

A large satellite dish antenna is shown in profile, pointing towards a bright, glowing orange sun in the upper right corner of the frame. The dish is metallic and has a complex support structure. The background is a deep, dark blue-black sky. The overall mood is one of technological advancement and exploration.

OUR VOYAGE BEYOND



Our Voyage Beyond

OUR VOYAGE BEYOND





National Development Bank PLC

Annual Report 2019

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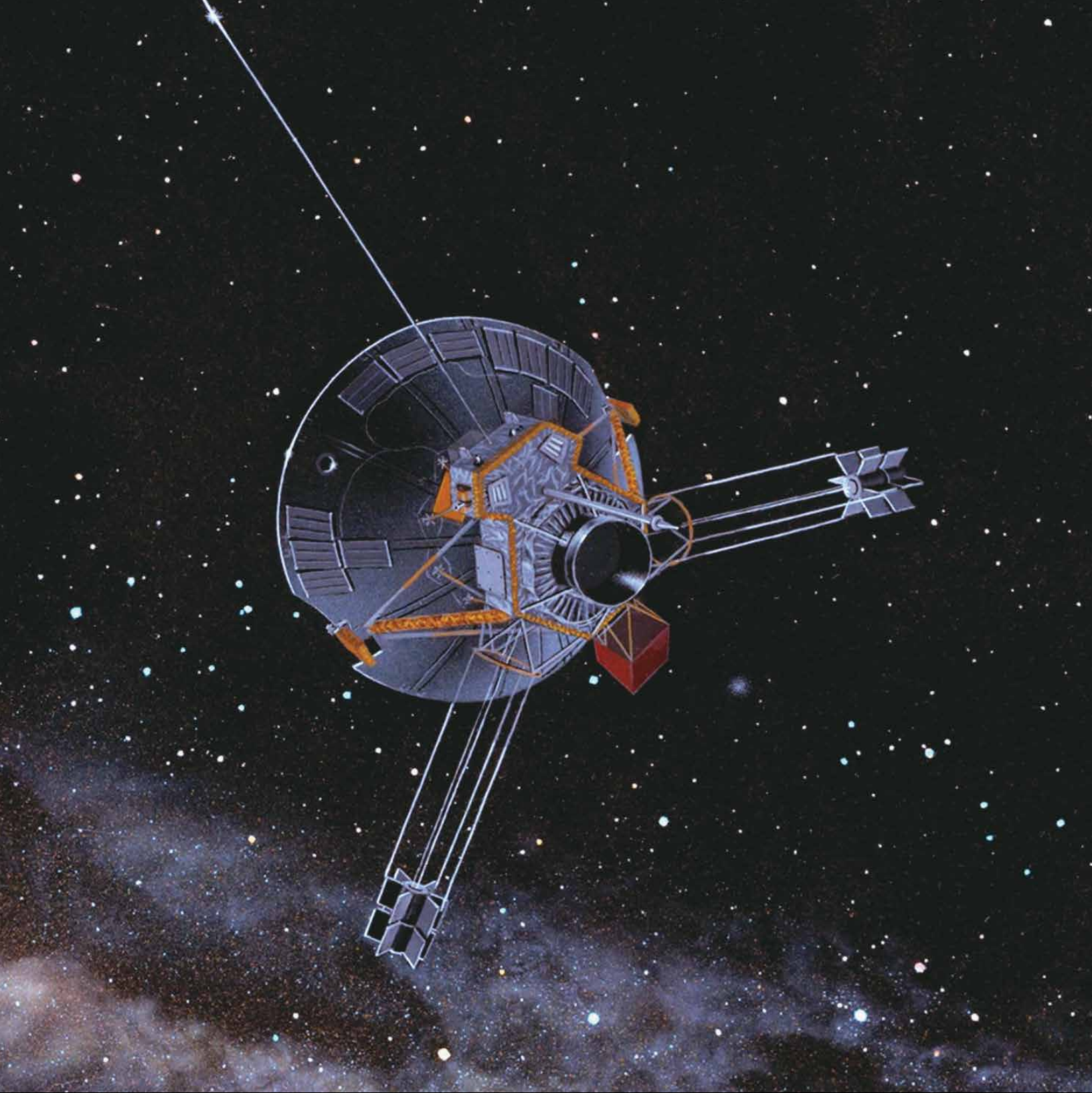
Photography by: Dimitri Crusz

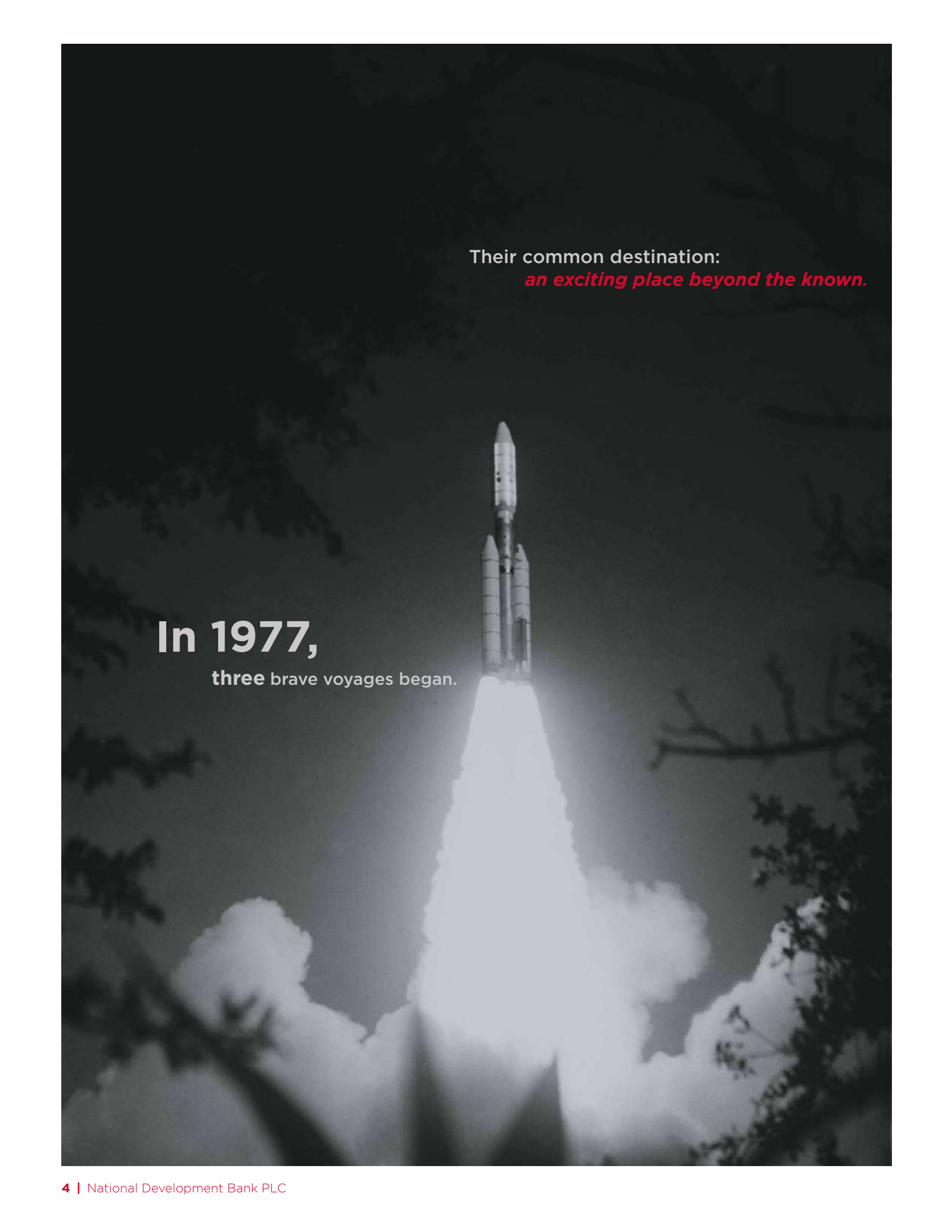
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www.ndbbank.com/investor-relations/reports





Their common destination:
an exciting place beyond the known.

In 1977,
three brave voyages began.

BEYOND THE KNOWN

From Cape Canaveral in Florida, two Voyager space probes were launched on a mission to the planets Jupiter and Saturn and the vast cosmic depths beyond the Solar System.

...

Meanwhile in Sri Lanka, a new paradigm of private-enterprise-led, state-guided investment and growth followed the 'opening up' of the national economy.

Two years later, Voyager 1 arrived at Jupiter. Sri Lanka's economy was booming. In Colombo, a new corporate and project finance entity, state-supported but with the energy and agility of a private firm, was launched upon the tide of capital released by the opening up of the national economy: the National Development Bank of Sri Lanka, designed to combine the benefits of private entrepreneurship and investment with the agenda and priorities of the nation.

For these voyagers, the journey was only beginning.

In 2005, as the two NASA probes reached the limits of the Solar System, NDB Bank was launched in Colombo. Testing the limits of existing paradigms of banking, NDB Bank matched the instincts of a private high-street bank with the stability of State backing. A new era of personal and small-enterprise banking began for Sri Lankans: a journey, once again, beyond the ordinary, beyond the known.

With time, as the Voyagers progressed across space, NDB Bank too advanced into new territories, exploring beyond its limits to shift the paradigm once more; moving from being a state-led enterprise to a privatized, fully-fledged financial services conglomerate with a vast island-wide presence.

In 2019, as the Voyager probes enter the void of interstellar space, NDB Bank, too, is poised on the brink of a new, exciting future, ripe with endless potential.

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Two Voyager
space probes
launched
from Cape
Canaveral

1977

Sri Lanka
adopts open
economic
policy

Voyager
probes reach
Jupiter,
their first
destination

1979

National
Development Bank
Sri Lanka launched
in Colombo

Voyager
probes reach
Saturn

1980

NDB acquires
leadership
profile in
project and
development
financing

Voyager
2 reaches
Neptune, the
last planetary
flyby on its
journey to the
stars

1989

NDB moves
into its new
corporate HQ
on Nawam
Mawatha

'Pale Blue Dot'
photo captures
Earth from a
distance of
6bn km

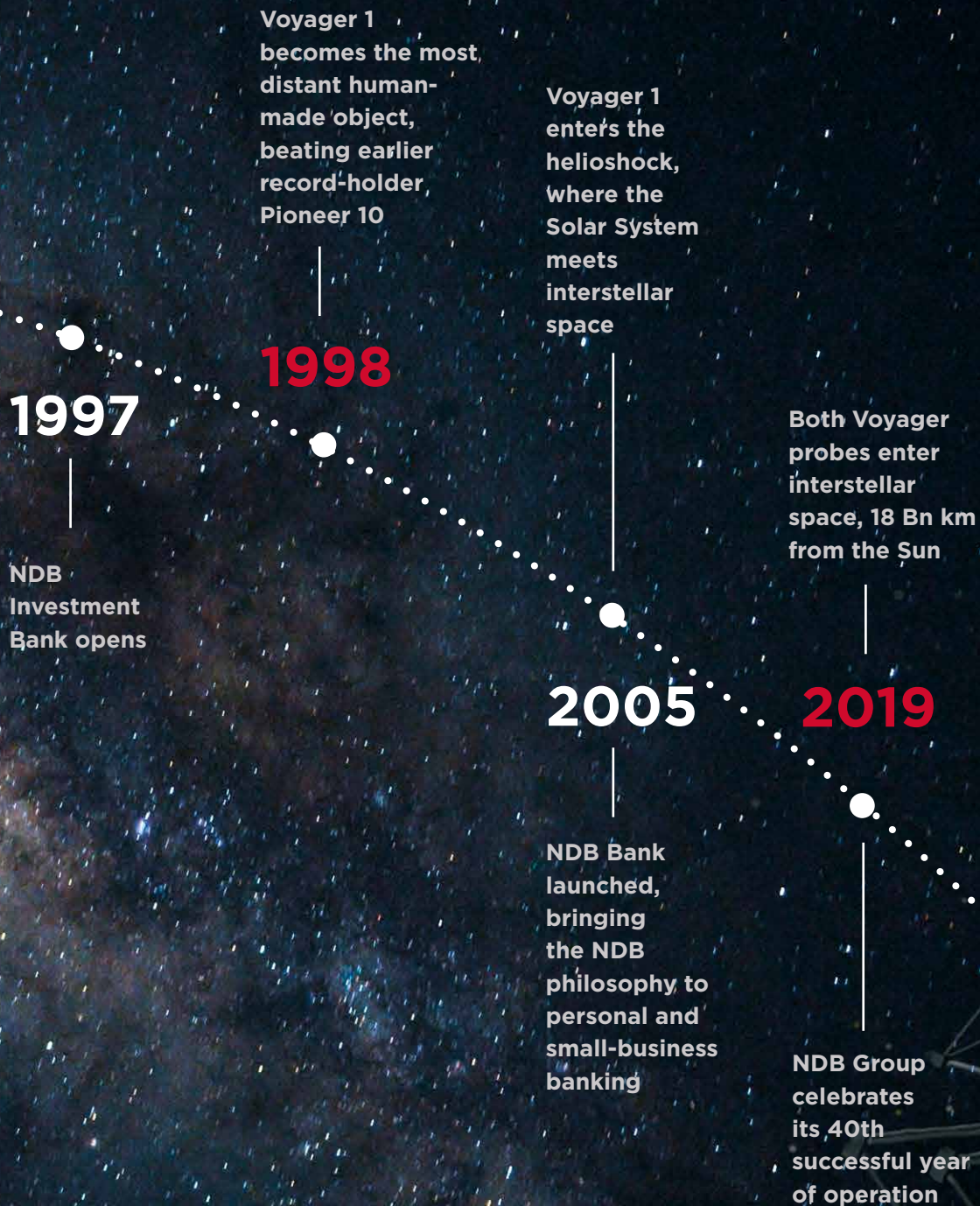
1990



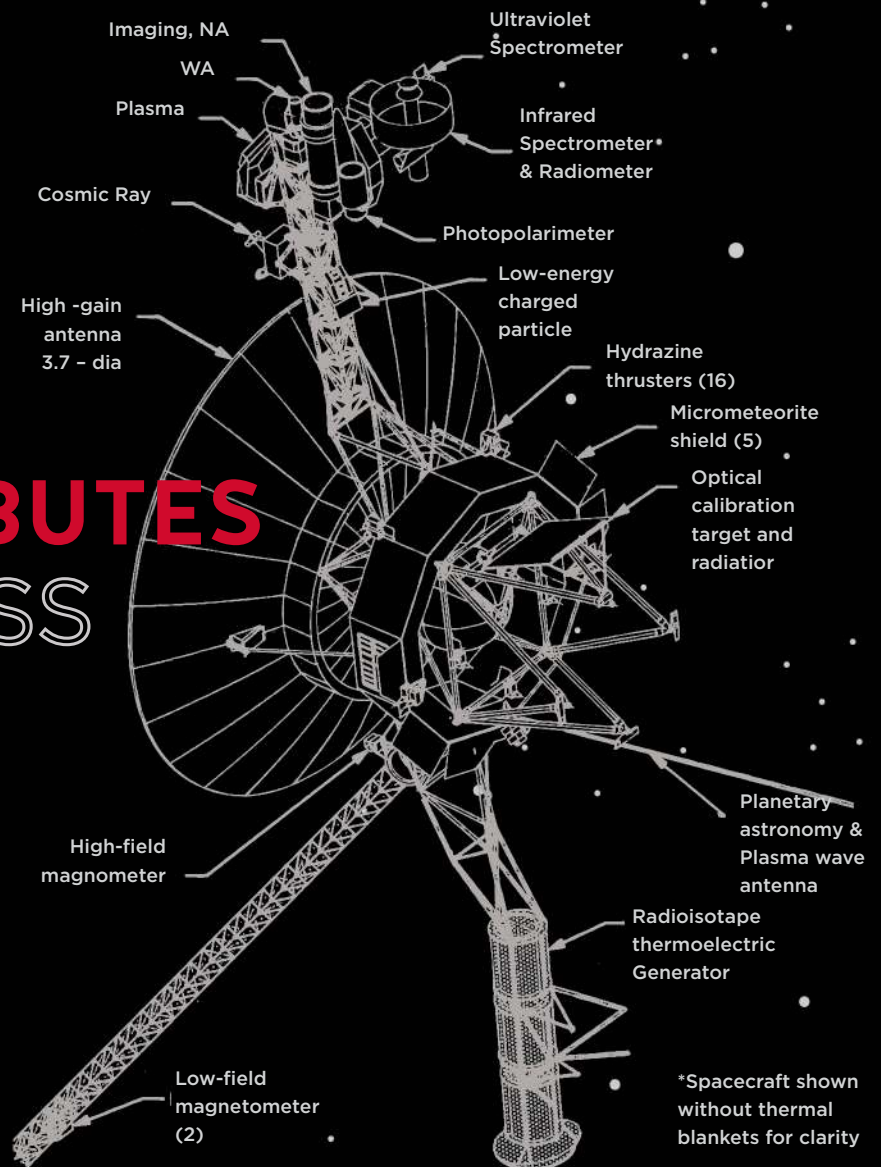
40 YEARS OF JOURNEYING BEYOND

Launching a journey 40 years ago, NDB has voyaged beyond and into the future to acquire a leadership profile in the finance sector. We have shared this journey with our stakeholders and have provided them with opportunities to aspire and reach destinations beyond the known.

TWO JOURNEYS



THE ATTRIBUTES OF SUCCESS

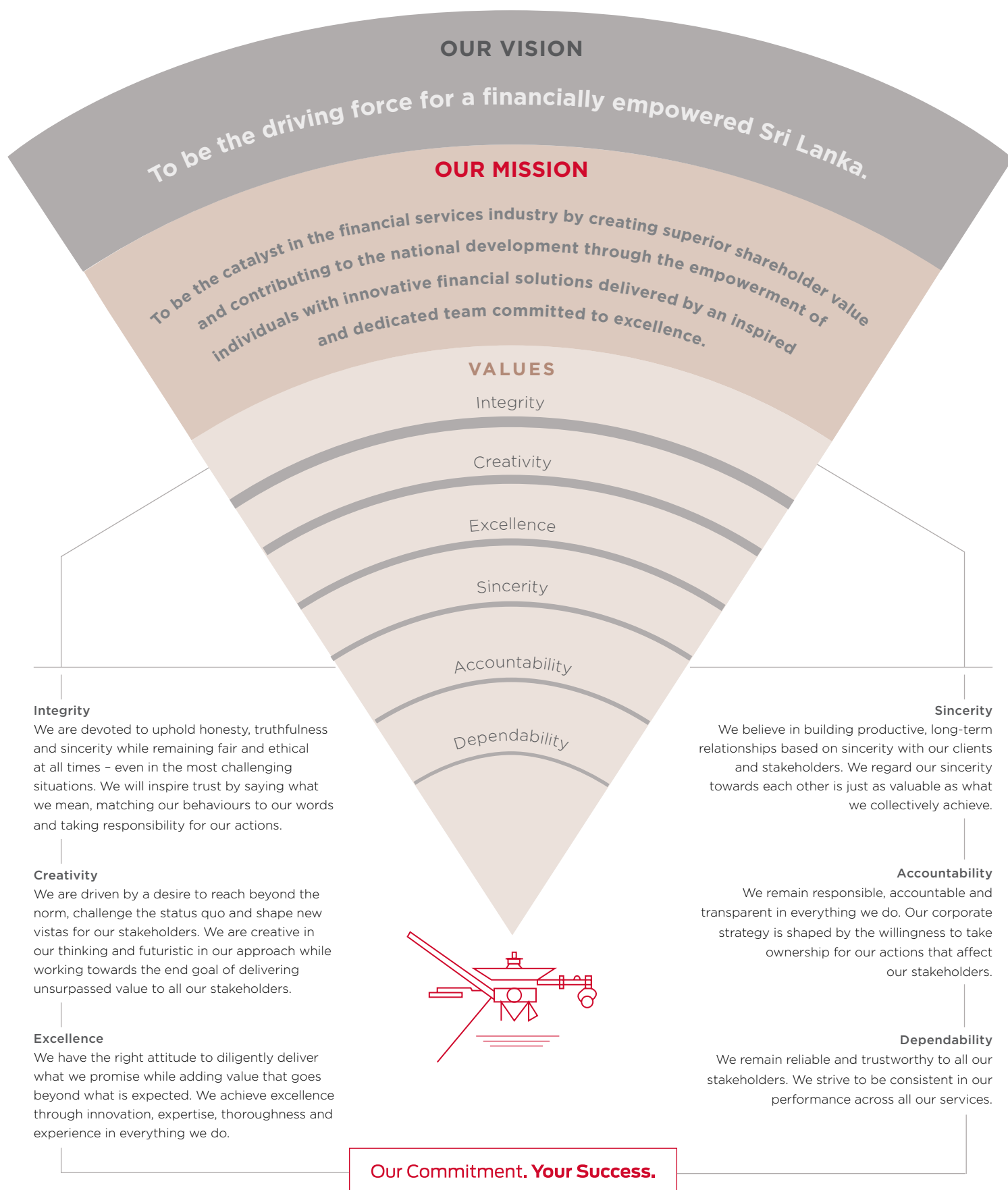


01 OVERVIEW

Survival over 40 years in the harsh, hustling environment of consumer and small-business banking and finance can be no fluke. On the contrary, it is the product of careful design and planning, of systems and departments built to take serious damage and carry on functioning, of best practices and procedures honed in the heat of fierce competition. Above all, it is the work of people with extraordinary ability and resources who are not easily distracted or discouraged but still have the patience to listen and learn.

In this section, we present the attributes of our success, not only in 2018-19 but over the past several years. The section also contains a short introduction to this report and a guide to how to read it.

WHO WE ARE



A HISTORIC ACHIEVEMENT

We are honoured to have achieved the rare feat of winning the following awards:

GLOBAL FINANCE'S WORLD'S BEST
DIGITAL BANK AWARDS 2019



**THE WORLD'S
BEST CONSUMER
DIGITAL BANKS**

Winner - Sri Lanka

ASIAMONEY MAGAZINE -
COUNTRY BEST BANK AWARDS



**BEST
DOMESTIC
BANK**

Sri Lanka

The above awards are an affirmation of NDB's excellence and strength in multi faceted banking including digital financial services, thus bringing a truly rewarding banking experience to our dynamic customers.

KEY EVENTS 2019

The underlying secret behind our achievements is the framework that we have perfected throughout the past 40 years in assisting each stakeholder, in every aspect of the journey of their lives, be it in terms of lifestyle or finance.



NDB opens its first state-of-the-art phygital branch, NDB NEOS in Colombo Fort



NDB Retail Banking Awards 2019

Employee Recognition Awards 2018

NDB Ganu Denu arrives early with 'Kohetath Kalin Kohatath Kalin'

Opening of Digana branch



NDB officially hands over the Aravialnagar railway station to commuters

NDB's 'Unukewum Wage' promotion offers up to 50% discounts at over 3,000 outlets

NDB offers a "Tree for the Future" with Avurudu Ganu Denu

NDB View Home Loans campaign launched

NDB appoints Dimuth Karunaratne as a Brand Ambassador

Opening of 111th branch in Tangalle



NDB holds a Blood Donation Campaign themed "Donate Blood, Save a Life"

NDB holds a successful 'Clarence Marians Musical Extravaganza 2019'

NDB launches NDB Elevate - an exclusive tier of banking

Launch of the Revolutionary ONE ACCOUNT powered by NDB Group



NDB celebrates International Customer Service Week 2019

NDB holds a Business Banking Forum for the North Central region

NDB NEOS becomes first bank branch launched at ONE Galle Face

NDB Talent Fest

Anderson Flats Children's Park is re-opened with the sponsorship of NDB





40 YEAR ANNIVERSARY CELEBRATIONS

NDB BANK CELEBRATED 40 YEARS OF UNPARALLELED SERVICE TO THE NATION WITH A SERIES OF STAKEHOLDER ENGAGEMENT INITIATIVES REFLECTING ITS COMMITMENT TO PROMOTE GROWTH AND PROSPERITY AMONG INDIVIDUALS, FAMILIES, BUSINESS ENTERPRISES AND SOCIETY AT LARGE THROUGH FINANCIAL INCLUSIVITY AND VALUE-DRIVEN FINANCIAL SERVICES.



Established in 1979 as the National Development Bank of Sri Lanka, NDB's founding mission was of promoting industrial, agricultural, commercial and other developments of the economy of Sri Lanka. The Bank has since been a catalyst in the development of the nation, strengthening and empowering a host of economic sectors: entrepreneurs, individuals, SMEs and corporates.



In an illustrious journey spanning four decades, NDB Bank has made considerable strides in the Sri Lankan banking and financial services sector by keeping abreast of the evolving financial services landscape whilst embracing cutting-edge digital technologies to build value across all its delivery platforms.



On 20th August 2019, celebrations were held at the Bank's Head Office Complex in Navam Mawatha with the participation of a large cross section of officials, past chairmen and CEOs and well-wishers, including customers and members of the public who joined in to celebrate the historic milestone.



The principal celebration was held on a grand scale under the theme 'One NDB Day' at the CR&FC Grounds, Colombo with the enthusiastic participation of all its staff members including staff of the Group companies. 'One NDB Day' was dedicated to 'celebrating success' achieved by the NDB Group across multiple business spheres and in recognising the untiring efforts of the staff members whose contribution to propel NDB Bank as a 'powerhouse' in the Sri Lankan banking arena.

OUR APPROACH TO REPORTING

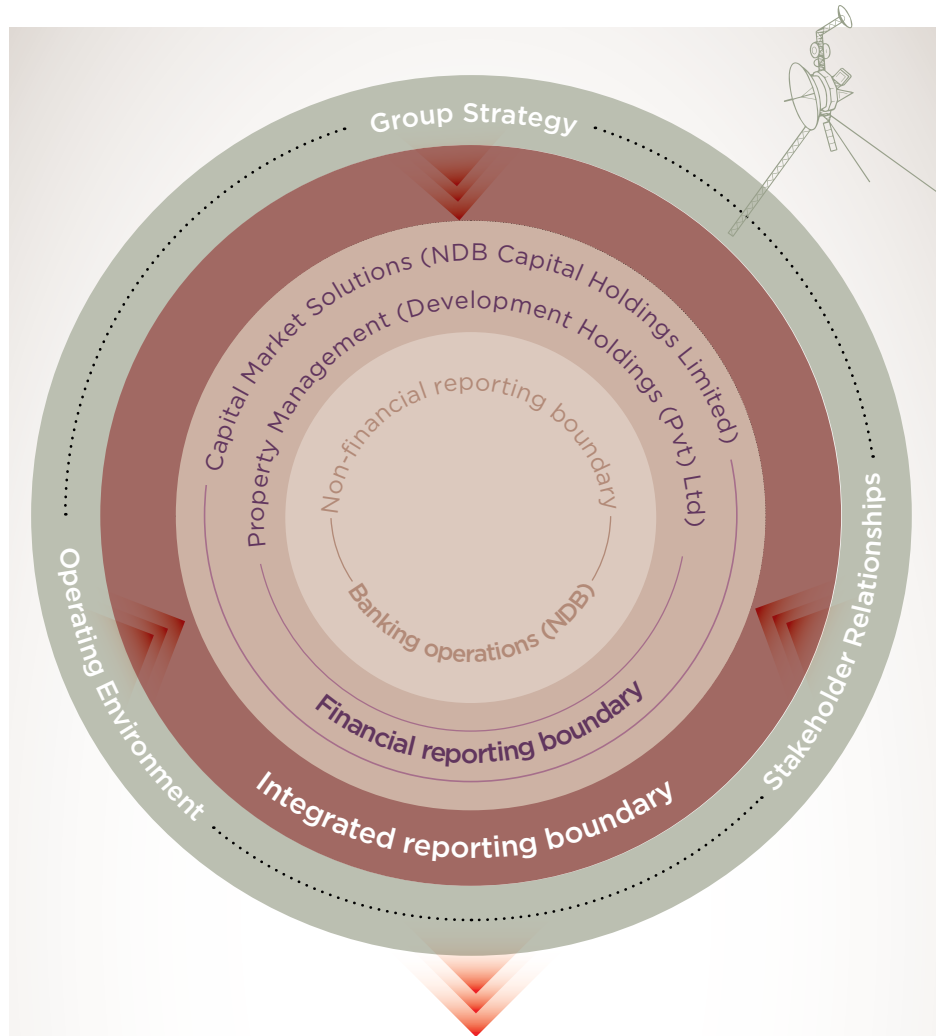
OUR APPROACH TO REPORTING

As the primary publication to stakeholders, our Integrated Annual Report is designed to provide a material assessment of how we direct strategy to create value in the short, medium and long-term. In our continued pursuit of reporting excellence, our 7th Integrated Annual Report presents information pertaining to our operating environment, strategy, resource allocation, performance and outlook in a more holistic, balanced and concise manner.

...

REPORTING SCOPE AND BOUNDARY

We adopt an annual reporting cycle, and this Report covers the operations of National Development Bank PLC ("Bank") and its group companies (collective referred to as "Group") for the period from 01 January 2019 to 31 December 2019. The environment we operate in and the relationships we rely on are implicit in the Group's value creation; therefore, the boundary of our Report extends beyond the organisation to include these factors which can affect our ability to create value. There were no significant changes in the size, structure, ownership or supply chain of the organisation compared to 2018. There are also no material restatements of information provided in previous reports. Our previous report covering the financial year ended 31 December 2018 is available for download at www.ndbbank.com.



Reporting frameworks

Financial Statements

Sri Lanka Financial Reporting Standards
Banking Act Direction No.1 of 2016 and
amendments thereto.

Relevant guidelines and circulars issued
on reporting format by the Central Bank
of Sri Lanka including the guideline on
the adoption of SLFRS 9. Companies Act,
No. 7 of 2007.

Inland Revenue Act, No.10 of 2006
and amendments thereto, and Inland
Revenue Act, No.24 of 2017.

Sustainability Reporting

This report has been prepared in
Accordance with the GRI Standards
"Core" option.

United Nations Sustainability
Development Goals (SDGs).

Narrative Report

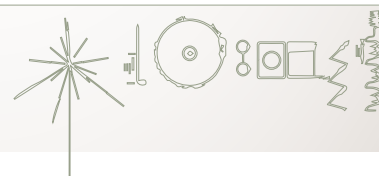
Integrated Reporting Framework of the
International Integrated Reporting Council.

"A Preparer's Guide to Integrated
Corporate Reporting" issued by the
Institute of Chartered Accountants
of Sri Lanka.

Corporate Governance

Banking Act Direction No. 11 of 2007.
Listing Requirements of the Colombo
Stock Exchange.

Code of Best Practice on Corporate
Governance issued by CA Sri Lanka
(2017).



COMBINED ASSURANCE

This Report has been prepared using internal sources of information, input from the Leadership Team and external data published by reliable sources. We adopt a combined assurance model to ensure the integrity of the information presented, including a review of the processes used to gather information, management review and internal audit. We also engage independent external auditors and the Financial Statements, sustainability disclosures and Director's Statement of Internal Controls have been assured by Messrs. Ernst and Young. Apart from this engagement as independent assurance providers, the Bank, Board of Directors and Leadership Team does not have any other relationship with Messrs. Ernst and Young.

BOARD RESPONSIBILITY

NDB's Board of Directors is ultimately responsible for ensuring the integrity of this Report. We hereby confirm that the 2019 Report addresses all relevant material matters and fairly represents the Group's integrated performance. The Report is approved and authorised for publication.

Signed on behalf of the Board,

Ms. Shehani Ranasinghe



Vice President - Company Secretary
18 February 2020



Reporting improvements 2019

- More concise reporting with 64 pages reduced in comparison to the 2018 Annual Report
- Adoption of Gender Parity Reporting framework of CA Sri Lanka
- Increased disclosures on resource allocation
- Quantitative disclosures on stakeholder value creation
- Improved SDG reporting

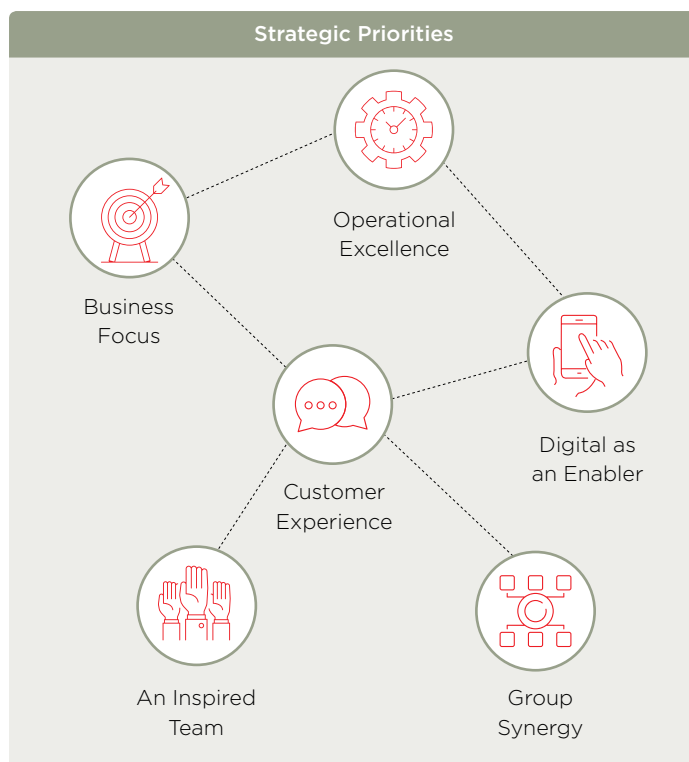
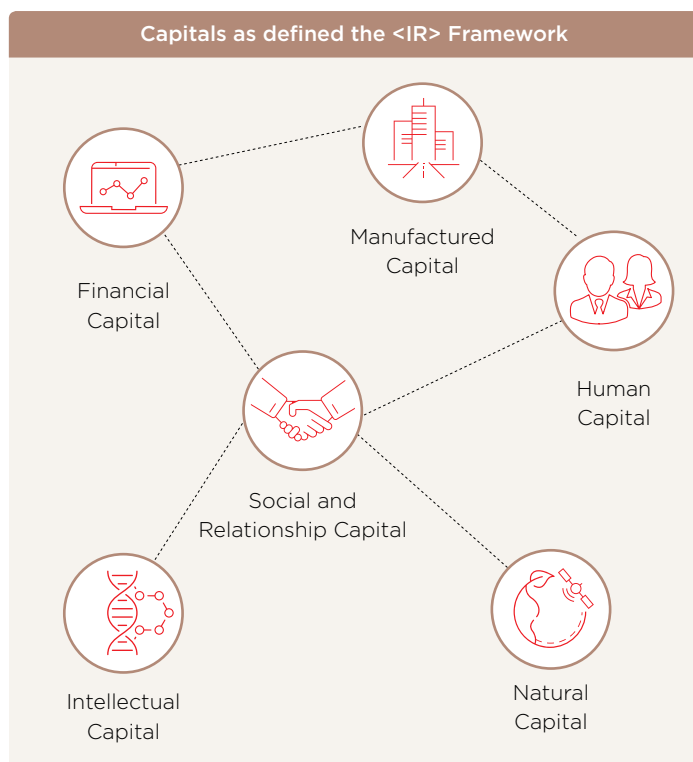
FORWARD-LOOKING STATEMENTS

Forward-looking statements and forecasts pertaining to the Group's financial performance, position and operations involve an element of uncertainty given 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.

FEEDBACK

We welcome your suggestions and comments on further improving the readability and relevance of our Report. kindly direct your feedback to, the Vice President - Company Secretary and/or Vice President - Finance.

NAVIGATION ICONS



HOW OUR STORY UNFOLDS

The content included in our 2019 Annual Report has been carefully selected and structured to provide a meaningful and readable assessment of key factors which shaped the Group's strategy, performance and value creation during the year. Our story unfolds as follows;

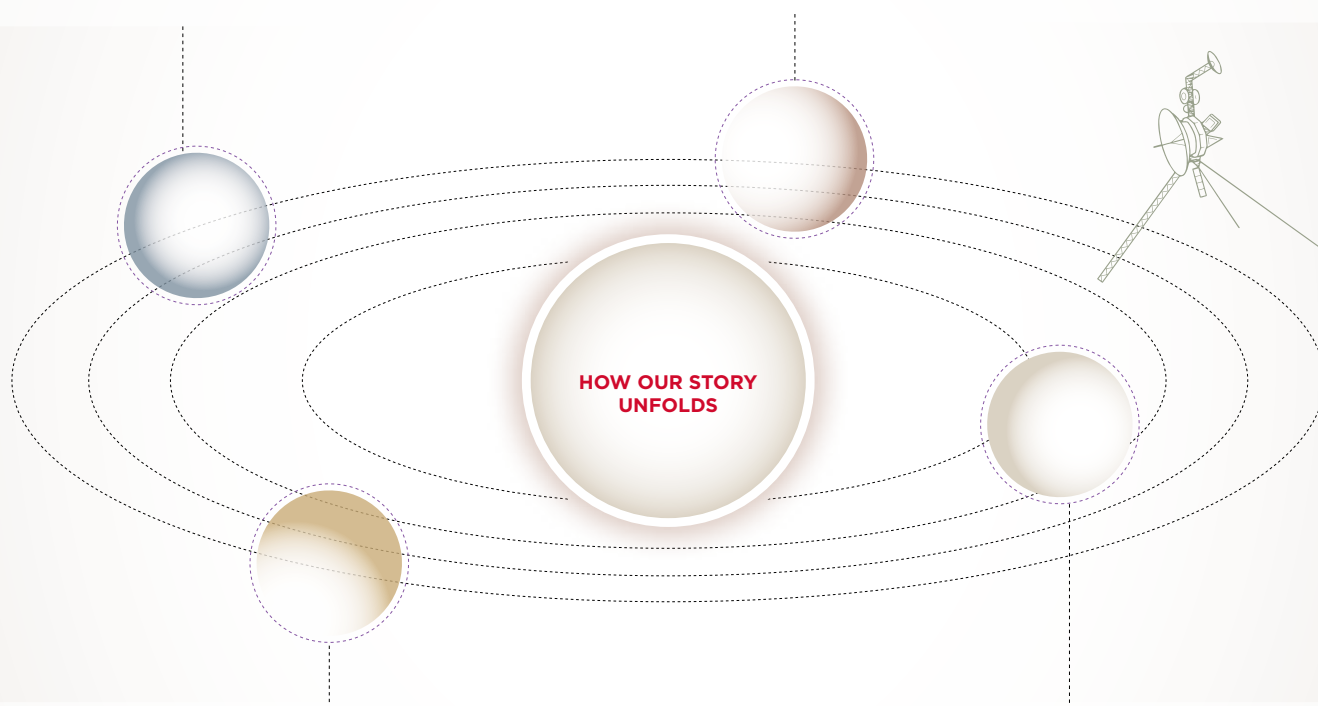
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1. ABOUT OUR BANK

- Overview of our business (Page 11)
- How we create value (Page 12)
- Our strategy and what we hope to achieve (Page 54)
- Our approach to sustainability (Page 56)

2. OPERATING CONTEXT

- The operating landscape during the year (Page 58)
- Opportunities and risks that could affect us (Page 61)
- Stakeholder relationships (Page 64)
- Material issues (Page 68)



3. PERFORMANCE

How our business lines and group companies performed during the year (Page 83)

- Retail Banking (Page 84)
- SME Banking (Page 87)
- Commercial Banking (Page 91)
- Project Financing (Page 94)
- Capital Markets Cluster (Page 98)
- Property Development (Page 103)

4. VALUE CREATION

How we utilised and added value to our six capitals during the year (Page 72)

- Financial Capital (Page 73)
- Manufactured Capital (Page 112)
- Human Capital (Page 104)
- Social and Relationship Capital (Page 119)
- Intellectual Capital (Page 116)
- Natural Capital (Page 126)

2019 YEAR IN REVIEW

Operating Environment

- ◉ Moderating economic conditions and sharp decline in credit demand for most part of the year
- ◉ Liquidity stresses across several key sectors including construction, tourism and retail
- ◉ Marginal recovery towards the latter part of the year following fiscal and monetary stimulus

What We Focused On



Digital as an enabler



Operational excellence



Customer experience

Stakeholder Value Generation



Shareholders



Employees



Customers

- ◉ **LKR 21.97**
Earnings per share (-23%)
- ◉ **LKR 178.02**
Net Asset Value per share +7%
- ◉ **13.73%**
Return on Equity
- ◉ Total value created to employees:
LKR 4,957 Mn (+12%)
- ◉ Investment in training
LKR 50 Mn (+45%)
- ◉ Promotions offered
286
- ◉ Gross Lending Portfolio:
LKR 409 Bn (+16%)
- ◉ Interest expenses on deposits:
LKR 29 Bn (+21%)
- ◉ Enhanced service level standards

Key Achievements

- ◉ **Crossed LKR 500 Bn**
in Total Assets
- ◉ **Achieved LKR 10 Bn**
in Profit Before Taxes
- ◉ More than **14** Processes automated through workflow and **RPA**
- ◉ **2 phygital branches** opened

Financial Performance of 2019

- ◉ Net Interest Income (NII)
LKR 17.7 Bn
- ◉ Total Assets
LKR 530 Bn
- ◉ NPL
4.77%
- ◉ Profit Before Tax (PBT)
LKR 10 Bn
- ◉ NIM
3.5%
- ◉ Cost to Income ratio
39.9%

Way Forward

- Capitalising on emerging opportunities with improving domestic economic conditions
- Position the Bank as a fully-fledged digitally savvy Bank
- Upgrade the Core Banking System
- Touching new openings with the collaboration of the group companies
- Continuous business process engineering for superior customer experience

Challenges

- Moderating portfolio quality
- Impact on interest rate margins

PERFORMANCE HIGHLIGHTS

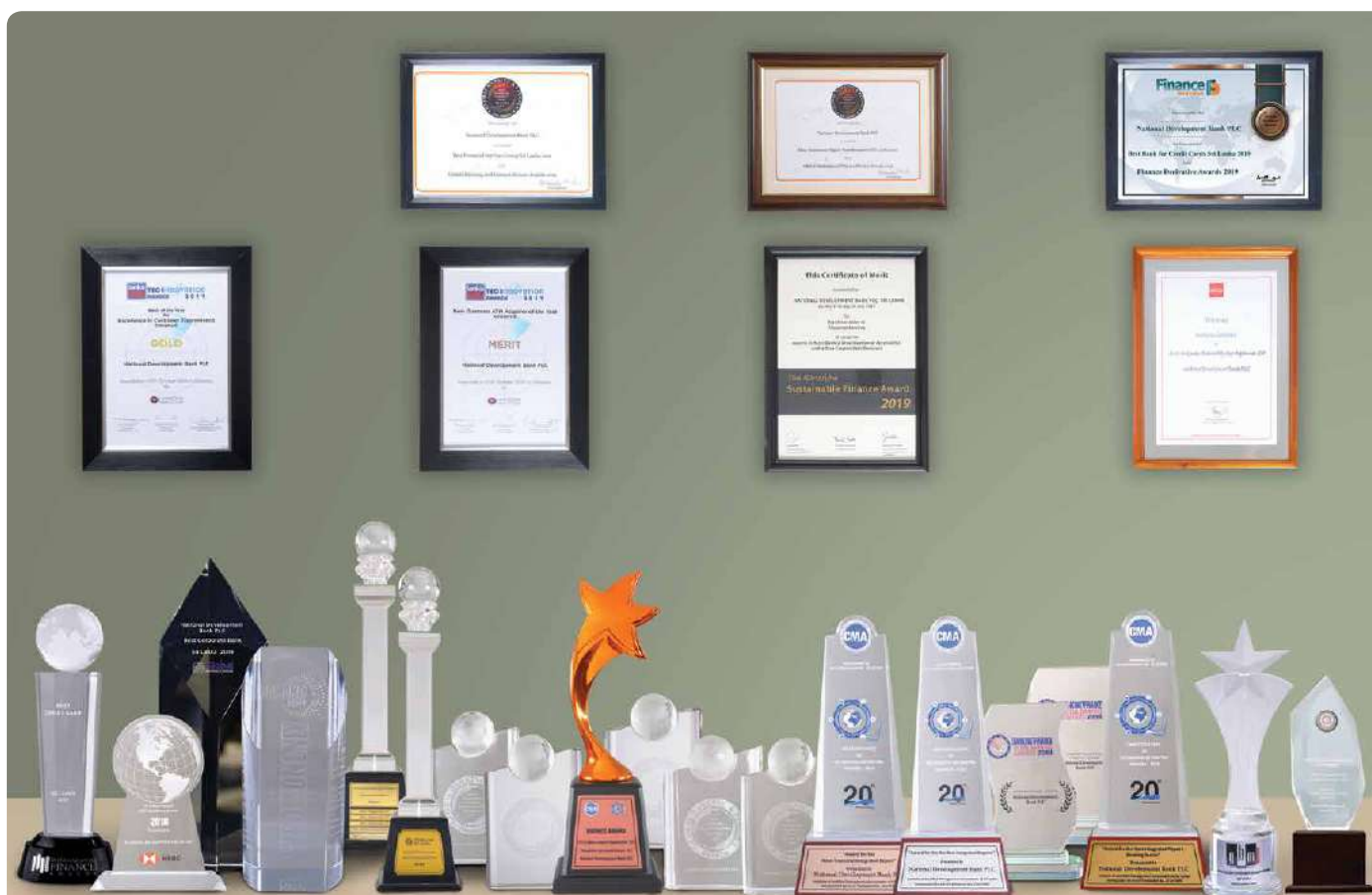
	BANK			GROUP		
	2019 LKR Mn	2018 LKR Mn	Change %	2019 LKR Mn	2018 LKR Mn	Change %
Operating results for the year						
Gross income	59,114	51,103	16	60,237	52,071	16
Operating profit before tax on financial services	10,054	9,494	6	9,992	9,422	6
Taxation	4,943	3,945	25	5,107	4,146	23
Profit for the year	5,112	5,548	(8)	4,885	5,276	(7)
Profit attributable to equity holders of the parent	5,112	5,548	(8)	4,776	5,136	(7)
Gross dividends for the year	1,553	1,682	(8)	1,553	1,682	(8)
Revenue to Government	5,246	5,181	1	5,308	5,342	1
Assets and liabilities						
Deposits for customers	405,048	347,511	17	404,667	347,169	17
Gross loans and receivables	409,221	353,370	16	409,245	353,443	16
Total assets	529,594	472,911	12	535,599	478,497	12
Total equity (stated capital and reserves)	39,484	34,998	13	43,383	39,012	11
Profitability (%)						
Net interest margin	3.53	3.46	2	3.54	3.48	2
Non-performing loans ratio	4.77	2.85	67	4.77	2.85	67
Return on assets (before taxes)	2.01	2.22	(9)	1.97	2.17	(9)
Return on equity	13.73	17.41	(21)	11.59	14.26	(19)
Total leverage (times)	13.41	13.51	(1)	12.34	12.26	1
Cost to income ratio	39.90	39.34	1	41.96	41.53	1
Investor Information (LKR)						
Net asset value per share	178.02	166.41	7	195.60	185.49	5
Market value per share - as at 31 December	100.00	106.80	(6)	N/A	N/A	-
Earnings per share - basic/diluted	21.97	28.44	(23)	20.53	26.33	(22)
Price earnings (times)	4.55	3.75	21	N/A	N/A	-
Dividend per share	7	8.00	(12)	N/A	N/A	-
Dividend cover (times)	3.14	3.56	(12)	N/A	N/A	-
Dividend yield (%)	7	7.49	(7)	N/A	N/A	-
Market capitalisation (LKR Mn)	22,180	22,462	(1)	N/A	N/A	-
Regulatory Ratios (%)						
Statutory liquid assets ratio:						
Domestic Banking Unit (DBU) (Minimum Requirement-20%)	20.93	20.87	-	N/A	N/A	-
Offshore Banking Unit (FCBU) (Minimum Requirement-20%)	24.78	24.48	1	N/A	N/A	-
Capital Adequacy Ratios (under Basel III Standards)						
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.00% (2018 - 6.375%))	9.18	9.17	-	10.15	10.39	(2)
Tier 1 Capital Ratio (Minimum Requirement - 8.50% (2018 - 7.875%))	9.18	9.17	-	10.15	10.39	(2)
Total Capital Ratio (Minimum Requirement - 12.50% (2018 - 11.875%))	13.43	12.63	6	14.20	13.62	4
Liquidity Ratios (under Basel III Liquidity Standards)						
Liquidity coverage ratio - Rupee (Minimum Requirement - 100% (2018 - 90%))	162.42	168.74	(4)	N/A	N/A	-
Liquidity coverage ratio - All currency (Minimum requirement - 100% (2018 - 90%))	153.26	215.99	(29)	N/A	N/A	-
Leverage ratio (Minimum requirement - 3%)	6.09	6.08	-	6.81	6.96	(2)
Net Stable Funding Ratio (Minimum Requirement - 100%)	108.92	114.25	(5)	N/A	N/A	-

FINANCIAL GOALS AND ACHIEVEMENTS

	Goals	2019	2018	2017	2016	2015
Financial Indicators-Bank						
Return on assets before taxes (%)	Over 1.5%	2.01	2.22	2.10	1.66	1.91
Return on equity (%)	Over 15%	13.73	17.41	16.27	13.36	15.63
Growth in total operating income (%)	Over 20%	10	33.44	22.82	7.71	4.69
Growth in profit after tax (%)	Over 20%	(8)	27.5	37.26	(9.72)	2.73
Growth in total assets (%)	Over 15%	12	23.45	14.51	8.21	17.67
Dividend per share (LKR)	5 per Share	7	8.00	9.00	8.00	11.00
Capital adequacy ratios -Bank						
Common Equity Tier 1 Capital Ratio- (Minimum requirement - 7%)	Over 9%	9.18	9.17	8.85	N/A	N/A
Total Tier 1 Capital Ratio (Minimum requirement - 8.5%)	Over 9%	9.18	9.17	8.85	9.31	8.51
Total Capital Ratio - (Minimum requirement - 12.5%)	Over 13%	13.43	12.63	13.89	12.95	12.59

		2019 LKR '000	2018 LKR '000	Change %
Human Capital 	Number of employees	2,936	2,494	17.7
	New recruits	903	744	21.3
	Turnover rate (%)	6.89	7	(1.6)
	Female representation - overall (%)	40	39	2.6
	Female representation - Senior Management (%)	35	40	(1)
	Employee Expenses (LKR Mn)	4,957	4,444	12
	Number of promotions	286	487	(42)
	Investment in training (LKR Mn)	50	28	80
	Total training hours	117,188	88,286	33
	Average training hours per employee	47.5	41	16
	Workplace injuries	4	6	-
	Operating Income per employee (LKR Mn)	8.1	8.6	(6)
	Remuneration per employee (LKR Mn)	1.7	1.8	(5)
	Value Addition per employee (LKR Mn)	1.3	1.45	(10)
	Profit before taxes per employee (LKR Mn)	3.4	3.8	(0.1)
Social and Relationship Capital 	Interest payments to customers (LKR Mn)	28,848	23,912	0.2
	Customer contact points (Branches, ATMs and Cash Recycle Machines)	266	249	-
	Number of countries with correspondent relationships	92	93	-
	SME and Micro Finance lending outside the Western province (%)	41	42	-
	Number of material incidents of non-compliance with laws and regulations	0	0	-
	Investment in community engagement (LKR Mn)	25	22	13.64
	Number of beneficiaries	764,221	116,323	557
	Staff volunteer hours	8,571	1,560	449
Manufactured Capital 	Capital expenditure (LKR Mn)	1,079	942	0.1
	Number of branches	112	108	-
	Number of ATMs including Cash Recycle Machines	154	141	-
	New branches opened during the year	4	1	-
Natural Capital 	Electricity consumption (kWh)	5,597,696	5,857,158	(4)
	Electricity intensity (kWh per LKR '000 Revenue)	0.1	0.12	(16)
	Paper consumption (Kg)	57,055	53,402	7
	Paper recycled (%)	21	24	(3)
	Carbon footprint (tCO2e)	2,594	2,633	(1)
	Emission intensity (tCO2e per LKR Mn Revenue)	0.04	0.05	(20)

AWARDS AND RECOGNITION



OVERALL EXCELLENCE

- ① AsiaMoney Magazine - Country Best Bank Awards - Best Domestic Bank Sri Lanka
- ① Global Banking & Finance Review UK
Best Financial Services Group Sri Lanka 2019 [for the second consecutive year]
- ① Business Today Top 30 Corporates of Sri Lanka 2018/19
Ranked 9 [9 ranks up from rank 18 in 2018]
- ① National Business Excellence Awards 2019
 - ① Silver award - Banking sector
 - ① Runner-Up - Excellence in Performance Management
 - ① Runner-Up - Excellence in Capacity Building
 - ① Merit Award - Excellence in Corporate Governance

EXCELLENCE IN CORPORATE SUSTAINABILITY

- ① Ceylon Chamber of Commerce - Best Corporate Citizen Sustainability Award 2019
Top Ten Best Corporate Citizen 2019

EXCELLENCE IN RETAIL BANKING PRODUCTS

- ① AsiaMoney Magazine - Country Best Bank Awards - Best for Premium Banking Services Sri Lanka
- ① Global Banking & Finance Review UK - Best Automobile Lending Initiative Sri Lanka 2019

- ① International Finance - UK - Best Credit Card Sri Lanka - 2019
- ① Finance Derivatives - The Netherlands - Best Bank for Credit Cards Sri Lanka 2019
- ① Asian Banking & Finance Magazine Singapore - Retail Banking Awards 2019
 - ① Best Domestic Retail Bank of the Year [for the seventh consecutive year]
 - ① Best Consumer Finance Product of the Year
- ① International Banker - UK - Best Innovation in Retail Banking Sri Lanka 2019
- ① The Asian Banker Sri Lanka Awards 2019
 - ① Best Consumer Credit Product of the Year
 - ① Best Credit Card Product of the Year

EXCELLENCE IN SME BANKING

- ① Global Banking & Finance Review UK
 - ① Best SME Bank Sri Lanka 2019 [for the third consecutive year]
- ① Asian Banking & Finance Magazine Singapore - Retail Banking Awards 2019 - Best SME Bank of the Year [for the seventh consecutive year]

EXCELLENCE IN CORPORATE BANKING

- ① International Business Magazine - UAE - Best Corporate Bank Sri Lanka 2019
- ① Asian Banking & Finance Magazine Singapore - Wholesale Banking Awards 2019 - Best Domestic Cash Management Bank of the Year Sri Lanka [for the third year]
- ① Global Business Outlook - UK - Best Corporate Bank - Sri Lanka 2019

PROJECT FINANCE - EXCELLENCE IN CORPORATE & INVESTMENT BANKING

- ① Global Banking & Finance Review UK - Best Bank for Project Financing Sri Lanka 2019 [for the second consecutive year]
- ① The Karlsruhe Sustainable Finance Awards 2019 - Germany - Certificate of Merit for Best Innovation in Financial Services
- ① Asian Banking & Finance Magazine Singapore - Wholesale Banking Awards 2019 - Best Domestic Project Finance Bank of the Year Sri Lanka [for the fifth consecutive year]
- ① Asian Banking & Finance Magazine Singapore - Corporate & Investment Banking Awards 2019
 - ① Best Corporate Client Initiative of the Year - Sri Lanka [for the second consecutive year]
 - ① Best Syndicated Loan of the Year - Sri Lanka [for the second consecutive year]

EXCELLENCE IN DIGITAL FINANCIAL SERVICES

- ① Global Finance's World's Best Digital Bank Awards 2019 - The World's Best Consumer Digital Banks - Winner - Sri Lanka
- ① Global Banking & Finance Review UK - Most Innovative Digital Transformation Sri Lanka 2019
- ① Asian Banking & Finance Magazine Singapore - Retail Banking Awards 2019 - Best Digital Banking Initiative of the Year
- ① The Asian Banker Sri Lanka Awards 2019 - Best Branch Digitisation Initiative, Application or Programme



🕒 LankaPay Technnovation Awards 2019

- 🕒 Bank of the Year - Excellence in Customer Convenience - Category C
- 🕒 Best Common ATM Acquirer of the Year - Category B Merit Award

EXCELLENCE IN INVESTOR RELATIONS

- 🕒 CFA Sri Lanka Capital Market Awards 2019 - Gold award - Best Investor Relations [for the fourth consecutive year]

EXCELLENCE IN PAYMENTS & SETTLEMENTS

- 🕒 USD STP Excellence Awards of Deutsche Bank - New York - Award for exceptional quality of payment messages [for the third consecutive year]
- 🕒 US Dollar STP Excellence Award from HSBC New York [for the fifth consecutive year]
 - 🕒 Ranked among the Top 35 of HSBC's correspondent banks in the world for quality of payment messages

EXCELLENCE IN HUMAN RESOURCE MANAGEMENT

- 🕒 The Colombo Leadership Academy for Leadership Excellence recognition - Organisation with Great Managers and 10 individual awards for Great Managers
- 🕒 Top 50 Professional & Career Women Awards - 9th edition, organised by Women in Management - Best Private Sector Organisation Promoting Women in Workplace [for the second year]

EXCELLENCE IN ANNUAL REPORTS PRESENTATION

- 🕒 2018 NDB Annual Report - Aspirations + Execution = Domination
- 🕒 CMA Excellence in Integrated Reporting Awards 2019
 - 🕒 Bronze award [Second runner-up] across all sectors
 - 🕒 Most Improved Integrated Report [across all sectors]
 - 🕒 Winner - Ten Best Integrated Reports [across all sectors]
 - 🕒 Best Integrated Report - Banking Sector
- 🕒 South Asian Federation of Accountants (SAFA) Best Presented Annual Reports Awards 2018
 - 🕒 Joint Award [Second runner-up] across Private Sector Banks - including Co-operative Banks
- 🕒 CA Sri Lanka Annual Report Awards 2019 - Bronze award - Banking Institutions category
- 🕒 ACCA Sri Lanka Sustainability reporting Award 2019
 - 🕒 Winner - Banking Sector (for the second consecutive year)
- 🕒 2017 NDB Annual Report - Take a Closer Look
 - 🕒 ACCA Sri Lanka Sustainability reporting Awards 2018 - Winner - Banking Sector

AWARDS WON BY GROUP COMPANIES

NDB INVESTMENT BANK LIMITED

- 🕒 Euromoney Awards for Excellence 2019 - Sri Lanka's Best Investment Bank [for the eighth consecutive year]
- 🕒 AsiaMoney Magazine - Country Best Bank Awards - Best Corporate and Investment Bank Sri Lanka [for the third consecutive year]
- 🕒 Global Brands Magazine - 2019 Most Trusted Investment Banking Brand, Sri Lanka [for the fifth year]
- 🕒 International Business Magazine - 2019
 - 🕒 Best Investment Bank Sri Lanka
 - 🕒 Most Innovative Investment Bank Sri Lanka
- 🕒 FinanceAsia's Annual Country Awards - 2019 - Best Investment Bank in Sri Lanka [for the third consecutive year]
- 🕒 Asian Banking & Finance Magazine Singapore - Corporate & Investment Banking Awards 2019 Corporate & Investment Bank of the Year- Sri Lanka

THE BIGGER PICTURE

Moon

Earth



02 LEADERSHIP & STRATEGY



2020

Over four decades of service to the nation, NDB Group have involved into complex, intricately structured entities with a multitude of capabilities, responsibilities and functions. In this section, we lay out our structure and operations for stakeholders' inspection. Here you will find reflections by our Chairman and GCEO on the year just past and on our future direction and possibilities. You will learn who we are and what we do, what our priorities are, what strategies we follow, who our stakeholders are, what makes us a compelling investment and much more.



A handwritten signature in black ink, appearing to read 'Kavan Ratnayaka'.

Mr. Kavan Ratnayaka
Chairman

KEY STRENGTHS

A Clear
Strategy

Relentless Focus
on Driving Excellence

Robust Governance
Structure

Dynamic
Team

Dear Shareholders,

I am pleased to report that National Development Bank PLC demonstrated strong resilience in a year of numerous external challenges, making solid progress in the strategic journey of transforming its business focus, processes and employee mindset. In this context, it gives me great pleasure to welcome you all to the Bank's 15th Annual General Meeting and present to you the Annual Report for the financial year ended 31st December 2019.

Despite the tough operating landscape, the Bank continued to deliver on its shareholder commitments, generating an Earnings per Share (EPS) of LKR 21.97 and Net Asset Value Per Share (NAVPS) of LKR 178.02. The Board also approved a first and final dividend of LKR 7.00 per share for 2019, comprising of a cash dividend of LKR 2.00 per share and scrip dividend of LKR 5.00 per share. The share price recorded a decline of 1.3% (adjusted for corporate actions such as scrip dividends) during the year to close at LKR 100.00.

A host of global and domestic accolades received by the Bank during the year is testament to the decisive management interventions made in recent years to drive excellence across all our operations. NDB was awarded the Best Financial Services Group in Sri Lanka 2019 for the 2nd consecutive year by the Global Banking and Finance Review UK and the Best Domestic Bank in Sri Lanka at the Asia Money Magazine-Country Best Bank Awards.

OPERATING LANDSCAPE

Global economic growth was subdued at 2.9% in 2019 (2018: 3.6%), reflecting geopolitical tensions and trade policy uncertainties between USA and its key trading partners as well as stress in several key emerging market economies. While growth is expected to recover to 3.3% in 2020 (International Monetary Fund, January 2020) persistent downside risks

including implications of climate changes, the extensive bushfires in Australia, the outbreak of the Covid 19 and escalating geopolitical tensions between US and Iran are likely to weigh down on global economic activity over the short-to-medium term.

On the domestic front, economic conditions were subdued given global headwinds and internal challenges. GDP growth moderated to 2.7% in the nine months ended September 2019 reflecting subdued consumer and investor sentiments following the April attacks, prolonged impacts of the political crisis in November 2018 and weather-related challenges. Growth in the Services sub-sector slowed to 2.8%, reflecting downturns in tourism and wholesale and retail trade, although the Financial Services sub-sector recorded relatively healthy growth. On the monetary policy front, the regulator adopted a more accommodative stance with a view to stimulate the economy. Accordingly, policy rates were reduced twice by a total of 100 bps in May and August and the Statutory Reserve Ratio (SRR) on all rupee deposit liabilities was reduced by a total of 2.5%. These measures coupled with deposit and lending rate caps on licensed commercial banks in April and September led to a gradual decline in market interest rates towards the latter part of the year.

The year under review was a challenging one for the banking sector, which saw a deceleration in credit growth and an industry-wide deterioration in portfolio quality. Loan growth slowed to 5.6% in 2019 (2018: 20%), while the industry's gross NPL ratio increased to 4.7% in 2019, compared to 3.4% the previous year reflecting stresses in key sectors such as tourism, agriculture and construction. The sector's profitability was impacted by rising impairment charges, increased overhead costs and a considerable increase in the effective tax rate for the year mainly due to the Debt-Repayment-Levy which was effective from 1 October 2018 being applicable for the full year of 2019.

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Against this backdrop, I am pleased to report that NDB delivered a commendable performance, outperforming industry counterparts in growth and profitability while marking a major milestone by crossing LKR 500 Bn in assets. From a strategy perspective the Bank maintained focus on the key pillars of its Transformation Strategy with continued investments in strengthening the digital infrastructure, enhancing customer experience and building a lean and agile operating model to drive operational excellence.

STRATEGY AND PERFORMANCE

Against this backdrop, I am pleased to report that NDB delivered a commendable performance, outperforming industry counterparts in growth and profitability while marking a major milestone by crossing LKR 500 Bn in assets. From a strategy perspective the Bank maintained focus on the key pillars of its Transformation Strategy with continued investments in strengthening the digital infrastructure, enhancing customer experience and building a lean and agile operating model to drive operational excellence. These initiatives are discussed in further detail in the Group Chief Executive Officer's Review on page 30 of this Report. Given the moderating economic conditions, the Bank pursued selective growth opportunities across its business verticals resulting in a portfolio growth of 16%. Despite an influx of NPLs in line with the overall industry, proactive measures to strengthen monitoring and recoveries enabled the Bank to preserve its portfolio quality to a certain extent, with the gross NPL ratio clocking in at 4.77%. Smart margin management coupled with ongoing focus on cost efficiencies enabled the Bank to record 6% growth at operating profit before all taxes, although the considerable increase in taxes compared to 2018 resulted in the profit after tax declining by 8% to LKR 5.1 Bn during the year.

COMMEMORATING OUR 40TH ANNIVERSARY

The Bank celebrated its 40th Anniversary in 2019; in recognising that strong stakeholder support has been at the heart of our continued success, our celebrations focused on giving back to our customers, past and present employees and communities. Accordingly, our celebrations included a commemoration

for past Chairmen and CEOs and 'One NDB Day' – for all Group employees in recognising their untiring efforts in propelling the Group forward.

THE LEADERSHIP TEAM

The Bank's sustainable value creation is underpinned by robust corporate governance frameworks which are founded on the highest standards of ethics, integrity and corporate conduct. As part of the Board renewal process, four new Directors were appointed to the Board during the year; accordingly, we welcomed Mr. Bernard Sinniah, Mr. E.A Rathnaseela, Dr. Mrs. Dinusha Panditaratne and Mr. Sujeewa Mudalige to the Board. These professionals bring with them multi-disciplined insights and industry experience complementing the skillsets of the existing Board, thereby ensuring an appropriate balance of continuity and fresh insights. Board focus areas for 2019 included approval of the Bank's strategic plan beyond 2020 in collaboration with the Leadership Team, review and upgrade of the policy framework, strengthening the risk management framework and exploring avenues for raising capital.

A SUSTAINABLE BANK

During the year we also gained momentum in our efforts to drive sustainability as a core feature in the way we do business and conduct ourselves. We continue to drive initiatives to embed the principles of economic, social and environmental sustainability to our business strategy and processes. The Bank made significant progress on the "Banking on Women" initiative, driving a holistic value proposition for women through knowledge forums, tailor-made products and increased engagement across our Retail and SME platforms. The Bank's sustainability agenda is also driven

through its comprehensive environmental and social lending criteria, ongoing efforts to nurture a women-friendly work environment and achieve gender parity, taking banking and lending towards underserved segments of the economy and ongoing investment in environmental conservation and community engagement projects.

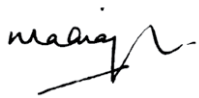
A POSITIVE OUTLOOK

The anticipated stability in economic policy together with monetary and fiscal stimulus aimed at reviving the economy are likely to present substantial opportunities for growth over the medium-to-long term. I believe the strategy we have put in place and management interventions we have made in recent years have afforded the Bank a strong platform to pursue these opportunities and we remain optimistic about the Bank's growth potential. The SME sector will be a key area of focus for the Bank, and we will continue to drive deeper penetration across this sector. We are encouraged by the tax concessions granted to the Banking sector in 2020 (a long awaited concern, where the 2019 effective tax rate of approximately 58% was the highest for any industry) and hope to partner the Government in strengthening the country's SME sector which has been earmarked to drive Sri Lanka's socio-economic progress. Enhancing the digital infrastructure and strengthening our brand will also be areas of strategic importance as we seek to further sharpen our competitive edge. The Bank's future plans are discussed in further detail in the Group Chief Executive Officer's Review on page 30 and the dedicated chapter on the Way Forward on page 183.

With the Central Bank of Sri Lanka announcing broader criteria for defining Domestic Systemically Important Banks (D-SIB), NDB has not been categorised as a D-SIB as expected. Accordingly, the Bank now has adequate capital levels to pursue its short-to-medium term growth aspirations while exploring further avenues to enhance its capital base.

ACKNOWLEDGEMENTS

As I look forward to an exciting year, I join the Board of Directors in thanking my predecessor, Mr. Ananda Atukorala and the outgoing Directors for their vision and guidance over the years in propelling the Bank forward. I congratulate the NDB family, ably led by the Group Chief Executive Officer, Mr. Dimantha Seneviratne and the Leadership Team for their relentless efforts and commitment in delivering the results set out in this Report. I would also like to take this opportunity to extend my gratitude and appreciation to the 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. I look forward to working with you all in 2020.



Mr. Kavan Ratnayaka
Chairman

18 February 2020
Colombo



Dimantha Seneviratne
Director/Group Chief Executive Officer

KEY ACHIEVEMENTS

**Total Assets Crossed
LKR 500 Bn**

**16% Loans and
Receivables Growth**

**17%
Deposit Growth**

**6% Growth in Profit
Before all Taxes**

Dear Stakeholder,

In a year of subdued economic growth, the NDB Group directed focus on optimising its' operating models with decisive management interventions aimed at strengthening the Group's foundation to drive future growth aspirations. I am pleased to report that in 2019 the Group successfully navigated economic and industry uncertainties to consistently deliver value in financial, operational, commercial and sustainable areas, attesting to the inherent soundness and effective implementation of the Group's strategy in recent years. Such progress was externally endorsed as the Group continues to receive widespread local and international recognition for its recent successes; in 2019 the Bank was awarded the World's Best consumer Digital Banks-Sri Lanka award 2019, by Global Finance and was also ranked as the Best Domestic Bank - Sri Lanka at the AsiaMoney Magazine - Country Best Bank Awards. After over a decade, NDB was also ranked among Sri Lanka's top 10 corporates by Business Today, notching up 9 ranks in comparison to 2018.

PERFORMANCE OVERVIEW

The Group's performance should be set out in the context of the operating landscape, and I am pleased to report that we outperformed the industry in terms of growth and profitability while preserving portfolio quality. The Bank recorded portfolio growth of 16% during the year, as we continued to pursue selective growth opportunities across key segments which resulted in Net Interest Income (NII) expanding by 20% to LKR 17.7 Bn. Caps on deposit and lending rates adversely affected Net Interest Margins (NIM), although effective asset and liability management and increased penetration in the Retail segment enabled the Bank to widen its NIM to 3.53% in 2019, compared to 3.46% in 2018. Meanwhile fee and commission income increased by 25% to

LKR 3.9 Bn reflecting continued growth of non-fund-based activities including guarantee and trade income, fee income via card base and increased customer migration to digital platforms.

Moderating economic conditions and liquidity stresses across key sectors led to an industry-wide deterioration in portfolio quality. Conscious efforts to revisit underwriting standards in lending to selected segments, together with proactive measures to strengthen the collection and monitoring mechanisms enabled the Bank to preserve its portfolio quality to a certain extent. Accordingly, the gross NPL ratio increased to 4.77% (2018: 2.85%) in 2019, in line with industry average.

Total operating expenses increased by 11% to LKR 9.4 Bn during the year, primarily due to an increase in headcount to drive business growth and recoveries and investments in digital channels. The Bank's cost to income ratio of 39.90% continues to be among the best in the industry and attests to our ongoing focus on driving process improvements and enhancing efficiency through automation and business process re-engineering.

At operating level, the Bank delivered a profit growth of 6% to LKR 10.1 Bn, however, a significant increase in tax on financial services (mainly due to the DRL) resulted in profit after tax declining by 8% to LKR 5.1 Bn. Additional tax incurred on DRL (Debt Repayment Levy) alone was LKR 1.0 Bn. Meanwhile at consolidated level, Group profit after tax also recorded a decline of 7% to LKR 4.8 Bn reflecting subdued conditions in the debt and equity markets.

The Bank continued to drive balance sheet growth with assets expanding by 12% to cross the LKR 500.0 Bn mark as at end-December 2019. This was supported by deposit growth of 17% as the Bank also

surpassed the LKR 400.0 Bn milestone in customer deposits. We continue to make inroads in strengthening our deposit franchise through customer engagement and convenience offered through a multi-channel strategy. Meanwhile, the expansion of the CRM network and branchless banking proposition dubbed as Bank2U proposition allowed the Bank to increase its CASA base by 6% (or LKR 4.9 Bn) during the year, translating to a CASA ratio of 19.9%. The Bank strengthened its capital base with the issue of LKR 5.6 Bn of BASEL III compliant subordinated, redeemable debentures, resulting in its Total Capital Ratio increasing to 13.43%.

DELIVERING ON OUR STRATEGY

The effective implementation of the Transformation 2020 (T20) strategy resulted in an acceleration of business performance in recent years, with significant improvements in growth and profitability. Stemming from this success, in 2019 we sought to formulate the Group's strategic plan beyond 2020 adopting a bottoms-up approach in engaging multi-functional teams across the organisation. While the broader ambitions of T20 remain intact the new strategic plan is focused on further driving digital transformation while ensuring that quality of service and human touch will be a key differentiator in our value proposition.

- **Digital as an enabler:** The Bank continued to strengthen its digital infrastructure during the year. A key area of focus was laying the foundation for the Core Banking System upgrade, which will provide a robust platform to support the Bank's growth aspirations in the next decade. A key achievement during the year was the launch of NDB NEOS - the Bank's new mobile banking app offering advanced features such as facial recognition and wealth/

investment management tools. We also expanded the Bank2U proposition to 82 branches, supporting the Bank's CASA drive and leading to a 4-fold increase in deposits garnered through this unique platform. In addition to the launch of 2 NDB NEOS phygital branches, we added 25 CRMs to the Bank's network, bringing the total to 52 as at end December 2019. The Bank's digital penetration has continued to increase, with 71% of total transactions in 2019 performed through digital channels.

- ⊙ **Operational excellence:** We are committed to building a lean and agile operating model and in line with our focus on the Retail segment invested in new leasing, pawning and card management systems during the year. The Bank also automated 5 processes through Robotic Process Automation technology including monitoring loan covenants and cheque clearing. Following the launch of six sigma lean management in 2018, a dedicated team has been deployed to re-engineer key processes through Business Process Re-engineering.
- ⊙ **An Inspired Team:** On the people front, key areas of focus included identifying the Bank's talent pool through a comprehensive talent review, succession planning and building the next generation of leaders. Considerable investments were also made in strengthening our development proposition, particularly in the areas of leadership development, creative thinking, digital capabilities and customer service.
- ⊙ **Customer Experience:** At NDB we strongly believe that successful corporates are those that can consistently deliver superior client experiences by leveraging on digital capabilities alongside human interactions. To this end, the Bank progressed further on its Service Leap journey through training over 600 service leaders, empowering front line staff, launch of a new service credo "We go beyond" and introduction of Standard Operating Procedures (SOPs) to ensure a consistent customer experience across all touchpoints and delivery channels.

- ⊙ **Business focus:** The subdued market conditions during the year compelled the Bank to pursue selective lending to the SME Sector, although this segment remains a priority for NDB over the long term. We pursued selective growth opportunities in the Retail sector, achieving significant expansion in credit cards, privileged banking and personal loans.
- ⊙ **Group synergies:** We continued to leverage on our position as the only financial services group offering the full spectrum of banking and capital management solutions. During the year, the Group launched the One NDB Account combining customers' banking and wealth management accounts and also the accounts with our stock broking arm to offer a seamless experience. We also pursued cross sell opportunities by leveraging on synergies between NDB Investment Bank, the Corporate and Project Financing unit.

BALANCING RISK

Strategic emphasis was placed on managing credit risks during the year given the rise in NPLs and other credit concerns witnessed across the industry. Measures put in place during 2018 to strengthen underwriting standards, collection and monitoring mechanisms served the Bank well in this challenging period. In 2019 we set up an independent financial analysis unit and a remedial management unit, deploying specialised, skilled resources to manage stressed facilities. The Bank also strengthened monitoring mechanisms by streamlining processes and proactively monitoring early warning signals. Despite NDB's increasing tilt towards the Retail and SME segments we are confident that the measures put in place to optimise risk-return dynamics will continue to support the maintenance of a fundamentally strong credit portfolio.

INTEGRATING BUSINESS AND SUSTAINABILITY

As a leading financial institution in the country, we are cognisant of the role we can play in propagating sustainable practices through our banking activities. Gender equality and female empowerment

Performance of our Business Verticals



Retail Banking

- ⊙ **+27%** growth in Loans and Receivables
- ⊙ **+22%** Deposit Growth

The Unit placed strategic focus on customer acquisition in selected segments such as personal loans and credit cards. Proactive efforts were made in preserving portfolio quality while ongoing investments were made in strengthening our IT infrastructure to drive internal efficiencies. We added 4 conventional branches, 10 leasing centres and 2 phygital branches to our network.

Corporate Banking

- ⊙ **+14%** growth in Loans and Receivables
- ⊙ **+7%** Deposit Growth

As external pressures intensified, the Unit adopted a strategy of consolidation, engaging proactively with customers to strengthen relationships and curtail the rise in impairments. New customer acquisition was on an extremely selective basis and expansion was pursued through deepening relationships and increasing share of wallet with existing customers. Project and Infrastructure Financing Division delivered another year of strong performance, delivering portfolio and profit growth while preserving portfolio quality.

SME Banking

- ⊙ **+10%** growth in Loans and Receivables
- ⊙ **+15%** Deposit Growth

Conscious efforts were made to strengthen underwriting standards in lending while utilising the opportunity to strengthen internal processes and drive increased digitisation through the introduction of several workflows.

Segmentation of the business line into the 'middle market' and 'small' sectors, allowed for more effective management of portfolio quality and efficient deployment of resources.

Capital market cluster

The cluster maintained its position as the leading investment bank in the country, although performance was directly impacted by the subdued equity and debt market conditions which prevailed for most part of the year.

are top in our sustainability agenda and we made significant progress on the Banking on Women initiative during the year. In addition to tailor-made products for women, the Bank conducted several knowledge sharing forums for women, providing guidance on practical issues faced by women entrepreneurs, salaried women and housewives. We continued to invest in nurturing a women-friendly work environment and the Bank's female representation at senior management level amounted to 35% in 2019, one of the highest in the industry. Meanwhile, through the Bank2U proposition, NDB has tapped a hitherto unbanked segment of the economy, inculcating savings habits and contributing to the long-term socio-economic progress of the country's grassroot communities. Community engagement projects continued with vigour during the year, with the Bank conducting numerous strategic CSR projects under the pillars of Education, Environment, Entrepreneurship and Employee Volunteerism.

WAY FORWARD

We are seeing early signs of economic momentum building up and are confident that the anticipated policy stability, tax concessions and stimulus packages offered by the Government will augur well for most industries. The Group is encouraged by the tax relief offered to the Banking industry and we are keen to support the Government's agenda in reviving the SME sector through complying with the requirements of the SME moratoriums. While this is a novel and unique way of reviving the sector, we hope SMEs would make the best of this opportunity by judiciously directing funds towards value creating activities.

For NDB, 2020 presents exciting opportunities for growth. Digitisation will continue to be central to our strategy and we hope to complete the upgrade of the core banking system in 2020, which will position the Bank on a strong launching pad to effectively capture emerging opportunities. Overseas expansion is also on the cards as we seek new customer acquisition whilst deepening relationships with existing customers. The channel strategy will focus primarily on digital

and virtual platforms as we will seek to consolidate our brick and mortar network. We are also excited by the opportunities presented by the National Digital Road Map and look forward to progressing further on digital on boarding, QR based payment systems for low value transactions and electronic KYC. As monetary policy will be directed towards stimulating economic activity, we expect a low interest rate regime to prevail for most part of the year, thereby underscoring the importance of further refining our processes and driving cost effective distribution models.

ACKNOWLEDGEMENTS

I would like to extend my appreciation to the Chairman and Board of Directors for their vision and the continued confidence placed in me. Team NDB continues to inspire me every day, and I take this opportunity to thank the Leadership Team and all employees for their commitment and dedication in delivering the results set out in this Report. My appreciation also goes out to the Governor and officials of the Central Bank of Sri Lanka and other regulatory bodies for their continued support. In conclusion, I would like to place on record my appreciation to our valued customers, shareholders, business partners and other stakeholders for inspiring us and placing their confidence in us.



Mr. Dimantha Seneviratne

Director/Group Chief Executive Officer

18 February 2020
Colombo

As a leading financial institution in the country, we are cognisant of the role we can play in propagating sustainable practices through our banking activities. Gender equality and female empowerment are top in our sustainability agenda and we made significant progress on the Banking on Women initiative during the year.



Sitting (left to right)

Mr. Kavan Ratnayaka - Chairman,
Mr. Dimantha Seneviratne - Group Chief Executive Officer,
Mr. Ashok Pathirage - Deputy Chairman (retired w.e.f. 18 February 2020)

Standing (left to right)

Mr. Dinal Phillips, PC,
Mr. Sriyan Cooray,
Ms. Shehani Ranasinghe - Company Secretary,
Mr. Bernard Sinniah,
Dr. Dinusha Panditaratne,
Mr. Sujeewa Mudalige



Not pictured

Mr. E A Rathnaseela (resigned w.e.f. 20 January 2020)

MR. KAVAN RATNAYAKA

Chairman

Non-Executive Independent Director

Date of appointment:
13 May 2015
Date of Last Re-election as a Director:
28 March 2019
Length of Service as a Director:
4.9 yrs

Skills and experience

Mr. Kavan Ratnayaka was appointed Chairman of the Bank on 18 April 2019. He has previously functioned as the Chairman of The Sri Lanka Ports Authority, Sri Lanka Tourism Development Authority, Associated Newspapers of Ceylon Ltd (ANCL) and as the Group Chief Corporate Officer of Cargills Ceylon PLC. He was also the Group Chief Corporate Officer of Dialog Axiata PLC from 2007 to 2012 and prior to that functioned as the Chief Executive Officer of Dialog Broadband Networks (DBN). Pre Dialog, Mr. Ratnayaka led IBM Sri Lanka as its Country General Manager where he was a trusted advisor on technology to several Banking, Insurance, Government and Telecommunications clients. His experience and expertise spans over 30 years.

Mr. Ratnayaka has extensive knowledge of Information and Communication Technology (ICT) Products, Services, Distribution and has received extensive training from IBM in industry segments such as Banking, Telecommunications, Ports, Airlines, Travel and Government. He has also trained in Client Relationship Management, Project Management, Partner Management, General Management and Leadership, Board Representation, Media and Government Relations.

Mr. Ratnayaka holds a Bachelor of Science (Physics) from the University of California.

He has previously been Director of John Keels PLC, Arthur C Clarke Institute for Modern Technologies, Sri Lanka Institute of Information Technology (SLIIT) and Independent Television Networks (ITN). He is a Past President of Amcham, Sri Lanka.

Concurrent appointments

Director Sri Lanka Business Development Center (SLBDC) and KBSL (Pvt) Ltd.

MR. ASHOK PATHIRAGE

Deputy Chairman

(retired w.e.f. 18 February 2020)

Non-Executive Non-Independent Director

Date of appointment:
18 February 2011
Date of Last Re-election as a Director:
30 March 2017
Length of Service as a Director:
9 yrs

Skills and experience

A visionary, entrepreneur and business leader, Mr. Ashok Pathirage is one of the founders of Softlogic and was appointed as Chairman of Softlogic in 2000. He counts over 30 years of experience in senior managerial capacity in the Information Technology industry and is well recognised in the business world.

Mr. Pathirage was the Chairman of NDB Capital Holdings Limited until the date of his retirement from the Bank on 18 February 2020.

Concurrent appointments

Chairman/Managing Director of Softlogic Holdings PLC, Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC, Softlogic Capital PLC, Softlogic Life Insurance PLC and Odel PLC which are listed in addition to the private and public companies of the Softlogic Group operating in Leisure and Restaurants, Retail, Automobile, ICT and Financial Services. Mr. Pathirage is also the Chairman of Sri Lankan Airlines Limited.

MR. DIMANTHA SENEVIRATNE

Group Chief Executive Officer

Executive Non-Independent Director

Date of appointment:
01 January 2017
Date of Last Re-election as a Director:
N/A
Length of Service as a Director:
3.2 yrs

Skills and experience

Mr. Dimantha Seneviratne, Group Chief Executive Officer (GCEO) of the Bank, counts 30 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 Jayawardenapura, 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 the NIBM. He successfully completed the High Potential Leadership Programme at the Harvard Business School, Boston, USA, in 2016.

He is 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, Sri Lanka Banks' Association (Guarantee) Limited and Development Holdings (Pvt) Ltd, Director Credit Information Bureau - Sri Lanka, Lanka Clear (Pvt) Ltd and several subsidiaries of the Bank.

MR. DINAL PHILLIPS, PC
Non-Executive Independent Director

Date of appointment:
22 April 2015
Date of Last Re-election as a Director:
28 March 2019
Length of Service as a Director:
4.10 yrs

Skills and experience

Mr. Dinal Phillips an Attorney-at-Law and Solicitor (England and Wales (1986)) was appointed as President's Counsel in 2005. He obtained his Diploma in Intellectual Property from the University of London in the year 1989/90. A Founder Member of SAARC Law Sri Lanka Chapter, Mr. Phillips, PC is also a Member of the International Pacific Bar Association and the Bar Association of Sri Lanka.

Mr. Phillips, PC has functioned as the Chairman of the Intellectual Property Advisory Commission and was a member for several years. He has been involved in Drafting Regulations for the Intellectual Property Act.

Mr. Phillips' experience in the field of law is wide and varied and runs over 37 years. He has had considerable exposure and experience in International Commercial Arbitrations, Maritime Law, Company Law, Commercial Law and Sports Law Disputes.

Concurrent appointments

Director of Gestetner of Ceylon PLC, Vauxhual Beira Properties (Private) Limited and Abans Electricals PLC.

MR. SRIYAN COORAY
Non-Executive Independent Director

Date of appointment:
10 August 2018
Date of Last Re-election as a Director:
28 March 2019
Length of Service as a Director:
1.6 yrs

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 Chief Executive Officer over the last 10 years at HSBC.

Prior to joining HSBC, Mr. Cooray was Financial Controller of Speville M & W Ltd (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 SINNIH
Non-Executive Independent Director

Date of appointment:
28 March 2019
Date of Last Re-election as a Director:
N/A
Length of Service as a Director:
0.11 yrs

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. He served as a Director of NDB Capital Holdings Limited for a short period.

Mr. Sinniah holds a Master of Applied Finance (Macquarie University, Australia).

Concurrent appointments

Director Transact Lanka, Sri Lanka, Codevus, Sri Lanka, Youcan (UK), Knightsbridge eCommerce (UK).

MR. E A RATHNASEELA

(resigned w.e.f. 20 January 2020)

Non-Executive Non-Independent Director

DR. DINUSHA PANDITARATNE

Non-Executive Independent Director

MR. SUJEEWA MUDALIGE

Non-Executive Independent Director

Date of appointment:
18 June 2019
Date of Last Re-election as a Director:
N/A
Length of Service as a Director:
0.7 yrs

Date of appointment:
24 July 2019
Date of Last Re-election as a Director:
N/A
Length of Service as a Director:
0.7 yrs

Date of appointment:
06 January 2020
Date of Last Re-election as a Director:
N/A
Length of Service as a Director:
0.1 yrs

Skills and experience

Mr. Rathnaseela was appointed to the Board of NDB as the Nominee of the Ministry of Finance (in terms of the Articles of Association). He possesses over 19 years of experience as a public officer of the Sri Lanka Administrative Service (SLAS) and has previously functioned in the capacity of Director at Sri Lanka Customs and the Department of National Planning. He has also functioned in the capacity of Deputy Director at the Department of Trade and Tariff and as an Assistant Director at the Department of Fiscal Policy.

Mr. Rathnaseela holds a M.A in Policy Economics from the Williams College, Massachusetts, USA, a BSc in Bio Science from the University of Ruhuna and a Post Graduate Diploma in Development Studies from IDE Advanced School of Economics, Chiba, Japan and also a Post Graduate Diploma in Economic Development from the University of Colombo.

Concurrent appointments

Additional Director General Department of Public Finance and the General Treasury. Mr. Rathnaseela also serves in several Boards as a Director including the National School of Business Management (NSBM), National Institute of Education (NIE) and National Research Council (NRC).

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. An Attorney admitted to practice in the State of New York, she also previously worked at the Corporate Finance Department at Milbank, Tweed, Hadley & McCloy 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.

Skills and experience

Mr. Mudalige counts over 30 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.

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 Feeds group and Alethea School. He also serves as a board member at NSBM Green University and as a committee member of Ceylon Chamber of Commerce. He is the Deputy Chairman of the Financial System Stability Consultative Committee of the CBSL.

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 26 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 & Branch Network Management

- 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 - Branch Network Management & Correspondent Banking
- 09 Ms. Shanti Gnanapragasam**
Vice President - Group Risk Management
- 10 Mr. Lasantha Dasanayaka**
Vice President - Group Human Resources



11 Ms. Ruwani De Silva
Vice President – Group Audit

12 Ms. Shehani Ranasinghe
Vice President/Company secretary

13 Ms. Melody Wickramanayake
Vice President - Legal

14 Ms. Suvendrini Muthukumarana
Vice President - Finance

15 Mr. Rajeev Munasinghe
Vice President - Chief Information Officer

16 Ms. Manique Kiriella Bandara
Assistant Vice President - Compliance Officer

17 Mr. Damitha Silva
Assistant Vice President – Digital Financial Services

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

01 Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer

Please refer page 36 for the profile.

02 Mr. Buwaneka Perera
Senior Vice President – Corporate Banking

Total working experience with length of service at NDB (as at 31.12.2019):
Over 40 years of experience including 21 years with NDB.

Professional qualifications:

Bachelor's Degree in Financial Services - University of Manchester, UK, Postgraduate Diploma in Bank Financial Management - University of Sri Jayawardenapura, Associate Member - Chartered Institute of Bankers, UK

03 Mr. Sanjaya Perera
Senior Vice President – Personal Banking and Branch Network Management

Total working experience with length of service at NDB (as at 31.12.2019):
Over 29 years of experience including 04 years with NDB.

Professional qualifications:

MBA from the Post Graduate Institute of Management of University of Sri Jayawardenapura, Fellow of the Institute of Bankers of Sri Lanka, Passed finalist of the Association of Accounting Technicians (UK).

04 Mr. Deepal Akuretiyagama
Chief Operating Officer

Total working experience with length of service at NDB (as at 31.12.2019):

Over 26 years of banking experience including 1.5 years with NDB.

Professional qualifications:

MSc in IT, Keele University, UK (First Class), Associate Member of Chartered Institute of Management Accountants (CIMA), Chartered Global Management Accountant (CGMA), British Computer Society (BCS) & Australian Computer Society (ACS) examinations, Green Belt certification for Process re-engineering from HSBC Hyderabad.

05 Mr. Niran Mahawatte
Vice President - Treasury

Total working experience with length of service at NDB (as at 31.12.2019):

Over 27 years of experience including 18 years with NDB.

Professional qualifications:

Bachelor of Science degree from University of Colombo, Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA).

06 Mr. Indika Ranaweera
Vice President – SME, Middle Market and Business Banking

Total working experience with length of service at NDB (as at 31.12.2019):

Over 24 years of overall experience with 21 years with NDB.

Professional qualifications:

B.Sc. Engineering (Hons.) from University of Moratuwa, PGDBM from University of Colombo, Master's Degree in Business Administration from the University of Colombo (Merit), Master's Degree in Financial Economics from the University of Colombo (Merit).

07 Ms. Ishani Palliyaguru
Vice President - Project Finance & Corporate Credit Control

Working experience with length of service at NDB (as at 31.12.2019):

Over 23 years of banking experience, including 21 years with NDB.

Professional qualifications:

B.Sc Bio Science (University of Colombo) - First Class, MBA (PIM Sri J'pura) - Merit, FCMA (UK), CGMA, ACMA (Sri Lanka), AIB (Sri Lanka).

08 Mr. K V Vinoj
Vice President – Branch Network Management & Correspondent Banking

Working experience with length of service at NDB (as at 31.12.2019):

Over 27 years of banking experience, including 14 years with NDB.

Professional qualifications:

MFE (University of Colombo), MBA (University of Southern Queensland), PGDBF (Cranfield University School of Management UK/CA Sri Lanka), NDHRM (IPM Sri Lanka), CMA (Australia), ACSI (UK).

09 Ms. Shanti Gnanapragasam
Vice President – Group Risk Management

Total working experience with length of service at NDB (as at 31.12.2019):

Over 37 years of experience in banking with over 4 years with NDB.

Professional qualifications:

B.Sc. degree from the University of Madras, Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA) and Chartered Global Management Accountant (CGMA).

10 Mr. Lasantha Dasanayaka

Vice President – Group Human Resources

Total working experience with length of service at NDB (as at 31.12.2019):

Over 21 years of overall experience with 4.5 months with NDB.

Professional qualifications:

Bachelor of Business Administration (UNEM), Fellow Member of the Cambridge Association of Managers, UK (FCAM).

11 Ms. Ruwani De Silva

Vice President – Group Audit

Total working experience with length of service at NDB (as at 31.12.2019):

Over 24 years of experience including 18 years with NDB.

Professional qualifications:

Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA) and Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA).

12 Ms. Shehani Ranasinghe

Vice President / Company secretary

Please refer page 39 for the profile.

13 Ms. Melody Wickramanayake

Vice President – Legal

Total working experience with length of service at NDB (as at 31.12.2019):

Over 28 years of experience including 26 years with NDB.

Professional qualifications:

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

14 Ms. Suvendrini Muthukumarana

Vice President – Finance

Total working experience with length of service at NDB (as at 31.12.2019):

Over 25 years of experience including 19 years with NDB.

Professional qualifications:

Fellow members of the Institute of Chartered Accountants of Sri Lanka (FCA), Bachelor of science degree from the University of Colombo.

15 Mr. Rajeev Munasinghe

Vice President – Chief Information Officer

Total working experience with length of service at NDB (as at 31.12.2019):

Over 21 years of banking experience including 1.5 years with NDB.

Professional qualifications:

MSc in IT from Keele University, UK. Diploma Holder in Computer System Design from the National Institute of Business Management.

16 Ms. Manique Kiriella Bandara

Assistant Vice President – Compliance Officer

Total working experience with length of service at NDB (as at 31.12.2019):

Over 23 years of experience with NDB.

Professional qualifications:

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

17 Mr. Damitha Silva

Assistant Vice President – Digital Financial Services

Total working experience with length of service at NDB (as at 31.12.2019):

Over 21 years of experience including 2 years with NDB.

Professional qualifications:

MBA with merit from the Postgraduate Institute of Management, University of Sri Jayawardenapura, Associate Member of the Institute of Bankers of Sri Lanka, Reading for MPhil / PhD from University of Colombo.

18 Mr. Shanka Abeywardene

Assistant Vice President – Corporate Planning & Business Intelligence

Total working experience with length of service at NDB (as at 31.12.2019):

Over 20 years of banking experience, including 10 months with NDB.

Professional qualifications:

Fellow member of the Chartered Institute of Management Accountants, UK (FCMA), MSC in Auditing, Management Accounting and Information Systems from SKEMA (France) and Member of the Chartered Institute of Securities and Investment (UK).

SENIOR MANAGEMENT TEAM



Mr. Amal Yapa

**Assistant Vice President -
Corporate Banking**

Bachelor's Degree In Business
Administration. (University of
Houston, Texas)

26 years of experience in
banking



Ms. Camy Somasunderam

**Assistant Vice President - Cash
Management**

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

25 years of experience in
banking



Mr. Ajith Senadheera

**Assistant Vice President -
Leasing**

B.Sc. Business Administration
(University of Sri J'pura), MBA
(University of Colombo)

32 years of experience in
banking



Ms. Shera Hassen

**Assistant Vice President -
Privilege Select Banking**

MBA (Australian Institute of
Business), Certified in Wealth &
Investment Management - CISI
UK, AIB (Sri Lanka)

25 years of experience in
banking



Mr. Priyantha Gamage

**Assistant Vice President - Branch
Operations**

MBA (University of Southern
Queensland), Post Graduate
Diploma in Business & Finance
(ICASL), CISSP (ISC2-USA), CISI
(UK)

25 years of experience in
banking



Mr. Zeyan Hameed

**Assistant Vice President -
Personal Financial Solutions &
Cards Centre**

Associate Member of Chartered
Institute of Management
Accountants (CIMA), UK
Diploma/s in programming using
Basic, Cobol, RPG II & Visual
Basic

26 years of banking experience



Mr. Indika Tennakoon

**Assistant Vice President - Retail
credit**

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

27 years of experience in
banking



Mr. Rivindu Nanayakkara

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

39 years of experience in
banking



Ms. Ganga Wanigaratne

**Assistant Vice President -
Operations - Account Services &
Credit Administration**

34 years of experience in
banking



Mr. Vijitha Wettimuny

**Assistant Vice President -
Administration**

Graduated as Commissioned
Officer of Sri Lanka Air Force.

09 years of experience in
banking



Mr. Sunil Karunaratne

**Assistant Vice President -
Treasury**

MBA (University of Western
Sydney)

34 years of experience in
banking



Mr. Damitha Samaranayake

**Assistant Vice President -
Treasury**

AIB (Sri Lanka), ACI Dealing
Certificate - Paris

28 years of experience in banking



Mr. Gehan Biyanwila
Assistant Vice President - Asset and Liability Management
 CFA charter holder, ACI Diploma, ACI Dealing Certificate - Paris
 23 years of experience with 22 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)
 23 years of experience in banking



Ms. Shareen Jayasuriya
Assistant Vice President - Credit
 FCMA (UK), CGMA, CIM Dip. (UK), ACSI
 26 years of experience with 24 years in banking



Ms. Anushca Saranapala
Assistant Vice President - Group Risk Management
 37 years of experience in banking



Mr. Nilanga Gajaba
Assistant Vice President
 MBA Cardiff Metropolitan University UK, PG Dip (Institute of Bankers)
 27 years of experience in banking



Ms. Dayani Algama
Assistant Vice President - Human Resources
 BA (Hons) (Uni of New Delhi), Masters in Development Studies, University of Colombo
 28 years of experience with 21 years in banking



Mr. Sanjeev Kulendran
Assistant Vice President - Internal Audit
 B.Sc (University of Madras), Associate Member - Financial Services Institute of Australasia, Associate of Institute of Bankers (Sri Lanka)
 27 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
 27 years of experience in banking



Mr. Lalith Fernando
 (Retired w.e.f. January 2020)
Assistant Vice President - Information Technology
 MBCS - CITP, MBA (University of Moratuwa)
 33 years of experience with 22 years in banking



01 Mr. Dimantha Seneviratne
Director / Group Chief Executive
Officer
National Development Bank PLC

02 Mr. Vajira Kulatilaka
Chief Executive Officer
NDB Capital Holdings Limited

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

04 Mr. Prabodha Samarasekera
Chief Executive Officer
NDB Wealth Management Limited

05 Mr. Gihan R. Cooray
Chief Executive Officer
w.e.f 01.02.2020
NDB Securities (Pvt) Limited

06 Mr. Senaka Kakiriwaragodage
Managing Director
NDB Zephyr Partners Lanka (Pvt)
Limited

07 Mr. Kanti Kumar Saha
Managing Director and Chief
Executive Officer
NDB Capital Limited - Bangladesh

01 Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer
Please refer page 36 for the profile.

02 Mr. Vajira Kulatilaka
Chief Executive Officer
NDB Capital Holdings Limited
Total working experience with length of service at NDB (as at 31.12.2019):
Over 35 years of experience including 29 years with the NDB Group

Professional qualifications:

B.Sc. in Civil Engineering, University of Moratuwa, M.Sc. in Industrial Engineering & Management - Asian Institute of Technology, Thailand, Chartered Financial Analyst (CFA), Fellow Member of the Chartered Institute of Management Accountants - FCMA (UK).

03 Mr. Darshan Perera
Chief Executive Officer
NDB Investment Bank Limited
Total working experience with length of service at NDB (as at 31.12.2019):
Over 26 years of experience including 18 years with the NDB Group

Professional qualifications:

BSc. in Physical Science, University of Colombo, MBA, Merit Pass, University of Colombo, Associate Member of the Institute of Bankers, Sri Lanka, Passed Finalist, Chartered Institute of Management Accountants UK (CIMA), Passed Level 2 of Chartered Financial Analyst (CFA) Examination, conducted by the CFA Institute, USA, Associate Member, Chartered Institute of Marketing, UK (CIM)

04 Mr. Prabodha Samarasekera
Chief Executive Officer
NDB Wealth Management Limited
Total working experience with length of service at NDB (as at 31.12.2019):
Over 30 years of experience including 11 years with the NDB Group

Professional qualifications:

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

05 Mr. Gihan R. Cooray
Chief Executive Officer - w.e.f 01.02.2020
NDB Securities (Pvt) Limited
Total working experience with length of service at NDB (as at 31.12.2019):
Over 18 years of experience including 16 years with NDB Group.

Professional qualifications:

Master of Business Administration in Finance - Cardiff Metropolitan University (UK), attended the "High Potentials Leadership Programme" by Harvard Business School (USA), Certificate in Capital Markets by Securities and Exchange Commission (SL).

06 Mr. Senaka Kakiriwaragodage
Managing Director
NDB Zephyr Partners Lanka (Pvt) Limited
Total working experience with length of service at NDB (as at 31.12.2019)
Over 17 years of experience including 15 years with the NDB Group

Professional qualifications:

B.Sc. (First Class) in Computer Science and Engineering - University of Moratuwa, Master of Business Administration (MBA) - University of Manchester, Chartered Financial Analyst (CFA), Fellow member of the Chartered Institute of Management Accountants - UK

07 Mr. Kanti Kumar Saha
Managing Director and Chief Executive Officer
NDB Capital Limited - Bangladesh
Total working experience with length of service at NDB (as at 31.12.2019):
Over 25 years of banking experience including 5 years with NDB Capital Limited Bangladesh.

Professional qualifications:

Bachelor and Masters in Economics from University of Dhaka, Postgraduate Management Degree from The Nottingham Trent University, UK.

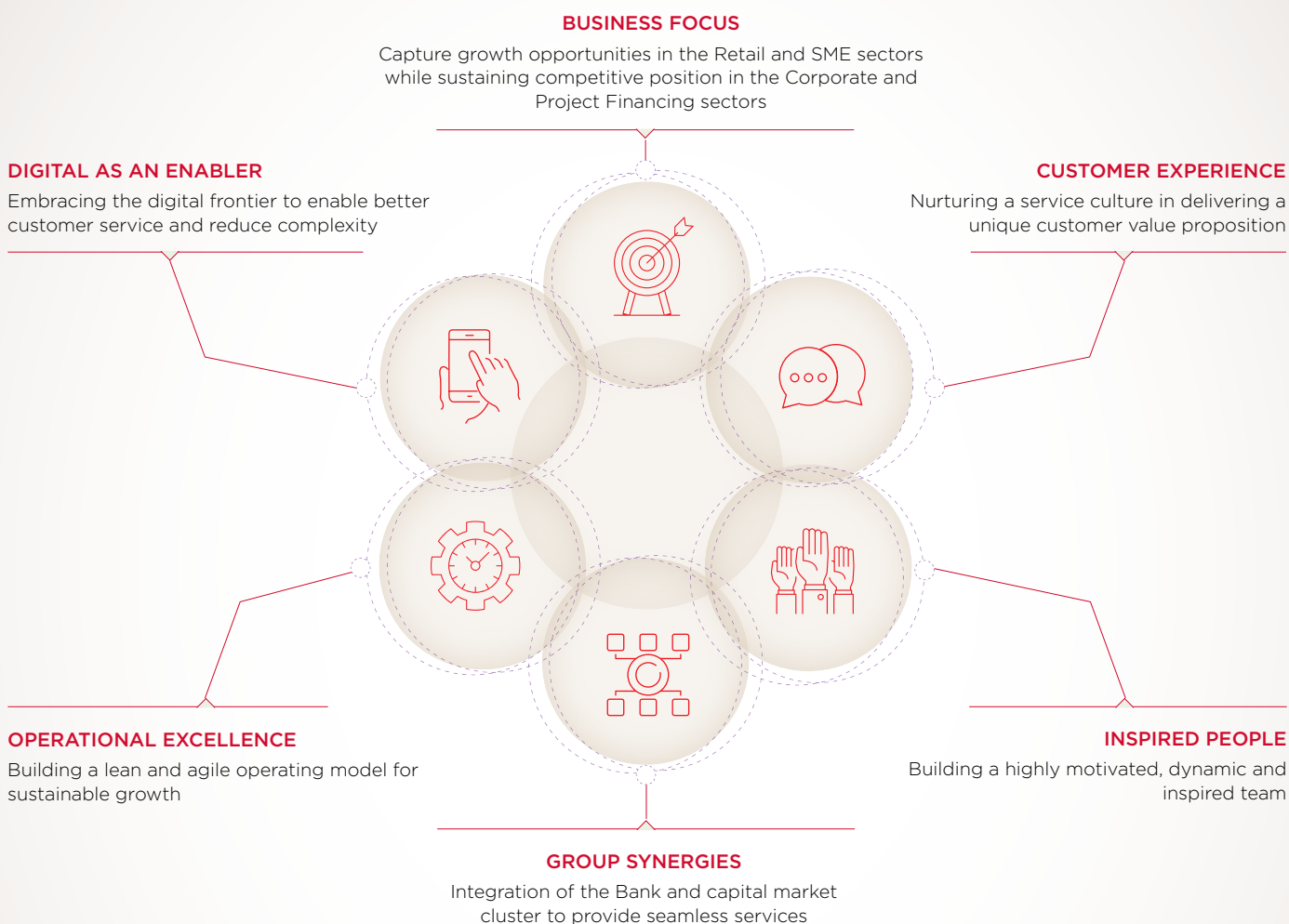


ABOUT OUR GROUP

OUR STRATEGY

Over the past three years, the Group's agenda was driven by Transformation 2020 (T20), a holistic strategic plan aimed at transforming business focus, processes, organisational structure and nurture a performance culture. Stemming from the success of T20, in 2019 NDB sought to formulate its strategic direction envisioning its position beyond 2025 and establish medium term financial goals up to 2023. Having realigned its business verticals to its long term goals through T20, the group has now embarked on an overarching digital transformation strategy. This strategy will transform our customer experience, create growth opportunities create a dynamic place to work. The successful execution of this strategy will set the Group on a robust digital platform to continue its strong growth trajectory to deliver superior stakeholder value.

■■■



T20 and beyond is delivered over 2 key time horizons guiding us towards our ambition of delivering superior stakeholder returns through the Group's full potential.

2017 - 2020

Achieved LKR 500 Bn in Assets
Process improvement initiatives aiming at increasing the throughput in process without increasing the cost.
Reposition the business model to align with the major customer segments.
Integrated customer solutions and Data Analytics.
Empowering women by introducing Banking on Women.

2020 - 2023

To achieve LKR 1 Tn in Assets
Driving granular CASA deposits through the expanding branch network.
Issuing Mastercard credit cards in 2020.
Growth powered by digitalisation .
Adopting a customer centric model from product orientation approach.
Corporate and Project Finance to increase its footprint in the regional markets.

The NDB Group is a leading integrated financial services conglomerate in Sri Lanka offering retail, SME, corporate and development banking services as well as the full spectrum of capital markets solutions.

♦ ♦ ♦

A holistic transformation strategy has repositioned and re-energised the Group, enabling it to drive targeted growth in selected sectors while embracing the digital frontier and building a lean and agile operating model. These efforts are evident in the Group's recent performance, with NDB emerging as one of Sri Lanka's fastest growing Banks, outperforming the industry in both growth and profitability. While Commercial Banking continues to be the Bank's mainstay, its recent strategy of pursuing growth opportunities in the Retail and SME segments have enabled it to build a more balanced and diverse portfolio. While a substantial part of the Group's operations are in Sri Lanka, we also engaged in fee-based business in Bangladesh through NDB Capital Limited and private equity in Mauritius through NDB Zephyr Partners Limited.

LKR 536 Bn Total Group Assets
LKR 409 Bn in Loans
LKR 404 Bn Deposits
LKR 43 Bn Equity
14.20% Total Capital Ratio



112 Branches
154 ATMs including CRMs
80+ Branchless banking
2 Phygital branches



92 Correspondent relationships of cross border transactions

More than 36,000 Merchant partnerships

More than 680 Supplier relationships



5/8 Independent Directors
An average of 30 years collective experience
2 Female representation



OUR TALENT POOL



2,936 Employees
40% Female representation
30 years average age in service

SUSTAINABLE BANKING

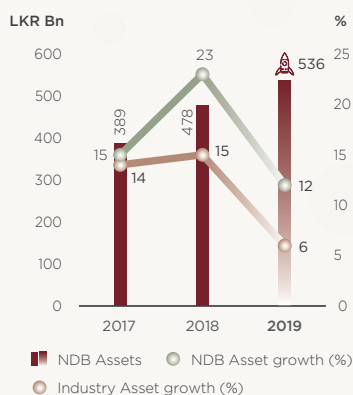


41% SME and Micro Finance Lending outside Western Province

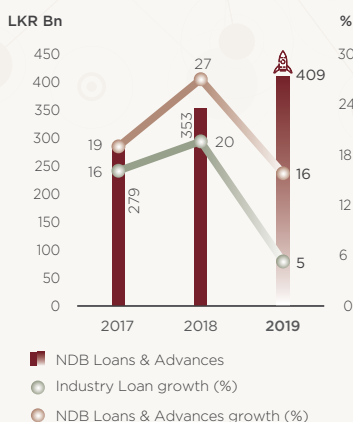
8,419 Women entrepreneurs trained

Funded Renewable Energy projects with a combined capacity of over 240 MW

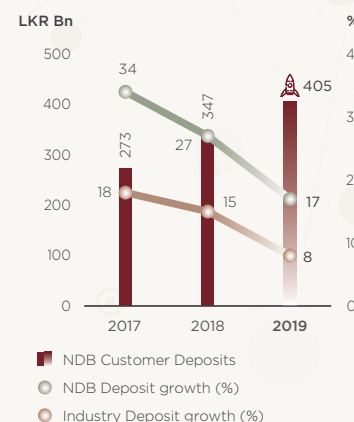
NDB Group - Asset Growth

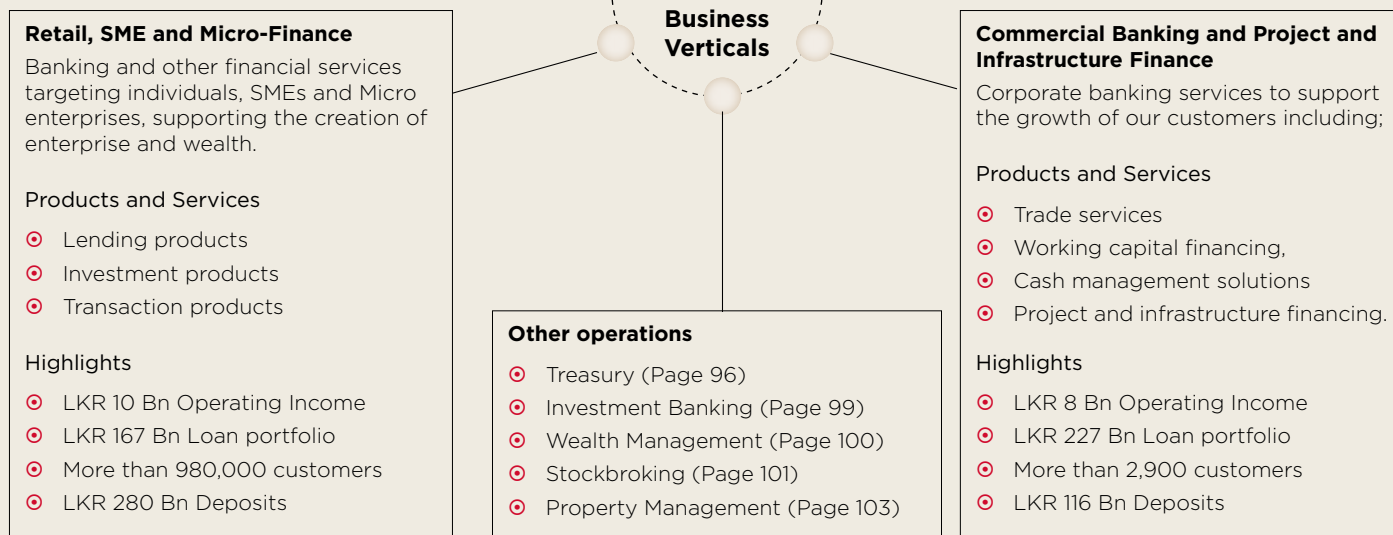


Gross Loans and Advances Growth



Deposit Growth





ECONOMIC CONTRIBUTION

Tax payments LKR 5.2 Bn 	SME and Micro Finance Loans and receivables LKR 88 Bn 	Investment in Government Securities LKR 91.8 Bn 	Trade facilities LKR 43 Bn 

WHY INVEST IN US?

The Group has continued to deliver on its shareholder commitments, generating above average returns; the Group's Return on Equity continues to outperform the industry average while Net Asset Value per Share has recorded consistent growth. Total shareholder return for the year amounted to 1.12%.

Strong Leadership and Governance Practices

- Diverse skills and industry experience at Board level
- Robust corporate governance and risk management practices
- A culture of transparency and accountability
- Highly capable Leadership Team

(Page 34, 136 and 138 for further information)

Competitive Strengths

- Expertise in development banking and project financing
- Effective deployment of digital services
- Competitive product offerings
- Service culture
- Expertise in capital market services

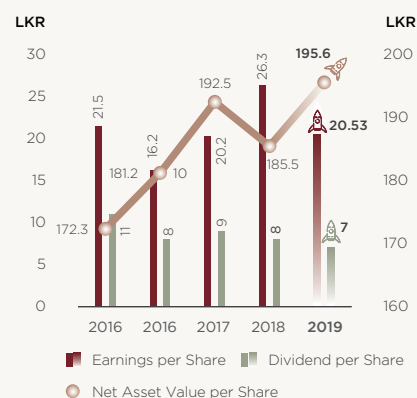
(Page 72 for further information)

Sustainability and Corporate Responsibility

- First Sri Lankan organisation to obtain the globally-renowned EDGE certification for gender equality in the workplace
- Ongoing investment in customer capacity building a culture of transparency and accountability
- Stringent environmental and social assessment for loan facilities

(Page 119 for further information)

Shareholder Returns - of NDB Group



Track record in Investor Relations

- Gold award winner for four consecutive years – Best Investor Relations at the annual CFA Sri Lanka Capital Market Awards
- Dedicated Investor Relations page on the Bank's corporate website
- Robust shareholder communication strategy which includes quarterly investor webinars, presentations and transcripts and one-to-one meetings among others

(Pages 66,67 and 402 for further information)

VALUE CREATION MODEL

CAPITAL INPUTS



Financial Capital (Page 73)

Capital and funding from investors and customers used to drive our strategy and operations.

- Shareholders' funds: **LKR 39 Bn**
- Deposits: **LKR 409 Bn**
- Total borrowings: **LKR 72 Bn**



Human Capital (Page 104)

The skills, knowledge and experience of our talented team

- 2,936** employees
- Performance driven culture
- Service orientation



Manufactured Capital (Page 112)

Our physical and digital infrastructure that provides the required framework to conduct business.

- 112** branches
- 154** ATMs and **52** CRMs
- 2** Digital banking outlets
- Integrated IT systems and market leading digital services



Intellectual Capital (Page 116)

Our organisational values, tacit knowledge and innovation capacity

- 19th** most valuable brand
- Expertise in development banking and project financing
- Organisational tacit knowledge



Social and Relationship Capital (Page 119)

The relationships we have nurtured with our stakeholders and communities

- 986,377** customers
- 92** correspondent relationships
- Sustainable approach to value creation



Natural Capital (Page 126)

Natural resources which are consumed in our value creation process

- Electricity consumption: **5.6 Mn Kwh**
- Fuel consumption: **109,904 Litres**
- Natural ecosystem

VALUE CREATION PROCESS

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.

STRATEGIC FOCUS AREAS (Page 54)



Business focus



Operational excellence



Customer experience



Inspired team

BUSINESS VERTICALS

BANKING CLUSTER

Retail Banking including Private Banking
(Page 84)

SME Banking and Micro Financing
(Page 87)

Corporate Banking
(Page 91)

Project and Infrastructure
Financing (Page 94)

Refinance Operations
(Page 90)

Treasury
(Page 96)

CAPITAL MARKET CLUSTER

Investment Banking
(Page 99)

Wealth Management
(Page 100)

Private Equity
(Page 103)

Property Management
(Page 103)

KEY RISK EXPOSURES (PAGE 366)

BANKING CLUSTER

Credit Risk

Gross NPA Ratio: **4.77%**

Market Risk

Mark to Market value of the debt securities LKR 293 Mn

Operational Risk/IT Risk

Gross Operational risk losses: 0.026% of total Operating profits after provisions

Regulatory Risk

No material incidents of non-compliance with laws and regulations

OPERATING LANDSCAPE (PAGE 58)

MACRO-ECONOMIC AND POLITICAL CONSIDERATIONS

DEMOGRAPHIC CHANGES

Values

Integrity, Creativity, Excellence, Sincerity, Accountability, Dependability



Digital as an enabler



Group synergies

Commercial Banking
(Page 91)

Islamic Banking
(Page 88)

Securities Trading and Investment
Advisory (Page 101)

Funding and Liquidity

- NSFR: 108.92%
- LCR: 153.26% (all currencies)



OUTPUTS/IMPACTS

Banks Loans and Advances to our diverse customers:
LKR 409 Bn

Deposits mobilised :
LKR 405 Bn

Facilitate payments and transactions

Investment in wealth management services

Investment in the training and development of employees

Investment in government securities and debentures

Capacity building initiatives targeting underprivileged segments

Strengthening digital infrastructure and optimising process efficiencies



VALUE CREATION PROCESS



Shareholders
(Page 80)

- Return on equity: **13.73%**
- Net profit: **LKR 5.1 Bn**
- Earnings per share : **LKR 21.97**
- Net Asset value per share : **LKR 178.02**



Employees
(Page 112 and 116)



- Investment in training: **LKR 50 Mn**
- Opportunities for career progression
- Diverse and inclusive work environment



Customers
(Page 104)



- LKR **409 Bn** Loans and Receivables
- Digital offerings
- Excellent customer service



Government and Regulators
(Page 73)

- Tax payments: **LKR 5.2 Bn**
- Compliance to all regulatory requirements



Communities
(Page 119)

- Investment in CSR: **LKR 25 Mn**
- 389,221 benefited from customer education programmes

Environmental impacts
(Page 126)



- Carbon footprint of **2,594 tco2e**.
- Paper recycled: **11,971 Kgs**
- Lending towards renewable energy, agriculture and other green initiatives



DISRUPTIVE TECHNOLOGY



INCREASING REGULATORY DEMANDS ON GOVERNANCE AND RISK MANAGEMENT

The strategy formulated in 2017 "Transformation 2020" continues to be the compass guiding the Bank towards its strategic aspirations. Moderating economic conditions in 2019 gave the Bank the opportunity to prioritise internal customers through pursuing efficiency improvements and instilling a culture of service quality. A bottom-up approach was adopted in envisioning the Bank's future on a horizon beyond 5 years and emerging opportunities in the industry coupled with the proposed capabilities resulting from the core banking system upgrade has positioned the Bank for transformational growth.

The Bank believes that even in a digital era, the quality of service and human touch will be a key differentiator. Accordingly, the Bank embarked on a holistic initiative to nurture a service culture, with the launch of a service credo, SOPs and comprehensive training programmes across the organisation.

Digital transformation was also identified as a key pillar of the Bank's strategic agenda. It was recognised that digital transformation cannot be limited to customer touch points but should be implemented across the internal value chains. This transformation will entail substantial employee upskilling and is seen as a tool in facilitating financial inclusion to hitherto unbanked segments of the economy while driving customer convenience. Meanwhile, data analytics will be utilised to design tailor-made products and services suited to customer lifestyles and demographics.

The Bank also recognises that relationship banking is critical in driving a holistic customer proposition and aims to reorient the Bank from a product and business vertical approach to a service approach underpinned by a relationship model.

Development has always been part of the Bank's DNA and NDB is committed to empowering and driving the socio-economic progress of women by providing women entrepreneurs access to an eco-system of financial and non-financial services.

The Group Synergy pillar of Transformation 2020 has enabled the Bank to extend its reach beyond the shores of Sri Lanka in a sustainable manner through its Project Financing & Corporate Banking franchise. Many Sri Lankan entrepreneurs are now looking beyond Sri Lanka to grow their businesses and the Bank is committed to supporting these aspirations. This is an opportunity which will underpin the bank's forage into the regional markets collaborating with group companies as well as other international counterparties.

MEASURING OUR STRATEGIC PROGRESS

BUSINESS FOCUS

Initiatives

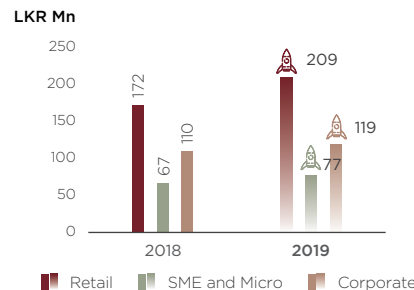
- Given the subdued market conditions and stresses in credit quality, the Bank grew the lending book in a selective manner, with more focus on Retail and the Corporate banking segment.
- Pursued overseas expansion opportunities in Project Financing
- Launched 'NDB Elevate' targeting the emerging privileged banking segment

Resources allocated

- Increased human capital resources towards strengthening collections and preserving of portfolio quality

Measuring success

Deposit Portfolio Growth



Way forward

- Given the anticipated improvement in macro economic conditions, the Bank will capitalise on selective growth opportunities across its business verticals. Ongoing focus will be placed on increasing penetration to the SME and Retail sectors.



DIGITAL AS AN ENABLER

Initiatives

- Revamp of mobile banking app and new online banking platform
- Expansion of self-service channels and branchless banking proposition
- Opening of 2 NDB NEOS branches
- Strengthened data analytics to predict customer behaviour

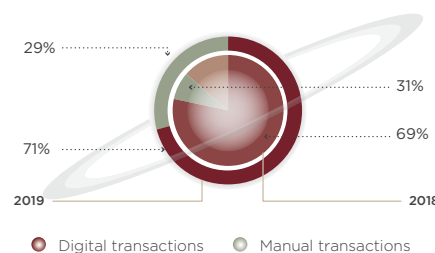
Resources allocated

- Investments in digital services
- Investment in NDB NEOS
- Deployment of off-site ATMs/Cash Recycle Machines (CRMs) at strategic locations

Measuring success

- New mobile banking subscribers : **17,242**
- Digital transactions as a % of total transactions : **71%**

Digital Transactions as a % of Total Transactions



Way forward

- Strategic investments in positioning the Bank as a fully fledged, digitally savvy bank to transform the customer experience and drive further automation.



OPERATIONAL EXCELLENCE

Initiatives

- Implemented more than 14 workflows
- Launch of a new pawning and leasing system
- Investments in Robotic Process Automation
- Integration of IT systems
- Six sigma and lean management initiatives

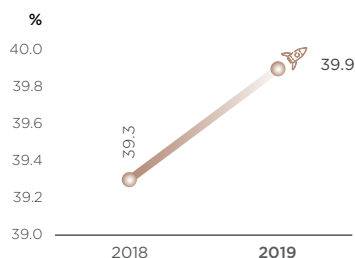
Resources allocated

- Investment in hardware and software upgrades
- Cross functional teams in ensuring project deliverables are met

Measuring success

- Reduction in time for key processes
- Cost to Income ratio of 39.9% (2018: 39.3%)

Efficiency Ratio



- Improved Front : Bank Office ratio
- Core IT Systems (Page 112)

Way forward

- Upgrade of Core banking system



CUSTOMER EXPERIENCE

Initiatives

- Launch of the SERVICE CREDO and Standard Operating Procedures (SOP) to uplift service standards
- Specialised certification for privileged banking employees
- Bank2U initiative

Resources allocated

- 150 service leads trained on new SERVICE CREDO
- Ongoing investments in strengthening digital channels

Measuring success

- 72%** Customer satisfaction score
- Customer contact points **268**

Way forward

- Data Analytics to enable tailor made products and services based on deep understanding of customer demographics and life styles



GROUP SYNERGIES

Initiatives

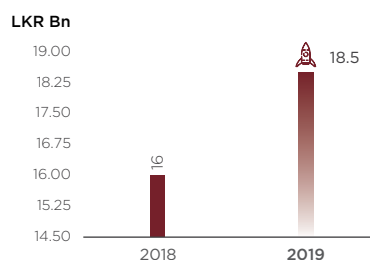
- Leveraged synergies between NDB Investment Bank and the Project Financing unit.
- Relaunch of the NDB One Account combining banking and wealth management accounts.
- Employee interactions to strengthen ONE NDB culture

Resources allocated

- Ongoing investments in aligning the Group towards the one NDB culture
- Introduction of an incentive scheme to facilitate cross selling within the Group.

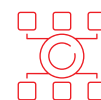
Measuring success

Intra Group Values Cross Sold



Way forward

- Leverage on group synergies to pursue client acquisition and expand presence in overseas markets.



INSPIRED PEOPLE

Initiatives

- Focus on talent development through the nine-box initiative
- Engaged employees in volunteerism initiatives
- Digitising employee interactions

Resources allocated

- Investment in training and development
- Employee volunteer hours

Measuring success

Employee Retention Rate:
93%

Way forward

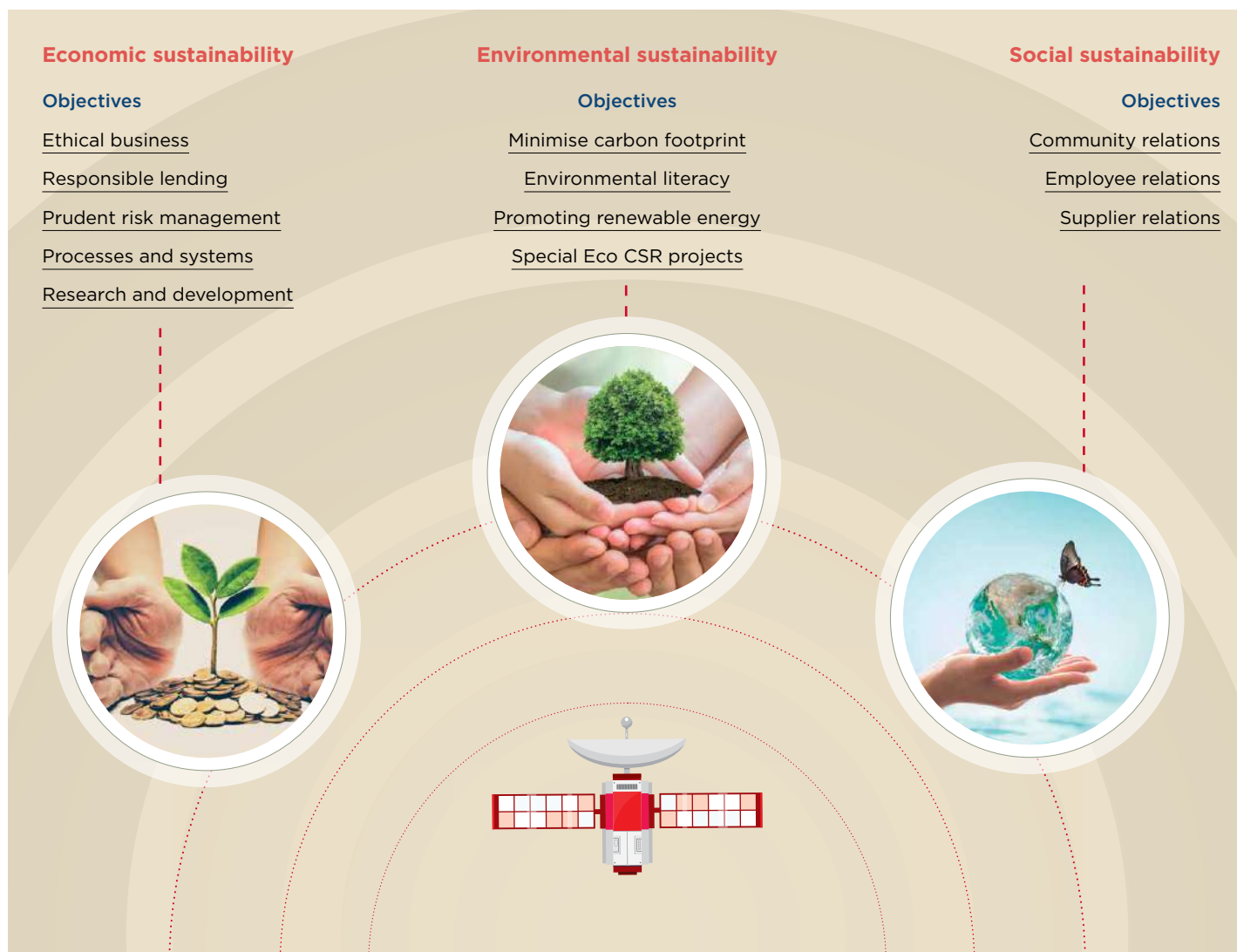
- Digital transformation will entail upskilling of staff and acquiring relevant skill sets



OUR APPROACH TO SUSTAINABILITY

NDB's sustainability agenda continues to be guided by the Bank's Sustainability Policy which provides clear guidance on the Bank's sustainability philosophy, strategy and objectives. The Policy centres on the 3 pillars of economic, social and environmental responsibility reflecting the Bank's triple bottom line approach to value creation. A dedicated Sustainability Manager is responsible for ensuring that the Policy is implemented across the organisation.

■ ■ ■



Precautionary principle: although not formally adopted, the Bank evaluates all potential environmental and social risks when appraising significant investments.

The Group's sustainability initiatives are discussed in detail in the Management Discussion and Analysis.

CONTRIBUTION 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. The Bank directly and indirectly contributes towards Sri Lanka's progress of 12 of the 17 SDGs. This year, we have sought to improve our SDG reporting by,

- Demonstrating relevance in both business line reviews and capital reports
- Disclosure of both positive and negative impacts on the SDGs
- Classification of SDGs into 3 categories based on relevance and application to the Group

	SDG	Policy/approach	Reporting indicator
Sustainable Finance		The Bank provides Micro Financing facilities aimed at empowering the country's most underprivileged communities. These facilities directly contribute towards job creation and poverty alleviation.	- Micro-Financing Loans and Receivables during the year: LKR 579 Mn - Lending outside the Western Province: 80%
		Our SME lending programmes support the establishment and expansion of small businesses, promoting inclusive and sustainable industrialisation. We are also a leading player in Project Financing and fund large-scale infrastructure projects across industries.	- Loans and Receivables to SMEs: LKR 87,786 Mn - PIF lending during the year: LKR 98,952 Mn
		As part of our "Banking on Women" initiative, the Bank conducts knowledge-sharing and capacity building sessions aimed at enhancing female entrepreneurs' business management skills.	- Sessions conducted during the year: 6 sessions - Total number of participants: 629
		The PIF division is a significant lender to the renewable energy sector, comprising solar, wind and waste to energy.	Renewable energy projects funded by PIF: 77 projects
		We provide equal opportunities for all employees and strive to create a diverse and inclusive workplace.	- Re-financing Advances: LKR 5 Bn - Roof top solar loan disbursements: LKR 101 Mn
Operations		We provide equal opportunities for all employees and strive to create a diverse and inclusive workplace.	- Female representation: 40% - Salaries and remuneration: LKR 4,800 Mn - Disabled employees in workforce: 2 employees
		The Bank's employee value proposition is centred on attractive remuneration and opportunities for skill and career development in a dynamic and safe working environment.	- Employees with permanent employment contracts: 71% - Promotions: 286 - Incident rate of occupational injuries: 4 incidents
		We offer ongoing opportunities for developing the technical and soft skills for employees while supporting lifelong learning.	- Average training hours per employee: 47.5 hours - Investment in employee training: LKR 50 Mn
		We are proud to be the first local bank to obtain the EDGE certification for Gender Equality, demonstrating our commitment to support the empowerment of women.	- Ratio of basic salary between men and women: 1 : 0.84 - Female representation in senior management: 35%
		Ongoing efforts to drive energy efficiency in our operations including use of LED lighting and hybrid vehicles.	- Decline in energy intensity: 16% - Carbon footprint: 2,594 (-1%) tCO2e
		The Bank is driving concerted efforts to reduce the consumption of energy and paper across all its operations.	Paper recycled: 11,971 Kgs
		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.	
Strategic CSR		As part of an ongoing CSR initiative, the Bank provides English language training to teachers, addressing the aspects of language improvement and teaching ability.	- No. of teachers trained: Over 550 - No. of students directly benefitted: over 100,000
		The Bank has partnered the Wildlife and Nature Protection Society in creating awareness on environmental conservation among school children across the country.	Students trained: over 2,000

GLOBAL ECONOMY

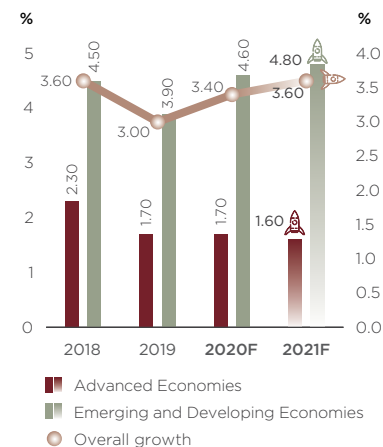
Global economic growth is estimated to have moderated to 3.0% in 2019 (2018:3.6%), reflecting trade policy uncertainties, geopolitical tensions and stress in key emerging market economies including social unrest. Meanwhile weather and climate change related risks, including bushfires in Australia, hurricanes in the Caribbean and floods in Eastern Africa have posed further threats to global economic activity.

Notwithstanding these downside risks, there appears to be some cautious signs of stabilisation driven primarily by monetary easing across most markets, favourable news on the US-China trade negotiations and expectations that manufacturing, and trade has bottomed out. Growth in Advanced economies is expected to stabilise at 1.7% in 2020 (2019: 1.7%) reflecting a slight moderation in USA given the return to a neutral fiscal stance, firming up of growth in the Euro region and relatively unchanged growth in Japan. With regards to emerging markets

and developing economies, growth is expected to pick up to 4.6% in 2020 from an estimated 3.9% in 2019. This reflects projected recovery from sharp downturns for several underperforming emerging markets, particularly in Europe where a recovery is expected in Russia and Turkey. Emerging markets in Asia- particularly China, is likely to be sharply impacted by the Coronavirus while growth in India is expected to moderate against the backdrop of a slowdown in domestic demand and stress in the non-bank financial sector.

Overall, the International Monetary Fund anticipates global growth to recover slightly to 3.7% in 2020 although downside risks are likely to persist. This includes rising geopolitical tensions, intensifying social unrest, cyclical and structural slowdowns stemming from USA's trade stance, as well as weather-related disasters and global implications of the Coronavirus.

Global Economic Growth



Source: IMF World Economic Outlook, January 2020

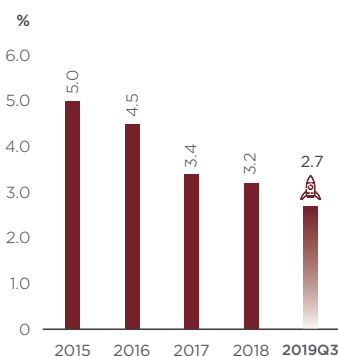
SRI LANKAN ECONOMY

Economic growth

Sri Lankan economic growth moderated in 2019, reflecting both domestic challenges and global headwinds which resulted in GDP expanding by just 2.7% in the nine months ending September 2019. Spillover effects of the Easter Sunday attacks coupled with prolonged impacts of the political crisis in November 2018 weighed down on consumer and investor sentiments, affecting all sub-sectors economy.

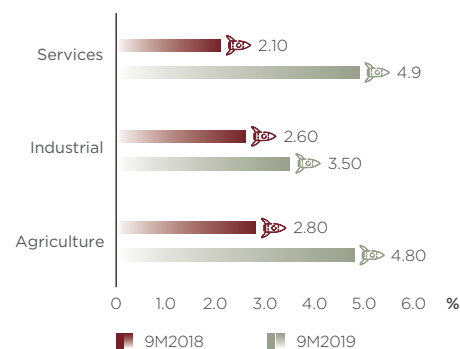
Growth in the Services sub-sector slowed to 2.8%, reflecting sharp downturns in tourism (-4.2%), wholesale and retail trade (+2.5%) and transportation (+0.6%). Financial services, however, grew by 8.3% during the 9-month period.

GDP Growth



Source: CBSL

Sectoral growth



Source: Dept. of Census and Statistics

Interest rates

An easing monetary policy stance was adopted by the Central Bank for most part of 2019 with a view to stimulating the economy. Accordingly, policy rates were reduced twice by a total of 100 bps in May and August and the SRR on all rupee deposit liabilities was reduced by a total of 2.5%.

Despite these measures, market interest rates remained high with a sharp deceleration in private sector credit growth. Subsequently, the regulator imposed deposit and lending rate caps on licensed commercial banks in April and September 2019 respectively. This led to a gradual decline in market interest rates towards the latter part of the year.

Inflation

Given muted demand conditions, inflation levels remained within expectations for most part of the year. Headline inflation accelerated to a certain extent due to fuel price revisions, increase in house rentals and prolonged effects of the sharp rupee depreciation in 2018. Y-o-Y core inflation based on CCPI and NCPI stood at 5.0% in September 2019.

The CBSL expects inflation to remain in the upper bound of the desired range of 4-6% over the short term, particularly given food price volatility. Over the medium term however, inflation is expected to stabilise in the desired levels given timely policy measures and well anchored inflation expectations.

External Sector

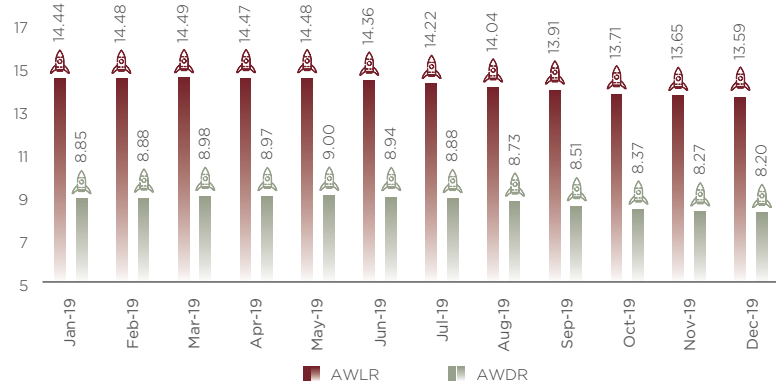
The external sector recorded moderate improvements during the year, with both the trade and current account deficits contracting in view of the decline in non-essential import items. On the other hand, the sharp reduction in tourism earnings (-21% up to October 2019) and a moderation in workers' remittances (-6%) had an adverse impact. Meanwhile the capital account was impacted by lower than expected FDI and outflows from the Government securities market.

Sri Lanka successfully issued International Sovereign Bonds amounting to USD 4.4 billion during the year. Gross official reserves amounted to USD 7.8 Bn by end-October 2019, equivalent to 4.7 months of imports.

The Sri Lankan Rupee remained relatively stable throughout the year appreciating by 1% against the US Dollar to close the year at LKR 181.25.

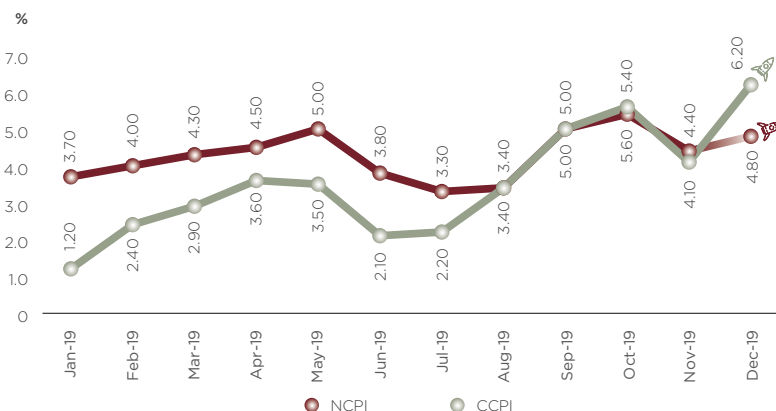
Interest rates

USD/LKR



Source: CBSL

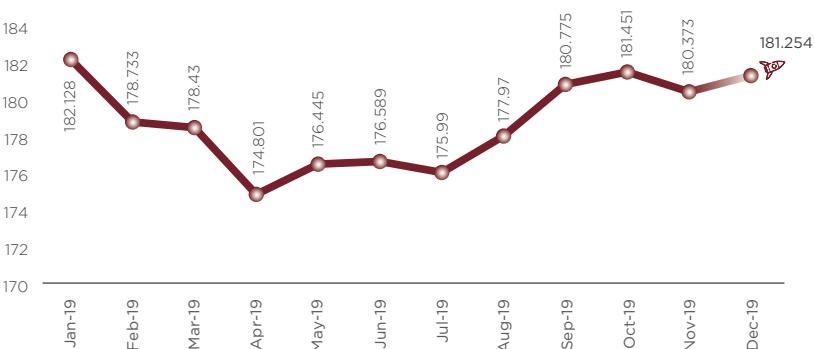
Inflation - CCPI and NCPI



Source: CBSL

Exchange rate movements

USD/LKR



Source: CBSL

	Jan-Oct (y-o-y %)
Exports	0.8%
Imports	-12.4%
Tourism earnings	-20.7%
Workers' remittances	-5.8%

Workers' remittances
-5.8%



Credit growth

The moderating economic conditions and subdued investor sentiments led to a sharp downturn in credit demand, particularly during the 1st half of the year. Measures taken to reduce the cost of funds through implementing deposit caps and subsequently caps imposed on lending rates led to a considerable reduction in interest rates towards the latter part of the year.

Supported by the monetary and fiscal stimulus introduced by the government, private sector credit growth is expected to recover to around 12-13% in 2020 (CBSL, Road Map 2020)

Private Sector Credit Growth



Source: CBSL

OUTLOOK

Tax concessions, moratoriums for SMEs and a further relaxation of fiscal and monetary policy by the new caretaker government is expected to revive economic activity over the short-to-medium term. The Government is also encouraging financial institutions to rethink its disbursement models and lend support towards strengthening start-ups and SMEs. Expectations of policy stability have led to a gradual strengthening of consumer and investor sentiments, which in turn is expected to translate to a recovery in credit demand over the short to medium term.

Despite the prevalence of some downside risks including possible fiscal slippage and pressure on the Government's debt repayment capability, the IMF projects Sri Lanka's growth to increase to 3.5% in 2020. This forecast reflects anticipated improvements in tourism and the gradual recovery of sentiments given stability in the political landscape.

BANKING SECTOR

Moderate economic conditions and subdued investor sentiments had a direct impact on the country's banking sector which experienced a challenging year in 2019. Credit growth moderated to 5.6% during the year, as several key sectors such as tourism, construction and trade recorded sharp downturns while persistent droughts impacted the country's Agriculture sector, particularly in tea-cultivating areas. Resultantly, the sector's total asset growth slowed to 6.2%, from 14.6% in the corresponding period of 2018.

Performance: The sector's Net Interest Income increased by 8.1% although an increase in overhead costs and weaker portfolio quality impacted performance with the Sector's total loan loss provision charge increasing by 48.1%. Resultantly, Profit after Tax declined by 12% while the Sector's Return on Assets (ROA) and Return on Equity (ROE) clocked in at a respective 0.9% and 10.3% (2018: 1.1% and 13.2%)

Portfolio quality: The sector witnessed a broad-based deterioration in portfolio quality, with an influx of non-performing-loans stemming primarily from the tourism, construction and agriculture sectors. Accordingly, gross NPLs increased by 45% during the period while the gross NPL ratio rose to 4.7% (from 3.4% in 2018). Provision coverage also declined during the year with total provision coverage amounting to 52.3%.

Funding: Deposits continued to dominate the funding base, accounting for 73.2% of assets by end 2019. Deposits grew by 7.9% during the period, although there was a notable shift from demand deposits to term deposits and short-term savings, given the prevalent interest rate scenario. Accordingly, the sector's CASA ratio declined during the review period. Borrowings declined by 5% during the period and funded 13.4% of the Sector's total assets during the period under review.

Capitalisation: Capitalisation remained adequate during the period, given the slowdown in credit growth and previous measures taken by the Sector to strengthen its capital base. The common equity ratio and total capital ratio amounted to a respective 13.0% and 16.5% by end 2019, comfortably above the BASEL 3 requirements.

Regulatory Developments: In directing monetary/fiscal policy and further strengthening the regulatory framework governing banks, the CBSL implemented the following regulatory measures/guidelines during the year;

- Guidelines issued on harmonising SLFRS 9 with the computation of the capital adequacy ratio and leverage ratio under BASEL III.
- Strengthened eligibility criteria for the selection of auditors.
- Broadened the framework for defining Domestic Systemically Important Banks in line with the international best practice.
- Concessions to the tourism industry in the form of a moratorium.
- Regulatory framework for market conduct and treasury operations.
- Caps on deposit interest rates from April to September 2019 and a subsequent cap on lending rates.
- Reduction of Statutory Reserve Ratio on all rupee deposit liabilities of Commercial Banks.
- Relief package for SMEs including suspension of legal action, rescheduling of loans and interest rate concessions.

OPPORTUNITIES AND RISKS

OPPORTUNITIES AND RISKS

Emerging trends in the operating landscape, particularly on the macro-economic policy and technology front are likely to have a significant impact on the Banking sector's performance over the short-to-medium term. While these trends have far reaching impacts and risks, they also offer numerous opportunities for sharpening our competitive edge and driving stakeholder value. The analysis below provides a high-level overview of these opportunities and risks (in the context of a PESTEL analysis) and how the Bank is responding to these dynamics.

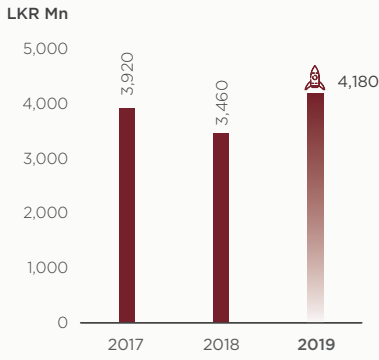
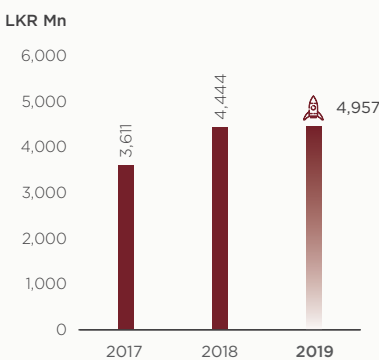
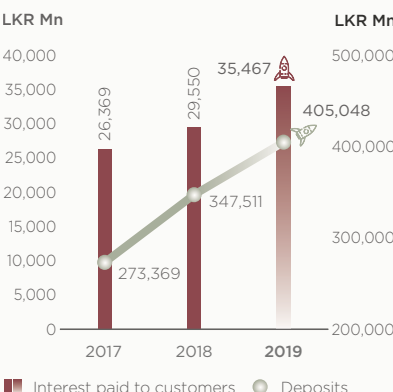
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PESTEL factor	Developments	Opportunities presented	Potential risks	Our strategic response
Political factors and policy stability	Following the Presidential Elections in the latter part of 2019 and the upcoming General Elections a degree of political and policy stability is anticipated over the medium term. This is likely to augur well for the economy in general with improved consumer and investor sentiments.	- Anticipated improvement in credit demand - Accommodative monetary and fiscal policy	Short-term impact on sentiments given upcoming Presidential Election	 Increased penetration of the Retail and SME segments while further strengthening our position in the corporate segment
Economic growth	Fiscal consolidation measures and monetary policy tightening adopted to stabilise macro-economic balances had impacted economic growth in the past few years. Tax concessions and the relatively expansionary monetary policy measures of recent times is likely to stimulate the economy in the short to medium term, although the impact on government finances remains to be seen. Facts and Figures 2.7% GDP growth up to 3Q 2019 3.7% IMF's GDP growth projection for Sri Lanka in 2020 8.3% Growth in financial services Source: Dept. of Census and Statistics	- Anticipation expansion in economic activity - Gradual recovery in credit demand and opportunities in the SME sector - Stability in economic policy direction	- Impact on Government finances arising from possible fiscal slippage - Global headwinds and impact on Sri Lanka's key export markets	 Pursue opportunities in combining investment/wealth management and banking services
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 which are unable to respond to these dynamics are likely to see an erosion of competitive position over time, as niche digital banks offer more attractive value propositions.	- Improve competitive edge by strengthening digital propositions - Design convenient, cost effective platforms for interacting with customers	- Reduced customer loyalty - Increased investments in digital infrastructure - New skills requirements	 Launched 'Service Leap' in nurturing a culture in which service levels exceed customer expectations  Strengthening the digital proposition through launch of new platforms and products

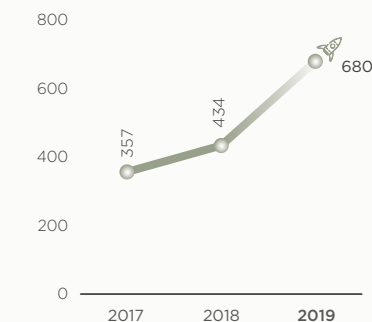
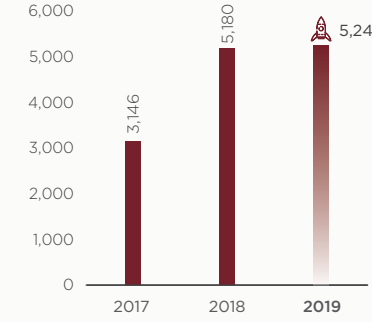
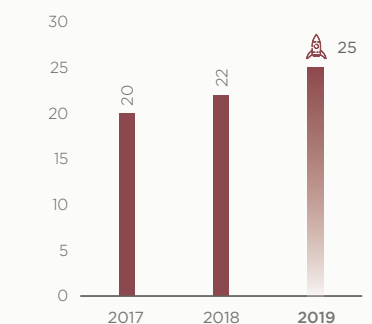
PESTEL factor	Developments	Opportunities presented	Potential risks	Our strategic response
Attracting and retaining the right talent	Increasing customer sophistication and digitisation also has a direct impact on the workforce, given changing skill requirements and leaner operations. The banking industry therefore should seek to identify skill gaps and implement comprehensive training programs to upskill employees for new roles and competencies	Developing a dynamic and multi-skilled workforce	- High cost of labour arising from increased labour turnover - Ongoing investments required in training and development	 Ongoing investment in enhancing employee competencies
Technological disruption	Unprecedented changes in technology are transforming all aspects of financial services including enhancing client experiences, driving digitisation, changing organisational structures and delivery channels. Resultantly traditional banks are facing increasing competition from new digital service providers which offer more convenient and simpler solutions. The operating landscape is also being reshaped by technologies such as AI, blockchain and digital currencies which are likely to have wide-ranging implications for financial services in future. Facts and Figures 12 Banks offering mobile payment systems 2 Licensed service providers offering mobile based e-money systems LKR 135,640 Per capita internet banking transaction value (2018) LKR 6,570 Per capita mobile banking transaction value (2018) Source: CBSL	- Automation to drive reduced complexity and operating costs - Delivering innovative client experiences - Strengthening our presence in the younger demographic	- 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
Potential deregulations	Deregulation can occur in the form of liberalisation, which allows banks to operate more independently and assume greater self-authority. However, this create more competition within the industry, particularly from fintech and digital financial service organisations.	- Increased capital mobility - Reduced risk of penalties and regulatory implications	- Increased exposure to exchange rates and global economic conditions - New competitive threats arising from non-traditional competitors	

PESTEL factor	Developments	Opportunities presented	Potential risks	Our strategic response
Environment and climate-change related risks	According to the World Economic Forum's Global Risks Report for 2019, environmental risks pose the biggest threat, with extreme weather, natural disasters and failure to address climate change ranking among the top risks both in terms of likelihood and impact. These risks can have wide ranging implications on individuals, governments and corporations and addressing them through pragmatic solutions have emerged as a global priority in driving sustainable economic, social and environmental progress. Facts and Figures 50% Increase in global emissions since 1990 186 Parties ratified the Paris Agreement 1.3 Mn Lives lost due to climate-related and geophysical disasters (1998-2017) Source: Global Risks Report 2019, World Economic Forum	- Formulating innovative financial solutions through integrating sustainability considerations into product design and strategy - Propagating our sustainability agenda to customers, suppliers and business partners	Impacts of natural disasters and its impact on key sectors such as tourism and agriculture	 Integrate social and environmental considerations to lending decisions through the ESMS framework Ongoing investments in strategic CSR activities
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 strong Balance Sheet and improve resilience of operations	- High cost of compliance and - Regulatory sanctions - Increased complexity of operations	

As an organisation with a wide socio-economic impact we appreciate the role played by our diverse stakeholders in facilitating our value creation. We are committed to nurturing meaningful and impactful relationships with them, which enable us to identify and respond to their legitimate concerns. When selecting stakeholders to engage with the Bank considers parties which could potentially have the most significant impact on its ability to create value.

	Track record of Value Creation	Stakeholder profile	
 Investors	Providers of Capital 	9,488 shareholders comprising state and private institutions and individuals - Multi-lateral funding agencies - Fund managers and stockbrokers - Rating agencies - Financial media	
 Employees	Employees Wages and Benefits 	2,936 employees 35% female representation 27% employees outside the Western Province - Average age of employees: 30 years 14% of our staff have a tenure of over 10 years	
 Customers	Value for Customers 	We cater to individuals from entry-level to high net worth individuals, SMEs, corporates, public enterprises and micro businesses	

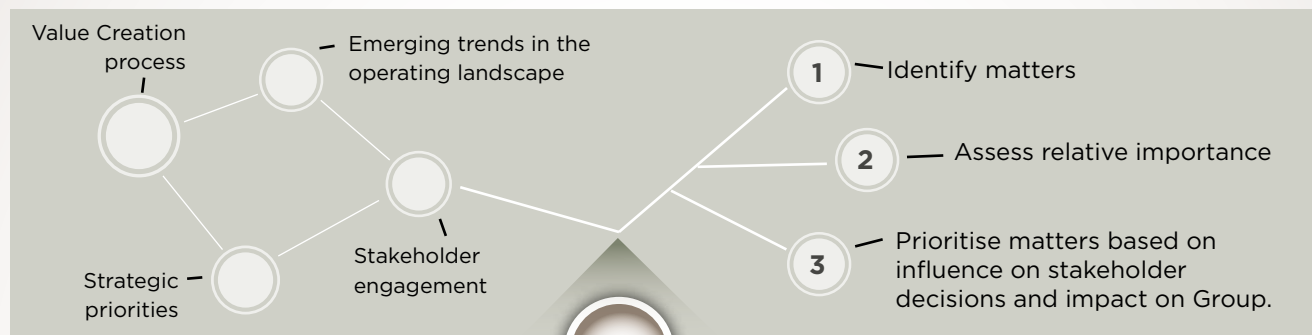
Method and frequency of engagement	Key topics and concerns raised	Our strategic response
- Annual General Meeting which is held annually in March - Quarterly investor webinars and bi-annual investor for a on publication of financial results - Investor road shows when required - Year-round meetings with investment analysts, stock brokers 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	- Sustainable returns commensurate with the risk undertaken - Group's strategic agenda - Strength of our Leadership Team - Integrity and high standards of corporate conduct and governance - Effective risk management practices - Macroeconomic environment and potential impacts on the Group	Group will continue to pursue strategic growth opportunities which would optimise risk return dynamics, thereby generating sustainable shareholder returns. We are committed to maintaining open and transparent relationships with our shareholders through the provision of accurate and timely information.  (Refer page 73 - Financial Capital and page 402 - Investor Relations for further information)
- 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) - Quarterly induction programmes - Year-round work life balance initiatives conducted by Staff Recreation and Toastmasters' club - Annual Retail Banking Awards - Ongoing employee volunteerism programmes	- Effective performance management and attractive remuneration schemes - Opportunities for talent and skill development - Career progression opportunities - Injury-free, safe working environment - Simplification of processes to drive productivity - Work-life balance - Maintain open and two-way communication	The people pillar of our strategic plan- 'Inspired Team' seeks to nurture an engaged, motivated and performance driven team through offering opportunities for training and development, enhancing internal communication and creating clear paths for career progression.  (Refer page 104 - Human Capital for further information)
- Periodic customer satisfaction surveys 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)	- Competitive and transparent pricing - Professional customer service at all contact points - Innovative solutions - Convenient access to banking and channel of choice - Responsible banking practices - Product knowledge and attitude of employees	We have placed emphasis on nurturing a culture which embodies service excellence through the launch of the SERVICE CREDO during the year.  (Refer page 119 - Social & Relationship Capital for further information)

	Track record of Value Creation	Stakeholder profile									
 Suppliers and business partners	Number of Suppliers <table><tr><th>Year</th><th>Number of Suppliers</th></tr><tr><td>2017</td><td>357</td></tr><tr><td>2018</td><td>434</td></tr><tr><td>2019</td><td>680</td></tr></table>	Year	Number of Suppliers	2017	357	2018	434	2019	680	92 correspondent banks that facilitate cross border transactions - More than 680 suppliers who provide office equipment, IT equipment and other products required to conduct operations.	
Year	Number of Suppliers										
2017	357										
2018	434										
2019	680										
 Regulators/ Government	Taxes Paid LKR Mn <table><tr><th>Year</th><th>Taxes Paid (LKR Mn)</th></tr><tr><td>2017</td><td>3,146</td></tr><tr><td>2018</td><td>5,180</td></tr><tr><td>2019</td><td>5,245</td></tr></table>	Year	Taxes Paid (LKR Mn)	2017	3,146	2018	5,180	2019	5,245	- The Central Bank of Sri Lanka is responsible for banking regulation and supervision and is our primary regulator - Other regulators/Government authorities include the Securities and Exchange Commission, Colombo Stock Exchange and the Inland Revenue Department.	
Year	Taxes Paid (LKR Mn)										
2017	3,146										
2018	5,180										
2019	5,245										
 Community	CSR Spend LKR Mn <table><tr><th>Year</th><th>CSR Spend (LKR Mn)</th></tr><tr><td>2017</td><td>20</td></tr><tr><td>2018</td><td>22</td></tr><tr><td>2019</td><td>25</td></tr></table>	Year	CSR Spend (LKR Mn)	2017	20	2018	22	2019	25	The communities in which we conduct our operations and those who benefit from our CSR initiatives	
Year	CSR Spend (LKR Mn)										
2017	20										
2018	22										
2019	25										

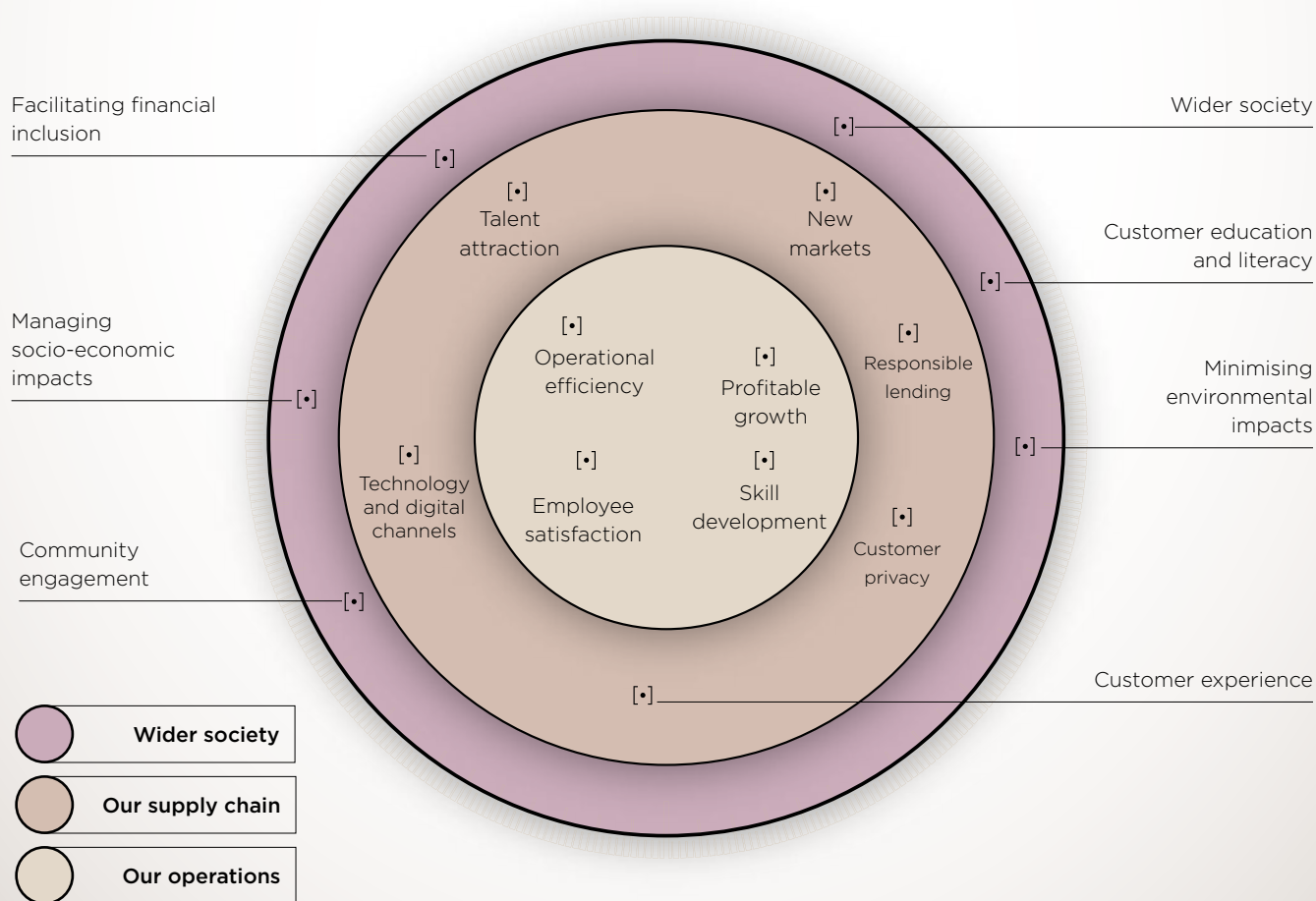
Method and frequency of engagement	Key topics and concerns raised	Our strategic response
- Periodic supplier reviews and assessments - Periodic meetings and written communication - Press releases, invitation for bids and tenders and information on the website	- Fair and transparent pricing - Ease of transacting - Continuity of relationship - For correspondent banks- secure and stable platform for transacting	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. (Refer page 119 - Social & Relationship Capital for further information)
- Ongoing regulatory reporting - On-site visits and audits when required - Consultations and meetings when required - Announcements to the CSE when required	- Compliance to all relevant regulations, directions and guidelines - Maintain regular and transparent communications - Control direct and indirect impact on stakeholders, the society and the environment.	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.
- Meetings with beneficiaries of CSR initiatives and capacity building programmes as and when required - Ongoing publications including the Bank's Sustainability reporting and other press releases - Ongoing CSR projects, press releases and engagement on social media	- To partner common social and environmental issues - Employment creation within communities - To develop products and provide guidance on achieving desired outcomes of individuals, families and businesses - Minimising adverse social and environmental impact	In line with our long-term approach towards sustainability we strive to create value for the communities we operate in through strategic CSR projects, developing products and solutions facilitating socio-economic empowerment and deliver positive environmental impacts. (Refer page 119 - Social & Relationship Capital for further information)

Our material topics represent the issues that matter most to our stakeholders and can have the most impact on the Group's ability to create value. These topics can change over time as new dynamics shape the operating landscape and stakeholder expectations and strategy evolve.

NDB determines its material topics through continually assessing the operating landscape and by evaluating stakeholder feedback against the backdrop of its strategic agenda. As graphically illustrated below, topics are identified and subsequently prioritised based on impact on stakeholder decisions and impact on the Group. There were no material changes to the topic boundaries during the year.



The material topics for 2019 are presented below, together with the relevant topic boundaries. The required GRI disclosures on materiality are presented in Appendix 1 (Page 68) of this Report.



Material topic	Changes in materiality compared to last year	Stakeholder group impacted	Relevance to our Strategy	Page reference for further information
Profitable growth		Shareholders	 	- Financial Capital (Page 73) - Strategic progress (Page 54)
Operational efficiency		- Employees - Customers		- Intellectual Capital (Page 116) - Strategic progress (Page 54)
New markets		- Customers - Business partners		Business line reviews (Page 84)
Talent attraction		Employees		Human Capital (Page 104)
Employee satisfaction		Employees		Human Capital (Page 104)
Employee skill development		Employees		Human Capital (Page 104)
Facilitating financial inclusion		- Government - Communities		Social & Relationship Capital (Page 119)
Customer education and financial literacy		- Customers - Communities		- Business line reviews (Page 84) - Social & Relationship Capital (Page 119)
Technology and digital channels		- Customers - Employees		- Manufactured Capital (Page 112) - Social & Relationship Capital (Page 119)
Responsible lending		Customers		Social & Relationship Capital (Page 119)
Customer privacy		Customers		Social & Relationship Capital (Page 119)
Managing socio-economic impacts		- Customers - Employees - Communities - Government		Social & Relationship Capital (Page 119)
Minimising environmental impacts		Communities		Natural Capital (Page 126)
Community engagement		Communities		Natural Capital (Page 126)
Community engagement		Communities		Social & Relationship Capital (Page 119)
Customer experience		Customers		Social & Relationship Capital (Page 119)



Constant in materiality compared to last year



Increase in materiality compared to last year



MISSION LOGS

2019

__Voyager 1:

Year of Launch: 1977

Planets captured: 6

Years on the move (as at 9/12/2019): 42 YRS 03 MOS 04 DAYS

Current location: Interstellar Space

__Voyager 2:

Year of Launch: 1977

Planets captured: 6

Years on the move (as at 9/12/2019): 42 YRS 03 MOS 04 DAYS

Current location: Interstellar Space

__NDB:

Year of Launch: 1979

Areas of Operation: 11

Years in operation: 40 YRS

Current location: *Beyond the known*

03 MANAGEMENT DISCUSSION & ANALYSIS

As we forge ahead into an exciting future, we keep close track of our journey and of what we have learned and achieved. Herein are detailed reports on our operations in the year under review and their impact on the various forms of capital we work with – Financial, Human, Environmental, Social, and so on.

OUR VALUE CREATION

CONNECTIVITY AND TRADE-OFFS IN CAPITALS

The capital resources are allocated to our six strategic focus areas, in line with the Group's strategic agenda. Given the limited availability and connectivity between the capitals, we are often required to make inevitable trade-offs, balancing short-and-long term objectives..

■ ■ ■

BUSINESS FOCUS

Anticipated customer growth in the retail and SME segment (increasing Social and Relationship Capital) is expected to lead to improved profitability (enhancing Financial Capital). However, increased exposure to relatively risky segments can lead to a weakening of portfolio quality in adverse economic conditions (adverse impact on Financial Capital)

CUSTOMER EXPERIENCE

In creating unique customer experiences (enhancing Social and Relationship Capital) we continue to enhance our digital infrastructure (strengthen Manufactured Capital) and build organisational tacit knowledge on customer service (increase Intellectual Capital). However, this requires an outlay of Financial Capital in the short-to-medium term.

DIGITAL AS AN ENABLER

While automation and digitisation of client services lead to better customer experiences (strengthen Social and Relationship Capital) it can result in lowering the need for human interaction (impact Human Capital) and affect the organisation's long-term build up of Intellectual Capital.

OPERATIONAL EXCELLENCE

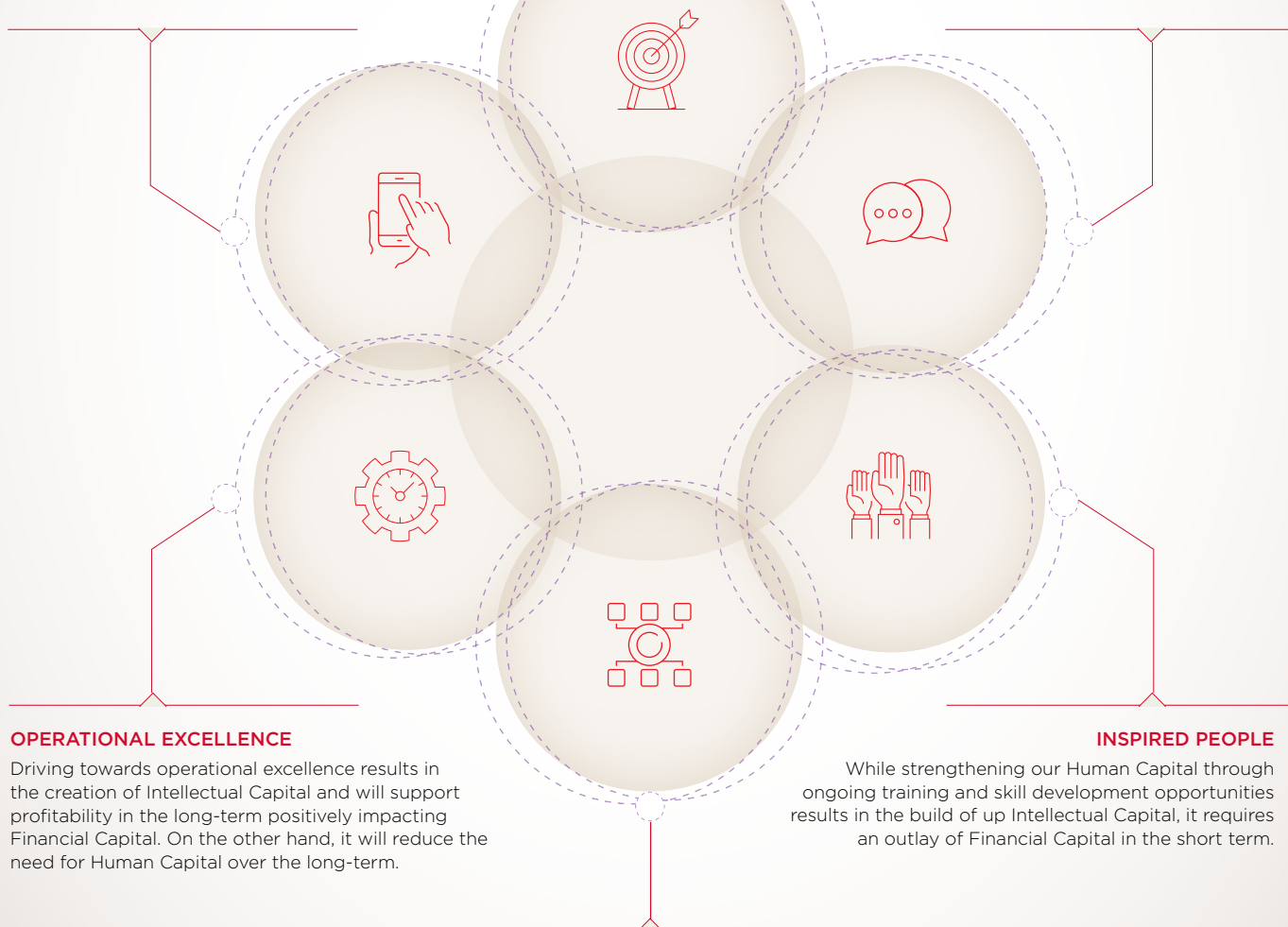
Driving towards operational excellence results in the creation of Intellectual Capital and will support profitability in the long-term positively impacting Financial Capital. On the other hand, it will reduce the need for Human Capital over the long-term.

INSPIRED PEOPLE

While strengthening our Human Capital through ongoing training and skill development opportunities results in the build of up Intellectual Capital, it requires an outlay of Financial Capital in the short term.

GROUP SYNERGIES

Integration between Banking and Capital Market clusters will lead to improved profitability in the long-term (strengthening Financial Capital) while enhancing customer relationships (strengthening Social and Relationship Capital)



FINANCIAL CAPITAL



OUR GOALS AND HOW WE PLAN TO GET THERE

DRIVE INCREASED PENETRATION IN THE RETAIL SEGMENT

through increased branch engagement and brand visibility

DRIVE CASA GROWTH

through offering innovative and convenient deposit solutions



EFFICIENT COST MANAGEMENT

through ongoing investments in digital and workflow solutions

BUILD A STRONG CAPITAL BUFFER

through retained earnings and timely capital augmentation



PROGRESS IN 2019



Profitable growth

- 6% growth in operating profit despite challenging economic conditions
- 20% growth in NII
- LKR 5.1 Bn profit for the year



Preservation of portfolio quality

- Gross NPL ratio contained at 4.77%
- Ongoing efforts to strengthen recovery and monitoring mechanisms
- Strengthened underwriting standards and setting up of remedial units



Strong balance sheet

- Crossed LKR 500 Bn in Total Assets
- 16% growth in gross loans of LKR 409 Bn
- 17% growth in deposits of LKR 405 Bn
- Raised Tier II Capital of LKR 5.6 Bn



Healthy shareholder returns

- Return on Equity of 13.73%
- 7% increase in Net Asset value per share
- Declaration of a first and final dividend of LKR 7.00 per share for 2019



WAY FORWARD

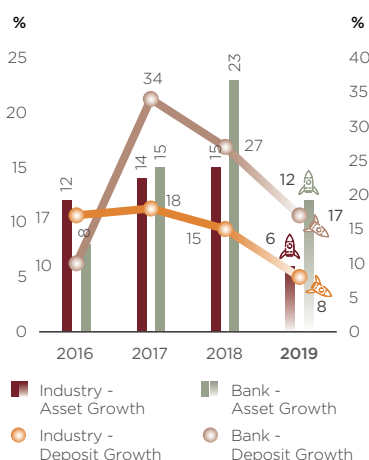
- Pursue selective growth opportunities across key business verticals, with focus on the Retail and SME segments
- Enhance funding profile through strengthening deposit mobilisation and capital augmentation plans

PERFORMANCE AGAINST COMPETITION

GROWTH

The Bank has consistently outperformed industry growth both in terms of assets and deposits. This reflects the Bank's increasing penetration, customer acquisition and brand visibility across its business verticals. NDB is now the 4th largest private sector bank in the industry in terms of assets.

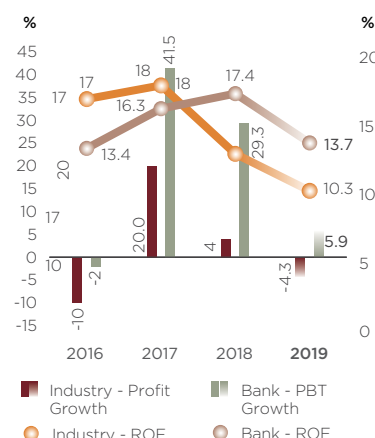
Assets and deposit growth



PERFORMANCE/PROFITABILITY

The Bank has continued to outperform the industry in profitability and profit growth, supported by increased penetration into high-yielding assets and efficient cost management. The latter is reflected in the Bank's consistently healthy cost to income ratio.

Profitability



PORTFOLIO QUALITY

Despite achieving rapid portfolio growth over the past few years, the Bank has been able to successfully preserve portfolio quality with its gross NPL ratio contained in line with industry average. This has been achieved through strong underwriting capabilities as well as ongoing investments in strengthening collection and monitoring mechanisms.

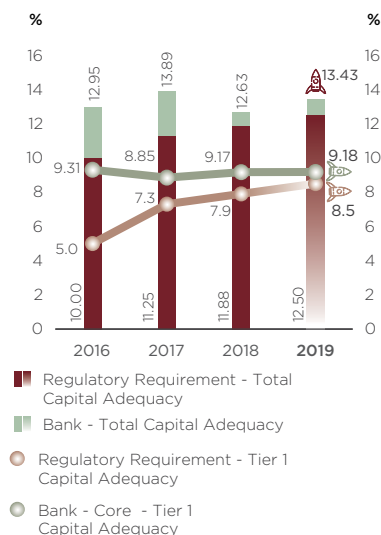
Portfolio Quality



CAPITAL ADEQUACY

The Bank has maintained adequate level of capital despite consistent portfolio growth. It continues to be above the annually revised regulatory requirements. Timely capital augmentation plans have helped boost the Bank's capital levels in recent years, and it is now aptly positioned to pursue its short to medium term growth aspirations.

Capital Adequacy



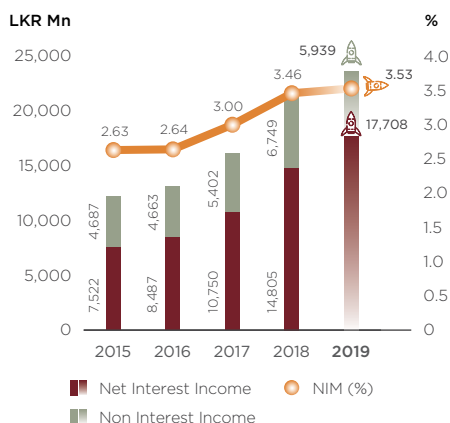
FINANCIAL PERFORMANCE

Total Operating Income

For the year ended 31 December	BANK			GROUP		
	2019	2018		2019	2018	
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Gross income	59,113,537	51,103,421	16	60,237,165	52,071,241	16
Interest income	53,174,791	44,354,296	20	53,401,614	44,621,712	20
Less: Interest expenses	35,467,033	29,549,656	20	35,430,833	29,517,983	20
Net interest income	17,707,758	14,804,640	20	17,970,781	15,103,729	19
Fee and commission income	3,909,229	3,136,329	25	4,868,944	3,947,738	23
Net gains/(losses) from trading	990,160	1,218,338	(19)	990,160	1,218,338	(19)
Net gains/(losses) from financial investments at fair value through profit or loss	23,437	(21,843)	207	79,072	107,379	(26)
Net gains/(losses) from derecognition of financial assets	695,547	398,696	74	695,547	398,695	74
Other operating income	320,373	2,017,605	(84)	201,828	1,777,379	(89)
Total operating income	23,646,504	21,553,765	10	24,806,332	22,553,258	10

Net Interest Income

NII trends



The Bank delivered an interest income growth of 20% to LKR 53.2 Bn in 2019, supported by a portfolio expansion of 16% as we continued to pursue selective growth opportunities across key segments. Interest expenses also increased by 20% reflecting continued expansion of the deposit base, including CASA deposits and the issuance of LKR 5.56 Bn debentures in March 2019. Overall Net Interest Income (NII) growth was impressive at 20% reaching LKR 17.7 Bn. At a consolidated level, the Group's NII increased by 19% to LKR 18.0 Bn during the year. Effective assets and liability management and increased penetration in the Retail and SME segments enabled the Bank to achieve a NIM of 3.53% in 2019, compared to 3.46% in 2018.

Fee and Commission Income

Fee and commission increased by 25% to LKR 3.9 Bn reflecting continued growth of non-fund based activities. The growth in fee and commission income was driven by continued volume growth in the Retail and SME sectors, guarantee income and the strong expansion in cards base whilst the Bank achieved high levels of customer migration to digital channels. Meanwhile, at Group level fee and commission income increased by 23% and includes LKR 602.1 Mn of Investment banking and wealth management income.

Net gains from the derecognition of financial assets increased by 74% to LKR 695.5 Mn, stemming primarily from debt securities. Other operating income reflected a decline of 84% compared to the previous year due to the normalisation of a translation gain on the valuation of retained profits held in foreign currency. Overall non-interest-income declined by 12% to LKR 5.9 Bn, this was offset by the strong growth in NII which resulted in the Bank's operating income increasing by 10% to LKR 23.6 Bn, a commendable achievement given the adverse operating conditions. Fund and fee-based sources contributed 75% and 25% respectively to operating income, at a Consolidated level, total operating income increased by 10% to LKR 24.8 Bn during the year.

Total Operating Income

Net gains from trading amounted to LKR 990.2 Mn during the year, mainly comprising of foreign exchange gains from spot and forward contracts.

Impairment Charges

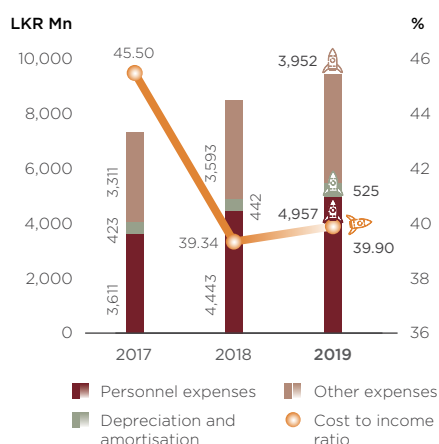
For the year ended 31 December	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and receivables to other customers				
Charges/(reversals) to the statement of profit or loss				
Impairment on individually significant loans	2,721,578	2,827,052	2,721,578	2,827,052
Impairment on collective loan portfolio	1,123,979	770,069	1,123,979	770,069
Total impairment charges for loan and receivables to other customers	3,845,557	3,597,121	3,845,557	3,597,121
Impairment on financial investments	290,284	44,582	559,919	167,737
Charges/(reversals) of impairment on investments in subsidiaries	21,940	(60,694)	-	-
Total	4,157,781	3,581,009	4,405,476	3,764,858

The impairment charges for loans and other losses for the year was LKR 4.2 Bn an increase of 16% over 2018. The increase in impairment charges was mainly due to the increase in the collective provision charge in line with the growth in the loan book. The Bank also accounted for provisions at individual levels considering elevated risks due to stressed market conditions. Other provisions under impairment charges included provisions made for permanent diminution in fair value of investments. The Bank will continue to place greater focus on collections and recovery processes to mitigate the impact of impairment charges on its profitability. During the year, the Bank also set up remedial units and strengthened its underwriting standards. At a Group level impairment charges increased to 17% mainly due to provisions made for permanent diminution in fair value for investments held by the group companies.

Cost Management

For the year ended 31 December	BANK			GROUP		
	2019	2018		2019	2018	
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Less: Operating expenses						
Personnel expenses	4,957,146	4,443,795	12	5,459,822	4,898,398	11
Depreciation and amortisation expenses	525,085	442,169	19	609,023	508,895	20
Assets under operating leases	235,934	-	100	274,300	-	100
Other expenses	3,716,314	3,592,763	3	4,065,345	3,959,287	3
Total operating expenses	9,434,479	8,478,727	11	10,408,490	9,366,580	11

Cost Management



The Bank's cost to income ratio clocked in at 39.90% attesting its ongoing efforts to drive process efficiencies, automation and employee productivity. Total operating expenses increased by 11% to LKR 9.4 Bn during the year, comprising of personnel expenses (+12%), other expenses (+3%) and depreciation and amortisation (+19%). The growth in personnel expenses is attributed to an increase in headcount to drive business growth and strengthen recoveries as well as investment in training and development. The moderate increase in other expenses is commendable given the relatively faster volume growth during the year which reflects process improvements and efficiency enhancing initiatives such as implementation of workflows, Robotic process automation, business process re-engineering and

transaction migration to digital platforms. At a consolidated level operating expenses increased by 11% to LKR 10.4 Bn driven by personnel expenses (+11%), other expenses (+3%) and depreciation and amortisation (+20%)

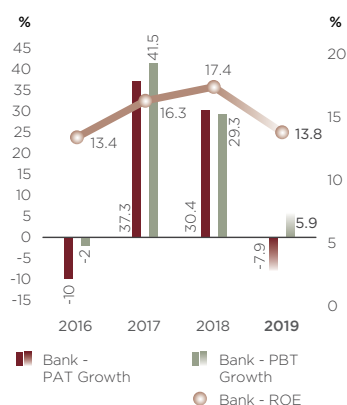
Taxation

The Bank's total tax contribution comprising of VAT on financial services, NBT, Debt Repayment Levy and income tax, increased by 25% to LKR 4.9 Bn during the year. The increase stemmed primarily from the Debt Repayment Levy which was imposed with effect from 1 October 2018. The impact for the year was LKR 1.0 Bn compared to LKR 235 Mn for 2018. Meanwhile Tax on Financial Services and Income Tax increased by 41% and 6% respectively. Tax payments amounted to 29% of the Bank's total value created.

Profitability

For the year ended 31 December	BANK			GROUP		
	2019	2018		2019	2018	
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Profit before taxation (after Tax on Financial Services)	6,982,804	7,320,508	(5)	6,902,926	7,248,299	(5)
Less: Income tax expenses	1,871,204	1,772,116	6	2,035,915	1,972,312	3
Profit for the year	5,111,600	5,548,392	(8)	4,885,011	5,275,987	(7)
Profit attributable to equity holders of the parent	5,111,600	5,548,392	(8)	4,775,932	5,136,168	(7)
Non-controlling interests	-	-	-	109,079	139,819	(22)
Profit for the year	5,111,600	5,548,392	(8)	4,885,011	5,275,987	(7)

Profitability



At operating level, the Bank achieved a profit growth of 6% to LKR 10.1 Bn during the year a commendable achievement given the operating context. However, the significant increase in tax on financial services (mainly due to the DRL) resulted in profits declining 5% to LKR 7.0 Bn at pre-tax level. Meanwhile, profit after tax for the year also recorded a decrease of 8% to LKR 5.1 Bn. The Bank's relatively healthy performance in challenging economic conditions attests to the Bank's timely strategic interventions and its agility in navigating external headwinds.

At Consolidated level, the Group's PAS declined by 7% to LKR 4.7 Bn; subdued conditions in the debt and equity markets continued to adversely affect the group companies, which recorded negative profit contributions for the year.

The Bank's Return on Equity (ROE) clocked in at 13.73% during the year, whilst Group's ROE amounted to 11.59%. Please refer to the Shareholder Returns section on page 80 of this Report for further information.

FINANCIAL POSITION AND STABILITY

Balance Sheet Growth

The Bank achieved a major milestone during the year, with the total asset base crossing the LKR 500.0 Bn mark to end the year at LKR 529.6 Bn. Total assets grew by 12% during the year, driven by gross loan growth of 16% while at consolidated level, the Group's asset base amounted to LKR 535.6 Bn (+12%). Given the subdued economic conditions, the Bank pursued selective growth opportunities across its business segments. The Bank continued its strategy of driving targeted expansion across its branch network, resulting in the Retail portfolio expanding by 27% during the year. Conscious efforts to curtail lending to the SME and Corporate Banking segments in view of the industry-wide escalation in impairments, resulted in these portfolios expanding at a moderate 10% and 14% respectively. (Please refer business line reviews on page 84 for further information)

Continued deposit growth, coupled with the issuance of debentures during the year led to an inflow of funds to support loan growth. The Bank's investment portfolio comprises of investments held primarily for liquidity purposes. Accordingly, investment and debt securities (assets measured at fair value and amortised cost) increased by 21% to LKR 95.4 Bn during the year. The Bank's asset composition tilted more towards credit assets less impairment allowances, which accounted for 75% of total assets compared to 73% with the prior year.

Asset growth



Asset Quality

The Bank's credit quality experienced stresses in line with broader industry trends, although proactive efforts to strengthen collection and monitoring mechanisms enabled the Bank to curtail the deterioration to a certain extent. The gross NPL ratio was 4.77% (2018: 2.85%), in line with industry average levels.

Capital and Funding

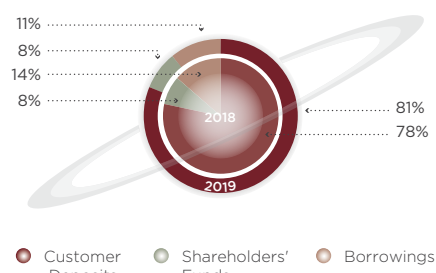
For the year ended 31 December	BANK			GROUP		
	2019	2018		2019	2018	
	LKR Mn	LKR Mn	%	LKR Mn	LKR Mn	%
Total assets	529,594	472,912	12	535,600	478,497	12
Loans and receivables to other customers - Gross	409,221	353,369	16	409,244	353,443	16
Investments	95,436	78,925	21	99,404	82,714	20
Customer deposits	405,048	347,511	17	404,667	347,169	17
Debt securities issued and other borrowed funds	72,229	75,294	(4)	72,229	75,282	(4)
Shareholders' Funds	39,484	34,998	13	43,383	39,012	11

The Bank continued to explore avenues to strengthen its funding profile; customer deposits increased by 17% to LKR 405 Bn, a reflection of our improved brand visibility in the Retail segment. The expansion of the Bank's CRM network and Bank2U proposition allowed the Bank to increase its CASA base by 6% (or LKR 4.9 Bn) during the year. Deposits accounted for 83% of total liabilities and the Bank's Loans (Advances) to deposit ratio was at 101% reflective of the Bank's diverse funding base. Meanwhile, the Bank also issued LKR 5.56 Bn of BASEL III compliant subordinated, redeemable debentures during the year, further strengthening its funding profile. Resultantly, the Bank's total liabilities grew by 12% to LKR 490 Bn during the year.

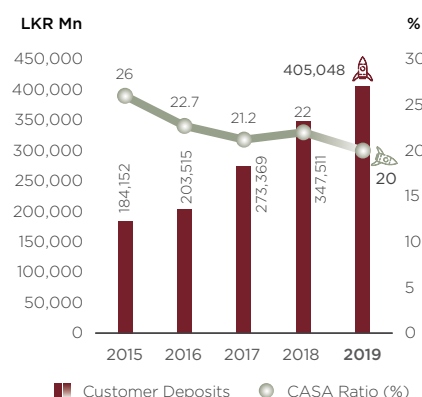
As at 31 December	BANK		GROUP	
	2019	2018	2019	2018
Regulatory Capital (LKR '000)				
Common Equity Tier 1 Capital	34,909,032	31,564,510	39,563,816	36,604,271
Tier 1 Capital	34,909,032	31,564,510	39,563,816	36,604,271
Total Capital	51,090,130	43,458,448	55,320,388	47,992,241
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7% (2018 - 6.375%))	9.18	9.17	10.15	10.39
Tier 1 Capital Ratio (Minimum Requirement - 8.5% (2018 - 7.875%))	9.18	9.17	10.15	10.39
Total Capital Ratio (Minimum Requirement - 12.5% (2018 - 11.875%))	13.43	12.63	14.20	13.62

The Bank's total equity base increased by 13% to LKR 39.5 Bn during the year, supported by profit retention and a scrip dividend of LKR 1.2 Bn. Following the debenture issue during the year, the total capital ratio improved to 13.43% at Bank level [minimum requirement - 12.50%] and 14.20% at Group level. The equity/asset ratio amounted to 7.5% while capital funds to liabilities (including contingent liabilities), amounted to 5%. With the Central Bank of Sri Lanka widening the definition criteria for domestic systemically important banks (D-SIB), NDB has not been categorised as a D-SIB. Accordingly the minimum capital adequacy requirement will remain at current levels.

Funding profile



Deposit Growth and CASA Ratio



Liquidity

The Bank's liquidity position continued to be managed well above the regulatory requirements, providing a comfortable liquidity buffer. Statutory liquid assets were maintained well above the minimum regulatory ratio, while the stock of high-quality liquid assets were well above the minimum regulatory requirement of 100% (Please refer pages 136 and 366 of Risk Management). The Bank's liquidity ratios are given below;

For the year ended 31 December	BANK	
	2019	2018
Regulatory Liquidity		
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	20.93	20.87
Off-Shore Banking Unit (%)	24.78	24.48
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 100% (2018 - 90%))	162.42	168.74
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 100% (2018 - 90%))	153.26	215.99
Net Stable Funding Ratio (%) - (Minimum Requirement - 100%)	108.92	114.25

FINANCIAL VALUE ADDED (EVA)

As at 31 December	2019 LKR Mn	2018 LKR Mn	2017 LKR Mn	2016 LKR Mn	2015 LKR Mn	2014 LKR Mn
Invested Equity						
Total equity (refer Note)	39,484	34,998	28,738	24,745	22,701	22,238
Add: Allowance for impairment charges for loans and receivables and other losses	13,075	9,373	4,892	6,134	5,517	5,121
Total	52,559	44,371	33,630	30,879	28,218	27,359
Earnings						
Profit after tax and dividend on preference shares	5,112	5,548	4,352	3,170	3,511	3,418
Add: Impairment for loans and receivables and other losses	4,158	3,581	1,259	1,367	712	566
Less: Loan losses written off	-	-	(246)	14	(34)	(64)
Total	9,270	9,129	5,365	4,551	4,189	3,920
Cost of equity (based on 12 months weighted average T-bill rate plus 2% for risk premium)	10.45%	13.20%	12.07%	11.94%	8.63%	10.24%
Cost of average equity	4,360	4,967	3,893	3,528	2,398	2,630
Economic value added	4,910	4,162	1,471	1,023	1,791	1,291

Performance of Group Companies

The Bank has six subsidiaries engaged in capital market activities such as Stock Broking, Wealth Management, Investment Banking, Property Management 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.

Please refer page 98 for further information.

INVESTOR RELATIONS

The Bank is committed to creating sustained value to the providers of long-term equity capital, who are our key stakeholder group and partners in the Bank's journey of growth. We always strive to maintain open and transparent engagement with our shareholders, ensuring that they are fully aware of any material development which could potentially affect the Group's value and its ability to create value. The Bank is frequently recognised for excellence in investor relations and has received the Gold Award for Best Investor Relations at the CFA Sri Lanka Capital Market Awards for the fourth consecutive year.

The Bank conducts a year-round calendar of engagements with investors and the analyst community to ensure that a continuous dialogue is maintained. These include (but are not limited to) the AGM, one-to-one investor meetings, investor presentations, webinars and road shows among others.

The subsequent section provides a high-level overview of shareholder value creation during the year including returns, movements in the shareholding structure and share price movements among others.



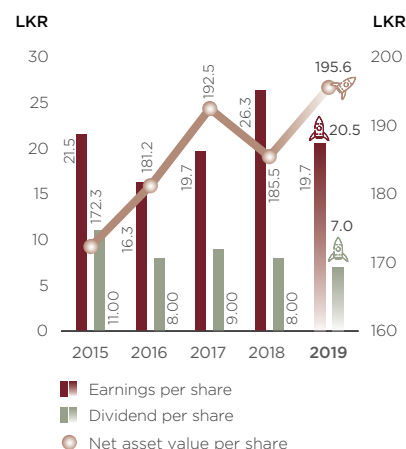
What shareholders want to know

Strategy Execution	Page 54
Management Capability	Page 40
Managing Risks	Page 366
Shareholder Returns	Page 402
Outlook	Page 183

Shareholder Returns

Shareholder returns as measured by Earnings Per Share declined during the year, mainly in view of the adverse operating environment that prevailed for most part of 2019 which led to a reduction in Profit After Tax. Accordingly, EPS amounted to LKR 20.53 during the year, compared to LKR 26.33 the previous year. Net Asset Value per share however, continued to grow clocking in at LKR 195.60 by end December 2019, an increase of 5% compared to 2018. Dividend Per Share amounted to LKR 7.00 during the year. Overall shareholder return, measured as the change in share price and dividends received during the year amounted to 1.12% during the year, mainly due to the decline in the share price as discussed below.

Shareholder Returns



SECURITIES IN ISSUE

Ordinary shares

Security type	Quoted ordinary shares
Listed exchange	Colombo Stock Exchange (CSE) - Main Board
Featured stock indices	All Share Price Index (ASPI) S&P (SL) 20 Index (Adjusted) Bank, Finance & Insurance Index (BFI)
CSE stock symbol	NDB.N0000
ISIN	LK0207N0007
Bloomberg newswire code	NDB SL
Reuters newswire code	NDB.CM

Please refer page 402 for more detailed information on the Bank's Investor Relations.

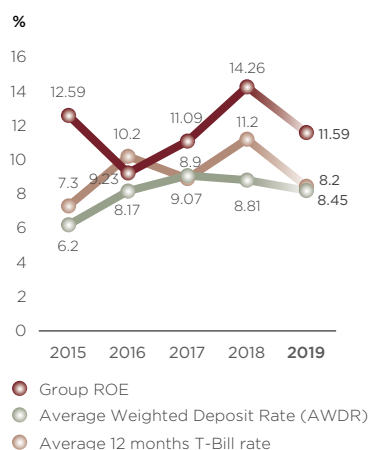
Debentures

- Listed Rated unsecured subordinated redeemable debentures - March 2019
- Listed Rated unsecured subordinated redeemable debentures - June 2015
- Listed Rated unsecured subordinated redeemable debentures - December 2013

Return on equity

The Group's ROE of 11.59% continued to outperform the industry average as well as the AWDR and 1-year treasury bill rate by a considerable margin. The ROE recorded a marginal decline in comparison to the previous year, reflecting the moderation in profitability.

Return on Equity



Share price movement

The share price declined by 1.3% (adjusted for corporate action such as scrip dividends), compared to a significant decline of 17.3% recorded in 2018. The decline primarily reflects the subdued market conditions which prevailed for most part of the year, although sentiments improved towards the latter part of 2019 leading up to the Presidential elections. The NDB share outperformed the S&P-SL20 (loss of 6.2%) while being in line with the BFI sector index which also recorded a loss of 1.3%.

During the year the counter recorded its highest traded price of LKR 113.1 in March and lowest traded price of LKR 85.8 in October.

0.71% of total market turnover

- No. of shares traded: **11,742**
- Turnover: **LKR 1.21 Bn**
- Average daily turnover: **LKR 5 Mn**
- % of total market turnover: **0.71%**

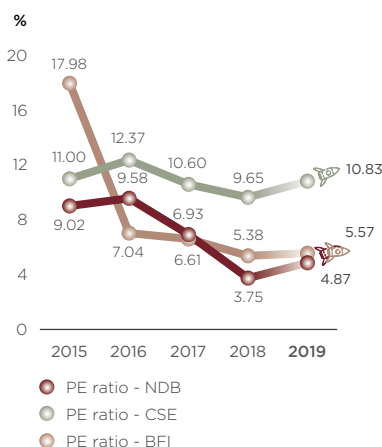
Price Earnings ratio

Following the decline in share price, the Group is attractively valued at a PE ratio of 4.87 times, relatively lower than both the CSE, the Banking, Finance and Insurance sectors.

Price to Book value

Price to Book value declined further to 0.51 times from 0.58 times, the year before following the drop in the share price during the year coupled with the increase in book value. The share remains attractively priced with the PBV being below 1 for the 4th consecutive year.

PE Ratio



Please refer page 407 for more information on the Group's share performance.

Market capitalisation

Market capitalisation declined marginally by 1% to LKR 22.2 Bn, reflecting the drop in the share price.

2.93% of BFI sector capitalisation and 0.78% of CSE market capitalisation

Shareholders' funds

The Group continued to strengthen its equity base with shareholders' funds increasing by 11% to LKR 43.38 Bn by end-December 2019. A scrip dividend during the year also added 11,482,639 shares to stated capital.

Shareholding structure

The shareholding structure remained relatively unchanged over the previous year, with Resident shareholders representing 98.48% of the total shareholders. Meanwhile, individual shareholders continued to account for the bulk of the Group's shareholders with a share of 94.40%. The top 20 shareholders also remained largely unchanged and accounted for 72% of total shareholding.

As a financial intermediary and responsible corporate citizen, we consistently strive to embed principles of economic, social and environmental sustainability to our business operations and processes. The Group's lending, investment and capital market solutions lead to numerous direct and indirect benefits to the broader economy and society. A brief overview of this contribution is given below and is addressed in detail in other areas of this Report.

TAX CONTRIBUTION

The Group contributes to the government's tax revenue through VAT on financial services, NBT, Debt Repayment Levy (in 2019) and income tax. In 2019, the Group contributed LKR 5.3 Bn in taxes to the Government during the year. Total tax contribution amounted to 29% of its total value created during the year.

SUPPORTING ENTREPRENEURSHIP

In recent years the Bank has sought to leverage on its expertise in development banking to drive increased penetration in the country's SME sector. Widely recognised as the engine of economic growth, expansion of the SME sector accrues a host of socio-economic benefits. The Bank has expanded its lending to areas outside the Western province, indirectly supporting regional development and provides support to all industry sectors.

LKR 88 Bn portfolio in SME lending

3 SME workshops conducted during the year

FACILITATING FINANCIAL INCLUSION

Through its access to concessionary funding lines granted by the Government and multi-lateral funding agencies, the Bank channels funds to the country's most undeserved and vulnerable communities including women, farmers and entrepreneurs. Meanwhile, the Bank directly contributes to the empowerment and socio-economic progress of thousands of impoverished families through its micro-financing activities.

FACILITATING CAPITAL MARKET VIBRANCY

The Group's capital market subsidiary, NDB Investment Bank, is the undisputed leader in its market space with an established track record for innovative solutions and unparalleled technical knowledge. Through several innovative M&A structures and through its role as an arranger for debt issues and other transactions the Company continues to support capital market vibrancy and depth.

LENDING TO RENEWABLE ENERGY PROJECTS

Lending to the renewable energy sector is a strategic priority for the Bank and through its Project and Infrastructure Financing arm, NDB has funded numerous hydro wind and solar power projects. In Jaffna the Bank recently funded two 10 MW wind power projects and is the only bank to support all wind power projects in the North and East.

Refinance lending:

570 concessionary loans granted surpassing **LKR 3.4 Bn** in advances



15% growth in micro finance lending



EMPOWERING WOMEN

Supporting the socio-economic empowerment of women is a priority for the Bank, both from a commercial and sustainability angle. Through its unique Banking-on-Women initiative, NDB aims to provide a holistic value proposition for women, with the aim of partnering them through different stages of their lives. In addition, women empowerment is driven through the following:

- The Bank conducted 6 knowledge sharing and capacity building sessions during the year with a total participant base of nearly 630 women
- Supporting women entrepreneurs through dedicated refinancing funding lines
- Promoting gender equality and nurturing a conducive work environment for women within the Bank

Funded Renewable Energy projects with a combined capacity of **over 240 MW**

ECONOMIC VALUE ADDITION AND DISTRIBUTION

As at 31 December	2019 LKR Mn	2018 LKR Mn	2017 LKR Mn	2016 LKR Mn	2015 LKR Mn	2014 LKR Mn
Direct Economic Value Generated	18,353	16,725	13,903	11,516	10,893	10,398
Economic Value Distributed						
Employees wages and benefits	4,957	4,444	3,611	3,435	3,204	2,873
Payments to providers of capital	4,180	3,460	3,920	2,909	3,655	3,356
Payments to Government	5,245	5,180	3,146	2,081	2,537	2,266
Community Investments	25	22	20	27	8	13
Economic Value Retained	3,945	3,619	3,206	3,065	1,488	1,890

OUR PERFORMANCE

RETAIL BANKING (PAGE 84)

20% of Group Loans
52% of Group Deposits
24% of Operating Income

SME BANKING (PAGE 87)

22% of Group Loans
19% of Group Deposits
19% of Operating Income

CORPORATE BANKING (PAGE 91)

58% of Group Loans
30% of Group Deposits
34% of Operating Income

PORTFOLIO COMPOSITION

TREASURY (PAGE 96)

18% Total Assets
13% Total Borrowings
20% of Operating Income

CAPITAL MARKETS (PAGE 98)

Improved performance in Investment Banking and Wealth Management, despite subdued capital market environment

PROPERTY MANAGEMENT (PAGE 103)

Investment property valuation of **LKR 2.3 Bn**
Houses reputed and Global Agencies

RETAIL BANKING

The Bank's competitive edge in Retail Banking reflects its diverse product portfolio, excellent customer service and strength of the sales force, enabling it to capture market share in this intensely competitive space. In line with its long-term strategy, the Bank continues to drive deeper penetration in the Retail segment with the Unit contributing 20% to Loans and Receivables of the Group and 52% to Group Deposits in 2019.

STRATEGY

As challenging operating conditions led to a slowdown in credit demand, the Bank placed strategic focus on preserving portfolio quality, strengthening internal processes and enhancing customer value propositions with a view to long-term value creation. A key achievement was the launch of the service credo - "We Go Beyond", a holistic program aimed at transforming service standards and ensuring an unmatched, consistent customer experience across all channels. This program encompassed extensive training to over 600 employees across the organisation and launch of Standard Operating Procedures (SOPs) for customer service.

We continued to invest in strengthening our IT infrastructure to enhance robustness and drive internal efficiencies. The Bank implemented new leasing and pawning systems which has resulted in significant improvements in turnaround times as well as increased reliability and better information for decision making. We also placed continued focus on streamlining and automating processes, through the adoption of robotic process automation and business process re-engineering.



Delivering superior customer value through Bank2U



Preserving portfolio quality was a key priority during the year, and we further strengthened underwriting criteria, collection and monitoring mechanisms. This enabled the Bank to contain the deterioration in portfolio quality to a certain extent, despite challenging economic conditions.

Geographical expansion continued at a modest pace, with the Bank adding 4 conventional branches and 10 leasing centres to its network. Digital platforms are expected to be a key driver of the Bank's growth aspirations, and during the year we also added 26 CRMs, ATMs and 2 phygital branches to our network. The expansion of the CRM network and Bank2U has been a key factor in driving deposit growth, tapping the hitherto unbanked segments of the economy, particularly day-income earners. While contributing to our CASA base, this initiative has also helped inculcate savings habits and financial discipline in these communities.

We also strengthened our credit card proposition during the year, offering exciting promotions and conducting numerous customer engagement programs and advertising campaigns. Resultantly, we successfully gained market share in this intensely competitive segment, with cards in issue increasing by 156% compared to the previous year. The product portfolio was further enhanced during the year with the addition of specialised housing loan and gold loan offerings. In line with the Group Synergy pillar of the Bank's strategy, we also relaunched the NDB One Account - combining banking and wealth management solutions.

The "Banking on Women" initiative also continued with vigour, with the Bank conducting several knowledge sharing forums to address practical issues faced by women entrepreneurs, salaried women and housewives.



Operating environment

- Moderating economic conditions post-April attacks ↓
- Interest rate ceiling imposed on Assets and Deposits ↓
- Slowdown in credit demand ↓



Strategy

- New workflows and system implementations
- Opening of 2 NDB NEOS phygital branches
- Launch of Service Credo
- Pursue cross sell opportunities
Launch of One NDB Account



Performance

- **+27%** Growth in Loans and Receivables
- **+15%** Growth in Operating Income
- **+22%** Growth in Deposits



Risks and Challenges

- Preserving portfolio quality in challenging conditions
- Impact of interest rate ceilings on Unit's NIMs



Outlook

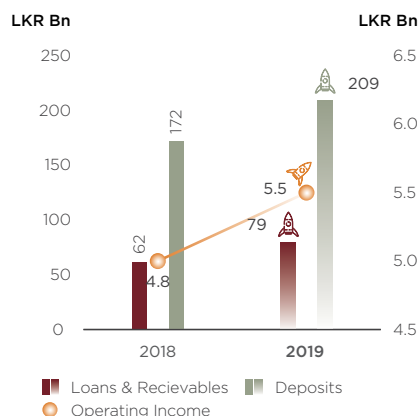
- Anticipated improvement in macro-economic conditions and resultant recovery in credit demand
- Leveraging on group synergies to pursue cross sell opportunities
- Further investments in digital solutions
- Capitalise on the Banking on Women initiative

PERFORMANCE REVIEW

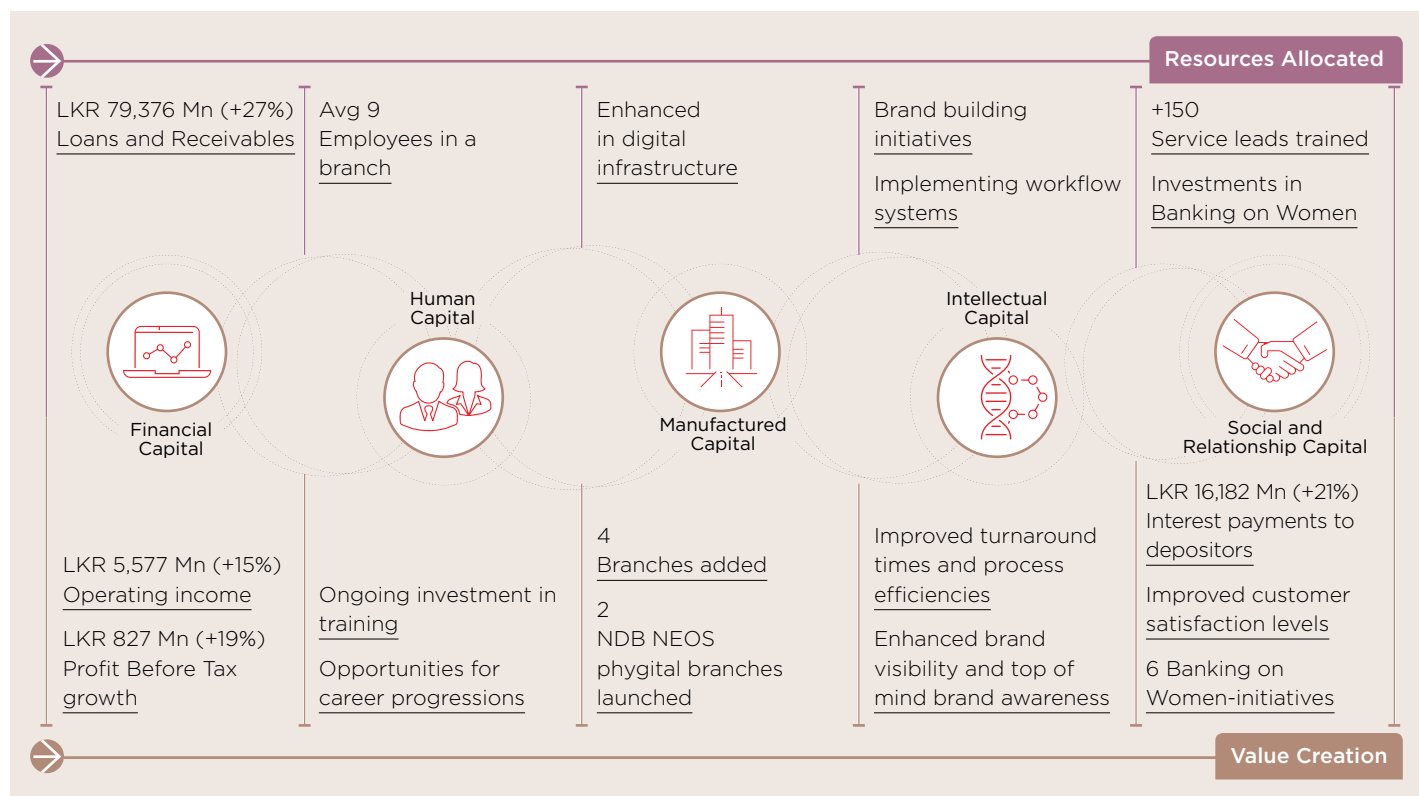
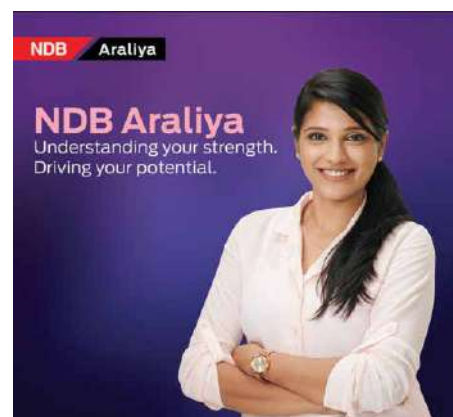
The Unit posted a resilient performance during the year, with growth, credit quality and profitability indicators outperforming industry average. Loans and Receivables increased by 27% supported by healthy growth in personal loans, housing loans, credit cards and leasing, as we further strengthened our sales team and pursued customer acquisition and cross-sell opportunities. Despite the challenging economic conditions, the Unit achieved its highest monthly disbursements for both DML and housing loans during the year. The Unit's operating income increased by 15% to LKR 5,577 Mn during the year under review.

Deposit growth amounted to 22% during the year and was driven by proactive customer engagement, targeted marketing and attractive incentive schemes for branch employees. The above average growth in deposits also reflects the Bank's improving deposit franchise, and brand visibility while increased granularity of the deposit base is testament to our strengthening retail penetration. The CASA base was maintained in line with last year, with the Retail Unit contributing a significant portion of the Bank's CASA base.

Retail Banking Performance



Preserving credit quality was an industry-wide challenge during the year, with most banks experiencing a broad-based influx of NPLs and rising impairment charges. Against this backdrop, NDB's Retail Unit performed relatively well, with a gross NPL ratio of 3.5% (compared to 2.5% in 2018), one of the lowest in the industry. Meanwhile, ongoing investments in process efficiencies and digital capabilities allowed the Unit to record a slight improvement in its Cost to Income ratio during the year.



PRIVILEGE BANKING

NDB maintained its unparalleled market position in the private banking segment, accounting for the largest customer base and deposit portfolio in the industry. NDB Privilege's competitive edge stems from its exceptional service culture and wide array of innovative and personalised solutions.

STRATEGY AND PERFORMANCE

Privileged Banking (PRV) performed well during the year, achieving deposit growth of over 23% supported by new customer acquisition, an effective segmentation strategy and continued geographical expansion. The regional expansion strategy which was rolled out last year continued to 2019, with the launch of 2 new centres in Kurunegala and Jaffna this will bring the total PRV network to 12 by end-December 2019. The Bank also expanded its offshore presence entering Switzerland and Singapore, while sustaining its strong position in key markets such as UK, Australia, USA and Canada.

PRV further refined its segmentation strategy with the launch of 'Elevate' – an exclusive tier targeting emerging high net worth individuals. Dedicated Elevate relationship managers have been appointed to each branch to drive engagement and penetration in this segment. With the launch of 'Elevate', PRV now caters to 3 distinct customer segments (illustrated alongside) offering tailor-made solutions and unique propositions.



NDB PRV Relationship Managers receiving certification for Personal Banking



Launch ceremony of 'NDB Elevate'

The quality of service offered by NDB PRV is a key differentiator and each customer is served by a primary and back-up relationship manager, this ensures continuity and consistency of service at all times. Ongoing training opportunities ensure that employees are equipped with the required set of skills to deliver the level of service expected. During the year, selected number of employees received the Certification for Personal Banking. Our service proposition was further enhanced during the year following client profiling for all customers which has enabled us to nurture more meaningful and personalised relationships.

The segment's product portfolio includes banking services as well as a wide array of capital market products. The decline in market interest rates during the year compelled us to formulate personalised wealth management plans corresponding to each customers' cash outflows. PRV continued to maintain a high level of customer engagement through unique engagement initiatives, including the Customer Service Week, networking sessions and dining experiences.

OUTLOOK

The expansionary fiscal and monetary policy stance adopted by the new government is expected to result in a gradual improvement in credit demand over the medium-term, while policy stability and targeted stimulus packages are expected to drive increased investments. We remain cautiously optimistic on the growth opportunities presented by these operating conditions and will seek to capitalise on the foundation put in place in 2019 by leveraging on our enhanced customer service and digital capabilities and new system implementations to drive further penetration.



Services offered

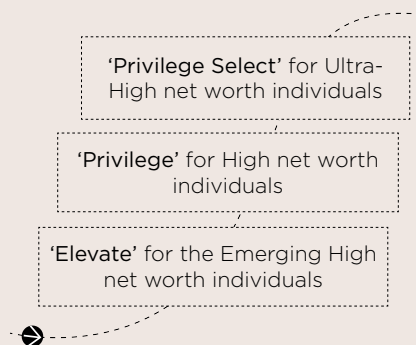
- Portfolio management
- Wealth management solutions, capital market products and equity management
- Offshore banking
- Estate management and assistance
- Mortgage backed facilities
- Share backed facilities
- Deposit backed facilities
- Housing loans
- Leasing
- Islamic banking
- Privilege family banking



Value proposition



Market segmentation



SME BANKING

NDB's inherent capabilities and core competencies in development banking have enabled it to record consistent growth in this sector, while maintaining portfolio quality and nurturing mutually-beneficial customer relationships. Out of the total Loans and Deposits of the Group this segment accounted for 22% of Loans and Receivables and 19% of Deposits during the year.

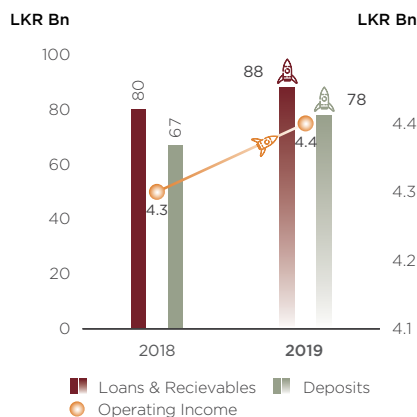
STRATEGY

As economic conditions deteriorated sharply following the April Attacks, the Unit placed strategic importance on preserving portfolio quality. Accordingly, the Remedial Unit was strengthened during the year and we worked proactively with customers to restructure/reschedule facilities and offer flexible payment plans. Our team's strong analytical skills and core competencies in project finance have facilitated good clinical origination, allowing us to curtail the deterioration in portfolio quality.

The Bank took the opportunity to strengthen its internal processes and drive increased digitisation when the market sentiments were not in favourable terms for Business. Several workflow solutions were introduced during the year including a loan origination system for middle market credit approvals, management of current account based excesses, temporary overdrafts and security documentation. While increasing accuracy and significantly reducing the turnaround time of on boarding facilities, these process improvements have freed up employee time to engage more proactively with customers to provide better solutions and enhance the customer experience. Attesting to this, an

Our SME unit comprise with several sub units managed by experienced individuals in creating many value additions to the SMEs of the country. The subunits comprise of Islamic Banking Unit, Re-Finance Unit and Micro Finance Unit.

SME Banking Performance



independent survey recently revealed that NDB was the most receptive and flexible bank in offering solutions and supporting customers post April attacks.

The Unit continues to offer a holistic customer value proposition that extends beyond traditional banking. Accordingly, 3 SME forums were conducted across the island, mainly targeting the export sector, with the objective of enhancing business management skills of existing and prospective customers. The Bank also engages in sustainable lending practices including green financing and lending to underprivileged communities.



Contribution of our SME Unit to the development of the nation



Operating environment

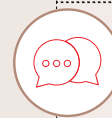
- Sharp decline in the tourism and retail sectors following the April attacks
- Geopolitical tensions in Sri Lanka's traditional commodity export markets
- Cautious approach adopted by investors in view of Presidential Elections



Strategy



Selective approach to lending
Strengthening collection and monitoring mechanisms



3 SME forums for proactive customer engagement



Soft skill development



Performance

- +10% Growth in Loans and Receivables
- +15% Growth in Deposits
- +4% Increase in Operating Income



Risks and Challenges

- Preserving portfolio quality in challenging conditions
- Moderation in credit demand



Outlook

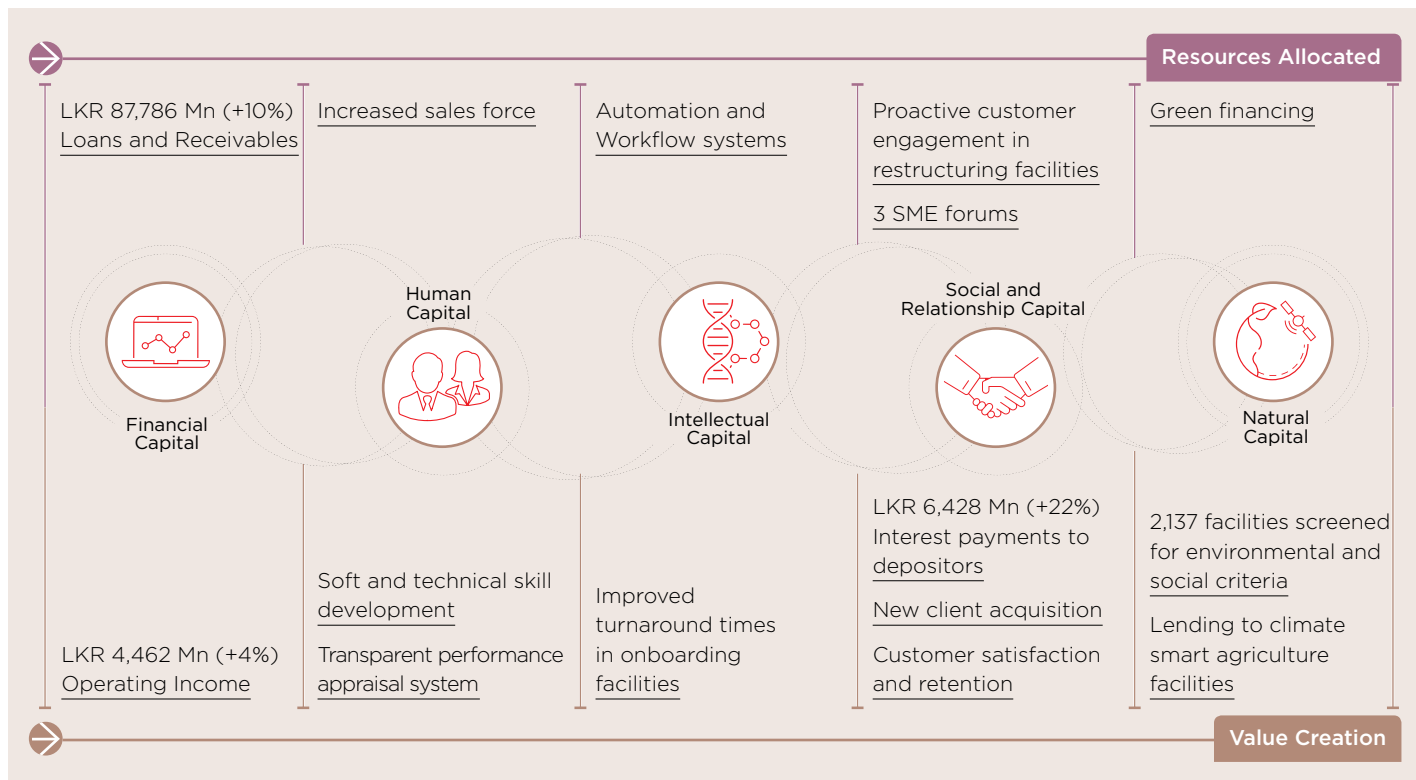
- Anticipated improvement in macro-economic conditions and resultant recovery in credit demand
- Growth opportunities in the sphere of supplier financing
- Leverage on process efficiencies put in place in 2019

SME BANKING

PERFORMANCE REVIEW

The Unit achieved moderate growth in loans and receivables as well as deposits, although profitability was pressured by narrowing margins and an increase in impairments. Loans and receivables grew by 10%, although moderating in comparison to the growth of 23% last year as we adopted a more selective approach to lending. Operating income increased by 4% during the period supported by portfolio growth.

Deposit growth of 15% outpaced the expansion in the lending portfolio, attesting to the Bank's improving deposit franchise. During the year, the Unit also launched 3 new current account products with special features targeting export businesses. Despite an inevitable deterioration in portfolio quality given the prevalent unfavourable circumstances, proactive efforts taken by the Unit to strengthen its collections and monitoring mechanisms enabled the Bank to curtail the influx of NPLs to a certain extent.



ISLAMIC BANKING

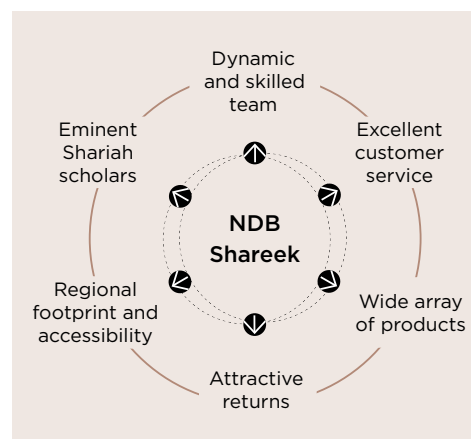
NDB's Islamic Banking proposition, Shareek, was launched in 2014 and has since then gained market share and established itself as a leading player. The Unit is led by a team of skilled and experienced Islamic banking professionals and supported by eminent Shariah scholars who provide Shariah guidance.

Strategy and Performance

The Islamic Banking Unit (IBU) delivered a strong performance during the year, with Revenue and Profit after Tax increasing by a respective 49% and 13% in 2019. Deposits grew by 36% during the year, attesting to the Unit's strengthening deposit franchise and increased penetration across business units. The returns offered to both Mudarabah and Wakala deposit holders

are amongst the highest in the industry and has enabled the acquisition and retention of customers. Portfolio quality trends remained manageable in line with broader industry trends.

The Unit will continue to pursue growth opportunities both locally and internationally while supporting the Bank's extensive network of SME, middle market enterprises, larger local/foreign corporates, Privilege Banking Select and project financing clients. We also partnered the Banking on Women initiative and extended our proposition to Araliya customers. Enhancing our brand visibility remains high on the agenda and we will strive to create more visibility of the Shareek brand through marketing campaigns and promotions.



MICRO FINANCING

NDB ventured into micro finance in 2010 and its presence in this sector has enabled the Bank to enhance its visibility at grassroot level while fulfilling its commercial and social objectives.

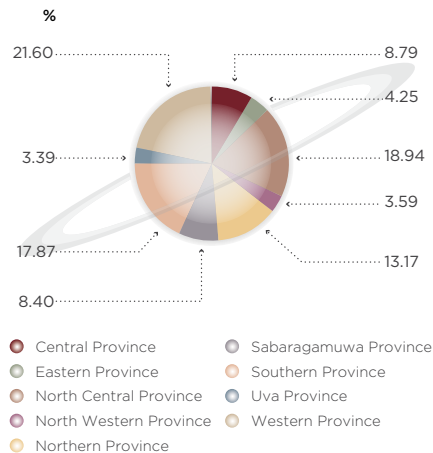
Strategy and Performance

2019 was an extremely challenging year for the sector as it was directly impacted by economic vulnerabilities, subdued market conditions and persistent over indebtedness in certain market segments. In responding to these dynamics, the Unit adopted a more selective approach towards disbursements. Increased focus was placed on managing portfolio quality through strengthening collections and recovery mechanisms. The Unit also conducted several remedial camps with customers, offering facilities restructuring and flexible repayment options.

The Bank's micro financing portfolio grew by 15% during the year, as it pursued opportunities across value chains in selected industries. The Unit increased lending through low interest rate refinance schemes such as Saubhagya, Swashakthi and SMILE directing funding to the cinnamon sector and tea sector in Southern and Sabaragamuwa Provinces, vegetable cultivation in Nuwara Eliya, fisheries in the Northern region. We also trimmed exposure to the group lending scheme and sought to drive synergies within the Bank by pursuing financial inclusivity opportunities among employees of our corporate customers. The Unit also launched 2 Diviaruna loan schemes for garment factory workers and tea small holders.

In line with the Bank's overall strategy of driving process efficiencies, the Unit also streamlined its approval process resulting in significantly faster turnaround times. In line with the Bank's women empowerment agenda, we continued to support existing and prospective customers through capacity building programmes, offering advisory on entrepreneurship, business management and life skills.

Province wise Composition of the Micro Finance Loan Portfolio



Our support and guidance in further strengthening the entrepreneurs of the country

SUPPORTING EMERGING ENTREPRENEURS

Rosmery Matilda is a mother of two and has always been passionate about home gardening, cultivating a range of vegetables, fruits and flowers in her garden. She joined the Green Lanka Society in Gampaha District, a community-based floriculture society five years ago, receiving training on starting and maintaining a plant nursery.

When Rosmery's husband was suddenly ill in 2012, she ventured into the plant nursery business with an initial investment of around LKR 6,000. She gradually expanded her business, retailing plants at flower exhibitions and even hiring a part-time female assistant.

In addition, growing her business Rosmery sought the support of NDB, obtaining a facility of LKR 800,000 from the bank in early 2019 and a further LKR 800,000 loan and LKR 200,000 grant from the bank under the ADB-funded SME Line of Credit and the Women Entrepreneurs Finance Initiative (We-Fi) grant. The proceeds were used to construct



Supporting emerging entrepreneurs

a net house and purchase flower plants and pots. With demand for her products increasing she has doubled her sales revenue and empowered 6 other women by sharing her knowledge.

SME BANKING

REFINANCE OPERATIONS

NDB's Refinancing Unit has an established track record in partnering the Government and non-governmental multi-lateral funding agencies in channelling funds towards selected economic sectors which have been earmarked for growth. Through this operation, NDB has directly supported economic activity in key sectors through loans at concessionary rates, grants and financial advisory among others.

Strategy and Performance

The Unit recorded strong growth in 2019, surpassing LKR 3.4 Bn in advances, as the prevalent high-interest rate scenario resulted in the increased attractiveness of concessionary funding lines. This directly contributed towards the expansion of the Bank's micro, SME middle market and other Business lines during the year.

The Bank's widespread geographical reach and deep industry insights has enabled it to structure tailor-made solutions for its SME clientele, offering funding at concessionary terms together with investment advice. As a result, NDB Refinance has been accredited by GOSL and other donor agencies as one of the top performers among the Participating Financial Institutions for several loan schemes such as SMELoC, SMILE 111 Revolving and E Friends 11 Revolving fund & IFC Agriculture based loans.

The Unit continued to strengthen ties with the Government and non-governmental donor agencies and credit line sponsors. Accordingly, during the year NDB operated actively in several loan schemes sponsored/routed through governmental and other donor agencies such as Central Bank of Sri Lanka, Ministry of Industry and Commerce, Ministry of Finance, Planning and Mass Media and the IFC.

The Bank entered into a loan agreement with The International Finance Corporation as the Implementing entity for the Canada Climate Change programme. This loan scheme's main target is to help build a climate smart portfolio. The Bank being able to meet the said criteria and target, has been selected as one of the recipients to benefit the IFC Agri Climate Smart Rebate and is also selected as a recipient to be featured in the report which will be presented to the donors of the facility.

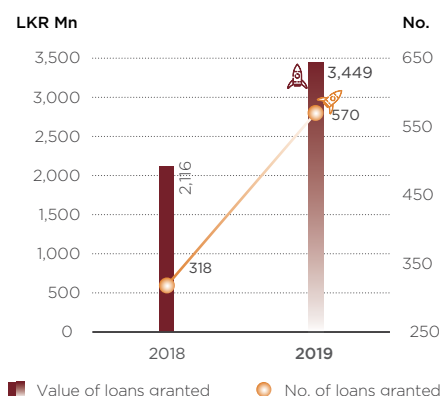


Green Atom company Pvt Ltd., Solar project which funded under ADB rooftop solar loan scheme.

570
concessionary loans granted

Assisted Gender Gap assessment initiative of ADB

Refinance



The Bank's role as a PFI enables it to propagate sustainable practices among its clientele while fulfilling its financial, social and environmental objectives. 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.

Outlook

We anticipate a gradual revival of the economy, particularly after the 2nd quarter of 2020 as the country's political conditions stabilise following the upcoming General Elections. The anticipated policy stability and stimulus packages are expected to renew business confidence over the medium-term and we are well positioned to capitalise on these growth opportunities. We will continue to adopt a selective approach towards lending with a view to preserving portfolio quality while leveraging on the systems put in place in 2019 to drive enhanced customer service and internal efficiencies. We will seek growth opportunities across supply chains in selected industry sectors, while continuing to focus on process efficiency.



Successful conclusion of discussions between NDB and members of ADB Technical Evaluation Team on a New Line of ADB Credit

CORPORATE BANKING

The Corporate Banking Unit comprising of Commercial Banking, Project and Infrastructure financing and Cash management in total contributed for 58% of the Group Loans and Receivables and 30% of Group Deposits of the Bank.

COMMERCIAL BANKING

NDB's Commercial Banking proposition is centred on unmatched customer service, a culture of strong relationship management and deep industry insights which has enabled it to sustain its competitive edge in this highly competitive segment.

STRATEGY

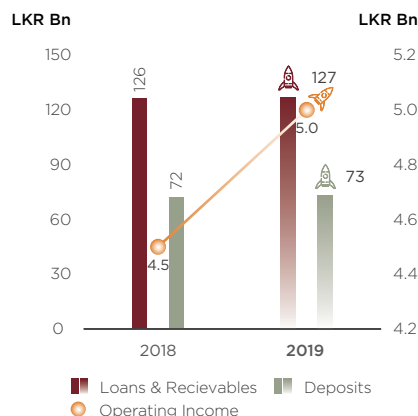
As external pressures intensified, the Unit adopted a strategy of consolidation, engaging proactively with customers to strengthen relationships and curtail the rise in impairments. Consistent monitoring of early warning signals and timely remedial action ensured that portfolio quality was preserved to a certain degree. A dedicated Customer Rehabilitation Unit was also established during the year with the aim of supporting customers through liquidity stresses by offering practical solutions and flexible payment plans. Meanwhile, strategic emphasis was placed on strengthening internal controls and streamlining operations, resulting in better management of the portfolio.

In consolidating and rationalising the Unit's loan portfolio, non-bank financial institution (NBFI) clients were brought under the Project and Infrastructure Financing Unit. This has facilitated more focused and effective monitoring of the portfolio while freeing up resources to pursue business development in other sectors with growth potential.

The liquidity crunch in the construction sector and the resultant stresses faced by several large construction companies led to a sharp influx of NPLs across the banking industry. NDB sought to manage this high-risk sector through adopting a project-based approach, maintaining close engagement with customers and proactively monitoring projects on a case-by-case basis.

The Bank's Corporate Banking segment included financing arms namely Commercial Banking and Project and Infrastructure Financing.

Commercial Banking - Performance



New customer acquisition was on an extremely selective basis and the Unit achieved moderate portfolio growth through deepening relationships with existing customers and pursuing cross-sell opportunities across the Group.

PERFORMANCE REVIEW

The Commercial Banking Unit delivered a moderate performance during the year, with loans and receivables growing only by 1%. The fee income to NII ratio was maintained at 30.4% despite pressure on margins. The Unit's Cost-to-Income ratio amounted to 22% and reflects ongoing efforts to drive internal efficiencies and cost rationalisation.

Impairments increased during the year, mirroring broader industry trends although effective management of customer relationships and proactive portfolio monitoring allowed the Unit to record a gross NPL ratio of 3.7% (2018: 1.6%), relatively lower than the industry average.

The Unit's deposit base increased during the year while the CASA ratio was maintained at 36.5% (2018: 33%) above the overall Bank level. This is a commendable achievement given the prevalent economic conditions and attests to the strength of our relationship management.



Operating environment

- Sharp weakening of the tourism and retail sectors following the April attacks
- Liquidity crunch in the construction sector
- Pressure on margins stemming from mandatory rate reductions
- Implementation of SLFRS 9



Strategy

- Pursuing deeper relationships with existing customers Selective approach to lending
- Process automation
- Establishing a Customer Rehabilitation Unit
- Ongoing opportunities for training and development



Performance

- +14% Growth in Loans & Receivables
- +23% Increase in Operating Income
- +7% Growth in Deposits



Risks and Challenges

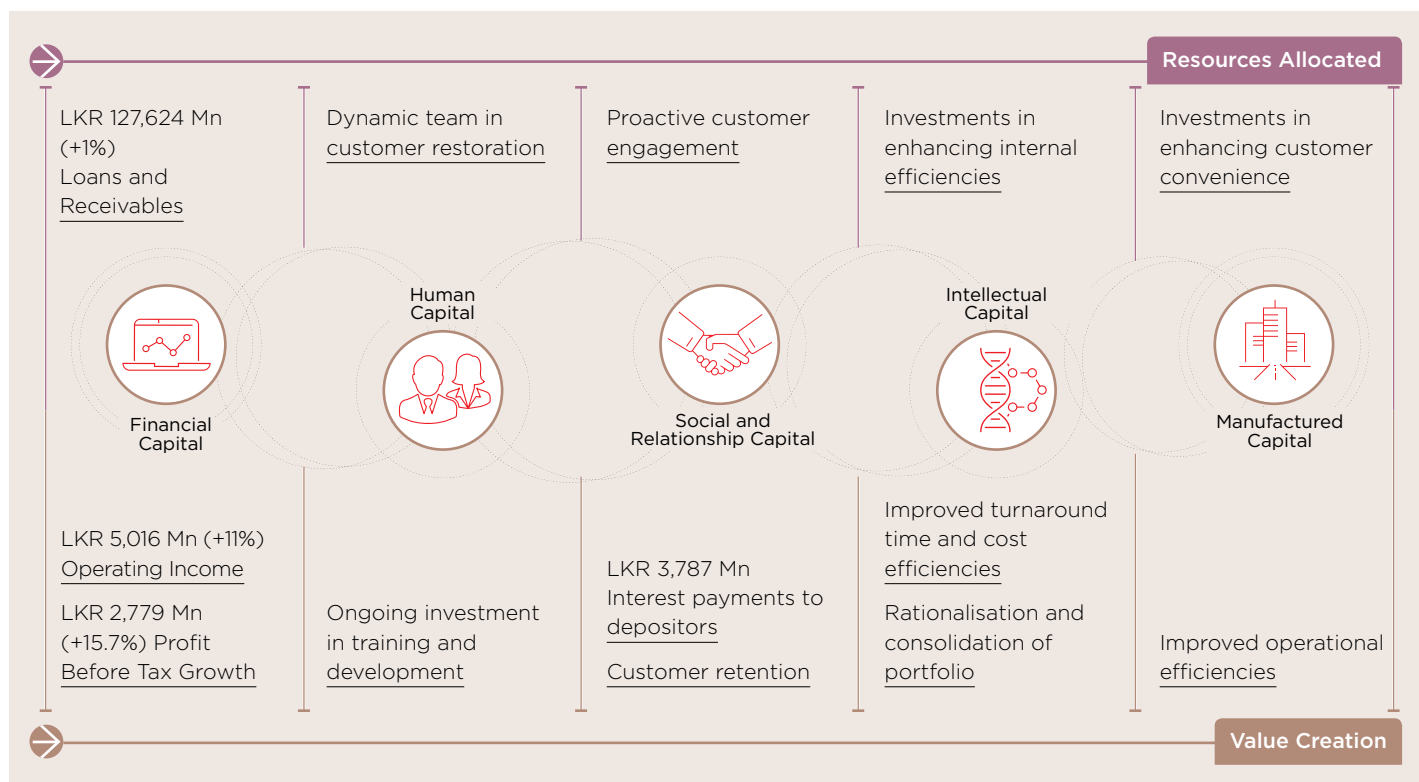
- Rising impairments, particularly from the construction, tourism and retail sectors
- Moderation in credit demand



Outlook

- Anticipated improvement in macro-economic conditions and resultant recovery in credit demand
- Automation of repetitive and routine processes
- Emphasis on preserving portfolio quality

COMMERCIAL BANKING



Commercial Banking Division is a financing partner for many large-scale manufacturing plants of the country including the most prestigious Damro Group

OUTLOOK

While economic and political stability will be a key determinant of industry growth in 2020, we are optimistic that the expansionary monetary and fiscal policy stance adopted by the new Government will present opportunities for credit expansion, particularly over the medium term. Over the short-term, however, conditions are likely to remain subdued with persistent pressure on portfolio quality, earnings and profitability, in addition to the obligations in fulfilling Basel III and IFRS 9 requirements. Emphasis for 2020 would be on automation of routine activities to reduce operating costs, improve profitability and preserve portfolio quality. With digital transformation a priority in NDB's agenda, challenges could also arise in realigning the existing skill sets of the talent pool by upskilling and recruiting the right talent of Relationship Managers for long-term retention and progression.

CASH MANAGEMENT UNIT (CMU)

The CMU operates within the Corporate Banking division, serving the transactional banking requirements of the Corporate and Business Banking customers. Its services include Transaction Banking through its online portal, managing financial and institutional relationships, corporate liabilities, a Chinese Desk which caters to the Chinese Business community, supply chain and distributor financing and collection and payments of capital market transactions. The Unit's unique capabilities were once again recognised at the Asian Banking Finance Awards 2019, where it received the Best Domestic Cash Management Bank of the year for the third time.

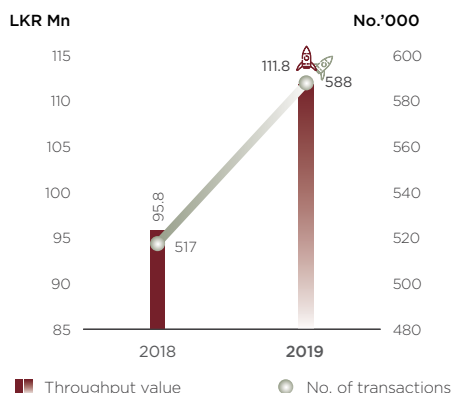
STRATEGY AND PERFORMANCE

Despite the challenging external conditions CMU delivered a health growth in performance, with Profit Before Tax increasing by 11.4% in 2019. The volume and value of transactions routed through the corporate online banking ("eWindow") increased by a respective 14% and 17%, recording a throughput value of LKR 112 Bn and transaction volumes of 588,055 as at end-December 2019. Client onboarding for online transactions continued to grow while EPF and ETF onboarding recorded modest growth during the year.

The performance of the Chinese Desk was below expectations, with a negative growth in both revenue and client acquisition. Following the April attacks, Chinese investors shifted from local banks to international banks while expected investment inflows were delayed.

Meanwhile, the Distributor Financing (DF) portfolio performed commendably during the year, recording growth of 70% and 69% in the customer base and transaction volume respectively. Growth was supported by client acquisition and stronger relationships with existing clients. The Unit provides a range of working capital financing solutions which include Receivable Financing and Distributor and Supplier Financing to leading corporate clients.

Cash Management Performance



Despite the volatility in the stock market, CMU successfully completed the collection and settlement of 2 debenture issues (NDB debenture for LKR 5.5 Bn and Hayleys PLC - LKR 3 Bn) and managed 3 mandatory offers thereby supporting fee income growth.

Deposit growth was pressured by the adverse economic conditions and ceiling on deposit interest rates imposed in the 2nd quarter of the year. However, the subsequent relaxation of the interest rate ceiling led to a growth in the deposit base by the 4th quarter of 2019. The Unit continued to penetrate the Corporate and Business Banking sectors to grow its base and increase the float and fee income generated. Meanwhile host-to-host integration and web-service platforms supported the growth in collections and payments.

OUTLOOK

The CMU will place continued focus on expanding its transaction banking business and deposit base. We see strong potential for growth in the DF business and will seek new customer acquisitions in existing and new industry sectors, thereby positioning ourselves as the preferred partner for cash management and supplier financing solutions.

COMMERCIAL BANKING

PROJECT AND INFRASTRUCTURE FINANCING (PIF)

NDB's PIF Unit has an established track record of over 3 decades and has built a strong reputation for offering a unique value proposition which includes advice on project management and legal aspects in addition to providing access to long-term financing.

STRATEGY

The Unit pursued strategic diversification of its portfolio in 2019, expanding its presence in growth sectors such as power, energy, financial services and mixed development. While facilitating profitable Balance Sheet growth, the Unit's disbursements of over LKR 13.75 Bn to financial services sector (including many NBFIs) indirectly contributed towards fuelling economic activity across other industries and consumer markets.

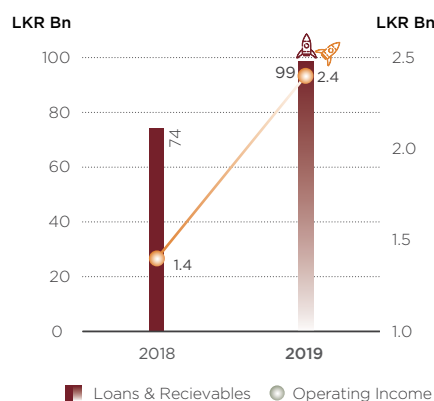
NDB PIF also sought overseas lending opportunities during the year and engaged in an international debt syndication to a sustainably driven plantation company in Indonesia. The Unit also acted as the lead bank for the syndication of a hydro power project in Uganda, marking its first exposure to offshore Islamic banking.

In line with NDB's thrust towards supporting the renewable energy sector, the Unit continues to provide funding for mini hydro, solar and wind power projects. In addition to meeting our commercial objectives, these projects have positive environmental impacts through driving reductions in the carbon footprint by avoidance of harmful emissions of gases such as Carbon Dioxide (CO₂), Sulphur Dioxide (SO₂) and Nitrogen Oxide (NO_x). The Unit has so far funded renewable energy projects with a collective generation capacity of over 240 MW, which is estimated to have saved approximately 296,740 tonnes of fossil fuels, equivalent to approximately 600,000 tonnes of CO₂ per annum. A comprehensive environmental and social screening framework (ESMS) is also in place to ensure that projects do not entail significant environmental/social risks.

The PIF Unit is a frequent recipient of awards and accolades, attesting to its unparalleled skills in project financing. In 2019, the Unit won 6 awards, of which 5

were international awards including the "Domestic Project Finance Bank of the Year" by the Asian Banking and Finance Magazine (for fifth consecutive time) and the "Best Innovation in Sustainable Financial Products and Services" at the Karlsruhe Sustainable Finance Awards 2019 held in Germany. The latter recognised the Unit's achievements in embedding sustainability considerations in lending that advance the transformation to low carbon and sustainable economy.

PIF-Performance



PERFORMANCE REVIEW

The Unit delivered yet another year of strong financial performance, recording portfolio and profit growth while maintaining margins and portfolio quality. The loan book grew by 33% during the year supported by the Unit's diversification strategy while liabilities were also a focused area, achieving 110% growth. Fee and other income growth of 71% also supported top line expansion. Proactive management of operational costs also enabled the Unit to record a further decline in its Cost-to-Income ratio.

Despite the significant increase in impairment charges stemming from the challenging market conditions, the Unit continues to maintain healthy portfolio quality attesting to the strength of its underwriting, collection and recovery mechanisms. Accordingly, the gross NPL ratio for the year clocked in at just 0.4%. Overall the Unit's profitability improved during the year.



Operating environment

- Moderate economic growth and subdued investor sentiments
- Depreciation of the Sri Lankan Rupee against the USD
- Political instability and heightened security concerns



Strategy

- Portfolio diversification
- Overseas expansion
- Utilisation of unique resources at NDB group to offer best solutions to clients.
- Holistic value proposition which includes project management and advisory
- Ongoing opportunities for training and development



Performance

- +33%** Growth in Loans and Receivables
- +66%** Increase in Operating Income
- +111%** Growth in Deposits



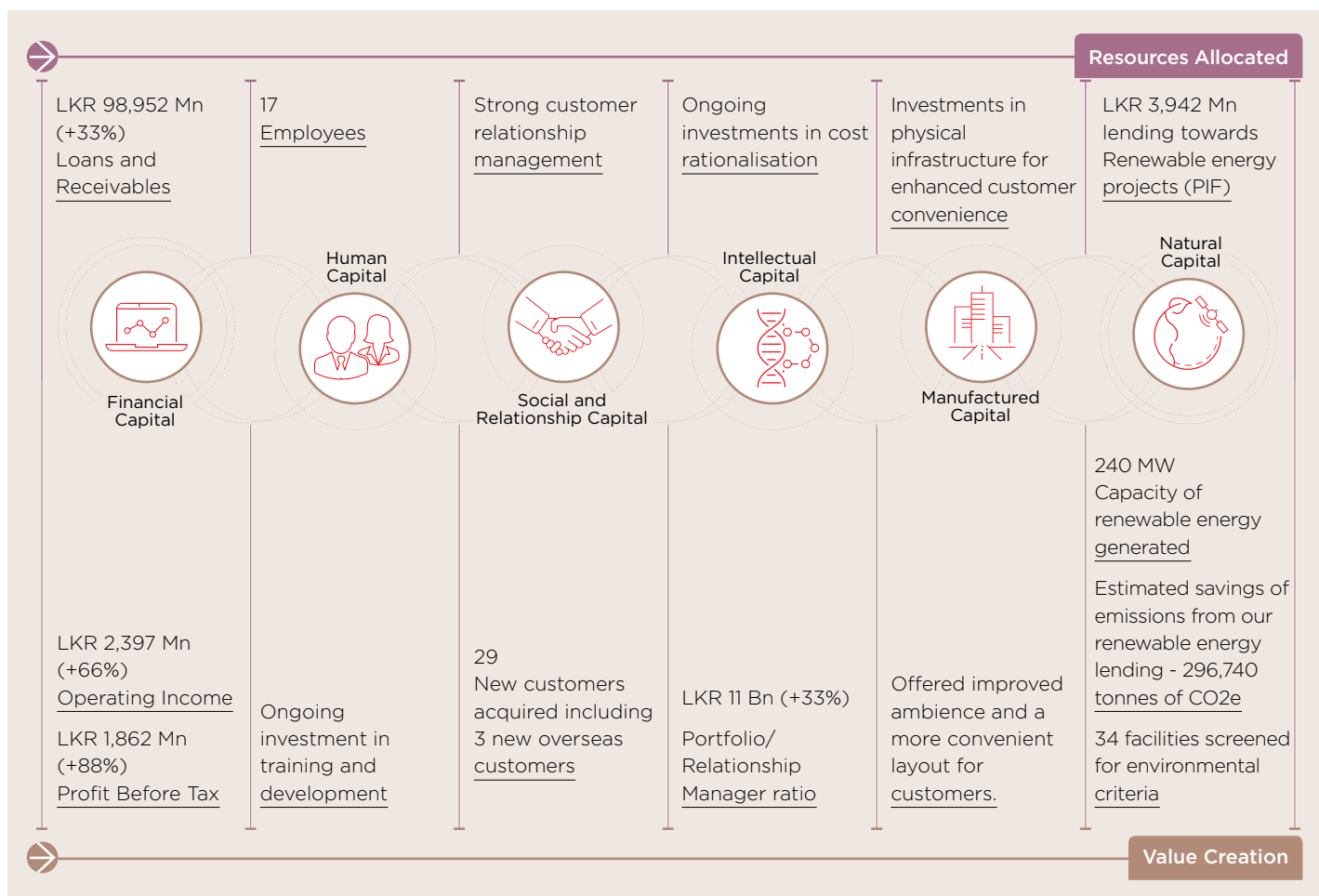
Risks and Challenges

- Moderation in credit demand
- Rising impairments
- Margin management



Outlook

- Overseas growth opportunities
- Continued focus on the renewable power and energy sector
- Focus on playing lead role in syndications



OUTLOOK

The limited availability of domestic investment opportunities at right returns is likely to be an impetus in encouraging local corporates to pursue overseas expansion. These projects will entail diverse financing requirements and NDB PIF is well positioned to capitalise on these opportunities given its unique capabilities in both financing and managing projects. NDB PIF also has the expertise to facilitate banking and financing requirements connected to Foreign Direct Investments which is expected to be a strength for the unit. The power and energy sector will continue to be a key focus for the Unit as the power demand is ever increasing in the country and the push towards renewable energy is expected to create substantial opportunities for expansion.



Kyambura Mini Hydro Power Project in Uganda

TREASURY

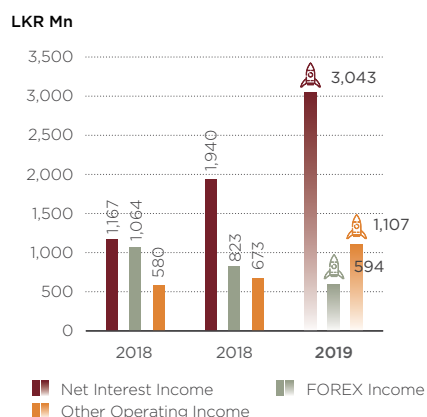
NDB's Treasury Unit is a market maker in the foreign exchange and debt markets and plays a vital role in managing the Bank's market risk aspects of interest rate and liquidity through the ALM desk. The Unit is powered by a skilled and dynamic treasury team and a multi-faceted product portfolio which is positioned to cater to the evolving needs of the current market.

MARKET CONDITIONS

Against the backdrop of moderating economic conditions (as listed alongside) the CBSL adopted an accommodative monetary policy, with the following policy measures taken to accelerate growth;

- Policy rates reduced twice during 2019
- May 2019-50 basis points cut in SDFR to 7.50% and SLFR to 8.50%
- 23 August 2019 50 basis points cut in SDFR to 7.00% and SLFR to 8.00%
- Deposit ceiling rates imposed on licensed commercial banks and non-bank financial institutions on 29 April 2019.
- Lending rate restrictions in September 2019.
- Treasury bills/bonds buy back through open market operations (OMO).

Treasury-Performance



CBSL also successfully concluded two sovereign bond issuances in March and June for USD 2.4 Bn and USD 2 Bn respectively. Despite a large volume of foreign fund exits from the local Rupee bond market, the market rallied to witness a sizeable downward shift in the LKR government security yield curve due to

the policy easing measures coupled with the sovereign bond issuances. Import restrictions implemented in the 2nd half of 2018, coupled with export growth saw the trade deficit narrow considerably in the 1st half of 2019. Resultantly, the Rupee appreciated against the US Dollar to close the year on 181.3 for 2019. Policy makers were keen on transferring the low yields to the borrowers, thus implementing deposit rate caps and lending rate restrictions on financial institutions. Federal Reserve reversing its tightening stance led to a reduction in rates by mid-2019 and sluggish global demand saw a global trend of easing monetary policy to spur global growth.

STRATEGY AND PERFORMANCE

ALM Desk: The ALM desk effectively captured the opportunity rendered through declining yield curve and market volatility to record hefty trading gains of over LKR 700 Mn for the year 2019. Strategic Balance Sheet management strategies implemented, and accurate forecasting enabled the Bank to extract the full potential of the balance sheet yielding an interest income of LKR 3,043 Mn from ALM operations.

FX Desk: Under challenging market conditions which saw low import volumes the FX desk focused on the export volumes and strategic trading to record FX trading gains of LKR 594 Mn for 2019. The customer desk focused mainly on consolidation recorded customer trading gains of LKR 395 Mn for the year in review.

OUTLOOK

Cautious sentiments are likely to prevail through the first quarter of 2020, primarily due to the upcoming general elections. That said, the accommodative policy measures adopted by the Central Bank of Sri Lanka coupled with dovish global policy is expected to provide some momentum to the economy in the second half of 2020. Global trade tensions will be an ongoing concern but emerging markets including the South Asian region is expected provide some resilience and demonstrate signs of recovery. The recent tax cuts and the economic policy outlined by the new regime is expected to throw in some volatility to the Rupee yield curve but is expected to move toward single digit rates in the medium term. The exchange rate is expected to depreciate in line with average annual levels through 2020.



Operating environment

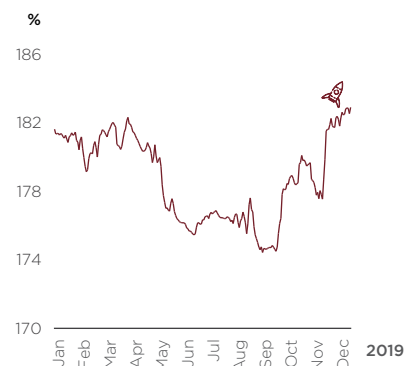
- Moderation in private sector credit growth
- LKR 54 Bn outflow of foreign funds from government security market
- Impact of April attacks
- Slowdown in worker remittances
- Geopolitical tensions in traditional export markets
- Oil price fluctuations due to Saudi oil field attacks



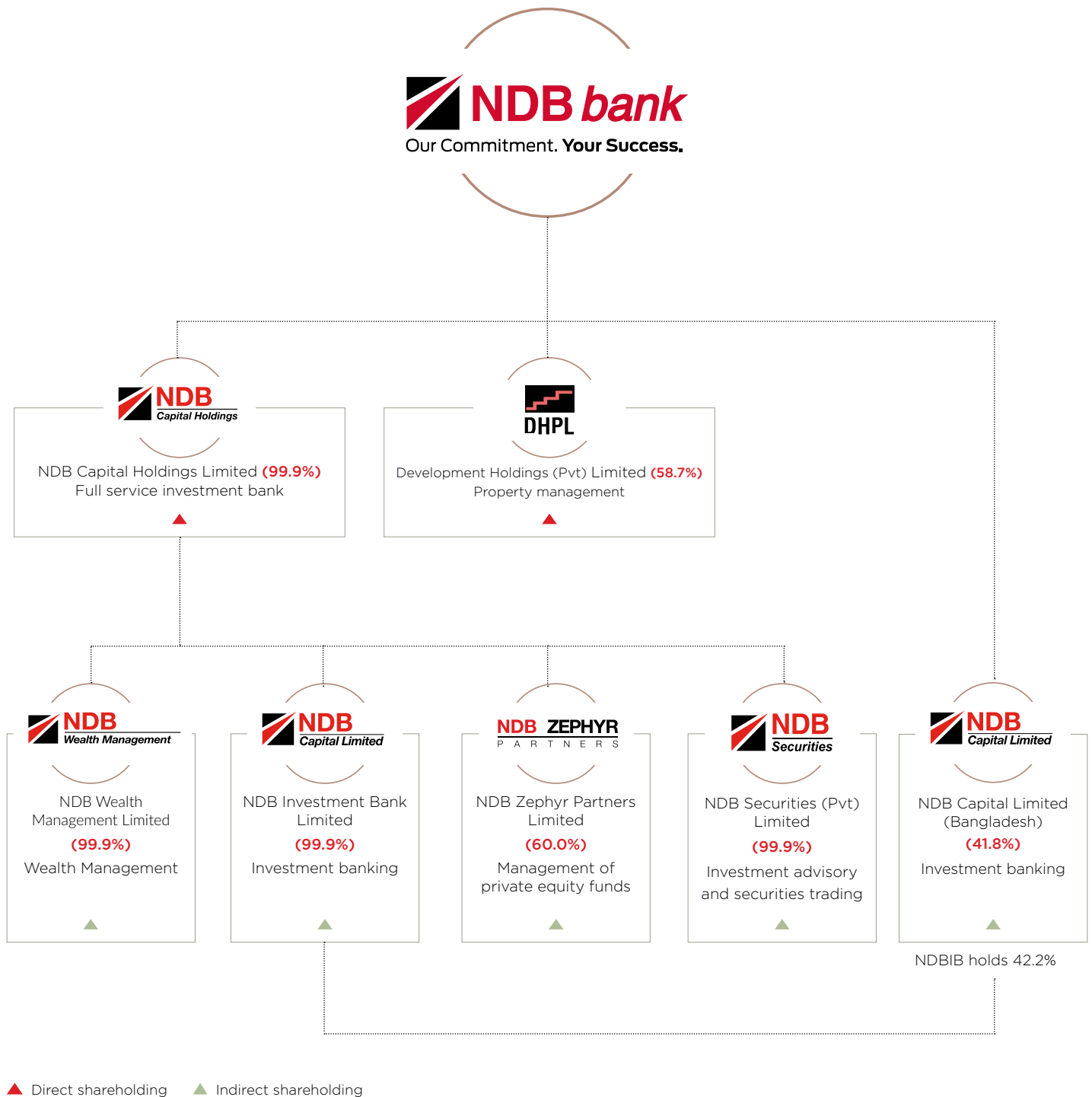
Product map

Products	FX Forwards
	FX Swaps
	FX Derivatives
	Dual Currency Deposits
	FX Options
Money Market Products	REPOs
	Reverse REPOs
	Debt Trading instruments

USD:LKR Rate



OUR GROUP COMPANIES





NDB CAPITAL HOLDINGS LIMITED

NDB Capital Holdings Limited (NCAP) is the fund-based investment banking arm of the NDB Group and parent entity of the capital market cluster. While the fund based investment banking activities including investments in listed equities, private equity, fixed income securities and structured debt are conducted directly through the company, the fee based activities are carried out through its subsidiaries/associates, NDB Investment Bank Limited (NDBIB), NDB Wealth Management Limited (NDBWM), NDB Securities (Pvt) Limited (NDBS), NDB Zephyr Partners Limited (NDBZ) and NDB Capital Limited (NDBCapBD) Bangladesh.

STRATEGY AND PERFORMANCE

The NCAP Group is strategically aligned to facilitate economic development and growth of the capital market of Sri Lanka, offering an array of fully-fledged services and a unique value proposition to its customers.

NDBIB successfully carried out its 2nd IPO in the Maldives and maintained its undisputed leadership position in the IPO market. It also engaged in several equity and debt raising activities, with a total of LKR 62 Bn funds raised during the year. It is a frequent recipient of both local and international awards and was adjudged the Best Investment Bank in Sri Lanka for the 8th consecutive year by the prestigious Euromoney Magazine. (Refer to page 22 for further information)

Meanwhile, NDBWM maintained its position as the largest private sector fund manager in Sri Lanka with over LKR 110 Bn Assets Under Management (Refer to page 100 for further information). The Company, partnered with the Bank in launching The 'One NDB Account', combining traditional commercial banking features with wealth management solutions. NDBS continued to offer a unique value proposition to its clients, commanding a market share of 8% in 2019 while forming new relationships with foreign brokers. (Refer to page 101 for further information)

NCAP completed the phase I of the acquisition of NDBCapBD via NDBIB, which was previously held by NDB.

NCAP successfully awarded the 6th round of scholarships from the NDB Capital Scholarship Trust Fund. The initiative aims to support the educational and professional development of high-performing, economically vulnerable young undergraduates from the University of Moratuwa, University of Colombo, and University of Sri Jayewardenepura.

Subdued economic conditions and cautious investor sentiments had a direct impact on the NCAP Group's activities which resulted in consolidated net losses of LKR 91.3 Mn by end December 2019. The performance was also impacted by impairment provisions made for investments in Construction company due to distressed situation. Excluding this provision, the net losses of the NCAP Group would have turned into a net profit of LKR 133 Mn by the end of December 2019.

OUTLOOK

Following the upcoming General elections during the first half of 2020, economic and political conditions are expected to stabilise towards the second half of the year, with an expected revival of economic growth. The NCAP Group is well positioned to take advantage of the opportunities presented by this anticipated revival and will strive to cater to both local and international capital markets and further strengthen its footprint while maintaining its leadership position in Sri Lanka's capital markets.



Operating environment

- ◉ Moderation in economic growth following April Attacks
- ◉ 1.3% increase in ASPI & 6.3% decline in S&P SL20 due to subdued investor sentiments and exit of foreign funds.
- ◉ 30% decline in average daily turnover
- ◉ 1% appreciation of the Sri Lankan Rupee (against USD)



Products and services

- ➔ Debt and equity raising
- ➔ M&A Advisory
- ➔ Corporate Advisory
- ➔ Private Equity
- ➔ Proprietary Trading
- ➔ Underwriting
- ➔ Stockbroking
- ➔ Wealth Management
- ➔ Private Equity



Performance

- ◉ LKR -98 Mn Reduction in Profit Before Tax
- ◉ LKR 1,041 Mn Operating Income



Risks and Challenges

- ◉ Subdued economic conditions and cautious investor sentiments



Outlook

- ◉ Economic and political conditions are expected to stabilise towards the second half of the year after the upcoming General elections.



NDB INVESTMENT BANK LIMITED

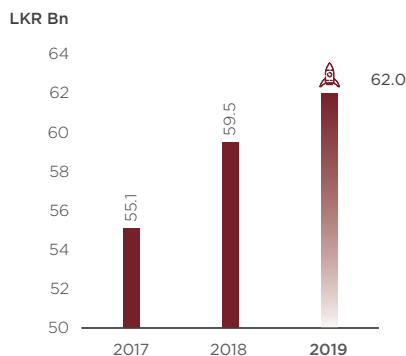
NDB Investment Bank (NDBIB) is the undisputed market leader in investment banking in Sri Lanka, providing an array of solutions ranging from debt and equity raisings, corporate advisory services to mergers and acquisitions. Being crowned as 'Best Investment Bank in Sri Lanka' for the 8th consecutive year by the prestigious Euromoney Magazine is another testimony to NDBIB's continued dominance in the Investment Banking sector. NDBIB's competitive edge stems from the expertise of its team and the innovative solutions it offers. It is also to date the only Investment Bank in Sri Lanka to have successfully completed IPOs in overseas markets.

STRATEGY AND PERFORMANCE

Despite subdued investor sentiment and moderate economic conditions NDBIB continued to execute numerous milestone transactions, cementing its position as the unrivalled market leader in investment banking. Expert knowledge and innovative solutions paved way for overseas expansion, particularly in the Maldives. Key transactions executed during the year include:

- Sole Financial Advisor and Manager to the IPO of Maldives Islamic Bank. The offer was oversubscribed and successfully concluded raising MVR 244.1 Mn (LKR 2.9 Bn).

NDBIB - Funds Raised



- Financial Advisor for Lotus Renewable Energy (Pvt) Ltd., a member of the G&G Group of Companies in Singapore on its acquisition of Hatton Plantations PLC.

- Joint Financial Advisor and Manager to Indocean Developers (Pvt) Ltd, the developer of Altair Twin Tower residential project on a USD 25 Mn equivalent syndicated loan facility. This transaction served as a catalyst in fostering confidence in the country's real estate sector.
- Financial Advisor to The Hawks (Pvt) Ltd, the largest private sector fuel distributor in the Maldives on a USD 12 Mn syndicated revolving loan facility.
- Financial Advisor and Manager to Sanasa Development Bank PLC on an unlisted term debt fund raising of USD 18 Mn via a consortium of European impact investors.
- Conclusion of the Sterling Group's (Japan) LKR 1.4 Bn equity investment in People's Merchant Finance.
- Financial Advisor for Mobitel (Pvt) Ltd's acquisition of M3 Force (Pvt) Ltd.
- Financial Advisor and Manager to two BASEL III compliant debenture issues for NDB and Hatton National Bank PLC totalling LKR 15.6 Bn.
- Managed listed debentures for Citizens Development Business Finance PLC and Siyapatha Finance PLC totalling LKR 1.7 Bn and acted as the placement agent for the unlisted debenture issue of National Savings Bank.
- Managed four rights issues for People's Merchant Finance PLC and Citrus Group of Companies.
- Advisory on a range of transactions including mandatory offers, private placements, valuations, financial modelling assignments and structuring ESOPs.

Notwithstanding challenging market conditions and repressed investor confidence, NDBIB reported a Profit After Tax growth of 147% compared to last year and raised a total of LKR 62 Bn, while adding to its long list of awards and accolades by receiving numerous awards during the year (Refer to pages 22 and 23 for a full list of awards).

OUTLOOK

Recovery of investor sentiment and stability in policy direction post-general election are expected to translate to a more favourable economic environment in 2020, facilitating NDBIB's dominance across all its verticals; equity, debt and



Operating environment

- Protected impact of the constitutional crisis last year and easter attacks severely dampened economic activity during the year
- Gradual revival of the economy following normalisation of the security situation and faster than expected recovery of the tourism sector



Services offered

- ➔ Debt and Equity Capital Raisings
- ➔ Mergers and Acquisitions
- ➔ Corporate Advisory



Performance

- LKR 62 Bn Funds Raised
- LKR 113 Mn (+144%) Profit Before Tax
- 45% PBT Margin



Risks and Challenges

- Challenging market conditions and repressed investor confidence



Outlook

- Recovery of investor sentiment and stability in policy direction post-election are expected to translate to a more favourable economic environment

corporate advisory. NDBIB remain optimistic regarding the prospects of 2020, having built a strong pipeline of M&A, debt and equity mandates both locally and regionally to set the bar even higher for the investment banking industry in Sri Lanka.



NDB WEALTH MANAGEMENT LIMITED

NDB Wealth Management Limited (NDBWM) is the largest private sector wealth management institution in Sri Lanka, with over LKR 110 Bn assets under management. With collective experience of over 100 years in its investment team, NDBWM caters to over 14,200 clients ranging from individuals to institutions.

STRATEGY AND PERFORMANCE

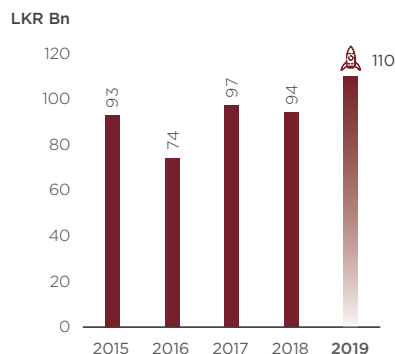
Despite the declining trend in interest rates, NDBWM managed to deliver high returns to its clients supported by its research driven philosophy. Our prudent asset allocation and duration management strategies enabled us to lock in relatively high interest rates for client portfolios and attract new clients.

The Company continued to place strategic focus on developing its retail proposition and during the year, the retail sales force increased by over 48% with ongoing focus on training and development. Meanwhile the Private Wealth Centre, offering both banking and wealth management services continues to perform well, offering exceptional customer service and relationship management.

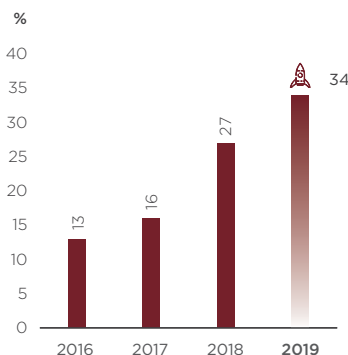
During 2019, NDBWM's Assets under Management increased by over 18% while the client base grew by over 52%. Meanwhile, NDB Wealth Money Plus Fund, the largest unit trust fund in the Industry, more than doubled in value to over LKR 33 Bn.

NDBWM's recurring Fee based income, after adjusting for one-off transactions, increased by 27% on a normalised basis. Profit After Tax was LKR 48 Mn in 2019, a reduction compared to the previous year due to the normalisation of a one-off revenue earned in 2018 and increased marketing and distribution costs. On a recurring basis, PAT increased by 49% during the year.

Assets Under Management



Market Share in the Unit Trust Industry



OUTLOOK

With General elections and possible provincial council elections to be held next year, economic activity is expected to be subdued in the 1st half of the year. However, we expect the full benefits of monetary policy easing measures implemented by the CBSL to take effect by the second half of next year and credit demand to pick up amid positive business confidence. Improving business and investor confidence will give rise to opportunities especially in equity markets which NDBWM would look to exploit, given its diversified product portfolio.



Operating environment

- Gradual decline in interest rates following monetary policy easing by CBSL
- Weaker investor sentiment and stock market decline
- Changes in the tax environment



Performance

- LKR 110 Bn (+18%)**
Assets under Management
- LKR 67 Mn (-27%)**
Profit Before Tax
- 7% ROE**



Risks and Challenges

- Subdued business and investor sentiment decreased the opportunities in equity markets



Outlook

- Expected full benefits of monetary policy easing measures implemented by the CBSL to take effect by the second half of next year
- Credit demand to pick up amid positive business sentiment



NDB SECURITIES (PVT) LIMITED

NDB Securities (Pvt) Limited (NDBS) is a leading stock broker with a strong retail and institutional client base. Its' competitive edge is underpinned by value added services such as strong relationship management, a state-of-the-art online trading facility, and market-leading research capabilities. NDBS has played a vital role in introducing both foreign and local institutions and individuals to the Sri Lankan capital market.

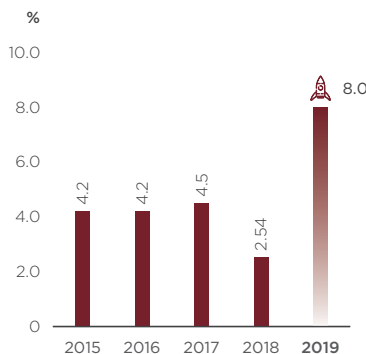
STRATEGY AND PERFORMANCE

NDBS navigated through yet another challenging year, supported by its strong and loyal clientele, established track record of over 27 years and the strong backing from its ultimate parent company NDB Bank PLC. The year under review presented much volatility for market activities; prolonged impacts of the political impasse in the latter part of 2018 were further exacerbated by the April attacks which led to a sharp downturn in investor sentiments.

Despite these challenges NDBS successfully executed a few strategic transactions, particularly in the latter part of 2019 which enabled it to significantly expand its market share from 2.5% to 8% as at end-2019. Improved brokerage earnings, ongoing pursuit of cross selling opportunities together with emphasis on cost management and rationalisation enabled the Company to perform relatively well during difficult market conditions.

During the year, NDBS also benefited considerably from the ONE NDB concept, a group-wide integration initiative bringing together the entire organisation. This allowed us to leverage on group-wide synergies and pursue cross sell opportunities with the parent and sister companies. For instance, NDBS and NDBIB collaborated to successfully complete a few Mergers and Acquisitions during the year. Additionally, NDBS has successfully integrated its client account portal with the new NDB mobile app,

Market Share



enhancing customer accessibility and convenience. Furthermore, the Company also focused on expanding its foreign clientele which it successfully achieved by onboarding two new foreign brokers. This initiative is expected to improve and diversify brokerage earnings for the company in the years to come.

OUTLOOK

Persistent decline in the indices, low historical market multiples, expansionary monetary policy stance taken by the CBSL along with the prospects of a strong parliament by end the year will provide a conducive business environment for the stock market in year 2020.

However, the recent global epidemic coronavirus has already started to take a toll on the global financial markets due to which we expect the Asian giant, China, to slow down in the short to mid-term period. This may further exacerbate pressure on the Global GDP growth along with other external factors such as stagnant EU growth, Middle Eastern region tensions and clouded Brexit plans, in 1H2020.

NDBS has positioned itself well with its agile business model and foreign collaborations to seize any positive developments in the market in year 2020.



Operating environment

- ASPI gained 1.3% in 2019 with an average daily turnover of LKR 711 Mn
- S&PSL20 shed 6.3% during 2019
- Share market was affected by moderate economic conditions, policy inconsistency and continued foreign outflows
- Muted participation from both captive sources and local fund managers
- Few minor rallies towards the latter part of the year, given improved sentiments following the Presidential Election



Performance

- LKR 110.8 Mn Brokerage Income
- LKR 550 bps increase in Market share



Risks and Challenges

- Volatility in market activities.
- Political impasse in latter part of 2018 and April attacks led to a sharp downturn in investor sentiments.



Outlook

- The political stability along with the dovish monetary stance taken by the CBSL, and historical low market multiples may bring the investor confidence back in the market.



NDB CAPITAL LIMITED (BANGLADESH)

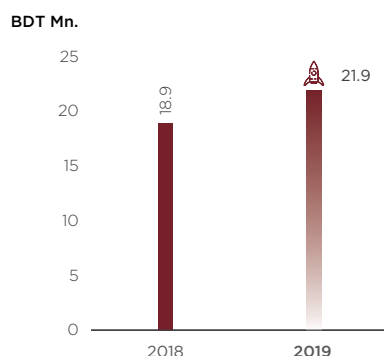
NDB Capital Limited (Bangladesh) offers a wide array of investment banking services in Bangladesh including M&A, Advisory, IPO, Portfolio management, Fund raising, Bond and preference shares, Project finance and Working capital among others.

STRATEGY AND PERFORMANCE

Strategic emphasis was placed on attracting and retaining customers with healthy payment records and the company successfully secured several good mandates during the year. These mandates included M&A and fund raising through preference shares/commercial papers. Given the prevalent liquidity crisis, the company is pursuing opportunities through Islamic Finance solutions, in order to raise funds through non-conventional means. The Company is also currently pursuing numerous fundraising mandates totalling more than BDT 9 Bn through Syndication, Commercial Paper, Finance from World Bank and Preference Shares among others. Meanwhile, human resource capabilities were also strengthened with qualified and experienced personnel added to the deal team. The IT platform was also upgraded to ensure stronger security infrastructure.

While tight market liquidity conditions had a significant impact on our performance, the Company continued to benefit from new client acquisition and deeper relationships with existing customers. Revenue realisation of the M&A mandates secured during the year are likely to strengthen earnings in 2020. Overall, the Company recorded a Net loss of BDT 18.7Mn in 2019.

Operating income



OUTLOOK

GDP growth is expected to remain buoyant around 8.2% next year, with healthy growth in remittances. The Government has sought to initiate development projects under the Public-Private partnership model which is expected to create more opportunities for financing, fund raising, mergers and acquisitions and corporate advisory. Given its strong reputation, customer relationships and expertise NDB Capital is strategically positioned to capture these emerging opportunities.



Operating environment

- Strong GDP growth of +8.13% emerging as the fastest growing economy in the region
- +8.96% increase in per capita income
- Liquidity crisis in the financial sector with rising non-performing loans
- Depreciation of the BDT against USD
- Decline in the share market



Services offered

Fund raising	Equity
	Debt/hybrid
Corporate advisory	Financial/Balance Sheet restructure
	Equity valuations
	Feasibility studies
	Organisational/Group restructuring
	Mergers and acquisitions



Performance

- BDT 21.9 (16%) Mn Operating Income
- BDT (-18.5) Mn Profit After Tax



Risks and Challenges

- Prevalent tight market liquidity conditions



Outlook

- Governments focus towards adopting more Public-Private partnership model in its development projects will open more opportunities

NDB ZEPHYR P A R T N E R S

NDB ZEPHYR PARTNERS LIMITED (MAURITIUS)

NDB Zephyr Partners Limited (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.

STRATEGY AND PERFORMANCE

The Company continued to leverage on its group capabilities to offer portfolio companies an array of services including strategic and financial management, corporate governance and efficiency improvements, in addition to providing equity capital to support growth aspirations. The Company also assists portfolio companies access international markets through linkages with its global

network. NDB Zephyr also continued to collaborate closely with its investors, including multilateral agencies to provide access to capital and technical knowledge to our portfolio companies.

The Emerald Fund Investment portfolio expanded during the year, with the addition of Arimac Lanka (Pvt) Limited (Arimac) and Panasian Power PLC. Arimac is a provider of mobile and enterprise solutions specialising in technologies such as Augmented Reality (AR), Virtual Reality (VR), and Artificial Intelligence (AI). The Company's client portfolio consist of over 100 local and international corporate clients including leading brands such as Visa, Etihad, Emirates and Dialog. Arimac also works with global sales agents based in Australia, Middle East and Europe.

Panasian Power PLC (PAP), is a supplier of renewable energy. The Company operates 3 hydro power plants with a collective generation capacity of 8.9 MW. The Company also operates a combined

solar power capacity of 5.8 MW. PAP plans to expand its energy generation portfolio in East Africa in solar and hydro power sectors through the Global Energy Transfer Feed-in Tariff program. Other companies in the investment portfolio are Cleanline Linen Management (Pvt) Ltd., JAT Holdings (Pvt) Ltd., Idea Group Limited and Consolidated Business Systems Limited.

OUTLOOK

As economic conditions are expected to gradually recover, we will continue to pursue opportunities in growth sectors such as leisure, information technology and value added exports with a view to maximising shareholder value.



DEVELOPMENT HOLDINGS (PVT) LIMITED

Development Holdings (Pvt) Limited (DHPL) together with the Export Development Board (EDB) owns and maintains the NDB-EDB tower situated at Nawam Mawatha, Colombo 2. The 16 story building houses the EDB, several departments of NDB and many other reputed local and global agencies such as International Finance Corporation (IFC) and Sri Lanka Export Credit Insurance Corporation (SLECIC).

STRATEGY AND PERFORMANCE

The property is considered a premier business space due to its strategic location and state-of-the-art facilities that are offered. With a fully-fledged auditorium and ample parking facilities the property can accommodate 200 people. The property is currently running at full capacity, a reflection of the superior value proposition offered to tenants.

DHPL recorded a Profit After Tax of LKR 260 Mn during the year; revaluation was carried out by an independent valuer resulting in an annual fair value gain of LKR 176 Mn. The continuous increase in value reflects the management's ongoing efforts to develop the property.

OUTLOOK

We will continue to invest in upgrading the property and its amenities, thereby strengthening our proposition to customers by upgrading the auditorium and offering online booking facilities, providing state-of-the-art conference centre, 'THIN CLIENT' concept modern IT Training Room with approximately 50 seating capacity, scenic Beira waterfront executive lounge and cafeteria for in-house tenants and for outsiders.



Stunning view of the DHPL building from the Beira Lake



OUR GOALS AND HOW WE PLAN TO GET THERE

POSITIONING THE BANK AS THE PREFERRED EMPLOYER IN THE INDUSTRY

through offering unique
employee value proposition

STRATEGIC BUSINESS PARTNER

by developing our HR
capabilities to meet the Group's
strategic aspirations



NURTURE A STRONG TALENT PIPELINE

by identifying and developing
top talent

CREATE A DIVERSE AND INCLUSIVE WORKPLACE



PROGRESS IN 2019



Creating a Conducive Work Environment

- Staff interaction events
- Digitising/automating the HR administration through launch of a mobile app
- Year-round activity calendar



Talent Attraction

- 903** new recruitments
- 171** jobs created outside the Colombo and Greater Colombo regions



Talent Development

- 117,188** training hours
- Investment in training - **LKR 50 Mn**
- Multiple unique training programmes
- 286** promotions



Building Diverse Teams

- 35%** female representation at senior management level
- 40%** overall female representation
- 59%** below the age of 30



WAY FORWARD

- ➔ Adding value to the Bank by being a strategic business partner
- ➔ Comprehensive succession planning initiative
- ➔ Further automating the HR operational processes and enabling the HR to engage in more strategic business interventions
- ➔ Staying abreast of the market in attracting, aligning and retaining the staff through pay

MANAGING OUR HUMAN CAPITAL

The Group's HR policy framework extends beyond legal requirements, embraces industry best practices and provides a solid foundation for the effective management of all HR related aspects. Policies were revisited regularly and in 2019 we sought to align the framework with the Group's business strategy. The employee Code of Conduct is applicable to all employees and outlines the professional and ethical conduct that is expected. These include general conduct, competencies, confidentiality, handling of material information among others.



ISO 9001: 2015 (E) Standard

The HR Department of NDB is one of the few HR departments in the country and the only department in the banking industry to be certified with the ISO 9001:2015 (E) standard. The Certification is applicable to all HR processes including operational aspects, recruitment, customer related processes and staff awareness.

Engagement

Industrial Relations
Employee Relations

Performance management

Job Evaluation
Job Rotation
Compensation and Benefits

Administration and organisational culture

Recruitment
Occupational Health and Safety
Training and Development
Performance Management

Other

Digitising the workforce

TEAM NDB

Our dynamic, highly skilled and agile team of 2,936 employees are a key source of competitive edge and their collective efforts are a driving force in achieving our strategic aspirations. The Bank has long-since been considered an Employer of Choice in the industry, enabling us to attract and retain the industry's top talent. All employees are engaged on a full-time basis, with 71% in permanent positions and 22% engaged on contract basis for sales and non-critical functions. The Bank does not collect data on employees by employment contract, region wise.



1,182

TEAM NDB

1,754

841

Permanent

1,248

220

Contract

413

106

Trainee

90

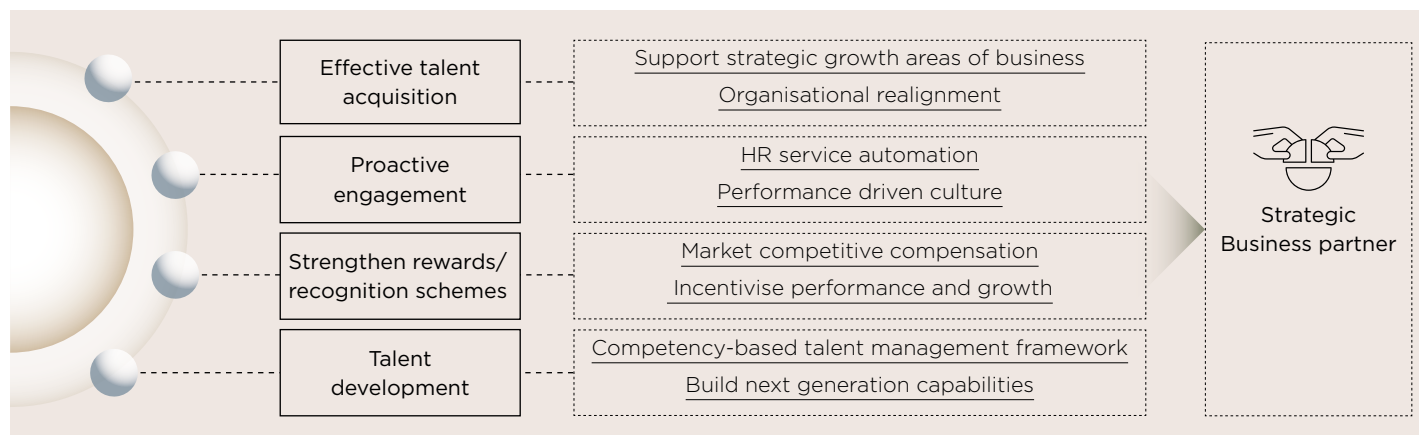
15

Intern

3

OUR HR STRATEGY FOR 2019

The HR strategy for 2019 was aligned to the 'Inspired People' pillar of the Group's overall strategy, with the long-term objective of being a strategic business partner in the Group's growth aspirations. Key areas of strategic focus for 2019 were as follows;



Strategic Focus 1: Effective Talent Acquisition

NDB's reputation as a preferred employer has aided in attracting and retaining top talent despite the increasing competition within the industry. The Bank recruited 903 new employees during the year, primarily at entry level in the retail and SME sectors, reflecting the Bank's strategic growth aspirations in these segments. More than 30% of the new recruits were absorbed into the sales force. In promoting regional economic growth, around 10% of the Bank's senior management is hired from the relevant local communities.

The Bank's recruitment processes are guided by a transparent policy that ensures equitable treatment. In order to nurture a strong pipeline of talent and improve retention, employees are encouraged to apply for internal vacancies. The Bank has partnered with several universities to attract fresh graduates of selected disciplines. In order to create regional employment opportunities, recruitment drives were conducted in each region.

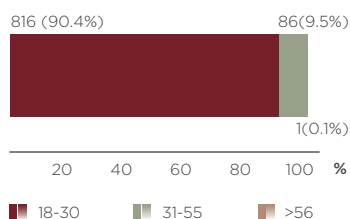


Our staff members in their elegant uniforms

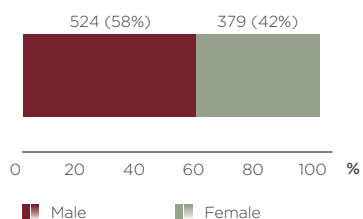


Attraction of talent for the strategic growth aspirations of the Bank

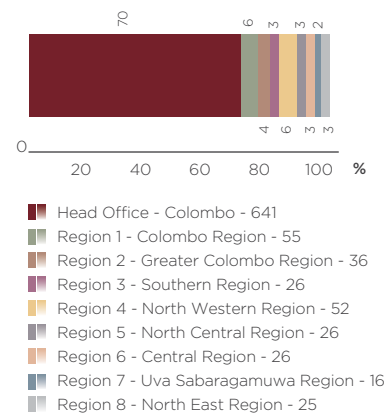
New Recruits by Age



New Recruits by Gender



New Recruits by Region



Strategic Focus 2: Proactive Engagement

Numerous employee engagement mechanisms are in place to create an organisational culture where employees can thrive. The Bank also promotes an open-door culture where employees are encouraged to put forward any suggestions to the Management Team, thereby nurturing a shared and open culture. NDB does not have collective agreements in place. When implementing operational changes, the Bank provides a reasonable period of notice to employees, depending on the circumstances.

In addition to the engagement mechanisms listed on page 106, the following unique platforms are also available to employees.

☉ “Coffee with CEO”:

This gives an opportunity for all employees to communicate openly with the CEO, allowing employees to provide constructive feedback on how to improve processes and operational applications among others. This year the invitation for these sessions was extended to the group companies as well.

☉ Events organised by the NDB Staff Recreation Club (NDBSRC):

The calendar of events organised included celebrating religious events, staff trips including families, NDB kiddies party and the annual NDB dinner dance among others.

☉ “Young Talent Within”:

A program to recognise the academic and extra-curricular achievements of employees’ children.

☉ Employee recognition Awards:

An Awards scheme recognising the contribution of NDB Toastmasters, our very own NDB “Skillart” music group, photographers and comperes.

☉ Grievance handling mechanism:

Structured and clearly communicated policy which ensures anonymity and respect.

☉ NDB staff reality talent fest:

A program to recognise the musical talents of NDB staff and help them to strive.



At the programme held to recognise young talent of academic and extra curriculum activities of the children of the employees



At NDB, we believe employee recognition is very important to highlight their talents and achievements

ONE NDB CULTURE

Efforts in driving organisation change and nurturing a culture of goal congruence have come to fruition with attitudinal and behavioural changes being seen across the organisation. This initiative was led by a dedicated team which worked with cross-functional teams across the Bank. The Employee Innovation Hub was launched to facilitate the creation of the ONE NDB culture and presents a platform for staff to provide their ideas on improving business process and other Bank related challenges. It intends to foster an environment for change and continuous improvement within the Bank and the Group.

A Digitised Workforce

NDB continues to strengthen its digital footprint internally as well as externally, encouraging employees to embrace innovative ways of working and transforming employee interactions. To this end, in 2019 we introduced the HCM Mobile Application.

☉ HCM Mobile Application

All employees were granted access to the HCM Mobile App which enables employees to engage in a range of administrative functions.

☉ E-learning portal

The Learning and Development Automation/Digitisation initiative allows employees to complete training curriculums at their convenience and flexibility. Employees are able to view training calendars and directly apply for programs facilitating cost-reduction, consistency and time efficiency.

Strategic Focus 3: Strengthening Rewards/Recognition Schemes

The Bank's rewards/recognition schemes facilitate a performance driven culture via attractive and equitable compensation to all employees. An unbiased remuneration structure is in place which comprises of both guaranteed and performance-based pay. The annual performance appraisal identifies areas of improvement and training needs.

Remuneration schemes are transparent, and employees are well informed of their job grade and the growth opportunities within the Bank. During the year, the Bank also engaged an independent third party to carry out a salary survey following which of the compensation schemes were further refined to align total remuneration with market conditions. This enabled us to address existing discrepancies and minimise pay gaps. We hope to continue this strategy, adopting a functional approach.

The details of the employees who received regular performance and career development reviews are given below;

% of employees receiving regular performance reviews		
	Female	Male
Senior management	35	65
Management	33	67
Executive	34	66
Non-executive	48	52
Specialised sales force	22	78

Benefits given to employees include the following;

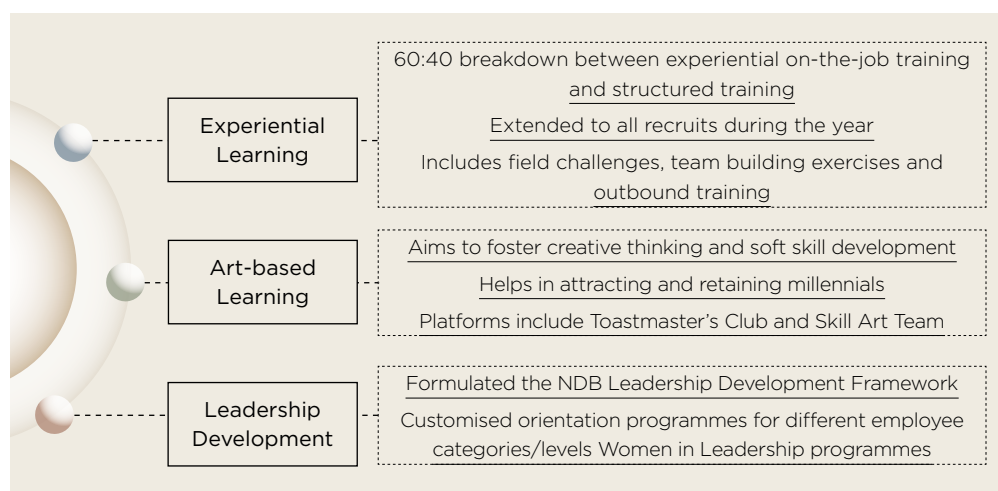
Guaranteed cash and allowances	Variable pay	Reimbursable expenses	Other prerequisites	Subsidised loan benefits	Retirement benefits
Fuel/traveling allowance	Performance bonus	Professional and club subscriptions	Holiday bungalow/ annual trip	Housing, vehicles, sundry loans, share ownership plans and employee share ownership plan	EPF/ETF/ Gratuity (higher contribution to the employee provident fund than what is stipulated by statute)
Leave pay/ holiday allowance	Sales incentives and overtime to eligible staff	Education assistance for employee completing MBAs	Medical insurance scheme		
Job specific allowance			Parental leave		
Accommodation assistance			Toastmasters club		
Weekend/ holiday banking allowance			Recreation club		
			Disability and invalidity club		

Of the above, holiday allowances, accommodation assistance, weekday/holiday banking allowance, performance bonus, subscriptions and educational assistance are not provided to contract employees while different schemes/conditions are applicable for medical insurance, housing and vehicle loans and employee share option plans.

Strategic Focus 4: Talent Development

We facilitate talent development through continuous opportunities for learning which support the Group's future skill requirements. The Group's training agenda for the year is aligned to the Organisation's strategic aspirations and annual and monthly training calendars are prepared in advance and shared with employees. During the year, we adopted a more structured approach to talent development, which contributed towards strengthening the Group's talent pipeline. Total investment in training amounted to LKR 50 Mn, an increase of 80% compared to the previous year.

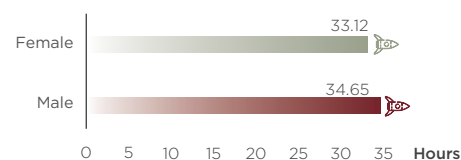
Key training methods and training programs conducted during the year are summarised below;



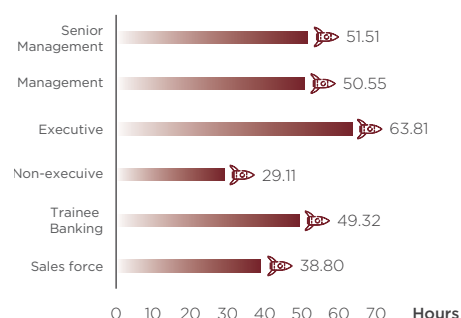
A summary of the key training programmes held during the year are given below;

Program/Initiative and objectives	Program details	Target employee group
Service Leap A holistic programme to nurture a service driven culture across the organisation, ensuring unparalleled and consistent service across all customer touch points	- Launch of Service CREDO - 'We Go Beyond' - Launch of NDB theme song - Roll-out of Standard Operating Procedures - NDB FICH Standards - NDB Family, Image, Conduct and House related behaviour	- Led by The Leadership Team, Service Task Force and Service Co-Committee - Development of 200 service trainers through an internally developed train the trainer programme
Professional Development Professional alliance with Sri Lanka Institute of Marketing to enable professional and marketing pathways for employees	Scholarships are offered to top sales performers to follow the SLIM qualification	- NDB Sales force 40 trained during the year
NDB Pride Management Trainee programme	Two years of comprehensive training where the MTs gain competencies through on -the-job learning, experiential learning and in-house trainings. The MTs also emerged Runners-up in CAIZ Quiz 2019	9 Management trainees
NDB Learning Academy Aims to promote a learning culture within the organisation through multiple programmes	- Internal Trainer Faculty - Accreditation of trainers through an international qualification - Internal Certification: Credit, Trade and Operational level certifications, which develop competencies of the sales force, management trainees and trainee bankers - Regional training programmes	13 trainers accredited via IFC, 19 trainers accredited via UK in 2019 and 200 trained internally
Selling with confidence Developed in partnership with IFC Consultants	Aims to enhance the selling skills of our sales force	9 employees trained as internal trainers
ELEVATE Up skill identified relationship managers in developing client management skills	Trained through a 5-day training programme on relationship management tools	85 Relationship managers trained
NDB Power Talk Knowledge sharing platform for employees	- Artists Bathiya and Santhush and Bradley Emerson were engaged as guest speakers - Dr. Sumith Piliapitiya from wild life and Nature Protection Society - Mr. Eranda Guruge to talk about Ocean conservation & reduction of plastic usage	220 participants

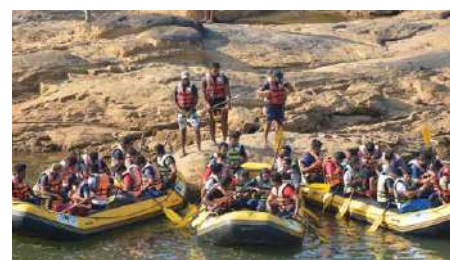
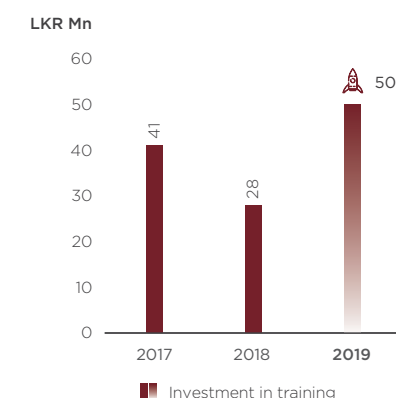
Average training hours by gender



Average training hours by category



Training record



Sales Induction Performance Building Programme for Sales



Moments of NDB Power Talk with B&S

GENDER PARITY AT NDB

Creating a diverse and inclusive workplace is a key HR priority at NDB and in recent years significant focus has been placed on promoting gender equality. Our ultimate objective is to create a workplace which understands the specific concerns of women and provides an environment in which they can thrive professionally, while maintaining an effective work life balance.

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.

The following policies support the Bank's gender parity agenda;

Diversity and inclusion	Gender pay equity	Sexual harassment
Equal opportunity employer	No Discrimination on Gender Pay	Clearly defined policy covering all forms of harassment and consequent management application

Average basic salary - Designation		
Designation	Male	Female
Senior management staff	1	0.84
Management staff	1	1.05
Executive staff Total	1	0.90
Non-executive staff	1	0.94
Specialised sales force	1	0.85
Total	1	0.84

Average basic salary - Region wise		
Region	Male	Female
HO Colombo	1	0.83
Region 1 - Colombo	1	0.65
Region 2 - Greater Colombo	1	0.73
Region 3 - Southern	1	0.72
Region 4 - North Western	1	0.94
Region 5 - North Central	1	0.70
Region 6 - Central	1	0.84
Region 7 - Uva Sabaragamuwa	1	0.78
Region 8 - North East	1	0.78
Total	1	0.84

Promotions by Gender

97 (34%)



189 (66%)

Key initiatives in this regard include, providing flexible working options for women, enrolling high performers in Women in Management programmes.



Ms. Hashini Widanapathirana

Senior Banking Associate -
Human Resources Department

"Flexi hours provides me with a platform to balance my career along with my learning aspirations."



Ms. Anushca Saranapala

Assistant Vice President
Operational Risk

"Flexi hours has given me better work life balance. A recommendation from working mothers."



Mr. Sentoran Shanmugeswaran

(Manager - Contact Center)

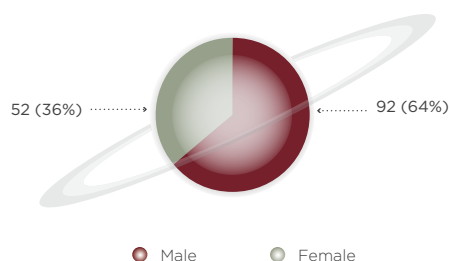
"Flexi hours at NDB enables me to maintain perfect work life balance by meeting both family and work commitments without any compromises. Thanks to Flexi hours both my family and office are happy".



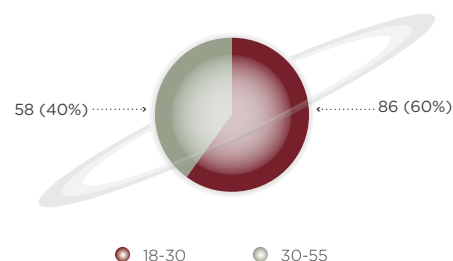
RETENTION

The high level of employee engagement and a conducive work environment has enabled the Bank to maintain relatively good retention rates. During the year Bank's overall retention rate was 93%, with the highest turnover recorded from the sales force, which is an industry wide phenomenon. Exit interviews are conducted by the HR department at the point of resignation.

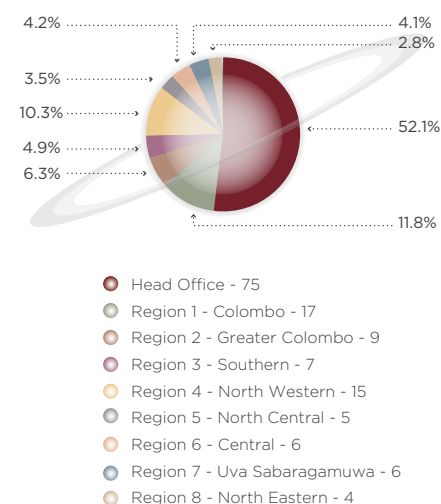
Resignation by Gender



Resignation by Age



Resignation by Region



EXTERNAL RECOGNITION

During the year, NDB was recognised as the leading private sector organisation for promoting Women in the Workplace (Gold Category) at the Professional and Career Women Awards Sri Lanka 2019 for exceptional contributions and achievements in creating a conducive and attractive work environment for women. NDB also received the Runners-up award for Excellence in Performance Management Practices at the National Business Excellence Awards 2019, organised by the National Chamber of Commerce, Sri Lanka.



WAY FORWARD

Key HR priorities for 2020 include strengthening the Bank's succession plan through identification of top talent, nurturing a learning culture within the organisation and further digitalising the HR processes in order to drive more strategic business engagements. Our long-term objective is to be a strategic business partner to the Group, effectively facilitating the achievement of the Organisation's strategic aspirations through enhancing our human resource capabilities.



OUR GOALS AND HOW WE PLAN TO GET THERE

DELIVER SEAMLESS CUSTOMER EXPERIENCE

through best-in-class integrated digital solutions

ACHIEVE OPERATIONAL EXCELLENCE

by automating processes, implementing workflows and enhancing the digital infrastructure



CUSTOMER FOCUSED INNOVATIONS

through customer-centric solutions

DRIVE DIGITAL DISRUPTION
through complementing the digital experience with human interaction



PROGRESS IN 2019



Connectivity

- Added **26** cash recycling machines
- Opened **4** new branches including **2** phygital branches
- Launch of new mobile app NDB NEOS
- 85** Bank2U locations



Simplifying the customer journey

- 71%** transactions performed digitally
- 17,242** new mobile banking subscribers
- 45%** increase in online banking transactions (value)
- 47%** increase in E-statement subscriptions
- Over **LKR 16 Bn** deposits through CRMs



Efficiency

- More than **14** workflows
- 3** processes automated through RPA
- 50%** improvement in turnaround time for pawning and leasing



Security and stability

- Integration of **19** systems
- Zero** instances of data breaches
- Implementation of robust DR system



WAY FORWARD

- Core Banking platform upgrade to the latest version
- Strengthen security infrastructure through establishment of a Security Operations Centre
- Ongoing investments in workflow solutions and process automation

DIGITAL CAPABILITIES

The Group's IT/Digital Strategy is closely aligned to its overall business strategy and the adoption of an integrated strategy has enabled us to yield good returns on our digital investments. As the pace at which our customers and business units leverage technology has accelerated, in 2019 we focused on further simplifying and streamlining our digital infrastructure and establishing the required governance structures and security frameworks. Our digital strategy is graphically illustrated along-side and the progress made under each pillar is discussed below;

Internal efficiencies and process improvements

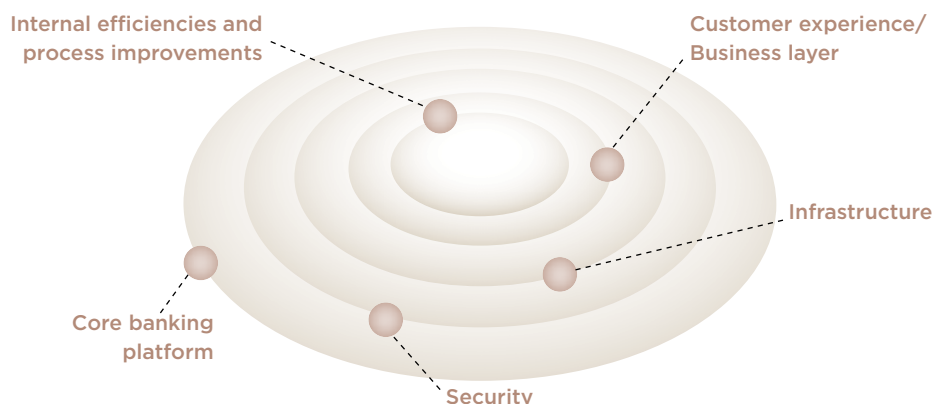
Strategy in action

- Implemented **more than 14 workflows** including account opening, cards, credit appraisals and excess approvals
- Launch of **new pawning and leasing systems** has resulted in a near 50% improvement in turnaround times
- Increased **automation capacity** of personal loans and credit cards
- Automated 3 processes through **Robotic Process Automation (RPA)** including monitoring loan covenants and cheque clearing
- Enhanced branch connectivity** with more efficient load balancing

Customer experience/Business layer

Strategy in action

- Mobile Banking:** Launch of cutting - edge mobile banking app - NDB NEOS with advanced features such as face recognition and wealth/ investment management tools, delivering a convenient, frictionless experience to customers.
- Expanded the **Bank2U** proposition to customers via 85 of our branches facilitating a range of transactions including account opening, cash deposits, cash and cheque withdrawals, bill payments and mini statements.
- Added **26 Cash Recycling Machines (CRM)** to its network, bringing the total network to 54. Entered partnerships with hospitals and supermarkets in strategic locations and simplified the bill payment process through CRMs
- Opened **2 NDB NEOS Phygital** branches at Fort and One Galle Face, Colombo providing customers a new paradigm in banking convenience by ensuring human interaction for a personalised service while leveraging on sophisticated technology.
- Launched **SMS alert** platform for customers



Infrastructure

Strategy in action

- Upgraded hardware, storage and network infrastructure to support the upcoming changes in software
- Upgraded the Disaster Recovery system and tested for more robust BAU (Business As Usual) operations

Security

Strategy in action

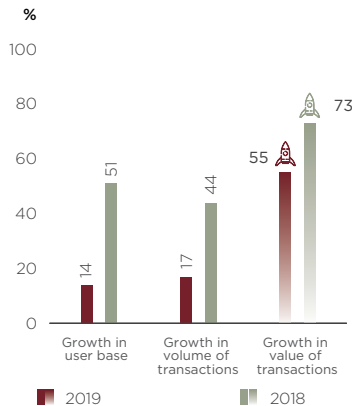
- Comprehensive IT Audit conducted as part of the Internal Audit program
- Chief Information Security Officer reporting to the Chief Operating Officer and appointment of 3 dedicated personnel for IT Security
- Staff training on new information security policies and procedures

Core banking platform

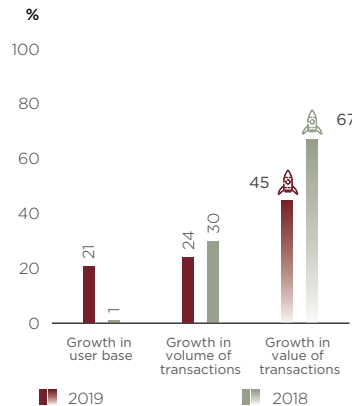
Strategy in action

- Commenced **upgrade of the Core Banking platform**, providing a robust platform to deploy new products while offering an integrated and interfaced system which will provide a seamless experience for users
- Purchase of **additional modules** including Treasury, Cash management, front office and analytics
- Implementation of an **Enterprise Service Bus (ESB)** supporting a plug-and-play strategy for ancillary systems and API Banking

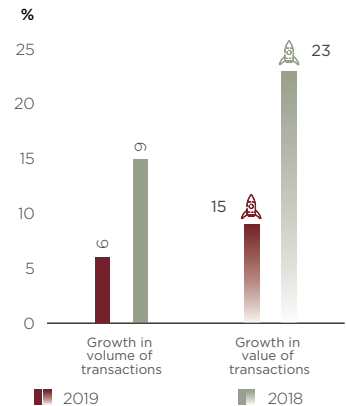
Mobile Banking Performance



Online Banking Performance



ATM and CRM Transactions



LKR 11.2 Bn
transactions processed through
mobile banking

LKR 16 Bn
deposits received
via CRMs

LKR 4.1 Bn
deposits received
through Bank2U

71%
Transactions performed through digital channels including 91% digital
withdrawals and 33% digital deposits

PHYSICAL INFRASTRUCTURE

While expanding digitally remains key, the Bank's physical expansion strategy has complemented its digital drive by establishing presence in the most optimum locations that have the most significant impact. This has enabled deeper penetration and increased brand visibility across the island, supporting the expansion of the CASA base. In 2019, the Bank opened 5 new branches in Tangalle, Digana, Hikkaduwa, Colombo Fort and Shangri-La hotel Colombo, with the last 2 being NEOS branches. NDB also expanded its leasing footprint, with the opening of 10 new leasing centres across the island and strengthened its Privilege banking proposition with the addition of 2 new PRV centres.



112
Branches

29 Branches less
than **5** years old

13 Branches in **economically
disadvantaged areas**



154

Number of **ATMs including
CRMs**

BRANCH NETWORK OF THE BANK

Ampara

Akkaraipattu
Ampara
Kalmunai

Anuradhapura

Anuradhapura
Kekirawa
Thambuttegama

Badulla

Badulla
Bandarawela
Mahiyanganaya

Batticaloa

Batticaloa
Chenkalady

Colombo

Athurugiriya
Avisawella
Battaramulla
Boralesgamuwa
Borella
Colombo 7
Fort
Hanwella
Havelock Town
Homagama
Kaduwell
Kohuwela
Kollupitiya
Kotahena
Kottawa
Maharagama
Malabe
Marine Drive
Moratuwa
Mount Lavinia
Narahenpita

Nawam Mawatha
Nugegoda
Old Moor Street
Pelawatte
Pettah
Piliyandala
Pitakotte
Private Wealth Centre
Rajagiriya
Ratmalana
Shangri-la
Wellawatte

Galle

Ambalangoda
Elpitiya
Galle
Uragasmanhandiya

Gampaha

Gampaha
Hendala
Ja - Ela
Kadawatha
Kandana
Katana
Katunayake
Kiribathgoda
Kochchikade
Minuwangoda
Negombo
Nittambuwa
Wattala
Yakkala

Hambanthota

Ambalantota
Hambanthota
Tangalle
Tissamaharama

Jaffna

Chavakachcheri
Chunnakam
Jaffna
Manipay
Nelliady
Thirunelveli

Kalutara

Aluthgama
Horana
Kalutara
Mathugama
Panadura

Kandy

Digana
Gampola
Kandy
Kandy City Centre
Katugastota
Nawalapitiya
Pilimathalawa

Kegalle

Kegalle
Warakapola

Kurunegala

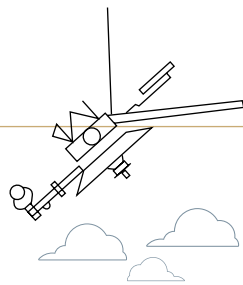
Giriulla
Kuliapitiya
Kurunegala
Narammala
Nikaweratiya
Wariyapola

Matale

Dambulla
Matale

OUTLOOK

The upgrade of the Core Banking system will be a key focus in 2020, facilitating the integration of systems to a unified, robust platform. The implementation of new modules for specific functions and the establishment of a new digital layer will be crucial in supporting the Bank's ambitious growth plans over the medium term. Further investments will also be made in strengthening the security infrastructure.



Matara

Akuressa
Matara ●

Monaragala

Monaragala

Nuwara Eliya

Nuwara Eliya ●

Polonnaruwa

Hingurakgoda
Kaduruwela

Puttalam

Chilaw
Mahawewa
Nattandiya ●
Puttalam
Wennappuwa

Ratnapura

Balangoda
Eheliyagoda ●
Embilipitiya
Kahawatte
Ratnapura ● ●

Trincomalee

Trincomalee

Vauniya

Vauniya

- 365 day Banking
- Sunday Banking
- Regional Office
- Saturday Banking

North
Central
Province

5 Branches | 6 ATMs

North
Western
Province

11 Branches | 13 ATMs

Western
Province

52 Branches | 78 ATMs

Sabaragamuwa
Province

7 Branches | 11 ATMs

Southern
Province

10 Branches | 13 ATMs

Northern
Province 7 Branches | 8 ATMs

Eastern
Province 6 Branches | 7 ATMs

Central
Province 10 Branches | 14 ATMs

Uva
Province 4 Branches | 4 ATMs



OUR GOALS AND HOW WE PLAN TO GET THERE

ENHANCE BRAND VISIBILITY AT GRASSROOT LEVEL

through customer engagement
and targeted marketing

ACHIEVE OPERATIONAL EXCELLENCE

through ongoing investments in
enhancing systems and processes



BUILD A UNIQUE BASE OF ORGANISATIONAL KNOWLEDGE

through investing in people
development

STRENGTHEN ONE NDB PROPOSITION

through leveraging on group
synergies across the Banking and
Capital market clusters



PROGRESS IN 2019



Building
our brand

- Increased top of mind awareness
and brand visibility
- Ranked among Sri Lanka's **top 20**
brands
- Active social media presence



Improving systems
and processes

- Improved productivity by
increasing revenue/employee
- Significant improvements in
process turnaround times
- Cost-to-Income ratio of **39.9%**



Organisational culture
and tacit knowledge

- Launch of **NDB NEOS**, combining
banking and wealth/investment
management solutions
- Group-wide employee interaction
- LKR 50 Mn** investment
in employee training and
development



WAY FORWARD

- Ongoing investments in enhancing system and process efficiencies
- Strengthen engagement with younger demographic through social media platforms
- Establishment of ONE NDB Group culture with digital innovations

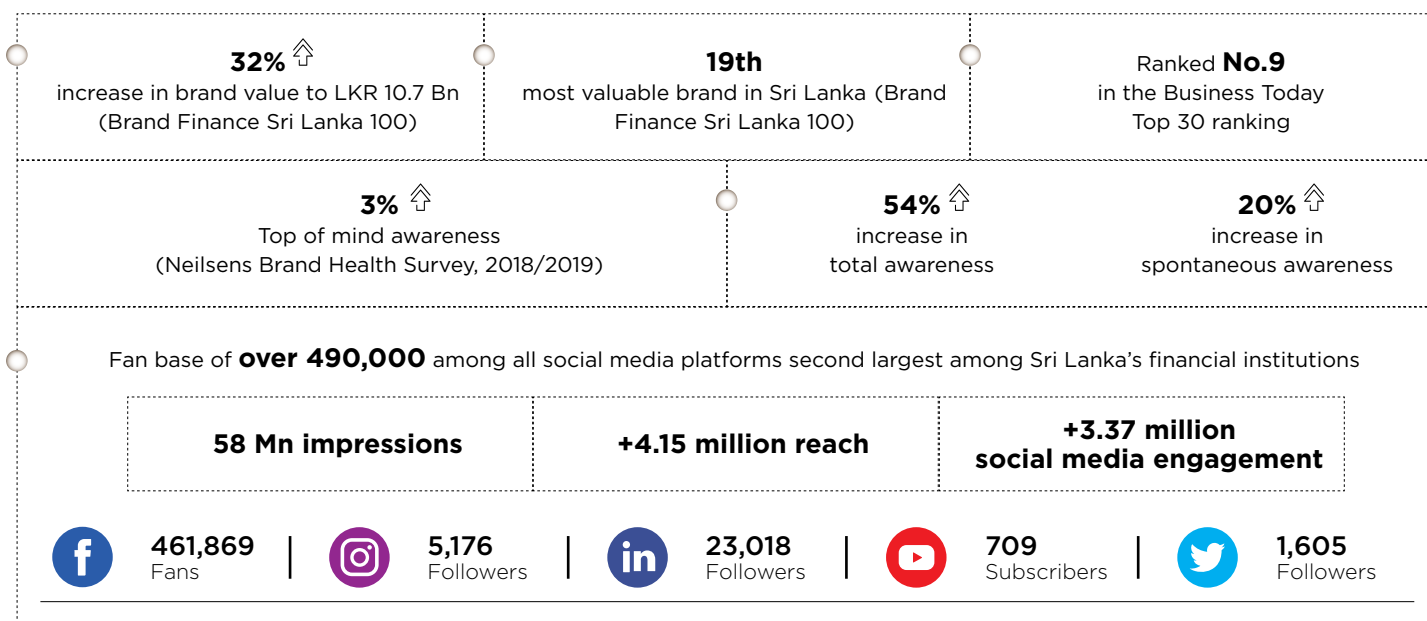
OUR BRAND

In line with its overall strategy of penetrating the retail and SME sectors, the Bank has sought to strengthen its brand visibility beyond the corporate segment. During 2019, the Bank continued to invest in strengthening its' brand by engaging with its diverse clientele, conducting mass-scale advertising campaigns, organising workshops and training programmes for grass root level micro and SME entrepreneurs and through events and sponsorships that aimed to strengthen relationships with corporates. Key brand building initiatives during the year included the following;

- Product and proposition enhancements including the launch of the ONE NDB Account, VIEW-Home loans, NDB Elevate, NDB NEOS mobile app and phygital branches
- Multiple campaigns including Avurudu and X-mas promotions and other special offers among others (refer to page 84)
- Strengthen the digital proposition offered to customers (refer to page 84)
- Unique customer engagement initiatives including Araliya Forums and Business Banking forums
- Proactive engagement through social media platforms to attract a younger demographic



The integrated approach adopted by the Bank in strengthening its brand presence through both above-the-line and below-the-line campaigns have enabled NDB to achieve consistent improvements in its Top of the Mind Awareness (TOMA), share of voice and spontaneous awareness as presented below;



ONE NDB CULTURE

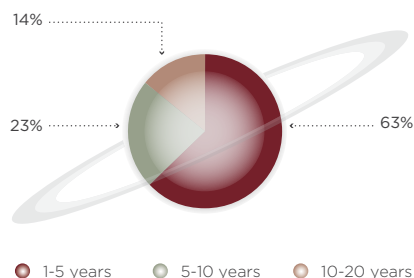
The "One NDB" concept, a pillar of the T20 strategy, is aimed at leveraging synergies between the Group's Banking and Capital Markets clusters to position NDB as a provider of integrated financial services. Over the last 2 years we invested considerable time and effort in driving this organisational change and nurturing a culture of goal congruence. To commemorate the Bank's 40th anniversary this year, we launched the ONE NDB song along with the new service credo "We go beyond". "One NDB Day" was also organised where all employees representing the Group gathered in one location to celebrate the Bank's anniversary.

SYSTEMS AND PROCESSES

A robust framework of systems and processes ensure the smooth functioning of all organisational activities and provide a solid foundation for conducting business. The Bank continues to invest in driving process efficiencies and enhancing productivity through the following initiatives which have allowed the Bank to manage the significant increase in business volumes with only a marginal increase in employees in the support functions.

- Workflow systems (refer page 113)
- Process automation (refer page 113)
- Process re-engineering and Robotic Process Automation (RPA)
- Six Sigma lean management

Employees by Tenure



Our staff receiving 'Lean Yellow Belt' Certification

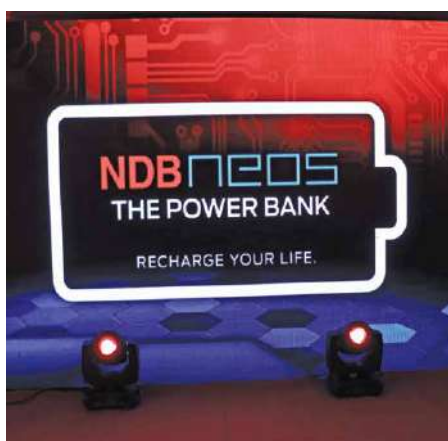
KNOWLEDGE, SKILLS AND EXPERIENCE

The collective knowledge of our diverse team, together with their skills and experience is a key source of competitive edge. Therefore, nurturing the Group's intellectual capital base through knowledge sharing and instilling a culture of learning is vital in preserving our competitive position. More than 15% of our employees have been with us for more than 10 years, allowing us to build a unique base of intellectual capital, which is passed on through culture of mentoring.

Legal Expertise

NDB's legal team comprises of 28 experienced and highly-skilled in-house lawyers with an established track record in maintaining highest professional standards. The Department supports all branches and other business and functional units by providing legal advice and opinions, drafting legal documents and safeguarding the Bank from legal risk exposures.

The Legal Department also apprises 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 to branch officers on various relevant legal services. During the year the department took a lead role in automating the SME Offer Letter and actively took part in Bank's initiative to reduce paper usage by restructuring the existing documentation of the Bank.



NDB NEOS the product proposition to our customers

Management Committee (MANCO)

A new executive committee - MANCO, was formed in 2019 with the objective of driving value added solutions across the organisation. Chaired by the COO and represented by a team of multi-functional employees, the MANCO facilitates the 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. The MANCO is also empowered to lead the implementation of these projects. While creating an effective platform to share knowledge, the MANCO is also an effective tool in enhancing the Bank's tacit knowledge and intellectual capital.

Data Analytics

Given the ubiquity of data in the current context, big data and data analytics has emerged as a key differentiator and we are proactively fostering a data driven culture where data is strategically used to derive key insights into the business. The dedicated Data Analytics Team focuses on data mining and plays a vital role in empowering business lines, engaging in behavioural data analysis, propensity modelling and predictive analytics. The knowledge and the insights of the Data Analytics Team play a critical role in driving the Bank's strategy and achieving its objectives.

Key initiatives of the Data Analytics team in 2019 included,

- Circulation of daily Asset and Liability position to CEO/Top management
- Region visits and providing guidelines for branches to improve business
- Providing data for business lines and the compliance function
- MIS/data provider for new initiatives such as Banking on Women
- Key analysis of business products (Credit cards, DML, FD)

SOCIAL & RELATIONSHIP CAPITAL



OUR GOALS AND HOW WE PLAN TO GET THERE

CREATE LONG-TERM CUSTOMER RELATIONSHIPS
through offering a unique value proposition

ACHIEVE EXCELLENCE IN CUSTOMER SERVICE
by exceeding customer expectations



NURTURE WIN-WIN RELATIONSHIPS
with business partners through mutual value creation

ENHANCE COMMUNITY TIES
by creating meaningful change through our CSR activities



PROGRESS IN 2019



Strengthening customer relationships

- Launch of Service CREDO 'We Go Beyond'
- Trained **200** service leaders on the newly introduced service SOPs
- Customer satisfaction rate - **72%**



Proactive engagement with business partners and industry counterparts

- Engagement with **4,000** partner merchant location.
- More than **16** memberships in associations
- 92** Correspondent relationships



Community value creation

- CSR investment of LKR **25 Mn**
- English language teaching programmes for **590** teachers
- 12** Employee volunteerism projects
- Environmental literacy projects for **40** schools

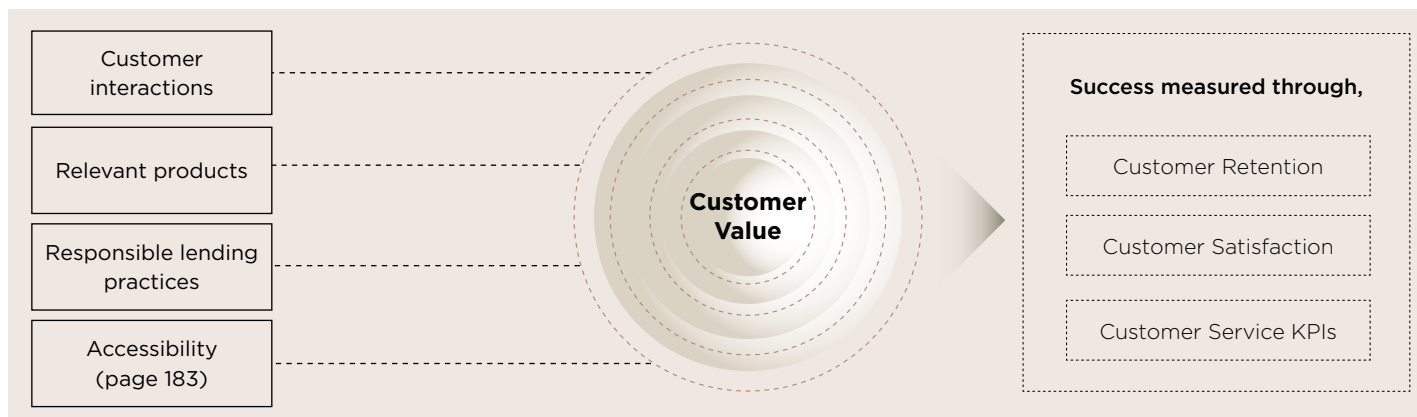


WAY FORWARD

- ➔ Strengthen the customer satisfaction survey frameworks
- ➔ Enhancing processes in line with the guidelines of Service leap
- ➔ Further enhance the scope and coverage of the Banking on Women initiative
- ➔ Ongoing investments in strategic CSR initiatives

CUSTOMER RELATIONSHIPS

Customers are at the heart of our value creation and we strive to fulfil their needs by delivering relevant products through channels of their choice while offering excellent customer service. Our customer value proposition and how we measure success is illustrated below;



Customer interactions

Customer service: The Service Leap initiative was launched in 2018 - a comprehensive programme aimed at enhancing and delivering a consistent service experience to customers across all touch points. Key initiatives carried out under Service Leap in 2019 are;

- Appointment of Service leap Core Committee to assess/evaluate service standards, conduct research and formulate Standard Operating Procedures (SOP). The Bank has also formed a Service Task Force to build a common service language and introduced CX Brand Guardian Help Desk to streamline the processes and empower staff on customer service across the bank.



- Launch of SOPs, clearly detailing the standards required to create a unique customer experience, in ensuring consistency, efficiency and effectiveness across the Bank
- "Train the Trainer" programme on the SOPs for identified service leaders

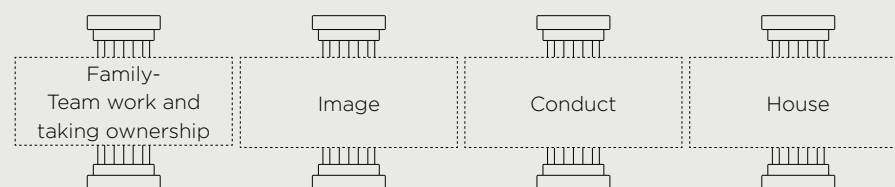
SERVICE LEAP

We Go Beyond

- Serving stakeholders with respect, care and dedication
- Inspired with truthfulness and sincerity in all our dealings
- Collective responsibility and individual accountability
- True brand representatives of NDB
- Consistent value creation for all stakeholders



Pillars of SOP



Trained 200 multi-functional service leaders

Service training for more than **2900** employees across the organisation, including the Leadership Team offering average service **training hours of 8.5**.

A dedicated Customer Experience and Contact Centre has been established inclusive of a 24x7 Customer Service Centre, Telemarketing Unit and Transaction Monitoring Unit to facilitate enhanced customer engagement.

- Launch of the new service credo "We go Beyond" which involved a series of customer service programmes conducted by an industry veteran.

Relevant products

	Retail	Commercial	SME/Micro	PIF
Investment products	○ Savings accounts (women's, minor) ○ Certificate of deposit ○ Current accounts ○ Foreign currency deposits ○ Fixed deposits	○ Current accounts ○ Foreign currency deposits ○ Fixed deposits	○ Savings accounts ○ Fixed deposits ○ Current accounts ○ Foreign currency deposits	○ Investment in listed securities
Lending products	○ Personal ○ Housing ○ Education ○ Leasing ○ NDB Good Life Credit Card ○ Salary advances ○ Solar loans ○ Pawning ○ Vismitha loans	○ Term loans ○ Working capital finance ○ Trade services ○ Leasing ○ Cash management ○ Trade card services ○ Distributor/Supplier Financial	○ CAPEX funding ○ Working capital loans ○ Terms loans ○ Leasing ○ Trade services ○ Cash management ○ Distributor/Supplier Financial	○ Term loans ○ Islamic banking for long-term financing ○ Structured debt facilities ○ Lease facilities ○ Securitisation ○ Trade services
Other	○ NDB Debit cards ○ NDB Travel Pal ○ Privilege banking ○ Safe deposit lockers ○ Remittances ○ Bancassurance			○ Services in syndications ○ Leveraged buyouts

Responsible lending practices

Our lending practices are governed by the Customer Charter, relevant policies and credit manual which ensures 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 are available in all three languages, english, sinhalese and tamil. During the year under review, there

were no instances of non-compliance of any relevant product and service information and labeling or marketing communication related regulations or guidelines.

Customer privacy: As a bank we have access to customers' confidential information, and we are cognisant of the obligation we have towards preserving this information. This is facilitated by a

culture of risk consciousness and robust information security frameworks and IT systems. Further, the bank has incorporated "customer privacy" as an integral part of the 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 2019.

Customer Education

The Bank continues to invest in providing non-financial support to customers through financial literacy programmes, capacity building and business management. These programmes target vulnerable communities including microfinance customers and women as well as SME clientele. Key activities conducted during the year include,

NDB Araliya forums	Business Banking forums	Micro finance customers
6 Knowledge sharing capacity building sessions for more than 630 women covering insights on health, well being and financial discipline	3 forums island-wide to enhance the knowledge and skills of exporters and small and medium scale business owners	Financial literacy programmes with a beneficiary base of over 2,700

Measuring Success

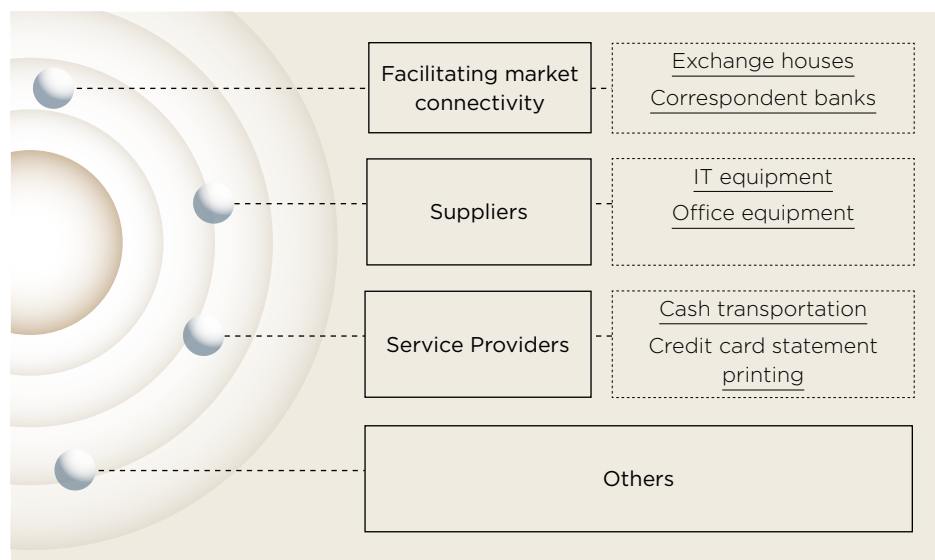
As demonstrated below, the Bank made significant progress in enhancing its customer relationships and offering enhanced customer service in line with its strategic agenda.

Indicator	Target (MOM)	Achievement 2019
Contact Centre		
Service levels of the incoming calls	To maintain 80% or more	Achieved
Abandon Rate	To maintain below 5%	Achieved
Call quality effectiveness	To maintain at 80%	Achieved
Average Call Handling Time	=< 3mins per call	Achieved
Online Channels		
Online Banking (NBO) and contact@ndb mail box response time (TAT)	80% or more to be responded within 3 working days	Achieved
Bank		
Complaints Handling Turnaround times (TAT)	70% or more to be resolved within 10 working days	Achieved
Branch Network		
Complaints Handling Turnaround times (TAT)	70% or more to be resolved within 10 working days	Achieved
Customer Feedback Scores	To maintain at 8 or above	Achieved
Mystery Customer Survey (visit and caller)	To maintain 80% or above	Achieved
Service Quality related customer complaints	Less than 10% of overall customer complaints	Achieved

In addition to above the Bank measures its Customer satisfaction by customer retention ratio and by conducting mystery shopper surveys

BUSINESS PARTNERS

We engage with many business partners including exchange houses, correspondent banks and 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; the bulk of these suppliers are local corporates and SMEs.



Industry Relationships

As a leading bank, we are aware of the contributions we can make in developing the industry through engaging with our peers. Our employees are actively involved in numerous such forums and contribute their ideas and perceptions to the betterment of the overall industry. The Bank holds membership in the following associations (among others);

- ⊙ Institute of Bankers of Sri Lanka
- ⊙ Sri Lanka FOREX Association
- ⊙ The Association of Professional Bankers Sri Lanka (APB)
- ⊙ Payment Cards Industry Association of Sri Lanka (PCIASL)
- ⊙ Association of Banking Sector Risk Professionals

COMMUNITY ENGAGEMENT



Wildlife & Environmental Conversation Project - Students Field Trip to Horton Plains

The Bank's CSR agenda has been formulated with due consideration given to national priorities, stakeholder expectations and the Bank's own social, environmental and economic objectives. The projects are aimed at driving meaningful change in the communities we operate in whilst strengthening our brand and nurturing relationships.

Sustainability Policy and Governance: A dedicated Corporate Sustainability Committee, which is represented by senior cross functional staff members from key business lines and support functions oversees the implementation of all Sustainability activities. The Sustainability policy defines four key areas of focus for CSR initiatives, namely Education, Entrepreneurship, Environment and Employee Volunteerism.

CSR Highlights in 2019

LKR 25 Mn
Total investment

Over 1000
Employees volunteered

764,221
Total estimated beneficiaries

16
No. of projects conducted

The progress we made under each of these pillars is given below;

"Empowering women entrepreneurs"



The Project

Empowerment of micro and small-scale women entrepreneurs across the country through a series of structured programmes, designed to equip them with the required skills and business knowledge essential for business success.

Objectives

- Poverty alleviation and job creation through the incorporation of women into economic activity.

Impact

- Over 8,400 women trained

Connectivity to SDGs



Entrepreneurship

"Supporting 21st Century Skills"

In partnership with British Council and the Ministry of Education

The Project

Based on the success and learning gained from the 'English for Teaching Plus' (EFT+) Projects implemented from 2012 to 2018, and aligned to Sri Lanka's skills requirements and NDB's CSR aspirations, the 2019 project aimed to prepare young people to work in a globalised 21st century economy. The 21st century (21C) skills training course was targeted towards secondary school teachers who had successfully completed the EFT+ programme. Teachers were trained on how to develop six core 21st century skills, namely;

- Critical thinking and problem solving
- Citizenship
- Collaboration and communication
- Digital literacy
- Creativity and imagination
- Student leadership and personal development.

Objectives

- Enabling learners to grow up to be creative and critically thinking citizens
- Preparing learners to deal with a fast-changing world where new technology, labour markets and digital channels entail new opportunities and pose new challenges
- Supporting the transition from school to employment for learners and increasing their employability

Mode of implementation

- British Council representatives provide intense training to teachers from Regional English Support Centres (RESC)
- Total of 120 hours of training with 18 modules and assignments
- Training focused on skills required for 21st century including critical thinking, digital literacy, leadership and creativity among others

Impact

- 590 teachers trained in 2019; over 1,600 teachers trained to date, benefitting over 270,000 students island-wide



Connectivity to SDGs



Education

“Wildlife & Environmental Conservation”
In partnership with Wildlife & Nature Protection Society of Sri Lanka

The Project

The project raises awareness of the destruction that is happening to Sri Lanka's environment and wildlife, empowering and motivating students to address these issues and be a force of change. Awareness is raised on critical issues such as climate change, deforestation, pollution, and human-wildlife conflicts.

Objectives

- ◉ Inspire a passion among the younger generation to make the changes necessary for a “better tomorrow” for ‘Wildlife & Environmental Conservation’ in Sri Lanka.

Impact

- ◉ Over 2,000 students in 40 schools in the Central, Western and Northern Province.



“Preservation of the Minneriya National Park”
In partnership with the Department of Wildlife Conservation

The Project

The project focusses on pollution control along the 14 km stretch which borders the Park and the Jungle Corridor, provision of water to animals during the dry season and equipping the Trackers and Drivers.

Objectives

To preserve our National Heritage for the future generations.

Impact

Present and future generations

Connectivity to SDGs

4 QUALITY EDUCATION



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



15 LIFE ON LAND



Environment

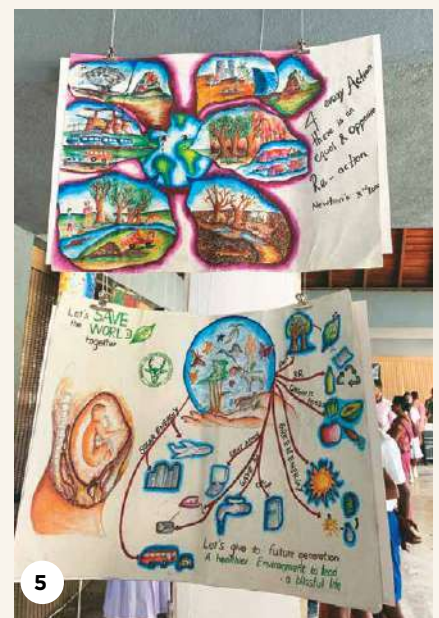
EMPLOYEE VOLUNTEERISM

Conducted as an ongoing initiative, employees are encouraged to conceptualise and implement CSR projects across the island. In 2019, projects were themed under the pillar of ‘Environmental Preservation’ and 12 teams from head office and the regions implemented 12 projects across the island. This approach towards CSR has enabled the inculcation of responsible behaviour among employees while nurturing a spirit of camaraderie.

The projects are estimated to have benefitted over 280,000 people while preserving the ecosystem with over 1,000 employees contributing over 8,500 man hours.

Category	Project
Climate Change Mitigation	◉ Restoring 3,400 mangrove plants covering over a hectare in Kalpitiya.
Pollution Control and Conservation	◉ Promoting the free mobile app “ManKiwwa” among the citizens of Biyagama and Kotte, to report environmental issues such as garbage dumping, dengue breeding hotspots, broken sewage lines, blocked canals, broken roads, etc. ◉ Educating the public on pollution control and taking ownership to keep their community and country clean.
Improving eco-system services	◉ Home gardening project amongst pregnant mothers and school children. ◉ Raising awareness on organic food and environmental conservation.
Pollution Control and Conservation	◉ Garbage collection and clean-up of the Panirendawa Forest Reservation Border. ◉ Greening the area by planting 500 trees to minimise air and water pollution.
Reforestation	◉ Increasing forest cover to prevent soil erosion and landslides. ◉ Planting 2000 plants in the Nikoloya Estate and boundary of the Pitakanda and Bandarapola estates.
Pollution Control and Conservation	◉ Garbage collection, clean-up and renovation of the Maharagama Railway Station and surrounding area. ◉ Educating the business entities and residents in the area on proper garbage disposal and environmental conservation. ◉ Removing breeding habitats of dengue vectors and distributing 1,000 mosquito repellent plants among the public.
Improving eco-system services	◉ Promoting home gardening by planting 200 fruit trees in residential houses from Ratmalana to Moratuwa area.
Pollution Control and Conservation	◉ Garbage collection and clean-up of the ‘Magalla Wewa’ Tank in the Kurunegala District. ◉ Planting 30 ‘Kumbuk’ trees, installing ‘Garbage bins’ and ‘Eco Awareness Boards’ along the Tank bund and awareness raising on proper garbage disposal and environmental conservation.
Promoting a Sustainable Livelihood	◉ Planting 1,200 coconut plants in Kalpitiya and providing low income families a sustainable livelihood.
Pollution Control and Conservation	◉ Improving sanitary conditions in a village in Katuwela, Medawachchiya.
Biodiversity enrichment and habitat conservation	◉ Restoration of degraded forest patches by planting over 700 native floral species in a land extent of 01 acre in the ‘Yagirala Rainforest Reserve’. ◉ Eradication of invasive plant species.
Reforestation	◉ Tree planting project in 5 schools and in the areas of Polikandy, Valvettithurai and Thunnalai, in the Vadamarachchy area.

Connectivity to SDGs



01. NDB volunteers cleaning the 'Magalla Wewa' Tank in the Kurunegala District

02. Setting Up Nature Clubs in Schools under the 'Wildlife and Environmental Conservation Project'

03. Garbage Collection and Clean up of Maharagama Railway Station by NDB Volunteers

04. Students field trip to Wilpattu National Park under the 'Wildlife and Environmental Conservation Project'

05. 'Colouring our Future 2019' Eco poster competition under the 'Wildlife and Environmental Conservation Project'



OUR GOALS AND HOW WE PLAN TO GET THERE

CONTRIBUTE TOWARDS ENVIRONMENTAL SUSTAINABILITY

through responsible lending decisions

DIRECT INCREASED FUNDING TO THE RENEWABLE ENERGY SECTOR



MINIMISE ADVERSE ENVIRONMENTAL IMPACT OF OUR OPERATIONS

through the optimum use of resources

PROPAGATE GOOD ENVIRONMENTAL PRACTICES

among our customers and communities



PROGRESS IN 2019



Responsible lending practices

- Screened **2,223** facilities for social and environmental criteria
- Reduced paper usage through process automation and digitisation



Promote renewable energy generation

- LKR 214 Mn** funds channelled towards renewable energy



Propagate good environmental practices

- Environmental literacy programmes for schools
- Creating employee awareness on environmental conservation



Resource efficiency

- 16%** improvement in energy intensity
- 20%** reduction in carbon intensity
- 11,971 Kgs** of waste paper recycled

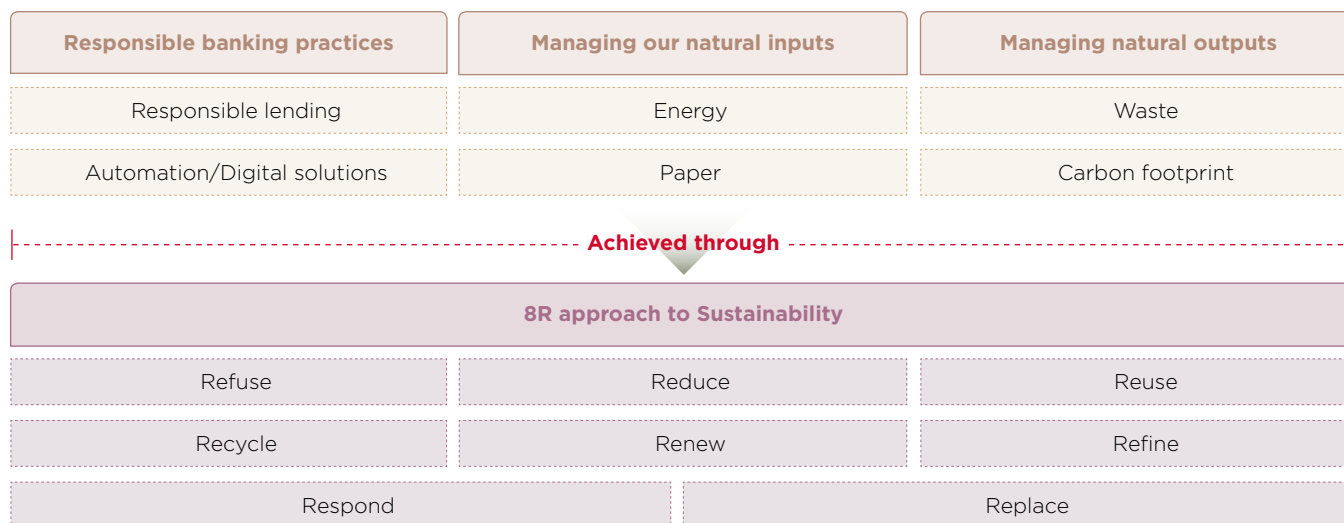


WAY FORWARD

- Continuous investment in developing products and processes that are environmentally and socially responsible
- Encouraging customer migration to digital platform

MANAGEMENT APPROACH

The Bank has in place a comprehensive environmental management framework which clearly defines the objectives, methods and monitoring mechanisms in managing its impact to the environment. The framework is an effective tool in minimising the Bank's environmental impacts and contributing to the long-term sustainability of natural resources. The framework is graphically illustrated below;



RESPONSIBLE BANKING

Responsible lending practices

⊙ Environmental and Social Screening

ESMS is an integral part of the Bank's Credit 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 at times incorporated to the terms and conditions of the funding offered to the project.

Compliance with the framework is monitored by a dedicated cross functional team which includes an Environmental and Social Coordinator and a Technical Champion. In addition, relationship managers in relevant departments who have been trained in the day to day operation of the ESMS, follow up on the client's environmental licences annually and engage in regular project visits.

●	2,223 facilities screened
●	Terms and conditions revised in zero facilities
●	Zero facilities rejected due to E&S concerns

ESMS Policy architecture



Green lending

As a Bank, we believe our most significant environmental contribution is through propagating environmental consciousness beyond our organisational boundaries to our customers and communities by engaging in responsible/green lending practices. Since 2017, we have placed

strategic emphasis on lending to the renewable energy sector, which will positively impact the environment, through avoidance of harmful emissions of gases such as Carbon Dioxide (CO₂), Sulphur Dioxide (SO₂) and Nitrogen Oxide (NO_x).



Funding renewable energy projects

The Bank's funding for hydro, solar, waste to energy and bio-mass projects has been estimated to eliminate 390,000 tonnes of CO₂ emissions, equivalent to the emissions of 83,000 vehicles.

Only bank to support wind power projects in the North and East by funding two 10MW wind power projects in Jaffna.



LKR 214 Mn

Loans granted under the rooftop solar power project



Leasing facilities granted for hybrid vehicles



Digital Banking Services

Automation/Digital solutions

Ongoing investments in process automation and digital customer solutions have enabled the Bank to reduce consumption of natural resources, particularly paper. This includes migration of customers to E-statements, increased usage of digital channels including ATM, mobile and online banking solutions, branchless banking and automation of key processes among others.

8R APPROACH TO SUSTAINABILITY

The Bank adopts the 8R approach to environmental sustainability which has enabled it to be mindful of the direct and indirect environmental impacts of its operations while driving organisation-wide initiatives to optimise resources. These efforts have helped reduce the adverse environmental impacts of our operations while propagating sustainable environmental practices among our clients.

Area of focus	Initiatives and impact																								
Refuse Refuse transactions and decisions that are harmful to the environment 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	Responsible Lending The 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 Zero facilities/loans rejected due to harmful environmental impacts																								
Reduce Reduce utilisation of scarce resources 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Impact <table><tr><th></th><th>2019</th><th>2018</th><th>Change %</th></tr><tr><td>Purchased Electricity (kWh)</td><td>5,597,696</td><td>5,857,158</td><td>(4)</td></tr><tr><td>Fuel consumption</td><td></td><td></td><td></td></tr><tr><td> Petrol (litres)</td><td>47,273</td><td>25,718</td><td>84</td></tr><tr><td> Diesel (litres)</td><td>18,988</td><td>10,463</td><td>81</td></tr><tr><td>Diesel consumption in generators</td><td>43,677</td><td>33,236</td><td>31</td></tr></table>		2019	2018	Change %	Purchased Electricity (kWh)	5,597,696	5,857,158	(4)	Fuel consumption				Petrol (litres)	47,273	25,718	84	Diesel (litres)	18,988	10,463	81	Diesel consumption in generators	43,677	33,236	31
	2019	2018	Change %																						
Purchased Electricity (kWh)	5,597,696	5,857,158	(4)																						
Fuel consumption																									
Petrol (litres)	47,273	25,718	84																						
Diesel (litres)	18,988	10,463	81																						
Diesel consumption in generators	43,677	33,236	31																						

Area of focus	Initiatives and impact											
Reuse Reuse waste material without processing 	- Organisation-wide efforts to minimise the use of paper – Eg: encouraging electronic platforms when communicating - Reusing stationery items such as files, A4 papers and envelopes - Donation of long-term assets such as computers and furniture to deserving institutions Impact <table><tr><th></th><th>2019</th><th>2018</th><th>Change %</th></tr><tr><td>Paper consumption</td><td>57,055 kg</td><td>53,402 kg</td><td>7%</td></tr></table>		2019	2018	Change %	Paper consumption	57,055 kg	53,402 kg	7%			
	2019	2018	Change %									
Paper consumption	57,055 kg	53,402 kg	7%									
Recycle Recycle used material 	The Bank has collaborated with Neptune Papers to recycle waste paper that is generated from its daily operations. In 2019, 11,971 kgs of waste paper was sent for recycling which translated to savings of, 204 fully grown Trees 21,009 litres of Oil 47,884 kwh of Electricity 380,438 litres of Water 36 cubic meters of Land Fill - Reduction of green-house gas emissions by 11,971 kgs of Carbon equivalent											
Renew Promote renewable energy 	Funding of eco-friendly projects such as, effluent treatment plants, resource efficient plant & equipment, compost manufacturing plants, solar panels, water purification plants, sewage treatment plants, eco-friendly machinery and eco paper packaging. Impact Lending towards renewable energy projects: LKR 214 Mn.											
Refine Refine and build capacity of internal and external customers	Environmental literacy programmes for schools - Educate and encourage environmental conservation & value addition. Impact 2,034 students and 80 teachers from 40 schools											
Respond Respond to the environmental needs of our nation	- Developing responsible products and lending practices to address environmental issues. - Continuous product and process innovation through automation. - Adopting a Sustainable Procurement and Supplier Policy which sets out economic, social and environmental screening criteria when evaluating suppliers.											
Replace Replace resources that have been used 	- Tree planting projects with employee volunteerism. Impact - No. of trees planted during the year: 9,830	 Restoring mangrove forests in Kalpitiya										

CARBON FOOTPRINT

Implications of climate change: According to the World Economic Forum's Global Risks Report for 2019, environmental risks pose the most significant threats, with extreme weather, natural disasters and failure of climate change mitigation ranking among the top risks both in terms of likelihood and impact. 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 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.

	2019 (tCO ₂ e)	2018 (tCO ₂ e)	Change Y-o-Y (%)
Scope 1			
Combustion in mobile sources	174	91	91
Stationary combustion	125	95	31
Scope 2			
Purchased electricity	2295	2401	(5)
Scope 3			
Employee business travel	56	45	24
Total	2594	2633	(1)

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- 2019

Introduction and scope of the engagement

The management of National Development Bank PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2019 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 82 of the 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 Company's responsibility for the Report

The management of the Company 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 Company in accordance with our engagement letter dated 27 November 2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company 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 company'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 Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 December 2019.
- 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 82 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 December 2019.
- 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 Company'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 2020

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 FCMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA FCMA 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 FCMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Material topic and why it is material to us	Correspondent GRI topic and disclosures
1. Profitable growth Sustainable and profitable growth is essential in driving shareholder value and serving the Bank's purpose.	
2. Operational efficiency Driving efficiencies and increased productivity through automation leads to effective cost management, transforming the experience of both internal and external customers.	
3. New markets As the Bank pursues its transformational journey of emerging as a systemically important bank by 2020, entering new markets and deeper penetration in existing markets is a key priority.	
4. Talent attraction Attracting employees with the right skills and attitudes to drive our strategic aspirations is critical to the continued creation of shared value	⊙ 401 : Employment ⊙ 405 : Diversity and equal opportunity
5. Employee satisfaction Motivating our employees and nurturing a culture of in which they can thrive is vital in meeting our people objectives.	⊙ 402 : Labour management relations
6. 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.	⊙ 404 : Training and education
7. Facilitating financial inclusion Providing access to affordable financing across the country enables the Bank to meet both its financial and sustainability objective	
8. Customer education and financial literacy In nurturing mutually beneficial customer relationships we strive to provide a holistic proposition that extends beyond mere financial support.	
9. Technology and digital channels With digitalisation transforming the way financial institutions interact with customers, Banks who are unable to respond to this dynamic is likely to see an erosion in competitive edge.	
10. Responsible lending We are committed to preserving the rights of our customers and ensuring compliance to all relevant product and marketing regulations.	⊙ 417 : Marketing and labelling

Material topic and why it is material to us	Correspondent GRI topic and disclosures
11. Customer privacy As risks related to cyber security and information systems intensify, preserving confidential customer data is a key priority for most banks.	⊙ 418 : Customer Privacy
12. 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	⊙ 201 : Economic Performance ⊙ 202 : Market Presence
13. 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.	⊙ 301 : Materials ⊙ 302 : Energy ⊙ 305 : Emissions ⊙ 306 : Effluents and waste
14 . Community engagement The Bank's CSR initiatives are targeted towards driving meaningful change in the communities we operate. This facilitates our social license to operate while achieving the Bank's social objectives.	⊙ 413 : Local Communities

MISSION CONTROL

300 | 40000 | 5559202

Altitude (Terrain):	410000--Mm
Horizontal Speed:	15,283,00m/s
Vertical Speed:	5,599,985,000m/s

04 RISK MANAGEMENT & CORPORATE GOVERNANCE



Animated by a spirit of candour and transparency, we go well beyond the statutory requirements of disclosure to bring our stakeholders a detailed, accurate picture of our systems for corporate governance and regulatory compliance, and report on how these functioned in the year under review.

APPROACH TO RISK MANAGEMENT

NDB's value creation is underpinned by a robust and consistent risk management framework which ensures that our strategy is carefully aligned to our risk appetite in delivering shareholder returns. The Bank's comprehensive Integrated Risk Management (IRM) Framework, is regularly reviewed and strengthened to remain relevant in an increasingly dynamic operating landscape; it clearly defines governance structures and processes for identifying, measuring, monitoring and controlling the Bank's risk exposures. The subdued economic conditions in recent years, coupled with the significant changes to the regulatory frameworks have compelled banks to strengthen risk management capabilities and insights to ensure resilience and the continued creation of stakeholder value

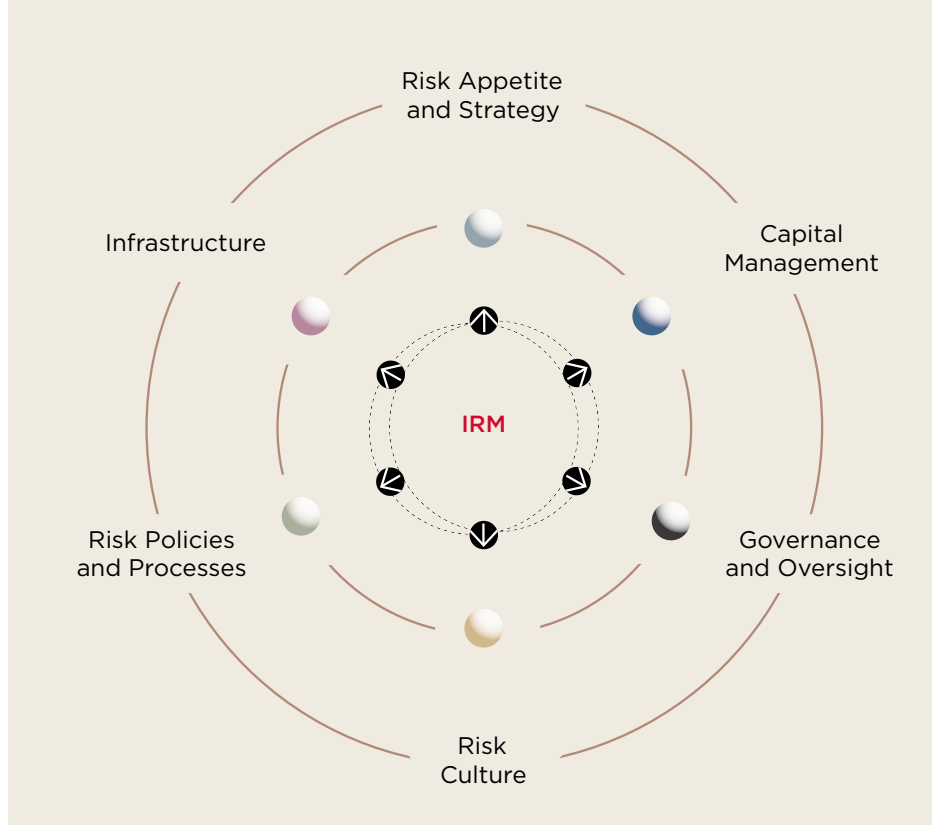
Risk Governance: The Bank's Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. In discharging its risk-related responsibilities, it is supported by two key committees, namely the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) and several executive level committees. The risk structure is based on the three lines of defence and aims to drive accountability and ownership while facilitating an appropriate level of independence and segregation of duties.

Risk Appetite: The Bank's risk appetite defines its desired forward-looking risk profile translating into operational measures such as limits or qualitative checkpoints for capital, earnings volatility and concentration risk among others.

STRENGTHENING THE BANK'S RISK MANAGEMENT FRAMEWORK IN 2019

- ⦿ Ongoing investments in strengthening digital infrastructure and automating processes
- ⦿ Establishment of an Independent Financial Analysis unit (for Corporate) and Remedial Management Unit
- ⦿ Further strengthening of collection and recovery mechanisms
- ⦿ Strengthening of the Risk and Control Self Assessment (RCSA) process across Bank and Group
- ⦿ Focus on re-engineering business processes to ensure increasing reliability, efficiency and accuracy
- ⦿ Proactive and smart management of net interest margins in a scenario of lending and deposit caps
- ⦿ Strengthened capital position by raising LKR 5.56 Bn through a BASEL III compliant debenture issue

INTEGRATED RISK MANAGEMENT FRAMEWORK



RISK LANDSCAPE

The risk landscape presented numerous challenges in 2019, particularly in the credit risk management front given moderating economic conditions and an industry-wide deterioration in portfolio quality. This compelled most banks to strengthen collection and monitoring mechanisms while curtailing lending to relatively risky segments of the market. Accordingly, the industry's credit growth moderated to 5.6% in year 2019, as several key sectors such as tourism, construction and trade recorded sharp downturns while persistent droughts impacted the country's Agriculture sector. Meanwhile, the increasing thrust towards digitisation has increased the sector's vulnerability to cyber and IT risks, underscoring the importance of maintaining robust IT Risk Management Frameworks.

EXTERNAL DRIVERS

Risk	Trend	Mitigants
Global and domestic economic outlook		The Bank continues to proactively monitor global and domestic economic trends in assessing potential portfolio impacts. We also conducted comprehensive stress testing exercises to assess potential impacts under a range of scenarios.
Implications of climate change		Globally, implications of climate change and failure to address to these dynamics have emerged as a key risk. The impact on the Bank arises from its impacts on the lending portfolio, particularly with natural disasters and erratic weather conditions affecting sectors across the economy.
Government policy		Monetary and fiscal policy implications such as changes to the tax regime, policy rates, import restrictions and concessions to certain customer segments among others have a direct impact on the Bank's operation and are monitored on a continuous basis
Turning of the credit cycle		As the industry witnessed a broad-based deterioration in portfolio quality, the Bank sought to further strengthen its credit risk management activities.
Regulatory implications		Ongoing review of key regulatory developments, active participation in industry groups and systematic process in place to ensure compliance for all relevant regulations and guidelines.
Cyber threats and technological disruption		Strengthened the IT governance and infrastructure through investments in security, new hardware and advanced systems.



Risk unchanged in 2019



Risk heightened in 2019

KEY RISKS

Credit Risk: Although weakening in line with broader industry trends, the Bank continued to maintain its credit quality indicators at acceptable levels. A diversified portfolio coupled with the curtailment of lending to relatively risky segments and ongoing emphasis on strengthening collection and monitoring mechanisms enabled the Bank to limit its gross NPA ratio to 4.77%. Meanwhile the rated portfolio composition was within the risk appetite of the Bank set by the Board, with 78% of the rated portfolio concentrated in investment grades. The anticipated improvement in macro-economic conditions and investor sentiments coupled with the Bank's efforts to pursue selective lending opportunities across its key verticals are expected to enable the preservation of portfolio quality over the medium to long-term.

Market Risk: Market risk indicators were maintained in line with the Bank's risk appetite during the year. Interest rate risk was managed effectively through proactive monitoring of interest rate trends and maturity mismatches and timely repricing decisions. The Bank's consolidated foreign exchange position and the exposure held against the Bank's capital base was managed well within the regulatory limit of 30%. Meanwhile exposure to equity risk is limited as the Bank does not engage in equity trading at present.

Liquidity Risk: The Bank maintained adequate liquidity buffers during the year with the statutory liquid asset ratio for the DBU and FCBU clocking in at a respective 20.93% and 24.74% as at end-December 2019. We also maintained a diverse funding profile, with increased

contribution from deposits-attesting to the Bank's improving deposit franchise. Deeper penetration in the retail segment has also allowed for the mobilisation of a more granular deposit base.

Operational Risk: Operational risk indicators were maintained in line with the Bank's defined risk appetite. Total losses for 2019 amounted to 0.026% of the operating profits after provisions, a marginal reduction compared to 2018. All losses during the year were those in the high frequency/low impact bucket out of which 75% contained individual loss events less than LKR 50,000. We are also cognisant of the increasing threat of cyber and IT risks and strive to continuously update digital defences to meet the challenges of the evolving landscape.

Strategic Risk: The Bank follows a holistic process for setting strategy and plans are drawn at various level of granularity. Following the success of the Group's Transformation 2020 Strategy, in 2019 NDB sought to formulate its strategic plan beyond 2020 to a 5 year horizon. This is consistent with the successful strategy executed in the past few years and will set the Group on a strong growth trajectory to deliver superior stakeholder returns.

OUTLOOK

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.

Please refer page 366 to 401 for detailed information on the Bank's Risk Management Approach.

CHAIRMAN'S MESSAGE



Dear Stakeholders,

I firmly believe that the role of the Board of Directors is to facilitate the creation of long-term sustainable value to shareholders and other stakeholders. In order to achieve this, it is essential that the Group's operations are founded on a robust corporate governance framework, which drives effective leadership and ensures accountability while setting the right tone at the top. The Bank's governance structure and principles also provide clarity regarding the rights and responsibilities of different stakeholders including the Board of Directors, senior management, control functions, employees, external auditors and the regulators.

A key area which the Board focused on during the year was reviewing and extending the Transformation 2020 Strategy for a vision of 5 years to design a future-ready Bank. The Board also spent significant time exploring and deliberating avenues for raising Tier 1 Capital and formulating a holistic IT strategy aligned to the Group's growth aspirations.

BOARD AND COMMITTEE CHANGES

We believe it is important to have a balance of continuity and fresh thinking on the Board, the Board underwent considerable changes during 2019, following the retirement/resignation of 6 Directors and the appointment of 3 new Directors. I join the Board in extending my gratitude to the outgoing Directors whose invaluable contributions over the years have been crucial in driving NDB forward. The appointment of Mr. Bernard Sinniah as an Independent Non-Executive Director, Mr. E A Rathnaseela as a Non Independent

Non-Executive Director and Dr. Dinusha Panditaratne as an Independent Non-Executive Director have further enhanced the skill profile of the Board, bringing in new knowledge and perspectives. Mr. Bernard Sinniah also joined the Integrated Risk Management Committee (IRMC), Board Audit Committee (BAC) and Board Credit Committee (BCC) with effect from May 2019 while Mr. E A Rathnaseela was appointed to the IRMC, BAC and Related Party Transactions Review Committee (RPTR) in June 2019 and Dr. Dinusha Panditaratne was appointed to the Human Resources and Remuneration Committee (HRRC) and Nominations Committee (NC) in July 2019. Further information on the process followed when appointing Directors is available on page 145 of this Report.

ASSESSING BOARD EFFECTIVENESS

The Board and Subcommittees engage in an internal review of the Board's effectiveness on an annual basis, in line with the best practices recommended by the Code of Best Practices on Corporate Governance. This process was conducted in 2019 and was overseen by the Company Secretary. Details of the self-assessment process is given on page 150 of this Report.

STAKEHOLDER ENGAGEMENT

We understand the importance of listening to the concerns and views of our shareholders and other diverse stakeholders. The Group operates multiple platforms facilitating stakeholder engagement and the Board is kept informed of these views through regular updates provided by the relevant stakeholders. A dedicated Investor Relations Department and the Company Secretary is available to meet with shareholders if required. Further information on the Group's stakeholder engagement during the year can be found on pages 64 to 67 of this Annual Report.

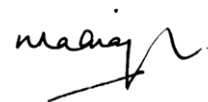
CULTURE AND VALUES

The Board's role is to create and preserve value, not just for shareholders but for the wider stakeholder universe. In this endeavour, personal accountability and how we behave is instrumental in driving the creation of shared value. The Bank's

internal Code of Corporate Governance and the Compliance Policy and Code of Conduct provides clear guidelines towards achieving a positive culture by living the core NDB values of Integrity, Excellence, Accountability, Creativity, Dependability and Sincerity in engaging with both internal and external stakeholders.

COMPLIANCE

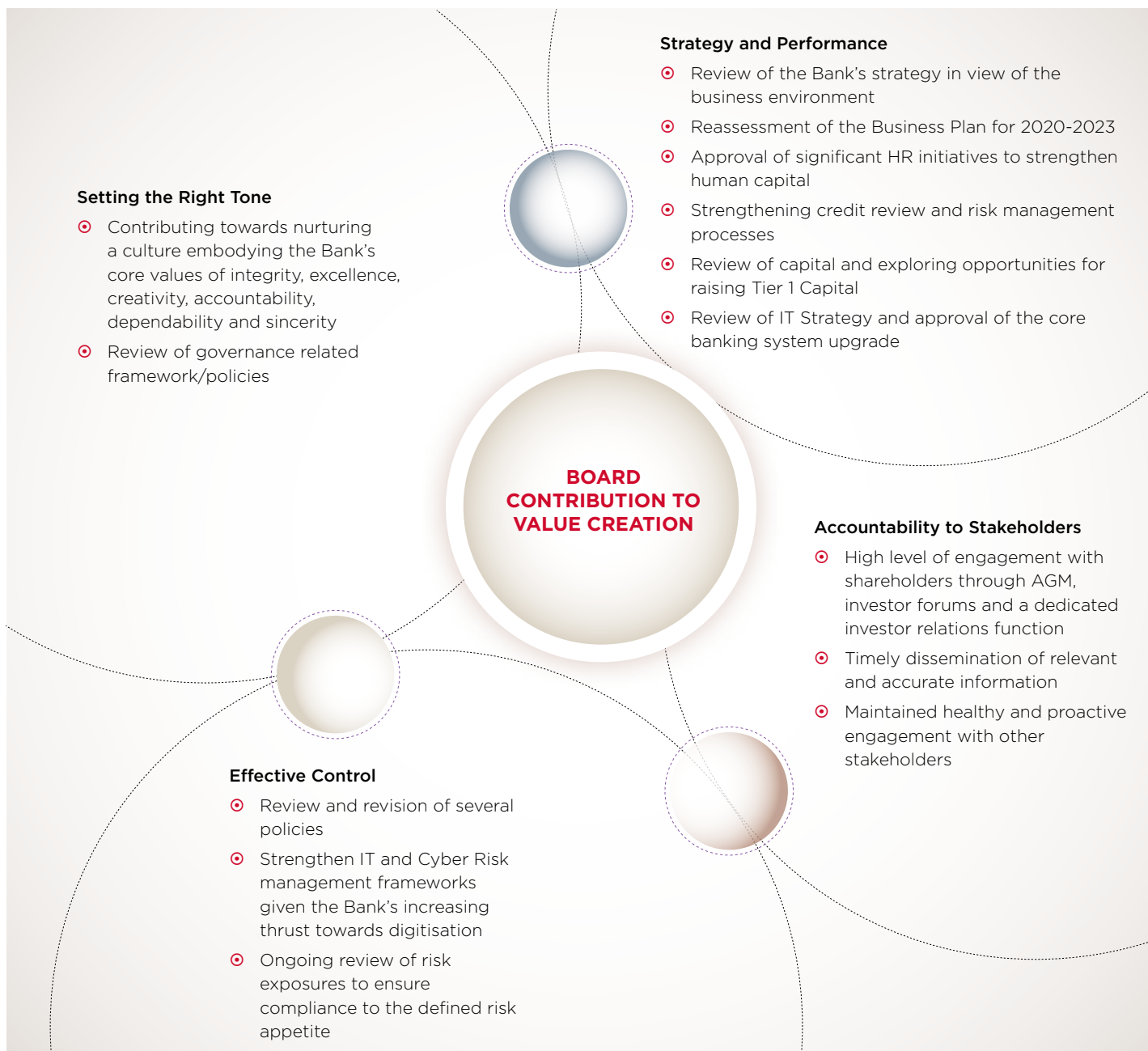
This Report details the "Factual Finding Report" submitted by the External Auditors in relation to the compliance with the Banking Act Direction No 11 of 2007 on Corporate Governance (as amended) issued by the Central Bank of Sri Lanka. Further as stipulated by the Code of Best Practices on Corporate 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. Kavan Rathnayaka
Chairman

As part of our continuing efforts to enhance the readability and relevance of our Corporate Governance disclosures, this Report provides a high-level overview of how the Board created value to the Organisation during the year, including its key area of focus and how it operated during the year. Detailed information regarding the Bank's compliance with Corporate Governance Directions issued by CBSL and Code of Best Practice on Corporate Governance are available on pages 324 to 365 of this Report.

CORPORATE GOVERNANCE HIGHLIGHTS OF 2019



BOARD CHANGES

New appointments up to date

- Dr. Dinusha Panditaratne
- Mr. Bernard Sinniah
- Mr. E A Rathnaseela
- Mr. Sujeewa Mudalige (Appointed w.e.f. 06/01/2020)

New skills added to the Board

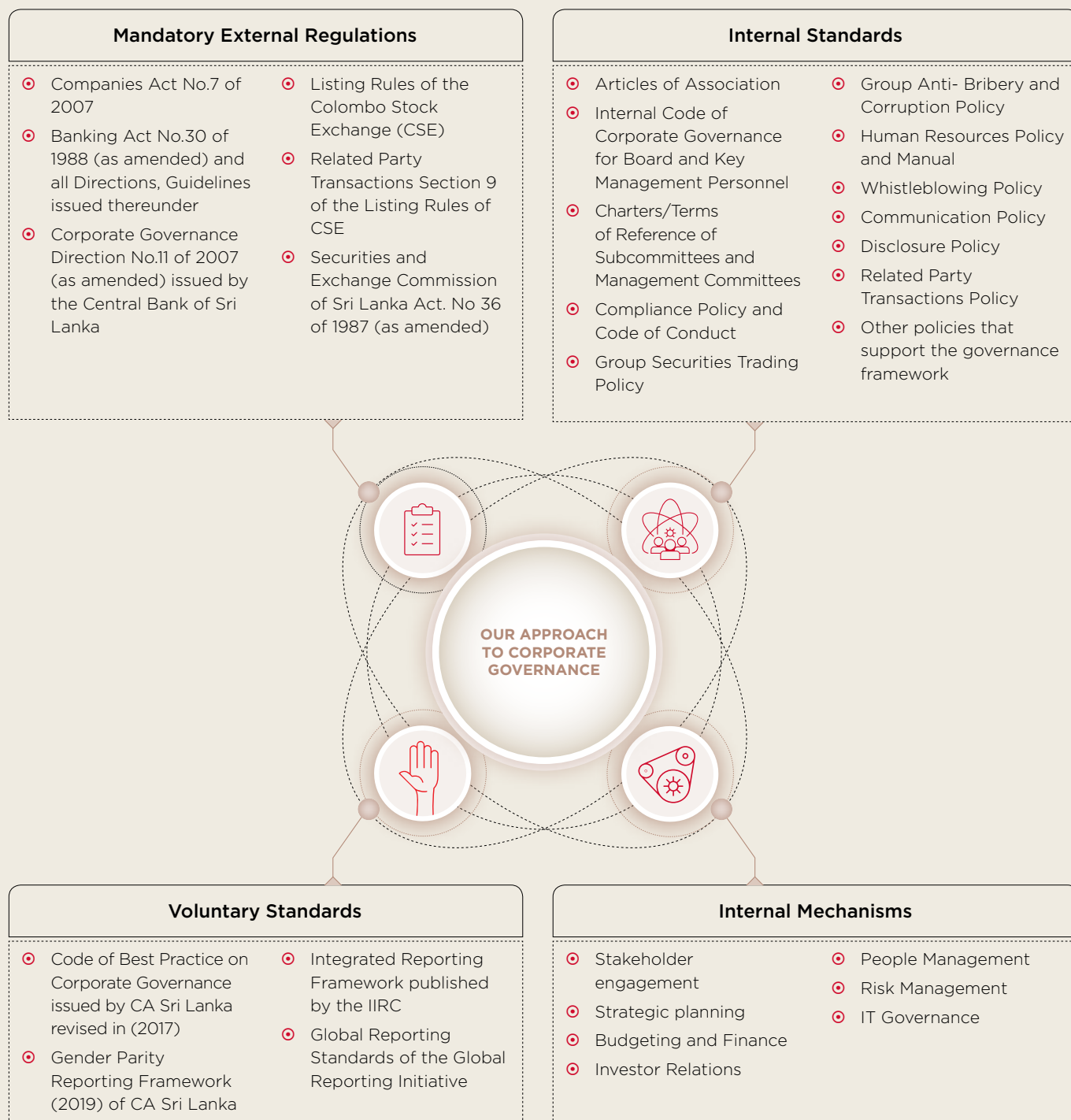
International / Business Law, Banking, Sales, Management, Accounting, Auditing and Financial Analysis

Retirements/Resignations up to date

- Dr. Ananda Athukorala
- Ms. Kimarli Fernando
- Mr. Sarath Wikramanayake
- Mr. Trevine Jayasekara
- Mrs. Indrani Sugathadasa
- Mr. Ranasinghege Semasinghe
- Mr. E A Rathnaseela

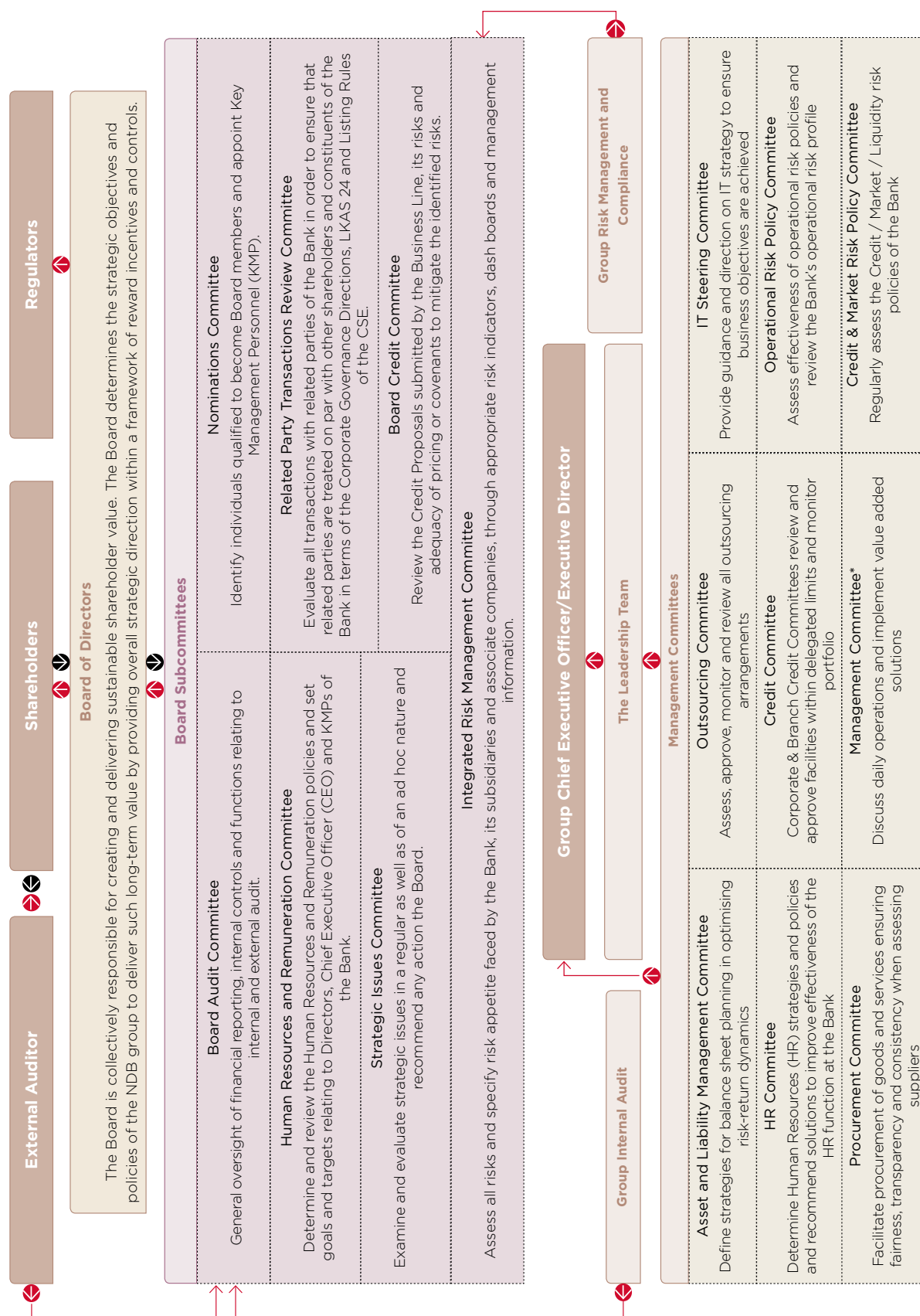
APPROACH TO CORPORATE GOVERNANCE

NDB's Governance Framework has been designed to meet stakeholders' expectations and ensure an appropriate balance of authority, accountability and empowerment across key decision-making units. Anchored on an effective leadership, a strong organisational culture, effective internal controls and accountability to stakeholders the governance framework extends beyond compliance to embrace international best practices and voluntary standards. The framework is built on the following external and internal steering standards.



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 the Terms of References, thereby providing specific levels of discretion within which they can operate.



*MANAGEMENT COMMITTEE (MANCO)

Formed in 2019 and chaired by the Chief Operating Officer, the MANCO is represented by a team of multi-functional employees who share ideas and generate solutions to any operational issues that may arise, including problems related to products and services, systems, customer issues and staff-related issues among others. The MANCO is also empowered to lead the implementation of these projects and has emerged as an effective platform in driving value-added solutions across the organisation.

COMPETENT LEADERSHIP

Board of Directors



Independent Non-Executive Directors (including Chairman)

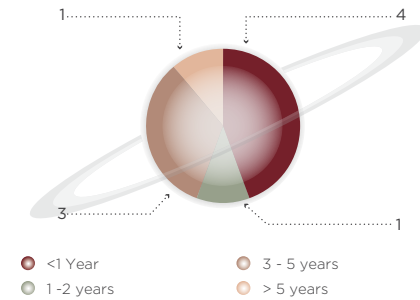


Non-Independent
Non-Executive Directors

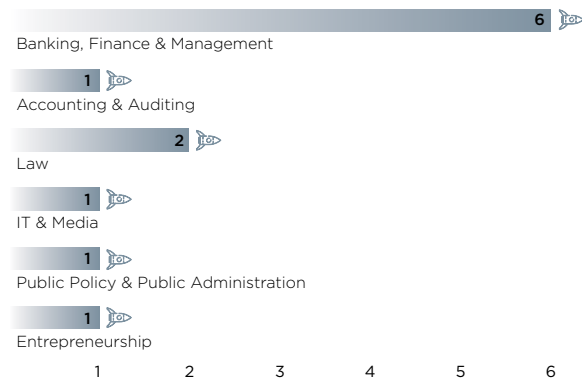


Non-Independent
Executive Director/GCEO

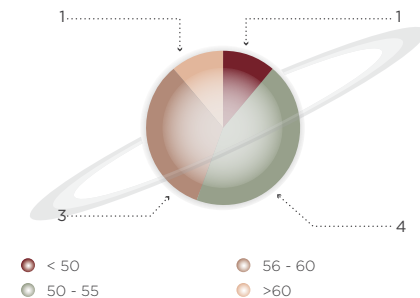
Tenure on the Board



Industry Experience



Age Representation



All information provided is as at 18 February 2020.

Mr. Kavan Ratnayaka

Independent & Non-Executive
Director - Chairman

Expertise in Management,
IT and Media



Mr. Dimantha Seneviratne

Non-Independent
Executive Director/GCEO

Expertise in Banking, Finance and
Management



Mr. Ashok Pathirage

Non-Independent & Non-Executive Director
(Retired w.e.f 18/02/2020)

Expertise in Retail Trade, Insurance and
Entrepreneurship



Mr. Sriyan Cooray

Independent & Non-Executive Director

Expertise in Banking, Finance and
Management

Board Audit Committee

Strategic Issues Committee

Nominations Committee

Board Credit Committee



Mr. Dinal Phillips, PC

Independent & Non-Executive Director

Expertise in Law (Litigation)



Dr. Dinusha Panditaratne

Independent & Non-Executive Director

Expertise in Law
(International/Business Law)



Mr. Bernard Sinniah

Independent & Non-Executive Director

Expertise in Banking, Sales and Management



Mr. Sujeewa Mudalige

Independent & Non-Executive Director
(Appointed w.e.f. 06/01/2020)

Expertise in Accounting, Auditing,
Financial Analysis and Management



Mr. E A Rathnaseela

Non-Independent & Non-Executive Director
(Resigned w.e.f. 20/01/2020)

Expertise in Public Policy, Management and Finance

● Related Party Transactions Review Committee

● Human Resources and Remuneration Committee

● Integrated Risk Management Committee

Board Retirements and Resignations during 2019



Mr. Ananda Atukorala

Independent & Non-Executive Director/
Chairman

(Retired w.e.f. 17/04/2019)



Mrs. Kimarli Fernando

Non-Independent & Non-Executive Director
(Retired w.e.f. 01/06/2019)



Mr. Sarath Wikramanayake

Non-Independent & Non-Executive Director
(Retired w.e.f. 01/06/2019)



Mr. Trevine Jayasekara

Independent & Non-Executive Director
(Retired w.e.f. 08/02/2019)



Mrs. Indrani Sugathadasa

Independent & Non-Executive Director
(Retired w.e.f. 01/09/2019)

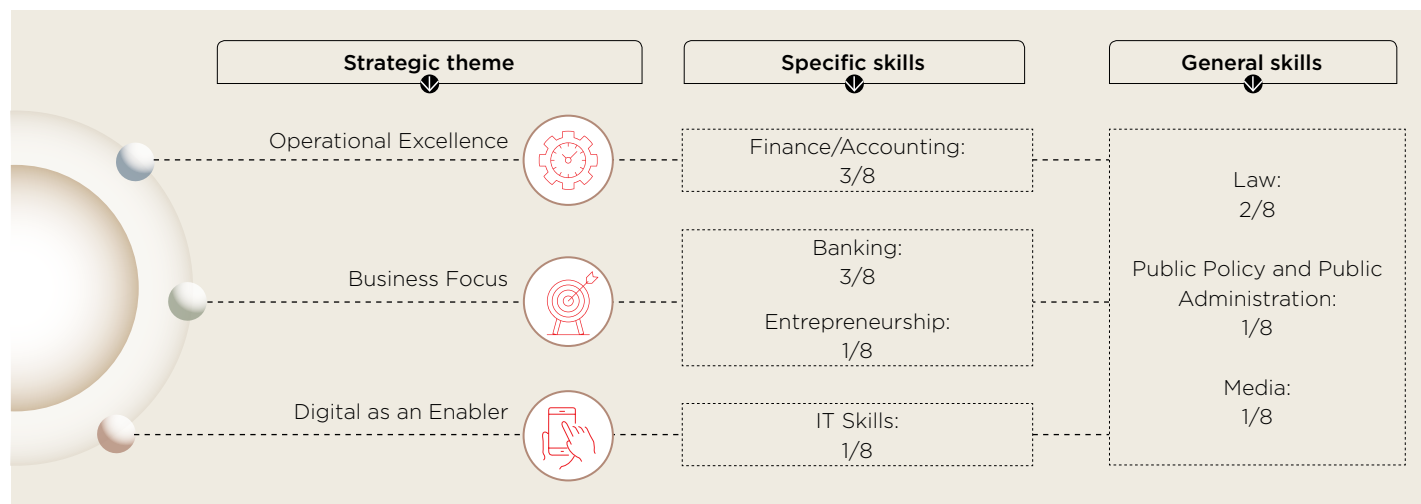


Mr. Ranasinghege Semasinghe

Non-Independent & Non-Executive Director
(Resigned w.e.f. 30/04/2019)

BOARD COMPOSITION

In addition to the diversity in knowledge, age and gender which enrich the composition of our Board, Directors' competencies and skills are also aligned to the Group's strategic aspirations. In recent years, we have expanded and enhanced our board skills specifically in the areas of IT, retail banking and finance. This has enabled a deep understanding of the business and our long-term objectives, allowing Directors to effectively set and steer strategic direction while productively engaging with the Group on strategic matters.



BOARD RESPONSIBILITIES

The Board serves as the custodian of the Group's corporate governance and is ultimately responsible for creating and delivering sustainable shareholder value. Operating within a clearly defined governance framework, the Board determines the Group's strategic direction and deliberates with executive management on risk management, performance and resource allocation while ensuring accountability and transparency. The key responsibilities of the Board are set out in the Board internal Code of Corporate Governance;

- Determining the strategic objectives and policies of the NDB group to deliver long-term value and providing overall strategic direction within a framework of reward incentives and controls.

- Making decisions on matters that have a significant strategic, financial or reputational implications to the NDB Group as a whole.
- Providing effective leadership within a framework of prudent and effective controls for the operations of the Bank which demonstrates and nurtures the collective vision of NDB's purpose, values, culture and behaviour.
- Ensuring that management strikes an appropriate balance between promoting long term growth and delivering short term objectives.
- Ensuring that accurate, timely, clear and pertinent information is obtained and clarifications are 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 and considering the opinions of shareholders and other stakeholders.
- Assessing the Board's effectiveness through a comprehensive self-assessment as detailed on page 150.

Segregation of Responsibilities

- Effective segregation of responsibilities ensures clarity in roles and appropriate balance of power and authority. The Chairman is a non-executive Director and provides leadership to the Board while the Group CEO provides executive leadership and expertise in the implementation and achievement of strategic aspirations. The CEO is held accountable to the Board for the performance of the Bank.

Chairman

- ◉ Ensures the effective functioning of the Board in discharging its responsibilities
- ◉ Ensures that Board Agendas are primarily focused on strategy, performance and key value creation issues
- ◉ Ensures that the Board receives accurate, timely, clear and pertinent information enabling effective decision making
- ◉ Facilitates constructive relations between executive and non-executive directors and drives discussions toward consensus
- ◉ Ensures effective contribution from all Board members
- ◉ Ensures the Board is apprised of the views of the major investors and other key stakeholders

CEO

- ◉ CEO and KMPs develop and recommend the strategic direction of the Bank for consideration and approval of the Board by way of appropriate short, medium and long term corporate plans
- ◉ Effectively leads NDB towards the achievement of its strategic objectives and implements the strategy decisions taken by the Board
- ◉ Provides assurance to the Board related to identification, assessment, management and monitoring of risk and adequacy of internal controls
- ◉ Prepare complete and accurate financial statements and disclosures in accordance with financial reporting standards and applicable rules and regulations, which present a fair view of the Bank's performance and financial position
- ◉ Ensures succession planning of the executive team

Independent Directors

- ◉ Objectively and constructively challenge the Board and Management
- ◉ Helps shape corporate strategy
- ◉ Actively promotes and demonstrates the appropriate culture, values and behaviours of the Board room
- ◉ Questions intelligently and debates constructively and decides dispassionately
- ◉ Has a good understanding of the Group's businesses and affairs to enable them to properly evaluate information and responses provided by management

BOARD RENEWAL AND SUCCESSION

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 Nominations Committee 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 fulfillment of regulatory requirements. The NC also considers a candidate's ability to commit sufficient time to fulfil the duties of a Director.

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. (Refer to pages 142 to 143 for information on resignations/retirements and new appointments to the Board)

COMPANY SECRETARY

The Bank has appointed the Company Secretary as prescribed by applicable laws and regulations and in accordance with the Bank's Article 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 CEO in setting the agenda for the Board meetings and is responsible for maintaining proper Board minutes in consultation with the Chairman. The Board minutes contain sufficient detail so that it is possible for regulatory bodies to assess the depth

Board Minutes

- ◉ Summary of information used for Board deliberations
- ◉ Matters considered by the Board
- ◉ Fact finding discussions and issues of contention or dissent
- ◉ Testimonies and confirmations from the senior management
- ◉ Board knowledge and understanding of risk to which the Bank is exposed
- ◉ Decisions and Board resolutions.

of deliberations at the Board meetings. Board minutes are circulated to the Board well before the next monthly meeting providing adequate time for consideration.

MANAGING CONFLICTS OF INTEREST

The Directors are conscious of their obligations to deal with 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). There are many channels available for Directors to disclose potential conflicts of interest. At the time of onboarding a new Director, they provide details of their interests as well as the interests of their close relatives. Directors also update their disclosures yearly and based on these declarations the Company Secretary maintains an updated interests register. Further at the beginning of each quarter in order 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 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. The relevant Director refrains from participating in the discussion and steps out. Further 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. Further their votes are not counted

in the quorum for the relevant agenda item at the Board meeting. Furthermore, in line with the Bank's internal Code of Corporate Governance, when initiating new business, the Directors maintain strict arm's length basis and ensure that they do not exert duress or undue influence and not circumvent normal procedures when introducing new business to the Bank.

TRANSPARENCY

As an essential component of sound and effective corporate governance practices, the Board ensures that transparency is embedded across organisational processes in the Bank. The Board-approved Disclosure Policy provides guidance on the 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. Shareholders and stakeholders are provided with timely, accurate and relevant information in order to make an accurate assessment of the Bank's activities, performance and risk profile. The Bank is committed to transparency and shall comply with all laws and regulations issued by the regulators and accounting bodies. Timely, accurate and relevant public disclosures are made in line with the size, complexity, ownership, structure, economic significance and risk profile of the Bank. The external auditors provide a fully independent auditor's objectivity toward the affairs of the Bank.

BOARD CONTRIBUTION TO VALUE CREATION



(1) DRIVING STRATEGY AND PERFORMANCE

Strategy, IT/Digital & Capital Planning - 50%

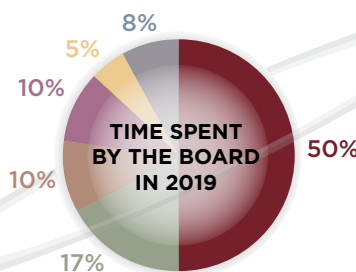
- (1) Review of capital requirements in line with prevalent regulations including exploring opportunities for raising Tier 1 Capital along with the Capital Augmentation Plan
- (2) Approval for Basel III Compliant Tier 2, Debentures with a Non-Viability Conversion (2019-2024)
- (3) Review of IT strategy, launching several systems including leasing, pawning and workflow systems and the commencement of the core banking system upgrade.
- (4) Reviewing the Bank's business strategy in view of the economic environment
- (5) Expanding the digital banking sphere through products and services such as Bank2U and NDB NEOS amongst other initiatives.

Governance, Executive Review and Succession Planning - 10%

- (1) Setting of the Goals and Targets for the Board for the year in line with the overall strategy and direction of the Bank
- (2) Discussing self-assessments to aptly identify gaps and areas for improvement and identify suitable Board replacements as appropriate.
- (3) Introducing/reviewing policies to strengthen the governance structure of the Bank
- (4) Assessing the Fitness of Directors and KMPs of the Bank
- (5) Spending adequate time to plan and identify the process for new/potential lenders for the future of the Bank.
- (6) Review and approval of Board Subcommittee deliberations and recommendations

Stakeholder Interest & Employee Welfare - 8%

- (1) Looking into the interest of all internal and external business partners of the Bank.
- (2) Approval of significant HR initiatives with a view to strengthened the organisational structure, talent management, retention and succession needs of the Bank



Financial Performance Review - 17%

- (1) Critically deliberating on the Budget for 2020 and re-assessing the business plan of the bank for 2020-2023.
- (2) Regular assessment of the financial performance of the Bank and Group
- (3) Reviewing/strengthening the credit review process of the Bank

Risk Management - 10%

- (1) Strengthening the Risk Management processes of the Bank
- (2) Debated and approved the risk appetite for 2019
- (3) Regular assessment of the Group's risk profile

Internal and External Reporting - 5%

- (1) Review and approve Market/ Public disclosures
- (2) Review and advice Management/ Board related reporting
- (3) Review the Management Letter issued by external auditor

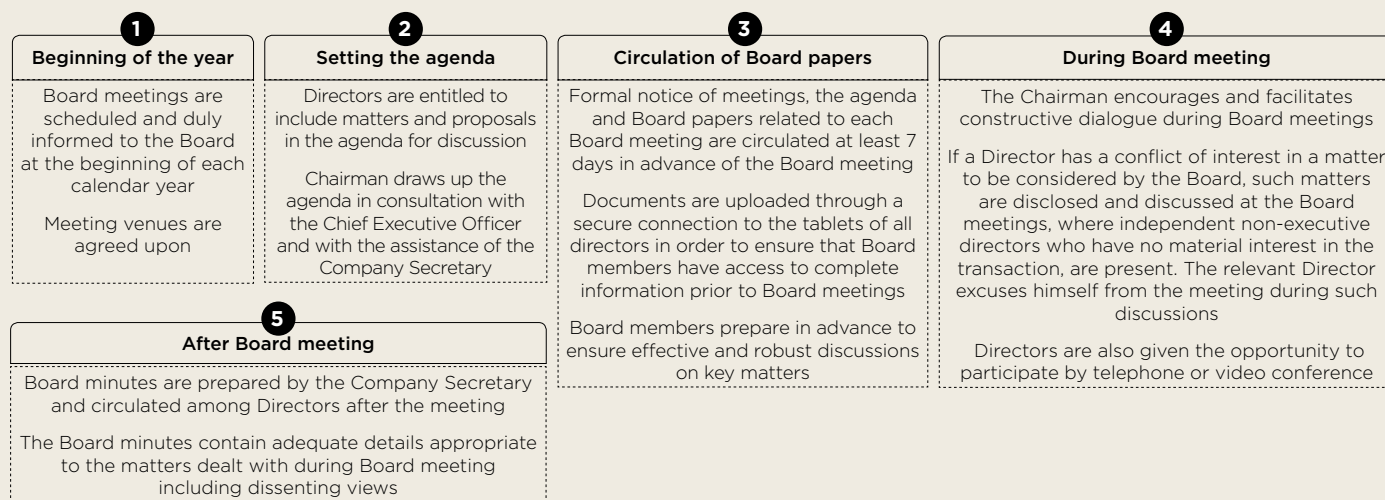
ENGAGEMENT WITH THE BUSINESS

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/Subcommittee meetings where KMPs attend by invitation.

- ⊙ All Directors serve on Board Subcommittees enabling engagement with KMPs on specific matters
- ⊙ Debate and approve 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
- ⊙ Special evening cocktail with TLT

BOARD MEETINGS

The Board convened 13 times in 2019; in order ensure a high level of attendance, Board meetings are scheduled and duly informed to the Board at the beginning of each calendar year. All directors are entitled to include matters and proposals in the agenda for discussion, as clearly set out in the Bank's Internal Code of Corporate Governance. Key processes carried out to ensure the effectiveness of Board meetings are as follows;



Meetings held during 2019

Main Board:

13

Subcommittees:

Nominations Committee: **08**

Human Resources and Remuneration Committee: **05**

Integrated Risk Management Committee: **07**

Board Audit Committee: **09**

Related Party Transactions Review Committee: **05**

Strategic Issues Committee: **03**

Board Credit Committee: **12**

Management Committee meetings

Asset and Liability Committee: **12**

Credit and Market Risk Committee: **04**

Operational Risk Committee: **06**

Credit Committees: **135**

Procurement Committee: **113**

IT Steering Committee: **08**

Human Resources Committee: **04**

Outsourcing Committee: **04**

Management Committee (MANCO) : **13**

The Structure, Composition and Attendance of the Board during 2019

Name of Director	Areas of Expertise	Independent / Non Independent under CBSL Direction	Independent / Non Independent under ICASL	Date of Appointment	No of Board Meetings Eligible to Attend	No of Meetings Attended
Mr. Kavan Ratnayaka (Chairman)	Management, IT and Media	Independent	Independent	13.05.2015	13	13
Mr. Ashok Pathirage (retired w.e.f. 18.02.2020)	Retail Trade, Insurance, Entrepreneurship	Non-Independent	Non-Independent	18.02.2011	13	10
Mr. Dimantha Seneviratne (GCEO)	Banking, Finance and Management	Non-Independent	Non-Independent	01.01.2017	13	13
Mr. Dinal Phillips, PC	Law (Litigation)	Independent	Independent	22.04.2015	13	12
Mr. Sriyan Cooray	Banking, Finance and Management	Independent	Independent	10.08.2018	13	13
Mr. Bernard Sinniah	Banking, Sales and Management	Independent	Independent	28.03.2019	10	10
Mr. E A Rathnaseela (resigned w.e.f. 20.01.2020)	Public Policy, Management and Finance	Non-Independent	Independent	18.06.2019	8	8
Dr. Dinusha Panditaratne	Law (International/ Business Law)	Independent	Independent	24.07.2019	6	6
Mr. Trevine Jayasekera (retired w.e.f. 08.02.2019)	Accounting, Banking and Textile Industries	Independent	Independent	10.02.2010	1	1
Mr. Ananda Atukorala (retired w.e.f. 17.04.2019)	Management and Banking	Independent	Independent	31.08.2016	3	3
Mr. Sarath Wikramanayake (retired w.e.f. 01.06.2019)	Accounting, Banking, Insurance and Investment Banking	Non-Independent	Non-Independent	04.06.2010	5	5
Mrs. Kimarli Fernando (retired w.e.f. 01.06.2019)	Law, Banking and Management	Non-Independent	Independent	04.06.2010	5	4
Mrs. Indrani Sugathadasa (retired w.e.f. 01.09.2019)	Management, Insurance, Public Administration, Plantations and HR	Independent	Independent	04.10.2013	8	8
Mr. Ranasinghe Semasinghe (resigned w.e.f. 30.04.2019)	Public Policy, Media and Management	Non-Independent	Independent	26.09.2017	4	4

Details of members of the Board Subcommittees during 2019

Name of Committee	Nominations Committee		Human Resources and Remuneration Committee		Integrated Risk Management Committee		Board Audit Committee		Related Party Transactions Review Committee		Strategic Issues Committee		Board Credit Committee	
Name of Director	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
Mr. Kavan Ratnayaka*	C	01.05.2019	M	15.03.2016	M	13.05.2015			C	01.05.2019	C	01.05.2019	M	01.09.2018
Mr. Ashok Pathirage (retired w.e.f. 18.02.2020)	M	11.08.2011	M	01.01.2014							M	18.02.2011	M	01.06.2017
Mr. Dimantha Seneviratne					M	01.01.2017					M	23.07.2019	M	01.06.2017
Mr. Dinal Phillips, PC	M	01.05.2019	M	01.01.2017	M	01.06.2017							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	01.05.2019	M	01.05.2019					M	01.05.2019
Mr. E A Rathnaseela (resigned w.e.f. 20.01.2020)					M	18.06.2019	M	18.06.2019	M	18.06.2019				
Dr. Dinusha Panditaratne	M	24.07.2019	C	24.07.2019										
Mr. Ananda Atukorala (retired w.e.f. 17.04.2019)	C	01.09.2016							C	01.09.2016	C	01.09.2016	M	01.06.2017
Mr. Trevine Jayasekara (retired w.e.f. 08.02.2019)	M	10.02.2010	M	10.02.2010			C	10.02.2010	M	19.12.2014	M	11.08.2011		
Mr. Sarath Wikramanayake (retired w.e.f. 01.06.2019)					C	22.06.2010	M	22.06.2010	M	19.12.2014	M	22.06.2010		
Mrs. Kimarli Fernando (retired w.e.f. 01.06.2019)	M	30.03.2015	M	22.06.2010					M	19.12.2014	M	04.06.2010	C	01.06.2017
Mrs. Indrani Sugathadasa (retired w.e.f. 01.09.2019)			C	01.01.2014			M	01.01.2014	M	19.12.2014			M	01.06.2017
Mr. Ranasinghe Semasinghe (resigned w.e.f. 30.04.2019)					M	01.12.2017	M	01.12.2017	M	01.12.2017				

DOA - Date of Appointment

Status C - Chairman | M - Member

Number of meetings held and attendance of the Board Subcommittees during 2019

Name of Committee	Nominations Committee		Human Resources and Remuneration Committee		Integrated Risk Management Committee		Board Audit Committee		Related Party Transactions Review Committee		Strategic Issues Committee		Board Credit Committee	
Name of Director	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. Kavan Ratnayaka*	4	4	5	5	2	2			3	3	3	3	4	3
Mr. Ashok Pathirage	8	5	5	3							3	3	12	11
Mr. Dimantha Seneviratne					7	6					3	3	12	11
Mr. Dinal Phillips, PC	4	4	5	4	7	7							12	11
Mr. Sriyan Cooray					6	5	9	9	3	3	3	3		
Mr. Bernard Sinniah					5	5	5	4					8	8
Mr. E A Rathnaseela					3	2	4	4	2	2				
Dr. Dinusha Panditaratne	3	3	2	2										
Mr. Ananda Atukorala	3	3							2	2			3	3
Mr. Trevine Jayasekara	1	1	1	1			2	2	1	1				
Mr. Sarath Wikramanayake					4	4	5	4	2	1				
Mrs. Kimarli Fernando	3	3	2	2					2	2			5	5
Mrs. Indrani Sugathadasa			4	4			7	6	3	3			8	7
Mr. Ranasinghe Semasinghe					1	1	4	2	2	1				

* Mr. Kavan Ratnayaka resigned from IRMC and BCC w.e.f. 01.05.2019

INDUCTION AND TRAINING

Upon joining the Board all Directors undergo a structured induction, which serves to provide an overview on 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 Pac which contains comprehensive information on Board meetings of the last three-and-a-half years, 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.

BOARD PERFORMANCE AND EVALUATION

The Board evaluates the effectiveness of its own performance on an annual basis through a self-assessment undertaken by each Director. The assessment covers a broad range of topics relating to the efficiency, effectiveness and quality of board activities as presented below. The evaluation findings focus on the Board as a whole and the performance of individual Directors. The Chairman and Deputy Chairman reviews the responses of the Directors to the self-assessment against the previous year's scores and reports any identified weaknesses or lapses to the Board for a remedial action plan. The Board periodically reviews the progress made on the action plan.

Areas of assessment

- ⦿ Board Responsibilities
- ⦿ Board Conduct
- ⦿ Board Leadership
- ⦿ Timeliness and quality of information
- ⦿ Teamwork and management relations
- ⦿ Progress achievement of goals/targets
- ⦿ Board and subcommittee composition

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 framework with operations conducted with high standards of integrity and transparency.

(2) SETTING THE RIGHT TONE

An effective governance framework is supported by the right tone at the top, the values imbued by all employees and the example set by the Directors and Management. As NDB continues to evolve in size, market focus and ambition, we are cognisant of how we want the Group to be perceived by both internal and external stakeholders. Our aspiration is to be a Bank that our stakeholders can depend on and this dependability is demonstrated through our core values of Integrity, Excellence, Creativity, Accountability and Sincerity. The following policies provides a clear path towards nurturing a culture embodying these values;

Internal Code of Corporate Governance	Compliance Policy and Code of Conduct	Related Party Transactions Policy
Serves as the Code of Conduct for the Board of Directors, providing guidance to the Directors and Key Management Personnel in ensuring the highest standards of corporate conduct. It sets out the regulatory obligations required by laws, regulations and best practices	Sets out how our values should be put into practice and provides a roadmap aligning the values to behavioural, ethical and practical compliance aspects of our business and applies to all employees of the Bank	Policy adopted by the Board to ensure that necessary processes are implemented by the Bank to identify, approve, monitor and disclose related party transactions
Group Anti-Bribery and Corruption Policy	Whistleblowing Policy	Group Securities and Trading Policy
Clearly states the minimum standards expected by all Directors, Employees and third party service providers engaged by the NDB group. The Policy also states NDB 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. Further It makes cross reference to all policies of the Bank which covers principles on corruption and bribery	Encourages employees to report alleged acts of malpractice or misconduct and ensure that all allegations are considered for investigation and suitable action taken where necessary. The whistleblower is protected against adverse action (termination, demotion, suspension harassment or other forms of discrimination) for raising allegations of misconduct or malpractice. The policy lists down the contact details of the officials of the bank that employees could escalate their concerns to	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 is also imposed on all sales/purchases of NDB shares. All share trades carried out by employees of the Bank are monitored to ensure compliance

(3) EFFECTIVE CONTROL

The Board holds apex responsibility for the Group's risk management and internal control systems and is committed to building a solid foundation for the same through formulating a comprehensive and robust framework of policies. These policies are reviewed at least annually and updated to ensure relevance and applicability. The list of policies updated include (but is not limited to) those presented alongside.

RISK MANAGEMENT

Given the pervasiveness of risk in the Banking industry, effective risk management is considered integral to the sustainable creation of shared value. In discharging its risk-related responsibilities, the Board is supported by 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 (as amended) on Corporate Governance. The risk appetite dashboard and exposures against these parameters are reviewed and regularly discussed by the IRMC and the Board in order to ensure they are satisfied with the Group's risk profile and mitigating actions.

Several executive level committees including the Asset Liability Committee, Credit and Market Risk Committee and Operational Risk Policy Committee also engages 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 pages 366 to 401 - Risk Management Review and pages 167 to 169 - IRMC Committee Report for further information)

IT AND CYBERSECURITY RISK

Given NDB's increasing thrust towards digitisation, IT and Cybersecurity risks have emerged as a key risk exposure. The Bank has in place a comprehensive IT and Cyber Security policy which complies with the Baseline Security Guidelines issued by the Central Bank of Sri Lanka. Key aspects of our IT and Cybersecurity Risk framework includes,

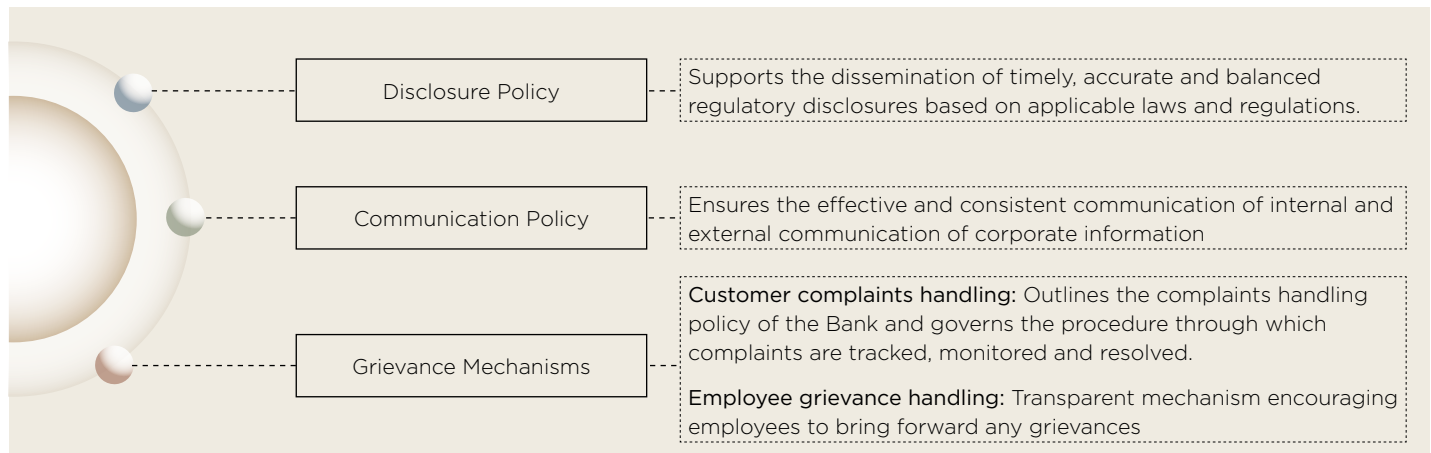
- Investments in strengthening the Bank's IT infrastructure deploying technical controls to mitigate cyber risks such as multi-layer firewalls, network separation, intrusion prevention systems, gateway level content filtering, anti-malware solutions.
- The Bank has also subscribed to the services provided 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.

Key policies that were reviewed and updated in 2019

- Agency Banking Policy
- Policy Guidelines on Bank Counterparty Limit assessment
- Impairment Policy
- Operational Risk Policy
- Deposit Concentration Policy
- Market Risk Management/ Treasury Middle Office - TOR
- Foreign Exchange Risk Management Policy
- Stress Testing Policy and Framework
- Information Security Policy
- IT and Information Asset Management Policy
- Interest Rate Risk Management Policy
- Liquidity Risk Management Policy
- Liquidity Contingency Funding TOR
- Disclosure Policy
- Compliance Risk Management Policy and Framework
- Physical and Environmental Security Policy

(4) ACCOUNTABILITY TO STAKEHOLDERS

The Bank promotes the equitable treatment of all stakeholders and maintains proactive and open engagement facilitated through a range of formal and informal platforms. The stakeholder universe includes shareholders, employees, customers, creditors, partners, general public and regulators. Communication with stakeholders is governed through the following frameworks and processes;

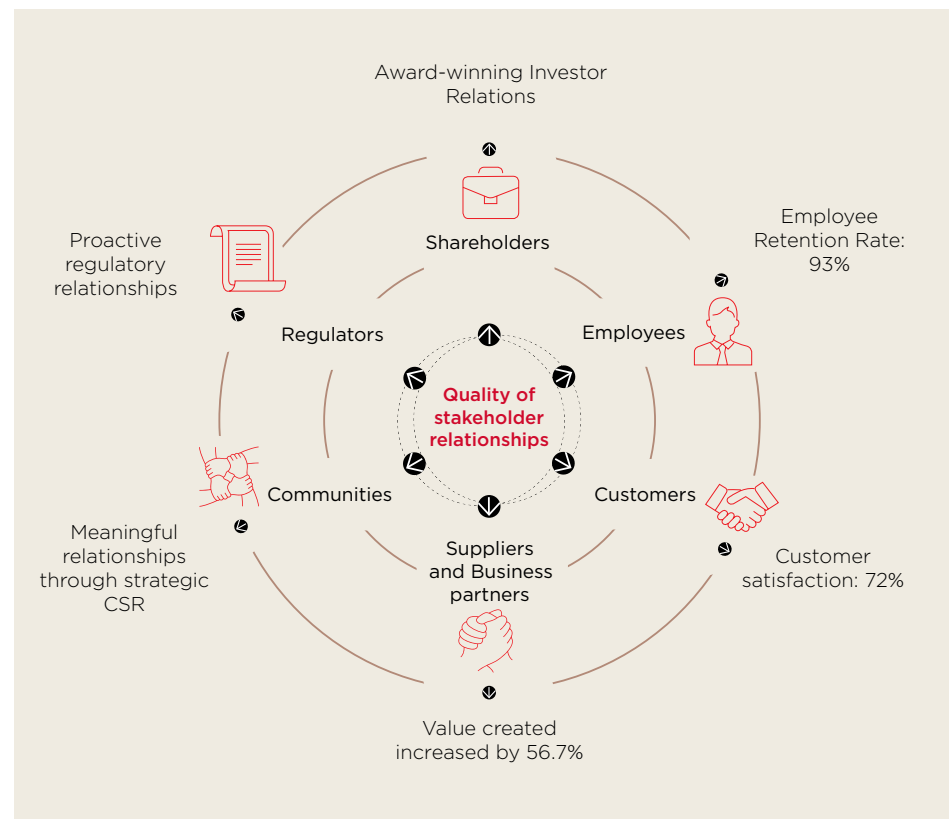


SHAREHOLDER ENGAGEMENT

- 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 Subcommittees and members of senior management. The Bank's AGMs are generally well attended, and we encourage shareholders to participate in fostering a constructive dialog. Resolutions requiring shareholder approval are tabled separately for adoption at the AGM.
- 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

QUALITY OF STAKEHOLDER RELATIONSHIPS

Our approach to stakeholder engagement and the different platforms we use to facilitate engagement are given on pages 64 to 67 on Value for Stakeholders. The quality of the various stakeholder relationships are summarised below:



SUSTAINABILITY AND ESG REPORTING

A Board-approved Sustainability Policy provides clear guidance on the Bank's sustainability philosophy, strategy and objectives. The Policy centres on the 3 pillars of economic, social and environmental responsibility reflecting the Bank's triple bottom line approach to value creation and ongoing efforts to embed sustainability to its strategy and daily operations. Please refer to the Business Line Reviews and Value Creation Report on pages 84 and 72 of this Report.

The Bank's Integrated Annual Report has been prepared based on the principles prescribed by the Integrated Reporting Framework published by the International Integrated Reporting Council. For sustainability reporting, we have also adopted the GRI Standards published by the Global Reporting Initiative. Content included in this Annual Report is anchored by the material topics (refer page 68) which take into consideration the Bank's economic, social and environmental aspects. Where ever relevant, the narrative is supported by comprehensive non-financial information related to the Bank's social and environmental impacts. We have also obtained external assurance on our sustainability reporting. Key social and environmental factors discussed, and the page references are listed below;

Environmental Factors	Pages
Sustainable use of resources (energy and water)	126-130
Emissions and climate change	130
Environmental screening for lending	127
Biodiversity conservation and environmental education	124
Social Factors	Pages
Customer relationships	119 - 122
Labour practices	104 - 111
Community engagement	123 - 125

REMUNERATION REVIEW

Our long-term success is dependent largely on the contributions of our employees and the Group's Remuneration Framework has been designed to attract and retain high-performing employees while being consistent with industry best practices. The Group's Remuneration policies and practices are based on a foundation of solid principles which comply with relevant regulatory requirements.

Objectives of our Remuneration Strategy

The Remuneration Policy is designed to attract, motivate and retain high-performing employees who can drive business performance aligned to NDB's strategic aspirations. The Bank's Compensation Policy is structured based on job evaluation using the compensable factors such as knowhow/job complexity, communication and coordination/customer interaction, supervision exercised and risk impact/consequences.

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, Group 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,

- 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 162 to 163 pages or HRRC Committee Report)
- Recommendating 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 162 to 163 pages or HRRC Committee Report)

SUMMARY OF COMPENSATION SCHEMES

Total employee remuneration includes salaries and bonus, terminal benefit charges and other related expenses. Further details on each of these elements is available on page 217 - Note no 12 to the Financial Statements.

A summary of the Group's remuneration/personnel expenses during the year are given below;

	2019 LKR '000
Director's emoluments	45,116
Personnel expenses	
Salary and bonus	4,469,497
Contribution to EPF and ETF	427,395
Contribution to defined benefit plan	119,161
Others	443,769

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 2019 of the Bank and its subsidiary companies (Group) and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 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 Code of Best Practices on Corporate Governance 2017.

The Report was approved by the Board of Directors on 18 February 2020. 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 2019 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. 01 of 2005. National Development Bank Limited was thereafter

re-registered under the Companies Act No. 07 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, Navam 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 Negative. The Bank's Basel II compliant subordinated debentures were affirmed at A[lka].

As required by Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Annual Report prepared for the year ended 31 December 2019.

	Information required to be mandatorily disclosed as per S 168 of the Companies Act No. 07 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)	Note 01 to the Financial Statements: Corporate Information	202
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 December 31 2019	195
3	Auditor's Report on Financial Statements of the Bank and the Group.	Section 168 (1) (c)	Independent Auditor's Report	187 to 189
4	Accounting Policies and any changes therein of the Bank and the Group.	Section 168 (1) (d)	Notes to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Bank and the Group.	202 to 318
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	407 and 415
			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. 07 of 2007.	

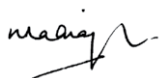
	Information required to be mandatorily disclosed as per S 168 of the Companies Act No. 07 of 2007	Reference to the Companies Act	Disclosure reference for compliance	Pages
6	Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Note 14 to the Financial Statements-Other Expenses	219
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	219
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	148
			New Appointments and Resignations	148
			List of Directors of Subsidiaries of the Bank	442
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	219
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 2019 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 (Private) Limited, NDB Investment Bank Limited, Development Holdings (Private) Limited, NDB Capital Limited (Bangladesh) and NDB Zephyr Lanka (Private) 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.	

As required in terms of Section 168 (k) of the Companies act No. 07 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.

Accordingly the Fifteenth (15) Annual General Meeting will be held at the Auditorium of Development Holdings (Pvt) Ltd., 3rd Floor, NDB EDB Tower, No 42, Navam Mawatha, Colombo 2 on Thirtieth (30) March 2020 at 02.30 pm. The Notice of Meeting is reflected on page 440.

Signed in accordance with a resolution adopted by the Directors.



Mr. Kavan Ratnayaka
Chairman



Mr. Dimantha Seneviratne
Director/ Group Chief Executive Officer



Mr. Dinal Phillips, PC
Director



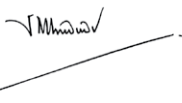
Mr. Sriyan Cooray
Director



Mr. Bernard Sinniah
Director



Dr. Dinusha Panditaratne
Director



Mr. Sujeewa Mudalige
Director



Ms. Shehani Ranasinghe
Company Secretary

Colombo
18 February 2020

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 relevant statute/ rule	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	324 to 347
			The classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2019 is provided	148
13	Annual Corporate Governance Reports	3 (1) (xvi)	An annual corporate governance report setting out the compliance with Direction 3 of these Directions	324 to 347
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.	176 to 177
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.	178 to 179
16	Factual Findings Report	Factual Findings Report	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.	138
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.	347
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.	347
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.	176 to 177
		LR 7.6		423 to 424
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 1 January 2010.	

	Other Disclosures	Reference to the relevant statute/ rule	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 Transactions Review Committee. Also see Note 52 to the Financial Statements : Related Party Disclosures	174 278 to 282
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 2019 is provided for purposes of good governance, however, the Bank mandatorily adheres to Direction No. 11 of 2007on Corporate Governance in this regard.	348 to 365 148
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.	177
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.	145 to 146 and 152
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.	148 to 179
26	Financial Statements	ICASL Code D.1.5	A statement of responsibility for the preparation and presentation of financial statement have been made together with the external auditors confirmation on their reporting responsibility.	176 to 177
27	Property and Plant	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.	248
28	Related Party Transactions	ICASL Code	The Board should disclose the related parties and related party transactions as specified by SEC/Accounting Standards/Auditing Standards and similar regulations	278 to 282
29	Cyber Security	ICASL Code G. 5	The Board should disclose in the Annual Report the process to identify and manage cyber security risks	151
30	Equitable treatment to shareholders	ICASL Code D.1.4	Statement of Directors' Responsibility	176 to 177
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 3 to the Financial Statements.	177 204
OTHER LAWS AND REGULATIONS				
32	Dividends on Ordinary Shares	S 56 of the CA No. 7 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”	224 and 282 411

	Other Disclosures	Reference to the relevant statute/ rule	Disclosure reference for compliance	Pages
33	Insurance and Indemnity	S 218 of the CA No. 7 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.	177
34	Own share purchases	CA s.64	The Bank has not purchased its own shares	
35	Taxation	Laws related to taxation	Note 15 and 17 to the Financial Statements.	219 to 223
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.	177
GOOD GOVERNANCE DISCLOSURES (GGD)				
37	Vision, Mission and Corporate Conduct	GGD	The Bank and the Subsidiary companies 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.	12
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, Chief Executive Officer's Review and the Management Discussion and Analysis.	26 to 33 and 73 to 130
			Note 51 to the Financial Statements - segmental analysis - Group.	275 to 277
39	Changes to the Group structure	GGD	There were no changes to the group structure during the year.	
40	Gross Income	GGD	Note 04 to the Financial Statements - Gross Income	210
			Note 51 to the Financial Statements - Segmental analysis - Group.	275-277
41	Performance of the Bank and the Group	GGD	Statement of Profit or Loss	193
42	Reserves & appropriations	GGD	Statement of Changes in Equity	196 to 199
			Note 44 to 46 to the Financial Statements -Statutory Reserves, Retained Earnings and Other reserves	267 to 269
43	Investment Property	GGD	Note 31 to the Financial Statements - Investment Property	246 to 247
44	Capital commitments	GGD	The Bank has a capital commitments totalling approximately LKR 850 Mn over the next 24 months consisting principally of an upgrade to the Banks Core Banking system, a Digital Layer to it and a Payments & Cash Management system. Note 48.2 to the Financial Statements.	271
45	Issue of Shares and Debentures by the Subsidiaries and Associates during the year	GGD	Note 29 and 30 to the Financial Statements.	243 to 245

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON
THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

	Other Disclosures	Reference to the relevant statute/ rule	Disclosure reference for compliance	Pages
46	Disclosure of Director's Dealing in shares and Debentures	GGD	Number 6 and Number 13 of the Section on "Investor Relations"	407 to 415
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.	63
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.	282
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.	104 to 111 and 162 to 163
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.	112 to 118
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.	269 and 271

DIRECTORS' INTERESTS IN CONTRACTS WITH THE NATIONAL DEVELOPMENT BANK PLC

	Relationship	Company	Accommodation Granted, Deposits and Investments	Balance Outstanding as at 31.12.2019 LKR '000	Balance Outstanding as at 31.12.2018 LKR '000 - Restated
Mr. Ashok Pathirage					
	Chairman	NDB Capital Holdings Limited	Deposits & Investments	3,168.09	1,106.06
			Off -Balance Sheet Accommodations	30	45,950.74
	Chairman	Softlogic Retail (Private) Limited	Deposits & Investments	1,693.42	
	Chairman	Asiri Hospital Holdings PLC	Deposits & Investments	1,000.00	1,000.00
	Chairman	Softlogic Life Insurance PLC	Deposits & Investments	434.09	422.29
	Chairman	Odel PLC	Deposits & Investments	1,171.88	-
	Chairman	Asiri Surgical Hospital PLC	Deposits & Investments	3,166.90	3,011.40
	Chairman	Softlogic City Hotels (Private) Limited	Deposits & Investments	3,699.09	-
	Chairman	Ceysand Resorts Limited	Deposits & Investments	619.16	-
	Director	Odel Properties One (Private) Limited	Deposits & Investments	315.86	-
	Director	Softlogic Retail Holdings (Private) Limited	Deposits & Investments	248.44	-
	Chairman	Softlogic Supermarkets (Private) Limited	Deposits & Investments	94.00	-
Mr. Dimantha Senevirathne					
	Director	NDB Capital Holdings Limited	Deposits & Investments	3,168.09	1,106.06
			Off -Balance Sheet Accommodations	30	
	Director	NDB Securities (Private) Limited	Deposits & Investments	1	37
			Loans & Receivables	2,435.10	13,409
	Chairman	Development Holdings (Pvt) Limited	Deposits & Investments	386,792.81	354,452.73
			Loans & Receivables	1	1
	Director	NDB Wealth Management	Deposits & Investments	5,855.75	2,113.79
	Director	NDB Investment Bank Limited	Deposits & Investments	4,878.66	1,995.54
			Loans & Receivables	1	1
	Director	NDB Zephyr Partners Lanka (Private) Limited	Deposits & Investments	5,657.41	25,652.50
	Director	Credit Information Bureau of Sri Lanka	Deposits & Investments	900,004.15	1,630,002.75
Mr. Sriyan Cooray					
	Director	Orient Finance PLC	Loans & Receivables	42,400	-

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT



Dr. Dinusha Panditaratne
Chairperson

COMPOSITION OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE AS AT 31 DECEMBER 2019;

Subcommittee Member	Directorship Status
Dr. Dinusha Panditaratne - Chairperson	Independent
Mr. Ashok Pathirage - Member (retired w.e.f. 18 February 2020)	Non-Independent
Mr. Kavan Ratnayaka - Member	Independent
Mr. Dinal Phillips, PC - Member	Independent
Mr. Dimantha Seneviratne - (Group CEO) - by invitation	Non-Independent
Secretary to the Committee	
Ms. Shehani Ranasinghe - Vice President	

COMPOSITION OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE:

The Board appointed Human Resources & Remuneration Committee comprised of 4 Non-Executive Directors inclusive of the Chairperson who is an Independent Director. 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.

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 March 2019 with amendments being made with regard to the appointment of alternate directors when a member is unable to attend a meeting. 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

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 149. 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, 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 2019

During the year, the Committee comprehensively reviewed the performance of the KMPs of the Bank for the year 2018 against the set goals and targets, using the Balanced Scorecard methodology and recommended to the Board of Directors of the Bank the increments, bonuses, promotions, severance and termination benefits for the staff members in general and individually, for the KMPs in 2019. The Committee further reviewed certain promotions of KMPs for vacancies that arose during the year and for positions created in line with current strategy and directions of the Bank.

They also set goals and targets for the KMPs for 2019 in line with the strategic vision and direction of the Bank in 2019. The Committee also reviewed the remuneration paid to Directors and noted and agreed on goals and targets of the Board of Directors and KMPs for the year 2019.

The Committee was further called upon to consider the qualifications, experience and suitability of several persons to fill some KMP positions that fell vacant during the year, in line with and to support the Bank's strategic direction.

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.

As the Bank met its budgeted growth plans in 2018 the Committee considered and approved the eligible staff under the ESOS in place, for the year 2018.

The Guidelines on Fitness and Propriety which were introduced by the Securities and Exchange Commission of Sri Lanka (SEC) in 2019 were deliberated and a suitable policy was adopted by the Board as the Bank is licensed as a Margin Provider by the SEC.



Dr. Dinusha Panditaratne
Chairperson
Human Resources & Remuneration
Committee

18 February 2020
Colombo



Mr. Kavan Ratnayaka
Chairperson

COMPOSITION OF THE NOMINATIONS COMMITTEE AS AT 31 DECEMBER 2019;

Subcommittee Member	Directorship Status
Mr. Kavan Ratnayaka - Chairperson	Independent
Mr. Ashok Pathirage - Member (retired w.e.f. 18 February 2020)	Non-Independent
Mr. Dinal Phillips, PC - Member	Independent
Dr. Dinusha Pandirathne - Member	Independent
Mr. Dimantha Seneviratne - (Group CEO) - by invitation	Non-Independent
Secretary to the Committee	
Ms. Shehani Ransinghe - Vice President	

COMPOSITION OF THE NOMINATIONS COMMITTEE

The Board appointed Nominations Committee comprised of 4 Non- Executive Directors inclusive of the Chairperson who is an Independent Director. The Group Chief Executive Officer (GCEO) and other Directors have been present at meetings only if invited by the Committee.

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 March 2019 with amendments being made with regard to the appointment of alternate directors when a member is unable to attend a meeting.

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.
- 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 eight (08) meetings during the year under review of which five meetings were jointly held with the Human Resources and Remuneration Committee. The attendance of committee members at meetings is stated in the table on page 149. The quorum for a meeting is three (03) members.

The proceedings of the Committee meetings have been 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 2019

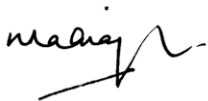
During the year, the Committee considered the suitability of several candidates and recommended the appointment of three Directors to the Board of Directors of the Bank and further reviewed and recommended the appointments of six Directors to the Boards of subsidiary companies of the Bank. In the process, 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 fitness and propriety guidelines issued by the Securities and Exchange Commission of Sri Lanka were considered and a policy was recommended and adopted by the Board to ensure that the Bank is compliant with same.

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, severances and designations of several key management personnel of the Bank in line with the strategic vision and direction of the Bank.



Mr. Kavan Ratnayaka
Chairperson
Nominations Committee

18 February 2020
Colombo



Mr. Kavan Ratnayaka
Chairperson

COMPOSITION OF THE STRATEGIC ISSUES COMMITTEE AS AT 31 DECEMBER 2019;

Subcommittee Member	Directorship Status
Mr. Kavan Ratnayaka - Chairperson	Independent
Mr. Ashok Pathirage - Member (retired w.e.f. 18 February 2020)	Non-Independent
Mr. Sriyan Cooray - Member	Independent
Mr. Dimantha Seneviratne - (Group CEO) - Member	Non-Independent
Secretary to the Committee	
Ms. Shehani Ranasinghe - Vice President	

COMPOSITION OF THE STRATEGIC ISSUES COMMITTEE

The Board appointed Strategic Issues Committee comprised of 3 Non- Executive Directors inclusive of the Chairperson who is an Independent Director and the GCEO. Other Directors and Members of the Management Team attend meetings upon invitation by the Committee.

CHARTER OF THE STRATEGIC ISSUES COMMITTEE

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 July 2019 with amendments being made with regard to the composition, the quorum and the appointment of alternate directors when a member is unable to attend a meeting.

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.
- 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.

The Committee is responsible for determining the following decisions:

- Approving of all strategic investments and divestments and recommending the same to the Board.
- 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.

COMMITTEE MEETINGS

The Committee held three (03) meetings during the year under review whilst several discussions of strategic nature were also conducted during Board meetings with the attendance of the full Board, taking into consideration the urgency and importance of the matters discussed.

The attendance of committee members at meetings is stated in the table on page 149. 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 2019

The Committee engaged in in-depth deliberations on the Strategic/ Business Plan 2020-2023 further to the recommendations made by the Management. This included deliberations on the organic growth and expansion plan as well as regarding inorganic growth opportunities that arose in the market. The Committee is cognizant of market/ economic developments locally and globally and advises the Management on such matters as and when required.

The Committee has extensively deliberated regarding the Tier 1 and Tier 2 Capital requirements for the Bank in line with current and changing regulations to ensure that the Bank is compliant with same and adequately funded to support its growth aspirations and plans.

The IT strategy and direction was another area under focus and the Committee and Board deliberated and advised on many of the significant IT developments carried out in the Bank in 2019, which developments have supported the growth and expansion evidenced in 2019 and set the foundation for the coming years. The Committee also deliberated and recommended the Budget 2020 of the Bank to the Board in 2019.

Mr. Kavan Ratnayaka
Chairperson
Strategic Issues Committee

18 February 2020
Colombo

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



Mr. Sriyan Cooray
Chairperson

COMPOSITION OF THE INTEGRATED RISK MANAGEMENT COMMITTEE AS AT 31ST DECEMBER 2019 THE COMMITTEE COMPRISED OF THE FOLLOWING

Subcommittee Member	Directorship Status
Mr. Sriyan Cooray - Chairperson (w.e.f 01.06.2019)	Independent
Mr. Dinal Phillips, PC - Member	Independent
Mr. Bernard Sinniah - Member (appointed w.e.f. 01.05.2019)	Independent
Mr. Endera Arachchige Rathnaseela - Member (appointed w.e.f. 18.06.2019)	Non-Independent
Mr. Dimantha Seneviratne - Member (Group Chief Executive Officer)	Non-Independent
Ms. Suvendrini Muthukumarana - Member (Vice President - Finance)	Non Director
Ms. Melody Wikramanayake - Member (Vice President - Legal) (appointed w.e.f. 18.02.2019)	Non Director
Ms. Manique Kiriella Bandara - Member (Compliance Officer)	Non Director
Secretary to the Committee	
Ms. Shanti Gnanapragasam - Member (Vice President - Group Risk Management)	Non Director

➔ COMPOSITION OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Board appointed Integrated Risk Management Committee comprised of four non-executive Directors inclusive of the Chairperson of the Committee who is an Independent Director.

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, 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, Committee reviewed the charter in February 2019. As per the Charter, the scope of work includes the following:-

- Work closely with key management personnel 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.
- 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.

COMMITTEE MEETINGS

The Committee held four meetings, during the year under review to discuss the normal scope of work and three special IRMC meetings of which the 1st meeting was held in January 2019 to discuss matters related to Compliance, Cyber Risk/ IT security & Legal affairs. ICAAP Framework of the Bank was discussed during the 2nd meeting held in May 2019 and Impairment Policy was reviewed during the 3rd meeting held in September 2019. The attendance of

committee members at meetings is stated in the table on page 149. 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 2019

◉ Credit Risk

- ◉ Reviewed and approved policies and operating guidelines related to Risk Management Policy on Bank's Exposure to Stock Market Activities, Credit Policy Manual, Impairment Policy, Policy on Loan Review Mechanism and Operating guidelines on authorised signatories for and on behalf of the Bank.
- ◉ Reviewed the portfolio quality of the Bank, Rapid risk reviews on stressed sectors and Country Risk reports.
- ◉ 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 related methodology papers (i.e Operational Risk Data Collection paper, Risk & Control Self-Assessment paper and the Key Risk Indicators Methodology paper), the Fraud Risk Management policy, the Business line Mapping policy, the Delegated Authority Levels for Manual Entries, Back valuation & Transaction processing with deviations' and the Business Continuity Framework.
- ◉ Reviewed Operational Risk reports, including but not limited to:
 - ◉ Significant Operational Risks, Incidents and Losses.

- ◉ Key Risk Indicators related to HR, Information Technology, Account Reconciliations, and Compliance.
- ◉ The adequacy of the Bank's Business Continuity and Disaster Recovery planning including the review of results of Business Continuity Planning (BCP) / Disaster Recovery (DR) drills.

- ◉ Reviewed work carried out by 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
- ◉ Reviewed exposures/ information and monitor 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 assess the effectiveness of the committees in line with TOR.
- ◉ Review of Treasury Dealing Room and Liquidity exposures/ compliance and exceptions.

◉ 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.
- ◉ Ensured effective implementation of governance related policies at the Bank.
- ◉ 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.

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 Rs. 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.
- Reviews, discusses and updates 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 2019.
- Reviewed performance against Risk Appetite.
- Reviewed/ approved the Integrated Risk Management Framework, Stress Testing Policy and Framework, Risk Model Validation Policy, and Revision of Single Borrower Limit/ Group Exposure Limit for NDB Group.
- Reviewed/Approved IT Security Policy Revision for 2019.
- Reviewed update on Technology Risk Resilience and Cyber Risk/ IT Security.

APPRECIATION

The Committee wishes to convey its gratitude to former IRMC Chairman Mr. Sarath Wickramanayake, former members of the Committee Mr. Kavan Ratnayaka, Mr. Ranasinghege Semasinghe and former Secretary of the Committee Ms. Nirmala Rayen for their valuable contribution.



Mr. Sriyan Cooray

Chairperson
Integrated Risk Management Committee

18 February 2020
Colombo

BOARD AUDIT COMMITTEE REPORT



Mr. Sriyan Cooray
Chairperson

COMPOSITION OF THE AUDIT COMMITTEE AS AT 31ST DECEMBER 2019;

Subcommittee Member	Directorship Status
Mr. Sriyan Cooray - Chairperson	Independent
Mr. Bernard Sinniah - Member	Independent
Mr. E A Rathnaseela - Member	Non-Independent
Secretary to the Committee	
Ms. Ruwani de Silva - Vice President - Group Audit	

COMPOSITION OF THE AUDIT COMMITTEE

The Board appointed Audit Committee comprised of three Non- Executive Directors inclusive of the Chairperson who is an Independent Director.

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 second quarter of 2019.

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 nine (09) meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 149. 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, 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

- 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 Board Audit Committee (BAC) purview and follow up on their findings and recommendations.

SUMMARY OF ACTIVITIES IN 2019

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 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 the review of Internal Auditors reports on model validation 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 CEO'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 31st December 2019, 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 178 to 179, in the "Directors' Statement on Internal Control" 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 182 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.

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 April 2019 and August 2019 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 31st December 2020 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.

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.

APPRECIATION

The Committee wishes to convey its gratitude to former Audit Committee Chairman Mr. Trevine Jayasekara and members Mr. Sarath Wikramanayake, Mrs. Indrani Sugathadasa and Mr. Ranasinghege Semasinghe for their valuable contribution.



Mr. Sriyan Cooray
Chairperson
Audit Committee

27 January 2020
Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT



Mr. Kavan Ratnayaka
Chairperson

COMPOSITION OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE AS AT 31 DECEMBER 2019;

Subcommittee Member	Directorship Status
Mr. Kavan Ratnayaka - Chairperson	Independent
Mr. Sriyan Cooray - Member	Independent
Mr. E Rathnaseela - Member (resigned w.e.f. 20 January 2020)	Non-Independent
Mr. Dimantha Seneviratne - (Group CEO) - by invitation	Non-Independent
Secretary to the Committee	
Ms. Shehani Ranasinghe - Vice President	

COMPOSITION OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Board appointed Related Party Transaction Review Committee comprised of 3 Non- Executive directors inclusive of the Chairperson who is an Independent Director. The Group Chief Executive Officer (GCEO) has been present at meetings only if invited by the Committee.

CHARTER OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Board of Directors of the Bank constituted a Related Party Transactions 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 1 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 2019 with amendments being made with regard to the composition, the quorum and the appointment of alternate directors when a member is unable to attend a meeting.

The primary objective of the Committee is to assess and consider all transactions with related parties of the Bank 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

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 149. 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, ensure 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, in line with the security requirements as stated in the Banking Act Directions and in compliance with the approval procedure set out in the Banking Act.

The Committee is also be 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 2019

During the year the Committee approved/ratified transactions relating to the procurement of goods and services carried out by the Bank/its subsidiaries 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 at an arm's length basis, insurance contracts, leasing/renting of premises etc.

The Committee comprehensively reviewed and approved revisions to the Related Party Policy Document of the Bank with a view to streamlining the internal process to identify, monitor and approve transactions and dealings with the related parties of the Bank.

The Committee also reviewed the TOR of the Committee for the year 2019. The Committee noted that 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 that 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.

The Committee has reviewed the Related Party Transactions of the Bank during the period of 1 January 2019 to 31 December 2019 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.



Mr. Kavan Ratnayaka

Chairperson

Related Party Transactions Review
Committee Report

18 February 2020
Colombo

CREDIT COMMITTEE REPORT



Mr. Ashok Pathirage
Chairperson

COMPOSITION OF COMMITTEE

Subcommittee Member	Directorship Status
Mr. Ashok Pathirage - Chairperson	Non-Independent Director
Mr. Dinal Phillips, PC - Member	Independent Director
Mr. Bernard Sinnaiah - Member	Independent Director
Mr. Dimantha Seneviratne (Group CEO) - Member	Executive Non-Independent Director

HOW THE COMMITTEE OPERATES

The Board Committee reviews the Credit Proposals submitted by the Business Line, its risks and adequacy of pricing or covenants to mitigate the identified risks. Key staff members are required to present the proposals and answer any queries as and when required.

AREAS OF FOCUS IN 2019

- Reviewed and agreed on the revised Terms of Reference of the Committee and proposed for approval of the Board of Directors
- Reviewed and recommended sixty nine credit proposals for the approval of the Board of Directors
- Reviewed and approved sixty eight credit proposals comprising of new facilities, annual review of revolving facilities, reschedulements, changes to terms and conditions of facilities already approved and pre clearance proposals.
- Reviewed and approved one housing loan proposal.
- 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".
- Reviewed Legal opinions on Islamic Banking products and agreed on the way forward.

COMMITTEE MEETINGS

The Committee held twelve (12) meetings during the year and attendance is given on page 149 of this Report.

COMMITTEE CHARTER

- 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

APPRECIATIONS

The Committee wishes to convey its gratitude to former members Mr. Ananda Atukorala, Ms. Kimarli Fernando and Ms. Indrani Sugathadasa for their valuable contribution from the inception of the Committee.

Mr. Ashok Pathirage
Chairperson
Credit Committee

18 February 2020
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, the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 07 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 officers 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 2020 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 2019, prepared and presented in this Annual Report have been prepared based on Sri Lanka Accounting Standards (SLFRS) and LKAS's issued by the Institute of Chartered Accountants of Sri Lanka and are in agreement with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 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 Bank adopted Sri Lanka Financial reporting Standards (SLFRS) 9 -Financial Instruments in its annual financial statements for the year ended 31 December 2018. Accordingly, the financial statements of the Bank and the Group for the year ended 31 December 2019 have been prepared based on the requirements of the SLFRS 9 -Financial Instruments. The Bank also adopted SLFRS 16, leases during the year and the necessary accounting and disclosures have been made.

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 177 to 179 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 Audit Committee. Please refer the Board Audit Committee Report on pages 170 to 172 of this Report.

Messrs Ernst & Young, Chartered Accountants, who were appointed in terms of the Companies Act 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 pages 187 to 189 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 193 to 318 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. 07 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.07 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 the 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 of the Bank, who have expressed desire to receive a printed copy or to other shareholders a soft copy each in a CD ROM 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, where applicable.

The Bank has also complied with the prudential requirements, regulations, laws and internal controls and there were no material non-compliances.

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 271. 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 CA Sri Lanka and the SEC, the Directors have a reasonable expectation that the Bank and the Group possesses 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 2020
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.
- 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 Board 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 170 to 172.

- 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.
- 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.

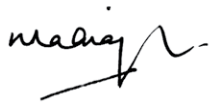
CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, 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 2019 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 page 182 of this Annual Report.

By order of the Board,



Mr. Kavan Ratnayake
Chairman



Mr. Sriyan Cooray
Chairman Audit Committee (2019)



Mr. Sujeewa Mudalige
Chairman Audit Committee



Mr. Dimantha Seneviratne
Group Chief Executive Officer

18 February 2020

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 2019 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. 07 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. Listing Rules of the Colombo Stock Exchange
- vii. 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 (SLFR's and LKAS's) issued by The Institute of Chartered Accountants of Sri Lanka. The Annual Financial Statements of the Bank and the Group have been prepared based on the new accounting policies and methods which have been revised in line with the requirements of the SLFRS 9 -Financial Instruments. The Bank complied with LKAS -39, Financial Instruments: Recognition and measurements up to

31 December 2017, in the preparation of its annual Financial Statements. In order to recognise the impact on the transition, the Bank has adopted the modified retrospective approach in line with paragraph 7.2.14 Transition, of SLFRS 9-Financial Instruments. Accordingly, the impact on the adoption of SLFRS 9 on the financial performance as at 31 December 2017 has been reflected in the opening equity as at 01 January 2018. The Bank also adopted SLFRS 16, Leases during the year and have accounted and made necessary disclosures to the Financial Statements.

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

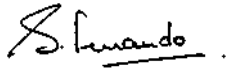
safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Internal Auditor of the Bank and the Group has conducted periodic audits to provide reasonable assurance that the established policies and procedures 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 pages 187 to 189 of this 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 including SLFRS/ LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 170 to 172. 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 271 of the Financial Statements section of this 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 Senevirathne

Group Chief Executive Officer

18 February 2020

Colombo



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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 2019.

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.

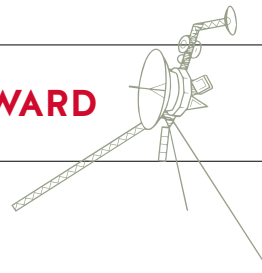
Our conclusion

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 2020
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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ECONOMIC AND INDUSTRY OUTLOOK

Anticipated policy stability, together with tax concessions and stimulus packages offered by the Government is expected to result in a revival of economic activity over the short-to-medium, as is already evident by early signs of economic momentum. While consumer and investor sentiments gradually improve, the Government's efforts to strengthen the country's SME sector through moratoriums and relief packages are expected to result in an improvement in credit demand over the medium term, thereby supporting the Banking sector's expansion. Interest rates are expected to remain relatively low, as the Government seeks to stimulate the economy through an accommodative monetary and fiscal policy stance. Against this backdrop, Sri Lanka's GDP growth is expected to pick up to 3.7% in 2020. Key downside risks include potential fiscal slippage due to the upcoming elections and pressure on the Government's debt repayment ability.



BUSINESS FOCUS

The Bank's approach to business growth will be consistent with its overall strategy of increasing penetration in the Retail and SME segments of the economy. We will continue to pursue selected growth opportunities in selected market segments while placing parallel importance on preserving portfolio quality. Pursuing cross sell opportunities across business verticals will be an area of continued focus over the short to medium term. We are also excited by the opportunities presented by the Banking on women initiative and will continue to drive our unique value proposition to women through our Retail platform. Widening our CASA base will also be a key priority given the Bank's strengthening deposit franchise and we will focus on unique customer engagement models, convenience and accessibility through the Bank's multi-channel strategy in achieving this objective. Overseas expansion is also on the cards as we seek new customer acquisition while deepening relationships with existing customers.



DIGITAL AS AN ENABLER

Our key focus on the digital front in 2020 will be the completion of the core banking system upgrade which will position the Bank on a strong footing to capture emerging opportunities. The upgrade is expected to accrue substantial benefits in driving operational efficiencies, strengthening risk management and providing access more accurate and reliable management information. We will also seek to further enhance the customer experience through driving seamless integration across platforms. The channel strategy will also focus primarily on digital and virtual platforms. Importance will also be placed on continuously strengthening the Bank's cyber and IT risk management frameworks. We are also excited by the opportunities presented by the National Digital Road Map and look forward to progressing further on digital onboarding, QR based payment systems for low value transactions and electronic KYC.



OPERATIONAL EXCELLENCE

We will continue to invest in driving process efficiencies through the implementation of workflows and introduction of robotic process automation for repetitive manual tasks. The anticipated low interest rate regime has underscored the importance of consistently driving for cost efficiencies and concerted efforts will be directed towards achieving sustained reductions in the Bank's cost-to-income ratio. In line with the Core Banking upgrade, new modules will be introduced for specific functions creating a new digital layer which will be crucial in supporting the Bank's growth aspirations.



CUSTOMER EXPERIENCE

The Bank's long-term objective is to sharpen its competitive edge by redefining the customer experience through uniquely combining technology and human interaction. Accordingly, while we continue to invest in digital channels parallel importance will be placed on enhancing customer-related processes and service quality in line with the guidelines of Service Leap. More robust platforms for measuring customer satisfaction will also be introduced, ensuring that we understand and effectively respond to customer requirements. We will also focus on leveraging our data analytics capabilities to obtain a deeper understanding of customer needs and pursue targeted marketing and cross sell opportunities.



INSPIRED TEAM

Key HR priorities for 2020 include strengthening the Bank's succession plan through identification of top talent, nurturing a learning culture within the organisation and further digitalising the HR processes in order to drive more strategic business engagements. The Bank's training and development agenda will also focus on equipping employees with the skills required to thrive in a digital world. Our long-term objective is to be a strategic business partner to the Group, effectively facilitating the achievement of the Organisation's strategic aspirations through enhancing our human resource capabilities.

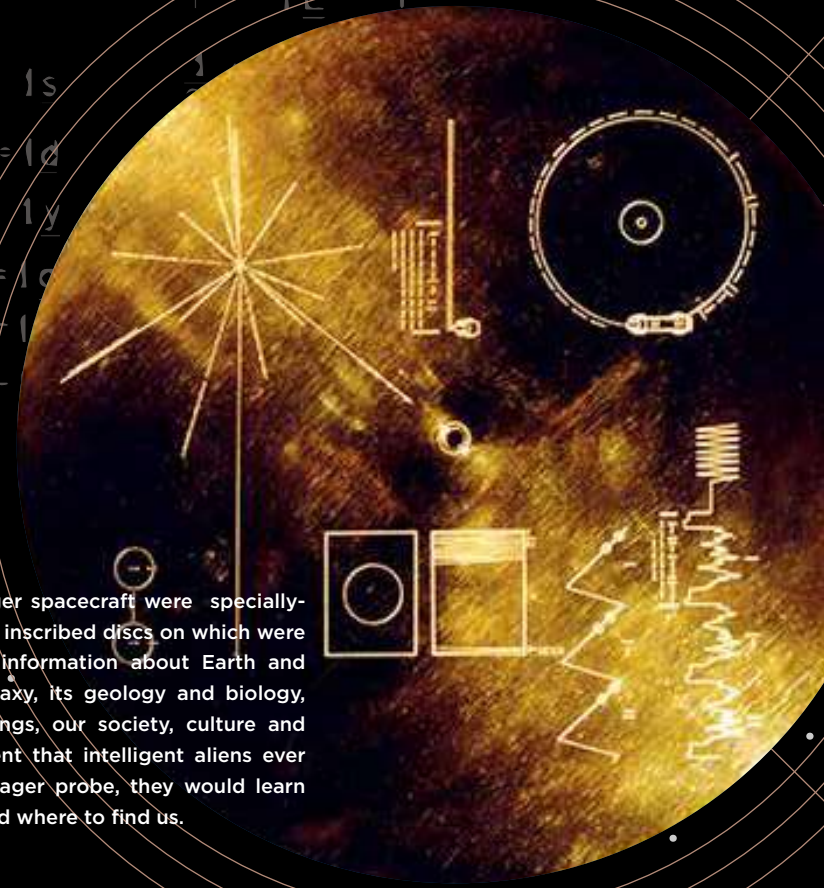


GROUP SYNERGIES

We hope to strengthen the partnership between the Corporate and Investment Banking arms of the Bank in order to leverage on synergies and drive cross sell opportunities. Group synergies will also play a vital role in furthering our offshore presence and pursuing overseas opportunities among existing clients. Incentive schemes to drive combined sales across the bank and wealth management clusters will also enable cross selling and deeper customer relationships.

THE GOLDEN RECORD

Aboard the two Voyager spacecraft were specially-made 'golden records': inscribed discs on which were encoded images and information about Earth and its location in the Galaxy, its geology and biology, and about human beings, our society, culture and technology. In the event that intelligent aliens ever intercepted either Voyager probe, they would learn something about us and where to find us.



06 FINANCIAL STATEMENTS

The audience for our own golden record – our financial statements – is much nearer home, and demands information in detail. Here it is, also on a disc, or – for those who prefer it – in print.

Annual General Meeting	Date
15th Annual General Meeting	30 March 2020
14th Annual General Meeting	28 March 2019

Dividend Payments	Amount	Date dividends announced	Date dividends paid / to be paid
First and Final dividend payment for 2019	2.00 (cash)	18 February 2020	10 March 2020 (cash)
	5.00 (scrip)		11 March 2020 (scrip)
First and Final dividend payment for 2018	1.50 (cash)	22 February 2019	15 March 2019 (cash)
	6.50 (scrip)		15 March 2019 (scrip)

➔ Financial Statements

Interim Financial Statements	Date released to the CSE	Date published / to be published in newspapers (in Sinhala, English & Tamil)
Q4/For the twelve months ended 31 December 2019	18 February 2020	-
Q3/For the nine months ended 30 September 2019	13 November 2019	29 November 2019
H1/For the six months ended 30 June 2019	13 August 2019	29 August 2019
Q1/For the three months ended 31 March 2019	14 May 2019	28 May 2019
Q4/For the twelve months ended 31 December 2018	11 February 2019	25 March 2019

Annual Financial Statements	Date released / to be released the CSE	Date published in newspapers (in Sinhala, English & Tamil)
Annual financial statements for 2019	4 March 2020	18 March 2020
Annual financial statements for 2018	5 March 2019	25 March 2019

Investor Engagements on Quarterly Financial Results	Forum	On-line Webinar
Q4 2019	4 March 2020	19 February 2020
Q3 2019	Not hosted	15 November 2019
H1 2019	Not hosted	15 August 2019
Q1 2019	Not hosted	16 May 2019
Q4 2018	6 March 2019	13 February 2019

➔ Proposed Financial Calendar 2019/2020 (Tentative)

Interim Financial Statements

Interim financial statements will be released to the 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. Investor Forum will be hosted to discuss H1 2019 and full year 2019 financial results, as per the Bank's Investor Relations practices.

Annual Financial Statements	Date released to the CSE	Date published in newspapers (in Sinhala, English & Tamil)
Annual financial statements for 2020	March 2021	March 2021

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 Annual Report should be published in accordance with the Sri Lanka Accounting Standards complying with any other applicable regulatory requirements 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 website on www.ndbbank.com.

INDEPENDENT AUDITORS' REPORT



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Chartered Accountants
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INDEPENDENT AUDITORS' 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 2019, 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 2019, 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
Allowance for impairment of loans and receivables to other customers: Our audit considered impairment allowance for loans & receivables to other customers as a key audit matter. The materiality of the reported amounts for loans & receivables to other customers (and impairment allowance thereof), the subjectivity associated with management's impairment estimation and involvement of complex manual calculations underpinned our basis for considering it as a Key Audit Matter. As at 31 December 2019, the Group recorded a total of LKR 396,672 million as loans and receivables to other customers, net of allowance for impairment as given in Note 26, which represented 74% of the Group's total assets. The estimation of allowance for impairment requires subjective judgments and estimates as disclosed in Note 56.3.	To assess the reasonableness of the allowance for impairment of loans and receivables to other customers, our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences and included the following: ⊙ We evaluated design, implementation and operating effectiveness (where relevant) of controls over estimation of impairment of loans & receivables to other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and Management. ⊙ We tested the underlying calculations of impairment allowance and data used in such calculations. ⊙ The following key procedures were also performed: For loans and receivable to other customers that individually assessed for impairment: • We evaluated the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collaterals held. We also compared the actual recoveries against previously estimated amounts of future recoveries. • Where loans and advances granted to customers in industries with elevated risk of credit loss is involved, we assessed the main criteria used by the management for determining whether an impairment event had occurred and reasonableness of management estimation of such additional impairment.

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Principals: G B Goudan ACA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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Key Audit Matter	How our audit addressed the key audit matter
	For loans and receivables to other customers that collectively assessed for impairment: - We tested the completeness and accuracy of the underlying information in loans and advances used in the impairment calculations by agreeing details to the Group's source documents and information in IT systems. - We also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. ⊙ We assessed the adequacy of the related financial statement disclosures as set out in note(s) 11, 26.5 and 56.3.
Bank's financial reporting process and related IT systems and controls Bank uses multiple and complex IT systems in its operations. As a result, preparation and presentation of financial statements inclusive of key disclosures are heavily dependent on various information system outputs. In order to rely on the output of such system for the purpose of the audit, ensuring the appropriate design and operating effectiveness of financial reporting related IT controls is critical. The preparation and presentation of financial statements and disclosures based on manual or IT dependent controls over the said process was considered by us as an area of significant attention. In addition, as our approach was based on a high degree of reliance on financial reporting related IT controls, a significant proportion of our audit involved procedures in this area, and accordingly we considered this to be a key audit matter.	Our audit procedures included the following, amongst others; ⊙ We involved our internal specialised resources to understand and evaluate design and operating effectiveness of selected automated, IT dependent manual controls as implemented by management over the process of generating financial statements and significant disclosures. ⊙ Test-checking of the system report that were deemed key to financial statement disclosures; source data with those of the related systems; and calculations and categorisations performed by management to ensure accuracy and appropriateness of functions and procedures respectively. ⊙ We also performed other procedures which included understanding and evaluation of specific procedures carried out by personnel involved in the information security function that supported management's assertion of integrity of systems.

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.

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

Other information included in the Group's 2019 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.

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.

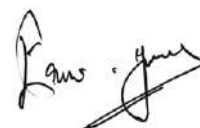
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements

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. 07 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 2020
Colombo

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INTEGRATED APPROACH TO FINANCIAL REPORTING

We have adopted the integrated reporting concepts in the presentation of financial statements for 2019. Accordingly, we have presented the Financial Statements and relevant Notes to the Financial Statements on a comprehensive and integrated manner, which has progressively improved the user-friendliness of the information presented.

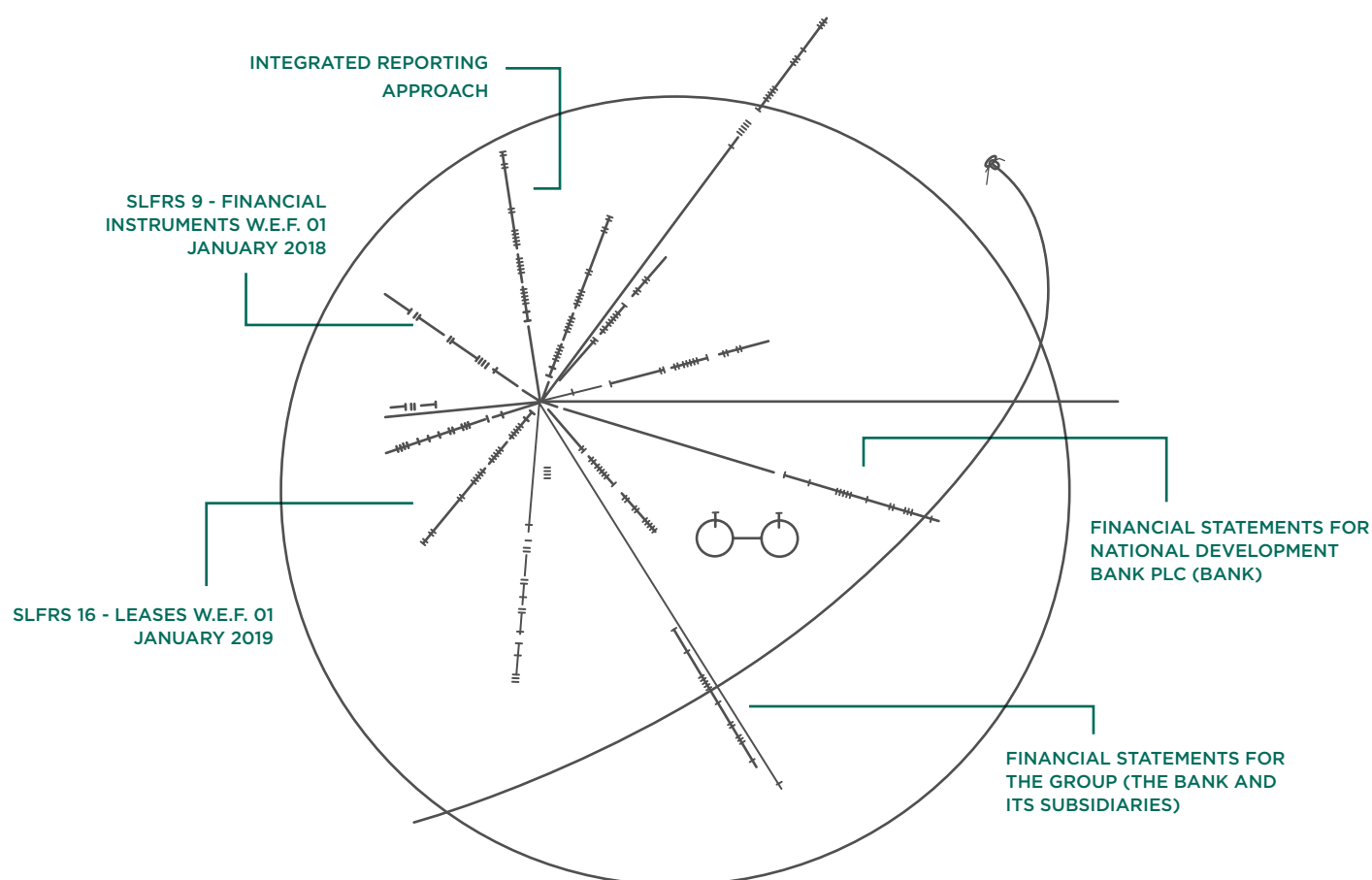
The presentation of the 2019 Financial Statements are in accordance with the Sri Lanka Financial Reporting Standards and all other applicable guidelines issued by regulators.

The Bank adopted SLFRS 9 - Financial Instruments with effect from 1 January 2018 and the comparative figures represent the audited financial performance for the year ended 31 December 2018, in compliance with SLFRS 9 - Financial Instruments. The transitional impact on the adoption of SLFRS 9 is incorporated in the opening equity as at 1 January 2018.

The Group adopted SLFRS 16, Leases with effect from 1 January 2019. The impact on transition was accounted using the modified retrospective method with the cumulative impact being recognised in opening equity as at 1 January 2019.

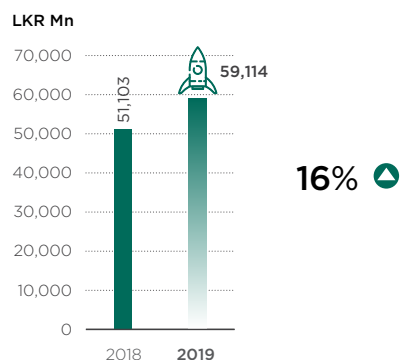
For the purpose of reporting financial performance, the Bank represents National Development Bank PLC, separate financial statements and the Group represents the Bank and its subsidiary companies.

FINANCIAL REPORTING STANDARDS & APPROACHES

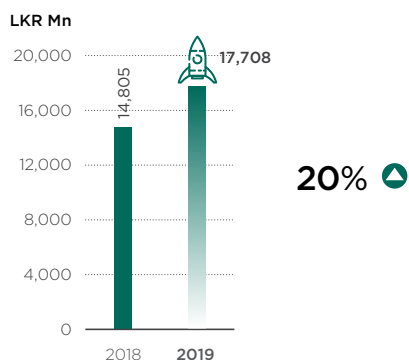


FINANCIAL PERFORMANCE

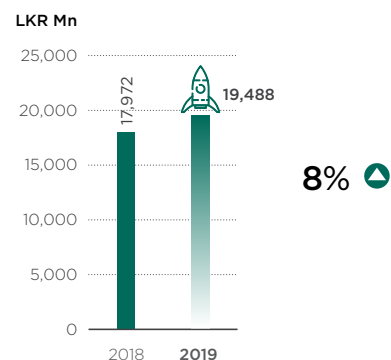
Gross Income



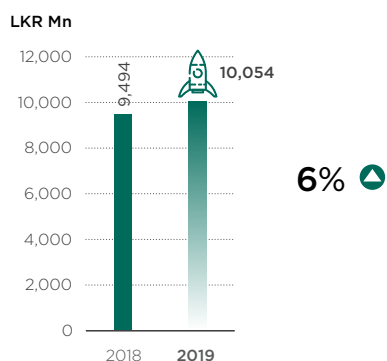
Net Interest Income



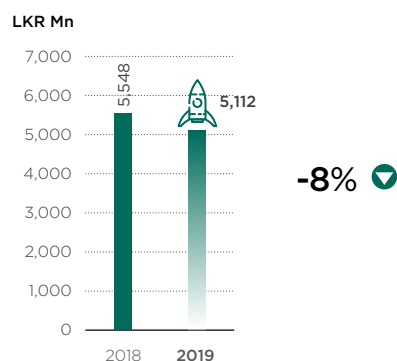
Net Operating Income



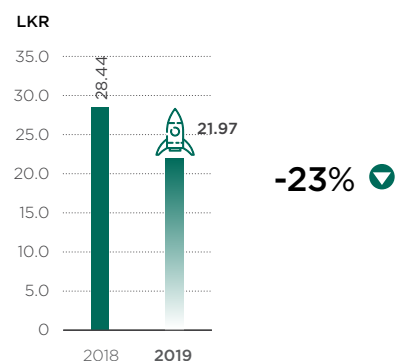
Operating Profit before Tax on Financial Services



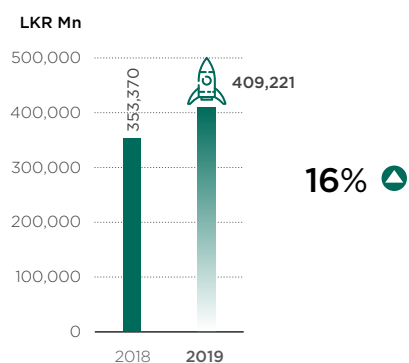
Profit for the Year



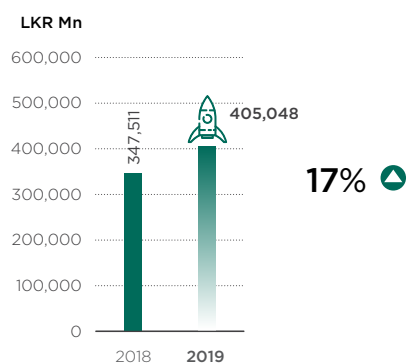
Earnings per Share



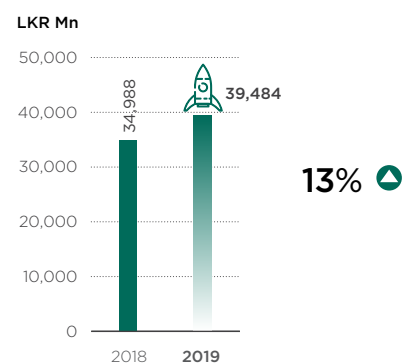
Gross Loans and Receivables to Other Customers



Due to Depositors



Equity



STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2019 LKR '000	2018 LKR '000	%	2019 LKR '000	2018 LKR '000	%
Gross income	4	210	59,113,537	51,103,421	16	60,237,165	52,071,241	16
Interest income	5.1	210	53,174,791	44,354,296	20	53,401,614	44,621,712	20
Less: Interest expenses	5.2	211	35,467,033	29,549,656	20	35,430,833	29,517,983	20
Net interest income	5	210	17,707,758	14,804,640	20	17,970,781	15,103,729	19
Fee and commission income	6	212	3,909,229	3,136,329	25	4,868,944	3,947,738	23
Net gains/(losses) from trading	7	213	990,160	1,218,338	(19)	990,160	1,218,338	(19)
Net gains/(losses) from financial investments at fair value through profit or loss	8	214	23,437	(21,843)	207	79,072	107,378	(26)
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	9.1	214	686,461	398,696	72	686,461	398,696	72
Net gains/(losses) from derecognition of financial assets measured at amortised cost	9.2	214	9,086	-	100	9,086	-	100
Other operating income	10	214	320,373	2,017,605	(84)	201,828	1,777,379	(89)
Total operating income			23,646,504	21,553,765	10	24,806,332	22,553,258	10
Less: Impairment charges	11	215	4,157,781	3,581,009	16	4,405,476	3,764,858	17
Net operating income			19,488,723	17,972,756	8	20,400,856	18,788,400	9
Less: Operating expenses								
Personnel expenses	12	217	4,957,146	4,443,795	12	5,459,822	4,898,398	11
Depreciation and amortisation expenses	13	218	761,019	442,169	72	883,323	508,895	74
Other expenses	14	219	3,716,314	3,592,763	3	4,065,345	3,959,287	3
Total operating expenses			9,434,479	8,478,727	11	10,408,490	9,366,580	11
Operating profit before tax on financial services			10,054,244	9,494,029	6	9,992,366	9,421,820	6
Less: Tax on financial services	15	219	3,071,440	2,173,521	41	3,071,440	2,173,521	41
Operating profit after tax on financial services			6,982,804	7,320,508	(5)	6,920,926	7,248,299	(5)
Share of associate companies' profits/(losses)	16	220	-	-	-	-	-	-
Profit before taxation			6,982,804	7,320,508	(5)	6,920,926	7,248,299	(5)
Less: Income tax expenses	17	220	1,871,204	1,772,116	6	2,035,915	1,972,312	3
Profit for the year			5,111,600	5,548,392	(8)	4,885,011	5,275,987	(7)
Profit attributable to equity holders of the parent			5,111,600	5,548,392	(8)	4,775,932	5,136,168	(7)
Non-controlling interests			-	-	-	109,079	139,819	(22)
Profit for the year			5,111,600	5,548,392	(8)	4,885,011	5,275,987	(7)
Basic/Diluted Earning per share (LKR)	18	223	21.97	28.44	(23)	20.53	26.33	(22)
Dividend per share (LKR)	19	224	7.00	8.00	(13)	-	-	

The Notes to the Financial Statements disclosed on pages 202 to 318 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2019 LKR '000	2018 LKR '000	%	2019 LKR '000	2018 LKR '000	%
Profit for the year			5,111,600	5,548,392	(8)	4,885,011	5,275,987	(7)
Other comprehensive income								
Items that will be reclassified to the statement of profit or loss								
Exchange differences on translation of foreign operations			-	-	-	(7,052)	58,443	(112)
Gains/(losses) on investments in debt instruments								
Fair value through other comprehensive income								
Net change in fair value during the year			1,227,304	(1,210,600)	201	1,219,194	(1,198,934)	202
Changes in allowance for expected credit losses			33,469	16,308	105	264,848	98,275	169
Deferred tax effect on gains/(losses) on above financial instruments			(668,675)	562,442	(219)	(619,856)	554,595	(212)
Net gains/(losses) on Investments in above financial instruments			592,098	(631,850)	194	864,186	(546,064)	258
Gains/(losses) on cash flow hedges	24.1 (b)	231	(102,924)	115,502	(189)	(102,924)	115,502	(189)
Net other comprehensive income that will be reclassified to Statement of profit or loss (a)			489,174	(516,348)	195	754,210	(372,119)	303
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			(376,829)	(148,875)	(153)	(376,829)	(148,875)	(153)
Revaluation of freehold land and buildings	46.1	268	307,211	-	100	320,991	30,186	963
Deferred tax effect on revaluation gains/(losses)			(86,019)	-	(100)	(89,876)	-	(100)
Net gains/(losses) on revaluation of freehold land and buildings			221,192	-	100	231,115	30,186	691
Actuarial gains/(losses) on defined benefit plans	41.2 (f)	265	(287,717)	76,492	(476)	(307,371)	74,874	(511)
Deferred tax effect on actuarial gains/(losses)			38,096	2,308	1,551	48,561	2,308	1,670
Net actuarial gains/(losses) on defined benefit plans			(249,621)	78,800	(417)	(258,810)	77,182	(445)
Net other comprehensive income that will not be reclassified to Statement of profit or loss (b)			(405,258)	(70,075)	(478)	(404,524)	(41,507)	(875)
Total other comprehensive income for the year, net of taxes (a + b)			83,916	(586,423)	114	349,686	(413,626)	185
Total comprehensive income for the year			5,195,516	4,961,969	5	5,234,697	4,862,361	8
Attributable to:								
Equity holders of the parent			5,195,516	4,961,969	5	5,125,737	4,709,202	9
Non-controlling interests			-	-	-	108,960	153,159	(29)
Total comprehensive income for the year			5,195,516	4,961,969	5	5,234,697	4,862,361	8

The Notes to the Financial Statements disclosed on pages 202 to 318 form an integral part of these Financial Statements.

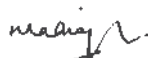
STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK			GROUP		
			2019 LKR '000	2018 LKR '000	%	2019 LKR '000	2018 LKR '000	%
Assets								
Cash and cash equivalents	21	228	5,703,468	6,537,579	(13)	6,081,359	7,071,438	(14)
Balances with the Central Bank of Sri Lanka	22	228	13,886,575	15,546,386	(11)	13,886,575	15,546,386	(11)
Placements with banks	23	229	6,291,047	15,237,306	(59)	6,291,047	15,237,306	(59)
Derivative financial instruments	24	229	1,596,359	3,937,847	(59)	1,596,359	3,937,847	(59)
Financial assets recognised through profit or loss - measured at fair value	25	232	932,253	1,947,242	(52)	3,488,735	4,052,409	(14)
Financial assets at amortised cost - loans and receivables to other customers	26	233	396,648,811	344,203,289	15	396,672,022	344,276,363	15
Financial assets at amortised cost - debt and other instruments	27	240	27,485,885	24,070,365	14	27,485,885	24,175,346	14
Financial assets measured at fair value through other comprehensive income	28	241	67,018,254	52,908,306	27	68,430,331	54,487,227	26
Investments in subsidiary companies	29	243	2,144,774	2,166,714	(1)	-	-	-
Investments in associate companies	30	245	-	-	-	-	-	-
Investment property	31	246	-	-	-	2,272,881	2,110,661	8
Intangible assets	32	247	687,785	379,896	81	700,908	396,742	77
Property, plant & equipment	33	248	3,012,213	2,569,873	17	3,565,166	3,144,359	13
Right of use assets	34	252	960,849	-	100	1,229,414	-	100
Current tax receivables	39	258	-	-	-	23,396	27,842	(16)
Deferred tax assets	40	259	599,215	1,059,485	(43)	647,444	1,100,736	(41)
Other assets	35	253	2,626,940	2,347,642	12	3,228,104	2,932,641	10
Total assets			529,594,428	472,911,930	12	535,599,626	478,497,303	12
Liabilities								
Due to banks	36	254	18,380,356	15,047,481	22	18,380,356	15,047,481	22
Derivative financial instruments	24	229	728,873	2,906,572	(75)	728,873	2,906,572	(75)
Financial liabilities at amortised cost								
Due to depositors	37.1	254	405,048,024	347,511,223	17	404,667,529	347,169,564	17
Due to debt securities holders	37.2	256	1,398,068	6,394,211	(78)	1,398,068	6,382,024	(78)
Due to other borrowers	37.3	256	29,342,027	37,040,987	(21)	29,342,027	37,040,987	(21)
Debt securities issued	38	257	23,108,734	16,811,808	37	23,108,734	16,811,808	37
Current tax liabilities	39	258	2,247,997	3,077,151	(27)	2,342,373	3,175,066	(26)
Deferred tax liabilities	40	259	-	-	-	566,983	512,532	11
Retirement benefit obligations	41	260	583,933	408,308	43	718,983	501,531	43
Other liabilities	42	265	9,272,580	8,716,147	6	9,807,070	8,838,250	11
Total liabilities			490,110,592	437,913,888	12	491,060,996	438,385,815	12
Equity								
Stated capital	43	267	7,685,334	6,469,323	19	7,685,334	6,469,323	19
Statutory reserve fund	44	267	1,896,479	1,636,479	16	1,896,479	1,636,479	16
Retained earnings	45	267	29,495,550	26,771,897	10	33,230,404	30,668,089	8
Other reserves	46	268	406,473	120,343	238	571,133	238,555	139
Total equity to equity holders of the Bank			39,483,836	34,998,042	13	43,383,350	39,012,446	11
Non-controlling interests	47	269	-	-	-	1,155,280	1,099,042	5
Total equity			39,483,836	34,998,042	13	44,538,630	40,111,488	11
Total liabilities and equity			529,594,428	472,911,930	12	535,599,626	478,497,303	12
Contingent liabilities and commitments	48	269	293,145,821	288,882,867	1	293,267,959	289,758,239	1
Net asset value per share (LKR)	49	272	178.02	166.41	7	195.60	185.49	5

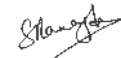
We certify that these Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.


Mrs. Suvendrini Muthukumarana
Vice President - Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board.


Mr. Kavan Rathnayaka
Director/Chairman


Mr. Dimantha Seneviratne
Director/Group Chief Executive Officer


Mrs. Shehani Ranasinghe
Company Secretary

18 February 2020

The Notes to the Financial Statements disclosed on pages 202 to 318 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

	Stated Capital	Statutory Reserve Fund	Available for Sale Reserve
For the year ended 31 December	LKR '000	LKR '000	LKR '000
BANK			
Balance as at 1 January 2018	2,208,520	1,336,479	(225,196)
Transition impact on adoption of SLFRS 9	-	-	225,196
Deferred tax on transitional adjustments	-	-	-
Restated opening balance under SLFRS 9	2,208,520	1,336,479	-
Total comprehensive income for the year			
Profit for the year	-	-	-
Other comprehensive income before tax	-	-	-
Tax on other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
Transactions with equity holders, recognised directly in equity			
Issue of shares (Note 43)	3,449,676	-	-
Transfer to the statutory reserve fund (Note 44)	-	300,000	-
Final dividend for 2017: Scrip (Note 19)	811,127	-	-
Final dividend for 2017: Cash (Note 19)	-	-	-
Balance as at 31 December 2018	6,469,323	1,636,479	-
Balance as at 1 January 2019	6,469,323	1,636,479	-
Transition impact on adoption of SLFRS 16	-	-	-
Restated opening balance under SLFRS 16	6,469,323	1,636,479	-
Total comprehensive income for the year			
Profit for the year	-	-	-
Other comprehensive income before tax	-	-	-
Tax on other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
Transactions with equity holders, recognised directly in equity			
Issue of shares (Note 43)	-	-	-
Transfer to the statutory reserve fund (Note 44)	-	260,000	-
Final dividend for 2018: Scrip (Note 19)	1,216,011	-	-
Final dividend for 2018: Cash (Note 19)	-	-	-
Balance as at 31 December 2019	7,685,334	1,896,479	-

Fair Value through Other Comprehensive Income Reserve LKR '000	Revaluation Reserve LKR '000	General Reserve LKR '000	Cash Flow Hedge Reserve LKR '000	Retained Earnings LKR '000	Total Equity LKR '000
-	1,041,261	5,805,707	(14,191)	18,585,255	28,737,835
(225,196)	-	-	-	(2,457,013)	(2,457,013)
-	-	-	-	687,964	687,964
(225,196)	1,041,261	5,805,707	(14,191)	16,816,206	26,968,786
-	-	-	-	5,548,392	5,548,392
(1,359,475)	-	-	115,502	92,800	(1,151,173)
562,442	-	-	-	2,308	564,750
(797,033)	-	-	115,502	5,643,500	4,961,969
-	-	-	-	-	3,449,676
-	-	-	-	(300,000)	-
-	-	-	-	(857,429)	(46,302)
-	-	-	-	(336,087)	(336,087)
(1,022,229)	1,041,261	5,805,707	101,311	20,966,190	34,998,042
(1,022,229)	1,041,261	5,805,707	101,311	20,966,190	34,998,042
-	-	-	-	(259,925)	(259,925)
(1,022,229)	1,041,261	5,805,707	101,311	20,706,265	34,738,117
-	-	-	-	5,111,600	5,111,600
850,475	307,211	-	(102,924)	(254,248)	800,514
(682,613)	(86,019)	-	-	52,034	(716,598)
167,862	221,192	-	(102,924)	4,909,386	5,195,516
-	-	-	-	-	-
-	-	-	-	(260,000)	-
-	-	-	-	(1,367,061)	(151,050)
-	-	-	-	(298,747)	(298,747)
(854,367)	1,262,453	5,805,707	(1,613)	23,689,843	39,483,836

STATEMENT OF CHANGES IN EQUITY

	Stated Capital	Statutory Reserve Fund	Available for Sale Reserve	Fair Value through Other Comprehensive Income Reserve
For the year ended 31 December	LKR '000	LKR '000	LKR '000	LKR '000
GROUP				
Balance as at 1 January 2018	2,208,520	1,336,479	(236,382)	-
Transition impact on adoption of SLFRS 9	-	-	236,382	(236,382)
Deferred tax on transitional adjustments	-	-	-	-
Restated opening balance under SLFRS 9	2,208,520	1,336,479	-	(236,382)
Total comprehensive income for the year				
Profit for the year	-	-	-	-
Other comprehensive income before tax	-	-	-	(1,347,809)
Tax on other comprehensive income	-	-	-	554,595
Total comprehensive income for the year	-	-	-	(793,214)
Transactions with equity holders, recognised directly in equity				
Issue of shares (Note 43)	3,449,676	-	-	-
Adjustment due to changes in group companies	-	-	-	-
Transfer to the statutory reserve fund (Note 44)	-	300,000	-	-
Dividend attributable to non controlling interests	-	-	-	-
Final dividend for 2017: Scrip (Note 19)	811,127	-	-	-
Final dividend for 2017: Cash (Note 19)	-	-	-	-
Balance as at 31 December 2018	6,469,323	1,636,479	-	(1,029,596)
Balance as at 1 January 2019	6,469,323	1,636,479	-	(1,029,596)
Transition impact on adoption of SLFRS 16	-	-	-	-
Restated opening balance under SLFRS 16	6,469,323	1,636,479	-	(1,029,596)
Total comprehensive income for the year				
Profit for the year	-	-	-	-
Other comprehensive income before tax	-	-	-	842,365
Tax on other comprehensive income	-	-	-	(637,978)
Total comprehensive income for the year	-	-	-	204,387
Transactions with equity holders, recognised directly in equity				
Issue of shares (Note 43)	-	-	-	-
Transfer to the statutory reserve fund (Note 44)	-	260,000	-	-
Dividend attributable to non controlling interests	-	-	-	-
Final dividend for 2018: Scrip (Note 19)	1,216,011	-	-	-
Final dividend for 2018: Cash (Note 19)	-	-	-	-
Balance as at 31 December 2019	7,685,334	1,896,479	-	(825,209)

Revaluation Reserve	General Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total	Non-Controlling Interest	Total Equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
1,136,654	5,805,707	(14,191)	22,775,440	33,012,227	965,746	33,977,973
-	-	-	(2,456,276)	(2,456,276)	2	(2,456,274)
-	-	-	688,663	688,663	-	688,663
1,136,654	5,805,707	(14,191)	21,007,827	31,244,614	965,748	32,210,362
-	-	-	5,136,168	5,136,168	139,819	5,275,987
30,186	-	115,502	218,252	(983,869)	13,340	(970,529)
-	-	-	2,308	556,903	-	556,903
30,186	-	115,502	5,356,728	4,709,202	153,159	4,862,361
-	-	-	-	3,449,676	-	3,449,676
-	-	-	(8,657)	(8,657)	30,660	22,003
-	-	-	(300,000)	-	-	-
-	-	-	-	-	(50,525)	(50,525)
-	-	-	(857,429)	(46,302)	-	(46,302)
-	-	-	(336,087)	(336,087)	-	(336,087)
1,166,840	5,805,707	101,311	24,862,382	39,012,446	1,099,042	40,111,488
1,166,840	5,805,707	101,311	24,862,382	39,012,446	1,099,042	40,111,488
-	-	-	(305,036)	(305,036)	(37)	(305,073)
1,166,840	5,805,707	101,311	24,557,346	38,707,410	1,099,005	39,806,415
-	-	-	4,775,932	4,775,932	109,079	4,885,011
320,991	-	(102,924)	(49,456)	1,010,976	(119)	1,010,857
(89,876)	-	-	66,683	(661,171)	-	(661,171)
231,115	-	(102,924)	4,793,159	5,125,737	108,960	5,234,697
-	-	-	-	-	-	-
-	-	-	(260,000)	-	-	-
-	-	-	-	-	(52,685)	(52,685)
-	-	-	(1,367,061)	(151,050)	-	(151,050)
-	-	-	(298,747)	(298,747)	-	(298,747)
1,397,955	5,805,707	(1,613)	27,424,697	43,383,350	1,155,280	44,538,630

STATEMENT OF CASH FLOWS



ACCOUNTING POLICY

The Statement of Cash Flows has been prepared by using 'The Direct Method', 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 with the Central Bank of Sri Lanka and placements with banks net of unfavourable nostro account balances, as presented in the Statement of Financial Position.

For the year ended 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cash flows from operating activities				
Interest received	48,177,253	40,951,417	48,357,057	41,252,618
Fee and commission income received	3,927,886	3,165,779	4,716,160	4,068,512
Dividend income received	419,938	568,518	76,462	123,146
Other operating income received	1,562,829	2,943,489	1,569,068	2,943,489
Interest paid	(32,959,532)	(28,022,485)	(32,965,191)	(28,031,190)
Personnel costs paid	(4,867,086)	(4,348,634)	(5,226,060)	(4,691,092)
Other expenses paid	(4,223,990)	(3,404,759)	(4,568,110)	(3,821,127)
Operating profit before changes in operating assets and liabilities	12,037,298	11,853,325	11,959,387	11,844,356
Increase/decrease in operating assets				
Deposits held for regulatory or monetary control purposes	1,659,812	(181,466)	1,659,812	(181,466)
Financial assets at amortised cost - loans and receivables to other customers	(50,965,915)	(73,574,161)	(50,966,827)	(73,574,161)
Net (increase)/decrease in operating assets	898,225	(1,557,659)	848,053	(1,516,458)
Increase/decrease in operating liabilities				
Financial liabilities at amortised - Due to depositors	55,691,828	72,511,339	55,691,828	72,511,339
Financial liabilities at amortised - Due to debt securities holders	(5,613,250)	(3,132,870)	(5,613,250)	(3,132,870)
Financial liabilities at amortised - Due to other borrowers	7,967,348	(2,491,485)	7,967,348	(2,487,007)
Net increase/(decrease) in other liabilities	(1,944,029)	1,244,708	(1,924,306)	1,157,400
Net cash inflow/ (outflow) from operating activities before taxation	19,731,317	4,671,731	19,622,045	4,621,133
Tax on financial services paid	(1,906,763)	(1,893,940)	(1,932,033)	(1,893,940)
Income taxes paid	(2,956,685)	(1,451,843)	(3,017,136)	(1,531,746)
Net cash (used in)/from operating activities	14,867,869	1,325,948	14,672,876	1,195,447
Cash flows from investing activities				
Net changes in financial investments	(16,792,449)	(1,002,720)	(16,657,444)	(358,785)
Net cash flow from liquidation of associate company	-	23,400	-	23,400
Purchase of intangible assets	(477,826)	(218,304)	(479,066)	(231,436)
Purchase of property plant and equipment	(650,538)	(724,174)	(698,430)	(763,420)
Proceeds from sale of property & plant and equipment	994	40,690	3,050	40,690
Net cash (used in)/from investing activities	(17,919,819)	(1,881,108)	(17,831,892)	(1,289,551)
Cash flows from financing activities				
Proceeds from issue of ordinary shares (as a right issue)	-	3,449,676	-	3,499,677
Repayment of debts securities issued	-	(2,771,590)	-	(2,771,590)
Interest paid on debts securities issued	(1,750,930)	(2,032,758)	(1,750,930)	(2,032,758)
Repayment of Institutional borrowings	(11,653,165)	(6,922,794)	(11,653,165)	(6,922,794)
Proceeds from Institutional borrowings	1,760,967	24,822,518	1,760,967	24,822,518
Proceeds from debt securities issued	5,561,200	-	5,561,200	-
Repayment of principal portion of lease liabilities	(344,416)	-	(344,416)	-
Dividends paid to non-controlling interests	-	-	(48,902)	(46,046)
Dividends paid to shareholders of the Bank	(302,077)	(330,157)	(302,077)	(330,157)
Net cash (used in)/from financing activities	(6,728,421)	16,214,895	(6,777,323)	16,218,850

For the year ended 31 December	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Net increase in cash and cash equivalents	(9,780,370)	15,659,735	(9,936,338)	16,124,746
Cash and cash equivalents at the beginning of the year	21,774,885	6,115,150	22,308,744	6,183,998
Cash and cash equivalents at the end of the year	11,994,515	21,774,885	12,372,406	22,308,744
Reconciliation of cash and cash equivalents				
Cash in hand (Note 21)	5,703,468	6,537,579	6,081,359	7,071,438
Dues from banks and other financial institutions (Note 23)	6,291,047	15,237,306	6,291,047	15,237,306
	11,994,515	21,774,885	12,372,406	22,308,744

(a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

For the year ended 31 December	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Operating profit before tax on financial services	10,054,244	9,494,029	9,992,366	9,421,820
Gains on sale of property, plant & equipment	(280)	(28,296)	(4,773)	(31,671)
Accrual for interest/other income	(4,973,102)	(3,424,722)	(5,003,445)	(3,287,799)
Accrual for interest expenses	2,507,501	1,527,170	2,507,501	1,527,170
Accrual for general expenses	(409,612)	270,594	(543,953)	285,058
Unrealised revaluation gains/(loss) from investments	(24,437)	21,843	(79,071)	(107,379)
Contribution made to the pension fund	(8,188)	12,571	(8,188)	12,571
Depreciation of property, plant & equipment	402,844	331,974	481,819	389,737
Amortisation of intangible assets	122,241	110,195	127,204	119,158
Depreciation of Right of use assets	235,934	-	274,300	-
Gains on disposal of investments	-	(7,783)	-	1,905
Impairment allowances for financial assets and investments in subsidiaries	4,157,781	3,581,009	4,405,476	3,764,858
Scrip dividend received from investments	(27,628)	(35,259)	(27,628)	(35,259)
Fair value adjustments on investment property	-	-	(162,220)	(215,814)
Operating profit before changes in operating assets/liabilities	12,037,298	11,853,325	11,959,387	11,844,356

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 Ltd.' 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 Ltd. 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. 07 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 4 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 principal place of business are situated at No. 40, Nawam Mawatha, Colombo 2. The number of branches of the Bank as at 31 December 2019 was 112 (2018 - 108) and the number of staff employed as at 31 December 2019 was 2,936 (2018 - 2,494).

1.2 Principal Activities of the Bank and the Group

The principal activities of the Bank and its group companies are summarised below:

Entity	Country of Incorporation	Principal Activities	Holding % - 2019		Holding % - 2018	
			Direct	Indirect	Direct	Indirect
National Development Bank PLC	Sri Lanka	Retail banking, small and medium enterprise (SME) banking, corporate banking, project and Infrastructure financing, investment banking, leasing, housing finance, cash management, correspondent banking, remittance services, margin trading, pawning, treasury and investment services, bancassurance and card operations.	PARENT COMPANY			
Subsidiaries						
NDB Capital Holdings Ltd.	Sri Lanka	Full service investment banking	99.9	-	99.9	-
NDB Investment Bank Ltd.	Sri Lanka	Investment banking	-	99.9	-	99.9
NDB Wealth Management Ltd.	Sri Lanka	Wealth management	-	99.9	-	99.9
NDB Securities (Pvt) Ltd.	Sri Lanka	Investment advisory and securities trading	-	99.9	-	99.9
Development Holdings (Pvt) Ltd.	Sri Lanka	Property management	58.7	-	58.7	-
NDB Capital Ltd.	Bangladesh	Investment banking	41.76	84.18	41.76	84.18
NDB Zephyr Partners Ltd.	Mauritius	Management of private equity funds	-	60.0	-	60.0
NDB Zephyr Partners Lanka (Pvt) Ltd.	Sri Lanka	Management of private equity funds	-	60.0	-	60.0
Associate Companies						
Ayojana Fund (Pvt) Ltd. (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 2019 comprise of the Bank (parent company) and the subsidiaries and associate companies.

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 2019 which includes -

- ⊙ The Statement of Profit or Loss and Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 193 and 194).
- ⊙ Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 195).
- ⊙ 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 196-199) .
- ⊙ 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 200); and Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 202 to 318).

2.2 Application of SLFRS 9 - Financial Instruments

The Group adopted SLFRS 9 - Financial Instruments effective from 01 January 2018. This Standard replaces LKAS -39, Financial Instruments: Recognition and Measurement and the impact on the adoption of SLFRS 9 on the comparative financial information is incorporated to Equity as at 01 January 2018 in the presentation of these financial statements.

The presentation of Financial Statements is also in compliance with the requirements of the Companies Act No. 07 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.

2.3 Adoption of SLFRS 16

The Group adopted SLFRS 16, Leases with effect from 1 January 2019, the impact on transition was accounted using the modified retrospective method with the cumulative impact being recognised in opening equity as at 1 January 2019.

The accounting policy for the Right of Use Assets and the Lease Liabilities and the transitional impact on the adoption of SLFRS 16 is included in detail in the Note 34, Right of Use Assets and Note 42, Other Liabilities including the assumptions used for estimating the incremental borrowing rates.

2.3 Functional and Presentation Currency

The Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank and the Group operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

2.4 Responsibility for the Financial Statements

The Board of Directors is responsible for these Financial Statements of the Group, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 154, 176 and page 195 respectively.

2.5 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2019 (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 2020.

2.6 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	229
Financial Assets measured at fair value through profit or loss	Fair value	25	232
Financial Assets measured at fair value through other comprehensive income	Fair value	28	241
Investment Property	Fair value	31	246
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.	33	248
Employee Benefit Liabilities	Recognised at the present value of the defined benefit obligations less the fair value of the assets of the plan.	41	260

2.7 Presentation of Financial Statements

The Bank and 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.

2.7.1 Rounding

The amounts in the Financial Statements have been round 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".

2.7.2 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 currently 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 permitted under SLFRSs, or for gains and losses arising from a group or similar transactions such as in the Group's trading activity.

2.8 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.

2.9 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's presentation the details of which are given in Note 54 to the Financial Statements.

2.10 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December 2019. 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.

2.11 Foreign Currency Translation

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, 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.

3. GENERAL 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.

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, estimates and assumptions involving uncertainty 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 202 to 318.

Going Concern

The Board of Directors of the Bank and its group companies has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, 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. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

3.1 Financial Instruments

3.1.1 SLFRS 9 Financial Instruments

SLFRS 9 –Financial Instruments replaces LKAS 39 for annual periods on or after 1 January 2018. Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1 January 2018. The Bank also elected, as a policy choice permitted under SLFRS 9, to continue to apply hedge accounting in accordance with LKAS 39.

3.1.2 Classification and measurement

"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 are measured at amortised cost or fair value through profit or loss (when they held for trading) as per requirements of SLFRS 9.

The Bank and the Group classification of its financial assets and liabilities are explained in Notes 3.2.6 and 3.2.7.

3.1.3 Day of Recognition

Financial assets and liabilities, with the exception of loans and receivables

to 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 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.

3.2.4 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 3.2.7.(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 Bank accounts for the Day 1 profit or loss, as described below.

3.2.5 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 net trading income. In those 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 profit or loss when the inputs become observable, or when the instrument is derecognised.

3.2.6 Measurement categories 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, measured at either:

- ⊙ Amortised cost, as explained in Note 3.2.7.
- ⊙ Fair Value through Other Comprehensive Income (FVOCI), as explained in Note 28.
- ⊙ Fair Value through Profit or Loss (FVPL)

The Bank classifies and 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 and derivative instruments or the fair value designation is applied, as explained in Note 55.

3.2.7 Financial assets and liabilities

Placements with Banks, Loans and receivables to other customers, financial assets at amortised cost

The Bank 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.

3.2.7 (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 Bank's 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 Group original expectations, the Bank 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.

3.2.7. (b) The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial 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.

3.2.8 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.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.2.9 Derecognition financial assets and financial liabilities other than for substantial modification

3.2.9 (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.

3.2.9 (b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

3.3 Impairment of financial assets

3.3.1 Overview of the Expected Credit Loss (ECL) principles

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The 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 instrument 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, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 56.3.3.6.

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 loans 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.

3.3.2 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 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.

When estimating the ECLs, the Bank 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 in Note 3.3.3 the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank 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 in Note 3.3.3.

The mechanics of the ECL method are summarised below:

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 Bank 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 Bank 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%.

Loan Commitments and letters of credit:

When estimating LTECLs for undrawn loan commitments, the Bank 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 provisions.

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.

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.

3.3.3 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

years for corporate and one years 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 56.3.3.2, 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.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 56.3.3.6), on an individual basis or on a collective basis as per the Bank's impairment policy. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

3.3.4 Forward looking information

In its ECL models, the Bank 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.

3.3.5 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 56.3.4.10.

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.

3.3.6 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.

3.3.7 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 allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

3.3.8 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.

3.3.9 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 Bank'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:

- ⊙ Number of days past due and the Guidelines issued by the Central Bank of Sri Lanka.
- ⊙ The Bank'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

3.4 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.

3.5 Taxation

3.5.1 Current Tax and Deferred Tax

Details of "Income tax expense" and "Deferred tax assets and liabilities" are given in Note 17.

3.5.2 Tax on Financial Services

Details of "VAT on Financial Services", "NBT on Financial Services" and "Debt Repayment Levy" are given in Note 15.

3.5.3 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 April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.5.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act, No. 13 of 2006 and amendments thereto the ESC is payable at 0.5% of the total turnover and is deductible from the income tax payments.

3.6 Standards Issued but not yet Effective as at 31 December 2019

The following Sri Lanka Accounting Standards have been issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2019.

Amendments to SLFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in SLFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

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	
		2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Interest income	5.1	53,174,791	44,354,296	53,401,614	44,621,712
Fee and commission income	6	3,909,229	3,136,329	4,868,944	3,947,738
Net gains/(losses) from trading	7	990,160	1,218,338	990,160	1,218,338
Net gains/(losses) from financial investments at fair value through profit or loss	8	23,437	(21,843)	79,072	107,378
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	9.1	686,461	398,696	686,461	398,696
Net gains/(losses) from derecognition of financial assets measured at amortised cost	9.2	9,086	-	9,086	-
Other operating income	10	320,373	2,017,605	201,828	1,777,379
Total		59,113,537	51,103,421	60,237,165	52,071,241

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.

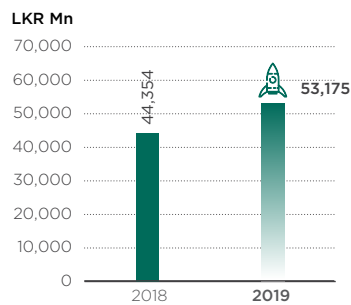
5.1 Interest Income

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Placements with banks	633,391	325,683	635,430	325,683
Financial assets recognised through profit or loss	78,177	331,743	78,177	331,743
Financial assets measured at fair value through other comprehensive income	5,313,093	4,840,443	5,486,348	5,048,129
Financial assets at amortised cost - loans and receivables to other customers	44,916,145	37,157,480	44,916,145	37,157,480
Financial assets at amortised cost - debt and other instruments	2,229,782	1,695,317	2,229,782	1,696,934
Other interest income	4,203	3,630	55,732	61,743
Total interest income (a)	53,174,791	44,354,296	53,401,614	44,621,712

5.2 Interest Expenses

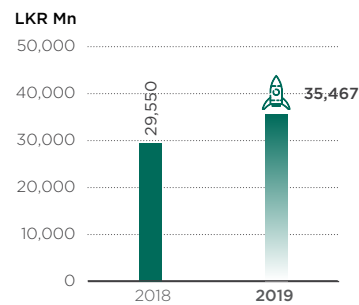
	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Due to banks	1,708,561	971,226	1,708,561	971,226
Financial liabilities at amortised cost				
Due to depositors	28,848,923	23,912,033	28,812,723	23,880,360
Due to debt securities holders	424,282	696,934	424,282	696,934
Due to other borrowers	1,970,939	1,703,208	1,970,939	1,703,208
Debt securities issued	2,514,328	2,266,255	2,514,328	2,266,255
Total interest expenses (b)	35,467,033	29,549,656	35,430,833	29,517,983
Net interest income (a)-(b)	17,707,758	14,804,640	17,970,781	15,103,729

Interest income



20% ▲

Interest expenses



20% ▲

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Interest income				
Financial assets measured at fair value - profit or loss	78,177	331,743	78,177	331,743
Financial assets measured at fair value - other comprehensive income	5,313,093	4,840,444	5,313,093	4,840,444
Financial assets at amortised cost - debt and other instruments	1,814,355	1,323,443	1,814,355	1,325,060
	7,205,625	6,495,630	7,205,625	6,497,247
Less : Interest expenses				
Securities sold under repurchase agreements	360,957	437,083	360,957	437,083
Net interest income from Sri Lanka Government Securities	6,844,668	6,058,547	6,844,668	6,060,164

5.4 Interest Income on Impaired Financial Assets

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Interest income on impaired loans and receivables to other customers	744,445	370,368	744,445	370,368

5.5 Notional Tax Credit on Secondary Market Transactions

Any company which derives income from secondary market transactions involving any security or Treasury Bonds or Treasury Bills, on which the income tax has been deducted at the rate of 10% at the time of issue of such security was entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions, to an amount of one ninth of the same. Accordingly, the net interest income earned by the Group from such transactions upto 31 March 2018 has been grossed up in the Financial Statements for the year ended 31 December 2018 and the notional tax credit amounted to LKR 130 Mn.

After the implementation of the Inland Revenue Act, No. 24 of 2017, with effect from 1 April 2018 notional tax credit is not entitled to be recognised in the Financial Statements.

6. 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 Bank and 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.

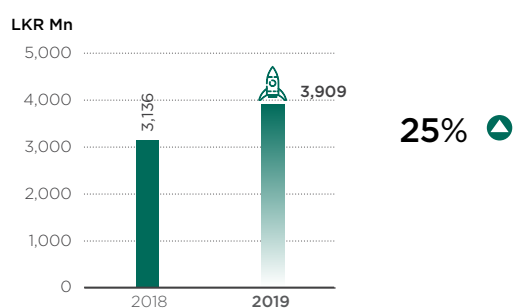
The premium received is recognised in the Statement of Profit or Loss on a straight-line basis over the life time of the guarantee and the balance amount to be amortised to the Statement of Profit or Loss after the reporting date, is recognised in the Statement of Financial Position, as Other Liabilities.

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 LKAS 17 Leases.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Fees and commission income on				
Cards	746,040	460,348	746,040	460,348
Due to depositors	517,367	391,605	517,367	391,605
Guarantees	540,272	437,126	540,272	437,126
Loans and receivables to other customers	1,017,080	762,099	1,017,080	762,099
Remittances	253,856	240,849	253,856	240,849
Trade finance	653,380	646,898	653,380	646,898
Other financial services	97,622	104,592	275,556	287,664
Bancassurance	80,133	89,728	80,133	89,728
Investment banking and wealth management	-	-	516,227	409,818
Brokerage	-	-	85,892	65,907
Rental income	3,479	3,084	183,141	155,696
Total	3,909,229	3,136,329	4,868,944	3,947,738

Fee and commission income



7. NET GAINS/(LOSSES) FROM TRADING



ACCOUNTING POLICY

Net gains/(losses) from trading represent income from foreign exchange and include gains and losses from forex spot and forward contracts and other currency derivatives.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Income from foreign exchange				
- With banks	594,121	824,475	594,121	824,475
- With other customers	396,039	393,863	396,039	393,863
Total	990,160	1,218,338	990,160	1,218,338

8. NET GAINS/(LOSSES) FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**ACCOUNTING POLICY**

All unrealised gains and losses from changes in fair value of financial investments recognised through profit or loss are included under the Net gains/(losses) from Financial Investments 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 unrealised gains of debt securities.

Income from Unit Trusts – includes the changes in the fair value of unit trust investments.

	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets recognised fair value through profit or loss				
Unrealised revaluation gains/(losses);				
Sri Lanka Government Securities - Treasury bills/bonds	23,437	(21,843)	23,437	(21,843)
Equity securities	-	-	(68,314)	(1,889)
Investment in unit trusts	-	-	123,949	131,110
Total	23,437	(21,843)	79,072	107,378

9. NET GAINS/(LOSSES) FROM DERECOGNITION OF FINANCIAL ASSETS**ACCOUNTING POLICY**

All realised gains and losses from derecognition of financial assets classified as financial investments at fair value through profit or loss and debt instruments measured at fair value through other comprehensive income are given below.

	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
9.1 Financial assets – Measured at Fair Value through Other Comprehensive Income				
Debt securities	686,461	398,696	686,461	398,696
Total	686,461	398,696	686,461	398,696
9.2 Financial assets – Measured at Amortised Cost				
Debt securities	9,086	-	9,086	-
Total	9,086	-	9,086	-

10. OTHER OPERATING INCOME**ACCOUNTING POLICY**

Other Operating income includes capital gains/(losses), dividend income, foreign exchange gains, gains 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 Bank's and the Group's right to receive the payment, is established.



ACCOUNTING POLICY

Gains/(Losses)

Gains/(losses) from the sale of Group investments represent the difference between the sales proceeds from sale of such investments and the carrying value of such investments at the time of disposal. This is recognised as an item of other income in the year, in which significant risks and rewards of the ownership are transferred to the buyer.

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'.

Gains on Sale of Property, Plant & Equipment

Gains 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 on Investment Properties

Gains 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.

	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend income from securities				
- Quoted investments	35,267	49,859	48,477	65,368
- Non-quoted investments	37,951	32,433	40,899	90,287
Dividend income from group investments				
- Non-quoted investments	374,349	521,485	-	-
Foreign exchange gains/(losses)	(145,850)	1,376,595	(145,946)	1,378,981
Gains on sale of property, plant & equipment	280	28,296	4,773	31,671
Gains on investment properties	-	-	162,220	215,814
Others	18,376	8,937	91,405	(4,742)
Total	320,373	2,017,605	201,828	1,777,379

11. IMPAIRMENT CHARGES



ACCOUNTING POLICY

The Group recognises the changes in the Expected Credit Losses of financial instruments assessed as per SLFRS 9 - "Financial Instruments" in its financial statements. The methodology adopted for impairment is explained in detail in Note 3.3 to the financial statements. Further, Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

11.1 Movement in the Impairment Charges During the Year

	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and receivables to other customers				
Charges/(reversals) to the statement of profit or loss				
- Impairment on individually significant loans [Note 26.5 (a)]	2,721,578	2,827,052	2,721,578	2,827,052
- Impairment on collective loan portfolio [Note 26.5 (a)]	1,123,979	770,069	1,123,979	770,069
Total impairment charges for loan and receivables to other customers	3,845,557	3,597,121	3,845,557	3,597,121
- Impairment on financial investments	290,284	44,582	559,919	167,737
- Charges/(reversals) of impairment on investments in subsidiaries	21,940	(60,694)	-	-
Total	4,157,781	3,581,009	4,405,476	3,764,858

NOTES TO THE
FINANCIAL STATEMENTS

11. IMPAIRMENT CHARGES (CONTD.)

11.2 Analysis of Impairment Charges

A further analysis of the Expected Credit Loss charges on Financial Instruments for the year are given below.

	BANK				GROUP			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Current Year 2019	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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 & 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 investments								
Financial assets at amortised cost - debt and other instruments	75,223	-	184,646	259,869	120,338	-	184,646	304,984
Cash and cash equivalents	(125)	-	-	(125)	(125)	-	-	(125)
Placements with banks	(2,929)	-	-	(2,929)	(2,929)	-	-	(2,929)
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 investments	105,638	-	184,646	290,284	150,753	-	409,166	559,919
Impairment provision/(reversal) of investment in subsidiaries (Note 29.2)	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

	BANK				GROUP			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Previous Year 2018	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Impairment on loans and receivables								
Financial assets at amortised cost - loans and receivables to other customers	78,350	(93,083)	3,607,222	3,592,489	78,350	(93,083)	3,607,222	3,592,489
Individual impairment	-	-	2,827,052	2,827,052	-	-	2,827,052	2,827,052
Collective impairment	78,350	(93,083)	780,171	765,438	78,350	(93,083)	780,171	765,438
Contingent liabilities & commitments [Note 48.1 (b)]	15,153	25,698	(36,219)	4,632	15,153	25,698	(36,219)	4,632
Total impairment charges on loans and receivables to other customers and contingent liabilities and commitments [Note 26.5 (a)]	93,503	(67,385)	3,571,003	3,597,121	93,503	(67,385)	3,571,003	3,597,121
Impairment on financial investments								
Financial assets measured at fair value through other comprehensive income	(6,646)	20,318	-	13,672	(6,646)	20,318	-	13,672
Cash and cash equivalents	(42)	-	-	(42)	(42)	-	-	(42)
Placements with banks	4,300	-	-	4,300	4,300	-	-	4,300
Financial assets measured at fair value through other comprehensive income	16,308	-	10,344	26,652	59,869	79,594	10,344	149,807
Total impairment charges on financial investments	13,920	20,318	10,344	44,582	57,481	99,912	10,344	167,737
Impairment provision/(reversal) of investment in subsidiaries (Note 29.2)	(60,694)	-	-	(60,694)	-	-	-	-
Total impairment charges	46,729	(47,067)	3,581,347	3,581,009	150,984	32,527	3,581,347	3,764,858

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.

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Salary and bonus	4,003,672	3,539,566	4,469,497	3,917,229
Contribution to Employees' Provident Fund	343,477	300,121	355,966	322,166
Contribution to Employees' Trust Fund	68,695	60,024	71,429	65,151
Contribution to defined benefit plan				
– Pension Fund [Note 41.2 (a)]	(8,188)	12,571	(8,188)	12,571
– Gratuity [Note 41.1 (a)]	98,853	82,590	127,349	99,556
Others	450,637	448,923	443,769	481,725
Total	4,957,146	4,443,795	5,459,822	4,898,398

13. DEPRECIATION AND AMORTISATION EXPENSES**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 2019 and 2018, are as follows:

Class of Assets	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

* With effect from 1 January 2018, ATMs and Computer Servers are segregated according to their useful life based on technical assessment.

The above rates are compatible with the rates used by the group companies.

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 2019 and 2018 are given below:

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	20.00

* With effect from 1 January 2019, computer software are segregated according to their useful life based on technical assessment.

The above rates are compatible with rates used by the group companies.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Own assets				
Depreciation of property, plant & equipment (Note 33.1 & 33.4)	402,844	331,974	481,819	389,737
Amortisation of intangible assets (Note 32.1)	122,241	110,195	127,204	119,158
Assets under operating leases				
Depreciation of right of use assets (Note 34)	235,934	-	274,300	-
Total	761,019	442,169	883,323	508,895

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Directors' emoluments	37,753	40,878	45,116	49,952
Auditors' remuneration				
Audit fees and expenses	9,714	8,896	15,202	13,159
Fees for other audit services	2,259	3,994	5,316	3,994
Non-audit fees to auditors	8,025	7,590	8,025	8,864
Professional and legal expenses	96,703	108,128	141,301	138,636
Donations	24,557	22,346	28,557	26,346
Office administration and establishment expenses	1,550,150	1,629,938	1,820,874	1,938,940
Deposit insurance expenses	373,643	323,416	373,643	323,416
Others	1,613,510	1,447,577	1,627,311	1,455,980
Total	3,716,314	3,592,763	4,065,345	3,959,287

Directors' emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under salary and bonus in Note 12.

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%. (2018- 15%).

Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated with effect from 01 January 2014 in accordance with Nation Building Tax Act, No. 09 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 and the regulatory tax rate was 2% (2018 - 2%). The NBT has been abolished with effect from 01 December 2019 as per the Notice issued by the Department of Inland Revenue on 09 December 2019.

Debt Repayment Levy (DRL)

Debt Repayment Levy has been imposed by the Finance Act, No. 35 of 2018 commencing from 1 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 rate was 7% (2018 - 7%).

15. TAX ON FINANCIAL SERVICES (CONTD.)

	BANK & GROUP	
	2019 LKR '000	2018 LKR '000
Value Added Tax on financial services	1,837,750	1,710,172
Nation Building Tax on financial services	230,710	227,923
Debt Repayment Levy	1,002,980	235,426
Total	3,071,440	2,173,521

16. SHARE OF ASSOCIATE COMPANIES' PROFITS/(LOSSES)

The Group's share of profit/(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. 10 of 2006 and the amendments thereto (for the period from 01 January 2018 to 31 March 2018) and the Inland Revenue Act, No. 24 of 2017 (w.e.f. 01 April 2018) at the rates specified in Note 17.2 of these Financial Statements.

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.



ACCOUNTING POLICY

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 from 01 April 2018 to 31 December 2019, 2018 (10% up to March 31, 2018). 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.

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

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 as at 31 December 2019.

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.

NOTES TO THE
FINANCIAL STATEMENTS

17. INCOME TAX EXPENSES (CONTD.)

The components of the income tax expenses for the years ended 31 December 2019 and 2018 are:

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Current tax expense				
Taxation based on the profit for the year	2,558,683	3,016,762	2,623,173	3,164,657
Adjustments in respect of current income tax of the prior years	(431,151)	(66,216)	(433,830)	(53,215)
Total current tax expense	2,127,532	2,950,546	2,189,343	3,111,442
Deferred tax expense				
Origination and reversal of temporary differences (Note 40)	(256,328)	(1,178,430)	(153,428)	(1,139,130)
Total income tax charged to the Statement of Profit or Loss (Note 17.1)	1,871,204	1,772,116	2,035,915	1,972,312
Effective tax rate (including deferred tax) (%)	27	24	29	27
Effective tax rate (excluding deferred tax) (%)	30	40	32	43

17.1 Reconciliation of the Accounting Profit to Income Tax Expenses

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Profit before taxation	6,982,804	7,320,508	6,920,926	7,248,299
Income tax expenses for the year (accounting profit @ applicable tax rate)	1,955,184	2,049,638	2,015,885	2,216,187
Tax effect on				
Disallowable expenses	3,489,634	3,722,525	3,498,007	3,738,318
Tax deductible expenses	(2,488,965)	(2,477,839)	(2,493,549)	(2,485,493)
Exempt income	(397,170)	(270,775)	(397,170)	(297,568)
Tax effect of leasing/tax losses	-	(6,787)	-	(6,787)
Taxation based on the profits for the year	2,558,683	3,016,762	2,623,173	3,164,657
Adjustments in respect of current income tax of the prior years	(431,151)	(66,216)	(433,830)	(53,215)
Total current tax expense	2,127,532	2,950,546	2,189,343	3,111,442
Origination and reversal of temporary difference (Note 40.2)	(256,328)	(1,178,430)	(153,428)	(1,139,130)
Total income tax charged to the statement of profit or loss	1,871,204	1,772,116	2,035,915	1,972,312

17.2 Applicable Income Tax Rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2019 and 2018 are as follows:

		2019 %	2018 %
National Development Bank PLC		28	28
NDB Capital Holdings Limited		28	28
Development Holdings (Pvt) Limited	On rental income	28	2 on turnover
	On other income	28	28
NDB Investment Bank Limited		28	28
NDB Securities (Pvt) Limited		28	28
NDB Wealth Management Limited	On unit trust income	28	28 & 10
	On other Income	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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Deferred tax assets	(180,504)	(137,272)	(63,801)	(73,769)
Deferred tax liabilities	(75,824)	(1,041,158)	(89,627)	(1,065,361)
Deferred tax (credit)/charge to the statement of profit or loss	(256,328)	(1,178,430)	(153,428)	(1,139,130)

17.4 Deferred Tax Asset on Impairment

As per the Section 66(2) of the Inland Revenue Act, No. 24 of 2017 and the subsequent clarifications received from the Department of Inland Revenue in finalising the income tax liabilities of the Bank relevant to the previous years of assessments during the year 2018, the Bank computed the deferred tax asset on impairment as at 31 December 2018. Accordingly, deferred tax asset amounting to LKR 1,084 Mn has been recorded to the Statement of Profit or Loss for the year ended 31 December 2018. The deferred tax asset on impairment allowance on the transition impact on the adoption of SLFRS 9 amounting to LKR 687.96 Mn has been recorded through equity as an opening balance adjustment in the Financial Statements.

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 outstanding during the period.

Diluted EPS is determined by adjusting both the profit or loss attributable to the equity holders of the parent and the weighted average number of ordinary shares issued as rights and the shares issued as scrip dividends, as required by the Sri Lanka Accounting Standard 'Earnings per Share' (LKAS 33).

18.1 Earnings per Share: Basic/Diluted

	BANK		GROUP	
	2019	2018	2019	2018
Amount used as the numerator				
Profit attributable to equity holders of the parent (LKR '000)	5,111,600	5,548,392	4,775,932	5,136,168
Amount used as the denominator				
Weighted average number of ordinary shares [Note 18.1 (a)]	232,637,231	195,066,456	232,637,231	195,066,456
Basic/diluted earnings per share (LKR)	21.97	28.44	20.53	26.33

18.1 (a) Weighted Average Number of Ordinary Shares for Basic/Diluted EPS

	BANK & GROUP	
	2019	2018
Number of shares held as at 01 January as per stated capital	210,317,117	171,485,705
Add : Weighted average effect of number of shares issued due to the Rights Issue (Note 43.2)	-	6,120,755
Add: Number of shares issued due to final scrip dividend for the year 2017	-	5,977,357
Add: Number of shares issued due to final scrip dividend for the year 2018	11,482,639	11,482,639
Add: Number of shares to be issued due to final scrip dividend for the year 2019	10,837,475	-
Weighted average number of shares held as at 31 December for EPS purposes	232,637,231	195,066,456

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. 07 of 2007.

The Bank has approved a final dividend of LKR 7.00 per share for the year 2019, comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 5.00 per share. Accordingly, the total dividend per share for the year 2019 was LKR 7.00. The Bank paid a total dividend of LKR 8.00 per share comprising of a cash dividend of LKR 1.50 per share and a scrip dividend of LKR 6.50 share for the year 2018.

	BANK & GROUP	
	2019 LKR	2018 LKR
Final dividend per share - Cash	2.00	1.50
Final dividend per share - Scrip	5.00	6.50
Total dividend per share	7.00	8.00

Dividend Paid during the Year

	BANK & GROUP			
	Dividend per Share LKR	2019 LKR '000	Dividend per Share LKR	2018 LKR '000
Final scrip dividend paid for the prior year	6.50	1,367,061	5.00	857,429
Final cash dividend paid for the prior year	1.50	315,476	2.00	342,971
Gross dividends paid during the year	8.00	1,682,537	7.00	1,200,400
Reversal of dividends declared in prior years	-	(16,729)	-	(6,884)
Dividends to equity holders		1,665,808		1,193,516

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 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	Amortised cost	Total
	LKR '000	LKR '000	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
	LKR '000	LKR '000	LKR '000	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	-	13,886,575	-	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

20. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS. (CONTD.)

	GROUP		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	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	-	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

	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 2018				
Assets				
Cash and cash equivalents	-	6,537,579	-	6,537,579
Balances with the Central Bank of Sri Lanka	-	15,546,386	-	15,546,386
Placements with banks	-	15,237,306	-	15,237,306
Derivative financial instruments	3,937,847	-	-	3,937,847
Financial assets recognised through profit or loss - measured at fair value	1,947,242	-	-	1,947,242
Financial assets at amortised cost - loans and receivables to other customers	-	344,203,289	-	344,203,289
Financial assets at amortised cost - debt and other instruments	-	24,070,365	-	24,070,365
Financial assets measured at fair value through other comprehensive income	-	-	52,908,306	52,908,306
Other financial assets	-	21,756	-	21,756
Total financial assets	5,885,089	405,616,681	52,908,306	464,410,076

As at 31 December 2018	BANK		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	15,047,481	15,047,481
Derivative financial instruments	2,906,572	-	2,906,572
Financial liabilities at amortised cost - due to depositors	-	347,511,223	347,511,223
Financial liabilities at amortised cost - due to debt securities holders	-	6,394,211	6,394,211
Financial liabilities at amortised cost - due to other borrowers	-	37,040,987	37,040,987
Debt securities issued	-	16,811,808	16,811,808
Other financial liabilities	-	2,751,011	2,751,011
Total financial liabilities	2,906,572	425,556,721	428,463,293

As at 31 December 2018	GROUP			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Cash and cash equivalents	-	7,071,438	-	7,071,438
Balances with the Central Bank of Sri Lanka	-	15,546,386	-	15,546,386
Placements with banks	-	15,237,306	-	15,237,306
Derivative financial instruments	3,937,847	-	-	3,937,847
Financial assets recognised through profit or loss - measured at fair value	4,052,409	-	-	4,052,409
Financial assets at amortised cost - loans and receivables to other customers	-	344,276,363	-	344,276,363
Financial assets at amortised cost - debt and other instruments	-	24,175,346	-	24,175,346
Financial assets measured at fair value through other comprehensive income	-	-	54,487,227	54,487,227
Other financial assets	-	381,626	-	381,626
Total financial assets	7,990,256	406,688,465	54,487,227	469,165,948

As at 31 December 2018	GROUP		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	15,047,481	15,047,481
Derivative financial instruments	2,906,572	-	2,906,572
Financial liabilities at amortised cost - due to depositors	-	347,169,564	347,169,564
Financial liabilities at amortised cost - due to debt securities holders	-	6,382,024	6,382,024
Financial liabilities at amortised cost - due to other borrowers	-	37,040,987	37,040,987
Debt securities issued	-	16,811,808	16,811,808
Other financial liabilities	-	2,798,750	2,798,750
Total financial liabilities	2,906,572	425,250,614	428,157,186

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.

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 and short-term deposits as defined above, favourable Nostro balances.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Local currency in hand	3,577,676	3,299,602	3,577,781	3,300,225
Foreign currency in hand	119,019	143,772	119,022	143,812
Balances with banks	2,006,773	3,094,205	2,384,556	3,627,401
Total	5,703,468	6,537,579	6,081,359	7,071,438

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.

The minimum cash reserve requirement to be maintained by the Bank during the 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%

The reserve requirement for the previous year was as follows.

Deposit type	Period	Reserve Requirement (SRR)
All Rupee deposit liabilities	01.01.2018 - 16.10.2018	7.5%
Margin against letter of credits for importation of specified motor vehicles, specified nonessential consumer goods and specified imports on document against acceptance (DA) terms	16.10.2018 - 31.12.2018	100.0%
All Rupee deposit liabilities other than margin deposits referred above	16.10.2018 - 15.11.2018	7.5%
	16.11.2018 - 31.12.2018	6.5%

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Statutory balances with the Central Bank of Sri Lanka	13,886,575	15,546,386	13,886,575	15,546,386
Total	13,886,575	15,546,386	13,886,575	15,546,386

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Placements - in Sri Lanka	6,292,582	15,241,770	6,292,582	15,241,770
Less : Impairment allowance	(1,535)	(4,464)	(1,535)	(4,464)
Total	6,291,047	15,237,306	6,291,047	15,237,306

Movement in impairment allowance during the year

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Stage 1				
Balance as at 1 January	4,464	164	4,464	164
Charges/(Reversals) for the year	(2,929)	4,300	(2,929)	4,300
Balance as at 31 December	1,535	4,464	1,535	4,464

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. It is assumed that the SWAP arrangement that the Bank has, with the Central Bank of Sri Lanka, would be renewed annually. All derivatives are initially recognised and subsequently measured at fair value with all revaluation gains recognised in the Statement of Profit or Loss (except where cash flow of the net investment hedging has been achieved in which case the effective portion of changes in fair value is recognised within Other Comprehensive Income).

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).

24. DERIVATIVE FINANCIAL INSTRUMENTS



ACCOUNTING POLICY

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.

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	Financial Liabilities	Financial Assets	Financial Liabilities
	2019	2019	2018	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	-	-	174	174
Forward foreign exchange contracts	1,354,807	728,873	2,891,899	2,906,398
Currency SWAP	241,552	-	1,045,774	-
Total	1,596,359	728,873	3,937,847	2,906,572

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 2019 and are indicative of neither the market risk nor the credit risk.

		Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
		2019	2019	2019	2018	2018	2018
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	- Sales	-	-	-	174	-	134,087
	- Purchases	-	-	-	-	174	134,087
Forward foreign exchange contracts	- Sales	1,075,956	67,869	105,798,295	90,139	2,818,071	121,944,610
	- Purchases	278,851	661,004	106,344,268	2,801,760	88,327	122,665,487
Currency SWAP	- Purchases	241,552	-	3,085,500	1,045,774	-	5,285,250
Total		1,596,359	728,873	215,228,063	3,937,847	2,906,572	250,163,521

24.1 Currency SWAP

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 will be renewed annually over the tenure of the borrowings.

As per Sri Lanka Accounting Standard – LKAS 39- Financial Instruments: Recognition and Measurement ,also permitted under SLFRS 9 – Financial Instruments, the Bank identified this particular transaction as a ‘Cash Flow Hedge’ after documenting the hedge relationship.

The objective of the hedge was to reduce the variability of the capital portion of cash flows of a foreign currency denominated borrowings attributable to changes in LKR/USD exchange rate.

A brief description of the cash flow hedge is given as follows:

24.1 (a) SWAP Agreement

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 represent 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 during the year	LKR 102.9 Mn credit to the cash flow hedge reserve
Fair value of the hedged item as at 31 December 2019	LKR 6,376 Mn
Fair value of the hedged instrument as at 31 December 2019	LKR 242 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	
	2019 LKR '000	2018 LKR '000
Gains/(losses) on adjustment of fair value [Note 55(b)]	598,372	531,092
Amortisation adjustment of day one difference on the SWAP transaction	(701,296)	(415,590)
Total	(102,924)	115,502

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. Changes in fair value are recognised in net gains / (losses) from financial investments 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 and the Unit Trust Investments are valued using the market prices published by the Colombo Stock Exchange. Sri Lanka Government Debt Securities are valued using discounted cash flow techniques which incorporate market interest rates for investments in Government Securities. Investment in private equity fund are measured at fair value based on the change in the net asset value of the fund and is recognised through profit or loss.

25.1 Financial assets recognised through profit or loss

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Sri Lanka Government Securities – treasury bonds	932,253	1,947,242	932,253	1,947,242
Equity securities	-	-	480,541	483,913
Investment in private equity fund	-	-	966,780	605,684
Non-quoted ordinary shares	-	-	150,000	150,000
Investment in unit trusts	-	-	959,161	865,570
Total	932,253	1,947,242	3,488,735	4,052,409

Analysis

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
By collateralisation				
Unencumbered	875,000	1,947,242	875,000	1,950,000
Gross total	875,000	1,947,242	875,000	1,950,000
By currency				
Sri Lanka Rupee	932,253	1,947,242	2,521,955	3,446,725
United States Dollar	-	-	966,780	605,684
Gross total	932,253	1,947,242	3,488,735	4,052,409

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 investment, 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 and to other customers'.

The accounting policy applied by the Group for impairment, collateral valuations, write-off of loans and receivables to other customers and rescheduled loan facilities are described in Note 3.3.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Gross loans and receivables to other customers	409,221,432	353,369,649	409,244,643	353,442,723
Less: Impairment allowance for loans and receivables to other customers [Note 26.5 (a)]	12,572,621	9,166,360	12,572,621	9,166,360
Net loans and receivables to other customers	396,648,811	344,203,289	396,672,022	344,276,363

Financial Assets at Amortised Cost – Loans and Receivables to Other Customers

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Gross loans and receivables to other customers				
Stage 1	312,394,875	267,222,321	312,418,086	267,295,395
Stage 2	68,763,426	58,981,634	68,763,426	58,981,634
Stage 3	28,063,131	27,165,694	28,063,131	27,165,694
Table (a)	409,221,432	353,369,649	409,244,643	353,442,723
Less: Impairment allowance under:				
Stage 1	2,682,508	1,801,385	2,682,508	1,801,385
Stage 2	1,674,451	2,121,671	1,674,451	2,121,671
Stage 3	8,215,662	5,243,304	8,215,662	5,243,304
Total (b)	12,572,621	9,166,360	12,572,621	9,166,360
Net loans and receivables to other customers (a) - (b)	396,648,811	344,203,289	396,672,022	344,276,363

NOTES TO THE
FINANCIAL STATEMENTS**26. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS (CONTD.)**

Loans and Receivables to Other Customers - Based on the Exposure to Credit Risk

	BANK							
	2019				2018			
	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	-	22,215,929	17,988,064	40,203,993	-	-	10,932,265	10,932,265
Collectively impaired loans	312,394,875	46,547,497	10,075,067	369,017,439	267,222,321	58,981,634	16,233,429	342,437,384
Gross loans and receivables to other customers	312,394,875	68,763,426	28,063,131	409,221,432	267,222,321	58,981,634	27,165,694	353,369,649
Individual impairment	-	452,901	5,064,567	5,517,468	-	-	3,066,173	3,066,173
Collective impairment	2,682,508	1,221,550	3,151,095	7,055,153	1,801,385	2,121,671	2,177,131	6,100,187
Total impairment allowance	2,682,508	1,674,451	8,215,662	12,572,621	1,801,385	2,121,671	5,243,304	9,166,360
Net loans and receivables to other customers	309,712,367	67,088,975	19,847,469	396,648,811	265,420,936	56,859,963	21,922,390	344,203,289

	GROUP							
	2019				2018			
	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	-	22,215,929	17,988,064	40,203,993	-	-	10,932,265	10,932,265
Collectively impaired loans	312,418,086	46,547,497	10,075,067	369,040,650	267,295,395	58,981,634	16,233,429	342,510,458
Gross loans and receivables to other customers	312,418,086	68,763,426	28,063,131	409,244,643	267,295,395	58,981,634	27,165,694	353,442,723
Individual impairment	-	452,901	5,064,567	5,517,468	-	-	3,066,173	3,066,173
Collective impairment	2,682,508	1,221,550	3,151,095	7,055,153	1,801,385	2,121,671	2,177,131	6,100,187
Total impairment allowance	2,682,508	1,674,451	8,215,662	12,572,621	1,801,385	2,121,671	5,243,304	9,166,360
Net loans and receivables to other customers	309,735,578	67,088,975	19,847,469	396,672,022	265,494,010	56,859,963	21,922,390	344,276,363

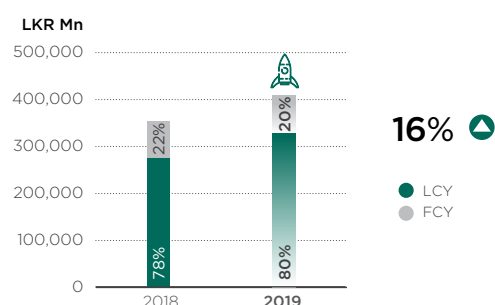
26.1 Loans and Receivables to Other Customers - By Product

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Long-term loans	120,486,339	86,364,494	120,509,550	86,364,494
Medium and short-term loans	86,666,980	82,857,632	86,666,980	82,857,633
Overdrafts	53,503,513	54,409,073	53,503,513	54,382,204
Trade finance loans	43,357,354	46,844,464	43,357,354	46,844,464
Consumer loans	37,915,878	29,071,486	37,915,878	29,071,486
Leasing and hire purchases (Note 26.6)	25,855,197	20,767,107	25,855,197	20,767,106
Housing loans	15,890,796	12,916,132	15,890,796	12,916,132
Islamic loans	12,484,399	10,769,802	12,484,399	10,769,802
Auto finance loans	3,760,515	3,979,135	3,760,515	3,979,135
Credit Cards	6,212,728	3,216,388	6,212,728	3,216,388
Staff loans	1,970,459	1,762,873	1,970,459	1,862,816
Pawning	1,117,274	411,063	1,117,274	411,063
Total	409,221,432	353,369,649	409,244,643	353,442,723

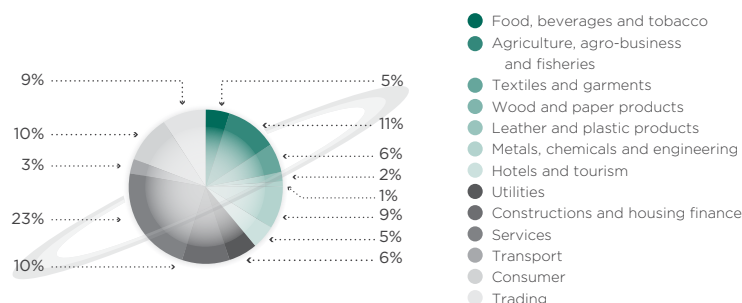
26.2 Loans and Receivables to Other Customers – By Currency

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Sri Lanka Rupee	327,744,940	274,967,796	327,768,151	275,040,870
United States Dollar	80,620,229	77,470,557	80,620,229	77,470,557
Great Britain Pound	103,708	202,755	103,708	202,755
Euro	748,131	715,595	748,131	715,595
Others	4,424	12,946	4,424	12,946
Total	409,221,432	353,369,649	409,244,643	353,442,723

Loans and receivables to other customers



Loans and receivables to other customers - by industry



26.3 Loans and Receivables to Other Customers – By Industry

	BANK		GROUP	
	2019 LKR '000	%	2018 LKR '000	%
Food, beverages and tobacco	19,325,260	5	16,681,429	5
Agriculture, agro-business and fisheries	44,276,690	11	41,402,349	11
Textiles and garments	24,927,256	6	26,330,412	7
Wood and paper products	6,338,906	2	5,665,020	2
Leather and plastic products	3,599,001	1	4,664,632	1
Metals, chemicals and engineering	35,905,515	9	31,047,132	9
Hotels and tourism	20,267,915	5	16,363,162	5
Utilities	26,541,853	6	21,993,612	6
Constructions and housing finance	42,220,365	10	34,279,823	10
Services	94,907,534	23	76,704,009	22
Transport	13,179,529	3	11,086,810	3
Consumer	41,117,024	10	28,153,607	8
Trading	36,532,518	9	38,939,123	11
Others	82,066	0	58,529	0
Total	409,221,432	100	353,369,649	100

NOTES TO THE
FINANCIAL STATEMENTS

26.4 Loans and Receivables to Other Customers – By Province

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Western Province	353,099,870	302,441,441	353,123,081	302,514,515
Southern Province	12,108,057	10,485,316	12,108,057	10,485,316
North-Western Province	11,596,618	10,929,306	11,596,618	10,929,306
Central Province	10,353,783	9,643,935	10,353,783	9,643,935
Northern Province	3,623,897	2,929,775	3,623,897	2,929,775
Sabaragamuwa Province	7,206,294	6,070,760	7,206,294	6,070,760
North-Central Province	4,267,234	4,637,722	4,267,234	4,637,722
Eastern Province	3,530,675	2,853,816	3,530,675	2,853,816
Uva Province	3,435,004	3,377,578	3,435,004	3,377,578
Total	409,221,432	353,369,649	409,244,643	353,442,723

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

	COLLECTIVE				INDIVIDUAL			Total
	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	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)	(564,616)
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

	COLLECTIVE				INDIVIDUAL			Total
	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 2018	1,707,882	2,189,057	1,671,587	5,568,526	-	1,556,979	1,556,979	7,125,505
Charges/(Reversals) for the year	93,503	(67,386)	743,952	770,069	-	2,827,052	2,827,052	3,597,121
Amount written off	-	-	(238,408)	(238,408)	-	(1,317,858)	(1,317,858)	(1,556,266)
Balance as at 31 December 2018	1,801,385	2,121,671	2,177,131	6,100,187	-	3,066,173	3,066,173	9,166,360

26.5 (b) Sensitivity Analysis of impairment allowance for loans and receivables to other customers

Changed criteria	Changed factor	Sensitivity effect on impairment allowance increase 2019 LKR '000	Sensitivity effect on impairment allowance increase 2018 LKR '000
Loss given default (LGD)	Increase by 2%	139,139	117,539
Credit conversion factor (CCF)	Increase by 5% (where applicable)	30,714	75,408
Probability of default (PD) in each stage	Increase by 1%	28,114	39,337
Economic Factor Adjustment	Worst case degrades by 5%	6,976	41,525
Property realisation timing	Delay by 1 year	343,462	98,384

26.5 (c) Impairment allowance for Loans and Receivables to other customers

	BANK & GROUP												
	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	Total	
	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 Charges/(Reversals) for the year	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	
	915,293	976,042	676,584	67819	514,853	141,124	208,458	249,506	(351)	96,758	(529)	3,845,557	
	(32,775)	(229,673)	(21,814)	-	(117,092)	(49,073)	-	(114,189)	-	-	-	(564,616)	
	-	-	-	-	-	-	-	-	-	-	-	125,321	
As at 31 December 2019	2,959,655	2,672,174	3,053,884	987,170	1,285,966	755,999	308,825	295,173	1,625	251,333	818	12,572,622	
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	289,637	1,625	98,287	818	7,055,154	
As at 31 December 2019	2,959,655	2,672,174	3,053,884	987,170	1,285,966	755,999	308,825	295,173	1,625	251,333	818	12,572,622	
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	

26.5 (d) Impairment allowance for Loans and Receivables to Other Customers

	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 2018 (LKAS 39)	1,103,928	1,329,626	1,483,671	249,343	218,117	152,794	47,759	192,430	4,234	1,783	3,413	4,787,098
Transition adjustment on adoption of SLFRS 9	470,174	639,852	34,808	493,817	411,438	256,881	13,402	(45,625)	541	63,845	(727)	2,338,407
As at 01 January 2018 (SLFRS 9)	1,574,102	1,969,478	1,518,479	743,160	629,555	409,675	61,161	146,805	4,775	65,628	2,687	7,125,505
Charges/(Reversals) for the year	574,797 (71,762)	872,240 (915,913)	1,003,520 (122,885)	233,301 (57,110)	341,521 (82,871)	281,824 (27,551)	70,206 (31,000)	260,225 (247,174)	(2,799)	(36,374)	(1,339)	3,597,121
Amount written off	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
As at 31 December 2018												
Individual impairment	1,014,774	1,106,838	608,727	272,585	-	56,121	-	-	1,047	5,262	818	3,066,173
Collective impairment	1,062,363	818,967	1,790,387	646,766	888,205	607,827	100,367	159,856	929	23,992	529	6,100,187
As at 31 December 2018	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
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	8,360,017	23,779,932	7,961,115	18,394,665	13,199	427,546	186,974	-	2,846	157,922	818	59,285,034
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances.	3,930,316	3,428,286	1,788,592	1,659,977	-	98,835	-	-	1,047	24,392	818	10,932,265
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	2,915,542	2,321,448	1,179,865	1,387,392	-	42,714	-	-	-	19,131	-	7,866,092

26.6 Leasing and Hire Purchases

	BANK & GROUP	
	2019 LKR '000	2018 LKR '000
Gross lease and hire purchase rental receivables	32,887,893	26,681,867
Less: Unearned income	7,032,696	5,914,760
Total lease and hire purchase rental receivables	25,855,197	20,767,107
Less: Impairment allowance [Note 26.6.(a)]	755,999	663,948
Total	25,099,198	20,103,159

26.6 (a) Impairment allowance

	BANK & GROUP							Total
	COLLECTIVE				INDIVIDUAL			
	Stage 1	Stage 2	Stage 3	Sub total	Stage 2	Stage 3	Sub total	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	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

	BANK & GROUP							Total
	COLLECTIVE				INDIVIDUAL			
	Stage 1	Stage 2	Stage 3	Sub total	Stage 2	Stage 3	Sub total	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 01 January 2018	73,401	150,118	163,345	386,864	-	22,811	22,811	409,675
Charges/(Reversals) for the year	21,267	119,677	80,019	220,963	-	60,861	60,861	281,824
Amount written off	-	-	-	-	-	(27,551)	(27,551)	(27,551)
Balance as at 31 December 2018	94,668	269,795	243,364	607,827	-	56,121	56,121	663,948

Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	427,546
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	98,835
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	42,714

26.7 Maturity of Leasing and Hire Purchases

	BANK & GROUP			
	2019			Total LKR '000
	Less than 1 Year LKR '000	1-5 Years LKR '000	More than 5 Years LKR '000	
Gross lease and hire purchase rentals receivables				
Total rental receivables	1,196,710	31,942,466	147,040	33,286,216
Less : Impairment allowance	695,974	59,314	711	755,999
Interest in suspense	69,147	328,609	566	398,322
Unearned income	41,194	6,937,504	53,999	7,032,697
Net rentals receivables	390,395	24,617,039	91,764	25,099,198

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FINANCIAL STATEMENTS

26.7 Maturity of Leasing and Hire Purchases (Contd.)

	BANK & GROUP			
	2018			
	Less than 1 Year	1-5 Years	More than 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Gross lease and hire purchase rentals receivables				
Total rental receivables	1,092,729	25,408,083	298,654	26,799,466
Less: Impairment allowance	55,230	604,645	4,073	663,948
Interest in suspense	117,275	324	-	117,599
Unearned income	39,685	5,763,719	111,356	5,914,760
Net rentals receivables	880,539	19,039,395	183,225	20,103,159

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").

- Principal 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 are described in Note 3.2.7.

27.1 Financial assets at amortised cost - Debt and other instruments

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Sri Lanka Government Securities - treasury bonds	4,388,506	2,600,746	4,388,506	2,705,727
Sri Lanka Development Bonds	16,639,927	18,198,862	16,639,927	18,198,862
Sovereign Bonds	4,024,607	1,408,921	4,024,607	1,408,921
Quoted debentures	1,518,305	1,993,466	1,518,305	1,993,466
Securities purchased under resale agreements	1,306,039	-	1,306,039	-
Sub Total	27,877,384	24,201,995	27,877,384	24,306,976
Less: Impairment allowance for investments	(391,499)	(131,630)	(391,499)	(131,630)
Total	27,485,885	24,070,365	27,485,885	24,175,346

a. Analysis

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
By collateralisation				
Pledged as collateral	1,338,571	262,000	1,338,571	262,000
Unencumbered	2,971,081	21,946,529	2,971,081	21,946,529
Gross total	4,309,652	22,208,529	4,309,652	22,208,529
By currency				
Sri Lanka Rupee	7,212,849	4,594,212	7,212,849	4,699,193
United States Dollar	20,664,535	19,607,783	20,664,535	19,607,783
Gross total	27,877,384	24,201,995	27,877,384	24,306,976

b. Movements in impairment during the year

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Stage 1				
Balance as at 01 January	90,594	97,755	90,594	97,755
Charges/(reversals) to statement of profit or loss	75,223	(7,161)	75,223	(7,161)
Balance as at 31 December	165,817	90,594	165,817	90,594
Stage 2				
Balance as at 01 January	41,036	20,204	41,036	20,204
Charges/(reversals) to statement of profit or loss	-	20,832	-	20,832
Transfer to stage 3	(41,036)	-	(41,036)	-
Balance as at 31 December	-	41,036	-	41,036
Stage 3				
Transfer from stage 2	41,036	-	41,036	-
Charges/(reversals) to statement of profit or loss	184,646	-	184,646	-
Balance as at 31 December	225,682	-	225,682	-
Total	391,499	131,630	391,499	131,630

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 principal 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 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 3.3.2. 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 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.

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28. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTD.)

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Sri Lanka Government Securities – treasury bills	42,565,696	22,301,615	42,565,696	22,301,615
Sri Lanka Government Securities – treasury bonds	16,190,146	26,006,111	16,190,146	26,006,111
Sovereign bonds	7,106,329	3,343,505	7,106,329	3,343,505
Quoted ordinary shares (Note 28.1)	1,151,908	1,252,900	1,151,908	1,252,900
Non-quoted ordinary shares (Note 28.2)	14,519	14,519	14,519	14,519
Quoted debentures	-	-	1,412,077	1,578,921
Sub total	67,028,598	52,918,650	68,440,675	54,497,571
Less: Impairment allowance	(10,344)	(10,344)	(10,344)	(10,344)
Total	67,018,254	52,908,306	68,430,331	54,487,227

a. Analysis

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
By collateralisation				
Pledged as collateral	44,000	5,125,473	44,000	5,125,473
Unencumbered	59,990,074	46,525,758	59,990,074	46,525,758
Gross total	60,034,074	51,651,231	60,034,074	51,651,231
By currency				
Sri Lanka Rupee	59,932,613	49,575,145	61,344,690	51,154,066
United States Dollar	7,095,985	3,343,505	7,095,985	3,343,505
Gross total	67,028,598	52,918,650	68,440,675	54,497,571

b. Movements in impairment during the year

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Stage 2				
Balance as at 01 January	10,344	-	10,344	-
Impairment charges credited to other comprehensive income	33,469	16,308	264,848	98,275
Charges/(reversals) to statement of profit or loss	-	10,344	-	10,344
Balance at 31 December	43,813	26,652	275,192	108,619

28.1 Quoted ordinary shares

	BANK			
	2019		2018	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of Investments as at 01 January	16,062,819	1,679,819	15,671,043	1,644,559
Scrip dividend received during the year	393,002	27,628	391,776	35,260
Rights Issue	5,485,273	248,209	-	-
Cost of the Investments as at 31 December	21,941,094	1,955,656	16,062,819	1,679,819
Gains/(losses) from Mark to Market as at 01 January		(426,919)		(278,044)
Unrealised gains/(losses) during the year		(376,829)		(148,875)
Gains/(losses) from Mark to Market as at 31 December		(803,748)		(426,919)
Market Value		1,151,908		1,252,900

	GROUP			
	2019		2018	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of investments as at 01 January	16,062,819	1,679,819	26,435,263	1,893,212
Reclassification of investments to recognised through profit or loss - measured at fair value	-	-	(10,764,220)	(248,653)
Scrip dividend received during the year	393,002	27,628	391,776	35,260
Rights Issue	5,485,273	248,209		
Cost of investments as at 31 December	21,941,094	1,955,656	16,062,819	1,679,819
Gains/(losses) from Mark to Market as at 01 January		(426,919)		(321,591)
Reclassification of investments to recognised through profit or loss - measured at fair value		-		43,547
Unrealised gains/(losses) during the year		(376,829)		(148,875)
Gains/(losses) from Mark to Market as at 31 December		(803,748)		(426,919)
Market Value		1,151,908		1,252,900

28.2 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	2019		2018	
		Percentage Holding	Cost	Percentage Holding	Cost
		%	LKR '000	%	LKR '000
NDB Capital Holdings Limited	Non-quoted	99.9	1,802,089	99.9	1,802,089
Development Holdings (Pvt) Limited	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Limited (Bangladesh) (Note 29.1)	Non-quoted	41.8	180,552	41.8	180,552
Sub total		-	2,210,791	-	2,210,791
Less: Impairment allowance of investments (Note 29.2)			(66,017)		(44,077)
Total			2,144,774		2,166,714

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29.1 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 current 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 with 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 IB 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%.

29.2 Movement in the impairment allowance for investments

	2019 LKR '000	2018 LKR '000
As at 01 January	44,077	104,770
Charges/(reversals) to the Statement of Profit or Loss (Note 29.3)	21,940	(60,693)
As at 31 December	66,017	44,077

29.3 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 2019 has decreased from LKR 327.4 Mn to LKR 299 Mn as disclosed in note number 29.4 summarised Financial Information of the Group's Investments in Subsidiaries. Accordingly, an impairment allowance of LKR 21.9 Mn was charged during the year 2019 to reflect the Bank's share of the net assets position of the Company as at 31 December 2019.

29.4 Summarised Financial Information of the NDB Group's Investments in Subsidiaries

	Total LKR '000	Development Holdings (Pvt) Limited LKR '000	NDB Capital Limited (Bangladesh) LKR '000	NDB Capital Holdings Limited (NCAP) LKR '000	NDB Investment Bank Limited (Held through NCAP) LKR '000	NDB Wealth Management Limited (Held through NCAP) LKR '000	NDB Securities (Pvt) Limited. (Held through NCAP) LKR '000	NDB Zephyr Partners Limited (Group) (Held through NCAP) 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	8,399,322	2,543,662	274,273	3,701,954	872,412	706,378	165,983	134,660
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)	-	-

	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
2018								
Total assets	9,406,089	2,981,386	343,821	3,934,551	867,295	735,627	412,518	130,891
Total liabilities	995,547	571,789	16,444	104,652	43,835	59,635	182,548	16,644
Net assets	8,410,544	2,409,597	327,377	3,829,899	823,460	675,993	229,970	114,248
Gross income	1,683,344	455,889	50,988	371,491	221,078	344,875	99,547	139,476
Profits/(Losses)	606,657	327,644	(40,004)	239,990	44,423	68,148	(65,751)	32,207
Cash Flow								
Cash flows from operating activities	412,593	156,606	29,516	169,874	(21,539)	114,665	(37,627)	1,098
Cash flows from investing activities	641,328	(1,175)	(232,205)	819,267	(19,726)	90,100	(1,760)	(13,173)
Cash flows from financing activities	(1,222,184)	(97,309)	209,955	(1,100,670)	(2,160)	(205,000)	-	(27,000)

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. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

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 in under liquidation impairment provide has been made for the total value of the investment as given below.

30.1 Bank

	Corporate Status	2019		2018	
		Percentage Holding	Cost	Percentage Holding	Cost
		%	LKR '000	%	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****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.

Valuation of Investment Properties

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 and direct labour, 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.

Investment properties are derecognised when disposed of 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.

Basis of Valuation

As at 31 December 2019, the fair value of the property is 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 (2018 - 40%)
- ⊙ Capitalise YP at 16% (2018 - 16%)

	GROUP	
	2019 LKR '000	2018 LKR '000
As at 01 January	2,110,661	1,894,848
Change in the fair value during the year	176,000	246,000
Less: Fair value of the owner-occupied portion	13,780	30,187
As at 31 December	2,272,881	2,110,661

Statement of Income and Expenditure of the Investment Property

	COMPANY	
	2019 LKR '000	2018 LKR '000
Rental income derived from investment properties	208,970	178,069
Direct operating expenses (including repair and maintenance) generating rental income	(39,374)	(34,371)
Direct operating expenses (including repair and maintenance) that did not generate rental income	(13,856)	(20,633)
Profit arising from investment properties carried at fair value	155,740	123,065

Valuation of Investment Properties - Group

	Building Sq ft.	Fair Value as at 31 December 2019			Fair Value as at 31 December 2018
		Land LKR '000	Building LKR '000	Total LKR '000	
Through the subsidiary company of Development Holding Private LTD (DHPL) No:42 Nawam Mawatha, Colombo 02	173,292	-	2,682,000	2,682,000	2,506,000

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.

32. INTANGIBLE ASSETS

Intangible assets of the Group include the value of computer software and software under development. 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.

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 capitalised as an internally-generated intangible asset.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Computer Software [Note 32.1]	405,521	345,624	418,644	362,470
Software Under Development [Note 32.2]	282,264	34,272	282,264	34,272
	687,785	379,896	700,908	396,742

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32.1 Computer Software

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cost				
As at 01 January	1,109,387	1,006,445	1,222,110	1,106,043
Additions during the year	184,161	103,010	185,401	116,141
Transfers/Adjustments	(2,023)	(68)	(2,023)	(74)
As at 31 December	1,291,525	1,109,387	1,405,488	1,222,110
Depreciation/Amortisation				
As at 01 January	763,763	653,568	859,640	740,482
Charge for the year (Note 13)	122,241	110,195	127,204	119,158
As at 31 December	886,004	763,763	986,844	859,640
Net book value as at 31 December (a)	405,521	345,624	418,644	362,470

32.2 Software Under Development

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cost				
As at 01 January	34,272	31,492	34,272	31,492
Additions during the year	293,665	115,295	293,665	115,295
Transfer to computer software during the year	(45,673)	(112,515)	(45,673)	(112,515)
As at 31 December (b)	282,264	34,272	282,264	34,272
Net book value of total intangible assets (a) + (b)	687,785	379,896	700,908	396,742

33. 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



ACCOUNTING POLICY

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 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, waiting capitalisation. 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.

33.1 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 2018	737,000	1,068,615	386,309	987,273	200,124	864,448	3,983	4,247,752
Additions during the year	-	18,058	51,392	341,214	270	111,988	201,252	724,174
Disposals during the year	-	-	(7,718)	(11,454)	(72,700)	(10,511)	-	(102,383)
Transfers/adjustments	-	-	17	996	-	(1,246)	(166,307)	(166,540)
As at 31 December 2018	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
(b) Depreciation/Amortisation								
As at 01 January 2018	-	135,115	295,598	682,134	119,487	658,739	-	1,891,073
Charge for the year (Note 13)	-	49,668	38,056	119,255	31,563	93,432	-	331,974
On disposals	-	-	(7,045)	(11,454)	(61,638)	(9,853)	-	(89,990)
Transfers/Adjustments	-	(34)	(42)	(3)	-	152	-	73
As at 31 December 2018	-	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
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
Net book value as at 31 December 2018	737,000	901,924	103,433	528,097	38,282	222,209	38,928	2,569,873

33.2 Details of Revalued Freehold Land and Buildings – Bank**As at 31 December 2019**

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 2019

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, Colombo 07	20.00	900,000	720,000	180,000
Head Office No. 40, Navam Mawatha, Colombo 02	1.43	19,305	17,000	2,305
Sub Total (a)	21.43	919,305	737,000	182,305
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	292,274	35,726
Head Office No. 40, Navam Mawatha, Colombo 02	95,343	667,695	578,515	89,180
Sub Total (b)	136,486	995,695	870,789	124,906
Total (a)+(b)		1,915,000	1,607,789	307,211

33.3 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:

Class of assets	2019			2018		
	Cost	Accumulated Depreciation	Net book value	Cost	Accumulated Depreciation	Net book value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Freehold land	165,016	-	165,016	165,016	-	165,016
Freehold buildings	530,216	459,661	70,555	510,527	419,392	91,135
Total	695,232	459,661	235,571	675,543	419,392	256,151

33.4 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 2018	737,000	1,536,194	386,309	1,043,565	295,862	1,072,499	6,869	5,078,298
Additions during the year	-	18,058	51,392	347,742	3,080	141,896	201,252	763,420
Disposals during the year	-	-	(8,073)	(11,221)	(81,117)	(10,614)	-	(111,025)
Revaluation adjustment during the year	-	30,186	-	-	-	-	-	30,186
Transfers/adjustments	-	(30,781)	30,798	996	-	(1,246)	(166,491)	(166,724)
As at 31 December 2018	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
(b) Depreciation/Amortisation								
As at 01 January 2018	-	162,841	295,598	727,291	187,170	788,381	-	2,161,281
Charge for the year (Note 13)	-	49,668	41,020	126,212	45,445	127,392	-	389,737
On disposals	-	-	(7,098)	(14,236)	(69,340)	(10,597)	-	(101,271)
Transfers/Adjustments	-	(1,760)	1,684	(3)	-	128	-	49
As at 31 December 2018	-	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
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
Net book value as at 31 December 2018	737,000	1,342,908	129,222	541,818	54,550	297,231	41,630	3,144,359

33.5 Cost of Fully Depreciated Property, Plant & Equipment and Intangible Assets

The initial cost of fully depreciated property, plant & equipment and intangible assets as at 31 December 2018, which are still in use as at 31 December 2019 are as follows:

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Freehold buildings	1,337	1,067	1,337	1,067
Leasehold building	258,157	232,954	258,157	232,954
Motor vehicles	80,824	547	80,824	24,906
Office equipment and furniture	607,840	521,655	607,840	569,989
Computer equipment	540,290	462,940	540,290	503,411
Computer software	565,391	498,957	565,391	565,578
Total	2,053,839	1,718,120	2,053,839	1,897,905

33.6 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 2019

Location - Freehold Land	Extent	Buildings	Revalued amounts land	Revalued amounts buildings	Net book value/ revalued amount	Book Value before Revaluation	Revaluation Gains/ (Losses) Recognised on Land
	(Perches)	(Square)	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 07	20	41,143	900,000	328,000	1,228,000	1,012,274	215,726
Head Office No. 40, Navam Mawatha, Colombo 02	1.43	95,343	19,305	667,695	687,000	595,515	91,485
Total			919,305	995,695	1,915,000	1,607,789	307,211

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 - Bank

There were no items of property, plant and equipment 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 2019 (2018 - Nil).

34. RIGHT OF USE ASSETS**ACCOUNTING POLICY**

At the commencement date of a lease, the Group recognises a liability to make future lease payments (i.e., the lease liabilities) and an asset representing the right of use of the underlying asset during the lease term (i.e., the right of use asset). The interest expense on the lease liabilities and the depreciation expense on the right-of-use asset are recognised separately 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 C 5, C7 of Appendix C, "Effective date and transition", of SLFRS 16 Leases. The transitional impact on the adoption of SLFRS 16 is incorporated to Equity as at 01 January 2019 in the presentation of financials statements. The Group uses the exemptions proposed by the 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 Bank 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 as at 1st January 2019 has been calculated using weighted average incremental borrowing rates of 14%, 12% and 15% for land, buildings and vehicles respectively of the Group opts to borrow such assets of the Group.

	BANK			GROUP		
	Land and Building	Vehicle	Total	Land and Building	Vehicle	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	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
(b) 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

35. OTHER ASSETS



ACCOUNTING POLICY

The Group classifies all their 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	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial assets	39,716	21,756	424,808	381,626
Other non-financial assets (Note 35.1)	2,587,224	2,325,886	2,803,296	2,551,015
Total	2,626,940	2,347,642	3,228,104	2,932,641

35.1 Other Non-Financial Assets

	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Sundry receivables	1,230,443	1,013,746	1,312,960	1,096,685
Deposits and prepayments	133,304	236,677	235,677	348,563
Unamortised staff cost (Note 35.2)	1,223,477	1,075,463	1,254,659	1,105,767
Total	2,587,224	2,325,886	2,803,296	2,551,015

35.2 Unamortised Staff Cost

	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	1,075,463	834,643	1,105,767	862,429
Add: Adjustment for new grants and settlements	288,030	358,583	291,572	368,210
Charged to personnel expenses	(140,016)	(117,763)	(142,680)	(124,872)
As at 31 December	1,223,477	1,075,463	1,254,659	1,105,767

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Borrowings from local banks	9,880,786	8,447,421	9,880,786	8,447,421
Borrowings from foreign banks	8,499,570	6,600,060	8,499,570	6,600,060
Total	18,380,356	15,047,481	18,380,356	15,047,481

36.1 Due to Banks - By Currency

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Local currency	9,880,786	5,733,421	9,880,786	5,733,421
Foreign currency	8,499,570	9,314,060	8,499,570	9,314,060
Total	18,380,356	15,047,481	18,380,356	15,047,481

37. FINANCIAL LIABILITIES AT AMORTISED COST

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Due to depositors	405,048,024	347,511,223	404,667,529	347,169,564
Due to debt securities holders	1,398,068	6,394,211	1,398,068	6,382,024
Due to other borrowers	29,342,027	37,040,987	29,342,027	37,040,987
Total	435,788,119	390,946,421	435,407,624	390,592,575

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'.

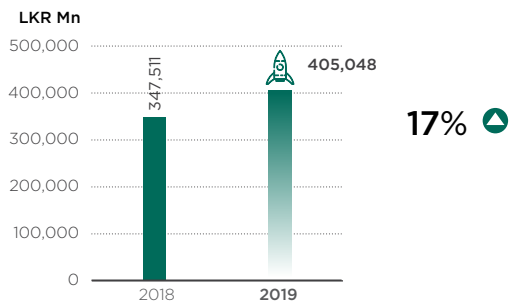
Analysis of Amounts due to Depositors**37.1 (a) Due to Depositors - By Product**

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Savings deposits	55,297,824	52,800,964	55,297,824	52,744,185
Time deposits	323,656,859	270,495,917	323,276,364	270,194,718
Demand deposits	25,257,221	22,893,184	25,257,221	22,909,503
Margin deposits	625,093	1,152,372	625,093	1,152,372
Other deposits	211,027	168,786	211,027	168,786
Total	405,048,024	347,511,223	404,667,529	347,169,564

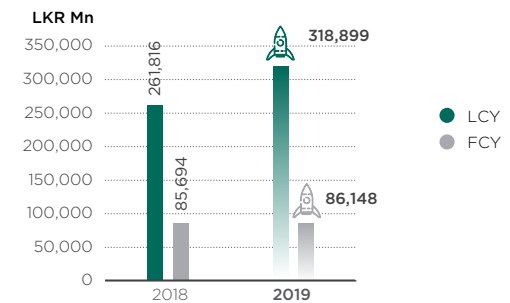
37.1 (b) Due to Depositors – By Deposit Composition

	BANK				GROUP			
	2019		2018		2019		2018	
	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000	%
Local currency deposits								
Savings deposits	39,849,785	10	36,178,767	11	39,849,785	10	36,123,035	11
Time deposits	257,722,766	64	206,114,077	59	257,342,271	64	205,812,878	59
Demand deposits	20,674,586	5	18,593,207	5	20,674,586	5	18,609,526	5
Margin deposits	571,914	-	910,432	-	571,914	-	910,432	-
Other deposits	80,347	-	19,943	-	80,347	-	19,943	-
Sub total	318,899,398	79	261,816,426	75	318,518,903	79	261,475,814	75
Foreign currency deposits								
Savings deposits	15,448,039	4	16,622,197	5	15,448,039	4	16,621,150	5
Time deposits	65,934,093	16	64,381,840	19	65,934,093	16	64,381,840	19
Demand deposits	4,582,635	1	4,299,977	1	4,582,635	1	4,299,977	1
Margin deposits	53,179	-	241,940	-	53,179	-	241,940	-
Other deposits	130,680	-	148,843	-	130,680	-	148,843	-
Sub total	86,148,626	21	85,694,797	25	86,148,626	21	85,693,750	25
Total	405,048,024	100	347,511,223	100	404,667,529	100	347,169,564	100

Due to Depositors



Due to Depositors – By currency



37.1 (c) Due to Depositors - By Currency

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Sri Lanka Rupee	318,899,398	261,816,426	318,518,903	261,475,814
United States Dollar	74,656,393	69,725,720	74,656,393	69,724,673
Great Britain Pound	3,553,041	3,521,126	3,553,041	3,521,126
Euro	3,297,027	7,912,672	3,297,027	7,912,672
Australian Dollar	3,744,007	3,536,979	3,744,007	3,536,979
Other currencies	898,158	998,300	898,158	998,300
Total	405,048,024	347,511,223	404,667,529	347,169,564

37.1 (d) Due to Depositors - By Institutions/Customers

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Deposits from banks	20,890,835	15,246,394	20,890,835	15,246,394
Deposits from finance companies	14,217,125	11,538,581	14,217,125	11,538,581
Deposits from other customers	369,940,064	320,726,248	369,559,569	320,384,589
Total	405,048,024	347,511,223	404,667,529	347,169,564

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FINANCIAL STATEMENTS

37.1 (e) Due to Depositors - By Province

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Western Province	362,128,602	308,032,087	361,748,107	307,690,428
North-Western Province	9,105,100	7,656,981	9,105,100	7,656,981
Southern Province	6,993,634	5,869,689	6,993,634	5,869,689
Central Province	9,576,905	10,436,473	9,576,905	10,436,473
Sabaragamuwa Province	6,167,644	5,660,148	6,167,644	5,660,148
Northern Province	4,290,682	3,139,188	4,290,682	3,139,188
Eastern Province	2,300,973	2,001,555	2,300,973	2,001,555
North-Central Province	2,536,265	2,872,392	2,536,265	2,872,392
Uva Province	1,948,219	1,842,710	1,948,219	1,842,710
Total	405,048,024	347,511,223	404,667,529	347,169,564

37.2 Due to Debt Securities Holders



ACCOUNTING POLICY

The Group sells a 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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Securities sold under repurchase agreements	1,398,068	6,394,211	1,398,068	6,382,024
	1,398,068	6,394,211	1,398,068	6,382,024

37.3 Due to Other Borrowers



ACCOUNTING POLICY

Due to other borrowers funds represent the funds borrowed by the Group for long-term and short-term liquidity funding requirements and include borrowings from concessionary credit lines and institutional borrowings. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Interest paid/payable on other borrowed funds are recognised in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Concessionary credit lines	4,754,153	5,109,719	4,754,153	5,109,719
Refinance borrowings	3,846,308	3,830,046	3,846,308	3,830,046
Foreign borrowings	20,741,566	28,101,222	20,741,566	28,101,222
Total	29,342,027	37,040,987	29,342,027	37,040,987

37.4 Maturity Analysis of Debt Securities holders and other borrowers

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Payable within 12 Months				
Concessionary credit lines	93,232	1,099,558	93,232	1,099,558
Refinance borrowings	587,558	689,896	587,558	689,896
Foreign borrowings	8,132,081	7,513,317	8,132,081	7,513,317
Securities sold under repurchase agreements	1,398,068	6,394,211	1,398,068	6,382,024
Sub total	10,210,939	15,696,982	10,210,939	15,684,795
Payable after 12 Months				
Concessionary credit lines	4,660,921	4,010,161	4,660,921	4,010,161
Refinance borrowings	3,258,750	3,140,150	3,258,750	3,140,150
Foreign borrowings	12,609,485	20,587,905	12,609,485	20,587,905
Sub total	20,529,156	27,738,216	20,529,156	27,738,216
Total	30,740,095	43,435,198	30,740,095	43,423,011

38. DEBT SECURITIES ISSUED



ACCOUNTING POLICY

Debt securities issued represent the funds borrowed by the Group for long-term and short-term funding requirements and include the issue 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	
	2019 LKR '000	2018 LKR '000
As at 01 January	16,811,808	19,336,855
Additions during the year	5,561,200	-
Redemptions	-	(2,771,590)
Balance before adjusting for amortised interest	22,373,008	16,565,265
Net effect on amortised interest payable	735,726	246,543
As at 31 December (Note 38.1)	23,108,734	16,811,808

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38.1 Debentures

					BANK & GROUP	
Interest Payable Frequency		Issued Date	Maturity Date	Effective Annual Yield %	2019	2018
					LKR '000	LKR '000
Fixed Rate Debenture Issuance – December 2013						
Type C – 13.90% –						
(120 Months)	Annually	19-Dec-2013	19-Dec-2023	13.17	3,627,916	3,626,121
Type D – 14.00% –						
(144 Months)	Annually	19-Dec-2013	19-Dec-2025	13.26	3,577,293	3,576,082
Total (a)					7,205,209	7,202,203
Fixed Rate Debenture Issuance – June 2015						
Type A – 9.40% –						
(60 Months)	Annually	24-Jun-2015	24-Jun-2020	9.19	7,001,162	6,988,887
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	2,620,718
Total (b)					9,872,810	9,609,605
Fixed Rate Debenture Issuance – March 2019						
Type A – 13.50% –						
(60 Months)	Semi-annually	30-Mar-2019	30-Mar-2024	13.16	1,280,111	-
Type B – 13.95% –						
(60 Months)	Annually	30-Mar-2019	30-Mar-2024	13.15	4,750,604	-
Total (c)					6,030,715	-
Debt securities issued (a)+(b)+(c)					23,108,734	16,811,808
The maturity of the debt securities issued are given below:						
Due within one year					10,353,999	-
Due after one year					12,754,735	16,811,808
					23,108,734	16,811,808

39. CURRENT TAX (RECEIVABLES)/LIABILITIES



ACCOUNTING POLICY

Please refer Note 17 on page 220 for the accounting policy of the current tax (receivables)/liabilities for the Group.

	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
39.1 Summary of net current tax liabilities				
As at 31st December				
Current tax liabilities	2,247,997	3,077,151	2,342,373	3,175,066
Current tax receivables	-	-	(23,396)	(27,842)
Net current tax liability	2,247,997	3,077,151	2,318,977	3,147,224
39.2 Movement in net current tax liabilities				
Current tax liabilities				
Balance as at 01 January	3,077,151	1,578,447	3,147,224	1,575,091.0
Current tax based on profit for the year	2,558,683	3,016,762	2,623,173	3,164,657
Adjustment in respect of current income tax of prior years	(431,151)	(66,216)	(433,830)	(53,215)
Payment of tax	(2,956,686)	(1,451,842)	(3,017,590)	(1,539,309)
Balance as at 31 December	2,247,997	3,077,151	2,318,977	3,147,224

40. DEFERRED TAX (ASSETS)/LIABILITIES



ACCOUNTING POLICY

Please refer Note 17 on page 220 for the accounting policy of the deferred tax (assets)/liabilities for the Group.

40.1 Summary of Net Deferred Tax (Assets)/Liabilities

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
As at 31 December				
Recognised under assets	(599,215)	(1,059,485)	(647,444)	(1,100,736)
Recognised under liabilities	-	-	566,983	512,532
	(599,215)	(1,059,485)	(80,461)	(588,204)

40.2 Movement in Net Deferred Tax (Asset)/Liability

	BANK				GROUP			
	2019		2018		2019		2018	
	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	(3,783,875)	(1,059,485)	4,898,781	1,371,659	(2,100,727)	(588,204)	6,416,043	1,796,492
Amount originating/ (reversing) to Statement of Profit or Loss	(915,457)	(256,328)	(4,208,678)	(1,178,430)	(547,954)	(153,428)	(4,068,321)	(1,139,130)
Amount originating/ (reversing) to Other Comprehensive Income	2,559,279	716,598	(2,016,965)	(564,750)	2,361,325	661,171	(1,988,939)	(556,903)
Transition impact on adoption of SLFRS 9	-	-	(2,457,013)	(687,964)	-	-	(2,459,510)	(688,663)
Balance as at 31 December	(2,140,053)	(599,215)	(3,783,875)	(1,059,485)	(287,356)	(80,461)	(2,100,727)	(588,204)

40.3 Reconciliation of Net Deferred Tax (Assets)/Liabilities

	BANK					
	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	84,804	83,792	1,012	11,089	-	-
Revaluation gains on freehold land and buildings	490,892	404,873	-	-	86,019	-
Finance leases	496,019	677,535	(181,516)	(148,361)	-	-
Gains on fair value adjustment of investment	343,645	-	-	-	343,645	(223,474)
Total	1,415,360	1,166,200	(180,504)	(137,272)	429,664	(223,474)
Deferred tax assets						
Defined benefit plans	163,501	114,325	(11,080)	(10,338)	(38,096)	(2,308)
Carry forward losses on leasing business	-	-	-	53,608	-	-
Losses on fair value adjustment of investment	-	338,968	-	-	338,968	(338,968)
Impairment allowances						
On loans and receivables to other customers	1,072,244	1,074,842	2,598	(1,074,842)	-	-
On other financial assets	90,866	9,586	(67,342)	(9,586)	(13,938)	-
On transition impact on adoption of SLFRS 9	687,964	687,964	-	-	-	-
Total	2,014,575	2,225,685	(75,824)	(1,041,158)	286,934	(341,276)
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year			(256,328)	(1,178,430)	716,598	(564,750)
Net deferred tax (assets)/liabilities as at 31 December	(599,215)	(1,059,485)				

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40.4 Reconciliation of Net Deferred Tax (Assets)/Liabilities

	GROUP					
	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	101,389	92,841	8,548	12,942	-	-
Revaluation gains on freehold land and buildings	531,847	441,970	-	-	89,876	-
Revaluation gains on investment property	518,447	473,026	45,422	60,428	-	-
Finance leases	496,019	677,535	(181,516)	(148,361)	-	-
Gains on fair value adjustment of investments	359,467	1,222	63,745	1,222	294,500	(223,474)
Total	2,007,169	1,686,594	(63,801)	(73,769)	384,376	(223,474)
Deferred tax assets						
Defined benefit plans	193,815	129,938	(15,316)	(12,256)	(48,562)	(2,308)
Carry forward losses on leasing business	-	-	-	53,608	-	-
Losses on other operations	-	6,006	6,006	-	-	-
Losses on fair value adjustment of investments	18,148	343,478	(18,148)	-	343,478	(331,121)
Impairment allowances						
On loans and receivables to other customers	1,072,244	1,074,842	2,598	(1,074,842)	-	-
On other financial assets	114,760	31,871	(64,767)	(31,871)	(18,121)	-
On transition impact On adoption of SLFRS 9	688,663	688,663	-	-	-	-
Total	2,087,630	2,274,798	(89,627)	(1,065,361)	276,795	(333,429)
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year			(153,428)	(1,139,130)	661,171	(556,903)
Net deferred tax (assets)/liabilities as at 31 December	(80,461)	(588,204)				

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.



ACCOUNTING POLICY

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 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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
As at 01 January	408,308	363,138	501,531	460,080
Provision made during the year				
Statement of Profit or Loss [Note 41.1 (a)]	98,853	82,590	127,349	99,556
Other Comprehensive Income [Note 41.1 (a)]	136,058	8,244	155,713	9,862
Contribution made for retirement gratuity	234,911	90,834	283,062	109,418
Benefits paid by the plan	(59,286)	(45,664)	(65,610)	(67,967)
As at 31 December	583,933	408,308	718,983	501,531

41.1 (a) Contribution made for Retirement Gratuity

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Current service cost	49,979	44,497	78,475	54,254
Interest cost	48,874	38,093	48,874	45,302
Amount recognised in the Statement of Profit or Loss	98,853	82,590	127,349	99,556
Liability experience loss/(gain)	50,053	25,930	50,053	28,900
Liability loss/(gain) due to changes in;				
Financial assumptions	86,005	(17,686)	105,660	(19,038)
Demographic assumptions	-	-	-	-
Amount recognised in the Other Comprehensive Income	136,058	8,244	155,713	9,862

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FINANCIAL STATEMENTS**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 2019 and 31 December 2018 by Messrs. Piyal 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'.

	2019	2018
Actuarial assumptions		
Discount rate	10.10%	11.97%
Salary increment rate	9.00%	9.00%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

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.

		BANK			
		2019		2018	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	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		48.77	(48.77)	33.02	(33.02)
(-1)		(56.33)	56.33	(37.83)	37.83
	1	(54.53)	54.53	(37.46)	37.46
	(-1)	48.12	(48.12)	33.25	(33.25)

		GROUP			
		2019		2018	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	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		55.40	(55.40)	37.03	(37.03)
(-1)		(63.98)	63.98	(42.42)	42.42
	1	(61.95)	61.95	(42.04)	42.04
	(-1)	54.69	(54.69)	37.32	(37.32)

41.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	BANK	
	2019	2018
	LKR '000	LKR '000
Within next 12 months	68,108	35,479
Between 2 and 5 years	345,024	300,491
Beyond 5 years	862,790	808,019

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 10.1 years (2018 – 12.5 years).

41.2 Pension Fund

The amount recognised in the Statement of Financial Position is as follows:

	BANK & GROUP	
	2019	2018
	LKR '000	LKR '000
Present value of the funded obligation as at 31 December	992,746	799,296
Fair value of plan assets as at 31 December	(1,177,587)	(1,090,802)
Retirement Benefit (Asset)/Liability*	(184,841)	(291,506)

*The over payment is recognised as prepaid expenses in Other Assets.

41.2 (a) Contribution made to the Pension Fund

	BANK & GROUP	
	2019	2018
	LKR '000	LKR '000
Current service cost	22,444	23,659
Interest cost	(30,632)	(11,088)
Amount recognised in the Statement of Profit or Loss	(8,188)	12,571
Assets loss/(gain) arising during the year	25,546	11,691
Liability experience loss/(gain)	(18,598)	7,506
Actuarial (gain)/loss due to changes in:		
Financial assumptions	144,710	(103,933)
Demographic assumptions	-	-
Amount recognised in the Other Comprehensive Income	151,658	(84,736)

41.2 (b) Defined Benefit Obligation Reconciliation

	BANK & GROUP	
	2019	2018
	LKR '000	LKR '000
Defined Benefit Obligation as at 01 January	799,296	830,579
Current service cost	22,444	23,659
Interest cost	96,714	88,290
Actual benefits paid from plan	(51,820)	(46,805)
Actuarial (gain)/loss due to changes in assumptions	144,710	(103,933)
Actuarial (gain)/loss due to experience adjustments	(18,598)	7,506
Defined Benefit Obligation as at 31 December	992,746	799,296

41.2 (c) Fair Value of Plan Assets Reconciliation

	BANK & GROUP	
	2019 LKR '000	2018 LKR '000
Fair value of plan assets as at 1 January	1,090,802	960,241
Expected return on assets	127,347	99,377
Actual employer contributions	36,804	89,680
Actual benefit paid from plan	(51,820)	(46,805)
Actuarial (loss)/gain from plan assets	(25,546)	(11,691)
Fair Value of plan assets as at 31 December	1,177,587	1,090,802

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 2019 and 31 December 2018 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'.

	BANK & GROUP	
	2019	2018
Actuarial Assumptions		
Discount rate	10.35%	12.10%
Salary increment rate	9.00%	8.00%
Annual return on assets	9.60%	8.50%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

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:

		BANK & GROUP			
		2019		2018	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	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		77.16	(77.16)	59.65	(59.65)
(-1)		(89.07)	89.07	(68.33)	68.33
	1	(20.27)	20.27	(19.48)	19.48
	(-1)	19.53	(19.53)	18.62	(18.62)

		BANK & GROUP			
		2019		2018	
Increase/ (Decrease) in Life expectancy		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		-12.62	12.62	-8.80	8.80
- 1 Year		13.09	-13.09	9.18	-9.18

The fair value of the total plan assets are as follows:

	BANK & GROUP	
	2019 LKR '000	2018 LKR '000
Investments in Government Securities	548,995	838,614
Investments in Time Deposits	512,561	156,000
Total	1,061,556	994,614

41.2 (e) The Expected Benefit Payout from the Pension Fund in Future Years

	BANK & GROUP	
	2019 LKR '000	2018 LKR '000
Within next 12 months	56,835	60,134
Between 2 and 5 years	342,997	337,448
Beyond 5 years	737,749	773,665

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 19.74 years as at 31 December 2019 (2018 – 20.4 years).

41.2 (f) The total amount recognised in the Other Comprehensive Income relating to retirement benefit obligations

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Retirement Gratuity [Note 41.1 (a)]	136,058	8,244	155,713	9,862
Pension Fund [Note 41.2 (a)]	151,658	(84,736)	151,658	(84,736)
Total	287,716	(76,492)	307,371	(74,874)

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Other financial liabilities (Note 42.1)	3,997,731	2,751,011	4,362,575	2,798,750
Other non-financial liabilities (Note 42.2)	5,274,849	5,965,136	5,444,495	6,039,500
Total	9,272,580	8,716,147	9,807,070	8,838,250

42.1 Other Financial Liabilities

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Unpresented cheques/pay orders	2,791,017	2,655,759	2,795,748	2,656,182
Unpresented cheques – Dividend Payable (Note 42.4)	74,804	78,133	74,804	78,133
Lease liabilities (Note 42.3)	1,123,255	-	1,467,005	-
Others	8,655	17,119	25,018	64,435
Total	3,997,731	2,751,011	4,362,575	2,798,750

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42.2 Other Non-Financial Liabilities

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Accrued expenses	923,145	1,090,249	974,622	1,149,215
Provision for deposit insurance	102,181	90,647	102,181	90,647
Other liabilities	4,249,523	4,784,240	4,367,692	4,799,638
Total	5,274,849	5,965,136	5,444,495	6,039,500

42.3 Lease liabilities

Set out below are the carrying amount of lease liabilities recognised on adoption of SLFRS 16 - Lease with effect from 2019.

	BANK	GROUP
	2019 LKR '000	2019 LKR '000
Balance as at 1 January	1,113,237	1,497,001
Additions	212,251	212,251
Accretion of interest	142,183	161,269
Payments	(344,416)	(404,137)
Balance as at 31 December	1,123,255	1,467,005

42.3 (a) Maturity Analysis of Lease Liability

	BANK	GROUP
	2019 LKR '000	2019 LKR '000
Less than 1 year	253,101	330,557
1 to 5 years	709,934	927,196
More than 5 years	160,220	209,252
	1,123,255	1,467,005

42.3 (b) Sensitivity Analysis of Lease liabilities

BANK			
Asset Class	Increase/ (Decrease) in Interest Rate	Sensitivity Effect on the Profit or loss Increase/(Decrease) for the Year	Sensitivity Effect on Financial position Increase/(Decrease) in Lease Liability
	%	LKR Mn	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

42.4 Dividend Payable

	BANK & GROUP	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	78,133	72,203
Final dividend declared for the prior year	315,476	342,971
Reversal of dividends declared in prior years [Note 42.4 (a)]	(16,729)	(6,884)
Dividend paid	(302,076)	(330,157)
Balance as at 31 December	74,804	78,133

42.4 (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.

43. STATED CAPITAL

	BANK & GROUP			
	2019 Number of Shares	2019 LKR '000	2018 Number of Shares	2018 LKR '000
Issued and fully paid	210,317,117	6,469,323	171,485,705	2,208,520
Shares issued due to scrip dividend (Note 43.1)	11,482,639	1,216,011	5,977,357	811,127
Rights Issue (Note 43.2)	-	-	32,854,055	3,449,676
Total	221,799,756	7,685,334	210,317,117	6,469,323

43.1 Scrip Issue

On 22 February 2019 the Bank declared a first and final dividend of LKR 8.00 per share comprising of a cash dividend of LKR 1.50 per share and a scrip dividend of 6.50 per share for the financial year 2018. (In 2018, the Bank declared a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 5.00 per share for the year 2017 as a final dividend). Accordingly 11,482,639 ordinary shares amounting to LKR 1,216 Mn were issued as a result of scrip dividend issued for the year ended 31 December 2018.

- 43.2** In the year 2018 the Bank proposed to issue 59,154,354 shares by way of a Rights Issue at a issue price of LKR 105.00 per ordinary voting shares in the proportion of 1 (one) new ordinary share for every 3 (three) ordinary voting shares held for the purposes of further strengthening the equity base of the Bank and thereby to improve the common equity Tier 1 capital requirements. The proceeds will be used to part finance the growth in the loans and receivables of the Bank.

Accordingly, 35,723,443 shares were subscribed as rights and 345,497 additional rights were applied for. However shares amounting to 32,854,055 were converted as ordinary shares as a result of complying with the regulatory thresholds for shareholding in banks as mandated by the Banking Act No 30 of 1988 (as amended), which in turn, translates to LKR 3,449 Mn. Accordingly the stated capital of the Bank increased to LKR 6,469 Mn as at 31 December 2018.

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
As at 01 January	1,636,479	1,336,479	1,636,479	1,336,479
Transferred from retained earnings (Note 45)	260,000	300,000	260,000	300,000
As at 31 December	1,896,479	1,636,479	1,896,479	1,636,479

45. RETAINED EARNINGS

	BANK					
	2019			2018		
	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	20,966,190	26,771,897	5,805,707	18,585,255	24,390,962
Transition impact on adoption of SLFRS 16	-	(259,925)	(259,925)	-	-	-
Transition impact on adoption of SLFRS 9	-	-	-	-	(2,457,013)	(2,457,013)
Deferred tax on transition impact on adoption of SLFRS 9	-	-	-	-	687,964	687,964
Total comprehensive income for the year	-	4,909,386	4,909,386	-	5,643,500	5,643,500
Transferred to the Statutory Reserve Fund	-	(260,000)	(260,000)	-	(300,000)	(300,000)
Dividends to equity holders	-	(1,665,808)	(1,665,808)	-	(1,193,516)	(1,193,516)
As at 31 December	5,805,707	23,689,843	29,495,550	5,805,707	20,966,190	26,771,897

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45. RETAINED EARNINGS (CONTD.)

	GROUP					
	2019			2018		
	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	24,862,382	30,668,089	5,805,707	22,775,440	28,581,147
Transition impact on adoption of SLFRS 16	-	(305,036)	(305,036)	-	-	-
Transition impact on adoption of SLFRS 9	-	-	-	-	(2,456,276)	(2,456,276)
Deferred tax on transition impact on adoption of SLFRS 9	-	-	-	-	688,663	688,663
Total comprehensive income for the year	-	4,793,159	4,793,159	-	5,356,728	5,356,728
Transferred to Statutory Reserve Fund	-	(260,000)	(260,000)	-	(300,000)	(300,000)
Adjustment due to changes in group companies	-	-	-	-	(8,657)	(8,657)
Dividends paid to equity holders	-	(1,665,808)	(1,665,808)	-	(1,193,516)	(1,193,516)
As at 31 December	5,805,707	27,424,697	33,230,404	5,805,707	24,862,382	30,668,089

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 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

	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
Previous Year 2018						
Revaluation reserve (Note 46.1)	1,041,261	-	1,041,261	1,136,654	30,186	1,166,840
Fair Value through Other Comprehensive Income reserve [Note 46.2]	-	(1,022,229)	(1,022,229)	-	(1,029,596)	(1,029,596)
Available for Sale reserve	(225,196)	225,196	-	(236,382)	236,382	-
Cash flow hedge reserve [Note 24.1 (b)]	(14,191)	115,502	101,311	(14,191)	115,502	101,311
Total	801,874	(681,531)	120,343	886,081	(647,526)	238,555

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
As at 01 January	1,041,261	1,041,261	1,166,840	1,136,654
Revaluation of freehold land and building	307,211	-	307,211	30,186
Adjustment for revaluation of owner occupied portion of Investment Property	-	-	13,780	-
Deferred tax effect on revaluation gains/(losses)	(86,019)	-	(89,876)	-
	221,192	-	231,115	30,186
As at 31 December	1,262,453	1,041,261	1,397,955	1,166,840

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.

Due to the adoption of SLFRS 9 from 1 January 2018, the balance of the available for sale reserve was transferred to fair value through Other Comprehensive Income reserve.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
As at 01 January	(1,022,229)	-	(1,029,596)	-
Balance transferred from available for sale reserve due to adoption of SLFRS 9	-	(225,196)	-	(236,382)
Net gains/(losses) on re-measuring Financial Assets measured at fair value through Other Comprehensive Income	1,784,753	(1,635,797)	1,776,643	(1,624,131)
Fair value gains/(losses) realised and reclassified to the Statement of Profit or Loss during the year	(934,278)	276,322	(934,278)	276,322
Tax effect on fair value through Other Comprehensive Income reserve	(682,613)	562,442	(637,978)	554,595
	167,862	(1,022,229)	204,387	(1,029,596)
As at 31 December	(854,367)	(1,022,229)	(825,209)	(1,029,596)

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	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	1,099,042	965,746
Transition impact on adoption of SLFRS 16	(37)	-
Transition impact on adoption of SLFRS 9	-	2
Profit for the year	109,079	139,819
Other comprehensive income, net of tax	(119)	13,340
Adjustment due to changes in group companies	-	30,660
Dividends to equity holders	(52,685)	(50,525)
Balance as at 31 December	1,155,280	1,099,042

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.

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FINANCIAL STATEMENTS

48.1 Business Commitments and contingencies

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Contingencies				
Guarantees	40,561,409	28,525,622	40,515,458	28,479,671
Performance Bonds	15,289,376	13,250,796	15,289,376	13,250,796
Documentary Credits	10,875,348	9,907,038	10,875,348	9,907,038
Other Contingencies [Note 48.1 (a)]	115,332,880	138,408,104	115,332,880	138,408,104
Commitments				
Undrawn commitments	111,086,808	98,791,307	111,254,897	99,712,630
Total	293,145,821	288,882,867	293,267,959	289,758,239
Less: Impairment allowance [Note 48.1 (b)]	775,259	576,896	775,259	576,896
Net of impairment	292,370,562	288,305,971	292,492,700	289,181,343

The maturity analysis of the commitments and contingencies is disclosed in Note 56.

48.1 (a) Other Contingencies

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Forward Exchange Contracts	103,498,298	121,944,610	103,498,298	121,944,610
Currency Swap Agreement	3,074,620	5,204,340	3,074,620	5,204,340
Acceptances	8,759,962	11,125,067	8,759,962	11,125,067
Currency Options	-	134,087	-	134,087
Sub total	115,332,880	138,408,104	115,332,880	138,408,104

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 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
Balance as at 01 January 2018	374,809	115,182	82,273	572,264
Charges/(Reversals) during the year	15,153	25,698	(36,219)	4,632
Balance as at 31 December 2018	389,962	140,880	46,054	576,896

48.1 (c) Commitments and contingencies analysis (before impairment allowance)

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Domestic Currency				
Guarantees	29,728,454	20,800,622	29,682,503	20,754,671
Performance Bonds	8,860,859	6,246,936	8,860,859	6,246,936
Documentary Credits	191,484	158,559	191,484	158,559
Forward Exchange Contracts	43,497,609	44,120,035	43,497,609	44,120,035
Currency Swap Agreement	-	-	-	-
Acceptances	100,110	46,456	100,110	46,456
Currency options	-	-	-	-
Undrawn commitments	109,734,382	98,012,490	109,902,471	98,933,813
Sub Total	192,112,898	169,385,098	192,235,036	170,260,470
Foreign Currency				
Guarantees	10,832,955	7,725,000	10,832,955	7,725,000
Performance Bonds	6,428,518	7,003,860	6,428,518	7,003,860
Documentary Credits	10,683,864	9,748,480	10,683,864	9,748,480
Forward Exchange Contracts	60,000,689	77,824,574	60,000,689	77,824,574
Currency Swap Agreement	3,074,620	5,204,340	3,074,620	5,204,340
Acceptances	8,659,851	11,078,611	8,659,851	11,078,611
Currency options	-	134,087	-	134,087
Undrawn commitments	1,352,426	778,817	1,352,426	778,817
Sub Total	101,032,923	119,497,769	101,032,923	119,497,769
Total	293,145,821	288,882,867	293,267,959	289,758,239

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:

	BANK & GROUP	
	2019 LKR '000	2018 LKR '000
Commitments in relation to intangible assets		
Approved and contracted for	850,000	62,100
Total	850,000	62,100

The Bank has a capital commitments totalling approximately LKR 850 Mn over the next 24 months in relation to the upgrade to the Bank's Core Banking system, a Digital Layer to it and a Payments & Cash Management 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 eight 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 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.
3. The income tax assessment received by NDB Capital Holdings Limited for the Year of Assessment 2015/2016 amounting to LKR 34.2 Mn is pending hearing by the Appeal Branch of the Department of Inland Revenue.

The group companies are of the view that the above assessments will not have any material adverse impact on the financial statements.

NOTES TO THE
FINANCIAL STATEMENTS

49. NET ASSETS VALUE PER ORDINARY SHARE

	BANK		GROUP	
	2019	2018	2019	2018
Amount used as the Numerator:				
Total equity attributable to equity holders of the Bank (LKR '000)	39,483,836	34,998,042	43,383,350	39,012,446
Number of Ordinary Shares used as the Denominator:				
Total number of shares	221,799,756	210,317,117	221,799,756	210,317,117
Net Assets value per share (LKR)	178.02	166.41	195.60	185.49

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:

As at 31 December 2019	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total 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
Intangible assets	-	687,785	687,785
Property, plant & equipment	-	3,012,213	3,012,213
Right of use assets	-	960,849	960,849
Deferred tax assets	-	599,215	599,215
Other assets	2,274,807	352,133	2,626,940
Total Assets	340,769,239	188,825,190	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	23,707,521	5,634,506	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	454,425,881	35,684,711	490,110,592
Maturity GAP	(113,656,642)	153,140,478	39,483,836

The Bank classified LKR 23.61 Bn of its total debt securities within 12 months in the maturity disclosures as there were few financial covenants that were not met due to the economic conditions that prevailed during the year. The Bank has intimated the reasons for the covenant breaches which are not entirely within the control of the Banking operations but is also due to the subdued economic conditions that prevailed during 2019.

As at 31 December 2018

	BANK		Total
	Within 12 Months	After 12 Months	
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	6,537,579	-	6,537,579
Balances with the Central Bank of Sri Lanka	14,929,519	616,867	15,546,386
Placements with banks	15,237,306	-	15,237,306
Derivative Financial instruments	3,937,847	-	3,937,847
Financial assets recognised through profit or loss - measured at fair value	1,947,242	-	1,947,242
Financial assets at amortised cost - loans and receivables to other customers	215,286,567	128,916,722	344,203,289
Financial assets at amortised cost - debt and other instruments	1,806,509	22,263,856	24,070,365
Financial assets measured at fair value through other comprehensive income	52,908,306	-	52,908,306
Investments in subsidiary companies	-	2,166,714	2,166,714
Intangible assets	-	379,896	379,896
Property, plant & equipment	-	2,569,873	2,569,873
Deferred tax assets	-	1,059,485	1,059,485
Other assets	2,313,352	34,290	2,347,642
Total Assets	314,904,227	158,007,703	472,911,930
Liabilities			
Due to banks	15,047,481	-	15,047,481
Derivative financial instruments	2,906,572	-	2,906,572
Financial Liabilities at amortised cost	-	-	-
Due to depositors	333,722,284	13,788,939	347,511,223
Due to debt securities holders	6,394,211	-	6,394,211
Due to other borrowers	11,304,750	25,736,237	37,040,987
Debt securities issued	-	16,811,808	16,811,808
Current tax liabilities	2,332,958	744,193	3,077,151
Retirement benefit obligations	35,479	372,829	408,308
Other liabilities	8,712,847	3,300	8,716,147
Total liabilities	380,456,582	57,457,306	437,913,888
Maturity GAP	(65,552,355)	100,550,397	34,998,042

The Bank Classified LKR 2.31 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. The Bank obtained formal waivers for these three credit facilities.

50. MATURITY ANALYSIS (CONTD.)

As at 31 December 2019	GROUP		
	Within 12 Months	After 12 Months	Total
	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	13,338,138	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
Intangible assets	-	700,908	700,908
Property, plant & equipment	-	3,565,166	3,565,166
Right of use assets	-	1,229,414	1,229,414
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	23,707,521	5,634,506	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	454,644,366	36,416,630	491,060,996
Maturity GAP	(108,638,081)	153,176,711	44,538,630

As at 31 December 2018

	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	7,071,438	-	7,071,438
Balances with the Central Bank of Sri Lanka	14,929,519	616,867	15,546,386
Placements with banks	15,237,306	-	15,237,306
Derivative financial instruments	3,937,847	-	3,937,847
Financial assets recognised through profit or loss- measured at fair value	4,052,409	-	4,052,409
Financial assets at amortised cost - loans and receivables to other customers	215,274,726	129,001,637	344,276,363
Financial assets at amortised cost - debt and other instruments	1,806,509	22,368,837	24,175,346
Financial assets measured at fair value through other comprehensive income	54,487,227	-	54,487,227
Investment Property	-	2,110,661	2,110,661
Intangible assets	-	396,742	396,742
Property, plant & equipment	-	3,144,359	3,144,359
Deferred tax assets	-	1,059,485	1,059,485
Other assets	2,898,351	34,290	2,932,641
Total Assets	319,695,332	158,732,878	478,428,210
Liabilities			
Due to banks	15,047,481	-	15,047,481
Derivative financial instruments	2,906,572	-	2,906,572
Financial Liabilities at amortised cost	-	-	-
Due to depositors	333,380,625	13,788,939	347,169,564
Due to debt securities holders	6,382,024	-	6,382,024
Due to other borrowers	11,304,750	25,736,237	37,040,987
Debt securities issued	-	16,811,808	16,811,808
Current Tax Liabilities	2,395,609	751,615	3,147,224
Deferred tax liabilities	-	471,281	471,281
Retirement benefit obligations	43,579	457,952	501,531
Other liabilities	8,834,950	3,300	8,838,250
Total liabilities	380,295,590	58,021,132	438,316,722
Maturity GAP	(60,600,258)	100,711,746	40,111,488

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 2019 or 2018.

51. SEGMENTAL ANALYSIS - GROUP (CONTD.)

	Banking	
	2019	2018
	LKR '000	LKR '000
For the year ended 31 December		
Revenue		
Interest Income	53,174,791	44,354,296
Net fee and commission Income	3,909,229	3,136,329
Net gains/(losses) from trading	990,160	1,218,338
Net gain/(loss) from financial investments at fair value through Profit or Loss	23,437	(21,843)
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	695,547	398,696
Other operating income	(53,976)	1,496,121
Total revenue from external customers	58,739,188	50,581,936
Inter-segment revenue	-	-
Total Revenue	58,739,188	50,581,936
Impairment (charge)/reversal for loans & other losses	(4,157,781)	(3,597,121)
Segment expenses	(44,865,316)	(37,996,710)
Total segment expenses	(49,023,097)	(41,593,831)
Segment results	9,716,092	8,988,105
Share of associate companies' profit before taxation	-	-
Income tax expense	-	-
Tax on financial services	-	-
Profit after taxation	-	-
Other information		
Segment assets	529,587,542	472,979,937
Segment liabilities	489,706,787	437,563,290
Segmental cash flows		
Cash flows from operating activities	14,909,680	1,325,947
Cash flows from investing activities	(17,854,593)	(1,881,108)
Cash flows from financing activities	(6,679,519)	16,214,895

	Capital Markets		Property Investment		Others		Consolidated	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
	190,623	235,381	-	-	-	-	53,365,414	44,589,677
	610,601	496,360	179,744	152,611	129,172	124,848	4,828,745	3,910,148
	-	-	-	-	-	-	990,160	1,218,338
	42,287	62,906	-	-	-	-	65,724	41,063
	13,348	66,316	-	-	-	-	708,895	465,012
	93,584	65,445	162,220	215,814	-	-	201,828	1,777,379
	950,442	926,407	341,964	368,425	129,172	124,848	60,160,766	52,001,616
	11,109	12,725	65,304	56,900	-	-	76,414	69,625
	961,552	939,132	407,268	425,325	129,172	124,848	60,237,165	52,071,241
	(247,695)	(167,737)	-	-	-	-	(4,405,476)	(3,764,858)
	(837,799)	(760,245)	(28,359)	(22,860)	(107,847)	(104,749)	(45,839,318)	(38,884,564)
	(1,085,494)	(927,982)	(28,359)	(22,860)	(107,847)	(104,749)	(50,244,795)	(42,649,422)
	(123,942)	11,150	378,909	402,465	21,325	20,099	9,992,366	9,421,820
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	2,035,915	1,972,312
	-	-	-	-	-	-	3,071,440	2,173,521
	-	-	-	-	-	-	4,885,011	5,275,987
	3,311,447	3,018,627	2,580,015	2,405,461	120,629	93,277	535,599,626	478,497,303
	715,045	187,183	630,425	552,266	8,739	13,986	491,060,996	438,385,815
	(183,585)	(185,451)	128,161	53,626	13,613	1,325	14,867,869	1,195,448
	(69,642)	294,330	(1,742)	310,744	6,128	(13,517)	(17,919,819)	(1,289,551)
	77,600	44,236	(126,502)	(40,272)	-	(9)	(6,728,421)	16,218,850

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, the 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 243. 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

	2019 LKR '000	2018 LKR '000
Short-term employee benefits	83,868	61,138
Directors' emoluments	37,753	40,878
Post-employment benefits	12,545	10,295
	134,166	112,311

Compensation to KMP - Group

	2019 LKR '000	2018 LKR '000
Short-term employee benefits	83,868	61,138
Directors' emoluments	39,893	44,453
Post-employment benefits	12,545	10,295
	136,306	115,886

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.

52.3. (b) KMP and their Close Family Members had the following related party transactions during the year.

	Limit		Outstanding Balance		Average Balance	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Items in the Statement of Financial Position						
Assets						
Financial assets at amortised cost - loans and receivables to other customers	35,652	21,424	30,795	12,713	32,711	12,052
	35,652	21,424	30,795	12,713	32,711	12,052
Liabilities						
Financial liabilities at amortised cost						
Due to depositors			118,501	75,622	161,986	107,543
Due to debt securities holders			-	-	2,904	-
			118,501	75,622	164,890	107,543

	During the year	
	2019 LKR '000	2018 LKR '000
Items in the Statement of Profit or Loss excluding compensation to KMP		
Interest income	3,002	701
Interest expenses	10,736	2,797
Fee and commission income	231	4

Share investments in the Bank and dividend paid to the KMPs and their Close Family Members are given below.

	2019	2018
Investments in ordinary shares including the shares held in the slash account (Number of shares) as at 31 December	5,782,582	5,489,947
Rights issue exercised (Number of shares)	-	1,117,570
Scrip dividends paid (Number of shares) during the year	299,363	144,665
Cash dividends paid (LKR '000) during the year	8,225	8,301

52.3. (c) Transactions involving entities which are controlled/ jointly controlled by the KMP and their Close Family Members.

	Limit		Outstanding Balance		Average Balance	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Items in the Statement of Financial Position						
Assets						
Financial assets at amortised cost						
Loans and receivables to other customers	150,000	150,512	151,154	108,363	146,892	147,451
	150,000	150,512	151,154	108,363	146,892	147,451
Liabilities						
Financial liabilities at amortised cost						
Due to depositors			22,050	7,753	269,406	14,906
Due to debt securities holders			-	-	-	40,261
			22,050	7,753	269,406	55,167

	During the year	
	2019 LKR '000	2018 LKR '000
Items in the Statement of Profit or Loss		
Interest income	22,125	7,389
Interest expenses	4,029	343
Fee and commission income	289	204
Other expenses	4,282	1,689

Share investments in the Bank and dividend paid to the entities which are controlled/ jointly controlled by the KMP and their Close Family Members are given below.

	2019	2018
Investments in ordinary shares (Number of shares) as at 31 December	16,415,483	17,933,724
Rights issue exercised (Number of shares)	-	3,165,305
Scrip dividends paid (Number of shares) during the year	849,831	417,671
Cash dividends paid (LKR '000) during the year	23,348	23,966

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Items in the Statement of Financial Position				
Assets				
Financial assets at amortised cost				
Loans and receivables to other customers (gross)	22,241,309	21,440,543	22,070,892	20,690,317
Financial assets measured at fair value through other comprehensive income	4,175	4,175	4,175	4,175
	22,245,484	21,444,718	22,075,067	20,694,492
Liabilities				
Financial liabilities at amortised cost				
Due to depositors	26,282,778	24,914,805	24,927,230	22,166,663
Due to debt securities holders	10,169	4,144,385	5,409,843	4,803,313
Due to other borrowers	8,688,321	8,942,542	8,704,351	10,632,608
Debt securities issued	7,978,800	5,233,800	7,291,300	5,966,171
	42,960,068	43,235,532	46,332,724	43,568,755
Contingent liabilities and commitments				
Forward exchange contracts	4,817,806	14,752,804	7,113,628	2,097,998
Undrawn commitments	9,095,539	1,829,500	3,625,034	3,329,986
	13,913,345	16,582,304	10,738,662	5,427,984

	During the year	
	2019 LKR '000	2018 LKR '000
Items in the Statement of Profit or Loss		
Interest income	2,844,298	2,546,248
Interest expenses	4,082,381	3,458,172
Fee and commission income	3,171	2,662
Net gains/(losses) from trading	5,295	2,101
Other operating income	37,951	32,433
Rights issue exercised (Number of shares)	-	12,035,221
Scrip dividends paid (Number of shares) during the year	3,962,745	2,038,593
Cash dividends paid (LKR '000) during the year	108,873	116,972

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 the Bank has entered in to a currency SWAP arrangement with the Central Bank of Sri Lanka for USD 17 Mn. The SWAP arrangement will be renewed annually over the tenure of the borrowings.

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Items in the Statement of Financial Position										
Assets										
Financial assets at amortised cost - loans and receivables to other customers	300,000	100,000	9,950	13,983	25,647	20,123	-	-	-	-
Other assets			3,427	523	78,764	842	-	-	-	-
Investments in subsidiary companies [Note (i)]			2,144,774	2,166,714	2,157,320	2,120,153	-	-	-	-
Liabilities										
Financial liabilities at amortised cost										
Due to depositors			410,985	365,630	448,604	459,011	-	-	-	-
Due to debt securities holders			-	12,000	169,000	189,500	-	-	-	-
Other liabilities			-	-	448	19	-	-	-	-
Contingent liabilities and Commitments										
Guarantees	108,100	300,000	45,951	45,951	45,951	45,951	-	-	-	-

	During the year	
	2019 LKR '000	2018 LKR '000
Items in the Statement of Profit or Loss in relation to transactions with subsidiaries and associates of the Bank		
Interest income	2,358	1,629
Interest expense	37,177	32,920
Fee and commission income	18,530	11,626
Net gains/ (losses) from trading	591	510
Other expenses	35,146	38,992
Other operating income	374,349	521,485
Gain on liquidation of NDB Venture Investment (Pvt) Limited	-	4,874
Charges/ (reversals) on impairment	21,940	(60,693)

Refer Note 29 and note 30 for details of subsidiary and associate companies.

- (i) Investments in subsidiary companies are stated net of impairment allowance amounting to LKR 66 Mn for the year ended 31 December 2019 and LKR 44.1 Mn for the year ended 31 December 2018.

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.

	2019 LKR '000	2018 LKR '000
Financial liabilities at amortised cost		
Due to depositors	127,727	185,945
Interest paid	9,818	15,442
Contribution by the Bank	342,532	298,755

52.5 (c) NDB Wealth Management Limited, a subsidiary of the Bank, had the under mentioned financial dealings with the NDB Provident Fund.

	2019 LKR '000	2018 LKR '000
Portfolio under management	2,297,586	2,175,274

52.5 (d) The Bank had the under-mentioned financial dealings with the NDB Pension Fund during the year.

	2019 LKR '000	2018 LKR '000
Financial liabilities at amortised cost		
Due to depositors	512,561	156,000
Interest paid	70,156	22,188
Contribution by the Bank	36,804	89,680

53. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION**Non Adjusting Events**

- 53.1** On 18 February 2020, the Bank declared 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 (2018- A first and final dividend of LKR 8.00 per share comprising of a cash dividend of LKR 1.50 per share and a scrip dividend of LKR 6.50 per share).

As per the Notice dated 18 February 2020 published by the Department of Inland Revenue, the above dividend payment is not subject to withholding tax.

Accordingly, the stated capital of the Bank will increase to LKR 8,794 Mn (LKR 7,685 Mn as at 31 December 2018), as a result of the scrip dividends declared for the year ended 31 December 2019.

53.2 New amendments to Income Tax Law announced by the Government after the reporting period

The Cabinet has approved to reduce the banking sector income tax rate to 24% from 28% with effect from 1 April 2020. The said amendment is yet to be approved by the Parliament and cannot be considered as legislation. As such the Bank continued using 28% in calculating the deferred tax liabilities/assets as at 31 December 2019 as this amendment is not substantively enacted by the end of the reporting period. The Bank has a cumulative net deferred tax asset of LKR 671 Mn recognised through Statement of Profit or Loss and net deferred tax liability of LKR 72 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 2019, an additional deferred tax charge of LKR 96 Mn and reversal of LKR 10 Mn would have got charged to the Statement of Profit or Loss and OCI receptively for the year ended 31 December 2019.

Accordingly the Group also adopted the tax rates prevailed as at 31 December 2019 to calculate deferred tax assets/liabilities.

54. COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation and details are given below.

Statement of Financial Position

As reported previously	Current presentation	BANK		GROUP	
		Reclassified	As disclosed in 2018	Reclassified	As disclosed in 2018
		LKR '000	LKR '000	LKR '000	LKR '000
	Current Tax Receivables	-	-	27,842	-
Current Tax Liabilities	Current Tax Liabilities	-	-	3,175,066	3,147,224
Deffered Tax Assets	Deffered Tax Assets	-	-	1,100,736	1,059,485
Deffered Tax Liabilities	Deffered Tax Liabilities	-	-	512,532	471,281

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

Financial assets measured at fair value through profit or loss include Sri Lanka Government securities, equity securities, investments in unit trusts and private equity investment. The Sri Lanka Government securities are valued based on the market rates published by the money brokers. For equity securities, the Bank uses quoted market prices in the share market as at the reporting date. The unit trust investments are valued at unit prices available in the markets. The private equity investment is valued using internal valuation techniques.

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 33)

Freehold buildings - valuations are performed by an independent the valuer based on the cost approach (current replacement cost - Note 33).

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.

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 2019	BANK			
	Fair Value Measurement Using			Total
	Quoted Prices	Significant	Significant	
	in Active	Observable	Unobservable	
	Markets	Inputs	Inputs	
	Level 1	Level 2	Level 3	
	LKR '000	LKR '000	LKR '000	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				
Currency options	-	-	-	-
Forward foreign exchange contracts	-	728,873	-	728,873
Total Financial Liabilities	-	728,873	-	728,873

31 December 2018

31 December 2018	BANK			
	Fair Value Measurement Using			Total
	Quoted Prices	Significant	Significant	
	in Active	Observable	Unobservable	
	Markets	Inputs	Inputs	
Level 1	Level 2	Level 3		
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets				
Derivative Financial Instruments				
Currency options	-	174	-	174
Forward foreign exchange contracts	-	2,891,899	-	2,891,899
Currency SWAP	-	-	1,045,774	1,045,774
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value				
Sri Lanka Government Securities - Treasury bonds	1,947,242	-	-	1,947,242
Financial Assets measured at Fair Value Through Other Comprehensive Income				
Sri Lanka Government Securities - Treasury bills	22,301,615	-	-	22,301,615
Sri Lanka Government Securities - Treasury bonds	26,006,111	-	-	26,006,111
Sovereign bonds	3,343,505	-	-	3,343,505
Quoted ordinary shares	1,252,900	-	-	1,252,900
Total Financial Assets	54,851,373	2,892,073	1,045,774	58,789,220
Non-Financial Assets				
Freehold land	-	-	737,000	737,000
Freehold buildings	-	-	901,924	901,924
Total Non-Financial Assets	-	-	1,638,924	1,638,924
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	174	-	174
Forward foreign exchange contracts	-	2,906,398	-	2,906,398
Total Financial Liabilities	-	2,906,572	-	2,906,572

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	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
	LKR '000	LKR '000	LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	-	-	-	-
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	-	-	1,450,448	1,450,448
Investment Property	-	-	2,272,881	2,272,881
Total Non-Financial Assets	-	-	4,642,634	4,642,634
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	-	-	-
Forward foreign exchange contracts	-	728,873	-	728,873
Total Financial Liabilities	-	728,873	-	728,873

31 December 2018

31 December 2018	GROUP			
	Fair Value Measurement Using			Total
	Quoted Prices	Significant	Significant	
	in Active	Observable	Unobservable	
	Markets	Inputs	Inputs	
Level 1	Level 2	Level 3		
LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	-	174	-	174
Forward foreign exchange contracts	-	2,891,899	-	2,891,899
Currency SWAP	-	-	1,045,774	1,045,774
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value				
Sri Lanka Government Securities - Treasury Bonds	1,947,242	-	-	1,947,242
Equity Securities	483,913	-	-	483,913
Private equity Fund	-	-	605,684	605,684
Non-quoted ordinary shares	-	-	150,000	150,000
Investment in Unit Trusts	865,570	-	-	865,570
Financial Assets measured at Fair Value Through Other Comprehensive Income				
Sri Lanka Government Securities - Treasury Bills	22,301,615	-	-	22,301,615
Sri Lanka Government Securities - Treasury Bonds	26,006,111	-	-	26,006,111
Sovereign bonds	3,343,505	-	-	3,343,505
Quoted ordinary shares	1,252,900	-	-	1,252,900
Quoted Debentures	-	1,578,921	-	1,578,921
Total Financial Assets	56,200,856	4,470,994	1,801,458	62,473,308
Non-Financial Assets				
Freehold land	-	-	737,000	737,000
Freehold buildings	-	-	1,342,908	1,342,908
Investment Property	-	-	2,110,661	2,110,661
Total Non-Financial Assets	-	-	4,190,569	4,190,569
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	174	-	174
Forward foreign exchange contracts	-	2,906,398	-	2,906,398
Total Financial Liabilities	-	2,906,572	-	2,906,572

NOTES TO THE
FINANCIAL STATEMENTS**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 2019	Included in	BANK				
		As at 1 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 (b)]	Derivative financial instruments	1,045,774	(1,402,594)	-	598,372	241,552
Non-Financial Assets						
Freehold land [Note 33]	Property, plant & equipment	737,000	-	182,305	-	919,305
Freehold buildings [Note 33]	Property, plant & equipment	901,924	(31,146)	124,906	-	995,684
31 December 2019	Included in	GROUP				
		As at 1 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 (b)]	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 33]	Property, plant & equipment	737,000	-	182,305	-	919,305
Freehold buildings [Note 33]	Property, plant & equipment	1,342,908	(31,146)	138,686	-	1,450,448
Investment property [Note 31]	Investment property	2,110,661	-	162,220	-	2,272,881

31 December 2018	BANK					
	Included in	As at 1 January 2018	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 2018
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 24.1 (b)]	Derivative financial instruments	1,345,862	(831,180)		531,092	1,045,774
Non-Financial Assets						
Freehold land [Note 33]	Property, plant & equipment	737,000	-	-	-	737,000
Freehold buildings [Note 33]	Property, plant & equipment	933,501	18,058	(49,635)	-	901,924
31 December 2018	GROUP					
	Included in	As at 1 January 2018	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 2018
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 24.1 (b)]	Derivative financial instruments	1,345,862	(831,180)	-	531,092	1,045,774
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	387,692	201,728	16,264	-	605,684
Non-Financial Assets						
Freehold land [Note 33]	Property, plant & equipment	737,000	-	-	-	737,000
Freehold buildings [Note 33]	Property, plant & equipment	1,373,353	17,463	(47,908)	-	1,342,908
Investment property [Note 31]	Investment property	1,894,847	-	215,814	-	2,110,661

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 2019 and as at 31 December 2018 in measuring non-financial instruments categorised as Level 3 in the fair value hierarchy:

As at 31 December 2019**Financial Assets**

Type of Instrument	Fair Values as at 31 December 2019	Valuation Technique	BANK		
			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

Type of Instrument	Fair Values as at 31 December 2019	Valuation Technique	BANK		
			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

Type of Instrument	Fair Values as at 31 December 2019	Valuation Technique	GROUP		
			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 measured at Fair Value Through Other Comprehensive Income					
Private equity fund	LKR 966 Mn	Net Assets Basis	Net Assets Value of the Fund	-	Positive 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

As at 31 December 2018

Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2018	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 1,045 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR-12.275	Negative impact to the fair value

Non Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2018	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 17 Mn	Direct comparison method	Per perch value	Per perch - LKR 12 Mn	Positive impact to the fair value
Building	LKR 627.2 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 720 Mn	Direct comparison method	Per perch value	Per perch - LKR 12 Mn	Positive impact to the fair value
Building	LKR 274.7 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

55 (c) Unobservable Inputs used in measuring the Fair Value of financial and non financial instruments (Contd.)**Financial Assets**

GROUP					
Type of Instrument	Fair Values as at 31 December 2018	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 1,045 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR-12.275	Negative impact to the fair value
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Private equity fund	LKR 606 Mn	Net asset basis	Net asset value of the fund	-	Positive impact to the fair value

Non Financial Assets

GROUP					
Type of Instrument	Fair Values as at 31 December 2018	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 17 Mn	Direct comparison method	Per perch value	Per perch - LKR 12 Mn	Positive impact to the fair value
Building	LKR 627.2 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 720 Mn	Direct comparison method	Per perch value	Per perch - LKR 12 Mn	Positive impact to the fair value
Building	LKR 274.7 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
Navam Mawatha					
Investment Property	LKR 2,506 Mn (Including the fair value of owner occupied portion of LKR 307 Mn)	Income approach	Rent per square feet	Average rate of LKR 190	Positive impact to the fair value from both factors

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.

		BANK			
		2019		2018	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
	Fair Value Classification				
Financial Assets					
Cash and cash equivalents	Note 55 (e)	5,703,468	5,703,468	6,537,579	6,537,579
Balances with the Central Bank of Sri Lanka	Note 55 (e)	13,886,575	13,886,575	15,546,386	15,546,386
Placements with banks	Note 55 (e)	6,291,047	6,291,047	15,237,306	15,237,306
Financial assets at amortised cost -loans and receivables to other customers	Level 2	396,648,811	393,454,253	344,203,289	338,407,786
Financial assets at amortised cost - Debt and other instruments	Level 2	27,485,885	28,140,271	24,070,365	24,582,952
Other financial assets	Note 55 (e)	39,716	39,716	21,756	21,756
Total Financial Assets		450,055,502	447,515,330	405,616,681	400,333,765
Financial Liabilities					
Due to banks	Note 55 (e)	18,380,356	18,380,356	15,047,481	15,047,481
Financial Liabilities at amortised cost					
- due to depositors	Level 2	405,048,024	405,267,830	347,511,223	347,183,282
- due to debt securities holders	Note 55 (e)	1,398,068	1,398,068	6,394,211	6,394,213
- due to other borrowers	Note 55 (e)	29,342,027	29,342,027	37,040,987	37,040,987
Debt securities issued	Level 2	23,108,734	22,859,319	16,811,808	15,686,830
Other financial liabilities	Note 55 (e)	3,997,731	3,997,731	2,751,011	2,751,011
Total Financial Liabilities		481,274,940	481,245,331	425,556,721	424,103,804

		GROUP			
		2019		2018	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
	Fair Value Classification				
Financial Assets					
Cash and cash equivalents	Note 55 (e)	6,081,359	6,081,359	7,071,438	7,071,438
Balances with the Central Bank of Sri Lanka	Note 55 (e)	13,886,575	13,886,575	15,546,386	15,546,386
Placements with banks	Note 55 (e)	6,291,047	6,291,047	15,237,306	15,237,306
Financial assets at amortised cost - loans and receivables to other customers	Level 2	396,672,022	393,471,074	344,276,363	338,473,058
Financial assets at amortised cost - Debt and other instruments		27,485,885	28,140,271	24,175,346	24,688,484
Other financial assets	Note 55 (e)	424,808	424,808	381,626	381,626
Total Financial Assets		450,841,696	448,295,134	406,688,465	401,398,298
Financial Liabilities					
Due to banks	Note 55 (e)	18,380,356	18,380,356	15,047,481	15,047,481
Financial Liabilities at amortised cost					
- due to depositors	Level 2	404,667,529	405,640,279	347,169,564	347,517,073
- due to debt securities holders	Note 55 (e)	1,398,068	1,398,068	6,382,024	6,382,024
- due to other borrowers	Note 55 (e)	29,342,027	29,342,027	37,040,987	37,040,987
Debt securities issued	Level 2	23,108,734	22,859,319	16,811,808	15,686,830
Other financial liabilities	Note 55 (e)	4,362,575	4,362,575	2,798,750	2,798,750
Total Financial Liabilities		481,259,289	481,982,624	425,250,614	424,473,145

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. Group'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 and its group companies are 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 Group's strategic planning process.

56.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group'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 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 CEO, GCFO, the Heads of Business Units, 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 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:

- ⊙ When 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 watchlisted 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 3.3.3.

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 1st capital and/or interest installment post-restructure)

 Stage 3

- ⦿ Credit facilities where contractual payments of a customer are more than 90 days past due or 3 installments in arrears, 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 more than twice
- ⦿ All rescheduled loans, (other than upgraded rescheduled facilities in line with the Banking Act Direction No 3/4 of 2008 on classification of loans and receivables, income recognition and provisioning).
- ⦿ All credit facilities/customers classified as non-performing as per CBSL Directions.

56.3.3.6 Grouping financial assets measured on a collective basis

As explained in Note 3.3.1 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 Rs. 100 Mn based on amortised cost amount for Corporate clients (Commercial Banking and Project Finance) and Rs 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. These will be classified based on the DPD of the relevant contract as the cash flows of these contracts have already been assessed individually and were considered to be unimpaired.

The Bank groups these exposure in to homogeneous portfolios to extent possible so as ensure that data point 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 31st December 2018 and 31 December 2019.

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 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

31 December 2018	ECL Scenarios	Assigned Probabilities	2019	2020	2021	2022	2023	2024	2025
Key Drivers		%	%	%	%	%	%	%	%
GDP Growth	Best Case	25	3.45	3.52	3.59	3.66	3.74	3.82	3.90
	Base Case	50	3.31	3.31	3.31	3.31	3.31	3.31	3.31
	Worst Case	25	3.18	3.11	3.05	2.98	2.92	2.86	2.80
Inflation (YoY) (CCPI)	Best Case	25	4.10	4.00	4.00	3.90	3.80	3.70	3.60
	Base Case	50	4.30	4.30	4.30	4.30	4.30	4.30	4.30
	Worst Case	25	4.50	4.60	4.70	4.80	4.90	5.00	5.10
Interest Rate (AWPLR)	Best Case	25	11.26	11.00	10.88	10.64	10.29	10.29	10.29
	Base Case	50	11.94	11.94	11.94	11.94	11.94	11.94	11.94
	Worst Case	25	12.68	13.13	13.67	14.05	14.33	14.33	14.33
Exchange Rate (US\$:LKR)	Best Case	25	166.21	168.08	169.97	171.87	173.80	175.76	177.73
	Base Case	50	171.64	181.24	191.38	202.09	213.40	225.34	237.95
	Worst Case	25	216.46	249.80	288.28	300.00	300.00	300.00	300.00
Unemployment	Best Case	25	4.38	4.37	4.37	4.36	4.35	4.35	4.35
	Base Case	50	4.40	4.40	4.40	4.40	4.40	4.40	4.40
	Worst Case	25	4.42	4.43	4.44	4.46	4.46	4.46	4.46

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FINANCIAL STATEMENTS

56.3.3.8 Analysis of Gross Exposure on Credit Risk and Impairment

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's classification of assets. The amount presented are net off of Impairment allowances.

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 2018	BANK			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	6,537,579	-	-	6,537,579
Balances with the Central Bank of Sri Lanka	15,546,386	-	-	15,546,386
Placements with banks	15,237,306	-	-	15,237,306
Derivative Financial Instruments	3,937,847	-	-	3,937,847
Financial assets recognised through profit or loss- measured at fair value	1,947,242	-	-	1,947,242
Financial Assets at amortised cost - loans and receivables to other customers	265,420,936	56,859,963	21,922,390	344,203,289
Financial Assets at amortised cost - debt and other instruments	23,906,219	164,146	-	24,070,365
Financial assets measured at fair value through other comprehensive income	52,908,306	-	-	52,908,306

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

31 December 2018

	GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Cash and cash equivalents	7,071,438	-	-	7,071,438
Balances with the Central Bank of Sri Lanka	15,546,386	-	-	15,546,386
Placements with banks	15,237,306	-	-	15,237,306
Derivative Financial Instruments	3,937,847	-	-	3,937,847
Financial assets recognised through profit or loss- measured at fair value	4,052,409	-	-	4,052,409
Financial Assets at amortised cost - loans and receivables to other customers	265,494,010	56,859,963	21,922,390	344,276,363
Financial Assets at amortised cost - debt and other instruments	24,011,200	164,146	-	24,175,346
Financial assets measured at fair value through Other comprehensive income	54,302,640	184,587	-	54,487,227

56.3.3.9 Analysis of risk concentration

The Bank's concentrations of risk are managed by client/counterparty and industry sector.

The following table shows the risk concentration by industry for the components of the statement of financial position.

	BANK																	
	Agriculture & Fishing		Food & Beverage		Trading		Metals, Chemicals & Engineering		Retail		Services		Textiles & Garments		Others		Total	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	932,253	-	-	932,253
- 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								
- Business Banking	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								
31 December 2018																		
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	6,537,579	-	-	-	-	-	6,537,579
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,546,386	-	-	15,546,386
Placements with banks	-	-	-	-	-	-	-	-	-	-	-	15,237,306	-	-	-	-	-	15,237,306
Derivative Financial Instruments	-	-	-	-	-	-	-	-	-	-	-	3,937,847	-	-	-	-	-	3,937,847
Financial assets recognised through profit or loss- measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,947,242	-	-	1,947,242
- Corporate Lending	6,429,251	6,387,204	15,761,199	8,359,148	8,731,122	13,391,484	2,120,068	27,671	16,546,941	77,754,088								
- Business Banking	1,397,177	1,188,303	4,391,365	3,223,355	17,567,471	22,893,734	2,723,365	-	4,501,677	57,886,447								
- Consumer Lending	13,005,808	21,619,233	15,126,189	18,685,304	12,784	44,558,146	19,752,404	21,332,770	48,851,754	202,944,391								
- Residential Mortgages	43,996	13,808	17,711	24,634	34,165	25,709	145,049	-	887,433	1,192,504								
- Others	-	-	1,895,571	-	-	-	1,069,681	-	1,460,607	4,425,859								
Net loans and receivables to other customers	20,876,232	29,208,548	37,192,035	30,292,441	26,345,542	80,869,073	25,810,567	21,360,441	72,248,412	344,203,289								
Financial assets at amortised cost - debt and other instruments	-	277,980	-	-	-	486,440	-	22,118,080	1,187,865	24,070,365								
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	1,257,074	-	51,651,232	-	52,908,306								

	GROUP											Total
	Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retails	Services	Textiles & Garments	Others				
	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	-	-	-	-	-	-	-	-	-	-	-	
Financial assets at amortised cost - loans and receivables to other customers	-	13,863	5,060	-	-	2,328,350	2,041	932,253	207,168	3,488,735		
- Corporate Lending	32,438,214	12,459,051	16,008,066	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		
31 December 2018												
Cash and cash equivalents	-	-	-	-	-	7,071,438	-	-	-	7,071,438		
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	15,546,386	-	15,546,386		
Placements with banks	-	-	-	-	-	15,237,306	-	-	-	15,237,306		
Derivative Financial Instruments	-	-	-	-	-	3,937,847	-	-	-	3,937,847		
Financial assets recognised through profit or loss- measured at fair value	-	-	47,128	-	-	1,788,001	-	1,947,242	270,038	4,052,409		
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	-	-	-		
- Corporate Lending	6,429,251	6,387,204	15,761,199	8,359,148	8,731,122	13,391,484	2,120,068	27,671	16,546,941	77,754,088		
- Small Business Lending	1,397,177	1,188,303	4,391,365	3,223,355	17,567,471	22,893,734	2,723,365	-	4,501,677	57,886,447		
- Consumer Lending	13,005,808	21,619,233	15,126,189	18,685,304	12,784	44,558,146	19,752,404	21,332,770	48,851,754	202,944,391		
- Residential Mortgages	43,996	13,808	17,711	24,634	34,165	25,709	145,049	-	887,433	1,92,504		
- Others	-	-	1,895,571	-	-	-	1,069,681	-	1,533,681	4,498,933		
Net loans and receivables to other customers	20,876,232	29,208,548	37,192,035	30,292,441	26,345,542	80,869,073	25,810,567	21,360,441	72,321,486	344,276,363		
Financial assets at amortised cost - debt and other instruments	-	277,980	-	-	-	486,440	-	22,181,880	1,229,046	24,175,346		
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	2,240,505	-	51,651,232	595,490	54,487,227		

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.

Concentration by Country
Geographical Analysis

31 December 2019

	BANK						
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Total
	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
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

31 December 2018

	BANK						
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	3,572,936	343,013	2,047,827	398,378	5,028	170,397	- 6,537,579
Balances with the Central Bank of Sri Lanka	15,546,386	-	-	-	-	-	- 15,546,386
Placements with banks	15,237,306	-	-	-	-	-	- 15,237,306
Derivative financial instruments	3,937,847	-	-	-	-	-	- 3,937,847
Financial assets recognised through profit or loss - measured at fair value	1,947,242	-	-	-	-	-	- 1,947,242
Financial assets at amortised cost - loans and receivables to other customers	333,153,040	-	-	5,787,547	1,271,542	-	- 3,991,160
Financial assets at amortised cost - debt and other instruments	24,070,365	-	-	-	-	-	- 24,070,365
Financial assets measured at fair value through other comprehensive income	52,908,306	-	-	-	-	-	- 52,908,306
Other financial assets	21,756	-	-	-	-	-	- 21,756
Total Financial Assets	450,395,184	343,013	2,047,827	6,185,925	1,276,570	170,397	3,991,160
							464,410,076

56.3.3.10 Country risk (Contd.)

31 December 2019

	GROUP							Total
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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	1,676,546	167,892	4,130,479	524,357,121

31 December 2018

	GROUP							Total
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	4,106,795	343,013	2,047,827	398,378	5,028	170,397	-	7,071,438
Balances with the Central Bank of Sri Lanka	15,546,386	-	-	-	-	-	-	15,546,386
Placements with banks	15,237,306	-	-	-	-	-	-	15,237,306
Derivative financial instruments	3,937,847	-	-	-	-	-	-	3,937,847
Financial assets recognised through profit or loss - measured at fair value	4,052,409	-	-	-	-	-	-	4,052,409
Financial assets at amortised cost - loans and receivables to other customers	333,226,114	-	-	5,787,547	1,271,542	-	3,991,160	344,276,363
Financial assets at amortised cost - debt and other instruments	24,175,346	-	-	-	-	-	-	24,175,346
Financial assets measured at fair value through other comprehensive income	54,487,227	-	-	-	-	-	-	54,487,227
Other financial assets	381,626	-	-	-	-	-	-	381,626
Total Financial Assets	455,151,056	343,013	2,047,827	6,185,925	1,276,570	170,397	3,991,160	469,165,948

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 balance sheet 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 show 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.

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	Cash	Securities	3rd party/ Government guarantees	Property	Other	Surplus Collateral	Total Collateral	Net Exposure	Associated ECLs
31 December 2019	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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	4,004,500	143,832,219	66,456,117	124,645,363	(198,863,314)	155,086,057	79,588,749	4,157,598
- Business Banking	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	77,557,771	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	-

	BANK									
	Fair value of collateral and credit enhancements held									
	Maximum exposure to credit risk	Cash	Securities	3rd party/ Government guarantees	Property	Other	Surplus Collateral	Total Collateral	Net Exposure	Associated ECLs
31 December 2018	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets										
Cash and cash equivalents	6,537,579	-	-	-	-	-	-	-	6,537,579	-
Balances with the Central Bank of Sri Lanka	15,546,386	-	-	-	-	-	-	-	15,546,386	-
Placements with banks	15,237,306	-	-	-	-	-	-	-	15,237,306	-
Derivative financial instruments	3,937,847	-	-	-	-	-	-	-	3,937,847	-
Financial assets recognised through profit or loss- measured at fair value	1,947,242	-	-	-	-	-	-	-	1,947,242	-
Financial assets at amortised cost - loans and receivables to other customers										
- Corporate Lending	198,389,439	13,589,713	2,310,500	124,553,789	38,353,591	104,713,180	(154,275,369)	129,245,204	69,144,235	5,639,478
- Business Banking	80,259,072	15,501,192	289,595	44,868,377	80,041,490	32,393,351	(108,612,602)	64,481,404	15,777,668	2,375,648
- Consumer Lending	51,167,307	14,399,112	70,745	4,817,805	14,701,599	15,086,961	(30,321,771)	18,754,451	32,412,856	1,050,868
- Residential Mortgages	13,807,857	-	-	-	13,807,857	-	-	13,807,857	-	100,366
- Others	579,614	1,000	100,000	911,350	216,447	92,200	(978,778)	342,219	237,395	-
Net loans and receivables to other customers	344,203,289	43,491,017	2,770,840	175,151,321	147,120,785	152,285,691	(294,188,519)	226,631,135	117,572,154	9,166,360
Financial assets at amortised cost - debt and other instruments	24,070,365	-	-	-	-	-	-	-	24,070,365	131,630
Financial assets measured at fair value through other comprehensive income	52,908,306	-	-	-	-	-	-	-	52,908,306	26,652

56.3.3.11 Collateral and other credit enhancements (Contd.)

Type of collateral or credit enhancement

31 December 2019	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	Total Collateral LKR '000	Net Exposure LKR '000	Associated ECLs LKR '000		
Financial 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												
- Corporate Lending	234,698,017	15,011,171	4,004,500	143,832,219	66,456,117	124,645,363	(198,863,314)	155,086,057	79,611,960	4,157,598	-	
- Business Banking	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	396,672,022	47,330,903	4,354,622	204,835,646	207,188,754	174,872,446	(377,104,940)	261,477,432	135,194,590	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	68,430,331	-	-	-	-	-	-	-	68,430,331	-	-	
31 December 2018												
Financial Assets												
Cash and cash equivalents	7,071,438	-	-	-	-	-	-	-	7,071,438	-	-	
Balances with the Central Bank of Sri Lanka	15,546,386	-	-	-	-	-	-	-	15,546,386	-	-	
Placements with banks	15,237,306	-	-	-	-	-	-	-	15,237,306	-	-	
Derivative financial instruments	3,937,847	-	-	-	-	-	-	-	3,937,847	-	-	
Financial assets recognised through profit or loss- measured at fair value	4,052,409	-	-	-	-	-	-	-	4,052,409	-	-	
Financial assets at amortised cost - loans and receivables to other customers												
- Corporate Lending	198,462,513	13,589,713	2,310,500	124,553,789	38,353,391	104,713,180	(154,275,369)	129,245,204	69,217,309	5,639,478	-	
- Business Banking	80,259,072	15,501,192	289,595	44,868,377	80,041,490	32,393,351	(108,612,602)	64,481,404	15,777,668	2,375,648	-	
- Consumer Lending	51,167,307	14,399,112	70,745	4,817,805	14,701,599	15,086,961	(30,321,771)	18,754,451	32,412,856	1,050,868	-	
- Residential Mortgages	13,807,857	-	-	-	13,807,857	-	-	13,807,857	-	100,366	-	
- Others	579,614	1,000	100,000	911,350	216,447	92,200	(978,778)	342,219	237,395	-	-	
Net loans and receivables to other customers	344,276,363	43,491,017	2,770,840	175,151,321	147,120,785	152,285,691	(294,188,519)	226,631,135	117,645,228	9,166,360	-	
Financial assets at amortised cost - debt and other instruments	24,175,346	-	-	-	-	-	-	-	24,175,346	131,630	-	
Financial assets measured at fair value through other comprehensive income	54,487,227	-	-	-	-	-	-	-	54,487,227	108,619	-	

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 a financial commitments and contingencies is the maximum amount the Group has to pay if the commitments and contingencies are called upon.

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Guarantees and bonds	45,933,704	38,666,311	45,887,754	38,620,360
Shipping guarantees	9,391,390	2,153,006	9,391,390	2,153,006
Advance documents endorsed	525,691	957,101	525,691	957,101
Letters of credit	10,875,347	9,907,038	10,875,347	9,907,038
Acceptances	8,759,962	11,125,067	8,759,962	11,125,067
Undrawn overdrafts and credit cards	22,704,208	18,691,497	22,414,156	18,605,478
Commitments	88,382,601	80,099,810	88,840,741	81,107,152
Forward exchange contracts	106,572,918	127,148,950	106,572,918	127,148,950
Currency Options	-	134,087	-	134,087
Total	293,145,821	288,882,867	293,267,959	289,758,238

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.

	2019			2018		
	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	90,164,052	49,223,808	40,940,244	86,848,196	42,861,696	43,986,500
Financial Liabilities						
Debt securities issued	1,398,068	1,427,122	(29,054)	6,394,211	6,828,525	(434,314)
Securities sold under repurchase agreements						

56.4 Market Risk

Market Risk 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. Guided by these policies and Regulatory directions; Bank has set internal prudential limits, taking in to account the balance sheet 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 department, which is responsible for ensuring that the Bank's exposures are with 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 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 are fair valued through the statement of profit or loss; Financial Assets measured at fair value through Other Comprehensive Income are fair valued through equity of which realised capital gains/losses are recognised in the statement of profit or loss.

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 (b) 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 the Financial assets measured at fair value through profit or loss – Sri Lanka Government Securities

31 December 2019	Portfolio size LKR '000	Increase/Decrease in basis Points	Sensitivity of Profit or Loss Bank LKR '000	Sensitivity of Profit or Loss Group LKR '000
Financial assets measured at fair value through profit or loss	875,000	+100/(100)	(34,089)/36,052	(34,089)/36,052
31 December 2018	Portfolio size LKR '000	Increase/Decrease in basis Points	Sensitivity of Profit or Loss Bank LKR '000	Sensitivity of Profit or Loss Group LKR '000
Financial assets measured at fair value through profit or loss	1,950,000	+100/(100)	(32,989)/33,855	(32,989)/33,855

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.

Sensitivity of the financial assets measured at fair value though Other Comprehensive Income – Sri Lanka Government Securities

31 December 2019	Portfolio size LKR '000	Increase/Decrease in basis Points	Sensitivity of Profit or Loss Bank LKR '000	Sensitivity of Profit or Loss Group LKR '000
Financial assets measured at fair value though Other Comprehensive Income	66,931,074	+100/(100)	(1,040,634)/1,085,662	(1,040,634)/1,085,662
31 December 2018	Portfolio size LKR '000	Increase/Decrease in basis Points	Sensitivity of Profit or Loss Bank LKR '000	Sensitivity of Profit or Loss Group LKR '000
Financial assets measured at fair value though Other Comprehensive Income	52,328,187	+100/(100)	(680,402)/709,446	(680,402)/709,446

56.4 (c) 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 2019.

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 31.12.2019.

31 December 2019	BANK						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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

31 December 2018	BANK						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	6,537,579	6,537,579
Balances with Central Bank	-	-	-	-	-	15,546,386	15,546,386
Placements with banks	10,556	15,226,750	-	-	-	-	15,237,306
Financial assets recognised through profit or loss- measured at fair value	1,947,242	-	-	-	-	-	1,947,242
Financial assets at amortised cost - loans and receivables to other customers	77,477,119	92,863,630	44,945,818	99,967,205	28,949,517	-	344,203,289
Financial assets at amortised cost - Debt and other instruments	548,773	730,823	526,913	22,263,856	-	-	24,070,365
Financial assets measured at fair value through other comprehensive income	51,651,231	-	-	-	-	1,257,075	52,908,306
Other financial assets	21,756	-	-	-	-	-	21,756
Total Financial Assets	131,656,677	108,821,203	45,472,731	122,231,061	28,949,517	23,341,040	460,472,229
Financial Liabilities							
Due to Banks	114,540	13,109,797	1,823,144	-	-	-	15,047,481
Financial Liabilities at amortised cost							
Due to depositors	62,093,104	123,996,138	123,418,700	12,443,344	1,345,595	24,214,342	347,511,223
Due to debt securities holders	57,371	6,024,604	312,236	-	-	-	6,394,211
Due to other borrowers	319,846	2,385,085	8,599,819	20,704,638	5,031,599	-	37,040,987
Debt securities issued	-	-	-	13,240,078	3,571,730	-	16,811,808
Other financial liabilities	2,751,011	-	-	-	-	-	2,751,011
Total Financial Liabilities	65,335,872	145,515,624	134,153,899	46,388,060	9,948,924	24,214,342	425,556,721
Total Interest Sensitivity Gap	66,320,805	(36,694,421)	(88,681,168)	75,843,001	19,000,593	(873,302)	34,915,508

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56.4 (c) Interest Rate risk in the banking book (Contd.)

31 December 2019	GROUP						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	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

31 December 2018	GROUP						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	7,071,438	7,071,438
Balances with Central Bank	-	-	-	-	-	15,546,386	15,546,386
Placements with banks	10,556	15,226,750	-	-	-	-	15,237,306
Financial assets recognised through profit or loss - measured at fair value	4,052,409	-	-	-	-	-	4,052,409
Financial assets at amortised cost - loans and receivables to other customers	77,446,458	92,868,372	44,959,896	100,029,504	28,972,133	-	344,276,363
Financial assets at amortised cost - debt and other instruments	548,773	730,823	526,913	22,263,856	104,981	-	24,175,346
Financial assets measured at fair value through other comprehensive income	51,651,231	-	-	-	-	2,835,996	54,487,227
Other financial assets	381,626	-	-	-	-	-	381,626
Total Financial Assets	134,091,053	108,825,945	45,486,809	122,293,360	29,077,114	25,453,820	465,228,101
Financial Liabilities							
Due to banks	114,540	13,109,797	1,823,144	-	-	-	15,047,481
Financial liabilities at amortised cost							
due to depositors	62,036,325	123,694,939	123,418,700	12,443,344	1,345,595	24,230,661	347,169,564
due to debt securities holders	45,184	6,024,604	312,236	-	-	-	6,382,024
due to other borrowers	319,846	2,385,085	8,599,819	20,704,638	5,031,599	-	37,040,987
Debt securities issued	-	-	-	13,240,078	3,571,730	-	16,811,808
Other financial liabilities	2,798,750	-	-	-	-	-	2,798,750
Total Financial Liabilities	65,314,645	145,214,425	134,153,899	46,388,060	9,948,924	24,230,661	425,250,614
Total Interest Sensitivity Gap	68,776,408	(36,388,480)	(88,667,090)	75,905,300	19,128,190	1,223,159	39,977,487

56.4 (d) Mark to Market Valuation

The Sri Lanka 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 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 and at IRMC on a quarterly basis to assess the portfolio performance and investment decisions.

56.4 (e) 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 lower rates. The Bank mitigates this risk by enforcing prepayment penalties in order to discourage such exercise.

56.4 (f) 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 31st December 2019 and 31st December 2018 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 %	2019		2018	
		Effect on profit LKR '000	Effect on Equity LKR '000	Effect on profit LKR '000	Effect on Equity LKR '000
USD	2.50	6,920	6,920	(14,141)	(14,141)
GBP	2.50	376	376	(31)	(31)
EUR	2.50	(453)	(453)	(206)	(206)
JPY	2.50	31	31	(212)	(212)
AUD	2.50	(78)	(78)	(16)	(16)

With regard to the Group companies, the investment in the Emerald Fund by NDB capital holdings LTD would result a potential net reduction or a net increase of LKR 24 Mn to a similar sensitivity depending on the movement of the future exchange rate.

56.4 (g) Price Risk**Equity Price Risk**

Equity price risk is the risk that the fair value of 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 Bank did not hold an equity trading portfolio for the year concerned. The non-trading equity price risk exposure arises from equity securities classified as Financial Assets measured at fair value through Other comprehensive Income. 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	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

Entity	2018			
	Magnitude of shock & the fall in Value of Equities- LKR 000'			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,252,900	62,645	125,290	187,935
Group	1,736,813	86,841	173,681	260,522

Sensitivity of the Unit Trust Investments

The Bank was insensitive for the investments under Unit trust fund; however the sensitivity of the Group could have the following impact due to an adverse impact in the Unit trust prices. The impact is monitored under three scenarios mild, moderate & adverse conditions.

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	-	-	-	-
Group	959,161	47,782	95,563	143,345

Entity	2018			
	Magnitude of shock & the fall in Value of Equities- LKR 000'			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	865,570	43,278	86,557	129,835

Commodity Price Risk

The Bank did not hold a Commodity position as at 31st December 2019, hence the Bank was insensitive for Commodity price risk.

56.4 (h) 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 limit framework ensures that 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 specific to the bank. This ensures the maintenance of the liquidity ratios at prudential levels. Liquid assets consist of cash, 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 Licensed commercial Banks to deal in crisis situations.

The table below summarises the maturity profile of the undiscounted cash flows of the Financial Assets and the Financial Liabilities of the Group as at 31st December 2019 and 31st December 2018.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities

31 December 2019	BANK						
	On Demand	Trading	Less than	3 - 12	1-5	Over	Total
	LKR '000	Derivatives LKR '000	3 months LKR '000	months LKR '000	years LKR '000	5 years LKR '000	LKR '000
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	109,311,614	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 (h) Liquidity Risk (Contd.)

31 December 2018	BANK						
	On Demand	Trading	Less than	3 - 12	1-5	Over	Total
	LKR '000	Derivatives LKR '000	3 months LKR '000	months LKR '000	years LKR '000	5 years LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	6,537,579	-	-	-	-	-	6,537,579
Balances with Central Bank	15,546,386	-	-	-	-	-	15,546,386
Less: Restricted Balance	(15,449,491)	-	-	-	-	-	(15,449,491)
Placements with banks	-	-	15,259,738	-	-	-	15,259,738
Derivative Financial Instruments	-	3,937,847	-	-	-	-	3,937,847
Financial assets recognised through profit or loss- measured at fair value	1,947,242	-	-	-	-	-	1,947,242
Financial assets at amortised cost - loans and receivables to other customers	78,602,998	-	95,438,227	50,873,573	133,573,958	48,694,730	407,183,486
Financial assets at amortised cost - debt and other instruments	11,484	-	1,314,435	1,658,642	26,348,831	-	29,333,392
Financial assets measured at fair value through Other comprehensive income	52,908,306	-	-	-	-	-	52,908,306
Other financial assets	21,756	-	-	-	-	-	21,756
Total Undiscounted Financial Assets	140,126,260	3,937,847	112,012,400	52,532,215	159,922,789	48,694,730	517,226,241
Financial Liabilities							
Due to Banks	45,708	-	13,235,130	1,853,802	-	-	15,134,640
Derivative Financial Instruments	-	2,906,572	-	-	-	-	2,906,572
Financial Liabilities at amortised cost							
due to depositors	78,605,900	-	129,160,652	134,214,084	17,526,999	1,853,889	361,361,524
due to debt securities holders	-	-	6,081,493	338,501	-	-	6,419,994
due to other borrowers	-	-	2,735,913	8,826,279	27,060,671	6,265,419	44,888,282
Debt securities issued	-	-	-	1,666,339	17,987,753	4,595,750	24,249,842
Other financial liabilities	2,751,011	-	-	-	-	-	2,751,011
Total Undiscounted Financial Liabilities	81,402,619	2,906,572	151,213,188	146,899,005	62,575,423	12,715,058	457,711,865
Net Undiscounted Financial Assets and Liabilities	58,723,641	1,031,275	(39,200,788)	(94,366,790)	97,347,366	35,979,672	59,514,376

31 December 2019	GROUP						
	On Demand	Trading	Less than	3 - 12	1-5	Over	Total
	LKR '000	Derivatives LKR '000	3 months LKR '000	months LKR '000	years LKR '000	5 years LKR '000	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

31 December 2018	GROUP						
	On Demand	Trading Derivatives	Less than 3 months	3 - 12 months	1-5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	7,071,438	-	-	-	-	-	7,071,438
Balances with Central Bank	15,546,386	-	-	-	-	-	15,546,386
Less: Restricted Balance	(15,449,491)	-	-	-	-	-	(15,449,491)
Placements with banks	-	-	15,259,738	-	-	-	15,259,738
Derivative Financial Instruments	-	3,937,847	-	-	-	-	3,937,847
Financial assets recognised through profit or loss- measured at fair value	4,052,409	-	-	-	-	-	4,052,409
Financial assets at amortised cost - loans and receivables to other customers	78,572,337	-	95,442,993	50,887,853	133,640,977	48,719,767	407,263,927
Financial assets at amortised cost - debt and other instruments	11,484	-	1,314,435	1,658,642	26,348,831	247,813	29,581,205
Financial assets measured at fair value through Other comprehensive income	54,487,227	-	-	-	-	-	54,487,227
Other financial assets	381,626	-	-	-	-	-	381,626
Total Undiscounted Financial Assets	144,673,416	3,937,847	112,017,166	52,546,495	159,989,808	48,967,580	522,132,312
Financial Liabilities							
Due to Banks	45,708	-	13,235,130	1,853,802	-	-	15,134,640
Derivative Financial Instruments	-	2,906,572	-	-	-	-	2,906,572
Financial Liabilities at amortised cost due to depositors	78,565,441	-	128,859,369	134,214,084	17,526,999	1,853,889	361,019,783
due to debt securities holders	-	-	6,069,272	338,501	-	-	6,407,773
due to other borrowers	-	-	2,735,913	8,826,279	27,060,671	6,265,419	44,888,282
Debt securities issued	-	-	-	1,666,339	17,987,753	4,595,750	24,249,842
Other financial liabilities	2,798,750	-	-	-	-	-	2,798,750
Total Undiscounted Financial Liabilities	81,409,899	2,906,572	150,899,684	146,899,005	62,575,423	12,715,058	457,405,641
Net Undiscounted Financial Assets and Liabilities	63,263,517	1,031,275	(38,882,518)	(94,352,510)	97,414,385	36,252,522	64,726,671

Contractual Maturities for Commitments and Contingencies

The table below summarises the maturity profile of the Commitments and Contingencies for the Group as at 31 December 2019 and 31 December 2018.

31 December 2019	BANK					
	On Demand	Less than 3 months	3 - 12 months	1-5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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
Currency Options	-	-	-	-	-	-
	111,086,808	79,087,089	77,619,914	15,403,681	9,948,329	293,145,821

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FINANCIAL STATEMENTS

56.4 (h) Liquidity Risk (Contd.)

31 December 2018	BANK					
	On Demand	Less than 3 months	3 - 12 months	1-5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	98,791,307	-	-	-	-	98,791,307
Guarantees and performance Bond	-	6,198,417	17,747,409	14,683,915	3,146,677	41,776,418
Documentary Credits	-	8,015,256	1,897,652	-	-	9,912,908
Forward exchange contracts	-	79,767,348	42,825,351	4,556,250	-	127,148,949
Acceptance	-	4,792,503	5,732,161	594,533	-	11,119,197
Currency Options	-	134,087	-	-	-	134,087
	98,791,307	98,907,611	68,202,574	19,834,698	3,146,677	288,882,867

31 December 2019	GROUP					
	On Demand	Less than 3 months	3 - 12 months	1-5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	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
Currency Options	-	-	-	-	-	-
	111,254,897	79,087,088	77,573,964	15,403,680	9,948,329	293,267,959

31 December 2018	Group					
	On Demand	Less than 3 months	3 - 12 months	1-5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	99,712,630	-	-	-	-	99,712,630
Guarantees and performance Bond	-	6,198,417	17,701,459	14,683,915	3,146,677	41,730,467
Documentary Credits	-	8,015,256	1,897,652	-	-	9,912,908
Forward exchange contracts	-	79,767,348	42,825,351	4,556,250	-	127,148,949
Acceptance	-	4,792,503	5,732,161	594,533	-	11,119,197
Currency Options	-	134,087	-	-	-	134,087
	99,712,630	98,907,611	68,156,623	19,834,698	3,146,677	289,758,239

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 Bank 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.

The Bank completed a right issue in 2018 which resulted in a Tier 1 capital infusion of LKR 3.4 Bn. In March 2019, the Bank also raised LKR 5.56 Bn, via a Basel III compliant, Tier II, listed, rated, unsecured, subordinated redeemable debentures to support the Tier II capital. The regulator, Central Bank of Sri Lanka issued revised guidelines on classification of Domestic Systemically Important Bank on 20 December 2019, which required additional qualitative criteria and quantitative criteria to be complied with apart from the asset size and was based on a relative score methodology. This resulted in NDB's regulatory capital requirements remaining at 8.5% for Tier 1 Capital and 12.5% for Total capital, despite achieving a total asset base of LKR 500 Bn. Accordingly the Bank has adequate capital for organic growth, stemming from internal profit generation and the tax relief's proposed by the Government of Sri Lanka for banking and financial services by way of removal of Debt Repayment Levy and deduction in the corporate income tax rate which would support the Tier 1 capital requirement on a cumulative basis. However Tier II Capital infusion by way of Basel III compliant subordinated debt issues are planned to support the Tier II capital ratios of the Bank in its 5 year strategic plan, due to the future maturities of the existing debentures.

The detailed capital adequacy computations required under Pillar III disclosures of the Banking Act Directions No.1 of 2016 and the impact to the capital on the transitional adjustment on adoption of SLFRS 9 as required in the Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9 : Financial Instruments, Direction No 4 of 2018 are given page 388.

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.	N/A
(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 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 202 to 318
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 28.2 to the Financial Statements

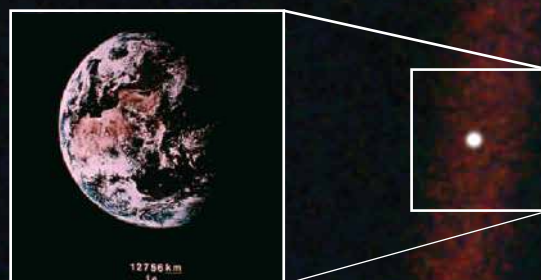
2. Information about the nature and extent of risks arising from financial instruments		
2.1	Qualitative Disclosures	Reference
2.1.1	Risk exposures for each type of financial instrument	Note 56 - Risk Management of the Financial Statements
2.1.2	Management's objectives, policies, and processes for managing those risks	Note 56 - Risk Management of the Financial Statements
2.1.3	Changes from the prior period	Note 2.3 to the Financial Statements
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
	(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. 01 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.(h) - Liquidity Risk and funding management of the Financial Statements
	(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. 01 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
	(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. 01 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. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Pages from 388 - on Risk Management
	(v) Equity risk in the Banking Book	
	(a) Qualitative disclosures	 Note 56.4.(g) - 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.	

2. Information about the nature and extent of risks arising from financial instruments		
	(vi) Interest rate risk in the Banking Book (a) Qualitative disclosures • 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).	Note 56.4(c) - Interest Rate Risk of the Financial Statements
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 388 - 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 366 - on Risk Management

FILLING IN THE BLANKS



06 SUPPLEMENTARY INFORMATION



"THE PALE BLUE DOT"
CAPTURED BY VOYAGER 1;
6 BILLION KM FROM EARTH

As they receded beyond the orbit of Saturn, the Voyager Probes snapped their last, blurred images of Earth. All that humanity has known is in this picture - but none of it is visible.

This report fills in the picture of our own voyage. The information in this section contains the final touches, making the picture complete.

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;
2. The Board's composition;
3. Criteria for the assessment of the fitness and propriety of Directors;
4. Management functions delegated by the Board;
5. The Chairman and Chief Executive Officer;
6. Board appointed subcommittees;
7. Related Party Transactions; and
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 2020-2023 was reviewed and formally approved by the Board in November 2019 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 will be communicated within the Bank during 2020. Further strategy is cascaded down through the budget, goals and targets. 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 2020-2023 was reviewed and approved by the Board in November 2019. 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 risk. 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 2019. The Bank has a Board approved Strategic Plan for the next 3 years with measurable Key Performance Indicators.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 366 to 401. ◉ The Board Integrated Risk Management Committee Report on pages 167 to 169.
	(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 Page 152 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 Bank has in place a Management Information Systems (MIS) Policy, approved by the Board. The MIS process of the Bank is reviewed by the Bank's Group Audit and discussed with the BAC. 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.3 of 2010 on the assessment of fitness and propriety of 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 3 of 2010 on officers performing executive functions of the Bank, and presently are the Leadership Team whose names are detailed on pages 40 to 43 of this Report.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 2019. 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.
	(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 Director's 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 2019 have been collected and summarised by the Company Secretary and submitted to the Chairman and Deputy Chairman for their 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 2019.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 are regularly present 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 2019 all new laws and regulations that were issued and relevant to banking business were made available on the BoardPac together with an explanatory note which detailed the key areas of impact. Further a snap shot of key regulatory changes during each quarter with status of compliance is 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.
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.

Rule No.	Corporate Governance Principles	Compliance Status
3(1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied. Regular monthly Board meetings are held and special Board meetings are scheduled as and when the need arises. There have been 13 Board meetings during 2019 which included a special meeting. 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. 5 circular resolutions have been passed during 2019. Please refer page 148 and 149 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 2019 and no Director has been absent for three consecutive meetings during 2019. Attendance of Directors at Board meetings is detailed on page 148.
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 39 for a detailed profile and page 145 for duties and responsibilities of the Company Secretary.

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 2019, 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 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.

Rule No.	Corporate Governance Principles	Compliance Status
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.
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 Integrated Risk Management Committee 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 138 to 153 and pages 348 to 365.

Rule No.	Corporate Governance Principles	Compliance Status
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 and Deputy 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 2019 was in compliance with the thresholds detailed in this Direction. As at 31st December 2019, the Board comprised of eight (8) 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 2019. The Company Secretary monitors this requirement. Details of tenure of service is given in page 148.
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.

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 31st December 2019 there were 5 Non-Executive Independent Directors on the Board which is above the regulatory requirement. The non-executive Directors are detailed on pages 142 to 143 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 2019, 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 34 to 39 of this Report.

Rule No.	Corporate Governance Principles	Compliance Status
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.
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 pages 142 to 143 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. Two Directors were appointed in 2019 to fill casual vacancies.
3(2) (xi)	(a) 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 was one resignation and five retirements during 2019 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 is 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.

Rule No.	Corporate Governance Principles	Compliance Status
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 other than Mr. Ashok Pathirage who holds Directorships of 22 companies (appointments to 2 companies were made in latter part of 2019 and both these companies are non operational as at date). It is to be noted that Mr Pathirage retired from the Bank on the 18th of February 2020. The Directorships of each of the Directors are disclosed on pages 36 to 38 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.
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. Delegation papers are prepared in detail and recommended by the IRMC to the Board.
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.	
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. Kavan Ratnayaka is an Independent Non-Executive Director of the Bank. Therefore, the appointment of an Independent Director as the Senior Director does not arise.

Rule No.	Corporate Governance Principles	Compliance Status
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.
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.

Rule No.	Corporate Governance Principles	Compliance Status
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 engagements 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.
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 162 to 175 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: (a) The Chairman of the committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied. Mr. Sriyan Cooray, the Chairman of the BAC is an Independent Non-Executive Director and a Fellow Member of the Chartered Institute of Management Accountants, UK. With effect from 28th January 2020, Mr. Sujeewa Mudalige took over as the BAC Chairman, who 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.

Rule No.	Corporate Governance Principles	Compliance Status
	(c) The committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied. The following matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC; (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. (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) 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. Refer the 'Report of the Board Audit Committee' given on pages 170 to 172.
	(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. 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.
	(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 was reviewed and updated by the BAC and Board 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.

Rule No.	Corporate Governance Principles	Compliance Status
	(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.
	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 2019, 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 2018 and the Management's responses thereto.

Rule No.	Corporate Governance Principles	Compliance Status
	(j) The Committee shall take the following steps with regard to the internal audit function of the Bank: (i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit 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; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) 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; (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;	Complied. The BAC has oversight of the Group Internal Audit Department (GIAD) of the Bank and carries out the following duties: 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. 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 for inclusion in the Risk Grid and for necessary follow up. 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. The BAC is kept informed of the senior staff member appointment/resignations. v. Any outsourced internal audit services are done with the approval of BAC. 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.
	(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 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 November 2019) 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 nine 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 170 to 172 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 149 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. The Policy was revised and updated in November 2019. 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 Banks' relations with the External Auditor.
3(6) (iii)	Human Resources and Remuneration Committee (HRRC) - Composition & Responsibilities	Complied. Please refer pages 162 to 163 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 2019 have been deliberated in detail and approved at HRRC and Board level.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 2019 for the year 2018.
	(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 pages 164 to 165 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 and further revised in 2014.
	(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 has considered and recommended the re- election of Dr. Dinusha Panditaratne, Mr. Bernard Sinniah and Mr. Sujeewa Mudalige and re-appointment of Mr. Dinal Phillips, 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 2019 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 2019.

Rule No.	Corporate Governance Principles	Compliance Status
	(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.
3(6) (v)	Integrated Risk Management Committee (IRMC) - Composition & Responsibilities	Complied. Please refer page 167 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2019.
	(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 page 167 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 2019 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 7 times in the year 2019.
	(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.

Rule No.	Corporate Governance Principles	Compliance Status
	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.
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 2019 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.

Rule No.	Corporate Governance Principles	Compliance Status
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. 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.	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”. 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.

Rule No.	Corporate Governance Principles	Compliance Status
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.
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 Statement for the year ended 31st December 2019 and Quarterly Financial Statements are in conformity with all rules and regulations. These statements have been published in the newspaper in all three languages.

Rule No.	Corporate Governance Principles	Compliance Status								
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 176 to 177, The GCEO's and GCFO's responsibility statement on page 180 and Note 2.1 (Statement of Compliance) to the Financial Statements on page 202.								
	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 178 to 179.								
	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 182 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 34 to 39 "Directors Interest in Contracts with the Bank" on page 161 and page 219 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 31.12.2019 LKR'000</th></tr><tr><td>Accommodation</td><td>3,377</td></tr><tr><td>Deposits</td><td>51,783</td></tr><tr><td>Investments</td><td>-</td></tr></table>	Transactions	Outstanding balance as at 31.12.2019 LKR'000	Accommodation	3,377	Deposits	51,783	Investments	-
Transactions	Outstanding balance as at 31.12.2019 LKR'000									
Accommodation	3,377									
Deposits	51,783									
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 31.12.2019 LKR'000</th><th>% of Regulatory Capital</th></tr><tr><td>Directors/Close Family Members/Substantial Interest concerns</td><td>150,950</td><td>0.30</td></tr><tr><td>Key Management Personnel/Close Family members/Substantial Interest concerns</td><td>108,370</td><td>0.21</td></tr><tr><td>The Bank's subsidiaries and associate companies</td><td>408,100</td><td>0.80</td></tr></table>	Category of Related Parties	Net Accommodation as at 31.12.2019 LKR'000	% of Regulatory Capital	Directors/Close Family Members/Substantial Interest concerns	150,950	0.30	Key Management Personnel/Close Family members/Substantial Interest concerns	108,370	0.21	The Bank's subsidiaries and associate companies	408,100	0.80
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	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 31.12.2019 in LKR '000</th></tr><tr><td>Remuneration Paid</td><td>571,395</td></tr><tr><td>Accommodation</td><td>108,370</td></tr><tr><td>Deposits</td><td>472,013</td></tr><tr><td>Investments</td><td>-</td></tr></table>	Transaction type	Aggregate values/Outstanding balances as at 31.12.2019 in LKR '000	Remuneration Paid	571,395	Accommodation	108,370	Deposits	472,013	Investments	-		
Transaction type	Aggregate values/Outstanding balances as at 31.12.2019 in LKR '000													
Remuneration Paid	571,395													
Accommodation	108,370													
Deposits	472,013													
Investments	-													
	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.												

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, Director's 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 31st December 2019 the Board comprised eight Directors, seven 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, insurance, management, IT and 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 thirteen (13) times during the year which included a special meeting. 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 148 to 149.
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 2020-2023 was approved by the Board in November 2019 as detailed under Section 3(1) (i)(b) of the CBSL table on page 324 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) ensures 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 40 to 43.

Corporate Governance Principles	Compliance Status
○ 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 2019.
○ 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.
○ 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 is also detailed under Section 3(1)(i)(h) of the CBSL table on page 326 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 366 to 401) ○ The Board Integrated Risk Management Committee Report on (pages 167 to 169) ○ The Director's Statement on Internal Control (pages 178 to 179) ○ The Board Audit Committee Report (pages 170 to 172) Our Business Continuity Plan/Disaster Recovery Drill was rehearsed twice during the year 2019.
○ 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.

Corporate Governance Principles	Compliance Status
⊙ 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 56 to 57 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.
⊙ 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 2019 the Company Secretary has provided assistance to the Directors when requested. The Bank has in place an insurance cover for the Directors and it’s Officers.

Corporate Governance Principles	Compliance Status
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 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 147 which illustrates how the Board spent its time in 2019.
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.

Corporate Governance Principles	Compliance Status
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 145 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. 5 of the 8 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. 7 of the 8 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 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 2019 with the criteria set out in this Code. Based on the annual declarations, there were 7 Non-Executive Directors on the Board as at 31st December 2019. Of them 6 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 page 148 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 2019, Alternate Directors appointed for a particular meeting met the criteria that applies to an Independent Director.
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.

Corporate Governance Principles	Compliance Status
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 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 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.
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 and A.7.2	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 pages 164 to 165 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 has considered and recommended the re-appointment of Dinal Philips, PC. Dr Dinusha Panditaratne and Mr. Bernard Sinniah were appointed in 2019 and Mr Sujeewa Mudalige was appointed in 2020 to fill casual vacancies and will be re-appointed by the shareholders at the AGM. Prior to recommending the above re-election/re-appointment of Directors the Nominations Committee considered the fitness and propriety of each Director and made recommendations for re-election.
A.8.2. Re-election of Non-Executive Directors	

Corporate Governance Principles	Compliance Status																						
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 was one resignation and four retirements during 2019. The Bank made the relevant disclosures as required under Section 3(2)(xi) of the CBSL table on page 333 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 2019. The process is led by the Chairman. All Directors were required to complete a detailed questionnaire. The processes adopted is detailed on page 150 of this report All Subcommittees and management committees also carried out a self-evaluation process in 2019 to determine the effectiveness of their performance in 2019 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>34 - 39</td></tr> <tr> <td>Nature of his/her expertise in the relevant functional areas</td><td>148</td></tr> <tr> <td>Immediate family and/or material business relationships with other Directors of the Bank</td><td>335</td></tr> <tr> <td>Whether executive, Non-Executive and or Independent Director</td><td>148</td></tr> <tr> <td>Names of listed companies in which the Director concerned serves as a Director</td><td>36 - 38</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>36 - 38</td></tr> <tr> <td>Board meeting attendance</td><td>148</td></tr> <tr> <td>The total number of Board seats held by each Director</td><td>34 - 39</td></tr> <tr> <td>Board committee served as the Chairman/member</td><td>149</td></tr> <tr> <td>Committee meeting attendance</td><td>149</td></tr> </table>	Information Required	Page Reference	Name, qualification and brief profile	34 - 39	Nature of his/her expertise in the relevant functional areas	148	Immediate family and/or material business relationships with other Directors of the Bank	335	Whether executive, Non-Executive and or Independent Director	148	Names of listed companies in which the Director concerned serves as a Director	36 - 38	Names of other companies or companies in a group in Sri Lanka in which the Director concerned serves as a Director	36 - 38	Board meeting attendance	148	The total number of Board seats held by each Director	34 - 39	Board committee served as the Chairman/member	149	Committee meeting attendance	149
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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 2019. The HRRC/Board will evaluate the performance of the GCEO against the goals and targets set for 2019 at the Board meeting scheduled to be held in March 2020.
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 page 162 to 163 for the report of the HRRC for more details on the composition and activities carried out by the HRRC for the year 2019
B1.4 Determination of remuneration for Non-Executive Directors	Complied. There is in place a Board-approved Remuneration Policy for Directors and KMP. 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.1 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 last salary survey was carried out in 2019.

Corporate Governance Principles	Compliance Status
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 2019 as the “qualifying criteria” were not met in 2018. Details are given in the Financial Statements on page 411.
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 162 to 163 for the report of the HRRC for more details on remuneration.
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 155 of the Annual Report for Directors Remuneration. Also refer Note 14 on page 219 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 440 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.

Corporate Governance Principles	Compliance Status
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.
C1.4. 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 Committees are present at the AGM to answer all queries that may be raised. The Chairpersons of the Board committees were present at the AGM held in 2018.
C1.5 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 325 of this report. Also please refer pages 402 to 424 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 402 to 424 for details of the policy and methodology adopted for communication.
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 442 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.

Corporate Governance Principles	Compliance Status
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 2019 there were no major transactions as defined by Section 185 of the Companies Act No 07 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 176 to 177 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 176 to 177 of this report. The Interim Accounts and Annual Financial Statements were published on a timely basis in 2019. Regulatory reports were filed by the Bank on or before the due dates in 2019. Price sensitive information is disclosed to the Colombo Stock Exchange in 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 419 to 420 and 73 to 79 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 Group Chief Executive Officer's and Group Chief Financial Officer's responsibility statement on pages 180 to 181 and the Directors' statement on Internal Control over Financial Reporting on pages 178 to 179.
D1.4 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 page 158 in the 'Annual report of the Board of Directors on the affairs of the Bank'.

Corporate Governance Principles	Compliance Status																										
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 178 and 182 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>52 - 53</td></tr> <tr> <td>Industry structure and developments</td><td>58 - 60</td></tr> <tr> <td>Opportunities and threats</td><td>61 - 63</td></tr> <tr> <td>Risk management</td><td>366 - 401</td></tr> <tr> <td>Internal control systems and their adequacy</td><td>178 - 179</td></tr> <tr> <td>Governance</td><td>138 - 153</td></tr> <tr> <td>Stakeholder Relationships</td><td>64 - 67</td></tr> <tr> <td>Social and environmental protection activities carried out by the Bank</td><td>119 - 125</td></tr> <tr> <td>Financial performance</td><td>73 - 79</td></tr> <tr> <td>Investment in physical and intellectual capital</td><td>112 - 115</td></tr> <tr> <td>Human resources/industrial relations activities carried out by the Bank</td><td>104 - 111</td></tr> <tr> <td>Prospects for the future</td><td>183</td></tr> </table>	Information Required	Page Reference	Business Model	52 - 53	Industry structure and developments	58 - 60	Opportunities and threats	61 - 63	Risk management	366 - 401	Internal control systems and their adequacy	178 - 179	Governance	138 - 153	Stakeholder Relationships	64 - 67	Social and environmental protection activities carried out by the Bank	119 - 125	Financial performance	73 - 79	Investment in physical and intellectual capital	112 - 115	Human resources/industrial relations activities carried out by the Bank	104 - 111	Prospects for the future	183
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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 2019 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 is maintained by the Bank to captures 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 343 to 345 for more details on the process adopted.																										

Corporate Governance Principles	Compliance Status
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 178 and 179. 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 182.
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 nine meetings held during 2019. 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 170 to 172 and 167 to 169 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 170 to 172 for the BAC Report and refer pages 178 to 179 for Directors Statement of Compliance on Internal Controls in the manner in which the Board complied with this requirement.

Corporate Governance Principles	Compliance Status
PRINCIPLE D.3 AUDIT COMMITTEE - 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 three Non-Executive Independent Directors and is chaired by an Independent Non-Executive Director. Members are selected to provide a broad set of financial, commercial and other relevant experience to meet the Committee's objectives. The Chairman and two other Directors have relevant experience in financial reporting and control.
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 170 to 172 for the BAC report
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.

Corporate Governance Principles	Compliance Status
PRINCIPLE D.5 CODE OF BUSINESS CONDUCT AND ETHICS - The Bank must adopt a Code of Business Conduct & Ethics for Directors and KMP 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 150 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 138 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 2019 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 138 to 153 of the Annual Report and its relevant annexures on pages 324 to 365.
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 402 to 424.

Corporate Governance Principles	Compliance Status
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 28 to 29 GCEO's Review on pages 30 to 33 Management Discussion and Analysis on pages 71 to 133 Annual financial statements on pages 190 to 318 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.

Corporate Governance Principles	Compliance Status
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.
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 2019. 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 158 of the Board of Directors report on the affairs of the Bank and page 151 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 56 for details
H.1.2. Environmental factors	Complied. Please refer pages 126 - 130 for details
H.1.3. Social factors	Complied. Please refer page 119 - 125 for details
H.1.4 Governance	Complied. Please refer page 56 for details
H.1.5. Board's role on ESG factors	Complied. Please refer page 159 for details

Credit Risk Highlights 2019

- ⊙ Gross NPL ratio of 4.77%
- ⊙ 78% of rated portfolio concentrated in investment grades
- ⊙ Strengthened collection and recovery mechanisms

Market Risk Highlights 2019

- ⊙ Total FOREX exposure as a % of capital funds: 1.92%
- ⊙ IRR managed within defined parameters

Liquidity Risk Highlights 2019

- ⊙ Diverse funding portfolio
- ⊙ Liquidity Risk managed within prudential limits
- ⊙ Liquidity Coverage Ratio: 153.26%

Operational Risk Highlights 2019

- ⊙ Operational Risk losses: 0.026% of operating profits after provisions
- ⊙ RCSA process strengthened across Bank and Group

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Risk profile at a glance

Overview of the Bank's risk profile in 2019, described in the context of key risk exposures

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Operating landscape in 2019

Key developments in the operating landscape which shaped the Group's risk profile during the year

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Future of Risk Management

The subdued economic conditions in recent years, coupled with the significant changes to the regulatory frameworks have compelled banks to strengthen risk management capabilities and insights to ensure resilience and the continued creation of stakeholder value. The implications of SLFRS 9 which requires higher provisioning stemming from the expected credit loss model (from the previous incurred loss model) and more stringent regulations on capital, liquidity and leverage from the beginning of 2019 in line with BASEL III requirements and intensifying competitive pressures has led to considerable shifts in the banks' operating landscape. These changing dynamics have compelled the Bank's Group Risk Department to proactively monitor and respond to these challenges in supporting the achievement of the Group's strategic aspirations.

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 4.77%



Prudent Capital and Liquidity Position

- ◉ Adequate capitalisation with a total capital ratio of 13.43%
 - ◉ Diverse funding sources and sound liquidity position
- ◉ Bank's deposit base strengthened despite the sluggish economic activities during the year
- ◉ Substantial portfolio of high-quality liquid assets that can be realised if a liquidity stress occurs-liquidity coverage ratio of 153%
- ◉ Internal prudential liquidity ratios beyond regulatory requirements and exposure limits for proactive liquidity management



Robust Risk Governance Structure and Experienced Team

- ◉ The Bank has a well-defined risk appetite statement which is aligned to the Bank's strategy and approved by the Board
- ◉ Continuous monitoring of the risk profile to ensure it remains within the risk appetite and regular stress testing to assess vulnerabilities
- ◉ Bank reviews and adjusts exposures, underwriting standards and limits in response to observed and anticipated changes in the external environment and expectations
 - ◉ Experienced and highly-capable team
- ◉ A robust risk management framework which assigns accountability and responsibility for the management and control of risk

OPERATING LANDSCAPE IN 2019

With unprecedented changes shaping the economic, political, technology and regulatory landscape, the Bank's ability to create sustainable stakeholder value is underpinned by its capabilities in identifying and effectively responding to emerging threats and opportunities. Group Risk plays a vital role in collaborating across business and support functions to identify shifting stakeholder perceptions and emerging risks.

(Please refer to pages 58-63 for detailed information on the external factors affecting the Bank's performance and risk profile)

EXTERNAL DRIVERS - IMPACT & RESPONSE

Growth/Performance of World Economy and Local Economy

Global and domestic economic conditions directly impact the Bank's operations and these trends are monitored consistently to ensure effective decision making.

Geo Political Events

Bank actively monitors situations that could have an impact and conducts regular stress tests of the impact of such events on portfolios.

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 operations.

Potential Deregulation

Potential deregulation and liberalisation of the industry could lead to more intense competition, particularly from non-traditional players who operate leaner and more agile operating models.

Evolving Regulatory Environment

The Bank reviews key regulatory developments in order to anticipate changes and their potential impact on performance. Bank responds both unilaterally and through participation in industry groups to consultation papers and discussions initiated by regulators. The focus of these activities is to develop the framework for a stable and sustainable financial sector and economy. The nature and impact of changes in economic policies, laws and regulations are monitored and considered in the way Bank conducts business and manages capital and liquidity.

Competition

Banks are seeing intensifying competitive pressures from both traditional financial service providers and non-traditional digital and fintech solution providers. Banks which are unable to address the implications of digital disruption and cater to customers' increasing sophistication are likely to see an erosion of competitive edge, thereby threatening long-term commercial sustainability.

Cyber Threats

Given the intensifying risk of cyber threats globally and domestically, the Bank has deployed technical controls to mitigate cyber risk such as multi-layer firewalls, network separation, implementation of intrusion prevention systems, gateway level content filtering, anti-malware solutions, updates to operating systems, vulnerability remediation and control of privileged accounts.

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 IT security team. The Bank's IT policies and procedures comply with Baseline Security Standards Guidelines issued by the Central Bank of Sri Lanka (CBSL). The Bank also conducts both internal and external penetration tests by employing external service providers from time to time to ensure the systems are resilient to such attacks.

APPROACH TO RISK MANAGEMENT

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 processes for identifying, measuring, monitoring and controlling the Bank's risk exposures.

The main objectives of the IRM framework are;

- To establish common principles, standards for the management and control of all risks and to inform behaviour across the Bank
- 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
- Define the Bank's risk appetite and align Bank's portfolios and business strategy accordingly
- Maintain the Bank's capital adequacy and liquidity position
- Further strengthen governance, controls and accountability across the organisation

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 and Group Risk. The framework permeates all levels of the organisation and has underpinned the creation of a risk-conscious culture.

Meanwhile external risks stemming from the operating environment such as macro-economic, political, social, regulatory, competition and risks related to the natural environment are monitored on an ongoing basis to assess potential impacts on the Bank.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Key Elements	Description
01 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.
02 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.
03 Governance & Oversight	Proper governance and oversight through a clear, effective and robust governance structure with well-defined, transparent and consistent lines of responsibility established.
04 Risk Culture	Promotion of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
05 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.
06 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 6 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 aligned to the Bank's overall business strategy, providing clear direction to the business units for operations and risk management. The Risk Appetite Framework and Tolerance Limits

are reviewed and revised by Board when required based on developments in the operating environment.

In the event of a breach of a risk appetite threshold, 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.

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 Bank's financial position and reputation. The 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 - Bank is currently using the 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 Ltd, India in 2014. Bank is currently in the process of obtaining external validation on the rating models.

Market Risk - The Bank currently uses the Standardised Measurement Approach for computation of minimum capital requirement. Bank has already rolled out its VaR models and will consider moving to the advanced approach for capital computation for Market Risk on receipt of guidelines from the regulator.

Operational Risk - The Bank uses the Basic Indicator Approach for computing the minimum capital requirement for Operational Risk.

PILLAR II - SUPERVISORY REVIEW PROCESS

The Pillar II (Supervisory Review Process - SRP) 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 Pillar

II also requires supervisory authorities to subject all banks to an evaluation process/ Supervisory Review Process (SRP). 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 Bank's 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 eighteen 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, Group Risk, Cross-border Risk and Risks in Off Balance Sheet exposures.

The Annual Capital Planning Process involves detailed planning of the capital projections, capital requirements, levels of capital and capital mix to support the Bank's business plan and strategic objectives over a 3-year horizon. The capital structure is adjusted 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 sub-ordinate bonds or hybrid capital instruments. The Bank is currently in the process of enhancing capital.

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. The outcomes are monitored proactively and regularly and remedial actions taken in the event of breaches.

The Stress Tests carried out in 2019 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

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

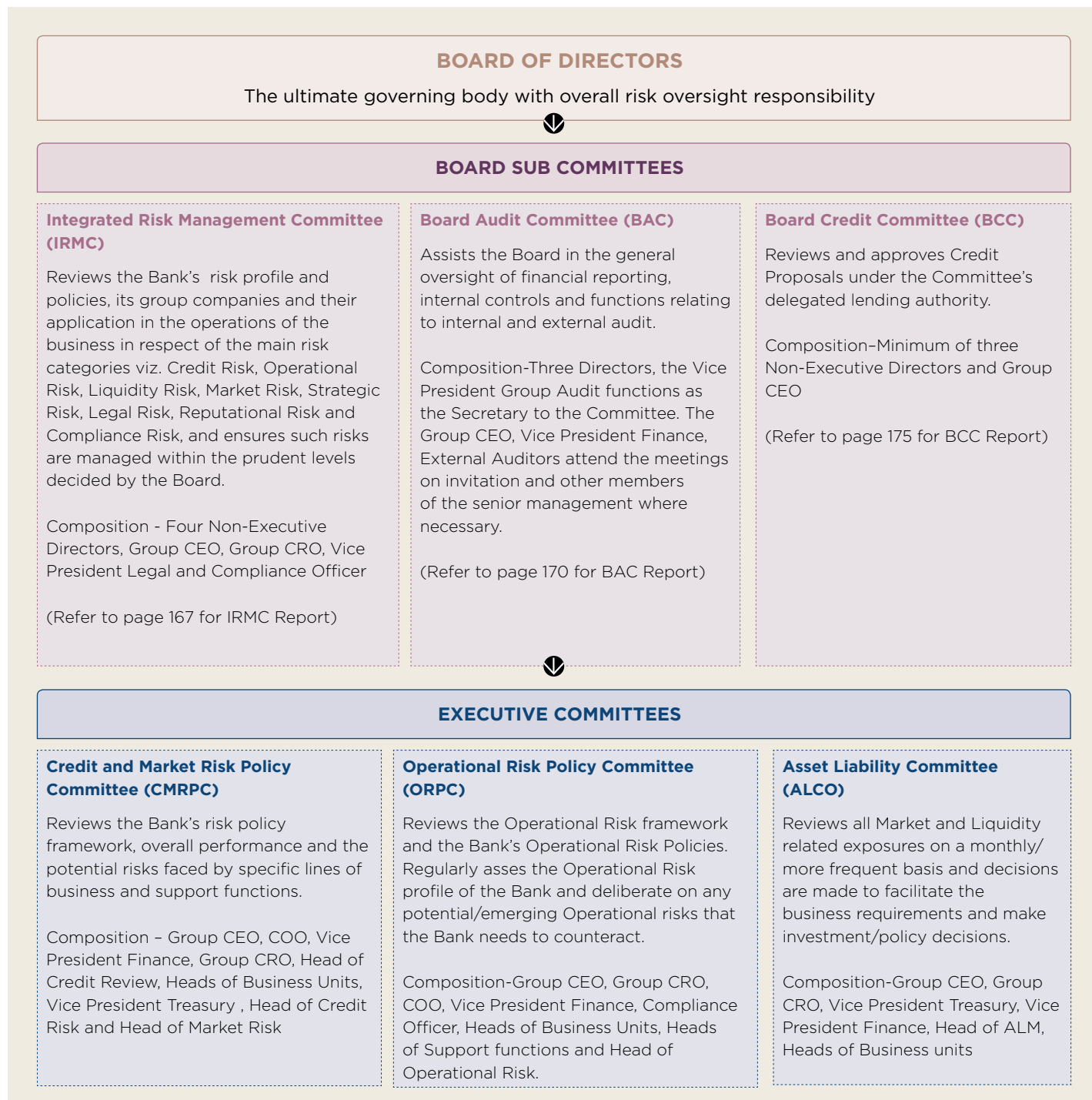
- ⦿ Combined Stress Test

PILLAR III - DISCLOSURES

The Bank provides comprehensive quantitative and qualitative disclosures in line with the BASEL III requirements in the 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 Bank's risk management practices.

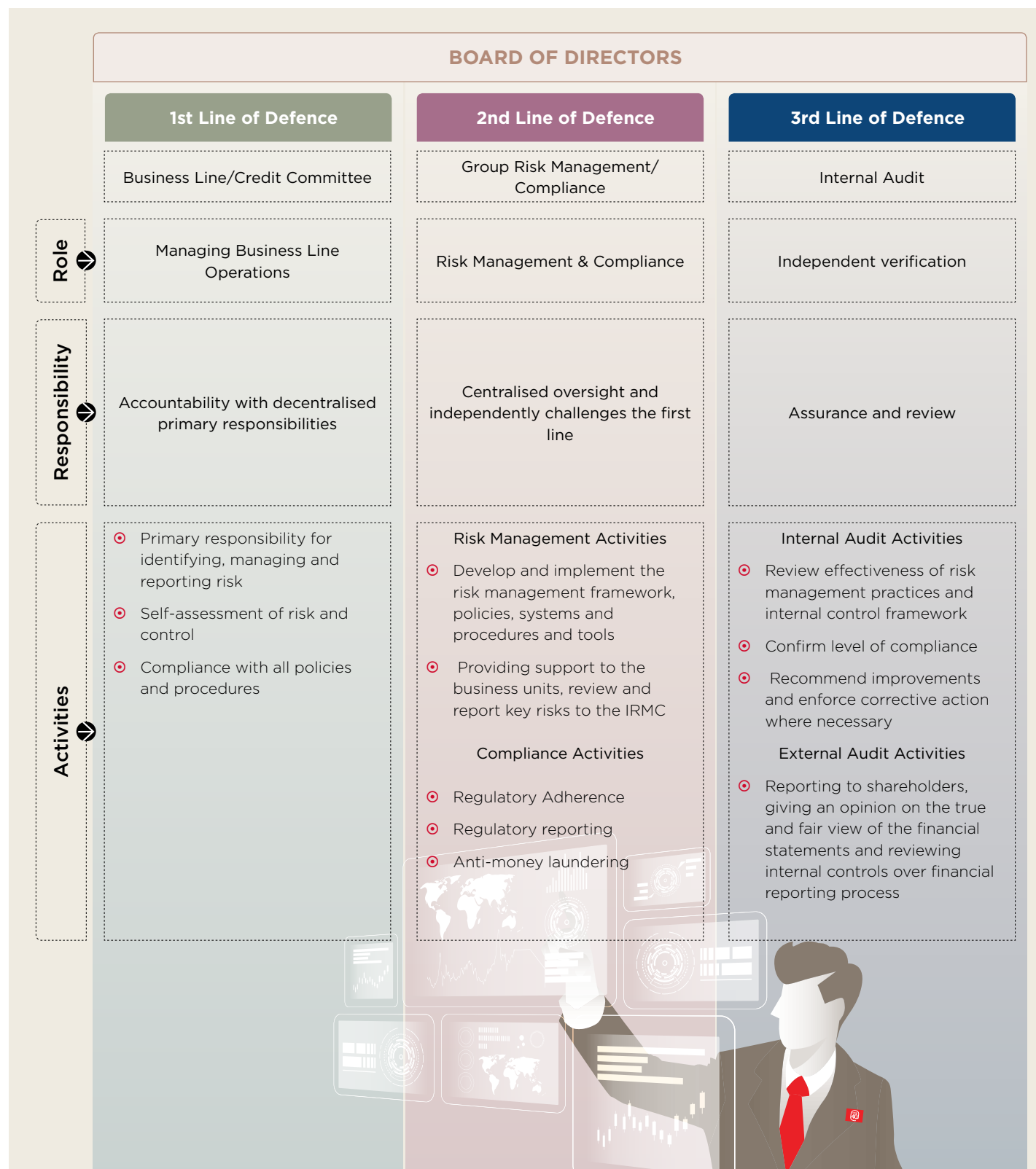
GOVERNANCE AND OVERSIGHT

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 is designed to foster accountability and ownership, whilst facilitating an appropriate level of independence and segregation of duties. The structure is based on the three lines of defence model and defines the lines of authority, roles and responsibilities to efficiently manage risk across the Bank.



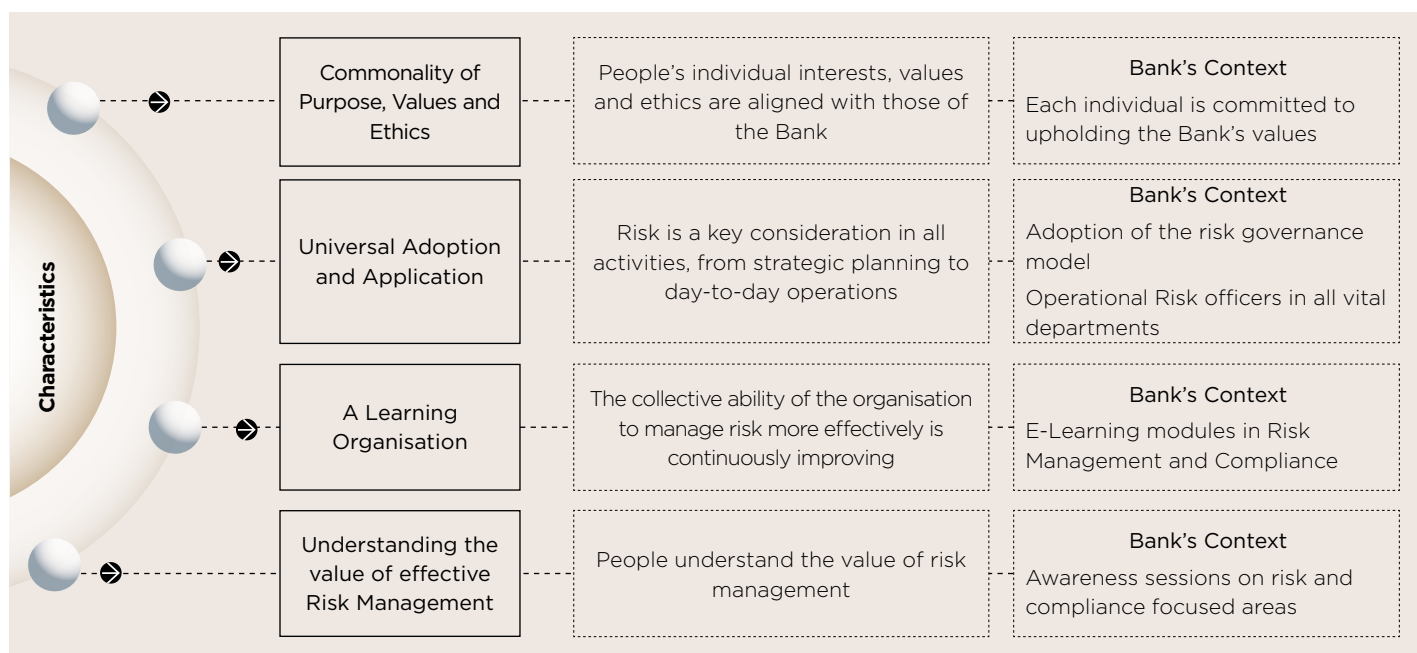
GROUP RISK MANAGEMENT DIVISION

The Group 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 business functions ensuring that a risk-conscious culture is nurtured across the Group.

Further, the Loan Review unit within the Group Risk Management 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. The Bank's commitment is clearly demonstrated through the establishment of strong policies and guidelines, on-going employee training and ensuring that non-compliance risks are effectively managed. The key characteristics of a strong risk culture are as follows:



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. 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 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 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

CREDIT PROCESS



Portfolio at a glance

Credit Risk Exposure – 31.12.2019

	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	37,466,151	-	37,466,151	290,284	-	37,175,867
Loans and Receivables to Other Customers	409,221,432	186,572,904	595,794,336	5,517,467	7,055,153	583,221,716

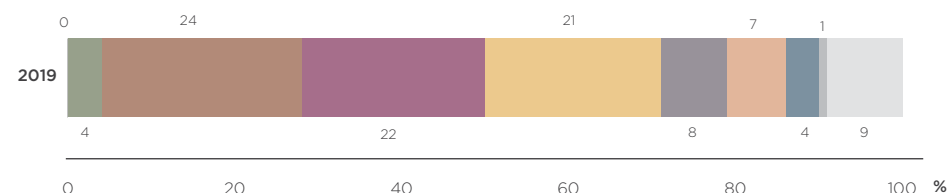
Business Segment wise Composition

The business segment wise composition of the portfolio is given below. In line with its overall strategic focus on pursuing increased penetration in the Retail and SME segments, the Bank's Retail concentration improved to 20% during the year, from 18% in 2018. Meanwhile 57% of the Bank's portfolio was concentrated in Corporate segment.

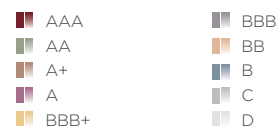
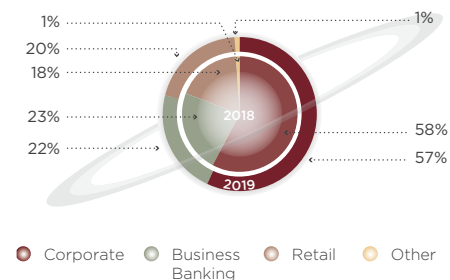
Rated portfolio Concentration

The rated portfolio composition was within the risk appetite of the Bank set by the Board, with 78% of rated portfolio concentrated in investment grades.

Rated Portfolio Concentration - 31.12.2019



Segment wise portfolio composition- 2018/2019



Single Name Concentration

- ☉ The Bank complied with regulatory limits on Group and Single Borrower concentrations. 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 92% of the capital base and was well within the internal limit
- ☉ Bank's portfolio concentrations were well within the Board-approved risk appetite

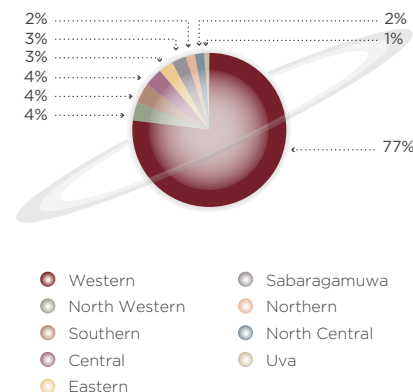
Sector Concentration

Bank maintained a well-diversified portfolio with no over concentration to any sector. Bank was also in compliance with the minimum lending requirement of 10% to Agricultural sector.

Geographical Concentration

The highest concentration of the Bank's domestic loan portfolio was in the Western Province, mirroring the country's economic activity. 96% of the Bank's loans and advance portfolio was concentrated locally.

Geographical concentration of portfolio-31.12.2019



NPL and Provisioning

The Bank's NPL ratio was at 4.77% as at end of the year and was below the NPL ratio of Medium Banks (5.0%) reflecting a better-quality portfolio than that of peers in industry. This reflects the Bank's efforts to strengthen its collection and monitoring mechanisms as explained in further detail on the Business Line Reviews on page 84 of this Report. The impairment details and stage wise breakdown of gross loans is discussed under Note 26 of the Notes to the Financial Statements.

Regulatory provisioning mandated by CBSL

	(LKR '000)
General Provision	1,662,215
Non Performing - Specific Provisions	6,404,770
Non Performing - Judgemental - Specific Provisions	90,232
Charges	52,823
Total Specific Provision on NPL	6,547,825
Performing - Judgemental - Specific Provisions	20,287
Total Loan Loss Provision	8,230,327

NPL and Regulatory (CBSL) Provisioning on Balance Sheet Exposures as at 31 December 2019

	NPL Amount	Provisions as at 31 December 2019	Collateral Value considered for Provisioning purposes	Net Exposure
	(LKR '000)	(LKR '000)	(LKR '000)	(LKR '000)
Pawning				
Special Mention	8,690	-	-	8,690
Substandard	0	0	-	0
Doubtful	29	14	-	14
Loss	971	971	-	-
Housing				
Special Mention	291,388	-	-	291,388
Substandard	204,088	39,905	4,565	164,183
Doubtful	108,379	20,220	67,938	88,158
Loss	134,728	35,134	99,594	99,594
Consumer Loans				
Special Mention	162,360	-	-	162,360
Substandard	21,116	4,223	-	16,892
Doubtful	72,552	36,276	-	36,276
Loss	699,663	699,663	-	-
Leases and Hire Purchase				
Special Mention	726,440	-	-	726,440
Substandard	586,895	117,379	-	469,516
Doubtful	252,915	126,457	-	126,457
Loss	277,182	277,182	-	-
Credit Cards				
Special Mention	55,896	-	-	55,896
Substandard	51,074	12,769	-	38,306
Doubtful	44,530	22,265	-	22,265
Loss	55,239	55,239	-	-
Working Capital Facilities				
Special Mention	1,605,309	-	-	1,605,309
Substandard	1,182,776	227,275	46,403	955,501
Doubtful	590,616	263,992	60,349	326,623
Loss	1,294,225	998,861	295,364	295,364
Term Loans				
Special Mention	1,189,206	-	-	1,189,206
Substandard	2,598,890	379,402	701,879	2,219,488
Doubtful	2,030,786	567,329	896,128	1,463,457
Loss	2,147,786	1,384,144	763,642	763,642
Overdraft Facilities				
Special Mention	614,732	-	-	614,732
Substandard	865,623	130,600	212,625	735,023
Doubtful	477,234	153,032	171,171	324,202
Loss	1,053,502	780,825	272,677	272,677
Other				
Special Mention	-	-	-	-
Substandard	-	-	-	-
Doubtful	4	2	-	2
Loss	71,610	71,610	-	-
Total	19,476,434	6,404,770	3,592,335	13,071,664

MARKET RISK

Market risk is the risk to earnings or capital arising from changes in market driven variables that affect the value of trading and accrual positions and the Bank's portfolios which 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, 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 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 from prices or volatilities in individual equities	Mark to Market calculations	Low	Low	Negligible
Commodity		Exposure to changes in prices and volatilities of commodities		Low	Low	Nil

Market risk arises mainly from interest rate risk and FX risk, where the non-trading portfolio (Banking Book) which accounted for 96.86% of the total assets and 92.15% 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 2019	Carrying amount	Market risk measurement	
	LKR '000	Trading book	Non-trading book
	LKR '000	LKR '000	LKR '000
Assets subject to market risk			
Cash and cash equivalents	2,014,958		2,014,958
Balances with 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 measured at fair value through profit or loss	932,253	932,253	
Financial Assets at amortised cost-loans and receivables to other customers	396,289,828		396,289,828
Financial Assets at amortised cost-debt instruments	27,509,916		27,509,916
Financial Assets measured at fair value through OCI	66,994,222		66,994,222
Total	515,515,159	2,528,612	512,986,546
Liabilities subject to market risk			
Due to Banks	18,380,356		18,380,356
Derivative Financial Instruments	728,873	728,873	
Financial Liabilities at amortised cost-due to depositors	379,790,803		379,790,803
Financial Liabilities at amortised cost			
- due to debt securities holders	1,398,068		1,398,068
- due to other borrowers	29,342,027		29,342,027
Debt securities issued	23,108,734		23,108,734
Total	452,748,862	728,873	452,019,988

OBJECTIVES OF MARKET RISK MANAGEMENT

The primary objective of Market Risk Management 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.

A well-defined governance structure allows for market risks to be 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 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. The policy framework consists of the roles and responsibilities, procedures, risk measurement framework, risk monitoring, reporting and controls taking in to account regulatory requirements and industry best practice.

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.

Policy formulation	Risk measurement methodologies	Systems and Controls	Risk reporting and Communication
Policy formulation/renewal are carried out considering the regulatory guidelines, best practice in the market and material changes in market risk management/limit monitoring process	Limits are assessed and recommended to ALCO/Board approval. All limits in force will be independently monitored by MRMO on pre-defined time bands	Support in implementation of management reporting systems to accurately reflect the risks taken by the Bank. Develop, implement, and review the controls (RCSAs) that enforce the adherence to established risk limits.	MRM risk activities are identified and monitored on a timely manner against the risk parameters and where necessary the exposures are reported for senior management/board for necessary action

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. Market and liquidity risks are addressed at ALCO and at the BIRMC level on a monthly/quarterly basis.

Market Risk Analytics

Foreign Exchange Risk

Prudential open exposure limits are set in addition to the regulatory limits and managed to take advantage of the exchange fluctuations in the market. Proactive 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%.

Bank's exposure to FX risk

	Net open position in respective foreign currency	Overall exposure in LKR '000
US Dollars	1,525	276,783
Pound Sterling	62	11,337
Euro	(89)	16,151
Japanese Yen	733	132,998
Australian Dollar	(24)	4,422
Canadian Dollar	(27)	4,894
Other currencies (in USD)	1,673	303,613
Total exposure (in LKR)		750,198
Total capital funds as at 31 December 2019		39,081,835
Total exposure as a % of total capital funds		1.92%

Value at Risk (VaR)

The Bank's Foreign exchange trading portfolio is subject to VaR measurement under the historical simulation method on a daily basis. As prescribed by the BASEL guidelines the Bank calculates VaR using 99% confidence level for a one-day holding period and portfolios are managed at prudent levels.

Value at Risk (VaR) on Forex Trading portfolio

VaR - (at 99%)	As at 31 December 2019	As at 31 December 2018
Forex Trading	0.92	0.70

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 is 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 2019

	Net position	Stress P&L			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
Magnitude of shock (adverse)		5%	10%	15%	25%
Spot rate movement (USD/LKR)	181.50	172.43	163.35	154.28	136.13
Net open position-DBU (USD)/Stress P&L(LKR)	1,154,757	(10,479,423)	(20,958,846)	(31,438,270)	(52,397,116)

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 gains or losses to the Bank's statement of profit or loss.

Exchange rate sensitivity of major foreign currency net open positions as at 31 December 2019

Spot rate shocks		LKR depreciate				LKR appreciate		
Currency	Net open position	-5%	-2.5%	-1%	Spot rate	1%	2.50%	5%
USD	1,524,974	13,839,142	6,919,571	2,767,828	181.50	(2,767,828)	(6,919,571)	(13,839,142)
GBP	62,462	751,749	375,874	150,350	240.71	(150,350)	(375,874)	(751,749)
EUR	(88,985)	(905,498)	(452,749)	(181,100)	203.52	181,100	452,749	905,498
JPY	732,771	61,233	30,616	12,247	1.67	(12,247)	(30,616)	(61,233)
AUD	(24,366)	(155,138)	(77,569)	(31,028)	127.34	31,028	77,569	155,138
Total		13,591,487	6,795,744	2,718,297		(2,718,297)	(6,795,744)	(13,591,487)

Interest Rate Risk (IRR)

Assets in the trading book (held for trading/Fair value through P/L) are held primarily for generating profit through short term differences in prices/yields. The banking book (Fair value through OCI and held to maturity/Amortised cost) comprises assets and liabilities, which are contracted for steady income generation and are generally held till maturity. Thus, while the price risk is the prime concern of banks in the trading book, earnings or economic value changes are the main focus of the banking book.

INTEREST RATE RISK IN TRADING BOOK

Key Indicator	Position as at 31 December 2019	Position as at 31 December 2018
Mark to market of Financial Assets measured at fair value through profit or loss (LKR Mn)	0.11	(1.21)
Mark to market of Financial Assets measured at fair value through Other Comprehensive Income (LKR Mn)	293.03	(934.28)
Duration of debt securities-Financial Assets measured at fair value through profit or loss (Years)	1.27	1.83
Duration of debt securities-Financial Assets measured at fair value through Other Comprehensive Income (Years)	1.44	1.3

The Bank has booked capital gains for the value of LKR 716 Mn for the year ended 31 December 2019

The Bank's Fixed Income securities portfolio is subject to VaR measurement under the historical simulation method on a daily basis at 99% confidence level for a one day holding period and portfolios are managed at prudent levels.

VaR - (at 99%)	As at 31 December 2019 LKR Mn	As at 31 December 2018 LKR Mn
Debt securities-Financial Assets measured at fair value through profit or loss	3.10	4.68
Debt securities-Financial Assets measured at fair value through Other Comprehensive Income	75.39	68.37

Historical approach, 1 day holding period

Interest Rate Risk in the Banking Book (IRRBB)

The IRRBB arises mainly through non-trading assets and liabilities such as loans, advances and securities held in AFS portfolio which are 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.

LKR Mn		
Price Sensitivity of assets and liabilities	2019 Price sensitivity	2018 Price sensitivity
As at 31 December	1,330	670
Average for the year	1,105	534
Maximum for the year	1,330	739
Minimum for the year	732	273

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 (c))

Equity Risk

Equity price risk arises due to adverse movement in the value of the individual stock price or of the corresponding equity index. The Bank does not engage in equity trading at present but the investments held in the Fair value through OCI portfolio are subject to mark to market valuation.

LKR '000						
TYPE	Carrying Value	Fair Value	Realised gain/ loss	Unrealised gain or loss	Amount included in capital adequacy calculation	
					Amount adjusted from CET 1 capital	Amount considered for Market Risk
Financial Assets measured at fair value through Other Comprehensive Income	1,959,830	1,156,082	-	-	795	-

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 2019.

The Bank sets individual counterparty 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 counterparties.

due whilst driving growth aspirations. It is designed to be adaptable to changing business models, market dynamics and regulations. The Bank continues to focus on liability generation, which is a prerequisite for asset growth.

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 counterparty becoming insolvent prior to the settlement date of transaction. The exposure arises from the 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 counterparty 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.

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 due to the inherent mismatches in 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

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.

PROCESS

The responsibility for Liquidity risk management rests with the ALCO while Treasury/ALM units are responsible for executing the day-to-day liquidity management. (As per the Liquidity Risk Governance structure). Liquidity is managed and monitored proactively to

ensure that the Bank meets the regulatory and internal prudential limits. In this context, MRMO monitors and circulates Key Liquidity Indicators (KRI) to the Management/Board.

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 into reciprocal liquidity funding agreements with identified counterparty banks to ensure stability.

Liquidity Risk Analytics

Liquidity levels are measured through the Stock 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.

The Bank uses several internal prudential measures to manage its liquidity position, whilst meeting the regulatory limit. Certain limits are set for key liquidity measures, above the regulatory limit to give early warnings signals of tightening liquidity positions. 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 2019	Position as at 31 December 2018
Statutory Liquid Asset ratio % - DBU	20.93	20.87
Statutory Liquid Asset ratio % - FCBU	24.74	24.48
Liquidity Coverage Ratio (LCR)% -LKR Currency	162.42	168.74
Liquidity Coverage Ratio (LCR)% -All Currency	153.26	215.99
Net stable funding ratio (NSFR)%	108.92	114.25

The key ratios used for measuring liquidity under stock approach are given below.

Key Indicator - Internal	Position as at 31 December 2019	Position as at 31 December 2018
Net Loans To Total Assets Ratio (%)	74.90	72.78
Advances to deposits Ratio (%)	101.00	101.70
Liquid Assets to Short Term Liabilities (%)	28.05	29.54
Commitments To Liquid Assets (%)	104.45	105.20

Flow approach

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 31.12.2019

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	53,173,025	36,868,072	25,904,331	66,582,626	81,246,975	81,661,160	76,175,175	421,611,364
Total Liabilities	62,234,235	71,356,061	75,146,496	75,861,587	25,021,217	22,095,498	89,896,268	421,611,364
Net Liquidity period Gap	(9,061,211)	(34,487,989)	(49,242,166)	(9,278,962)	56,225,758	59,565,662	(13,721,093)	-

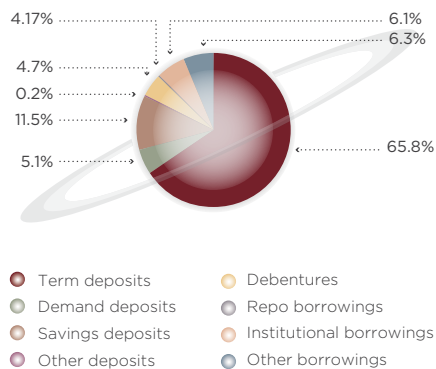
Maturity Gap analysis for foreign currency denominated Assets and liabilities - as at 31.12.2019

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	126,851	118,318	31,717	13,618	103,826	120,484	94,377	609,191
Total Liabilities	47,116	111,457	108,026	198,494	78,073	25,550	40,474	609,191
Net Liquidity period Gap	79,735	6,861	(76,309)	(184,876)	25,753	94,934	53,903	-

Diverse funding profile

The Bank's funding profile is analysed based on both 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 maintains a diverse funding profile, with the largest contribution from term deposits. A strengthening deposit franchise has enabled the Bank to record strong deposit growth in recent years, and deeper penetration in the retail segment has allowed for the mobilisation of more granular deposits.

OPERATIONAL RISK

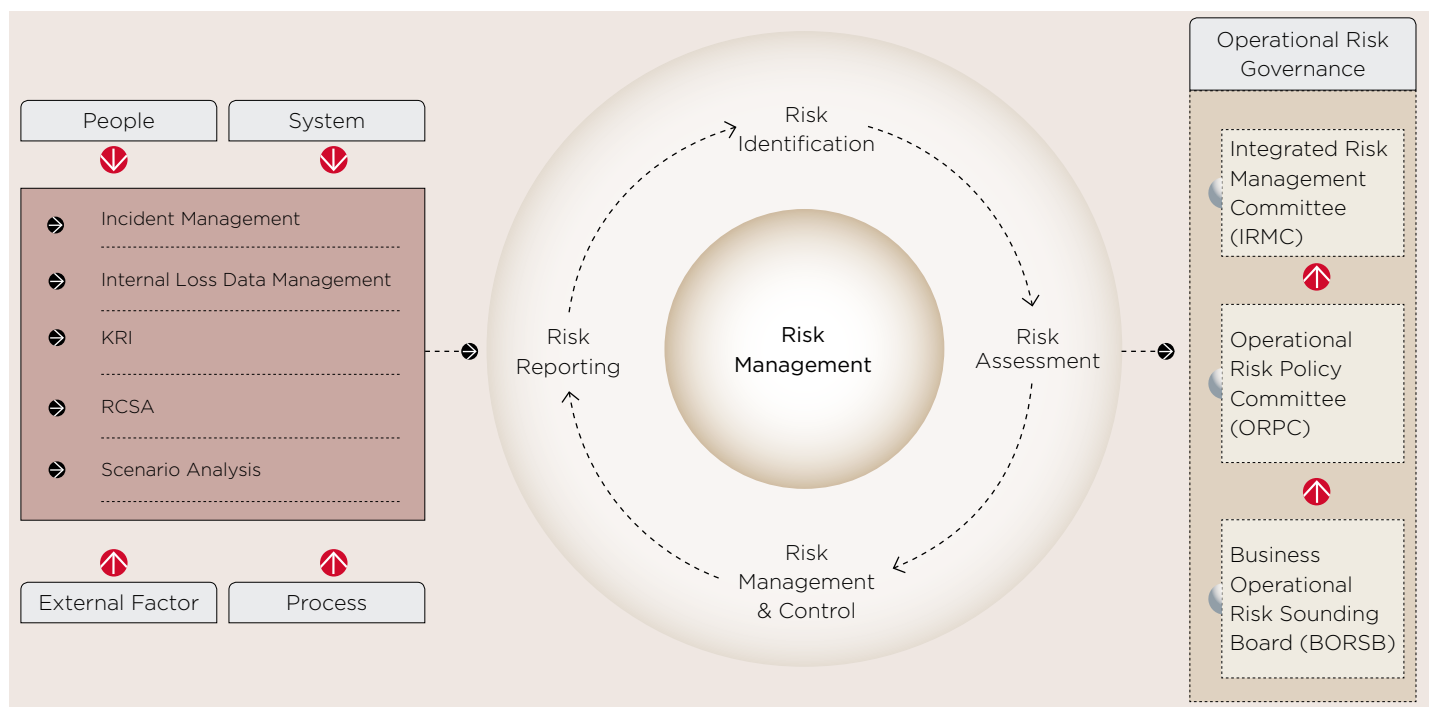
Operational risk is defined as the risk of losses arising from inadequate or failed internal processes, systems or human factors or external events. It includes legal risk but excludes strategic and reputation risk. Operational risk arises from inadequate or lack of control over operational activities or due to the failure of systems and procedures of the Bank. Thus, managing Operational Risk is an integral part of the Bank's daily activities and the implementation of sound practices is essential considering the nature, size, complexity and risk profile.

The Bank's Operational Risk management 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 is applicable across all business/product lines and support functions and is a requisite to be followed by all staff.

The Operational Risk framework articulates the risk management process used to identify potential threats to the Bank and the strategy for minimising the impact of risk, as well as assigning of roles and responsibilities to effectively monitor and evaluate the risk management strategy. The framework is reviewed annually by the IRMC and Board.

The risk management processes support the identification of the nature and types of operational risks and their causes and resulting impacts on the Bank. It also provides comfort for the maintenance of 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 exposure 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 defense facilitates the process of identifying, measuring, managing and monitoring of operational risks. All operational risks are assessed using the Operational Risk grading matrix in order to recognise the risk profile of the Bank. **Business Operational Risk Sounding Board (BORSB)** consisting business, support units and ORMU staff discuss the progress/rectification of operational risk events at regular intervals. Risks that require attention of 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. Employees are encouraged to report all failures or mishaps so that the underlying risks can be identified and responded to before they escalate into a serious impact to the Bank. 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, staff focus on identifying deficiencies in processes and systems, and together with the ORMU seeks and implement remedial action.

The risk management methodologies were introduced to the NDB Group companies during the year. Operational risk management methodologies are automated via the Bank's Operational Risk Management System (NORMS), facilitating the implementation of operational risk tools. The approach on risk identification under Risk and Control Self-Assessments (RCSA) and Key Risk Indicators (KRI) was transformed to provide a realistic focus on determining the Bank's risk profile. Global operational risk events are being monitored and distributed to respective stakeholders to identify the implications on the Bank and action as appropriate. 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 measurements are being taken to strengthen the controls available.

The Operational Risk management process ensures 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 02 of 2012 and the Outsourcing Policy of the Bank. The Bank is committed to ensuring 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.

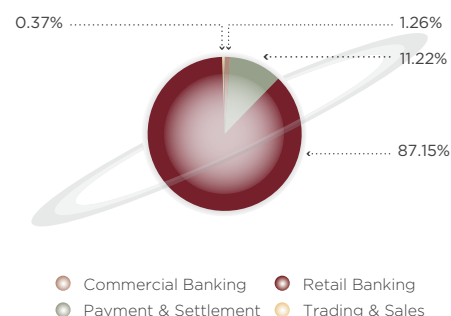
Insurance

The Bank has a comprehensive insurance program as a key measure to mitigate operational risks. The insurance program is reviewed and refined on an ongoing basis. The Bank has engaged an insurance broker to source terms, evaluate them and add value using their expertise.

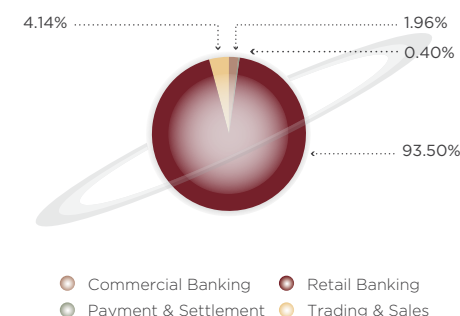
Operational losses which are insurable are covered by a spectrum of insurance policies on a system wide basis.

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.	Professional Indemnity, Directors & Officers Liability and Public Liability.
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
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

**Operational Risk Losses - 2019
Business Lines**



**Operational Risk Losses - 2018
Business Lines**



Total operational losses for 2019 amounted to 0.026% of the operating profits after provisions, a marginal reduction compared to 2018. All losses during the year were those in the high frequency/low impact bucket out of which 75% contained individual loss events less than LKR 50,000.00.

Managing Cyber Risk

Given the increasing pervasiveness of digital solutions and interconnected systems effectively managing cyber risks is proving to be a complex challenge. The unprecedented rate of technology adoption, associated risks and the constant efforts of financially motivated cyber adversaries to find weaknesses 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 Banks' Business Continuity Management (BCM) Policy requires that a full set of up to date and exercised 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 Banks' 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 senior management and coordinated by the Banks' Business Continuity Manager.

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 management of strategic risk.

The Bank follows a holistic process for setting strategy and 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.

CROSS BORDER RISK

Cross-border risk is the risk that the Bank will be unable to obtain payments from its 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.

Correspondent Banking Unit is responsible for Bank's cross-border exposures and management of exposure limits. Cross-border assets comprise loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, Foreign Exchange contracts, 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.

The Bank has a Board approved policy/limits based on external ratings of countries for routine banking transactions with tenors less than one year. In the event the Bank decides to make any long-term investments/lending (tenor over 1 year) off shore, the Bank undertakes a detailed due diligence covering the following key areas:-

- ⊙ Country Ratings
- ⊙ Economic Indicators and Outlook
- ⊙ Political Risk
- ⊙ Exchange Rate Risk (convertibility/transferability)
- ⊙ Banking/Financial sector

The business lines and back offices manage the exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring. Cross-border exposure limits are allocated to countries in which the Bank has an acceptable risk appetite and one-off limits may be allocated based on business needs, with ultimate recourse to the borrower.

LEGAL RISK

Legal Risk is understood more from its consequences, which is incurrance 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

Closely linked to 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 senior management, the Board of Directors and the business and operational functions.

MODEL RISK

Board has put in place a risk model validation policy to mitigate model risk of the Bank. 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 foreign currency transactions. Settlement Risk 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 counterparts.

GOVERNANCE RISK

The Board of Directors is responsible for the overall governance of the Bank which includes determining strategy, 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 (2017) issued by the Institute of Chartered Accountants 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
- ⊙ A Whistleblowing Policy
- ⊙ Disclosure Policy
- ⊙ 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

Reputation Risk is 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.

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 web-site or social media.

GROUP RISK

The Bank together with its subsidiaries, in the process of financial intermediation are confronted with various kinds 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. However, the Bank believes the 'Group Risk' is greatly mitigated as;

- ◉ 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 Bank's Directors/Key Management Personnel on the Boards of Directors/ Board Audit, Risk and Compliance Committees 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 is made
- ◉ Natural mitigation from the fact that the Bank is the holding company and owns the largest balance sheet in the group
- ◉ NDB Securities Ltd., and NDB Wealth Management being a Licensed Stock Broker and Unit Trust Manager respectively, 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 risk appetite. All risk related policies of the Group companies are vetted by 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 conducts Risk and Control Self Assessments for the Group Companies facilitating informed decision-making by providing 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.

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.01 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	
	2019	2018	2019	2018
Regulatory Capital (LKR '000)				
Common Equity Tier 1 Capital	34,909,032	31,564,510	39,563,816	36,604,271
Tier 1 Capital	34,909,032	31,564,510	39,563,816	36,604,271
Total Capital	51,090,130	43,458,448	55,320,388	47,992,241
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7% (2018 - 6.375%))	9.18	9.17	10.15	10.39
Tier 1 Capital Ratio (Minimum Requirement - 8.5% (2018 - 7.875%))	9.18	9.17	10.15	10.39
Total Capital Ratio (Minimum Requirement - 12.5% (2018 - 11.875%))	13.43	12.63	14.20	13.62
Leverage Ratio (Minimum Requirement - 3%)	6.09	6.08	6.81	6.96
Regulatory Liquidity				
Statutory Liquid Assets (LKR'000)	106,381,911	93,997,616	NA	NA
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)				
Domestic Banking Unit (%)	20.93	20.87	NA	NA
Off-Shore Banking Unit (%)	24.78	24.48	NA	NA
Total stock of high quality liquid assets (LKR '000) - Rupee	66,143,681	49,983,967	NA	NA
Total stock of high quality liquid assets (LKR '000) - All currency	75,511,819	54,060,818	NA	NA
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 100% (2018 - 90%))	162.42	168.74	NA	NA
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 100% (2018 - 90%))	153.26	215.99	NA	NA
Net Stable Funding Ratio (%) - (Minimum Requirement - 100%)	108.92	114.25	NA	NA

Disclosures as required by the Circular No. 04 of 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 through-out 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 50% of the first day impact on the adoption of SLFRS 9 (LKR 884 Mn in the Bank & Group) from the retained earnings in computing the Capital Adequacy Ratio as at 31 December 2019 (LKR 442 Mn in 2018).

TEMPLATE II - Basel III Computation of Capital Ratios

As at 31 December	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Common Equity Tier 1 (CET1) Capital after Adjustments	34,909,032	31,564,510	39,563,816	36,604,271
Common Equity Tier 1 (CET1) Capital	38,727,757	35,142,259	42,279,017	38,930,716
Equity Capital (Stated Capital/Assigned Capital)	7,685,334	6,469,323	7,685,334	6,469,323
Reserve Fund	1,896,479	1,636,479	1,896,479	1,636,479
Published Retained Earnings/(Accumulated Retained Losses)	24,055,022	22,197,869	27,431,283	25,967,528
Published Accumulated Other Comprehensive Income (OCI)	(714,785)	(967,119)	(539,786)	(948,321)
General and other Disclosed Reserves	5,805,707	5,805,707	5,805,707	5,805,707
Total Adjustments to CET1 Capital	3,818,725	3,577,749	2,715,201	2,326,445
Intangible Assets (net)	687,785	379,896	700,908	396,742
Deferred tax assets (net)	599,215	371,521	647,444	370,822
Defined benefit pension fund assets	184,841	291,506	184,841	291,506
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	794,869	927,976	1,182,008	1,267,375
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	1,552,015	1,606,850	-	-
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	16,181,098	11,893,938	15,756,572	11,387,970
Tier 2 Capital	16,181,098	11,893,938	16,181,098	11,893,938
Qualifying Tier 2 Capital Instruments	12,119,274	9,902,732	12,119,274	9,902,732
Revaluation Gains	542,092	542,092	542,092	542,092
Loan Loss Provisions	3,519,732	1,449,114	3,519,732	1,449,114
Total Adjustments to Tier 2	-	-	424,526	505,968
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	-	-	424,526	505,968
CET1 Capital	34,909,032	31,564,510	39,563,816	36,604,271
Total Tier 1 Capital	34,909,032	31,564,510	39,563,816	36,604,271
Total Capital	51,090,130	43,458,448	55,320,388	47,992,241
Total Risk Weighted Assets (RWA)	380,442,870	344,069,057	389,660,172	352,441,054
RWAs for Credit Risk	348,382,658	320,987,845	351,398,555	324,340,671
RWAs for Market Risk	8,179,894	2,104,174	13,321,736	6,274,298
RWAs for Operational Risk	23,880,318	20,977,038	24,939,881	21,826,085
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	9.18	9.17	10.15	10.39
of which: Capital Conservation Buffer (%)	2.50	1.875	2.50	1.875
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	9.18	9.17	10.15	10.39
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	13.43	12.63	14.20	13.62
of which: Capital Conservation Buffer (%)	2.50	1.875	2.50	1.875
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-

TEMPLATE III (a) - Basel III Computation of Leverage Ratio

As at 31 December	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Tier 1 Capital	34,909,032	31,564,510	39,563,816	36,604,271
Total Exposures	573,400,212	518,872,253	580,723,128	526,144,548
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	527,054,744	472,299,825	534,163,465	478,987,376
Derivative Exposures	2,127,366	7,020,598	2,127,366	7,020,598
Securities Financing Transactions Exposures	1,310,783	315,467	1,310,783	315,467
Other Off-Balance Sheet Exposures	42,907,320	39,236,361	43,121,514	39,821,106
Basel III Leverage Ratio (%) (Minimum Requirement - 3%)	6.09%	6.08%	6.81%	6.96%

TEMPLATE III (b) - Basel III Computation of Net Stable Funding Ratio (NSFR)

As at 31 December	BANK	
	2019	2018
	LKR '000	LKR '000
Total Available Stable Funding	347,701,495	316,467,391
Required Stable Funding - On Balance Sheet Assets	316,484,930	275,429,069
Required Stable Funding - Off Balance Sheet Items	2,750,138	1,574,605
Total Required Stable Funding	319,235,068	277,003,674
Net Stable Funding Ratio (%) (Minimum Requirement - 100%)	108.92%	114.25%

TEMPLATE IV - Basel III Computation of Liquidity Coverage Ratio - All Currency Liquidity Requirement

As at 31 December	BANK			
	2019		2018	
	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)	77,144,017	75,511,819	54,754,891	54,060,818
Total Adjusted Level 1A Assets	66,158,083	66,158,083	50,377,379	50,377,379
Level 1 Assets	66,262,699	66,262,699	50,127,739	50,127,739
Total Adjusted Level 2A Assets	10,881,318	9,249,120	4,627,152	3,933,079
Level 2A Assets	10,881,318	9,249,120	4,627,152	3,933,079
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	527,469,261	106,364,173	470,958,765	95,944,626
Deposits	232,497,321	17,227,141	195,253,268	14,272,916
Unsecured Wholesale Funding	174,682,668	83,060,912	162,374,454	78,736,165
Secured Funding Transactions	603,232	-	2,864,610	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	119,686,040	6,076,120	110,410,380	2,879,492
Additional Requirements	-	-	56,053	56,053
Total Cash Inflows	89,486,893	57,092,784	99,331,503	70,914,740
Maturing Secured Lending Transactions Backed by Collateral	44,741,535	31,035,412	43,184,720	35,110,930
Other Inflows by Counterparty which are maturing within 30 days	42,738,268	26,057,372	52,996,084	35,747,756
Operational Deposits	2,007,090	-	3,094,647	-
Other Cash Inflows	-	-	56,053	56,053
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		153.26%		215.99%

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 1 (2013)	Debenture Issue 2 (2015)	Debenture Issue 3 (2019)
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 - LK0207D23091 Type B - LK0207D23083	Type A - LK0207D24198 Type B - LK0207D24206
Governing Law(s) of the Instrument	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 07 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	24-Jun-2015	30-Mar-2019
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 - 24 Jun 2020 Type B - 24 Jun 2020	Type A - 30 Mar 2024 Type B - 30 Mar 2024
Amount Recognised in Regulatory Capital (in LKR '000 as at 31 December 2019)	7,685,334	6,500,814	891,440	4,727,020
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 - 9.4% p.a Type B - 9.4% annual compounding on the Issue Price of LKR 63.8136	Type A - 13.50% p.a Type B - 13.95% p.a
Non-Cumulative or Cumulative	NA	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible				
If Convertible, Conversion Trigger (s)	NA	NA	NA	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	NA	Fully
If Convertible, Mandatory or Optional	NA	NA	NA	Mandatory
If Convertible, Conversion Rate	NA	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.

Note :

(i) The Bank raised Tier II capital of LKR 5.5 bn through Debenture Issue 3 in March 2019.

2. RISK WEIGHTED ASSETS (RWA)

TEMPLATE VI - Summary discussion on adequacy/meeting current and future capital requirements.

Please refer page 318 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 2019					
	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	93,633,029	4,900,500	93,633,029	4,105,316	5,124,933	5.24%
Claims on Public Sector Entities	15,692,581	7,905,712	-	-	-	-
Claims on Banks Exposures	9,446,246	83,218,113	9,446,246	6,937,157	7,741,031	47.25%
Claims on Financial Institutions	45,442,506	26,834,979	44,201,707	801,720	23,567,473	52.37%
Claims on Corporates	191,768,104	132,341,788	169,830,460	29,098,824	195,563,124	98.31%
Retail Claims	115,652,040	26,668,048	103,895,548	5,061,533	84,429,564	77.49%
Claims Secured by Residential Property	17,365,251	1,021,952	17,365,251	293,710	9,833,637	55.69%
Non-Performing Assets (NPAs)(i)	13,026,219	-	12,903,325	-	14,763,049	114.41%
Higher-risk Categories	364,610	-	364,610	-	911,526	250.00%
Cash Items and Other Assets	10,178,360	-	10,178,360	-	6,448,321	63.35%
Total	512,568,946	282,891,092	461,818,536	46,298,260	348,382,658	

Asset Class	GROUP					
	Amount (LKR'000) as at 31 December 2019					
	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	93,633,029	4,900,500	93,633,029	4,105,316	5,124,933	5.24%
Claims on Public Sector Entities	15,692,581	7,905,712	-	-	-	-
Claims on Banks Exposures	9,700,123	83,218,113	9,700,123	6,937,157	7,810,246	46.94%
Claims on Financial Institutions	45,442,506	26,834,979	44,201,707	801,720	23,567,473	52.37%
Claims on Corporates	191,563,165	131,943,636	169,625,521	29,052,873	195,312,235	98.31%
Retail Claims	115,652,040	26,668,048	103,895,548	5,061,533	84,429,564	77.49%
Claims Secured by Residential Property	17,365,251	1,021,952	17,365,251	293,710	9,833,637	55.69%
Non-Performing Assets (NPAs)(i)	13,026,219	-	12,903,325	-	14,763,049	114.41%
Higher-risk Categories	-	520,290	-	260,145	390,218	150.00%
Cash Items and Other Assets	13,897,347	-	13,897,347	-	10,167,200	73.16%
Total	515,972,261	283,013,230	465,221,851	46,512,454	351,398,555	

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 2019 (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	72,113,682	25,624,663	-	-	-	-	-	-	97,738,345
Claims on Banks Exposures	-	4,121,117	10,690,958	-	-	1,571,328	-	-	16,383,403
Claims on Financial Institutions	-	4,871,975	35,076,746	-	-	5,054,705	-	-	45,003,426
Claims on Corporates	-	2,532,479	3,277,908	-	-	192,521,342	597,555	-	198,929,284
Retail Claims	467,907	627,195	-	6,980,209	83,063,077	17,818,692	-	-	108,957,080
Claims Secured by Residential Property	-	-	15,650,647	-	-	2,008,314	-	-	17,658,961
Non-Performing Assets (NPAs)	-	-	547,170	-	-	8,089,537	4,266,618	-	12,903,325
Higher-risk Categories	-	-	-	-	-	-	-	364,610	364,610
Cash Items and Other Assets	3,577,678	190,454	-	-	-	6,410,230	-	-	10,178,362
Total	76,159,267	37,967,883	65,243,429	6,980,209	83,063,077	233,474,148	4,864,173	364,610	508,116,796

Risk Weight Asset Classes	GROUP								
	Amount (LKR'000) as at 31 Dec 2019 (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	72,113,682	25,624,663	-	-	-	-	-	-	97,738,345
Claims on Banks Exposures	-	4,429,440	10,566,965	-	-	1,640,875	-	-	16,637,280
Claims on Financial Institutions	-	4,871,975	35,076,746	-	-	5,054,705	-	-	45,003,426
Claims on Corporates	-	2,532,479	3,277,908	-	-	192,270,453	597,555	-	198,678,395
Retail Claims	467,907	627,195	-	6,980,209	83,063,077	17,818,692	-	-	108,957,080
Claims Secured by Residential Property	-	-	15,650,647	-	-	2,008,314	-	-	17,658,961
Non-Performing Assets (NPAs)	-	-	547,170	-	-	8,089,537	4,266,618	-	12,903,325
Higher-risk Categories	-	-	-	-	-	-	260,145	-	260,145
Cash Items and Other Assets	3,577,782	190,457	-	-	-	10,129,109	-	-	13,897,348
Total	76,159,371	38,276,209	65,119,436	6,980,209	83,063,077	237,011,685	5,124,318	-	511,734,305

TEMPLATE IX - Market Risk under Standardised Measurement Method

As at 31 December	BANK		GROUP	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
(a) Capital Charge for Interest Rate Risk	993,873	173,182	1,064,922	225,855
General Interest Rate Risk	993,873	173,182	994,183	190,337
(i) Net Long or Short Position	993,873	173,182	994,183	190,337
(ii) Horizontal Disallowance	-	-	-	-
(iii) Vertical Disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific Interest Rate Risk	-	-	70,739	35,518
(b) Capital Charge for Equity	-	-	571,682	442,528
(i) General Equity Risk	-	-	286,666	222,087
(ii) Specific Equity Risk	-	-	285,016	220,441
(c) Capital Charge for Foreign Exchange & Gold	28,614	76,689	28,614	76,689
Total Risk weighted amount for Market Risk [(a) + (b) + (c)] * CAR	8,179,894	2,104,174	13,321,736	6,274,298

TEMPLATE X - Operational Risk under Basic Indicator Approach

Business Lines	Capital Charge Factor	Fixed Factor	BANK		
			Gross Income (LKR'000) as at 31 December 2019		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		15,622,042	21,118,989	22,959,764
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	2,985,040				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	23,880,318				
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 2019		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		16,150,230	22,084,375	24,115,098
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	3,117,485				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	24,939,881				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

TEMPLATE XI and XII - Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK

As at 31 December 2019	a	b	c	d	
LKR '000	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	
Assets	529,594,428	532,179,506	461,818,536	17,490,000	
Cash and cash equivalents	5,703,468	5,775,220	5,775,220	-	
Balances with the Central Banks of Sri Lanka	13,886,575	13,886,575	13,886,575	-	
Placements with banks	6,291,047	6,286,750	6,286,750	-	
Derivative financial instruments	1,596,359	-	-	-	
Financial assets recognised through profit or loss- measured at fair value	932,253	-	-	-	
Financial assets-Held for trading	-	67,479,699	49,194,830	17,490,000	
Financial assets at amortised cost-loans and receivables to other customers	396,648,811	399,992,587	350,940,342	-	
Financial assets at amortised cost-debt and other instruments	27,485,885	-	-	-	
Financial investments-Held to maturity	-	27,339,950	27,339,950	-	
Financial assets measured at fair value through other comprehensive income	67,018,254	-	-	-	
Investments in subsidiary companies	2,144,774	2,144,774	592,759	-	
Investments in associate companies	-	-	-	-	
Investment property	-	-	-	-	
Intangible assets	687,785	687,785	-	-	
Right of used assets	960,849	-	-	-	
Property, plant and equipment	3,012,213	3,012,213	3,012,213	-	
Deferred tax assets	599,215	599,215	-	-	
Other assets	2,626,940	4,974,738	4,789,897	-	
Liabilities	490,110,592	490,292,458			
Due to banks	18,380,356	-	-	-	
Derivative financial instruments	728,873	-	-	-	
Financial liabilities at amortised cost-due to depositors	405,048,024	395,506,698	-	-	
Financial Liabilities at amortised cost-due to debt securities holders	1,398,068	1,359,173	-	-	

	e		
	Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques/ valuation basis
	52,870,970		
	-		
	-		
	-		
	-	Derivative Financial Instruments are separately disclosed in the published financial statements as per the SLFRS 9 disclosure requirements. 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 classified under other assets category.	
	794,869		
	49,052,245	Carrying value of 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 provision 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 classified under other assets category.	
	-	Financial assets measured at fair value through other comprehensive income are classified as Held for trading under regulatory reporting.	
	1,552,015		
	-		
	-		
	687,785		
	-	Right of used assets are recorded under other assets in regulatory reporting.	
	-		
	599,215		
	184,841	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 as per the LKAS 39 Disclosure requirements 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 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.
	-		

TEMPLATE XI - Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK (CONTD.)

As at 31 December 2019	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	29,342,027	47,142,548	-	-	
Debt securities issued	23,108,734	22,645,506	-	-	
Current tax liabilities	2,247,997	2,247,997	-	-	
Deferred tax liabilities	-	-	-	-	
Retirement benefit obligations	583,933	-	-	-	
Other liabilities	9,272,580	21,390,536	-	-	
Off-Balance Sheet Liabilities	293,145,821	246,573,592	282,481,654	-	
Guarantees	40,561,409	40,561,409	34,116,284	-	
Performance Bonds	15,289,376	15,289,376	15,227,304	-	
Letters of Credit	10,875,348	10,875,348	10,712,181	-	
Other Contingent Items	8,759,962	8,759,962	8,759,962	-	
Undrawn Commitments	111,086,808	111,086,808	111,086,808	-	
Other Commitments	106,572,918	60,000,689	102,579,115	-	
Shareholders' Equity	-	-	-	-	
Equity capital (Stated capital/Assigned capital)	7,685,334	7,685,334	-	-	
of which Amount eligible for CET1	7,685,334	7,685,334	-	-	
of which Amount eligible for AT1	-	-	-	-	
Retained earnings	23,689,843	25,175,169	-	-	
Accumulated Other comprehensive income	406,473	-	-	-	
Other reserves	7,702,186	9,026,545	-	-	
Total Shareholders' Equity	39,483,836	41,887,048			

[illegible]

DSIB Assessment as per the Banking Act Direction No. 10 of 2019 on framework for dealing with Domestic Systemically Important Banks

Financial Institution definition is in accordance with Direction No. 01 of 2016 of Capital Requirement under Basel III.

Size Indicator	GROUP
	2019
	LKR Mn
Section 1 - Total Exposures	
Total exposures measure	580,723
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	4,804
(ii) Lending	71,115
b. Holdings of securities issued by other financial institutions	4,720
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	31
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	1,678
Intra-financial system assets	82,348
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	37,619
(ii) Borrowings	42,608
b. Net negative current exposure of securities financing transactions with other financial institutions	151
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	1,104
Intra-financial system liabilities	81,482
Section 4 - Securities Outstanding	
Securities outstanding	22,790
Substitutability/Financial Institution Infrastructure Indicators	
Section 5 - Payments made in the reporting year (excluding intragroup payments)	
Payments activity	7,893,439
Section 6 - Assets Under Custody	
Assets under custody	-
Section 7 - Underwritten Transactions	
Underwritten Transactions	-
Section 8 - Trading Volume	
Trading Volume	7,002

Complexity Indicators	
Section 9 - Notional Amount of Over-the-Counter (OTC) Derivatives OTC derivatives	103,498
Section 10 - Level 2 Assets Level 2 assets	10,881
Section 11 - Trading and available for sale (AFS) securities Trading and AFS securities	73,515
Section 12 - Cross-Jurisdictional Liabilities Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	50,718
Section 13 - Cross-Jurisdictional Claims Cross-jurisdictional claims (excluding derivatives and intragroup claims)	17,868

The Bank has a dedicated function for maintaining investor relations, with a bid to ensure sound relations with them, who are identified as a key stakeholder group making tremendous contribution towards the success of the Bank.

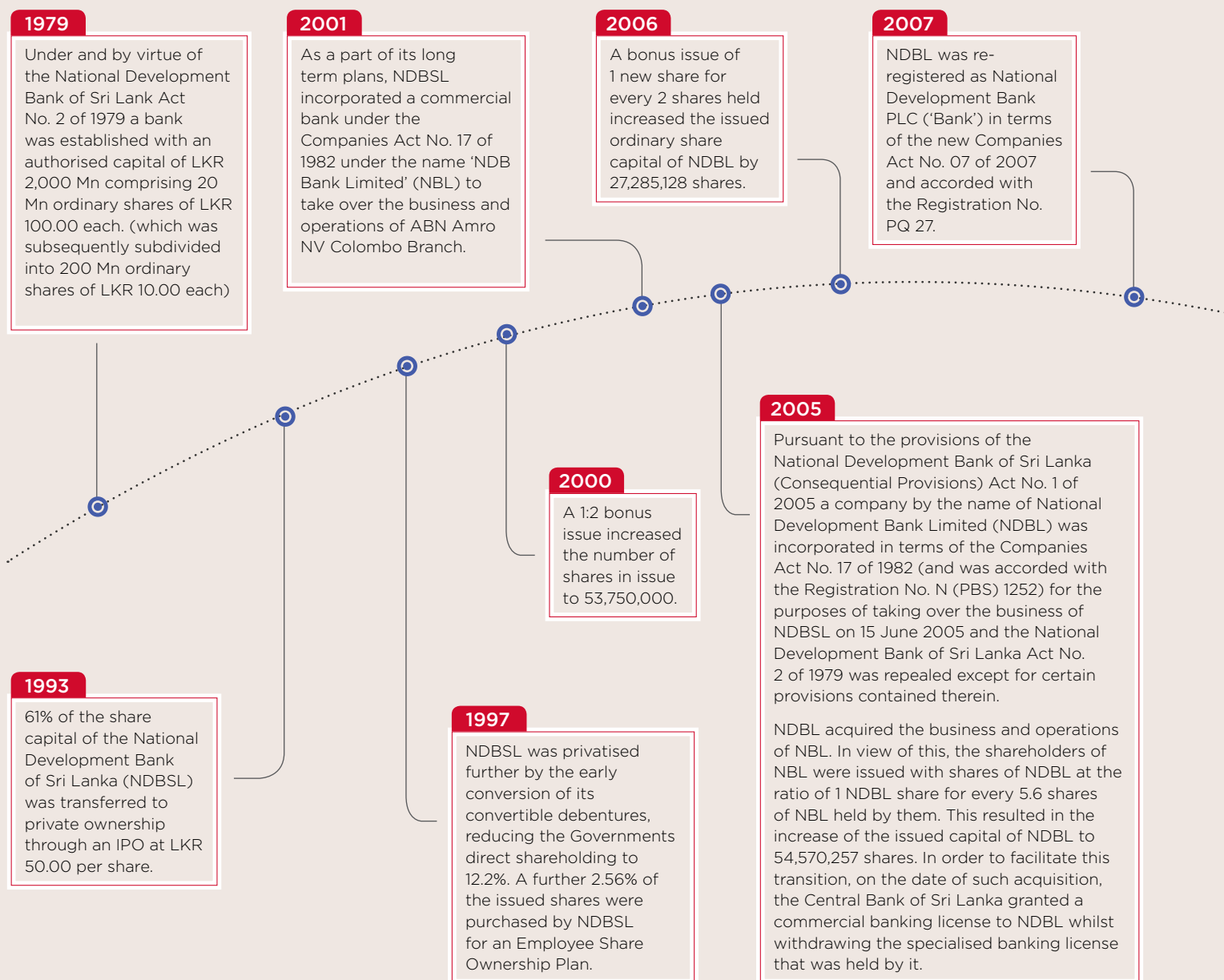
CONSTITUENTS OF THE INVESTOR RELATIONS ECO-SYSTEM OF THE BANK

- 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 Bank's performance

SHAREHOLDER MILESTONES



INVESTOR SUPPORT

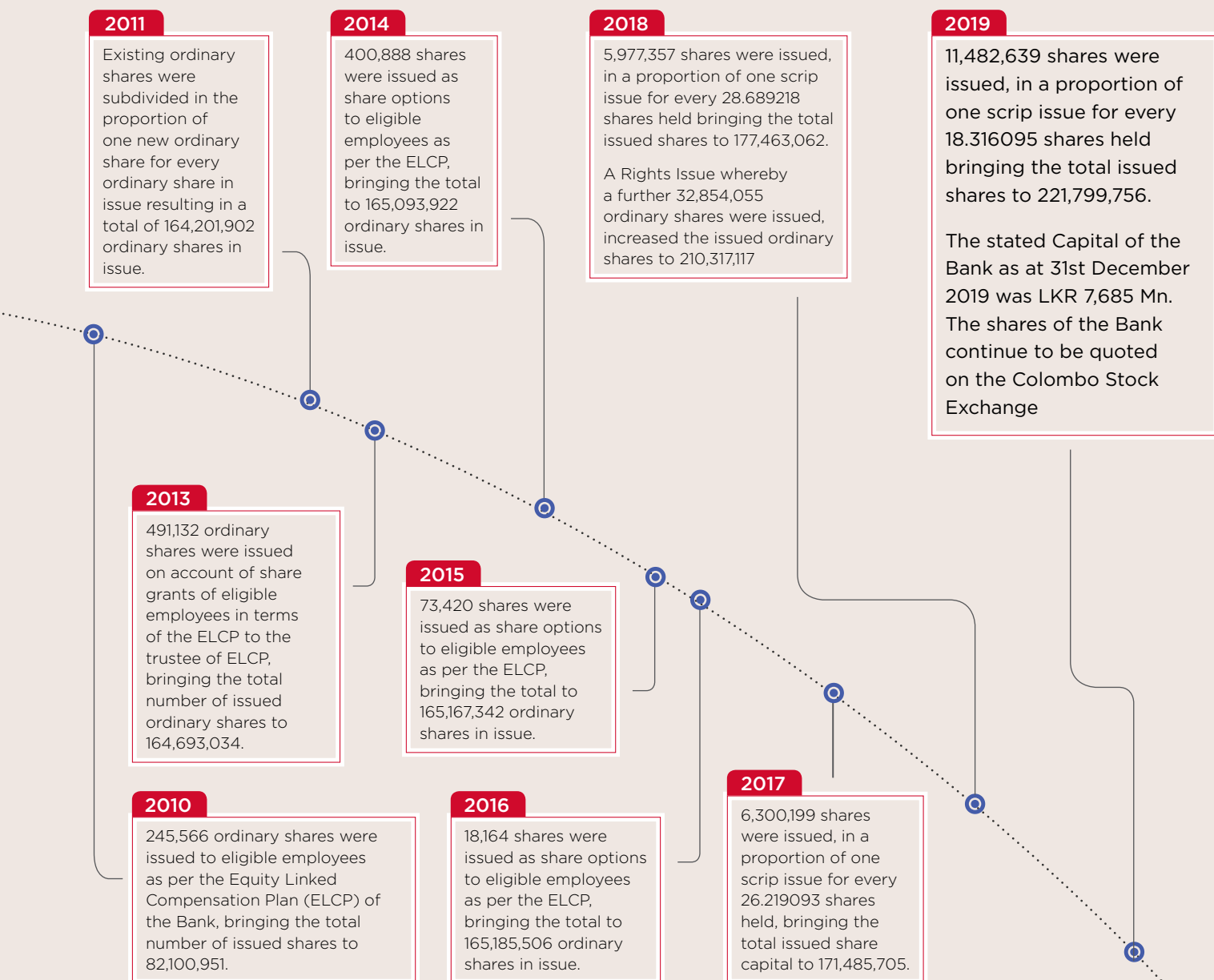
Investor support is extended via a wide range of engagement activities as listed below.

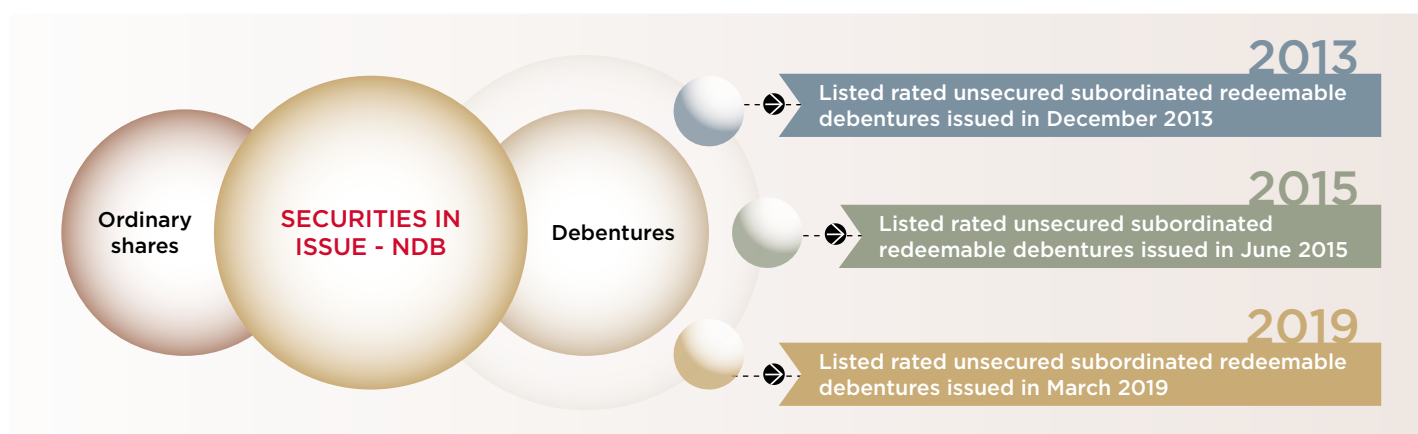
- Annual General Meeting
- One-to-one investor meetings
- Financial statements released to the CSE
- Press releases
- Investor presentations
- Investor transcripts
- Email notifications
- Local and foreign investor fora
- Online investor webinars
- Earnings calls
- Road shows
- Investor relations web 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

Winner for four consecutive years [2016-2019] – Gold award for best investor relations at the annual CFA Sri Lanka Capital Market Awards





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) ⊙ S&P (SL) 20 Index (Adjusted) ⊙ Bank, Finance & Insurance Index (BFI)
CSE stock symbol	NDB.N0000
ISIN	LK0207N0007
Bloomberg newswire code	NDB SL
Reuters newswire code	NDB.CM

2. ANALYSIS OF EQUITY MARKET PERFORMANCE AND NDB SHARE PERFORMANCE - 2019

2.1 Performance of global equity markets

The year 2019 has been a good year for global equities as the MSCI World Index, which tracks the stock market performances of 23 developed countries and widely regarded as a close proxy to world equities performances, recorded a gain of 27.6% for the year 2019 in comparison to 8.7% loss in year 2018. Similarly the MSCI Emerging Market Index, which mimics the stock market performances of 26 developing countries, posted a 27.6% gain for the year as opposed to a 14.6% loss made during year 2018.

A good run for equities amidst a challenging global economic environment during the year is mainly due to loose monetary policies adapted by the major economies in the world. This has led capital market participants to

re-allocate funds to equities from fixed income. It is estimated that the global equities have added USD 17 Tn to the total equity value of the world for the year 2019. There were 67 central banks across the world, which have further reduced their policy rates for the year 2019 in comparison to 32 banks in the year 2018. The Federal Reserve, the central bank of the world's largest economy, reduced their policy rates three times during 2019 after it started tightening the policy cycle almost after a decade in 2015 December.

The global growth forecast for 2020 has been modestly raised to 2.5% by World Bank, after the year 2019 recording the lowest growth rate of 2.4% since the great recession in 2009. Improving consumer demand fuelled by relatively low borrowing costs, a trade truce attained by the world's leading economies USA

and China at the end of the year 2019, prospects of the UK exiting once and for all from the EU bloc by end of December 2020, and potential rebound expected in the emerging markets are being cited as the reasons for the upward revision. However, slowdown in global trade as a result of increasing protectionism amongst countries, bleak growth prospects in the world's second largest economy - China which has been further dented by global epidemic of coronavirus, possible no deal BREXIT for the UK, and emerging geo political tensions from the Middle Eastern region are expected to be a drag in the global growth in year 2020.

2.2 Performance of the Colombo Stock Exchange

The year 2019 has been a mixed year for the Colombo Stock Exchange (CSE). Its main index ASPI, which tracks all the listed counters, closed the year with a gain of 1.3% (loss of 5.0% in year 2018) whilst S&PSL20, which comprises of the top 20 listed counters in terms of liquidity and market capitalisation, continued its' losing streak in 2019 as well, with a loss of 6.2% (loss of 14.6% in year 2018). After recording losses in 2018, the gains made in the ASPI in 2019 was mainly due to a late surge witnessed in the market activities which was fuelled by the positive sentiments that prevailed during 2H2019 leading up to the Presidential Election in November 2019.

A comparison of market performances between 1H2019 and 2H2019 would reveal interesting insights on how sentiments play a major role in the CSE. During 1H2019, the ASPI and S&PSL20 both lost 11% and 20% respectively but during 2H2019 the ASPI and S&PSL20 both gained 14% and 18% respectively. This trend could also be observed in the Average Daily Turnover (ADTO) as well, which stood at LKR 545 Mn and LKR 866 Mn during 1H2019 and 2H2019 respectively.

Activities in the CSE for the year 2019 has been subdued due to various reasons ranging from political instability carried over from the previous years, devastating Easter attack and its shockwaves, continued foreign outflows, and the virtually inactive status of the captive sources in the market. As a result, market multiples hit a multi-year low, where PE and PBV stood at 10.8X and 1.1X respectively, ADTO was recorded at LKR 709 Mn which

was lower than the last years' LKR 834 Mn, and market capitalisation stood at LKR 2.8 Tn.

However, the prospects of a strong legislative house due to be elected in the year 2020 as a result of the convincing victory for the ruling party in the November Executive Elections, declining yields due to a dovish approach taken by the CBSL alongside the fairly strong exchange rate, which marginally gained approximately by 0.6% for 2019 as opposed to shedding 19.6% in 2018 may drive forward the equity market in 2020. Contrary to this, troublesome developments taking place worldwide, especially the recent coronavirus outbreak which shook the global financial markets in the early part of the year 2020 may slowdown revival of the Colombo Stock Exchange in the short to mid-term.

2.3 Performance of the NDB share

NDB Bank PLC shed 1.3% (adjusted for corporate actions such as

scrip dividends) during the year in comparison to a substantial decline of 17.3% recorded in 2018, which was mainly due to difficult market conditions prevailed during 2018. The company has outperformed the most liquid index in the CSE, S&PSL20 (loss of 6.3%), while almost mimicking the BFI sector index, which recorded a loss of 1.3%, during the course of the year. During the year the counter recorded its highest traded price of LKR 113.10 in March and lowest traded price of LKR 85.80 in October.

Meanwhile, foreigners have marginally upped their holding in the company to 15.1% as of 31 December 2019 from 14.8% in December 2018. Despite posting strong financial results for the year NDB share has not performed to its' fullest potential during 2019 due to continuous lacklustre sentiments witnessed in the market in the recent times, as it ended the year with a P/BV of 0.5 times as opposed to a sector P/BV of 1.2 times.

3. ANALYSIS OF ORDINARY SHAREHOLDERS AS AT 31 DECEMBER 2019 AS PER RULE 7.6(X) OF THE LISTING RULES OF THE CSE.

3.1 Distribution of shareholders

Shareholding Range	As at 31 December 2019				As at 31 December 2018			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1-1,000	5,975	62.97	1,609,635	0.73	5,951	63.84	1,593,310	0.76
1,001-10,000	2,837	29.90	8,749,029	3.94	2,756	29.56	8,548,333	4.06
10,001-100,000	571	6.02	14,833,952	6.69	515	5.52	13,774,271	6.55
100,001-1,000,000	76	0.80	21,656,802	9.76	72	0.77	20,116,221	9.56
Over 1,000,000	29	0.31	174,950,338	78.88	28	0.30	166,284,982	79.06
Total	9,488	100.00	221,799,756	100.00	9,322	100.00	210,317,117	100.00

3.2 Resident/ non-resident shareholding

Shareholding Range	As at 31 December 2019				As at 31 December 2018			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Resident	9,344	98.48	188,223,816	84.86	9,180	98.48	179,241,076	85.22
Non-resident	144	1.52	33,575,940	15.14	142	1.52	31,076,041	14.78
Total	9,488	100.00	221,799,756	100.00	9,322	100.00	210,317,117	100.00

3.3 Individual/ institutional shareholding

Shareholding Range	As at 31 December 2019				As at 31 December 2018			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Individual	8,957	94.40	42,618,916	19.22	8,816	94.57	40,800,295	19.40
Institutional	531	5.60	179,180,840	80.78	506	5.43	169,516,822	80.60
Total	9,488	100.00	221,799,756	100.00	9,322	100.00	210,317,117	100.00

4 20 LARGEST REGISTERED SHAREHOLDERS OF THE BANK AS AT 31 DECEMBER 2019 AS PER RULE NUMBER 7.6(III) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

	Name	2019		Name	2018	
		Number of shares	%		Number of shares	%
1	EMPLOYEES PROVIDENT FUND	22,179,974	10.00	EMPLOYEES PROVIDENT FUND	21,031,711	10.00
2	BANK OF CEYLON NO. 1 ACCOUNT	18,548,111	8.36	BANK OF CEYLON NO. 1 ACCOUNT	17,587,870	8.36
3	SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	14,182,632	6.39	SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	13,448,393	6.39
4	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	11,791,193	5.32	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	11,180,760	5.32
5	DR. S.YADDEHIGE	9,687,303	4.37	DR. S. YADDEHIGE	9,185,790	4.37
6	SOFTLOGIC LIFE INSURANCE PLC ACCOUNT NUMBER 03/LIFE SHAREHOLDERS FUND	9,250,580	4.17	SOFTLOGIC LIFE INSURANCE PLC ACCOUNT NUMBER 03/LIFE SHAREHOLDERS FUND	8,771,675	4.17
7	EMPLOYEES TRUST FUND BOARD	8,632,697	3.89	EMPLOYEES TRUST FUND BOARD	8,185,780	3.89
8	PERPETUAL TREASURIES LIMITED	8,329,876	3.76	PERPETUAL TREASURIES LIMITED	7,898,636	3.76
9	RICHARD PIERIS AND CO LTD - ACCOUNT NO. 01	7,728,977	3.48	RICHARD PIERIS AND CO LTD - ACCOUNT NO. 01	7,328,846	3.48
10	BNYMSANV RE-LF RUFFER INVESTMENT FUNDS : LF RUFFER PACIFIC AND EMERGING MARKETS FUND	7,326,605	3.30	BNYMSANV RE-LF RUFFER INVESTMENT FUNDS : LF RUFFER PACIFIC AND EMERGING MARKETS FUND	6,947,305	3.30
11	HATTON NATIONAL BANK PLC A/C NO 1	6,468,864	2.92	HATTON NATIONAL BANK PLC A/C NO 1	6,133,969	2.92
12	PHOENIX VENTURES PRIVATE LIMITED	6,454,617	2.91	PHOENIX VENTURES PRIVATE LIMITED	6,120,460	2.91
13	RUSH JAPAN CORPORATION	6,411,362	2.89	SBI VEN HOLDINGS PTE LTD	5,371,628	2.55
14	SBI VEN HOLDINGS PTE LTD	5,664,901	2.55	RUSH JAPAN CORPORATION	5,144,490	2.45
15	MR. A.K.PATHIRAGE	3,364,951	1.52	MR. A.K. PATHIRAGE	4,086,426	1.94
16	ASIRI SURGICAL HOSPITAL PLC	3,308,720	1.49	AYENKA HOLDINGS PRIVATE LIMITED	3,262,994	1.55
17	AKBAR BROTHERS PVT LTD A/C NO 1	3,292,801	1.48	ASIRI SURGICAL HOSPITAL PLC	3,137,427	1.49
18	DFCC BANK PLC A/C 1	3,021,280	1.36	AKBAR BROTHERS PVT LTD A/C NO 1	3,058,993	1.45
19	MR. M.J.FERNANDO	2,600,725	1.17	DFCC BANK PLC A/C 1	2,864,868	1.36
20	PERPETUAL EQUITIES (PRIVATE) LIMITED	2,414,836	1.09	MR. M.J. FERNANDO	2,466,085	1.17
		160,661,005	72.42		153,214,106	72.83
	OTHERS	61,138,751	27.58	OTHERS	57,103,011	27.17
	TOTAL	221,799,756	100.00	TOTAL	210,317,117	100.00

5 PERCENTAGE OF THE SHARES HELD BY THE PUBLIC

	As at 31 December 2019	As at 31 December 2018
Float adjusted Market Capitalisation in (LKR Mn)	17,990	17,821
Parentage of the shares held by the public	81.11%	79.34%
Number of public shareholders	9,456	9,278
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.

6 DIRECTORS' INTEREST IN SHARES OF THE BANK

Name	As at 31 December 2019 Number of shares	As at 31 December 2018 Number of shares
Mr. Kavan Ratnayaka	Nil	Nil
Mr. Ashok Pathirage (retired w.e.f. 18. February 2020)	5,764,435*	5,466,010*
Mr. Dimantha Seneviratne	16,873	16,000
Mr. Dinal Phillips, PC	Nil	Nil
Mr. Sriyan Cooray	Nil	Nil
Mr. Bernard Sinniah	Nil	Nil
Mr. E A Rathnaseela (resigned w.e.f. 20 January 2020)	Nil	Nil
Dr. Dinusha Panditaratne	Nil	Nil
Mr. Sujeewa Mudalige (appointed w.e.f. 06 January 2020)	Not Applicable	Not Applicable

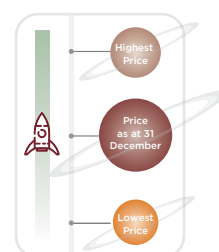
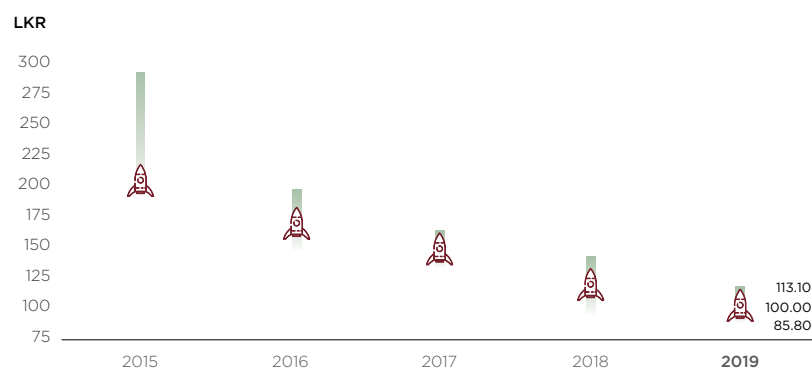
*Includes shares held in the slash account.

7. INFORMATION ON SHARE TRADING

7.1 Share price movement trend over the past five years

Year	2019	2018	2017	2016	2015
Highest price (LKR)	113.10	141.40	152.40	199.90	280.00
Date/s highest price was recorded	29 July 2019	22 February 2018	15 May 2017	03 May 2016	23 July 2015 and 22 May 2015
Lowest price (LKR)	85.80	98.00	126.90	150.00	187.00
Date/s lowest price was recorded	27 May 2019	16 October 2018	02 October 2017	24 November 2016	28 December 2015
Price as at 31 December/last trading date of the year (LKR)	100.00	106.80	136.40	156.00	194.10
Total number of shares in issue	221,799,756	210,317,117	171,485,705	165,185,506	165,167,342

SHARE PRICE MOVEMENT TREND OVER THE PAST FIVE YEARS



**NDB Share Price on
the date of approval
of the Annual
Report**

As at 18 February
2020

**LKR
94.80**

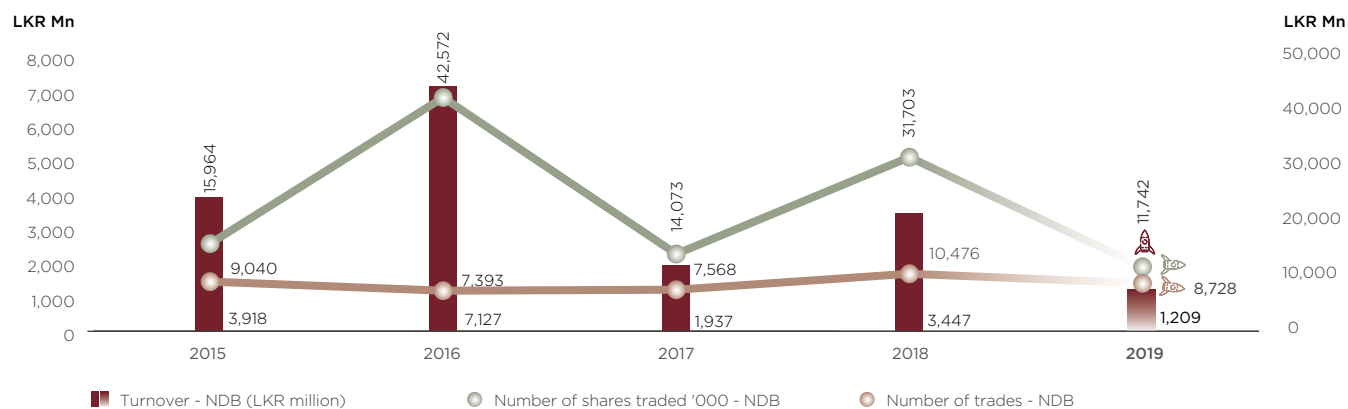
7.1.1 Share price movement over the year

Year	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Highest price (LKR)	100.99	105.16	103.64	100.00	96.80	91.50	113.10	111.50	105.00	105.20	108.50	107.60
Lowest price (LKR)	97.67	98.62	92.20	94.10	85.80	86.50	89.50	105.00	97.80	98.00	104.40	98.00
Price as at month end (LKR)	98.62	105.16	94.20	95.10	88.20	89.90	109.90	105.30	97.80	105.20	108.00	100.00

7.2 Share trading details

Year	2019	2019				2018	2017	2016	2015
		Q4	Q3	Q2	Q1				
Number of trades - NDB	8,728	2,208	3,227	1,624	1,669	10,476	7,568	7,393	9,040
Percentage of total market trades	0.73%	0.49%	0.86%	0.93%	0.85%	1.18%	0.77%	0.70%	0.60%
Number of NDB shares traded ('000)	11,742	2,019	3,201	1,187	5,335	31,703	14,073	42,572	15,964
Percentage of total shares traded in the market	0.12%	0.08%	0.06%	0.09%	0.56%	0.53%	0.17%	0.59%	0.17%
Turnover - NDB (LKR Mn)	1,209	209	328	108	565	3,447	1,937	7,127	3,918
Average daily turnover (LKR Mn)	5	3	5	2	10	14	8	30	16
Percentage of total market turnover	0.71%	0.39%	0.60%	0.41%	1.50%	1.72%	0.88%	4.03%	1.55%

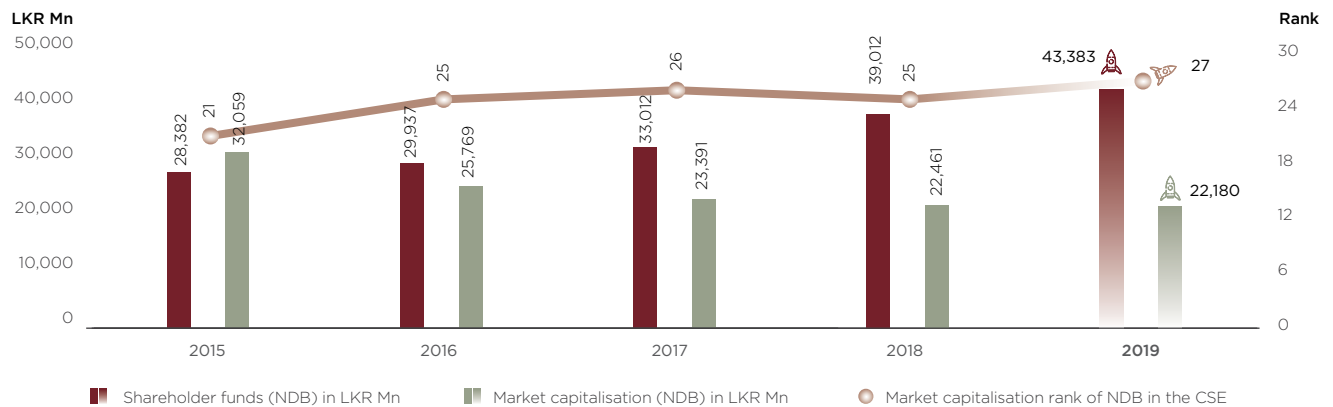
Share trading details



7.3 Shareholder funds and market capitalisation

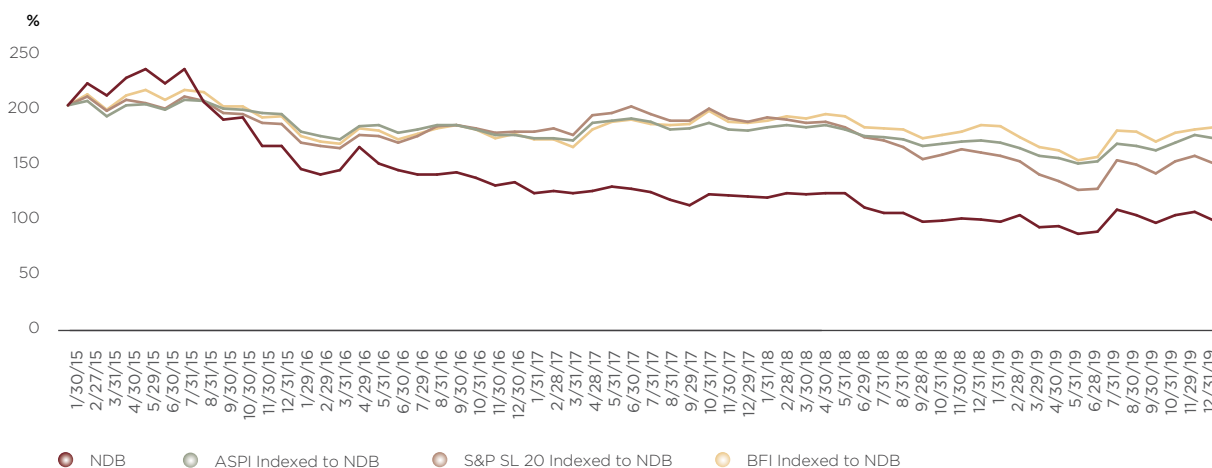
Year	2019	2018	2017	2016	2015
Shareholder funds (NDB Group) in LKR Mn	43,383	39,012	33,012	29,937	28,382
Percentage increase/decrease in shareholder funds over the prior year	11%	18%	10%	5%	2%
Market capitalisation (NDB) in LKR Mn	22,180	22,461	23,391	25,769	32,059
Percentage increase/decrease in NDB market capitalisation over the prior year	-1%	-4%	9%	20%	22%
Market capitalisation (CSE) in LKR Mn	2,851,313	2,839,446	2,899,291	2,745,406	2,937,998
Percentage increase/decrease in CSE market capitalisation over the prior year	0.4%	-2%	6%	7%	5%
NDB's market capitalisation as a percentage of CSE market capitalisation	0.78%	0.79%	0.81%	0.94%	1.09%
Market capitalisation rank of NDB in the CSE	27	25	26	25	21
Market capitalisation (BFI sector within CSE) in LKR Mn	757,327	784,242	769,975	653,858	699,844
NDB's market capitalisation as a percentage of BFI sector capitalisation	2.93%	2.86%	3.04%	3.94%	4.58%
Beta value of NDB share against ASPI	1.53	1.88	1.99	1.36	1.37
Beta value of NDB share against S&P SL20	1.15	1.25	1.15	0.92	1.54

Shareholder funds and market capitalisation



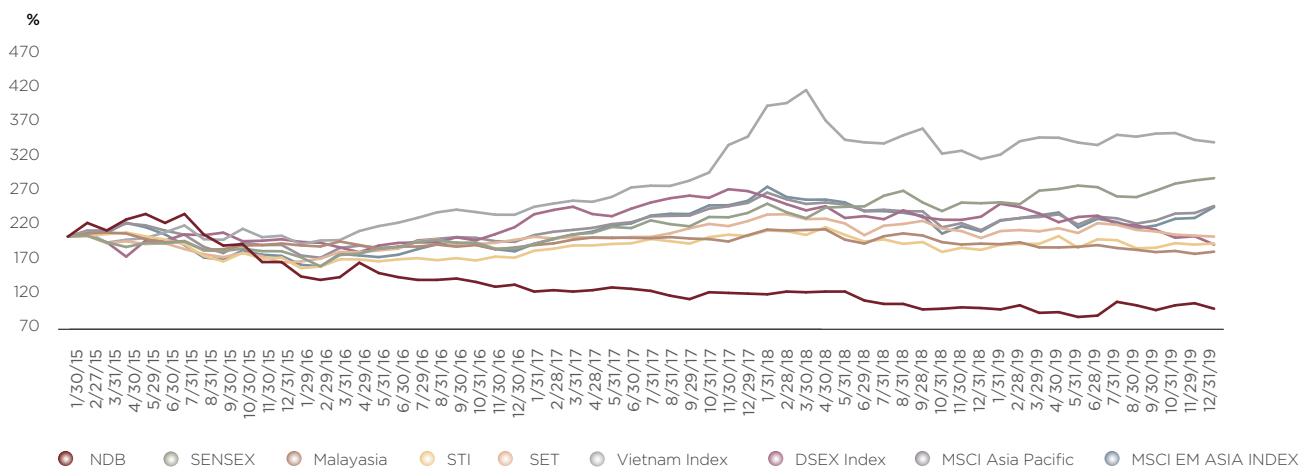
7.4 NDB share performance in comparison to selected local indices

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	2019	2018	2017	2016	2015
Return on equity (%)	11.59	14.26	11.09	9.23	12.59
Gross dividends paid during the year (LKR million)	1,682	1,200	1,664	654	1,815
Dividend per share (DPS) (LKR)	7.00	8.00	9.00	8.00	11.00
Dividend yield (%)	7.00	7.49	6.60	5.13	5.67
Dividend payout ratio (%)	30.37	30.32	35.47	49.11	51.00
Earnings per share (EPS) (LKR)	20.53	26.33	19.66	16.29	21.51
Dividend Cover (Times)	2.93	3.29	2.18	2.04	1.96
Total shareholder return ratio (TSR) (%)	1.12	-16.57	-6.15	-17.57	-17.96
Price earnings ratio (PE ratio) (Times)	4.87	4.06	6.93	9.58	9.02
Net asset value per share (LKR)	195.60	185.49	192.51	181.23	172.35
Price to book value (Times)	0.51	0.58	0.71	0.86	1.13

RETURN ON EQUITY

The Return on Equity (ROE) at the Bank level was 13.73%, down from 17.41% for the year 2018 due to reduction in profit after tax by 8%, with higher taxes, particularly with the full effect of Debt Repayment Levy amounting to LKR 1.0 Bn being accounted for in the year 2019. The Bank also issued a scrip dividend during the year 2019, for the financial year 2018, which also contributed to the decline in ROE. The Group ROE was 11.59% and compares with 14.26% for the year 2018.

EARNINGS PER SHARE (EPS)

Earnings per share (EPS) at the Bank level adjusted for the scrip issue announced on 18 February 2020 for the first and final dividend for the year 2019, was LKR 21.97, a decline of 23% compared to the EPS of LKR 28.44 for the year 2018. The earnings per share were also impacted by the reduction in the Profit After tax over 2018, due to higher tax charges, particularly with the full effect of Debt Repayment Levy being accounted for the year 2019. The resultant Group EPS for the year was LKR 20.53 and compares with LKR 26.33 for the previous year.

DIVIDENDS FOR THE YEAR

On 18 February 2020, the Bank declared 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 year ended 31 December 2019. In 2019, the Bank declared a first and final dividend of LKR 8.00 per share comprising of a cash dividend of LKR 1.50 per share and a scrip dividend of LKR 6.50 per share, for the year ended 31 December 2018. The dividend declared was in line with the internally set policy guidelines.

NET ASSET VALUE PER SHARE

Net Asset Value per share for 2019 at the Group level was LKR 195.60, an increase of 5% from LKR 185.49 in 2018. The increase in the Net Assets Value was primarily due to the increase in the equity base with capitalisation of profits, despite the increase in number of shares due to the issue of scrip dividends.

9. EMPLOYEE SHARE OWNERSHIP SCHEMES

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 (Private) Limited and NDB Securities (Private) 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 (commencing from the 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.

The Bank met the qualifying criteria for the financial performance for the year ended 31 December 2018, and accordingly the eligible employees were vested with shares on 01 July 2019, in line with the shareholder circular dated 01 March 2016.

10. CAPITAL RAISING INITIATIVES IN 2019

The Bank completed a rights issue in 2018 which resulted in a Tier 1 capital infusion of LKR 3.4 bn. In March 2019, the Bank also raised LKR 5.56 Bn, via a Basel III compliant, Tier II, listed, rated, unsecured, subordinated redeemable debentures to support the Tier II capital. The regulator, Central Bank of Sri Lanka issued revised guidelines on classification of Domestic Systemically Important Bank on 20 December 2019, which required additional qualitative criteria and quantitative criteria to be complied with apart from the asset size and was based on a relative score methodology. This resulted in NDB's regulatory capital requirements remaining at 8.5% for Tier 1 Capital and 12.5% for Total Capital, despite achieving a total asset base of LKR 500 Bn. Accordingly the Bank has adequate capital for organic growth, stemming from internal profit generation and the tax reliefs proposed by the Government of Sri Lanka for banking and financial services by way of removal of Debt Repayment Levy and reduction in the corporate income tax rates, which would support the Tier 1 capital requirement on a cumulative basis. However Tier II capital infusion by way of Basel III compliant subordinated debt issues are planned to support the Tier II capital ratios of the Bank in its 5 year strategic plan, due to the future maturities of the existing Basel compliant debentures.

DEBENTURES OF NDB

11. NDB HAS THREE DEBENTURES IN ISSUE AS FOLLOWS

- I - Listed rated unsecured subordinated redeemable debentures issued in March 2019
 II - Listed rated unsecured subordinated redeemable debentures issued in June 2015
 III - Listed rated unsecured subordinated redeemable debentures issued in December 2013

11. (I) Rated unsecured subordinated redeemable debentures – March 2019

11. (I) (A) Key features of the debentures

Types of debentures	Debenture Code	ISIN	Issue price	Par value	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. (I) (B) Trading details for the year ended 31 December 2019

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2019 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 %
Fixed rate - Debenture March 2019											
Type A	Listed	Semi-Annually	1,243	Not traded during the year			13.50%	13.16%	14.05	Not traded during the year	
Type B	Listed	Annually	4,318	Not traded during the year			13.95%	13.15%	13.90	Not traded during the year	
Total Debentures			5,561								

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	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilised in LKR (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 the light of the new regulatory requirements introduced in line with the Basel III accord	5,561,200,000	NA	5,561,200,000	100%	5,561,200,000	100%	-
2	Facilitate future expansion of business activities of the Bank	5,561,200,000	NA	5,561,200,000	100%	5,561,200,000	100%	-

Note: Allotted on 31 March 2019 and listed in the Colombo Stock Exchange on 08 April 2019.

11. (II) Rated unsecured subordinated redeemable debentures – June 2015

11. (II) (A) Key features of the debentures

Types of debentures	Debenture Code	ISIN	Issue price	Par value	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	LKR 100	LKR 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	LKR 63.8136	LKR 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. (II) (B) Trading details for the year ended 31 December 2019

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2019 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 %
Fixed rate - Debenture June 2015											
Type A	Listed	Annually	7,000	Not traded during the year			9.40	9.19	8.30	Not traded during the year	
Type B	Listed	Payable on date of redemption	1,914	Not traded during the year			9.4 annual compounding on the Issue Price of LKR 63.8136	9.18	8.30	Not traded during the year	
Total Debentures			8,914								

11. (II) (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	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilised in LKR (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	Strengthen the Tier II Capital Base of the Bank and maintain the Capital Adequacy requirements to facilitate future growth of the lending portfolio of the Bank	10,000,000,000	NA	10,000,000,000	100%	8,914,408,000	100%	-
2	To mobilise/raise medium term funds to match medium-term lending of the Bank	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-
3	To minimise the interest rate risk rate risk and manage the gap exposures of the Bank's assets and liabilities	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-

Note : The face value of the debentures issued is LKR 10 Bn. Of the total debentures issued, Type B debentures were issued as zero coupon bonds with a face value of LKR 100/- per debenture and an issue price of LKR 63.8136. Hence the total proceeds of the debenture is LKR 8,914 Mn.

11. (III) Rated unsecured subordinated redeemable debentures – December 2013

11. (III) (A) Key features of the debentures

Types of debentures	Debenture Code	ISIN	Issue price	Par value	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	LKR 100	LKR 100	13.90%	Annually	13.90%	19 December 2013	120 months (10 years)	31 December
Type D	NDB/BC/19/12/25D14	LK0207D21053	LKR 100	LKR 100	14.00%	Annually	14.00%	19 December 2013	144 months (12 years)	31 December

11. (III) (B) Trading details for the year ended 31 December 2019

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2019 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 %
Fixed rate - Debenture December 2013											
Type C	Listed	Annually	3,638	101.72	101.00	101.72	13.90	13.17	9.75	13.52	13.52
Type D	Listed	Annually	3,590	Not traded during the year			14.00	13.26	9.75	Not traded during the year	
Total Debentures			7,228								

11. (III) (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	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilised in LKR (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	Strengthen the Tier II Capital Base of the Bank and maintain the Capital Adequacy requirements in line with the Bank's future expansion of operations and the asset base, and facilitate the future expansion of business activities.	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-
2	To mobilise/raise medium-term funds to match medium-term lending of the Bank	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-
3	To minimise the interest rate risk and manage the gap exposures of the Bank's assets and liabilities	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-

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))

	2019	2018
Debt Equity Ratio (%)	12.09	12.08
Interest cover (Times)	1.50	1.50
Liquidity Assets Ratio (%) - Domestic Banking Unit	20.93	20.87
Liquidity Assets Ratio (%) - Foreign Currency Banking Unit	24.78	24.48
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 100%) (2018 - 90%)	162.42	168.74
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 100%) (2018 - 90%)	153.26	215.99

13. DIRECTOR'S INTEREST IN LISTED DEBENTURES AS AT 31 DECEMBER 2019

None of the Directors of the Bank had any interest in any listed debentures of the Bank as at 31 December 2019 as issued in March 2019, June 2015 and December 2013. It is also noted that none of the Directors held any listed debentures in the previous financial year (31 December 2018).

14. NDB'S CREDIT RATINGS

NDB at present engages the services of Fitch Ratings Lanka Limited for local credit ratings and the Bank's ratings are as follows.

As affirmed in September 2019

- ⊙ National long term rating: A+(lka); Negative 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

15. FINANCIAL STATEMENTS IN USD - BANK & GROUP

15.1 Statement of Profit or Loss

For the year ended 31 December	BANK			GROUP		
	2019	2018		2019	2018	
	USD '000	USD '000	%	USD '000	USD '000	%
Gross income	330,582	312,022	6	336,865	317,868	6
Interest income	297,370	270,983	10	298,639	272,617	10
Less: Interest expenses	198,343	180,534	10	198,141	180,341	10
Net interest income	99,027	90,449	9	100,498	92,276	9
Fee and commission income	21,862	19,161	14	27,229	24,119	13
Net gains/(losses) from trading	5,537	7,443	(26)	5,537	7,443	(26)
Net gains/(losses) from financial investments at fair value through profit or loss	131	(122)	1	442	600	(0)
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	3,839	2,230	0	3,839	2,230	0
Net gains/(losses) from derecognition of financial assets measured at amortised cost	51	-	1	51	-	1
Other operating income	1,792	12,327	(85)	1,129	10,859	(90)
Total operating income	132,239	131,488	1	138,725	137,528	1
Less: Impairment charges	23,252	21,878	6	24,637	23,001	7
Net operating income	108,987	109,610	(1)	114,088	114,526	(0)
Less: Operating expenses						
Personnel expenses	27,722	27,149	2	30,533	29,927	2
Depreciation and amortisation expenses	4,256	2,701	58	4,940	3,109	59
Other expenses	20,783	21,950	(5)	22,735	24,189	(6)
Total operating expenses	52,761	51,801	2	58,208	57,225	2
Operating profit before tax on financial services	56,226	57,809	(3)	55,881	57,301	(2)
Less: Tax on financial services	17,176	13,279	29	17,176	13,279	29
Operating profit after tax on financial services	39,050	44,530	(12)	38,704	44,022	(12)
Share of associate companies' profits/(losses)	-	-	-	-	-	-
Profit before taxation	39,050	44,530	(12)	38,704	44,022	(12)
Less: Income tax expenses	10,464	10,827	(3)	11,385	12,050	(6)
Profit for the year	28,586	33,703	(16)	27,319	31,972	(15)
Profit attributable to equity holders of the parent	28,586	33,703	(15)	26,709	31,118	(14)
Non-controlling interests	-	-	-	610	854	(29)
	28,586	33,703	(15)	27,319	31,972	(15)
Earnings per share basic/diluted (USD)	0.12	0.17	(29)	0.12	0.16	(28)
Dividend per share (USD)	0.04	0.05	(20)	-	-	

15.2 Statement of Comprehensive Income

For the year ended 31 December	BANK			GROUP		
	2019	2018		2019	2018	
	USD '000	USD '000	%	USD '000	USD '000	%
Profit for the year	28,586	33,898	(16)	27,319	31,972	(15)
Other comprehensive income						
Items that will be reclassified to statement of profit or loss						
Exchange differences on translation of foreign operations	-	-	-	(39)	357	(111)
Gains/(losses) from available for sale investments	-	-	-	-	-	-
Gains/(losses) on investments in debt instruments Fair value through other comprehensive income						
Net change fair value during the year	6,863	(7,396)	193	6,818	(7,325)	193
Changes in allowance for expected credit losses	187	100	88	1,481	600	147
Deferred tax effect on gains/(losses) on above financial instruments	(3,739)	3,436	(209)	(3,466)	3,388	(202)
Net gains/(losses) on Investments in above financial instruments	3,311	(3,860)	186	4,833	(3,336)	245
Gains/(losses) on cash flow hedges	(576)	706	(182)	(576)	706	(182)
Net other comprehensive income that will be reclassified to Statement of profit or loss (a)	2,736	(3,155)	187	4,218	(2,273)	286
Items that will not be reclassified to profit or loss						
Net gains/(losses) on Investments in equity Instruments - fair value through other comprehensive income	(2,107)	(910)	(132)	(2,107)	(910)	(132)
Revaluation of freehold land and buildings	1,718	-	100	1,795	184	873
Deferred tax effect on revaluation gains/(losses)	(481)	-	(100)	(459)	-	(100)
Net gains/(losses) on revaluation of freehold land and buildings	1,237	-	100	1,336	184	624
Actuarial gains/(losses) on defined benefit plans	(1,609)	467	(444)	(1,719)	457	(476)
Deferred tax effect on actuarial gains/(losses)	213	14	1,411	228	14	1,520
Net actuarial gains/(losses) on defined benefit plans	(1,396)	481	(390)	(1,490)	472	(416)
Net other comprehensive income that will not be reclassified to Statement of profit or loss (b)	(2,266)	(428)	(429)	(2,262)	(254)	(792)
Total other comprehensive income for the year, net of taxes (a+b)	469	(3,583)	113	1,956	(2,527)	177
Total comprehensive income for the year	29,055	30,315	(4)	29,274	29,445	(1)
Attributable to:						
Equity holders of the parent	29,055	30,315	(4)	28,665	28,509	(0)
Non-controlling interests	-	-	-	609	936	(35)
	29,055	30,315	(4)	29,274	29,445	(1)

15.3 Statement of Financial Position

As at 31 December	BANK			GROUP		
	2019	2018		2019	2018	
	USD '000	USD '000	%	USD '000	USD '000	%
Assets						
Cash and cash equivalents	31,424	35,871	(12)	33,506	38,801	(14)
Balances with the Central Bank of Sri Lanka	76,510	85,303	(10)	76,510	85,303	(10)
Placements with banks	34,661	83,607	(59)	34,661	83,607	(59)
Derivative financial instruments	8,795	21,607	(59)	8,795	21,607	(59)
Financial assets recognised through profit or loss - measured at fair value	5,136	10,684	(52)	19,222	22,235	(14)
Financial assets at amortised cost - loans and receivables to other customers	2,185,393	1,888,633	16	2,185,521	1,889,034	16
Financial assets at amortised cost - debt and other instruments	151,437	132,073	15	151,437	132,649	14
Financial assets measured at fair value through other comprehensive income	369,247	290,306	27	377,027	298,970	26
Investments in subsidiary companies	11,817	11,889	(1)	-	-	-
Investments in associate companies	-	-	-	-	-	-
Investment property	-	-	-	12,523	11,581	8
Intangible assets	3,789	2,084	82	3,862	2,177	77
Property, plant & equipment	16,596	14,101	18	19,643	17,253	14
Right of used assets	5,294	-	100	6,774	-	100
Current tax assets	-	-	100	129	153	100
Deferred tax assets	3,301	5,813	(43)	3,567	6,040	(41)
Other assets	14,473	12,881	12	17,786	16,091	11
Total assets	2,917,876	2,594,853	12	2,950,962	2,625,500	12
Liabilities						
Due to banks	101,269	82,565	23	101,269	82,565	23
Derivative financial instruments	4,016	15,948	(75)	4,016	15,948	(75)
Due to depositors	2,231,670	1,906,783	17	2,229,573	1,904,908	17
Due to debt securities holders	7,703	35,085	(78)	7,703	35,018	(78)
Due to other borrowers	161,664	203,243	(20)	161,664	203,243	(20)
Debt securities issued	127,321	92,246	38	127,321	92,246	38
Current tax liabilities	12,386	16,884	(27)	12,906	17,421	(26)
Deferred tax liabilities	-	-	-	3,124	2,812	11
Retirement benefit obligations	3,217	2,240	44	3,961	2,752	44
Other liabilities	51,089	47,825	7	54,033	48,495	11
Total liabilities	2,700,334	2,402,820	12	2,705,570	2,405,409	12
Equity						
Stated capital	42,343	35,497	19	42,343	35,497	19
Statutory reserve fund	10,449	8,979	16	10,449	8,979	16
Retained earnings	162,510	146,897	11	183,045	168,275	9
Other reserves	2,240	660	239	3,189	1,309	144
Total equity to equity holders of the Bank	217,542	192,033	13	239,027	214,060	12
Non-Controlling interests	-	-	-	6,365	6,030	6
Total equity	217,542	192,033	13	245,392	220,090	11
Total liabilities and total equity	2,917,876	2,594,853	12	2,950,962	2,625,500	12
Contingent liabilities and commitments	1,615,128	1,585,091	2	1,615,801	1,589,894	2
Net asset value per share (USD)	0.98	0.91	7	1.08	1.02	6

16. INTERIM FINANCIAL PERFORMANCE - BANK & GROUP

16.1 Statement of Profit or Loss

BANK LKR'000	Quarter 4 12/31/19	Quarter 3 9/30/19	Quarter 2 6/30/19	Quarter 1 3/31/19	Quarter 4 12/31/18	Quarter 3 9/30/18	Quarter 2 6/30/18	Quarter 1 3/31/18
Net Interest Income	4,616,176	4,438,792	3,991,410	4,661,387	4,177,064	3,831,049	3,445,337	3,351,190
Other operating income	1,449,267	1,593,103	1,565,012	1,331,365	1,742,459	1,709,917	1,238,022	2,058,726
Total Operating Income	6,065,443	6,031,895	5,556,421	5,992,752	5,919,523	5,540,965	4,683,359	5,409,918
Impairment charges for loans and other losses	1,291,520	988,719	1,035,921	841,621	890,605	1,159,501	621,825	909,078
Net operating income	4,773,923	5,043,176	4,520,500	5,151,131	5,028,918	4,381,464	4,061,533	4,500,841
Total operating expenses	2,281,183	2,489,844	2,431,467	2,231,989	2,332,976	2,177,554	2,036,610	1,931,587
Profit from Operations	2,492,740	2,553,332	2,089,032	2,919,142	2,695,942	2,203,910	2,024,924	2,569,253
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit Before Taxation	2,492,740	2,553,332	2,089,032	2,919,142	2,695,942	2,203,910	2,024,924	2,569,253
Taxation	(731,852)	(1,423,042)	(1,241,423)	(1,546,327)	(999,186)	(992,903)	(880,385)	(1,073,163)
Profit for the period	1,760,888	1,130,290	847,610	1,372,815	1,696,756	1,211,007	1,144,539	1,496,090
Profit Attributable to:								
Equity Holders of the parent	1,760,888	1,130,290	847,610	1,372,815	1,696,756	1,211,007	1,144,539	1,496,090
Non-Controlling Interests								
	1,760,888	1,130,290	847,610	1,372,815	1,696,756	1,211,007	1,144,539	1,496,090
Basic Earnings per share (LKR)	7.94	5.10	3.82	6.19	8.70	7.09	6.81	8.80

GROUP LKR'000	Quarter 4 12/31/19	Quarter 3 9/30/19	Quarter 2 6/30/19	Quarter 1 3/31/19	Quarter 4 12/31/18	Quarter 3 9/30/18	Quarter 2 6/30/18	Quarter 1 3/31/18
Net Interest Income	4,679,316	4,503,956	4,060,592	4,726,917	4,257,972	3,903,285	3,514,676	3,427,796
Other operating income	1,899,999	1,857,664	1,788,731	1,289,157	2,215,270	1,885,048	1,490,114	1,859,097
Total Operating Income	6,579,315	6,361,620	5,849,323	6,016,074	6,473,242	5,788,333	5,004,790	5,286,893
Impairment charges for loans and other losses	1,356,868	1,004,191	1,088,550	955,867	995,475	1,238,024	627,644	903,715
Net operating income	5,222,447	5,357,429	4,760,773	5,060,207	5,477,767	4,550,309	4,377,146	4,383,178
Total operating expenses	2,502,140	2,745,001	2,697,537	2,463,808	2,577,521	2,399,438	2,249,802	2,139,819
Profit from Operations	2,720,307	2,612,428	2,063,236	2,596,399	2,900,246	2,150,871	2,127,344	2,243,359
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit Before Taxation	2,720,307	2,612,428	2,063,236	2,596,399	2,900,246	2,150,871	2,127,344	2,243,359
Taxation	(817,490)	(1,450,901)	(1,267,821)	(1,571,143)	(1,070,335)	(1,031,005)	(905,203)	(1,139,290)
Profit for the period	1,902,817	1,161,527	795,415	1,025,256	1,829,911	1,119,866	1,222,141	1,104,069
Profit Attributable to:								
Equity Holders of the parent	1,838,650	1,147,524	781,893	1,007,869	1,740,396	1,103,686	1,205,080	1,087,006
Non-Controlling Interests	64,167	14,003	13,522	17,387	89,515	16,180	17,061	17,063
	1,902,817	1,161,527	795,415	1,025,256	1,829,911	1,119,866	1,222,141	1,104,069
Basic Earnings per share (LKR)	8.29	5.17	3.53	4.54	8.92	6.49	7.15	6.49

16.2 Statement of Financial Position

BANK LKR'000	As at 31/12/2019	As at 30/09/2019	As at 30/06/2019	As at 31/03/2019	As at 31/12/2018	As at 30/09/2018	As at 30/06/2018	As at 31/03/2018
Cash and cash equivalents	25,881,090	24,896,475	24,966,879	33,100,656	37,321,271	37,098,151	23,153,106	21,316,657
Net Loans and Advances	396,648,811	377,934,146	361,362,794	350,905,687	344,203,289	328,080,201	301,414,320	282,046,773
Investments	95,436,391	93,327,727	94,950,845	88,789,359	81,092,627	83,741,652	85,104,477	85,037,922
Other Assets	11,628,136	9,206,389	8,936,618	9,808,095	10,294,743	8,971,506	6,993,513	7,249,205
Total	529,594,428	505,364,738	490,217,138	482,603,799	472,911,930	457,891,510	416,665,416	395,650,557
Customer Deposits	405,048,024	374,213,903	354,619,371	351,017,173	347,511,223	328,685,395	297,177,651	284,159,753
Borrowings	72,229,185	80,707,360	86,969,250	82,204,707	75,294,488	84,476,702	77,102,086	69,156,434
Other Liabilities	12,833,383	13,202,848	12,387,372	14,078,881	15,108,178	12,561,437	11,482,243	12,643,447
Shareholders Funds	39,483,836	37,240,627	36,241,145	35,303,036	34,998,042	32,167,976	30,903,437	29,690,923
Total	529,594,428	505,364,738	490,217,138	482,603,798	472,911,930	457,891,510	416,665,416	395,650,557
Net Asset Value	178.02	167.90	163.40	159.17	166.41	181.27	174.14	167.31

GROUP LKR'000	As at 31/12/2019	As at 30/09/2019	As at 30/06/2019	As at 31/03/2019	As at 31/12/2018	As at 30/09/2018	As at 30/06/2018	As at 31/03/2018
Cash and cash equivalents	26,258,981	25,242,264	25,349,352	33,428,984	37,855,130	37,410,681	23,237,451	37,855,130
Net Loans and Advances	396,672,025	378,030,221	361,434,697	350,977,984	344,276,363	328,180,924	301,481,336	344,276,363
Investments	99,404,951	94,920,270	96,715,316	90,879,064	82,714,982	85,677,000	87,321,330	82,714,982
Other Assets	13,263,670	12,739,340	12,313,307	11,837,897	13,650,830	11,833,234	9,853,349	13,581,735
Total	535,599,627	510,932,095	495,812,672	487,123,929	478,497,303	463,101,839	421,893,466	478,428,210
Customer Deposits	404,667,529	373,776,623	354,196,267	350,652,339	347,169,564	328,394,548	296,843,429	347,169,564
Borrowings	72,229,185	80,707,360	86,969,249	82,191,623	75,282,300	84,465,692	77,091,076	75,282,300
Other Liabilities	14,164,283	14,349,801	13,601,894	14,967,479	15,933,957	13,204,012	12,121,504	15,864,862
Shareholders Funds	43,383,350	40,995,161	39,959,087	39,058,112	39,012,447	36,051,302	34,877,605	39,012,447
Non Controlling Interests	1,155,280	1,103,154	1,086,177	1,113,193	1,099,037	986,284	959,852	1,099,037
Total	535,599,627	510,932,099	495,812,672	487,982,744	478,497,303	463,101,836	421,893,464	478,428,208
Net Asset Value	195.60	184.83	180.16	176.10	185.49	203.15	196.53	185.49

17. TEN YEARS AT A GLANCE (GROUP PERFORMANCE)

17.1 Statement of Profit or Loss - Group

LKR Mn	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Income											
Net Interest Income	4,233	4,163	4,910	5,896	7,012	7,913	7,807	8,861	11,086	15,103	17,971
Other Operating Income	2,560	2,785	3,012	9,042	4,537	5,053	5,484	4,816	5,597	7,450	6,835
Total Operating Income	6,793	6,948	7,922	14,938	11,549	12,966	13,291	13,677	16,683	22,553	24,806
Impairment for loans & receivables and other losses	373	(172)	(88)	51	1,261	529	746	1,425	1,290	3,764	4,405
Net Operating Income	6,420	7,119	8,010	14,887	10,288	12,437	12,545	12,252	15,393	18,789	20,401
Less Operating Expenses											
Personnel Costs	1,300	1,567	2,118	2,333	2,660	3,172	3,634	3,793	4,025	4,899	5,460
Other Operating costs	1,370	1,496	1,863	2,163	2,904	2,738	3,196	3,366	4,176	4,468	4,949
Total Operating Expenses	2,670	3,063	3,981	4,496	5,564	5,911	6,830	7,159	8,201	9,367	10,409
Operating Profit Before Share of Associate											
Co's Profit Before Tax	3,750	4,056	4,030	10,391	4,724	6,527	5,715	5,094	7,192	9,422	9,992
Share of Associate Co's Profit	526	295	331	439	49	97	78	-	-	-	-
Profit Before Taxation	4,276	4,351	4,361	10,830	4,773	6,624	5,793	5,094	7,192	9,422	9,992
Taxation	(2,154)	(2,175)	(1,597)	(1,898)	(2,061)	(2,378)	(2,123)	(2,279)	(3,797)	(4,146)	(5,107)
Profit After Taxation	2,121	2,176	2,764	8,932	2,712	4,246	3,670	2,815	3,395	5,276	4,885
Minority Interest	(37)	(73)	(235)	(78)	(70)	(112)	(128)	(124)	57	(140)	(109)
Profit Attributable to Group	2,085	2,103	2,528	8,854	2,642	4,134	3,542	2,691	3,453	5,136	4,776

17.2 Statement of Financial Position - Group

LKR Mn	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assets											
Liquid assets	8,243	5,586	7,651	13,269	8,139	12,737	20,002	20,252	21,549	37,855	26,259
Investments	32,128	20,021	27,359	32,499	55,614	72,971	77,257	84,437	83,062	82,715	99,405
Loans & Advances	54,107	78,452	102,019	124,311	137,523	175,547	209,768	227,717	274,079	344,276	396,672
Investments in Associate Companies	1,724	1,763	1,797	33	77	-	-	-	-	-	-
Property & Equipment	806	918	1,504	1,541	1,473	2,550	2,730	2,913	3,314	3,541	4,266
Investment Property	1,200	1,200	1,296	1,296	1,384	1,546	1,672	1,776	1,895	2,111	2,273
Other Assets	1,075	691	962	1,154	2,608	3,780	3,925	3,637	4,747	7,930	6,725
Goodwill	4	4	-	-	-	-	-	-	-	-	-
Total Assets	99,286	108,635	142,588	174,103	206,818	269,130	315,354	340,732	388,645	478,428	535,600
LIABILITIES											
Borrowings	29,561	28,631	38,973	36,630	47,344	80,768	92,331	96,279	68,617	78,189	72,958
Deposits with customers	49,948	60,533	82,094	107,394	129,423	151,485	184,152	203,516	273,041	347,170	404,668
Non life insurance reserves	-	-	-	-	-	-	-	-	-	-	-
Longterm Insurance Fund	-	-	-	-	-	-	-	-	-	-	-
Taxation	560	633	397	713	625	1,416	1,237	1,597	3,372	3,618	2,909
Other Liabilities	4,334	2,826	3,286	3,657	4,062	6,662	8,233	8,326	9,637	9,340	10,527
Total Liabilities	84,403	92,623	124,750	148,394	181,454	240,331	285,953	309,718	354,667	438,317	491,062
SHAREHOLDERS' FUNDS											
Stated Capital	1,033	864	864	864	944	1,145	1,163	1,246	2,209	6,469	7,685
Statutory Reserves	819	879	879	879	959	1,011	1,243	1,246	1,336	1,636	1,896
Other Reserves	-	-	387	924	1,880	1,474	1,000	497	923	239	579
Retained Earnings	12,345	13,552	14,796	22,216	20,733	24,246	24,976	26,946	28,544	30,668	33,233
Total Shareholders' Funds	14,197	15,295	16,926	24,883	24,516	27,876	28,382	29,937	33,012	39,012	43,383
Minority Interest	687	717	913	826	848	923	1,019	1,077	966	1,099	1,155
Total Funds Employed	14,883	16,012	17,838	25,709	25,364	28,799	29,401	31,013	33,978	40,111	44,538
Total Liabilities & Funds Employed	99,286	108,635	142,588	174,103	206,818	269,130	315,354	340,732	388,645	478,428	535,600

17.3 Share Information - Group

Share Information	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Market price per share (LKR)	206.00	174.50	138.10	138.10	161.50	250.00	194.10	156.00	136.40	106.80	100.00
Basic Earnings per share (LKR)	12.75	12.81	15.79	55.31	16.48	25.14	21.51	16.29	20.29	26.33	20.53
Interim Dividends per share (LKR)	-	4.00	3.50	5.00	5.00	7.00	7.00	-	2.00	-	N/A
Final Dividends per share (LKR)	8.00	4.50	4.00	10.00	5.00	4.00	4.00	8.00	7.00	8.00	7.00
Total Dividends per share (LKR)	8.00	8.50	7.50	15.00	10.00	11.00	11.00	8.00	9.00	8.00	7.00
Dividend cover (Times)	3.77	2.19	2.05	3.69	1.65	2.29	1.96	2.04	2.18	3.29	2.93
Price earnings ratio (Times)	8.08	13.63	8.97	2.56	9.74	9.94	9.02	9.58	6.93	4.06	4.87
Book value per share (LKR)	86.72	93.15	103.08	151.54	148.85	169.35	172.35	181.23	192.51	185.49	195.60

18. COMPLIANCE REPORT IN TERMS OF SECTION 7.6 - CONTENTS OF THE ANNUAL REPORT IN TERMS OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE.

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 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value;	N/A
7.6 (xiii)	If during the year the Entity has raised funds either through a public issue, Rights Issue, and private placement;	
	a. a statement as to the manner in which the proceeds of such issue has been utilised.	N/A
	b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and,	412
	c. any material change in the use of funds raised through an issue of Securities.	N/A
7.6 (xiv)	a. Employee share option schemes	411
	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.	324 - 365
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	347

19. SHAREHOLDER ENQUIRES AND COMMUNICATIONS

Investor Relations Team

Ms. Suvendrini Muthukumarana
Vice President – Finance
Tel.: + 94 112 448 448 / Ext. 35301
Fax: + 94 112 341 047
Email: investor.relations@ndbbank.com

Company Secretarial Division

Ms. Shehani Ranasinghe
Vice President / Company Secretary
Tel.: + 94 112 448 448 / Ext. 35013
Fax: + 94 112 341 050
Email: shehani.ranasinghe@ndbbank.com

Address: National Development Bank PLC, No. 40, Nawam Mawatha, Colombo 02, Sri Lanka.

BRANCH NETWORK OF THE BANK

Branch Name	Branch Code	Address	Week day- Time Opened
Akkaraipattu	94	No. 487, Main Street, Akkaraipattu	Monday to Friday 9.00am to 4.00pm
Akuressa	65	No. 21, Main Street, Akuressa	Monday to Friday 9.00am to 4.00pm
Aluthgama	59	No. 267, Galle Road, Aluthgama	Monday to Friday 9.00am to 4.00pm
Ambalangoda	47	No : 333, Galle Road, Ambalangoda	Monday to Friday 9.00am to 4.00pm
Ambalantota	48	No. 127, Main Street, Ambalantota	Monday to Friday 9.00am to 4.00pm
Ampara	40	No 75, D S Sennanayake Street, Ampara	Monday to Friday 9.00am to 4.00pm
Anuradhapura	19	522/C, Maithreepala Senanayake Mw, New Town, Anuradhapura	Monday to Friday 9.00am to 4.00pm
Athurugiriya	71	70/15A, Borella Road, Athurugiriya	Monday to Friday 9.00am to 4.00pm
Avissawella	34	No. 93, Ratnapura Road, Avissawella	Monday to Friday 9.00am to 4.00pm
Badulla	18	242, Lower Street, Badulla	Monday to Friday 9.00am to 4.00pm
Balangoda	77	No 24 A, Barns Ratwatte Mawatha, Balangoda	Monday to Friday 9.00am to 4.00pm
Bandarawela	51	No : 317, Main Street, Bandarawela	Monday to Friday 9.00am to 4.00pm
Battaramulla	90	No 245, Main Street, Battaramulla.	Monday to Friday 9.00am to 4.00pm
Batticaloa	39	No 16, Liyods Avenue, Batticaloa.	Monday to Friday 9.00am to 4.00pm
Boralesgamuwa	72	No 39, Kesbawa Road, Boralesgamuwa	Monday to Friday 9.00am to 4.00pm
Borella	52	No: 31/5, Dr. N M Perera Mawatha, Borella	Monday to Friday 9.00am to 6.00pm
Chavakachcheri	99	No. 1,3,5, Kandy Road, Chavakachcheri	Monday to Friday 9.00am to 4.00pm
Chenkalady	93	Trincomalee Road, Chenkalady.	Monday to Friday 9.00am to 4.00pm
Chilaw	10	50-52, Skyline Building, Colombo Road, Chilaw	Monday to Friday 9.00am to 4.00pm
Chunnakam	62	No: 30, K.K.S. road, Chunnakam	Monday to Friday 9.00am to 4.00pm
Colombo 7	100	103A, Dharmapala Mawatha, Colombo 7	Monday to Friday 9.00am to 6.00pm
Dambulla	64	No: 42, Kurunegala road, Dambulla	Monday to Friday 9.00am to 4.00pm
Digana	114	No 59/6, Gonawala Road, Digana.	Monday to Friday 9.00am to 4.00pm
Eheliyagoda	78	No: 153, Main street, Ehaliyagoda.	Monday to Friday 9.00am to 4.00pm
Elpitiya	67	No. 23, Ambalangoda Road, Elpitiya	Monday to Friday 9.00am to 4.00pm
Embilipitiya	58	No. 67, Pallegama, Embilipitiya	Monday to Friday 9.00am to 4.00pm
Fort	113	No, 39, Canal Row, Colombo 01.	Monday to Friday 9.00am to 6.00pm
Galle	21	1/A, Abeysekara Building, Wakwella Road, Galle	365 Day Banking (9.00am to 7.00pm)
Gampaha	29	153, Colombo Road, Gampaha	Monday to Friday 9.00am to 6.00pm
Gampola	50	No: 75, Nuwara Eliya Road, Gampola	Monday to Friday 9.00am to 4.00pm
Giriulla	86	No 86, Negombo Road Giriulla.	Monday to Friday 9.00am to 4.00pm
Hambanthota	57	No: 34, Wilmot street, Hambantota	Monday to Friday 9.00am to 4.00pm
Hanwella	96	No. 138 A, Colombo Road, Hanwella	Monday to Friday 9.00am to 4.00pm
Havelock Town	3	117, Havelock Road, Colombo 05	365 Day Banking (9.00am to 6.00pm)
Hendala	88	No 46A Hendala Road, Hendala	Monday to Friday 9.00am to 4.00pm
Hingurakgoda	102	No 10, Airport Road, Hingurakgoda	Monday to Friday : 9.00 am to 4.00 pm
Homagama	30	64A, Highlevel Road, Homagama	Monday to Friday 9.00am to 4.00pm
Horana	27	135, Panadura Road, Horana	Monday to Friday 9.00am to 4.00pm
Ja - Ela	44	No.121, Colombo Road, Ja-Ela	Monday to Friday 9.00am to 6.00pm
Jaffna	37	No 62/6, Stanley Road, Jaffna	Monday to Friday 9.00am to 4.00pm
Kadawatha	26	147, Kandy Road, Kadawatha	Monday to Friday 9.00am to 4.00pm
Kaduruwela	60	No: 300/2, Sawmill Junction, Kaduruwela, Polonnaruwa	Monday to Friday 9.00am to 4.00pm
Kaduwell	55	No: 501/2, Awissawella Road, Kaduwela	Monday to Friday 9.00am to 4.00pm
Kahawatte	84	No 149, Main Street, Kahawatte	Monday to Friday 9.00am to 4.00pm
Kalmunai	53	No: 165, Batticaloa Road, Kalmunai	Monday to Friday 9.00am to 4.00pm
Kalutara	16	290. Galle Road, Kalutara South	Monday to Friday 9.00am to 4.00pm
Kandana	28	54, Negombo Road, Kandana	Monday to Friday 9.00am to 6.00pm

BRANCH NETWORK OF THE BANK

Branch Name	Branch Code	Address	Week day- Time Opened
Kandy	2	No 133, Kotugodella Veediya, Kandy	Monday to Friday 9.00am to 4.00pm
Kandy City Centre	80	L 1 - 3, Level 1, Kandy City Center, No . 05, Dalada weediya, Kandy	365 Day Banking (9.00am to 6.00pm)
Katana	109	No.05, Koongashandiya, Katana	Monday to Friday 9.00am to 4.00pm
Katugastota	110	No 111, Kurunegala Road, Katugastota	Monday to Friday 9.00am to 4.00pm
Katunayake	82	No 745, Baseline Road, Aweriwatta, Katunayaka	Monday to Friday 9.00am to 6.00pm
Kegalle	17	261/1, Kandy Road, Kegalle	Monday to Friday 9.00am to 4.00pm
Kekirawa	83	No 61, Opposite Government Hospital, Main Street, Kekirawa	Monday to Friday 9.00am to 4.00pm
Kiribathgoda	25	No. 540, New Hunupitiya Road, Dalugama, Kelaniya	Monday to Friday 9.00am to 6.00pm
Kochchikade	89	No 96,Chilaw Road,Kochchikade.	Monday to Friday 9.00am to 4.00pm
Kohuwela	32	No. 118, S De S Jayasinghe Mawatha, Kohuwela	Monday to Friday 9.00am to 6.00pm
Kollupitiya	14	712, Galle Road, Colombo 3	Monday to Friday 9.00am to 4.00pm
Kotahena	24	295, George R De Silva Mw, Colombo 13	Monday to Friday 9.00am to 6.00pm
Kottawa	111	365/1 A, High Level Road, Kottawa	Monday to Friday 9.00am to 4.00pm
Kuliapitiya	42	No 133, Main Street, Kuliapitiya	Monday to Friday 9.00am to 4.00pm
Kurunegala	7	6, Rajapihilla Mw, Kurunegala	Monday to Friday 9.00am to 6.00pm
Maharagama	12	108 A, Highlevel Road, Maharagama	Monday to Friday 9.00am to 6.00pm
Mahawewa	105	Chilaw Road, Mahawewa.	Monday to Friday 9.00am to 4.00pm
Mahiyanganaya	75	No: 02,New Town, Mahiyanganaya	Monday to Friday 9.00am to 4.00pm
Malabe	31	760, New Kandy Road, Malabe	Monday to Friday 9.00am to 4.00pm
Manipay	97	No.260, Manipay Road, Manipay	Monday to Friday 9.00am to 4.00pm
Marine Drive	103	42, Sagara Road, Marine Drive, Colombo 4	Monday to Friday 9.00am to 6.00pm
Matale	46	No : 144, Main Street, Matale	Monday to Friday 9.00am to 4.00pm
Matara	6	60, Uyanwatte Rd,Matara	Monday to Friday 9.00am to 4.00pm
Mathugama	45	No. 98, Agalawatta Road, Mathugama	Monday to Friday 9.00am to 4.00pm
Minuwangoda	63	No: 49, Negombo Road, Minuwangoda	Monday to Friday 9.00am to 4.00pm
Monaragala	70	No: 29, Pothuwil Road, Monaragala	Monday to Friday 9.00am to 4.00pm
Moratuwa	15	255, Galle Road, Idama, Moratuwa	Monday to Friday 9.00am to 6.00pm
Mount Lavinia	20	No 431/433, Galle Road, Mount Lavinia	365 Day Banking (9.00am to 6.00pm)
Narahrenpita	74	193, Kirula Road, Narahrenpita, Colombo 5.	Monday to Friday 9.00am to 6.00pm
Narammala	91	No 144, Kurunegala Road, Narammala	Monday to Friday 9.00am to 4.00pm
Nattandiya	95	No 82, Marawila Road, Nattandiya.	Monday to Friday 9.00am to 4.00pm
Nawalapitiya	61	No 70B, Gampola Road, Nawalapitiya	Monday to Friday 9.00am to 4.00pm
Nawam Mawatha	1	No 40, Nawam Mw, Colombo 02	Monday to Friday 9.00am to 6.00pm
Negombo	9	No. 121, St.Joseph Street, Negombo	Monday to Friday 9.00am to 6.00pm
Nelliady	66	109, Jaffna Road, Nelliady	Monday to Friday 9.00am to 4.00pm
Nikaweratiya	69	No:65, Puttalam Road, Nikaweratiya	Monday to Friday 9.00am to 4.00pm
Nittambuwa	54	No 496, Kandy Road, Nittambuwa	Monday to Friday 9.00am to 4.00pm
Nugegoda	4	152,Nawala Rd, Nugegoda	Monday to Friday 9.00am to 6.00pm
Nuwara Eliya	76	No 50/2,Siva Complex,Block C, Lawson Street, Nuwaraeliya	Monday to Friday 9.00am to 4.00pm
Old Moor Street	79	No : 311, Old Moor Street, Colombo 12	Monday to Friday 9.00am to 6.00pm
Panadura	35	No. 319, Galle Road, Panadura	Monday to Friday 9.00am to 6.00pm
Pelawatte	22	301, Pannipitiya Road, Battaramulla	Monday to Friday 9.00am to 4.00pm
Pettah	43	No, 137,133/1, Main Street, Colombo 11	Monday to Friday 9.00am to 6.00pm
Pilimathalawa	49	No: 240, Colombo Road. Pilimathalawa	Monday to Friday 9.00am to 4.00pm
Piliyandala	23	No 120, Horana Road, Piliyandala.	Monday to Friday 9.00am to 4.00pm

Branch Name	Branch Code	Address	Week day- Time Opened
Pitakotte	87	No 322B, Kotte Road, Pitakotte	Monday to Friday 9.00am to 4.00pm
Private Wealth Centre	112	No 135, Rainbow Business Centre, Bauddhaloka Mawatha, Colombo 04	Monday to Friday 9.00am to 6.00pm
Puttalam	33	104, Kurunegala Road, Puttalam	Monday to Friday 9.00am to 4.00pm
Rajagiriya	5	505, Sriyawardanapura Etul Kotte, Kotte	365 Day Banking (9.00am to 7.00pm)
Ratmalana	73	No 151, Galle Road, Ratmalana	Monday to Friday 9.00am to 4.00pm
Ratnapura	13	No 211, Main Street, Rathnapura	Monday to Friday 9.00am to 4.00pm
Tangalle	116	No 90A, Matara Road, Tangalle.	Monday to Friday 9.00am to 4.00pm
Thambuttegama	104	No 255A, Main Street, Thambuttegama	Monday to Friday : 9.00 am to 4.00 pm
Thirunelveli	98	No, M102, Palaly Road, Jaffna	Monday to Friday 9.00am to 4.00pm
Tissamaharama	92	No. 133 E, New Town, Tissamaharama	Monday to Friday 9.00am to 4.00pm
Trincomalee	38	No 91& 93, North Coast Road, Trincomalee	Monday to Friday 9.00am to 4.00pm
Uragasmanhandiya	81	No 131, Main Street, Uragasmanhandiya	Monday to Thursday 9.00am to 4.00pm / Friday 9.00am to 6.00pm
Vauniya	41	188, 190, 192 & 190/1, Kandy Road, Vavuniya.	Monday to Friday 9.00am to 4.00pm
Warakapola	101	No. 96 & 98, Main Street, Warakapola	Monday to Friday 9.00am to 4.00pm
Wariyapola	56	Navinna Bldg, Puttalam Road, Wariyapola	Monday to Friday 9.00am to 4.00pm
Wattala	11	378A, Negombo Road, Wattala	Monday to Friday 9.00am to 6.00pm
Wellawatte	8	302, Galle Road, Colombo 6	Monday to Friday 9.00am to 6.00pm
Wennappuwa	36	No 204, Chilaw Road, Wennappuwa	Monday to Friday 9.00am to 4.00pm
Yakkala	68	65/5 B, Kandy Road, Yakkala	Monday to Friday 9.00am to 4.00pm

REGIONAL MANAGERS DETAILS

	Region	Regional Office	Regional Manager	RM Mobile	General Number
1	Colombo Region	Borella	Sydney Downall	0773 266 675	011 2 685 711 / 2
2	Greater Colombo Region	Narahenpita	Chandima Alwis	0773 659 373	011 2 369 321
3	Southern Region	Matara	Thilina Hewage	0772347953	041 2 227 161 / 3
4	North Western Region	Ja Ela	Romesh Tissera	0773 457 422	011 2 071 493
5	North Central Region	Kurunegala	Sisira Herath	0772 017 636	037 4 692 421
6	Central Region	Kandy	Nalin Abeyratne	0777 418 714	081 2 238 786
7	Uva - Sabaragamuwa Region	Ratnapura	Vinjaya Jayasinghe	0772 352 269	045 2 223 839
8	North East Region	Jaffna	Brinthapan Selvanayakam	0777 571 968	021 2 217 395

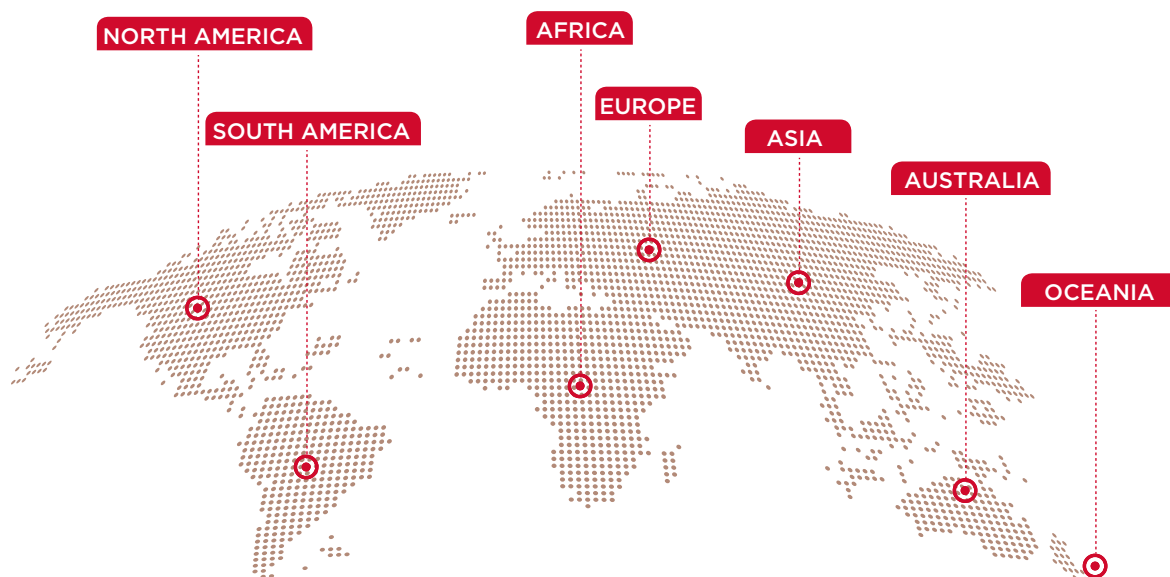
REGIONAL OPERATIONS MANAGERS DETAILS

	Region	Regional Office	Regional Manager	RM Mobile	General Number
1	Colombo Region	Borella	Nirmalan Gomes	0772 356796	0112 672008
2	Greater Colombo Region	Narahenpita	Sanjiva Peiris	0773 457441	0112 369323 / 5
3	Southern Region	Matara	Sumith Kahaduwarachchi	0772 440704	0412 227161 / 3
4	North Western Region	Ja Ela	Chaturika Gunaratne	0777 697518	0112 071491 / 2
5	North Central Region	Kurunegala	Thanuja Dayarathna	0775 094381	0374 692421
6	Central Region	Kandy	Nilamdeen Ahamath	0773 268462	0812 228633 / 6
7	Uva - Sabaragamuwa Region	Ratnapura	Kasun Bandara	0775 584314	0452 230912
8	North East Region	Jaffna	Jacob Louis	0774 454777	0212 217396

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 4	Mr. Isuru Somarathna	0777745591	0112-300393	isuru@ndbib.com
NBD Investment Bank Limited	Level 1, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 4	Mr. Darshan Perera	011-2300385	011-2300393	darshan@ndbib.com
NDB Wealth Management Limited	Level G, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 4	Mr. Prabodha Samarasekera	011-2303232	011-2303237	contact@ndbinvestors.com
NDB Securities [Pvt] Limited	Level 2, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 4	Mr. Gihan R. Cooray	011-2131000/05	011-2314181	gihan@ndbs.lk
NDB Capital Limited [Bangladesh]	Bilquis Tower (5th Floor), Plot 6, Gulshan 2, Dhaka 1212, Bangladesh	Mr. Kanti Kumar Saha	+880-2-9888626	+880-2-9888906	info@ndbcapital.com
NDB Zephyr Partners Lanka (Private) Limited	No. 48/5/1 (West Wing), Parkway Building, Park Street, Colombo 02	Mr. Senaka Kakiriwaragodage	0112-303810	0112-307155	sk@emeraldfundsl.com
NDB Zephyr Partners Limited	IFS Court, Bank Street, TwentyEight Cybercity, Ebène 72201, Republic of Mauritius	Ms. Jema Gangalaramsamy	+230 467 3000	+230 467 4000	Jema.Gangalaramsamy@sannegroup.mu
Development Holdings [Pvt] Limited	No.42, NDB EDB Tower (2nd floor), Nawam Mawatha, Colombo 02	Mr. Kumudu Priyanga	011-2300174	011-2300174	manager.dhpl42@gmail.com

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
Vietnam
United Arab Emirates

AFRICA
Algeria
Cameroon
Congo
Egypt
Côte d'Ivoire
Gabon
Kenya
Madagascar
Mauritania
Mauritius
Morocco
Nigeria
Senegal
Seychelles
South Africa
Tanzania
Tunisia
Zambia

AUSTRALIA
Australia

OCEANIA
New Zealand

SOUTH AMERICA
Bolivia
Brazil
Chile
Colombia
Peru
Uruguay

NORTH AMERICA
Bahamas
Canada
Mexico
United States

EUROPE
Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Guernsey CI
Hungary
Ireland
Italy
Latvia
Luxembourg
Moldova
Monaco
Netherlands
Norway
Poland
Portugal
Romania
Slovakia
Slovenia
Spain
Sweden
Switzerland
Ukraine
United Kingdom

GRI Standard	Disclosure	Page number	Omission
GRI 101: FOUNDATION 2016 (DOES NOT INCLUDE ANY DISCLOSURES)			
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of Organisation	16	
	102-2 Activities, brands, products and services	51,121	
	102-3 Location of headquarters	441	
	102-4 Location of operations	50	
	102-5 Ownership and legal form	441	
	102-6 Markets served	114-115	
	102-7 Scale of the organisation	20-21	
	102-8 Information on employees and other workers	105	
	102-9 Supply chain	122	
	102-10 Significant changes to the organisation and supply chain	16	
	102-11 Precautionary principle or approach	56	
	102-12 External initiatives	16	
	102-13 Membership of associations	122	
	102-14 Statement from senior decision maker	26-29	
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	102-18 Governance Structure	141	
	102-40 List of stakeholder groups	64-66	
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	102-43 Approach to stakeholder engagement	64-67	
	102-44 Key topics and concerns raised	64-67	
	102-45 Entities included in the Consolidated Financial Statements	202	
	102-46 Defining report content and topic boundary	16,68	
	102-47 List of material topics	132,133	
	102-48 Restatement of information	16	
	102-49 Changes in reporting	68	
	102-50 Reporting period	16	
	102-51 Date of most recent report	16	
	102-52 Reporting cycle	16	
	102-53 Contact point for questions regarding Report	17	
	102-54 Claims of reporting in accordance with GRI Standards	16	
	102-55 GRI context index	430-432	
	102-56 External assurance	17,131	
Topic specific disclosures			
Economic Performance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	63,82	
	103-3 Evaluation of the Management Approach	63,82	
GRI 201: Economic Performance 2016	201-1- Direct economic value generated and distributed	82	
	201-2- Financial implications and other risks and opportunities due climate change	63,130	
	201-3 Defined benefit plan obligations and other retirement plans	217	
Market Presence			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	104-106	
	103-3 Evaluation of the Management Approach	104-106	
GRI 202: Market Presence 2016	202-2: Proportion of senior management hired from local community	106	

GRI Standard	Disclosure	Page number	Omission
Materials			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	126-127,129	
	103-3 Evaluation of the Management Approach	126-127,129	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	129	
Energy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	126-128	
	103-3 Evaluation of the Management Approach	126-128	
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	128	
Emissions			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	126-128	
	103-3 Evaluation of the Management Approach	126-128,130	
GRI 305 Emissions: 2016	305-1 Direct greenhouse gas (GHG) emissions	130	
	305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	130	
	305-3 Other indirect greenhouse gas (GHG) emissions (Scope 3)	130	
	305-4 GHG emission intensity	21	
Effluents and Waste			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	126-127,129	
	103-3 Evaluation of the Management Approach	126-127,129	
GRI 306: Effluents and Waste	306-2 Waste by type and disposal method	129	
Employment			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	132	
	103-2 The Management Approach and its components	104-106,108	
	103-3 Evaluation of the Management Approach	104-106,108,111	
GRI 401: Employment 2016	401-1 New employees hires and turnover	106,111	
	401-2 Benefits provided to full time employees that are not provided to temporary or part-time employees	108	
Labour Management Relations			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	132	
	103-2 The Management Approach and its components	104-105	
	103-3 Evaluation of the Management Approach	104-105,107	
GRI 402: Labour Management Relations 2016	402-1 Minimum notice periods regarding operational changes	107	
Training and education			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	132	
	103-2 The Management Approach and its components	104-105, 108-109	
	103-3 Evaluation of the Management Approach	104-105, 108-109	
GRI 404: Training and education	404-1 Average hours of training per year per employee	109	
	404-2 Programmes for upgrading skills and transition assistance programmes	109	
	404-3 Percentage of employees receiving regular performance and career development reviews	108	

GRI Standard	Disclosure	Page number	Omission
Diversity and equal opportunity			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	132	
	103-2 The Management Approach and its components	104-105,110	
	103-3 Evaluation of the Management Approach	104-105,110	
GRI 405: Diversity and equal opportunity 2016	405-2 Ratio of basic salary and remuneration of women to men	110	
Local Communities			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	119,123-125	
	103-3 Evaluation of the Management Approach	119,123-125	
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments and development programmes	123-125	
Marketing and labelling			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	132	
	103-2 The Management Approach and its components	119-122	
	103-3 Evaluation of the Management Approach	119-122	
GRI 417: Marketing and labelling	417-1 Requirements for product and service information and labelling	121	
	417-2 Incidents of non-compliance concerning product and service information and labelling	121	
	417-3 Incidents of non-compliance concerning marketing communications	121	
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	133	
	103-2 The Management Approach and its components	119-122	
	103-3 Evaluation of the Management Approach	119-122	
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints regarding breaches of customer privacy and losses of customer data	121	

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 loss 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 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, vehicle loans 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.

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.

Equity Linked Compensation Plan (ELCP) / 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 gain 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 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 including the tax withheld.

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.

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 interest earning 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.

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 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 Capitals

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 Fifteenth (15) Annual General Meeting of National Development Bank PLC (the Bank) will be held at the Auditorium of the NDB-EDB Tower, 3rd Floor, No. 42, Nawam Mawatha, Colombo 02 at 02.30 p.m. on Monday, the Thirtieth (30) day of March, Two Thousand and Twenty (2020) 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 2019.
2. To reappoint Mr. Bernard Sinniah in terms of Article 44 (2) of the Articles of Association of the Bank.
3. To reappoint Dr. Dinusha Panditaratne in terms of Article 44 (2) of the Articles of Association of the Bank.
4. To reappoint Mr. Sujeewa Mudalige in terms of Article 44 (2) of the Articles of Association of the Bank.
5. To re-elect Mr. Dinal Phillips, PC as a Director in terms of Article 42 of the Articles of Association of the Bank.
6. 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.
7. 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.
8. To authorise the Board of Directors to determine donations for the financial year 2020 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,



Ms. Shehani Ranasinghe
Company Secretary

27 January 2020
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 be deposited at the Head Office of the Bank, at No. 40, Nawam Mawatha, Colombo 02 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. Shareholders/Proxy holders attending the meeting are requested to bring their National Identity Cards.
5. Voting shall be by any one of the following methods as determined by the Chairman of the meeting unless a poll is demanded;
 - I. voting by voice
 - II. voting by show of hands (every member who is 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 must 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.

CORPORATE INFORMATION

NAME

National Development Bank PLC

COMPANY REGISTRATION NUMBER

PQ 27

REGISTERED LOGO



LEGAL FORM

Established under the National Development Bank of Sri Lanka Act No. 02 of 1979 and incorporated as a company under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 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, June 2015 and March 2019 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)/Negative Outlook - Fitch Ratings Lanka Limited

Basel II compliant subordinated debentures:

Basel III debentures rating:

A (Ika) - Fitch Ratings Lanka Limited

BOARD OF DIRECTORS AND BOARD SUB COMMITTEES

Board of Directors (up to date)

Mr. Kavan Ratnayaka - Chairman, Independent

Mr. Ashok Pathirage - Deputy Chairman, Non-Independent (retired w.e.f. 18. February 2020)

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

Mr. Dinal Phillips, PC - Independent

Mr. Sriyan Cooray - Independent

Mr. Bernard Sinniah - Independent (appointed w.e.f. 28 March 2019)

Dr. Dinusha Panditaratne - Independent (appointed w.e.f. 24 July 2019)

Mr. Sujeewa Mudalige - Independent (appointed w.e.f. 06 January 2020)

Mr. Trevine Jayasekara (retired w.e.f. 08 February 2019)

Mr. Ananda Atukorala (retired w.e.f. 17 April 2019)

Mr. Ranasinghe Semasinghe (retired w.e.f. 30 April 2019)

Mrs. Kimarli Fernando (retired w.e.f. 01 June 2019)

Mr. Sarath Wikramanayake (retired w.e.f. 01 June 2019)

Mrs. Indrani Sugathadasa (retired w.e.f. 01 September 2019)

Mr. E A Rathnaseela (resigned w.e.f. 20 January 2020)

BOARD SUB COMMITTEES AS AT 31 DECEMBER 2019

Integrated Risk Management Committee

Mr. Sriyan Cooray (Chairman)

Mr. Dinal Phillips, PC

Mr. Dimantha Seneviratne

Mr. Bernard Sinniah

Mr. E A Rathnaseela (resigned w.e.f. 20 January 2020)

Ms. Shanti Gnanapragasam - VP - Group Risk Management

Ms. Melody Wickramanayake - VP - Legal

Ms. Manique Kiriella Bandara - Compliance Officer

STRATEGIC ISSUES COMMITTEE

Mr. Kavan Ratnayaka (Chairman)
Mr. Ashok Pathirage (retired w.e.f. 18. February 2020)
Mr. Sriyan Cooray
Mr. Dimantha Seneviratne

AUDIT COMMITTEE

Mr. Sriyan Cooray (Chairman)
Mr. Bernard Sinniah
Mr. E A Rathnaseela (resigned w.e.f. 20 January 2020)

HUMAN RESOURCES & REMUNERATION COMMITTEE

Dr. Dinusha Panditaratne (Chairperson)
Mr. Ashok Pathirage (retired w.e.f. 18. February 2020)
Mr. Kavan Ratnayaka
Mr. Dinal Phillips, PC

NOMINATIONS COMMITTEE

Mr. Kavan Ratnayaka (Chairman)
Mr. Ashok Pathirage (retired w.e.f. 18. February 2020)
Mr. Dinal Phillips, PC
Dr. Dinusha Panditaratne

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mr. Kavan Ratnayaka (Chairman)
Mr. Sriyan Cooray
Mr. E A Rathnaseela (resigned w.e.f. 20 January 2020)

CREDIT COMMITTEE

Mr. Ashok Pathirage (Chairman) (retired w.e.f. 18. February 2020)
Mr. Dinal Phillips, PC
Mr. Bernard Sinniah
Mr. Dimantha Seneviratne

SUBSIDIARIES AND ASSOCIATE COMPANIES**Subsidiary companies as at 31 December 2019****NDB Capital Holdings Limited - 99.8%****Directors**

Mr. Ashok Pathirage – Chairman (resigned w.e.f. 18. February 2020)
 Mr. Sarath Wikramanayake
 Mr. Vajira Kulatilaka
 Mr. Ananda Atukorala
 Mr. Dimantha Seneviratne
 Mr. Arjun Fernando

NDB Wealth Management Limited - 99.8%**Directors**

Mr. Sarath Wikramanayake – Chairman
 Mr. Vajira Kulatilaka
 Mr. Dimantha Seneviratne
 Mr. Shanka Abeywardene

NDB Investment Bank Limited - 99.8%**Directors**

Mr. Sarath Wikramanayake – Chairman
 Mr. Vajira Kulatilaka
 Mr. Buwaneka Perera
 Mr. Darshan Perera
 Mr. Shanka Abeywardene
 Mr. Dimantha Seneviratne

NDB Securities (Private) Limited - 99.8%**Directors**

Mr. Arjun Fernando – Chairman
 Mr. Ananda Atukorala
 Mr. Vajira Kulatilaka
 Mr. Dimantha Seneviratne

NDB Capital Limited (Bangladesh) - 77.8%**Directors**

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

NDB Zephyr Partners Limited (Mauritius) - 60%**Directors**

Mr. Thomas Barry
 Mr. Vajira Kulatilaka
 Mr. Mukul Gulati
 Ms. Dilshaad Rajabalee
 Mr. Arunagirinatha Runghien
 Mr. Arjun Fernando
 Mr. Ananda Atukorala

NDB Zephyr Partners Lanka (Private) Limited - 60%**Directors**

Mr. Sarath Wikramanayake – Chairman
 Mr. Thomas Barry
 Mr. Mukul Gulati
 Mr. Vajira Kulatilaka

Development Holdings (Private) Limited - 58.61%**Directors**

Mr. Dimantha Seneviratne – Chairman
 Mr. Ruwan Kannangara
 Ms. Thakshila Wijayarathne
 Ms. Gayathri Herath
 Mr. Deepal Akuretiyagama
 Ms. Suvendrini Muthukumarana

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.

Registrar to the rated unsecured subordinated redeemable debentures issued in December 2013, June 2015 and March 2019: S S P Corporate Services (Pvt) Ltd, No. 101, Inner Flower Road, Colombo 03.

Trustees to the rated unsecured subordinated redeemable debentures issued in December 2013, June 2015 and March 2019: Bank of Ceylon, Investment Banking Division No.1, BOC Square, Bank of Ceylon Mawatha, Colombo 01.

QUERIES**On the 2019 NDB Annual Report****Ms. Suvendrini Muthukumarana**

Vice President – Finance
 National Development Bank PLC
 No. 40, Nawam Mawatha, Colombo 02.
 Email: suvendrini.muthukumarana@ndbbank.com
 Tel: +94 112 44 84 48 (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
 Tel: +94 112 44 84 48 (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
 Tel: +94 112 44 84 48 (Extn: 35301)

FORM OF PROXY

I/We

(holder/s of NIC/s) of

..... being a member/members of National Development Bank PLC (the Bank) hereby appoint;

1.
 (holder of NIC No.)
 of or failing him/her
2. Mr. Kavan Ratnayaka (Chairman of the Bank) of Colombo or failing him,
 Mr. Dinal Phillips, PC 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,
 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 Fifteenth (15) Annual General Meeting of the Bank to be held on Monday the Thirtieth (30) day of March 2020 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. Bernard Sinniah in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
2. To reappoint Dr. Dinusha Panditaratne in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
3. To reappoint Mr. Sujeewa Mudalige in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
4. To re-elect Mr. Dinal Phillips, PC 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 2020 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 (2020).

.....
 Signature of the Member/Members

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 member appointing the Proxy should be legibly entered in the Form of Proxy and should be signed and dated by the member. The duly completed Form of Proxy must be deposited at the Registered Office of the Bank, at No. 40, Nawam Mawatha, Colombo 02, not later than 24 hours prior to the time appointed for the holding of the meeting.
2. 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.
3. If you wish to appoint a person other than the Chairman, Deputy Chairman or a Director of the Bank as your Proxy, please insert the relevant information in the Form of Proxy.
4. The Proxy holder appointed need not be a shareholder of the Bank.
5. In case of a corporate member, 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.
6. The first joint holder shall have the power to sign the Form of Proxy without the concurrence of the other joint holder/s.
7. 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.

