set appropriate risk limits and controls and to monitor adherence to established limits.

The Bank's Assets and Liabilities Committee (ALCO) reviews all market and liquidity related exposures, excesses on a monthly basis and decisions are made to facilitate the business requirements. These decisions are further reviewed at IRMC and by the Board.

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate

policies and to focus more clearly on defined risk areas. The membership of these committees comprises the GCEO, the Heads of Business Units, Finance, Treasury and representatives of the Group Risk Management.

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

The Bank's Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

56.2.1 Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Bank which reflects the business strategy and market environment of the Bank as well as the Bank's risk appetite.

Information compiled is examined and processed in order to analyse, control and identify risks on a timely basis. The compiled information is presented to the IRMC, Credit and Market Risk Policy Committee, and the Board of Directors receives a risk report once a quarter which covers all necessary information to assess and conclude on the risks of the Bank.

56.2.2 Risk Mitigation

The Bank obtains various types of collateral and establishes maximum prudential limits as part of its overall risk management/mitigation.

56.3 Credit Risk

Credit Risk is the risk that the Bank will expect a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual/group counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in

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the creditworthiness of counterparties. Counterparty limits are established by the use of an internally designed Credit Risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit risk management verifies and manages the credit process from origination to collection. The Bank has a credit policy approved by the Board of Directors. It defines the:

- Credit culture of the Bank
- Specifies prohibited lending which the Bank under no circumstances will entertain
- Sets acceptable risk parameters
- Sets remedial and recovery actions

56.3.1 Credit Related Commitments Risks

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

56.3.2 Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place in the Bank's Credit Policy Manual covering the accessibility and valuation of each type of collateral.

The main types of collateral obtained are as follow:

- For commercial lending - mortgages over immovable and movable fixed assets, inventory, trade receivables, corporate and personal guarantees
- For retail lending - mortgage over residential property, vehicles, gold stocks, personal guarantees

56.3.3 Impairment Assessment

56.3.3.1 Definition of Default and Cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three installments in arrears due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events (among others) include:

- Contractual payments of a customer are more than 30 days past due, but not in NPL/default
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments and the company has failed to take adequate mitigating factors to overcome negative factors (customers in Elevated Risk sectors)
- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/or when there is a two-notch downgrade in the banks internal rating system
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful (20% reduction from original LTV approved)

- When a customer is subject to litigation that significantly affects the performance of the credit facility
- Frequent changes in the senior management of an institutional customer
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year
- The borrower continuously use the loan proceeds for a purpose other than the purpose specified in the loan agreement
- Client is watch-listed and classified as 'Worry'
- Availability of any other indicators that suggest a significant increase in Credit Risk

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of a higher stage to a lower stage (e.g., from stage 3 to stage 2) other than normal movement of a contract based on the change of DPD on an exceptional basis:

- When upgrading restructured facilities, satisfactory performing period of a minimum 90 days must be considered subsequent to the due date of the 1st capital and/or interest installment post-restructure. With respect to upgrading rescheduled facilities, Bank must comply with Banking Act Directions No. 3/4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning.
- The upgrading of credit facilities in instances other than above scenario

shall only be approved by the Credit Review Division under Group Risk Management Department and be independent from the Loan Review Mechanism. Such upgrading need to be supported with rationale and adequate documentation.

56.3.3.2 PD estimation process

Probability of Default is the estimate of the likelihood of default over a given time horizon. A default may only happen at a time horizon if the facility has not been previously derecognised and is still in the portfolio.

An early exit (EE) may occur in case of default unless the facility reverts to performing without significant modification of the contractual terms. The marginal probability of default for the period t_i-1 to t_i is then adjusted from the probability that an early exit occurred during the previous periods.

12 Months PD

This is the estimated probability of default occurring within the next 12 months.

The 12 month PD is applied for the "Current" and "1-30 days" buckets since there is no significant deterioration in Credit Risk.

Ageing Bucket	Probability of Default
Current	12 Months PD
1- 30 Days	12 Months PD

Lifetime PD

This is the estimated probability of default occurring over the remaining life of the financial instrument.

The lifetime PD is applied for the 31-60 days and 61-90 days buckets since there is a significant deterioration in credit risk.

Ageing Bucket	Probability of Default
31 - 60 Days	Lifetime PD
61 - 90 Days	Lifetime PD

The PD for the Above 90 days category is 100% since there is objective evidence of impairment as the default has occurred.

Ageing Bucket	Probability of Default
Above 90 days	100% PD

56.3.3.3 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 11.

To measure ECLs on revolving facilities, such as credit cards, it will be necessary to estimate several components that make up the EAD

- The contracts which have exceeded 90 days past due
- The Credit Utilisation Rate or Credit Conversion Factor

These components are estimated based on past experience, for sections of the portfolio that are segmented so that they have similar credit characteristics.

56.3.3.4 Loss given default

Loss given default is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed the Above 90 days at-least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan.

Virtually closed contracts are also be added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

56.3.3.5 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account having been restructured. In certain cases, the Bank may also consider that events explained in Note 56.3.3.1 are a significant increase in credit risk as opposed to a default.

When estimating ECLs on a collective basis for a group of similar assets, the Bank also applies the following in the categorisation of credit facilities/ exposures into stages for computation of expected credit losses.

Stage 1

- All credit facilities, which are not categorised under Stages 2 or 3 below.

Stage 2

- Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9 and circular number 6 and 7 of 2019 issued by Central Bank of Sri Lanka.
- All restructured loans, which are restructured up to two times (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the

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1st capital and/or interest installment post-restructure) and subject to circular number 6 and 7 of 2019 issued by Central Bank of Sri Lanka.

- Restructured facilities are where the original repayment terms have been amended due to deterioration in credit quality, while the respective credit facility remained as Performing loans and advances as per CBSL Directions.
- Under this guideline, a credit facility will be considered as restructured only if, original repayments terms have been amended due to deterioration in credit quality, while the respective credit facility remained as performing in terms of CBSL directions. An extension is possible without having to incur an impairment charge if there was an underlying business case and there was no significant increase in credit risk.

- Under-performing credit facilities/exposures.

Stage 3

- Credit facilities where contractual payments of a customer are more than 90 days past due, subject to the rebuttable presumption as stated in SLFRS 9 and circular no: 7 of 2019 issued by Central Bank of Sri Lanka.
- All restructured loans, which are restructured up to two times (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest installment post-restructure). However, judgment may be exercised on a case-by-case basis to determine whether to categorise such facilities as Stage 3 facilities or not, if a facility has been restructured more than twice due to adverse economic consequences of the COVID-19 outbreak or the Easter Sunday Attack.
- In the case where direct temporary restrictions on economic activities are in place due to COVID-19 outbreak, the

Bank may exercise judgment on case-by-case basis, to determine whether to classify facilities as Stage 3 facilities or not, considering the borrower's inability to revive the business and generate sufficient cash flows to repay the exposure once the restrictions on economic activities are removed.

- All rescheduled loans, other than credit facilities/exposures. (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest installment post-restructure)
- All credit facilities/customers classified as non-performing as per CBSL Directions.
- Non-performing credit facilities/customers.

56.3.3.6 Grouping financial assets measured on a collective basis

As explained in Note 11 dependent on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

An individual impairment assessment is performed for exposures over the Individually Significant Threshold of LKR 100 Mn based on amortised cost amount for Corporate clients (Wholesale Banking and Project Finance) and LKR 25 Mn for others for which there is objective evidence of expected loss based on the current status of the customer, i.e. based on whether customer is performing, non-performing, restructured, rescheduled or watch-listed.

Exposures that are assessed for individual impairment and for which an impairment provision has been recognised are not included in the collective assessment of impairment. If it is determined that no objective evidence of expected loss exists for an individually assessed exposure, or assessed for objective evidence and there is no requirement for individual impairment, whether significant or not, this is included in a group of exposures with similar credit risk characteristics that are collectively

assessed for impairment under the relevant bucket.

A collective assessment is performed for exposures as follows:

- Exposures that have not been individually assessed i.e. falling below the individually significant threshold
- Exposures that have been assessed for Objective Evidence of Incurred Loss and indicators of increase in Credit Risk and were found to have no such evidence/indicators
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation.

The Bank groups these exposures in to homogeneous portfolios to the extent possible so as to ensure that data points are available for meaningful calculations.

56.3.3.7 Analysis of inputs to the ECL model under multiple economic scenarios

The Bank obtains the data used from Central Bank of Sri Lanka/ Department of Census & Statistics. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios (best case and worst case) as at 31 December 2019 and 31 December 2020.

When carrying out Impairment assessment for the first quarter of 2020, considering the impact COVID-19 will have on economy, Bank increased the weightage assigned to the worst-case scenario of the EFA model from 25% to 45%. Though the economy is expected to recover in year 2021, on prudent basis Bank continued with the same weightages for the three scenarios for the year end assessment as well. Further on prudent basis, Bank used the GDP forecasts provided by CBSL for the best-case nodes in binomial tree instead of directly using the forecasts as the expected values. Bank also took a conservative approach in taking the benefit of low interest rate regime in to the EFA model.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

31 December 2020	ECL Scenarios	Assigned Probabilities	2021	2022	2023	2024	2025	2026	2027
Key Drivers		%	%	%	%	%	%	%	%
GDP Growth	Best Case	25	4.72	5.16	6.28	6.93	7.12	7.12	7.12
	Base Case	30	2.98	3.92	4.42	4.91	4.92	4.92	4.92
	Worst Case	45	0.66	1.06	1.42	1.76	1.31	1.31	1.31
Inflation (YoY) (CCPI)	Best Case	25	4.53	4.55	4.58	4.60	4.42	4.42	4.42
	Base Case	30	5.44	5.90	6.27	6.09	6.11	6.11	6.11
	Worst Case	45	6.74	6.91	7.08	7.26	7.34	7.34	7.34
Interest Rate (AWPLR)	Best Case	25	5.57	5.48	5.33	5.13	4.94	4.94	4.94
	Base Case	30	5.88	5.94	5.94	5.88	5.82	5.82	5.82
	Worst Case	45	6.21	6.46	6.66	6.79	6.82	6.82	6.82
Exchange Rate (US\$:LKR)	Best Case	25	187.61	189.72	191.85	194.00	196.18	198.39	200.62
	Base Case	30	196.66	208.47	220.98	234.25	248.31	263.21	279.01
	Worst Case	45	214.11	247.11	285.19	329.13	350.00	350.00	350.00
Unemployment	Best Case	25	5.60	5.59	5.56	5.53	5.49	5.49	5.49
	Base Case	30	5.66	5.67	5.67	5.66	5.64	5.64	5.64
	Worst Case	45	5.71	5.75	5.78	5.80	5.80	5.80	5.80

31 December 2019	ECL Scenarios	Assigned Probabilities	2020	2021	2022	2023	2024	2025	2026
Key Drivers		%	%	%	%	%	%	%	%
GDP Growth	Best Case	35	4.46	4.61	4.77	4.93	5.01	5.01	5.01
	Base Case	40	2.41	2.41	2.41	2.41	2.41	2.41	2.41
	Worst Case	25	2.27	2.24	2.21	2.18	2.10	2.10	2.10
Inflation (YoY) (CCPI)	Best Case	35	4.12	4.07	4.03	3.99	3.89	3.89	3.89
	Base Case	40	4.30	4.30	4.30	4.30	4.30	4.30	4.30
	Worst Case	25	4.43	4.54	4.66	4.78	4.83	4.83	4.83
Interest Rate (AWPLR)	Best Case	35	9.75	9.61	9.39	9.09	8.80	8.80	8.80
	Base Case	40	10.00	10.00	10.00	10.00	10.00	10.00	10.00
	Worst Case	25	10.69	11.06	11.34	11.53	11.58	11.58	11.58
Exchange Rate (US\$:LKR)	Best Case	35	182.82	184.87	186.95	189.05	191.17	193.32	195.49
	Base Case	40	188.32	198.37	208.96	220.12	231.87	244.25	250.00
	Worst Case	25	238.12	250.00	250.00	250.00	250.00	250.00	250.00
Unemployment	Best Case	35	4.88	4.87	4.86	4.84	4.82	4.82	4.82
	Base Case	40	4.90	4.90	4.90	4.90	4.90	4.90	4.90
	Worst Case	25	4.94	4.97	4.98	4.99	5.00	5.00	5.00

56.3.3.8 Analysis of net exposure on credit risk and impairment

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the Bank's classification of assets.

31 December 2020	BANK			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	10,487,608	-	-	10,487,608
Balances with the Central Bank of Sri Lanka	6,812,099	-	-	6,812,099
Placements with banks	12,401,533	-	-	12,401,533
Derivative Financial Instruments	1,429,470	-	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	5,574,175	-	-	5,574,175
Financial Assets at amortised cost - loans and receivables to other customers	349,069,656	51,495,056	25,040,796	425,605,508
Financial Assets at amortised cost - debt and other instruments	44,466,640	-	245,000	44,711,640
Financial assets measured at fair value through other comprehensive income	108,593,183	-	-	108,593,183

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56.3.3.8 Analysis of net exposure on credit risk and impairment (Contd.)

31 December 2019	BANK			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	5,703,468	-	-	5,703,468
Balances with the Central Bank of Sri Lanka	13,886,575	-	-	13,886,575
Placements with banks	6,291,047	-	-	6,291,047
Derivative Financial Instruments	1,596,359	-	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	932,253	-	-	932,253
Financial Assets at amortised cost - loans and receivables to other customers	309,712,367	67,088,974	19,847,470	396,648,811
Financial Assets at amortised cost - debt and other instruments	27,260,203	-	225,682	27,485,885
Financial assets measured at fair value through other comprehensive income	67,018,254	-	-	67,018,254

31 December 2020	GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	10,778,947	-	-	10,778,947
Balances with the Central Bank of Sri Lanka	6,812,099	-	-	6,812,099
Placements with banks	12,401,533	-	-	12,401,533
Derivative Financial Instruments	1,429,470	-	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	7,713,222	-	-	7,713,222
Financial Assets at amortised cost - loans and receivables to other customers	349,145,980	51,495,056	25,040,796	425,681,832
Financial Assets at amortised cost - debt and other instruments	44,466,640	-	245,000	44,711,640
Financial assets measured at fair value through Other comprehensive income	108,762,972	-	-	108,762,972

31 December 2019	GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	6,081,359	-	-	6,081,359
Balances with the Central Bank of Sri Lanka	13,886,575	-	-	13,886,575
Placements with banks	6,291,047	-	-	6,291,047
Derivative Financial Instruments	1,596,359	-	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	3,488,735	-	-	3,488,735
Financial Assets at amortised cost - loans and receivables to other customers	309,735,578	67,088,974	19,847,470	396,672,022
Financial Assets at amortised cost - debt and other instruments	27,260,203	-	225,682	27,485,885
Financial assets measured at fair value through Other comprehensive income	68,126,224	-	304,107	68,430,331

56.3.3.9 Analysis of risk concentration

The Bank's concentrations of risk are managed by customer/counterparty and industry sector.

Considering the unprecedented impact of COVID-19 on the economy, the Bank performed a detailed analysis of sectors. In this regard, the Bank's portfolio (considering CBSL sectors) were segmented into four categories as Minimal stress (MS), Short Term stress (ST), Medium Term stress (MT) & Long Term stress (LT) based on the severity of the impact on the business operations due to the prevailing situation and ability to recover/estimated time to recovery. Clear guidelines were issued to staff regarding managing clients in each of these segments.

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

56.3.3.9.1 Industry analysis

	BANK									
	Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retails	Services	Textiles & Garments	Governments	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
31 December 2020										
Cash and cash equivalents	-	-	-	-	-	10,487,608	-	-	-	10,487,608
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	6,812,099	-	6,812,099
Placements with banks	-	-	-	-	-	12,401,533	-	-	-	12,401,533
Derivative Financial Instruments	-	-	-	-	-	1,429,470	-	-	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	5,574,175	-	5,574,175
- Corporate Lending	37,946,918	9,015,114	15,242,229	19,735,554	2,473,768	54,534,006	17,465,106	26,155,341	56,598,080	239,166,116
- Small Business Lending	10,164,125	4,526,939	2,124,923	11,063,464	1,169,560	14,520,998	2,574,757	11,727	17,730,904	93,537,709
- Consumer Lending	633,028	793,806	2,763,244	2,502,185	387,49,093	22,945,646	3,432,581	-	3,010,682	74,830,265
- Residential Mortgages	391,464	674,567	2,214,350	1,045,636	581,9993	52,15,326	992,794	-	1,593,571	17,947,701
- Others	143	-	391	212	116,304	165	3,115	-	3,387	123,717
Net loans and receivables to other customers	49,135,678	15,010,426	41,469,449	34,347,051	58,854,718	97,216,141	24,468,353	26,167,068	78,936,624	425,605,508
Financial assets at amortised cost - debt and other instruments	-	-	-	-	-	616,314	-	44,095,326	-	44,711,640
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	1,036,541	-	107,556,642	-	108,593,183

	BANK									
	Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retails	Services	Textiles & Garments	Governments	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
31 December 2019										
Cash and cash equivalents	-	-	-	-	-	5,703,468	-	-	-	5,703,468
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	13,886,575	-	13,886,575
Placements with banks	-	-	-	-	-	6,291,047	-	-	-	6,291,047
Derivative Financial Instruments	-	-	-	-	-	1,596,359	-	-	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	-	-	-	-	-	-	-	932,253	-	932,253
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	-	-	-
- Corporate Lending	32,438,214	12,459,051	16,008,065	20,266,507	986,247	58,153,864	16,621,969	22,202,823	55,538,066	234,674,806
- Small Business Lending	8,632,840	4,791,112	13,629,950	10,460,844	9,665,722	14,532,788	2,461,637	23,893	16,162,398	80,361,184
- Consumer Lending	1,746,422	855,951	2,794,114	2,885,849	23,582,425	23,580,574	3,730,078	-	4,447,856	63,623,269
- Residential Mortgages	247,700	564,547	1,819,938	1,014,577	7,045,151	4,522,600	1,023,909	-	1,315,917	17,554,339
- Others	42,143	11,081	513	20,210	80,732	32,887	146,657	-	100,990	435,213
Net loans and receivables to other customers	43,107,319	18,681,742	34,252,580	34,647,987	41,360,277	100,822,713	23,984,250	22,226,716	77,565,227	396,648,811
Financial assets at amortised cost - debt and other instruments	-	-	-	-	-	486,440	-	26,193,478	805,967	27,485,885
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	1,156,083	-	65,862,171	-	67,018,254

Notes to the Financial Statements

56.3.3.9.1 Industry analysis (Contd.)

	GROUP									
	Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retails	Services	Textiles & Garments	Governments	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
31 December 2020										
Cash and cash equivalents	-	-	-	-	-	10,778,947	-	-	-	10,778,947
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	6,812,099	-	6,812,099
Placements with banks	-	-	-	-	-	12,401,533	-	-	-	12,401,533
Derivative Financial Instruments	-	-	-	-	-	1,429,470	-	-	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	-	6,150	-	-	-	5,084,319	-	2,512,751	110,002	7,713,222
Financial assets at amortised cost - loans and receivables to other customers										
- Corporate Lending	37,946,918	9,015,114	15,242,229	19,735,554	2,473,768	54,534,006	17,465,106	26,155,341	56,598,151	239,166,187
- Small Business Lending	10,164,125	4,526,939	21,249,235	11,063,464	11,695,560	14,520,998	2,574,757	11,727	17,730,932	93,537,737
- Consumer Lending	633,028	793,806	2,763,244	2,502,185	38,749,093	22,945,646	3,432,581	-	3,010,704	74,830,287
- Residential Mortgages	391,464	674,567	2,214,350	1,045,636	5,819,993	5,215,326	992,794	-	1,593,577	17,947,707
- Others	143	-	391	212	116,304	165	3,115	-	79,584	199,914
Net loans and receivables to other customers	49,135,678	15,010,426	41,469,449	34,347,051	58,854,718	97,216,141	24,468,353	26,167,068	79,012,948	425,681,832
Financial assets at amortised cost - debt and other instruments	-	-	-	-	-	616,313	-	44,095,327	-	44,711,640
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	1,206,330	-	107,556,642	-	108,762,972
	GROUP									
	Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retails	Services	Textiles & Garments	Governments	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
31 December 2019										
Cash and cash equivalents	-	-	-	-	-	6,081,359	-	-	-	6,081,359
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	13,886,575	-	13,886,575
Placements with banks	-	-	-	-	-	6,291,047	-	-	-	6,291,047
Derivative Financial Instruments	-	-	-	-	-	1,596,359	-	-	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	-	13,863	5,060	-	-	2,328,350	2,041	932,253	207,168	3,488,735
Financial assets at amortised cost - loans and receivables to other customers										
- Corporate Lending	32,438,214	12,459,051	16,008,065	20,266,507	986,247	58,153,864	16,621,969	22,202,823	55,538,066	234,674,806
- Small Business Lending	8,632,840	4,791,112	13,629,950	10,460,844	9,665,722	14,532,788	2,461,637	23,893	16,162,398	80,361,184
- Consumer Lending	1,746,422	855,951	2,794,114	2,885,849	23,582,425	23,580,574	3,730,078	-	4,447,856	63,623,269
- Residential Mortgages	247,700	564,547	1,819,938	1,014,577	7,045,151	4,522,600	1,023,909	-	1,315,917	17,554,339
- Others	42,143	11,081	513	20,210	80,732	32,887	146,657	-	124,201	458,424
Net loans and receivables to other customers	43,107,319	18,681,742	34,252,580	34,647,987	41,360,277	100,822,713	23,984,250	22,226,716	77,588,438	396,672,022
Financial assets at amortised cost - debt and other instruments	-	-	-	-	-	1,518,305	-	25,967,580	-	27,485,885
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	2,008,960	-	65,862,171	559,200	68,430,331

56.3.3.10 Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally these occurrences relate but are not limited to: sovereign events such as defaults or restructuring, political events such as contested elections, restrictions on currency movements, non-market currency convertibility, regional conflicts, economic contagion from other events such as sovereign default issues or regional turmoil, banking and currency crisis, and natural disasters.

	BANK							Total
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Africa	
31 December 2020	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	5,877,472	699,166	2,652,804	1,077,743	16,292	164,131	-	10,487,608
Balances with the Central Bank of Sri Lanka	6,812,099	-	-	-	-	-	-	6,812,099
Placements with banks	12,401,533	-	-	-	-	-	-	12,401,533
Derivative financial instruments	1,429,470	-	-	-	-	-	-	1,429,470
Financial assets recognised through profit or loss - measured at fair value	5,574,175	-	-	-	-	-	-	5,574,175
Financial assets at amortised cost - loans and receivables to other customers	408,368,599	-	-	11,181,579	1,250,302	-	4,805,028	425,605,508
Financial assets at amortised cost - debt and other instruments	44,711,640	-	-	-	-	-	-	44,711,640
Financial assets measured at fair value through other comprehensive income	108,593,183	-	-	-	-	-	-	108,593,183
Other financial assets	129,469	-	-	-	-	-	-	129,469
Total Financial Assets	593,897,640	699,166	2,652,804	12,259,322	1,266,594	164,131	4,805,028	615,744,685

	BANK							Total
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Africa	
31 December 2019	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	3,825,472	160,304	917,098	553,217	79,485	167,892	-	5,703,468
Balances with the Central Bank of Sri Lanka	13,886,575	-	-	-	-	-	-	13,886,575
Placements with banks	6,291,047	-	-	-	-	-	-	6,291,047
Derivative financial instruments	1,596,359	-	-	-	-	-	-	1,596,359
Financial assets recognised through profit or loss - measured at fair value	932,253	-	-	-	-	-	-	932,253
Financial assets at amortised cost - loans and receivables to other customers	380,717,808	-	-	10,203,464	1,597,060	-	4,130,479	396,648,811
Financial assets at amortised cost - debt and other instruments	27,485,885	-	-	-	-	-	-	27,485,885
Financial assets measured at fair value through other comprehensive income	67,018,254	-	-	-	-	-	-	67,018,254
Other financial assets	39,716	-	-	-	-	-	-	39,716
Total Financial Assets	501,793,369	160,304	917,098	10,756,681	1,676,545	167,892	4,130,479	519,602,368

Notes to the Financial Statements

56.3.3.10 Country risk (Contd.)

	GROUP							
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
31 December 2020								
Cash and cash equivalents	6,168,811	699,166	2,652,804	1,077,743	16,292	164,131	-	10,778,947
Balances with the Central Bank of Sri Lanka	6,812,099	-	-	-	-	-	-	6,812,099
Placements with banks	12,401,533	-	-	-	-	-	-	12,401,533
Derivative financial instruments	1,429,470	-	-	-	-	-	-	1,429,470
Financial assets recognised through profit or loss - measured at fair value	7,713,222	-	-	-	-	-	-	7,713,222
Financial assets at amortised cost - loans and receivables to other customers	408,444,923	-	-	11,181,579	1,250,302	-	4,805,028	425,681,832
Financial assets at amortised cost - debt and other instruments	44,711,640	-	-	-	-	-	-	44,711,640
Financial assets measured at fair value through other comprehensive income	108,762,972	-	-	-	-	-	-	108,762,972
Other financial assets	441,488	-	-	-	-	-	-	441,488
Total Financial Assets	596,886,158	699,166	2,652,804	12,259,322	1,266,594	164,131	4,805,028	618,733,203
31 December 2019								
Cash and cash equivalents	4,203,363	160,304	917,098	553,217	79,485	167,892	-	6,081,359
Balances with the Central Bank of Sri Lanka	13,886,575	-	-	-	-	-	-	13,886,575
Placements with banks	6,291,047	-	-	-	-	-	-	6,291,047
Derivative financial instruments	1,596,359	-	-	-	-	-	-	1,596,359
Financial assets recognised through profit or loss - measured at fair value	3,488,735	-	-	-	-	-	-	3,488,735
Financial assets at amortised cost - loans and receivables to other customers	380,741,019	-	-	10,203,464	1,597,060	-	4,130,479	396,672,022
Financial assets at amortised cost - debt and other instruments	27,485,885	-	-	-	-	-	-	27,485,885
Financial assets measured at fair value through other comprehensive income	68,430,331	-	-	-	-	-	-	68,430,331
Other financial assets	424,808	-	-	-	-	-	-	424,808
Total Financial Assets	506,548,122	160,304	917,098	10,756,681	1,676,545	167,892	4,130,479	524,357,121

56.3.3.11 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties

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

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

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the Statement of Financial Position and not treated as non-current assets held for sale.

For its derivative portfolio, the Bank also makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance-sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they, nevertheless, reduce the Bank's exposure to credit risk, as shown in the tables on the following pages.

Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

The tables on the following pages show the maximum exposure to credit risk by class of financial asset. They also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

Notes to the Financial Statements

56.3.3.11 Collateral and other credit enhancements (Contd.)
Type of collateral or credit enhancement

	BANK									
	Fair value of collateral and credit enhancements held									
	Maximum exposure to credit risk LKR '000	Cash LKR '000	Securities LKR '000	3rd party/ Government guarantees LKR '000	Property LKR '000	Other LKR '000	Surplus Collateral LKR '000	Total Collateral LKR '000	Net Exposure LKR '000	Associated ECLs LKR '000
31 December 2020										
Financial Assets										
Cash and cash equivalents	10,487,608	-	-	-	-	-	-	-	10,487,608	-
Balances with the Central Bank of Sri Lanka	6,812,099	-	-	-	-	-	-	-	6,812,099	-
Placements with banks	12,401,533	-	-	-	-	-	-	-	12,401,533	-
Derivative financial instruments	1,429,470	-	-	-	-	-	-	-	1,429,470	-
Financial assets recognised through profit or loss-measured at fair value	5,574,175	-	-	-	-	-	-	-	5,574,175	-
Financial assets at amortised cost - loans and receivables to other customers										
- Corporate Lending	239,166,116	17,609,034	4,206,500	164,206,247	67,983,470	140,974,749	232,839,046	162,140,954	77,025,162	6,845,714
- Small Business Lending	93,537,710	20,164,549	409,617	60,814,062	113,264,356	36,298,957	-154,714,829	76,236,712	17,300,998	7,087,718
- Consumer Lending	74,830,263	20,868,865	80,070	9,043,809	20,419,253	14,208,605	-44,273,762	20,346,840	54,483,423	3,301,680
- Residential Mortgages	17,947,703	-	-	-	18,540,616	-	-592,912	17,947,704	-	563,760
- Others	123,716	-	100,000	839,440	330,293	84,500	-1,308,467	45,766	77,950	132,597
Net loans and receivables to other customers	425,605,508	58,642,448	4,796,187	234,903,558	220,537,988	191,566,811	-433,729,016	276,717,976	148,887,533	17,931,469
Financial assets at amortised cost - debt and other instruments	44,711,640	-	-	-	-	-	-	-	44,711,640	-
Financial assets measured at fair value through other comprehensive income	108,593,183	-	-	-	-	-	-	-	108,593,183	-
31 December 2019										
Financial Assets										
Cash and cash equivalents	5,703,468	-	-	-	-	-	-	-	5,703,468	-
Balances with the Central Bank of Sri Lanka	13,886,575	-	-	-	-	-	-	-	13,886,575	-
Placements with banks	6,291,047	-	-	-	-	-	-	-	6,291,047	-
Derivative financial instruments	1,596,359	-	-	-	-	-	-	-	1,596,359	-
Financial assets recognised through profit or loss-measured at fair value	932,253	-	-	-	-	-	-	-	932,253	-
Financial assets at amortised cost - loans and receivables to other customers										
- Corporate Lending	234,674,806	15,011,171	400,450	143,832,219	66,456,117	124,645,363	-198,863,314	155,086,057	79,588,749	4,157,598
- Small Business Lending	80,361,184	16,629,110	180,122	52,192,596	101,559,909	35,076,482	-137,937,413	67,700,807	12,660,377	5,579,088
- Consumer Lending	63,623,269	15,689,122	70,000	7,755,771	21,229,612	15,058,401	-38,976,083	20,826,822	42,796,447	2,336,433
- Residential Mortgages	17,554,341	-	-	-	17,554,341	-	-	17,554,341	-	306,916
- Others	435,211	1,500	100,000	1,055,060	388,775	92,200	-1,328,130	309,405	125,806	192,586
Net loans and receivables to other customers	396,648,811	47,330,903	4,354,622	204,835,646	207,188,754	174,872,446	-377,104,940	261,477,432	135,171,379	12,572,621
Financial assets at amortised cost - debt and other instruments	27,485,885	-	-	-	-	-	-	-	27,485,885	-
Financial assets measured at fair value through other comprehensive income	67,018,254	-	-	-	-	-	-	-	67,018,254	-

56.3.3.11 Collateral and other credit enhancements (Contd.)
Type of collateral or credit enhancement

	GROUP							
	Fair value of collateral and credit enhancements held							
	Maximum exposure to credit risk LKR '000	Cash LKR '000	Securities LKR '000	3rd party/ Government guarantees LKR '000	Property LKR '000	Other LKR '000	Surplus Collateral LKR '000	Associated ECLs LKR '000
31 December 2020								
Financial Assets								
Cash and cash equivalents	10,778,947	-	-	-	-	-	-	-
Balances with the Central Bank of Sri Lanka	6,812,099	-	-	-	-	-	-	-
Placements with banks	12,401,533	-	-	-	-	-	-	-
Derivative financial instruments	1,429,470	-	-	-	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	7,713,222	-	-	-	-	-	-	-
Financial assets at amortised cost - loans and receivables to other customers								
- Corporate Lending	239,166,186	17,609,034	4,206,500	164,206,247	67,983,470	140,974,749	232,839,046	684,714
- Small Business Lending	93,537,737	20,164,549	409,617	60,814,062	113,264,357	36,298,957	-154,714,830	7,087,718
- Consumer Lending	74,830,285	20,868,865	80,070	9,043,809	20,419,253	14,208,605	-44,273,763	3,301,880
- Residential Mortgages	17,947,709	-	-	-	18,540,616	-	-592,906	563,760
- Others	199,915	-	100,000	839,440	330,293	84,500	-1,308,467	132,597
Net loans and receivables to other customers	425,681,832	58,642,448	4,796,187	234,903,558	220,537,989	191,566,811	-433,729,012	17,931,469
Financial assets at amortised cost - debt and other instruments	44,711,640	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	108,762,972	-	-	-	-	-	-	-

	GROUP							
	Fair value of collateral and credit enhancements held							
	Maximum exposure to credit risk LKR '000	Cash LKR '000	Securities LKR '000	3rd party/ Government guarantees LKR '000	Property LKR '000	Other LKR '000	Surplus Collateral LKR '000	Associated ECLs LKR '000
31 December 2019								
Financial Assets								
Cash and cash equivalents	6,081,359	-	-	-	-	-	-	-
Balances with the Central Bank of Sri Lanka	13,886,575	-	-	-	-	-	-	-
Placements with banks	6,291,047	-	-	-	-	-	-	-
Derivative financial instruments	1,596,359	-	-	-	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	3,488,735	-	-	-	-	-	-	-
Financial assets at amortised cost - loans and receivables to other customers								
- Corporate Lending	234,698,017	15,011,171	4,004,500	143,832,219	66,456,117	124,645,364	-198,863,314	4,157,598
- Small Business Lending	80,361,184	16,629,110	180,122	62,192,596	101,559,909	35,076,483	-137,937,413	5,579,088
- Consumer Lending	63,623,269	15,689,122	70,000	7,755,771	21,229,612	15,058,400	-38,976,083	2,336,433
- Residential Mortgages	17,554,341	-	-	-	17,554,341	-	-	306,916
- Others	435,211	1,500	100,000	1,055,060	388,775	92,200	-1,328,130	192,586
Net loans and receivables to other customers	396,672,022	47,330,903	4,354,622	204,835,646	207,188,754	174,872,447	-377,104,940	12,572,621
Financial assets at amortised cost - debt and other instruments	27,485,885	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	68,430,331	-	-	-	-	-	-	-

Notes to the Financial Statements

56.3.3.12 Commitments and Contingencies

The table below shows maximum credit risk exposure of the Group on commitments and contingencies.

The maximum exposure to credit risk relating to financial commitments and contingencies is the maximum amount the Group has to pay if the commitments and contingencies are called upon.

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Guarantees and bonds	51,715,581	45,933,704	51,669,631	45,887,754
Shipping guarantees	9,054,119	9,391,390	9,054,119	9,391,390
Advance documents endorsed	1,219,377	525,691	1,219,377	525,691
Letters of credit	18,316,091	10,875,347	18,316,091	10,875,347
Acceptances	14,770,945	8,759,962	14,770,945	8,759,962
Undrawn overdrafts and credit cards	31,824,953	22,704,208	31,690,162	22,414,156
Commitments	89,967,534	88,382,601	90,252,408	88,840,741
Forward exchange contracts	127,080,926	106,572,918	127,080,925	106,572,918
Total	343,949,526	293,145,821	344,053,658	293,267,959

56.3.3.13 Offsetting of Financial Assets & Liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Group have a right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial Assets & Liabilities that are not subject to offsetting

Amounts that do not qualify for offsetting in the Statements of Financial Position include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of the predetermined events. Such netting arrangements include repurchase agreements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below.

	2020			2019		
	Gross Amounts LKR '000	Amount Subject to Netting but do not qualify for Offsetting LKR '000	Net Amount LKR '000	Gross Amounts LKR '000	Amount Subject to Netting but do not qualify for Offsetting LKR '000	Net Amount LKR '000
Financial Assets						
Financial assets at amortised cost - loans and receivables to other customers	95,829,989	58,642,447	37,187,542	90,164,052	49,223,808	40,940,244
Financial Liabilities						
Due to debt securities holders	1,500,007	1,476,113	23,894	1,398,068	1,427,122	(29,054)
Due to other borrowers	459,480	459,480	-	-	-	-

56.4 Market Risk

Market Risk management function is attached to the Group Risk Management Unit and operates with in a well-defined Policy framework which ensures that the Bank operates with in the pre-defined risk appetite of the Bank through portfolio analysis, stress testing and close monitoring of exposures. Guided by these policies and Regulatory directions; Bank has set internal prudential limits, taking in to account the Statement of Financial Position size, structure and the business model; thereby business units optimise the risk and reward relationship without exposing the Bank to unexpected losses. The responsibility to manage the Market risk primarily rests with the Treasury unit, which is responsible for ensuring that the Bank's exposures are within the Board approved limits and necessary actions are taken under exceptional Market conditions.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices. The Bank's market risk exposures are classified into trading and banking book and are managed separately. Sensitivity and Scenario analysis of portfolios are carried out together with Mark to Market valuations and Duration analysis that reflects the portfolio sensitivity to the market volatility. Whilst the Financial Assets measured at fair value through profit or loss (FVPL) are fair valued through the Statement of Profit or Loss; Financial Assets measured at fair value through Other Comprehensive Income (FVOCI) are fair valued through equity of where realised capital gains/losses are recognised in the Statement of Profit or Loss.

During the COVID-19 outbreak the volatility in the market interest rates and the exchange rates were the major contributors for the Market risk of the Bank. Stemming from the downturn in the global economic activities, Instability of the global interest rates/ exchange rates and the cut down of the Policy rates by the local regulator in several occasions were the key components that exposed the Bank to interest rate and exchange rate risk. As such the Bank closely monitored the behaviour of market sentiments and proactive measures were adopted to mitigate any adverse impact to the Bank's Statement of Financial Position and were able to maintain the exposures within the risk parameters.

56.4 (a) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates would affect future cash flows or the fair values of financial instruments. The Board has established limits on trading and banking books of the Bank. The Bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

56.4 (a) (i) Interest rate risk in the Trading Book

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of Fixed Income Securities (Treasury Bills & Bonds), with all other variables held constant of the Bank's Statement of Profit or Loss. Sensitivity of financial assets measured at fair value through profit or loss has decreased compared to previous year due to lower portfolio duration.

Sensitivity of the Financial assets measured at fair value through profit or loss - Sri Lankan Government Securities

	Portfolio size	Increase/ Decrease in basis Points	Sensitivity of Profit or Loss Bank	Sensitivity of Profit or Loss Group
31 December 2020	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets measured at fair value through profit or loss	2,515,921	+100/(100)	(8,696)/8,269	(8,696)/8,269
31 December 2019	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets measured at fair value through profit or loss	875,000	+100/(100)	(34,089)/36,052	(34,089)/36,052

Fair value of the Financial Assets measured at fair value through Other Comprehensive Income is recognised in the Other Comprehensive Income (OCI) until the asset is derecognised in which case the price sensitivity does not have a direct impact to the Bank's Statement of Profit or Loss.

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56.4 (a) (i) Interest rate risk in the Trading Book (Contd.)

Sensitivity of the financial assets measured at fair value through Other Comprehensive Income - Sri Lanka Government Securities

	Portfolio size	Increase/ Decrease in basis Points	Sensitivity of Profit or Loss Bank	Sensitivity of Profit or Loss Group
31 December 2020	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets measured at fair value through Other Comprehensive Income	107,206,915	+100/(100)	(1,237,632)/1,275,139	(1,237,632)/1,275,139
31 December 2019	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets measured at fair value through Other Comprehensive Income	66,931,074	+100/(100)	(1,040,634)/1,085,662	(1,040,634)/1,085,662

56.4 (a) (ii) Interest Rate risk in the banking book

The table below analyses the Bank's and the Group's interest rate risk exposure on financial assets and liabilities as at 31 December 2020.

The sensitivity of the Statement of Profit or Loss is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31.12.2020.

	BANK						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
31 December 2020	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	10,487,608	10,487,608
Balances with Central Bank	-	-	-	-	-	6,812,099	6,812,099
Placements with banks	1,533	12,400,000	-	-	-	-	12,401,533
Financial assets recognised through profit or loss- measured at fair value	5,574,175	-	-	-	-	-	5,574,175
Financial assets at amortised cost - loans and receivables to other customers	83,810,677	103,946,555	63,929,534	132,392,428	41,526,314	-	425,605,508
Financial assets at amortised cost - Debt and other instruments	144,491	160,583	1,846,469	30,830,242	11,729,855	-	44,711,640
Financial assets measured at fair value through other comprehensive income	107,546,298	-	-	-	-	1,046,885	108,593,183
Other financial assets	129,469	-	-	-	-	-	129,469
Total Financial Assets	197,206,643	116,507,138	65,776,003	163,222,670	53,256,169	18,346,592	614,315,215
Financial Liabilities							
Due to Banks	585,471	13,435,847	10,152,000	-	-	-	24,173,318
Financial Liabilities at amortised cost							
Due to depositors	102,894,655	138,990,381	190,975,893	27,799,750	1,831,280	27,786,167	490,278,126
Due to debt securities holders	16,549	1,345,148	138,310	-	-	-	1,500,007
Due to other borrowers	11,576,492	5,888,613	9,735,100	1,589,578	5,494,326	-	34,284,109
Debt securities issued	641,887	-	-	19,239,004	-	-	19,880,891
Other financial liabilities	3,117,943	-	-	-	-	-	3,117,943
Total Financial Liabilities	118,832,997	159,659,989	211,001,303	48,628,332	7,325,606	27,786,167	573,234,394
Total Interest Sensitivity Gap	78,373,646	(43,152,851)	(145,225,300)	114,594,338	45,930,563	(9,439,575)	41,080,821

	BANK						
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Non Interest Bearing LKR '000	Carrying Amount LKR '000
31 December 2019							
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	5,703,468	5,703,468
Balances with Central Bank	-	-	-	-	-	13,886,575	13,886,575
Placements with banks	4,297	6,286,750	-	-	-	-	6,291,047
Financial assets recognised through profit or loss- measured at fair value	932,253	-	-	-	-	-	932,253
Financial assets at amortised cost - loans and receivables to other customers	88,253,155	95,330,715	55,653,531	123,519,602	33,891,808	-	396,648,811
Financial assets at amortised cost - Debt and other instruments	149,673	1,306,039	2,921,827	20,818,860	2,289,486	-	27,485,885
Financial assets measured at fair value through other comprehensive income	65,851,827	-	-	-	-	1,166,427	67,018,254
Other financial assets	39,716	-	-	-	-	-	39,716
Total Financial Assets	155,230,921	102,923,504	58,575,358	144,338,462	36,181,294	20,756,470	518,006,009
Financial Liabilities							
Due to Banks	522,106	11,893,250	5,965,000	-	-	-	18,380,356
Financial Liabilities at amortised cost							
Due to depositors	65,439,330	132,172,830	165,345,544	14,395,607	1,601,372	26,093,341	405,048,024
Due to debt securities holders	38,895	918,343	440,830	-	-	-	1,398,068
Due to other borrowers	23,380,267	26,441	300,813	371,755	5,262,751	-	29,342,027
Debt securities issued	463,228	-	9,890,771	9,179,816	3,574,919	-	23,108,734
Other financial liabilities	3,997,731	-	-	-	-	-	3,997,731
Total Financial Liabilities	93,841,557	145,010,864	181,942,958	23,947,178	10,439,042	26,093,341	481,274,940
Total Interest Sensitivity Gap	61,389,364	(42,087,360)	(123,367,600)	120,391,284	25,742,252	(5,336,871)	36,731,069
	GROUP						
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Non Interest Bearing LKR '000	Carrying Amount LKR '000
31 December 2020							
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	10,778,947	10,778,947
Balances with Central Bank	-	-	-	-	-	6,812,099	6,812,099
Placements with banks	1,533	12,400,000	-	-	-	-	12,401,533
Financial assets recognised through profit or loss- measured at fair value	7,713,222	-	-	-	-	-	7,713,222
Financial assets at amortised cost - loans and receivables to other customers	83,793,578	103,951,884	63,945,118	132,448,319	41,542,933	-	425,681,832
Financial assets at amortised cost - debt and other instruments	144,489	160,585	1,846,469	30,830,242	11,729,855	-	44,711,640
Financial assets measured at fair value through other comprehensive income	107,716,087	-	-	-	-	1,046,885	108,762,972
Other financial assets	441,488	-	-	-	-	-	441,488
Total Financial Assets	199,810,397	116,512,469	65,791,587	163,278,561	53,272,788	18,637,931	617,303,733
Financial Liabilities							
Due to banks	585,471	13,435,847	10,152,000	-	-	-	24,173,318
Financial liabilities at amortised cost							
due to depositors	102,532,652	138,733,004	190,975,893	27,799,750	1,831,280	27,786,167	489,658,746
due to debt securities holders	16,549	1,345,148	138,310	-	-	-	1,500,007
due to other borrowers	11,576,491	5,888,613	9,735,101	1,589,578	5,494,326	-	34,284,109
Debt securities issued	641,887	-	-	19,239,004	-	-	19,880,891
Other financial liabilities	3,458,397	-	-	-	-	-	3,458,397
Total Financial Liabilities	118,811,447	159,402,612	211,001,304	48,628,332	7,325,606	27,786,167	572,955,468
Total Interest Sensitivity Gap	80,998,950	(42,890,143)	(145,209,717)	114,650,229	45,947,182	(9,148,236)	44,348,265

Notes to the Financial Statements

56.4 (a) (ii) Interest Rate risk in the banking book (Contd.)

31 December 2019	GROUP						
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Non Interest Bearing LKR '000	Carrying Amount LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	6,081,359	6,081,359
Balances with Central Bank	-	-	-	-	-	13,886,575	13,886,575
Placements with banks	4,297	6,286,750	-	-	-	-	6,291,047
Financial assets recognised through profit or loss-measured at fair value	3,488,735	-	-	-	-	-	3,488,735
Financial assets at amortised cost - loans and receivables to other customers	88,177,441	95,337,354	55,670,775	123,575,425	33,911,031	-	396,672,022
Financial assets at amortised cost - debt and other instruments	149,673	1,306,039	2,921,827	20,818,860	2,289,485	-	27,485,885
Financial assets measured at fair value through other comprehensive income	67,263,904	-	-	-	-	1,166,427	68,430,331
Other financial assets	424,808	-	-	-	-	-	424,808
Total Financial Assets	159,508,855	102,930,143	58,592,602	144,394,285	36,200,516	21,134,361	522,760,762
Financial Liabilities							
Due to banks	522,106	11,893,250	5,965,000	-	-	-	18,380,356
Financial liabilities at amortised cost							-
due to depositors	65,407,580	131,824,085	165,345,544	14,395,607	1,601,372	26,093,341	404,667,529
due to debt securities holders	38,895	918,343	440,830	-	-	-	1,398,068
due to other borrowers	23,380,267	26,441	300,813	371,755	5,262,751	-	29,342,027
Debt securities issued	463,228	-	9,890,771	9,179,816	3,574,919	-	23,108,734
Other financial liabilities	4,362,575	-	-	-	-	-	4,362,575
Total Financial Liabilities	94,174,651	144,662,119	181,942,958	23,947,178	10,439,042	26,093,341	481,259,289
Total Interest Sensitivity Gap	65,334,204	(41,731,976)	(123,350,356)	120,447,107	25,761,474	(4,958,980)	41,501,473

56.4 (b) Mark to Market Valuation

The Sri Lankan Government Securities portfolio classified as Financial Assets recognised at fair value through profit or loss, Financial Assets measured at fair value through Other Comprehensive Income and the foreign exchange positions are subject to mark to market valuation on a daily basis to derive the economic value of positions.

Mark to Market results are being monitored against the Board approved stop-loss limits on a daily basis and reviewed by ALCO on a monthly basis and at IRMC on a quarterly basis to assess the portfolio performance and investment decisions.

56.4 (c) Prepayment risk

Prepayment risk primarily relates to the Bank's loan portfolio and is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. It includes its borrowers repaying or refinancing their fixed rate mortgages when interest rates fall or the corporate and small business customers with prepayment options with zero or low penalties refinancing their loans when their credit quality improves to a point that they can obtain at lower rates. The Bank mitigates this risk by enforcing prepayment penalties in order to discourage such exercise.

56.4 (d) Currency risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currency will fluctuate due to changes in exchange rates other than the functional currency in which they are measured. Board approved limits are in place on currency positions and are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to recognised asset or liability or a forecast transaction (cash flow hedge). Refer note 24- Derivative financial instrument.

The table below indicate the currencies to which the bank had significant exposure as at 31 December 2020 and 31 December 2019 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rate against the Sri Lankan rupee (functional currency) with all other variables held constant in the Statement of Profit or Loss and equity. A negative amount in the table reflects a potential net reduction in Statement of Profit or Loss or Equity, while a positive amount reflects a net potential increase depending on the side of the currency position.

An equivalent decrease in below currencies against the Sri Lankan rupee would have resulted in an equivalent but opposite impact.

Currency	Spot Rate Shock %	2020		2019	
		Effect on profit LKR '000	Effect on Equity LKR '000	Effect on profit LKR '000	Effect on Equity LKR '000
USD	2.50	(12,698)	(12,698)	6,920	6,920
GBP	2.50	(647)	(647)	376	376
EUR	2.50	(346)	(346)	(453)	(453)
JPY	2.50	(128)	(128)	31	31
AUD	2.50	(326)	(326)	(78)	(78)

With regard to the Group companies, the investment in the Emerald Fund by NDB Capital Holdings Limited would result in a potential net reduction or increase of LKR 23 Mn to a similar sensitivity depending on the movement of the future exchange rate.

56.4 (e) Price Risk

Equity Price Risk

Equity price risk is the risk that the fair value of Financial Assets measured at fair value through profit or loss and Financial Assets measured at fair value through Other Comprehensive Income, decreases as a result of changes in the level of equity indices and individual stocks. The following table demonstrates the sensitivity to a reasonably possible change in Quoted equity indices, with all other variables held constant of the Bank's and the Group's Statement of Profit or Loss.

Entity	2020			
	Magnitude of shock & the fall in Value of Equities- LKR 000'			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,030,317	51,516	103,032	154,548
Group	1,194,766	59,738	119,477	179,215

Entity	2019			
	Magnitude of shock & the fall in Value of Equities- LKR 000'			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,151,907	57,595	115,191	172,786
Group	1,632,448	81,622	163,245	244,867

Sensitivity of the Unit Trust Investments

The Bank and the Group could have the following sensitivity due to an adverse impact in the Unit trust prices. The impact is monitored under three scenarios mild, moderate & adverse conditions.

Entity	2020			
	Magnitude of shock & the fall in Value of Units - LKR 000'			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	3,061,424	153,071	306,142	459,214
Group	3,978,189	186,468	372,936	559,405

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56.4 (e) Price Risk (Contd.)

Entity	2019			
	Magnitude of shock & the fall in Value of Units - LKR 000'			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	959,161	47,782	95,563	143,345

56.4 (f) Commodity Price Risk

The Bank did not hold a Commodity position as at 31 December 2020, hence the Bank was insensitive for Commodity price risk.

56.4 (g) Liquidity Risk

Liquidity risk is defined as the risk that the Bank would encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises due to the Bank's inability to meet its payment obligations when they fall due under both normal and stress circumstances.

The Bank has set forth policies on Liquidity Risk Management and Liquidity Contingency Funding Plan approved by the Board for effective management of liquidity. In addition to the Regulatory limits on liquidity, the Bank's internal prudential limits framework ensures the exposures are managed and monitored at prudent levels.

In accordance with the Bank's risk management policy, the liquidity positions are assessed /stressed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market and the Bank. This ensures the maintenance of the liquidity ratios at prudential levels. Liquid assets consist of cash, Call Money lending, Balances with banks, short-term bank deposits and liquid debt securities available for immediate sale. The Bank is in possession of reciprocal Liquidity Contingency Funding agreements signed up with identified Licenced commercial Banks to deal in crisis situations.

During the COVID-19 outbreak and the accommodative monetary policy stance adopted by the Central Bank of Sri Lanka, maintaining a healthy liquidity position was a key challenge faced by the Banks. With the sudden decline in the global economic activities and the related contraction in the cash flows and the earnings by both the Corporates and retail customers made the loan repayments difficult across majority of the customers. Guided by the Government, moratorium facilities which focused on a relaxed repayment structure was granted for the customers of the Bank. The Bank proactively assessed and monitored the moratorium impact on the cash flows of the Statement of Financial Position to ensure sufficient liquidity. Amidst unfavourable circumstance the Bank was able to maintain adequate liquidity buffers, manage the key depositors and loan customers and increase the deposit base of the Bank. Further the Bank maintained a surplus liquidity position in both local currency and foreign currency whilst maintaining a Statement of Financial Position growth of 18% as at 31 December 2020.

The table below summarises the maturity profile of the undiscounted cash flows of the Financial Assets and the Financial Liabilities of the Bank and the Group as at 31 December 2020 and 31 December 2019.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities

	BANK						Total
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	
31 December 2020							
Financial Assets							
Cash and cash equivalents	10,487,608	-	-	-	-	-	10,487,608
Balances with Central Bank	6,812,099	-	-	-	-	-	6,812,099
Less: Restricted Balance	(6,812,099)	-	-	-	-	-	(6,812,099)
Placements with banks	-	-	12,401,533	-	-	-	12,401,533
Derivative Financial Instruments	-	1,429,470	-	-	-	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	5,574,175	-	-	-	-	-	5,574,175
Financial assets at amortised cost - loans and receivables to other customers	88,543,708	-	107,432,091	72,229,421	175,635,242	64,399,345	508,239,807
Financial assets at amortised cost - debt and other instruments	5,564	-	1,356,271	3,673,089	39,528,109	15,483,258	60,046,291
Financial assets measured at fair value through other comprehensive income	108,593,183	-	-	-	-	-	108,593,183
Other financial assets	129,469	-	-	-	-	-	129,469
Total Undiscounted Financial Assets	213,333,707	1,429,470	121,189,895	75,902,510	215,163,351	79,882,603	706,901,536
Financial Liabilities							
Due to Banks	-	-	13,861,632	10,540,646	-	-	24,402,278
Derivative Financial Instruments	-	1,016,787	-	-	-	-	1,016,787
Financial Liabilities at amortised cost							
due to depositors	120,673,825	-	144,025,640	203,172,371	36,602,148	2,412,251	506,886,235
due to debt securities holders	-	-	1,363,625	144,883	-	-	1,508,508
due to other borrowers	11,492,886	-	7,044,269	8,901,804	3,739,501	6,191,145	37,369,605
Debt securities issued	-	-	685,602	1,710,431	27,011,401	-	29,407,434
Other financial liabilities	3,117,943	-	-	-	-	-	3,117,943
Total Undiscounted Financial Liabilities	135,284,654	1,016,787	166,980,768	224,470,135	67,353,050	8,603,396	603,708,790
Net Undiscounted Financial Assets and Liabilities	78,049,053	412,683	(45,790,873)	(148,567,625)	147,810,301	71,279,207	103,192,746

	BANK						Total
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	
31 December 2019							
Financial Assets							
Cash and cash equivalents	5,703,468	-	-	-	-	-	5,703,468
Balances with Central Bank	13,886,575	-	-	-	-	-	13,886,575
Less: Restricted Balance	(13,886,575)	-	-	-	-	-	(13,886,575)
Placements with banks	-	-	6,297,814	-	-	-	6,297,814
Derivative Financial Instruments	-	1,596,359	-	-	-	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	932,253	-	-	-	-	-	932,253
Financial assets at amortised cost - loans and receivables to other customers	90,388,053	-	98,525,682	63,550,757	167,181,654	57,009,716	476,655,862
Financial assets at amortised cost - debt and other instruments	7,987	-	1,946,808	4,101,333	24,856,500	3,009,992	33,922,620
Financial assets measured at fair value through other comprehensive income	67,018,254	-	-	-	-	-	67,018,254
Other financial assets	39,716	-	-	-	-	-	39,716
Total Undiscounted Financial Assets	164,089,731	1,596,359	106,770,304	67,652,090	192,038,154	60,019,708	592,166,346
Financial Liabilities							
Due to Banks	163,652	-	12,161,348	6,404,442	-	-	18,729,442
Derivative Financial Instruments	-	728,873	-	-	-	-	728,873
Financial Liabilities at amortised cost							
due to depositors	81,991,345	-	138,157,693	179,276,584	19,922,947	2,038,480	421,387,049
due to debt securities holders	-	-	947,952	476,934	-	-	1,424,885
due to other borrowers	23,158,886	-	190,132	640,090	2,420,337	6,268,872	32,678,317
Debt securities issued	-	-	687,712	10,401,007	16,230,831	4,595,750	31,915,301
Other financial liabilities	3,997,731	-	-	-	-	-	3,997,731
Total Undiscounted Financial Liabilities	109,311,164	728,873	152,144,837	197,199,057	38,574,115	12,903,102	510,861,598
Net Undiscounted Financial Assets and Liabilities	54,778,117	867,486	(45,374,533)	(129,546,967)	153,464,039	47,116,606	81,304,748

Notes to the Financial Statements

56.4 (g) Liquidity Risk (Contd.)

31 December 2020	GROUP						
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Financial Assets							
Cash and cash equivalents	10,778,947	-	-	-	-	-	10,778,947
Balances with Central Bank	6,812,099	-	-	-	-	-	6,812,099
Less: Restricted Balance	(6,812,099)	-	-	-	-	-	(6,812,099)
Placements with banks	-	-	12,401,533	-	-	-	12,401,533
Derivative Financial Instruments	-	1,429,470	-	-	-	-	1,429,470
Financial assets recognised through profit or loss- measured at fair value	7,713,222	-	-	-	-	-	7,713,222
Financial assets at amortised cost - loans and receivables to other customers	88,526,609	-	107,437,447	72,245,230	175,695,590	64,417,513	508,322,389
Financial assets at amortised cost - debt and other instruments	5,564	-	1,356,271	3,673,089	39,528,109	15,483,258	60,046,291
Financial assets measured at fair value through other comprehensive income	108,762,972	-	-	-	-	-	108,762,972
Other financial assets	441,488	-	-	-	-	-	441,488
Total Undiscounted Financial Assets	216,228,802	1,429,470	121,195,251	75,918,319	215,223,699	79,900,771	709,896,312
Financial Liabilities							
Due to Banks	-	-	13,861,632	10,540,646	-	-	24,402,278
Derivative Financial Instruments	-	1,016,787	-	-	-	-	1,016,787
Financial Liabilities at amortised cost							
due to depositors	120,311,843	-	143,768,233	203,172,371	36,602,148	2,412,251	506,266,846
due to debt securities holders	12,221	-	1,351,404	144,883	-	-	1,508,508
due to other borrowers	11,492,886	-	7,044,269	8,901,804	3,739,501	6,191,145	37,369,605
Debt securities issued	-	-	685,602	1,710,431	27,011,401	-	29,407,434
Other financial liabilities	3,458,397	-	-	-	-	-	3,458,397
Total Undiscounted Financial Liabilities	135,275,347	1,016,787	166,711,140	224,470,135	67,353,050	8,603,396	603,429,855
Net Undiscounted Financial Assets and Liabilities	80,953,455	412,683	(45,515,889)	(148,551,816)	147,870,649	71,297,375	106,466,457
31 December 2019	GROUP						
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Financial Assets							
Cash and cash equivalents	6,081,359	-	-	-	-	-	6,081,359
Balances with Central Bank	13,886,575	-	-	-	-	-	13,886,575
Less: Restricted Balance	(13,886,575)	-	-	-	-	-	(13,886,575)
Placements with banks	-	-	6,297,814	-	-	-	6,297,814
Derivative Financial Instruments	-	1,596,359	-	-	-	-	1,596,359
Financial assets recognised through profit or loss- measured at fair value	3,488,735	-	-	-	-	-	3,488,735
Financial assets at amortised cost - loans and receivables to other customers	90,312,339	-	98,532,354	63,568,255	167,241,933	57,031,056	476,685,937
Financial assets at amortised cost - debt and other instruments	7,987	-	1,946,808	4,101,333	24,856,500	3,009,992	33,922,620
Financial assets measured at fair value through other comprehensive income	68,430,331	-	-	-	-	-	68,430,331
Other financial assets	424,808	-	-	-	-	-	424,808
Total Undiscounted Financial Assets	168,745,559	1,596,359	106,776,976	67,669,588	192,098,433	60,041,048	596,927,963
Financial Liabilities							
Due to Banks	163,652	-	12,161,348	6,404,442	-	-	18,729,442
Derivative Financial Instruments	-	728,873	-	-	-	-	728,873
Financial Liabilities at amortised cost							
due to depositors	81,959,595	-	137,808,867	179,276,584	19,922,947	2,038,480	421,006,473
due to debt securities holders	12,221	-	935,731	476,934	-	-	1,424,885
due to other borrowers	23,158,886	-	190,132	640,090	2,420,337	6,268,872	32,678,317
Debt securities issued	-	-	687,712	10,401,007	16,230,831	4,595,750	31,915,301
Other financial liabilities	4,362,575	-	-	-	-	-	4,362,575
Total Undiscounted Financial Liabilities	109,656,929	728,873	151,783,790	197,199,057	38,574,115	12,903,102	510,845,866
Net Undiscounted Financial Assets and Liabilities	59,088,630	867,486	(45,006,814)	(129,529,469)	153,524,318	47,137,946	86,082,097

Contractual Maturities for Commitments and Contingencies

The table below summarises the maturity profile of the Commitments and Contingencies for the Bank and the Group as at 31 December 2020 and 31 December 2019.

	BANK					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2020						
Undisbursed financing commitments	121,792,487	-	-	-	-	121,792,487
Guarantees and performance Bond	-	13,607,661	21,290,312	16,781,608	10,309,496	61,989,077
Documentary Credits	-	14,366,489	3,949,602	-	-	18,316,091
Forward exchange contracts	-	86,684,025	36,474,977	3,921,924	-	127,080,926
Acceptance	-	10,422,432	4,298,176	50,337	-	14,770,945
Total	121,792,487	125,080,607	66,013,067	20,753,869	10,309,496	343,949,526

	BANK					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2019						
Undisbursed financing commitments	111,086,808	-	-	-	-	111,086,808
Guarantees and performance Bond	-	8,916,759	24,634,268	12,351,430	9,948,329	55,850,786
Documentary Credits	-	8,607,378	2,267,970	-	-	10,875,348
Forward exchange contracts	-	57,785,053	45,972,935	2,814,930	-	106,572,918
Acceptance	-	3,777,898	4,744,741	237,322	-	8,759,961
Total	111,086,808	79,087,088	77,619,914	15,403,682	9,948,329	293,145,821

	GROUP					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2020						
Undisbursed financing commitments	121,942,570	-	-	-	-	121,942,570
Guarantees and performance Bond	-	13,561,710	21,290,312	16,781,608	10,309,496	61,943,126
Documentary Credits	-	14,366,489	3,949,602	-	-	18,316,091
Forward exchange contracts	-	86,684,025	36,474,977	3,921,924	-	127,080,926
Acceptance	-	10,422,432	4,298,176	50,337	-	14,770,945
Total	121,942,570	125,034,656	66,013,067	20,753,869	10,309,496	344,053,658

Notes to the Financial Statements

56.4 (g) Liquidity Risk (Contd.)

31 December 2019	GROUP					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Undisbursed financing commitments	111,254,897	-	-	-	-	111,254,897
Guarantees and performance Bond	-	8,916,759	24,588,318	12,351,428	9,948,329	55,804,834
Documentary Credits	-	8,607,378	2,267,970	-	-	10,875,348
Forward exchange contracts	-	57,785,053	45,972,935	2,814,930	-	106,572,918
Acceptance	-	3,777,898	4,744,741	237,322	-	8,759,962
Total	111,254,897	79,087,088	77,573,964	15,403,680	9,948,329	293,267,959

56.5 Capital Management

Managing capital is a key focus area in the NDB Group's strategic plan. All large credit proposals are evaluated with the required capital charge and lending decisions are taken on the basis of sufficient return on capital. Even the expansion projects in terms of property expansions and software purchases are evaluated against sufficient return of capital. The Group always strives to maintain a relatively higher level of capital to support the growth in business operations, by maintaining an effective balance between dividend distributions and retention of profits.

56.5.1 The Bank raised LKR 6.5 Bn via five year Listed, Rated, Unsecured, Subordinated, and Redeemable Debentures with a non-viability conversion in October 2020 with the objectives of Improving and further strengthen the Capital Adequacy Ratio (CAR) in line with the Basel III guidelines and facilitating the future expansion of business activities of the Bank.

56.5.2 In October 2020, the Bank announced its plans to raise LKR 8.0 Bn via a Rights Issue at the ratio of 28 new ordinary voting shares for every 61 ordinary voting shares held (up to 106,780,489 shares to be issued), at a consideration of LKR 75/- per share. The purposes for which the proceeds of the Rights Issue are to be utilised are to further strengthen the equity base of the Bank and thereby improve Capital Adequacy Ratios in line with Basel III guidelines of the Central Bank of Sri Lanka and to part finance the growth in the loan portfolio of the Bank.

56.5.3 Regulatory Capital - BANK

	Actual 2020 LKR '000	Required 2020 LKR '000	Actual 2019 LKR '000	Required 2019 LKR '000
Common Equity Tier 1 Capital	37,588,780	26,653,954	34,909,032	26,631,001
Total Tier 1 Capital	37,588,780	32,804,867	34,909,032	32,337,644
Tier 2 Capital Instruments	21,135,547	16,402,433	16,181,098	15,217,715
Total Capital	58,724,327	49,207,300	51,090,130	47,555,359
Total Risk Weighted Assets	410,060,835		380,442,870	
Common Equity Tier 1 Capital Ratio %	9.2%		9.2%	
Total Tier 1 Capital Ratio %	9.2%		9.2%	
Total Capital Ratio %	14.3%		13.4%	

The detailed capital adequacy computations are given under Risk Management on pages 342 to 377.

Compliance with disclosure requirements of the Central Bank of Sri Lanka

COMPLIANCE WITH THE DISCLOSURE REQUIREMENTS SPECIFIED BY THE CENTRAL BANK OF SRI LANKA FOR PREPARATION OF ANNUAL FINANCIAL STATEMENTS OF LICENSED COMMERCIAL BANKS

1. INFORMATION ABOUT THE SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE		
1.1	Statement of Financial Position	Reference
1.1.1	Disclosures on categories of financial assets and financial liabilities	Note No 20 to the Financial Statements
1.1.2	Other disclosures	
	(i) Special disclosures about the financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Note No 55 - Fair value of financial instruments
	(ii) Reclassifications of financial instruments from one category to another.	Note No 28 to the Financial Statements
	(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note No 56.3 to the Financial Statements
	(iv) Reconciliation of the impairment allowance for credit losses by class of financial assets.	Note No 26.5, 27.1(d) and 28.1(c) to the Financial Statements
	(v) Information about derivative financial instruments.	Note No 24 to the Financial Statements
	(vi) Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	(vii) Breaches of terms of loan agreements.	Note No. 50 to the Financial Statements
1.2	Statement of Comprehensive Income	
1.2.1	Disclosures on items of income, expense, gains and losses	Note No 4 to 14 of the Financial Statements
1.2.2	Other disclosures	
	(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Note 5.1 and 5.2 to the Financial Statements
	(ii) Fee income and expense.	Note No 6 to the Financial Statements
	(iii) Amount of impairment losses by class of financial assets.	Note No 11 to the Financial Statements
	(iv) Interest income on impaired financial assets.	Note No 5.4 to the Financial Statements
1.3	Other Disclosures	
1.3.1	Accounting policies for financial instruments	Accounting Policies for each type of Financial Instrument presented in the Statement of Financial Position is disclosed under the respective Notes. Pages 182 to 302
1.3.2	Information on hedge accounting	Note No 24 to the Financial Statements
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	
	(i) Comparable carrying amounts.	Note No 55 - Fair value of financial instruments
	(ii) Description of how fair value was determined.	Note No 55 - Fair value of financial instruments
	(iii) The level of inputs used in determining fair value.	Note No 55 - Fair value of financial instruments
	(iv) Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments which fair value is determined using level 3 inputs.	Note No 55(b) - Fair value of financial instruments
	(v) Information if fair value cannot be reliably measured.	Note No 28.3 to the Financial Statements

Compliance with disclosure requirements of the Central Bank of Sri Lanka

2. INFORMATION ABOUT THE NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS		
2.1	Qualitative Disclosures	Reference
2.1.1	Risk exposures for each type of financial instrument	Note 56 - Risk Management of the Financial Statements
2.1.2	Management's objectives, policies, and processes for managing those risks	Note 56 - Risk Management of the Financial Statements
2.1.3	Changes from the prior period	N/A
2.2	Quantitative Disclosures	
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Note 56 - Risk Management of the Financial Statements
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Note 56 - Risk Management of the Financial Statements
	(i) Credit Risk	
	(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	 Note 56.3 - Risk Management of the Financial Statements and pages from 342 – on Risk Management
	(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	
	(c) Information about collateral or other credit enhancements obtained or called.	
	(d) Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	
	(ii) Liquidity Risk	
	(a) A maturity analysis of financial assets and liabilities.	 Note 56.4.(g) - Liquidity Risk and funding management of the Financial Statements and pages from 342 – on Risk Management
	(b) Description of approach to risk management.	
	(c) Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	
	(iii) Market Risk	
	(a) A sensitivity analysis of each type of market risk to which the entity is exposed.	 Note 56.4 - Market Risk of the Financial Statements and pages from 342 – on Risk Management
	(b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	
	(c) Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	
	(iv) Operational Risk	
	Refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Pages from 342 – on Risk Management
	(v) Equity risk in the Banking Book	
	(a) Qualitative disclosures	 Note 56.4.(e) - Equity Price Risk of the Financial Statements
	→ Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	
	→ Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	
	(b) Quantitative disclosures	
	→ Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	
	→ The types and nature of investments	
	→ The cumulative realised gains/ (losses) arising from sales and liquidations in the reporting period.	
	(vi) Interest rate risk in the Banking Book	
	(a) Qualitative disclosures	 Note 56.4.(a) - Interest Rate Risk of the Financial Statements
	→ Nature of interest rate risk in the banking book (IRRBB) and key assumptions	
	(b) Quantitative disclosures	
	→ The increase/ (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	
2.2.3	Information on concentration of risk	Note 56.3.3.9 - Risk Management of the Financial Statements

3.	OTHER DISCLOSURES	
3.1	Capital	Reference
3.1.1	Capital structure	
	(i) Qualitative disclosures Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. (ii) Quantitative disclosures (a) The amount of Tier 1 capital, with separate disclosure of: → Paid-up share capital/common stock → Reserves → Non-controlling interests in the equity of subsidiaries → Innovative instruments → Other capital instruments → Deductions from Tier 1 capital (b) The total amount of Tier 2 capital (c) Other deductions from capital (d) Total eligible capital	→ Pages from 342 - on Risk Management
3.1.2	Capital adequacy	
	(i) Qualitative disclosures A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities. (ii) Quantitative disclosures (a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier 1 capital ratio (iii) Disclosure requirement under Banking Act Direction No. 10 of 2019 on framework for dealing with Domestic Systemically Important Banks. (iv) Disclosure requirement under Banking Act Direction No. 8 of 2018 on Net Stable Funding Ratio under Basel III Liquidity Standards.	→ Pages from 342 - on Risk Management
4.	DISCLOSURES APPLICABLE FOR REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS OF DEALER DIRECT PARTICIPANTS IN SCRIPLESS TREASURY BONDS AND SCRIPLESS TREASURY BILLS	
4.1	Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Directions No. 1 of 2019 dated 20th December 2019 issued by the Monetary Board	Reference
	(i) The carrying value of securities allocated for repurchase transactions as at the period end date. (ii) The market values of securities received for reverse repurchase transactions as at the period end date. (iii) The dealer direct participant policy on haircut for repurchase and reverse repurchase transactions. (iv) Any penalties imposed for noncompliance with this Direction.	Note No 56.3.3.13 offsetting of Financial Assets & abilities. Note No 27.1(c)
5.	DISCLOSURES APPLICABLE ON TREASURY OPERATIONS OF THE BANK	
5.1	Banking Act Directions No 06 of 2019 dated 29 August 2019 issued by the Monetary Board on Market Conduct and Practices for Treasury Operations of Banks	Reference
	Disclose as a separate item in the Bank's audited Financial Statements, the profit generated through all interbank foreign exchange transactions including end user transactions where one leg is in the interbank market.	Note No 07



SUPPLEMENTARY INFORMATION

With the help of the North Star, travellers were able to find the latitude in which they travelled. This can be accomplished by the mechanism of extending the traveller's fist toward the horizon, and then placing both fists hand-over-hand up to the North Star, with each measurement approximately considered to be ten degrees – thereby pinpointing your location, wherever you may be.

Over four decades, NDB has continued to position itself as a powerful entity responsible for the nation's economic growth. This section provides insight into the sheer magnitude and scale of the partnerships that have brought value to every stakeholder we serve. As we navigate a path of opportunity for all our stakeholders, we are focused on truly understanding the financial needs of the people, as we continue a journey of expansion and reach new horizons through a strong digital presence.

Corporate Governance

STATEMENT OF COMPLIANCE - DIRECTION NO. 11 OF 2007 (AS AMENDED) ON CORPORATE GOVERNANCE ISSUED BY THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA (THE CORPORATE GOVERNANCE DIRECTION)

The Corporate Governance Direction provides processes and practices deemed to be the framework that facilitates the conduct of the banking business in a responsible and accountable manner so as to promote the safety and soundness of the Bank, thereby leading to the stability of the overall banking sector. The disclosures below reflect the Bank's compliance with the Corporate Governance Direction under the following key principles:

- | | |
|---|--|
| 1. The responsibilities of the Board; | 5. The Chairman and Chief Executive Officer; |
| 2. The Board's composition; | 6. Board appointed subcommittees; |
| 3. Criteria for the assessment of the fitness and propriety of Directors; | 7. Related Party Transactions; and |
| 4. Management functions delegated by the Board; | 8. Disclosures; |

Rule No.	Corporate Governance Principles	Compliance Status
3 (1)	Responsibilities of the Board	
3 (1) (i)	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied. The Bank's strategic plan for 2021-2025 was reviewed and formally approved by the Board in August 2020 after detailed discussions had with the Senior Management of the Bank. In order to arrive at the strategic plan the Bank formed a cross functional team of internal staff to obtain their views. The new strategy was formally rolled out within the Bank during October to December 2020 successfully through various interactive virtual Voyage 2025 Strategy Programmes for all Regions, Head Office and NDB subsidiary Group company staff. The Corporate values of the Bank are embedded in the Bank's Compliancy Policy and Code of Conduct which is communicated to all employees via Bank's intranet, through the induction programmes and refresher trainings.
	(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. After detailed discussions held with the Leadership Team of the Bank the Bank's overall business strategy for 2021-2025 was reviewed and approved by the Board in August 2020. The Bank has established an Integrated Risk Management Framework approved by the Board covering all risks. There are separate risk policies and risk management procedures with regard to credit risk, operational risk, and market and liquidity risk and the strategic risk is embedded in each of these procedures based on applicability. Further the Bank has a Board approved risk appetite statement which is monitored by the Integrated Risk Management Committee (IRMC) and the Board on a quarterly basis. This has been further reviewed by the IRMC during the year 2020. The Bank has a Board approved Strategic Plan for 5 years with measurable Key Performance Indicators.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied. The Board is responsible for the overall risk framework of the Bank. The IRMC appointed by the Board, reviews and recommends to the Board, the Bank's risk policies and procedures defining the Bank's risk appetite, identifying principal risks, setting governance structures and implementing policies and systems in line with the Integrated Risk Management Framework to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by this Direction. The following reports provide further insight in this regard: ➔ The Risk Management Report on pages 342 to 377 ➔ The Board Integrated Risk Management Committee Report on pages 152 to 154

Rule No.	Corporate Governance Principles	Compliance Status
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied. The Bank has in place a Board approved Communication Policy aimed to encourage effective communication of corporate information relating to the Bank on its behalf covering all stakeholders including employees, customers, creditors, shareholders, general public and the regulators. This policy is reviewed annually in order to reflect the best practices in communications. Please refer pages 122 to 139 of the Corporate Governance Report which illustrates the effective communication with the Bank's stakeholders.
	(e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied. The Board is assisted by the Board Audit Committee (BAC), which evaluates the adequacy and effectiveness of the internal control systems, and reviews internal control issues identified by the Bank's Group Audit, External Auditor, regulatory authorities and the Management. The MIS process of the Bank is continuously being improved. The Board also reviews the adequacy of the Bank's Management Information Systems, based on the monthly MIS pack submitted to the Board each month.
	(f) Identify and designate key management personnel, as defined in Banking Act Determination No. 1 of 2019 on the assessment of fitness and propriety of Chief Executive Officer and officers performing executive functions in LCBs	Complied. Key Management Personnel (KMPs) of the Bank have been identified by the Board having considered the Banking Act Determination No. 1 of 2019 on officers performing executive functions of the Bank, and presently are the Leadership Team whose names are detailed on pages 30 to 32 of this Report.
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	Complied. The Bank's internal Code of Corporate Governance sets out a clear division of authority and responsibilities between the Directors and the KMPs. The Directors were set goals and targets for the year 2020. The duties and responsibilities of KMPs are documented in their respective job descriptions and scorecards. The Board evaluated the performance review objectives of the KMPs.
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy;	Complied. To enable the Board to discharge its stewardship and fiduciary responsibilities effectively it delegates authority to the Board committees to oversee specific responsibilities based on clearly defined terms of reference. The Board has delegated its authority in operational areas to the Senior Management led by GCEO within clearly defined limits. The Board regularly interacts with the Bank's KMPs through reports tabled at both Board and subcommittee meetings. KMPs make presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. Banking operations carried out in line with the Banks' strategic objectives including any issues faced by the Bank are discussed on an ongoing basis at Board meetings. The GCEO at weekly meetings held with the Leadership Team updates them on key decision points taken by the Board.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
	(i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied. The Nominations Committee (NC) has been delegated the function of selection, nomination and election of Directors to the Board and KMPs. The Bank's internal Code of Corporate Governance clearly provides guidance on avoiding, managing and disclosing conflicts of interests. The Directors are required to provide a declaration yearly. The Directors' interests are disclosed to the Board and Directors who have a particular interest have stepped out from discussions and abstained from voting in such a situation and he/she is not counted in the quorum. Determination of weaknesses in the Board of Directors own governance practices and implementation of changes are addressed through the annual self-evaluation process among the Board members. Self-evaluations for the year 2020 have been collected and summarised by the Company Secretary and submitted to the Chairman for his review. The Chairman then discusses areas of weaknesses and recommends changes where necessary at a Board meeting in order to ensure that governance practices are continuously improved throughout the year.
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Complied. The Succession Plan of the Bank was reviewed and approved by the Board at its meeting held in July 2020.
	(k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied. The KMPs make regular presentations or are called in for discussions at the meetings of the Board and its subcommittees on policy and other matters relating to their areas. Progress made towards corporate objectives is a regular agenda item for the Board and KMPs are regularly involved in Board level discussions on same.
	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied. Circulars, directions and guidelines issued by the regulators are circulated to the Directors on a quarterly basis for their information. In 2020 all new laws and regulations that were issued and relevant to banking business were made available on the BoardPac together with an explanatory notes which detailed the key areas of impact. Further a snap shot of key regulatory changes during each quarter with status of compliance was provided to the Board. The GCEO meets with Central Bank officials at the monthly CEO's meeting. The Chairman of the Bank and the Chairpersons of the Board subcommittees also meet with the CBSL officials. Further, the Directors, the GCEO and KMPs of the Bank maintain dialogue with the regulators on an ongoing basis and attend the Director's forum arranged by the CBSL.
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	Complied. Audit Committee Charter includes the functions of hiring and overseeing of External Auditor. The Board Audit Committee (BAC) carries out the necessary due diligence regarding the hiring/evaluation of the External Auditor and makes recommendations to the Board. The appointment/re-appointment of the External Auditor is made at the Annual General Meeting. Oversight of the External Auditor is carried out by the BAC and the Board is briefed of any concerns in this regard if required. A formal evaluation of the External Auditors' performance is completed annually by the BAC and conclusions together with any recommendations are discussed at Board level.

Rule No.	Corporate Governance Principles	Compliance Status
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.	Complied. In line with the Direction, the Bank's Board approved internal Code of Corporate Governance documents the functions and responsibilities of the Chairman and the GCEO. The Board has appointed the Chairman and GCEO and has approved their functions. There is a clear division of responsibilities between the Chairman and the GCEO.
3(1) (iii)	The Board shall meet regularly and Board meetings shall be held at least 12 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.	Complied. Regular monthly Board meetings are held and special Board meetings are scheduled as and when the need arises. There have been 16 Board meetings during 2020 which included 4 special meetings. In addition, the subcommittees of the Board meet as and when necessary. Each member of the Board brings a different areas of expertise, skills and experience to the table which encourages a robust exchange of alternate views and ways of thinking. Circulation of Board papers to obtain Board's consent is minimised and resorted to only when absolutely necessary. These decisions are in any event later confirmed/ ratified by the Board at the immediately succeeding Board meeting. 13 circular resolutions have been passed during 2020. Please refer page 134 and 135 for Board and Board subcommittee meeting attendance respectively.
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.	Complied. All Directors are entitled to include matters and proposals in the agenda for Board meetings and this right has been entrenched in the Bank's internal Code of Corporate Governance. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals in the agenda for regular meetings. This process supports the requirement detailed in this Direction and a Director may include a proposal (if required) in the agenda of a Board meeting.
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.	Complied. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to provide Directors an opportunity to attend. Formal notice of meetings, the agenda and Board papers related to each Board meeting are circulated at least 7 days in advance of the Board meeting. These documents are uploaded through a secure connection to the tablets of all Directors.
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.	Complied. The Company Secretary monitors the attendance register to ensure compliance. All Directors have attended at least two thirds of the meetings held during the year 2020 and no Director has been absent for three consecutive meetings during 2020. Attendance of Directors at Board meetings is detailed on page 134
3(1) (vii)	The Board shall appoint a company secretary who satisfies the provisions of Section 43 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.	Complied. The internal Code of Corporate Governance includes the responsibilities of the Company Secretary as specified in the statutes and other regulations. The Company Secretary appointed by the Board is an Attorney at Law who satisfies the provision of Section 43 of the Banking Act. Please refer page 29 for a detailed profile and page 130 for duties and responsibilities of the Company Secretary.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
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.	Complied. The internal Code of Corporate Governance of the Bank includes a provision to enable all Directors to have access to the advice and services of the Company Secretary. For the year 2020, the Company Secretary has provided assistance to the Directors when requested.
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.	Complied. The Company Secretary maintains detailed Board minutes and circulates minutes to all Directors. The minutes are approved at the subsequent Board meetings. The Bank's internal Code of Corporate Governance also provides that minutes are open for inspection at any reasonable time, upon reasonable notice given by any Director. Additionally, the Board has access to the past Board papers and Board minutes in their Board Pac.
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: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (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 (f) the decisions and Board resolutions.	Complied. A Board approved procedure is in place for recording the Board minutes by the Company Secretary. The minutes contain adequate details appropriate to the matters dealt with. The minutes are read together with the corresponding Board papers, which supplement information in the minutes. All matters required to be minuted in terms of 3(1) (x) (a)–(f) are recorded in the minutes.
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.	Complied. There is a process for Board members to obtain independent professional advice at the expense of the Bank. The Board has obtained professional advice during the year.
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.	Complied. The Directors are conscious of their obligations to deal with situations where there is a conflict of interest in accordance with the Articles of Association of the Bank and the Corporate Governance Direction No 11 of 2007 (as amended). The internal Code of Corporate Governance adopted by the Board, requires each Board member to determine whether he/she has a potential or actual conflict of interest. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present. Further Directors abstain from participating in the discussion and voting on Board resolutions in relation to which such Directors or any of their close relation/s or a concern in which such Directors or any of their close relation/s have substantial interest, and/or are interested in. Further their votes are not counted in the quorum for the relevant agenda item at the Board meeting.

Rule No.	Corporate Governance Principles	Compliance Status
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.	Complied. Board has a formal schedule of matters specifically reserved to it for decision to ensure that direction and control of the Bank is firmly under its authority.
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.	Complied. The Bank is aware of the requirement but the situation has not arisen within the year. A Solvency Statement is prepared quarterly and tabled at the IRMC and the Board. The Bank also has an IRMC approved Liquidity Contingency Funding Plan in place.
3(1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied. Monthly and quarterly compliance reports have been submitted to the Board which contains the Capital Adequacy Ratio (CAR). The Bank is fully compliant with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka. Also the Internal Capital Adequacy Assessment Process (ICAAP) covers capital planning over the next 3 years.
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.	Complied. This Report forms part of the Corporate Governance Report of the Bank which is set out on pages 122 to 139 and pages 328 to 341.
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.	Complied. In accordance with the Direction the Board annually assesses the effectiveness of the Director's own governance practices and therefore the Board has adopted a scheme of self-assessment to be undertaken by each Director annually. The evaluation covers a range of issues including Board composition, timeliness and quality of information provided to the Board and their individual goals and responsibilities. The Chairman reviews the responses based on the summarised responses for the previous year's self-assessment of the Directors to the self-assessment questionnaire and report to the Board on any identified weaknesses and lapses and recommend an action plan for approval of the Board. The Board periodically reviews the progress made on the action plan.
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.	Complied. The number of Board Directors during the year 2020 was in compliance with the thresholds detailed in this Direction. As at 31 December 2020, the Board comprised nine (9) Directors.
3(2) (ii)	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.	Complied. None of the Directors have exceeded 9 years of service during the year 2020. The Company Secretary monitors this requirement. Details of tenure of service is given in page 125.
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.	Complied. The GCEO of the Bank is the only Executive Director and thus the Bank complies with this requirement.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
3(2) (iv)	The Board shall have at least three Non-Executive Independent Directors or one third of the total number of Directors, whichever is higher. A Non-Executive Director shall not be considered Independent if he/she: a) has direct and indirect shareholdings of more than 1 per cent of the Bank; b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the Bank. c) has been employed by the Bank during the two year period immediately preceding the appointment as Director; d) has a close relation who is a Director or Chief Executive Officer or a member of key management personnel or a material shareholder of the Bank or another bank. For this purpose, a "close relation" shall mean the spouse or a financially dependent child; e) represents a specific stakeholder of the Bank; f) is an employee or a Director or a material shareholder in a company or business organisation: I. which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or II. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or III. in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank;	Complied. The Board through Nominations Committee assesses the independence or non-independence of each Non-Executive Director based on a declaration made by each Director to the Company Secretary each year. As at 31 December 2020 there were 5 Non-Executive Independent Directors on the Board which is above the regulatory requirement. The Non-Executive Directors are detailed on page 124 of this report.
3(2) (v)	In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	Complied. Directors appoint Alternate Directors in line with the Articles of the Bank as and when required for a particular meeting. During the year 2020, Alternate Directors appointed for a particular meeting met the criteria that applies to an Independent Director.
3(2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied. A Board approved procedure to select and appoint Non-Executive Directors is in place. The Non-Executive Directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance, risks and resources. Please refer the profiles of Non-Executive Directors on pages 24 to 29 of this Report.
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.	Complied. All Board meetings have met this requirement.

Rule No.	Corporate Governance Principles	Compliance Status
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. The Non-Executive Independent Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive Director, Non-Executive Directors and Independent Non-Executive Directors are given on page 124 of this Report.
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.	Complied. There is in place a formal, considered and transparent procedure for the appointment of new Directors to the Board. In practice, Directors are appointed based on recommendations made by the Nominations Committee.
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.	Complied. Appointment to fill a casual vacancy is made by the Board on the recommendations of the Nominations Committee. A person so appointed would stand for re-election at the next Annual General Meeting in accordance with the Articles of Association. Four Directors were appointed in 2020 to fill casual vacancies of which 3 Directors were re-appointed by the shareholders at the AGM 2020 and the Nominations Committee has recommended in February 2021 the reappointment of the other Director Kushan D'Alwis, PC at the AGM 2021.
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. There were three resignations and one retirement during 2020 all of which complied with the disclosure requirements detailed in the direction.
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. No Directors or employees of the Bank are a Director of another Bank. The Nominations Committee takes into account this requirement in their deliberations when considering the appointments of Directors. The Banks "Compliance Policy and Code of Conduct" further incorporates this requirement for employees.
3 (3)	Criteria to Assess the Fitness and Propriety of Directors	
3(3) (i)	The age of a person who serves as Director shall not exceed 70 years.	Complied. There are no Directors who are over 70 years of age.
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.	Complied. No Director holds Directorships of more than 20 companies. The Directorships of each of the Directors are disclosed on pages 26 to 28 of the Annual Report.
3(3) (iii)	Director or a Chief Executive Officer (CEO) of another licensed bank operating in Sri Lanka shall not be appointed as a Director or CEO of the Bank before the expiry of a period of 6 months from the date of cessation of his/her office at the other licensed bank in Sri Lanka.	Complied. The Company Secretary monitors this requirement.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
3 (4)	Management Function Delegated by the Board	
3(4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied. The Board periodically reviews and approves the delegation arrangements in place to ensure they are relevant and addresses the needs of the Bank.
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.	Delegation papers are prepared in detail and recommended by the IRMC to the Board.
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.	Terms of Reference (TOR) of each of the Board subcommittees which are incorporated in the respective charters of each Board subcommittee are approved by the Board. In addition it is to be noted that by delegating, the Board does not lose the authority to deal with matters that have been delegated when necessary.
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.	Complied. The roles of Chairman and GCEO of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the GCEO thereby maintaining the balance of power between the two roles.
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.	Complied. The Chairman Mr. Eshana de Silva is an Independent Non-Executive Director of the Bank. Therefore, the appointment of an Independent Director as the Senior Director does not arise.
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.	Complied. In accordance with this Direction the Company Secretary obtains a declarations from each Director to identify the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the GCEO and the relationships among members of the Board. Based on the said declarations there were no material relationships between the Chairman and the GCEO and among the Board members.
3(5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied. The Chairman is responsible for the running of the Board, preserving order and ensuring that proceedings at meetings are conducted in a proper manner. Further, he ascertains the views of the Directors on the issues being discussed before decisions are taken. The self- evaluation process carried out by the members of the Board each year assists the Chairman to effectively carry out his responsibilities by providing him the required feedback.
3(5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the company secretary.	Complied. The Chairman draws up the agenda in consultation with the GCEO and Company Secretary. The Bank's internal Code of Corporate Governance also casts this responsibility with the Chairman.

Rule No.	Corporate Governance Principles	Compliance Status
3(5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied. The Directors are adequately briefed in the course of discussions by the Chairman, GCEO and officers of management in respect of matters that are taken up by the Board. The following procedures are in place to ensure this: Board papers are circulated in advance among the Directors. Management information is provided on a regular basis to enable Directors to assess the performance and stability of the Bank. Relevant KMPs are on hand for explanations and clarifications. Directors are able to seek independent professional advice on a need basis at the Bank's expense.
3(5) (vii)	The Chairman shall encourage all Directors' to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied. The Chairman ensures that all members effectively participate as a team in Board decisions and Directors concerns and comments are duly recorded in the minutes.
3(5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied. All Directors of the Board except the GCEO are Non-Executive Directors which encourages active participation. Further, Non-Executive Directors participate in Board-appointed subcommittees providing further opportunity for active participation. In addition, the feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contributions of Non-Executive Directors.
3(5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied. Chairman is a Non-Executive Director and he does not directly get involved in the supervision of KMPs or any other executive duties.
3(5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied. Shareholders are encouraged to provide their feedback to the Company Secretary using feedback forms made available with the Annual Report. In addition, there is an e-mail address dedicated for investor relations and the link is available on the Bank's website. The Bank also has a dedicated Investor Relations Team. The Chairman together with the GCEO ensures effective communication with shareholders through investor's forums held each quarter and through continuous engagement with our institutional investors. Members of the Board are apprised of the views of major investors and other key stakeholders pursuant to these meetings.
3(5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	Complied. The GCEO is responsible for providing the leadership, expertise and professional environment within the Bank for the implementation of the Board's policies and the achievement of the Bank's goals and objectives. The operations of the Bank are carried out in conformity to this requirement.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
3 (6)	Board Appointed Committees	
3(6) (i)	Each bank shall have at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	Complied. The Board has established a Strategic Issues Committee, Credit Committee and a Related Party Transactions Review Committee in addition to the Board Audit Committee, Human Resources and Remuneration Committee, Nominations Committee and Integrated Risk Management Committee, which are mandated by this regulations. Minutes of Board subcommittee meetings are shared with the main Board and the Chairpersons of Board subcommittee update the Board on recommendations made and any matters of importance that are discussed at the respective Board subcommittee. This Annual Report includes individual reports of each such subcommittee on pages 148 to 160 which reports include a summary of duties, roles and performance of each subcommittee.
3(6) (ii)	The following rules shall apply in relation to the Audit Committee:	Complied.
	(a) The Chairman of the committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Mr. Sujeewa Mudalige the Chairman of the BAC is an Independent Non-Executive Director and a Fellow Member of the Chartered Institute of Management Accountants, UK, Institute of Chartered Accountants of Sri Lanka, Association of Chartered Certified Accountants UK and CPA – Australia).
	(b) All members of the committee shall be Non-Executive Directors.	Complied. All members of the BAC are Non-Executive Directors.
	(c) The committee shall make recommendations on matters in connection with:	Complied.
	(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	The following matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC;
	(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time;	(i) Re-appointment of the External Auditor for audit services has been recommended to the Board by the BAC; The BAC has discussed the audit plan and methodology with the External Auditor.
	(iii) the application of the relevant accounting standards; and	(ii) – (iii) BAC has discussed the implementation of the Central Bank guidelines issued to Auditors from time to time and the application of the relevant accounting standards;
	(iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	(iv) In order to ensure the independence of the Auditor to comply with the requirements of this Direction the External Audit Partner was rotated as per the five-year rotation requirement. The BAC evaluates and makes recommendations to the Board with regard to the audit fee.
	(d) The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied. Refer the 'Report of the Board Audit Committee' given on pages 155 to 157. The BAC reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices through the representations from the External Auditor.

Rule No.	Corporate Governance Principles	Compliance Status
	(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider: (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.	Complied. A Policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this Direction. This Policy is reviewed once in two years by the BAC and Board and was last reviewed in December 2019. Assigning such non-audit services to External Auditor is discussed at BAC meetings and required approval is obtained to that effect. Further, relevant information is obtained from the External Auditor to ensure that their independence is not impaired, as a result of providing any non-audit services.
	(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.	Complied. The BAC Charter requires the BAC to discuss and finalise with the External Auditor the nature and scope of the audit. In order to comply, the External Auditor makes a presentation at the BAC meeting detailing the proposed audit plan and scope. The Committee discussed and finalised the audit plan, methodology and scope with the External Auditor to ensure that it includes: (i) An assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and Internal Controls over Financial Reporting; (ii) The preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. (iii) As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for coordinating activities with other Auditors.
	(g) The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied. The BAC reviews the quarterly Financial Statements as well as year-end Financial Statements. The review focuses on the following: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) compliance with relevant Accounting Standards and other legal requirements. The BAC makes their recommendations to the Board of Directors on the above on a quarterly basis.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
	h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied. The Committee met the External Auditor twice during 2020, without the presence of the Executive Management, to discuss issues, concerns and reservations arising from their audits.
	(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.	Complied. BAC reviewed the External Auditor's Management Letter for the year ended 2019 and the Management's responses thereto.
	(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:	Complied. The BAC has oversight of the Group Internal Audit Department (GIAD) of the Bank and carries out the following duties:
	(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;	i. Reviews and discusses with the Head of Group Internal Audit (HGIA) the annual Audit Plan covering the Group, the adequacy of the scope and functions and the resources of GIAD.
	(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	ii. The Audit Plan for the year is approved by the BAC and the progress is tabled at the BAC meetings. The BAC reviews the internal audit reports and discusses the Management Action Plans to resolve the issues raised by GIAD. Further, BAC Chairman is kept informed of "Critical" and "Significant" issues arising from ongoing audits, as a "Heads up". All audit findings are sent to Operational Risk Department to identify any process improvements required and to follow up on implementing controls.
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	iii. Reviews the performance of the HGIA, based on the feedback given by the GCEO and BAC Chairman. Further the senior team member's performances are discussed with the BAC.
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	iv. The BAC is kept informed of the senior staff member appointment/resignations.
	(v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	v. Any outsourced internal audit services are done with the approval of BAC.
	(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	vi. Ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The GIAD staff reports directly to the HGIA who in turn reports directly to the BAC.
	(k) The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied. Major findings of internal investigations and management's responses thereto are reviewed by the BAC. Also the status of implementation of the recommendations made during investigations is discussed at Committee meetings.
	(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied. Head of Group Internal Audit and VP-Finance attended all meetings as a permanent invitee. The GCEO attended meetings as well on invitation and other members of the Senior Management were invited to attend meetings on a need basis. On the invitation of the Committee, the Bank's External Auditor, Ernst & Young attended all meetings during the year. The BAC met the External Auditor twice during the year (i.e. in February and October 2020) without the presence of KMPs.
	(m) The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied. The Charter of the BAC clearly defines the authority and terms of reference of the Committee, which is in compliance with this Direction.

Rule No.	Corporate Governance Principles	Compliance Status
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied. The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met seven times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by HIA who functions as the Secretary to the BAC.
	(o) The Board shall disclose in an informative way; (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings.	Complied. Please refer 'Board Audit Committee Report' on pages 155 to 157 for the details of the activities of the Audit Committee. Attendance of the Committee members at each of these meetings is given in the table on page 135 of the Annual Report.
	(p) The Secretary of the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the committee meetings.	Complied. The Head of the Internal Audit functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these approved minutes have been tabled at Board Meetings.
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied. The Bank has in place a Board approved Whistle Blowing Policy to make it easier for members of staff to be able to report irregularities in good faith, without having to fear that their actions may have adverse consequences on themselves. This Policy is reviewed and approved by the BAC and the Board of Directors. The Employees of the Bank may, in confidence, raise concerns about possible improprieties in Financial Reporting, Internal Controls or other matters. A process has been established to track such whistle blowing and take necessary action. The BAC is the key representative body for overseeing the Bank's relations with the External Auditor.
3(6) (iii)	Human Resources and Remuneration Committee (HRRC) - Composition & Responsibilities	Complied. Please refer pages 148 to 149 for the composition and responsibilities of the Human Resources and Remuneration Committee (HRRC).
	a) Determine the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank	Complied. The HRRC reviews and where necessary makes recommendations on remuneration payable to Directors and KMPs of the Bank. There is in place a Board approved Remuneration Policy and process for Directors, GCEO and KMPs.
	(b) Set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied. The goals and targets set for the GCEO and KMPs were reviewed and approved by the HRRC and noted/approved by the Board. Further the goals and targets of KMPs who head control functions were reviewed and approved by their respective subcommittee. The goals and targets for the Directors for the year 2020 have been deliberated in detail and approved at HRRC and Board level.
	(c) Evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied. The performance of KMPs against set goals and targets are evaluated by the HRRC in March of every year and recommendations are then discussed and approved by the full Board. Further the performance of KMPs who head control functions go to their respective subcommittee prior to being submitted to the Board. The GCEO's performance will be evaluated by the full Board. The above process was complied within 2020 for the year 2019.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied. The GCEO was present at all meetings and stepped out when matters relating to the GCEO were discussed.
3(6) (iv)	Nominations Committee (NC) - Composition & Responsibilities	Complied. Please refer page 150 for the composition and responsibilities of the NC.
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Complied. The NC has in place a procedure to select new Directors. A Board-approved procedure to select GCEO and KMPs has been in place since December 2008.
	(b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied. This is a requirement of the Nominations Committee Charter. The NC determines the Directors who will be re-elected every year pursuant to taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. The Committee in February 2021 has considered and recommended the re-election of Mr. Sriyan Cooray and Mr. Hiran Perera and re-appointment of Kushan D'Alwis, PC.
	(c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied. The NC has set a procedure to assess eligibility including criteria such as qualifications, experience and key attributes, for appointment or promotion to Key Management Positions including the position of the GCEO. The committee is guided by applicable statutes in considering the suitable criteria for each appointment/promotion.
	(d) The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied. The annual declarations from Directors are submitted to the NC to ensure that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the statutes. The Company Secretary has obtained the declaration for the year 2020 from the Directors through the NC and submitted the necessary declaration to CBSL. Declarations are obtained from KMPs at the time of appointment.
	(e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied. The NC considers Board vacancies based on the expertise required by the Bank and recommends suitable candidates when necessary in accordance with the Board approved procedure for selection and appointment of Directors. The NC also recommended the Succession Plan for KMPs to the Board. The Succession Plan for KMPs was reviewed and approved by the Board in 2020.
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied. The NC is chaired by the Chairman of the Bank who is an Independent Director. The GCEO is present only if invited.

Rule No.	Corporate Governance Principles	Compliance Status
3(6) (v)	Integrated Risk Management Committee (IRMC) - Composition & Responsibilities	Complied. Please refer pages 152 to 154 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2020.
	(a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories - i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied. Please see detailed Report on pages 152 to 154 of this report.
	(b) The Committee shall assess all risks - i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and Group basis.	Complied. The IRMC assesses all risks of the Bank and Group on a monthly basis through Key Risk Indicators, Risk Dashboards and through quarterly Risk Assessment reports done for the Bank and Group. The Bank has formed management committees to assess risks on a monthly/quarterly basis and their findings are submitted to the IRMC and a summary of the minutes of the IRMC and quarterly risk assessment reports are submitted to the main Board.
	(c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied. The adequacy and effectiveness of all management level Committees against the respective TORs based on an independent assessment was reviewed at an IRMC meeting and the result was satisfactory. Further all members carried out self-assessments for the year 2020 and the findings were at a satisfactory level.
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied. The IRMC takes prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by IRMC on the basis of the Bank's policies and regulatory and supervisory requirements. The Risk Appetite of the Bank decided through the ICAAP was approved by the Board.
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied. The Committee has met five times in the year 2020.
	(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied. If the need arises the IRMC shall take action appropriate to the relevance of the situation as per the Bank's Human Resources Policy.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific Directions.	Complied. A detailed report is submitted to the Board subsequent to the IRMC meeting seeking the Board's views, concurrence and/or specific directions.
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied. The Bank has appointed a dedicated Compliance Officer who is a KMP to head the compliance function of the Bank. The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and all measures taken to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status
3 (7)	Related Party Transactions	
3(7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or key management personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.	Complied. The Bank has in place a Board approved Related Party Transactions (RPT) Policy which has set out the procedure to be followed when transacting with related parties. The RPT Policy was adopted by the Bank to identify, approve, monitor and disclose transactions with related parties of the Bank. The Bank has in place a list of related parties which is updated as and when changes occur and reviewed on a quarterly basis to ensure all related parties are listed accurately. The list of related parties is circulated to all relationship managers of business units and branch managers together with an internal circular which describes the regulations that would apply when dealing with related parties. Further every quarter a sign off is obtained from the business lines confirming that they have complied with the related party policy when entering into a transaction with a related party. These processes are in place to remind business lines of the regulatory requirements in relation to related party transactions thereby ensuring that the Bank avoids conflicts of interests with related parties of the Bank. The Bank has obtained the annual declarations in 2020 from the individual Directors confirming that they have avoided conflicts of interests.
	The type of transactions with related parties that shall be covered by this Direction shall include the following: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation, (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments, (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank, (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied. The RPT Policy of the Bank covers all transactions that come within the scope of this Direction.
3(7)(iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the: (a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No. 7 of 2007 on Maximum Amount of Accommodation.	Complied. A list identifying Related Parties of the Bank in line with this Direction is shared with business lines on a quarterly basis. The regulations and process that needs to be complied with is explained in an internal circular which accompanies the related party list. Business lines are requested to ensure compliance with the required regulation and to refrain from granting related parties of the Bank "more favourable treatment".

Rule No.	Corporate Governance Principles	Compliance Status
	II. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. (b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; (c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; (d) Providing services to or receiving services from a related-party without an evaluation procedure; (e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	Further the Compliance Department reviews transactions with related parties on an ongoing basis to determine if "more favourable treatment" have been offered to them. Any deviations are required to be reported to the Related Party Transactions Review Committee, and the Integrated Risk Management Committee.
3(7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied. This requirement has been included in the Bank's RPT Policy. The Company Secretary upon being informed of a transaction with a related party shall ensure compliance with this requirement.
3(7) (v)	(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. (b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier. (c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public. (d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.	Complied. Prior to the appointment of a Director, the Bank is required to submit an affidavit disclosing all their interests with the Bank. The Company Secretary is aware of the requirement in this direction and will take necessary action to inform the relevant Director and the business unit in this regard.

Corporate Governance

Rule No.	Corporate Governance Principles	Compliance Status								
3(7) (vi)	A bank shall not grant any accommodation or more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied. No favourable treatment/accommodation is provided to Bank employees other than staff benefits. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.								
3(7) (vii)	No accommodation granted by a bank under Direction 3(7) (v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied. Such a situation has not arisen in the Bank to date.								
3(8)	Disclosures									
3(8) (i)	The Board shall ensure that: (a) annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied. The Financial Statements for the year ended 31 December 2020 and quarterly Financial Statements are in conformity with all rules and regulations. These Statements have been published in the newspapers in all three languages.								
3(8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:									
	(a) A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Compliance with applicable accounting standards and regulatory requirements have been reported under the 'Directors' Responsibility for Financial Reporting on pages 161 to 162, the Responsibility Statement of Group Chief Executive Officer and Vice President Finance on page 165 and Note 2.1 (Statement of Compliance) to the Financial Statements on page 183.								
	(b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. The Directors' Report on the effectiveness of the internal control system over Financial Reporting is given under the "Statement of Internal Control" on pages 163 to 164.								
	(c) The Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements on SLSAE 3050 – Assurance Reports for Banks on Directors' Statement on Internal Control'.	Complied. The Assurance Report issued by the External Auditor on the internal control over Financial Reporting based on the auditing framework issued by ICASL, is detailed on page 166 of this report.								
	(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied. Please refer "Board Directors" on pages 24 to 29 "Directors' Interest in Contracts with the Bank" on page 147 and page 201 for Directors' remuneration. The Executive Director is an ex officio Director on account of being the GCEO of the Bank and as such is not paid any additional remuneration or benefits by virtue of him being an Executive Director. Details of Directors' transactions with the Bank are given below:								
		<table><tr><th>Transactions</th><th>Outstanding balance as at 31 December 2020 LKR'000</th></tr><tr><td>Accommodation</td><td>19,581</td></tr><tr><td>Deposits</td><td>137,511</td></tr><tr><td>Investments</td><td>-</td></tr></table>	Transactions	Outstanding balance as at 31 December 2020 LKR'000	Accommodation	19,581	Deposits	137,511	Investments	-
Transactions	Outstanding balance as at 31 December 2020 LKR'000									
Accommodation	19,581									
Deposits	137,511									
Investments	-									

Rule No.	Corporate Governance Principles	Compliance Status												
	(e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied. Total Net Accommodation granted to related parties as a percentage of the Bank's regulatory capital are given below: <table><tr><th>Category of Related Parties</th><th>Net Accommodation as at 31 December 2020 LKR'000</th><th>% of Regulatory Capital</th></tr><tr><td>Directors/Close Family Members/Substantial Interest concerns</td><td>1,542,381</td><td>2.63%</td></tr><tr><td>Key Management Personnel/Close Family members/Substantial Interest concerns</td><td>157,216</td><td>0.27%</td></tr><tr><td>The Bank's subsidiaries and associate companies</td><td>550,000</td><td>0.94%</td></tr></table>	Category of Related Parties	Net Accommodation as at 31 December 2020 LKR'000	% of Regulatory Capital	Directors/Close Family Members/Substantial Interest concerns	1,542,381	2.63%	Key Management Personnel/Close Family members/Substantial Interest concerns	157,216	0.27%	The Bank's subsidiaries and associate companies	550,000	0.94%
Category of Related Parties	Net Accommodation as at 31 December 2020 LKR'000	% of Regulatory Capital												
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Key Management Personnel/Close Family members/Substantial Interest concerns	157,216	0.27%												
The Bank's subsidiaries and associate companies	550,000	0.94%												
	(f) The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied. Aggregate values of remuneration paid by the Bank and transactions of the Bank with its KMPs <table><tr><th>Transaction type</th><th>Aggregate values/Outstanding balances as at 31 December 2020 in LKR '000</th></tr><tr><td>Remuneration Paid</td><td>378,128</td></tr><tr><td>Accommodation</td><td>157,216</td></tr><tr><td>Deposits</td><td>526,429</td></tr><tr><td>Investments</td><td>3,130</td></tr></table>	Transaction type	Aggregate values/Outstanding balances as at 31 December 2020 in LKR '000	Remuneration Paid	378,128	Accommodation	157,216	Deposits	526,429	Investments	3,130		
Transaction type	Aggregate values/Outstanding balances as at 31 December 2020 in LKR '000													
Remuneration Paid	378,128													
Accommodation	157,216													
Deposits	526,429													
Investments	3,130													
	(g) A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the 'Factual Findings Reports' of Auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the Annual Corporate Governance Report.	Complied by this Report.												
	(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied. There are no material non compliance to prudential requirements regulations, laws and internal controls affecting the Bank												
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied. There were no supervisory concerns on lapses in the Bank's Risk Management System or non-compliance with this Direction, that have been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.												

Corporate Governance

STATEMENT OF COMPLIANCE - CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE 2017 (THE CODE) ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA).

The Code is intended to provide a corporate governance framework that supports strong business ethics, sound policies and procedures and an effective monitoring system which is in line with international best practices. The Code is broadly divided into two areas, namely the Company and shareholders.

I. THE COMPANY

Key principles are detailed under the following broad areas viz. Directors, Directors' Remuneration, Relations with shareholders, Accountability and Audit.

II Shareholders

Key principles are detailed under the following broad areas viz. Institutional Investors, Other Investors, Internet of things and Cyber-security and Environment, Society and Governance (ESG).

The Bank's adherence with the Code is detailed below with explanatory comments as follows:

Corporate Governance Principles	Compliance Status
PRINCIPLE A.1: THE BOARD – As at 31 December 2020 the Board comprised of nine Directors, eight of whom, including the Chairman, functioned in a non-executive capacity. The members of the Board consists of professionals in the fields of banking, finance, management, treasury, law, accounting, auditing, law and possess the skills, experience and leadership required to direct, lead and control the Bank. The Group Chief Executive Officer (GCEO) is the only Executive Director. The Board has appointed several Board subcommittees to assist in the discharge of their collective responsibilities. The Bank is mindful of the need to maintain an appropriate mix of skills and experience in the Board through a regular review of its composition in ensuring that the skill representation is in alignment with current and future needs of the Bank. Additionally, individual Directors are encouraged to seek expert opinion and/or professional advice on matters where they may not have full knowledge or expertise.	
A.1.1. Board meetings	Complied. The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary. The Board met sixteen (16) times during the year which included four (4) special meetings. Scheduled Board and Board subcommittee meetings are arranged at the beginning of each calendar year. Attendance at Board and subcommittee meetings are provided on pages 134 to 135.
A.1.2. Role and responsibilities of the Board - Provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls risks to be assessed and managed. → Formulation and implementation of a sound business strategy;	Complied. The Board is responsible to stakeholders for creating and delivering sustainable shareholder value through the management of the Bank and Group's businesses. It determines the strategic objectives and policies of the Bank and Group to deliver such long term value, providing overall strategic direction within a framework of rewards, incentives and controls. The Bank's overall business strategy for 2021-2025 was approved by the Board in August 2020 as detailed under Section 3(1)(i)(b) of the CBSL table on page 308 of this report.
→ Appointing the chair and the Senior Independent Director if relevant;	Complied. In terms of the Bank's Article of Association the Bank's Chairman is mandatorily an Independent Director therefore the need to appoint a Senior Independent Director does not arise.
→ The CEO and Management Team possess the skills, experience and knowledge to implement the strategy;	Complied. The Human Resources and Remuneration Committee (HRRC) and the Nominations Committee (NC) ensure that the GCEO and Key Management Personnel (KMP) have the required skills, experience and knowledge to implement strategy. The GCEO and the Leadership Team consist of senior bankers with an average experience of 26 years in the field of banking and finance. The profiles of the Leadership Team are available on the pages 30 to 32.
→ The adoption of an effective CEO and Key Management Personnel (KMP) succession strategy;	Complied. The Succession Plan of the Bank was reviewed and approved by the Board at its meeting held in July 2020.
→ Approving budgets and major capital expenditure;	Complied. Annual budget is approved before the commencement of the year. Major capital expenditure requires the approval of the Board.

Corporate Governance Principles	Compliance Status
→ Determining the matters expressly reserved to the Board and those delegated to the Management including limits of authority and financial delegation;	Complied. To enable the Board to discharge its stewardship and fiduciary responsibilities effectively it delegates authority to the Board Subcommittees to oversee specific responsibilities based on clearly defined terms of references which are also detailed under Section 3(1)(i)(h) of the CBSL table on page 309 of this report.
→ An effective system to secure integrity of information, internal controls, business continuity and risk management;	Complied. The Board is responsible for the overall risk framework of the Bank. There is in place an adequate system of internal controls. Policies relating to securing information, business continuity and risk management have been approved by the Board. These policies have been reviewed by either the Integrated Risk Management Committee (IRMC) or the Board Audit Committee (BAC). The BAC reviews Internal Audit reports submitted by the Internal Audit Department and monitors follow up action. Further, based on the assessment of Internal Control Over Financial Reporting (ICOFR), Directors concluded that the Bank's Internal Control Over Financial Reporting is effective. The IRMC appointed by the Board, reviews and recommends to the Board, the Bank's risk policies and procedures defining the Bank's risk appetite, identifying principal risks, setting governance structures and implementing policies and systems in line with the Integrated Risk Management Framework to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by Regulation. The following reports provide further insight in this regard: The Risk Management Report (pages 342 to 377) The Board Integrated Risk Management Committee Report on (pages 152 to 154) The Directors' Statement on Internal Control (pages 163 to 164) The Board Audit Committee Report (pages 155 to 157)
→ Compliance with laws, regulations and ethical standards;	Complied. The Bank has appointed a dedicated Compliance Officer who is a Key Management Personnel to head the compliance function of the Bank. The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and take measures to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.
→ All stakeholder interests are considered in corporate decisions	Complied. The Board of Directors consider the views/impact on all stakeholders of the Bank when decisions are made at Board meetings.
→ Recognising sustainable business development in Corporate Strategy, decisions and activities and consider the need for adopting "integrated reporting";	Complied. Sustainable business development is one of the key areas of focus considered by the Board when taking decisions. Please refer to the Bank's Sustainability Report on pages 52 to 54 for more details. The Bank's Annual Report is presented in line with the integrated reporting guidelines issued by the Institute of Chartered Accountants of Sri Lanka.

Corporate Governance

Corporate Governance Principles	Compliance Status
→ The Bank's values and standards are set according to accounting Policies and fostering compliance with financial regulations;	Complied. The BAC and the Board reviews accounting policies annually to ensure that the Financial Reporting Model of the Bank is in line with such policies, financial regulations, evolving international and local accounting standards and industry best practices. The Board ensures that the Financial Statements of the Bank are prepared in accordance with the approved accounting policies.
→ Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks	Complied. The Management monitors budgets on frequent intervals (daily/weekly/monthly) and is reviewed by the Board on a monthly basis. Strategy is approved by the Board Strategic Issues Committee and the Board. The Board also reviews the implementation progress regularly.
→ Ensuring that a process is established for corporate reporting on annual and quarterly basis or more regularly as relevant to the Bank.	Complied. The Bank is listed in the Colombo Stock Exchange and conforms to the Listing Rules issued by the Colombo Stock Exchange and also adhere to the regulations applicable to Licensed Commercial Banks. Therefore corporate reporting on an annual and quarterly basis is carried out in line with the regulations.
→ Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned	Complied. The Board makes every endeavour to fulfill its stewardship obligations on behalf of all stakeholders. The Board is committed to fulfilling their functions in line with laws, regulations and good governance practices adopted by the Bank.
A.1.3. The Board collectively and the Directors individually need to act in accordance with laws of the Country relevant to the Bank. A procedure for Directors to obtain independent professional advice where necessary, at the Bank's expense.	Complied. There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations. In order to preserve the independence of the Board and to strengthen the decision making, the Board seeks independent professional advice when deemed necessary. The Board approved internal Code of Corporate Governance contains the procedure to be followed when a Director or the Board wishes to obtain independent professional advice on any matter.
A.1.4. All Directors of the Board to have access to the advice and services of the Company Secretary. The Bank should obtain appropriate insurance cover as recommended by the Nominations Committee for the Board, Directors and Key Management Personnel.	Complied. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. All Directors have access to the Company Secretary and she possesses the required qualifications as set out in the Companies Act and the Banking Act. For the year 2020 the Company Secretary has provided assistance to the Directors when requested. The Bank has in place an insurance cover for the Directors and its Officers.
A.1.5. All Directors to bring independent judgment to matters submitted to the Board for its decision.	Complied. All Directors bring their independent judgment to matters discussed at Board meetings. Details of Directors deliberations are contained in the minutes maintained by the Company Secretary.
A.1.6. Every Director to dedicate adequate time and effort to matters of the Board and the Bank	Complied. Every member of the Board has dedicated adequate time and effort for the affairs of the Bank by attending Board meetings, Board Subcommittee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with the Management when required. Board papers are circulated to the Board at least seven days prior to each Board meeting. Any request for additional information is made to the Company Secretary. The relevant member of staff is informed by the Company Secretary and the requisite information is forwarded. All matters that require follow up are discussed at the immediately succeeding Board meeting under 'Matters Arising'. Business heads regularly update the Board on the status and development in their respective fields. The GCEO on a regular basis updates the Board on business changes, operational risks and controls relevant to the Bank. Please refer page 125 which illustrates how the Board spent its time in 2020.

Corporate Governance Principles	Compliance Status
A.1.7 If necessary in the best interest of the Bank, one-third of the Directors can call for a resolution to be presented to the Board.	Complied. All Directors are entitled to include matters and proposals in the agenda for Board meetings and this right has been entrenched in the Bank's internal Code of Corporate Governance. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals in the agenda for regular meetings. This process supports the requirement detailed in this code and a Director may include a proposal (if required) in the agenda of a Board meeting.
A.1.8 Board induction and subsequent training.	Complied. The Board policy on Directors' training is to provide adequate opportunities for continuous development, appropriate for each Director. The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and awareness of the Bank's policies and procedures as required to fulfill their roles both on the Board and on Committees appointed by the Board. There are several knowledge sharing initiatives to inform the Board on the latest trends and issues facing the Bank, the industry and the economy in general from time to time. New Directors are provided with a comprehensive induction pack on appointment to the Board.
PRINCIPLE A.2: CHAIRMAN AND CEO – Division of conducting the business of the Board from the executive responsibilities for management of the Bank. There is a clear separation of responsibilities between the Chairman and the CEO thereby ensuring a balance of power and authority, such that no one individual has unfettered powers of decision.	
A.2.1 Divisions of Responsibilities between the Chairman and CEO	Complied. The posts of Chairman and GCEO of the Bank are held by two separate persons and there is a clear division of responsibilities between them thereby maintaining the balance of power between the two roles.
PRINCIPLE A.3: CHAIRMAN'S ROLE – The Chairman is responsible for preserving good Corporate Governance by providing leadership to the Board and for its effectiveness. The Chairman should preserve order and facilitate the effective Board's composition, appraisal and development and ensuring that the Board focuses on its key tasks. The Chairman is also the ultimate point of contact for shareholders, particularly on Corporate Governance issues.	
A.3.1 Conducting Board proceedings in a proper manner	Complied. The Board approved internal Code of Corporate Governance formally details the role of the Chairman. The Chairman ensures that the affairs of the Board are conducted in an effective manner. He encourages Directors to share their views on matters discussed and ensures the participation of both Executive and Non-Executive Directors thereby maintaining a balance of power between Executive and Non-Executive Directors. The Chairman approved the agenda for each meeting in consultation with the GCEO and the Company Secretary and ensured that all Board proceedings were conducted in a proper manner. All Directors are encouraged to seek information considered necessary to discuss matters on the agenda of meetings. The views of Directors on issues under consideration are ascertained and records of such deliberations are reflected in the minutes. Please refer page 131 for more details on the Chairman's role.
PRINCIPLE A.4: FINANCIAL ACUMEN: The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	
A.4.1 Financial Acumen and Knowledge	Complied. 7 of the 9 Directors of the Board have a finance background ensuring a sufficiency of financial acumen and knowledge within the Board on matters of finance.
PRINCIPLE A.5: BOARD BALANCE: It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-making.	
A.5.1 Non-Executive Directors - The Board should include at least three Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of total number of Directors, whichever is higher. In the event the Chairman and CEO is the same person, or if the Chairman is not an Independent Director, Non-Executive Directors should comprise a majority of the Board.	Complied. 8 of the 9 Directors on the Board are Non-Executive Directors. The GCEO is the only Executive Director. The Chairman is a Non-Executive Independent Director.

Corporate Governance

Corporate Governance Principles	Compliance Status
A.5.2 - A.5.5 Non-Executive Independent Director: Three or two-third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'Independent'. Criteria for Independence are defined in the Code.	Complied. Annual declarations of independence or non-independence have been obtained from the Directors for 2020 with the criteria set out in this Code. Based on the annual declarations, there were 8 Non-Executive Directors on the Board as at 31 December 2020. Of them all 7 Non-Executive Directors are independent of management and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. The details of Non-Executive Independent Directors are given in pages 124 and 134 of this report. Accordingly, the number of Independent Non-Executive Directors exceeds two-thirds of the total number of Directors on the Board.
A.5.6 Alternate Director – Executives of the Bank shall not be appointed as Alternate Directors of Non-Executive Directors of the Bank. Any alternate of an Independent Director should also meet the criteria of independence. The minimum number of Independent Directors should be satisfied	Complied. Directors appoint Alternate Directors within the rules and Articles of the Bank and the Banking Act as and when required for a particular meeting. An Alternate Director of an Independent Director is also Independent. During the year 2020 there were no Alternate Directors appointed.
A.5.7 - A.5.8 The Appointment of a Senior Independent Director (SID) – A SID is required to be appointed where: CEO and Chairman are one and the same person or if the Chairman is not Independent or Chairman is the immediately preceding CEO. Such a SID should make himself available for discussions with other Directors SID to meet the requirements set out in the Code	Complied. The GCEO and Chairman are not one and the same person. The Chairman is a Non-Executive Independent Director. As such there is no requirement to appoint a SID.
A.5.9. Chairman to meet only with Non-Executive Directors as necessary and at least once each year.	Complied. As and when needed the Chairman discusses matters related to the Executive Director only in the presence of Non-Executive Directors.
A.5.10. Recording of a dissenting view – Any dissenting view to be minuted where a matter is not resolved unanimously.	Complied. Dissenting views are recorded in the Board Minutes in detail. Directors' concerns regarding matters which are not resolved unanimously are also recorded in the minutes.
PRINCIPLE A.6 SUPPLY OF INFORMATION – The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.	
A.6.1 - A.6.2 The Board to be provided appropriate and timely information by the Management. Agenda, Board Papers and Minutes of previous meetings to be circulated 7 days in advance of a meeting. The minutes of the meeting should ordinarily be provided to Directors at least two weeks after the meeting date.	Complied. The Management provides comprehensive information including both quantitative and qualitative information for the monthly Board meetings generally 7 days prior to the Board meetings. Members of The Leadership Team make presentations to Directors on important issues relating to financial performance, strategy, risk management, investment proposals, systems and procedures, where necessary. The Directors also have access to the Management to obtain further information or clarify any concerns they may have. As described above, they also have the right to seek independent professional advice at the Bank's expense.

Corporate Governance Principles	Compliance Status																						
PRINCIPLE A.7 APPOINTMENTS TO THE BOARD - There should be a formal and transparent procedure for the appointment of new Directors to the Board.																							
A.7.1 - A.7.2 A Nominations Committee to be established to make recommendations on new appointments and should annually assess Board-composition against pre-defined criteria of skills and knowledge to ensure that Board appointees are fit and proper.	Complied. The Board has established a Nominations Committee to make recommendations on new appointments to the Board. There is in place a Board-approved policy and process for appointments of Directors to the Board. The Nominations committee also assesses the Board composition against pre-defined criteria of skills and knowledge to ensure that Board appointees are fit and proper. Please refer page 150 for the report of the Nominations Committee.																						
A.7.3 Disclosure to shareholders on new appointments to the Board	Complied. Disclosures are made to shareholders in terms of the Listing Rules issued by the Colombo Stock Exchange (CSE).																						
PRINCIPLE A.8. RE-ELECTION - All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.																							
A. 8.1. Non-Executive Directors should be appointed for specified terms and re-election should not be automatic.	Complied. Directors to retire at the Annual General Meeting (AGM): As per the Articles of the Bank, 1/3rd of the Directors (except the GCEO, any Director appointed to fill a casual vacancy and any Nominee Director of the Ministry of Finance) should retire at each AGM and be subject to re-election. Such Directors who retire are those who held office for the longest time period since the election/re-appointment. In accordance with this provision, The Nominations Committee in February 2021 has considered and recommended the re-election of Mr. Sriyan Cooray and Mr. Hiran Perera.																						
A.8.2. Re-election of Non-Executive Directors	Prior to recommending the above re-election/re-appointments of Directors the Nominations Committee considered the fitness and proprietary of each Director and made recommendations for re-election.																						
A.8.3. Resignation of a Director prior to completion of his appointed term, the Director should provide a written communication to the Board with the reasons for resignation.	Complied. There were three resignations and one retirement during 2020. The Bank made the relevant disclosures as required under Section 3(2)(xi) of the CBSL table on page 315 of this report and the Listing rules.																						
PRINCIPLE A.9 APPRAISAL OF BOARD AND COMMITTEE PERFORMANCE - Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.																							
A.9.1 - A 9.4 The Board should have a formal process to annually appraise itself on its performance and that of its Subcommittees and should address any matters that may arise from such reviews.	Complied. The Board carried out its self-evaluation process in respect of the year 2020. The process is led by the Chairman. All Directors were required to complete a detailed questionnaire. The processes adopted is detailed on page 130 of this report All Subcommittees and Management committees also carried out a self-evaluation process in 2020 to determine the effectiveness of their performance in 2020 and to identify areas for improvement.																						
PRINCIPLE A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS																							
A.10.1 Shareholders to be advised of relevant details in respect of Directors	Complied.																						
	<table> <tr> <th>Information Required</th><th>Page Reference</th></tr> <tr> <td>Name, qualification and brief profile</td><td>24-29</td></tr> <tr> <td>Nature of his/her expertise in the relevant functional areas</td><td>134</td></tr> <tr> <td>Immediate family and/or material business relationships with other Directors of the Bank</td><td>316 - Item 3 (5) (iii)</td></tr> <tr> <td>Whether Executive, Non-Executive and/or Independent Director</td><td>124 and 134</td></tr> <tr> <td>Names of listed companies in which the Director concerned serves as a Director</td><td>26 - 28</td></tr> <tr> <td>Names of other companies or companies in a group in Sri Lanka in which the Director concerned serves as a Director</td><td>26 - 28</td></tr> <tr> <td>Board meeting attendance</td><td>134</td></tr> <tr> <td>The total number of Board seats held by each Director</td><td>26 - 28 and 315 - Item 3 (3) (ii)</td></tr> <tr> <td>Board committee served as the Chairman/member</td><td>135</td></tr> <tr> <td>Committee meeting attendance</td><td>135</td></tr> </table>	Information Required	Page Reference	Name, qualification and brief profile	24-29	Nature of his/her expertise in the relevant functional areas	134	Immediate family and/or material business relationships with other Directors of the Bank	316 - Item 3 (5) (iii)	Whether Executive, Non-Executive and/or Independent Director	124 and 134	Names of listed companies in which the Director concerned serves as a Director	26 - 28	Names of other companies or companies in a group in Sri Lanka in which the Director concerned serves as a Director	26 - 28	Board meeting attendance	134	The total number of Board seats held by each Director	26 - 28 and 315 - Item 3 (3) (ii)	Board committee served as the Chairman/member	135	Committee meeting attendance	135
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Corporate Governance

Corporate Governance Principles	Compliance Status
PRINCIPLE A.11 APPRAISAL OF THE CEO - The Board should be required, at least annually to assess the performance of the CEO.	
A. 11.1-A.11.2 -Setting Annual Targets and the appraisal of performance of the CEO.	Complied. The Board discussed and set financial and non-financial targets to be achieved during the year by the GCEO with reference to the short, medium and long term objectives of the Bank at the beginning of 2020. The HRRC/ Board will evaluate the performance of the GCEO against the goals and targets set for 2020 at the Board meeting scheduled to be held in March 2021.
B. DIRECTORS' REMUNERATION	
PRINCIPLE B.1 REMUNERATION PROCEDURE - The Code requires that the Bank establish a formal and transparent procedure for developing policy on both Executive and Non-Executive Directors' remuneration.	
B1.1 Establishment of a Remuneration Committee	Complied. The Board has established a Human Resources and Remuneration Committee (HRRC) to develop policy and determine remuneration for the Directors and KMPs. No Director is involved in deciding his/her own remuneration.
B1.2 - B1.3 Composition and Disclosures related to the Remuneration Committee	Complied. The HRRC consists exclusively of Non-Executive Directors. The Chairperson of the HRRC is Dr. Dinusha Panditaratne an Independent Non-Executive Director. Please refer pages 148 to 149 for the report of the HRRC for more details on the composition and activities carried out by the HRRC for the year 2020.
B1.4 Determination of remuneration for Non-Executive Directors	Complied. There is in place a Board-approved Remuneration Policy for Directors and KMPs. Non-Executive Directors are remunerated in line with market practices and approvals obtained from the shareholders at the AGM.
B1.5 Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	Complied. The HRRC has access to professional advice from within and external consultants. During the year, the HRRC reviewed the information provided by the Bank's Human Resources Department to determine market and industry trends with regard to remuneration and perquisites for its Senior Management team.
PRINCIPLE B.2 LEVEL AND MAKE-UP OF REMUNERATION – The Bank ensures that the remuneration of Executive and Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors.	
B.2.1 Remuneration for Executive Directors	Complied. The Executive Director is an ex-officio Director on account of being the GCEO of the Bank and as such is not paid any additional remuneration or benefits by virtue of him being an Executive Director. The GCEO's remuneration is linked to the Bank's performance as well as his individual performance. The Executive Director does not participate in the HRRC when matters pertaining to his remuneration are discussed.
B.2.2 Executive Directors' remuneration should be designed to promote the long term success of the Bank.	Complied. The GCEO's remuneration is linked to the Bank's performance as well as his individual performance.
B.2.3 Positioning the Bank's remuneration levels relative to other companies in the industry	Complied. The HRRC reviews information relating to remuneration and prerequisites of GCEO and Senior Management of the Bank and due care is taken to ensure that remuneration is commensurate with industry standards and both the Bank's and individual performance. Regular salary surveys are carried out and the HRRC is informed of the results of the survey. The Bank took part in several salary surveys in 2020.
B.2.4 Comparison of Remuneration levels with other Companies in the Group	Not Applicable. Size and scale of the Bank are not comparable with Group Companies.
B.2.5 Performance related elements of remuneration for Executive Directors should be transparent, stretching and rigorously applied	Complied. The Goals and Targets of the GCEO are set at the beginning of the year and cascaded to the rest of the Bank. Executive remuneration and performance bonuses are decided based on achievement of the Goals and Targets agreed upon.
B.2.6. Employee Share Options	Complied. An employee share scheme was established in 2016 which was approved by the shareholders in line with the listing rules of the CSE. However no shares were issued under this scheme in 2020. Details are given in the Financial Statements on page 385.
B.2.7. Designing schemes of performance related remuneration	Complied. No remuneration or benefits are paid to the only Executive Director who is the GCEO on account of his Executive Directorship. Please refer pages 148 to 149 for the report of the HRRC for more details on remuneration.

Corporate Governance Principles	Compliance Status
B.2.8 - B.2.9 Early termination of Executive Director	Complied. Termination of service of the Executive Director will be in accordance with his contract of employment.
B.2.10 Levels of remuneration of Non-Executive Directors	Complied. Non-Executive Directors are remunerated in line with market practices. However they are not entitled to receive any performance-based remuneration which includes shares under the existing Share Option Scheme of the Bank.
PRINCIPLE B.3 DISCLOSURE OF REMUNERATION - Code requires that the Bank's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	
B.3.1 Disclosure of remuneration	Complied. Please refer page 141 of the Annual Report for Directors Remuneration. Also refer Note 14 on page 201 of the Financial Statements for aggregate remuneration paid to Executive and Non-Executive Directors.
C. RELATIONS WITH SHAREHOLDERS	
PRINCIPLE C.1 CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS - The Code requires constructive use of the AGM and conduct of general meetings to communicate with shareholders.	
C.1.1. Notice of the AGM	Complied. The AGM provides a forum for all shareholders to participate in decision making matters reserved for the shareholders. Notice of the AGM is circulated 15 working days in advance with the Annual Report and Accounts. A summary of the procedures governing voting at General Meetings is included on page 413 of this Annual Report.
C.1.2. Separate resolutions to be obtained for substantially separate issues and adoption of Annual Report and Accounts	Complied. Separate resolutions are obtained for substantially separate matters to provide shareholders with an opportunity to deal with each significant matter separately. The Annual Report of the Board of Directors and Accounts are laid before the shareholders of the Bank for their consideration as a separate item on the agenda at the AGM.
C1.3. Valid proxy appointments	Complied. The Bank has in place an effective mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against each resolution. As a matter of practice, proxy votes together with the votes of shareholders present at the AGM are considered for each resolution and duly recorded in the minutes.
C.1.4. Chairpersons of all Board Subcommittees to be available to respond to questions of any shareholder at AGM.	Complied. The Chairman of the Board functions as the Chairman of the Nominations Committee, Strategic Issues Committee and the Related Party Transactions Review Committee. He ensures that the Chairpersons of the other Board Subcommittees are present at the AGM to answer all queries that may be raised. The Chairpersons of the Board Subcommittees were present at the AGM held in 2020.
C.1.5 Adequate notice of all meetings to shareholders together with the summary of the procedure to be adopted by shareholders	Complied. The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM. Summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to shareholders together with the notice of meeting 15 working days prior to the AGM. The Board encourages all shareholders to attend and actively participate in the AGM. The shareholders may raise any queries they have with the Directors.
PRINCIPLE C.2 COMMUNICATION WITH SHAREHOLDERS - The Code requires that Board should implement effective communication with shareholders.	
C.2.1 Communication with shareholders	Complied. The Bank has in place a Communication Policy which sets out many channels of communication to reach all shareholders of the Bank in order to disseminate timely information. The effective communication with shareholders are detailed in Section 3(1)(i)(d) of the CBSL table on page 309 of this report. Also please refer pages 378 to 397 on "Investor Relations" for more details on communication with our shareholders.
C.2.2 - C.2.3 Disclosure of the policy and methodology for communication with shareholders and implementation.	Complied. There is in place a Board approved Disclosure Policy and Shareholder Communication Policy that deals with communications with shareholders. Please refer write up on "Investor Relations" on pages 378 to 397 for details of the policy and methodology adopted for communication.

Corporate Governance

Corporate Governance Principles	Compliance Status
C.2.4 – C.2.7 The Bank to disclose to shareholders the contact person for communication with shareholders matters and process of making all Directors aware of shareholders' major concerns/issues.	Complied. Details of the contact personnel are provided in the "Corporate Information" section on page 415 of this Report. In addition, shareholders are encouraged to provide their feedback to the Chairman and/or the Board Secretary. The Bank's website's Investor Relations page also carries contact details of the Board Secretary and a dedicated e-mail for investor relations is also provided. The principal forum for shareholders is the AGM, while matters can also be raised through the Company Secretary. The Company Secretary keeps the Board apprised of issues raised by the shareholders to ensure that they are addressed in an appropriate manner keeping in line with the corporate values of the Bank. Matters raised in writing are responded to in writing by the Company Secretary. Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as and when necessary.
PRINCIPLE C.3 MAJOR AND MATERIAL TRANSACTIONS	
The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter/vary the net asset position of the Bank and Group if entered into;	
C.3.1 Disclosure of major and material transactions	Not Applicable. During 2020 there were no major transactions as defined by Section 185 of the Companies Act No. 7 of 2007 which materially affected the Bank's net asset base. Further all material transactions will be disclosed in the Quarterly/Annual Financial Statements as well as the disclosure made to the CSE.
C.3.2 Disclosure requirements and shareholder approval by special resolution	Complied. The Bank being a public listed company complies with the disclosure requirements and shareholder approval by special resolution as required by the rules and regulation of the Securities Exchange Commission and by the Colombo Stock Exchange as well as the Companies Act and the Bank's Articles of Association.
D. ACCOUNTABILITY AND AUDIT	
PRINCIPLE D.1 FINANCIAL AND BUSINESS REPORTING - The Board should present a balanced and understandable assessment of the Company's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects.	
D.1.1 Present an Annual Report including Financial Statements that is true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations	Complied. Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on pages 161 to 162 in the 'Statement of Directors' Responsibilities for Financial Reporting'.
D.1.2. The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	Complied. The Board is aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner. A statement to this effect is provided on pages 161 to 162 of this report. The Interim Accounts and Annual Financial Statements were published on a timely basis in 2020. Regulatory reports were filed by the Bank on or before the due dates in 2020. Price sensitive information was disclosed to the Colombo Stock Exchange on a timely basis in accordance with the Bank's Board approved Disclosure Policy. The Bank makes every effort to provide a detailed and transparent analysis of strategies, performance and future strategies to support investors in making an informed decision. In addition to the information provided in the reports mentioned above, a summary of the Interim Accounts and a section on understanding our financials in Financial Capital are provided in the Annual Report. Please refer pages 392 to 393 and 58 to 64 of this Report.
D1.3 Declarations by the CEO, Chief Financial Officer (CFO) and the Board that the Financial Statements comply with the appropriate accounting standards and give a true and fair view and that the system of risk management and internal control was operating effectively	Complied. Please refer the Responsibility Statement of Group Chief Executive Officer and Vice President Finance on page 165 and the Directors' Statement on Internal Control over Financial Reporting on pages 163 to 164.

Corporate Governance Principles	Compliance Status																										
D.1.4 Declarations by the Directors' in the Directors' Report	Complied. Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on pages 140 to 146 in the 'Annual Report of the Board of Directors on the affairs of the Bank'.																										
D.1.5 Responsibilities of the Board for preparation of Financial Statements and reporting responsibilities of auditors	Complied. The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 163 and 166 respectively in the Annual Report.																										
D. 1.6. Inclusion of a "Management Discussion and Analysis" report in the Annual Report.	Complied. <table> <tr> <th>Information Required</th><th>Page Reference</th></tr> <tr> <td>Business Model</td><td>56 - 57</td></tr> <tr> <td>Industry structure and developments</td><td>38</td></tr> <tr> <td>Opportunities and threats</td><td>41 - 42</td></tr> <tr> <td>Risk management</td><td>342 - 377</td></tr> <tr> <td>Internal control systems and their adequacy</td><td>163 - 164</td></tr> <tr> <td>Governance</td><td>122 - 139</td></tr> <tr> <td>Stakeholder relationships</td><td>13 & 48 -149</td></tr> <tr> <td>Social and environmental protection activities carried out by the Bank</td><td>102 - 110</td></tr> <tr> <td>Financial performance</td><td>58 - 64</td></tr> <tr> <td>Investment in physical and intellectual capital</td><td>93 - 101</td></tr> <tr> <td>Human resources/industrial relations activities carried out by the Bank</td><td>85 - 92</td></tr> <tr> <td>Prospects for the future</td><td>116</td></tr> </table>	Information Required	Page Reference	Business Model	56 - 57	Industry structure and developments	38	Opportunities and threats	41 - 42	Risk management	342 - 377	Internal control systems and their adequacy	163 - 164	Governance	122 - 139	Stakeholder relationships	13 & 48 -149	Social and environmental protection activities carried out by the Bank	102 - 110	Financial performance	58 - 64	Investment in physical and intellectual capital	93 - 101	Human resources/industrial relations activities carried out by the Bank	85 - 92	Prospects for the future	116
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D.1.7 Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss in Net Assets and periodically reporting to shareholders of the progress and remedial actions taken.	Complied. This situation has not arisen In the unlikely event of the net assets of the Company falling below 50% of shareholders' Funds, the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken.																										
D.1.8 Disclosure of Related Party Transactions	Complied. A detailed Board approved documented process is available and has been circulated to all staff through the NDB Cloud for compliance. Accordingly, each related party has submitted signed and dated quarterly declarations in 2020 mentioning whether they have related party transactions with the Bank as required under regulations applicable to the Bank to comply with the disclosure requirements; The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly; A record on related party and related party transactions are maintained by the Bank to capture information to comply with the respective related party disclosure requirements imposed by SEC/Accounting Standards/Auditing Standards and similar regulations. Please refer section 3(7) (i) - 3(7) (vii) of the CBSL table on pages 324 to 326 for more details on the process adopted.																										
PRINCIPLE D.2 – RISK MANAGEMENT AND INTERNAL CONTROL - The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Code requires the Bank to have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Bank's assets.																											
D.2.1 The Board should conduct an annual review of Risk Management and Internal Control systems.	Complied. The Board is responsible for formulating and implementing appropriate and adequate internal control systems. The BAC has responsibility to the Board to ensure that the system of internal controls are sufficient and effective. The Board's Statement on the effectiveness of Bank's Internal Control Mechanism as reviewed by the BAC is presented under the caption "Directors' Statement on Internal Control" in this Annual Report on pages 163 and 164. The Board also reviewed the External Auditor's Assurance Report in this regard, pursuant to the independent audit conducted by them in accordance with Sri Lanka Standards on Assurance Engagement SLSAE 3050-Assurance Report for Banks on Directors' Statement on Internal Control as given in the Annual Report on page 166.																										

Corporate Governance

Corporate Governance Principles	Compliance Status
D.2.2 The Board should carry out a robust assessment of the principal risks facing the Bank and manage or mitigate the risks.	Complied. The Board is responsible for determining the risk appetite for achieving the strategic objectives and formulates and implements appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Bank. The IRMC assists the Board in the discharge of its duties with regard to risk management and the BAC assists the Board in the discharge of its duties in relation to internal controls. Their responsibilities are summarised in the respective Subcommittee Reports and have been formulated with reference to the requirements of the Code, the Banking Act Direction No. 11 of 2007 on Corporate Governance and the Bank's business needs.
D.2.3 The Bank should have an internal audit function	Complied. The Bank has a fully-fledged Group Audit Department over which the BAC has oversight. The BAC reviews the Internal Audit function at regular intervals.
D.2.4 The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board.	Complied. The BAC reviewed the internal controls and procedures at seven meetings held during 2020. The minutes of the BAC meetings are tabled at the meetings of the Board. The Internal Audit Department carries out regular reviews on the internal control system including internal control over financial reporting. The BAC reviews and evaluates the effectiveness of the internal control system including the internal controls over financial reporting. The IRMC reviews processes relating to the risk management framework of the Bank. The BAC Report and the IRMC Report are detailed on pages 155 to 157 and 152 to 154 of this Annual Report.
D.2.5 The Schedule L to this Code contains guidance on the responsibilities of Directors in maintaining a sound system of internal control and the contents of the Statement of Internal Control.	Complied. Please refer pages 155 to 157 for the BAC Report and refer pages 163 to 164 for Directors' Statement of Compliance on Internal Controls in the manner in which the Board complied with this requirement.
PRINCIPLE D.3 AUDIT COMMITTEE - The Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles.	
D.3.1 Composition of Audit Committee	Complied. The Board Audit Committee consists of four Non-Executive Directors, majority of who are Independent. The Chairman is an Independent Non-Executive Director who has relevant experience in financial reporting and control. Members are selected to provide a broad set of financial, commercial and other relevant experience to meet the Committee's objectives. Other Members also have financial, commercial and other relevant experience to meet the Committee's objectives.
D.3.2 Terms of reference of the Audit Committee The Committee's purpose → Assist Board Oversight → Assessing the Company's ability to continue as a going concern in the foreseeable future → The duties and responsibilities of the Audit Committee	Complied. Terms of Reference of the BAC is clearly defined in the Charter of the Board Audit Committee approved by the Board of Directors, which was last revised and updated in January 2020. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with matters pertaining to statutory and regulatory compliance in financial reporting and matters with regard to the External Auditors and Internal Audit.
D.3.3 Disclosures regarding Audit Committee.	Complied. Please refer pages 155 to 157 of the BAC report

Corporate Governance Principles	Compliance Status
PRINCIPLE D.4 RELATED PARTY TRANSACTIONS REVIEW COMMITTEE – The Board should establish a procedure to ensure that the Company does not engage in transactions with “related parties” in a manner that would grant such parties “more favourable treatment” than that accorded to third parties in the normal course of business.	
D.4.1 A related party and related party transactions will be as defined in LKAS 24.	Complied. The Bank has in place a Board approved Related Party Policy which ensures that necessary processes are implemented by the Bank to identify, approve, monitor and disclose related party transactions as required under Corporate Governance Direction No. 11 of 2007 (as amended), Section 9 of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions and identification and disclosure requirements in accordance with LKAS 24.
D.4.2 Composition of the Related Party Transactions Review Committee	Complied. In terms of Section 9 of the Listing Rules issued by Colombo Stock Exchange (CSE) the Bank has constituted a Board appointed Related Party Transactions Review (RPTR) Committee. The RPTR Committee consists exclusively of Non-Executive Directors and majority of whom are Independent.
D.4.3 Terms of Reference of the Related Party Transactions Review Committee	Complied. The Bank has a Board approved TOR and a Board approved Related Party Transactions Policy in place which addresses requirements under this Code.
PRINCIPLE D.5 CODE OF BUSINESS CONDUCT AND ETHICS - The Bank must adopt a Code of Business Conduct & Ethics for Directors and KMPs and all other employees' including but not limited to: dealing with shares of the company; compliance with listing rules; bribery and corruption; confidentiality; encouraging that any illegal, fraudulent and unethical behaviour be promptly reported to those charged with Governance. The Bank must disclose waivers of the Code for Directors or others if any.	
D.5.1 Code of Conduct to be developed for Directors and Senior Management	Complied. The Bank has in place an internally-developed Board-approved internal Code of Corporate Governance applicable to the Board and Key Management Personnel setting out best practices relating to their business conduct and ethics. In addition the Board approved Compliance Policy and Code of Conduct ensures that the Bank stays ahead of the best practices related to business conduct and ethics. Please refer page 136 of the Corporate Governance Report on this aspect.
D.5.2 Process to ensure that material and price sensitive information is promptly identified and reported	Complied. The Bank has in place a Board-approved Disclosure Policy which ensures that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations.
D.5.3 Policy for monitoring and disclosure of shares purchased by any Director, KMP or any other employee involved in financial reporting	Complied. The Bank has in place a Board-approved Group Securities Trading Policy which restricts Directors and employees from trading in the NDB share during certain specified blackout periods to ensure that they do not trade based on price sensitive information. Further this policy ensures that there is no speculative trading on the NDB share and a minimum holding requirement. All share trades carried out by the Directors and employees of the Bank are monitored to ensure compliance.
D.5.4. Affirmative declaration by the Chairman of compliance with Code of Business Conduct & Ethics	Complied. Please refer page 122 of the Bank's Corporate Governance Report where the Chairman has affirmed that there has been no violations of the internal Code of Corporate Governance during 2020 by any of the Directors or any member of the Leadership Team and there have been no material violations of the Compliance Policy and Code of Conduct against the employees of the Bank.
PRINCIPLE D 6. CORPORATE GOVERNANCE DISCLOSURES - Disclose the extent to which the Bank adheres to established principles and practices of good Corporate Governance.	
D.6.1 Disclosure of Corporate Governance	Complied. The Bank's Corporate Governance practices are in accordance with the Banking Act Direction No. 11 of 2007 (as amended) issued by CBSL, the Code of Best Practice on Corporate Governance 2017 issued by the ICASL as well as the Corporate Governance Rules for Listed Companies issued by the CSE. The requirement is met with the presentation of this Corporate Governance Report from pages 122 to 139 of the Annual Report and its relevant annexures on pages 308 to 341.

Corporate Governance

Corporate Governance Principles	Compliance Status
SECTION 2: SHAREHOLDERS	
E. INSTITUTIONAL INVESTORS	
PRINCIPLE E.1 - SHAREHOLDER VOTING - Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.	
E. 1.1 Regular and structured dialogue with shareholders	Complied. All shareholders are encouraged to participate at General Meetings and cast their votes. The AGM is used as an effective channel to create a dialogue between the shareholders and the Board of Directors. Also the Chairman and GCEO have regular structured meetings with institutional shareholders. Board members are briefed about the matters discussed at such meetings. Please refer the Investor relations section on pages 378 to 397.
PRINCIPLE E.2 - EVALUATING OF GOVERNANCE DISCLOSURES - When evaluating the Bank's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	
E.2 Evaluating the corporate governance initiatives of the Bank	Complied. Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.
F. OTHER INVESTORS	
PRINCIPLE F.1 INVESTING/DIVESTING DECISION	
F.1 Encourage the individual shareholders, to carry out adequate analysis or seek independent advice for decision making when investing or divesting directly in shares of the Bank.	Complied. The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis. The following reports aim to provide a balanced overall assessment of the Bank's activities, performance and prospects. Chairman's Message on pages 16 to 18 GCEO's Review on pages 20 to 23 Management Discussion and Analysis on page 55 onwards Annual Financial Statements on pages 167 to 302 Further, Interim Financial Statements provided each quarter, provide sufficient information to enable the Retail Investors to make informed judgments regarding the performance of the Bank. Additionally, there is a separate part of the Bank's website dedicated to Investor Relations which provides this information online to all investors/shareholders.
PRINCIPLE F.2 SHAREHOLDER VOTING	
F.2 Encourage voting by individual shareholders in General Meetings	Complied. Individual shareholders are encouraged to participate at the General meetings of the Bank and exercise their voting rights.
G. INTERNET OF THINGS AND CYBERSECURITY	
PRINCIPLE G.1 - The Board should ensure to have a process to identify how in the organisation's business model, IT devices within and outside the organisation can connect to the organisation's network to send and receive information and the consequent cyber-security risks that may affect the business.	
G.1 The Board should ensure to have a process to identify how in the organisation's business model will mitigate the Cyber-security risks.	Complied. As per the Bank's IT security governance structure, the Information Security Unit defines the policies required to control the Bank's information security. IT department is responsible in implementing and monitoring the same while escalating any anomalies to the Bank's Senior Management which are then escalated to the IRMC. As per the Information Security Policy in the Bank, external devices access to the Bank's network has been restricted. Any exceptional requirement will be approved by the higher Management.
G.2 Appointment of Chief Information Security Officer (CISO) and Policies for cyber-security risk management.	Complied. The Bank's Information Security Unit has implemented information security policies and performs periodic reviews.

Corporate Governance Principles	Compliance Status
G.3 The Board should allocate regular and adequate time on the Board meeting agenda for discussions about cyber-risk management.	Complied. Cyber security risks are discussed at IT Steering Committee as and when required and quarterly at IRMC as an agenda item of Information Technology Risk and Cyber Risk.
G.4 The Board should ensure the effectiveness of the cybersecurity risk management through independent periodic review and assurance.	Complied. An independent cyber security review was done in 2020. Process in place to carry out the same yearly.
G.5 Disclosure of the process to identify and manage cyber security risks.	Complied. Please refer page 144 of the Board of Directors report on the affairs of the Bank and page 137 of the Corporate Governance Report which details the process to identify and manage cyber-security risks.
H. ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)	
PRINCIPLE H.1- ESG REPORTING: The principle of Annual Report should contain sufficient information to enable investors and other stakeholders to assess how ESG risks and opportunities are recognised, managed, measured and reported	
H.1.1. Reporting of ESG	Complied. Please refer page 52 for details
H.1.2. Environmental factors	Complied. Please refer pages 111 to 116 for details
H.1.3. Social factors	Complied. Please refer pages 102 to 110 for details
H.1.4 Governance	Complied. Please refer page 52 for details
H.1.5. Board's role on ESG factors	Complied. Please refer page 146 for details

Risk Management

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RISK MANAGEMENT IN THE NEW NORMAL

The COVID-19 pandemic has had devastating and rippling effects across the world, and well into a year of its outbreak, the pandemic continues to put severe strain on communities, livelihoods and businesses. The uncertainties and unexpected variables brought about by the pandemic have necessitated all businesses to fundamentally rethink their traditional operating models, business models and customer value propositions. Against this backdrop, challenges for the banking sector have been particularly acute, with volatile market conditions, deteriorating credit quality, and operational challenges impacting performance, stability and sustainability. The sector has also been called upon to support affected businesses and provide impetus for revival of the economy, which in turn required agility and responsiveness.

The unexpected crisis challenged existing risk management frameworks of banks all over the world in terms of their effectiveness and agility. These are unprecedented times for CROs, risk functions and the business and key decision makers are required to navigate their organisations through uncharted waters in these turbulent times.

DRIVING RESILIENCE DURING THE PANDEMIC

Government response to the pandemic	
Risk type	
Implications	
Measures taken to strengthen risk management measures	

BANK'S RISK PROFILE AT A GLANCE

Quality portfolio	→ A diversified portfolio of loans and advances and income streams across customer segments, industry sectors and products → Stringent and proactive monitoring of large corporate exposures → Asset quality maintained despite challenges - Gross NPA ratio of 5.35% → Portfolios segregated as minimal, short term, medium term and long term stress considering the COVID-19 impact and action taken accordingly to support customers whilst safeguarding the Bank's interests
Prudent Capital & Liquidity position	→ Well capitalised with a total capital ratio of 14.32% → Diverse funding sources and sound liquidity position → Liability base strengthened with deposit roll over rates above 75% → Substantial portfolio of high quality liquid assets that can be realised in the event of liquidity stress - Liquidity Coverage Ratio - All Currency 157.12%
Robust Risk Governance structure & experienced team	→ The Bank has a well-defined risk appetite statement which is aligned to the Bank's strategy and approved by the Board. The risk appetite was reviewed in line with emerging developments and challenges in the operating environment → Continuous monitoring of the risk profile to ensure it remains within the risk appetite and regular stress testing to assess vulnerabilities → The Bank reviewed and adjusted exposures, underwriting standards and limits in response to observed and anticipated challenges in the external environment and expectations → Highly skilled, capable and experienced team → A robust risk management framework which assigns accountability and responsibility for the management and control of risk

Measures to support businesses

- Launch of Saubagya COVID-19 Renaissance Loan Scheme Facility at the interest rate of 4% per annum
- Extension of debt moratoria and relief to borrowers
- Suspension of all recovery actions on non-performing borrowers with penal interests waived off
- Interest rate ceilings on specific lending products such as credit cards, pawning and housing loans

Measures to ensure liquidity and stability of the banking sector

- Reduction of Policy rate and Statutory Reserve Ratio (SRR)
- Allow banks to draw down on the capital conservation buffers
- Relax classification requirements of NPLs
- Allow banks to recover loans in Rupees, as the last resort, in circumstances where recovery of loans in foreign currency is remote
- Allow banks to consider all changes made to payment terms and loan contracts due to challenges faced by customers amidst COVID-19 as 'modifications' rather than 'restructuring' for impairment purposes
- Defer the requirement to enhance capital

Implications on Risk Management and measures taken

Credit Risk	Market Risk	Liquidity Risk	Operational Risk	Cyber Risk
Increasing risk of default and escalation in impairments given the economic fallout of the pandemic and cash flow stresses faced by customers.	Market Risk matrices were under stress given the high volatility in interest rates, exchange rates and the price indices.	Liquidity pressure arising from deferment of loan repayments.	Heightened risk exposures stemming from the health and safety of employees, customers and stakeholders, loss of revenue due to business disruption, operational lapses stemming from limited manpower, and increased risk of internal and external frauds.	The increased thrust towards digital channels and automation have escalated the risk of IT and cyber security threats.
→ Pre-emptive measures such as reviewing, curtailing drawdown of new/undrawn credit facilities → New exposures permitted only on an exceptional basis with increased due diligence → DLAs normally at Business Unit/Regional levels temporarily pulled back to centre → The Board and Credit Committee fast-tracked the process to review and approve moratoria through circulation → Segregation of portfolio into four stress segments to enable a more focused approach → Proactive monitoring of customers' repayment patterns → Enhanced credit processes → Further strengthening of Stress Testing Policy and Framework	→ Proactive monitoring of market risk KPI's and Early Warning Signals → Cautious management of debt instrument positions → Adoption of alternative valuation techniques in valuing debt instruments with no actively traded market prices → Forex open positions were monitored and managed within the internal prudential levels, applying effective risk management strategies → Added the impacts of the pandemic outbreak to the stress testing exercise	→ Regular cash flow forecasting to ensure satisfactory liquidity position → Enhanced communication through ALCO to manage liquidity constraints and action follow-up → Structural Balance Sheet management through close monitoring of Balance Sheet liquidity mismatches	→ Health and safety initiatives undertaken by the Bank → The impact on Bank's profitability/liquidity was identified and the business model was changed to minimise the exposure → Close monitoring of potential areas at risk due to minimal staff operating → Revisiting of vulnerable processes and introducing new controls as appropriate Eg: Processing customer instructions via e-mail and digital channels	→ Deployed technical controls such as multi-layer firewalls → Implementation of intrusion prevention systems → Strict controls to protect from unauthorised access, data leakages and virus/malware attacks → Subscribed to the services provided by Financial Sector Computer Security Incident Response Team (FINCSIRT) → Internal and external penetration tests

Risk Management

BANK'S RISK MANAGEMENT APPROACH

The unprecedented challenges posed by the outbreak of COVID-19 has necessitated an increasingly robust and forward looking approach in the management of risks. The Bank's approach to risk management is underpinned by a comprehensive Integrated Risk Management (IRM) Framework, which is regularly reviewed and strengthened to remain relevant in an increasingly dynamic operating landscape. The Board approved framework clearly defines governance structures and the process of identifying, measuring, monitoring and controlling the Bank's risk exposures. The framework was reviewed

and revised during the year, in view of the rapid changes in the operating environment.

The main objectives of the IRM framework are;

- To establish common principles and standards for the management and control of all risks
- Provide a shared framework and language to improve awareness of risk management processes among all stakeholders
- To provide clear accountability and responsibility for risk management
- To ensure consistency throughout the Bank in risk management

In addition to the main risks (viz. Credit Risk, Market Risk and Operational Risk) the Bank considers several other material risks such as Liquidity Risk, Interest Rate Risk in the Banking Book, Underestimation of Credit Risk in Standardised Approach, Residual Credit Risk, Concentration Risk, Compliance Risk, Legal Risk, Strategic Risk, Governance Risk, Cross-border Risk, Settlement Risk, Reputational Risk, Model Risk, Risk in Off Balance Sheet items, Environmental and Social Responsibility Risk and Group Risk. The framework permeates all levels of the organisation and has underpinned the creation of a risk conscious culture.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Key Elements	Description
1 Risk Appetite & Strategy	Establishment of a risk appetite and strategy which articulates the nature, type and level of risk the Bank is willing to assume and is approved by the Board.
2 Capital Management	Capital management driven by the Bank's strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.
3 Governance & Oversight	Proper governance and oversight through a clear, effective and robust governance structure with well defined, transparent and consistent lines of responsibility established.
4 Risk Culture	Promotion of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
5 Risk Policies & Processes	Implementation of policies to ensure that risk management practices and processes are effective at all levels and execution of sound risk management processes to actively identify, measure, control, monitor and report risks inherent in all products, activities, processes, systems and exposures.
6 Infrastructure	Ensure sufficient resources and systems infrastructure are in place to enable effective risk management.

The Risk Management narrative set out in the subsequent pages has been structured in accordance with the key elements of the Bank's Integrated Risk Management Framework.

RISK APPETITE AND STRATEGY

Risk Appetite is defined as the quantum of risk the Bank is willing to assume in achieving its strategic objectives and ensuring maintenance of the desired risk profile. The Risk Appetite framework and Risk Tolerance limits are defined by the Board in consultation with the Senior Management and are aligned to the Bank's overall business strategy, providing clear direction to the business units for on-going operations and risk management. The Risk Appetite framework and Risk Tolerance limits are reviewed and adjusted by Board when required based on developments in the operating environment. In the event of a breach of a risk appetite threshold, risk management strategies and business controls are implemented to bring the exposure level back within the accepted range. The risk appetite statement translates into operational measures such as limits or qualitative checkpoints for capital, earnings volatility and concentration risk, etc. During the year, the risk appetite of the Bank was reviewed considering the challenges in operating environment. As at end of the year Bank was within the risk appetite set by the Board.

CAPITAL MANAGEMENT

Effective capital management through proactively managing the Bank's capital position, capital mix and capital allocation is crucial in protecting the Bank against insolvency while safeguarding the financial position and reputation of the Bank. Bank's approach to capital management is driven by strategic objectives and guided by the BASEL principles.

BASEL III FRAMEWORK

Basel III capital standards endeavour to strengthen the quantity and quality of capital in banks.

PILLAR I – MINIMUM CAPITAL REQUIREMENT

The objective of minimum capital requirements under Pillar I of the BASEL III framework is to ensure that banks hold sufficient capital for Credit, Market and Operational Risks.

Credit Risk - The Bank is currently using Standardised Approach for Credit Risk minimum capital computation purposes. With the intention of eventually moving to Internal Rating Based approaches the Bank rolled out rating models with the assistance of CRISIL Risk and Infrastructure Solutions Limited India in 2014. The internal rating models of the Bank were validated during the year.

Market Risk - The Standardised Measurement Approach is being used by the Bank currently for computation of minimum capital requirement. Bank has already rolled out its VaR models and will consider moving to advanced approach of capital computation for Market Risk on receipt of guidelines from the regulator.

Operational Risk - The Basic Indicator Approach is being used by the Bank for computing the minimum capital requirement for Operational Risk. Bank computes capital requirement using Alternative Standardised Approach (ASA) as well.

PILLAR II – SUPERVISORY REVIEW PROCESS

The Pillar II requires banks to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP), for assessing capital adequacy in relation to the risk profiles as well as a strategy for maintaining capital levels. The Bank has in place an ICAAP since January 2013 which has strengthened its risk management practices and capital planning process.

The Bank's capital management objectives can be summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Banks' risk appetite
- Allocate capital to businesses to support the Group's strategic objectives
- Ensure that the Bank maintains capital in order to withstand the impact of potential stress events

The Bank identified nineteen material risks based on directions given by CBSL and self-assessment of most important risk categories which require a separate mention from an ICAAP perspective. These risks are Credit Risk, Market Risk, Operational Risk, Concentration Risk, Interest Rate Risk in Banking Book, Liquidity Risk, Under-estimation of Credit Risk, Residual Risk, Strategic Risk, Reputational Risk, Legal Risk, Compliance Risk, Governance Risk, Model Risk, Settlement Risk, Environmental and Social Responsibility Risk, Group Risk, Cross-border Risk and Risks in off balance sheet exposures.

The annual Capital Planning Process involves detailed planning of the strategic capital plan over at least a three-year horizon. The plan highlights

the capital projections, capital requirements, levels of capital and capital mix to support the Bank's business plan and strategic objectives. The Bank manages its capital structure and adjusts it accordingly in line with emerging market trends and the overall risk appetite. The projected capital also takes into consideration the Bank's organic growth. NDB Group also has the option to raise capital under normal and stressed scenarios by way of equity/capital infusion, issue of innovative perpetual debt instrument, issue of subordinate bonds or hybrid capital instruments.

The Bank's strategy was revisited considering changes in operating environment and Internal Capital Adequacy Assessment Process was reviewed in line with same in June considering the challenges. Although the regulator allowed banks to draw down on capital conservation buffers by 50 bps, considering current economic conditions, the Bank opted not to drawdown on capital buffers on a prudent basis.

In order to strengthen the capital position of the Bank, NDB Group has been restructured to manage its funds within the Group more efficiently. Accordingly, NDB Capital Holdings (Pvt) Limited (NCAP) has reduced its stated capital from LKR 1 Bn by way of a capital reduction, in line with the provisions of the Companies Act No. 7 of 2007. This transaction did not result any changes to the percentage holding of the Group companies.

Bank also raised LKR 6.5 Bn via a Basel III Compliant Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5-year Debenture issue with a Non-Viability Conversion (2020-2025). Bank announced its plan to further strengthen the equity base by way of a Rights Issue with up to 106,780,489 shares being issued at a price of LKR 75.00 per share to strengthen the Tier 1 capital base and to part finance the growth in the loan book of the Bank.

Stress Testing

The Bank's comprehensive stress testing policy has been formulated in line with regulatory guidelines and global best practices and describes the purpose, governance structure and the methodology for formulating stress tests. Stress tests are conducted at various frequencies in line with the Board approved framework and results are reported to Board. Considering the changes in the operating environment, Bank carried out a comprehensive review of its stress testing policy and framework where the adequacy of stress tests, frequency, shock levels and assumptions were critically reviewed and changes were incorporated to policy and framework as required. Reverse stress testing was also introduced to stress testing policy and framework to overcome the possibility of a false sense of security that might arise from regular stress testing in which

Bank may identify manageable impacts. The outcome of stress testing process is monitored carefully and remedial actions taken in case of breaches.

The Stress Tests carried out as at 31.12.2020 are given below.

Credit Risk
→ Impact of increase in the Non-Performing Assets on Capital Adequacy Ratio (CAR) → Impact of default of Large Borrowers on CAR
Credit Concentration Risk
→ Impact of default by the largest Group on CAR → Impact of default in specific sector/region on CAR
Interest Rate Risk
→ Impact of change in Interest Rates - Trading Book (Debt Securities) → Impact of change in Interest Rates on CAR for Banking Book → Impact of change in Interest Rates of Sovereign Bonds on CAR
Exchange Rate Risk
→ Impact of Exchange Rate movements of Banks (DBU and FCBU) Net Open position on CAR → Impact of Exchange Rate movements of Domestic Banking Unit (DBU) Net Open position on Profits
Liquidity Risk
→ Market Specific Stress Test - Adverse impact on Money Market & Institutional Borrowings/Drop in Market Liquidity - DBU/FCBU on Liquid Asset Ratio (LAR) → Bank Specific - Run down on CASA & Time Deposits - DBU/FCBU on LAR → Market/Bank Specific - Adverse Impact on Total Liquid Liabilities - DBU/FCBU on LAR → Impact of loss of large depositors on LAR → Impact on CAR due to higher interest paid in a deposit run off scenario
Reverse Stress Tests
→ Reverse Stress Testing on CAR → Reverse Stress Testing on LAR

No breaches were reported in any of the stress tests of the Bank as at end of the year.

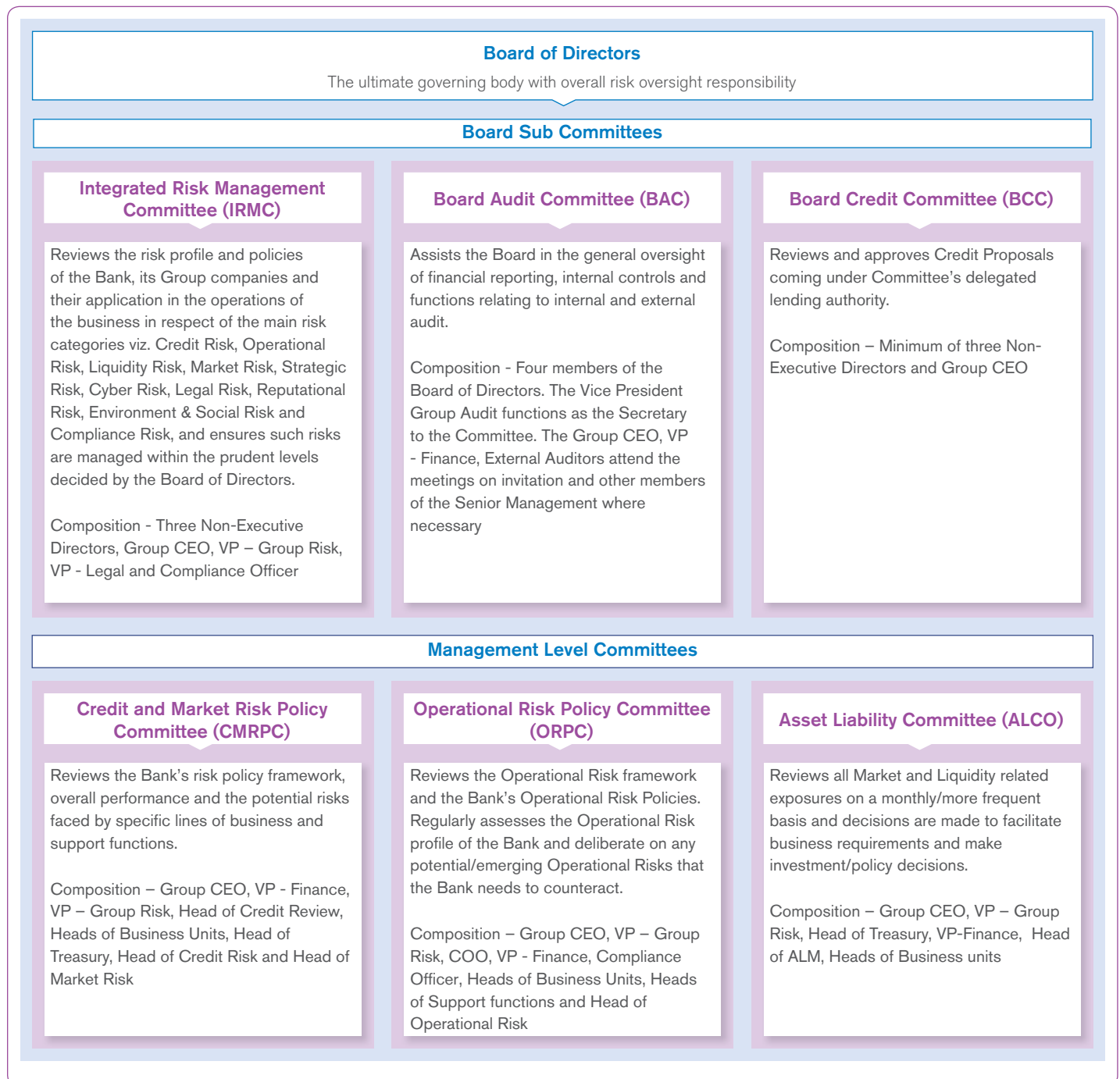
Risk Management

PILLAR III – DISCLOSURES

The Bank provides enhanced quantitative and qualitative disclosures in line with the BASEL III requirements in Annual Report, website and press to provide a meaningful picture of the extent and nature of various risks that the Bank is exposed to and the efficiency of the Bank's risk management practices.

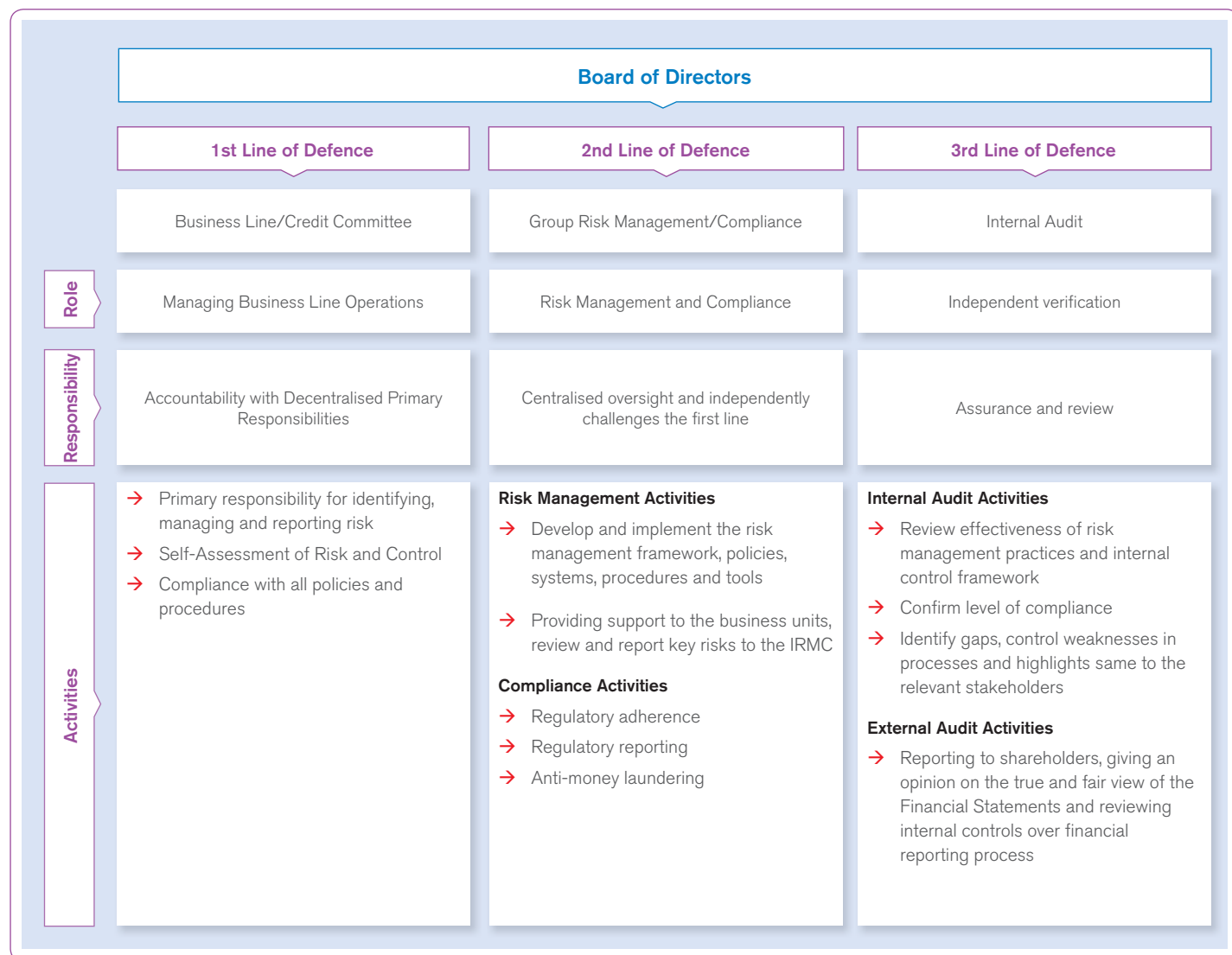
GOVERNANCE AND OVERSIGHT

The Bank's Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. In discharging its risk related responsibilities, it is supported by two key committees, namely the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) which have been formed in compliance with the CBSL Direction No. 11 of 2007 on Corporate Governance.



GOVERNANCE STRUCTURE

The risk governance structure ensures accountability and ownership, whilst facilitating an appropriate level of independence and segregation of duties. The structure is based on the three lines of defence and defines the lines of authority, roles and responsibilities to efficiently manage risk across the Bank. The activities carried out during the year by the above mentioned Board Sub Committees are covered in detail in the Board Sub-committee Reports.



GROUP RISK MANAGEMENT DIVISION

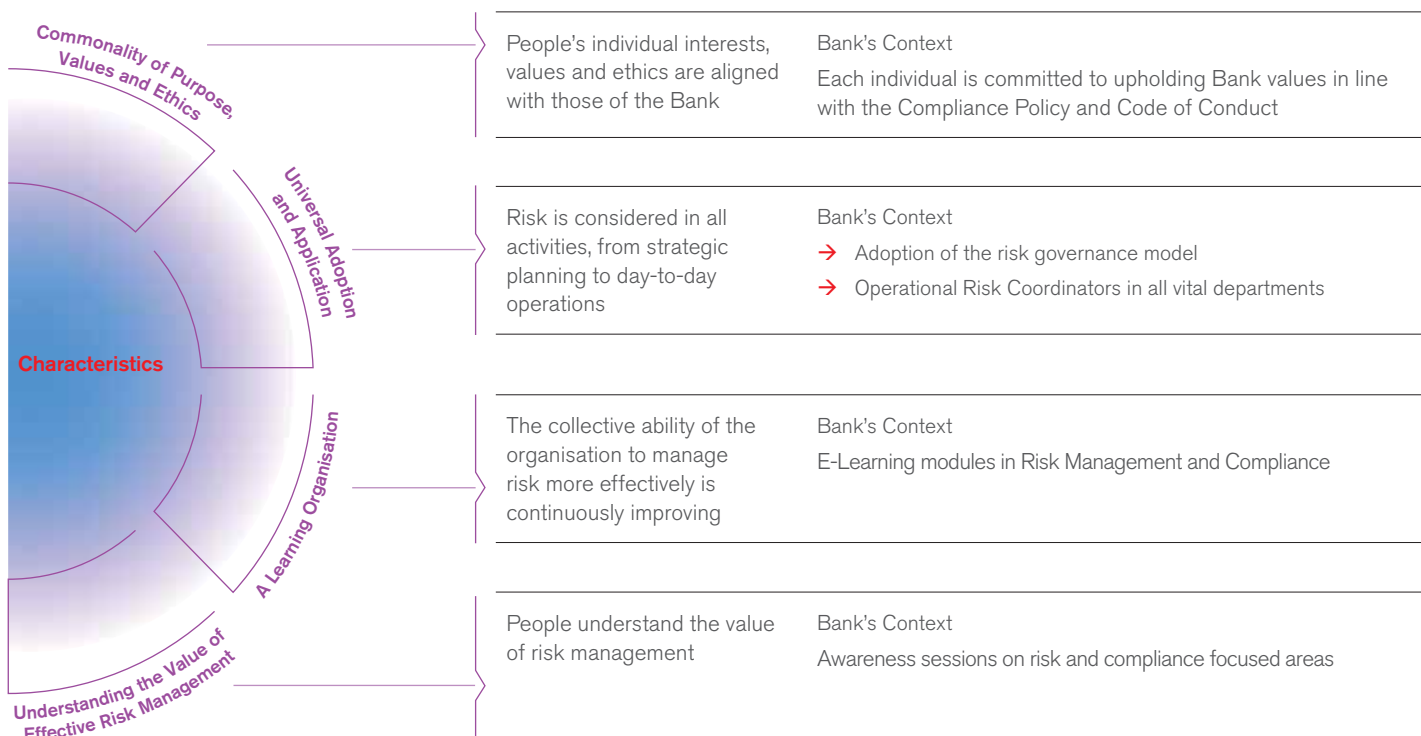
The Bank's Risk Management Division is independent of the business units and profit targets and reports directly to the Integrated Risk Management Committee. Each unit within the Risk Division contributes to the management of risk and co-ordinates across the business functions to guarantee that risk management is proactively integrated into the Bank's corporate culture.

Further, the Loan Review unit within the Group Risk Management department carries out Loan Review Mechanism (LRM) activities as prescribed by the regulator. Its responsibilities extend to identifying potential problematic loans/facilities (post approval/granting) and providing rational, objective and professional recommendations for remedial action for implementation by line management. In order to ensure the independence and to strengthen the pre-approval process the Credit Review Division which handles the pre credit review/approvals was taken under the Group Risk Management Division.

RISK CULTURE

A culture of risk awareness is fundamental to the effective management of risks within the Bank and serves as the foundation upon which a strong risk management structure is built. The Bank's commitment is clearly demonstrated through the establishment of strong policies and guidelines and ensuring that non-compliance risks are effectively managed. The key characteristics of a strong risk culture are identified as follows:

Risk Management



RISK POLICIES & PROCESSES

CREDIT RISK

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, and also from off-balance sheet products such as letters of credit and guarantees. As the Bank's most significant risk exposure, Credit Risk generates the largest regulatory capital requirement of the risks we incur. The Bank manages the Credit Risk in the entire portfolio as well as individual credits or transactions.

OBJECTIVES OF CREDIT RISK MANAGEMENT

The objectives of Credit Risk management are:

- Ensure optimal risk-reward pay-off for the Bank to maximise returns
- Maintain the quality of the portfolio by minimising the non-performing loans and probable losses
- Maintain a well-diversified portfolio by prudently managing the risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimised

- Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines
- Avoid all situations of conflict of interest and report all insider-related credits to appropriate bodies

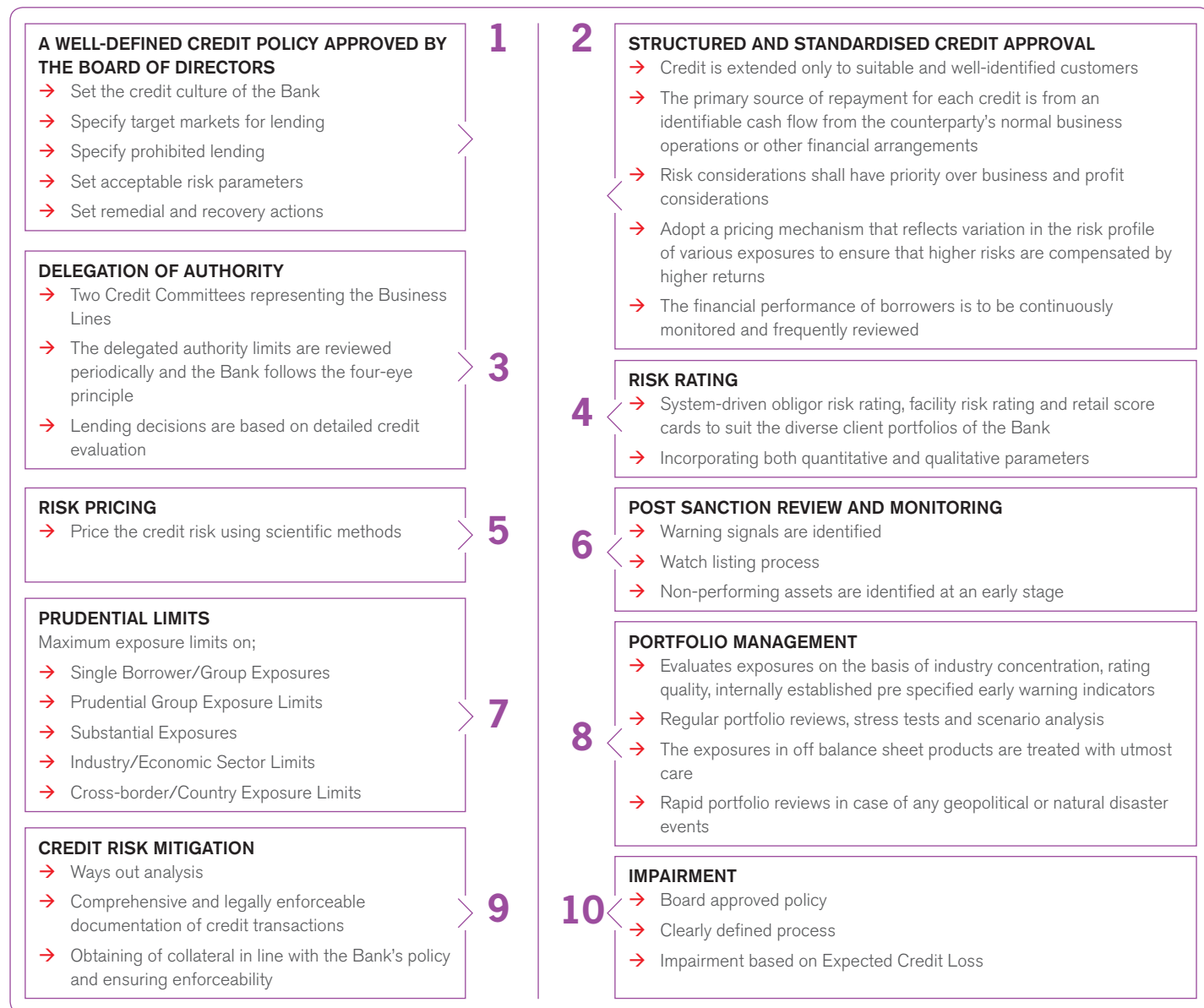
Considering the unprecedented impact of COVID-19 on economy, Bank performed a detailed analysis of sectors segmenting sub sectors into four categories as Minimal stress (Green Zone), Short Term stress (Yellow Zone), Medium Term stress (Amber Zone) and Long Term stress (Red Zone) based on the severity of the impact on the business operations and ability to recover and estimated time to recovery. Lending to clients in Red Zone was curtailed whilst delegated lending authority levels required for lending to clients in Amber Zone were increased. Clear guidelines are issued to staff regarding managing clients in each of these segments. Bank has taken several measures such as reviewing/curtailing drawdown of new/undrawn credit facilities with the view of preserving liquidity.

The Bank has a strong watch listing process that is being continuously followed for identification and monitoring of stressed accounts. Stressed clients are being closely monitored to understand

their plans for recovery and to assist them during the period of recovery with the right solutions whilst safeguarding the Bank's interest. The Board directly reviews quarterly management reports on Watch listed and Non Performing Advances, so as to provide guidance to business lines on managing the credit risk arising from such facilities.

As and when the various circulars were issued by CBSL, the Bank ensured that there was proactive engagement with clients in terms of explaining details of the circulars, the options available to clients, providing easy methods of applying for relief etc. As the concessions available under various COVID-19 Relief schemes mandated by the Central Bank such as extension of loans and granting of the Saubagya working capital facilities were to be provided to eligible customers who wished to avail them, the Bank implemented a process to expedite the approvals of such loans. The delegated lending authority for approving the extension of loans under moratorium and the approval for granting Saubagya loans were given to the Heads of Business Units in the event the normal delegated authority was higher provided that such requests satisfied the conditions stated in the various CBSL Circulars and all other controls and procedures were adhered to. Any other requests which did not comply with the CBSL guidelines had to be approved through the normal delegated lending authority.

CREDIT PROCESS



Portfolio at a glance

Credit Risk Exposure – 31 December 2020

	On-Balance Sheet Exposure (LKR '000)	Off-Balance Sheet Exposure (LKR '000)	Total Exposure (LKR '000)	Individual Impairment (LKR '000)	Collective Impairment (LKR '000)	Net Exposure (LKR '000)
Financial investments*	153,227,004	-	153,227,004	245,173	759,132	152,222,699
Loans and Receivables to Other Customers	443,536,977	216,868,600	660,405,577	8,958,311	8,973,158	642,474,108

* Total exposure to Government Securities in Local Currency as at 31 December 2020 was LKR 107 Bn.

Risk Management

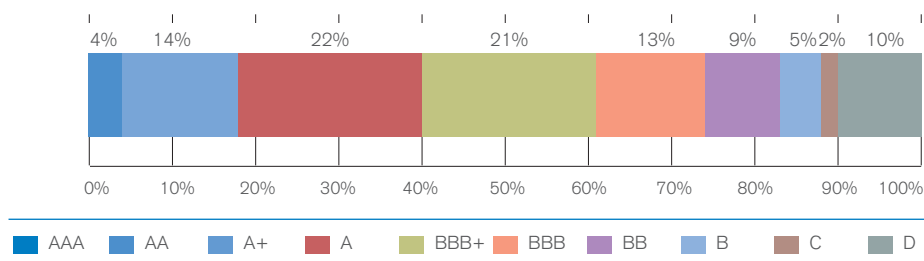
Business Segment wise Composition

The Bank's portfolio growth was managed consciously during the year. The business segment wise composition of portfolio is given below. 30% of the Bank's portfolio was concentrated in the Wholesale Banking segment. Business and Retail banking segment concentrations improved to 24% and 21% respectively during the year.

Rated portfolio Concentration

Though stresses were seen in Bank's portfolio, 75% of the rated portfolio was concentrated in investment grades, which surpassed the required minimum limits of the risk appetite of the Bank set by the Board.

Rated Portfolio Concentration



Single Name Concentration

- The Bank was in compliance with regulatory limits on Group and Single Borrower concentrations. The Bank was also in compliance with the internal limits set by the Board on Group and Single Borrower concentrations which are more stringent than those prescribed by the regulator
- The substantial exposures of the Bank accounted for only 95% of the capital base and was well within the internal limit
- The Bank's portfolio concentrations were well within the risk appetite of the Bank set by the Board

Sector Concentration

Portfolio was categorised into four zones as red, amber, yellow, and green at sub sector level considering the industry stresses and exposures to stressed sectors were managed carefully. The Bank maintained a well-diversified portfolio with no over concentration to any particular sector. The Bank was also in compliance with the minimum lending requirement of 10% to Agricultural sector.

Geographical Concentration

Based on the economic activity highest concentration of domestic portfolio was in Western Province although the branch network is spread throughout the country. 96% of the Bank's loans and advance portfolio was concentrated locally.

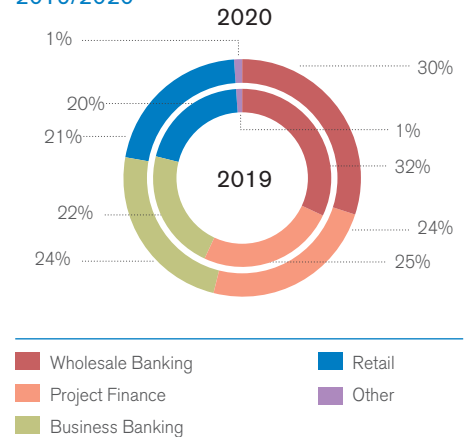
NPL and Provisioning

The Bank's NPL ratio was at 5.35% as at end of the year and was below the NPL ratio of Medium Banks reflecting a better quality portfolio than that of peers in industry.

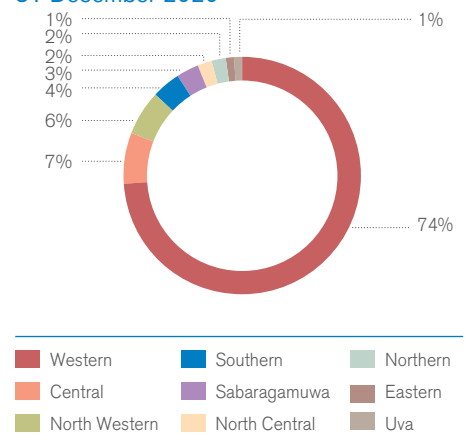
Regulatory provisioning mandated by CBSL

	LKR '000
General Provision	1,791,397
Non Performing - Specific Provisions	9,291,974
Non Performing - Judgemental - Specific Provisions	97,317
Charges	45,489
Total Specific Provision on NPL	9,434,781
Performing - Judgemental - Specific Provisions	20,287
Total Loan Loss Provision	11,246,466

Business Line-wise Composition of Portfolio 2019/2020



Geographical Concentration of Portfolio 31 December 2020



Exposures under Moratorium

The Bank granted concessions to clients based on the CBSL circular No. 05 of 2020 and approximately 40% of the Bank's portfolio was under moratorium during the 2nd quarter of 2020. At the expiry of the moratorium period on 30 September 2020, the loans under moratorium reduced to approx. 26% of the Bank's total portfolio which was mainly due to settlements of revolving facilities. 72% of the loans under moratorium which remained as of 30 September 2020 was in the performing category as at 31 December 2020, whilst 26% had moved into the under-performing category and 3% into the non performing category. As at 31 December, 22% of the Bank's portfolio was under the extended moratorium based on CBSL Circular No. 10 of 2020.

NPL and Regulatory (CBSL) Provisioning on Balance Sheet Exposures as at 31 December 2020

	NPL Amount	Provisions as at 31 December 2020	Collateral Value considered for Provisioning purposes	Net Exposure
	LKR '000	LKR '000	LKR '000	LKR '000
Pawning				
Special Mention	10,363	-	-	10,363
Substandard	10,999	2,200	-	8,799
Doubtful	4,628	2,314	-	2,314
Loss	971	971	-	-
Housing				
Special Mention	318,745	-	-	318,745
Substandard	249,653	5,219	223,560	244,435
Doubtful	140,728	9,068	122,591	131,659
Loss	232,242	85,775	146,467	146,467
Consumer Loans				
Special Mention	423,197	-	-	423,197
Substandard	13,209	2,642	-	10,567
Doubtful	76,260	38,130	-	38,130
Loss	1,005,944	1,005,944	-	-
Leases and Hire Purchase				
Special Mention	837,643	-	-	837,643
Substandard	696,801	139,360	-	557,441
Doubtful	362,532	181,266	-	181,266
Loss	446,858	446,858	-	-
Credit Cards				
Special Mention	99,837	-	-	99,837
Substandard	75,285	18,821	-	56,464
Doubtful	119,499	59,749	-	59,749
Loss	-	-	-	-
Working Capital Facilities				
Special Mention	2,460,705	-	-	2,460,705
Substandard	505,421	83,658	87,132	421,763
Doubtful	803,267	347,257	108,752	456,009
Loss	2,105,244	1,965,615	139,629	139,629
Term Loans				
Special Mention	328,150	-	-	328,150
Substandard	1,513,148	173,688	644,708	1,339,460
Doubtful	2,358,265	525,945	1,306,376	1,832,320
Loss	5,388,999	2,505,497	2,883,502	2,883,502
Overdraft Facilities				
Special Mention	276,343	-	-	276,343
Substandard	498,900	75,472	121,540	423,428
Doubtful	389,046	110,359	168,327	278,686
Loss	1,886,624	1,447,610	439,014	439,014
Other				
Special Mention	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	58,556	58,556	-	-
Total	23,698,062	9,291,974	6,391,599	14,406,088

Risk Management

MARKET RISK

Market risk is the risk to earnings or capital due to changes in market driven variables that affect the value of trading and accrual positions and Bank's portfolios are exposed to these variables and correlations in varying magnitudes.

Market risk categories

Key Market risk category	Risk component	Description	Measurement tools	Severity	Impact	Exposure
Interest rate		Risk of loss arising from movements or volatility in interest rates				
	Re-pricing	Holding assets and liabilities and off-balance sheet positions with different principal amounts, maturity dates or re-pricing dates, thereby creating exposure to unexpected changes in the level of market interest rates	Re-pricing gaps and Interest rate sensitivity limits	High	High	Medium
	Yield curve	Yield curve risk arises when unanticipated shifts occur in the slope and the shape of the yield curves	Rate shocks, VaR (Value at Risk) analysis, Duration, holding period limit, PVBP analysis, Price sensitivity and MIS reports	High	High	High
	Basis	Differences in the relative movement of rate indices that are used to price instruments with similar characteristics	Rate shocks, VaR analysis and MIS reports	High	Medium	Medium
Foreign exchange		Risk of losses arising from the movements in foreign exchange rates by holding foreign currency denominated assets and liabilities with different currencies and maturities	Regulatory NOP limit, individual and aggregate currency exposure limits, VaR analysis, gap limits, scenario analysis, stress testing and stop loss limits	High	Medium	Medium
Equity		Possible losses arising out of prices or volatilities in individual equities	Mark to Market calculations	Low	Low	Negligible
Commodity		Exposure to changes in prices and volatilities of individual commodities		Low	Low	Nil

Market risk arises mainly from interest rate risk and FX risk, where Non-trading portfolio (Banking Book) which accounted for 95.4% of the total assets and 93.3% of total liabilities. The Bank had a negligible exposure to equity risk and was insensitive to commodity related price risk.

The market risk exposure by trading and non-trading portfolios of the Bank is set out in the table below.

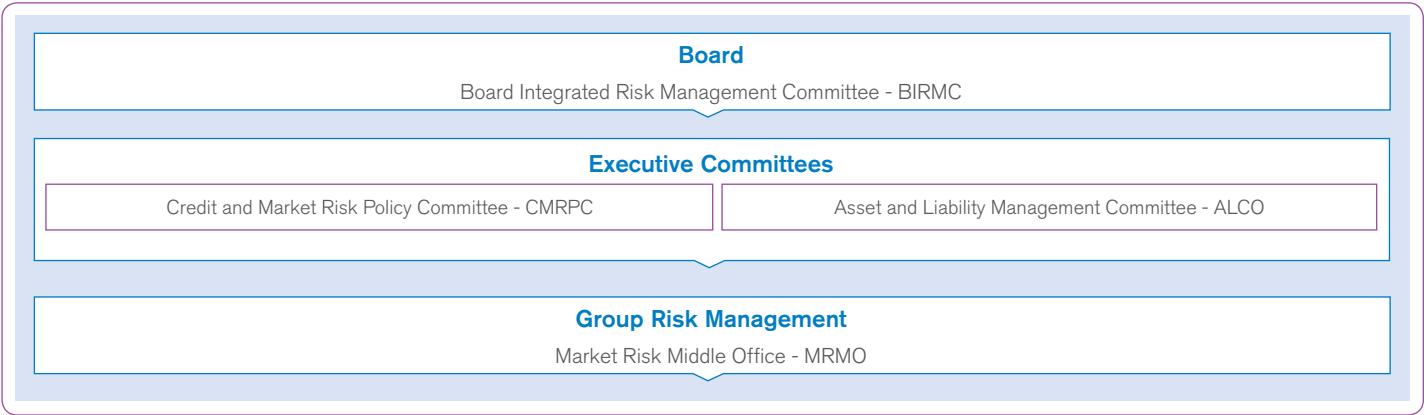
As at 31 December 2020	Market risk measurement		
	Carrying amount	Trading book	Non-trading book
	LKR '000	LKR '000	LKR '000
Assets subject to market risk			
Cash and cash equivalents	106,375		106,375
Balances with the Central Bank of Sri Lanka	6,812,099		6,812,099
Placements with banks	12,401,533		12,401,533
Derivative Financial Instruments	1,429,470	1,429,470	
Financial assets recognised through profit or loss measured at fair value	5,574,175	5,574,175	
Financial assets at amortised cost - loans and receivables to other customers	425,605,508		425,605,508
Financial assets at amortised cost - debt and other instruments	44,711,640		44,711,640
Financial assets measured at fair value through other comprehensive income	108,593,183		108,593,183
Total	605,233,983	7,003,645	598,230,338
Liabilities subject to market risk			
Due to Banks	24,173,318		24,173,318
Derivative Financial Instruments	1,016,787	1,016,787	
Financial Liabilities at amortised cost - due to depositors	463,386,062		463,386,062
Financial Liabilities at amortised cost			
- due to debt securities holders	1,500,007		1,500,007
- due to other borrowers	34,284,109		34,284,109
Debt securities issued	19,880,891		19,880,891
Total	544,241,174	1,016,787	543,224,387

OBJECTIVES OF MARKET RISK MANAGEMENT

The primary objective of Market Risk Management (MRM) is to ensure that business units optimise the risk-reward relationship within the Bank’s pre-defined risk appetite and avoid exposing the Bank to unacceptable losses.

Through a well-defined risk governance structure, market risks are identified, assessed, controlled and reported to ensure that the Bank operates within the allocated risk appetite levels.

Market and Liquidity risk governance structure



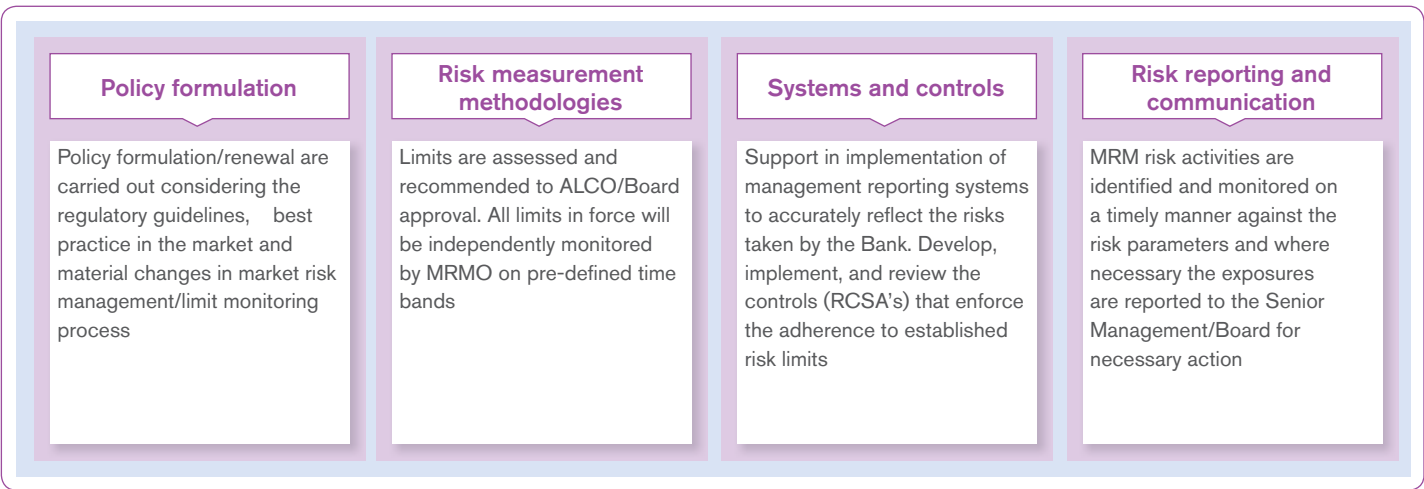
POLICIES

Risk monitoring is guided by a well-defined policy framework and limit structure, aligned to the Bank’s business model, balance sheet and risk appetite. The Board supported by Integrated Risk Management Committee (IRMC) approves the risk parameters as recommended by the Asset and Liability Management Committee (ALCO) and Market Risk Middle Office to facilitate the business needs.

The Risk Management Policy Framework covers the Market, Liquidity, Asset and Liability risk management guidelines on the procedure and techniques for assessing, managing, monitoring and reporting of risks related therein.

PROCESSES

The key functions of market risk management include policy formulation, risk measurement methodologies, systems and control, risk reporting and communication. This will provide guidance on procedure for market risk management within the overall risk appetite of the Bank.



The implementation of the Bank's risk management policies, procedures and systems are delegated to the Head of Market Risk Middle Office who reports to the Chief Risk Officer.

Risk Management

MARKET RISK ANALYTICS

Foreign Exchange Risk

Prudential open exposure limits are set in addition to the regulatory limits and managed to take advantages of the exchange fluctuations in the market. Pro-active measures such as stress tests, scenario and VaR analysis are carried out to minimise potential losses.

The table below shows the Bank's consolidated Foreign exchange position and the exposure held against the Bank's capital base which is managed well within the regulatory limit of 30%. The Foreign currency risk due to significant depreciation of the exchange rates was mitigated through effective position management, adherence to internal prudential limits, stress testing and hedging strategies adopted by the Bank.

Bank's exposure to FX risk

Currency	Net open position	Overall exposure in respective foreign currency	Overall exposure in
	'000	'000	LKR '000
USD	(2,702)	(2,702)	507,929
Pound Sterling	(101)	(101)	25,793
Euro	(60)	(60)	13,951
Japanese Yen	(2,807)	(2,807)	5,117
Australian Dollar	(90)	(90)	13,049
Canadian Dollar	(11)	(11)	1,627
Other currencies (in USD)	400	400	142,410
Total exposure (in LKR)			709,878
Total capital funds as at 31 December 2020			44,781,022
Total exposure as a % of total capital funds			1.59%

Value at Risk (VaR)

In accordance with the BASEL guidelines the Bank's Foreign exchange trading portfolio is subject to VaR measurement on a daily basis and the exposures are managed at prudent levels.

Value at Risk (VaR) on Forex Trading portfolio

	As at 31 December 2020	As at 31 December 2019
VaR - (at 99%)		
Forex Trading	6.58	0.92

Historical approach, 1 day holding period

Stress testing on DBU net open position (NOP)

Stress testing on DBU - NOP under different magnitudes of shocks to the exchange rate are performed to assess the impact on profitability as given below.

Bank's foreign currency DBU net open position and stress test results as at 31 December 2020

	USD/LKR				
	Net position	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Magnitude of shock (adverse)		5%	10%	15%	25%
Spot rate movement	188.00	197.40	206.80	216.20	235.00
Net open position-DBU(USD)/Stress P&L (LKR)	(3,583,007)	(33,680,266)	(67,360,532)	(101,040,798)	(168,401,330)

Sensitivity analysis

The Bank's major foreign currency net open positions (NOP) are subject to daily sensitivity analysis to determine the impact of exchange rate movements by way of profit or loss to the Bank's Statement of Profit or Loss.

Exchange rate sensitivity of major foreign currency net open positions as at 31 December 2020

Spot rate shocks		LKR depreciate			Spot rate	LKR appreciate		
Currency	Net open position	-5%	-2.5%	-1%		1%	2.5%	5%
USD	(2,701,753)	(25,396,475)	(12,698,237)	(5,079,295)	188.00	5,079,295	12,698,237	25,396,475
GBP	(100,689)	(1,293,969)	(646,985)	(258,794)	257.02	258,794	646,985	1,293,969
EUR	(60,321)	(692,581)	(346,291)	(138,516)	229.63	138,516	346,291	692,581
JPY	(2,807,135)	(255,701)	(127,851)	(51,140)	1.82	51,140	127,851	255,701
AUD	(90,137)	(651,900)	(325,950)	(130,380)	144.65	130,380	325,950	651,900
Total		(28,290,626)	(14,145,313)	(5,658,125)		5,658,125	14,145,313	28,290,626

Interest Rate Risk (IRR)

Assets in the Bank's trading book (held for trading/Fair value through P/L) are held primarily for generating profit through short term differences in prices/yields while the banking book (available for sale (AFS)/Fair value through OCI and held to maturity/Amortised cost) comprises assets and liabilities, which are contracted basically for steady income generation and are generally held till maturity. Thus, the Bank assesses the price risk in the trading book, whilst the earnings or economic value changes are monitored in the banking book.

INTEREST RATE RISK IN TRADING BOOK

Key Indicator	Position as at 31 December 2020	Position as at 31 December 2019
Mark to market of Financial Assets measured at fair value through profit or loss	LKR (0.32) Mn	LKR 0.33 Mn
Mark to market of Financial Assets measured at fair value through Other Comprehensive Income	LKR 301 Mn	LKR 293 Mn
Duration of debt securities - Financial Assets measured at fair value through profit & loss	0.34 Years	1.27 Years
Duration of debt securities - Financial Assets measured at fair value through Other Comprehensive Income	1.15 Years	1.44 Years
Duration of debt securities; International Sovereign Bonds - Financial Assets measured at fair value through Other Comprehensive Income	2.12 Years	3.71 Years

The Bank's Fixed Income securities portfolio is subject to VaR measurement under historical simulation method on a daily basis and the portfolios are managed at prudent levels.

Value at Risk (VaR) on Treasury bills/bonds portfolio

	LKR Mn	
	As at 31 December 2020	As at 31 December 2019
VaR - (at 99%)		
Debt securities - Financial Assets measured at fair value through profit & loss	1.65	3.10
Debt securities - Financial Assets measured at fair value through Other Comprehensive Income	234.77	75.39

Historical approach, 1 day holding period

Interest Rate Risk in the Banking Book (IRRBB)

The IRRBB arises mainly through non-trading asset and liabilities such as loans and advances, which is measured and managed through price sensitivity/EVE (Economic value of Equity) NII and interest rate sensitivity gap analysis. The price sensitivity/Duration analysis (Economic value perspective) of the Balance Sheet is managed within the risk parameters whilst maximising the market potential on interest sensitive assets and liabilities. Adapting to an accommodative monetary Policy stance and impose of capping on interest rates by the regulator adjusted the lending rates to a downward trend in the market, which impacted the Bank's net interest margin. However, the structure of the Bank's balance sheet was at an advantage on a low interest rate regime. Nevertheless, the Bank is conscious on increasing fixed rate long term liabilities to mitigate the interest rate risk of the balance sheet.

Risk Management

Price sensitivity

	LKR Mn	
Price Sensitivity of assets and liabilities	Price sensitivity 2020	Price sensitivity 2019
As at 31 December	160	1,330
Average for the year	914	1,105
Maximum for the year	1,292	1,330
Minimum for the year	160	732

Price Sensitivity - sum of value change in portfolio due to a 1% change in interest rate

Interest Rate Sensitivity Gap Analysis

The Bank monitors the interest rate sensitivity of assets and liabilities using re-pricing gap report (Disclosure note No 56.4(a)(ii)).

Equity Risk

The Equity price risk arises due to adverse movement in the value of the individual stock price or of the corresponding equity index. The investments held in the Trading portfolio (Fair value through profit or loss) and the AFS portfolio (Fair value through OCI portfolio) are subject to mark to market valuation.

TYPE	Carrying Value	Fair Value	Realised gains/ losses	Unrealised gains or losses	Amount included in capital adequacy calculation	
					Amount adjusted from CET 1 capital	Amount considered for Market Risk
Financial Assets measured at fair value through profit or loss	3,000,000.00	3,061,424.45	-	61,424.45	-	765,356.00
Financial Assets measured at fair value through Other Comprehensive Income	1,983,820.69	1,036,541.17	-	(947,279.52)	647,949.93	-

Commodity Risk

Commodity price risk arises due to volatilities in the commodity exposure of the Bank. The Bank did not hold any Commodity exposures during the year 2020.

Counterparty Risk

When undertaking foreign exchange dealing and trading with interbank counterparts and corporates, two general types of risks arise.

- Pre-settlement Risk - Refers to the counterpart becoming insolvent prior to the settlement date of transaction. The exposure comes by way of banks' inability to find an alternate party to deal on same rates (interest or exchange) due to market changes
- Settlement Risk - Relates to the event where the counterpart to the deal is unable to honour settlement obligations (either in local currency or foreign currency) to the Bank after having taken possession of funds paid by the Bank in settlement

The Bank sets individual counterpart limits and maximum daily delivery limits (MDDR limits) to mitigate such risk. These limits are set through critically assessing the financial standing, balance sheet size and other risk parameters of such counterparts.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner without incurring unacceptable losses. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of borrowings under securities and repurchase transactions, lending and investment commitments. Further the Banks are exposed to liquidity risk by the mismatches on maturities of assets and liabilities.

OBJECTIVES OF LIQUIDITY RISK MANAGEMENT

The objective of our liquidity framework is to ensure that all anticipated funding commitments can be met as and when due whilst maintaining the business profile. It is designed to be adaptable to changing business models, market dynamics and regulations.

POLICY FRAMEWORK

The Bank's well-articulated liquidity risk management policies and procedures provide guidance on liquidity risk exposures and business volumes which ensures that it has sufficient liquidity to meet its financial obligations at a fair market price. The Bank also monitors key liquidity metrics on a regular basis, both on local and foreign currency balance sheets and prudential limits are set to effectively manage the liquidity profile.

PROCESSES

The responsibility for Liquidity risk management rests with the ALCO while Treasury/ALM units are responsible for executing the day-to-day liquidity management (Liquidity Risk governance structure). Liquidity is managed and monitored proactively to ensure that the Bank meets the regulatory as well as the internal prudential limits.

The Bank is also equipped with a comprehensive Liquidity Contingency Funding Plan (LCFP) linked to the Business Continuity Plan in line with the regulatory guidelines. The LCFP clearly defines

the responsibilities of the Liquidity Management Team, internal/external liquidity risk trigger points, stage for plan invocation/de-activation and the action plans to be exercised to ensure that all stakeholders of the Bank are safeguarded. In addition, the Bank has entered in to reciprocal liquidity funding agreements with identified counterpart banks to ensure stability.

Liquidity Risk Analytics

Liquidity measurement could be measured through Stock approach or Flow approach. Under the stock approach liquidity is measured in terms of

key ratios which portray the liquidity stored in the balance sheet. In the flow approach a statement of maturities of assets and liabilities is prepared placing all cash flows in time bands according to the residual time to maturity. Separate gap limits are set for the local currency and foreign currency maturity mismatch reports based on the size and the nature of the Bank's balance sheet.

Whilst meeting the regulatory limits Bank uses several internal prudential measures to manage its liquidity position. Certain limits are set for key liquidity measures, above the regulatory limit to

give early warnings signals of tightening liquidity positions of the Bank. Factors such as Market liquidity, exposure to interbank market, movement on loans and advances and deposit mix are regularly monitored to identify any impending liquidity strain on the Bank and are managed within the Bank's risk appetite.

Key Risk Metrics

The Bank maintained the following regulatory liquidity ratios as at the year end.

Key Indicator - Regulatory	Position as at 31 December 2020	Position as at 31 December 2019
Statutory Liquid Asset ratio % - DBU	28.84	20.93
Statutory Liquid Asset ratio % - FCBU	26.88	24.78
Liquidity Coverage Ratio (LCR) % - LKR Currency	161.97	162.42
Liquidity Coverage Ratio (LCR) % - All Currency	157.12	153.26
Net stable funding ratio (NSFR) %	112.52	108.92

The key ratios used for measuring liquidity under stock approach are given below.

Key Indicator - Internal	Position as at 31 December 2020	Position as at 31 December 2019
Net Loans to Total Assets Ratio (%)	67.90	74.90
Advances to Deposits Ratio (%)	90.00	101.00
Liquid Assets to Short Term Liabilities (%)	33.73	28.05
Commitments to Liquid Assets (%)	68.76	104.45

Flow approach

A statement of Maturity analysis of assets and liabilities (MAL) is prepared placing all cash inflows and outflows in the time bands according to the residual time to maturity and non-maturity items as per CBSL recommended and Bank specific behavioural assumptions. Net exposure at each time band is managed in line with the pre-defined risk appetite.

Maturity Gap Analysis for local currency denominated Assets and Liabilities - as at 31 December 2020

In LKR '000	Up to 1 month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Total Assets	60,570,101	57,724,235	30,411,476	81,603,394	128,764,620	62,309,797	74,514,159	495,897,781
Total Liabilities	51,878,629	84,195,958	89,259,027	80,884,164	48,310,430	38,313,912	103,055,661	495,897,781
Net Liquidity period Gap	8,691,473	(26,471,723)	(58,847,551)	719,229	80,454,190	23,995,885	(28,541,502)	-

Maturity Gap analysis for foreign currency denominated Assets and Liabilities - as at 31 December 2020

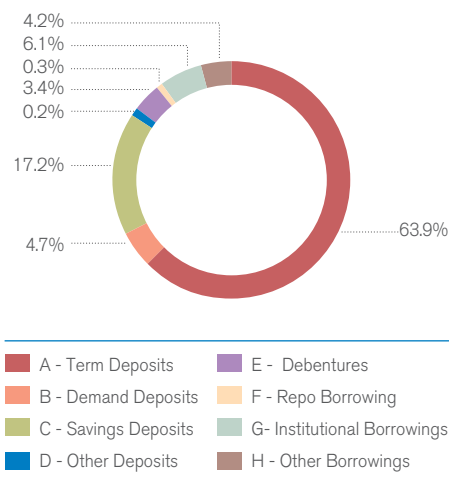
In USD '000	Up to 1 month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Total Assets	96,413	104,051	35,876	16,587	189,360	68,572	216,394	727,253
Total Liabilities	85,544	136,574	163,421	203,735	51,483	32,792	53,704	727,253
Net Liquidity period Gap	10,869	(32,523)	(127,545)	(187,148)	137,878	35,780	162,689	-

Risk Management

Diverse funding profile

The Bank's funding profile is analysed based on product and currency. Regular stress tests are performed to assess the Bank's ability to withstand stressed scenarios and maintain a healthy liquidity position. Funding requirements are assessed and managed through maturity gap analysis and cash flow reports on a regular basis.

Funding Diversification by Product



The Bank will identify short, medium and long term funding requirements in local and foreign currency whilst maintaining the budgetary requirements. The Bank managed to increase low cost funds; CASA ratio to 25% while achieving a deposit growth of 21%.

OPERATIONAL RISK

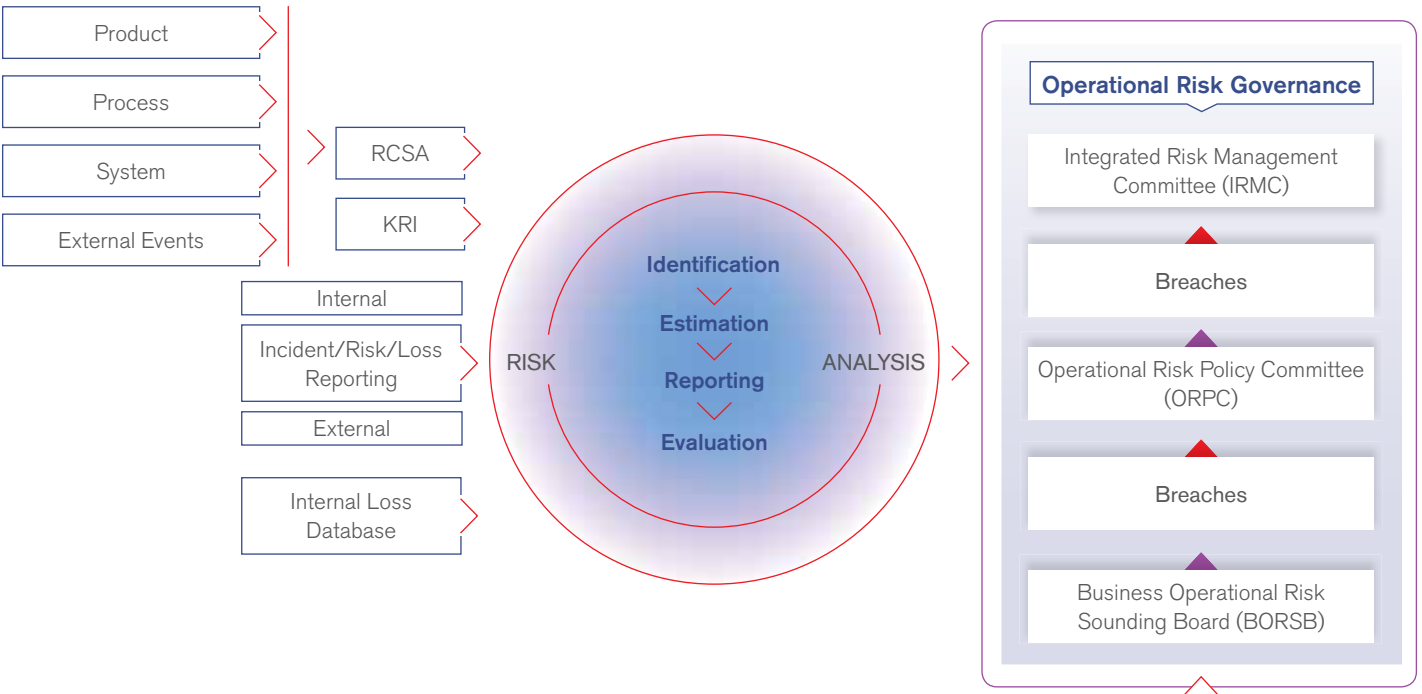
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, systems, human factors or from external events. It includes legal risk but excludes strategic and reputation risk. Operational risks may arise from inadequate or lack of control over day-to-day banking activities due to the failure of systems, processes, frauds, and natural disasters. Thus, managing Operational Risk is an integral part of a Bank's daily activities and the implementation of sound practices is essential considering the nature, size, complexity and the risk profile.

Operational Risk management in the Bank is guided by the 'Sound Practices for the Management and Supervision of Operational Risk' issued by the Basel Committee and the regulations issued by the Central Bank of Sri Lanka. The Bank's Operational Risk Management

Policy has been established in line with the risk management framework spanning all business/ product lines and support functions and is a requisite to be followed by all employees.

The Operational Risk framework articulates the risk management process used to identify potential threats in particular, to identify potentially large or catastrophic losses to the Bank and its strategy to reduce the impact of risk. Roles and responsibilities are assigned to effectively monitor and evaluate the risk management strategy and the implementation of an enterprise-wide Operational Risk approach. The framework is reviewed annually by the IRMC and the Board.

The established risk management process supports identifying the nature and types of operational risks and their causes and the resulting effects on the Bank. It also provides comfort for the maintenance of the capital buffer required for operational risk losses, instituting mechanisms to mitigate or control the risks that the Bank is exposed to. Mitigating actions are prioritised based on the criticality of the risk exposures and escalation mechanisms are set to ensure that the management of the Bank is fully aware of the sources of potential or emerging Operational Risks.



The Operational Risk Management Unit (ORMU)

as the second line of defence facilitates the process of identifying, measuring, managing and monitoring of operational risks. The past, current and future operational risks are assessed using the Operational Risk Matrix which portrays the aggregate expected exposure towards the specific risk and thus actions are prioritised according to the criticality of risks. ORMU periodically reviews procedural changes and provide recommendations for improving/strengthening controls.

Business Operational Risk Sounding Board (BORSB) consisting business, support function units and ORMU staff, discuss the progress on rectification of operational risk events at regular intervals. Risks that require attention of the Senior Management are escalated to the Operational Risk Policy Committee (ORPC), Integrated Risk Management Committee (IRMC) and Board.

Risk identification is aimed to create a high degree of alertness to early warnings of unknown risks. Staff is encouraged to report all failures or mishaps so that the underlying risks can be identified and responded to before they escalate in impact. The responsibility of risk identification is assigned to all employees and they are considered Operational Risk Managers responsible and accountable for Operational Risks under their scope of work. Thus, employees are encouraged to focus on identifying deficiencies in processes and systems, and implement solutions and remedial action together with the ORMU. Disciplinary actions are taken on Operational Risks arising due to human factors and lessons learnt are discussed at Operational Risk awareness sessions.

Operational Risk management methodologies are automated via the Bank's Operational Risk Management System (NORMS), facilitating the implementation of operational risk tools across the Bank and Group companies. Incidents and near misses relating to Operational Risks are analysed to identify the root causes/underlying risks in a timely manner as and when the incidents are reported. Historical and current Operational Risk losses are maintained in a database and the information is analysed to ascertain the criticality of losses and the causes of the loss events.

The approach on risk identification under Risk and Control Self-Assessments (RCSA) and Key Risk Indicators (KRI) was transformed to improve the focus on determining the risk profile of Bank. RCSAs and KRIs are periodically revisited and revised to capture recent changes to the business environment.

Global operational risk events are being monitored and distributed to respective stakeholders to identify any implications within the Bank and actions required to mitigate similar risks.

Scenario Analysis is being used to identify and assess low-frequency/high-severity potential operational risks that may have severe impact to the Bank and measures are being taken to strengthen the available controls and the action plans.

The Operational Risk management process ensures that operational risks are effectively managed from the time they are identified and mitigated to fall within the risk appetite of the Bank. Accordingly, appropriate decisions are made in relation to avoid, accept, reduce or transfer the risks faced by the Bank.

Outsourcing

With the intent of focusing on the core banking functions, the Bank has outsourced certain non-core functions to external vendors who

are specialised in their respective fields. The management of outsourcing arrangements is strictly in accordance with the CBSL Outsourcing Direction No. 02 of 2012 and the Outsourcing Policy of the Bank. The Bank is committed to ensure that the outsourced parties uphold and extend high standards of customer care and service excellence. All outsourcing arrangements of the Bank are evaluated by the Outsourcing Committee to be in line with the regulatory provisions.

Insurance

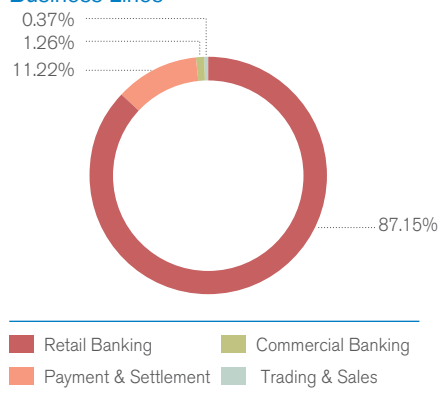
The Bank has a comprehensive insurance program as a key measure to mitigate operational risks. The insurance program is reviewed periodically and further refined on an on-going basis. The Bank has engaged an insurance broker to source terms, evaluate them and add value using their expertise.

Operational losses which are insurable are covered by a spectrum of insurance policies on a system wide basis.

Risk	Insurance Framework
General Buildings and their contents including IT equipment are insured at replacement value. The limits of indemnity are decided upon assessing the likely exposure of risks to the Bank	Fire Insurance Policy and other insurance policies covering plate glass, machinery break downs and all electronics and computers.
Theft/Fraud Fraudulent actions by an employee or by a third party acting on its own or with the aid of an employee with the intent to obtain illicit personal gain or through malice.	Banker's Indemnity Insurance Policy
Professional Liability The consequences of any legal action against staff or managers as a result of their professional errors or omissions.	Professional Indemnity Policy, Directors & Officers Liability and Public Liability.
Computer Crime Fraudulent input and modification via computer systems, electronic computer programs, electronic data and media, computer viruses, electronic and telefacsimile communications, electronic transmissions, electronic securities and voice incinerated transfers.	Computer Crime Insurance Policy

Risk Management

Operational Risk Losses - 2019 Business Lines



Commercial Banking



Execution, Delivery & Process Management

Payment & Settlement



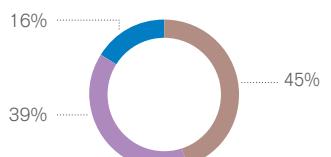
Execution, Delivery & Process Management

Trading & Sales



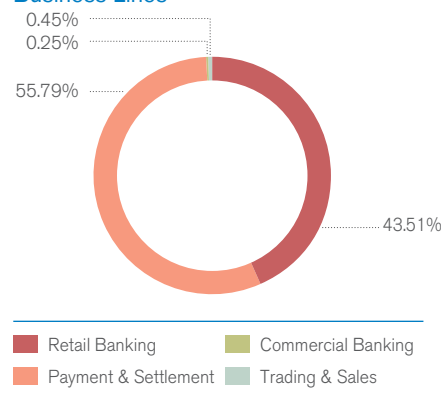
Execution, Delivery & Process Management

Retail Banking



Execution, Delivery & Process Management
Internal Fraud
External Fraud

Operational Risk Losses - 2020 Business Lines

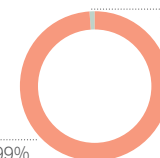


Commercial Banking



Execution, Delivery & Process Management

Payment & Settlement



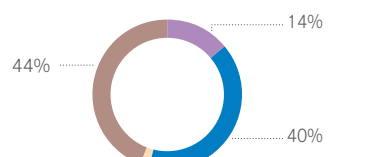
Internal Fraud
Execution, Delivery & Process Management

Trading & Sales



Execution, Delivery & Process Management

Retail Banking



Internal Fraud
External Fraud
Business Disruption and System Failures
Execution, Delivery & Process Management

Majority (55%) of Operational Risk losses falls under the business line of 'Payment and Settlement', followed by the losses reported under the 'Retail Banking' business line (43%). Gross Operational Risk losses for 2020 amounted to 0.57% of the Capital Charge allocated for Operational Risk. Out of the losses falling under high frequency/low impact bucket, 75% contained individual loss events less than LKR 50,000 and 81% of these losses were pertaining to Retail Banking. The Bank was able to recover 46% of the total gross loss reported for 2020 through insurance and other sources.

COVID-19 Impact

All precautions have been taken as per the Bank's Pandemic Plan and the guidelines/ instructions issued by Ministry of Health and other Government Authorities are being adhered to with strict compliance to prevent the spread of infection within the Bank. All measures have been taken to help improve the safety standards of employees, customers, contractors and service providers. Shift, split, roster and work from home options were introduced to critical functions, including vital and non-critical functions where applicable.

The major concerns identified was the health and safety of staff and customers while the other potential concerns were increased cyber security threats, data leakage as a result of work from home on both official and personal devices, loss of revenue due to business disruption, significant increase in operational risks such as human errors, non-adherence to laid down procedures due to minimum staff operating and potential frauds both internal/external.

The Bank successfully responded to these concerns by implementing initiatives safeguarding staff and customers, tightening security measures to avoid cyber-attacks/security threats, identifying the impact on the Bank's profitability/liquidity and changing the business model to minimise exposures, close monitoring of potential areas at risk due to minimal staff operating/revisiting the vulnerable processes and introducing new controls as appropriate, and advising staff and customers to be cautious on frauds.

Managing Cyber Risk

In an increasingly complex digital society where interconnected systems and innovative digital services define the operating standards for

organisations, effectively managing cyber risks is proving to be a complex challenge. The fast-paced adoption of technology, associated risks and the constant probing of financially motivated cyber adversaries to find weaknesses to exploit and gain a foothold within the digital infrastructure of financial institutions has led to further challenges. Having understood these dynamics, the Bank strives to invest in updating its digital defenses to meet the challenges of the evolving cyber threat landscape and continue to collaborate with financial sector threat intelligence providers.

Business Continuity Management

The Bank's Business Continuity Management (BCM) Policy requires that a full set of up to date plans be in place encompassing a minimum of a Crisis Management Plan (CMP), Business Continuity Plan (BCP) and IT Disaster Recovery Plan (IT DRP). This BCM Framework is designed to comply with the requirements of the Central Bank of Sri Lanka and is approved by the Board of Directors.

These plans are formulated following the integration of Enterprise Risk Management (ERM) Framework with effective Business Impact Analysis (BIA) processes and methodologies

which anticipate all forms of threats, crisis and disasters that are inherent in the ever-changing business environment.

These plans are tested regularly at the Bank's fully equipped Disaster Recovery Site to ensure capability and resilience to business disruption and have been successful over years. The Governance of Business Continuity Management is steered through the Crisis Management Team comprising of the Senior Management and coordinated by the Banks' Business Continuity Manager. During a declared Pandemic staff operate from split locations, on roster/shift basis and work from home including 'BCP non-critical staff' at our DR Site to ensure Business Continuity. During the year, a DR exercise was conducted with the Bank's backup servers to ascertain operational readiness.

OTHER RISKS

STRATEGIC RISK

Strategic Risk can be defined as the current and prospective risk to earnings and viability arising from,

- Adverse changes in business environment with respect to the economy, political landscape, regulations, technology, actions of competitors
- Adverse business decisions
- Improper implementation of decisions
- Lack of responsiveness to changes in the business environment

Strategic risk for a bank can manifest itself through lack of well-defined long term strategy but more importantly because of failure to appropriately communicate and implement the strategy or due to unforeseen changes in the socio-political, economic or business environment. Drawing of appropriate response plans to tweak the strategy to suit the changes in the business environment is essential to the management of strategic risk.

The strategic plans are drawn at various level of granularity, e.g. a branch level strategy will detail the growth targets at branch level whereas a department level strategy will feature the achievement metrics at that level. The implementation is reviewed through monthly meetings where variances from the growth targets are analysed and corrective actions recommended.

The Strategic Plan is also linked to individual employee performance through a goal setting process and periodic performance reviews are carried out to motivate employees and create a performance culture to ensure that business goals and objectives are achieved, thus mitigating strategic risk.

Voyage 2025 is the Bank's five year (2020/2025) strategy. The Voyage 2025 strategy was developed under the guidance of Board of Directors of the Bank and involved extensive brain storming by a cross functional team comprising the Leadership Team and representation from Assistant Vice Presidents and Chief Managers of the Bank. Strategy formulation was also supported by an external subject matter expert. With approval of Board, Voyage 2025 was officially launched on 31 August 2020. Voyage 2025 is developed based on the success of the previous strategy Transformation 2020. The Bank is expected to become a more dominant and prominent player in Sri Lankan banking industry with the achievement of these targets.

CROSS BORDER RISK

Cross-Border Risk arises when the Bank is unable to obtain payments from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency and geo-political factors.

The Correspondent Banking Unit and Group Risk Management are responsible for the Bank's cross-border exposures and management of exposure limits. Cross-border assets comprise of loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, foreign exchange contracts, certificates of deposit and other negotiable paper, investment securities and formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border exposure also includes the assets owned by the Bank/Group that are held in a given country.

To effectively control the risk associated with cross-border risk, cross-border exposure/country exposure limits are set based on the Sovereign Ratings issued by International Rating Agencies such as Fitch, Standard & Poor's and Moody's Corporation and also linked to Bank's Capital Base. Exposures are captured based on the country in which the counterpart/counterparty the Bank's main Head Office is domiciled. If a branch of the counterpart/counterparty bank has been incorporated in a particular country, then exposures are to be captured in that country.

The Bank will also undertake a detailed due diligence covering the economic indicators and outlook, country rating, political risk, exchange rate risk (convertibility and transferability), banking and financial sector, etc. The Business Lines need to manage the exposures within the Board approved limits. These limits are reviewed at least annually and approved by the Board, thus mitigating the cross-border risk.

LEGAL RISK

Legal risk is understood more from its consequences, which is incurrence of penalties, fines and sometimes loss of reputation. Legal risk may vary from institution to institution depending on the manner in which it conducts its business and the documentation it follows and is closely related to compliance and regulatory risk.

Legal risk in the Bank can manifest itself through,

- Business not being conducted in accordance with applicable laws
- Inadequate legal documentation of securities and collateral accepted for credit risk mitigation
- Legal repercussions of lacuna in documents, forms, advertisements
- Other modes of conduct and communication adopted by the Bank
- Intellectual property not being adequately protected

This risk is owned and managed by the Legal Department which is assisted by third party lawyers as and when necessary to obtain an independent opinion. Specific risks relating to legal risk are reported on a monthly basis to the Board.

COMPLIANCE RISK

Very closely related with Reputation and Legal/Regulatory Risk, Compliance Risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation and integrity an institution may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisational standards, and codes of conduct applicable to its business activities. The Bank is compliant with all CBSL regulations and thus the compliance risk is minimal.

The Bank has a clearly defined, Board approved Compliance Charter, which defines the fundamental principles, roles and responsibilities of the compliance function within the organisation as well as its relationship with the Senior Management, the Board of Directors and the business and operational functions.

MODEL RISK

The Board has put in place a risk model validation policy to mitigate Model Risk of the Bank. The Bank validates risk models in line with the Board approved policy.

SETTLEMENT RISK

Settlement Risk refers to the risk arising on account of failed trades with counterparty banks in the foreign currency transactions. Settlement Risk

Risk Management

arises from possible losses when the Bank is in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. Forward Contract settlement failures can arise from counterparty default, operational problems, and other factors. Settlement risk exists for any traded product. Currently, the Bank has a procedure for monitoring limit utilisation, failed trades and excess monitoring. Settlement Risk is currently controlled by way of prudent allocation and monitoring of counterparty limits including Maximum Daily Delivery Risks (MDDR) limits for counterparties.

GOVERNANCE RISK

The Board of Directors is responsible for the overall governance of the Bank which includes formulating the Bank's strategic aims, providing leadership to operationalise same, supervising the management of the business and reporting to shareholders on their stewardship. The Bank's Corporate Governance framework has been developed with the objective of balancing the attainment of corporate objectives while ensuring the highest standards of corporate conduct and transparency.

Several policies and codes have been developed and implemented to manage Governance Risk at the Bank. The Internal Code of Corporate Governance which applies to all Directors and Key Management Personnel of the Bank sets out policies and processes for implementing the Corporate Governance Directions issued by the Monetary Board of the Central Bank of Sri Lanka, the Companies Act No. 7 of 2007. [Banks have been exempted from the Corporate Governance Regulations issued by the Colombo Stock Exchange] and the Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The Bank has in place a Compliance Policy and Code of Conduct governing all employees which outlines standards of professional and ethical conduct that all employees of the Bank are expected to conform to including areas such as general conduct and competence, confidentiality and misuse of material confidential information, managing conflicts of interest situations and insider dealing provisions.

The Bank recognises the importance of sound management of 'Governance Risk'. Accordingly, Governance Risk is managed by the Compliance Department of the Bank.

Summary of activities undertaken for management of Governance Risk is as follows.

- Annual Declarations obtained from Directors
- Implementation of the Internal Code of Corporate Governance and training Directors in the areas of Governance

- Compliance Policy and Code of Conduct which incorporates several policies of the Bank including the Confidentiality Policy, Insider Trading Prohibitions, Securities Trading Policy, Gift Policy, Anti-Bribery and Corruption Policy, Information Security Policy, approval from CEO prior to staff taking up any outside position, conflicts of interest provisions etc.
- Monitoring of transactions carried out by the Bank with related parties of the Bank in terms of the Bank's related party transactions policy
- Handling complaints of Customers of the Bank as per agreed service standards in accordance with the Complaint Handling Procedure
- Robust framework of communication related policies including Whistleblowing, Disclosure and Communications Policy
- Document Retention and Destruction Policy, Staff Transaction Policy

This well laid out framework defines the Board's collective responsibility for upholding and ensuring the highest standards of corporate governance, ethics and integrity across the Bank.

REPUTATIONAL RISK

Reputational Risk is the risk of indirect loss (current or prospective) arising from one or multiple stakeholders' adverse experience while dealing with the institution or which resulted in an adverse perception of the institution. It can also be understood as the potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in customer base, costly litigation or revenue reduction. The Bank is of the view that Reputational Risk can be triggered by a risk event in any or all of the above risk categories hitherto described.

Reputation Risk management and mitigation aspects are embedded in the Bank's policies and procedures, training programs, the Business Continuity Plan and through the Audit and Board Risk Management Committees.

The Bank monitors its Reputation Risk profile through a set of early warning indicators based on the Reputation Risk drivers and the factors within the Reputation Risk scorecard ensure that the overall reputation risk profile remains acceptable. The risk mitigation and control processes for reputation risk are designed to consider appropriate response actions to address the risks identified. A Customer Complaint Handling Process has been established under which the customers have a range of options through which they can forward their grievances to the Bank, by way of letters, using our public help line that is manned on a 24-hour basis, through the Bank website or social media.

The Bank's reputation and brand value has strengthened in recent years, as it has enhanced its customer value proposition and sought aggressive growth in selected segments. The pandemic presented an opportunity to build stronger relationships with customers and during the lockdown, the Bank ensured the maximum possible number of branches were open thereby ensuring that all essential banking services including trade related transactions as well as mobile banking operations continued with minimum interruption. The Bank also ensured that all employees including branch and call centre staff were made aware of the implementation of CBSL mandated COVID-19 related relief measures on time. For instance,

- Moratorium requests received from customers were effectively collated, acknowledged and assigned to relevant business units and were evaluated and processed based on the guidelines stipulated in the direction
- In terms of Senior Citizen segment all pensioners were assisted with drawing of pension payments and for certain customer's respective branches made arrangements to deliver cash to their doorstep on request
- Several mini projects were initiated to increase digital adoption among existing and new customers who have not yet availed such facilities to obtain their Banking engagements digitally
- The Bank also initiated a project for the first time in Sri Lanka to process Western Union Payment via the Call Centre
- Credit approvers' team at the centre was continuously operational so that customers' urgent credit requirements could be addressed in a timely manner; thus the reputational risk could be effectively managed during pandemic

Staying ahead of Competition

With a vision and strategic advanced planning, the Bank has emerged stronger after the crisis. COVID-19 has abruptly changed how banks perform their activities with rapid shift to remote working, increased online transactions, changes in policies and interest rates. With the motive of delivering smoother customer experience and thereby gaining a competitive advantage, the Bank made considerable strides in the digital sphere introducing NEOS PAY and QR code payment platform in 2020.

Despite the challenges the Bank was able to continue to empower the women's market segment through NDB Vanithabhimana. The Bank made the mark as a responsible financial institution with the launch of NDB Jayagamu Sri Lanka which was dedicated towards supporting

inventors, exporters and SMEs to emerge strong from the pandemic and thereby restoring the economy. Moreover, the Bank successfully enhanced its brand strength and visibility through many brand awareness programs. NDB was recognised as one of the Top 10 Most Admired Companies in Sri Lanka, as per an evaluation and awards programme conducted by CIMA, the International Chamber of Commerce in Sri Lanka (ICCSL) and Daily FT. Furthermore, Bank won over 50 awards, whilst NDB Investment Bank secured 7, making NDB one of the most awarded brands in the country.

ENVIRONMENT & SOCIAL RISK MANAGEMENT (ESRM)

As a responsible corporate citizen, the Sustainability Vision and commitment of the Bank is to create shared value for all its stakeholders. Therefore, the Bank's mandate is to ensure that its business practices are sustainable, delivering economic growth whilst protecting and adding value to the environment and society.

Today's society, globally, is faced with numerous and increasing social and environmental challenges and as a business entity it is crucial to operate in a sustainable manner. Risk is inherent in all of the banking activities, including lending and to ensure sustainable growth for the Bank as well as the nation, equal priority should be given to environmental and social risks as well.

The role of ESRM process of the Bank is to ensure that strategic investment in businesses by the Bank are financially, socially, and environmentally sustainable and will guarantee the sustainability of the Bank's own business model.

It is with this objective, the Bank implemented an Environmental and Social Management System (ESMS) according to IFC Standards. The Bank is committed to 'IFC Exclusion List' and 'IFC Performance Standards' as well.

The Bank takes a consistent approach to avoid adverse impacts on the environment, workers, communities or if avoidance is not possible, to reduce, mitigate, or compensate for the impacts as appropriate through its ESMS.

Highlights of some of the key activities carried out by the Bank under ESRM framework in the year 2020 are as follows.

- Reviewed overall E & S assessments carried out by each business line (Corporate/Project Finance and Business Banking) at portfolio level and submitted quarterly updates to the IRMC of the Bank
- Comprehensive comparison of ESRM framework was carried based on world

renowned best Environmental and Social Governance (ESG) practices in order to evaluate if any improvements to be made to the Bank's ESRM framework

- Annual reporting on environmental and social performance to the funding agencies i.e. IFC, PROPARGO
- IFC 'Sustainability Training and E-Learning Programme' was successfully completed by the Bank's ESMS Coordinators

The overall commitment of the ESRM framework is to operate in a sustainable manner. It is not only about 'Doing Good', but also about ensuring long term existence of the business.

GROUP RISK

The Bank together with its subsidiaries in the process of financial intermediation are confronted with an array of financial and non-financial risks such as credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, operational, etc. These risks are highly interdependent and events that affect one area of risk can have consequences on a range of other risk categories. Aggregating the risks of Group Companies remains a challenge due to their diverse business models and risk profiles. The following measures ensure that Group Risk is proactively monitored and mitigated;

- The Bank's capital at risk is limited to the amount invested in these companies in the form of equity, at the time the companies were incorporated
- There is representation by the Bank's Directors/Key Management Personnel on the Boards of Directors/Board Audit, Risk and Compliance Committee of its subsidiaries, thereby ensuring full and sufficient knowledge of subsidiaries' operations and risk profiles
- Due to the governance structure mandated by the laws governing banking and limited liability companies, all inter company transactions are at arms length and full disclosure of such transactions are made
- Natural mitigation from the fact that the Bank is the holding company and owns the largest balance sheet in the Group
- NDB Securities Limited and NDB Wealth Management Limited being licensed stock brokers and Unit Trust Managers are regulated by the SEC
- Risk Reporting framework by Group companies to Centralised Group Risk Management of Bank/IRMC/Board for review/corrective action

Each Group Company remains responsible for the management of risks, including associated controls and on-going monitoring processes. Risks identified by Group companies are reported to Group Risk Management department on a monthly basis through appropriate risk indicators (using a Risk Dashboard) and management information for review and escalation. Top risks and associated mitigants are also highlighted. The main risk categories being reviewed are as follows:

- Investment/Credit Risk
- Operational Risk
- Market Risk
- Liquidity Risk
- Interest Rate Risk
- Concentration Risk
- Regulatory/Compliance Risk
- Legal/Reputation Risk
- Strategic Risk
- Any other risks relevant to the specific line of business of the Group Company

All Group Companies are required to have relevant policies and limits for monitoring purposes and to ensure that risks are within acceptable levels/in line with internal policies and risk appetite. All risk related policies and risk appetite statement of the Group companies are vetted by the Group Risk Management Department to ensure compliance with the regulatory requirements and internal policies applicable to the Bank. Furthermore, the Operational Risk Management Unit within the Group Risk Management Department coordinates the Risk and Control Self Assessments process for the Group companies facilitating informed decision-making by providing the Management with an overall view of operational risks within a business process.

FUTURE OF RISK MANAGEMENT

The Bank's risk management capabilities have evolved from the responsibility of an individual unit to an organisation-wide risk culture permeating all business and support functions. Unprecedented changes in the operating landscape have compelled banks to consistently monitor emerging dynamics and strengthen risk management frameworks to effectively drive strategic aspirations. We will strive to move beyond compliance to embrace international best practices in risk management while proactively responding to emerging risks to navigate an increasingly complex risk landscape.

Risk Management

BASEL III -PILLAR III MARKET DISCIPLINE DISCLOSURES

Pillar III Market Discipline disclosures of the Bank and the Group for the year ended 31 December as required by the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks are given below.

1. REGULATORY REQUIREMENTS ON CAPITAL & LIQUIDITY

TEMPLATE I - Key Regulatory Ratios - Capital and Liquidity

As at 31 December	BANK		GROUP	
	2020	2019	2020	2019
Regulatory Capital (LKR '000)				
Common Equity Tier 1 Capital	37,588,780	34,909,032	40,697,560	39,563,816
Tier 1 Capital	37,588,780	34,909,032	40,697,560	39,563,816
Total Capital	58,724,327	51,090,130	61,715,675	55,320,388
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement -6.5% (2019 - 7%))	9.17	9.18	9.73	10.15
Tier 1 Capital Ratio (Minimum Requirement - 8% (2019 - 8.5%))	9.17	9.18	9.73	10.15
Total Capital Ratio (Minimum Requirement - 12% (2019 - 12.5%))	14.32	13.43	14.75	14.20
Leverage Ratio (Minimum Requirement - 3%)	5.56	6.09	5.97	6.81
Regulatory Liquidity				
Statutory Liquid Assets (LKR'000)	163,230,459	106,381,911	NA	NA
Statutory Liquid Assets Ratio (Minimum Requirement -20%)				
Domestic Banking Unit (%)	28.84	20.93	NA	NA
Off-Shore Banking Unit (%)	26.88	24.78	NA	NA
Total stock of high quality liquid assets (LKR ' 000) - Rupee	112,786,200	66,143,681	NA	NA
Total stock of high quality liquid assets (LKR ' 000) - All currency	134,410,249	75,511,819	NA	NA
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement -90% (2019-100%))	161.97	162.42	NA	NA
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90% (2019-100%))	157.12	153.26	NA	NA
Net Stable Funding Ratio (%) – (Minimum Requirement - 90% (2019-100%))	112.52	108.92	NA	NA

Disclosures as required by the Circular No. 04 2018, Guidelines issued by the Central Bank of Sri Lanka to the Licensed Banks on the adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments

The Bank shall stagger audited additional credit loss provisions arising from SLFRS 9 with compared to LKAS 39 as at the first day of adoption of SLFRS 9, net of any other adjustment and the tax effect on first day impact to retained earnings throughout a transitional period of four years commencing from 2018 for the purpose of computation of the Capital Adequacy Ratio.

Accordingly the Bank and the Group have deducted 75% of the first day impact on the adoption of SLFRS 9 (LKR 1,326 Mn in the Bank and Group) from the retained earnings in computing the Capital Adequacy Ratio as at 31 December 2020 (LKR 884 Mn in 2018 and 2019)

TEMPLATE II - Basel III Computation of Capital Ratios

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Common Equity Tier 1 (CET1) Capital after Adjustments	37,588,780	34,909,032	40,697,560	39,563,816
Common Equity Tier 1 (CET1) Capital	43,392,681	38,727,757	46,228,477	42,279,017
Equity Capital (Stated Capital/Assigned Capital)	8,794,333	7,685,334	8,794,333	7,685,334
Reserve Fund	2,196,479	1,896,479	2,196,479	1,896,479
Published Retained Earnings/(Accumulated Retained Losses)	32,911,330	24,055,022	35,884,426	27,431,283
Published Accumulated Other Comprehensive Income (OCI)	(509,461)	(714,785)	(646,761)	(539,786)
General and other Disclosed Reserves	-	5,805,707	-	5,805,707
Total Adjustments to CET1 Capital	5,803,901	3,818,725	5,530,917	2,715,201
Intangible Assets (net)	1,048,326	687,785	1,061,673	700,908
Deferred tax assets (net)	1,875,720	599,215	1,945,730	647,444
Defined benefit pension fund assets	143,131	184,841	143,131	184,841
Shortfall of the cumulative impairment to specific provisions	1,555,263	-	1,555,263	-
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	647,950	794,869	825,120	1,182,008
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	533,511	1,552,015	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-	-	-
Additional Tier 1 (AT1) Capital	-	-	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to AT1 Capital	-	-	-	-
Tier 2 Capital after Adjustments	21,135,547	16,181,098	21,018,115	15,756,572
Tier 2 Capital	21,135,547	16,181,098	21,135,547	16,181,098
Qualifying Tier 2 Capital Instruments	15,562,998	12,119,274	15,562,998	12,119,274
Revaluation Gains	876,672	542,092	876,672	542,092
Loan Loss Provisions	4,695,877	3,519,732	4,695,877	3,519,732
Total Adjustments to Tier 2	-	-	117,432	424,526
Others - Investments in the capital of financial institutions and where the Bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	-	-	117,432	424,526
CET1 Capital	37,588,780	34,909,032	40,697,560	39,563,816
Total Tier 1 Capital	37,588,780	34,909,032	40,697,560	39,563,816
Total Capital	58,724,327	51,090,130	61,715,675	55,320,388
Total Risk Weighted Assets (RWA)	410,060,835	380,442,870	418,346,325	389,660,172
RWAs for Credit Risk	375,670,159	348,382,658	378,639,511	351,398,555
RWAs for Market Risk	7,192,688	8,179,894	11,260,664	13,321,736
RWAs for Operational Risk	27,197,988	23,880,318	28,446,150	24,939,881
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	9.17	9.18	9.73	10.15
of which: Capital Conservation Buffer (%)	2.00	2.50	2.00	2.50
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	9.17	9.18	9.73	10.15
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	14.32	13.43	14.75	14.20
of which: Capital Conservation Buffer (%)	2.00	2.50	2.00	2.50
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-

Risk Management

TEMPLATE III (a) - Basel III Computation of Leverage Ratios

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Tier 1 Capital	37,588,780	34,909,032	40,697,560	39,563,816
Total Exposures	675,776,637	573,400,212	681,568,051	580,723,128
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	622,527,281	527,054,744	628,095,185	534,163,465
Derivative Exposures	4,233,553	2,127,366	4,233,553	2,127,366
Securities Financing Transactions Exposures	127,163	1,310,783	127,163	1,310,783
Other Off-Balance Sheet Exposures	48,888,640	42,907,320	49,112,150	43,121,514
Basel III Leverage Ratio (%) (Minimum Requirement - 3%)	5.56%	6.09%	5.97%	6.81%

TEMPLATE III (b) Basel III Computation of Net Stable Funding Ratios (NSFR)

As at 31 December	BANK	
	2020 LKR '000	2019 LKR '000
Total Available Stable Funding	403,557,413	347,701,495
Required Stable Funding - On-Balance Sheet Assets	355,554,768	316,484,930
Required Stable Funding - Off-Balance Sheet Items	3,093,079	2,750,138
Total Required Stable Funding	358,647,847	319,235,068
Net Stable Funding Ratio (%) (Minimum Requirement - 90% (2019 - 100%))	112.52%	108.92%

TEMPLATE IV - Basel III Computation of Liquidity Coverage Ratio - All Currency Liquidity Requirement

As at 31 December	BANK			
	2020		2019	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
	LKR '000	LKR '000	LKR '000	LKR '000
Total Stock of High-Quality Liquid Assets (HQLA)	138,207,486	134,410,249	77,144,017	75,511,819
Total Adjusted Level 1A Assets	112,938,052	112,938,052	66,158,083	66,158,083
Level 1 Assets	112,892,576	112,892,576	66,262,699	66,262,699
Total Adjusted Level 2A Assets	25,314,910	21,517,674	10,881,318	9,249,120
Level 2A Assets	25,314,910	21,517,674	10,881,318	9,249,120
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	630,094,322	136,185,613	527,469,261	106,364,173
Deposits	268,839,430	19,347,365	232,497,321	17,227,141
Unsecured Wholesale Funding	225,925,249	112,415,320	174,682,668	83,060,912
Secured Funding Transactions	1,157,153	-	603,232	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	134,172,490	4,422,928	119,686,040	6,076,120
Additional Requirements	-	-	-	-
Total Cash Inflows	84,801,867	50,638,475	89,486,893	57,092,784
Maturing Secured Lending Transactions Backed by Collateral	33,364,459	19,771,149	44,741,535	31,035,412
Other Inflows by Counterparty which are maturing within 30 days	46,259,467	30,691,239	42,738,268	26,057,372
Operational Deposits	4,825,767	-	2,007,090	-
Other Cash Inflows	352,174	176,087	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		157.12%		153.26%

TEMPLATE V - Main Features of Regulatory Capital Instruments - Bank and Group

Description of the Capital Instrument	CET 1 Capital	Tier 2 Instruments		
	Stated Capital	Debenture Issue - December 2013	Debenture Issue - March 2019	Debenture Issue - September 2020
Issuer	National Development Bank PLC	National Development Bank PLC	National Development Bank PLC	National Development Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	NDB. N0000 ISIN -LK0207N00007	Type C - LK0207D21038 Type D - LK0207D21053	Type A - LK0207D24198 Type B - LK0207D24206	ISIN - LK0207D24529
Governing Law(s) of the Instrument	Companies Act No. 7 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 7 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 7 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 7 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act
Original Date of Issuance	Date listed 26-Apr-1993	19-Dec-2013	31-Mar-2019	25-Sep-2020
Par Value of Instrument	NA	LKR 100/-	LKR 100/-	LKR 100/-
Perpetual or Dated	Perpetual	Dated	Dated	Dated
Original Maturity Date, if Applicable	NA	Type C - 19 Dec 2023 Type D - 19 Dec 2025	Type A - 30 Mar 2024 Type B - 30 Mar 2024	24-Sep-2025
Amount Recognised in Regulatory Capital (in LKR '000 as at 31 December 2020)	8,794,333	5,773,218	3,614,780	6,175,000
Accounting Classification (Equity/Liability)	Equity	Liability	Liability	Liability
Issuer Call subject to Prior Supervisory Approval				
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	NA	NA	NA	NA
Subsequent Call Dates, if Applicable	NA	NA	NA	NA
Coupons/Dividends				
Fixed or Floating Dividend/Coupon	Dividend declared as decided by the Board	Fixed coupon	Fixed coupon	Fixed coupon
Coupon Rate and any Related Index	NA	Type C - 13.9% p.a Type D - 14.0% p.a	Type A - 13.50% p.a Type B - 13.95% p.a	9.5% p.a
Non-Cumulative or Cumulative	NA	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible				
If Convertible, Conversion Trigger (s)	NA	Non-Convertible	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	NA	NA	Fully	Fully
If Convertible, Mandatory or Optional	NA	NA	Mandatory	Mandatory
If Convertible, Conversion Rate	NA	NA	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.

NOTE

(i) The Bank raised Tier II capital of LKR 6.5 Bn through Debenture Issue in September 2020.

Risk Management

2. RISK WEIGHTED ASSETS (RWA)

TEMPLATE VI - Summary discussion on adequacy/meeting current and future capital requirements.

Please refer page 344 for the Capital Management section.

TEMPLATE VII - Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	BANK					
	Amount (LKR'000) as at 31 December 2020					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and Central Bank of Sri Lanka	170,623,303	5,076,000	170,623,303	2,411,757	8,352,762	4.83%
Claims on Public Sector Entities	19,739,971	4,507,673	-	-	-	-
Claims on Bank's Exposures	10,209,465	100,247,103	10,209,465	9,840,358	9,593,654	47.85%
Claims on Financial Institutions	41,538,987	16,194,739	41,243,040	393,027	23,970,771	57.57%
Claims on Corporates	170,483,372	185,988,754	142,641,293	29,451,819	169,741,352	98.63%
Retail Claims	162,045,892	22,271,414	152,304,026	9,399,586	125,720,783	77.75%
Claims Secured by Residential Property	18,891,679	1,165,195	18,891,679	550,453	10,658,640	54.82%
Non-Performing Assets (NPAs)(i)	16,972,685	-	16,972,685	-	20,003,045	117.85%
Higher-risk Categories	381,223	-	381,223	-	953,057	250.00%
Cash Items and Other Assets	12,435,913	-	12,435,913	-	6,676,095	53.68%
Total	623,322,490	335,450,878	565,702,627	52,047,000	375,670,159	

Asset Class	GROUP					
	Amount (LKR'000) as at 31 December 2020					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and Central Bank of Sri Lanka	170,623,303	5,076,000	170,623,303	2,411,757	8,352,762	4.83%
Claims on Public Sector Entities	19,739,971	4,507,673	-	-	-	-
Claims on Bank's Exposures	10,433,377	100,247,103	10,433,377	9,840,358	9,631,076	47.51%
Claims on Financial Institutions	41,538,987	16,194,739	41,243,040	393,027	23,970,771	57.57%
Claims on Corporates	170,332,168	185,553,964	142,490,089	29,405,868	169,544,198	98.63%
Retail Claims	162,045,892	22,271,414	152,304,026	9,399,586	125,720,783	77.75%
Claims Secured by Residential Property	18,891,679	1,165,195	18,891,679	550,453	10,658,640	54.82%
Non-Performing Assets (NPAs)(i)	16,972,685	-	16,972,685	-	20,003,045	117.85%
Higher-risk Categories	-	538,923	-	269,462	404,192	150.00%
Cash Items and Other Assets	16,113,998	-	16,113,998	-	10,354,044	64.25%
Total	626,692,060	335,555,011	569,072,197	52,270,511	378,639,511	

Note:

(i) NPAs – As per Banking Act Direction on classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

TEMPLATE VIII - Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Risk Weight Asset Classes	BANK								
	Amount (LKR'000) as at 31 December 2020 (Post CCF & CRM)								
	0%	20%	50%	60%	75%	100%	150%	> 150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	131,271,250	41,763,810	-	-	-	-	-	-	173,035,060
Claims on Bank's Exposures	-	6,271,327	10,986,481	-	-	2,683,749	108,266	-	20,049,823
Claims on Financial Institutions	-	-	35,330,592	-	-	6,305,475	-	-	41,636,067
Claims on Corporates	-	2,090,184	1,359,227	-	-	168,643,701	-	-	172,093,112
Retail Claims	944,694	1,851,529	-	15,267,841	109,799,098	33,840,450	-	-	161,703,612
Claims Secured by Residential Property	-	-	17,566,984	-	-	1,875,148	-	-	19,442,132
Non-Performing Assets (NPAs)	-	-	748,792	-	-	9,414,379	6,809,514	-	16,972,685
Higher-risk Categories	-	-	-	-	-	-	-	381,223	381,223
Cash Items and Other Assets	5,556,795	253,779	-	-	-	6,625,339	-	-	12,435,913
Total	137,772,739	52,230,629	65,992,076	15,267,841	109,799,098	229,388,241	6,917,780	381,223	617,749,627

	GROUP								
	Amount (LKR'000) as at 31 Dec 2020 (Post CCF & CRM)								
Risk Weight									Total Credit Exposures
Asset Classes	0%	20%	50%	60%	75%	100%	150%	> 150%	Amount
Claims on Central Government and Central Bank of Sri Lanka	131,271,250	41,763,810	-	-	-	-	-	-	173,035,060
Claims on Bank's Exposures	-	6,546,491	10,919,198	-	-	2,699,780	108,266	-	20,273,735
Claims on Financial Institutions	-	-	35,330,592	-	-	6,305,475	-	-	41,636,067
Claims on Corporates	-	2,090,184	1,359,227	-	-	168,446,546	-	-	171,895,957
Retail Claims	944,694	1,851,529	-	15,267,841	109,799,098	33,840,450	-	-	161,703,612
Claims Secured by Residential Property	-	-	17,566,984	-	-	1,875,148	-	-	19,442,132
Non-Performing Assets (NPAs)	-	-	748,792	-	-	9,414,379	6,809,514	-	16,972,685
Higher-risk Categories	-	-	-	-	-	-	269,462	-	269,462
Cash Items and Other Assets	5,556,900	253,817	-	-	-	10,303,281	-	-	16,113,998
Total	137,772,844	52,505,831	65,924,793	15,267,841	109,799,098	232,885,059	7,187,242	-	621,342,708

Risk Management

TEMPLATE IX - Market Risk under Standardised Measurement Method

Item	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
(a) Capital charge for Interest Rate Risk	47,774	993,873	48,943	1,064,922
General Interest Rate Risk	47,774	993,873	48,181	994,183
(i) Net Long or Short Position	47,774	993,873	48,181	994,183
(ii) Horizontal Disallowance	-	-	-	-
(iii) Vertical Disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific Interest Rate Risk	-	-	762	70,739
(b) Capital charge for Equity	765,356	-	1,272,684	571,682
(i) General Equity Risk	382,678	-	636,342	286,666
(ii) Specific Equity Risk	382,678	-	636,342	285,016
(c) Capital charge for Foreign Exchange & Gold	85,956	28,614	85,956	28,614
Total Risk Weighted Amount for Market Risk [(a) + (b) + (c)] * CAR	7,192,688	8,179,894	11,260,664	13,321,736

TEMPLATE X - Operational Risk under Basic Indicator Approach

Business Lines	BANK				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31 December 2020		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		21,118,989	22,959,764	23,916,218
The Standardised Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%				
Commercial Banking	15%				
The Alternative Standardised Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			
Capital Charges for Operational Risk (LKR'000)					
The Basic Indicator Approach	3,399,749				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	27,197,988				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

TEMPLATE X - Operational Risk under Basic Indicator Approach (Contd.)

Business Lines	GROUP				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31 December 2020		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		22,084,355	24,115,098	24,915,922
The Standardised Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%				
Commercial Banking	15%				
The Alternative Standardised Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			
Capital Charges for Operational Risk (LKR'000)					
The Basic Indicator Approach	3,555,769				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	28,446,150				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

Risk Management

3. TEMPLATE XI & XII - Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK

As at 31 December 2020	a	b	c	d	
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	
LKR '000					
Assets	626,836,698	631,679,008	565,702,627	6,042,730	
Cash and cash equivalents	10,487,608	10,636,340	10,636,340	-	
Balances with the Central Bank of Sri Lanka	6,812,099	6,812,099	6,812,099	-	
Placements with banks	12,401,533	12,400,000	12,400,000	-	
Derivative financial instruments	1,429,470	-	-	-	
Financial assets recognised through profit or loss - measured at fair value	5,574,175	-	-	-	
Financial assets - Held for trading	-	113,255,208	106,564,528	6,042,730	
Financial assets at amortised cost -loans and receivables to other customers	425,605,508	430,874,628	375,189,615	-	
Financial assets at amortised cost - debt and other instruments	44,711,640	-	-	-	
Financial assets - Held to maturity	-	44,572,715	44,572,715	-	
Financial assets measured at fair value through other comprehensive income	108,593,183	-	-	-	
Investments in subsidiary companies	1,142,884	1,142,884	609,373	-	
Intangible assets	1,048,326	1,048,326	-	-	
Property, plant and equipment	2,968,993	2,968,993	2,968,993	-	
Right of use assets	1,060,843	-	-	-	
Deferred tax assets	1,875,720	1,875,720	-	-	
Other assets	3,124,716	6,092,095	5,948,964	-	
Liabilities	582,055,675	582,335,654			
Due to banks	24,173,318	-	-	-	
Derivative financial instruments	1,016,787	-	-	-	
Financial liabilities at amortised cost - due to depositors	490,278,126	480,271,129	-	-	
Financial liabilities at amortised cost - due to debt securities holders	1,500,007	1,483,458	-	-	

e Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques/ valuation basis
59,933,651		
-		
-		
-		
	- Derivative Financial Instruments are separately disclosed in the published Financial Statements. This amount is classified under the other assets category in regulatory reporting.	
	- Financial assets recognised through profit or loss - measured at fair value and Financial assets measured at fair value through OCI are classified as Held for trading under regulatory reporting and accrued interest is classified under other assets category.	
647,950		
55,685,013	Carrying value under regulatory reporting is as per the Banking Act Direction No. 3 of 2008, Classification of Loans and Advances, Income Recognition and Provisioning. The carrying value of loans and receivables to other customers in the published Financial Statements is subject to impairment provisions as per the impairment policy of the Bank in line with SLFRS 9.	Measurement techniques and valuation basis of allowance for impairment is explained in detail in note no 26.5 to the Financial Statements.
	- Financial assets at amortised cost - debt and other instruments are classified as Held to maturity investments (Banking Book) under regulatory reporting and accrued interest is classified under other assets category.	
-		
	- Financial assets measured at fair value through other comprehensive income are classified as Held for trading under regulatory reporting.	
533,511		
1,048,326		
-		
	- Right of used assets are recorded under other assets in regulatory reporting.	
1,875,720		
143,131	Derivative Financial instruments and the interest receivables on financial assets are included under other assets in regulatory reporting. Unamortised staff costs are included under other assets in the published Financial Statements.	Measurement techniques and valuation basis of staff loans are explained in detail in note no 35 to these Financial Statements.
	- Due to banks balances are classified under due to other borrowed funds in regulatory reporting.	
	- Derivative Financial Instruments separately disclosed in published Financial Statements and included in the other liabilities category in the regulatory reporting.	
	- Due to depositors are at Effective Interest Rate (EIR) method in published Financial Statements. Accrued interest is classified under other liabilities in regulatory reporting.	Measurement techniques and valuation basis of deposits are at Effective Interest Rate (EIR) method in published Financial Statements.
-		

Risk Management

As at 31 December 2020	a	b	c	d	
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	
LKR '000					
Financial Liabilities at amortised cost - due to other borrowers	34,284,109	57,698,683	-	-	
Debt securities issued	19,880,891	19,242,015	-	-	
Current tax liabilities	2,297,296	2,297,296	-	-	
Retirement benefit obligations	709,294	-	-	-	
Other liabilities	7,915,847	21,343,073	-	-	
Off-Balance Sheet Liabilities	343,949,526	279,655,400	335,228,853	-	
Guarantees	45,095,689	45,095,689	38,920,936	-	
Performance Bonds	16,893,389	16,893,389	16,861,070	-	
Letters of Credit	18,316,091	18,316,091	18,265,058	-	
Other Contingent Items	14,770,945	14,770,945	14,770,945	-	
Undrawn Commitments	121,792,487	121,792,487	121,792,487	-	
Other Commitments	127,080,925	62,786,800	124,618,357	-	
Shareholders' Equity					
Equity capital (Stated capital/Assigned capital)	8,794,333	8,794,333	-	-	
of which Amount eligible for CET1	8,794,333	8,794,333	-	-	
of which Amount eligible for AT1	-	-	-	-	
Retained earnings	33,126,579	37,293,830	-	-	
Accumulated Other comprehensive income	663,632	-	-	-	
Other reserves	2,196,479	3,255,191	-	-	
Total Shareholders' Equity	44,781,023	49,343,354			

e Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques/ valuation basis
	- Due to banks balances are classified separately in the published Financial Statements and interest accruals are classified under other liabilities in the regulatory reporting.	
	- Debt securities issued are at Effective Interest Rate (EIR) method in published Financial Statements.	Measurement techniques and valuation basis of Debt securities issued are at Effective Interest Rate (EIR) method in published Financial Statements.
	-	
	-	
	- Derivative Financial instruments, Retirement benefit obligations and the interest payables on financial liabilities are included under other liabilities in the regulatory reporting.	
	-	
138,673		
32,319		
51,033		
-		
-		
-		
-		
-		
-		
-		
-		
-		
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-		
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-		
-		

Risk Management

DSIB ASSESSMENT AS PER THE BANKING ACT DIRECTION NO. 10 OF 2019 ON FRAMEWORK FOR DEALING WITH DOMESTIC SYSTEMATICALLY IMPORTANT BANKS

	GROUP 2020 LKR (Mn)
SIZE INDICATOR	
Section 1 - Total Exposures	
Total exposures measure	681,568
INTERCONNECTEDNESS INDICATORS	
Section 2 - Intra-Financial System Assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	
(i) Funds deposited	5,416
(ii) Lending	69,794
b. Holdings of securities issued by other financial institutions	3,746
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	21
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	923
Intra-financial system assets	79,900
Section 3 - Intra-Financial System Liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	
(i) Funds deposited	42,591
(ii) Borrowings	40,599
b. Net negative current exposure of securities financing transactions with other financial institutions	14
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	991
Intra-financial system liabilities	84,195
Section 4 - Securities Outstanding	
Securities outstanding	19,290
SUBSTITUTABILITY/FINANCIAL INSTITUTION INFRASTRUCTURE INDICATORS	
Section 5 - Payments made in the reporting year (excluding intragroup payments)	
Payments activity	5,837,491
Section 6 - Assets Under Custody	
Assets under custody	-

	GROUP 2020 LKR (Mn)
Section 7 - Underwritten Transactions in Debt and Equity Markets	
Underwriting activity	-
Section 8 - Trading Volume	
Trading volume (Number Mn)	12,660
COMPLEXITY INDICATORS	
Section 9 - Notional Amount of Over-the-Counter (OTC) Derivatives	
OTC derivatives	127,081
Section 10 - Level 2 Assets	
Level 2 assets	25,315
Section 11 - Trading and available for sale (AFS) securities	
Trading and AFS securities	117,906
Section 12 - Cross-Jurisdictional Liabilities	
Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	49,318
Section 13 - Cross-Jurisdictional Claims	
Cross-jurisdictional claims (excluding derivatives and intragroup claims)	22,182

Investor Relations

THE BANK HAS A DEDICATED FUNCTION FOR MAINTAINING INVESTOR RELATIONS, IN A BID TO ENSURE SOUND RELATIONS WITH INVESTORS, IDENTIFIED AS A KEY STAKEHOLDER GROUP MAKING TREMENDOUS CONTRIBUTION TOWARDS THE SUCCESS OF THE BANK.

CONSTITUENTS OF THE INVESTOR RELATIONS ECOSYSTEM OF THE BANK

- Shareholders
- Debenture holders
- Potential investors including development financing institutions
- Investment analysts
- Stock brokers
- Credit rating agencies
- Financial press

UNDERLYING PRINCIPLES OF OUR INVESTOR RELATIONS

- Quality and timeliness of disclosures
- Transparency
- Fairness in disclosures
- Avoidance of selective disclosures
- Maintaining same levels of engagements at all times consistently, irrespective of the Group's performance

INVESTOR SUPPORT

Investor support is extended via a wide range of engagement activities as listed below.

- Annual General Meeting
- One-to-one investor meetings
- Financial Statements released to the CSE
- Press releases
- Investor presentations
- Investor transcripts
- Email notifications
- Local and foreign investor fora
- Online investor webinars
- Earnings calls
- Road shows
- Investor relations web page within the Bank's corporate website
- Dedicated communication methods to reach us
- Financial results calendars shared well in advance for quarterly results releases

RECOGNITION

Annual CFA Sri Lanka Capital Market Awards - Winner/Gold award for Best Investor Relations for four consecutive years [2016-2019] – (Awards not held in 2020)

International Business Magazine – UAE - Best Investor Relations Bank Sri Lanka 2020

SHAREHOLDER MILESTONES 1979 – 2020

1979

- ⊕ Under and by virtue of the National Development Bank of Sri Lanka Act No. 2 of 1979 a Bank was established with an authorised capital of LKR 2,000 Mn comprising 20 Mn ordinary shares of LKR 100.00 each. (which was subsequently subdivided into 200 Mn ordinary shares of LKR 10.00 each)

1993

- ⊕ 61% of the share capital of the National Development Bank of Sri Lanka (NDBSL) was transferred to private ownership through an IPO at LKR 50.00 per share.

1997

- ⊕ NDBSL was privatised further by the early conversion of its convertible debentures, reducing the Governments direct shareholding to 12.2%. A further 2.56% of the issued shares were purchased by NDBSL for an Employees Share Ownership Plan.

2000

- ⊕ A 1:2 bonus issue increased the number of shares in issue to 53,750,000.

2001

- ⊕ As a part of its long term plans, NDBSL incorporated a commercial Bank under the Companies Act No. 17 of 1982 under the name 'NDB Bank Limited' (NBL) to take over the business and operations of ABN Amro NV Colombo Branch.

2005

- ⊕ Pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provisions) Act No. 1 of 2005 a company by the name of National Development Bank Limited (NDBL) was incorporated in terms of the Companies Act No. 17 of 1982 (and was accorded with the Registration No. N (PBS) 1252) for the purposes of taking over the business of NDBSL on 15 June 2005 and the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

SHAREHOLDER MILESTONES 1979 – 2020

- ⊕ NDBL acquired the business and operations of NBL. In view of this, the shareholders of NBL were issued with shares of NDBL at the ratio of 1 NDBL share for every 5.6 shares of NBL held by them. This resulted in the increase of the issued capital of NDBL to 54,570,257 shares. In order to facilitate this transition, on the date of such acquisition, the Central Bank of Sri Lanka granted a commercial banking license to NDBL whilst withdrawing the specialised banking license that was held by it.

2006

- ⊕ A bonus issue of 1 new share for every 2 shares held increased the issued ordinary share capital of NDBL by 27,285,128 shares.

2007

- ⊕ NDBL was re-registered as National Development Bank PLC ('Bank') in terms of the new Companies Act No. 7 of 2007 and accorded with the Registration No. PQ 27.

2010

- ⊕ 245,566 ordinary shares were issued to eligible employees as per the Equity Linked Compensation Plan (ELCP) of the Bank, bringing the total number of issued shares to 82,100,951.

2011

- ⊕ Existing ordinary shares were subdivided in the proportion of one new ordinary share for every ordinary share in issue resulting in a total of 164,201,902 ordinary shares in issue.

2013-2016

- ⊕ A total of 983,604 shares were issued as share options/grant to eligible employees as per the ELCP.

2018

- ⊕ A Rights Issue whereby 32,854,055 ordinary shares were issued.

2017 - 2020

- ⊕ A total of 34,597,670 shares issued as scrip dividends.

2020

- ⊕ A Rights Issue was announced to raise LKR 8.0 Bn at the ratio of 28 new ordinary voting shares for every 61 ordinary voting shares held (up to 106,780,489 shares to be issued), at a consideration of LKR 75.00 per share.

SECURITIES IN ISSUE - NDB

Debentures

Ordinary shares

- Basel II compliant Listed rated unsecured subordinated redeemable debentures issued in 2013
- Basel III compliant Listed rated unsecured subordinated redeemable debentures with a non-viability conversion issued in 2019
- Basel III compliant Listed rated unsecured subordinated redeemable debentures with a non-viability conversion issued in 2020

ORDINARY SHARES

1 FEATURES OF ORDINARY SHARES

Security Type	Quoted Ordinary Shares
Listed exchange	Colombo Stock Exchange (CSE) – Main Board
Featured stock indices	All Share Price Index (ASPI) Standard & Poor's Sri Lanka 20 (S&P SL20)
GICS Sector Classification	Banks (SPCSEBP)
CSE stock symbol	NDB.N0000
ISIN	LK0207N00007
Bloomberg newswire code	NDB SL
Reuters newswire code	NDB.CM

2 ANALYSIS OF EQUITY MARKET PERFORMANCE AND NDB SHARE PERFORMANCE - 2020

2.1 Performance of global equity markets

The year 2020 turned out to be an unprecedented year for global equities with a sharp sell-off in early months due to the COVID-19 outbreak, yet ending the year at record highs. In mid January 2020, the spread of an unidentified pneumonia like virus led to Chinese equities opening 8% lower soon after the Lunar New Year. A few weeks later, European stocks saw its worst fall after decades with Italy reporting a surge in infection and mortality rates. In March, global equities saw one of the fastest bear markets in the recent history (MSCI All Country World Index fell by 14%) and global money market funds saw USD 685 Bn outflows with investors pricing in possible economic fallout from the pandemic. Fiscal and monetary authorities were quick to react with rate cuts, asset purchase programs and multiple rounds of fiscal stimulus programs in an attempt to keep economies afloat. The result was equities recovering faster than real economy flushed with liquidity and low real yields. With the resurgence of the second wave, equities slowed down in the September - October period, however rallied to record highs in November after the US elections and Pfizer announcing positive vaccine trial data. The year ended with the US equities reaching record highs with 16.3% return (S&P 500 Index) while MSCI World returned 15.9%. Emerging market equities gained 18.3% while frontier market equities ascended 1.7% (as measured by MSCI Emerging Market Index and Frontier Market Index). Tech stocks and pandemic proof stocks emerged as winners in 2020 and investor interest shifted to battered value stocks after vaccine announcements.

Investor Relations

2.2 Performance of the Colombo Stock Exchange

In 2020, Sri Lankan equities recorded 10.5% gains recovering strongly in the second half of the year after the initial sell-off in May at the height of the pandemic. Low interest rates, greater political stability (after August 2020 general elections) and optimism on the vaccine front drove market returns higher. Foreign investors continued to be net sellers during the year (USD 275 Mn in 2020 vs. USD 66 Mn in 2019) with foreign participation falling to 20% of turnover vs. 36% seen a year ago. Yet, the average daily

market turnover rose by 2.6 times to USD 10.2 Mn (USD 3.9 Mn in 2019) due to active domestic investor participation. COVID-19 proof stocks in the Transportation and Materials sectors emerged as top gainers in 2020.

2.3 Performance of the NDB share

Banking sector underperformed the broader market index in 2020 (-16% return vs. +10.5% ASPI return). This was mainly due to concerns over economic impact from the pandemic and incremental stress on Banks' Balance Sheets. As a result, NDB's share too closed the year 19.0% lower compared to

2019 (adjusted for scrip dividends). During the year, the stock price reached a high of LKR 99.16 in January and a low of LKR 56.80 in May as a result of the market sell-off.

During the year the Bank raised LKR 6.5 Bn Tier 2 capital from the capital market. In 2020, the Bank announced its plans to raise LKR 8 Bn via a Rights Issue to facilitate Balance Sheet growth while strengthening Tier 1 capital base.

3 ANALYSIS OF ORDINARY SHAREHOLDERS AS AT 31 DECEMBER 2020 AS PER RULE 7.6(X) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

3.1 Distribution of shareholders

Shareholding Range	As at 31 December 2020				As at 31 December 2019			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1-1,000	7,176	63.01	2,115,947	0.91	5,975	62.97	1,609,635	0.73
1,001-10,000	3,411	29.95	10,767,295	4.63	2,837	29.90	8,749,029	3.94
10,001-100,000	684	6.01	17,691,432	7.60	571	6.02	14,833,952	6.69
100,001-1,000,000	89	0.78	23,038,861	9.90	76	0.80	21,656,802	9.76
Over 1,000,000	29	0.25	179,023,696	76.95	29	0.31	174,950,338	78.88
Total	11,389	100.00	232,637,231	100.00	9,488	100.00	221,799,756	100.00

3.2 Resident/non-resident shareholding

Shareholding Range	As at 31 December 2020				As at 31 December 2019			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Resident	11,242	98.71	206,398,450	88.72	9,344	98.48	188,223,816	84.86
Non-resident	147	1.29	26,238,781	11.28	144	1.52	33,575,940	15.14
Total	11,389	100.00	232,637,231	100.00	9,488	100.00	221,799,756	100.00

3.3 Individual/institutional shareholding

Shareholding Range	As at 31 December 2020				As at 31 December 2019			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Individual	10,833	95.12	49,264,144	21.18	8,957	94.40	42,618,916	19.22
Institutional	556	4.88	183,373,087	78.82	531	5.60	179,180,840	80.79
Total	11,389	100.00	232,637,231	100.00	9,488	100.00	221,799,756	100.00

4 20 LARGEST REGISTERED SHAREHOLDERS OF THE BANK AS AT 31 DECEMBER 2020 AS PER RULE NO 7.6(III) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

Name	2020		Name	2019	
	Number of shares	%		Number of shares	%
1 EMPLOYEES' PROVIDENT FUND	23,263,721	10.00	EMPLOYEES' PROVIDENT FUND	22,179,974	10.00
2 BANK OF CEYLON NO. 1 ACCOUNT	19,454,400	8.36	BANK OF CEYLON NO. 1 ACCOUNT	18,548,111	8.36
3 SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	14,875,617	6.39	SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	14,182,632	6.39
4 SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	12,367,328	5.32	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	11,791,193	5.32
5 DR. S. YADDEHIGE	10,160,638	4.37	DR. S.YADDEHIGE	9,687,303	4.37
6 SOFTLOGIC LIFE INSURANCE PLC ACCOUNT NUMBER 03/LIFE SHAREHOLDERS FUND	9,702,577	4.17	SOFTLOGIC LIFE INSURANCE PLC ACCOUNT NUMBER 03/LIFE SHAREHOLDERS FUND	9,250,580	4.17
7 EMPLOYEES TRUST FUND BOARD	9,054,503	3.89	EMPLOYEES TRUST FUND BOARD	8,632,697	3.89
8 PERPETUAL TREASURIES LIMITED	8,736,886	3.76	PERPETUAL TREASURIES LIMITED	8,329,876	3.76
9 RICHARD PIERIS AND CO LTD - ACCOUNT NO. 01	8,606,626	3.70	RICHARD PIERIS AND CO LTD - ACCOUNT NO. 01	7,728,977	3.48
10 HATTON NATIONAL BANK PLC A/C NO 1	6,784,942	2.92	BNYMSANV RE-LF RUFFER INVESTMENT FUNDS: LF RUFFER PACIFIC AND EMERGING MARKETS FUND	7,326,605	3.30
11 PHOENIX VENTURES PRIVATE LIMITED	6,769,999	2.91	HATTON NATIONAL BANK PLC A/C NO 1	6,468,864	2.92
12 RUSH JAPAN CORPORATION	6,724,630	2.89	PHOENIX VENTURES PRIVATE LIMITED	6,454,617	2.91
13 SBI VEN HOLDINGS PTE LTD	5,941,696	2.55	RUSH JAPAN CORPORATION	6,411,362	2.89
14 MR. A.K. PATHIRAGE	3,529,367	1.52	SBI VEN HOLDINGS PTE LTD	5,664,901	2.55
15 ASIRI SURGICAL HOSPITAL PLC	3,470,389	1.49	MR. A.K.PATHIRAGE	3,364,951	1.52
16 AKBAR BROTHERS PVT LTD A/C NO 1	3,453,692	1.48	ASIRI SURGICAL HOSPITAL PLC	3,308,720	1.49
17 DFCC BANK PLC A/C 1	3,168,904	1.36	AKBAR BROTHERS PVT LTD A/C NO 1	3,292,801	1.48
18 MR. M.J. FERNANDO	2,932,800	1.26	DFCC BANK PLC A/C 1	3,021,280	1.36
19 SEYLAN BANK PLC/ARRC CAPITAL (PVT) LTD	2,705,000	1.16	MR. M.J.FERNANDO	2,600,725	1.17
20 PERPETUAL EQUITIES (PRIVATE) LIMITED	2,532,828	1.09	PERPETUAL EQUITIES (PRIVATE) LIMITED	2,414,836	1.09
	164,236,543	70.60		160,661,005	72.42
OTHERS	68,400,688	29.40	OTHERS	61,138,751	27.58
TOTAL	232,637,231	100.00	TOTAL	221,799,756	100.00

5 PERCENTAGE OF THE SHARES HELD BY THE PUBLIC

	As at 31 December 2020	As at 31 December 2019
Float adjusted Market Capitalisation in (LKR Mn)	14,739	17,990
Parentage of the shares held by the public	81.12%	81.11%
Number of public shareholders	11,359	9,456
Option under which the Bank complies with the minimum Public Holding requirement	1*	1*

*As set out in the Listing Rules of the Colombo Stock Exchange

Investor Relations

6 DIRECTORS' INTEREST IN SHARES OF THE BANK

Name	As at 31 December 2020 Number of shares	As at 31 December 2019 Number of shares
Mr. Eshana de Silva (appointed w.e.f. 14 May 2020)	Nil	Not Applicable
Mr. Dimantha Seneviratne	17,697	16,873
Mr. Sriyan Cooray	Nil	Nil
Mr. Bernard Sinniah	Nil	Nil
Dr. Dinusha Panditaratne	Nil	Nil
Mr. Sujeewa Mudalige (appointed w.e.f. 06 January 2020)	Nil	Not Applicable
Ms. Hiransa Kaluthantri (appointed w.e.f. 24 February 2020)	Nil	Not Applicable
Mr. Hiran Perera (appointed w.e.f. 23 April 2020)	Nil	Not Applicable
Mr. Kushan D'Alwis, PC (appointed w.e.f. 06 July 2020)	Nil	Not Applicable
Mr. E A Rathnaseela (resigned w.e.f. 20 January 2020)	Not Applicable	Nil
Mr. Ashok Pathirige (retired w.e.f. 18 February 2020)	Not Applicable	5,764,435*
Mr. Kavan Ratnayake (resigned w.e.f. 30 April 2020)	Not Applicable	Nil
Mr. Dinal Phillips, PC (resigned w.e.f. 25 June 2020)	Not Applicable	Nil

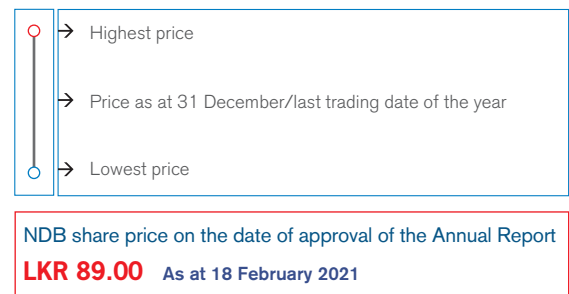
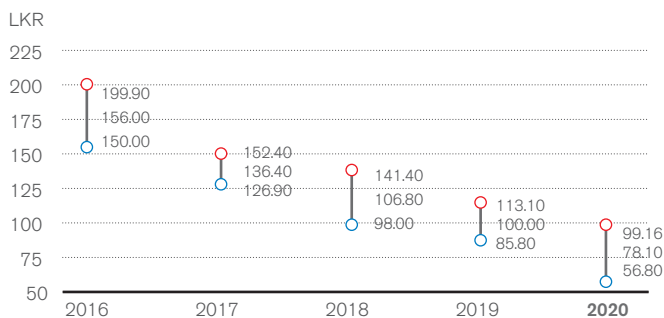
*Includes shares held in the slash account

7 INFORMATION ON SHARE TRADING

7.1 Share price movement trend over the past five years

Year	2020	2019	2018	2017	2016
Highest price (LKR)	99.16	113.10	141.40	152.40	199.90
Date/s highest price was recorded	02 January 2020	29 July 2019	22 February 2018	15 May 2017	03 May 2016
Lowest price (LKR)	56.80	85.80	98.00	126.90	150.00
Date/s lowest price was recorded	15 May 2020	27 May 2019	16 October 2018	02 October 2017	24 November 2016
Price as at 31 December/last trading date of the year (LKR)	78.10	100.00	106.80	136.40	156.00
Total number of shares in issue	232,637,231	221,799,756	210,317,117	171,485,705	165,185,506

Share Price Movement



7.1.1 Share price movement over the year

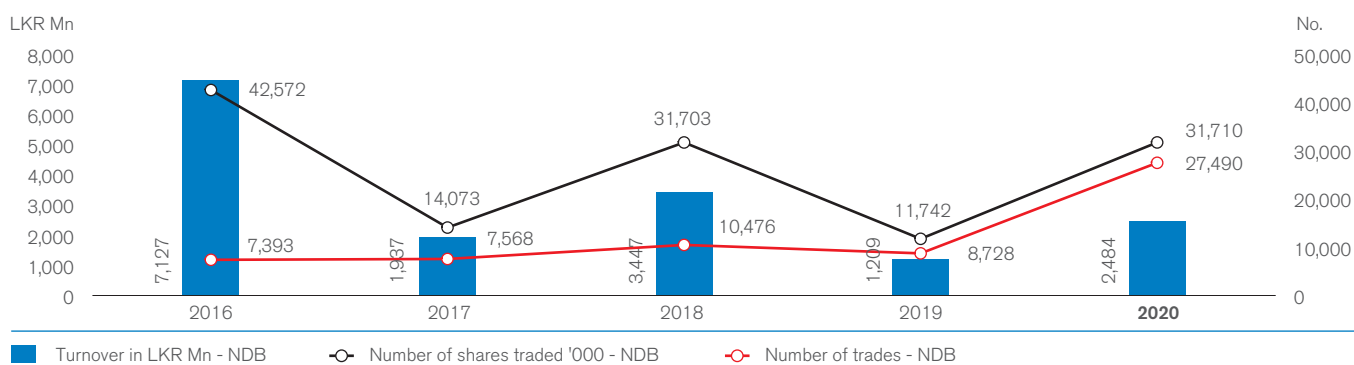
Month	Jan-20	Feb-20	Mar-20*	Apr-20*	May-20*	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Highest price (LKR)	99.16	96.00	93.00	-	76.00	78.50	77.40	90.70	94.00	90.00	76.40	84.40
Lowest price (LKR)	91.53	89.62	65.00	-	56.80	68.50	67.00	71.40	81.20	72.00	73.10	74.40
Price as at month end (LKR)	93.43	91.70	66.20	-	71.90	76.90	71.10	86.80	89.00	74.20	74.10	78.10

* Trading data not available for April 2020 as the CSE did not function from 21 March to 10 May 2020, due to the Islandwide lockdown imposed to control the COVID-19 pandemic.

7.2 Share trading details

Year	2020	2020				2019	2018	2017	2016
		Q4	Q3	Q2	Q1				
Number of trades - NDB	27,490	12,350	8,528	4,021	2,591	8,728	10,476	7,568	7,393
Percentage of total market trades	0.90%	0.80%	0.91%	1.18%	1.02%	0.73%	1.18%	0.77%	0.70%
Number of NDB shares traded ('000)	31,710	18,659	7,119	4,806	1,126	11,742	31,703	14,073	42,572
Percentage of total shares traded in the market	0.15%	0.16%	0.12%	0.24%	0.08%	0.12%	0.53%	0.17%	0.59%
Turnover - NDB (LKR Mn)	2,484	1,466	575	339	104	1,209	3,447	1,937	7,127
Average daily turnover (LKR Mn)	12	24	9	10	2	5	14	8	30
Percentage of total market turnover	0.63%	0.82%	0.51%	0.65%	0.20%	0.71%	1.72%	0.88%	4.03%

Share Trading Details

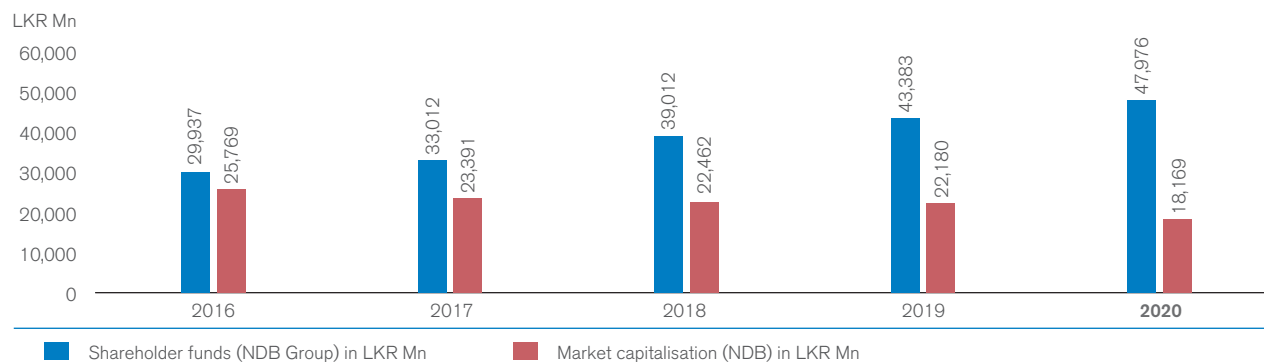


7.3 Shareholder funds and market capitalisation

Year	2020	2019	2018	2017	2016
Shareholder funds (NDB Group) in LKR Mn	47,976	43,383	39,012	33,012	29,937
Percentage increase/decrease in shareholder funds over the prior year	11%	11%	18%	10%	5%
Market capitalisation (NDB) in LKR Mn	18,169	22,180	22,462	23,391	25,769
Percentage increase/decrease in NDB market capitalisation over the prior year	-18%	-1%	-4%	-9%	20%
Market capitalisation (CSE) in LKR Mn	2,960,648	2,851,313	2,839,446	2,899,291	2,745,406
Percentage increase/decrease in CSE market capitalisation over the prior year	3.8%	0.4%	-2.0%	5.6%	6.6%
NDB's market capitalisation as a percentage of CSE market capitalisation	0.6%	0.8%	0.8%	0.8%	0.9%
Market capitalisation rank of NDB in the CSE	42	27	25	26	25
Market capitalisation (Banks sector within CSE) in LKR Mn	318,887	368,903	408,426	456,289	370,076
NDB's market capitalisation as a percentage of Banks sector capitalisation	5.7%	6.0%	5.5%	5.1%	7.0%
Beta value of NDB share against ASPI	1.37	1.53	1.88	1.99	1.36
Beta value of NDB share against S&P SL20	1.09	1.15	1.25	1.15	0.92

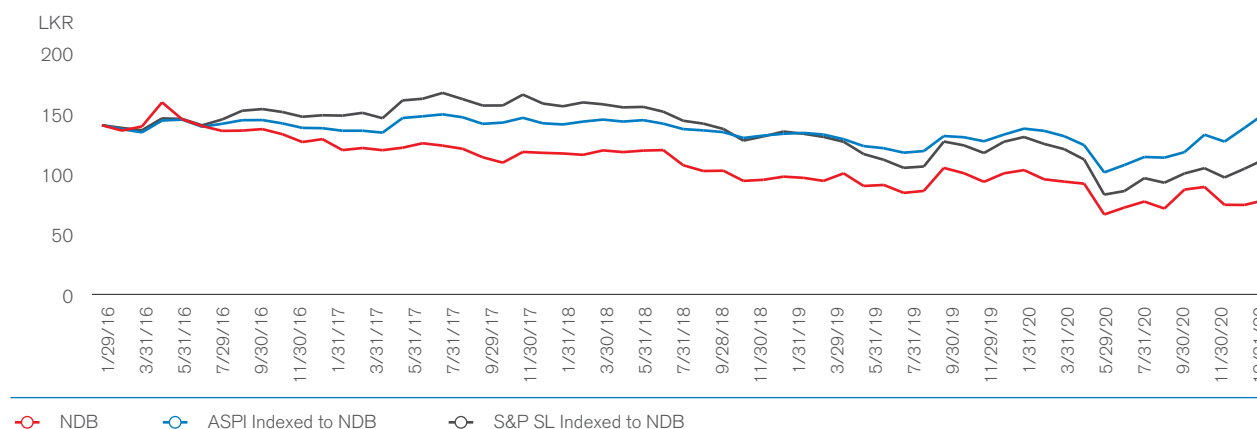
Investor Relations

Shareholder Funds and Market Capitalisation



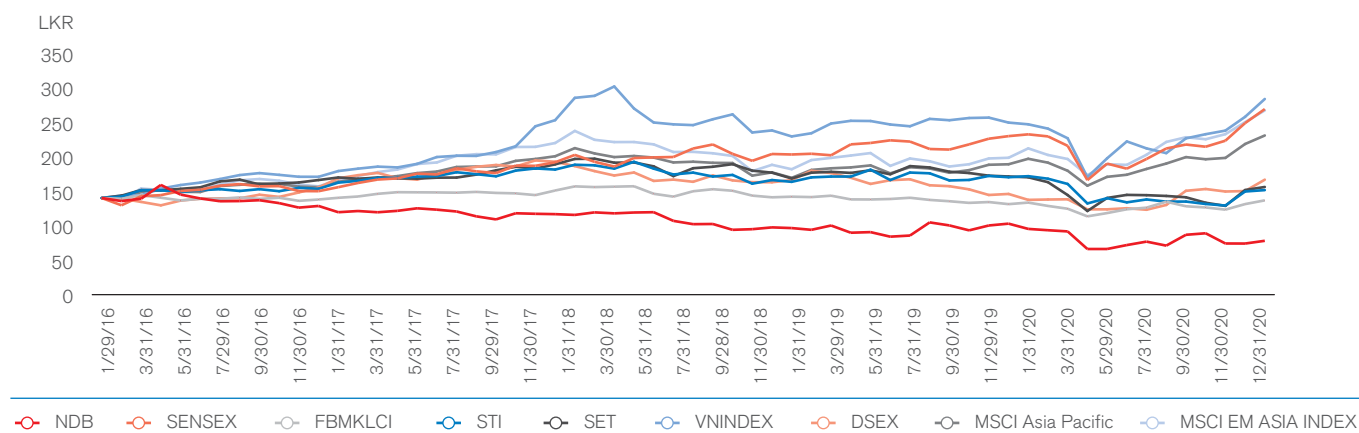
7.4 NDB share performance in comparison to selected local indices

NDB Group vs Indices



7.5 NDB share performance in comparison to key regional indices

NDB Group vs Indices



8 KEY SHAREHOLDER RETURN INDICATORS – NDB GROUP

Year	2020	2019	2018	2017	2016
Return on equity (%)	11.20	11.59	14.26	11.09	9.23
Gross dividends paid during the year (LKR Mn)	1,553	1,683	1,200	1,664	661
Dividend per share (DPS) (Interim - 2020) (LKR)*	1.50	7.00	8.00	9.00	8.00
Dividend yield (%)*	-	7.00	7.49	6.60	5.13
Dividend payout ratio (%)*	-	30.37	30.32	35.47	49.11
Earnings per share (EPS) (LKR)	21.99	20.53	26.33	19.66	15.69
Dividend cover (Times)*	-	2.93	3.29	2.18	1.96
Total shareholder return ratio (TSR) (%)	-14.90	1.12	-16.57	-6.15	-17.57
Price earnings ratio (PE ratio) (Times)	3.55	4.87	4.06	6.94	9.94
Net asset value per share (LKR)	206.23	195.60	185.49	192.51	181.23
Price to book value (Times)	0.38	0.51	0.58	0.71	0.86

* The Board of Directors approved and declared an interim dividend of LKR 1.50 per share for 2020, at the time of printing this Report. Therefore the Dividend Cover Dividend payout ratio and Dividend Yield for the year 2020 are not disclosed.

RETURN ON EQUITY

The Return on Equity (ROE) at the Bank level was 13.13%, marginally down from 13.73% in 2019. This was due to the slower growth in profitability which moderated at 8% given the macro economic challenges versus a faster acceleration in equity capital at 13% - which was a result of enhancement in reserves. The Group ROE was 11.20% and compares with 11.59% for the year 2019.

EARNINGS PER SHARE (EPS)

Earnings per share (EPS) at the Bank level was LKR 23.77 and compares with a EPS of LKR 21.97 in 2019. The enhancement in the EPS is in tandem with the increase in post-tax profitability by 8%, to LKR 5.5 Bn in 2020. The resultant Group EPS for the year was LKR 21.99 and compares with LKR 20.53 for the previous year.

DIVIDENDS FOR THE YEAR

On 18 February 2021, the Board of Directors approved and declared an interim cash dividend of LKR 1.50 per share for the year ended 31 December 2020. Please refer Note Number 19 Dividend per Share under Notes to Financial Statements (page 206).

NET ASSET VALUE PER SHARE

NDB's Net Asset Value per Share closed at LKR 192.49 at the Bank level whilst the same was LKR 206.23 at the Group level, which compared respectively with LKR 178.02 and LKR 195.60 of 2019. The increase in Net Asset Value per Share at both Bank and Group level was due to the increase in the capital base, with the increased capitalisation of profits.

9 EMPLOYEE SHARE OWNERSHIP SCHEMES

Employee Share Option Scheme (ESOS)

Please refer Note Number 43.2 Employee Share Option Scheme (ESOS) under Notes to Financial Statements (page 252).

10 CAPITAL RAISING INITIATIVES 2020

Please refer Note Number 56.5 Capital Management under Notes to Financial Statements (page 302).

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DEBENTURES OF NDB

11 NDB HAS ISSUED FOUR DEBENTURES AS FOLLOWS

- I - Listed rated unsecured subordinated redeemable debentures – September 2020
- II - Listed rated unsecured subordinated redeemable debentures – March 2019
- III - Listed rated unsecured subordinated redeemable debentures – June 2015 (Redeemed in 2020)
- IV - Listed rated unsecured subordinated redeemable debentures – December 2013

11 (I) Rated unsecured subordinated redeemable debentures – September 2020

11 (I) (A) Key features of the debentures

Types of Debentures	Debenture Code	ISIN	Issue price LKR	Par value LKR	Interest rate per annum	Interest payment frequency	Annual Effective Rate per annum	Date of allotment	Redemption (from the date of allotment)	Interest payment dates
One Type	NDB-BD-24/09/25-C2452-9.5	LK0207D24529	100	100	9.50%	Annually	9.50%	25 September 2020	60 months (5 years)	24 September

11 (I) (B) Trading details for the year ended 31 December 2020

Type of Debenture	CSE Listing	Interest payment frequency	Balance as at 31 December 2020 LKR Mn	Market Value			Interest Rate		Interest rate of comparable Security	Other ratios as at last trade	
				Highest LKR	Lowest LKR	Year end LKR	Coupon Rate	Effective Annual Yield		Interest Yield	Yield To Maturity
One Type	Listed	Annually	6,637	Not traded during the year			9.50%	9.16%	6.57%	Not traded during the year	
Total Debentures			6,637								

11 (I) (C) Disclosures regarding the utilisation of funds as per the objectives stated in the Debenture Prospectus

Objective number	Objective as per Prospectus	Amount allocated as per Prospectus in LKR Mn	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in LKR Mn (A)	% of total proceeds	Amount utilised in LKR Mn (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	Improve and further strengthen the Capital Adequacy Ratio in line with the Basel III guidelines	6,500	NA	6,500	100%	6,500	100%	-
2	Facilitate future expansion of business activities of the Bank	6,500	NA	6,500	100%	-	<100%	The funds raised via the debenture issue was allotted on 25 September 2020 and were invested in Government Securities at zero risk. The funds will be gradually deployed in the expansion of the Bank's business and this will be completed within 12 months as stated in the Prospectus of the debenture issue.

11 (II) Rated unsecured subordinated redeemable debentures – March 2019

11 (II) (A) Key features of the debentures

Types of Debentures	Debenture Code	ISIN	Issue price LKR	Par value LKR	Interest rate per annum	Interest payment frequency	Annual Effective Rate per annum	Date of allotment	Redemption (from the date of allotment)	Interest payment dates
Type A	NDB-BD-30/03/24-C2419-13.5	LK0207D24198	100	100	13.50%	Semi-Annually	13.96%	31 March 2019	60 months (5 years)	30 September and 30 March
Type B	NDB-BD-30/03/24-C2420-13.95	LK0207D24206	100	100	13.95%	Annually	13.95%	31 March 2019	60 months (5 years)	30 March

11 (II) (B) Trading details for the year ended 31 December 2020

Type of Debenture	CSE Listing	Interest payment frequency	Balance as at 31 December 2020 LKR Mn	Market Value			Interest Rate		Interest rate of comparable Security	Other ratios as at last trade	
				Highest	Lowest	Year end	Coupon Rate	Effective Annual Yield		Interest Yield	Yield To Maturity
Type A	Listed	Semi-Annually	1,281	Not traded during the year			13.50%	13.16%	11.04%	Not traded during the year	
Type B	Listed	Annually	4,754	99.99	99.99	99.99	13.95%	13.15%	11.04%	13.95%	13.95%
Total Debentures			6,035								

11 (III) Rated unsecured subordinated redeemable debentures – June 2015

11 (III) (A) Key features of the debentures

Types of Debentures	Debenture Code	ISIN	Issue price LKR	Par value LKR	Interest rate per annum	Interest payment frequency	Annual Effective Rate per annum	Date of allotment	Redemption (from the date of allotment)	Interest payment dates
Type A	NDB-BD-24/06/20-C2309-9.4	LK0207D23091	100	100	9.40%	Annually	9.40%	24 June 2015	60 months (5 years)	31 December
Type B	NDB-BD-24/06/20-C2308-0	LK0207D23083	63.8136	100	9.40%	Annual compounding on the Issue Price payable on the Date of Redemption	9.40%	24 June 2015	60 months (5 years)	At the time of redemption

11 (III) (B) Trading details for the year ended 31 December 2020

Type of Debenture	CSE Listing	Interest payment frequency	Balance as at 31 December 2020 LKR Mn	Market Value			Interest Rate		Interest rate of comparable Security	Other ratios as at last trade	
				Highest	Lowest	Year end	Coupon Rate	Effective Annual Yield		Interest Yield	Yield To Maturity
Type A	Listed	Annually		Not traded during the year			9.40%	9.19%	8.30%	Not traded during the year	
Type B	Listed	Payable on date of redemption	-	97.34	97.34	97.34	9.40% Annual compounding on the Issue Price payable on the Date of Redemption	9.18%	8.30%	10.50%	10.50%
Total Debentures			-								

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11 (iv) Rated unsecured subordinated redeemable debentures – December 2013

11 (iv) (A) Key features of the debentures

Types of Debentures	Debenture Code	ISIN	Issue price LKR	Par value LKR	Interest rate per annum	Interest payment frequency	Annual Effective Rate per annum	Date of allotment	Redemption (from the date of allotment)	Interest payment dates
Type C	NDB/BC/19/12/23C13.9	LK0207D21038	100	100	13.90%	Annually	13.90%	19 December 2013	120 months (10 years)	31 December
Type D	NDB/BC/19/12/25D14	LK0207D21053	100	100	14.00%	Annually	14.00%	19 December 2013	144 months (12 years)	31 December

11 (iv) (B) Trading details for the year ended 31 December 2020

Type of Debenture	CSE Listing	Interest payment frequency	Balance as at 31 December 2020 LKR Mn	Market Value			Interest Rate		Interest rate of comparable Security	Other ratios as at last trade	
				Highest	Lowest	Year end	Coupon Rate	Effective Annual Yield		Interest Yield	Yield To Maturity
Type C	Listed	Annually	3,630	101.73	101.73	101.73	13.90%	13.17%	9.75%	13.19%	13.19%
Type D	Listed	Annually	3,579	Not traded during the year			14.00%	13.26%	9.75%	Not traded during the year	
Total Debentures			7,209								

12 INFORMATION ON DEBENTURES OF THE BANK (AS PER RULE NO. 7.6 X (I) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE) - BANK

	2020	2019
Debt Equity Ratio (%)	12.73	12.09
Interest cover (Times)	1.50	1.50
Liquidity Assets Ratio (%) – Domestic Banking Unit (DBU) (Minimum Requirement - 20%)	28.84	20.93
Liquidity Assets Ratio (%) – Foreign Currency Banking Unit (FCBU) (Minimum Requirement - 20%)	26.88	24.78
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 90% (2019-100%))	161.97	162.42
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90% (2019-100%))	157.12	153.26

13 OTHER INFORMATION ON DEBENTURES OF THE BANK

- Registrar to the rated unsecured subordinated redeemable debentures issued - S S P Corporate Services (Pvt) Limited No. 101 Inner Flower Road, Colombo 03
- Trustees to the rated unsecured subordinated redeemable debentures issued - Bank of Ceylon, Investment Banking Division No.1, BOC Square, Bank of Ceylon Mawatha, Colombo 01

14 DIRECTORS' INTEREST IN LISTED DEBENTURES AS AT 31 DECEMBER 2020

None of the Directors of the Bank had any interest in any listed debentures of the Bank as at 31 December 2020 as issued in September 2020, March 2019 and December 2013.

It is also noted that none of the Directors held any listed debentures in the previous financial year (31 December 2019).

15 CREDIT RATINGS SUMMARY

NDB at present engages the services of Fitch Ratings Lanka Limited for local credit ratings and the Bank's ratings are as follows.

As per rating action in August 2020

- National long term rating: Affirmed at A+(lka); Stable outlook
- Basel III compliant subordinated term debt: A-(lka)
- Basel II compliant subordinated term debt: A-(lka)

Please refer our Investor Relations web page within the NDB corporate website on <http://www.ndbbank.com/> to read the full rating reports.

OTHER INFORMATION

16 FINANCIAL STATEMENTS IN USD - BANK & GROUP

16.1 Statement of Profit or Loss

For the year ended 31 December	BANK			GROUP		
	2020 USD '000	2019 USD '000	%	2020 USD '000	2019 USD '000	%
Gross income	325,861	330,582	(1)	331,096	336,865	(2)
Interest income	284,744	297,370	(4)	285,545	298,639	(4)
Less: Interest expenses	189,397	198,343	(5)	189,251	198,141	(4)
Net interest income	95,347	99,027	(4)	96,294	100,498	(4)
Fee and commission income	22,933	21,894	5	29,293	27,261	7
Less: Fee and commission expense	100	32	213	100	32	213
Net Fee and commission income	22,833	21,862	4	29,193	27,229	7
Net gains/(losses) from trading	5,196	5,537	(6)	5,196	5,537	(6)
Net gains/(losses) from financial assets at fair value through profit or loss	518	131	295	611	442	38
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	7,983	3,839	108	7,983	3,839	108
Net gains/(losses) from derecognition of financial assets measured at amortised cost	-	51	(100)	1	51	(98)
Other operating income	4,587	1,792	156	2,566	1,129	127
Total operating income	136,464	132,239	3	141,844	138,725	2
Less: Impairment charges	36,511	23,252	57	36,496	24,637	48
Net operating income	99,953	108,987	(8)	105,348	114,088	(8)
Less: Operating expenses						
Personnel expenses	27,782	27,722	0	30,881	30,533	1
Depreciation and amortisation expenses	4,398	4,256	3	5,005	4,940	1
Other expenses	18,315	20,783	(12)	19,990	22,735	(12)
Total operating expenses	50,495	52,761	(4)	55,876	58,208	(4)
Operating profit before tax on financial services	49,458	56,226	(12)	49,472	55,880	(11)
Less: Tax on financial services	9,771	17,176	(43)	9,771	17,176	(43)
Operating profit after tax on financial services	39,687	39,050	2	39,701	38,704	3
Share of associate companies' profits/(losses)	-	-	-	-	-	-
Profit before taxation	39,687	39,050	2	39,701	38,704	3
Less: Income tax expenses	9,977	10,464	(5)	11,673	11,385	3
Profit for the year	29,710	28,586	4	28,028	27,319	3
Profit attributable to equity holders of the parent	29,710	28,586	4	27,488	26,709	3
Non-controlling interests	-	-	-	540	610	(11)
Profit for the year	29,710	28,586	4	28,028	27,319	3
Basic/Diluted Earning per share (USD)	0.13	0.12	4	0.12	0.11	3
Dividend per share (Interim-2020/Final-2019) (USD)	0.01	0.04				

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16.2 Statement of Comprehensive Income

	BANK			GROUP		
	2020 USD '000	2019 USD '000	%	2020 USD '000	2019 USD '000	%
Profit for the year	29,710	28,586	4	28,028	27,319	3
Other comprehensive income						
Items that will be reclassified to the Statement of Profit or Loss						
Exchange differences on translation of foreign operations	-	-	-	58	(39)	249
Gains/(losses) on investments in debt instruments fair value through other comprehensive income						
Net change in fair value during the year	44	6,863	(99)	32	6,818	(100)
Changes in allowance for expected credit losses	(23)	187	(112)	(1,673)	1,481	(213)
Deferred tax effect on gains/(losses) on above financial instruments	1,827	(3,739)	149	1,787	(3,466)	152
Net gains/(losses) on Investments in above financial instruments	1,848	3,311	(44)	146	4,833	(97)
Gains/(losses) on cash flow hedges	9	(576)	102	9	(576)	102
Net other comprehensive income that will be reclassified to Statement of Profit or Loss (a)	1,857	2,735	(32)	213	4,218	(95)
Items that will not be reclassified to the statement of profit or loss						
Net gains/(losses) on investments in equity instruments - fair value through other comprehensive income	(771)	(2,107)	63	(771)	(2,107)	63
Revaluation of freehold land and buildings	370	1,718	(78)	486	1,795	(73)
Deferred tax effect on revaluation gains/(losses)	(103)	(481)	79	(136)	(503)	73
Net gains/(losses) on revaluation of freehold land and buildings	267	1,237	(78)	350	1,292	(73)
Actuarial gains/(losses) on defined benefit plans	(315)	(1,609)	80	(289)	(1,719)	83
Deferred tax effect on actuarial gains/(losses)	44	213	(79)	32	272	(88)
Net actuarial gains/(losses) on defined benefit plans	(271)	(1,396)	81	(257)	(1,447)	82
Net other comprehensive income that will not be reclassified to Statement of Profit or Loss (b)	(775)	(2,266)	66	(678)	(2,262)	70
Total other comprehensive income for the year, net of taxes (a + b)	1,082	469	131	(465)	1,956	(124)
Total comprehensive income for the year	30,792	29,055	6	27,563	29,275	(6)
Attributable to:						
Equity holders of the parent	30,792	29,055	6	27,010	28,666	(6)
Non-controlling interests	-	-	-	553	609	(9)
Total comprehensive income for the year	30,792	29,055	6	27,563	29,275	(6)

16.3 Statement of Financial Position

As at 31 December	BANK			GROUP		
	2020 USD '000	2019 USD '000	%	2020 USD '000	2019 USD '000	%
Assets						
Cash and cash equivalents	55,785	31,424	78	57,335	33,506	71
Balances with the Central Bank of Sri Lanka	36,235	76,510	(53)	36,235	76,510	(53)
Placements with banks	65,966	34,661	90	65,966	34,661	90
Derivative financial instruments	7,604	8,795	(14)	7,604	8,795	(14)
Financial assets recognised through profit or loss - measured at fair value	29,650	5,136	477	41,028	19,222	113
Financial assets at amortised cost - loans and receivables to other customers	2,263,859	2,185,393	4	2,264,265	2,185,521	4
Financial assets at amortised cost - debt and other instruments	237,828	151,437	57	237,828	151,437	57
Financial assets measured at fair value through other comprehensive income	577,623	369,247	56	578,526	377,027	53
Investments in subsidiary companies	6,079	11,817	(49)	-	-	-
Investments in associate companies	-	-	-	-	-	-
Investment property	-	-	-	12,561	12,523	0
Intangible assets	5,576	3,789	47	5,647	3,862	46
Property, plant & equipment	15,793	16,596	(5)	18,835	19,643	(4)
Right of use assets	5,643	5,294	7	6,860	6,774	1
Current tax receivables	-	-	-	240	129	86
Deferred tax assets	9,977	3,301	202	10,350	3,567	190
Other assets	16,620	14,475	15	19,122	17,786	8
Total assets	3,334,238	2,917,875	14	3,362,402	2,950,963	14
Liabilities						
Due to banks	128,581	101,269	27	128,581	101,269	27
Derivative financial instruments	5,408	4,016	35	5,408	4,016	35
Financial liabilities at amortised cost						
Due to depositors	2,607,862	2,231,670	17	2,604,568	2,229,573	17
Due to debt securities holders	7,979	7,703	4	7,979	7,703	4
Due to other borrowers	182,362	161,664	13	182,362	161,664	13
Debt securities issued	105,749	127,321	(17)	105,749	127,321	(17)
Current tax liabilities	12,220	12,386	(1)	13,635	12,906	6
Deferred tax liabilities	-	-	-	3,171	3,124	2
Retirement benefit obligations	3,773	3,217	17	4,362	3,961	10
Other liabilities	42,108	51,087	(18)	44,868	54,034	(17)
Total liabilities	3,096,042	2,700,333	15	3,100,683	2,705,571	15
Equity						
Stated capital	46,778	42,343	10	46,778	42,343	10
Statutory reserve fund	11,683	10,449	12	11,683	10,449	12
Retained earnings	176,205	162,510	8	192,252	183,088	5
Other reserves	3,530	2,240	58	4,479	3,147	42
Total equity to equity holders of the Bank	238,196	217,542	9	255,192	239,027	7
Non-controlling interests	-	-	-	6,527	6,365	3
Total equity	238,196	217,542	9	261,719	245,392	7
Total liabilities and equity	3,334,238	2,917,875	14	3,362,402	2,950,963	14
Contingent liabilities and commitments	1,829,519	1,615,128	13	1,830,073	1,615,801	13
Net asset value per share (USD)	1.02	0.98	4	1.10	1.08	2

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17 INTERIM FINANCIAL PERFORMANCE - BANK & GROUP

17.1 Statement of Profit or Loss

BANK LKR '000	Quarter 4 31/12/2020	Quarter 3 30/09/2020	Quarter 2 30/06/2020	Quarter 1 31/03/2020	Quarter 4 31/12/2019	Quarter 3 30/09/2019	Quarter 2 30/06/2019	Quarter 1 31/03/2019
Net interest income	4,481,060	4,843,748	4,094,106	4,329,535	4,616,176	4,438,792	3,991,410	4,661,387
Other operating income	1,764,466	1,853,442	1,737,603	2,298,319	1,449,267	1,593,103	1,565,012	1,331,365
Total operating income	6,245,526	6,697,190	5,831,710	6,627,854	6,065,443	6,031,895	5,556,421	5,992,752
Impairment charges for loans and other losses	2,371,030	1,649,747	1,488,968	1,286,590	1,291,520	988,719	1,035,921	841,621
Net operating income	3,874,496	5,047,443	4,342,741	5,341,264	4,773,923	5,043,176	4,520,500	5,151,131
Total operating expenses	2,380,626	2,363,394	2,238,576	2,416,858	2,281,183	2,489,844	2,431,467	2,231,989
Profit from operations	1,493,870	2,684,049	2,104,165	2,924,406	2,492,740	2,553,332	2,089,032	2,919,142
Profit before taxation	1,493,870	2,684,049	2,104,165	2,924,406	2,492,740	2,553,332	2,089,032	2,919,142
Taxation	440,341	1,176,921	871,130	1,187,622	731,852	1,423,042	1,241,423	1,546,327
Profit for the period	1,053,529	1,507,128	1,233,035	1,736,784	1,760,888	1,130,290	847,610	1,372,815
Profit attributable to:								
Equity holders of the parent	1,053,529	1,507,128	1,233,035	1,736,784	1,760,888	1,130,290	847,610	1,372,815
Basic Earnings per Share (LKR)	4.53	6.48	5.30	7.47	7.94	5.10	3.82	6.19

GROUP LKR '000	Quarter 4 31/12/2020	Quarter 3 30/09/2020	Quarter 2 30/06/2020	Quarter 1 31/03/2020	Quarter 4 31/12/2019	Quarter 3 30/09/2019	Quarter 2 30/06/2019	Quarter 1 31/03/2019
Net interest income	4,514,160	4,889,766	4,140,986	4,379,965	4,679,316	4,503,956	4,060,592	4,726,917
Other operating income	2,366,523	2,274,612	1,822,655	2,015,180	1,899,999	1,857,664	1,788,731	1,289,157
Total operating income	6,880,683	7,164,378	5,963,641	6,395,145	6,579,315	6,361,620	5,849,323	6,016,074
Impairment charges for loans and other losses	2,379,326	1,649,747	1,480,179	1,284,395	1,356,868	1,004,191	1,088,550	955,867
Net operating income	4,501,357	5,514,631	4,483,462	5,110,750	5,222,447	5,357,429	4,760,773	5,060,207
Total operating expenses	2,686,577	2,630,047	2,440,436	2,643,990	2,502,140	2,745,001	2,697,537	2,463,808
Profit from operations	1,814,780	2,884,584	2,043,026	2,466,760	2,720,307	2,612,428	2,063,236	2,596,399
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit before taxation	1,814,780	2,884,584	2,043,026	2,466,760	2,720,307	2,612,428	2,063,236	2,596,399
Taxation	513,049	1,362,777	904,785	1,211,193	817,490	1,450,901	1,267,821	1,571,143
Profit for the period	1,301,731	1,521,807	1,138,241	1,255,567	1,902,817	1,161,527	795,415	1,025,256
Profit attributable to:								
Equity holders of the parent	1,247,823	1,504,868	1,121,396	1,242,717	1,838,650	1,147,524	781,893	1,007,869
Non-controlling interests	53,908	16,939	16,845	12,850	64,167	14,003	13,522	17,387
	1,301,731	1,521,807	1,138,241	1,255,567	1,902,817	1,161,527	795,415	1,025,256
Basic Earnings per Share (LKR)	5.36	6.47	4.82	5.34	8.29	5.17	3.53	4.54

17.2 Statement of Financial Position

BANK LKR '000	As at 31/12/2020	As at 30/09/2020	As at 30/06/2020	As at 31/03/2020	As at 31/12/2019	As at 30/09/2019	As at 30/06/2019	As at 31/03/2019
Cash and cash equivalents	29,701,240	20,635,395	15,875,582	24,014,021	25,881,090	24,896,475	24,966,879	33,100,656
Net loans and advances	425,605,508	425,828,642	413,209,608	410,899,921	396,648,811	377,934,146	361,362,794	350,905,687
Investments	158,878,998	140,673,043	121,091,104	105,459,246	97,581,165	93,327,727	94,950,846	88,789,359
Other assets	12,650,952	13,003,742	11,883,788	12,961,750	9,483,362	9,206,389	8,936,618	9,808,096
Total	626,836,698	600,140,822	562,060,082	553,334,938	529,594,428	505,364,737	490,217,137	482,603,798
Customer deposits	490,278,126	464,308,212	427,566,431	414,146,324	405,048,024	374,213,903	354,619,371	351,017,173
Borrowings	79,838,325	80,091,026	81,138,852	87,063,704	72,229,185	80,707,360	86,969,249	82,204,707
Other liabilities	11,939,224	12,013,739	10,491,076	11,064,910	12,833,384	13,202,849	12,387,374	14,078,882
Shareholders' funds	44,781,023	43,727,845	42,863,723	41,060,000	39,483,835	37,240,625	36,241,143	35,303,036
Total	626,836,698	600,140,822	562,060,082	553,334,938	529,594,428	505,364,737	490,217,137	482,603,798
Net Asset Value	192.49	187.97	184.25	176.50	169.72	167.90	163.40	159.17

GROUP LKR '000	As at 31/12/2020	As at 30/09/2020	As at 30/06/2020	As at 31/03/2020	As at 31/12/2019	As at 30/09/2019	As at 30/06/2019	As at 31/03/2019
Cash and cash equivalents	29,992,579	21,105,685	16,310,634	24,363,366	26,258,981	25,242,264	25,349,352	33,428,984
Net loans and advances	425,681,832	425,870,010	413,256,356	410,994,629	396,672,022	378,030,221	361,434,697	350,977,984
Investments	161,187,834	144,340,530	124,700,486	109,349,505	99,404,951	94,920,270	96,715,316	90,879,064
Other assets	15,269,374	13,995,662	12,892,913	13,972,132	13,263,672	12,739,345	12,313,311	12,696,714
Total	632,131,619	605,311,887	567,160,389	558,679,632	535,599,626	510,932,100	495,812,676	487,982,746
Customer deposits	489,658,746	463,944,930	427,148,152	413,756,399	404,667,529	373,776,623	354,196,267	350,652,339
Borrowings	79,838,325	80,091,026	81,138,852	87,063,704	72,229,185	80,707,360	86,969,249	82,191,623
Other liabilities	13,431,154	13,381,040	11,857,120	12,224,982	14,164,282	14,349,802	13,601,896	14,967,479
Shareholders' funds	47,976,238	46,725,602	45,860,719	44,466,065	43,383,350	40,995,161	39,959,087	39,058,112
Non-controlling interests	1,227,156	1,169,289	1,155,546	1,168,482	1,155,280	1,103,154	1,086,177	1,113,193
Total	632,131,619	605,311,887	567,160,389	558,679,632	535,599,626	510,932,100	495,812,676	487,982,746
Net Asset Value	206.23	200.85	197.13	185.95	186.49	184.83	180.16	176.10

Investor Relations

18 TEN YEARS AT A GLANCE (GROUP PERFORMANCE)

18.1 Statement of Profit or loss

LKR Mn	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Income										
Net interest income	4,910	5,896	7,012	7,913	7,807	8,861	11,086	15,103	17,971	17,925
Other operating income	3,012	9,042	4,537	5,053	5,484	4,816	5,597	7,450	6,835	8,479
Total operating income	7,922	14,938	11,549	12,966	13,291	13,677	16,683	22,553	24,806	26,404
Impairment for loans & receivables and other losses	(88)	51	1,261	529	746	1,425	1,290	3,764	4,405	6,794
Net operating income	8,010	14,887	10,288	12,437	12,545	12,252	15,393	18,789	20,401	19,610
Less operating expenses										
Personnel costs	2,118	2,333	2,660	3,172	3,634	3,793	4,025	4,899	5,460	5,748
Other operating costs	1,863	2,163	2,904	2,738	3,196	3,366	4,176	4,468	4,949	4,653
Total operating expenses	3,981	4,496	5,564	5,911	6,830	7,159	8,201	9,367	10,409	10,401
Operating profit before share of Associate co's profit before tax	4,030	10,391	4,724	6,527	5,715	5,094	7,192	9,422	9,992	9,209
Share of Associate co's profit	331	439	49	97	78	-	-	-	-	-
Profit before taxation	4,361	10,830	4,773	6,624	5,793	5,094	7,192	9,422	9,992	9,209
Taxation	1,597	1,898	2,061	2,378	2,123	2,279	3,797	4,146	5,107	3,992
Profit after taxation	2,764	8,932	2,712	4,246	3,670	2,815	3,395	5,276	4,885	5,217
Minority interest	235	78	70	112	128	124	57	140	109	101
Profit attributable to Group	2,528	8,854	2,642	4,134	3,542	2,691	3,453	5,136	4,776	5,117

18.2 Statement of Financial Position - Group

LKR Mn	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets										
Liquid assets	7,651	13,269	8,139	12,737	20,002	20,252	21,549	37,855	26,259	29,993
Investments	27,359	32,499	55,614	72,971	77,257	84,437	83,062	82,715	99,405	161,188
Loans & advances	102,019	124,311	137,523	175,547	209,768	227,717	274,079	344,276	396,672	425,682
Investments in associate companies	1,797	33	77	-	-	-	-	-	-	-
Property & equipment	1,504	1,541	1,473	2,550	2,730	2,913	3,314	3,541	4,266	4,603
Investment property	1,296	1,296	1,384	1,546	1,672	1,776	1,895	2,111	2,273	2,362
Other assets	962	1,154	2,608	3,780	3,925	3,637	4,747	7,930	6,725	8,305
Goodwill	-	-	-	-	-	-	-	-	-	-
Total assets	142,588	174,103	206,818	269,130	315,354	340,732	388,645	478,428	535,600	632,132
Liabilities										
Borrowings	38,973	36,630	47,344	80,768	92,331	96,279	68,617	78,189	72,958	80,855
Deposits with customers	82,094	107,394	129,423	151,485	184,152	203,516	273,041	347,170	404,668	489,659
Non life insurance reserves	-	-	-	-	-	-	-	-	-	-
Long term insurance fund	-	-	-	-	-	-	-	-	-	-
Taxation	397	713	625	1,416	1,237	1,597	3,372	3,618	2,909	3,159
Other liabilities	3,286	3,657	4,062	6,662	8,233	8,326	9,637	9,340	10,527	9,255
Total liabilities	124,750	148,394	181,454	240,331	285,953	309,718	354,667	438,317	491,062	582,928
Shareholders' funds										
Stated capital	864	864	944	1,145	1,163	1,246	2,209	6,469	7,685	8,794
Statutory reserves	879	879	959	1,011	1,243	1,246	1,336	1,636	1,896	2,196
Other reserves	387	924	1,880	1,474	1,000	497	923	239	579	842
Retained earnings	14,796	22,216	20,733	24,246	24,976	26,946	28,544	30,668	33,233	36,143
Total shareholders' funds	16,926	24,883	24,516	27,876	28,382	29,937	33,012	39,012	43,383	47,976
Minority interest	913	826	848	923	1,019	1,077	966	1,099	1,155	1,227
Total funds employed	17,838	25,709	25,364	28,799	29,401	31,013	33,978	40,111	44,538	49,203
Total liabilities & funds employed	142,588	174,103	206,818	269,130	315,354	340,732	388,645	478,428	535,600	632,132

18.3 Share Information - Group

Share Information	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Market price per share (LKR)	138.10	137.90	160.50	250.00	194.10	156.00	136.40	106.80	100.00	78.10
Basic earnings per share (LKR)	15.79	55.31	16.48	25.14	21.51	15.69	19.66	26.33	20.53	21.99
Interim dividends per share (LKR)	3.50	5.00	5.00	7.00	7.00	-	2.00	-	-	1.50
Final dividends per share (LKR)	4.00	10.00	5.00	4.00	4.00	8.00	7.00	8.00	7.00	-
Total dividends per share (LKR)*	7.50	15.00	10.00	11.00	11.00	8.00	9.00	8.00	7.00	1.50
Dividend cover (Times)*	2.11	3.69	1.65	2.29	1.96	1.96	2.18	3.29	2.93	-
Price earnings ratio (Times)	8.75	2.49	9.74	9.94	9.02	9.94	6.94	4.06	4.87	3.55
Book value per share (LKR)	104.07	151.54	148.85	169.35	172.35	181.23	192.51	185.49	195.60	206.23

* The Board of Directors approved and declared an interim dividend of LKR 1.50 per share for 2020, at the time of printing this Report. Therefore the Dividend cover for the year 2020 is not disclosed.

Tabulated below is how we complied with the contents of the Annual Report as specified in Section 7.6 of the Listing Rules issued by the Colombo Stock Exchange. The table provides the disclosure requirements of Section 7.6, the compliance level of the Bank and where you will find the respective disclosures within this Annual Report.

[illegible]

Rule No:	Disclosure Requirement	Cross Reference/within the Report (page/s)
7.6 (xiii)	If during the financial year the Entity has raised funds through an Initial Public Offering and/or a further issue of Securities (as applicable);	
	a. the manner in which the funds of such issue/s have been utilised in conformity with the format provided by the Exchange from time to time;	N/A
	b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and,	386
	c. any material change in the use of funds raised through an issue of Securities	N/A
	In the event the funds raised through the Initial Public Offering and/or the further issue of Securities (as applicable) have been fully utilised by the Listed Entity as disclosed in the Prospectus and/or Circular to shareholders between two financial periods, the Entity shall disclose such fact in the immediate succeeding Annual Report or the Interim Financial Statement, whichever is published first	
7.6 (xiv)	a. Employee share option schemes	385
	b. Employee share purchase schemes	N/A
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules	308 to 341
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	327

20 SHAREHOLDER ENQUIRIES AND COMMUNICATIONS

Please refer Corporate Information (page 415).

Key Events

- NDB partners with Mercantile Cricket Association (MCA) to sponsor the MCA "C" division 50 Over League Tournament 2020
- NDB wins CIMA Top Employers Award
- NDB opens its 113th branch in Hikkaduwa

January February



- NDB sponsors the West Indies Tour of Sri Lanka with NDB Bank Cup 2020
- NDB joins exclusive ranks of Business Today Top 30 (ranked 09)

March

- NDB becomes the Official Event Sponsor of Royal College Rugby 2020 and Trinity College Rugby as well as the Official Sponsor for the 76th Bradby Shield
- NDB Bank launches the Vanithabhimana Awards in recognising female power
- NDB mobile banking truck provides a range of services to customers during COVID-19



April



- NDB donates funds as COVID-19 relief
- NDB launches NEOS Online Banking, its newest omnichannel experience
- NDB Online Avurudu Ganu Denu with NEOS

June

- NDB launches NDB Jayagamu Sri Lanka
- NDB conducts its Annual General Meeting 2020 in a hybrid form of physical and virtual

May

- NDB conducts investor earnings call on its financial results for Q1 2020
- NDB partners with Daraz to extend support to entrepreneurs and SMEs

August

- NDB emerged as the first bank to host a connection with the CRIB Credit Score Instant Decision Module System
- NDB conducts Investor Earnings Call on its financial results for H1 2020
- NDB holds Extraordinary General Meeting
- NDB launches the Bank's mid-year strategy Voyage 2025

July

- NDB in Partnership with the Export Development Board under NDB Jayagamu Sri Lanka
- NDB recognised with the highest number of Great Managers at Great Manager Awards 2020
- NDB partners with Cord360 in supporting exporters to pursue new global market opportunities



September October

- NDB Game Changers awarded at the Annual Retail Banking Awards 2019
- NDB reopens state-of-the-art branches in Kollupitiya and Kandana
- Over 2,000 participants at "Sri Lanka Vanithabhimana" Central Province, and Southern Province Women's Day Celebrations



- NDB introduces NEOS PAY alongside LankaQR
- NDB's Dimantha Seneviratne wins Best Banking CEO of the Year 2020 Sri Lanka
- NDB launches Royal College Union Affinity Credit Card



November December

- NDB conducts Investor Earnings Call on its financial results for Q3 2020
- NDB commences Let's Grow reforestation project in Himbilyakada - Central Sri Lanka to combat deforestation



- NDB ranked in the Top 10 Most Admired Companies of Sri Lanka
- Affinity card launched for University of Colombo MBA Alumni Association
- NDB wins the coveted The Bank of the Year, Sri Lanka

Branch Network of the Bank

No	Branch Code	Branch Name	Region	District	Province
001	094	Akkaraipattu	North East Region	Ampara	Eastern
002	065	Akuressa	Southern Region	Matara	Southern
003	059	Aluthgama	Southern Region	Kalutara	Western
004	047	Ambalangoda	Southern Region	Galle	Southern
005	048	Ambalantota	Southern Region	Hambantota	Southern
006	040	Ampara	Uva-Sabaragamuwa Region	Ampara	Eastern
007	019	Anuradhapura	North Central Region	Anuradhapura	North Central
008	071	Athurugiriya	Greater Colombo Region	Colombo	Western
009	034	Avissawella	Uva-Sabaragamuwa Region	Colombo	Western
010	018	Badulla	Central Region	Badulla	Uva
011	077	Balangoda	Uva-Sabaragamuwa Region	Ratnapura	Sabaragamuwa
012	051	Bandarawela	Central Region	Badulla	Uva
013	090	Battaramulla	Greater Colombo Region	Colombo	Western
014	039	Batticaloa	North East Region	Batticaloa	Eastern
015	072	Boralesgamuwa	Greater Colombo Region	Colombo	Western
016	052	Borella	Colombo Region	Colombo	Western
017	099	Chavakachcheri	North East Region	Jaffna	Northern
018	093	Chenkalady	North East Region	Batticaloa	Eastern
019	010	Chilaw	North Western Region	Puttalam	North Western
020	062	Chunnakam	North East Region	Jaffna	Northern
021	100	Colombo 07	Colombo Region	Colombo	Western
022	064	Dambulla	North Central Region	Matale	Central
023	114	Digana	Central Region	Kandy	Central
024	078	Eheliyagoda	Uva-Sabaragamuwa Region	Ratnapura	Sabaragamuwa
025	067	Elpitiya	Southern Region	Galle	Southern
026	058	Embilipitiya	Uva-Sabaragamuwa Region	Ratnapura	Sabaragamuwa
027	113	Fort	Colombo Region	Colombo	Western
028	021	Galle	Southern Region	Galle	Southern
029	029	Gampaha	North Western Region	Gampaha	Western
030	050	Gampola	Central Region	Kandy	Central
031	086	Giriulla	North Central Region	Kurunegala	North Western
032	057	Hambantota	Southern Region	Hambantota	Southern
033	096	Hanwella	Uva-Sabaragamuwa Region	Colombo	Western
034	003	Havelock Town	Colombo Region	Colombo	Western
035	088	Hendala	North Western Region	Gampaha	Western
036	106	Hikkaduwa	Southern Region	Galle	Southern
037	102	Hingurakgoda	North Central Region	Polonnaruwa	North Central
038	030	Homagama	Greater Colombo Region	Colombo	Western
039	027	Horana	Colombo Region	Kalutara	Western
040	044	Ja-Ela	North Western Region	Gampaha	Western
041	037	Jaffna	North East Region	Jaffna	Northern
042	026	Kadawatha	North Western Region	Gampaha	Western
043	060	Kaduruwela	North Central Region	Polonnaruwa	North Central
044	055	Kaduwela	Greater Colombo Region	Colombo	Western
045	084	Kahawatte	Uva-Sabaragamuwa Region	Ratnapura	Sabaragamuwa
046	053	Kalmunai	North East Region	Ampara	Eastern
047	016	Kalutara	Southern Region	Kalutara	Western
048	028	Kandana	North Western Region	Gampaha	Western
049	002	Kandy	Central Region	Kandy	Central
050	080	Kandy City Centre	Central Region	Kandy	Central
051	109	Katana	North Western Region	Gampaha	Western
052	110	Katugastota	Central Region	Kandy	Central
053	082	Katunayake	North Western Region	Gampaha	Western

Branch Network of the Bank

No	Branch Code	Branch Name	Region	District	Province
054	017	Kegalle	Central Region	Kegalle	Sabaragamuwa
055	083	Kekirawa	North Central Region	Anuradhapura	North Central
056	025	Kiribathgoda	North Western Region	Gampaha	Western
057	089	Kochchikade	North Western Region	Gampaha	Western
058	032	Kohuwela	Greater Colombo Region	Colombo	Western
059	014	Kollupitiya	Colombo Region	Colombo	Western
060	024	Kotahena	Colombo Region	Colombo	Western
061	111	Kottawa	Greater Colombo Region	Colombo	Western
062	042	Kuliyapitiya	North Central Region	Kurunegala	North Western
063	007	Kurunegala	North Central Region	Kurunegala	North Western
064	012	Maharagama	Greater Colombo Region	Colombo	Western
065	105	Mahawewa	North Western Region	Puttalam	North Western
066	075	Mahiyanganaya	Central Region	Badulla	Uva
067	031	Malabe	Greater Colombo Region	Colombo	Western
068	097	Manipay	North East Region	Jaffna	Northern
069	103	Marine Drive	Colombo Region	Colombo	Western
070	046	Matale	Central Region	Matale	Central
071	006	Matara	Southern Region	Matara	Southern
072	045	Mathugama	Southern Region	Kalutara	Western
073	063	Minuwangoda	North Western Region	Gampaha	Western
074	070	Monaragala	Uva-Sabaragamuwa Region	Monaragala	Uva
075	015	Moratuwa	Colombo Region	Colombo	Western
076	020	Mount Lavinia	Colombo Region	Colombo	Western
077	074	Narahrenpita	Colombo Region	Colombo	Western
078	091	Narammala	North Central Region	Kurunegala	North Western
079	095	Nattandiya	North Western Region	Puttalam	North Western
080	061	Nawalapitiya	Central Region	Kandy	Central
081	001	Nawam Mawatha	Colombo Region	Colombo	Western
082	009	Negombo	North Western Region	Gampaha	Western
083	066	Nelliady	North East Region	Jaffna	Northern
084	069	Nikaweratiya	North Central Region	Kurunegala	North Western
085	054	Nittambuwa	North Western Region	Gampaha	Western
086	004	Nugegoda	Greater Colombo Region	Colombo	Western
087	076	Nuwara Eliya	Central Region	Nuwara Eliya	Central
088	079	Old Moor Street	Colombo Region	Colombo	Western
089	035	Panadura	Colombo Region	Kalutara	Western
090	022	Pelawatte	Greater Colombo Region	Colombo	Western
091	043	Pettah	Colombo Region	Colombo	Western
092	049	Pilimathalawa	Central Region	Kandy	Central
093	023	Piliyandala	Greater Colombo Region	Colombo	Western
094	087	Pitakotte	Greater Colombo Region	Colombo	Western
095	112	Private Wealth Centre	Colombo Region	Colombo	Western
096	033	Puttalam	North Central Region	Puttalam	North Western
097	005	Rajagiriya	Greater Colombo Region	Colombo	Western
098	073	Ratmalana	Colombo Region	Colombo	Western
099	013	Ratnapura	Uva-Sabaragamuwa Region	Ratnapura	Sabaragamuwa
100	115	Shangri-la	Colombo Region	Colombo	Western
101	116	Tangalle	Southern Region	Hambantota	Southern
102	104	Thambuttegama	North Central Region	Anuradhapura	North Central
103	098	Thirunelveli	North East Region	Jaffna	Northern
104	092	Tissamaharama	Southern Region	Hambantota	Southern
105	038	Trincomalee	North East Region	Trincomalee	Eastern
106	081	Uragasmanhandiya	Southern Region	Galle	Southern

No	Branch Code	Branch Name	Region	District	Province
107	041	Vauniya	North East Region	Vavuniya	Northern
108	101	Warakapola	Central Region	Kegalle	Sabaragamuwa
109	056	Wariyapola	North Central Region	Kurunegala	North Western
110	011	Wattala	North Western Region	Gampaha	Western
111	008	Wellawatte	Colombo Region	Colombo	Western
112	036	Wennappuwa	North Western Region	Puttalam	North Western
113	068	Yakkala	North Western Region	Gampaha	Western

More information on the Bank's branches, such as address, location on Google Maps and Operating Hours are accessible in the Bank's corporate web site www.ndbbnak.com, NDB NEOS mobile banking app and NDB NEOS online banking platform.

REGIONAL MANAGERS & REGIONAL OPERATIONS MANAGERS DETAILS

Rule No:	Region	Regional Office	Regional Manager	Regional Operations Manager
1	Colombo Region	Borella	Sydney Downall	Nirmalan Gomes
2	Greater Colombo Region	Kohuwala	Chandima Alwis	Sanjiva Peiris
3	Southern Region	Matara	Thilina Hewage	Sumith Kahaduwarachchi
4	North Western Region	Kandana	Romesh Tissera	Chathurika Gunarathne
5	North Central Region	Kurunegala	Sisira Herath	Thanuja Dayarathna
6	Central Region	Kandy	Nalin Abeyratne	Nilamdeen Ahamath
7	Uva-Sabaragamuwa Region	Ratnapura	Vinjaya Jayasinghe	Kasun Bandara
8	North East Region	Jaffna	Brinthapan Selvanayakam	Jacob Louis

Network of Group Companies

Company Head Office/Branch	Postal address	Contact person	Telephone	Fax	Email address
NDB Capital Holdings Limited	Level 1, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 04	Mr. Isuru Somaratne	0777745591	0112-300393	isuru@ndbch.com
NDB Investment Bank Limited	Level 1, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 04	Mr. Darshan Perera	011-2300385	011-2300393	darshan@ndbib.com
NDB Wealth Management Limited	Level G, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 04	Mr. Prabodha Samarasekera	011-2303232	011-2303237	prabodha@ndbinvestors.com
NDB Securities (Pvt) Limited	Level 2, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 04	Mr. Gihan R. Cooray	011-2131000/10	011-2314180	gihan@ndbs.lk
NDB Capital Limited [Bangladesh]	Bilquis Tower (5th Floor), Plot 6, Gulshan 2, Dhaka 1212, Bangladesh	Mr. Aniruddha Roy	+880-2-222288979	+880-2-222288906	aniruddha@ndbcapital.com
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Correspondent Relationships

ASIA

BAHRAIN
BANGLADESH
CAMBODIA
CHINA
HONG KONG
INDIA
INDONESIA
ISRAEL
JAPAN
JORDAN
KAZAKHSTAN
KUWAIT
LEBANON
MACAO
MALAYSIA
MALDIVES
NEPAL
OMAN
PAKISTAN
PHILIPPINES
QATAR
RUSSIAN FEDERATION
SAUDI ARABIA
SINGAPORE
SOUTH KOREA
SRI LANKA
TAIWAN
THAILAND
TURKEY
UNITED ARAB EMIRATES
VIETNAM

EUROPE

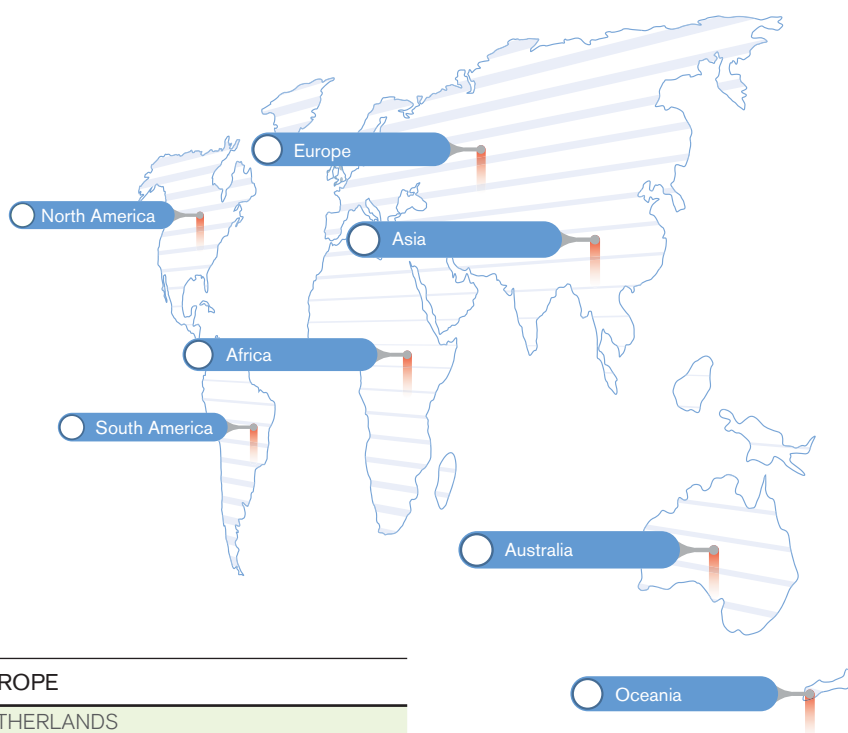
AUSTRIA
BELGIUM
BULGARIA
CYPRUS
CZECH REPUBLIC
DENMARK
ESTONIA
FINLAND
FRANCE
GERMANY
GREECE
GUERNSEY CI
IRELAND
HUNGARY
ITALY
LATVIA
LUXEMBOURG
MOLDOVA
MONACO

EUROPE

NETHERLANDS
NORWAY
POLAND
PORTUGAL
ROMANIA
SLOVAKIA
SLOVENIA
SPAIN
SWEDEN
SWITZERLAND
UKRAINE
UNITED KINGDOM

AFRICA

ALGERIA
CAMEROON
CONGO
COTE D'IVOIRE
EGYPT
GABON
KENYA
MADAGASCAR
MAURITANIA
MAURITIUS
MOROCCO
NIGERIA
SENEGAL
SEYCHELLES
SOUTH AFRICA
TANZANIA



AFRICA

TUNISIA
ZAMBIA

AUSTRALIA

AUSTRALIA

OCEANIA

NEW ZEALAND

SOUTH AMERICA

BOLIVIA
BRAZIL
CHILE
COLOMBIA
PERU
URUGUAY

NORTH AMERICA

BAHAMAS
CANADA
MEXICO
UNITED STATES

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Glossary of Financial and Banking Terms

A

Acceptances

Promise to pay, created when the drawee of a time draft, stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Gain/Loss

Gains or losses arising from the difference between estimates and actual experience in the entity's pension plan and retirement gratuity.

Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal prepayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Asset and Liability Committee (ALCO)

A risk-management committee in a bank that generally comprises the Senior Management of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Average Weighted Deposit Rate (AWDR)

AWDR is calculated by the Central Bank weekly, based on Commercial bank's deposit rates offered to their prime customers during the week.

Average Weighted PRIME Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week.

B

Basel III

The Basel Committee on Banking Supervision's details of strengthened global regulatory standards on Bank capital adequacy and liquidity.

Basis point (BP)

One hundredth of a percentage point, i.e. 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.

C

Capital Adequacy Ratios

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capitals

Refer to any stock of value such as customer base, staff strength, relationships with the community, etc. that will increase, decrease or transform through the activities of an organisation and that will help it generate earnings in the future.

Cash Equivalents

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Cash flows are inflows and outflows of cash and cash equivalents.

Cash Generating Unit (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Collectively Assessed Impairment Allowance Provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Retail Banking business (housing, personal, leasing, credit cards etc.) are assessed on a portfolio basis.

Commitments

Credit facilities approved but not yet utilised by the clients at the date of the Statement of Financial Position.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Consolidated Financial Statements

Consolidated Financial Statements are the Financial Statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic activity.

Contingencies

A condition or situation existing at the date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity

Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Control

Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

Glossary of Financial and Banking Terms

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost to Income Ratio

Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

Country Risk

The risk that a foreign government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (political risk)

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Currency Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigates such as collateral, guarantee and credit protection.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency swaps

The simultaneous purchase of an amount of currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Customers Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

D

Debt Restructuring/Rescheduling

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedules as well as debt or interest charge reduction.

Deferred Taxation

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and receivables are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

E

Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

Provision for taxation including deferred tax divided by the operating profit before tax on financial services.

Embedded Derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Employee Share Option Scheme (ESOS)

A method of giving employees shares in the business for which they work.

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Equity risk

The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

Equity Instrument

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue.

Ex- Dividend Date

A classification of trading shares when a declared dividend belongs to the seller rather than the buyer. A stock will be give ex-dividend status if a person has been confirmed by the company to receive the dividend payment. The date on or after which a security is traded without a previously declared dividend or distribution.

Expected Credit Loss

The amount expected to be lost on an exposure over the life of the asset. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

Exposure

A claim, contingent or position which carries a risk of financial loss.

F

Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Adjustment

An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of a short- term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Assets

Any assets that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial Liabilities

A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Financial Risk

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable that the variable is not specific to the party to the contract.

Foreign Exchange Income

The realised gains recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

Global Reporting Initiative (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Going Concern

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially or the scale of its operations.

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Gross Dividend

The portion of profits distributed to the shareholders.

Group

A Group is a parent and all its subsidiaries and associates.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

Held-for-Trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

Held-to-Maturity

Investments and debt securities that a Company has the ability and intent to hold until maturity.

High Quality Liquid Assets (HQLA)

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

Historical Cost

Historical cost is the original nominal value of an economic item.

Glossary of Financial and Banking Terms

Impaired Loans

Loans where identified impairment allowances have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment charges for Loans and Receivables

Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred (under LKAS 39)/expected (under SLFRS 9) loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Individually Significant Loans

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long term in its economic, social and environmental context.

Interest Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest Margin

Net interest income expressed as a percentage of average interest earning assets.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest Rate SWAP

An agreement between two parties where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment banking

A specific division of banking related to the creation of capital for other companies. Investment banks underwrite new debt and equity securities for all types of corporations. Investment banks also provide guidance to issuers regarding the issue and placement of stock.

Investment Property

A real estate property that has been purchased with the intention of earning a return on the investment (purchase), either through rent (income), the future resale of the property, or both.

K

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity and key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.

L

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

Liquidity coverage ratio (LCR)

Ratio of stock of high quality liquid assets available to total net cash outflows over next 30 calendar days. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan-to-Value Ratio

The loan-to-value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used to represent the ratio of the first mortgage lien as a percentage of the total appraised value of real property.

Loss Given Default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Assets Value per Share

Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amounts a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Net Interest Margins (NIM)

Net interest income expressed as a percentage of average Total Assets.

Net stable funding ratio (NSFR)

The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The Basel III rules require this ratio to be over 90% with effect from 01 January 2019. The NSFR is still subject to an observation period and review to address any unintended consequences.

Non-Controlling Interest/Minority Interest

Equity in a subsidiary not attributable, directly or indirectly, to a Parent.

Non-Performing Loans (NPLs)

A loan or a receivable placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

Nostro Account

A bank account held in a foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

NPL Ratio

Total non-performing loans and receivables (net of interest in suspense) divided by total loans and receivables portfolio (net of interest in suspense).

O

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of shareholders' fund.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Parent

A parent is an entity that has one or more subsidiaries.

Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Power

The power is the existing rights that give the current ability to direct the relevant activities.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

Probability of default (PD)

The probability that an obligor will default on an obligation within a given period of time.

Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transactions (RTP)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Remittances

A remittance is a transfer of money by a foreign worker to an individual in his or her home country.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Retained Earnings

Reserves that are set aside for future distribution and investments.

Return on Average Assets (ROA)

Profit after tax divided by the average assets.

Return on Average Equity (ROE)

Net profit for the year, less preference share dividends, if any, expressed as a percentage of average ordinary shareholders' equity.

Revaluation Reserve

Part of the shareholders' equity that arises from changes in the current value of property, plant and equipment.

Revenue Reserve

Reserves set aside for future distribution and investment.

Risk-Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Glossary of Financial and Banking Terms

S

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealing, property and insurance.

Segmental Analysis

Analysis of financial information by segments of an entity specifically, the different industries and the different geographical areas in which it operates.

Shareholders' Funds

Total of stated capital and revenue reserves.

Significant influence

If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 percent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated otherwise.

Single Borrower Limit (SBL)

33% of the regulatory capital base.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act, No. 30 of 1988.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

T

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction Costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Transfer Pricing Arrangement

Transfer pricing involves the terms and prices at which related parties sell (or should sell) goods or services to each other. When the parties are located in different taxing jurisdictions, opportunities exist for the movement of income to a lower-taxing jurisdiction. A transfer pricing arrangement is developed to combat potential losses of income tax revenue.

U

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Useful Life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value Added

Value of wealth created by providing banking and other related services less the cost of providing such services.

Value-at-risk (VaR)

A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Vostro Account

A local currency account maintained by a local bank for a foreign (correspondent) bank. For the foreign bank, it is a nostro account. The domestic bank acts as custodian or manages the account of a foreign counterpart.

Y

Yield-to-Maturity

The discount rate at which a security's present value of future cash flows will be equal to the security's current price.

Notice of Meeting

Notice is hereby given that the sixteenth (16) Annual General Meeting (AGM) of National Development Bank PLC (the Bank) will be held as a 'virtual meeting' from the Board Room of the Bank, 14th Floor, DHPL Building, No. 42, Nawam Mawatha, Colombo 02 at 02.30 p.m. on Friday, the Ninth (09) day of April, Two Thousand and Twenty One (2021) and the business to be brought before the meeting will be:

1. To lay before the shareholders for consideration, the Annual Report for the year ended 31 December 2020.
2. To reappoint Mr. Kushan D'Alwis, PC in terms of Article 44 (2) of the Articles of Association of the Bank.
3. To re-elect Mr. Sriyan Cooray, as a Director in terms of Article 42 of the Articles of Association of the Bank.
4. To re-elect Mr. Hiran Perera, as a Director in terms of Article 42 of the Articles of Association of the Bank.
5. To reappoint Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.
6. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorise the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.
7. To authorise the Board of Directors to determine donations for the financial year 2021 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,



Ms. Shehani Ranasinghe
Company Secretary

05 March 2021
Colombo

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy holder to attend and vote in his/her stead.
2. A proxy holder need not be a shareholder of the Bank.
3. The Form of Proxy is sent herewith. The completed Form of Proxy must reach the Company Secretary at the Head Office of the Bank, at No. 40, Navam Mawatha, Colombo 02 or can be sent via email to **companysecretary@ndbbank.com** or through facsimile number 011-2341050 not later than 24 hours prior to the time appointed for the holding of the meeting in accordance with Article 29 of the Articles of Association of the Bank.
4. Voting shall be, unless a poll is demanded, a vote cast by electronic means whereby each shareholder's response can be identified (as done by a show of hands), where the meeting is facilitated by electronic means.
Every shareholder who is virtually present in person or is represented by a proxy or attorney or an authorised representative shall have one (01) vote.
A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority or lost is conclusive evidence of that fact.
At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No. 07 of 2007.
If a poll is taken, votes will be counted according to the votes attached to the shares of each shareholder present and voting. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.
5. All shareholders participating in the virtual meeting / AGM are requested to forward the duly completed Form 1 (attached hereto) via post to the Company Secretary at the registered office of the Bank or email to the Company Secretary (**companysecretary@ndbbank.com**) or to facsimile number – 011 2341050 no later than 12 noon on 30 March 2021 to enable the Bank to share login information for the meeting.
6. All shareholders participating in the virtual meeting / AGM should carefully read the guidelines and special instructions to shareholders provided herewith to understand the modality of participation.

Notice of Meeting

Guidelines and Special Instructions to Shareholders:

1. The virtual meeting / AGM is held in accordance with the Articles of Association of the Bank, the prevailing laws and the guidelines issued by the Colombo Stock Exchange.
2. Only the Board of Directors, Company Secretary and the representatives of the Auditors of the Bank along with relevant persons representing The Leadership Team and others essential for the administration of formalities of the meeting will assemble at the place specified as the venue of the meeting. All others, including shareholders, will participate via MsTeams following the steps below;
 - a) All shareholders wishing to participate at the virtual meeting / AGM must forward the duly completed Form 1 (attached hereto) via post to the Company Secretary at the registered office of the Bank or email to the Company Secretary (**companysecretary@ndbbank.com**) or to facsimile number – 011 2341050 no later than 12 noon on 30 March 2021 to enable the Bank to make the required arrangements.
 - b) The Bank will get in touch with you within 24 hours of the meeting, providing to you the details to *login to the meeting on the said date.
 - c) All participating shareholders will have to pre-register themselves online prior to the commencement of the meeting and will be authenticated to participate. As such all shareholders must strictly ensure that the details provided in the Form 1 shared with the Company Secretary and the online pre-registration must be the same.
3. All shareholders will be given an opportunity to speak at the meeting as directed by the Chairman. All shareholders speaking at the meeting are requested to state their name (as registered in Form 1 and the online pre-registration) for the purpose of identification. It is of utmost importance that shareholders wait till they are given an opportunity to speak and once having got an opportunity to speak, wait until all other shareholders have had a turn to speak on a given matter before asking a second question or making a comment.
4. Shareholders are also given the opportunity to forward their queries via post to the Company Secretary at the registered office of the Bank or email to the Company Secretary (**companysecretary@ndbbank.com**) or to facsimile number – 011 2341050 no later than 12 noon on 07 April 2021 and your concerns will be addressed as deemed appropriate by the Chairman.
5. Voting on the items on the Agenda by a show of hands will be registered by using an online eballot platform, the details of which will be shared with shareholders prior to the commencement of the meeting.
6. Shareholders are encouraged to opt to duly completing the Form of Proxy clearly setting out their preference of vote under each item of the Agenda set out in the Form of Proxy and to appoint one of the Directors of the Bank to act on their behalf in order that in the event a shareholder cannot participate at the meeting such shareholder's vote may be identified and recorded as if such shareholder were present at the meeting.

The duly completed Form of Proxy must reach the Company Secretary (in accordance with the instructions specified therein), not less than twenty four (24) hours before the time appointed for the holding of the Meeting so that your proxy could represent you at the AGM and exercise your vote in accordance with your directions.

For the Bank's administrative convenience however, the Bank would very much appreciate and requests all shareholders to send in their Proxy Forms along with their Registration Form (Form 1) to reach the Bank on or before than 12 noon on 30 March 2021 as this would enable the Bank to efficiently make all arrangements for the virtual meeting.

7. The Bank intends to proceed to hold the virtual meeting / AGM as planned despite the present pandemic. As such in the event any further communications are to be made to the shareholders, the same will be made via the Colombo Stock Exchange website (www.cse.lk) and/ or the Bank website (www.ndbbank.com).
8. For further queries on the arrangements made by the Bank you may contact one of the following persons who will be happy to assist you.

Name	Contact No.
Shehani Benjamin	0112 448448 Ext: 35010
Teloma Liyanage	0112 448448 Ext: 35012
Hansani Nawagamuwage	0112 448448 Ext: 35011

9. A dedicated contact number will be provided to all shareholders participating at the virtual meeting / AGM to address any technical difficulties faced in accessing / participating at the meeting.

*Login details are authorised only for the use by individual shareholders / proxyholders and authorised representatives in the case of corporate / institutional shareholders. The Bank will not be responsible or liable for the misuse of login details and access granted to the meeting.

Corporate Information

NAME

National Development Bank PLC

COMPANY REGISTRATION NUMBER

PQ 27

LEGAL FORM

Established under the National Development Bank of Sri Lanka Act No. 2 of 1979 and incorporated as a company under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007 and also licensed as a Licensed Commercial Bank in terms of the Banking Act No. 30 of 1988 as amended from time to time.

STOCK EXCHANGE LISTING

The shares, and the rated unsecured subordinated redeemable debentures issued in December 2013, March 2019 and September 2020 are listed on the Colombo Stock Exchange.

HEAD OFFICE/REGISTERED OFFICE

Address – No. 40, Nawam Mawatha, Colombo 02
Tel: +94 112 44 88 88
Fax: +94 112 30 50 31
Swift Code: NDBSLKLX
Web page: www.ndbbank.com
E-mail: contact@ndbbank.com

Accounting Year End: 31 December

VAT Registration Number: 409000266-7000

Credit Ratings:
National long term ratings: A+ (Ika)/Stable
Outlook – Fitch Ratings Lanka Limited

Basel II compliant & Basel III compliant
subordinated debentures ratings: A- (Ika) – Fitch
Ratings Lanka Limited

BOARD OF DIRECTORS AND BOARD SUB COMMITTEES

Board of Directors as at 31 December 2020

Mr. Eshana de Silva (appointed w.e.f. 14 May 2020) – Chairman - Independent

Mr. Dimantha Seneviratne – Group Chief Executive Officer-Non-Independent

Mr. Sriyan Cooray – Independent

Mr. Bernard Sinniah – Non-Independent

Dr. Dinusha Panditaratne – Independent

Mr. Sujeewa Mudalige - Independent
(appointed w.e.f. 06 January 2020)

Ms. Hiransa Kaluthantri - Non-Independent
(appointed w.e.f. 24 February 2020)

Mr. Hiran Perera - Non-Independent
(appointed w.e.f. 23 April 2020)

Mr. Kushan D'Alwis, PC - Independent
(appointed w.e.f. 06 July 2020)

Mr. E A Rathnaseela
(resigned w.e.f. 20 January 2020)

Mr. Ashok Pathirage
(retired w.e.f. 18 February 2020)

Mr. Kavan Ratnayaka
(resigned w.e.f. 30 April 2020)

Mr. Dinal Phillips, PC
(resigned w.e.f. 25 June 2020)

BOARD SUB COMMITTEES AS AT 31 DECEMBER 2020

Integrated Risk Management Committee

Mr. Sriyan Cooray (Chairperson)

Mr. Hiran Perera

Mr. Dimantha Seneviratne

Mr. Sujeewa Mudalige

Ms. Hiransa Kaluthantri

Ms. Shanti Gnappagasam – VP – Group Risk Management

Ms. Melody Wickramanayake – VP – Legal

Ms. Manique Bandara Nanayakkara – Compliance Officer

Strategic Issues Committee

Mr. Eshana de Silva (Chairperson)

Mr. Bernard Sinniah

Mr. Sriyan Cooray

Mr. Dimantha Seneviratne

Mr. Sujeewa Mudalige

Audit Committee

Mr. Sujeewa Mudalige (Chairperson)

Mr. Sriyan Cooray

Ms. Hiransa Kaluthantri

Dr. Dinusha Panditaratne

Human Resources & Remuneration Committee

Dr. Dinusha Panditaratne (Chairperson)

Mr. Bernard Sinniah

Mr. Eshana de Silva

Nominations Committee

Mr. Eshana de Silva (Chairperson)

Mr. Bernard Sinniah

Dr. Dinusha Panditaratne

Related Party Transactions Review Committee

Mr. Eshana de Silva (Chairperson)

Mr. Sriyan Cooray

Dr. Dinusha Panditaratne

Mr. Sujeewa Mudalige

Mr. Kushan D'Alwis, PC

Credit Committee

Mr. Eshana de Silva (Chairperson)

Mr. Bernard Sinniah

Mr. Dimantha Seneviratne

Mr. Hiran Perera

Mr. Kushan D'Alwis, PC

BOARD OF DIRECTORS OF SUBSIDIARY COMPANIES

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OTHER INFORMATION

Company Secretary:

Ms. Shehani Ranasinghe (Attorney-at-Law)

Compliance Officer: Ms. Manique Kiriella Bandara

Auditors: Ernst & Young, 201, De Saram Place, Colombo 10

QUERIES

On the 2020 NDB Annual Report

Ms. Suvendrini Muthukumarana

Vice President – Finance

National Development Bank PLC

No. 40, Nawam Mawatha, Colombo 02

Email: suvendrini.muthukumarana@ndbbank.com

Tele: + 94(0)112 448 448 (Extn: 35301)

ON INVESTOR RELATIONS

Company Secretarial Department

Ms. Shehani Ranasinghe

Company Secretary/Vice President

National Development Bank PLC

No. 40, Nawam Mawatha, Colombo 02

Email: shehani.ranasinghe@ndbbank.com

Tele: +94(0)112448448 (Extn: 35013)

Investor Relations Team

Ms. Suvendrini Muthukumarana

Vice President - Finance

National Development Bank PLC

No. 40, Nawam Mawatha, Colombo 02

Email: suvendrini.muthukumarana@ndbbank.com

Tele: + 94(0)112 448 448 (Extn: 35301)

Form of Proxy

I/We
 (holder/s of NIC/s.....) of
 being a shareholder / shareholders of National Development Bank PLC ('the Bank') hereby appoint;

1.
 (holder of NIC No.)
 of or failing him/her
2. Mr. Eshana de Silva (Chairman of the Bank) of Colombo or failing him,
 Mr. Sriyan Cooray of Colombo or failing him,
 Mr. Bernard Sinniah of Colombo or failing him,
 Dr. Dinusha Panditaratne of Colombo or failing her,
 Mr. Sujeewa Mudalige of Colombo or failing him,
 Ms. Hiransa Kaluthanthri of Colombo or failing her,
 Mr. Hiran Perera of Colombo or failing him,
 Mr. Kushan D'Alwis, PC of Colombo or failing him,
 Mr. Dimantha Seneviratne (Director/Group CEO of the Bank) of Colombo

as my/our proxy to represent me/us and to vote for me/us and on my/our behalf at the sixteenth (16)
 Annual General Meeting of the Bank to be held on Friday, the Ninth (09) day of April, 2021 and at any adjournment thereof and at every poll which may be taken
 in consequence thereof. I/We the undersigned hereby authorise my/our proxy to vote on my/our behalf in accordance with the preferences indicated below:

	For	Against
1. To reappoint Mr. Kushan D'Alwis, PC in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
2. To re-elect Mr. Sriyan Cooray, as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
3. To re-elect Mr. Hiran Perera, as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
4. To reappoint Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.	☐	☐
5. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorise the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007	☐	☐
6. To authorise the Board of Directors to determine donations for the financial year 2021 under the Companies Donations Act No. 26 of 1951.	☐	☐

As witness I/We have set my/our hand/s hereunto this day of
 Two Thousand and Twenty One (2021).

.....
 Signature of the Shareholder / Shareholders

Form of Proxy

Instructions for completion of the Form of Proxy

1. In order to appoint a proxy holder, kindly complete the Form of Proxy. The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and should be signed and dated by the shareholder. The duly completed Form of Proxy must be deposited at the Registered Office of the Bank, at No. 40, Nawam Mawatha, Colombo 02 or via email to the Company Secretary (companysecretary@ndbbank.com) or by facsimile No. 0112 341050 not later than 24 hours prior to the time appointed for the holding of the meeting in accordance with Article 29 of the Articles of Association of the Bank.

For the Bank's administrative convenience the Bank would very much appreciate and requests all shareholders to send in their Proxy Forms along with their Registration Form (Form 1) to reach the Bank no later than 12 noon on 30 March 2021 as this would enable the Bank to efficiently make all arrangements for the virtual meeting.

2. Shareholders/ proxy holders who are unable to connect to the virtual meeting / AGM are strongly encouraged to appoint one of the Directors of the Bank to act on their behalf in order that each shareholder's vote may be identified and recorded as if such shareholder were participating at the meeting.
3. Shareholders should duly complete the Form of Proxy clearly setting out their preference of vote in the Form of Proxy.

Please indicate an "X" in the cage provided how your proxy should vote on each resolution. If no indication is given, or if there is, in the view of the proxy holder, any doubt (by reason of the manner in which the instructions contained in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder in his/her discretion may vote as he/she thinks fit.

4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if the Power of Attorney has not already been registered with the Bank.
5. If you wish to appoint a person other than the Chairman or a Director of the Bank as your proxy, please insert the relevant information in the Form of Proxy and forward same to the Company Secretary together with Form 1 as detailed above so that the Login information can be shared with your proxy holder to connect to the virtual meeting / AGM.
6. The proxy holder appointed need not be a shareholder of the Bank.
7. In case of a corporate shareholder, the proxy must be executed under its Common Seal (if applicable) or in such other manner prescribed by the Articles of Association or other constitutional documents.
8. The first joint holder shall have the power to sign the Form of Proxy without the concurrence of the other joint holder/s.

Designed & produced by

emagewise

Printed by Softwave Printing & Packaging (Pvt) Ltd
Photography by Dimitri Crusz

